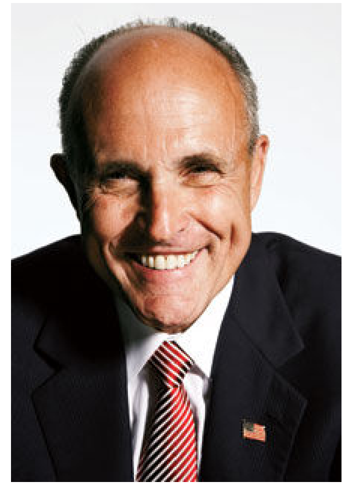
VANITY FAIR

RISKY BUSINESS

A Tale of Two Giulianis

On the back of 9/11, Rudy Giuliani refashioned himself as a national hero, a top presidential candidate—and, through his consulting firm, Giuliani Partners, became a very wealthy man. But the questionable backgrounds of some of the firm's clients make one wonder what Rudy wouldn't do to make a buck. As Giuliani's former crony Bernard Kerik faces trial, the author uncovers troubling signs of greed, poor judgment, and conflict of interest.

by MICHAEL SHNAYERSON January 2008



Giuliani has failed to mention that certain policies he champions would benefit clients of his firm. *Photographs by Nigel Parry/CPi.*

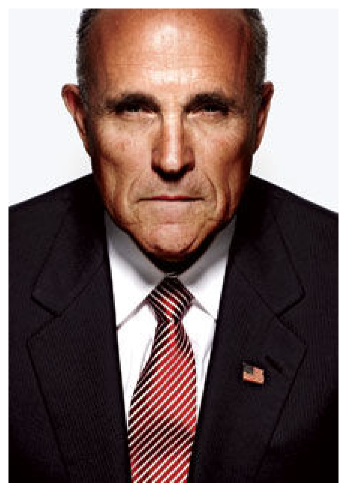
On a late-spring day in 2001, Rudy Giuliani's divorce lawyer stood on the steps of the New York State Supreme Court Building and told reporters the shocking truth. His client, the mayor of the city—beleaguered by an angry wife who wanted more money—had only $7,000 to his name.

Perhaps it wasn't *quite* the truth. Just a year earlier, the mayor had $400,000 to $800,000 in pension and retirement funds due him, and now he had a $3 million book deal. Still, in New York City, what was that for a powerful man of 57? Not much.

Three months later came 9/11.

Whatever deal Donna Hanover finally struck to end her marriage, she must feel cheated, because Giuliani is now worth somewhere between $18 million and $70 million. A chunk of his personal fortune has come from giving speeches, month after month, for a standard fee of $100,000. Much of it, though, has been earned as founder and chief rainmaker of his consulting company, Giuliani Partners. Headquartered in a 24th-floor office overlooking Times Square, it has reportedly earned more than $100 million in the past six years.

That office is a cheery one, filled with sports mementos (a wooden seat from the old Yankee Stadium, a football signed by Jets legend Joe Namath), the accoutrements of the ex-mayor's passions (among them a beautiful wooden humidor for expensive cigars), and, on almost every flat surface, silver-framed photographs of his 53-year-old third wife, Judith Nathan. On his wooden desk sits a little sign with the inscription I'M RESPONSIBLE. It was here, over these last six years, that Giuliani placed calls to make things happen for his clients—many of them engaged in some aspect of the security industry that boomed as a direct result of 9/11.



Giuliani's firm capitalizes on his 9/11 experience by specializing in security technologies.

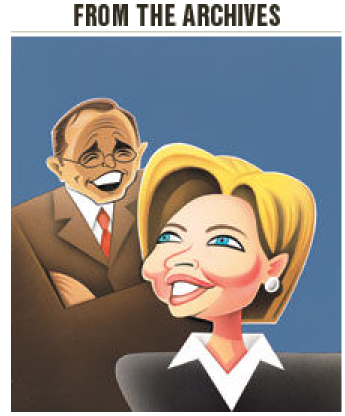
These days Giuliani's office sits mostly empty as he canvasses the country for money and votes in his bid to become the Republican nominee for president in 2008. Is he even still working for Giuliani Partners? It's a relevant question, because if he *isn't*—and, really, how could he be in these busy weeks of campaigning before the first Republican presidential primaries?—then he shouldn't be drawing a salary from the firm. According to a former top Federal Election Commission official, that would be a breach of election law: the firm would in effect be making undeclared campaign contributions.

The answer, from Giuliani Partners C.E.O. Mike Hess, is that "Rudy is no longer involved in the day-to-day operations of Giuliani Partners. He maintains his ownership interest." To the point of whether Giuliani is still earning *money* from Giuliani Partners, the answer seems a bit delphic, especially after a *Washington Post* article from October 30, in which Giuliani Partners spokeswoman Sunny Mindel described Giuliani as still working part-time for the company.

To anyone who has followed Giuliani's meteoric rise in business, that dodge is unsurprising. There are, it seems, at least two Rudolph Giulianis. One is the crusading former U.S. attorney and 9/11-bedecked ex-mayor of New York, cloaked in the six core values prominently featured on Giuliani Partners' Web site: Integrity. Optimism. Courage. Preparedness. Communication. Accountability.

The other Rudy Giuliani is the one who has brazenly built a business on his 9/11 fame. Some of his clients have been large, established companies, such as Aon, the global risk-management firm that lost 175 people in the World Trade Center attack; Entergy, which operates nuclear power plants; and Delta Airlines and U.S. Airways. But a number have been scrappy little penny-stock start-ups, one of them backed by an S.E.C.-disciplined stock swindler. These are the players who have needed Giuliani most, to promote them, to open doors for them in government or business, or merely to lend them his name, at a very high price, so they can boost their stock or get bought by bigger fish. In doing business with these companies, Giuliani has sometimes created at least an appearance of poor judgment, or greed, or both. But if the crusading ex–U.S. attorney understands the importance of appearances, the other Rudy Giuliani seems oblivious to them.

