

# HOW TWO STONER KIDS FROM MIAMI BEACH BECAME BIG-TIME ARMS DEALERS — UNTIL THE PENTAGON TURNED ON THEM **BY GUY LAWSON**



**HIGH ON WAR**  
David Packouz (left) and Efraim Diveroli at a gun range near Miami. One of the illegal shipments of ammo they supplied to the Afghan army (below).

## ARMS AND

## THE DUDES

**T**HE E-MAIL CONFIRMED IT: EVERYTHING WAS FINALLY back on schedule after weeks of maddening, inexplicable delay. A 747 cargo plane had just lifted off from an airport in Hungary and was banking over the Black Sea toward Kyrgyzstan, some 3,000 miles to the east. After stopping to refuel there, the flight would carry on to Kabul, the capital of Afghanistan. Aboard the plane were 80 pallets loaded with nearly 5 million rounds of ammunition for AK-47s, the Soviet-era assault rifle favored by the Afghan National Army. ✪ Reading the e-mail back in Miami Beach, David Packouz breathed a sigh of relief. The shipment was part of a \$300 million contract that Packouz and his partner, Efraim Diveroli, had won from the Pentagon to arm America's



allies in Afghanistan. It was May 2007, and the war was going badly. After six years of fighting, Al Qaeda remained a menace, the Taliban were resurgent, and NATO casualties were rising sharply. For the Bush administration, the ammunition was part of a desperate, last-ditch push to turn the war around before the U.S. presidential election the following year. To Packouz and Diveroli, the shipment was part of a major arms deal that promised to make them seriously rich.

Reassured by the e-mail, Packouz got into his brand-new blue Audi A4 and headed home for the evening, windows open, the stereo blasting. At 25, he wasn't exactly used to the pressures of being an international arms dealer. Only months earlier, he had been making his living as a massage therapist; his studies at the Educating Hands School of Massage had not included classes in military contracting or geopolitical brinkmanship. But Packouz hadn't been able to resist the temptation when Diveroli, his 21-year-old friend from high school, had offered to cut him in on his burgeoning arms business. Working with nothing but an Internet connection, a couple of cellphones and a steady supply of weed, the two friends – one with a few college credits, the other a high school dropout – had beaten out Fortune 500 giants like General Dynamics to score the huge arms contract. With a single deal, two stoners from Miami Beach had turned themselves into the least likely merchants of death in history.

Arriving home at the Flamingo, his sleek condo with views of the bay, Packouz packed the cone of his Volcano, a smokeless electronic bong. As the balloon inflated with vapors from the high-grade weed, he took a deep toke and felt the pressures of the day drift away into a crisp, clean high.

Dinner was at Sushi Samba, a hipster Asian-Latino fusion joint. Packouz was in excellent spirits. He couldn't believe that he and Diveroli were actually pulling it off: Planes from all over Eastern Europe were now flying into Kabul, laden with millions of dollars worth of grenades and mortars and surface-to-air missiles. But as Packouz's miso-marinated Chilean sea bass arrived, his cellphone rang. It was the freight forwarder he had employed to make sure the ammunition made it from Hungary to Kabul. The man sounded panicked.

Contributing editor GUY LAWSON wrote "Osama's Prodigal Son" in RS 1097.

"We've got a problem," he told Packouz, shouting to be heard over the restaurant's thumping music. "The plane has been seized on the runway in Kyrgyzstan."

The arms shipment, it appeared, was being used as a bargaining chip in a high-stakes standoff between George W. Bush and Vladimir Putin. The Russian president didn't like NATO expanding into Kyrgyzstan, and the Kyrgyzs wanted the U.S. government to pay more rent to use their airport as a crucial supply line for the war in Afghanistan. Putin's allies in the Kyrgyz KGB, it seemed, were holding the plane hostage – and Packouz was

in the global war on terrorism. Tell them that if they fuck with us, they are fucking with the government of the United States of America!"

**P**ACKOUZ AND DIVEROLI had picked the perfect moment to get into the arms business. To fight simultaneous wars in both Afghanistan and Iraq, the Bush administration had decided to outsource virtually every facet of America's military operations, from building and staffing Army bases to hiring mercenaries



"REALLY IN THE BIG TIME"

Diveroli (left) and Packouz at Eurosatory, a Paris arms show. There they met with Heinrich Thomet, a Swiss arms dealer who served as their middleman. "He was a real-life Lord of War," recalls Packouz.

going to be charged a \$300,000 fine for every day it sat on the runway. Word of the seizure quickly reached Washington, and Defense Secretary Robert Gates himself was soon on his way to Kyrgyzstan to defuse the mounting tensions.

