The Rise and Fall of Global Dreams

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By SIMON ROMERO and GERALDINE FABRIKANT The New York Times

GARY WINNICK knew it was a dinner fit for a king when one showed up. Constantine of Greece was among the 240 luminaries who dined on tournedos of Aberdeen Angus that November evening in 1999 at Claridge's Hotel in London.

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The elaborate event, paid for by Global Crossing, the communications company founded by Mr. Winnick, included a stirring speech on the role of a late-20th-century superpower by William S. Cohen, then the United States secretary of defense, who had flown 16 hours from Chile to dine with Mr. Winnick and his guests.

Celebrated by such figures and buoyed by Global Crossing's soaring stock, Mr. Winnick, a recently minted billionaire, seemed to have the world in his palm. Who would have guessed that a kid from Roslyn, N.Y., would one day rub shoulders with Margaret Thatcher? "One little idea," he once marveled to associates, "and look what's happened to me."

He may no longer want the attention.

In the last month, Global Crossing has collapsed and Mr. Winnick its chairman has troubles aplenty. His reputation has been shattered and his dream of operating a worldwide fiber optic network is in tatters. The fortune he amassed before Global Crossing filed for bankruptcy protection in late January has elicited a chorus of criticism from shareholders who have seen their investments in the company disappear.

The Securities and Exchange Commission (news - web sites) and the Federal Bureau of Investigation are investigating Global Crossing's dubious

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accounting. Employees, investors and corporate governance experts have blasted Mr. Winnick's management of the company. "He was the chairman and did not run the company," Mr. Winnick's spokesman responded. "The chief executive does."

Mr. Winnick has some supporters. Stephen F. Bollenbach, the chief executive of the Hilton Hotels Corporation, called Mr. Winnick "a good guy." Arnold Kopelson, a Hollywood producer, cited his generosity and his warmth.Others say they have enjoyed working with him.

Still, he has many detractors. Some have criticized a style that associates describe as volatile and arrogant. Others point out that a large chunk of the $734 million he realized from Global Crossing stock came from share sales that occurred after the company's troubles became clear.

Perhaps no one should have been surprised by his fall. To hear many of Mr. Winnick's associates tell it, excess and controversy have periodically played roles in his career since his days at Drexel Burnham Lambert, the failed investment bank famed as the home of Michael R. Milken.

As head of the convertible bond desk in the Los Angeles office of Drexel, where Mr. Milken ruled as the king of junk bonds, Mr. Winnick developed a reputation for being condescending and showy. He was the kind of guy who "bragged about his trades," said one co-worker, who spoke on condition of anonymity.

A spokesman for Mr. Winnick denied the portrayal.

Mr. Winnick, who is 54, left Drexel in 1985, but controversy followed him. In 1989, he received immunity after agreeing to testify against Mr. Milken, who served time in prison for securities and reporting violations. Mr. Milken, through his spokesman, declined to comment. A spokesman said Mr. Winnick had never testified against Mr. Milken.

As his affluence grew, Mr. Winnick rarely shied away from self-promotion or ostentatious displays of wealth, former associates say. He owns a palatial estate in the Bel Air section of Los Angeles said to be worth $94 million. He has a luxurious office in Beverly Hills. His fortune has given him access to several rarefied power circles in Los Angeles and Washington. Both former President George H. W. Bush and the Democratic fund-raiser Terry McAuliffe reaped small fortunes from Global Crossing stock holdings.

"My new best friend is David Rockefeller," one associate remembers Mr. Winnick saying after agreeing two years ago to donate $5 million to the Museum of Modern Art, where Mr. Rockefeller is chairman emeritus.

Before Global Crossing's decline, Mr. Winnick showered his beneficence on friends like Lodwrick Cook, the co-chairman of Global Crossing (Mr. Winnick's own title is chairman, not co-chairman) and a former chief executive of the Atlantic Richfield Company, who received a Rolls- Royce from Mr. Winnick as a personal gift. Even critics say he is extremely charitable.

