

January 3, 2013

Anthony Herman, Esq.
General Counsel
Federal Election Commission
999 E Street NW
Washington, DC 20463

Dear Mr. Herman:

On December 20, 2012, the Campaign Legal Center and Democracy 21 filed a complaint with the Federal Election Commission detailing our reason to believe, based on published reports, that Specialty Group Inc. and Kingston Pike Development LLC, as well as William S. Rose, Jr. and any other person(s) who created and operated these two recently-created companies, may have violated 2 U.S.C. §§ 432, 433, 434 and 441f—stemming from more than \$12 million in political contributions to FreedomWorks in the name of these two companies. We urged the Commission to conduct an investigation of these potential violations of federal campaign finance law.

On December 25, the *Washington Post* published an article¹ (copy enclosed) indicating that Mr. Richard J. Stephenson was the source of the \$12 million contributed to FreedomWorks in the names of Specialty Group Inc. and Kingston Pike Development LLC. The article explains:

[A]ccording to three current and former FreedomWorks employees with knowledge of the donations, the money originated with Stephenson and his family, who arranged for the contributions from the Tennessee firms [Specialty Group Inc. and Kingston Pike Development LLC] to the super PAC.

[Adam] Brandon, FreedomWorks' executive vice president, told colleagues starting in August that Stephenson would be giving between \$10 million and \$12 million, these sources said. Brandon also met repeatedly with members of Stephenson's family who were involved in arranging the donations, the sources said.

Stephenson attended a FreedomWorks retreat in Jackson Hole, Wyo., in August at which a budget was being prepared in anticipation of a large influx of money, according to several employees who attended the retreat. At the retreat, Stephenson dictated some of the terms of how the money would be spent, the employees said.

¹ Amy Gardner, *FreedomWorks tea party group nearly falls apart in fight between old and new guard*, WASHINGTON POST, Dec. 25, 2012, available at http://www.washingtonpost.com/politics/freedomworks-tea-party-group-nearly-falls-apart-in-fight-between-old-and-new-guard/2012/12/25/dd095b68-4545-11e2-8061-253bccfc7532_story.html (last visited Jan. 2, 2013).

“There is no doubt that Dick Stephenson arranged for that money to come to the super PAC,” said one person who attended the retreat. “I can assure you that everyone around the office knew about it.”

If the information presented in the article is true, there is reason to believe Mr. Stephenson may have violated 2 U.S.C. § 441f by making more than \$12 million in contributions to FreedomWorks in the names of Specialty Group Inc. and Kingston Pike Development LLC. Likewise, there is reason to believe these two companies, as well as Mr. Rose and any other individuals operating the companies, may have violated 2 U.S.C. § 441f by knowingly permitting the companies’ names to be used for the making of such contributions. Additionally, there is reason to believe that by arranging these contributions, FreedomWorks and Mr. Brandon may have violated section 441f by knowingly accepting contributions by Mr. Stephenson in the names of Specialty Group Inc. and Kingston Pike Development LLC.

Given this new information, we repeat our call for the Commission to conduct a full investigation of this matter and fulfill its responsibility to enforce our nation’s campaign finance laws. The integrity of our elections depends on it.

Sincerely,

/s/ J. Gerald Hebert
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The Washington Post

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FreedomWorks tea party group nearly falls apart in fight between old and new guard

By [Amy Gardner](#), Published: December 25

The day after Labor Day, just as campaign season was entering its final frenzy, FreedomWorks, the Washington-based tea party organization, went into free fall.

Richard K. Arney, the group's chairman and a former House majority leader, walked into the group's Capitol Hill offices with his wife, Susan, and an aide holstering a handgun at his waist.

The aim was to seize control of the group and expel Arney's enemies: The gun-wielding assistant escorted FreedomWorks' top two employees off the premises, while Arney suspended several others who broke down in sobs at the news.

The coup lasted all of six days. By Sept. 10, Arney was gone — with a [promise of \\$8 million](#) — and the five ousted employees were back. The force behind their return was Richard J. Stephenson, a reclusive Illinois millionaire who has exerted increasing control over one of Washington's most influential conservative grass-roots organizations.

Stephenson, the founder of the for-profit Cancer Treatment Centers of America and a director on the FreedomWorks board, agreed to commit \$400,000 per year over 20 years in exchange for Arney's agreement to leave the group.

The episode illustrates the growing role of wealthy donors in swaying the direction of FreedomWorks and other political groups, which increasingly rely on unlimited contributions from corporations and financiers for their financial livelihood. Such gifts are often sent through corporate shells or nonprofit groups that do not have to disclose their donors, making it impossible for the public to know who is funding them.

