

Special Report

CAPITOL CROOKS



It started with the bribery indictment of California Rep. Randall “Duke” Cunningham, but before it’s over, a sprawling investigation

into a Pentagon contractor called MZM could snare some of Washington’s most powerful inside players

FALL GUY. Contractor Mitchell Wade leaving court. The FBI wants to know more about his corrupt dealings with Congress.



By Chitra Ragavan

In the fall of 2003, an influential Washington defense contractor named Mitchell Wade was shooting the bull with Haig Melkessetian, a senior executive in his company, at their elegant office not far from the White House. “Haig,” Wade declared, “I have a good deal for us.”

The contractor enthusiastically laid out his plan: His good friend, Randall “Duke” Cunningham, a decorated Vietnam War fighter pilot, was planning to lead a congressional delegation to Saudi Arabia on a mission to help Saudi officials improve their image in the wake of the 9/11 terrorist attacks. Melkessetian, a former Army Special Forces soldier and Arabic linguist, was taken aback. “I can’t be on both sides of the fence,” he told Wade,

noting that their company, MZM Inc., was heavily involved in major counterterrorism projects with the Defense Department.

“Don’t start that ideological crap with me,” Wade snapped, according to Melkessetian’s account. “I’m not here for ideology. I’m here to make money.”

And make money he did—a cool \$150 million in government contracts since 2002. But Wade’s road to riches was one that would ultimately lead him to jail and ignominy, and, along the way, to a prison term for one lawmaker and still more criminal charges, in the next few days or weeks, against some of the most influential insiders in the nation’s capital. Melkessetian, now a consultant for a U.S. intelligence agency, is helping federal prosecutors in a massive corruption investigation involving Wade, MZM, and Cunningham. The former eight-term Republican congressman from California pleaded guilty last November to accepting more than \$2.4 million in bribes and favors from Wade; his mentor, Brent Wilkes, a San Diego-based defense contractor; and two other “unindicted coconspirators.”

“A huge spider web.” Cunningham “earmarked” millions of dollars in defense projects for Wade and Wilkes in a manner so brazen federal prosecutors called it “unparalleled” in the long, sordid history of congressional corruption. Cunningham now is serving an eight-year prison term, while Wade, 46, has pleaded guilty to paying Cunningham more than \$1 million in bribes and is cooperating with prosecutors. Wade’s sentencing has been postponed until next March. He faces a maximum prison term of 135 months. He declined to be interviewed for this account, as did his attorneys.



Prosecutors are using information from Melkessetian and his MZM colleagues to test Wade’s veracity, to track cash or other assets he may be hiding, and to recommend the length of his prison sentence. The MZM employees have told investigators that they were unaware of Wade’s corrupt acts, but as Melkessetian puts it, they suspected he was “up to no good.”

Today, the FBI, the Defense Criminal Investigative Service, and the Defense Security Service are working with prosecutors to put the finishing touches on indictments against several other defense contractors, and senior defense and intelligence officials, who helped Wade with his corrupt activities.

The rise and fall of Mitch Wade offers a rare

“We have been looking at everybody that’s involved,” says a federal law enforcement official. “Anytime you talk about defense contracting, it’s a huge spider web.”

Although Wilkes has not been charged, the government alleges that he gave more than \$630,000 in bribes, gifts, and favors to Cunningham, and investigators now are trying to determine whether he obtained federal contracts through a high school buddy, Kyle “Dusty” Foggo, the former No. 3 official at the CIA. Foggo resigned in May. His attorney has said that Foggo broke no laws. Investigators are also probing whether Wilkes provided limo services, hotel suites, and prostitutes to Cunningham. Wilkes is not cooperating with investigators. “Every single allegation is false, will be fought, and my client will be vindicated,” says his attorney, Nancy Luque.



SPY GUY. A former MZM executive now working for a U.S. intelligence agency, Haig Melkessetian is helping untangle the murky MZM mess.

CHARLIE ARCHAMBAULT FOR USN&WR

A two-month *U.S. News* investigation, based on a review of hundreds of pages of court documents, private internal MZM records, and detailed interviews with a dozen key officials, shows how Wade used his connections on Capitol Hill and inside the Pentagon to gather inside information and turn his company into a moneymaking juggernaut. Melkessetian and other key MZM executives provided the magazine significant new details of Wade's influence-peddling operation. The magazine's review also revealed fundamental flaws in the government's national-security contracting procedures and showed how Wade risked compromising sensitive government secrets.

propriations bills and then pressured Pentagon officials to award the contracts to Gray Hawk and MZM. Howton, the former CEO of Gray Hawk and current CEO of Kingfisher, did not return phone calls seeking comment.

Wade's security violations are extraordinarily serious, given CIFA's sensitive mission and the fact that officials from foreign countries came to MZM to do business. "You are throwing chum out there to attract the sharks, who are going to prey on what you are doing," says the former head of the Justice Department's counterespionage section, John Martin. "And you are inviting penetrations of your company."

glimpse into the cutthroat, billion-dollar world of big-time defense contractors and exposes some of the arcane system's most glaring flaws.

