

Haunted By Spirits

John McCain derived his wealth from his marriage to Cindy Hensley McCain, whose father started his road to riches as a bootlegger. As a politician, the senator has remained beholden to the liquor industry and the family business.

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Published: February 17, 2000
Phoenix New Times News

Would United States Senator [John McCain](#) be a presidential contender if it weren't for his marriage to Cindy Hensley McCain, heiress to the Hensley liquor fortune?

It's doubtful. The senator's wife and -- more important -- his father-in-law, James Willis Hensley, are very wealthy people.

Like his father and grandfather before him, McCain was a career Navy officer. His earning power and his inheritance were modest. At its peak, his pay as a captain was about \$45,000.

But he retired from the military in 1980, divorced his first wife, wed Arizona native Cindy Lou Hensley and moved here to plunge into the world of politics. His first job in Arizona was as a public affairs agent for Hensley & Company, one of the nation's largest beer distributors. He was paid \$50,000 in 1982 to travel the state, touting the company's wares. But he was promoting himself as much as he was Budweiser beer. A better job description might have been "candidate."

In 1982, Cindy drew more than \$700,000 in salary and bonuses from Hensley-related enterprises as her husband was elected to the U.S. House of Representatives in his first political campaign.

Today, McCain is ranked the 26th wealthiest member of Congress by *Roll Call* magazine. There are 535 members in the House and Senate.

From Day 1, Hensley money has enabled McCain to be a full-time politician, free from financial concerns.

This story examines the roots of the Hensley fortune and John McCain's implacable bond to the liquor industry -- how it has enriched him personally and as a politician, and how those ties have dictated his actions on questions of public policy.

John McCain's political allegiances to liquor purveyors and his father-in-law's interests are subtle. That narrative is marked by a pattern of patronage.

The Hensley saga, meanwhile, swirls with bygone accounts of illicit booze, gambling, horse racing, deceit and crime. James Hensley embarked on his road to riches as a bootlegger.

It was December 6, 1945. World War II had ended a few months earlier.

Joseph F. Ratliff was just about to wrap up another day as office manager at United Distributors Company when two of his bosses, Eugene and James Hensley, paid a visit to Ratliff at the company's Tucson liquor distribution warehouse around 5 p.m.

The Hensley brothers were partners with a powerful Phoenix businessman named Kemper Marley, who had cornered a large share of Arizona's wholesale liquor business after Prohibition was lifted in 1933.

Ratliff had gone to work for United Distributors in September 1944. His job was to oversee shipments of whiskey into and out of the United Distributors' warehouse by keeping track of invoices, filing tax and sales reports with the federal government and monitoring cash flow.

During and after World War II, the sale of whiskey was tightly regulated by the federal government. Demand for whiskey was high, particularly on the black market, where prices were more than double the regulated market price.

"'Well,' Gene Hensley says, 'It is five o'clock, why don't you go home? It is time to close,'" Ratliff told Assistant United States Attorney E.R. Thurman in sworn testimony in March 1948.

Ratliff went home.

Upon his return to the warehouse the next morning, Ratliff found a disturbing sight.

"When the warehouse man came down and opened the warehouse, I started out through the warehouse to go to the men's room, and I noticed there was two rows of whiskey there the night before that wasn't on the floor that morning. So I went back to the office. I thought we had been robbed."

In his office, Ratliff found another surprise.

"There was a bunch of invoices in my desk that had been made out after I had left the office, apparently," Ratliff testified.

The invoices appeared to be related to the whiskey -- about 50 cases -- that had

disappeared from the warehouse overnight.

Ratliff went outside to empty some trash and noticed "a pile of empty whiskey cases out there." Tangled up in the pile of boxes were federal tax serial labels that were supposed to remain with the liquor when sold to a retailer.

Ratliff recognized the handwriting on the invoices as belonging to then-25-year-old James Hensley, who had become general manager of the Tucson operation in June 1945 after a three-year stint in the military. James Hensley had served as a bombardier on a B-17 and was shot down over the English Channel on his 13th mission.

Ratliff wasn't sure what was going on until later that day, when James Hensley returned to his office.

"He came in and paid me for those invoices," Ratliff testified. "Cash sales."

Ratliff dutifully marked the invoices as paid.

The seven invoices prepared by James Hensley -- after the warehouse was closed -- indicated the liquor had been sold and delivered to seven establishments in southern Arizona. The Manhattan Club in Tucson supposedly got eight cases of Seagram's and Walker Imperial. Nu-Way Grocery in the Lowell district of Bisbee was credited with receiving 10 cases, while James Hensley showed the Merchants Cafe in Douglas to have received eight cases. The Blue Room in Douglas was credited with buying 10 cases; Lee Hop Grocery in Tucson got two. The Ar-Jay Store in Tucson, six cases. The Old Tumacacori Bar in Nogales, seven.

In fact, none of the liquor went to the retailers named in the invoices prepared by James Hensley. Nobody but James Hensley knows where it really went, and he never told authorities. He declined repeated requests to be interviewed for this story.

What is certain is that what occurred that December day was standard operating procedure for the Hensley brothers between April 1945 and January 1947. During this period, a 1948 federal criminal indictment charged, the Hensleys made approximately 1,284 false entries related to the sale of thousands of cases of liquor by their two companies -- United Sales Company in Phoenix and United Distributors in Tucson.

Ratliff's testimony eventually led to James and Eugene Hensley's conviction on federal conspiracy charges "with the intent and design to hide and conceal from the United States of America, the names and addresses of the person or persons to whom the said distilled spirits were sent, and the prices obtained from the sale thereof."

A federal jury in U.S. District Court of Arizona in March 1948 convicted James Hensley on seven counts of filing false liquor records in addition to the conspiracy charge. Eugene was convicted on 23 counts of filing false statements and the conspiracy count. Eugene was sentenced to one year in prison, and James to six months. Neither brother testified during the trial, relying instead on their lawyers, who included Louis B. Whitney, a prominent attorney who served as mayor of Phoenix from 1923 through 1925.

Ilkka Uimonen



An Heiress and Her Officer: Cindy and John on the campaign trail in Manchester, New Hampshire.



