



## Chapter 11

### United States v. Thomas G. Clines, a.k.a. ``C. Tea''

Thomas G. Clines, a retired CIA agent, earned nearly \$883,000 helping retired Air Force Maj. Gen. Richard V. Secord and Albert Hakim carry out the secret operations of the Enterprise. Clines oversaw the logistics of purchasing weapons from private suppliers in Europe and arranging for their delivery to Central America. In early contra weapons sales in 1985, he received 20 percent of the profits; in 1986, he began receiving a third of the profits from the contra sales.

In February 1990, following the guilty pleas and promises of cooperation by Secord and Hakim, Clines was indicted and charged with concealing from the Internal Revenue Service the full amount of his Enterprise profits for the 1985 and 1986 tax years. He was charged also with denying on his 1985 and 1986 income-tax returns his foreign financial accounts, in which he hid his Enterprise profits and from which he and his surrogates transferred thousands of dollars to his U.S. bank accounts.

In September 1990, Clines was convicted of four income-tax-related felony charges, following a two-week jury trial in U.S. District Court in Baltimore, Maryland, before Judge Norman P. Ramsey.<sup>1</sup>

<sup>1</sup> The prosecution's case was presented by Associate Counsel Stuart E. Abrams, Geoffrey S. Berman and William M. Treanor.

The trial was held in U.S. District Court in Baltimore because Clines' accountant was based in Bethesda, Maryland, and filed Clines' tax forms there.

#### The Charges

Clines was charged with two felony counts of falsely underreporting his gross receipts on his 1985 and 1986 tax returns. He was charged also with two felony counts of falsely denying having foreign financial accounts on his tax returns for 1985 and 1986.

Clines on his 1985 tax return falsely reported his gross receipts as totaling \$265,000 -- or \$203,431 less than his income from his Enterprise activities proved at trial. On his 1986 tax return, Clines reported his gross receipts as \$402,513 -- or \$57,009 less than he actually received from the Enterprise. In both cases, Independent Counsel's estimates of Clines' underreported income were conservative.

Regarding his foreign financial accounts, Clines denied having such accounts on 1985 and 1986 income tax forms requiring their disclosure. In fact, Independent Counsel proved through extensive documentation and testimony that Clines had knowledge and control of large sums of money abroad in two secret Swiss accounts: the ``T.C." capital account he maintained with Compagnie de Services Fiduciaires (CSF) in Geneva in 1985, and the ``C. Tea" investment account he maintained with CSF in 1986.

#### The Clines Trial

The central prosecution witnesses at the Clines trial were Secord, who was compelled to testify under a cooperation agreement with Independent Counsel, and Willard Zucker, the CSF financial manager of the secret Swiss Enterprise accounts and shell corporations, who also testified under a

grant of immunity from prosecution. Thomas Cusick, a special agent with the Internal Revenue Service, testified about the complex financial structure of the Enterprise.

Clines, a 30-year veteran of the CIA, after leaving the agency in 1978, had developed significant contacts with arms dealers in Western Europe and behind the Iron Curtain. In 1985 and 1986, after becoming involved in the Enterprise, Clines was responsible for locating and purchasing weapons abroad and shipping them to Central America. He worked primarily with the arms company Defex Portugal, maintaining a small office at the company in Lisbon. When the Enterprise became involved in secret U.S. weapons shipments to Iran late in 1985, Clines also became active in this aspect of its activities.<sup>2</sup>

<sup>2</sup> Clines accompanied Secord in late November 1985 to Europe to facilitate a snagged shipment of U.S. HAWK missiles from Israel to Iran. In the summer of 1986, Clines became involved in an unsuccessful Ross Perot-funded hostage-rescue operation in which the Enterprise's Danish freighter, the Erria, waited off the coast of Cyprus where a \$1 million exchange was to be made for a hostage release. This operation did not result in a release.

In 1985, Clines began receiving 20 percent of the profits from each arms shipment, plus expenses. He received his first share in April 1985, when \$310,840 was distributed among Secord and Hakim, who each received \$124,366, and Clines, who got \$62,168. A capital account was maintained by CSF for Clines. He had some of this money wired from this account to the United States, withdrew some of it in cash, and transferred some amounts to a third party for his benefit. In 1985, a total of \$155,000 was wired from Clines' capital account to his account at First American Bank in Virginia. Clines also made cash withdrawals from the TC capital account totaling \$217,820. At trial the evidence showed that Clines' gross receipts in 1985 were at least \$468,431. This figure represented \$423,431 from the Enterprise and \$45,000 from non-Enterprise sources. The estimate was conservative.