FROM THE ARCHIVES



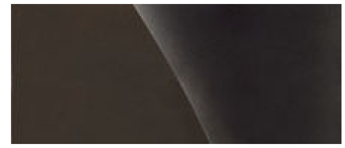
Perhaps, as his most critical biographer, Wayne Barrett, suggests, Giuliani thinks his 9/11 aura will simply repel any unsavory stories about his business associations. Or perhaps he feels that, as long as no laws are broken, business is business. But those around him know enough to worry. Last year, when a binder full of confidential Giuliani campaign documents was either stolen or lost in Florida, and the contents found their way to reporters, a handwritten list of potential trouble spots in the candidate's résumé seemed especially revealing. There, with the obvious sticky subjects—the messy divorce from Hanover, and subsequent wife Nathan—was a single word: *business*.

Giuliani has done an astounding number of business deals in the last six years—so many that the sheer volume may be the real reason they've evaded much serious scrutiny so far. But, taken together, they begin to suggest a not very attractive shape, and you don't have to be a Democrat to see it. All you have to do is pick up a pencil and start to connect the dots.

Prescription for Trouble

Purdue Pharma is a good place to start. The drug company, based in Stamford, Connecticut, was the firm's first client. It's one of the firm's biggest clients today. It's also one whose problems Giuliani himself has worked to resolve.

The story begins in the winter of 2002, when top executives at Purdue Pharma called Giuliani Partners for help in solving an apparent security problem. Their best-selling painkiller, OxyContin, had proved popular in a way they hadn't anticipated. Plant employees were accused of smuggling pills out for black-market sale. Ever since the drug's introduction, in 1996, Purdue had claimed it was less addictive than other painkillers because it was designed to release its narcotic incrementally over 12 hours. The problem was that thrill seekers, especially teenagers, had figured out that one had only to mash the pills to get the drug's full jolt all at once.



"Cheer and Loathing in New York," by Gail Sheehy *(June 2000),* about the showdown between Rudy and Hillary in that year's Senate race—before Rudy bowed out

"Giuliani's Princess Bride," by Judy Bachrach *(September 2007)*

"Crazy for Rudy," by Michael Wolff *(June 2007)*

Illustration by Risko.

Giuliani assigned one of his new business partners, Bernie Kerik, to solve the security problem. As Giuliani's former police commissioner, Kerik had the know-how to secure the plant in no time. He took on other security challenges as well, as head of his own offshoot, Giuliani-Kerik L.L.C., while Giuliani Partners grew in broader ways. The ex-mayor seemed not to anticipate the metastasizing public-relations disaster that Kerik would become.

Soon after Purdue Pharma became a client, the U.S. Drug Enforcement Administration (D.E.A.) declared that OxyContin might be responsible for 464 drug-related deaths in just two years. According to The *New York Times*'s Barry Meier, whose 2003 book, *Pain Killer,* recounts the OxyContin story, many of the deaths were traced to prescriptions doled out at "pain management" clinics around the country, especially in Appalachia. Purdue Frederick, the affiliate marketing the drug, knew exactly where its drug was being overprescribed: it downloaded sales data from around the country. But the company's top executives did nothing to tighten the drug's distribution. They didn't want the federal government to do it, either.

Giuliani met personally with Asa Hutchinson, then head of the D.E.A., to discuss the agency's investigation of OxyContin. According to Meier, Hutchinson repeatedly called D.E.A. officials to ask why they were continuing their OxyContin inquiry. To help quell doubts about the drug, Giuliani agreed to chair something called the Rx Action Alliance, through which pharmaceutical and health-care professionals would educate the public about prescription-drug abuse. The Rx Action Alliance was barely heard from again, aside from a few mentions in laudatory articles about Giuliani. But Giuliani's reassurances seemed to have the desired effect. Instead of tightening distribution, the Food and Drug Administration gave the drug a pass.

The story might have ended there had it not been for a determined U.S. attorney in western Virginia named John Brownlee. A straight arrow appointed by President George W. Bush in 2001, Brownlee listened to heartbroken parents in his region recount their children's fatal overdoses from OxyContin. He launched an investigation to determine whether Purdue had known exactly what it was doing when it downplayed OxyContin's addictive powers. If it had, that was criminal.

As Brownlee later testified, "Purdue's counsel fought hard and did the very best to protect the requested information and records." Still, by the summer of 2006, he was ready to file criminal charges against the company and three of its top executives. That was when Giuliani stepped in, now as a company lawyer.

"When we had meetings," Brownlee told Meier about Giuliani, "he was the lead counsel and the lead spokesman for the company." Despite his best efforts, Giuliani was unable to dissuade Brownlee. Purdue would have to plead guilty to "misbranding" OxyContin and pay a huge fine; its three top executives would have to plead guilty, too.

Brownlee gave the company a deadline of October 24, 2006, to accept those charges or go to court, in which case additional charges would be filed. That night, Brownlee would later tell the Senate Judiciary Committee, he got a call at home. On the line was Michael Elston, chief of staff for Deputy Attorney General Paul McNulty. Brownlee knew that McNulty worked directly for Attorney General Alberto Gonzales. According to Brownlee, Elston said Purdue complained that it needed more time. Brownlee told the committee, "I told him to leave it alone, to go away, and he did."