The inquiry's principal findings:

- Despite having access to some of the nation's most sensitive secrets, Wade refused to submit paperwork for a background check to update his top-secret security clearance and had not undergone a background investigation since 1996, MZM sources say. Such background checks, required by law every five years, include financial reviews. Pentagon investigators knew that Wade's clearance had lapsed but did nothing about it, according to two former MZM officials. Wade continued

At the FBI, the CIA, and the Pentagon, senior officials are conducting wide-ranging damage assessments related to the MZM inquiry. The chairman of the House Select Committee on Intelligence, Republican Peter Hoekstra of Michigan, has also asked an independent investigator, Michael Stern, to conduct a separate inquiry into Cunningham's activities while he served on the intelligence committee. Stern, congressional sources say, has found that Cunningham corrupted the awarding of intelligence contracts, much the same way he did military contracts. The leaders of the intelligence committee are now debating whether to subpoena Cunningham to testify. His attorney has said Cunningham would assert his Fifth Amendment right against self-incrimination if

he were subpoenaed. One question still unanswered: how the government allowed MZM to operate with so little oversight. “The CIA and DOD [the Department of Defense],” says Martin, the former espionage prosecutor, “are equally responsible for what has gone wrong at MZM as MZM itself.”

The fallout from the MZM affair is only just beginning. At the request of deputy under secretary of defense Stephen Cambone, the accounting firm Deloitte & Touche has completed an audit of MZM’s contracts at CIFA. Cambone rejected a previous CIFA in-house review, defense sources say. In August, CIFA Director Dave Burt resigned, citing personal reasons. He did not return a call from *U.S. News*. That same day, his deputy, Joseph Hefferon, also retired, but his departure, he says, was “totally unrelated” to the MZM inquiry. Hefferon added that neither he nor Burt had authority over CIFA contracts, which were awarded by a separate agency. “What Wade did with the congressman,” says Hefferon, “we had no knowledge of at all.”

“For Sale.” The rise and fall of Mitchell Wade offers a rare glimpse into the cutthroat world of the billion-dollar defense-contracting industry. Federal prosecutors have described in captivating detail the depth of Wade’s business dealings and Cunningham’s “naked avarice.” The latter, they say, is “starkly framed” in one of Cunningham’s office notecards. Under the congressional seal, Cunningham jotted down a “bribe menu,” from which Wade “ordered” defense contracts. Some examples: The notation “16 BT 140” meant that a \$16 million contract from Cunningham would cost Wade a boat called “Buoy Toy,” valued at \$140,000; “17 50” meant that a \$17 million contract required a \$50,000 bribe from Wade. After the first \$340,000 in bribes, Cunningham generously offered a discount—just \$25,000 for each additional \$1 million in bogus earmarks. “For the better part of a decade,” said prosecutors in San Diego, “Cunningham, in effect, erected a ‘For Sale’ sign upon our nation’s capital.”

And Wade was among the highest bidders. He contributed frequently to Cunningham’s political action committees—often just before key votes—gave him an envelope stuffed with \$6,500 in cash, and gifts that “ran the gamut,” said prosecutors, from the “routine” to the “peculiar,” the “audacious,” the “self-indulgent,” and the “truly astonishing”—including lavish meals, fancy hotel rooms, a Rolls-Royce, a yacht, rare antiques, oriental rugs, and a down payment on a luxury home. “They say money and power can be seductive—well, there was a little mating dance between Wade and Cunningham,” says a former MZM executive vice president, Richard Peze. “And it got absolutely out of control and resulted in the worst possible outcome for both these individuals.”

Rep. Randall “Duke” Cunningham was at the heart of the scandal, collecting millions of dollars in bribes, that finally brought it crashing down.

An outcome, those who knew Wade early in his career say, that could have been easily predicted. In 1985, he took a minor bureaucratic job at the Pentagon, but by 1992, he had moved up to become a program manager there for a small tactical intelligence system slated for deployment to Europe. “The seeds of his greed were already apparent in that time frame,” says Peze, who worked in that office briefly with Wade. “He was demanding favors from the contractors he was working with.” It started off with penny-ante stuff: One contractor complained that Wade pressured him for upgrades from coach to first class on a trip to Europe, sources say.

The following year, Wade left the Pentagon, became a con-



THE DUKE-STIR.
Before his fall, Rep. Randall “Duke” Cunningham greeting supporters in his home district, around San Diego

sultant, and created MZM Inc. By then, he was divorced from his wife, Colleen—his college sweetheart—after nearly eight years of marriage. After news stories broke about Wade’s corrupt activities, Colleen, now a Baptist minister in Virginia, said that she never really knew the handsome poli-sci major she fell in love with. To her, Wade was just a dutiful government employee and a caring father to their three children, Matthew, Zachary, and Morgan. After the divorce, Wade didn’t bother telling Colleen that he had named MZM after them. It was an early glimpse into the extraordinary secrecy and compartmentalization that would later become his hallmark.

MZM didn’t report much revenue for the first six years of its existence. But then a confluence of events, capped by the 9/11 attacks, propelled Wade and MZM to center stage. Wade married a second time; his new wife, Christiane Shipley, came from a family of prominent investment bankers who trace their lineage in Maryland back to 1668. MZM employees describe Christiane as gracious, kind, smart, honest—a class act.

