

Spy Story**Suits Focus on Extent
Of CIA Involvement
In an Alleged Fraud****Bankruptcy in Hawaii Left
Widows, Retirees Broke;
Was Firm Just a Front?
Suicide Try at the Sheraton**

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HONOLULU — A Central Intelligence Agency covert operation, in the movies and spy novels at least, is the very essence of stealth: quiet men in drab topcoats slipping in and out of a nondescript backstreet office set up as a business front.

Forty-one-year-old Ronald R. Rewald, however, doesn't fit the mold. During his six years on this island gateway to the Far East, this CIA man flaunted his close connections with top U.S. intelligence and military officials. Far from courting obscurity, he spent money with the abandon of an Arab oil sheik: He owned a personal fleet of 12 limousines and luxury cars (including an Excalibur, two Mercedes-Benzes and a Rolls), ranches, polo clubs and an ocean-front villa with its own lagoon. He threw eye-popping parties and, although married with five children, surrounded himself with gorgeous women, on some of whom he lavished their own Mercedes-Benzes.

His business career as an investment banker and financial counselor was equally spectacular. Promising interest rates of 27% to 100% a year, Mr. Rewald lured investments of about \$23 million to his company, Bishop, Baldwin, Rewald, Dillingham & Wong. When it was discovered last July that there was no money to pay some 400 depositors, he slashed his wrists in what he said was an unsuccessful suicide attempt.

At that point, Bishop Baldwin looked like a classic Ponzi scheme. Initial testimony in U.S. district court showed that Mr. Rewald apparently didn't invest in any profitable deals; had used cash from new deposits to pay interest on the old ones and had spent most of the money he took in on himself and his company. Bishop Baldwin was declared bankrupt—a ruling that Mr. Rewald's lawyers are appealing—and the Securities and Exchange Commission filed a civil anti-fraud action against Mr. Rewald and his firm. Money magazine wrote the case up last week as a warning to investors. **Bail: \$10 Million**

But a funny thing happened on the way to the courthouse. CIA lawyers suddenly appeared in Honolulu and persuaded U.S. District Judge Martin Pence to seal every scrap of evidence in the case on national security grounds. Relatively minor state fraud charges were filed, and Mr. Rewald was jailed on an astounding \$10 million bail. For six months, while the federal government ran its own closemouthed and so far inconclusive investigation, state authorities held him almost incommunicado. The few close friends who were allowed brief visits with him were forbidden to bring in written questions or take notes.

Although the CIA later cleared a small part of the evidence, and Judge Pence put it on the public record, most of the evidence in the SEC and bankruptcy actions is still sealed. And the CIA persuaded the judge to throw a sweeping gag order over the cases, forbidding "all parties and their attorneys and their agents . . . from communicating to any person . . . by oral, written, or any other means . . . information relating to matters pertaining to the Central Intelligence Agency."

Mr. Rewald's lawyers say those orders prevent him from asserting his defense: that Bishop Baldwin was created by and run as a front for the CIA. Mr. Rewald says—in court papers and other statements made available by persons close to him—that he himself was a "nearly full-time" covert agent under contract to the CIA and that everything he did at Bishop Baldwin was on CIA orders.

Tacit Concession

The CIA has denied that it controlled Bishop Baldwin or knew that Mr. Rewald was diverting funds. It won't elaborate. But a relationship was tacitly conceded by CIA counsel Robert M. Laprade in papers he filed with Judge Pence to obtain the secrecy orders. Without those orders, he argued, Mr. Rewald's lawyers "will divulge in detail Rewald's relationship to the Central Intelligence Agency. It is the obligation of the United States to act in accordance with appropriate executive orders . . . whenever . . . national security information may be subject to unauthorized disclosure."

Mr. Rewald's case appears to be the latest in a series raising the issue of whether the CIA, in fulfilling its foreign-policy mission, might be abetting crimes against U.S. citizens, either intentionally or through negligence. Most notably, it is reminiscent of Nugan Hand Ltd., an Australian-based banking concern run by retired CIA and Pentagon brass that financed heroin and arms syndicates and bilked U.S. investors of millions of dollars. The Rewald case, however, may be the first in which some of the wiped-out investors have filed suit against the CIA to recover their money.

