SEC Historical Society
Interview with Paul Windels
Conducted on September 18, 2007 by Kenneth Durr

KD: This is an interview with Paul Windels on September 18th, 2007, in New York City by Kenneth Durr. I generally ask folks how they got interested in law. I suppose with you, your father may have had a lot to do with it.

PW: Yes. My father was a lawyer, and I grew up in a household in which the law permeated thought. Early in his career, my father became very much involved in public affairs. When he was a young lawyer, there was a young, ambitious politician named Fiorello LaGuardia running for President of the Board of Aldermen of New York City -- this was just post-World War I -- and nobody gave him much of a chance. But my father was asked to be his campaign manager, and he did. The campaign was successful, and LaGuardia was elected in 1919 and from then on, until recent years, they were absolutely inseparable.

They were different types, to be sure: LaGuardia was ebullient, dramatic, emotional, and so forth.

My father was very studious, conservative and reserved. He had a truly academic mind. He read constantly, and remembered everything he read.

Going back further, it had happened that my grandfather, a Methodist minister, died when my father was fourteen years old and my father had to leave school and go to work. He was employed by an importing dye and chemical firm in downtown New York. But he was constantly reading. And after a bit, a partner of the firm, who happened to be a friend of Nicholas Murray Butler, President of Columbia, suggested to Dr. Butler that he really should meet my father, this boy who was a messenger and doing everything in the office. Dr. Butler spoke to my father for a while, about the Civil War and other things, and he put my father directly in the sophomore year at Columbia. My father remained a close friend of Dr. Butler's for his whole life.

My father finished Columbia and went on to Columbia Law School. Dr. Butler got an urgent request from the principal of one of Brooklyn's prestigious high schools that he needed a history teacher. My father's family always needed money back in those days, so he went over and taught American history. He had to go to law school at night; Columbia had no night school, so he later switched over to Brooklyn Law School, which started the connection with Brooklyn Law School, part of his and my own background.

Let's go up to when LaGuardia was elected mayor in 1934 after a campaign focused on corruption. My father became the Corporation Counsel. He took over the Law Department from an administration in which the city was, frankly, for sale. A big device had been the "condemnation racket." The political insiders were making money by buying into land for nothing, and then having it condemned for public use at very high prices. My father, as Corporation Counsel, went after them vigorously. The political insiders were really connected in New York, because the Democratic machine had been in power for some time. My father brought legal actions against the insiders and set aside awards totaling well over fifty million dollars: a big thing in those depression years.

We lived in Brooklyn, and I went to a small Quaker school there. I resisted education, except as offered by my 8th grade teacher, a socialist and pacifist, who introduced me to economic determinism. This concept has never left me.

During summers, the LaGuardias took a cottage right behind our house in Westport, Connecticut; and we were with them constantly, F.H. cooking the spaghetti most every Saturday night. I loved talking with him: the war, airplanes, politics, sports, etc. From time to time, I used to go to ballgames with him, in the big city airflow Chrysler.

One day when Governor Lehman was looking for a special prosecutor in New York, he named Thomas E. Dewey, a young lawyer who was a Republican. He figured: "This is a good way to take the heat off me, and take the heat off the Democrats nationally -- particularly FDR, who wanted the Tammany Hall problem out of the way, obliterated. Once, when we were in Westport and my father was having lunch with F.H. and Mr. Burlingham, it had just been announced that Dewey would be the special prosecutor; and I can remember them saying, "That dope, Herbie! How could he do such a stupid thing?" Of course, Dewey eventually knocked off Lehman himself; but, he also blocked LaGuardia, because by becoming a Republican Governor, he locked LaGuardia into City Hall. LaGuardia had no place else to go but Washington. He was a resourceful, mobile kind, and so he went to Roosevelt's Washington. In 1940 he came out for Roosevelt in the national election; and that broke up the relationship with my father, a staunch Republican. My father had been in law school with FDR, as a young man, and had developed a dislike for him at that early age. Young Roosevelt was in Columbia Law School for one particular thing, and that was New York Society. His mother didn't want him to waste his time in Cambridge; she wanted him to be in New York with herself and a better element.

KD: Had you decided by this point that you were going to be a lawyer?

PW: That was just there in the background all the time. When I was really young I was entranced by the Navy and also by farming. I guess those were the two other things that attracted me as a boy. And, ever since I was 10 years old, I have always had a boat and still do. But politics was there, and the law was there, and the really vivid personal impact of Fiorello LaGuardia, who was, of course, also a lawyer. My father told him that Roosevelt was not to be trusted and that he was a socialite and just used people to suit his convenience. As it turned out, that is just what happened so sadly to F.H.

KD: Now you would have been off to Princeton in the late thirties. Is that right?

PW: In 1940, I went to Princeton and went into the economics department, a most fortunate decision. I thrived there. I also took the military science course and so wound up in the Army reserves as a private in 1942.

KD: Did you know that you were going to go into law at that point?

PW: I figured that that was my likelihood.

I was home on an Easter weekend pass in 1943. My mother, with whom I was particularly close, took me to the opera; it was *Parsifal,* and the LaGuardias, F.H. and Marie, happened to be sitting there. I had not seen them since the split with my father in 1940. I went and sat with F.H., and my mother sat with Marie. I was shocked to see F.H. who used to exude style, confidence. He was clearly broken and mentioned problems in his stomach. FDR had made it clear that he had used him and that was it. LaGuardia wasn't going to go over to Europe; wasn't going to have a military command or a diplomatic role, or anything as he had arranged for Lehman and Poletti. Then the music started. When we were walking out, he said to me, "Paul, you can't imagine what I'd give if I could change places with you." He had been just left to stew in New York, and he was feeling very, very down. He drove us home. This was the last time I saw him.

KD: He wouldn't have lasted much longer after that either. He died in '47 or so.

PW: Yes.

KD: You finished up at Princeton in 1943 and you went into the Army then, is that right?

PW: Here's how that turned out. In 1942, I enlisted in the Army reserves as a private, but because I was in this military science program, I stayed in Princeton until I graduated in 1943 and then went to Officer Candidate School at Fort Sill that fall.

KD: Did you go to Plattsburgh?

PW: No. I went to Fort Sill, Oklahoma and got my commission there that fall in the field artillery. My first assignment was the 11th Airborne Division as a forward observer training with the 511th Parachute Infantry. But when the time came to go overseas; and the Inspector General came to check out the division, it developed that in the table of organization, there was no position for a forward observer in the 11th Airborne. So although I had a great attachment to it (and the 511th for me), I was left at the railroad siding as it left for the P.O.E.

Actually, it was the most fortunate thing in the world that could have happened to me. I went back to Fort Sill. They were forming a new artillery battalion; and I joined it and went to Europe. The old 11th went to New Guinea, and just slogged through the jungles, whereas I went to Europe as an aerial observer. I saw the fighting in Europe: the devastation of the cities, the crossing at Ramagen and wound up outside of Czechoslovakia where we met the Russian Army -- it was apparent to us that we would be at war with them soon and we felt: let's get it over with now.

We were told we couldn't go into Berlin—that had been decided at Yalta. So we were all held back, and then went back to Nuremberg. Our outfit was converted to occupation duties: in particular, to handle the "liberation" of so-called "slave laborers" there. They then changed the name to "displaced persons," because they weren't slave laborers at all; and they most urgently didn't want to leave. We had the wretched job of putting them onto "diamond T" trucks at bayonet point and getting them out of Nuremberg. The Army didn't want to have a lot of Ukrainians and miscellaneous Central Europeans floating around in Nuremberg, which was planned to be a "show" place.