The next day, Brownlee held to the deadline. Purdue and its top three executives accepted their guilty pleas of misbranding. A week or so later, Brownlee found his name on a list compiled by Elston. On it were names of U.S. attorneys whom officials wanted to be considered for firing.

Last May, Purdue agreed to fines and penalties of $600 million. The three top executives paid fines collectively of $34.5 million and were placed on three years' probation. As of this writing, one of the three executives, general counsel Howard Udell, is still at the company. Two civil suits for damages related to OxyContin abuse are pending, one filed by the attorney general of Kentucky and one as a class-action suit on behalf of more than 200 plaintiffs in Nova Scotia.

Somehow, Brownlee's name was cut from the list of U.S. attorneys to be considered for firing—the list that would soon grow so notorious. He remains a U.S. attorney in Roanoke, Virginia. OxyContin is still on the market, though with strict advisories. Marianne Skolek, whose daughter, Jill, died of respiratory failure after being prescribed OxyContin, says the advisories have come too late: thousands of Americans are hooked on the drug. "And those people will stay addicted," she says, "unless they're fortunate enough to go to a very good rehab center and kick it."

The Quiet Lobbyist

"Part of our business would be security consulting, part would be business-improvement consulting, part would be crisis management, and part of it would be, possibly, legal work," Giuliani explained in an interview with *Vanity Fair* three years ago, when the magazine first took an interest in Giuliani Partners. Other companies already dominated those fields. But none had the hero of 9/11 at the helm.

New clients loved basking in Giuliani's glow. For makers of novel high-tech security hardware, for companies providing security or needing it, just being associated with Rudy Giuliani was worth the hefty retainers—in at least one case, $175,000 a month. Once he'd signed on to help, he could call high-ranking Republican officials and get a private hearing. In public, he could reach the whole country, his speeches reported by eager media as news. He could weave a client's message into remarks about national security—though not always telling his audiences that an issue he was advocating might also benefit that client.

So it was with Nextel, the wireless-phone company, which hired Giuliani Partners to talk up a change it wanted in its bandwidth on the radio spectrum. Nextel's airwaves had an unfortunate tendency to cause interference with the two-way radios of firefighters and police. The answer, the company suggested, was for the Federal Communications Commission to move Nextel from the narrow bandwidth segments it currently owned—near ones used by first responders in a crisis—to a nice, fat, more valuable stretch of the spectrum where Nextel wouldn't interfere with anyone. In speeches and on talk shows, Giuliani pushed the idea as a great boon for national security—often without mentioning that Nextel had become a client of Giuliani Partners'.

Nextel got its new spectrum space. Giuliani Partners got an undisclosed up-front fee, plus l.2 million Nextel stock options with a strike price of $4.50 per option. When Nextel's stock shot up in advance of a buyout by Sprint, Giuliani Partners made about $15 million.

Giuliani also failed to disclose his consulting contract with a Florida entrepreneur named Hank Asher when in 2004 he talked about him to a magazine writer who was profiling Asher. In fact, the writer was this writer, and the magazine was *Vanity Fair*.

Asher was, and remains, a complicated, fascinating character. A high-school dropout, he had strung together a bunch of computers and harnessed their combined power to sift through vast databases. He eventually developed a far more powerful system called Matrix that had the Orwellian capacity to fish out likely terrorists from vast troves of cross-referenced information. After 9/11, Asher had interested the Bush administration and numerous state law-enforcement agencies in acquiring Matrix. He had a problem, though: in his youth, he'd been a cocaine smuggler. Asher had come clean, and gone so far as to help the D.E.A. stop other traffickers. But if he was going to interest the government in his system, he needed some very heavy character references. Who better than Rudy Giuliani?

"The first time I met him, he did a demonstration for us at my office," Giuliani told *Vanity Fair* after Asher casually suggested the ex-mayor might talk about him. "When I saw it I immediately realized that this was a technology that would have been very helpful to us even when I was the mayor and putting together programs for reducing crime to help us find serial killers, abductors of children, and of course terrorists." Giuliani knew all about Asher's sketchy past, but he was all right with it. "It seems to me that what Hank has been doing for some time is in essence to make up for some of the mistakes he may have made," Giuliani said. "Those mistakes are way, way behind him. He's a law-abiding person and a person who wants to contribute."

No mention was made, either by Giuliani or by Asher, of the contract Giuliani Partners had signed with Asher to promote Asher's company, Seisint. Asked about it recently, Asher acknowledged, "I was a client then. It just never came up."

According to an affidavit filed by an outraged Seisint shareholder and reported by *The Washington Post,* the contract that Asher basically rammed through his board of directors in December 2002 called for Seisint to employ Giuliani Partners for two years at a fee of $2 million a year. Giuliani Partners also received 800,000 warrants with an exercise price of $10. The shareholder's affidavit declared that Seisint had received no financial benefit from the contract. "The defendants cannot point to a single benefit that Seisint received as a result of the Giuliani contract." (Both sides later agreed to settle the suit.)

That was, perhaps, a bit harsh. By talking up Asher—without acknowledging the $4 million he was being paid to do so—Giuliani may have helped persuade Reed Elsevier, the global information company that owns LexisNexis, to buy Seisint in July 2004 for a reported $775 million. ("I'm not sure we were even aware of Giuliani," says Reed Elsevier spokesman Patrick Kerr. "The strength and potential of the company—those were what mattered.")

