Chapter 5

STORIES

Of the hundreds of fellow inmates that I talked with over my three years in prison and those that I formally interviewed, a few stand out in my mind as noteworthy. I would like to introduce you to five of my friends that I lived or interacted with on a daily basis: Ben Casson, Will Mickelson, Kevin "Kip" Jones, Cal Winfield, and Francis Johnstone.

Ben Casson

Ben Casson is one of those rare individuals that I was attracted to the first time we met. He was loud, opinionated, and he gestured wildly like Joe Cocker at the climax of "Little Help From My Friends" when he was adamant about making a point. Ben was smart – brilliant, actually. And he loved to debate. Whenever he decided to stop by my office, I knew he needed to rant. I was a welcoming ear and would sit patiently while he laid out his "case".

I was surprised by Ben's openness the first time he told me his story. Ben was a securities attorney. In a city filled with securities attorneys, Ben Casson stood out among the best. He quickly rose through the ranks during the first twenty years of his career and was able to attract a select group of the most sought-after corporate clients when he opened his own private practice. His clients paid him well, but his passion for nightlife, travel, drugs, and women left him always needing more money.

Ben had recognized the potential for growth in the securitized mortgage market and by 2004 had become an expert in Collateralized Mortgage Obligations (CMO's). This expertise provided an unexpected side benefit; Ben learned how to obtain detailed information about the individual mortgages which were bundled together to create commercial real estate CMO's. As he began digging through the virtual pile of mortgages that made up each CMO, it became clear to him that these AAA rated bonds contained a large percentage of mortgages that were on the verge of default. Any softening of the real estate market could cause these bonds to plunge in value. He knew it would be possible to profit from a collapse in the CMO market by using derivatives, but the research took time, and he was in immediate need of money. So, Ben took a fateful step.

Ben had talked with a friend about the CMO market, and he told Ben that he might be interested in that kind of investment. But there was a drawback; how could he possibly ask his friend to send him money for an investment when he intended to spend it on himself? The answer came to him as he stared at his computer - the internet. Problem solved. So, Ben wrote a brief but compelling email, held his breath, and pressed "send". The reply was waiting for him when he opened his browser the next morning – "yes!" It was that easy - because to Ben, it was completely impersonal. Just words on a computer screen, void of all emotion. Wire instructions were sent, funds received, a kind salutation delivered, and the deal was complete.

Over the next two years, Ben worked his way through his address book and repeated the same process. Each email sent was responded to with a "yes" and each new cash infusion spent on cocaine, first-class trips to Europe, and gifts that he lavished on his "dates". When the amount of money he owed topped $2 million, Ben realized – in a sober moment – that it was impossible for him to repay his friends and his only option was to turn himself in.

In hindsight, Ben's call on the collapse of the mortgage market was prescient and he could have been one of the few to profit handsomely from the financial meltdown of 2008, but he kept putting off doing his homework so that he could have one more eight-ball of coke, one more shaker of martinis, and one last late-night rendezvous with someone whose name he wouldn't remember the next morning.

Ben pled guilty to securities fraud and was sentenced to five years in Federal prison.

Pressure – Needed money to support his lifestyle

Opportunity – He discovered a way to profit from bad mortgages

Position – Trusted by his friends

Deception/Isolation – Communicating via email allowed him to remain impersonal

Rationalization – At first he told himself, “I’ll pay him back as soon as I close my next case”, which finally led to, “This won’t end well – I might as well have a good time while I can”.

Will Mickelson

What would you do if you were opening your mail one morning and a 40-thousand-dollar check that was intended for one of your clients was mistakenly issued to you? The decision that Will Mickelson made on a spring day in 2010 was the beginning of a fraud scheme that resulted in an 84-month sentence in Federal prison.

Will entered the insurance industry in 1985 and was among the first agents to recognize the enormous profit potential of the structured settlement market. Structured settlements are most often used in cases of physical injury. If, for example, an individual loses the use of a limb because of a product failure and the manufacturer is found to be liable, in most cases the injured party will be offered a series of payments -monthly, quarterly, or annually - for their lifetime to help compensate for their loss. The manufacturer’s insurance company will work through a structured settlement specialist to find the most competitive rate and purchase an immediate annuity for the insured. Part of the reasoning behind using immediate annuities for this process is to avoid the possibility of an injured person receiving a large lump sum injury settlement and either squandering it or falling prey to a scam.