Wade’s first break came in 2000, after Pentagon auditors documented problems on a contract involving Wilkes’s com-



SANDY HUFFAKER—AP

pany, ADCS. A senior Pentagon official had earlier discovered \$750,000 in fraudulent billing for work done by ADCS—scanning and digitizing maps of the Panama Canal zone, which was to be handed over by the United States to Panama. The Pentagon inspector general wrote that two congressmen, including Cunningham, “pressured” Defense Department officials into funding the Panama project. Luque, Wilkes’s attorney, says he was only a subcontractor, and “he knows his [bills] weren’t improper.” Nonetheless, Wilkes became persona non grata at the Pentagon and soon hired Wade, who was introduced to him by a military official, as his public face, in order

also got 19 MZM employees or their spouses to make 39 different contributions in their names, which he then reimbursed—in violation of federal election laws. Virginia Rep. Virgil Goode, a Republican, received \$46,000 in such “straw contributions,” and Florida Rep. Katherine Harris, also a Republican, got \$32,000. Wade, who didn’t tell the lawmakers he was reimbursing his employees, asked them for favorable consideration of several defense projects, prosecutors say. Wade had other Republican lawmakers in his sights, as well. He tried to cultivate Mississippi’s Trent Lott, then the Senate majority leader, by sending him expensive seven-fold ties, and North Carolina’s Elizabeth Dole, by proffering a marble bust. Both declined the gifts.

In all, Wade gave nearly \$305,000 in campaign contributions—98 percent of it to Republicans. “It’s a reflection,” says Sheila Krumholz, acting executive director of the Center for Responsive Politics, “of the connections MZM had built.” Compared with what major corporations give to candidates, MZM’s contributions were relatively minor. But the money was so finely targeted that it resulted in a bonanza for MZM.

And the success was evident in nearly every corner of MZM’s elegant “World Headquarters,” a historic five-story Victorian brownstone in Washington’s artsy Dupont Circle neighborhood. In the building’s elegant entry foyer, a gleaming Steinway baby grand piano greeted visitors. A vanity wall hung with photograph after photograph showed Wade doing the grip ‘n’ grin with cabinet secretaries and members of Congress, including, of course, Cunningham. Upstairs, Wade had his own

A week later, Wade wrote a check for \$50,000, which prosecutors say he laundered through a mortgage company controlled by John Michael, a New York financier. Michael and his uncle by marriage, Thomas Kontogiannis—a Long Island businessman and frequent contributor to Republicans—have been named as the third and fourth “unindicted coconspirators” in the Cunningham case. Court records show that Kontogiannis, a naturalized U.S. citizen from Greece and a multimillionaire, has two prior criminal convictions involving bribery. Cunningham interceded on Kontogiannis’s behalf with a New York prosecutor and even found him a law firm to explore the possibility of a presidential pardon.

“Somebody.” In November 2001, just weeks after his father’s death, Wade took Cunningham shopping. The two men went on quite a spree, picking out antique nightstands, a leaded glass cabinet, a buffet, four armoires. When Wade went to pay the \$12,000 tab, federal prosecutors say, Cunningham “wandered to a different area of the store.” Afterward, Cunningham “expressed his appreciation” for Wade’s “willingness to bribe him,” prosecutors say, and told Wade he would make him a “somebody.” Wade’s business records show that, with what prosecutors called the “green light” from Cunningham, the value of MZM’s government contracts soared, from “less than a million dollars per year, to tens of millions per year.”

According to U.S. Attorney Kenneth Wainstein in Washington, who is leading the MZM investigation, Wade admitted pressuring MZM executives to make campaign contributions. He

and it was the lawmker’s “naked avarice,”

to get more contracts, law enforcement sources say. That same year, Wade began his corrupt relationship with Cunningham.

All of this happened, oddly enough, around the same time that Wade experienced a huge personal loss—the death of his mother, Pearl, in April 2000. In September, Wade gave \$5,000 to Wilkes’s company PAC. Later that fall, just weeks before he received \$10,000 from his mother’s estate, MZM gave Cunningham’s political action committee \$5,000, according to estate and campaign records. The following January, Wade received an additional \$40,000 from his mother’s estate for “supplemental needs” for his ailing father’s care, records show. Between March and December, Wade and MZM gave \$11,000 to Cunningham’s PAC. Wade’s father died October 19. A week later, Wade established the MZM political action committee.

oval office, the floors covered with antique Persian rugs. The office boasted hand-carved, century-old pieces, including a beautifully stained desk, heavy armoires, servers, and credenzas with fluted Corinthian detailing. Light streaming in through big bay windows caressed the handsome oil paintings of clipper ships.

"Scripts." Because of his seat on two key committees, defense appropriations and intelligence, Cunningham, Wade knew, could "make or break MZM," said prosecutor Wainstein, so he showered the lawmaker with gifts. January 2002 saw the delivery of a leather sofa and sleigh bed (\$6,632); February brought two antique Louis Philippe and Restoration period commodes (\$7,200). April was a big month. There was the \$13,500 to be used toward the purchase of a 1973 blue Rolls-Royce Silver Shadow, and an additional nearly \$18,000 for servicing the vehicle. (Cunningham would later "sell" the Rolls back to Wade, but he never transferred real ownership, prosecutors said.)

In exchange, "year after year," federal prosecutors in San Diego wrote in one devastating passage, Cunningham consistently favored Wilkes and Wade "when forwarding special appropriation requests." Not only that, the prosecutors added, Cunningham "overrode" other lawmakers in deciding which military programs should be funded, "lobbied" to cut funding for competing programs, and "pressured" and "bullied" Pentagon officials into selecting Wade and Wilkes for contracts and giving them "the maximum amount of public funding." The contractors not only specified their coveted programs to Cunningham but even "wrote his actual requests for him" that amounted to "scripts," the prosecutors said. "In short," they concluded, "Cunningham acted exactly the way one would expect of a congressman who had been bought for more than \$2.4 million."