Pushing Pennies

The Seisint story demonstrated another Giuliani approach: working for warrants, which allow the holder to buy stock at a specified price any time before a specified date. The ex-mayor knew better than anyone the value of his name to companies trying to raise money or go public or score a big sale. Some of the publicly traded companies were penny stocks, trading for less than five dollars a share. But if, helped along by the Giuliani name, they happened to hit it big, Giuliani would hit it big, too, as the share price exceeded the exercise price of the warrants, and he could cash those warrants in.

Working for warrants had its downside, though. It put Giuliani in business with typical denizens of the penny-stock world—dreamers and the occasional scam artist—flogging long shots. It also put the ex-mayor in the position of appearing to sell his name and endorsement for cash. Perhaps the worst such case was Applied DNA Sciences. Giuliani Partners' brief hookup with the Los Angeles–based biotech is a story both alarming and absurd.

This over-the-counter penny-stock company had been founded in 2002 to market an anti-counterfeiting invention, based on the research of one Dr. Jun-Jei Sheu, a Taiwanese scientist. Dr. Sheu had figured out how to embed the DNA of plants in almost anything, from driver's licenses to dress labels to DVDs. Since each sample of plant DNA was, like human DNA, unique, this "embedded" DNA could serve as an immutable identification marker.

Unfortunately, the company hadn't perfected the other half of the equation: a marketable scanner that could "read" the DNA. Without that reader, the embedded DNA would be of no use. By August 2004, says one former insider, "the company had no product, no sales, and no hope of signing any customers in the immediate future." (Jim Hayward, current C.E.O. of Applied DNA Sciences, replies, "The company did have the technology to sell. But how does one sell biotechnology without a scientist on board?"—since Dr. Sheu was in Taiwan.)

The first payment of $500,000 to Giuliani Partners nearly cleaned out the company's bank account, leaving it with $1,832 in cash and $4.8 million in liabilities. This wasn't promising. Even less so was the fact that a backer and major shareholder of Applied DNA Sciences was Richard Langley Jr., an S.E.C.-disciplined stock swindler. ("When Giuliani Partners was retained," says managing director Steven Oesterle, "Mr. Langley was not a member of the management team, nor was he involved in any discussions, negotiations, or other activities related to Giuliani Partners.")

Langley had colluded in a classic pump-and-dump stock scheme in the mid-1990s. A worthless penny stock called Pollution Control International was promoted by a circle of brokers, all of whom appeared to be in on the con. Those sales pushed the stock up just long enough for the insiders to cash out their chunks before it fell back to earth.

One of the brokers Langley did business with, as it turned out, was an F.B.I. agent working undercover for exactly the sort of dragnet that Rudy Giuliani orchestrated in his years as U.S. Attorney for the Southern District of New York. Langley had little choice but to plead guilty and cooperate with the F.B.I. On October 2, 2007, after years of hearings during which he was allowed to remain free, his case was finally closed.

Somehow, despite his guilty plea and a cease-and-desist order from the S.E.C. prohibiting him from participating in penny-stock offerings, Langley was able to help start Applied DNA Sciences in 2002. When a marketable "reader" failed to materialize, the company issued one press release after another that suggested amazing partnerships in the offing. The partnerships were real, though somewhat hypothetical without the reader, and they generated no revenues. They did, however, help keep the share price afloat, and Langley routinely sold chunks of his stock. As a former U.S. attorney who spent a lot of his time going after Wall Street criminals, Giuliani might have noted the almost daily appearance of Langley's name on S.E.C. filings as a seller of Applied DNA shares. Apparently, neither he nor his colleagues ever did. ("As strategic consultants, Giuliani Partners provided advice regarding business practices and opportunities," says Oesterle. "There was nothing brought to our attention to go beyond the agreed-upon scope.")

Applied DNA's prospects were decidedly shaky. And yet, as Giuliani later noted admiringly to *Vanity Fair,* "they were raising a great deal of money." The main source of that capital, however, was a dubious Manhattan investment bank called Vertical Capital Partners. The firm had been founded only two years before. Yet, it had already been fined $75,000 by the National Association of Securities Dealers and suspended from underwriting for six months. In addition, the association had personally fined Vertical's president, Ronald Heineman, $50,000. A year later, Heineman and Vertical were also fined $22,500 for violating the S.E.C.'s disclosure policy on research reports.

No one at Giuliani Partners noticed these red flags, either. ("Vetting service providers for Applied DNA was not Giuliani Partners' responsibility," says Oesterle.) What mattered was that Vertical was getting ready to deliver $5,482,993 to Applied DNA in new capital from Wall Street investors. When an in-depth article, by Edward Iwata, on the biotech's rocky ride appeared in *USA Today,* on March 18, 2005, Giuliani Partners awoke from its torpor. Within three weeks, it ended its contract with Applied DNA and abandoned all hope of exercising its warrants. It kept its fees, though: $1.25 million in all.

"We did a lot of work for them," Giuliani Partners' C.E.O. Mike Hess told *Vanity Fair* at the time. "Hours and hours and hours of working with them, advising them, talking with outside people about them, developing marketing ideas with them, being creative … "

As for Giuliani, he suggested to *Vanity Fair* that his firm's due diligence had focused on Applied DNA's technology, not on its financing or its founders' backgrounds. "If the decision had been up front about getting options or warrants or stock," he suggested, "then the complete due diligence would have been done at the time. Did we learn something from it? Absolutely."

Today, Applied DNA Sciences is under new management. It has developed a marketable reader at last, says C.E.O. Hayward, and has booked its first revenues (though not, he acknowledges, its first profits: to date, the company has lost $95 million). "It has remarkable promise," Hayward says. "From governments to consumers, so much can be affected by counterfeiting and product diversion," everything from prescription drugs to toys. Now that it has the reader, Hayward says, "this is a company that can do well by doing good."

