

Washington Business

Hunting For the Millions

Lawyer Duo Persevered In Joel Kline's Almost 20-Year-Old Bankruptcy

By Michelle Singletary
Washington Post Staff Writer

In 1973, the Miami Dolphins defeated the Washington Redskins 14-7 to win the Super Bowl. The Arab oil embargo forced Americans to wait in line for gasoline. Vice President Spiro T. Agnew resigned.

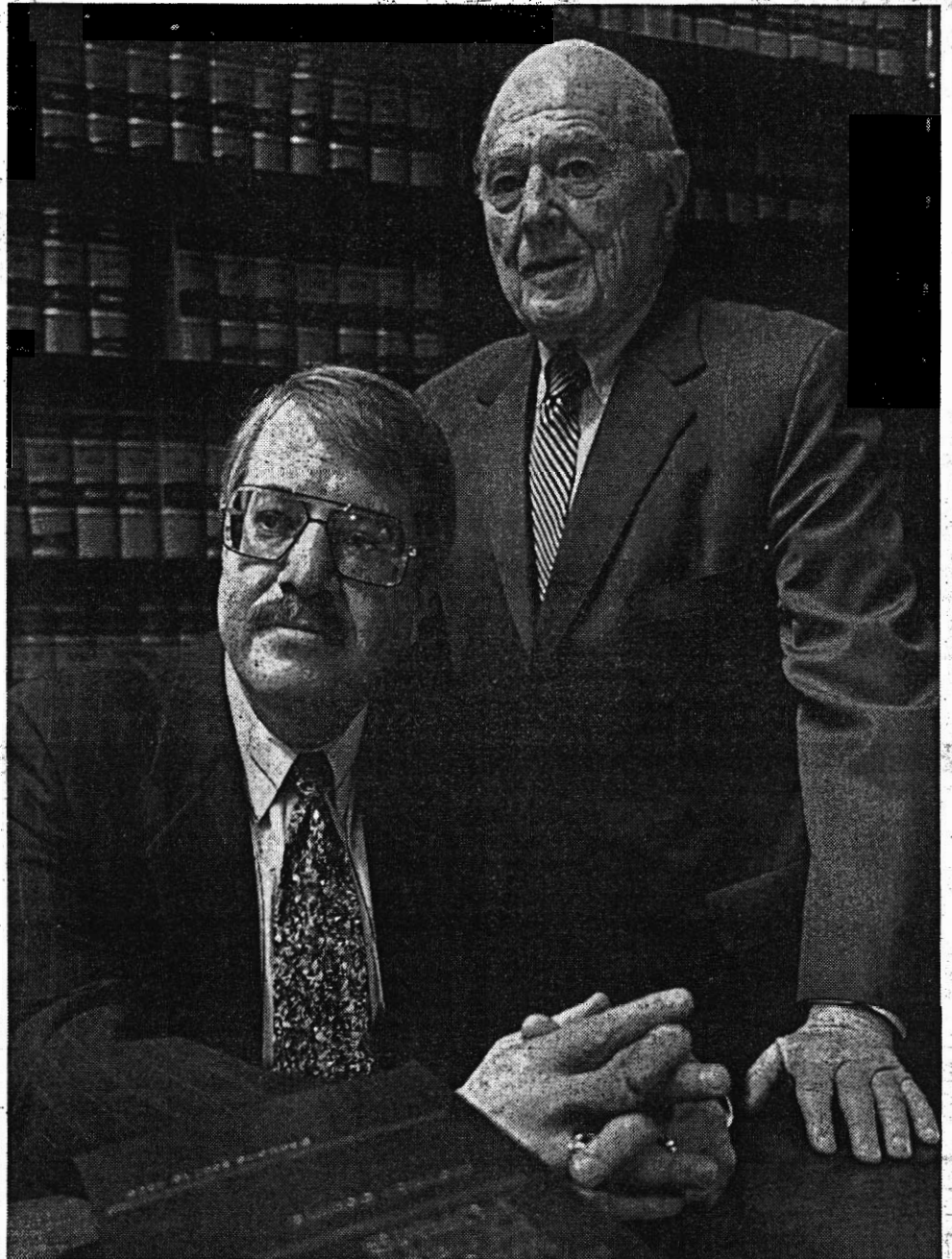
And Joel Kline, a Montgomery County real estate speculator and a federal informer instrumental in helping indict prominent Maryland politicians, was forced into bankruptcy court.