Will's experience in this niche area of the insurance business paid off handsomely over the years and he became known as a trusted expert. Will opened two additional offices in the US and an office in London to service his growing client based. By the mid-1990s, Will’s personal income had reached $400,000 annually, but his spending always seemed to outpace his income. Will would regularly entertain clients by inviting them to weekend outings in Las Vegas and it wasn't long before he recognized his skill at the craps table. So, it was an easy decision for him when the $40,000 check arrived at his office made payable to his company rather than the insurance company that had been selected to provide an injury settlement. He would use the money as his bankroll at the craps table and make the necessary monthly payments to the customer from his business account. No harm to the customer and he figured that he could easily double or even triple the amount of the check he had received in error.

Fast forward to 2011. Will was living a lavish lifestyle, in part due to his continued borrowings from a stream of checks that were made payable to his company. The volume of checks grew so large that will set up a separate bank account and installed a dedicated fax machine that only he could access. No other employee was authorized to communicate with the insurance company on the paying side of these transactions to keep Will’s scheme from being exposed. At the same time, it was an exceptionally good year at the craps table for Will. He had 24-hour access to the casino’s Gulfstream jet, and he reported a $390,000 addition to his annual income on his 2011 tax return from his winnings.

Will showered gifts on clients, friends, and even strangers, and he gained notoriety in his community for his generous charitable contributions. The following year, 2012, was another winning year for Will, but he started feeling the pressure of an ever-increasing number of outgoing payments required to keep his scheme afloat. Because of his preoccupation with gambling, his business began to falter. Will’s truth moment came in July of 2014 when it became clear to him that his pyramid of borrowings would eventually implode. Will was indicted in April of 2016 and was sentenced to Seven years in federal prison.

Pressure – Needed money to continue his scheme and felt the pressure of maintaining his philanthropic reputation.

Opportunity – Company started sending settlement checks directly to him.

Position – Owner of his business and was trusted in the industry.

Deception/Isolation – All settlement correspondence went directly to his private phone number and private fax machine.

Rationalization – At first “I’ll make the necessary payments, and nobody will notice”, then “They’ll all be made whole by the reinsurance company if I can’t make the payments, so nobody will get hurt”.

Kevin “Kip” Jones

The year 2001 was memorable to Kip Jones for several reasons. Kip and his family moved into their new $2.5 million home in a tony suburb of the midwestern city where they lived. The home purchase coincided with another personal best performance record at the financial advisory firm where Kip worked. Unfortunately, it also coincided with his first step into a 15-year-long struggle with fraud.

There was an element of pre-destiny to Kip’s decision to become a financial advisor; his mother, Judith, built and ran a highly successful financial advisory practice of her own. Judith was very clear about her intentions for Kip to join her firm when he finished college and she did her best to attract his attention with stories of the deals she closed, and the profits enjoyed by her clients. But throughout high school and college, Kip was laser focused on tennis and golf - and he excelled at both. College was easy for Kip. He majored in business and economics and achieved top grades without much effort, which allowed him the large blocks of free-time necessary to hone his athletic skills. By his senior year, Kipp was receiving recognition as an amateur golfer and was giving serious consideration to leaving college and pursuing golf full time - until he met Sandra. Sandra was beautiful and smart and determined to marry a man that would provide the lifestyle she had always dreamed of. Their relationship quickly became a romance bordering on infatuation. Kip redirected his focus to his studies. He graduated college and much to the disappointment of his mother, was hired by a globally recognized wealth management firm. The money came fast, as did his daughter followed by a son. Kip devoted himself to his career and to making money, and Sandra was living her dream.

Kip was raised with strong moral values, and as a financial advisor was held to the highest ethical standards. When I asked Kip for his definition of ethics, his answer was “pureness of heart and selflessness of acts we do”. His undoing was the pressure from both his internal insecurity as well as the external pressure of his career and social status. Too much was never enough. So, when his personal banker offered him a line of credit to go along with his new home mortgage, he jumped at the chance. The only problem was that even though his annual income was approaching $500 thousand, he and Sandra found ways to spend it all - and more. He needed to show proof to his banker of a much higher net worth than he was able. Kip was confident that with hard work and a rising stock market, he could build a substantial portfolio. But he needed to show it now.

The software provided by Kip's firm allowed him to produce custom portfolio reports for his clients. He knew that he could edit the cover page to substitute his name and account number on any of his client’s reports. But what if he got caught? On the other hand, how would anyone find out? His banker was a trusted friend. And it would only be for the mortgage closing. No one would ever know - not even his wife.