Vertical Capital Partners has fared less well. In early 2007, it was hit with a cease-and-desist order from the S.E.C. for overcharging its clients. It now operates as Arjent.

The Homeland-Security Chief That Almost Was

Of the little companies that Giuliani Partners had business relationships with, many had some national-security angle. Ottawa-based Vanguard Response Systems (now Allen-Vanguard) hired Giuliani Partners to help it promote its Universal Containment System, which sold products such as foam-filled tents that could, according to Vanguard, mitigate the effects of a dirty bomb. Another was Bio-One, a joint venture between Giuliani Partners and Sabre Technical Services to promote a process for decontaminating buildings. Bio-One grew out of the tragic death, in 2001, by anthrax poisoning of an employee at the headquarters of the *Sun* tabloid in Boca Raton, Florida. The plan was to decontaminate the abandoned building using chlorine-dioxide gas, then have it serve as Bio-One's headquarters. To prove the building was anthrax-free, Giuliani himself would walk across its threshold, news cameras snapping away.

Allen-Vanguard's C.E.O., David Luxton, says Giuliani Partners did help him "understand the landscape and the players" in the U.S. security business, but "they stressed at the start that they weren't in the business of finding business partners"—and were true to their word. The contract ended some time ago, Luxton says. As for Bio-One, Giuliani Partners says that it successfully decontaminated the *Sun* building. Managing director Steven Oesterle adds, "G.P. continues to be an active joint-venture partner with Bio-One." But the press releases on Bio-One's Web site end in the spring of 2005, and a spokesman for Sabre Technical Services declined to return calls from *Vanity Fair*.

How much better, though, might these and other alliances have fared if Bernie Kerik had become head of the U.S. Department of Homeland Security?

It was in early December 2004 that President Bush nominated Kerik for the job, acting on Giuliani's personal recommendation. Within days, the nomination was doomed by a flurry of embarrassing allegations. The illegal nanny whose employment taxes Kerik had failed to pay was the least of it. The onetime police commissioner had engaged in at least two extramarital affairs, including one with flamboyant book publisher Judith Regan that included trysts in an apartment near Ground Zero—an apartment donated for the use of 9/11 first responders. Worse, when Kerik was the head of New York City's Department of Corrections, a construction company suspected of having shady ties paid for $165,000 worth of renovations to Kerik's own apartment. In return, it appears, Kerik pushed for an affiliate of the company to get a lucrative city contract, and discouraged any further investigation into the company's purported Mob ties.

As Kerik bitterly resigned from Giuliani-Kerik L.L.C., the obvious questions arose: How much had Giuliani known of his old friend's messy life, and when had he known it? What did all this say about Giuliani's judgment? In November, a grand jury handed down formal criminal charges against Kerik, including tax fraud and obstruction of justice, and so those questions are swirling again.

But the most interesting question may be about *business*. If Kerik had landed the job, would he not have been in the perfect position, on behalf of the federal government, to buy lots of the very security products and services that Giuliani Partners had been nursing along and investing in? "Outrageous, hypothetical question," replies Giuliani Partners' Mike Hess.

Bank Shot

At the same time Giuliani was severing ties with Bernie Kerik, he was using his profits from Giuliani Partners to acquire a whole new business, one that had the potential to be far more profitable than his penny-stock plays. For $9.8 million, Giuliani Partners bought a financial firm in November 2004 and renamed it Giuliani Capital Advisors (G.C.A.).

It was, in fact, the investment-banking arm of Ernst & Young, the global financial-services company. Ernst & Young was happy to unload it: all too often, E&Y would have to turn down a lucrative new client because the U.S. trustee in a bankruptcy case found that the company had a conflict of interest with another client in another of its many divisions. Giuliani Partners had no such conflicts.

According to one bankruptcy expert, Giuliani was hands-off, to say the least, with G.C.A. "Rudy did nothing to support his team," says the expert. "He didn't even come to a Christmas party. It was all just income flow to him." (Oesterle says that they "had an investment in G.C.A. and managed it on an arm's-length basis.")

Giuliani inherited a number of top-grade investment bankers from Ernst & Young, and as a result G.C.A. did participate in three major airline bankruptcy re-structurings—U.S. Airways, Aloha Airways, and Delta—through 2005 and 2006. G.C.A. made a reported $10 million for work in all three cases, but, as one bankruptcy expert notes, Giuliani chose an odd time to get into the bankruptcy business. Almost no one was going bankrupt. With interest rates at historic lows and cash readily available, a struggling company could simply refinance, borrowing more money to pay its debts, rather than go into Chapter 11. The airlines were a special case. They were staggering under high "legacy" costs: billions of dollars due in benefits and pensions to union employees. "You can't modify collective bargaining outside of bankruptcy," the expert explains, "so they were in bankruptcy to rid themselves of those obligations."

The seasoned investment bankers of G.C.A. did their best in those airline cases, only to have their work tarnished, last May, by a *Wall Street Journal* report of a possible conflict of interest. G.C.A. in the Delta bankruptcy had represented the debtor—that is, the airline. It advised the airline on hundreds of matters, from which assets to sell to which health benefits to ask its union employees to do without, all in order to help get the airline out of bankruptcy. Among those many recommendations may have been one to steer business to Command Security, a security-guard company based in upstate New York, and "perhaps even suggest contract terms," according to the *Journal*. Somehow, during Delta's lengthy reorganization, G.C.A. failed to mention to the bankruptcy judge that Command Security had signed on as a client with another Giuliani offshoot. Giuliani Security & Safety (G.S.S.), renamed after the Bernie Kerik debacle, had taken on Command Security as a client for $175,000 a month. This contract began four months after G.C.A. started advising Delta. Additionally, Command Security was already a creditor of Delta's: the airline owed it as much as $1 million for guard services rendered prior to Delta's declaring bankruptcy in September 2005. As the *Journal* noted, a firm advising both a creditor and a debtor in a bankruptcy poses a potential conflict of interest. In response Hess says, "This is false. Command Security's relationship with Delta Airlines pre-dated G.C.A.'s relationship with Delta by years. G.C.A. had no discussions with Delta regarding Command Security."

