

U.S. says Florida men put faulty parts in missiles

By PHIL LONG
Herald Staff Writer

Three South Florida men, eager to impress their bosses or protect their performance bonuses, allowed defective parts to be manufactured and put into military missiles, federal investigators said Thursday.

Had the problem not been caught, prosecutors say, deadly weapons might have gone screaming into civilian neighborhoods instead of zeroing in on Iraqi radar sites.

of the nation's foremost electronic contractors, Philips Electronics, authorities in West Palm Beach said.

It only came to light during the military buildup during Operation Desert Storm, when a number of HARM mis-

siles — a vicious little stinger that shoots from the wings of U.S. fighters — began to flunk tests done by Motorola, one of the main manufacturers. Technicians traced the defect to a small but critical Philips capacitor — costing about \$5 — in the guidance system. In all, about 80 missiles had to be fixed.

gone screaming into civilian neighborhoods instead of zeroing in on Saddam Hussein's radar sites, said U.S. Attorney Kendall Coffey.

"It would have gone another direction, possibly killing innocent people," said Geoffrey Cherrington, special agent with the Defense Criminal Investigative Service in Palm Beach County.

On Thursday, a 15-count indictment

Had the problem not been caught, some of the deadly missiles might have

PLEASE SEE MISSILES, 32A

Sun-Sentinel

Indictment charges 3 in missile fraud

U.S. lost \$30 million on defective electronics

By WARREN RICHEY
Staff Writer

The AGM-88 "HARM" missile was a star performer on the first nights of Operation Desert Storm in January 1991.

Fired from the wings of jet fighters, it helped blind Saddam Hussein's radars and afforded Allied forces air superiority over Iraq during the month-long conflict.

It was not only a victory over Iraq, Federal prosecutors cite the missile's stellar performance as a victory over greed.

On Thursday, three former executives with Philips Electronics North America Corp. were indicted in West Palm Beach on charges they conspired to defraud the government out of \$30 million by falsifying quality control tests on an electronic component of the HARM, the U.S. military's premier anti-radar missile.

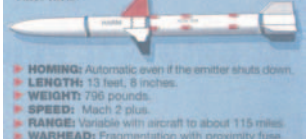
U.S. Attorney Kendall Coffey said that during the buildup to the Gulf War technicians in South Florida discovered that 80 of the HARM missiles contained defective electronics supplied by Philips, a division of the Dutch giant Philips Electronics.

The discovery forced an eight-week delay to allow the faulty components to be replaced, Coffey said. Agents with the FBI and the Department of Defense say it was not an accident. They say it was part of a 17-year fraud on the U.S. government by Philips

PLEASE SEE FRAUD / 13A

In HARM's way

The HARM is an air-launched High-speed Anti-Radiation Missile, hence the name. Some other facts:



SOURCE: The Modern U.S. War Machine — DEAN WEINBAUM

U.S. Attorney Kendall Coffey said that during the buildup to the Gulf War technicians in South Florida discovered that 80 of the HARM missiles contained defective electronics supplied by Philips, a division of the Dutch giant Phillips Electronics.

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Sun-Sentinel

PaineWebber to pay out \$302 million

Staff and wire reports

PaineWebber Group on Thursday agreed to a \$302.5 million settlement of charges that it misled thousands of investors in the sale of risky limited partnerships over a six-year period.

The Securities and Exchange Commission charged PaineWebber, the nation's fourth-largest brokerage firm, with breaking federal fraud and record-keeping laws and failing to properly supervise its brokers. PaineWebber agreed to the SEC censure but did not admit or deny wrongdoing.

Many of the investors in the more than \$3 billion of limited partnerships, which lost an estimated \$300 million between 1986 and 1992, were retired people seeking conservative investments. PaineWebber brokers who were the biggest sellers were rewarded with vacations in Monte Carlo or Vail, Colo., free dinners or VCRs, the SEC said.

The Florida offices of the company consistently ranked at PaineWebber's top-selling offices of Geodyne partnerships, said Kendall Coffey, U.S. Attorney for the Southern District of Florida. Brokers often used scripts when they spoke to potential investors. The scripts said the partnership units "were the equivalent of municipal bonds and certificates of deposit, when really they were very risky investments," said Joel H. Bernstein, a partner at the New York law firm Goodkind Labaton Rudoff & Sucharow, which represented some of the investors in the class action.

The SEC said that some of the brokers PaineWebber failed to supervise stole from or lied to investors in the partnerships. One Miami-based PaineWebber broker already has been barred from the industry, said Robert Burson, a SEC attorney.