As it turned out, this was just the beginning of Kip's deception. As Kip and Sandra’s spending grew, so did his line of credit. His bank began asking for quarterly financial updates, which Kip “manufactured” and provided. Each time he produced a phony report Kip was forced to face his conscience, and the word “fraud” came to mind. He quickly dismissed it thinking that he had worked hard for his clients and would soon be able to pay off his bank loan. A large gain in a tech stock that he had bought cheap allowed him to pay off a large piece of his loan. But his family’s increased spending, including private school tuition for their children and splashy charitable contributions to feed their egos, caused Kip to return to his borrowing binge.

In an effort to quiet his nagging conscience and face his wife each evening, Kip began to turn to alcohol for comfort. It started with overindulging at social events, of which there were many, and grew into a blur of nightly drunks. So now Kip was battling two devils.

By 2016, Kip’s bank credit line reached $8.7 million, and he was seeing life through an alcoholic haze. He only slept after he had blacked out, and he became bone tired. On a cold November day, he couldn't take it any longer; Kip experienced his “truth moment”. He drove home midday, asked Sandra to sit down with him in their living room, and began to cry.

Kip called the FBI and arranged to meet with them the following morning. Because of his acceptance of guilt and complete cooperation, he was sentenced to 60 months in federal prison, served at the minimum-security prison camp in Duluth, Minnesota.

Pressure – The need for money every month to cover increased spending and to feed their egos.

Opportunity – His loan officer/friend offered him and additional line of credit.

Position – High-profile/high-income earner – respected and recognized in his industry.

Deception/Isolation – Falsified his brokerage statements.

Rationalization – "I'll be able to pay it back later – just need more time."

Cal Winfield

I met Cal Winfield when I entered the Residential Drug Abuse Program (RDAP) in 2017. Cal was just a few months from completing the program and was among the first to welcome me when I moved into the RDAP dorm. His warm, gregarious personality helped draw us immediately into conversation which led to a formal interview about ethics and the crime that ultimately brought Cal to prison.

Cal was in his early 60s and had spent the 30 years prior to his sentencing and incarceration in the investment business. He began his career as a retail stockbroker and in 2007 decided to us the trust and loyalty of his client base to launch his own hedge fund. Raising the necessary capital was easy because of his reputation and long-term relationships. And he was a skilled investor. His long/short fund made money from the start, which attracted even more customers and cash. Cal received praise from his investors and a growing list of invitations to social and charity events. Life was good for Cal and his family. His wife and two daughters were proud of him, and he had never been happier – until the financial meltdown of 2008-2009. Not even decades of experiencing market cycles and gyrations could have prepared him for the sea of uncertainty he faced as he started each day. The emotionally charged jolts, like the collapse of Lehman Brothers, echoed around the globe and caused Cal to violate some of his most basic, bedrock investment rules. For the first time since he opened his fund it was showing a negative return, and it was time to report to his clients. Cal knew things would change and he'd make up the losses eventually. His clients depended on him, and he couldn't imagine the personal and professional embarrassment of disappointing them, so the decision was simple. No debate, no second thought – just this one time he would book some phony transactions so the fund would report a small gain for the quarter. It wasn't until after the reports had been issued and the calls of thanks and praise came in that Cal began to question his actions. Had he just done something wrong – even illegal? But he wasn't trying to take money from his clients or create some kind of scheme – he simply needed a few positions to turn around and the fund would be right back on track. He just needed some time.

Days, weeks, and quarters passed. The fund recovered most of its value but the years of lies and deception was weighing on Cal. He began to smoke pot at night after his wife had gone to bed. There was a porch attached to his study that faced their back yard. Cal would slip outside and get high to help relax. He also started using downers – tranquilizers that he had talked his doctor into prescribing – washed down with bourbon and sodas. His days became blurs. Hung over and dulled from the pills, his thinking became obtuse.

Calvin's conscience finally brought an end to his deception. He had grown weary and was tired of the daily struggle with right and wrong. Cal alerted the firm that processed his SEC filings which, in turn, started the chain of events leading to his arrest. Cal pled guilty to mail fraud and was sentenced to 84 months in Federal prison along with restitution of $4.5 million.

Pressure – Showing losses might ruin his reputation.

Opportunity – Cal personally fed all his performance information to his accounting firm.

Position – Calvin was CEO of his business.

Deception/Isolation – No one else had access to his trading records, which allowed him to “doctor” the numbers without being questioned.

Rationalization – “Things will get better. I’ll just hide my bad trades until the market turns around. This rough patch is temporary and there’s no reason to scare off my investors.”