Packouz was baffled, stoned and way out of his league. "It was surreal," he recalls. "Here I was dealing with matters of international security, and I was half-baked. I didn't know anything about the situation in that part of the world. But I was a central player in the Afghan war – and if our delivery didn't make it to Kabul, the entire strategy of building up the Afghanistan army was going to fail. It was totally killing my buzz. There were all these shadowy forces, and I didn't know what their motives were. But I had to get my shit together and put my best arms-dealer face on."

Sitting in the restaurant, Packouz tried to clear his head, cupping a hand over his cellphone to shut out the noise. "Tell the Kyrgyz KGB that ammo needs to get to Afghanistan!" he shouted into the phone. "This contract is part of a vital mission

to provide security for diplomats abroad. After Bush took office, private military contracts soared from \$145 billion in 2001 to \$390 billion in 2008. Federal contracting rules were routinely ignored or skirted, and military-industrial giants like Raytheon and Lockheed Martin cashed in as war profiteering went from war crime to business model. Why shouldn't a couple of inexperienced newcomers like Packouz and Diveroli get in on the action? After all, the two friends were after the same thing as everyone else in the arms business – lots and lots of money.

"I was going to make millions," Packouz says. "I didn't plan on being an arms dealer forever – I was going to use the money to start a music career. I had never even owned a gun. But it was thrilling and fascinating to be in a business that decided the fate of nations. Nobody else our age was dealing weapons on an international level."

Packouz and Diveroli met at Beth Israel Congregation, the largest Orthodox synagogue in Miami Beach. Packouz was

older by four years, a skinny kid who wore a yarmulke and left his white dress shirts untucked. Diveroli was the class clown, an overweight kid with a big mouth and no sense of fear. After school, the pair would hang out at the beach with their friends, smoking weed, playing guitar, sneaking in to swim in the pools at five-star hotels. When Packouz graduated, his parents were so concerned about his heavy pot use that they sent him to a school in Israel that specialized in handling kids with drug problems. It turned out to be a great place to get high. "I took acid by the Dead Sea," Packouz says. "I had a transcendental experience."

Returning home, Packouz drifted through two semesters at the University of Florida. Short of cash, he studied massage because it seemed like a better way to make money than flipping burgers. Nights, he sat around with his high school buddies getting high and dreaming of becoming a pop star. He wrote angst rock ballads with titles like "Eternal Moment" – but it was hard to get a break in the music industry. With a shaved head and intense blue eyes, Packouz was plenty smart and plenty ambitious, in his slack-

agency buys and sells more stuff than the Defense Department – everything from F-16s to paper clips and front-end loaders. By law, every Pentagon purchase order is required to be open to public bidding. And under the Bush administration, small businesses like AEY were guaranteed a share of the arms deals. Diveroli didn't have to actually make any of the products to bid on the contracts. He could just broker the deals, finding the cheapest prices and underbidding the competition. All he had to do was win even a minuscule fraction of the billions the Pentagon spends on arms every year and he would be a millionaire. But Diveroli wanted more than that: His ambition was to be the biggest arms dealer in the world – a young Adnan Khashoggi, a teenage Victor Bout.

To get into the game, Diveroli knew he would have to deal with some of the world's shadiest operators – the war criminals, soldiers of fortune, crooked diplomats and small-time thugs who keep militaries and mercenaries loaded with arms. The vast aftermarket in arms had grown exponentially after the end of the Cold War. For decades, weapons had been stockpiled in warehouses through-

tions like Northrop Grumman, Lockheed and BAE Systems. Those companies had entire departments dedicated to selling to the Pentagon. But Diveroli had his own advantages: low overhead, an appetite for risk and all-devouring ambition.

In the beginning, Diveroli specialized in bidding on smaller contracts for items like helmets and ammunition for U.S. Special Forces. The deals were tiny, relatively speaking, but they gave AEY a history of "past performance" – the kind of track record the Pentagon requires of companies that want to bid on large defense contracts. Diveroli got financing from a Mormon named Ralph Merrill, a machine-gun manufacturer from Utah who had worked for his father. Before long, Diveroli was winning Pentagon contracts.

Like all the kids in their pot-smoking circle, Packouz was aware that Diveroli had become an arms dealer. Diveroli loved to brag about how rich he was, and rumors circulated among the stoners about the vast sums he was making, at least compared with their crappy part-time jobs. One evening, Diveroli picked Packouz up in his Mercedes, and the two headed to a party at a local rabbi's house, lured

## THE TWO FRIENDS QUICKLY FELL INTO A DAILY MORNING ROUTINE: WAKE UP, GET BAKED, START WHEELING AND DEALING.

er fashion, but he had no idea what to do with his life.