Many investors put nearly every nickel into Bishop Baldwin, and individual accounts ran as high as \$1 million. Mr. Rewald persuaded some to give him power of attorney to handle all their financial affairs. His clients included retirees, widows and disabled people who now are destitute.

Some of those clients have hired noted lawyer Melvin Belli to represent them in their claims against the CIA. Mr. Belli says he has also agreed to represent Mr. Rewald, who asserts that he relied on a secret CIA

fund in the Caribbean to pay everyone off. Mr. Rewald says the CIA ruined his business career by abandoning him, and he is asking the CIA for \$571 million in damages and indemnification against the claims of his former clients.

'Ponzi Scheme'

Judge Pence has ruled, without elaborating, that from his reading of the secret documents, Mr. Rewald's CIA connection isn't relevant to the bankruptcy or SEC cases. In the SEC case, Judge Pence has already ruled that Bishop Baldwin was a "fraud" and a "Ponzi scheme," and that Mr. Rewald simply pocketed the investors' money. At the SEC's request, he enjoined Mr. Rewald and the firm from continuing such business.

Questioned by a reporter, Judge Pence declared, "The whole thing is under seal because the CIA has not yet made their report to me as to their involvement. If any, with Rewald, I cannot and will not release any (of the files)."

Whether the CIA sanctioned Mr. Rewald's financial misdeeds may never be known. But from the time he came to Hawaii in November 1977—with a prior theft conviction and a personal bankruptcy in Wisconsin, generally unknown, under his belt—Mr. Rewald worked hard to surround himself with top CIA and FBI officials, military brass and politicians. At his parties, he would point out those dignitaries to potential investors, confide that Bishop Baldwin was

part of the CIA and stress that this meant their money would be safe in his hands. "If you can't trust the government, who can you trust?" several clients say he told them.

Obviously, it would be in Mr. Rewald's interest now to exaggerate his CIA ties, and most officials involved in the case believe he is doing that, at least to some extent. But, even if Mr. Rewald fails in portraying himself as a CIA pawn, his former clients will probably argue that the CIA lent credibility to his business dealings and that the agency knew—or should have known—what was going on. Robert A. Smith, a Honolulu lawyer working with Mr. Belli, says, "I don't have to prove they ordered it. All I have to prove is that they knew about it and allowed it to happen."

Despite the secrecy thrown around the case, documents that could be obtained and interviews with persons close to Mr. Rewald and others establish at least this much:

—Canceled checks and correspondence show that the CIA helped Mr. Rewald set up an investment business in Honolulu in 1978 by paying some office expenses and giving him work as a cover for operatives. In a sworn affidavit before the Honolulu federal court, Mr. Rewald says that the CIA first hired him when he was a student at Milwaukee Institute of Technology, a two-year school that he dropped out of in 1962. Mr. Rewald says he was hired to spy on student protesters, though he left school before the protest groups he talks about were active. (The CIA won't comment.) He says his CIA contacts from student days gave him introductions to CIA station chiefs in Honolulu when he moved there.

—The station chiefs were close to Mr. Rewald. One, John (Jack) Kindschi, actually became a full-time \$48,000-a-year consultant at Bishop Baldwin soon after his announced retirement from the CIA in 1980. (Mr. Kindschi, identified by police as a target in continuing federal and state grand-jury investigations into the firm, declined to comment.) His CIA successor, Jack Rardin, was frequently seen by Bishop Baldwin employees and others at Bishop Baldwin's luxury suite. In what appears to be a genuine recording of a Rardin-Rewald meeting secretly taped by Mr. Rewald, Mr. Rardin offers CIA help in derailing an Internal Revenue Service investigation of Bishop Baldwin and asks Mr. Rewald to get more data on an Indian arms deal that Bishop Baldwin talked of financing. (The deal, for weapons purportedly requested by Prime Minister Indira Gandhi's son, never came off.) The CIA says it has transferred Mr. Rardin but won't disclose his whereabouts.