Nineteen years later, the Kline case, the oldest and longest-running bankruptcy case in Maryland, is finally about to close.

While the recession has brought an unprecedented wave of bankruptcy filings, the longevity of the Kline bankruptcy case makes it extraordinary. Last year, nearly 1 million individuals and businesses filed for bankruptcy court protection nationwide, a record number. But a simple liquidation or personal bankruptcy case can be completed within six months, and those involving litigation typically take 18 to 24 months.

So why has Maryland's senior bankruptcy case dragged on for so long that several creditors have

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Lawyers Lawrence Coppel, left, and Eugene Feinblatt likened their experiences in the Kline case to a detective mystery.

died, at least three judges have presided and the file has grown to 27 folders, each five inches thick?

A large part of the answer is that two Baltimore lawyers doggedly stayed on the case for 19 years, searching for Kline's hidden assets.

Eugene M. Feinblatt, 72, was a mere 53 when he was appointed receiver (he's now called a trustee) to oversee the liquidation. He recruited law firm associate Lawrence D. Coppel, then 28, to help him defy Judge Joseph O. Kaiser's suggestion that this was a "no asset case," meaning that there would be virtually no money to distribute to creditors.

"There was great pressure to close the case out in the early stage," Feinblatt recalled in an interview at the law offices of Gordon, Feinblatt, Rothman, Hoffberger and Hollander, the same Baltimore law firm where the duo worked when the case began in 1973.

Feinblatt and Coppel refused to believe there was nothing left in the estate of a man who had told his bankers he was worth millions and whose filing was regarded at the time as one of the biggest personal bankruptcies in the state's history.

In those 19 years, the hunt for Kline's assets led Feinblatt and Coppel to a secret safe deposit box in New York's diamond district and to Swiss bank accounts. They scrutinized thousands of 3-by-5 index cards Kline kept to detail legal and apparently illegal business transactions. Ultimately, they filed 70 lawsuits and fought off more than 50 suits in an effort to keep or recover money for creditors.

Many of those with direct knowledge of the bankruptcy case have retired, moved away from the area or died. Of those who could be located, only a handful recalled details about the case.

Kline, last reported living in Florida, could not be located for comment.

A Gigantic Jigsaw Puzzle

It was at 3:43 p.m. on Sept. 21, 1973, that three of Kline's creditors filed a petition in U.S. Bankruptcy Court in Baltimore asking that he be forced into bankruptcy. Their action set Feinblatt's and Coppel's legal odyssey in motion.

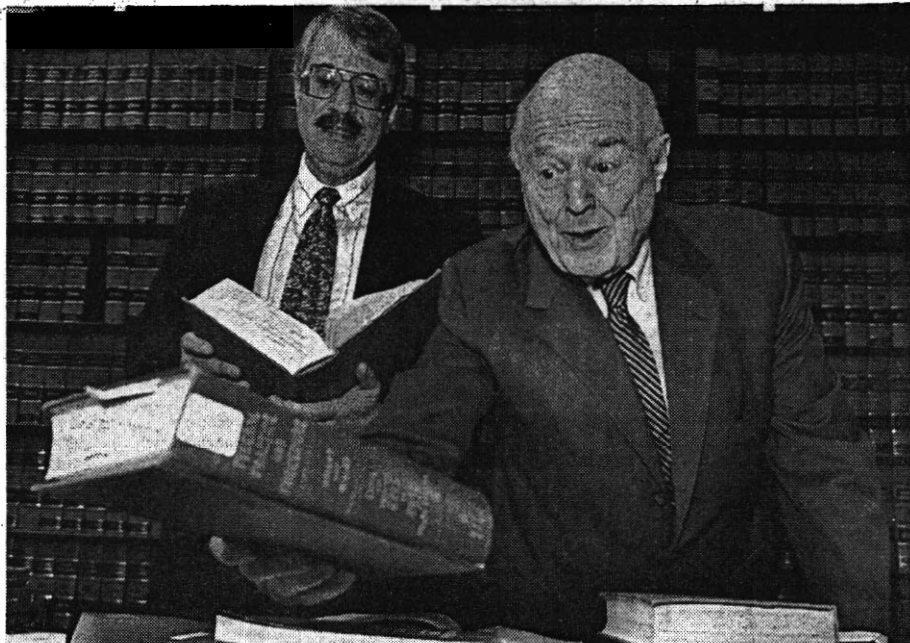
"Maybe, in looking back, it was foolish to spend 6,000 hours before we saw any real money," Feinblatt said.

