Ullico: The AFL-CIO's corporate scandal

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A new corruption scandal has emerged that involves not another giant corporation, but that other bulwark of American capitalism, the AFL-CIO. The scandal, involving the union-owned company Ullico, casts a revealing light on the true social character of the American trade union bureaucracy.

Ullico encompasses several enterprises, including Union Labor Life Insurance. Since its foundation in 1925, Ullico has been owned and operated by the trade unions. Only unions, officers and directors are allowed to purchase company stock, and the board of directors is composed mainly of current or former top union functionaries.

The company, founded to provide union members with affordable insurance to cover minimal requirements, such as burial fees, grew rapidly during the post-war period. Over the past several years it has expanded to include companies offering a wide range of services, such as investment advice and managed health care. It is essentially a private financial corporation run by the trade union bureaucracy.

Now Ullico is being investigated by a federal grand jury in Washington, which will determine whether company insiders benefited personally at the expense of their unions. The Department of Labor is simultaneously looking into civil charges concerning potential conflicts of interest.

Like many privately-held companies, the price of Ullico stock is determined not by the market, but by the company's board. The board sets the price annually upon the recommendation of its auditors, most recently, PricewaterhouseCoopers (PwC).

For many decades the stock price was set at a constant of $25, and investments tended to be conservative. This changed in the early 1990s, when the company began investing in more risky ventures. One of these early ventures involved a joint buyout in cooperation with the Carlyle Group, the investment firm that specializes in the defense industry and has intimate ties to the Bush administration. Ullico sold its investment two years later for a profit of $14.3 million.

In the late 1990s, the board decided to cash in on the stock market boom by investing in a newly formed telecommunications company known as Atlantic Crossing, soon to become Global Crossing. Gary Winnick, the chairman of the company, extended Ullico the privilege of buying shares in advance of the initial public offering. This type of deal was routinely being given to insiders, as it provided a sure windfall, with stock values of telecom companies invariably soaring after their IPO. Ullico had previously established a connection with Winnick through a Los Angeles land deal.

Other early investors in Global Crossing included the current Democratic national chairman, Terry McAuliffe, and the first President Bush, whose Global Crossing investments grew to over $10 million.

In 1997, Ullico invested $7.6 million in Global Crossing, a stake that climbed astronomically along with the price of Global's stock, reaching a peak of $2.1 billion. This was almost ten times the total value of Ullico when it made its original investment.

The health of Ullico, and the interests of its board members, quickly became attached to the value of Global stock, and thereby to the stock market speculation that found a sharp expression in the extraordinary overvaluation of the telecom industry. In 1999, Ullico was able to turn a profit on its ongoing operations only because it made $127 million in after-tax revenue from the sale of Global shares.

In order to cash in on the telecom boom personally, the board began to peg the price of Ullico stock to that of Global Crossing, abandoning the traditional $25 fixed price. This created a means for board members to use inside information concerning the future price of Ullico stock to reap huge personal gains. It appears that many of the directors embraced the opportunity whole-heartedly.

Ullico's CEO and board chairman, Robert Georgine, sent a confidential memo to board members in December 1999, inviting them to purchase up to 4,000 shares of Ullico at the price that had been set the previous May, $53.94. The auditor was due to recommend a new price for Ullico stock at the end of the month. (The auditor's recommendation came several months before the board actually approved the price change). The unions and their pension funds were not offered the same deal.

Because Global Crossing stock had soared in the months preceding December, the new price of Ullico shares was bound to be much higher than $54. With insider knowledge, the board members would have been well aware of the future value of the stock. In purchasing the shares, they were investing in a sure thing.

Georgine himself apparently increased his holdings of Ullico stock from 8,000 in 1998 to 52,800—that is, by far more than the 4,000 shares he had offered the other directors.

PwC recommended a price of $146, a nearly three-fold increase, which the board approved in May of 2000. The approval was made even though the price of Global Crossing stock had actually fallen sharply—by nearly 50 percent—since the auditor made its recommendation. Thus board members who had purchased Ullico shares at a price they knew was too low, now approved a price they knew was too high.