The huge settlement resolves investigations by the SEC and state securities regulators as well as two private class-action lawsuits against the firm. PaineWebber is the latest Wall Street firm to pay out millions of dollars to investors burned in the real estate and energy deals. Prudential Securities Inc. has paid out about \$1.5 billion to settle charges that it misled investors in the sale of its limited partnerships.

To participate in the claims fund, investors should submit a claims form within six months, the SEC said.

Had the problem not been caught, some of the deadly missiles might have gone screaming into civilian neighborhoods instead of zeroing in on Saddam Hussein's radar sites, said U.S. Attorney Kendall Coffey.

The Miami Herald

Bad brokers get double-teamed by SEC, feds

Agencies extract big fines, penalties

By DAVID LYONS
Herald Staff Writer

When PaineWebber agreed to part with \$300 million as recompense for partnerships gone sour, the nation's fourth largest brokerage firm dodged a bullet: criminal prosecution at the hands of the U.S. Attorney's Office in Miami.

Instead of tasting the bitter medicine of a grand jury investigation, possible indictment and costly fines, the New York-based company struck an agreement

with prosecutors. In a carefully worded six-page statement, a declaration that took months to prepare, the government recognized that the brokerage had already paid millions to resolve investor claims, and would pay millions more in fines to the Securities and Exchange Commission and 45 states, as well as compensation to thousands of investors. The company, meanwhile, acknowledged that customers in Florida had been misled by salesmen who sold shares in PaineWebber's Geodyne oil and gas limited partnerships between 1986 and 1992.

In effect, PaineWebber paid its

PLEASE SEE SEC, 8F



JAMES RUSSELL
FINANCIAL EDITOR

Bottom line? It's still a sales job

"You can't protect investors from their own foolishness."

— Arthur Levitt

That observation by the chairman of the Securities & Exchange Commission, the government agency that regulates the stocks and bonds business, was made a few months ago when the SEC settled an important fraud case.

Levitt, a zealous activist for investor protection, was emphasizing a simple truth: The first line of defense against crooks and

overly enthusiastic sales representatives is the buyer. Government regulators can do just so much; the rest is up to the individual investor. The SEC, however, seems to be doing its job effectively. It has just completed a \$300 million payback arrangement to victimized clients of the PaineWebber investment firm who bought limited partnership interests in risky oil and gas ventures a few years ago.

Perhaps "bought" is the wrong word. "Sold" is more accurate. The SEC said PaineWebber customers were persuaded to buy complex securities unsuited to

PLEASE SEE RUSSELL, 8F

St. Petersburg Times

Federal suits allege racial bias in rentals

The Justice Department accuses six managers and owners of discriminating against black people.

By JOAN THOMPSON
Associated Press

WEST PALM BEACH — The federal government sued the owners and rental managers of 13 South Florida apartment complexes on allegations they discriminate against black renters.

Several owners also were accused of refusing to rent to families with children. The Justice Department filed six lawsuits after sending out black and white "testers" to pose as prospective tenants and try to rent apartments.

"The sign may say welcome but the welcome may, in fact, apply only to whites," said Paul Hancock, a Justice Department attorney.

Eleven of the apartment complexes are in Boca Raton, about 60 miles north of Miami, and two are in the Miami suburb of Kendall.

The lawsuits claim black people were informed that no apartments were available, while white people were told units were ready or soon would be.

In some instances, the black customers were quoted higher prices or told no apartments were available, though white customers were shown apartments, federal officials said.

Discrimination in housing is difficult to detect because victims many times are unaware they are being treated unfairly. In the 1990s, discrimination in housing is not going to be signified by words or signs, saying 'African-Americans need not apply,' U.S. Attorney Kendall Coffey said at a news conference to announce the lawsuits.

The lawsuits seek court orders preventing any further discrimination and damages for any identified victims. Civil penalties could range up to \$50,000 for a first violation and \$100,000 for subsequent violations.

James Rosemurgy, who owns six of the Boca



U.S. Attorney Kendall Coffey said housing discrimination often is difficult to detect.

Raton complexes and manages a seventh, said he doesn't discriminate.

"We have a much higher ratio of minorities (as tenants) than the community at large," he said. "What is somewhat dismaying is that the Justice Department should go ahead and do this without sitting down and talking to me and saying, 'This is what we found and is it true?'"

The Justice Department began investigating in South Florida after receiving complaints from people seeking places to live after Hurricane Andrew hit in August 1992.

The 13 complexes were among 50 the Justice Department tested for discriminatory practices. Hancock wouldn't say if any had been targeted because of past complaints. Investigators found no discrimination at the other 37.

The government's nationwide testing program has led to 26 lawsuits in Florida and six other states. The others are Ohio, Michigan, California, South Dakota, Indiana and Missouri.

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