Francis Johnstone

I met Francis on the day he self-surrendered in May of 2019. We sat across the table from each other at evening chow (served at 4:30pm) and I did my best to calm him after seeing the look of panic in his eyes. Francis was afraid, in part because he didn’t want to be taken advantage of. It was the story of his life. From the time he was growing up, being bullied by his classmates, to his adult life when a series of “friends” saw him as an easy mark, Francis was willing to do almost anything necessary to help others. Unfortunately, it was his kind heart that led him to breaking the law and ultimately to his prison sentence.

Francis was born and raised in a medium-sized midwestern city. He attended public school and graduated from a state college in 2001. It was expected that he would work for his father’s company and eventually take over when his father retired, so he dutifully followed his given career path upon completing college. His long-term plans were interrupted, however, when the family business became an early victim of the 2008 financial crisis. Like many Americans at the time, Francis was unprepared for a financial emergency. He had recently purchased a home and in a typical good-hearted gesture had taken on the financial burdens of his live-in girlfriend, Cheri. Cheri had been raised by a single mother who lived on the edge financially, so instilled in Cheri was a fear of lack and a clingy attachment to anything and everything that represented material wealth. In Francis, Cheri had found the perfect host to feed off.

Finding himself unemployed, Francis turned on his natural charm and easily found work as an inventory manager for a regional airline. His timing was perfect, as the airline was in expansion mode and his position became increasingly important – leading to several unexpected but welcome raises. Just as Francis was beginning to stabilize financially, Cheri hit bottom with her excess spending and decided to file for bankruptcy. Their differing views on money and financial priorities were a constant source of conflict and, not surprisingly, Cheri decided to leave in 2012.

Despite financial pressures, Francis continued to do well at his job and was promoted to supply chain manager. His new position put him in control of the thousands of airplane parts moved between locations each day which were required to keep the company's fleet of planes in certified condition. As Francis settled into his new role, he noticed a quirk in the system. When a plane required maintenance or repair, the mechanic would often request additional parts in case they were needed. After the repair was complete, the mechanic would send an itemization to Francis and any unused parts would be stored for future use. This is where the quirk came into play, because Francis had the ability to allocate unused parts to “phantom jobs” and make them disappear from inventory. He could then sell the parts to outside vendors and receive payment through a company that he set up and controlled. Suddenly, it appeared that Francis had solved his money problems.

For the next five years, Francis dated on and off, but it seemed that each relationship centered around his generous nature and ended with him being responsible for more debt. More debt meant selling more parts, and the cycle continued until February of 2017 when he was recruited by a larger competitor that offered him a promotion and a significant increase in salary. With the extra income, Francis no longer needed to sell parts, and with a sense of relief, filed a final tax return and closed his business. His sense of calm lasted less than a year, however, when in early 2018 he was terminated from his job without advance notice. Three weeks later, he was greeted at his door by FBI agents. Upper management had discovered Francis’ scheme during a company audit and considering the size and scope of the theft, alerted police who turned over the case to the FBI. Francis was charged with one count of wire fraud, sentenced to 42 months in federal prison, and reported to FPC Duluth in May of 2019.

Pressure - Francis wanted to please everyone and allowed himself to take on unreasonable financial burdens for the benefit of others, creating pressure to find additional sources of income.

Position – His unique, unsupervised position allowed Francis to sell airplane parts without detection.

Opportunity – Requested but unused parts totaled in the hundreds each day, providing almost unlimited opportunities for Francis.

Isolation/Deception - The company he set up allowed him to deal directly with outside vendors, completely bypassing the airline.

Rationalization - "Parts get lost every day. The company doesn't even notice, so why not help my friends?"

A Final Thought

"Saint Ignatius of Loyola suggests that before making any important decision, we should imagine ourselves standing before God at the end of time. That is the final and inevitable moment, one that all of us will have to face. Every life decision, viewed from that perspective, will be well directed, since it is closer to the resurrection, which is the meaning and purpose of life. As the departure is calculated by the goal, as the planting is judged by the harvest, so life is best judged by starting from its end and purpose. Saint Ignatius writes: 'Let me consider myself as standing in the presence of my judge on the last day, and reflect what decision on the present matter I would then wish to have made; I will choose now the rule of life that I would then wish to have observed'. It can be a helpful exercise to view reality through the eyes of the Lord and not only through our own; to look to the future, the resurrection, and not only to this passing day; to make choices that have the flavour of eternity, the taste of love." – Pope Francis