Efraim Diveroli, by contrast, knew exactly what he wanted to be: an arms dealer. It was the family business. His father brokered Kevlar jackets and other weapons-related paraphernalia to local police forces, and his uncle B.K. sold Glock, Colts and Sig Sauers to law enforcement. Kicked out of school in the ninth grade, Diveroli was sent to Los Angeles to work for his uncle. As an apprentice arms dealer, he proved to be a quick study. By the time he was 16, he was traveling the country selling weapons. He loved guns with a passion – selling them, shooting them, talking about them – and he loved the arms industry's intrigue and ruthless amorality. At 18, after a dispute with his uncle over money, Diveroli returned to Miami to set up his own operation, taking over a shell company his father had incorporated called AEY Inc.

His business plan was simple but brilliant. Most companies grow by attracting more customers. Diveroli realized he could succeed by selling to one customer: the U.S. military. No government

out the Balkans and Eastern Europe for the threat of war against the West, but now arms dealers were selling them off to the highest bidder. The Pentagon needed access to this new aftermarket to arm the militias it was creating in Iraq and Afghanistan. The trouble was, it couldn't go into such a murky underworld on its own. It needed proxies to do its dirty work – companies like AEY. The result was a new era of lawlessness. According to a report by Amnesty International, "Tens of millions of rounds of ammunition from the Balkans were reportedly shipped – clandestinely and without public oversight – to Iraq by a chain of private brokers and transport contractors under the auspices of the U.S. Department of Defense."

This was the "gray market" that Diveroli wanted to penetrate. Still a teenager, he rented a room in a house owned by a Hispanic family in Miami and went to work on his laptop. The government website where contracts are posted is fbo.gov, known as "FedBizOpps." Diveroli soon became adept at the arcane lingo of federal contracts. His competition was mostly big corpora-

by the promise of free booze and pretty girls. Diveroli was excited about a deal he had just completed, a \$15 million contract to sell old Russian-manufactured rifles to the Pentagon to supply the Iraqi army. He regaled Packouz with the tale of how he had won the contract, how much money he was making and how much more there was to be made.

"Dude, I've got so much work I need a partner," Diveroli said. "It's a great business, but I need a guy to come on board and make money with me."

Packouz was intrigued. He was doing some online business himself, buying sheets from textile companies in Pakistan and reselling them to distributors that supplied nursing homes in Miami. The sums he made were tiny – a thousand or two at a time – but the experience made him hungry for more.

"How much money are you making, dude?" Packouz asked.

"Serious money," Diveroli said.

"How much?"

"This is confidential information," Diveroli said.

"Dude, if you had to leave the country tomorrow, how much would you be able to take?"

"In cash?"

"Cold, hard cash."

Diveroli pulled the car over and turned to look at Packouz. "Dude, I'm going to tell you," he said. "But only to inspire you. Not because I'm bragging." Diveroli paused, as if he were about to disclose his most precious secret. "I have \$1.8 million in cash."

Packouz stared in disbelief. He had expected Diveroli to say something like \$100,000, maybe a little more. But nearly \$2 million?

"Dude," was all Packouz said.

**P**ACKOUZ STARTED WORKING with Diveroli in November 2005. His title was account executive. He would be paid entirely in commission. The pair operated out of a one-bedroom apartment Diveroli had by then rented in Miami Beach, sitting opposite each other at a desk in the living room, surrounded by stacks of federal contracts and a mountain of pot. They quickly fell into a daily rou-

best of them. To get the inside dirt on a deal, he would call the official in charge of the contract and pretend to be a colonel or even a general. "He would be toasted, but you would never know it," says Packouz. "When he was trying to get a deal, he was totally convincing. But if he was about to lose a deal, his voice would start shaking. He would say that he was running a very small business, even though he had millions in the bank. He said that if the deal fell through he was going to be ruined. He was going to lose his house. His wife and kids were going to go hungry. He would literally cry. I didn't know if it was psychosis or acting, but he absolutely believed what he was saying."

Above all, Diveroli cared about the bottom line. "Efraim was a Republican because they started more wars," Packouz says. "When the United States invaded Iraq, he was thrilled. He said to me, 'Do I think George Bush did the right thing for the country by invading Iraq? No. But am I happy about it? Absolutely not.' He hoped we would invade more countries because it was good for business."

That spring, when mass protests broke out in Nepal, Diveroli frantically tried to

the room," he would say, "as long as I have the fattest wallet." Or: "If you see a crack in the door, you've got to kick the fucker open." Or: "Once a gun runner, always a gun runner."

"Efraim's self-image was as the modern merchant of death," says Packouz. "He was still just a kid, but he didn't see himself that way. He would go toe-to-toe with high-ranking military officers, Eastern European mobsters, executives of Fortune 500 companies. He didn't give a fuck. He would take them on and win, and then give them the finger. I was following in his footsteps. He told me I was going to be a millionaire within three years - he guaranteed it."