Most of the battalion officers went home, and I found myself in command. The battalion was converted to military police. Then, there was a big riot back in France, between the American port troops and returning French military personnel, who came back to Normandy from German prisons and found that American port troops (all black, as it happened) were making a big killing out of the black market operating out of Le Havre and Cherbourg and making out big with the Norman girls. It was just at the shooting point. In the middle of the night, we arrived in Normandy. As Provost Marshal of the Provence, I immediately restricted all American soldiers to their quarters and placed my men around the camps to assure compliance. There was a lot of hue and cry about that from the soldiers, and also the Frenchmen who were with them in the black market business, and, of course, the Norman girls.

I reported to General Koenig, in Paris, who was in overall command. General Koenig said, "We've got a suggestion from Washington." "They propose sending over a big detachment of black WACs." I said, "do you think that's going to fly here?— these

soldiers are loaded with French currency, and out of Alabama, Mississippi, Harlem, and so forth—they won't be interested in a detachment of black WACs." I always suspected that this idea had to come right from Eleanor Roosevelt herself. She'd think it's a wonderful way to expose these black WACs to European culture; they can learn to speak French, and learn about drinking wine, and be a part of the "liberation" of Europe. At any rate, that didn't happen. My recommendation was that they close down Cherbourg and Havre and transfer the troops and the traffic to Bremen—which they did.

Next, there was a big riot in an Army prison in LeMans, France. The inmates were all American military personnel who had been convicted by courts martial. We went over there at night, and an infantry regimental commander, Colonel Edwin Van Bibber, was brought in to take command. I was made the adjutant. We put down the riot in due course by isolating the cages. Then we had the problem of running a prison, maintaining order. We had an execution; we had to deal with the problem of discipline, the use of solitary confinement. My overall recommendation was to segregate the ones who were guilty of offenses recognized under American criminal law (murder, rape, larceny, etc.), and send them to American penitentiaries; those guilty of military offenses (desertion mostly) would be shipped into prison camps in Germany. That's what we did, and the LeMans facility was closed.

KD: So you got yourself some military law experience before you even went to law school.

PW: Yes. Colonel Van Bibber was next assigned to command the Antwerp port area. I was designated the acting judge advocate general, "acting" because I had never been to law school. The big problem there was smuggling, because of the thriving diamond market and people with all this black market money. What to do with it? If you could buy diamonds, you could somehow or other smuggle them back into the U.S. We initiated a strict surveillance of the diamond market and currency operations.

A general staff colonel arrived in Antwerp, and I was told to report to him. He was brisk but cordial. He had considerable background information respecting me, mostly military but also personal. He described the Command and General Staff School and the Army War College and said he would like to recommend me for a commission in the regular Army. I could expect an early promotion to field grade. I should think about it, he would be back in Antwerp in three weeks. I reported this at once to Col. Van Bibber, an old West Pointer. He said he expected it and then went on: "Paul, I know you better than the general staff, and I make this prediction: If you go into the regular Army in peacetime, you will be court martialled within three years. Go home and go to law school. We will be at war with the Russians soon. I will have a division and will send for you. We will be together again."

Then my "number" came up to go home and I got a cabin on a freighter going to New York a week later. I arrived home on the 3rd of July, 1946, and spent the 4th in Westport with the family. On the 5th, I got a ride up to Massachusetts and came by Harvard Law School. The Dean happened to be there, and asked me into his office. We talked for about an hour, and he took me out and said, "Well Captain, we have a class that started last June; would you like to join it?" I said, "I certainly would." So that was that, and from then on, I was in law school. I was still on terminal leave and had no clothes except my uniform.

KD: Did you have any sense of how you might like to specialize when you were in law school?

PW: I was very much oriented toward litigation. I don't have an academic mind. I would not be happy looking at indentures and loan agreements. My goal was getting into court. Back in the Army, I participated in courts martial constantly, either as trial judge advocate or the law

member. I was doing that steadily when the war was over, back in Europe. When I got to law school, naturally, I was mostly interested in anything to do with litigation.

KD: Did you go into private practice out of law school?

PW: I went to a firm that's now no longer in existence; it was Forsythe Wickes' firm. He was a practitioner of the old school, a wealthy socially significant gentleman who was chairman of the Shell Oil Company. He had been in the Cravath firm, but split off from them because there were in the southwest part of our country all sorts of restrictions on aliens holding land. Shell was an alien. So Cravath decided to set up a related corporation, to be separated from "Royal Dutch" and "Trading and Transport." Mr. Wickes was at Cravath, and they made him the chairman of it, and he separated his firm from Cravath. I went with him; and a big part of my work was with anti-trust, because I said I wanted to get into litigation. We represented Wheeling Steel, and the Federal Trade Commission started a big anti-trust case against the use of basing points in steel pricing. I worked on that for Wheeling.

In 1948, just as I was getting out of law school, the Republican ticket headed by Dewey-Warren lost to Vice President Truman, and a new Congress started wide-ranging investigations into judicial and political corruption. Gov. Dewey formed a New York State Crime Commission and appointed John Harlan as counsel. I was "loaned" to it as an assistant counsel and over the next two years developed a great admiration for Harlan. A particular bit of wisdom that I remember was "don't get in a squirting contest with a skunk, he'll beat you every time." In 1952, the Republican nominating convention met in Chicago. I went there on the staff of the Republican National Committee. I was just running errands. The convention was a standoff, because the old dominant eastern element – *New York Times, Tribune,* etc. – had been humiliated by Dewey's defeat. The person in command of the party by default was Senator Taft, an old friend of my father's. Taft did everything he could to bother them. He denounced the Nuremberg trials. Governor Dewey and the others from the east picked up Eisenhower, and they brought him over and made him President of Columbia to stop Taft. Here he was: the national hero who was going to keep control of the party. The trouble was, Taft got to the convention and there was a standoff. It looked as if the convention was going to be absolutely deadlocked. One big delegation remained uncommitted: California.

Dewey had stayed away from the convention because he was embarrassed by the '48 debacle. The standoff went on for two days. Douglas MacArthur was beginning to stir around a bit, thinking: maybe, maybe he. Then Dewey and Herb Brownell came to Chicago, and they went directly to the California delegation. California had as delegates, Senator Knowland, Senator Nixon and Governor Earl Warren, each with national ambitions. Dewey knew Warren very well; he had run with Warren in '48. Warren wanted to get on the ticket, but he had gone down with Dewey in '48. And of course, Nixon was there. He was young and strong on the anti-communist issues. Dewey met with them in Chicago, and out of it came a deal; Nixon would be on the ticket with Eisenhower. Earl Warren was promised the first appointment to the Supreme Court.

KD: Spring of '52.

PW: And so it was that Eisenhower was nominated and went on to be elected President. Herb Brownell became the Attorney General, and Bill Rogers, a New York lawyer whom I knew, was right under him. Rogers had to designate United States attorneys in the different districts, particularly the Southern and the Eastern districts of New York. In the Southern district he designated Eddie Lumbard, who was a strong Dewey man. In the Eastern district

it was Leonard Moore, a neighbor of ours in Brooklyn, whom I've always known. Leonard Moore immediately designated me as his assistant.

KD: So you worked for Mr. Moore.

PW: We went together into the U.S. Attorney's office. My father had told me to go there and try cases, don't go there to get a title or shuffle papers. Then all of the new Republican Assistant U.S. Attorneys in New York were gathered together in a grand jury room, and in came Governor Dewey. Dewey said, "You're here to try cases. You're not here looking for a job, to be on a payroll, or anything like that. You're here to try cases, to get a reputation in court, get to know how things work. And then," he said, "after two years, get out." He said, "Don't spend more than two years, or you'll turn the U.S. Attorney's office into something like the District Attorney's office, which is loaded down with old hacks, nothing better than police desk sergeants who talk the vernacular of the criminal law; and never get to be anything better. Just go in for two years." But he added, "If you're working on something of particular significance, stay on for another year," but, "three years is the maximum." A very compelling send off from a man who started his extraordinary political career as an Assistant United States Attorney. I went in, and did what he said, which was just what my father had urged.