—As a cover for spying, CIA operatives in the Pacific told people they worked for trading companies connected to Bishop Baldwin, according to court documents and several interviews. Mr. Rewald and his staff fielded inquiries about the companies with data supplied by the CIA, took mail and phone messages for the agents and even passed messages between agents and CIA supervisors.

—Staff consultants, like retired Pan American World Airways chief pilot Edwin (Ned) Avary, received lists of questions from the CIA—passed through Mr. Rewald—before they left on foreign trips. While ostensibly looking for investments for Bishop Baldwin, they compiled what Capt. Avary terms "damned good reports" for the CIA, particularly, in his case, about the probable outcome of last year's German election. Mr. Rewald himself did CIA-requested research in China about trade, in Japan about transit designs and in Argentina about banking during the Falklands crisis, according to court records. Those costly trips were paid for from the bank account containing client funds. (Capt. Avary says he and other consultants thought they were genuine business trips at the time.)

-When the IRS demanded Bishop Baldwin's books for an investigation in the fall of 1982, the CIA succeeded in suspending the probe, thus apparently prolonging the fraud. The bankruptcy trustee, Thomas Hayes, says the CIA merely delayed the investigation a couple of months to sanitize the files. In any case, Bishop Baldwin was still thriving 10 months after the IRS demanded its records; then local investigators touched off the bankruptcy.

Brazen Clumsiness

The fact that Bishop Baldwin was able to operate freely for three years under the eye of CIA and other intelligence officials is puzzling because of the brazen clumsiness of this fraud.

Mr. Rewald's brochures, sales pitches and press releases told the public that his uniquely high-interest accounts were "guaranteed" by the Federal Deposit Insurance Corp. for up to \$150,000 per account. The FDIC, of course, insures only banks—not private investment firms—and only up to \$100,000 for each account.

Bishop Baldwin handed out two different

financial statements, apparently aimed at differing levels of gullibility. One statement, for example, put accounts receivable at \$187.9 million and total assets at \$1.42 billion; another put accounts receivable at \$18.7 million and total assets at \$142 million. Neither statement contains a standard auditor's certification letter.

No one apparently audited Bishop Baldwin. The company pooled most client funds in one checking account, from which it also paid its expenses. Bankruptcy trustee Hayes says the checkbooks were never even balanced. He told the court that Mr. Rewald's own \$1.7 million account was written onto the books without benefit of a deposit, and Mr. Rewald hasn't produced evidence to show otherwise.

Mr. Rewald acknowledges that his financial statements were phony but says the CIA ordered and approved them. Although at least two CPAs worked on Bishop Baldwin's staff, they have told authorities they handled only clients' taxes, never the firm's books. The books were kept by Jacqueline Vos, a Farrah Fawcett lookalike and former horse trainer.

She was supervised by office manager Sue Wilson, who had check-signing authority. Miss Wilson, a 1966 semifinalist in the Miss Teenage America pageant, joined Bishop Baldwin after nine years of highly classified secretarial work at the National Security Agency, the CIA's high-technology twin. Like Mr. Rewald, Miss Wilson consistently invoked the Fifth Amendment privilege against self-incrimination when she was called to testify at bankruptcy proceedings.

False Claim

Though Bishop Baldwin opened shop in Honolulu in 1978, the firm advertised itself as "one of the oldest and largest" in Hawaii and said its investment savings accounts "have enjoyed an average growth of over 20% per year for well over two decades." It falsely claimed a long history of work for Congress and the White House.

The firm claimed in brochures to have two dozen offices ranging the world, but most of the addresses were just mail drops—executive "front" firms that agreed to rent Bishop Baldwin a prestige address with a telephone and telex.