At first, Packouz struggled to land his own deals. Bidding on contracts on fbo.gov was an art; closing a deal was a science. At one point, he spent weeks obsessing over an \$8 million contract to supply SUVs to the State Department in Pakistan, only to lose the bid. But he finally won a contract to supply 50,000 gallons of propane to an Air Force base in Wyoming, netting a profit of \$8,000. "There were a lot of suppliers who didn't know how to work FedBizOpps as well as we

## DIVEROLI WAS THRILLED ABOUT IRAQ: "HE HOPED WE WOULD INVADE MORE COUNTRIES BECAUSE IT WAS GOOD FOR BUSINESS."

tine: wake up, get baked, start wheeling and dealing.

Packouz was about to get a rare education. He watched as Diveroli won a State Department contract to supply high-grade FN Herstal machine guns to the Colombian army. It was a lucrative deal, but Diveroli wasn't satisfied - he always wanted more. So he persuaded the State Department to allow him to substitute Korean-made knockoffs instead of the high-end Herstals - a swap that instantly doubled his earnings. Diveroli did the same with a large helmet order for the Iraqi army, pushing the Pentagon to accept poorer-quality Chinese-made helmets once he had won the contract. After all, it wasn't like the military was buying weapons and helmets for American soldiers. The hapless end-users were foreigners, and who was going to go the extra mile for them?

The Pentagon's buyers were soldiers with little or no business experience, and Diveroli knew how to win them over with a mixture of charm, patriotism and a keen sense of how to play to the military culture; he could *yes sir* and *no sir* with the

put together a cache of arms that could be sold to the Nepalese king to put down the rebellion - heavy weapons, attack helicopters, ammo. "Efraim called it the Save the King Project, but he didn't give a shit about the king," Packouz says. "Money was all he talked about, literally - no sports or politics. He would do anything to make money."

To master the art of federal contracts, Packouz studied the solicitations posted on fbo.gov. The contracts often ran to 30 or 40 pages, each filled with fine print and legalese. As Diveroli's apprentice, Packouz saw that his friend never read a book or a magazine, never went to the movies - all he did was pore over government documents, looking for an angle, a way in. Diveroli called it *squeezing into a deal* - putting himself between the supplier and the government by shaving a few pennies off each unit and reselling them at a markup that undercut his competitors. Playing the part of an arms dealer, he loved to deliver dramatic one-liners, speaking as if he were the star of a Hollywood blockbuster. "I don't care if I have the smallest dick in

did," he says. "You had to read the solicitations religiously."

Once a week or so, the pair would hit the clubs of South Beach to let off steam. Karaoke in a basement bar called the Studio was a favorite. Packouz took his performances seriously, choosing soulful music like U2's "With or Without You" or Pearl Jam's "Black," while Diveroli threw himself into power ballads and country anthems, tearing off his shirt and pumping his fists to the music. Between songs, the two friends would take hits of the cocaine that Diveroli kept in a small plastic bullet with a tiny valve on the top for easy access. Packouz was shy around girls, but Diveroli cut right to the chase, often hitting on women right in front of their boyfriends.

All the partying wasn't exactly conducive to running a small business, especially one as complicated and perilous as arms dealing. As AEY grew, it defaulted on at least seven contracts, in one case failing to deliver a shipment of 10,000 Beretta pistols for the Iraqi army. Diveroli's aunt - a strong-willed and out-



**THE ALBANIAN CONNECTION**

The hangar in Albania (1) where the Chinese ammunition was repackaged (2). After businessman Kosta Trebicka (3) complained about being cut out of the deal, he was killed in a mysterious "accident" (4).

spoken woman who fought constantly with her nephew - joined the two friends to provide administrative support. She didn't approve of their drug use, and she talked openly about them on the phone, as if they weren't present.

"Mark my words," she told Diveroli's mother repeatedly, "your son is going to crash and burn."

"Shut up!" Diveroli would shout, the coldblooded arms dealer giving way to the pissed-off teenager. "You don't know what you're talking about! I made millions last year!"

"Crash and burn," the aunt would say. "Mark my words - crash and burn."

**I**N JUNE, SEVEN MONTHS AFTER Packouz started at AEY, he and Diveroli traveled to Paris for Eurosatory, one of the world's largest arms trade shows. Miles of booths inside the Paris Nord Villepinte exhibition center were filled with arms manufacturers hawking the latest instruments of death - tanks, robots, unmanned drones - and serving up champagne and caviar to some of the most powerful political and military officials on the planet. Packouz and Diveroli were by far the youngest in attendance, but they tried to look the part, wearing dress pants, crisp shirts and sales-rep ties. "Wait until I am really in the big time," Diveroli boasted. "I will own this fucking show."