Foolish or not, both lawyers relished the challenge of solving one of the state's toughest bankruptcy jigsaw puzzles.

Feinblatt likens himself and Coppel to a detective duo. The Kline bankruptcy was their first big mystery, and it centered on the whereabouts of the millions of dollars the real estate magnate reportedly earned before he was 30.

In an unaudited financial statement submitted to a bank in the early 1970s, Kline listed assets of \$15.1 million and a net worth of \$13.1 million.

What he knew of Kline before he began the hunt, Feinblatt said, he had read in the local newspapers. He knew that during Kline's meteoric ca-



Lawrence Coppel, left, and Eugene Feinblatt were under "great pressure to close the case out in the early stage."

Kline Case Drawing to End

Lawyers Persevered in Almost 20-Year-Old Bankruptcy

reer, he often had been called a "boy wonder" because of his seeming success in speculative land deals.

Feinblatt discovered that Kline controlled more than 58 partnerships and companies, including Montgomery Land Investment and Development Corp. In 1970, it became the first known Washington area firm to sell investors stock in a corporation dealing exclusively in speculation on undeveloped land.

Several months before the bankruptcy case began, the Securities and Exchange Commission began an investigation into stock manipulation of several companies that Kline took public. By the time the bankruptcy case was underway, Kline had pleaded guilty to one count of obstructing justice and served four months of a six-month prison sentence.

It was Kline's legal problems that triggered the collapse of his finances, creditors said.

Federal prosecutors dropped nine counts of perjury against him in exchange for his cooperation in a massive federal investigation into political corruption in Maryland. In the early years, the bankruptcy proceedings were held up a number of times because of the criminal probes.

According to bankruptcy records, Kline had built a "house of cards" and at the time of the bankruptcy filing his debts exceeded his disclosed holdings by \$1.4 million. From the start, the bankruptcy case was fraught with problems, besides those of the criminal investigation.

One crucial part of the puzzle involved Kline's business records. The records consisted of 3-by-5 index

cards with cryptic codes that detailed bribes to politicians, kickbacks and money obtained from stock manipulations; as well as legitimate business deals, according to Kline's own testimony. Feinblatt and Coppel worked months deciphering codes that Kline made up, such as "hoop," which stood for cash. From 1970 to 1973, Kline amassed more than 4,000 index cards.

"He would just scribble on them every time he did anything," Feinblatt said.

Although Kline maintained what appeared to be normal ledgers, the records often didn't reflect his true real estate holdings.

"If we had taken everything at face value, the case would have been closed up in a year," Coppel said.

And, as if the case wasn't complicated enough, Kline initially refused

to cooperate. He invoked his Fifth Amendment right against self-incrimination and was automatically declared bankrupt on Oct. 9, 1973, in federal court in Baltimore.

Without the help of "schedules" outlining Kline's assets, Feinblatt and Coppel didn't think they could do the job alone. They hired an accounting firm to help them reconstruct Kline's fragile real estate empire.

What they eventually found were holdings built on highly mortgaged land and inflated stock in Kline's own corporations. He borrowed heavily from Washington area banks on the strength of loan guarantees signed by his relatives, friends and those who believed he knew the way to quick, easy profits.

Kline finally agreed to cooperate after being reassured that the bankruptcy laws gave him immunity from prosecution for any crime that was based on his testimony in his liquidation case.

"So it was in his interest to testify to everything under the sun whether we had an interest in it or not," Coppel said.