In 1986, as the Enterprise continued selling arms to the contras, its involvement in the secret U.S. sale of arms to Iran generated a new source of funds for Clines, Secord, and Hakim. Clines' share of the distributions increased to 30 percent, like Secord and Hakim. (The final 10 percent of the distribution went to Scitech, a company jointly owned by Secord and Hakim.) As a result of these pro-rated distributions, Clines received \$420,238 in 1986. In addition, Clines received four small distributions from the Enterprise in 1986. On February 18, 1986, CSF transferred \$7,000 to the bank account of a friend of Clines in South Carolina for Clines' personal benefit. On May 2, 1986, CSF wired \$1,137 and on July 7, 1986, CSF wired \$1,147 to the Klinik Buchinger to pay for Clines' attendance at that weight-reduction clinic. On November 10, 1986, CSF transferred \$30,000 into an investment account that Clines maintained with CSF. Thus, Clines' total receipts from the Enterprise in 1986 were at least \$459,522.<sup>3</sup>

<sup>3</sup> Clines also received \$70,000 in other payments from the Enterprise in 1986. But since the underlying documents did not clearly establish the nature of these additional funds, they were not included in the estimate of Clines' underreporting. In addition, in 1986 Clines' bank accounts in the United States received wire transfers of \$160,000 from unknown foreign sources. This money was not included in calculating Clines' true gross receipts.

When Clines opened an Enterprise account in late spring or early summer 1986, he decided to use an assumed name. Zucker suggested "C. Tea," and Clines agreed. Clines signed the agreement using his assumed name, C. Tea; his real name does not appear on that document. Clines earned income of \$17,135.10 on the deposits in the C. Tea account during 1986.

Enterprise activities were effectively curtailed in November 1986 with the exposure of the Iran arms sales. Clines expressed concern about his inability to obtain his funds. Hakim, at Clines' request, persuaded Zucker <sup>4</sup> to release Clines' funds.

4 The Government proffered at trial that, if permitted to testify about his conversation with Hakim, Zucker would testify that "Mr. Hakim alerted Mr. Zucker to the fact that Mr. Clines was a former CIA field operative and was potentially violent, and [Mr. Hakim] suggested that Mr. Zucker should give him his money back." (Zucker, Clines Trial Testimony, 9/7/90, p. 551.) The Government contended that this testimony was admissible as to Zucker's state of mind, since, on the cross-examination of Secord, defense counsel had elicited testimony that Zucker was a "basket case" in early December 1986. (Secord, Clines Trial Testimony, 9/5/90, p. 214). The Court ruled the substance of the Hakim-Zucker conversation inadmissible. (Zucker, Clines Trial Testimony, 9/7/90, pp. 552-53.)

When Zucker began to liquidate Clines' investment account on December 4, 1986, Clines instructed Zucker that he wanted the funds transferred to a numbered Swiss bank account that Zucker recognized as Defex Portugal. Clines gave Zucker a letter specifying that the money was to be transferred for "services rendered." On December 19, 1986, CSF transferred \$311,600 as directed. Thereafter, Clines told Secord in December 1986 that he had received his money from Zucker.

At trial, Clines acknowledged that he had the C. Tea funds transferred to a Defex Portugal account so it could be handled for Clines' by Defex head Jose Garnel. According to Clines, only \$266,000 had been transferred to Defex from the C. Tea account. In fact, \$311,600 had actually been transferred. Clines testified that he only learned this after being indicted. Clines described a complicated series of personal "loans" between him and Garnel. He said he believed Garnel deliberately concealed the true amount and stole the difference from him.

The Garnel-Clines "loans" were among a series of Clines' financial maneuvers to conceal income. In addition, Clines stored large amounts of cash in Swiss safety deposit boxes, withdrawing and carrying funds to banks and individuals, who would subsequently wire the amounts to his U.S. bank accounts. He also signed over real estate holdings to friends and family, while continuing to pay for them and claiming the payments as income-tax deductions.