HOME SWEET HOME. The Del Mar, Calif., home Wade purchased from Cunningham—at a cool \$700,000 loss.

to receive up to \$225 million in contracts from Pentagon agencies without competitive bidding. The BPA, said Wainstein, amounted to a "blank check drawn on taxpayer funds." Investigators are now trying to determine whether Wade won the BPA illegally. Wainstein said Wade's "belt and suspenders approach" was to then bribe contracting officials in the Defense Department to ensure that "MZM could milk that account without interruption."

As the congressman's demands grew more audacious, and the contractor's lifestyle became more ostentatious, internal MZM documents show how Wade became consumed by thoughts of money, power, and secrecy. "Periodically," Wade wrote in a January 2002 internal memo titled "Public Description of MZM Inc.," "callers, visitors, or acquaintances will ask what kind of business we are in." In responding, Wade wrote, "it is important that we be consistent, yet we should not be giving out unnecessary information." In his "Letter from the President," in the first issue of the company newsletter, the *Sentinel*, published that summer, Wade marveled

at how MZM had tripled in personnel and revenue in the first six months of 2002. The newsletter included a detailed article about federal campaign contribution laws, and a small article by Wade's personal aide, Jenny Lau, about the best-selling management book *Who Moved My Cheese?* Lau noted that "the moral of the story" was to adapt in life and find "new sources of cheese, when the cheese we have runs out."

Wade was eager for new sources of "cheese." A tall, thick-set man, Wade reminded some MZM employees of the character Francis in *Pee Wee's Big Adventure*. When Pee Wee refuses to hand over his shiny red bicycle on Francis's birthday, Francis pouts: "My father says, 'Everything is negotiable,' Pee Wee."

Wade paid top dollar to bring the best and brightest to MZM,

For the better part of a decade, "Cunningham, in effect, erected a 'For Sale' sign upon our nation's capital," federal prosecutors in San Diego wrote.

There was nothing subtle about Wade's quid pro quos. In July, MZM got a \$140,000 contract to provide computer programming for the Executive Office of the President. The next month, Wade paid \$140,000 for the Buoy Toy, which Cunningham renamed the Duke-Stir. ("I bought the boat," he said later, "not the lifestyle.") Wade parked the 42-foot yacht in Cunningham's boat slip for the lawmaker's use. "Cunningham grew to expect luxury," the prosecutors in San Diego wrote. "His coconspirators eagerly plied him with it."

And it paid off, handsomely. A month after he bought the yacht, Wade was awarded a five-year special contracting vehicle called a Blanket Purchase Agreement that allowed MZM

and he had a sales pitch few could resist. Tie askew, hair tousled, he'd sit behind his big desk, lean back, palms folded behind his head, and ask a prospective hire, often a government official, "How much do you make?" When the person told him, Wade would shake his head and mutter, "No, I can't do that—I just can't pay you so little money." He'd then toss out a huge salary offer and bask in the reaction. Wade then often sweetened the pot with fat signing bonuses and inflated titles, personal loans, or student loan payoffs. Wade usually demand-

ed an immediate answer—it was usually a “yes”—and would then throw a binder containing MZM’s highly restrictive employment contract, full of noncompete clauses, in front of his new employee. “You start tomorrow,” he would declare.

Over time, Wade hired the crème de la crème of former government agents, intelligence officers, and soldiers. “The level of people that he had,” says Melkessetian, “it was a government within the government.”

Wade’s most important conduit to the military and intelligence establishment was a retired 33-year Army veteran and three-star general named James King, who joined MZM soon after the 9/11 attacks. King had led the National Imagery and Mapping Agency and served as the principal intelligence adviser to Defense Secretary Donald Rumsfeld and the Joint Chiefs of Staff. King was a workaholic and taskmaster with a reputation for being tough on subordinates. His credibility gave Wade ready access to high levels of the Pentagon. At MZM, King was respected, feared, and disliked. “He smiled a lot,” says a former MZM official. “But he didn’t smile with his eyes.” King had a carefully cultivated “aw shucks” demeanor and told employees to “Please, call me Jim.” But his aides made it crystal clear that King should only be called “General.” One of King’s favorite aphorisms: “There are no lies; the truth keeps changing.” King, who half-sardonically referred to Wade as “President Wade,” spent long periods of time behind closed doors with his new boss, MZM employees say. “He was very close to Mitch,” says a former executive.

“Given the concerns I had personally, it’s hard to believe he didn’t have similar misgivings about what Mitch was doing.” According to knowledgeable sources, the Federal Election Commission is investigating a number of MZM-related campaign contributions, including \$12,000 that King and his wife made to Representative Goode. Lawyers for King declined to comment for this story. But one knowledgeable

of defense on military affairs, including counterintelligence policy. Over the past four years, CIFA spent about \$1 billion on counterterrorism and counterintelligence initiatives, the majority of which were outsourced to contractors, including Wade. “Everything he had,” says a former MZM executive, referring to Pentagon contracts, “came from CIFA.”