The board then proceeded to vote a stock buy-back of $30 million. The repurchase took place at the end of the year, but the price at which the shares were valued was still $146. Again, the deal was structured to benefit the members of the board and company insiders. Stockholders with fewer than 10,000 shares were allowed to sell back all of their holdings, whereas the big institutional investors were severely limited in how much they could unload.

At the end of 2000, PwC came out with a new recommendation of only $75—due primarily to the decline of Global stock. Incredibly, even after the recommendation was made, the board voted to extend the deadline to sell back shares at $146, until the new price was ratified by the board in May of 2001.

At the end of 2001, after Global Crossing had continued to implode, a similar offer was voted to buy back more stock at $75, shortly before it was revalued at $44.

Proxy statements released by Ullico indicate that the 32 board members made a total of $6 million in profits from sales of company stock. Georgine, who is the former head of the AFL-CIO's building trades department, made as much as $2 million through the sale of nearly 17,000 shares.

Though all the details have yet to emerge, a look at some of the other figures involved is revealing:

* Jake West, former head of the ironworkers union, sold 5,250 shares of the company between January 2000 and September 2001. West has been a Ullico director for over a decade. The current investigation into the share sales arose out of an investigation into alleged embezzlement of union funds carried out by West. He still sits on the Ullico board.

* Arthur Coia, a director at Ullico since 1993, has been suspected of connections with organized crime. In January of 2000, Coia pled guilty to fraud for evading taxes on the purchase of his $1 million Ferrari, perhaps purchased from Ullico money. Nevertheless, he also continues to serve on the Ullico board.

* Martin Maddaloni, who pulled in a profit of $184,000 by selling Ullico stock, was implicated in a real estate boondoggle involving a union pension fund that he oversees. The pension fund invested hundreds of millions in a Hollywood construction project that turned out to be worth $200 million less than the pension fund paid for it. The deal is being investigated by the Department of Labor for possible breaches of fiduciary duty on the part of Maddaloni. In defending his sale of Ullico stock, Maddaloni stated blandly, "I didn't think there was anything wrong with it... I just took advantage of the process."

* Morton Bahr, head of the Communications Workers of American (CWA), made $27,000 on Ullico stock sales. The vast majority of CWA members work in the telecommunications industry, but Global Crossing is a non-union company. This, however, did not stop Bahr from promoting the interests of Global Crossing at the expense of its workers. He campaigned in support of Global in its attempted acquisitions of Frontier Communications and US West, even though these deals undercut the interests of CWA workers at the acquired companies. Some of these workers lost tens of thousands of dollars, in addition to their jobs, when Global Crossing stock tanked and the company went bankrupt.

* Michael Steed, a former Democratic Party national committee executive director, was the principal financial advisor for Ullico in the early 1990s. He engineered the transformation of Ullico policy on investment decisions and stock value. Steed benefited from the close ties between Ullico and Winnick that extended beyond Global Crossing. Ullico joined up with Winnick's investment firm, Pacific Capital Group (PCG), in sinking money into a dot.com company, Value America, which quickly went bust. When Steed left Ullico, he became managing director of PGC.

The AFL-CIO has yet to make an accounting of what happened at Ullico. At the urging of AFL-CIO President John Sweeney, who sits on Ullico's board, the company has named James R. Thompson, a former governor of Illinois, to investigate the stock sales. Thompson himself indicated the character of this "investigation" when he stated, "I'll do the investigation that they [Ullico's board of directors] have asked me to do. I'll ask the questions that they want me to get answered. Then I'll give them a report, and it's up to them."

A spokesperson for Ullico refused to answer questions and would make no comment when asked to respond to the revelations. In an indication of the contempt that the union bureaucracy has for ordinary workers, he told the *World Socialist Web Site* that the directors would respond "when they saw fit." It is now nearly four months since the story first came out.

The AFL-CIO did not return calls seeking comment.