Schemes Detailed

In the end, Coppel said, he and Feinblatt collected 5,000 pages of testimony that detailed several schemes Kline said he used to bilk investors and area banks. Many of those investors and banks ended up as creditors.

Kline recruited former politicians, physicians, dentists, his parents and two brothers to invest in real estate projects that often involved buying undeveloped land in Montgomery, Howard, Prince George's and Frederick counties.

People didn't care what the deal was as long as Kline was involved, according to Reuben Bonnett, 76, an attorney who represented several creditors before retiring to Boca Raton, Fla.

"He would promise to double our money in six months. Those were the wild days when it could be done. The value on land was going up. A lot of development was taking place," said Bonnett, who was an investor himself. But Bonnett said he discovered Kline's schemes before he lost any money.

According to Kline, the deals were fueled by check kiting, stock manipulation and an elaborate Ponzi scheme, in which he promised investors big returns but used money from bank loans and new recruits to pay off earlier investors. He also engaged in a form of a real estate practice known as "flipping" by creating shell corporations to buy and sell land to investors at inflated prices.

Such schemes made it difficult to trace Kline's real assets. But nearly a year after the case began, Coppel thought perhaps the search was over. He had been sifting through files, large cartons of personal books, ledgers, yellow legal pads and the index cards when he spotted a list of Swiss banks.

"There were stories that Kline had to be hiding assets," he said.

The excitement soon died when most of the Swiss banks, in response to Coppel's queries, wrote back that they couldn't find any accounts tied to Kline.

THE KLINE CASE

- **1970:** One of financial "boy wonder" Joel Kline's more than 58 partnerships and companies, Montgomery Land Investment and Development Corp., becomes the first known Washington area firm to sell stock in a corporation dealing exclusively in land speculation.
- **1970 to 1973:** Kline amasses more than 4,000 coded index cards cryptically cataloging his dealings. In an unaudited statement submitted to a bank during this period, Kline lists assets of \$15.1 million and net worth of \$13.1 million.
- **1971:** Kline is described by then-Maryland Gov. Marvin Mandel as the leading candidate to be the state's banking commissioner.
- **1972:** Kline becomes subject of a Securities and Exchange Commission investigation of stock manipulation.
- **Spring 1973:** Kline pleads guilty to obstructing justice

after agreeing to testify in a federal probe of political corruption in Maryland.

■ **Sept. 21, 1973:** Kline's creditors file a petition in U.S. Bankruptcy Court in Baltimore asking that he be forced into bankruptcy.

■ **October 1973:** Kline enters federal prison in Allenwood, Pa. A few days later, on Oct. 9, he is declared bankrupt. Though his bankruptcy was initially described as a "no asset" case, Baltimore lawyers Eugene M. Feinblatt and Lawrence D. Coppel will oversee what turns into a 19-year liquidation.

■ **1981:** Payments to creditors begin.

■ **1992:** So far, 63 creditors owed more than \$3.6 million have received 96 percent of their allowed claims. By the time the case is expected to wrap up this summer, they will have received 100 percent.

THE WASHINGTON POST

Joel Kline: Once Considered a Maryland 'Boy Wonder'



JOEL KLINE
... was a political mover

More than two decades ago, Joel Kline was considered a "boy wonder" who pioneered the concept of selling shares in companies that dealt exclusively in speculative land deals in this region.

Kline, who could not be located for comment and was last reported living in Florida, also was a powerful behind-the-scenes figure in Maryland politics and a prominent political fund-raiser for Maryland Democrats.

He appeared to make millions of dollars betting that property values in suburban Maryland and Northern Virginia would skyrocket.

In a copy of an unaudited personal financial statement given to a New York bank in the early 1970s and

obtained by The Washington Post at the time, Kline listed assets of \$15.1 million and a net worth of \$13.1 million. He had interest in 45 corporations and the bulk of his assets were in thousands of acres of land, according to the statement.

Among the companies Kline controlled was Montgomery Land Investment and Development Corp., which in 1970 became the first known Washington area firm to sell stock to the public in a corporation dealing exclusively in speculation on undeveloped land.