Even the firm's name was a shallow hoax. The Bishops, Baldwins and Dillinghams are old-line aristocratic families in Hawaii. Mr. Rewald merely borrowed their names, adding them to his own and that of Sunlin "Sunny" Wong, a local real-estate agent who held 50% of the stock but who disclaims knowledge of the company. Observers have likened Mr. Rewald's phony use of prestigious names to starting a firm in New York City named "Rockefeller, Roosevelt, Rewald, Vanderbilt & Mellon." Mr. Rewald says the ploy was ordered by the CIA.

Most shocking of all to have escaped CIA scrutiny—if indeed it did—was Mr. Rewald's 1976 theft conviction in a state court in Wausau, Wis. He and an associate were convicted of persuading two high-school teachers to invest in sporting-goods stores under false pretenses. On conviction, Mr. Rewald was ordered to pay \$2,000 restitution and spend a year on probation. That same year, 1976, he and his sporting-goods chain filed a voluntary bankruptcy petition in federal court in Milwaukee; he listed personal debts of \$224,988 against assets of \$1,430.

Mr. Rewald's transformation from Midwestern bankrupt to Honolulu high roller was astoundingly swift. He says his flashy life was ordered up by the CIA so that he could mingle with—and spy on—wealthy foreign potentates. He acquired title to his first Honolulu home from former Cambodian Prime Minister Lon Nol, and he spread the word that the house was really a CIA-owned "safe-house."

Spy Operations

Because of its location as a stop-off point for most Pacific traffic, Hawaii is loaded with military and spy operations. Pointing out Soviet trawlers in port and offshore, and U.S. electronic listening gear protruding from government buildings, lawyers in the Rewald case say they believe every word uttered in their offices can be picked up equally in Washington and Moscow.

It is common for generals, admirals and CIA officers to retire here, and many of them acknowledge that they still take on government assignments from time to time. So it is hard to be sure who is acting officially, and who privately.

The active-duty commander in chief of the Air Force's Pacific Command, three-star Gen. Arnold Braswell, began associating with Mr. Rewald during an Air Force-backed operation to cure the alcoholism of a previous commander, retired four-star Gen. Hunter Harris. Because Gen. Harris trusted Mr. Rewald, whom he met at polo, Gen. Braswell put Mr. Rewald in charge of getting Gen. Harris hospitalized for alcoholism, according to Gen. Braswell and others. Mr. Rewald used Bishop Baldwin funds to pay \$32,000 of Gen. Harris's debts, according to court documents and interviews.

Gen. Harris also got Mr. Rewald to donate to Lt. Col. James "Bo" Gritz's privately financed commando raid to search Laos for U.S. prisoners of war in 1982. Mr. Rewald used his advance knowledge of the widely publicized raid to convince potential investors he was with the CIA.

He hired for his staff people with a military-intelligence background, including the officer who gave Gen. Braswell his daily intelligence briefing. Gen. Braswell says he was discussing working for Bishop Baldwin when he retired last fall, a fact that was widely known at Bishop Baldwin.

Mr. Rewald lied that his clients were all multimillionaires, appearing to condescend to accept the money of smaller depositors. He never advertised for clients; they came by word of mouth.

Political Asylum

Nella Van Asperen, a client whose family apparently lost about \$400,000 in the Bishop Baldwin bankruptcy, says what hooked her was her belief that Mr. Rewald was an important CIA figure.

The attractive, blond commercial artist, then single, first met Mr. Rewald in 1979, when she agreed to do some design work for a sporting-goods chain he was forming. Then, in January 1980, she sought his help when trying to obtain political asylum for an Afghan who had surfaced in Hawaii after fleeing the Soviet invasion of his homeland.

Mr. Rewald, she says, "had told me he was with the CIA, and I thought if anybody can help he could."

Mrs. Van Asperen remembers that Mr. Rewald "perked up" at the news and said the CIA wanted to see the Afghan. Following instructions worthy of a Graham Greene spy novel, she says, she escorted the Afghan to a designated table at an outdoor cafe, where she left him with Mr. Rewald—who was using the name "Anderson"—and two strange men.

