New Details About Wilbur Ross' Business Point To Pattern Of Grifting

Dan Alexander

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multimillion-dollar lawsuit has been quietly making its way through the New York State court system over the last three years, pitting a private equity manager named David Storper against his former boss: Secretary of Commerce Wilbur Ross. The pair worked side by side for more than a decade, eventually at the firm, WL Ross & Co.—where, Storper later alleged, Ross stole his interests in a private equity fund, transferred them to himself, then tried to cover it up with bogus paperwork. Two weeks ago, just before the start of a trial with $4 million on the line, Ross and Storper agreed to a confidential settlement, whose existence has never been reported and whose terms remain secret.

It is difficult to imagine the possibility that a man like Ross, who *Forbes* estimates is worth some $700 million, might steal a few million from one of his business partners. Unless you have heard enough stories about Ross. Two former WL Ross colleagues remember the commerce secretary taking handfuls of Sweet'N Low packets from a nearby restaurant, so he didn't have to go out and buy some for himself. One says workers at his house in the Hamptons used to call the office, claiming Ross had not paid them for their work. Another two people said Ross once pledged $1 million to a charity, then never paid. A commerce official called the tales "petty nonsense," and added that Ross does not put sweetener in his coffee.

There are bigger allegations. Over several months, in speaking with 21 people who know Ross, *Forbes* uncovered a pattern: Many of those who worked directly with him claim that Ross wrongly siphoned or outright stole a few million here and a few million there, huge amounts for most but not necessarily for the commerce secretary. At least if you consider them individually. But all told, these allegations—which sparked lawsuits, reimbursements and an SEC fine—come to more than $120 million. If even half of the accusations are legitimate, the current United States secretary of commerce could rank among the biggest grifters in American history.

Secretary of Commerce Wilbur RossAnthony Kwan / Bloomberg

Not that he sees himself that way. “The SEC has never initiated any enforcement action against me,” Ross said in a statement, failing to mention the $2.3 million fine it levied against his firm in 2016. The commerce secretary also noted that one lawsuit against him got dismissed, without saying it is currently going through the appeals process. Ross confirmed settling two other cases, including the recent one against Storper, but declined to offer additional details.

Those who’ve done business with Ross generally tell a consistent story, of a man obsessed with money and untethered to facts. “He’ll push the edge of truthfulness and use whatever power he has to grab assets,” says New York financier Asher Edelman. One of Ross’ former colleagues is more direct: “He’s a pathological liar.”

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ilbur Ross figured out at some point that money, or the aura of it, translates into power. *Forbes* has previously documented how Ross seemingly lied to us, over many years, launching himself onto, and then higher on, our billionaire rankings, at one point even lying about an apparent multibillion-dollar transfer to family members to explain why his financial disclosure report showed fewer assets than he claimed.

“What I don’t want,” Ross said, “is for people to suddenly think that I’ve lost a lot of money when it’s not true.”

Such machinations now seem pathetic. But his billionaire status was not lost on another person obsessed with his net worth. Donald Trump termed Ross a “legendary Wall Street genius” and named him to his cabinet. “In these particular positions,” Trump explained to a crowd of supporters, “I just don’t want a poor person.”

Ross speaks before President Trump signed a memorandum in March.2018 Getty Images

From Ross’ vantage point, Trump offered the perfect exit. The future cabinet secretary’s private equity funds were underperforming—one on track to lose 26% of its initial value and another two dribbling out mediocre returns—and the accusations were starting to pile up. Roughly two months before the 2016 presidential election, the SEC announced WL Ross was paying a fine and refunding $11.9 million it allegedly skimmed from its investors, including interest. The scheme was complex. Like other private equity firms—including several that coughed up money to the SEC around the same time—WL Ross derived much of its revenue from management fees charged to its investors. With funds as large as $4.1 billion, management fees of 1.5% could alone bring in more than $60 million a year for Ross’ firm—serious money.

But WL Ross promised that it would give its investors something like a rebate. For example, when Ross and his colleagues got certain fees for working on deals, they were supposed to give at least 50% of that money back to investors. But, according to SEC investigators, the firm gave back less than it suggested it would and pocketed the difference, leading the feds to conclude Ross' firm broke laws that prohibit defrauding and misleading clients. WL Ross paid the big settlement but never admitted guilt.

