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## National Endowment for the Arts: News Articles (1980): News Article 04

Ann Crittenden

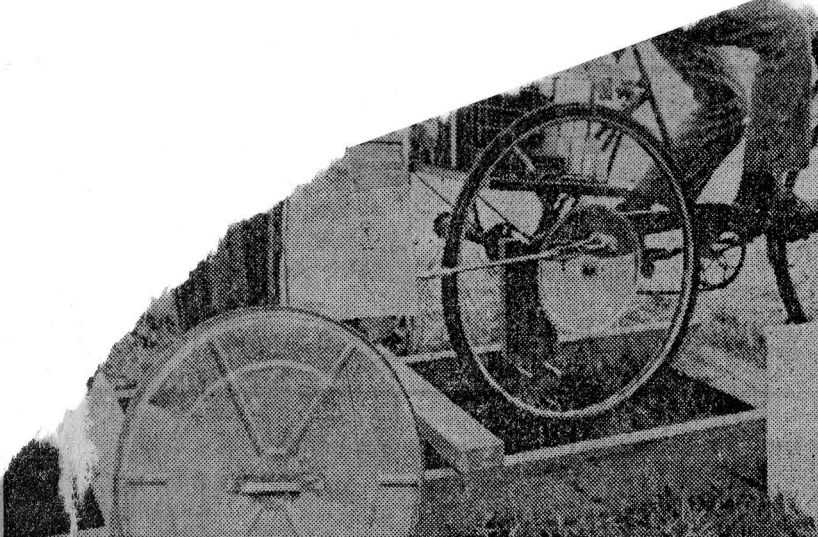
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The New York Times / Teresa Zabala

**ENERGY SAVER AT CAPITAL FAIR: Alexandra Gurr runs pedal-powered washer as her brother, Jonathan, loads at ACT 79 Fair. Sponsored by Federal agencies, fair highlights alternative forms of energy technology. Page 26.**

## Cultural Impresario's Businesses Tumble Into Debt and Disarray

By ANN CRITTENDEN

The city had rarely seen so glamorous a figure. John S. Samuels 3d, an elegant Texan in his early 40's, flush with a fortune of several hundred million dollars, burst upon the New York scene in the mid-1970's.

His great wealth had been amassed in coal, transmuted into gold by the commodity boom of 1974. The money was used to create, almost overnight, a life of baronial splendor. It went into estates and manor houses that had belonged to Du Ponts and Morgans.

It also helped establish Mr. Samuels, the son of a postman in Galveston, Tex., as one of the city's premier cultural impresarios. In less than three years, he became the chairman of the New York City Opera, the New York City Ballet and, most recently, the Vivian Beaumont Theater. It was a tour de force more like

the theater than the world of business.

Mr. Samuels has not been a figurehead. As board chairman of the opera, he was central in the dismissal last December of Julius Rudel, who had directed the opera for two decades, and the selection of Beverly Sills, the soprano, as Mr. Rudel's successor. He also created a five-member artistic directorate, an innovation in American theater, to head the Vivian Beaumont Theater when it reopens early next year.

But as John Samuels's public and cultural star was ascending, his private financial empire was falling into disarray. A series of business reverses — some growing out of his mutually accommodating financial dealings with an ambitious banker later indicted as a swindler —

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# John Samuels's Business Empire Falls Into Disarray

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have forced him to liquidate many of his personal and corporate assets.

Today, left with millions of dollars in debt and a severe cash squeeze, Mr. Samuels is on the brink of losing control of one of the most important of his financial holdings, the Exchange National Bank of Chicago, that city's eighth-largest bank. Mr. Samuels controls the bank through a 19 percent interest in its holding company.

To be sure, Mr. Samuels seems in no danger of going bankrupt. His great wealth has melted away, and he is currently hard-pressed for cash, but he still commands substantial assets, which he hopes can soon revive his financial fortunes.