James Hensley

After a two-week stint in the Maricopa County jail, the men were released on bond on May 17, 1948, pending an appeal to the U.S. 9th Circuit. The appeals court affirmed the conviction on February 8, 1949.

Two weeks later, a judge sentenced Eugene to one year in a federal prison camp near Tucson, but suspended James' sentence, placing him on probation instead. Both men were fined \$2,000. United Sales and United Distributors were also convicted and fined \$2,000.

The criminal convictions had little immediate impact on the brothers' fortunes.

James Hensley profited handsomely from his association with liquor magnate Kemper Marley, a man police suspect ordered the 1976 murder of *Arizona Republic* reporter Don Bolles, who had written about Marley's business and political dealings. The man convicted of placing a bomb beneath Bolles' car testified that Marley also wanted former Arizona governor and then-attorney general Bruce Babbitt murdered because Babbitt had filed an antitrust lawsuit against the liquor industry in 1975. (Marley, who died in 1990, was never charged in the Bolles case. Babbitt is now U.S. Secretary of the Interior.)

By 1955, James Hensley had launched a Budweiser distributorship in Phoenix, a franchise

reportedly bestowed upon him by Marley, who was never indicted in the 1948 federal liquor-law-violation case -- or a subsequent one -- despite his controlling financial role in the liquor distribution businesses.

James Hensley's conviction didn't deter the State of Arizona from granting him a wholesale liquor license in the mid-1950s. The [Arizona Department of Liquor Licenses and Control](#) turned a blind eye to repeated liquor-law violations at the company. State liquor regulators did nothing when James Hensley failed to disclose his federal felony conviction on a sworn 1988 disclosure statement to the department and the City of Phoenix.

Today, Phoenix-based Hensley & Company is the nation's fifth-largest beer wholesaler -- a privately held business that 80-year-old James Hensley still controls. He built the Budweiser distributorship into at least a \$200 million-a-year business, with annual sales of more than 20 million cases of beer.

James Hensley owns nearly all of the voting stock, and most of the rest of the closely held securities are in trusts for his grandchildren or owned by his daughter, 45-year-old Cindy Hensley McCain -- wife of U.S. Senator and presidential hopeful John McCain.

By now, many Americans know John McCain's family story. His best-selling memoir, *Faith of My Fathers*, chronicles the lives of the senator's father and grandfather, distinguished admirals. The book takes readers up through John McCain's own military service, including his five and a half years as a prisoner of war in Vietnam. But *Faith of My Fathers* ends there, a few years short of John McCain's marriage to Cindy Hensley and the advent of his political career.

That's only half the family story.

The rest could be called "Cash of My Father-in-Law," a tale of how beer baron James W. Hensley's money and influence provided a complement to McCain's charisma and compelling personal story and launched him to a seat in Congress -- and perhaps to the White House.

Although Hensley wealth has helped propel McCain's political career, the senator will never get his hands directly on the Hensley fortune because of an antenuptial agreement he signed before his 1980 marriage.

A centerpiece in McCain's remarkable and sudden rise to national prominence is his promise of campaign-finance reform.

Yet McCain has relied heavily on the financial contributions from big corporate donors -- with the liquor and beer industry near the top of the list. McCain won -- one could say bought -- his first election to the House of Representatives in 1982 with lavish sums of Hensley beer money.

In a rare 1988 interview, James Hensley gave a glimpse of his political savvy.

"The neo-prohibitionists are real active about trying to dry us up all the time," he told the *Phoenix Business Journal*. "They're a constant battle. They're going after us in different ways now than they did in those days, trying to ban advertising, things like that.... We're legislatively involved very heavily.... It's a way of life to protect our industry."

Since 1982, Hensley & Company employees have donated almost \$200,000 to federal political candidates and campaigns. Since 1996, they've given Arizona state-level candidates more than \$18,755.

McCain himself has received more than \$60,000 from James Hensley and his employees -- and tens of thousands more from other beer-related interests.

John McCain benefits from James Hensley's money.

James Hensley benefits from John McCain's political power.

While McCain blasts his colleagues for falling prey to the influences of campaign contributions, the senator's record reveals his quiet support for the business that launched and has helped maintain his career. McCain declined to be interviewed for this story.

Liquor spirited from the Hensley brothers' warehouses helped fuel a lively nightlife at some of the Valley's most exclusive clubs in the mid-1940s. The Green Gables, the Silver Spur and the Cowman's Club were recipients of black-market shipments, according to testimony presented at the 1948 federal trial of the Hensleys and their two companies, United Sales Company in Phoenix and United Distributors in Tucson.

Jack Baldwin, a salesman and supervisor at United Sales, testified at the 1948 federal trial that Eugene Hensley regularly instructed him to draw up false invoices, transfer scores of cases of liquor offsite and deliver premium whiskeys to selected black-market clients.

Baldwin testified he was ordered by Eugene Hensley in September 1946 to kick in a door at the United Sales' warehouse on North 19th Avenue and take five cases of scotch for a

black-market sale to the Green Gables.

In other instances, Baldwin testified that he took as many as 50 cases of whiskey from the United Sales warehouse and stashed them on the back porch of his central Phoenix home for later delivery to black-market buyers.

"I can name you 20 deals like that," Baldwin testified.

When an order came in for black-market whiskey, Baldwin would fill the bill.

"Well, the Green Gables wanted 10 cases of Canadian Club and the only thing I would do is just send down and get it, that is all there was to it," Baldwin testified.

To cover the illegal black-market sales, Baldwin testified that false invoices were prepared showing the liquor sold in small quantities to retailers throughout Arizona.

"It would be scattered over the state for two and a half and three cases at a time," Baldwin stated.

Paolo Vescia



The Hensley & Company building.

Ilkka Uimonen



McCain speaks a lot about campaign finance reform and tobacco -- but not about the ills of alcohol.

"Why would you make invoices that did not show the true fact situation?" Assistant U.S. Attorney Thurman asked.

"The liquor went someplace else," Baldwin stated.

"Under whose direction did you make these invoices?"

"Gene Hensley," Baldwin replied.

"After these were made out, these particular invoices, what did you do with them?"

"I took them home, burned them usually," Baldwin stated.