According to the feds, WL Ross charged some of those inappropriate fees in the years before the commerce secretary sold his firm to Invesco for $100 million up front and the possibility of another $275 million down the road. That meant that when Ross cashed out, he presumably did so at bigger valuation than he deserved. In a statement, Ross suggested that Invesco never clawed any of that money back. “The terms of the sale of my business in 2006 remain unchanged,” he said. Invesco declined to comment.

There is more to the story. According to five former WL Ross employees and investors, the firm was also charging its investors on money that it had lost. Here's how it worked: If WL Ross made an investment of, say, $100 million that declined dramatically, in the final years of the fund the firm was supposed to charge management fees on the actual value of the investment, not the $100 million starting point. However, WL Ross allegedly continued collecting fees on the amount invested, taking more than it deserved. WL Ross was allegedly even charging fees on one investment that was essentially worthless. When approached about the discrepancy, Wilbur Ross initially insisted his firm was calculating the fees correctly, according to someone familiar with those discussions. “There are all sorts of fee issues,” says an investor, “but it was just the most egregious that I've seen.”


Nick DeSantis

Ross also allegedly skimmed money by serving on corporate boards of his firm’s portfolio companies. Again, the rule was that a portion of the fees that WL Ross employees got for serving on such boards was essentially supposed to be handed back to investors as rebates. Instead, Ross' firm did not give back enough, according to ex-colleagues. Ross "was like a kid in a candy store," says one of his former employees. "He pilfered it."

Ross is now attempting to distance himself from the management fee issues. “No regulatory agency has ever asserted such charges or any other charges against me and there is no basis for any such allegations,” he said in a statement.

Eight former employees and investors, however, said Ross presumably knew about the issues. And former WL Ross employees add that the costs were far greater than the $14.2 million announced by the Securities & Exchange Commission. A 2015 annual report for Invesco, WL Ross’ parent company, disclosed that the company had paid another $43 million over the last two years in reimbursements and regulatory expenses connected to its private equity business. Secretary Ross has largely avoided scrutiny around those payments because the report does not explicitly tie them to his former firm. Four former employees who worked there, however, told *Forbes* the $43 million was connected to WL Ross.

With the investors’ claims apparently behind him, Ross now faces a lineup of allegations from his former colleagues, who say he robbed them of money as well.

Such accusations are nothing new for Ross. In 2005, former WL Ross vice chairman Peter Lusk sued the future commerce secretary for $20 million, ultimately alleging that he had tried to cut him out of his interests. The executives reached a settlement in 2007, which former WL Ross employees say cost roughly $10 million. Asked to comment on the suit, Ross responded, “The Lusk case ended with mutual confidentiality requirements.”

Three years ago, Storper launched what became a $4 million lawsuit against both his former employer, WL Ross, and former boss, the commerce secretary, alleging that Ross stole his interests. Attorneys for Ross admitted in court filings that one of his companies took Storper’s interest and reallocated part of it to the commerce secretary. But Ross’ lawyers also insisted all of that was allowed under internal agreements. “Simply put,” they wrote, “this lawsuit is a personal vendetta against Mr. Ross.” After a judge rejected attempts to prevent the case from going to trial, just days before the jury selections the two sides agreed to settle.

What makes it all more than a typical “he-said, she-said” dispute is the number of similar complaints against Ross. A third former WL Ross employee, Joseph Mullin, filed a $3.6 million lawsuit in December 2016, saying WL Ross funds “looted” his interests “for the personal benefit of Wilbur L. Ross, Jr.—and attempted to conceal their misconduct through opaque and misleading tax statements and disclosures.” A New York State court dismissed that case in February on technical grounds, saying Mullin, who left WL Ross in 2007, waited too long to file it. He is now appealing.

Storper and two other former high-ranking executives at WL Ross filed yet another lawsuit against the commerce secretary in November, alleging that he and his firm charged at least $48 million of improper fees, then pocketed the money. It was a slow siphoning rather than a one-time heist, according to the lawsuit. Private equity firms typically collect management fees—those 1.5% charges—only from their outside clients. But the lawsuit alleges that Ross and his firm seemingly charged current and former company executives as well. It would be like a restaurant owner telling his employees that they can eat for free—while taking the meal money out of their paychecks. In a statement to *Forbes*, Ross called the case “without merit.” He moved to dismiss it in February, but the suit remains active.