Wade plied CIFA employees, MZM sources say, with meals, prime seats to ballgames, and invitations to the annual company Christmas party. Soon after CIFA was created, Burttt visited MZM and gave a talk about his new brainchild. “Mitch went out of his way to make sure Cunningham came and sat in the front seat,” says a former senior MZM executive. “It was a message that he has the Duke in his pocket and you had better do what he says.”

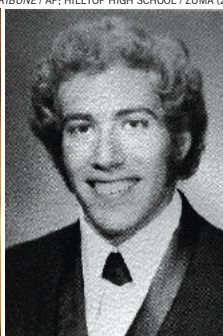
But Burttt was not in Wade’s pocket. He was frustrated with MZM’s clout, says Cynthia Bruno, MZM’s program manager for special defense programs, but he needed Wade’s contract-generating abilities to help his fledgling agency get funding, and he viewed Wade as an unavoidable part of the equation. “My impression was Burttt didn’t like Mitch,” says Bruno, “but thought that he was a necessary evil.”

In the fall of 2002, Burttt asked a team of private contractors, including MZM, to evaluate CIFA’s unclassified and classified networks, installed by MZM’s prime contractor, Gray Hawk. Defense Department rules require that even its unclassified day-to-day business must be handled within the Pentagon’s secure .mil domain. But the evaluation team learned

that Gray Hawk had built a .net commercial-type intranet instead. Separately, the team also discovered that most CIFA intelligence analysts lacked access to classified intelligence data, including situation reports of potential terrorist threats, stored in secured classified networks. “My comment was,” a team member told *U.S. News*, “if these networks were airplanes, they would be crashing.” But senior Gray Hawk officials, who were



SUCH GOOD FRIENDS. Brent Wilkes (above, bottom) was high school buddies with Kyle “Dusty” Foggo (top), later No. 3 man at the CIA.



There was nothing subtle about Wade’s quid pro quos. The MZM earmarks followed hard on the heels of the bribes that flowed into Cunningham’s world.

source denied that Wade and King were close. “The heavy-drinking crowd—that was Wade’s circle, and the heavy-duty Mormon that Jim King was,” the source said, “they never had anything in common.”

“Necessary evil.” One of King’s key functions was to leverage MZM’s ties to CIFA, the Pentagon agency created in 2002 to develop and coordinate counterintelligence policy within the Pentagon. From CIFA’s inception, King was an adviser to Burttt, who became the agency’s first director and was instrumental in its creation. According to MZM sources, at Wade’s urging, King advocated for CIFA’s expansion at meetings of the Defense Science Board—which advises the assistant secretary

nervous and angry about the evaluation, repeatedly blocked the team members from giving Burttt an honest assessment, the team member said.

Around this same time, prosecutors say, Cunningham earmarked \$6.3 million for projects “to benefit” CIFA in the fiscal 2003 legislation and told a fellow congressman not to make any decision that would hurt “his two top priorities,” namely, Wade and Wilkes. But when it looked as though Cunningham would get only a \$5 million earmark, his staffers knew he would be fu-

rious. "I am under my desk ducking and cowering," one wrote. Another later said that Cunningham "stormed into his office, p - - ed, and said he might just as well become a Democrat. I thought that was the end of it until he came out and said he wants to take \$1 million from some other big-ticket item and put it back on Mitch's. He wants it at six" (million dollars).

The profit from the deal was more than 850 percent, prosecutors say, adding that MZM first attempted to deliver an even cheaper system that would have given the company a profit of 1,700 percent. "Adding insult to injury," the prosecutors in San Diego said, the final system was "never installed" because it was "incompatible" with CIFA's network system and "remains in storage."

MZM had acquired another, similar computer system, ostensibly to support the CIFA mission, but that somehow wound up in the MZM basement, under Richard Peze's management. "There was never any CIFA information stored on that hardware," says Peze. And although the computers had a huge storage capacity, their servers were not powerful enough to process any of the data. "Wade used to speak of those computers as being worth \$6 million," Peze says. "I knew there was no way in the world they were worth anywhere near that." MZM's information technology program manager, Scott Rubin, said that an investment of \$150,000 in new hardware could transform the machines' capabilities. "But Mitch wouldn't give me the money," Rubin recalls. "He just wanted the machines to

Trolling for Greenbacks in Baghdad

In the spring 2003 issue of the MZM newsletter, the *Sentinel*, Mitchell Wade extended prayers to American troops around the world and thanked his employees for supporting the troops in Iraq at this "perilous juncture." But MZM may have played a role in getting troops to Iraq, according to a national commission that investigated the intelligence failures that led to the war. The commission blamed the Pentagon's National Ground Intelligence Center (where Wade had analysts on contract through earmarks) that handled much of the military's prewar analysis of whether Saddam Hussein had developed nuclear precursor capabilities. The report didn't single out the MZM analysts but said that NGIC had "in particular displayed a disturbing lack of diligence and technical expertise."

Separately, in March 2003, MZM received a \$1.2 million contract to send a team of 21 Arabic linguists to Iraq to serve as interpreters and assist the Office of Reconstruction and Humanitarian Assistance,



IN COUNTRY. CPA Chief Bremer with Gen. David Petraeus. Haig Melkessetian (rear) was assigned to the protective detail.

which later became the Coalition Provisional Authority, or CPA. Haig Melkessetian was one of the linguists and also served on the protective detail of the CPA head, Ambassador Paul Bremer. Melkessetian says that half the linguists Wade assigned to the project did not speak fluent Arabic, and one contractor was a *Russian* linguist who spoke no Arabic.