At a booth displaying a new robotic reconnaissance device, Diveroli and Packouz

met with Heinrich Thomet, a Swiss arms dealer who served as a crucial go-between for AEY. Tall and suave, with movie-star looks and an impeccable sense of fashion, Thomet had blond hair, light-blue eyes and an eerily calm demeanor. He spoke fluent English with a slight German accent, adding "OK" to the beginning and end of every sentence ("OK, so the price on the AKs is firm, OK?"). He seemed to have connections everywhere - Russia, Bulgaria, Hungary. Serving as a broker, Thomet had created an array of shell companies and offshore accounts to shield arms transactions from official scrutiny. He had used his contacts in Albania to get Diveroli a good price on Chinese-made ammunition for U.S. Special Forces training in Germany - a deal that was technically illegal, given the U.S. embargo against Chinese arms imposed after the Tiananmen Square massacre in 1989.

"Thomet could get body armor, machine guns, anti-aircraft rockets - anything," Packouz recalls. "He was one of the best middlemen in the business, a real-life Lord of War."

Like Diveroli, Thomet had been in the business since he was a teenager, and he recognized that the two young upstarts could be useful to him. Thomet was singled out by Amnesty International for smuggling arms out of Zimbabwe in violation of U.S. sanctions. He was also under investigation by U.S. law enforcement for shipping weapons from Serbia to Iraq, and he was placed on a "watch list" by the

State Department. Given the obstacles to selling directly in the United States, Thomet wanted to use AEY as a front, providing him an easy conduit to the lucrative contracts being handed out by the Pentagon.

With Thomet on their side, Diveroli and Packouz soon got the break they were looking for. On July 28th, 2006, the Army Sustainment Command in Rock Island, Illinois, posted a 44-page document titled "A Solicitation for Nonstandard Ammunition." It looked like any other government form on fbo.gov, with blank spaces for names and telephone numbers and hundreds of squares to be filled in. But the document actually represented a semi-covert operation by the Bush administration to prop up the Afghan National Army. Rather than face a public debate over the war in Afghanistan, which was going very badly indeed, the Pentagon issued what is known as a "pseudo case" - a solicitation that permitted it to allocate defense funds without the approval of Congress. The pseudo case wasn't secret, precisely, but the only place it was publicized was on fbo.gov. No press release was issued, and there was no public debate. The money was only available for two years, so it had to be spent quickly. And unlike most federal contracts, there was no dollar limit posted; companies vying for the deal could bid whatever they wanted.

Based on the numbers, it looked like it was going to be a lot of money. The Army

wanted to buy a dizzying array of weapons – ammunition for AK-47 assault rifles and SVD Dragunov sniper rifles, GP 30 grenades, 82 mm Russian mortars, S-KO aviation rockets. The quantities were enormous – enough ammo to literally create an army – and the entire contract would go to a single bidder. “One firm fixed-price award, on an all-or-none basis, will be made as a result of this solicitation,” the tender offer said.

The solicitation was only up for a matter of minutes before Diveroli spotted it, reading the terms with increasing excitement. He immediately called Packouz, who was driving along the interstate.

“I’ve found the perfect contract for us,” Diveroli said. “It’s enormous – far, far bigger than anything we’ve done before. But it’s right up our alley.”

**T**HE PAIR MET AT DIVEROLI’S apartment to smoke a joint and discuss strategy. Supplying the contract would mean buying up hundreds of millions of dollars worth of ammunition for the kind of Eastern Bloc weapons that the Afghans used. Because such weapons were traded in the gray market – a world populated by illegal arms dealers, gun runners and warlords – the Pentagon couldn’t go out and buy the ammo itself without causing a public relations disaster. Whoever won the contract to arm the Afghans would essentially be serving as an official front operation, laundering shady arms for the Pentagon.

Normally, a small-time outfit like AEY wouldn’t have a shot at such a major defense contract. But Diveroli and Packouz had three advantages. First, the Bush administration had started its small-business initiative at the Pentagon, mandating that a certain percentage of defense contracts go to firms like AEY. Second, the fledgling arms dealers specialized in precisely the sort of Cold War munitions the Pentagon was looking for: They had the “past performance” required by the contract, and they could fulfill the order using the same supply lines Diveroli had developed through Thomet. Third, the only requirement in the contract was that the ammunition be “serviceable without qualification.” As Diveroli and Packouz interpreted it, that meant the Pentagon didn’t care if they supplied “shit ammo,” as long as it “went bang and went out of the barrel.”