Information from the false invoices prepared by the Hensleys' employees was provided to federal liquor regulators with the Alcohol Tax Unit at the U.S. Treasury Department. When investigators compared the information reported by the Hensleys and what was actually delivered to retailers, they discovered a huge discrepancy.

Sometimes the Hensleys sold liquor to unlicensed individuals who would transport up to 55 cases at a time to states including Oklahoma and Utah. Carl "Kid" Carter from Ogden, Utah, purchased dozens of cases of whiskey at a time, loaded them into a late-1930s sedan, covering the illicit cargo with a blanket before heading home, 600 miles north.

"Sometimes he [Carter] would give me the money, and sometimes he would give Gene the money," Baldwin testified.

Before the liquor was loaded in Carter's car, Baldwin stated the federal serial numbers would be cut off the cases. Carter didn't have a liquor license in Arizona or Utah.

"Do you know what prices were paid, say, by Kid Carter?" Thurman asked Baldwin. "... Would they pay more than the ceiling price?"

"Oh, yes," Baldwin testified.

Carter must have been a prodigious drinker. He testified that he did make black-market purchases but wasn't trying to make a financial killing.

"I drank a lot of it and gave a lot of it to my friends," he told the court.

"Didn't you sell some of it?" Thurman asked.

"No, sir."

Another United Sales employee, Howard Wesson, worked as a warehouseman and truck driver from 1942 through 1945.

Wesson testified that he occasionally loaded whiskey on the warehouse docks and removed the federal tax serial numbers at Gene Hensley's instructions.

"He just had it come off so there would be no trace of it, or something to that sort," Wesson stated. Wesson recalled loading 25 to 30 cases of liquor into Kid Carter's car and testified that Carter told him he had "doubled his money."

It wasn't unusual, Wesson testified, to leave cases of whiskey on the warehouse floor in the

evening and return to work the next day to find the cases broken apart and the whiskey gone.

The heavy black-market sales made it difficult for employees to keep track of the liquor.

Richard Eckert, a United Sales warehouse foreman, told the jury, "I had some trouble keeping my records straight on it. I couldn't make my books balance on it sometimes."

Eckert, who worked at the warehouse from 1941 through 1945, testified that he told his bosses about the problem.

"I complained that I couldn't keep the records with the salesmen and owners and one thing and another coming in there and taking whiskey away and giving it away and one thing and another and not billing it out," Eckert stated.

While the bootlegging operation was in full swing, the Hensleys and Marley dissolved their partnerships and created two corporations in September 1946 -- United Sales Incorporated in Phoenix, and United Distributors Incorporated in Tucson. At the time of incorporation, Eugene Hensley, 32, was president of the companies, while James Hensley, 25, served as secretary. Kemper Marley, 39, was listed as vice president of both companies.

Despite Marley's title, federal prosecutors stated that Marley had purchased control of the companies in January 1946.

Over the years, Marley built the companies, which became United Liquors, into Arizona's largest wholesale liquor distributorship. Along with his vast land holdings, political, gambling and prostitution ties, Marley built a fortune worth more than \$39.2 million by 1980.

On February 26, 1953, James Hensley once again found himself charged with federal liquor crimes. This time, the government alleged that James Hensley and other officers of United Liquor Company and United Liquor Supply Company falsified records to reduce the company's tax bill.

On the opening day of the trial in federal court in Tucson, Judge James A. Walsh granted a motion by Hensley's attorney -- former Maricopa County Attorney Lynn Laney -- to dismiss all charges against Hensley and other individuals. The case continued against the two companies.

The government alleged the companies falsely stated that about 400 cases of whiskey were

transferred from Tucson to Phoenix on December 30, 1950, and December 30, 1951, to avoid paying higher liquor taxes levied in Pima County, where Tucson is located. The government charged that the liquor never left the Tucson warehouses.

On the third day of the four-day trial, Kemper Marley -- owner of United Liquor and United Liquor Supply -- unexpectedly took the stand as a defense witness. Prosecutors successfully halted his testimony, claiming it was immaterial and irrelevant.

Defense attorneys argued that although the liquor was never transferred to Maricopa County, all taxes were nevertheless paid to Maricopa County, therefore nothing further was owed. Defense attorney Joseph Jenckes said the companies were simply trying to meet their tax obligations in the most practical way, according to an October 17, 1953, story in the *Arizona Daily Star*.

The next day, a jury acquitted the two companies on all 11 counts.

In December 1952, James Hensley joined his brother Eugene in the purchase of Ruidoso Racing Association in south central New Mexico. Prior to the purchase, Eugene Hensley operated a couple of nightclubs in Phoenix, including Hensley's Horseshoe Bar on Van Buren Street, with his first wife, Billy.

The New Mexico venture proved to be more trouble for the Hensley brothers, who became embroiled in a controversy with the New Mexico Racing Commission over hidden ownership.

The commission was concerned about the Hensley brothers' ties to Phoenix gambler Clarence E. "Teak" Baldwin (no relation to Jack Baldwin). The commission asked the New Mexico State Police to investigate in 1953.

According to a March 26, 1977, article in the *Albuquerque Journal*, the 1953 New Mexico State Police report stated that Teak Baldwin was a "bookmaker for leading tracks." According to the *Journal* article, the police report stated that the Hensleys' Arizona liquor business partner, Kemper Marley, "is reputed to be the financial backer for the bookies...."

The *Journal* story appeared shortly after a group known as Investigative Reporters & Editors -- spurred to action by the murder of Don Bolles -- unleashed a series of 23 stories on organized crime, land fraud and political corruption in Arizona.



Eugene Hensley, brother of James, photographed in New Mexico in 1966 at his federal tax evasion trial.

Ilkka Uimonen



Best-selling candidate: John and Cindy sign copies of McCain's memoir at a campaign event.

The *Journal* reported that the 1953 New Mexico State Police investigation stated that Marley "owned a wire service formerly operated in connection with bookmaking of the Al Capone gang."

The *Journal* also reported that the state police report included a transcript of a phone conversation between an officer in Santa Fe and a Phoenix police officer who said, "... Our confidential files built up on Baldwin (and others) was loaned to some officials and never returned. We've never been able to locate them."