In the weeks before the election, more than \$12 million in donations was funneled through two Tennessee corporations to the FreedomWorks super

PAC after negotiations with Stephenson over a preelection gift of the same size, according to three current and former employees with knowledge of the arrangement. The origin of the money has not previously been reported.

These and other new details about the [near-meltdown at FreedomWorks](#) were gleaned from interviews with two dozen current and past associates, most of whom spoke on the condition of anonymity in order to talk freely.

The disarray comes as the [conservative movement is struggling to find its way](#) after the November elections, which brought a second term for President Obama and Democratic gains in the House and Senate. Arney said in an interview that the near-meltdown at his former group has damaged the conservative cause.

“FreedomWorks was the spark plug, the energy source, the catalyst for the movement through the 2010 elections,” Arney said, referring to the GOP midterm sweep. “Harm was done to the movement.”

Stephenson, 73, declined a request for an interview. Matt Kibbe, the group’s president, and Adam Brandon, its senior vice president, declined to discuss the issue.

“I don’t comment on donors,” Brandon said. “He’s on our board, he’s a board member like anyone else. That’s it. I see him at board meetings.”

Stephenson, a longtime but little-known player in conservative causes, is a resident of Barrington, Ill., a northwest suburb of Chicago known for its affluence and sprawling horse estates such as his [Tudor Oaks Farm](#). He founded the Cancer Treatment Centers of America in 1988 following his mother’s death from bladder cancer, according to the for-profit company’s Web site and his public [remarks](#). Stephenson also holds investments in a broad portfolio of other businesses, including finance and real estate companies.

Stephenson has a passion for libertarian politics stretching back to the 1960s, when he attended seminars featuring “Atlas Shrugged” author Ayn Rand and economist Murray Rothbard, according to those who know him at FreedomWorks. Like Arney, Stephenson was an early supporter of Citizens for a Sound Economy, the conservative lobbying group founded by oil billionaires Charles and David Koch in 1984 that split into FreedomWorks and Americans for Prosperity 20 years later. The Kochs, known for bankrolling a variety of conservative causes, kept control of AFP, while Stephenson and Arney stayed with FreedomWorks.

FreedomWorks has been on a remarkable run in recent election cycles, growing its annual budget from \$7 million to \$40 million in just a few years and helping lead the tea party movement against Obama’s agenda. The group was among several that [rose up last week](#) in opposition to a failed proposal from House Speaker John A. Boehner (R-Ohio) to raise federal taxes on millionaires.

The group played a crucial role in ushering a wave of tea party candidates into office in recent years, staging rallies, hawking books and videos, and organizing media appearances with conservative personalities such as Glenn Beck and Rush Limbaugh.

“I’ve enjoyed my association with FreedomWorks,” said Sen. Mike Lee (R-Utah), who defeated incumbent Bob Bennett with help from the group. “Matt Kibbe and Dick Arney endorsed me early in my candidacy for the U.S. Senate, and they were a big help to me.”

Despite such testimonials, FreedomWorks has struggled with accusations that it is an “astroturfer” — a national organization of big-money donors that swept in to lay claim to an independent movement.

According to public records, FreedomWorks received [more than \\$12 million](#) before the election from two corporations based in Knoxville, Tenn.: Specialty Investments Group and Kingston Pike Development. The firms were established within a day of each other by William S. Rose III, a local bankruptcy lawyer.

Rose, who could not be reached for comment, has said publicly he would not answer questions about the donations. But according to three current and former FreedomWorks employees with knowledge of the donations, the money originated with Stephenson and his family, who arranged for the contributions from the Tennessee firms to the super PAC.

Brandon, FreedomWorks’ executive vice president, told colleagues starting in August that Stephenson would be giving between \$10 million and \$12 million, these sources said. Brandon also met repeatedly with members of Stephenson’s family who were involved in arranging the donations, the sources said.

Stephenson attended a FreedomWorks retreat in Jackson Hole, Wyo., in August at which a budget was being prepared in anticipation of a large influx of money, according to several employees who attended the retreat. At the retreat, Stephenson dictated some of the terms of how the money would be spent, the employees said.

“There is no doubt that Dick Stephenson arranged for that money to come to the super PAC,” said one person who attended the retreat. “I can assure you that everyone around the office knew about it.”

Among other things, Stephenson wanted a substantial sum spent in support of Rep. Joe Walsh (R-Ill.), a tea party favorite and Stephenson’s local congressman, several who attended the retreat recalled. Walsh garnered national headlines during the campaign when he questioned whether his opponent, Tammy Duckworth, a former Blackhawk helicopter pilot who lost both legs in Iraq, was a “true hero.” Despite internal misgivings about the value of the investment, FreedomWorks spent \$1.7 million on ads supporting Walsh; he lost the race.