I got to know the agencies: Narcotics, FBI, Secret Service, and the Treasury. I gave them good fast, effective service, and got their cases right before grand juries. If the cases needed any brushing up, or things had to be fixed up, I did that in the grand jury. If it looked as if some case would never really fly, I got a "no true bill" from the grand jury. The different agencies began to cluster into my office with their best cases.

Early on, there was a corruption trial of a fellow who was putting in sewers in Queens. How do you deal with that in the federal courts? We got him indicted for income tax evasion; I tried the case, and he was convicted.

With narcotics, believe it or not, the country at that time was, at best, ambivalent. The judges were soft. We had just come out of Prohibition, and also cocaine was something that was fashionable. The narcotics agents were not having too much success in really pressing their cases. I picked up their cause, because they told me what narcotics did to the vast run of people—not the people who might sniff a little something or other, but the average person who got hooked, then had to go out and steal in order to get money to pay the criminal dealer. The narcotics agents focused me on the addicted element of society. I became their strong ally. In fact, it was said that I personally "declared war on narcotics." That was before anybody else really joined the parade.

We were always looking for higher-ups, and top was Charles "Lucky" Luciano, the top gangster here who had escaped back to Italy before he could be convicted. I think Governor Dewey might have been a little bit embarrassed there. Luciano was supposed to be the kingpin over in Europe, organizing the shipments and the distribution network. I worked very hard in the grand jury to try to get to higher-ups in his apparatus. The rumored kingpin was Luciano's right-hand man Eddie Sandello. Sandello was "smart" and always managed to see that he never touched anything hot or dealt directly with the pushers. So we had no success at first with Sandello, but in the next round, we pressed on and we got lots of the semi higher-ups and a lot of the organization. The net result was that the organization was thrown into some chaos. I would make sure that if there was a particular dealer that the narcotics agents really wanted to press, he got a heavy sentence. The agents were able to talk to those fellows, and say, "Windels is absolutely death on you people, and let's see if we can't work something out." So little by little, the agents in those early years, had areas

in which they were getting information. And as a result of this second big indictment, the organization was in chaos, and the agents heard that there was some stash that was coming in and they didn't know what to do with it. They thought it might wind up in an apartment in Queens. We got three agents into that apartment. Then, they heard somebody walking up the steps. They ducked away, and the door opened, and in came a man with a gun. They jumped him, and lo and behold, it was Eddie Sandello. This was a big hit for them.

Meanwhile, the FBI was working largely on hijacking cases. Again, it was a question of organization, how the hijackers were able to fence their stuff, who the fences were, and who was financing them. The hijackers could grab a truckload of coffee beans, but then they had to get rid of it fast with no traces. There was a lot of grand jury work to try to get into the upper echelons of fences, and the question of money. This led into the money-laundering problem. The FBI was getting to know me well and so was the grand jury.

There was a bank robbery out on Long Island at the Floral Park branch of the Franklin National Bank. A single gunman walked into that branch in August 1953, and walked out with almost two hundred thousand dollars. It was the first time there had been a bank robbery in many years in the United States. The gunman had had a switch car arranged, and disappeared. No trace. One agent of the FBI, Gerry Van Dorn, persistently checked fingerprints for a year, because in the switch car there was a single thumbprint on the rearview mirror. And by the one thumbprint, they picked up a man down in Florida, a car salesman, named Pat McKinney. They arrested McKinney. The FBI, by that time, had gotten a good working relationship with me, so he was shipped directly from Florida up to me in Brooklyn. We immediately began to work on it with a grand jury. McKinney had a decent side to him; he had a new wife, a nice Catholic girl. She had at one time had possession of some of the money, and couldn't explain where it came from. So we had this on her. McKinney was trying desperately to protect her, and so he agreed to testify before the grand jury. Over several grand jury sessions, he told a story about a man named Ronald Martin, a very good-looking boy, who had befriended a person working for the bank named Cliff Oberkirch. Cliff was the auditor for the bank and was gay, and was taken very much with Ron Martin. Martin, McKinney and Oberkirch would go out together. Little Cliff was fascinated by these strong-arm guys. They planned a robbery of the bank where Cliff worked, staked it all out and set a date to do it. Cliff gave them detailed information as to everybody in the bank: when they came in and when they left, and when there'd be a lot of money in the bank. Just to get themselves ready for it, Ronnie Martin and Pat McKinney held up a couple of Howard Johnson's; and pistol-whipped the customers, just because they were all hyped up. But when the time came for the robbery, Ronnie Martin got appendicitis and went into a hospital. Pat McKinney went in and pulled off the robbery that they had planned so carefully, alone. Right after the robbery, McKinney went to the hospital to see Ronnie. When he walked in, Ronnie was in bed, listening to all the highly excited hot radio news reports of the robbery. Ronnie said, "I see you've been busy." It was agreed that the money would be split, and little Cliff would get his share. All the details came out in the grand jury. It was a very glamorous case, and I spelled it all out in the indictment bit by bit, a fantastic story. The grand jury loved it. Pat McKinney was indicted and so were Cliff and also Ronnie Martin, although when the robbery took place he was in the hospital. Ronnie had a little fierce mother, a dragon of a lady, and she wouldn't let him plead guilty. But I took him to trial, and he was convicted with the others and sentenced, and his conviction was affirmed on appeal.

In the middle of all of this, into my office walked two extraordinary government lawyers from the Securities and Exchange Commission; one was named John T. Callahan, and the other Edward C. Jagerman. Their history was unique. Tim Callahan came from an upper crust Irish Catholic family in Boston. He had gone to Andover and to Yale, where he was

on Walter Camp's all-time, all-American football team. He played at the center of the line, full time, in every Yale football game. He was big and was right there in the center. And on the other hand, he was as gentle and as sensitive as a man could be. He loved the opera. He particularly loved the ballet. He loved traveling, and he loved art. And he dressed elegantly. Timmy, because he was in this category, was very close to similar people in Boston, particularly the Fitzgerald family. When young, he and Rose Fitzgerald were often paired together at dinner parties and dances. Joe Kennedy, rougher and tumble, wasn't really in this circle, but Timmy Callahan was right there, very close to Rose and her circle. So when Joe Kennedy became the first Chairman of the SEC, Tim Callahan was his first appointment to the staff.

How did Eddie Jagerman get on the staff? Felix Frankfurter, in the '30s, went about trying to get Ivy League intellectual types and lure them to Washington; and he came across Eddie Jagerman, a brilliant student at Yale. And Eddie Jagerman was put on the staff of the SEC in the early days and he and Timmy formed an independent team making cases and trouble-shooting.

I have to jump back a little bit. I was very busy in the federal court in Brooklyn, and along came an extraordinary lawyer from Boston named John Burns. John Burns had a little law firm, which had business in the court, I think he had eight partners. He was really smart. Joe Kennedy picked him up when he was a young lawyer, just out of Harvard, and almost immediately made him a judge in Boston. And then he said, "No, I have better ideas for you." John Burns set up a law firm, and he represented Joe Kennedy. He had a house in the middle of the Kennedy compound out on Cape Cod. He tutored the Kennedy boys to get them into Harvard, and while they were there. John Burns was an indispensable part of Joe Kennedy's entourage. So when Joe Kennedy became the first Chairman of the SEC, John Burns was put right in there as its first General Counsel and became a major figure in the inception of the Commission.