With the police report in hand, the New Mexico Racing Commission grilled the Hensley brothers in May 1953 about their ties to Baldwin. While the brothers were forthright in disclosing their liquor business ties with Marley and their subsequent federal felony convictions, they told the commission that Teak Baldwin had nothing to do with the track.

Eugene Hensley told the commission in May 1953 that Baldwin steered him to look at the track as a possible investment. Former commission chairman Tom Closson told the Hensleys "the commission would not have Baldwin connected in any way, shape or form down there [Ruidoso Downs]," the *Journal* reported.

The Hensleys denied that Baldwin had any interest in the track, the *Journal* reported.

But two years later, according to the *Journal*, records indicated that Baldwin actually had a one-third stock interest in the track with the Hensleys.

In November 1955, trustees for Baldwin filed a federal lawsuit against Eugene Hensley to recover 362 shares of Ruidoso Racing Association stock. The suit was settled for \$40,000 and the stock was released to the Hensleys, the *Journal* reported.

Eugene Hensley told the Racing Commission that Baldwin operated a restaurant at the track and spent some of his own money for equipment. Baldwin filed suit in federal court in Albuquerque in 1955 over a concession contract he claimed to hold at the track. The suit was dismissed. A year later, Baldwin was convicted of income tax evasion.

In April 1955, James Hensley sold his interest in Ruidoso Downs, for which he was listed as secretary-treasurer, and had no apparent connection to the track thereafter.

Eugene Hensley's problems at Ruidoso Downs were just beginning. In 1963, Eugene Hensley was sued by minority partners for \$415,000. The partners alleged Eugene Hensley used track money to make improvements to his Scottsdale home, used the track's airplane for personal pleasure and built and operated a guest house for his personal use. The lawsuit was settled the same year after Eugene Hensley agreed to return 1,000 shares of Ruidoso Racing Association stock that was by then worth \$350,000.

The civil suit was prelude to an eight-count federal criminal indictment filed against Eugene Hensley in 1966, alleging income tax evasion. Eugene Hensley was convicted on all counts in a scandalous trial that revealed he had purchased several automobiles using track money and given them to his wife and a girlfriend.

Despite his 1966 conviction and subsequent five-year prison sentence, Eugene Hensley remained free on bond and continued to control operations at Ruidoso Downs until the New Mexico Racing Commission banned him from the track in 1968. After his criminal appeals were denied, Eugene Hensley entered a federal prison in La Tuna, Texas, in 1969.

That same year, Eugene Hensley sold his remaining interest in the track to NewCo Industries Incorporated, which immediately signed a 20-year concession contract with Emprise Corporation of Buffalo, New York.

Emprise had documented ties to organized crime, and was the concessionaire at Arizona dog tracks. One of the company's strongest Arizona supporters reportedly was the Hensleys' old business partner -- Kemper Marley.

In the early 1970s, Arizona racing officials began to clamp down on Emprise after the company was convicted and fined \$10,000 in U.S. District Court in Los Angeles for its hidden ownership in the Frontier Hotel and Casino in Las Vegas. The IRE series reported that as a defendant in that case, Emprise was linked to several prominent organized crime figures.

Emprise reorganized in Arizona as Ramcorp and was allowed to keep its lucrative concession contracts while its Los Angeles conviction was appealed. But all the company's proceeds from dog tracks were funneled through a trustee, former Mesa rancher and farmer Dwight Patterson.

Patterson, according to the IRE, urged then-Arizona governor Raul Castro to appoint Kemper Marley to the three-member Arizona Racing Commission, a position Marley reportedly was eager to get. Marley would replace Robert Kieckhefer, who had been an opponent of Emprise.

Castro received more than \$19,000 during his 1974 gubernatorial campaign from Marley, and another \$5,000 from Marley's daughter -- colossal sums at the time for an Arizona political campaign. Castro appointed Marley to the racing commission in 1976.

Arizona Republic reporter Don Bolles wrote a series of stories documenting Marley's questionable performance in appointive posts he'd previously held. Bolles' stories doomed Marley's appointment, forcing him to resign soon after being named to the Racing Commission.

On June 2, 1976, Bolles was mortally wounded by a car bomb. Before lapsing into unconsciousness, Bolles uttered the words, "Adamson, Emprise, Mafia." He died 11 days later.

John Harvey Adamson confessed to luring Bolles to a Phoenix hotel parking lot and placing a bomb beneath the reporter's car. The bomb, Adamson testified, was detonated by James Robison, a Chandler plumber. Adamson testified he was hired to kill Bolles by Max Dunlap, a Phoenix contractor and close associate of Marley's. Marley had extended a \$1 million loan to Dunlap, which had not been repaid. Adamson said Dunlap hired him to kill Bolles because Marley was upset over Bolles' stories.

Adamson served a 20-year prison sentence and has since been released. Dunlap was convicted of first-degree murder and sentenced in 1994 to life in prison. Robison was convicted, but his case was later overturned on appeal and he was acquitted in a 1993 retrial.

In 1981, Marley filed a libel suit against IRE for a 1977 story that linked Marley to organized crime and the Bolles murder. Marley sought a "six-figure" award for compensatory damages and a "seven-figure" punitive award. A jury ruled that Marley had not been libeled by the stories. However, the jury ruled that IRE had inflicted "emotional distress" on Marley. The jury awarded Marley \$15,000 in punitive damages, a fraction of the damages he was seeking.

Marley died in 1990 at age 83.

He was never charged in the Bolles case and denied any involvement.

After selling his interest in Ruidoso Racing Association, James Hensley turned his attention to a wholesale beer distributorship he reportedly founded in 1955 in Phoenix with 12 employees.

Details about the inception and remarkable growth of James Hensley's company are sketchy. Hensley and his wife, Marguerite, have kept a low profile. While the couple is listed in the Phoenix society's "Red Book," there is a dearth of news stories, photographs or even references to the family in the Phoenix media.

Some liquor industry observers say Hensley was given the Budweiser distributorship by his old business associate Kemper Marley, but a search of public records has not confirmed this theory. What the records do show is five decades of steady growth for Hensley's enterprise under the lax supervision of the [Arizona Department of Liquor Licenses and Control](#).