For the two friends, it was a chance to enter a world usually reserved for multinational defense contractors with armies of well-connected lobbyists. “I knew it was a long shot,” recalls Packouz. “But it seemed like we might be able to actually compete with the big boys. I thought we actually had a chance. If we worked hard. If we got lucky.”

Bidding on defense contracts is a speculative business – laborious, time-consuming, with no prize for second place. As they passed a joint back and forth, Diveroli decided it was time for Packouz to step up and take on a larger role.

“I don’t really have time to source all these things,” he told Packouz. “But I’ve got good contacts for you to start with. I want you to get on the Internet and get a price from everyone and his mother. Any new sources you bring to the table, I’ll give you 25 percent of the profit.”



MUNITIONS DUMP

An Afghan officer examines some of the ammunition that AEY delivered in crumbling boxes to his police post in Nawa, Afghanistan. The Chinese ammo was four decades old.

This was Packouz’s big chance. That night, he went online and searched defense databases for every arms manufacturer in Eastern Europe he could find – Hungary, Bulgaria, Ukraine, any place that might deal in Soviet-era weapons. He e-mailed or faxed or called them all. The phone connection was often bad, and Packouz had to shout to be heard. If the person who answered didn’t speak English, he would say “English! English! English!” and then spend minutes on hold while they tracked down the one guy in the outfit who spoke a few words. “Da, da,” they would tell Packouz. “You buy, you buy.” When he managed to make himself understood, he told the manufacturers that the ammunition had to “work.” It also had to “look good,” and not be in rusty boxes or exposed to the elements.

For six weeks, Packouz worked through the night, sleeping on Diveroli’s couch and surviving on weed and adrenaline. He located stockpiles of ammunition in Eastern Europe at good prices. At the same time, Heinrich Thomet sourced a massive amount of ammunition through his Alba-

nian connections. As the date for the final bid neared, Diveroli agonized. He paced day and night, a cloud of smoke over his head as he smoked joint after joint, muttering, worrying, cursing.

“Efraim was conflicted about whether to put a nine percent or 10 percent profit margin on top of our prices,” Packouz recalls. “The difference was more than \$3 million in cash, which was huge – but with either margin, profits were going to be more than \$30 million. He figured everyone else was going to take 10 percent, but what if another bidder had the same

idea as him and put in nine percent? So maybe he should go with eight percent. But then we might be leaving money on the table – God forbid!”

Finally, at the last possible moment, Diveroli went for nine percent. He scribbled a number on the form: \$298,000,000. It was an educated guess, one he prayed wouldn’t be undercut by the big defense contractors. There were just 10 minutes left before the application deadline. The two friends jumped in Diveroli’s car and sped through the quiet residential streets of Miami Beach, making it to the post office with only seconds to go.

**T**HE PENTAGON CAN BE A slow-moving bureaucracy, a place where paperwork goes to die. But because the Afghanistan solicitation was a “pseudo case,” it had been designed to move swiftly. On the evening of January 26th, 2007, Packouz was parking his beat-up old Mazda Protege when Diveroli called.

“I have good news and bad news,” Diveroli said.

“What’s the bad news?” Packouz asked. “Our first order is only for \$600,000.”

“So we won the contract?” Packouz asked in disbelief.

“Fuck yeah!” said Diveroli.

The two friends, still in their early twenties, were now responsible for one of the central elements of the Bush administration’s foreign policy. Over multiple bottles of Cristal at an upscale Italian restaurant, the pair toasted their amazing good fortune. Throughout the meal they passed Diveroli’s cocaine bullet back and forth under the table, using napkins to pretend to blow their noses.

“You and me, buddy,” Diveroli said. “You and me are going to take over this industry. I see AEY as a \$10 billion company in a few years. These fat cats in their boardrooms worrying about the stock prices of their companies have no idea what is about to hit them.”

“General Dynamics isn’t going to be too happy right now,” Packouz agreed.

Despite the celebratory air, they both knew that their work had just begun. They had already managed to clear three different government audits, hiring an accoun-

the contract. The company and Diveroli had both been placed on the State Department “watch list” for importing illegal firearms. But the Pentagon failed to check the list. It also ignored the fact that AEY had defaulted on prior contracts. Initially rated as “unsatisfactory” by the contracting office, AEY was upgraded to “good” and then “excellent.”

There was only one explanation for the meteoric rise: Diveroli had radically underbid the competition. In private conversations, the Army’s contracting officers let AEY know that its bid was at least \$50 million less than its nearest rival. Diveroli’s anxiety that his bid of nearly \$300 million would be too high had failed to consider the corpulent markups employed by corporate America when it deals with the Pentagon. For once, at least, taxpayers were getting a good deal on a defense contract.