Now, John Burns, when he was getting to know me, was making plans with me that I should get out of the government and go with him. Dewey had said get out after two years or three years, and practice law. I had that in the back of my mind, and John Burns said that he never really had had a full partner. He figured that he and I would really build this firm, and make it big. He had all the Kennedy business, and also all the Grace business, the whole Hearst operation and lots of other work. He obviously had fantastic business know-how and connections. But somehow or other, he never found somebody he could build a large practice with. The big law firms—he knew what I was to find out, that you just go into them and they stultify; they want to take what you've got and that's about it. John Burns and I were planning that I would leave the Department of Justice and go into practice with him. Then lo and behold, John Burns dropped dead. So that was the end of that. And his firm struggled along. The eight lawyers got down to five, then to three.

Now around this time, as I say, Jagerman and Callahan walked into my office and they started to talk to me about "boiler rooms." They were sort of an independent roving team at the SEC. They had put together some criminal cases, but the SEC wouldn't give them a criminal reference report and they were off on their own, trying to sell them to U.S. Attorneys. They chose the first one to be against the country's number one over-the-counter dealer, Walter Tellier. They chose a case involving Alaska telephone bonds.

Eddie Jagerman figured out the basic fraud, the way the bonds were sold. There were four series of bonds, and they'd sell one series, and then they'd sell the next series as a dividend payer. And so on with the next series they used the proceeds from each series to pay the dividends on the prior series, and then the next and the next, a classic Ponzi. Timmy

Callahan's great forte was lining up victim witnesses. You couldn't help being deeply moved by him, because it was so horrible how the victims had been swindled out of their savings to buy these "dividend paying" securities.

It was a case of telephone salesmen. The trouble at the Commission was as they said, "How can you prove this? Tellier is a very big shot. He's one of the major figures in Wall Street, and as to these salesmen, Tellier can say he can't control what they say on the telephone." And so they ducked criminal enforcement on this Alaska Telephone case.

At this time, the spring of '55, high pressure telephone selling of uranium stocks was beginning to get public notice. It was coming to the attention of Congress, which asked the Commission about it, and Sinc Armstrong, its Chairman, said, "Well there could be several of these boiler rooms, and we're watching them; but there's nothing serious. It's not very big." It was kind of brushed aside. Then out of the clear blue sky, we came up with an indictment in the Alaska Telephone case, which was headline news in the *New York Times* and the *Wall Street Journal* and such other national newspapers.

This is against a backdrop of really quiescent activity in the securities market. People still felt burned from the Great Depression. I think, by way of explanation for the Commission, they were sitting on a market in which there were very few new issues—no action, no real activity, no urgent interest. Sinc had said that there wasn't a serious problem, and then he woke up in the morning, and read these things in the newspapers and all of a sudden, everybody was full of it.

KD: Armstrong was the Chairman of the SEC at the time?

PW: Yes. J. Sinclair Armstrong. "Call me Sinc," he said to the reporters. A lovely fellow, a very honorable and able man. He came over to my office in the U.S. Attorney's office, and we talked for quite a while. I told him what the Alaska Telephone case was and he said, "How do you expect to prove it?" I said, I can prove it because these salesmen were saying the same thing, parroting the Ponzi fraud that Tellier had conceived, and I can prove that they were all operating out of one place, and that also the lawyer retained by Tellier who gave the legal advice to get the Alaska Telephone issue going was a former SEC attorney and called it a Ponzi.

The attorney had done all of this on the basis of the Reg A exemption from registration, that's four hundred thousand dollars a year. Each one of the issues was just four hundred thousand. This lawyer obviously wasn't used to being pulled before grand juries. When I called him, he collapsed, and admitted that he had told the promoters that it was nothing but a Ponzi scheme. That was the fraud side to our criminal case. I explained that to Sinc. Then I said, "we're about to go on another, and it's much, much bigger: uranium stocks. There are five or six large boiler rooms pushing these uranium stocks."

Then he asked me if I would be interested in becoming the Regional Administrator in New York. I was very much attracted to it. It had a large staff, and the SEC was a very prestigious organization. I called him after the uranium indictment, and said, "Yes, I would be interested." He put it to the other Commissioners, and they designated me the Regional Administrator.

I resigned from the Department of Justice. The Grand Jury Association gave me a great big brass flagstaff, an eagle on the top of it, with a silken flag. I had it sent over to my new office; I believe it is still there. I was attracted by the idea that here was a big staff of able people, and I would be getting into a new line of activity. A few of the narcotics agents

asked to have supper with me at a restaurant down in the Village. I went in, and there was the whole organization—everybody from Washington. The place was packed. They presented me with Eddie Sandello's gun, which I put on the wall of my new office at the SEC, and so it happened that "the Street" came to call me "Pistol Paul."

KD: Didn't you wrap up the uranium case mostly though, while you were still in the U.S. Attorney's office?

PW: Yes. That indictment came down just as I was deciding what to do. I had discussed it with Sinc. I told him something very big is coming along, and I will have to do that before I give you my answer. But the uranium case was all ready. I had gone out there to "the four corners," the mining area, and spoken to lots and lots of people, and lined up a lot of them as witnesses. I went out there with Tim and Eddie—how they loved to travel around!

KD: Had anybody gone after penny stocks before, at this point?

PW: No. An explanation is that the market had been quiet for years and was not sensitive to the problem of new issues at all. And it was the same way as it was, more or less, on narcotics. It took a while before people were really given a good shaking, and made to realize that so many had become enslaved by these narcotics, by what they call a "controlled substance." When Tim Callahan was explaining what happens to susceptible people when pitches are made to them about penny stocks, you get the feeling that this stuff should be a "controlled substance" too, because victims become virtually helpless when dealing with a talented "pitchman."

I went over to the regional office, and the Commission and particularly my predecessor Jim Sargent couldn't have been more helpful. I had a good staff, headed by a lawyer named Willie Moran. He was a real old-timer there in the office, and he and a number of others were really excellent people. Timmy came in, and right off the bat we organized raids on boiler rooms. There must have been eight or ten of them that we hit. The New York office was accustomed, when making a broker/dealer inspection, to knocking on the door, and coming in and presenting credentials, and looking at the books and records, and checking to see that all the people working there were properly registered. Not Timmy Callahan. He had a whole group of lawyers and agents with him. He walked up to where the place was—somebody, I think, was about to knock. "No, go away." He put his foot on the door, and bang! Pushed the door in, and walked right in. He barked, "I want the "openers" over here on this side of the room. I want the "loaders" there. I want the "reloaders" here. And I'll find out who the "dynamiters" are, I'll get to you. But you better come over here early. Otherwise, I'll find you eventually." So it was the "openers," the "loaders," the "reloaders," and the "dynamiters." That was the way these salesmen were categorized. A new strange vocabulary for my new staff in New York.

KD: They knew what he was talking about right away, and they followed orders.

PW: These old New York staff members at first were bug-eyed, really astonished. But then, they joined right in the thing.

We had volume business before the Commission so steadily, that there was no point in traveling to Washington on each matter anymore. They put speakers right on the Commission table and on my desk in New York, and we would present our cases out of the New York office directly to them. We wanted to close down places as fast as we could. In that initial surge there was more enforcement activity than the whole Commission had had since its inception. And, as I say, it's not exactly a fair comparison because there hadn't

been much market activity at all until this surge. Then Tim Callahan, Eddie Jagerman and I really broke it open for them, that first year.

I made it a point to go to Washington about once a month and visit with the commissioners and heads of the departments.

A few times when in Washington, I went over to have lunch with Justice Harlan in his Chambers. He would have made a superb Chief Justice but that was not to be thanks to the "Chicago deal."

Also, I kept up with Bill Rogers who had become Attorney General. He was very close to Nixon having written the notable "checkers" speech among many other things. He asked if I would go back to Justice as U.S. Attorney for the Southern District of New York. I was of a divided mind feeling a growing loyalty to the Commission and I also remained well aware of the Dewey advice to get out of government before too long. So nothing came of that or any other of Bill's flattering ideas.

