

# THE WALL STREET

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VOL. CXXIV NO. 52



WESTERN EDITION

FRIDAY, MARCH 15, 1991



## Tax Question

### Was the Big Spender Just Spending Money Firms Owed to IRS?

#### Texan 'Chip' Armstrong Ran Scheme Processing Funds, Former Employee Alleges

#### FedEx Frets Over \$16-Million

By RALPH T. KING JR.

Staff Reporter of THE WALL STREET JOURNAL

Last year's Fourth of July party at the 3,000-acre Double C ranch near Tyler, Texas, was a scene right out of "Dallas." The 250 guests were treated to a rodeo in a big arena, the music of country star George Strait, and an hour of fireworks after a sit-down dinner.

The host and ranch owner, Connie C. "Chip" Armstrong Jr., was celebrating a personal kind of independence day: His father had just completed an 18-month jail term for laundering drug money.

The extravaganza was noteworthy, even by the standards of Texas' bygone oil-boom days, because until late 1988 Chip Armstrong, now 36 years old, worked as a \$26,000-a-year fireman and had a history of not repaying bank loans. In 1985, he declared personal bankruptcy after the failure of a small business he ran on the side—temporary workers hired by Mr. Armstrong sprayed fire-retardant material on the steel frames of commercial buildings.

#### Donations to Politicians

Despite such reversals, Mr. Armstrong in the past two years came up with millions in cash to buy distressed properties including some 300 oil and gas well operating leases in southwest Texas, and thousands of acres of land near cities like San Antonio and Dallas, including the Double C ranch. He leased plush offices surrounded by Remington bronzes, and dashed around in black limousines and a Gulfstream jet, always accompanied by a bodyguard. He doled out six-figure donations to politicians such as Texas gubernatorial candidate Clayton Williams and to charity events like the Dallas Opera Ball.

"He's the mystery man," says Margot Winspear, a Dallas socialite. "No one knows what he does or where the money comes from. He writes big checks, we all love him. We don't know him, but we all

## What's News—

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### Business and Finance

**AVON STOCKHOLDER** Chartwell Associates sold most of its stake for \$395 million, apparently ending a 16-month siege of the company. Chartwell, formed by the Fisher real estate family and oil heir Gordon Getty, realized a small profit on the sale.

(Story on Page A3)

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**Ford intends to force rental agencies to keep Ford cars at least six months or 15,000 miles to limit the availability of nearly new autos for sale. GM plans a similar step.**

**Honda is putting its top three executives in direct control of its struggling automotive business in Japan.**

(Stories on Pages B1 and A3)

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**Coca-Cola lost a big soda-fountain service contract to Pepsi after Coke refused to lend money to the customer, Marriott, a Coke memo says.**

(Story on Page B1)

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**The FCC is proposing to permit callers to hang up on "900" telephone services without getting billed.**

(Story on Page A3)

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**The dollar rallied amid a lack of central bank intervention, while stock prices bounced around in a volatile session. The Dow Jones industrials fell 2.97 points. Bond prices declined.**

(Stories on Pages C1 and C10)

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**Apple Computer's chief executive, John Sculley, is reducing his management duties to spend more time on several development projects.**

(Story on Page B1)

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**Big trucking companies reached a three-year labor agreement with the Teamsters union that could face a tough battle for ratification.**

(Story on Page A2)

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**Seven industrial nations agreed last night to forgive at least 50% of Poland's \$47 billion in foreign debt.**

(Story on Page A3)

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### World-Wide

**KUWAIT'S EMIR RETURNED** as U.S. officials pursued postwar diplomacy.

The Kuwaiti ruler flew home after seven months in exile during Iraq's occupation of his country. Meanwhile, Bush met in Martinique with France's Mitterrand, and the two leaders later said they weren't interested in getting involved militarily in the current violence inside Iraq. Secretary of State Baker held talks in Moscow with Bessmertnykh to brief the Soviet foreign minister on his five-nation Middle East trip and prospects for peace. (Stories on Pages A12 and A8)

**Kurdish rebels charged that Iraqi troops rounded up civilians yesterday in the northern city of Kirkuk and then massacred them by firing weapons from helicopter gunships.**

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**Baker plans to meet today in Moscow with the Russian republic's president, Yeltsin, and other Soviet progressives pressing Gorbachev for economic and political reforms. The rivalry between Yeltsin and Gorbachev has sharpened in advance of Sunday's vote on preserving the Soviet Union. (Related stories on Page A8)**

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**Thornburgh announced that in response to allegations of police brutality in Los Angeles, the Justice Department will review all "official complaints" of such police actions nationwide over the past six years. The attorney general said the purpose of the review is "to discern whether any pattern of misconduct is apparent."**

**A federal appeals court ruled that local governments and law enforcement agencies can be held liable for failing to train officers on the legal limits of the use of force. The decision appears to broaden the grounds under which officials can be sanctioned for brutality. (Story on Page B4)**

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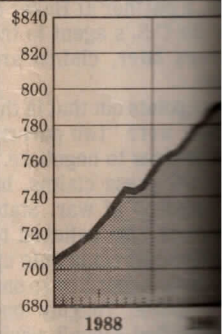
**Six Irishmen were freed after spending 16 years in prison when Britain's Court of Appeal reversed their convictions for Irish Republican Army bombings in 1974 that killed 21 people. The decision had been expected after prosecutors said they could no longer rely on scientific and police evidence in the "Birmingham Six" case.**

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**Scientists found a gene that appears to trigger the initial transformation of a healthy cell into cancer. The discovery by Johns Hopkins University researchers may soon help doctors tell whether a tumor is beginning to rise amid the normal tissue cells.**

## Business Inve

In billions of dollars.