The first Task Order that AEY received on the deal was for \$600,000 worth of grenades and ammunition – a test, Diveroli surmised, to make sure they could deliver as promised. Make a mistake, no matter the reason, and the Pen-

Packouz calculated that even with the tight margins, he stood to make as much as \$6 million on the contract. But he wasn’t so sure that AEY was going to be able to deliver. Diveroli had already hit the road, traveling to the Ukraine, Montenegro and the Czech Republic in search of suppliers. So Packouz would have to tend to most of the Afghanistan contract by himself – a job that any conventional defense contractor would have assigned to dozens of full-time, experienced employees.

In February 2007, saddled with a gargantuan task, Packouz went by himself to the annual International Defense Exhibition in Abu Dhabi to look for suppliers. “It was bizarre,” he says. “I was just a kid, but I was probably the single biggest private arms dealer on the planet. It was like Efraim had put me into the movie he was starring in.” To look the part of an international arms dealer, Packouz carried a silver aluminum briefcase and wore wraparound shades. He also had business cards printed up with an impressive new title, considering he was part of a two-man operation: vice president.

## AMONG ARMS DEALERS, SUBVERTING THE LAW IS A POINT OF PRIDE. THERE’S EVEN A TERM OF ART FOR IT: CIRCUMVENTION.

tant to establish the kind of basic book-keeping systems that any cafe or corner store would have. Now, a few weeks after winning the contract, AEY was suddenly summoned to a meeting with the purchasing officers at Rock Island.

Diveroli asked Ralph Merrill, the Mormon gun manufacturer from Utah, to come along. An experienced businessman in his sixties, Merrill had provided the financial backing needed to land the contract, pledging his interest in a piece of property in Utah. Diveroli had also shown auditors his personal bank balance, by then \$5.4 million.

The meeting with Army officials proved to be a formality. Diveroli had the contracting jargon down, and he sailed through the technical aspects of the transaction with confidence: supply sources, end-user certificates, AEY’s experience. No one ever asked his age. “We were supremely confident,” says Packouz. “I just think it never occurred to the Army people that they were dealing with a couple of dudes in their early twenties.”

In reality, the Pentagon had good reason to disqualify AEY from even vying for

the entire \$298 million contract.

After their celebratory dinner the night they received the contract, the two friends headed for Diveroli’s brand-new Audi. As Diveroli arranged a line of coke on the dashboard, he warned Packouz not to make any mistakes with the grenades.

“You’ve got the bitch’s panties off,” Diveroli said, adopting his best movie-star swagger. “But you haven’t fucked her yet.”

**D**IVEROLI AND PACKOUZ needn’t have worried. They had barely gotten started on the order for grenades when the second Task Order arrived. This time, it was for more than \$49 million in ammunition – including 100 million rounds of AK ammo and more than a million grenades for rocket launchers. There was no question now. The Pentagon was ecstatic to award the contract to a tiny company like AEY, which helped fulfill the quota set by Bush’s small-business initiative.

In Abu Dhabi, Packouz hoped to find a single supplier big enough to meet most of AEY’s demands. The obvious candidate was Rosoboron Export, the official dealer for all Russian arms. The company had inherited the Soviet Union’s global arms-exporting empire; now, as part of Vladimir Putin’s tightly held network of oligarchic corporations, Rosoboron sold more than 90 percent of Russia’s weapons. The firm was so big that Packouz could have just given them the list of ammunition he needed and they could have supplied the entire contract, a one-stop weapons shop.

But there was a catch, the kind of perversity common in the world of arms dealing: Rosoboron had been banned by the State Department for selling nuclear equipment to Iran. The U.S. government wanted Russian ammo, just not from the Russians. AEY couldn’t do business with the firm – at least, not legally. But for gun runners, this kind of legal hurdle was just that – a hurdle to be jumped.

Packouz went to the main Russian pavilion every day to try to get an appointment with the deputy director [Cont. on 72]

TYLER HICKS/NEW YORK TIMES/REXUS

## ARMS AND THE DUDES

[Cont. from 59] of Rosoboron. The giant exhibit was like a souk for arms dealers, with scores of Russian generals in full-dress uniform meeting with businessmen and sheiks. Finally, on the last day, Packouz was given an appointment. The deputy director looked like he was ex-KGB – big and fat, in his sixties, with thick square glasses. As Packouz spoke, the man kept surveying the pavilion out of the corner of his eye, as if he were checking to see if he was being watched. Packouz showed him the list of munitions he needed, along with the quantities. The director raised his eyebrows, impressed by the scale of the operation.

“We have very good interest in this business,” he said in a thick Russian accent. “You know we are only company who can provide everything.”

“I’m aware of that,” Packouz said. “That’s why we want to do business with you.”