In 1971, then-Maryland Gov. Marvin Mandel described Kline as the leading candidate to be the state's banking commissioner. But

in two years, his stardom faded. Kline, who grew up in Washington, lost the banking commissioner's appointment because of reports that he tried to buy the job.

In 1972, he became the subject of a Securities and Exchange Commission investigation of stock manipulation allegations. He was accused of trying to bribe SEC witnesses.

In 1973, Kline pleaded guilty to one count of obstructing justice and served four months of a six-month sentence after agreeing to testify in a federal probe of political corruption in Maryland, which later involved former vice president Spiro T. Agnew and led to Agnew's resignation.

Kline's testimony led to the 1974 tax evasion, conspiracy and extortion conviction of then-Baltimore County executive Dale Anderson. He also became a government witness along with self-styled "Happy Hooker" Xavier Hollander in the prosecution of a prominent New York architect on tax evasion charges.

Kline's rapid financial ascent ended in September 1973, when several investors in his real estate corporations filed an involuntary bankruptcy petition and forced the 34-year-old speculator into bankruptcy liquidation. Kline was declared bankrupt in October 1973, a few days after entering prison. ■

— Michelle Singletary

Then there was the time they found the key.

Although neither Feinblatt nor Coppel is sure how they came upon it, they got another rush of adrenaline when they discovered a key, which was to a safe deposit box in New York City's diamond district.

Feinblatt received permission from the bankruptcy court to withdraw money from the Kline estate to take a train to New York.

"I went up with great excitement. I thought we'd found a pot of gold," he recalled.

But the pot contained neither gold nor diamonds.

"I opened the box and it was empty. It was the biggest disappointment in the investigation," he said, adding that Kline later testified that he had intended to embark on diamond trading.

Courtroom Denouement

Finding the list of Swiss banks and the safe-deposit box key were two of the most exciting moments in a case that was primarily played out in the courtroom.

Most of the lawyers' work involved suing former investors and real estate partnerships to recover funds or to prevent banks from foreclosing on real estate.

Feinblatt said he kept pushing forward on the case even when it was clear it was going to take years to resolve. While the case meant a steady paycheck for Feinblatt's law firm, he and Coppel maintain they remained faithful to finding assets for so many years because they believed creditors deserved to be paid.

Twenty-one local financial institutions were left holding several million dollars in bad loans, most of which were not backed by collateral. In one case Kline received a loan for \$25,000 from the now-defunct Madison National Bank three days after he pleaded guilty to the charge of conspiracy to obstruct justice.

Most of the remaining creditors were investors. Some were left with promissory notes, others had signed guarantees pledging their wealth as collateral for bank loans. After the court declared Kline bankrupt, banks

sued those investors, demanding repayment of the loans plus interest and legal fees.

While as many as a dozen investors might guarantee a single loan, the guarantee agreements they signed made each legally responsible for the entire amount.

"I didn't know how much I had guaranteed. I had blind faith in one individual, but he was considered the golden

claim from \$199,750 to \$11,950. Brager has received more than \$10,000.

"I protested but was forced to accept it," he said. "I felt cheated but there was nothing I could do about it."

But Brager said he was amazed he received any money at all.

In fact, after 19 years, 63 creditors whose allowed claims totaled more than \$3.6 million have received 96 percent of that money, although those

out to a remarkable 100 cents on the dollar of allowed claims, will be distributed to unsecured creditors before the case is closed. Secured creditors, who were owed \$115,000, have been paid in full.

Numerous individual investors who simply put money into Kline partnerships, including his parents, did not receive their money back; the fortunate creditors who did get paid were domi-

Gaithersburg. "We never expected to see any money."

An Ancient Backlog

The Kline case is not the only matter from the 1970s still making its way through the bankruptcy system. There are some 1,400 federal bankruptcy cases that predate 1979. The bankruptcy court in the Southern District of New York has the greatest number of these open cases—more than 400. In the Eastern District of Virginia, which includes Alexandria, there are five bankruptcy cases that predate 1979. Maryland has seven.

"We are taking steps not to have too many 20-year-old cases," said Ed Flynn, an analyst with the Bankruptcy Division of the Administrative Office of U.S. Courts.