He owns a major coal property, conservatively valued at more than \$30 million, and various other assets, including what he termed the largest deposit of graphite in the United States. He continues to live in enviable style in the art-filled 79th Street town house, which he purchased from Marietta Tree, the socially and politically prominent figure.

#### Favoring Soho Weekly News

And notwithstanding his resolution to "get out of the emphasis on style," he seems unlikely to lose his assets in that regard. During a recent interview in the salmon-colored library of his home and office, he patted a huge Dalmatian named Jocko, confided that his favorite newspaper was The Soho Weekly News, and described how he had traded his paintings by Vasarely and one by Pollock for pre-Columbian and pre-Raphaelite works.

Nevertheless, Mr. Samuels's associates confirm that the man whom Fortune magazine described in February as one of the richest men in America, with \$200 to \$300 million in assets, has serious cash problems.

Last week, the First National Bank of Chicago called due a \$10 million loan to Exchange National after the bank failed to meet a \$300,000 quarterly interest payment earlier this month. The action, which followed a series of defaults last year, came as Mr. Samuels was wrapping up an agreement to sell Exchange National's assets to the Midland Bancorp for \$22 million in Midland stock. Midland is the parent of another Chicago bank, the Sears Bank and Trust Company.

#### Losing Control of His Bank

Whoever takes over Exchange National, it is clear that Mr. Samuels will shortly lose his control over the bank. Moreover, his investment in the bank is currently worth only a small fraction of what he paid for it. Ironically, Mr. Samuels describes his involvement in the bank as "one I'm really proud of."

In addition to his troubles at Exchange National, his major operating company, the Leckie Smokeless Coal Company in West Virginia, was losing money until just last month. At the same time, he has had to pay millions of dollars to meet the obligations that he incurred during his meteoric rise.

Not surprisingly, there are reports that Mr. Samuels has not paid a number of smaller creditors, including a law firm and a public relations firm. For his part, the 45-year-old entrepreneur brushes off those allegations with a patrician aside: "I expect people to understand that I'm not an endless supply of cash, whatever my asset value."

#### Providing Conceptual Framework

As for the criticism that he has neglected or mismanaged his enterprises, he asserted that "I've never handled the operating end of things." His role, he explained, has always been to provide the conceptual framework, the general direction for his enterprises. To that end, he added, he reads as much as two or three hours a day, everything from coal weeklies to food and ceramics industry publications to a new Karl Meyer work on art museums.

Some of his former employees and current business associates have a different view, however. They say John Samuels is a genius at attracting people and at identifying financial opportunities. But, they contend, his lack of attention to the details of his operations, possibly because of a preoccupation with his cultural activities, deflated his empire almost as soon as it was built.

Mr. Samuels began his college training at 16 years old when he entered Texas A & M University and studied economics. He also attended summer sessions at Harvard. After graduation, he joined the Army, was sent to language school to study Russian and later stationed in Turkey. After his discharge in 1957, he entered Harvard Law School and there met his future wife, Ellen Richards. After graduation, he joined the Manhattan law firm of Chadbourne, Parke, Whiteside & Wolff.

In 1973, Mr. Samuels and two other individuals acquired Leckie Smokeless Coal for \$4.5 million, much of it borrowed from the National Bank of North America. The team's timing could not have been better. Soon after they began operations, the price of metallurgical coal soared in the wake of the oil crisis.

#### Leckie's Earnings Finance Empire

By 1974, Leckie's earnings had helped finance a corporate empire of some 16 entities, including three coal mines in Appalachia, a couple of insurance agencies and a Wall Street bond firm. Their collective earnings were reported at a staggering \$50 million.

At that high-water mark, Mr. Samuels had accumulated five private residences, including an apartment on Fifth Avenue, an island in Long Island Sound complete with a manor house that one of the Morgans had built and a stable full of horses, another home in Southampton, L.I., and an apartment in London.