Getting back to the New York office, most of the people working there had been on "the Street." Both New York and Washington had the broad tape; there was a ticker tape in Washington, but not one in New York. So I established one in New York so we could watch the trading. That paid real dividends because we were able to spot some manipulations just by looking at it. The ticker tape didn't "talk to" the academics in Washington. I don't know why they had it. But to the fellows in New York who came from "the Street," the ticker tape did speak to them.

KD: Well, I've got some questions I want to touch on.

PW: Sure.

KD: What did you see when you came in to take over the New York Regional Office that you felt that you wanted to change or that you wanted to rework a little bit?

PW: The first thing I did was to organize teams to raid these boiler rooms. The raids went on for quite awhile. We were on the telephone constantly with the Commission, initiating administrative proceedings, and getting authority to go to court, and get material over to the U.S. Attorneys' offices and so forth.

KD: There was something that came up pretty early in your tenure, I noticed, which was an idea to get federal, state and industry people together, and come up with a code of conduct.

PW: Well, the concept was doomed from the start. Industry people want so-called "regulation" rather than enforcement. Public prosecutors want publicity and are particularly subject to political pressure. They all want "insider information" about investigations.

"Cooperation" was being spun by these local district attorneys and the New York State Attorney General, Jack Javits. They wanted to get into the act as time went by because they were learning that this was where exciting action was, and so they were constantly calling meetings. And I had been for it, but you get different agencies together to work out some sort of a" code," and nothing much can come of that. You've got to push your own notion of standards and assert them with injunctions and convictions.

KD: The code wouldn't do much good unless people knew that there was one of these teams that's going to come and break their door down.

PW: I think that sort of notion of regulation by cooperation is always spread around. The SEC is in the position to dominate, and to start getting involved in cooperative action with other people isn't going to work that well. In the Lowell Birrell case, when we broke it and the press picked it up, the district attorney moved in, based on our evidence.

KD: How did you come up with Lowell Birrell? Where did you find him? I seem to recall him being one of the first cases.

PW: Well, first of all, in the midst of all this, I had to go back to Brooklyn and try the Tellier case, because after I had left it, the U.S. Attorney's office tried the case and got a hung jury. This was the only indictment I ever obtained which didn't result in a conviction. Leonard Moore was about to go on the Second Circuit, and so he got me designated as a special assistant, and I went back and I retried the Tellier case—the Alaska Telephone case. Timmy Callahan's heart was giving out on him. I was young, and wasn't really sensitive to how sick he was getting. He lined up these victim witnesses, our basic case. There was one lady I remember so well. She was a maiden lady, and she worked a foot press in a factory that stamped out hard rubber castings. She saved every penny she could so her niece could go to college. That money was just taken away from her for the worthless Alaska Telephone bonds. She had nothing left. This is the sort of witness Timmy got, one after another. We put on about twenty or thirty of them, and finally the judge said, "Mr. Windels, how many are we going to have?" And I said, "We're ready with hundreds, your Honor." He said, "Well let's see if we can cut that a bit." When it was given to the jury, I think they were going to jump out of the box and hang Tellier. They were so furious about it.

KD: You turned a case involving interest paying telephone bonds into an intensely emotional trial.

PW: You must start with it as an intellectual challenge to show fraud. Eddie solved that by exposing it as a "Ponzi." We solved the Ponzi proof by breaking this former SEC lawyer who was Tellier's counsel. He came in and testified that when they said they wanted to go with another series of bonds, he said, "You can't do it. It's a Ponzi." So we had that part of the case won, and the rest of it was strictly victim witnesses; whereas the office who tried it after I left, they got into a big tangle about what is a "Ponzi" scheme and the old adage "let the buyer beware."

KD: Lowell Birrell has this company, Swan-Finch, and he's buying all kinds of other companies. How did this come to your attention?

PW: A great breakthrough that happened by the staff going in and hitting the Street this way was that our staff had all sorts of new sources of information. They got information that Swan-Finch stock was being merchandised out into the market. Based upon that we went to Swan-Finch. They hadn't filed reports, and Lowell Birrell, who owned it, was missing. We finally got a hold of him and we served papers on him to come in and testify about what was going on in Swan-Finch. He was a very sophisticated New York lawyer and knew the "loopholes." He worked through three or four listed companies—he controlled Swan-Finch, which was the principal, but he used that to buy control of other companies, and then they'd begin to issue stock back and forth. Swan-Finch stock would be issued for the assets of another company. The SEC had a rule that if you issue stock to get the shares of another company it doesn't have to be registered. Lowell Birrell was well aware of that, and he worked it to get a big bundle of stock.

Then, the SEC had never really touched on what happened if restricted stock was pledged for a loan and the loan defaulted, and then the moneylender sells out. So Birrell funneled these distributions through moneylenders. I got a bench warrant out for him, when he didn't appear to testify. He had a home in Brazil. Brazil didn't have an extradition treaty with the United States, so you could go there and laugh at everybody. He had a number of seemingly prestigious people in the companies he left behind to say: "Oh, we don't know what happened. We can't file the reports. But we deny any knowledge." Finally we got Birrell back, because of this bench warrant. Frank Hogan, the district attorney of New York came in and indicted Birrell for larceny based on our case, and that was the end of him.

We're now talking about 1958. At this time, I was being criticized by some people saying that I was treating people in the securities industry as if they were gunmen. I was thinking particularly of Pat McKinney, who did walk into a bank with a gun, when I said I would place him in my standard of people above these con men who sucked every last bit of savings out of some poor person. So it was that those fellows came to be called "white collar criminals." Around New York today, there are lawyers claiming that they're "white collar crime" specialists. It all came from that.

KD: How about Arvida? Arthur Vining Davis sounds like another one of your pretty slick New York lawyers.

PW: Arvida: what happened there? A very wealthy American, Arthur Vining Davis, who was the head of the Aluminum Company of America for many years, had invested his money in Florida real estate, and he amassed a big position. Florida real estate was beginning to come back and looked exciting. Arvida was the first big securities distribution out of Loeb, Rhoades and Dominick, a social firm with impeccable connections. Loeb, Rhoades was headed by John Loeb, a very significant person on Wall Street.

KD: Are they selling shares in Florida real estate?

PW: They decided that there was going to be a distribution of shares of a company, Arvida, holding Florida real estate. That was the concept. Then what did they do? They held a press conference, and said just that, and they set about preparing the required registration statement. But it hadn't yet been filed. And after their press conference, brokerage firms all over town were taking "indications of interest" to subscribe to the shares of the proposed holding company. There never had been even a filing of a registration statement. I brought this to the attention of the Commission. My people and I were speaking to Washington over the microphone. Barney Woodside, the head of Corp Fin, was very much concerned about this because registration statements for new issues of securities are the essence of Corp Fin's world—basically where the entire regulatory system starts: the registration of securities in a distribution. I told Washington that the distribution had in effect been made -- was already finished, and they hadn't yet filed anything. I got authority to go into court and get an injunction. I charged Loeb, Rhoades and Dominick with selling unregistered securities, and misrepresentation in selling them. Loeb, Rhoades and Dominick couldn't believe that they were being hauled into court by "Pistol Paul," as if they were running a boiler room. Loud were the screams. They circulated the rumor that I was off on a thing of my own and that the great minds at the SEC, Barney Woodside and Manny Cohen, back in Corp. Fin weren't party to this. Nevertheless, I got a preliminary injunction in the District Court. My analogy was the way the Indians used to hunt buffalo; they would start some sort of a grass fire, get the buffalo raging blindly in the direction of a narrow pass, and that's where they'd be waiting for the slaughter. Create a "buy panic." That was the analogy I used. What did they do? They got a Circuit Court Judge—Edward Lumbard—to

reverse it. I moved at once to have it brought before the whole Second Circuit. Thus, the big showdown came on.