The Afghan—Abdul Shakoor Gardezy, now a jeweler in San Diego—remembers being asked a lot of questions about chemical weapons and Chinese arms. Then, he says, "Mr. Anderson" gave him a business card and told him to take it to the U.S. immigration office, where he would be given asylum. Mr. Gardezy says the immigration office seemed to recognize the card and gave him a long-term visa. He says he never heard from the "CIA" men again.

Robert Jinks, a Bishop Baldwin lawyer who now is a subject of the grand-jury investigations in the case, says through his lawyer that he was with Mr. Rewald at the Afghan's debriefing and adds that he considered himself to be working for the CIA at the time.

"It's hard for me to believe someone would set all this up as a charade," says Mrs. Van Asperen, who eventually became Mr. Rewald's close friend—he kept her nude photo in his desk—and frequent luncheon date. (She says he always excused himself for what he said was his daily 3:30 p.m. CIA briefing; she also says he wasn't present when she posed for the photo.)

Mrs. Van Asperen invested the proceeds from a property sale with Bishop Baldwin, and when monthly checks from the interest began rolling in, she says, she never again let money "sit idle" in bank accounts but delivered it to Mr. Rewald. She later married, and her husband turned his savings over to the firm as well.

Lost Savings

Her father, a retired Chicago businessman, invested—and lost—several hundred thousand dollars of retirement savings with Bishop Baldwin. Mrs. Van Asperen confirms that her parents now are living on Social Security and had to sell their house. She herself has had to return to work instead of staying home with her children as planned.

"I'm going after the CIA," she says. "I figure I own a tank somewhere in some Third World country that says 'Nella' on the side of it."

To help spread the word about the firm, Mr. Rewald hired a staff of consultants who were paid commissions for bringing in clients, often on top of handsome salaries. One major bank, Hawaii National, is being sued in federal court by three wealthy Indonesians who allegedly lost more than \$1 million with Mr. Rewald. They say the officer the bank assigned them, Richard Spiker, steered them to Bishop Baldwin, for which he was secretly working. Mr. Spiker later joined Mr. Rewald's full-time staff. The bank is contesting the suit. Mr. Spiker's lawyer says his client is commenting only for the grand jury.

More typical was the experience of Mary Lou McKenna, a blonde former Playboy model who had retired to Hawaii because of devastating medical problems. At poolside in her apartment complex, she met the Bishop Baldwin bookkeeper, Mrs. Vos. Mrs. Vos (who is divorced) learned that Miss McKenna (a divorcee raising three children) had put together a \$150,000 nest egg, mostly from insurance, to pay for living expenses and continuing therapy after her back was badly broken.

Knowing all this, Mrs. Vos and Mr. Rewald persuaded Miss McKenna that her money would be safe with him, according to Miss McKenna and confirmed by Mrs. Vos. Miss McKenna says Mr. Rewald assured her "they were involved with the government, the CIA, that's why they had so many generals and FBI investing with them."

A lawyer on Mr. Rewald's staff arranged the sale of property Miss McKenna owned so that this money, too, could be invested in Bishop Baldwin. The lawyer, D. Alden (Dan) Newland, says he can't discuss Miss McKenna's case because of his lawyer-client relationship with Mr. Rewald. Miss McKenna says she thought Mr. Newland was acting as her lawyer and trusted him as such. She lost all. Broke and forced to give up therapy, she appears to be in great pain. She talks frequently of suicide.

Six-Figure Claim

Mrs. Vos, now living under another name with relatives in Mesa, Ariz., acknowledges that commissions of up to 10% were credited to her for Miss McKenna's account and others that she brought in. But she says she left the commissions, and all her other savings, in a Bishop Baldwin account that was wiped out with everyone else's. She says she feels "terrible" about what happened to Miss McKenna.

Some people were so impressed by the guaranteed high interest rates and assurances of FDIC protection that they borrowed money at lower commercial interest rates to invest in Bishop Baldwin. Gen. Braswell and CIA station chief Kindschi have said they did. Gen. Braswell has filed a six-figure claim with the bankruptcy court. Mr. Kindschi, records indicate, also put in his mother's money—about \$150,000—giving the family a total investment of about \$300,000.

