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Airline investment turns sour for pension boards

It took only 3 weeks to convince the trustees to approve the \$30 million TradeWinds Airlines deal -- and only 7 months for the company to file for bankruptcy.

BY TINA LAM and JENNIFER DIXON

Second of two parts

Donald Watkins, an Alabama businessman, and Donald Stukes, his New York financial adviser, showed up at the door of Detroit's two pension funds just after Thanksgiving in 2007. Within three weeks, the pair convinced the pension trustees to lend \$30 million to a struggling cargo airline Watkins was buying.

One trustee complained at the time of the vote that the pair offered few details about the proposed investment in TradeWinds Airlines Inc., and little could be verified. But the pensions' investment consultant, Adrian Anderson, ultimately favored the deal, board minutes show.

Watkins guaranteed the loans and vowed to kick in \$10 million of his own. TradeWinds got the \$30 million.

Most of the \$30-million investment -- about \$27 million -- went to pay off TradeWinds' debts. Another \$1 million went to Stukes' financial advisory company, ASI Advisors of White Plains, N.Y., leaving little left to run the airline.

Seven months later, the deal had soured, and TradeWinds filed for bankruptcy.

While all investments carry risk, the TradeWinds deal, vetted by Anderson, did not address the kinds of concerns that experts said are fundamental.

Anderson declined to talk about his investigation of TradeWinds, citing confidentiality agreements he said he has with the boards.

A string of business ventures

The Free Press found that Watkins, a lawyer and banker, has pitched a string of blockbuster business ventures across the country that were never consummated, including attempts to buy a Major League Baseball team and promises to build waste-to-ethanol plants.

Many of those deals have fallen through because of a lack of funding.

Despite his telling people over the years that he's worth more than \$1 billion, Watkins' true net worth appears to be a mystery, as *Forbes* magazine noted in a 2002 article on him.

Watkins said in an e-mailed response to questions: "The only blemish on my 36-year business career

record is the TradeWinds dispute, which was precipitated by my refusal to participate in an unlawful pay-to-play scheme forced upon me by certain trustees of the Retirement Systems of the City of Detroit "and their surrogates."

Stukes, whose company made \$1 million from the TradeWinds deal, has had other unrelated business problems. He and another of his companies owe thousands of dollars in unpaid taxes and legal bills.

Stukes said that as an adviser, his personal finances were irrelevant to the deal and the collapse of TradeWinds.

He said Anderson lacked the expertise to investigate the airline industry and that Watkins was unable to liquidate assets in order to come up with \$5 million in cash in a timely manner to keep the airline running.

The questions surrounding Watkins and Stukes were readily available in public records such as lawsuits as Anderson researched the airline deal. Yet his due-diligence report did not address the past dealings of Watkins or Stukes.

Indeed, after providing TradeWinds with money, the pension funds considered hiring Stukes, assisted by Watkins, to help turn around another failing pension investment.

The TradeWinds collapse and who caused it now is in litigation.

Watkins has accused trustees of turning on him after he refused what he called unsavory requests for favors such as cash for trustees' election campaigns and use of his jet.

Investigation is key

Susan Mangiero, president of Pension Governance Inc. in Connecticut and author of a book on risk management for pension funds and endowments, said it's crucial to thoroughly investigate individuals involved in small private firms before a pension fund invests, since the managers' backgrounds and finances are critical to the firm's success.

"If a key player has a financial issue, or they're deeply in debt, how can they make good decisions about other people's money?" she said.

The courtship between Detroit's pension funds and TradeWinds was speedy.

Stukes and Watkins first appeared before the general retirement pension board on Nov. 28, 2007, board minutes show.

Three weeks later, the trustees gave preliminary approval to a \$15-million loan to TradeWinds, pushed by then-trustee Jeff Beasley, the city's treasurer, who had been appointed to both pension boards by college fraternity brother and then-Detroit Mayor Kwame Kilpatrick.

The police and fire pension trustees took even less time – one week after Watkins' appearance before them – to initially approve a \$15-million loan, again at the urging of Beasley.

Beasley did not respond to phone calls or a visit to his home requesting comment.