James Hensley has given conflicting information to the department concerning the early days of his business. Efforts to search liquor department files are hampered because the agency destroyed all records more than 30 years old -- and many more recent. The lack of historical state documents on the state's largest beer wholesaler makes it impossible to determine when and under what circumstances James Hensley was granted his first wholesale liquor license.

One can only speculate how a convicted felon who falsified federal liquor records managed to obtain a state and federal wholesale liquor license within a few years of his 1949 conviction and 1953 indictment. But apparently, Hensley did.

Bureau of Alcohol, Tobacco and Firearms spokesman Larry Bettendorf says federal liquor licenses are allocated under a provision of a 1935 law passed soon after Prohibition ended. Wholesalers such as Hensley must receive a "basic permit" from the federal government as

well as state licenses.

The federal permit was designed to keep people such as Hensley out of the liquor business.

"The big concern after Prohibition was having bootleggers or other organized criminals entering into the business by using a front man," Bettendorf says.

There was also concern about applicants fronting for the real owners of a business -- something the Hensleys had done in New Mexico at the racetrack.

"They tried to do everything they could to weed out where the money was coming from to make sure the person applying for it was the actual owner and operator. These laws had not changed that much since 1935," Bettendorf says.

Current provisions of the law do not allow anyone convicted of a felony to even apply for a "basic permit" liquor license for five years. Bettendorf did not know whether the five-year provision was in effect in the 1950s.

He said a person -- such as James Hensley -- who had been convicted of a felony related to bootlegging should have been scrutinized by federal regulators before obtaining a permit.

"They would have looked at someone very heavily if they had been convicted of bootlegging. Absolutely," Bettendorf says.

Once the federal government issues a "basic permit," it can stay in effect for decades.

It is uncertain how convicted bootlegger James Hensley obtained a federal basic permit. However, it is extremely unlikely that a person with a similar conviction today would get a federal liquor license, says Allison Stevens, ATF Phoenix Area supervisor.

Hensley's oldest state liquor license application on file dates to 1971. In that application, he disclosed his felony conviction but failed to state that he had been an owner and employee at Ruidoso Downs as the secretary of the corporation. At the time, the problems at Ruidoso were widely publicized in New Mexico newspapers and his brother was in prison for tax evasion and skimming funds from the track.

State records show James Hensley applied for another liquor license in 1988. This time, Hensley did not disclose his federal conviction when asked specifically on the form whether he had ever been convicted of a felony. James Hensley signed the sworn and notarized statement that warned false information "could result in criminal prosecution."

State liquor department director Howard Adams refused to discuss Hensley's distributorship.

"I don't want to talk about any wholesalers," Adams said.

The liquor department is overseen by a seven-member state liquor board. Board chairman Bill Snyder did not return a message seeking comment.

Just as Hensley gave incomplete and conflicting information concerning his previous employment and felony convictions, the two license applications give different dates for when he started his wholesale beer business.

In the 1971 application for a liquor license, Hensley said he had served as president and general manager of Hensley & Company Distributors and Hensley & Company Wholesale since January 1959. But in the 1988 liquor license application, Hensley stated he had been the head of Hensley & Company Wholesale since January 1955 and makes no mention of Hensley & Company Distributors.

State Corporation Commission records show the first reference to Hensley & Company Distributors in 1959, when a liquor and grocery distribution company called Ritter-Walker Distributing changed its name to Hensley & Company Distributors. James Hensley was listed as president of the company, and Marguerite Hensley as secretary, on the 1959 annual disclosure report. The company reported total assets of \$143,000.

Corporation Commission records state that Hensley & Company Wholesale was not incorporated until 1966.

The confusing maze of companies continued for more than four decades as James Hensley created a series of wholesale beer companies -- operating as many as three different entities in the Phoenix area at one time. He consolidated the operations in 1993 under the present banner Hensley & Company. The company reported \$48 million in assets in December 1996, the last year the Corporation Commission required detailed financial disclosure.

Hensley & Company is reported to be the 12th largest privately owned company in Arizona, with nearly 500 employees and a sales and delivery fleet of more than 300 vehicles, according to a September 1999 article in the trade journal *Beverage World*.

The company controls more than 60 percent of the beer market in Arizona, selling more than 20 million cases of Anheuser-Busch and other brands each year.

The privately held company remains controlled by chairman James Hensley, although he's

relinquished day-to-day operations to Robert M. Delgado, who serves as president and chief operating officer.

Company records show that as of January 1996 James Hensley controlled through a trust 2,110 shares of stock, of which at least 1,655 shares were voting stock. Cindy McCain owned the largest block of stock with 7,436 shares, but only 177 shares were voting.

Ilkka Uimonen



McCain has used the flag -- in the form of his POW status and expertise on foreign affairs -- to deflect attention from such matters as his family's beer interests.

Her three children, John, James and Meghan, each had 1,370 shares -- including 336 voting shares each -- held in trust. An adopted child, Bridget, had 600 non-voting shares.

The company placed a value for tax purposes of \$1,467 per share on the stock in 1996, making Cindy McCain's stake in the company worth \$11 million. The trusts for the four children are worth about \$7 million. Delgado, meanwhile, controlled 4,572 shares of non-voting stock worth \$6.7 million.

The Hensley & Company stock is only part of the McCain clan's wealth. According to Senator McCain's financial disclosure statement for calendar year 1998, Cindy McCain controls more than \$1 million worth of Anheuser-Busch stock that generated between \$15,000 and \$50,000 in dividends. Cindy McCain and her children also report owning real estate in Mesa, Sedona and Yuma worth more than \$2.5 million

The report indicates that despite receiving more than \$1 million in dividends from Hensley & Company stock in 1998, Cindy McCain had 12 personal loans outstanding worth at least \$1.24 million -- including a Bank One loan that exceeded \$1 million and an American Express card tab between \$15,000 and \$50,000 running at 18.4 percent interest. Most of her loans were advances from the Hensley & Company.

While John McCain enjoys a posh lifestyle, the only asset he reports as personally owning, in addition to his \$136,700 Senate salary, is his Navy retirement pension, which totaled \$49,668 in 1998. The senator and his wife agreed to keep sole and separate property when they signed an antenuptial agreement in 1980 prior to their marriage.

Senator McCain's personal wealth is tied completely to his wife.

