

THE O.P.M. CASE

The following excerpt from a New York Times article about the OPM case is essential background reading for a simulation exercise that will take place in class. Students will be assigned to play the role of either Myron (or Maxine) Goodman or Andrew (or Ann) Reinhard and will conduct the meeting on June 12, 1980 described at the end of the excerpted article. Note the supplemental information I have added at the end of this excerpt. Additional confidential information and instructions for playing the assigned roles will be given out at the preceding class to students assigned to these roles.

S. Taylor, "Ethics and the Law: A Case History," New York Times Magazine, January 9, 1983 (excerpts) [\(1\)](#)

... As children, Mordecai Weissman and Myron Goodman went to the same yeshiva in Brooklyn. They attended Brooklyn College together. In 1969, Goodman ended up marrying Lydia Ganz, whose sister had recently married Weissman. It seemed logical that the two men would become business partners, and so they did.

Weissman started [O.P.M. Leasing Services, Inc.] in 1970 in a small office on Church Avenue in Brooklyn, and Goodman joined him a few months later. Weissman handled the marketing end, Goodman was the inside man, in charge of finances; they each owned half of the business. The company would borrow money to purchase computers and other business equipment to corporate customers. In theory, the lease payments to O.P.M. would be large enough to allow the company to service its loans with enough left over to provide a handsome profit.

... [T]he company offered lease rates far below those of its competitors. Moreover, the company offered lessors a risky bonus. In return for granting O.P.M. a long lease of, say, seven years, customers were promised that they could cancel the contract in the event a technological breakthrough made the computers obsolete. ... The formula seemed to work magically. By the late 1970's, O.P.M. had become one of the nation's five largest computer-leasing companies, with 250 employees in 11 offices across the country, including plush headquarters on Broadway in Manhattan. It was buying multimillion-dollar computers from the likes of I.B.M. and leasing them to such corporations as American Telephone and Telegraph, Revlon and Polaroid. Prestigious banks, insurance companies and other financial institutions were glad to lend O.P.M. money, secured as it was by the obligations of the lessees to make lease payments and by the value of the computers themselves. Many of these lenders were recruited by Lehman Brothers, the company's investment banker. O.P.M. also raised cash by selling legal title to the computers to individual investors seeking tax shelters.

The two owners of O.P.M. lived well. Goodman purchased the baronial Wardwell Estate

(currently valued at up to \$750,000) in Lawrence, L.I., where he lived with his wife and two daughters. He decorated lavishly, adding a disco and a small movie theater. He pledged \$10 million to Yeshiva University and became the youngest trustee in its history.

Andrew B. Reinhard was 26 years old, an honors graduate of Harvard Law School, when he joined a small New York law firm in 1969. When the newly created O.P.M. Leasing Service, Inc. started casting about for a law firm, Myron Goodman remembered Reinhard, older brother of a boyhood friend. That was the start of the long, tumultuous relationship between the company and Singer Hutner... Goodman [later] described [Reinhard] as his closest friend aside from Weissman. ...

... Singer Hutner handled [all] the company's legal work. That included closing loans and supplying the legal opinions that lenders relied on as to O.P.M.'s title to computers and as to the legality of O.P.M. leases. The firm also handled the personal legal affairs of "Myron and Mordy," as the owners of O.P.M. were known to Singer Hutner lawyers. As the computer-leasing company grew, so did Singer Hutner. By 1980, it employed 29 lawyers, with offices in New York and New Orleans; in that year, it collected more than \$3.2 million in fees and expenses from O.P.M. - about 60 percent of its total income. Reinhard was the third O.P.M. director [on the O.P.M. corporate board of directors], along with Weissman and Goodman, and several other Singer Hutner lawyers were company officers.

The relationship between Singer Hutner and O.P.M. took a dramatic turn on June 12, 1980 when ... the law firm received an extraordinary visit from Myron Goodman. The O.P.M. executive indicated that he was troubled, that he might have done something wrong in his stewardship of the company -- something he could not set right because it involved millions of dollars more than he could raise. ...

Supplemental Information: For purposes of class exercises and discussion, it is important to remember that O.P.M. Leasing Services, Inc. ("OPM" for short) is neither a partnership (Goodman and Weissman doing business together) nor a publicly-traded corporation, with stock sold on the stock exchange. Rather OPM is a corporation where all the stock is owned by two people only: Goodman and Weissman. Although the article above does not provide the following specifics, assume that Weissman is Chair of the Board of Directors and Goodman is Chief Executive Officer (CEO) and Treasurer to the Board. The only other member of the Board of Directors is Reinhard, who is Secretary to the Board. The Chief Fiscal Officer (CFO) is John Clifton, who is not a member of the Board of Directors, and serves at the pleasure of the CEO, as do all the other officers and employees of OPM.