Few, if any, of those cases are likely to produce better results for creditors. In all, Feinblatt and Coppel collected \$5.4 million for Kline's creditors. The bulk of the money came from selling real estate, and some of the delay in closing the case was the result of waiting to sell choice property for maximum profits, Coppel said.

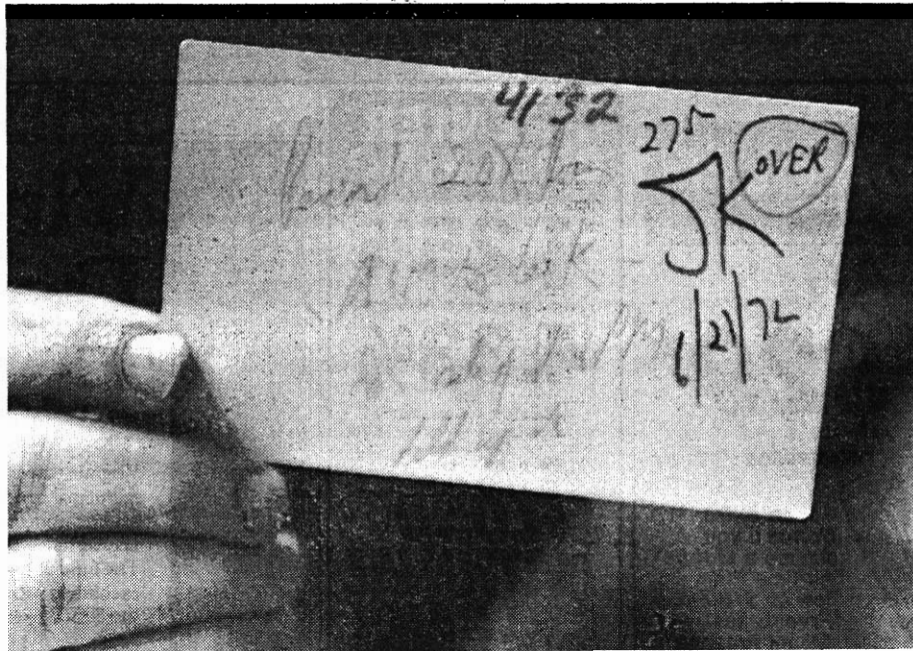
Approved creditors got all their money back in part because Feinblatt and Coppel were successful in disallowing \$5.5 million in other claims.

Coppel said a number of the rejected claims were filed by investors who had signed the loan guarantees and by people who had received bogus loans from Kline. The lawyers also succeeded in disallowing a \$1.6 million claim by the Internal Revenue Service.

Feinblatt and Coppel's law firm billed the Kline estate for slightly more than \$800,000 in the 19 years, while the accounting firm of Arthur Young & Co. collected about \$200,000.

"This bankruptcy gave back creditors [more] cents on the dollar than most," said Kenneth Bass III, an attorney who represented an investor.

"This was a significant undertaking. No one could have known for sure what would happen," Bass said. "The case was efficiently and effectively handled by the trustee with minimum expense but with a maximum amount of work." ■



BY RICH LIPSKI—THE WASHINGTON POST

One of the thousands of index cards Kline kept to detail legal and apparently illegal business deals, mostly in code.

boy," said Stanley Brager, a Prince George's County dentist who signed nearly \$200,000 in personal guarantees, even though he had barely reviewed the documents.

Brager, who nearly lost his home because of the guarantees, said he had to liquidate his retirement fund and borrow money to settle with the banks. He then filed a claim with Kline's estate to recoup the money. The bankruptcy trustee reduced his

contacted, including Brager, didn't realize how much they had received because the money has been disbursed in several payments that began in 1981.

In a typical personal bankruptcy case where there are assets left to distribute, creditors receive 15 percent to 40 percent of their allowed claims, according to one bankruptcy trustee. To get 100 percent is "phenomenal," he said.

A final payment, bringing the pay-

nated by banks and other financial institutions that had lent him money and investors who had received notes in exchange for their funds. Although Kline admittedly defrauded many people, another reason creditors received money back was that many of his real estate investments eventually appreciated.

"When we got the first check it was a surprise," said Dennis Homberg, president of Potomac Valley Bank in

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