According to a lawsuit filed in 1976 by one of his partners, a London metals trader named Leonard Cohen, who died last year, Mr. Samuels paid for many of these acquisitions with \$7.65 million in borrowings from the corporate group, then named the ICM Group, taken without Mr. Cohen's knowledge.

According to Mr. Samuels, the borrowings were later repaid, partly by a transfer of the ownership of the Long Island estate to the corporate group, now renamed the Carbomin Group. But in settling Mr. Cohen's suit in 1976, Mr. Samuels had to buy his associate's stake in the corporate group for \$7.25 million. That payment, along with a \$2 million commitment to buy out a third partner in the coal business,



John S. Samuels 3d with a pet dalmatian in his Manhattan townhouse

part of the explanation for Mr. Samuels's current liquidity problems.

But other, more fundamental troubles played an even larger role. As current and former employees tell it, Mr. Samuels's lack of attention to the nitty-gritty of everyday business resulted in operational chaos.

"When I arrived," Felix Pardo, an executive who has been with Mr. Samuels for two years, said in a recent interview, "there was little financial planning, very few accounting controls and a capital structure highly leveraged toward the short-term."

Others also say that corporate officers kept few books and used every dollar they could get to finance extravagant expansion plans, including a \$10 million coal preparation plant that was paid for in less than a year.

"No one even knew what anyone else was doing," one former executive commented. "It was a zoo."

The first worrisome shudder came when the price of coal plummeted in 1975. Revenues of the Carbomin Group fell, and troubles and debts proliferated. It was about this time that Mr. Samuels turned to the smallest American Bank and Trust Company of New York to supply his short-term capital needs.

The American Bank and Trust obliged, to such an extent, in fact, that by the fall of 1975, \$10.7 million, or fully 40 percent, of its loans were to companies controlled by John Samuels. In September of that year, the New York State Banking Department issued a cease-and-desist order to the troubled bank to reduce those loans.

#### Contact With David Gravier

According to Mr. Samuels, however, the bank took no real action on his loans before it collapsed in the spring of 1976, largely a result of the fraudulent activities of its chairman, the mysterious David Gravier, who disappeared and is said by some to have died in an airplane crash just before the bank's failure. (His reported death notwithstanding, Mr. Gravier is under indictment on fraud charges.) By Mr. Samuels's account, some \$8 million of his loans were still on the bank's books when it collapsed.

"Gravier never became difficult; he was always sweet as honey," Mr. Samuels said. He agreed that this had been partly because, as Mr. Samuels put it, "I accommodated him in a number of ways."

Among other "accommodations," Mr. Samuels said he had written a number of checks to Mr. Gravier and his associates in amounts as large as \$1 million. Through a complicated scheme that amounted to kiting checks, Mr. Gravier managed to use the money for a few days before it was repaid. He failed to cover all the checks, however, and, as Mr. Samuels tells it, as a result of these dealings, the group of Gravier banks owed him "in excess of \$1.5 million" when American Bank folded. Mr. Samuels says that claim is currently in litigation.

#### Owing F.D.I.C. \$2 Million

Mr. Samuels also said that when American Bank and Trust went under, he had to repay \$6 million of the outstanding loans within 60 days. He acknowledged that he still owed \$2 million to the Federal Deposit Insurance Corporation, the receiver of the defunct American Bank. Mr. Samuels's shares in Exchange National's parent company, the Exchange International Corporation, are pledged as collateral against that debt.

Coming up with that kind of cash finally forced the liquidation of some of the Samuels group of companies.

"The first rational business decision we ever made" was to refuse delivery of a Falcon corporate jet, one former executive said.

An effort to sell Leckie Smokeless Coal to a group of Canadian investors fell through when the purchasers backed out of the deal, but the two smaller coal mining companies, Raven Smokeless Coal and the Solar Fuel Company, were sold to Gulf and Western Industries in late 1976 and 1977. Last year Mr. Samuels's holding in Rand & Company, a Wall Street bond trading house, and the various companies related to the coal business were also sold.