Arvida was a crucial matter. It was what they call "gun jumping" in Corp Fin —selling an issue before a registration statement becomes final, here indeed, it had not been filed. The shares had been completely spoken for, and so was the "after market." We had gotten them enjoined; we threw the whole blooming deal into a cocked hat and that was that. It was a great day for us and for Corp Fin. Then, as I said, Lumbard reversed the District Judge. I was speaking to the Commission on the telephone, and reported, "There's a rumor—that Washington isn't behind this, that this couldn't possibly be the Division of Corporation Finance." I thought it would appropriate for Corp Fin to make its position known, because Corp Fin was strongly concerned and vehemently for me in this case. Their whole position in the overall scheme of things, was destroyed by permitting an in effect distribution before registration was effective, or indeed filed. I remember Barney Woodside—I could hear him growl in the background: "Losing your guts, Paul?" I said, "No, I just wonder whether you have any, Barney!" Barney Woodside didn't show up at the argument; but Manny Cohen was there with me. The Second Circuit reversed Judge Lumbard and affirmed our injunction.

KD: There's an implication though that some of the more prestigious firms were a little surprised that the SEC actually came out, and didn't just lie down for something like this. It sounds like you surprised them a little bit.

PW: The big securities firms were all in court. Every wise-guy securities lawyer was there in the Second Circuit, all the big shots. They all felt that somehow or other they all knew more about what the law was than I did. They'd say, "You really don't understand the law," on this or that, and so forth and so on. There's this interpretation or that interpretation. I said, "All I'm interested in is the reality, a panic had been started and the "indications of interest" were in reality a commitment to buy. The way these fellows got this panic going with saying, 'Hot issue; big issue; you better get in; get in fast,'" and they had a number of other member firms anxious to get in on the deal and were taking "indications of interest." As I reported to the Commission, "This issue has already been sold." If we don't deal with it, the whole regulatory concept of the securities laws will be nullified by unregistered panic distribution.

KD: Somebody less prestigious, but probably way more interesting—can you tell me when you first heard about Sandy Guterma and heard about what he was doing?

PW: A very interesting thing.

KD: Quite a contrast from Arthur Vining Davis.

PW: Gutsy Guterma—a fantastic story. Guterma, to some extent, followed the Lowell Birrell pattern. He got a hold of a listed company, F.L. Jacobs. F.L. Jacobs went hard at work picking up other listed companies basically by exchange of shares: Bon Ami, United Dye, Scranton Lace, Symphonics Electric, Hal Roach Studios. With all of these companies, once he controlled them, he would say to them: I'm going to issue you F.L. Jacobs stock, and you issue me your stock in exchange. And of course, he controlled both ends of it, and he was able to get the thing put on the books in which United Dye stock and the F.L. Jacobs stock were all given a very exaggerated paper value. That created a book value that they'd never really legitimately had, and it also gave Guterma a big bundle of stock, not only in F.L. Jacobs but also in Bon Ami, Scranton Lace, and everything else. So then, he had all this stock, and the next thing was: how do you get it merchandised? Because you have to

move it out onto the market. And again, he went to the moneylenders, and he got moneylenders to make purported loans based upon this stock and defaulted on the loans. The lenders put it in the hands of securities firms controlled by Guterma and they began to merchandise it, put it out over the telephone one way or another.

KD: And these were boiler rooms, these merchandisers?

PW: For the most part, yes, essentially boiler room operations. I think that Guterma had a reputation as being a real wizard, but he nevertheless was regarded with some suspicion, because nobody knew exactly who he was and where he had come from. As it dribbled out, he was born in Siberia, went to China, went to the Philippines, came up through the Hawaiian Islands, jumped ship a couple of times, smuggled onto other ships, and finally wound up on Wall Street. I think that some dubious foreign little caches of money got him started, but once he got started he was rolling. He followed the same Lowell Birrell tactic. He hired people walking around who want to be directors, particularly of a listed company, who want to be a president of a company, and there are lawyers who want to represent them. Guterma had a whole collection of these people. With all this in place, he started "working off" the stock. The stock was appearing in the market, and my people picked up the fact that there's a lot of it coming on the market and much on the claim of defaulted loans. We found none of the issuing companies had been filing routine reports, F.L. Jacobs and the people supposedly running them. Guterma had resigned and run, and they said: "Well, we just don't have the records. We can't give you a report."

And then the question was: what do you do with listed companies whose stock is traded publicly, and their internal affairs are so chaotic that they can't come up with responsible reports required by law as administered by Corp. Fin. I moved to have a receiver appointed. This was completely unprecedented. As the usual Wall Street lawyers pointed out, the SEC has specific authority in the area of investment companies, or when a company is insolvent to have a receiver appointed. But here, they hadn't declared insolvency; they weren't investment companies; they weren't anything like that. How could I move for the appointment of a receiver? The big shots from Wall Street firms jumped on me again. They said there is no precedent for it; it's a very dangerous thing. With that authority, you can walk in on anybody, and get a receiver. Just because he fails to file a report, you take his company away and have a receiver? I said, "Under these circumstances." Then what happened? I get word that Guterma and his sidekick, a man named Eveleigh, had tickets to fly to Turkey. I had this business of Lowell Birrell very much in my mind, because we were just frustrated by the fact that Birrell absented himself. So I swore out warrants for their arrest, and I got my friends over in the U.S. Marshal's office to execute the warrants. They picked up Guterma and Eveleigh, as they were about to get on a plane. So we had them under arrest.

Guterma then launched a virulent personal attack on me, and said that I was just a crazy crusader, all of his problems were caused because of me, and I was destroying these companies. But then little by little, we got to know more and more about these companies. Judge Sugerman at first refused to give us a receiver because he was very much impressed by these Wall Street lawyers. But then, as we began to close in on Guterma, and got more and more information, he began to lose his faith in them and agreed to appoint a committee of three outsiders to go in and advise the court as to what the situation was. The outsiders—excellent men—all said: it's absolutely chaotic. Nobody knows whether the company's bankrupt. At that, Sugerman completely collapsed; we got a receiver. We went in there, and in every one of these companies, all the assets had been just scooped out. And that was the end of Gutsy Guterma. The rest was criminal mop up.

KD: So he was hoping to take the assets with him.

PW: Sure, he had had a lot of them. And again, this business of "wash sales"—money was flowing out of these companies to foreign bank accounts. We had Guterma here in custody, and we were never going to let go of him until we got all that money back. So that was Guterma and F.L. Jacobs. I guess the significant advance was that we got a receiver in a company whose affairs were so chaotic it couldn't file the reports.

KD: Wolfson. There's an interesting case.

This was in June of '58, yes.

PW: Louis Wolfson was something of a folk hero, a sort of Robin Hood. He was an outsider who would take on the insiders. He had put on control fights for Merritt-Chapman & Scott and Montgomery Ward, which he lost. Even to some of the staff people of the SEC, the lawyers down in Washington, Wolfson was something of a hero. He was kind of an outsider who was busting up the cabal that was running the country economically. He announced a fight to gain control of American Motors. American Motors was having some problems; they didn't seem to know how to run their affairs. Louis Wolfson began to acquire stock. He had a following, and that's where a bit of the sadness was, and the hurt. These fellows in the New York office, because they had been out making these cases, were developing contacts on the Street. If something was being sold, or there was a distribution going on, they would pick up wind of it. We'd follow it up, and find out where the stock was coming from and why. Wolfson supposedly had a big position in American Motors. And people who followed him, too, had quite a bit of stock. There was a question as to whether or not he could grab the company. But then, I recall, American Motors indicated things weren't going that well with it, and so Wolfson must have gotten cold feet. He sold out his position secretly, while he reiterated publicly that he had acquired his position, and was going for broke on it. But, he secretly sold out. And our people go out on the Street and find he had not only sold out but went short a huge block. So we got authority to go into court on Wolfson.