And Cindy McCain remains beholden to her father.

At the top sits James Willis Hensley.

In the late 1970s, John McCain was at a crossroads, both personally and professionally. His marriage to his first wife, Carol, was falling apart; the two were in the midst of a number of trial separations. And McCain, who would never fully recover from injuries he sustained in Vietnam, finally accepted the fact that he would never fly again. He liked his job as the Navy's liaison to the U.S. Senate, but it had done more to whet his appetite for politics than satisfy his career goals.

Then he met Cindy Lou Hensley. She was 25, he was 42. As Robert Timberg describes it in his book *John McCain: An American Odyssey*, the two were instantly smitten when they spotted one another at a political reception in Honolulu. McCain was there for business, Hensley for pleasure -- a vacation with her parents, James and Marguerite. They courted long-distance. She'd told him she was three years older than she was; he said he was four years younger. The real age difference: 17 years.

In his book, Timberg acknowledges -- then dismisses -- a popular theory explaining the McCain-Hensley romance:

"McCain's detractors, and some of his friends, would later say that he saw Cindy as the ultimate target of opportunity and locked on to her with single-minded, even cynical calculation. It was fine that she was young and beautiful, so it was said, but the real attraction was that she was the daughter of a rich, well-connected businessman from a state that seemed to offer opportunities to someone with McCain's emerging political ambitions.

"... The scenario is hard to take seriously. Was it even remotely possible that the impulsive, hot-blooded McCain who used to take his Navy pay in cash had suddenly been reborn as a gold-digging manipulator, coolly mapping out a marriage of convenience?"

Further, Timberg argues, McCain had to divorce Carol, who had been seriously injured in a car accident before John returned from the war, and who was still debilitated. What would that do to his political aspirations in a conservative state like Arizona?

But John did divorce Carol in February 1980, married Cindy that May and took a job in public affairs at Hensley & Company. John and Cindy could hardly survive on his \$31,000 Navy pension, after all, and the marriage and job granted McCain instant entree into

Arizona's business, social and political circles -- although insiders tell *New Times* that McCain was miserable in his new job, biding his time until he could run for office.

It didn't take long. McCain had banked on the fact that a new congressional district being created in Arizona would be located in metropolitan Phoenix -- as a newcomer, he could hardly take on a strong incumbent. That didn't happen; the new district ended up in Tucson. But McCain got lucky. Longtime U.S. Representative John Rhodes announced his retirement in January 1982, leaving McCain a clear shot at the state's 1st Congressional District, which includes Tempe, Mesa and parts of east Phoenix. Even before Rhodes made his official announcement, the McCains had found a new home in Tempe.

The 1982 Republican primary was crowded. McCain deftly deflected the "carpetbagger" label by noting that as a Navy brat, he'd never lived in one place longer than the five and a half years he spent in Vietnamese prison camps.

His friendship with *Arizona Republic* and *Phoenix Gazette* publisher Darrow "Duke" Tully gave McCain a free platform to deliver his campaign messages via a series of columns that appeared in the *Gazette*. (Tully was enamored of McCain's fighter-pilot experience. Tully resigned as publisher of the newspapers in 1985 after it was revealed he had fabricated a military background as a highly decorated fighter pilot.)

As much as his quick tongue, heroic story and free positive press, it was his father-in-law's funds that helped first get McCain elected.

In 1982, John and Cindy McCain reported an income of \$801,056. Of that, the only amount unrelated to Hensley was McCain's \$31,038 Navy pension.

McCain lent \$167,000 to his campaign -- a huge chunk of the \$569,545 it took to get him elected that year. (Another major contributor that year was Charles H Keating, a former Navy fighter pilot who later ensnared McCain in the biggest scandal of his political career.)

In addition, James and Marguerite Hensley and their employees donated \$11,000 to McCain's first campaign; Anheuser-Busch's PAC gave him \$1,000.

McCain easily won reelection in 1984. Fortune -- or McCain's foresight -- smiled again when Senator Barry Goldwater announced his retirement in 1986. McCain was the perfect candidate to succeed the straight-talking Goldwater, who was also a retired military pilot.

McCain jumped for -- and won -- the Senate seat.

Every election season, contributions from Hensley & Company and other liquor interests

continued to fuel McCain's electoral triumphs -- victories McCain was beginning to take for granted.

In October 1986, just days before McCain was elected to the Senate, the Associated Press broke a story that the McCains had been quietly remodeling Cindy's childhood home -- a \$500,000 spread still owned by Jim Hensley and located in north central Phoenix, outside of Congressional District 1 -- so they could relocate after the election. The project was kept so quiet, the AP reported, that modifications to the house were being made under the name "Smith," rather than McCain. As it turned out, Smith is Marguerite Hensley's maiden name. The building plans the AP obtained showed that McCain was adding "Jacuzzis, a cabana, a ramada, a swimming pool, fountains and a barbecue."

To this day, Jim and Marguerite Hensley live just around the corner. Cindy drives a Suburban with the license plate "Ms Bud."

In John McCain's early years in public office, he didn't enjoy the reputation he does today as a crusader, a maverick who rails against the evils of special interests. His only notable attribute was a grasp of foreign affairs.

Yes, he voted against pay raises for members of Congress, and donated his honoraria from speaking engagements to charity, but McCain's critics charged that was painless for a guy whose wife was a multimillionaire. It wasn't until the '90s, after he was embroiled in the Keating Five scandal (he returned more than \$112,000 in contributions from the savings and loan mogul after being accused of improperly intervening with federal regulators on Keating's behalf), that McCain became a champion of campaign-finance reform. In fact, early in his political career, McCain voted against measures like the one he now proudly sponsors.

The same is true with tobacco and guns. McCain took tens of thousands of dollars from tobacco companies before 1998, when he infuriated the industry by pushing reform legislation. He has taken money from the National Rifle Association and its affiliates, and voted their way, although last year he supported a measure to ban gun shows.

McCain is reaping the benefits of his maverick act today, as scores of Democrats across the country are reregistering to vote for him in GOP primaries.

But there is one area where it is unlikely that John McCain will ever emerge as a champion of reform: alcohol.