When Melkessetian—who has worked for U.S.

military and intelligence agencies extensively in the Middle East—returned from Iraq, he talked to Wade about the growing counterinsurgency problems. "I sent you there to make money," Wade responded. "I didn't send you there to fix Iraq."

"Fantastic job." In 2004, Wade hired a prominent Iranian businessman and Canadian resident named Behrooz Behbudi, a big contributor to the Republi-

can Party, as his director of Middle Eastern development, paying him \$15,000 a month to consult on Iraq. Behbudi says Wade wanted him to help redesign the Central Bank of Iraq, destroyed in the war. The bill: \$15 million. "We would have done a fantastic job finishing it," says Behbudi. "Our prices were very, very competitive." Wade, by then in a financial crunch, refused to pay.

Wade bragged about his military ties, Behbudi says: "He said he had a phone directly connected to DOD. He told me, 'My office is an extension of the Defense Department.'"

Iran was also on Wade's mind. "He came to me and said, 'I'm very interested,'" says Behbudi, "in removing the mullahs." In April 2004, Wade and Behbudi formed the Iranian Democratization Foundation. Their timing was perfect. In November 2004, Congress approved \$3 million for Iranian democratization efforts. But Wade and his partners eventually dissolved the foundation because of personal differences. Even right up till the end, though, Wade still had his finger on the pulse of Congress and the Bush administration. This year, Secretary of State Condoleezza Rice asked Congress for \$75 million to promote democracy in Iran. —C.R.

look like they were doing something.” Thanks to this and other schemes, MZM’s 2002 revenues soared.

The next year was MZM’s 10th anniversary. Feeling sentimental, Wade had anniversary stickers affixed to all MZM correspondence, and he declared the company’s growth “remarkable.” At the annual MZM picnic, flying high, cigar in hand, Wade interrupted an employee softball game, grabbed a bat, and sauntered up to the plate. “He hit the ball like he’s Babe Ruth,” Rubin remembered. “Then without even running for first base, he ordered, ‘Give me another one.’ It was like, ‘This game is mine; it’s my rules; and, by the way, I don’t have to run.’”

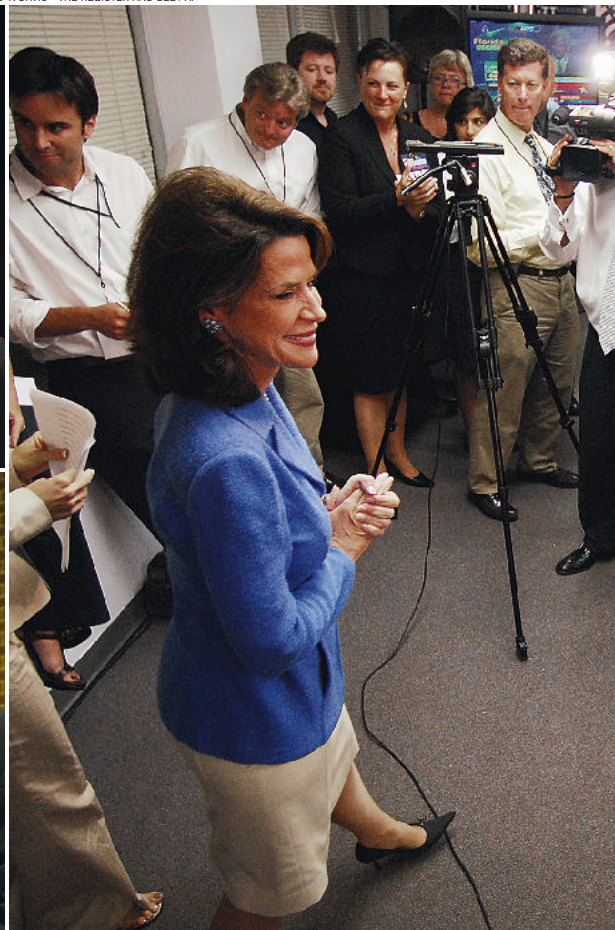
Flush with fat government contracts, Wade was flamboyant in nearly everything he did. He spent thousands of dollars building up his image as a patriot and philanthropist, sponsoring a breast cancer walk, establishing a fund to support the families of soldiers killed in Iraq, and, along with his wife, starting a nonprofit called the Sure Foundation, in the MZM building, to benefit children in war-torn nations. Cunningham’s wife and daughter were on the Sure board. Investigators are now trying to learn whether Wade—unbeknownst to his wife and others—used the foundation to launder MZM profits.

Nothing symbolized Wade’s showmanship and affluence like Christmas, when employees received gifts of spiral-cut ham and tiered boxes of Godiva chocolates in the mail. The Wades hosted a black-tie gala at the Watergate or the Four Seasons hotel, complete with MZM carolers, a jazz quartet, and one year even a 19-piece swing band. Employees sat at flower-and-candle-bedecked tables, laden with Cristal champagne and Christmas ornaments from Tiffany for the wives. MZM employees still remember with awe the size of the shrimp hors d’oeuvres. There were expensive door prizes, including cameras, flat-screen TVs, and exotic vacation packages. After dining, employees took turns paying tribute to the boss.