Perhaps the fact that Command had become a client of G.S.S. was just an unfortunate coincidence. But how then to explain the curious way in which Command Security became a client of G.S.S. in the first place?

The chairman of Command Security is Bruce Galloway, who runs Galloway Capital Management in Manhattan, which reportedly manages $45 million in assets. So he would seem savvy enough to know that to hire Giuliani Capital Advisors he could just pick up the phone and call its number. Yet, oddly, he'd felt obliged to go through a Boca Raton friend of Giuliani's named Richard Chwatt. "Richard Chwatt's wife is very, very dear friends with Judith Nathan," Galloway explained to *Forbes*, "and that's how we got the relationship."

(Mike Hess told *Forbes* that the business "did not come about through the social relationship.")

When Galloway signed on with G.S.S., in January 2006, he also signed a lucrative finder's-fee agreement with Chwatt's Jericho State Capital. By its terms, Jericho received $90,000 and a warrant for 350,000 shares of Command's over-the-counter bulletin-board stock at $2 per share. (Soon after the contract was signed, the stock was trading for $2.60 a share.) If Command's contract with G.S.S. was extended an extra year, Jericho would receive $7,500 a month plus a warrant for 150,000 additional shares. (Hess says that Jericho "introduced Command Security to G.S.S. but was not paid a finder's fee by either entity." But an S.E.C. filing by Command dated February 6, 2007, says that, "in consideration of the introduction by Jericho to the Company [Command] of Giuliani Security, the Company granted to Jericho a warrant" for 350,000 shares.)

Why on earth would Galloway agree to pay Chwatt all that money for an introduction he didn't need? (After initially promising to answer questions about Giuliani Partners, neither Galloway nor a Command representative followed up.)

Chwatt, as it turns out, is not just a close friend of the Giulianis' but also a significant fund-raiser. He and seven other members of his family have given $13,500 so far to the candidate. But that's just the start of it. Last February, Chwatt hosted a Boca Raton reception for Giuliani, and he has raised more than $94,000 from donors in his area—earning him a place on the Center for Responsive Politics' list of "bundlers" for the candidate. (Chwatt did not respond to messages left at Jericho.)

So everyone in the circle did well. Command Security paid $2.1 million to G.S.S., along with at least $90,000 to Richard Chwatt, and in return probably got an influential ally in Delta's re-structuring. Chwatt got his $90,000—but also a lot more than that in warrants. For whatever leverage Giuliani gave him, Chwatt apparently repaid the favor by raising over $94,000 for Giuliani.

On its Web site, Chwatt's Jericho State Capital advertises itself as a financing company for businesses that have "an immediate need for cash, for growth, or just plain survival who may or may not qualify for traditional loans or grants." The Web site goes on to observe that "Jericho prides itself on its 'Creative Financing Techniques.' " But in 1977 Chwatt was perhaps too creative: he was sanctioned by the S.E.C. for manipulating an initial public offering.

For all the money it was taking in from airline re-structuring, G.C.A. lost money in 2006. Eight of 22 original managing directors left that year. There just weren't that many other airlines going into Chapter 11. The future looked bleak—and Giuliani decided to sell it. "The equity partners of G.C.A. got screwed," suggests one person close to a number of the bankers. "They hoped their ship would come in—that they'd be able to monetize their equity investment, make $20 million per partner. Didn't happen. Instead, they were shopped around like crazy. G.C.A.'s book [to sell the firm] was on the street a long time, but no takers."

Finally, last March, Giuliani managed to sell G.C.A. for an undisclosed sum to a fast-growing Australian bank called Macquarie Group. In a *New York Times* article, an analyst suggested that Macquarie might have paid as much as $76 million for it. Another analyst scoffs at that and says the price was closer to $10 million—essentially what Giuliani had paid for it. A source at Macquarie, while not confirming the lower figure, allows that the higher figure is "wildly" off. (Hess says, "We don't comment on fees or compensation.")

Why would an Australian colossus like Macquarie buy a money-losing U.S. investment bank? Perhaps because Macquarie is making inroads—literally—in the U.S., acquiring the leases on state highways and operating them as toll roads, in Indiana and Illinois, with more states to follow. The toll-road business is highly controversial and involves politics right up to the top. It can't hurt to have helped out a man who might be the next president. (A Macquarie spokesperson says the only reason for the purchase of G.C.A. was "new sectors and new locations for us," and that Giuliani "was not involved in discussions for acquisition of G.C.A. by Macquarie.")

Even before the deal, there had been only one degree of separation between Macquarie and Giuliani. Macquarie's partner in a $3.8 billion Indiana toll road is a Spanish company called Cintra Concesiones de Infraestructuras de Transporte, S.A. Cintra, in turn, is represented by a Texas law firm once known as Bracewell & Patterson, now called Bracewell & Giuliani.

Legal Eagles

For Giuliani, a law firm was the third leg of the stool. Not only did it fit right in with his other businesses; for the former prosecutor, appending his name to a large, established firm was a dream come true. But one in Texas?