Two watchdog groups last week asked the Federal Election Commission and the Justice Department to investigate the donations from the two Tennessee companies. The groups, Democracy 21 and the Campaign Legal Center, say the arrangement could violate federal laws that prohibit attempting to hide the true source of a political contribution by giving it under another name. (Brandon declined to comment on the complaints, but he said the group’s books were in order.)

Partnership unravels

For years, FreedomWorks was headed by an unlikely duo: Armev, 72, the old-guard pol who wears a black cowboy hat even when he's not on his Texas ranch, and Kibbe, 49, who sports mutton-chop sideburns and has a passion for the Grateful Dead.

But the most important relationship appears to be the bond between Kibbe and Stephenson, who bridged their age gap through shared libertarian views and Kibbe's battle with testicular cancer a decade ago, Armev and others said. They said Kibbe, after being given a terminal diagnosis, was encouraged by Stephenson to get treatment at his cancer clinics; more than a decade later, they said, he is cancer-free.

Until this year, the partnership between Kibbe and Armev worked well. Armev's renown as a former House member drew media attention and crowds of conservative activists — most of them old enough to remember Armev's role in the Republican revolution in Congress in 1994. And Kibbe's youthful intellectualism drew a new generation of libertarian soldiers into the FreedomWorks fold. In 2010, the two co-wrote a book, "[Give Us Liberty: A Tea Party Manifesto](#)," that became a New York Times bestseller and a successful marketing tool for FreedomWorks, which collected the book's proceeds and used it to attract donations.

The partnership came to a crashing end when Armev marched into FreedomWorks's office Sept. 4 with his wife, Susan, executive assistant Jean Campbell and the unidentified man with the gun at his waist — who promptly escorted Kibbe and Brandon out of the building.

"This was two weeks after there had been [a shooting at the Family Research Council](#)," said one junior staff member who spoke on the condition of anonymity because he was not authorized to talk to the media. "So when a man with a gun who didn't identify himself to me or other people on staff, and a woman I'd never seen before said there was an announcement, my first gut was, 'Is FreedomWorks in danger?' It was bizarre."

By nearly all accounts, including from those loyal to him, Armev handled his attempted coup badly. Armev says he was stepping in because of ethical breaches by Kibbe and Brandon, accusing them of improperly using FreedomWorks staff resources to produce a book — ironically, named "Hostile Takeover" — for which Kibbe claimed sole credit and was collecting royalties. The use of internal resources for Kibbe's benefit could jeopardize the group's nonprofit tax status; the group denies any impropriety.

"This is not only about this one incident," Armev said. "But that one incident was a matter of grievous concern."

Armev also accused Brandon, Kibbe and other staff members loyal to them of squeezing him out of media appearances and management decisions while using his name to market the group.

Armev appeared out of touch and unsure of how FreedomWorks operated when he took over that Tuesday morning, according to interviews with more than a dozen employees on both sides who witnessed the takeover. Sitting in a glass-walled conference room visible to much of the staff, he placed three young female employees on administrative leave, then reversed himself when they burst into tears; his wife lamented aloud that maybe they had "jumped the gun."

In subsequent meetings, Susan Armev passed her husband notes that several employees assumed contained suggestions on what to say. According to

a recording of a staff conference call provided to The Washington Post, Arney bewildered his audience by demanding more FreedomWorks support for Todd Akin, the Missouri Republican whose Senate campaign had already cratered after [his comments about "legitimate rape."](#)

"It was clear that under Arney's leadership, the organization as we knew it was going to be driven into the ground," said one junior employee.

Enter Stephenson, who agreed to the multimillion-dollar financial incentive to push Arney out and install Kibbe back at the helm.

The payments were necessary, several FreedomWorks leaders said, because Arney was threatening to sue over Kibbe's book deal.

"It was very clear to him that I would not work with Matt," Arney said, referring to Stephenson. "He felt that Matt knew the levers and understood it better than I did and was very urgent to reinstate that."

Brandon, back in the No. 2 spot as executive vice president, scoffed at the notion that the group is in trouble or that the dispute with Arney was indicative of a larger problem for the tea party. He said FreedomWorks has 2.1 million members, nearly 4 million fans on [Facebook](#) and a budget that has grown sixfold in five years. He also pointed to the elections of Senate conservatives Ted Cruz in Texas and Jeff Flake in Arizona as evidence of the group's electoral success.

"We doubled our budget, and we doubled our membership," Brandon said, referring to the group's growth since 2011. "That's how we ended up the year."

Alice R. Crites contributed to this report.

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