When he was elected to Congress, McCain swore he'd recuse himself on all votes related to the alcohol industry, given his father-in-law's and wife's business. A *New Times* analysis of McCain's voting record since 1983 reveals that he has in fact recused himself on the two dozen or so alcohol-related bills that required a voice vote on the floor of the House and then the Senate, while McCain has served in those respective bodies. The bills examined dealt specifically with alcohol: examples include legislation to toughen drunken-driving laws and lower alcohol excise taxes.

But such votes are relatively insignificant when compared to other powers endowed on a senator -- particularly a senior senator who chairs an influential committee.

Particularly if the senator is John McCain, the committee is the powerful Senate Commerce Committee and the issue is alcohol.

The Senate Commerce Committee has a number of alcohol-related issues in its purview, including the labeling of alcoholic beverages and alcohol advertising. But you wouldn't know it from looking at the committee's agenda since McCain took its reins three years ago.

John McCain's influence regarding alcohol-related legislation comes from his inaction, rather than action. As a committee chairman, McCain has the unilateral power to kill a bill simply by refusing to put it on a committee agenda or schedule hearings.

And since McCain was elected chairman of the committee in January 1997, that's exactly what has happened.

In the summer of 1996, Joseph E. Seagram & Sons rocked the alcohol and broadcasting industries by announcing it would take to the airwaves, in violation of a longtime voluntary ban on broadcast advertising of distilled spirits.

For decades, there'd been an uneasy truce between the distilled spirits lobby and those who want to ban alcohol advertising entirely: Print ads were okay, but broadcast was out. When Seagram reneged on the agreement, the liquor community took note. It wasn't just the distilled spirits lobby that was concerned. Seagram's unilateral actions could result in a severe backlash for all alcohol-related industries.

Beer and wine interests, whose products are advertised on the airwaves, feared that Seagram had opened a Pandora's box that could lead to tougher restrictions on beer and wine broadcast advertising as well.

In late 1996, members of the Senate Commerce Committee decided to hold hearings. A date was chosen, February 11, 1997, before Republican Senator Conrad Burns' communications subcommittee. (Burns' press office did not return calls.)

But before the hearings could be held, two important events occurred. First, the beer and wine industries mounted a strong lobbying effort to scuttle any committee action that might address liquor advertising.

Second, Senator John McCain was elected chairman of the Commerce Committee in January 1997 after former chairman Larry Pressler of South Dakota lost his November 1996 reelection bid.

Even before McCain's ascension, Pandora's box was flung open -- the beer and wine lobbyists could see that this wasn't just about hard liquor ads on TV. The distilled spirits folks also were jockeying for parity with the beer and wine industry, including equal excise taxes (taxes currently are based on the percentage of alcohol in a beverage) and the ability to advertise during sports broadcasts, the most lucrative shows.

The beer and wine lobbies don't want any of that.

The hearings portended a showdown between a divided liquor industry -- with the beer and wine industries trying to maintain the status quo while some hard liquor producers were trying to make inroads not only in broadcast advertising, but taxing issues as well. Another hot-button issue was alcohol advertising aimed at teens. The hearings likely would have broached that volatile topic.

The stakes were high and so were the campaign contributions. *The Christian Science Monitor* reported that hard liquor and beer and wine industry contributions doubled during that session of Congress.

Mounting contributions and intense lobbying paralyzed the committee as the hearings were postponed a couple of weeks.

Then, in mid-February, the committee announced it would not delve into the beer and wine industry's role in alcohol advertising. News of the committee's capitulation to special interests made the trade journal *Advertising Age* in a February 17, 1997, article.

The beer and wine lobbies had prevailed.

By mid-spring, it was evident the hearings wouldn't take place at all.

Clearly, the pressure the beer and wine lobby brought to bear on many members of

Congress had something to do with the decision, but observers also wonder about the coincidental timing of John McCain's ascent to the chairmanship of the Senate Commerce Committee.

George Hacker was particularly disappointed that the hearings were derailed. Off and on since 1982, Hacker has run the alcohol policies project of the Center for Science in the Public Interest. He says it's very hard to get alcohol-related legislation heard in Congress, and more difficult since McCain took the helm of the Senate Commerce Committee.

"Having someone with no interest and who really refuses to take an interest in alcohol is a serious problem in the Commerce Committee," Hacker says.

But does mere indifference actually benefit the liquor industry?

"Well, sure," Hacker replies. "If the chairman has a problem dealing with these issues, he'll go on to something else."

In fact, three alcohol-related bills have been assigned to McCain's committee since he became chairman, and none has been taken up. All three were sponsored by Senator Strom Thurmond, a South Carolina Republican.

Thurmond has fought for alcohol industry reforms for decades. He first introduced legislation to require health warnings on alcoholic beverages in 1967. He was finally successful in 1988, although he's still not satisfied. Ironically, Thurmond's daughter was killed in a drunken-driving accident in 1993 -- prompting the Senate Commerce Committee to hold hearings that year; that's the last time such hearings were held.

The three Thurmond bills that have been before McCain's Commerce Committee all deal with alcoholic beverage labeling. They would transfer authority for the labeling from the Bureau of Alcohol, Tobacco and Firearms to the Department of Health and Human Services. Another measure would prohibit the alcohol industry -- particularly the wine industry -- from claiming benefits from its products on labels. (This bill has been introduced twice while McCain has been chairman.)

John DeCrosta, Thurmond's press secretary, says the alcohol industry doesn't want to be in the legislative spotlight.

"The...industry looks at what's happening with the gun industry, tobacco industry, the lead-paint industry, and they know they have a problem," he says. "This is something people consume, they get behind the wheel of a car, they cause deaths. They develop cirrhosis of the liver. They develop breast cancer. They develop hypertension. How long

before somebody goes after them?"

Asked about McCain's ignoring of his boss's bills, DeCrosta offers a halting response: "It's obviously Senator McCain's prerogative as to whether or not he calls these up for a hearing. And you know, yeah, I don't want to say that we have problems, but that's his prerogative, and these are not issues or pieces of legislation, unfortunately, that generate a lot of support as far as co-sponsors."

But, DeCrosta adds, "This is an issue that we're just gonna keep fighting. Next Congress, we'll probably introduce these bills again and try to get some support for them."