Cunningham was a regular fixture at the Christmas galas, as were top defense officials, other members of Congress, and veterans from the Iraq war, to whom Cunningham once presented rare silver dollars. After imbibing several of the select wines that he required Wade to provide, Cunningham recounted “stories of courage and perseverance” of how he shot down four enemy planes during the Vietnam War, according to a gushing account in the *Sentinel*, “before a rapt audience.” But the story eventually lost its poignancy for some in that audience, who noticed how Cunningham always cried on cue at the same points in the narrative.

But not all was as it seemed in Wade’s and MZM’s glittering new world. At the Pentagon, and at the CIFA offices in particular, disenchantment with the company was growing. Wade had inserted so many of his people in strategic positions at CIFA that senior government officials were becoming uncomfortable. A case in point: MZM’s general counsel, Michael Woods, and Bruno were working for Burt and Hef-

LEFT, FROM TOP: JEFFREY MACMILLAN FOR USN&WR; RICHARD T. DAVIS—THE REGISTER AND BEE / AP



feron with the title “special assistant.” Woods declined to comment for this article, but Bruno says she and Woods walled themselves off from all contracting decisions and MZM matters. Their job, she says, was not to provide legal advice but to “narrow down issues of concern” to the Pentagon’s Office of General Counsel. “So while Michael and I were lawyers and had legal experience,” says Bruno, “we weren’t practicing law.” But one former MZM executive says the DOD general counsel had “massive heartburn” at the perceived conflict of interest and was worried that MZM contractors were “in essence acting as CIFA’s general counsels,” and tried to move quick-

“He hit the ball like he’s Babe Ruth. Then with

ly to replace Woods and Bruno with in-house counsel.

Wade had lots of other MZM contractors—many of them retired government officials or “govvies”—sprinkled throughout CIFA. “Wade had his ‘in’ everywhere,” says a senior MZM executive. “He ran it as a clandestine operation against a company you’d want to infiltrate.” At an MZM Christmas party, Wade asked his facility security officer to sit at the CIFA table and report back on conversations she overheard, according to MZM sources.

There were other problems. Burt, Hefferon, and other CIFA officials were unhappy about MZM’s sky-high labor rates. A CIFA employee collared Peze at an agency picnic one day. “We don’t see you so often,” the official told Peze, “given that you are billing 80 hours a month to CIFA.” Peze was flabbergast-

FROM LEFT: STEVE NESIUS—AP; JEFFREY MACMILLAN FOR USN&WR



CASTING A NET. Among the lawmakers whom Wade attempted to court were Republican Sens. Trent Lott and Elizabeth Dole and Reps. Virgil Goode of Virginia and Katherine Harris of Florida. Lott and Dole declined to accept gifts from Wade, who directed thousands in campaign contributions to Goode and Harris—without telling them that the money had been raised illegally.

and Cunningham. Among other favors, Wade sold Cunningham a 1999 Suburban for \$8,000 below market value. When his chief of staff confronted him, federal prosecutors say, Cunningham “furiously slapped his hand on his desk, twice, and yelled at his staffer to ‘stay the f--- out of my personal business.’” In late fall of 2003, Wade bought Cunningham’s Southern California home for \$1.5 million so that the congressman could purchase a bigger mansion.

Wade’s investment paid off handsomely. In mid-December, according to federal prosecutors, Wade told Pentagon officials that he had \$16.1 million in “mandate money” for “data storage” that he wanted to spend on a second-floor conference center for CIFA. “Wade made it perfectly clear to the DOD officials that the money was his to spend, not theirs—and not on projects that they [DOD] determined were in the DOD’s best interests,” said prosecutors in Cunningham’s pre-sentencing documents. On Feb. 20, 2004, Wade prepared a letter on Cunningham’s congressional letterhead, which the congressman signed, thanking Pentagon officials for supporting the “collaboration center” program. Cunningham gave Wade “numerous blank sheets” of his congressional stationery, prosecutors said, “in order to enable Wade to draft letters on his behalf.” In March, a Pentagon official refused to release the first \$12 million of the earmarks or give “blanket approval” to Wade’s schemes “with very

little accountability or oversight that I can see.” But using Cunningham’s clout, Wade “successfully pressured” the official’s supervisors to release the money, prosecutors said.

Wilkes and Wade, prosecutors say, then supplied substandard “off the shelf” hardware, for about \$1.5 million. “We complained about that to the contracting officer,” Hefferon told *U.S. News*, “and said they owed us approximately \$4 million.” MZM sources say Wade brought Cunningham unannounced to CIFA headquarters to put the squeeze on Burtt and Hefferon, which made them furious. “I talked to him, as did the contracting officer and the chief of staff,” says Heffer-

ed; he was billing only 40 hours a month, he thought. “I confronted Wade about that,” Peze recalled. “He said, ‘There has been a change. We just didn’t tell you yet.’” Peze was outraged. “It was embarrassing for me personally to hear from CIFA officials that the contract was being billed 80 hours in my name.”