Wolfson had a man who was his public spokesman, named Rittmaster. Rittmaster was giving all of these statements, particularly to the *New York Times*. The *Times* was really in a very embarrassing situation here, because Rittmaster had given a statement to the *New York Times* that Wolfson, despite the fact that there was a little bit of bad news about American Motors, had the greatest confidence in it, and he had full confidence in taking over American Motors, that he was going to gain control. This was published very prominently in the *Times*. So as I reported to the Commission, we had found out that he had sold out all his stock, and that in fact he had gone short a huge bundle. I took Wolfson to court and then the time came for a hearing, and Wolfson was well represented in court denying all these things. The *New York Times* was right in the middle, so I called on the reporter for the *Times* to testify under oath, but he declined to disclose his sources. Into my office came all the big shots from the *Times*, particularly their general counsel, who's a member of the Adler family and a leader at the Bar. You can't think of more respectable people, or people who were more horrified by all of this.

I was in a dilemma, because I didn't particularly want to make a reporter from the *New York Times* report under oath as to where he got his story or go to jail. He got his story from Rittmaster, but he wouldn't so testify. And so these people were in my office in the hopes that I would withdraw the subpoena on their reporter. They were all sitting in my office, this whole *New York Times* crowd, all of the people from Lord, Day & Lord, which was their very reputable law firm, waiting. I said, "Get me Rittmaster on the telephone." I said, "I

just want to check on something. It's you who gave the story to the *New York Times,* isn't it?" All of a sudden he blurted out, "Yes, it was. Yes, it was. Yes, it was." I said, to my N.Y. Times witness,"You don't have to testify. You can go home; you don't have to worry. I've got all I wanted to find out." So that was the end of that. Wolfson was enjoined, and we put the whole business in papers in court, and Wall Street worked its revenge, because he was short a couple of hundred thousand shares and the squeeze was on. But his people, all over, who were long got out. So Robin Hood had betrayed the merry bunch, and Wall Street got a good chuckle out of it. The first time the *Wall Street Journal* ever had somebody's picture in their paper.

KD: How about that.

PW: That was Louis Wolfson. Now then, we've done Arvida, Louis Wolfson, and Gutsy Guterma. We can go on and on because there was a steady flow of these things coming in. The boiler room thing didn't end immediately. When the SEC went over to Congress to ask for their appropriation, I would go over as their lead, and usually only, witness. The SEC had a van with two seats up front, and then in the back was a compartment. We went to Capitol Hill, in the two seats there would be people with all the financial records that they were leaving with a Congressional committee to justify what we were asking for. And Sinc and I sat in the back sticking our legs out, because we were the only live witnesses. Congress liked enforcement action, we were right in with the Marines and the FBI.

Now there is one other rather interesting case, and it was toward the end of my tenure. This was an example of a big payoff by having the ticker tape in the New York office, because I had people with a "Street" background on that tape and, as I said, the tape "talked" to them. With all due deference, it didn't talk to the people in Washington, because they have a basically academic reaction. But the ticker tape would talk to my New York people. Now Cady, Roberts was—let me see—a good place to start.

KD: Curtis-Wright.

PW: Yes. Thank you. Curtis-Wright, a listed company—a dividend paying company. The *Wall Street Journal* always reports when meetings are going to be held to act on dividends. And Curtis-Wright was listed down to have a meeting to decide what to do about its dividend, whether or not they'd be able to hold it, or whether or not they were going to increase it. It had issued some fairly affirmative news on the broad tape and the stock was selling a little bit on the strong side that morning. But then came the announcement that afternoon on the broad tape that the dividend was cut completely—no dividend. We were watching the tape, because we were prepared for some significant development. We all wanted to know what the trading was before the announcement. The trading that morning was strong, and then just before the announcement, big selling. I took everybody in the office who could walk, and sent them down on the Street; and ordered, "Find out who the sellers are." The sales were all coming out of this one member firm—Cady, Roberts. I had other investigators walk right in on Cady, Roberts. Sure enough one of their partners was a director of Curtis-Wright and had left the meeting after the cut and called the firm before the public announcement. And this was all within hours. I was right on the phone to the Commission. I said, "I'd like to get to court this afternoon." And so they assembled the usual people at the table. I told them what apparently had happened. Cady, Roberts had sold all their stock. Then when we got into Cady, Roberts we found not only did they sell everything that they had, but they went short a big bundle. So that's when I phoned the SEC. At the table, in Washington, they had Phil Loomis—the head of Trading and Exchange—a very altruistic and bright man, an excellent lawyer.

KD: Now are you on your speakerphone at this time?

PW: I was on the speakerphone, so I could hear them all down there. I had Willie Moran with me, and a bunch of the investigators—guys who were just up from the Street, ready to pump it right into them: where the selling was coming from. I said, "Where's the selling come from?" It's all coming out of Cady, Roberts, and they checked with this firm, that firm, another firm—all over the Street, and it was massive coming out of Cady, Roberts. I said that I want to go to court right away. When I told them what had happened, I heard Phil Loomis exclaim—sitting there with the whole Commission—"Well, what's the matter with that, Paul?" He expressed the view that it was the duty of a broker to find out information: a traditional view of a broker's job. "What's the matter with that, Paul?" The Chairman—I think it was Ned Gadsby—growled out something, "We don't like to bother you, Paul, with little technical things—technicalities—but what's the violation?" Willie Moran was sitting right next to me; he didn't wait for them to finish the question; he said, "10b-5" our routine violation in every fraud case." So that was our case.

KD: So that's insider trading?

PW: Cady, Roberts. So then here's what happened. The Commission decided that this was much too novel to go right into court with, because I would be presenting to a District Judge a completely new theory of violation. There was mumbling around amongst them at the table and they said, "We want to hold your application to go into court right away. But we're going to open an administrative proceeding on it, so it is of record. So you put the whole thing in the administrative proceeding, and as to the court, we won't take a position on that now." So I didn't go into court, but the administrative proceeding was started and the evidence put in. And then, nothing happened—they never put the thing on for a hearing, except they had all the papers. I mean they didn't have to have a hearing; it was there. And then, the new Kennedy administration came in and with it a new chairman of the SEC—a very fine man, a Columbia law professor named Bill Cary—a good friend of mine, as it happens—he took on the case personally. I had left the Commission by then. He wrote a long, learned, carefully thought-out opinion on this whole matter of insider trading asserting the violation of 10b-5. After that, Phil Loomis took a very strident attitude about insider trading. He gave this opinion to a group of lawyers: "A broker is riding along in an airplane—New York to Washington—and he looks out of the window and he sees a fire, and he says, 'Gee, I know that company. I see there's a fire going on in their plant.' As soon as he gets home, he calls his broker, and says, 'There's a fire in that company. Sell my stock.'" Phil Loomis said that's a violation. I think this as about as far as you can go, but that's Phil Loomis—a big change from his initial reaction: "What's the matter with that, Paul?"

KD: But that was the traditional point of view, I guess.

PW: That was a traditional point of view that that's the job of a broker, to get information.

KD: Did that occur to you when you were sending—I know this all happened pretty quickly—but when you were sending people out on the street to put this case together?

PW: I was watching this sort of thing all the time in the New York office. Every time there was a newsbreak I would ask our people on the tape, "What trading was there?" There was just something instinctive with me—I would like to know if there's a news break, was there trading? Who was making a profit on it? Isn't that what disclosure is all about?

KD: Did you consider that this might set some precedent, as the Cady, Roberts decision did?