The business marriage worked for the reason marriages often do: each partner could help the other. At 64, Bracewell managing director Patrick Oxford had accomplished a lot. A genial Republican with close ties to Senators Kay Bailey Hutchinson and John Cornyn, among other Texas stalwarts, he prides himself on his role in heading up his party's delegation of lawyers in Broward County, Florida, in the aftermath of the 2000 election. Four years later, he took his strike force to Ohio and helped keep the tipping-point state in the Republican column. Oxford, then, had done about as much as any individual in the United States to determine the outcomes of the last two presidential elections. Yet Bracewell was overshadowed by larger Texas firms such as Vinson & Elkins, alma mater of former U.S. attorney general Alberto Gonzales, and Baker Botts, where former secretary of state James Baker presides. Giuliani would boost Bracewell's profile, especially if he ran for president—and won.

To all who asked, Giuliani said he hadn't yet made up his mind about entering the race for 2008. But the alliance with Bracewell in early 2005 was a move made by a man who knew exactly what he needed to shore up his prospects: credibility in the Republican heartland. Also, the money was good. Oxford agreed to give Giuliani Partners $10 million, to be split among its three senior partners: Giuliani, Mike Hess, and Daniel Connolly, according to a story in *The American Lawyer*. In becoming Bracewell & Giuliani, the Texas firm would also commit $25 million to establish a New York office. As the head of that office, Giuliani would be guaranteed at least $1 million a year, plus 7.5 percent of all fees generated by the office. Yet his commitment to the law firm was less than half-time: Mondays and Fridays.

Politically so far, the move has paid off. By the middle of 2007, Giuliani had raised $4,788,168 in Texas, more than Hillary Clinton ($3,137,134), more even than the two closest Republican candidates *combined* (Mitt Romney's $2,254,349 and John McCain's $2,189,696). But in marrying into Bracewell, Giuliani has acquired a whole family of squirrelly relatives, from the firm's own lobbyist-lawyers to the clients they represent.

Bracewell & Patterson has long been known for representing school districts. By the time Giuliani became part of it, in early 2005, it had also become the go-to law firm for major polluters: oil and gas as well as coal companies. Among its significant clients are Chevron/Texaco, Pacific Gas & Electric, Dynegy, Southern Company, Valero Energy, and Shell Oil.

Until recently, Citgo oil company was among those significant clients, but no longer. Last March, after a flurry of news stories, Giuliani was embarrassed: Citgo, since 1990, has been run by a state-owned Venezuelan petroleum company, and thus is currently controlled by the country's president, Hugo Chávez. Giuliani had been knocking the virulently anti-American Chávez in speeches around the country. "We need a president who knows how to get things done, so we don't have to be sending money to Chávez," he declared in a speech in May. "Who would listen to Chávez if he didn't have all this oil money?" In fact, Bracewell & Giuliani had been happy to take Chávez's money: Bracewell had registered as a lobbyist for Citgo in April 2005, for $5,000 a month, right after Giuliani joined the firm. Bracewell finally ended its relationship with Citgo in June 2007.

Perhaps most unfortunately, Bracewell & Giuliani has supplied the legal and lobbying muscle to get new coal-fired power plants built all over the country. A dramatic example is the coal-fired plant called Desert Rock Energy Project, to be built by Sithe Global Power, a Bracewell client, on Navajo lands in Burnham, New Mexico. "To us, this is environmental injustice and economic exploitation," declares Dailan Long, a Navajo activist. "We were never informed about this project thoroughly. The terms of the lease agreement have never been released to us." Bracewell's lobbyist Frank Maisano, the point man on Desert Rock, scoffs at that. "There have been more than 400 public meetings about the project over a four-year period," he says. "They don't have to disclose the terms of the lease. This is an agreement between Sithe Global and the Navajo Nation, and the lease is part of an ongoing process." Maisano notes that the council of the Navajo Nation voted 66 to 7 for the plant. Long and other activists say the tribe's elders have been misled about the environmental and financial impact on the community.

Howard Rubinstein, the well-known New York public-relations man who now represents Bracewell & Giuliani, has said that Giuliani "doesn't lobby in any way" for the firm, and that lobbying makes up only about 2 percent of the firm's earnings. So none of this really matters, nor do the contributions that the firm's employees have made to Giuliani the candidate—at least $100,000 to date—or the contributions from the oil and gas companies: $545,058 as of mid-November 2007, way ahead of Mitt Romney ($309,933) and Hillary Clinton ($220,550). And, presumably, if Giuliani wins in November 2008, the firm would be known simply as Bracewell, not as Bracewell & President Giuliani.

The Road Through Texas Is Paved with Gold

Still, Giuliani's presence at the firm may create some synergistic connections. Consider the Trans Texas Corridor debate.

For several years now, Texas governor Rick Perry has been pushing a plan that appalls many of his constituents—except, apparently, the most powerful ones—to outsource a spider's web of new and improved state highways to Cintra Concesiones de Infraestructuras de Transporte, S.A. To ease Texans' fears that the state is putting its future roads in the hands of a foreign-owned company, Cintra is now partnered with a San Antonio construction company called Zachry. The roads envisioned in this $184 billion, 4,000-mile project are no mere superhighways. They're three football fields wide. They will include not only a rail line but also pipelines that can carry oil, gasoline, or liquefied natural gas. Alongside the roads will be distribution centers. Cintra-Zachry will lease the roads and levy whatever tolls it likes. And it will also control the distribution hubs, and charge what it likes there too. "I don't want to see transportation become another battle between the haves and have-nots," says former Texas Democratic congressman Chris Bell. "And it could quickly become that."