Mr. Rewald says those accounts and two dozen others were just covers for funds the CIA was hiding on behalf of foreign rulers, but he doesn't offer any documentation for that contention.

The beginning of the end came last July 28, when the state department of regulatory agencies suddenly subpoenaed all of Bishop Baldwin's books because of public queries over the alleged FDIC insurance.

A state official tipped off a local television reporter about the subpoena; and on Friday, July 29, the reporter went to the Bishop Baldwin office. With Mr. Rewald out, she stunned Mr. Newland with questions about the subpoena and about Mr. Rewald's bankruptcy in Wisconsin (which the authorities had also learned about).

Mr. Rewald was told of the interview upon his return to the office. That afternoon, a Bishop Baldwin check for \$140,000 was issued to Mr. Kindschi, converted into a cashier's check and sent to him. Mr. Rewald

says Mr. Kindschi requested the money; Mr. Kindschi has denied this. But he cashed the check, and now trustee Hayes has sued Mr. Kindschi demanding the money back.

Also that Friday, Bishop Baldwin sent \$200,000 to Dana Smith, a Rewald lawyer. That check—which would have emptied Bishop Baldwin's account, even after a \$600,000 deposit earlier in the week by the Indonesian clients—was stopped by Mr. Hayes before it could be collected. Mr. Rewald also sent his wife and children back to Wisconsin that day—without money, he says.

At about 4:30 p.m., Bishop Baldwin's security guards began removing files from the firm's offices. They took two dozen cartons and hid them. Meanwhile, Mr. Rewald checked into the Waikiki Sheraton hotel and, he has said, watched the television expose about his company.

Blood on the Walls

The next afternoon at four, the hotel's assistant manager entered Mr. Rewald's room during routine rounds. She found lots of blood on the walls and floor and Mr. Rewald lying against the bathtub, his wrists and forearms having been cut by a razor. He spoke coherently. Police removed him to a hospital, where doctors described the wounds as "superficial."

Meanwhile, Hugh Frazer, a general agent for Hartford Insurance Co., watched the TV expose in horror. He had put \$50,000 into Bishop Baldwin on the guarantee of one of his agents who worked part-time for Mr. Rewald. On Monday morning, when he called Bishop Baldwin and tried to get his money out, he was told that Mr. Rewald, from his hospital bed, had ordered all accounts frozen for 30 days. He filed a criminal complaint with the Department of Regulatory Agencies and had his lawyers start bankruptcy proceedings.

Mr. Frazer's complaint, and another that police say Mr. Kindschi filed but that he has denied filing, are the only two criminal charges now pending against Mr. Rewald. But state and federal grand juries are investigating.

After a week of stalling the Honolulu police, the Rewald security men relinquished the files to a Rewald lawyer who brought them to Judge Pence, who gave them to the CIA. Mr. Rewald was remanded to prison on the largest bail in Hawaii history.

In February, after months of trying, his brother-in-law, Richard Lopponow, succeeded in lowering Mr. Rewald's bail to \$140,000, and Mr. Rewald was free. He says he can't talk about the case because it involves the CIA. "The way the court order reads, I can't even mention the three initials," he says. He now is back in Hawaii awaiting trial, which isn't expected soon.

Yet another curiosity in the case concerns the prosecutor himself. The U.S. attorney in Hawaii, Daniel Bent, turned the case over to John Peyton, an attorney who joined his staff just a few days after Mr. Rewald slashed his wrists. From about 1976 to early 1981, Mr. Peyton had been chief of the CIA's litigation section in Langley, Va. Before coming to the U.S. attorney's staff in Hawaii, he worked on the government's narcotics task force in Florida, which intelligence community sources say has been laden with CIA operatives. Despite that background, Mr. Peyton characterizes his current assignment in Hawaii as "pure, utter coincidence."