PW: It just struck me as being outrageous and unfair, that this guy left the meeting—I think the real truth is he asked to go to the bathroom—but even more than that, they caused the company to delay the announcement on the broad tape for a couple of hours, to give him time to get rid of his position and then go short! They asked me on the phone what I thought; I said, "It's a fraud on the marketplace. I don't know whether you're interested in whether or not the marketplace as such should have integrity, but this was a fraud on the marketplace." Willie Moran just popped in, with "10b-5, our standby in every fraud case." In fact, the basic purpose of all of the Federal securities laws is to assure the integrity of the market. Isn't that what disclosure is all about?

Now let me mop this up with my leaving the Commission, because I had in mind the Thomas E. Dewey advice. When my departure was announced, I had lunch with Governor Dewey in his office. By that time, he was over at the old Root firm, taking the job that was held by John Harlan, who had been the senior man there. "Secundus" Root had left to go with another firm and Dewey took over. The one thing he told me—he had quite a way of putting things—he said, "When you're in public office, there are any number of people who come up to you and say: We can't wait to hire you as our lawyer as soon as you get out." He had invited me to lunch in his office. Actually, he wanted to pick my brain about something, and I didn't give him any comfort, but then, we started talking about being in public office, and lawyers coming up to you, or would-be clients, saying: We can hardly wait till you get out. He said, "Lots of them may seriously mean it." But he said, "Any number of them have said that to me. Do you want to know something, Paul?" He goes on, "The telephone never rang." He'd look at you like that. "The telephone never rang." So that was a word of advice to me, leaving the Commission. I was used to talking to the Chairman of the Stock Exchange, talking to the big investment bankers, all the time, just easily; and I thought: Here's a new circle of friends.

KD: So he's telling you it's not going to be as easy as you might think.

PW: Well that's right. He said, "Don't count on the hope that you're going to get a lot of clients; they may have been acting in good faith; they may have been impressed by you, glamorized by being where you are." That happened to Tom Dewey. And so, Dewey and I just talked around.

Bobby Kennedy, the new Attorney General, offered me his first appointment to the federal district bench, when he got in. Judge Moore told me, no. He said, "You're too young to be a judge." You've never practiced law, and you should." And then some of the big firms with banking connections—established firms—invited me in to chitchat, and some of them made what could be termed an offer. And Leonard Moore said, "You won't be happy in any of those places. It's not going to work out for you." So then I went back to the remnants of Johnny Burns' old firm. There were two lawyers left, and three secretaries. But they had an office. So there I went; and here we are.

KD: So this is that firm. Is that right?

PW: This is that firm, yes. This is where it all started—Johnny Burns.

KD: How about that?

PW: Of course Dewey was bound to be a success, because he was bright, pragmatic and hard-hitting. He was the guy who got that nomination for Eisenhower. Otherwise it would have gone to either Taft or Douglas MacArthur. You look on Eisenhower as a predominant

figure. At that time, he was just floating along; he was a name, as far as Dewey was concerned. And Dewey did it all.

KD: What did your SEC experience teach you that you were able to bring into the rest of your career? That changed the way you practiced law or did anything else?

PW: It taught me a lot about Washington, and administrative agencies, and that it was easy to go back and look at things through the cynical eyes of Bill Douglas.

KD: Tell me one more time what Bill Douglas said to you.

PW: He didn't say it to me. What he said is apocryphal. He said that every twenty or thirty years, the whole Commission should be abolished, and they should start absolutely afresh, with a completely new staff, new Commissioners. He said that because they live as purported regulators in a wealthy, beguiling, very sophisticated, romantic kind of a world of international banking and securities, and politics and society, it's easy to become infatuated. And, they get used to calling up people in that world, and the people are glad to talk to them. Many of them do go and work for those people. There's a steady flow of people coming out of the Commission into that "market." In other words, the regulators get merged with the industry.

All of that is true. But on the other hand, the Commission, basically, is an admirable organization. It has an enormous amount of know-how. What they don't have—to them, the world of enforcement is completely strange. It's arm's length, almost inconsistent with the regulatory role they become immersed in. Enforcement was something I had, in a sense, grown up with. I grew up not with the fancy J.P. Morgans, but the Fiorello LaGuardias, my father, Tammany Hall—all these corruption cases. Then getting into the Army, and finding myself running a series of things in Germany and occupied territory in France. And then coming back here and going into the U.S. Attorney's office, and finding that I was taking to it very naturally. And so it's a different world. Now how does the SEC mate with that? How does it not, in a sense, get caught in a lapse over the enforcement aspects? How does a guy like Spitzer come along, go into Wall Street; and in no time at all, hit the headlines and everybody says: Well where is the SEC? The SEC says: Well we're short on personnel—or something like that—that usual government answer. And Spitzer said, "That's a lot of nonsense. I did all this with three lawyers."

KD: The SEC says: we do it differently.

PW: Their proper approach should be: regulation as such is not a complete substitute for enforcement. Enforcement has to come in and give a bite to regulation. It has to give a bite to disclosure; it has to keep these people a bit on edge. And, you can't be cozy with them. It's not easy for the SEC, when they're dealing with top flight people in big investment banking firms, who talk in terms of huge amounts of money, and move within the top social world, the top political world, the top international diplomatic world—they're at ease there. SEC people start feeling: I call these people; they're glad to talk to me. I must be something. But that's not true.

KD: That's what Tom Dewey was telling you.

PW: I also give credit to Sinc Armstrong, because he woke up in the morning, and here these Tellier cases were in the newspapers. He was in New York; he came over to see me in my office in the U.S. Attorney's office. And he walked into a new world in which were all sorts of strange people: FBI agents, Secret Service people, and so forth; and here was the

grand jury room down there; and indictments were being found, and reporters were running around; and people were being arrested. And he walked into that, and he must have wondered: What the hell? But on the other hand, "I've got to ask Windels what these cases are about." I said, "You're dealing with people who have been dealt with very harshly, as a result of this boiler room stuff. They're not big people, they're little people who had money put in the milk bottle, or things like that. Want to send my niece to college." Can you imagine working a foot press? She couldn't walk without a cane because of her years on that foot press.

Tim Callahan was big and huge, and he was right in the middle of that Yale football team, sixty minutes of every game. They didn't have this business of platoons then. Tim was there sixty minutes of every game. And yet, he was so quiet and sensitive, just the sort of person Rose Kennedy would feel comfortable with and so would the victims of those frauds.

KD: Very surprising for the first Chairman of the SEC.

PW: I made two recommendations, as I left. Anybody who had a position on the staff of the Commission, was in the Commission, and retired or left should not appear before the Commission for two years. That was one thing. And some of the nice fellows on the Commission, the Commissioners, they were common sense, and I admired them all and respected them all—they said, "Paul, you've got to be reasonable about this. There are fellows here who've spent a lot of life working very hard in the Commission. They're basically technicians, and to rob them of the ability to go out and use that is pretty tough. You can say that you're not going to come back." And indeed I didn't. I couldn't face going back to these guys who were my easy-going companions and ask for a favor.

Another thing: I suggested that there be an exchange, that careerists going on the staff of the Commission, lawyers particularly— everybody going in Enforcement should have a tour of duty in Corp Fin; and anybody going in Corp Fin should have a tour of duty in Enforcement. Barney Woodside shot that down. He said no. He said, "We're very particular about our training, and we don't want people drifting in and out from one division to another."

KD: Everybody's got to specialize.

PW: Yes. Well, so be it. The office gave me a huge farewell dinner – everybody was there and a large delegation from Washington. It was a very, very moving occasion for all of us. The end of an exciting, successful joint campaign, encompassing the leaders of our financial industry, government and judges -- and an old lady crippled by years working a foot press.

And, our drives again and again over bitter opposition to affirm the authority of the Commission and the basic policy of the securities laws.

And, we always won.

KD: I'd like to thank you very much for talking to me today about this.

PW: Well it was indeed good talking to you and roaming over the old battlefields again.