The roads of the Trans Texas Corridor, as currently envisioned, would cut wide swaths through hundreds of farms and ranches. "Eminent domain is a huge issue here," says Democratic Texas state representative Garnet Coleman. "The biggest opposition has come from farmers and ranchers who are along the proposed roads." Eventually, the corridor might be extended to Canada. Coleman calls it "a super-NAFTA corridor."

The connections may be coincidence, but they're striking. Cintra is a client in Texas of Bracewell & Giuliani. The company it's most likely to work with to extend the corridor north is Macquarie, which already operates its Indiana toll road in partnership with Cintra. In early 2007, Macquarie bought a chain of some 40 local Texas and Oklahoma newspapers. Might it have bought those papers to control public opinion in advance of plans to build more controversial toll roads? Might it potentially have in Giuliani not only a legal partner for future toll roads but a political ally?

Bracewell spokesperson Melanie Hillis says that Giuliani has not worked on behalf of Cintra or Macquarie. A Macquarie spokesperson adds that Cintra used Bracewell before it became Bracewell & Giuliani. He says that Macquarie is as likely to compete with Cintra as to cooperate on any future toll roads. He also declares that the purchase of those newspapers was made by the Macquarie Media Group, a separate division with no connection to Macquarie's toll-road business. "To suggest that the acquisition was made to control public opinion in advance of building toll roads is absurd and incorrect. The business continues to be run by the same management team, with the same editorial staff. No editorial influence has been exercised by the Macquarie Media Group." Anyway, the spokesperson adds, "I don't think it is correct to say that the building of more toll roads in the United States is 'a highly controversial plan.'"

That might come as a surprise to the farmers and ranchers who face the prospective loss of their land through eminent domain, and the Texans who feel their taxes entitle them to state-built freeways, not foreign-run toll roads. At the least, they seem less likely to get a sympathetic hearing from a president whose law firm represents Cintra and whose investment bank was sold to an Australian bank that often partners with Cintra and wants to build more U.S. toll roads.

Perhaps Giuliani does have little or nothing to do with his law firm's principal clients. With at least one smaller client, however, he clearly played a role, and that role appears, to say the least, unpresidential.

In early 2006, Bracewell & Giuliani reviewed a proposed bank purchase. The Spanish bank Santander wanted to buy 20 percent of Sovereign Bancorp of Philadelphia. Bracewell's review recommended the deal, the New York Stock Exchange and the S.E.C. eventually approved it, and so Santander bought in for $2.4 billion. The story, however, was a bit more complicated than that.

The review, according to one Sovereign insider, was paid for by the Spanish bank and dismissed the concerns of shareholders opposed to the acquisition. As a result, says this source, Bracewell ignored dubious dealings by Santander, such as its donations to Venezuelan president Hugo Chávez's political campaigns and its connections to Cuba and Iran (Santander was fined by the U.S. in 2004 for doing business with Cuba and has come under scrutiny for trading with an Iranian bank blacklisted by the U.S. for links to terrorism), not to mention the fact that its C.E.O. had been investigated for corruption. "I questioned why Rudy stuck his neck out like that," the insider says. "Obviously it was for a fee, but with his long-term aspirations there didn't seem like a lot of upside." (Bracewell says that the firm was hired by Santander to assess the proposed investment and found that the bank "had fully and completely complied with all laws relevant to the transaction.")

Almost immediately after the buy-in, Sovereign's chairman, Jay Sidhu, resigned with a $44 million parachute. In November of that year, Giuliani gave a speech, for $100,000, at the Jay S. Sidhu School of Business & Leadership at Wilkes University, in Wilkes-Barre, Pennsylvania.

When the *Chicago Tribune* asked Bracewell managing partner Daniel Connolly about the timing of these events, Connolly said that Giuliani's speech had no connection to the Bracewell review, which in any case was completed nine months before the speech. But a Wilkes University spokeswoman told the *Tribune* that, in fact, the university had identified Giuliani as a potential speaker in April 2006, formally asked him to speak in May, and signed a contract with him on June l3—two weeks after the Santander-Sovereign deal closed. (Giuliani's speeches were arranged by the Washington Speakers Bureau.)

In the businesses that Giuliani built and bought these last six years, more deals have yet to be examined, more dots connected in the picture of his great financial success. But enough are there already, with lines between them, for a shape to have clearly emerged. It's a picture of a politician leading a parade, as Mayor Giuliani so often did. Only the marchers behind him aren't drum majorettes or wartime veterans or firefighters or police. They're a ragtag band of Texas lawyers and energy lobbyists, penny-stock sharpies and security-industry entrepreneurs, agog with visions of the ultimate pay-to-play presidency.

With additional reporting by Christopher Bateman.

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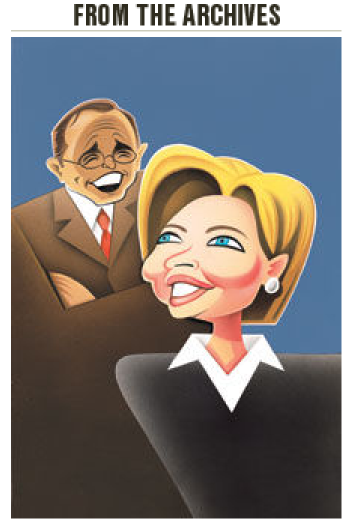
FROM THE ARCHIVES



"Cheer and Loathing in New York," by Gail Sheehy *(June 2000),* about the showdown between Rudy and Hillary in that year's Senate race—before Rudy bowed out

"Giuliani's Princess Bride," by Judy Bachrach *(September 2007)*

"Crazy for Rudy," by Michael Wolff *(June 2007)*

Illustration by Risko.