In his 1985 and 1986 tax returns, Clines followed a consistent practice: He reported what he believed the Government knew and could prove against him, and nothing more. Beginning in 1982, Clines used as his accountant Melvyn Leshinsky, in Bethesda, Maryland. As previously discussed, Clines' gross receipts in 1985 were at least \$468,431. The figure he actually reported was \$265,000, a shortfall of \$203,431. The basis for the \$265,000 figure was Clines' January 10, 1986, letter to Leshinsky listing his gross income for 1985 "as reflected on my bank statements" -- exactly the amount that he brought into the United States that was traceable to him. The money that Clines left abroad was not reported.

In answering "no" to the question whether Clines had an interest in or authority over a foreign account, Leshinsky specifically asked Clines whether he had an account in any foreign country; Clines said he did not. In 1983, Clines and various of his corporate entities had been the subject of a criminal investigation. Leshinsky in the context of that investigation, found that Clines controlled a bank account in Bermuda in 1981 and had not reported it. Leshinsky had to have Clines file a corrected form. Given this prior record, it was clear that Clines was familiar with the reporting requirement for foreign accounts.<sup>5</sup>

5 In March 1987, after Clines had been subpoenaed by the Office of Independent Counsel, Leshinsky, Clines, and Clines' then-lawyer John Stein met to review Clines' finances. Clines stated in essence that when his 1985 income tax returns were filed, he had not grasped the difference between net and gross and that the figure on his income tax returns for gross receipts was actually his net receipts. The three agreed that Clines should file an amended return. The amended return was eventually filed on November 2, 1987. On that return, a gross receipts figure of \$486,490 was reported. The cost-of-goods-sold figure of \$152,640 was \$68,850 short of offsetting the increase in the gross receipts from the original return. The cost-of-goods-sold figure was unsubstantiated:

Clines did not provide Leshinsky with any support for that figure. Clines did not tell Leshinsky of reimbursements that he had received from the Enterprise for expenses.

Leshinsky also prepared Clines' 1986 income tax return. Initially, Clines represented to Leshinsky that his gross receipts were \$297,673. Later, he informed Leshinsky his gross receipts were \$342,673. On the income tax returns as filed, his gross receipts were listed as \$402,513, or \$57,009 less than his proven gross receipts.

The 1986 income tax return also contained a false denial that Clines had a foreign account. Again, Leshinsky had asked Clines whether he had a foreign account, and Clines answered no. None of the \$17,135 Clines earned in income from his C. Tea account was reported.

At trial, Clines claimed that the underreporting on tax returns arose from his inability to understand the difference between net and gross income. He referred to his 1985 capital account as his "profit account," but said he did not believe it was reportable. He nonetheless acknowledged control over the funds. He admitted that the answer on his income tax returns stating that he did not have a foreign account was "incorrect." <sup>6</sup>

<sup>6</sup> Clines, Clines Trial Testimony, 9/14/90, p. 1305.

Secord attempted to confuse the jury by suggesting that Government evidence against Clines was based on inaccurate financial records fabricated, or "cooked," by Hakim.<sup>7</sup> In fact, some financial records were reconfigured by Zucker at Hakim's request. In late 1986, Hakim instructed CSF to collapse separate profit accounts into one ledger so that payments to Clines, Secord and himself could not be identified. This document, according to Zucker, was known as the "Hakim ledger." The "Hakim ledger," however, was not what the Government used to prove its case. As described previously, Independent Counsel reconstructed the profit accounts, going piece by piece through thousands of pages of foreign and domestic bank records that illuminated in detail the true financial machinations of the Enterprise and Clines' personal profits.<sup>8</sup>

<sup>7</sup> Secord, Clines Trial Testimony, 9/5/90, p. 219.

<sup>8</sup> The key to understanding the collapsed profit accounts was provided by Roland Farina, an assistant to Zucker, who retained codes on the Hakim ledger that corresponded to the receipts.

## Verdict and Sentence

The jury found Clines guilty on all four counts in the indictment on September 18, 1990. On December 13, 1990, Judge Ramsey sentenced Clines to 16 months in prison and a \$40,000 fine. On appeal, the convictions were affirmed by the U.S. Court of Appeals for the Fourth Circuit. The Supreme Court denied certiorari.