1. Excerpts do not necessarily appear in the same order as in the original article. Brackets [] indicate added explanatory material.

EXERCISE TWO (OPM Case): Part 1

LAWYER INSTRUCTIONS

You will have 15 minutes for the simulated meeting with Goodman. You will play the role of Andrew Reinhard. ("Ann Reinhard" if you are a woman.) Explain to Goodman (who has arrived without an appointment) that you must leave for a court date in 15 minutes. Use the 15 minutes as you think best, but be as realistic as possible and stay in role at all times. Assume that all the Model Rules we have read so far apply in your jurisdiction.

CONFIDENTIAL INSTRUCTIONS FOR ROLE OF LAWYER (REINHARD)

When Goodman arrives in your office unannounced, you have just finished reading the following memo you received in that day's mail from John A. Clifton, O.P.M.'s chief in-house accountant.⁽¹⁾ Having known Goodman (whom you call "Myron," or "Max" if the role is played by a woman) almost all your life, you can hardly believe that he (or she) could have been engaged in the kind of wrongdoing that Clifton's memo suggests. Remember that Goodman is not only your friend but the person who has made your career (and a lot of money for you and your firm).

MEMORANDUM

TO: Andrew B. Reinhard, Esq. CONFIDENTIAL
Singer, Hutner, Levine & Seemen

FR: John A. Clifton CPA, Chief Fiscal Officer
OPM Leasing Services, Inc.

DATE: June 12, 1980

RE: Problems with O.P.M. Leases

I have discovered in an accounting audit evidence strongly suggesting that at least the following two Rockwell leases and accompanying equipment security agreements are fraudulent:

1) Rockwell computer lease dated July 1, 1977. I discovered two different copies of this lease: (a) Copy A in which Rockwell agreed to pay \$6,000/month for 36 months; (b) Copy B, which is the document submitted to Singer Hutner as loan documentation, stating \$66,000/month for 86 months. It appears that Copy B is an alteration of Copy A in which the second "6" in the monthly payment box has been added and the "3" changed to an "8" in the number of months box. Obviously OPM borrowed a much larger amount of money against Copy B than Copy A could support. It appears that lease payments to OPM from Rockwell have been only \$6,000/month. The difference in the monthly bank payment has been made up out of general OPM funds on Goodman's authorization. Unfortunately what appears to be the true

lease term will be up July 1 increasing greatly the chance that the alteration will be discovered by the bank or Rockwell.

2) Rockwell computer leases dated February 1, 1978 and dated October 15, 1978. Each lease was for equipment valued at \$2,500,000. The two leases and accompanying paperwork sent to Singer Hutner indicated that these were different computers and different transactions, but the equipment serial number was the same on both leases. It appears that OPM obtained two bank loans on the same piece of equipment.

I fear that many other leases are fraudulent also, but do not have any direct evidence. I have long been suspicious about how OPM could manage to remain profitable when many OPM customers exercised their option to cancel their leases in 1977 when IBM announced a major upgrade in the equipment that OPM was leasing to them. It seemed very strange that Rockwell International, a very sophisticated user, not only did not cancel any of its leases but instead greatly expanded its leasing of what was increasingly outdated equipment. But for the Rockwell leases, OPM would not have remained solvent in 1977. As you know, starting in 1977 Goodman insisted that Singer Hutner send Rockwell's copies of the financing documents to O.P.M. for forwarding instead of directly to Rockwell and forbid your firm to contact Rockwell directly without his consent. O.P.M. has handled the "insurance work" on the equipment and made direct loan payments on many of the Rockwell lease loans even though the lease agreements say Rockwell shall make rental payments to the banks.

Yesterday I spoke privately with Mr. Goodman about my concerns. He was evasive and hostile, and would only say that there were some major cash-flow problems which had forced him to take "unconventional" steps to secure continued bank financing. I told him that I had talked to my lawyer, William J. Davis, of Scholman Berlin & Davis, who had suggested that I refer the matter to your firm, which I am doing by this letter. On advice of my lawyer, unless or until I am subpoenaed by a grand jury or otherwise compelled by court order to testify, I will not divulge this information to anyone other than by this communication to you.

1. In the actual case, Clifton did send a memo to Reinhard; however whether Reinhard actually received and read it was a disputed fact. Reinhard later claimed that Goodman snatched it from him before he had a chance to read it. The contents of Clifton's actual memo were never revealed. This memo is a plausible recreation based on the facts of the case but should NOT be treated as accurate about the real OPM case nor should any statements in this memo be attributed to individuals involved in the actual O.P.M. case.