“Chinese wall.” Some government officials and MZM contractors blamed King, the former three-star general and MZM’s CIFA program manager, for the company’s bad image and resented what they perceived as his heavy-handedness. King, meanwhile, was starting to question Wade’s business practices and “building a Chinese wall” between him and his boss, two

out even running for first base, he ordered, ‘Give me another one.’ It was like, ‘This game is mine; it’s my rules; and, by the way, I don’t have to run.’”

former MZM officials say. Wade abruptly removed King as the program manager. King retreated briefly to MZM headquarters, then landed a position as an MZM consultant to Gen. Michael Hayden, then the head of the National Security Agency, now the director of the CIA. A former senior MZM executive says King was honest and ethical, and he believes that King was relieved to break away from Wade and the mounting problems at CIFA.

Despite the problems, it was still business as usual for Wade

on, “and told him it was inappropriate.”

No matter. The collaboration center deal resulted in a big payoff for Cunningham: Prosecutors say Wilkes wired \$525,000 to Kontogiannis, the Long Island businessman, who used it to pay off Cunningham’s \$500,000 second mortgage for his new home in Rancho Santa Fe. Wade sent a check via Federal Express for \$115,100 to pay for Cunningham’s capital-gains tax on the sale of his old house. Wade paid \$11,393 to move Cunningham’s furnishings from his condominium in Arlington, Va., which prosecutors say “was literally stuffed” with furniture and antiques. Cunningham signed the packing slip as an employee of MZM.

In August, Wade wrote two checks totaling \$500,000 to

pay off the remainder of the mortgage on Cunningham's new mansion. He wrote the checks to Cunningham's military memorabilia business. Wade finally sold Cunningham's old house, after it sat on the market for eight months, at a \$700,000 loss.

It was well worth it, however, because that year, MZM obtained \$65 million in Pentagon business. "It was bizarre," a federal law enforcement official told *U.S. News*. "They had wildly diverse contracts; there was no capability for some of the stuff they got; there was no coherence to who they were. It was the tail wagging the dog."

Wade was building up the firm so rapidly that MZM's security personnel were log-jammed making new employee identity cards. The editors of the *Sentinel* had to add an extra page to list the new hires each month, and the employee birthday list kept growing longer. But along with the explosive growth came change, in MZM and in Wade. "Early on he was inclusive, almost like an uncle," says IT program manager Rubin. "By 2004, he was like an alien, cold, distant."

Perhaps it was because Wade was going broke, thanks to the exorbitant salaries, the lavish lifestyle, Cunningham's ceaseless demands for money, and an utterly lousy accounting system. Wade had a crude, money-in, money-out, debit system for MZM. He locked the checkbook in a safe in his office and handwrote every single check. "He was a one-man operation," says one knowledgeable source, "to the end."

"Rich man." At the end of each month at MZM, it was pure chaos. "There would be bills spread all about, he would be screaming and yelling about how much money we were spending, but he was the only one spending all the money,"

Wade spent a weekend packing boxes. Documents were shredded in a room marked "Stay Out." Wade began cooperating with investigators soon after that.

says a former senior executive. "He wanted so much to live the rich man's life, and he couldn't stop himself."

By late 2004, morale was at an all-time low. But many MZM employees were afraid to leave, because they had heard Wade had messed with the security clearances of several employees whom he had forced to resign. In spring 2004, Wade asked Melkessetian to return to Iraq as the CIFA liaison. Melkessetian said no, for health reasons, and says he was asked to leave the company. For two years, says Melkessetian, prospective employers told him that they were unable to locate his security clearance. The day Wade pleaded guilty, Melkessetian says, his clearance popped up

CHARLIE ARCHAMBAULT FOR USNEWS



MZM INC. The elegant corporate headquarters exuded wealth.

again. "The evidence clearly implies that Wade retaliated against employees," says Melkessetian's attorney, Mark Zaid, "by sabotaging their security clearances."

If Wade and Cunningham had their way, last year would have been another big year. Instead, all hell broke loose. On June 12, 2005, the *Copley News Service* and *San Diego Union-Tribune* reported that Wade had taken the \$700,000 loss on the Cunningham house. It wasn't long before the FBI and the Internal Revenue Service were on the case. In late June, Wade spent a weekend at MZM packing boxes. His employees later reported that documents were shredded in a room with a sign on the door that said "Stay Out." On July 1, federal investigators simultaneously raided MZM, Cunningham's ranch, and CIFA, seizing documents and computer hard drives. Soon after, Wade began cooperating with the feds.

That was the beginning of the end. Wade withdrew money from MZM coffers to pay for his high-priced de-

fense team, then he had to scramble to get tens of thousands of dollars in loans against invoices to make payroll, former MZM employees say. Looking back, there remains one more intriguing question: Did Wade turn Cunningham into a bribee, or did Cunningham make a briber out of Wade?

Eventually, King, the former general, came back from his exile at the NSA and took over the company. In August, Veritas, a venture capitalist firm, purchased "selected assets" from MZM for \$20 million and named the new company "Athena Innovative Solutions Inc." after the goddess of war and wisdom. "MZM has been reflagged," says Melkessetian, "like the pirates in the Caribbean reflagged ships that they captured." At his plea hearing in February, Wade expressed

remorse for his actions. "I feel deep sorrow for the harm I have caused my family, friends, and former colleagues," he said. Embittered MZM employees say it's all a self-serving act. "He's not repentant at all," says a former executive. "In his mind, it's, 'I got caught.'" ●

With Edward T. Pound, Danielle Knight, Carol S. Hook, Monica M. Ekman, and the U.S. News library staff
To contact the author: cragavan@usnews.com