Anderson investigated the deal for both boards.

In an eight-page report, Anderson called the venture very risky but said Watkins had demonstrated

success in several industries, including manufacturing, energy and banking. He gave no details or any hint about Watkins' financial ability to guarantee the loans.

Ultimately, Anderson provided a "favorable" report on TradeWinds, according to board minutes in 2008.

Watkins first made his name as a lawyer. He helped win a pardon for the last living member of the Scottsboro Boys, black teens in Depression-era Alabama convicted of raping two white women in a prosecution that was rife with racial injustice.

In 2000, Watkins cofounded Alamerica Bank in Birmingham, Ala.

The Rev. Wendell Anthony, a Detroit pension trustee, said Watkins told him he was a billionaire — a claim he also has made in Birmingham.

'Private and confidential'

Watkins deflected the issue when asked by the Free Press, saying he considered questions about his wealth "financial voyeurism."

"My personal and business financial statements are private and confidential," he said.

Jimmy Blake, who served on the Birmingham City Council in the 1990s while Watkins was the lawyer for the mayor, said Watkins is a charming guy.

"He made some highfalutin claims, but I don't know if there was any substance there," he said.

Blake said Watkins told people his wealth came from alternative-energy projects.

Bill Ricker, who worked for members of the Birmingham City Council for 16 years, praised Watkins' legal skills.

"If I were in trouble and I needed an attorney, he'd be the one I'd get," Ricker said.

In 2001, Watkins announced he would raise \$100 million for a football stadium and Black College Sports Hall of Fame at Alabama State University, where he was a trustee. It never happened.

In an e-mail to the Free Press, Watkins said another trustee's public opposition cost him the financing.

Watkins made a splash in Minnesota early in 2002, saying he wanted to buy the Twins and build a new \$350-million baseball stadium with private money. The team's president later told Minnesota legislators Watkins never proved that he had ready cash for the deal, according to published reports.

A few months later, Watkins said he planned to buy the Angels baseball team in Anaheim, Calif. That, too, fizzled because its owner wasn't convinced Watkins had the financial capacity, baseball league executives told the Los Angeles Times in 2002.

Watkins is principal owner of Masada Resource Group, which touts patents on a process to turn waste into ethanol. It has proposed plants in Birmingham, Ala.; Memphis, Tenn.; New York, and the Dominican Republic, but none has ever been built.

Watkins tried to use carbon credits and stock from unbuilt Masada projects for \$4 million of the \$5 million he promised in the TradeWinds deal, a sore point with the pension boards, which said cash

was required.

Watkins insisted in e-mails that cash wasn't required and that Anderson approved the use of carbon credits. The pension boards dispute that.

Stukes' story

On his Web site, Watkins touts Stukes as his financial adviser, one of his "formidable team of professionals." Stukes has well-documented financial and regulatory troubles.

The Internal Revenue Service suspended him from representing clients as a certified public accountant before the agency for a year for reasons it won't explain. Stukes said he was suspended for being overzealous while representing a plumber.

He and one of his companies owe more than \$140,000 in New York taxes, which he is disputing. He and one of his companies also face a judgment of about \$240,000 for bills his lawyers rung up defending him in a lawsuit filed by former business partners. Stukes insists he was overcharged by his lawyers and is refusing to pay.

And in March 2006, he and his wife lost their home in Westchester County, N.Y., to foreclosure. Records show they owed the bank \$673,000.

These setbacks all were documented in public records at the time another Stukes company, ASI Advisors, asked the pension funds in 2007 to invest in TradeWinds.

Stukes insisted his personal finances were not relevant to any decision by the pension boards because he was not a TradeWinds owner or officer and only was advising Watkins — although investment experts said his role in pitching a deal that he was profiting from made his background relevant.

He said ASI Advisors is a reputable firm and has advised on numerous aviation deals.

"We are aviation experts," he said.

He said the airline fell apart for three reasons: a lack of communications between the chief executive officer and chairman, who was Watkins; a misunderstanding about Watkins' contribution to the business, and eroding credit markets.

"I'm not the bad guy in this thing," he said.

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