And then there's the matter of bills that don't fall into the category of "alcohol-related," per se, but would definitely have an impact on the industry.

One such bill would have forced consumers to pay a 10-cent beverage container deposit, as an incentive to recycle. The alcohol industry -- particularly the beer industry, which sells its beverages in individual units -- hates it.

On January 28, 1997, the National Beverage Container Reuse and Recycling Act was introduced and referred to the Senate Commerce Committee. The National Beer Wholesalers Association identified the bill as one of its prime targets.

The bill languished, untouched, until the end of that session -- and died.

It's not the first time McCain has watched that recycling bill die.

In 1992, McCain came under fire in *Mother Jones* magazine, which noted that the Senate Commerce Committee refused to hear a similar measure the day after McCain (then just a member of the committee) purchased between \$250,000 and \$500,000 worth of Anheuser-Busch stock for one of his children. (This purchase was likely made by his wife.)

One Anheuser-Busch pet issue that has received a great deal of attention from McCain is boxing. Since McCain became chairman, the Senate Commerce Committee has held numerous hearings on bills designed to reform the boxing industry, to keep it safe -- and popular. Meanwhile, McCain has attacked so-called "ultimate fighting" promotions, which could be construed as competition for boxing.

Anheuser-Busch is the single largest corporate sponsor of professional boxing.

An analysis of contributions to John McCain's '98 Senate campaign and current

presidential campaign, through last December, reveals he's taken at least \$103,363 from alcohol-related political action committees and employees of the alcohol industry.

(By contrast, he's taken more than \$1 million from the telecommunications industry, \$98,000 from maritime interests and \$59,000 from trucking interests -- other industries with business before his committee. Trucking issues are important to Hensley & Company, which operates a fleet of 300 delivery trucks.)

McCain's recent alcohol money comes from a variety of sources -- hard liquor, wine and beer interests -- but from the beginning of his political career, James Hensley and his associates have been very good to John McCain.

Since 1982, McCain has received the following contributions:

- Hensley & Company employees: at least \$61,063
- National Beer Wholesalers PAC: \$21,000
- Anheuser-Busch employees and PAC: \$33,100

George Hacker, of the Center for Science in the Public Interest, was surprised to hear that McCain accepts beer money.

That raises a question: Why would alcohol interests donate money to McCain if he recuses himself completely from their issue?

Hensley and the National Beer Wholesalers Association did not answer requests for comment. But Anheuser-Busch released this statement, from Stephen Lambright, general counsel:

"Anheuser-Busch has a long tradition of active and responsible corporate citizenship. Like many corporations, we participate in the political process in many ways, including through making contributions. In doing so, we support candidates from both sides of the aisle who best represent the views of our community, our employees, our consumers and our shareholders."

Hacker has another answer: "My guess is they give money because... he can help by being absent, he can help by passing the buck, he can help by not passing the buck."

Budweiser is the King of Beers -- both in the cooler and on Capitol Hill. Anheuser-Busch is the top-selling beer manufacturer in the world. Last year, *Forbes* magazine ranked the company among its "Super 100." Gross sales in 1999 hit \$13.7 billion, with profits of \$1.4

billion.

Anheuser-Busch has long spread that wealth among political parties and elected officials, continually ranking near the top of campaign finance watchdogs' contributor lists. A *New Times* analysis reveals that between 1979 and 1999, Anheuser-Busch employees and its PAC contributed more than \$1.6 million to political campaigns. Since 1993, the company has donated more than \$2 million in soft money to committees on both sides of the aisle.

In addition to campaign contributions, Anheuser-Busch spends hundreds of thousands of dollars each year on lobbyists who work the Hill. A recent hire: Kevin Curtin, former staff director for the Senate Commerce Committee under former chairman Ernest "Fritz" Hollings, a South Carolina Democrat.

The company is backed by a strong beer-industry lobby. The Beer Institute is a force to be reckoned with on the Hill, and the National Beer Wholesalers Association is a huge contributor: The NBWA PAC donated more than \$7 million to campaigns since 1982 and more than \$100,000 in soft money contributions.

Anheuser-Busch has a lot to protect. No alcohol company has had worse press regarding its advertising practices. There's even a group called "Anheuser-Busch Shareholders for Advertising Reform," which holds protests at the company's annual meetings.

In 1996 -- months before the Senate Commerce Committee hearings were scheduled and then canceled -- the Center for Alcohol Advertising released a study that showed that children between 9 and 11 were more likely to recognize the Budweiser frogs than Kellogg's Tony the Tiger, the Mighty Morphin Power Rangers or Smokey the Bear.

Only Bugs Bunny was better known than the frogs.

Like the rest of the alcohol industry, Anheuser-Busch has interests that go beyond the alcohol votes McCain avoids. For example, McCain led the charge to normalize relations with Vietnam at the same time Anheuser-Busch was preparing to enter that market. (A deal the company had to co-own a factory eventually fell through because of copyright problems. A Czech beer called "Bud" is already sold in Vietnam.)

A recent lobbyist disclosure revealed Anheuser-Busch's many interests (along with alcohol, the company owns amusement parks): "The company lobbied on issues related to alcohol abuse and prevention, tobacco abuse prevention, advertising, labeling, and taxation. Anheuser-Busch also worked on endangered species issues, clean air act, recycling, product liability, national tobacco settlement, and transportation spending, as well as international trade including China's Most Favored Nation status and federal budget and

deficit decisions."

Despite his claim, it's impossible for Senator John McCain to recuse himself completely from important issues facing his family's business.

Last month, Anheuser-Busch announced it would once again serve as the primary sponsor of the four official presidential debates to be held this fall -- the last one in St. Louis, the company's hometown. The cost of the local debate, \$550,000, was released, but the total amount Anheuser-Busch will spend to sponsor the events was not made available.

Unless George W. Bush delivers a powerful counterpunch to McCain's swelling bandwagon, John McCain will be standing on the Republican party podium for the debates paid for by the King of Beers.

At his side will be Ms. Bud.

Back home in Phoenix, beer baron James Willis Hensley might smile about the fabulous return on his political investment.

And all three will hope the bright lights will continue distracting voters from a persistent croaking sound echoing from history's murky but noisy swamp.

"Boot."

"Leg."

"Er."

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