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Mr. Winnick's beginnings were modest. He boasts of having arranged his marriage for Christmas Eve of 1972 at the Swan Club, a catering hall near Roslyn, in part because its Christmas tree and tinsel saved him money on decorations. After graduating with a business degree from Long Island University, he took a job selling restaurant equipment.

He quickly went to Wall Street as a trainee at Burnham & Company, a precursor to Drexel. But Mr. Winnick was never considered a star at Drexel, according to former executives who worked with him there.

While a salesman in Drexel's Manhattan office, Mr. Winnick was supposedly scandalized to learn that Mr. Milken, when the two men were colleagues, had charged clients much more than he had for the same work. He took the matter up with Mr. Milken's boss but nothing came of it, according to a passage in "Den of Thieves," the 1991 book about Drexel by James B. Stewart.

Mr. Milken ultimately became Mr. Winnick's boss, and Mr. Winnick abruptly left Drexel in 1985. A spokesman for Mr. Winnick said he left to start his own business, but former colleagues of the two men say they still believe a blow-up preceded the departure. Mr. Milken's spokesman declined to comment.

In any case, Drexel helped finance Mr. Winnick's first independent venture, Pacific Asset Holdings, which eventually evolved into the Pacific Capital Group.

In the 12 years that Mr. Winnick ran the privately held Pacific, its investments produced mixed results. Pacific bought RB Furniture in 1988 for $53 million. The same year, it sold a 35 percent interest to a former Drexel client, the First Executive Corporation, in exchange for $53.5 million in junk bonds, and the rest to other investors for a slight profit, a spokesman for Mr. Winnick said. Two years later, the company filed for involuntary bankruptcy.

Also in 1988, Pacific acquired Ortho Mattress Inc., then the nation's largest factory-direct bedding merchant. Ortho filed for bankruptcy three years later, after Mr. Winnick had sold his interest in the company, but his spokesman declined to say how he fared.

By 1997, the year Mr. Winnick founded Global Crossing with three associates, he had scored at least one success when Pacific Capital sold its controlling stake in OpTel Inc., which provides satellite TV services to apartment buildings, to Le Group Videotron for $100 million. His company had invested $12 million.

Some deals have yet to pay off financially but have helped expand Mr. Winnick's web of influence and investors. In 1996, for example, Pacific joined with the real estate departments of Morgan Stanley and Goldman, Sachs, as well as Union Labor Life Insurance, to buy Playa Vista, a West Los Angeles real estate development. Though DreamWorks SKG, the entertainment company owned by Steven Spielberg, Jeffrey Katzenberg and David Geffen, had once planned a major development there, it never got off the ground.

But Mr. Winnick's deals were about to become less relevant. Pacific Capital grew interested in Atlantic Crossing, a small telecommunications effort that was planning to lay fiber optic cable under the Atlantic Ocean to carry the increasing volume of Internet traffic.

Gathering investors for the venture, Mr. Winnick tapped Union Labor Life Insurance and called on former Drexel associates who had become executives at the Canadian Imperial Bank of Commerce.

Canadian Imperial's initial $31 million investment, which was coordinated by Dean C. Kehler, Andrew R. Heyer and Jay R. Bloom, eventually generated more then $2 billion for the bank. Analysts say each of those men made a small fortune from investments in Global Crossing.

In August 1998, Global Crossing went public at $12.75 a share, and in February 2000, just before the Internet bubble burst, its stock closed at a high of $61.8125 a share.

In the interim, not only did Mr. Winnick become wealthy, but so did many people close to him, including his housekeeper and a friend, the architect Charles Gwathmey.

If Mr. Winnick was impulsively generous to his friends, he was also an impulsive and some say difficult manager, who would call meetings while he worked on his treadmill and routinely dismiss managers.

Lacking experience in operations, he hired and then dismissed four chief executives in four years, offering each of them lucrative signing deals and often giving them lucrative separation agreements. Two former chief executives still have strong ties to Global Crossing. Thomas Casey is a member of its board and John Scanlon is chief executive of Asia Global Crossing, its main subsidiary.