TOTAL BUSINESS INVESTMENT in January to \$814.36 billion, after adjustments, from a peak of \$814.36 billion in December, the Commerce Department reports. (See story on page A8)

## The CEO Leaving a Besieged Firm's Money And Mr. Last Year

Firm's Money And Mr. Last Year

By [Name]

Staff Reporter of THE WALL STREET JOURNAL  
CREVE COEUR, MO. to Malcolm Cheek

That's what executives at Y&A Inc. is wondering. Cheek, the engineering executive officer of the company nor the employees of the suburb of St. Louis. hearts, are using Now they arrived vision news crew the mysterious

Until recently at Y&A than The always charm and promote the Wall Street's made a flurry Thailand. Mr. business that never went checking in What to Do So what



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In the past few days a former Armstrong employee, Steve Solodoff, began to privately provide a number of major companies and institutions with a simple explanation for Mr. Armstrong's suddenly apparent and seemingly inexhaustible wealth.

Before he resigned last month, Mr. Solodoff was controller of an obscure San Francisco firm, Hamilton Taft & Co., owned by Mr. Armstrong since March 1989. The firm annually processes \$3.5 billion in payroll withholding taxes owed to the Internal Revenue Service and other tax agencies for such diverse employers as Federal Express, Sony Corp., Castle & Cooke, Stanford University, the State Bar of California and the Oakland Athletics.

### Kind of Ponzi Scheme

Mr. Solodoff alleges to federal authorities and in a memorandum filed with a federal suit that instead of promptly depositing all of these funds with the proper government agency as stipulated by contract, Mr. Armstrong diverted many millions to his own private uses in a kind of Ponzi scheme now on the verge of collapse. Some Hamilton Taft customers confirm the diversions, and Mr. Solodoff estimates that they total nearly \$100 million.

Hamilton Taft, it turns out, is one of the biggest tax processors in the country. But this isn't a great business to be in right now. Last year, the IRS cut the lag time between payday and tax payments from three days to one with a streamlined deposit process, sharply curtailing margins. Big players like ADP and BankAmerica generate far better fees by offering complete payroll services.

According to Mr. Solodoff, the lure for Mr. Armstrong was not profits but huge, totally unregulated cash flows. Access to

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(Story on Page B1)

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TWA's sale of three TWA London routes to American Airlines was rejected by the U.S., but it cleared three bigger routes to be sold.

(Story on Page A3)

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U.S. companies and individuals with an estimated \$4 billion in claims against Iraq are expected to have a difficult time recouping their losses.

(Story on Page A2)

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Bertelsmann's Bantam Doubleday said it will keep open its Doubleday unit, quelling reports to the contrary.

(Story on Page B3)

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Washington Post Co.'s Katharine Graham is stepping down as chief executive. Her son, Donald, will succeed her. She will remain chairman.

(Story on Page B4)

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Chase Manhattan may bid for a big part of failed Bank of New England in an effort to expand Chase's consumer banking in the Northeast.

(Story on Page A3)

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London stocks rallied amid hopes for an interest-rate cut. The FT-SE 100 rose 52.4 points to a record 2500.6.

(Story on Page C10)

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Business inventories jumped 0.4% in January but remain low compared with levels during past recessions.

(Story on Page A2)

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day's vote on preserving the Soviet Union. (Related stories on Page A8)

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Scientists found a gene that appears to trigger the initial transformation of a healthy cell into cancer. The discovery by Johns Hopkins University researchers may soon help doctors tell whether a tumor is beginning to rise amid the normal tissue cells in the human colon. (Story on Page B1)

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Angry Slovak nationalists shouted abuse at Czechoslovakia's president, who visited Bratislava, the capital of Slovakia, and urged the five million Slovaks not to secede. Earlier, Havel warned Slovak army officers that they should stay out of the dispute over whether Slovakia should split with the Czechs and become a separate state.

\* \* \*

Computer hackers have been stealing phone records and using local and toll-free phone numbers to gain access to office voice-mail systems around the country, allowing them to use the office phones for their own purposes. The extent of the intrusion is still being gauged by the Secret Service and the FBI. (Story on Page B1)

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Honecker has been taken to Moscow for medical treatment, a Soviet official said, prompting a demand from Germany for the return of the former East German leader. Honecker, facing German manslaughter charges over the killing of people trying to flee East Germany, had spent nearly a year in a Soviet hospital outside Berlin.

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Aid totaling \$850 million was approved by the Senate Appropriations Committee for Turkey and Israel as part of two spending bills covering the initial costs of the Gulf crisis and increased benefits for veterans of the war with Iraq. (Story on Page A4)

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Serbian protesters ended five days of anti-Communist rallies but threatened to return to Belgrade's streets if the government of Yugoslavia's biggest republic doesn't resign. The country's eight-member presidency, meanwhile, met in closed session with army officials to discuss security.

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Last Y

By Ro

Staff Reporter of T

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to Malcolm Chee

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