A look at old versions of WL Ross’ website reveal the magnitude of the turmoil. Of the top seven firm leaders listed on the 2006 website, none of them have the same roles today. Ross is now leading the commerce department, Wendy Teramoto serves as his chief of staff and Stephen Toy is the new co-head of WL Ross. Meanwhile, the majority—consisting of Storper, Mullin, David Wax and Pamela Wilson—are all actively waging legal battles against their former boss, Wilbur Ross.

I**n a presidential cabinet** plagued by ethical problems, it can be easy to forget about Wilbur Ross. Most of the attention tends to center around obvious abuses, like Scott Pruitt getting a $43,000 sound-proof booth in his office or Tom Price wasting $341,000 on jet travel. But while Ross’ antics are more complicated, they involve far more money.

On November 1, 2017, Ross signed a sworn document, attesting that he had divested all the assets he promised he would. That was not true. The commerce secretary in fact still owned somewhere between $10 and $50 million worth of stock in WL Ross' parent company, Invesco. Ross sold his shares a month later, banking at least $1.2 million more than he would have if he sold in May, when he initially promised to divest. By falsely claiming he gotten rid of the shares earlier, Ross also put himself in legal jeopardy, since it is a crime to lie to federal officials. Representatives for Ross, a sophisticated investor, claimed the commerce secretary did not lie but instead failed to realize he owned the shares.

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Ross also said he did not know he had a $73,000 stake in a company named Air Lease, which he finally sold in June—more than a year after he promised he would. And he admitted to shorting stock of Sun Bancorp, saying he hoped to cancel out an interest he mistakenly thought he owned but in fact did not. "For any head of any private equity firm that I know of, including like [Carlyle's David] Rubenstein or [Blackstone's Stephen] Schwarzman—these guys know what they own. It's their whole business. It's their whole life," says an investor in WL Ross' funds, terming the commerce secretary's explanation "ridiculous."

A top official in the federal Office of Government Ethics scolded Ross in a letter last month, saying that his failure to divest corroded public trust. According to the letter, another ethics official searched Ross' calendars to see if the commerce secretary broke the law by taking actions to benefit his personal holdings, finding no evidence that he had. One day later, however, *Forbes* revealed that Ross had previously dined, in the White House, with the CEO of a business in which the commerce secretary secretly held an interest. After the report, Senator John Thune, a Republican from South Dakota, asked the inspector general of the Commerce Department to take a second look.

Thune is not the only senator making noise about Ross' finances. In June, two senators and a congressman asked the Securities & Exchange Commission to launch an insider trading investigation of Ross, based on revelations that Ross shorted at least $100,000 in Putin-linked Navigator Holdings, soon after being told about aforthcoming exposé on his connection to the company. The minuscule scale—the trade seemingly bolstered Ross' wallet by $3,000 to $10,000—makes the blunder that much more vexing.

Sen. John Thune asks a question during Wilbur Ross' confirmation hearing. 2017 Getty Images

Fourteen Democratic Congressmen have also called on the inspector general to investigate Ross' potential conflicts of interest. After assuring senators during his confirmation hearing that he would be overly cautious on ethical matters, Ross spent the majority of his first year in office as a business partner to the Chinese government, while he negotiated U.S.-China trade relations. He also waited to get rid of a stake in a Cypriot bank reportedly tied up in the Robert Mueller investigation. And he took months to divest an interest in a foreign car parts manufacturer whose industry he is now investigating.

The central matter in all of Ross' legal issues is his own credibility. "Lying on an ethics disclosure form, to Congressional and Senate committees, and falsely reporting compliance with an ethics plan, is neither 'commonplace' nor part of the accepted rough-and-tumble world of politics," David Storper, Ross' former right-hand man, argued in a court filing. "They are just lies." Adds another onetime colleague: "This is a public servant who can't tell the truth."

Reach Dan Alexander at dalexander@forbes.com. Cover image by Patrick Welsh for Forbes.