Mr. Winnick's personal extravagance set the tone for what several former employees say was undisciplined and reckless spending at Global Crossing. The most obvious outlays went for offices and corporate planes. One former executive recalled that the company leased elegant offices in one of the better office parks in Madison, N.J., shortly after Robert Annunziata joined the company. Mr. Annunziata, based in New Jersey, did not move to Beverly Hills; he served as chief executive from February 1999 to March 2000.

After Global Crossing paid $3.4 billion for IXNet in February 2000, IXNet's founder, David Walsh, was named president and then co-chief operating officer of Global Crossing. Even though Global Crossing's stock was beginning its ominous descent, the company undertook an extravagant renovation of its office space at 88 Pine Street in Manhattan.

It installed, for example, a custom- made lighting system to emulate fiber optic strands with neon lighting, one former employee recalled. Several former employees say they thought Mr. Walsh had a decorator working almost all the time, redesigning two floors. One recalled that Mr. Walsh put in a staircase linking the 29th and 30th floors, then had it changed at a cost he believed exceeded $250,000. A company spokeswoman said the work was started before the purchase of IXNet.

Even last year, as the stock plummeted, the company continued to operate five jets. Those included a Boeing 737, a Challenger, a Gulfstream, an Astra and another plane, a seven-seater. "The company did not need more than one or two planes," one former executive said. Now, according to the spokeswoman, it leases two planes.

A lack of discipline extended beyond offices and planes, according to at least three former Global Crossing employees.

One said the company spent money needlessly for software systems. For example, in early 2000, Global Crossing decided to buy software made by SAP, the German company, for accounting and human resources management, according to a former Global Crossing executive.

This person recalled that several Global Crossing executives were told that it would cost the company at least $150 million for the systems, and that Global Crossing did not need to buy them because it already had adequate accounting and human resources software.

The company ordered the software anyway, although it was never fully installed, this person said. When installation efforts stalled, Global Crossing's executive vice president for finance, Joseph Perrone, who had been at Arthur Andersen before joining Global Crossing, hired Andersen's consulting unit to examine the problem. The company spokeswoman said it eventually installed the software but gave no date.

One former employee of the Frontier Corporation, which Global Crossing acquired in 1999, was surprised to learn after the merger that Global never had product profitability measures. They track whether individual products are making money and allow companies to decide whether to continue selling certain products, withdraw them from the market or modify them.

At one meeting with Mr. Perrone to discuss the importance of such measurements, "he didn't want to put them in," this person recalled. "He said, `They are way too complicated.' " The company spokeswoman declined to comment.

By the middle of last year, these problems were minor irritations compared with the threat facing Global Crossing an overwhelming glut of communications capacity industrywide. So Mr. Winnick began a search for investors willing to inject cash into his ailing company.

Mr. Winnick found an ally in this search in Steven J. Green, who had stepped down as United States ambassador to Singapore in February 2001. Mr. Winnick had met Mr. Green nearly 20 years earlier, through Leon Black, another associate from Mr. Winnick's days at Drexel.

With Mr. Green's help, Mr. Winnick cemented contacts with Singapore Technologies Telemedia, a communications company controlled by the Singapore government. Mr. Green and Mr. Winnick also invested in K1 Ventures, a Singapore-based investment firm controlled by Singapore Technologies' parent company, just as Global Crossing's decline was accelerating last year.

MR. WINNICK also lured Hutchison Whampoa, a Hong Kong conglomerate controlled by the billionaire Li Ka- shing, to invest in Global Crossing. Mr. Winnick has referred to Mr. Li as L.K. to show how close the two are, a former associate of Mr. Winnick said.

By the time Hutchison Whampoa and Singapore Technologies formally agreed to invest in Global Crossing, however, it was too late for Mr. Winnick to retain control. They agreed to buy it out of bankruptcy for $750 million, a fraction of its listed asset value of $22.5 billion, but the possible success of the bid is unclear.

Global Crossing's bankruptcy filing wiped out Mr. Winnick's own stake in the company, eliminating much of his influence over operations. He is still chairman, but it is unclear whether Global Crossing's new owners will want him to remain connected to the company.

Some investors think this point may be moot if Global Crossing is forced into liquidation and its assets auctioned, a possibility that grows stronger with each day that passes without an offer to rival that of the Asian companies.

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