Further, last February, Mr. Samuels

pany will move into the black for the first time in years, Mr. Pardo predicted.

"Last month Leckie turned around," he said, "and that marks the culmination of the turnaround of the operating business."

In addition to Leckie, the Carbomin Group includes 97.5 percent of ICM Missouri, in Clayton, Mo. ICM is a coke-trading company that buys coke under contract from the Chevron Corporation, calcines it, and resells it to aluminum companies. According to one former employee, the company earns around \$600,000 a year, but Mr. Samuels declined to confirm the figure.

A third company is Intercoar, an old preparation plant in Hooverville, Pa., that had belonged to the Solar Coal Company. Mr. Samuels owns 75 percent of the company, which reportedly has earnings of one-third to one-half that of ICM Missouri.

Finally, Mr. Samuels is a 50-50 partner with Gulf and Western Industries in a venture called G.&W. Carbomin, a trading company that markets all of the coal produced by Gulf and Western and the Samuels companies.

A company called RCO Properties provides an umbrella for a miscellaneous batch of other Samuels holdings, including a 35 percent share of the National Sugar Refining Company, a privately held company with annual sales of around \$165 million; some real estate, including acreage in Southampton, L.I., and Mr. Samuels's holding in the Exchange National Bank in Chicago.

#### Buying Share of Chicago Bank

Mr. Samuels's purchase of control of the Chicago bank, a move he made in early 1976 with money lent by the Gravier bank, may have been one of his biggest miscalculations. He paid \$18.59 a share, or a total of \$3.5 million, for 16.6 percent of the bank holding company's stock, which by some estimates is now worth substantially less than what he paid for it.

As soon as he took control of the bank, Mr. Samuels now says, he realized that it had severe portfolio problems. Since he bought into the bank, it has had to write off more than \$7 million in loans as uncollectible, and for 1977 the bank showed a loss of almost \$4 million. Last year, for the first time since he came on the scene, the bank was profitable, earning \$1.7 million.

Why would Mr. Samuels step into such a situation at precisely the moment when his other endeavors were beginning to unravel? Mr. Samuels explained that he considered Middle West banking a good investment, and that he was able to obtain control of the bank with only 16.6 percent of the stock. (He later increased his holding to 19 percent.)

#### Move by Comptroller of Currency

Moreover, he added, "I knew that for several years I would have to be explaining my role in the A.B.T. situation, and I felt it would be easier if I had a bank and could point to it as an exemplary operation."

The bank's difficulties, however, prompted the Comptroller of the Currency to require that \$6 million in new capital be infused into the bank. That requirement, together with his inability to come up with the interest payments on the First Chicago loan, forced Mr. Samuels to look for a purchaser for the bank.

Exchange International, the parent company, was declared in default on the interest payments last April and again in July. A later interest payment was made by Ira J. Kaufman, a Chicago investment banker who recently sought unsuccessfully to acquire 60 percent of the bank for \$7.5 million.

The sale to Midland involves the transfer of all of the assets and most of the liabilities (including the First Chicago loan) of Exchange, which would be merged into the Sears Bank. The transaction is valued at \$22 million in Midland stock.

#### An \$11 million Lawsuit

The agreement also requires, however, that certain conditions be satisfied, including settlement of an \$11 million lawsuit brought by Mr. Kaufman against Exchange International for allegedly breaching an agreement to sell control of the bank to his investment group. According to Mr. Kaufman, "one of the conditions is satisfying us, and we won't be satisfied."

Mr. Samuels professes to be unconcerned about the dispute over the sale. He contends that the management and the board he installed at the bank have produced a turnaround. Earnings for this year's first quarter were \$2.1 million, and, according to Mr. Samuels, "there is nothing more to write off. The basis has been laid for a very profitable institution."

The next five years will be more low key and private, Mr. Samuels promised. "Things have been on a more normal basis in the last few years, primarily because of the A.B.T. affair," he said recently. "But if you are interested in peculiarities, I do do things in an unusual way."

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