“But as you know, there is problem. State Department has blacklist us. I don’t understand your government. One month is OK to do business, next month is not OK. This is very not fair. Very political. They just want leverage in dealing with Kremlin.”

“I know we can’t do business with you directly,” Packouz said. Then he hinted that there was a way to get around the blacklist. “If you can help us do business with another Russian company, then we can buy from them.”

“Let me talk to my people,” the Russian said, taking one of Packouz’s newly printed business cards.

It was the last Packouz ever heard from the Russian. Several weeks later, as he was arranging supply routes for the deal, Packouz was informed that AEY would not be given overflight permission for Turkmenistan, a former Soviet satellite that had to be crossed to reach Afghanistan. “It was clear that Putin was fucking with us directly,” Packouz says. “If the Russians made life difficult for us, they would get taken off the American blacklist, so they could get our business for themselves.”

Packouz managed to obtain the overflight permission through a Ukrainian airline – but the episode was an ominous reminder of how little he understood about the business he was in. “There was no way to really know why the heads of state were doing things, especially when it came to something like invading Iraq,” he says. “It was such a deep game, we didn’t know what was really happening.”

WITH THE FLIGHTS TO KABUL arranged, Packouz hit the phones looking for more ammunition. The cheaper the better: The less the ammo cost, the more he and Diveroli would pocket for themselves. They didn’t

need quality; antique shells, second-rate mortar rounds – all of it was fine, as long as it worked. “Please be advised there is no age restriction for this contract!!!” AEY advised one potential supplier in an e-mail. “ANY age ammunition is acceptable.”

Of course, if the Pentagon really cared about the Afghan National Army, it could have supplied them with more expensive, and reliable, state-of-the-art weapons. The Bush administration’s ambivalence about Afghanistan had manifested itself in the terms of the contract: The soldiers of Kabul and Kandahar would not be abandoned in the field, but nor would they be given the tools to succeed.

Packouz sat on the couch in Diveroli’s apartment, bong and lighter handy, and called U.S. Embassies in the “stans” – the former Soviet satellites – and asked to speak to the defense attache. Deepening his voice and adopting a clipped military inflection, Packouz chatted them up,

## Packouz’s heart sank. The rusty containers holding the ammunition – known as “sardine cans” – were covered in Chinese markings.

made them laugh, asked about how things were in Kazakhstan, described how sunny it was in Miami. Whenever possible, he threw in military lingo designed to appeal to the officers: He was working on an essential contract in the War on Terror, he explained, and the United States military was counting on AEY to complete the mission. “I said it was part of the vital process of nation building in the central front of the War on Terror,” Packouz recalls. “Then I would tell them the specifics of what I was after – mortar rounds, the size of ammo, the amount. They were all eager to help.”

Every day, Packouz spoke with military officials, sending volleys of e-mails to Kabul and Kyrgyzstan and the Army depot in Rock Island. The contracting officers he dealt with told him that there was a secret agenda involved in the deal. The Pentagon, they said, was worried that a Democrat would be elected president in 2008 and cut the funding for the war – or worse, pull U.S. troops out of Afghanistan entirely.

“They said Bush and Rumsfeld were trying to arm Afghanistan with enough

ammo to last them the next few decades,” Packouz recalls. “It made sense to me, but I didn’t really care. My main motivator was making money, just like it was for General Dynamics. Nobody goes into the arms business for altruistic purposes.”

It didn’t take long for AEY to strike cut-rate deals that vastly improved its profit margin. The nine percent planned for in the original bid was soon pushing toward 25 percent – enough to provide Packouz and Diveroli with nearly \$85 million in profits. But even such a jaw-dropping sum didn’t satisfy Diveroli. He scoured FedBizOpps for even more contracts and landed a private deal to import Lithuanian ammo, determined to turn AEY into a multibillion-dollar company.

To cope with the increased business, AEY leased space in a larger and more expensive office building in Miami Beach. The company hired an office manager and two young secretaries they found on Craigslist. Diveroli brought in two more friends from the synagogue, including a guy fluent in Russian, to help fulfill the contracts. “Things were rolling along,” Packouz recalls. “We were delivering on a consistent basis. We had suppliers in Hungary and Bulgaria and other countries. I had finally arranged all the overflight permits. We were cash positive.”

Packouz had yet to be paid a cent, but he was convinced he was about to be seriously rich. Anticipating the big payday, he ditched his beater Mazda for a brand-new Audi A4. He moved from his tiny efficiency apartment to a nice one-bedroom overlooking the pool at the Flamingo in fashionable South Beach. Diveroli soon followed, taking a two-bedroom in the central tower. It was convenient for both – their drug dealer, Raoul, lived in the complex.

“The Flamingo was a constant party,” Packouz says. “The marketing slogan for the building was ‘South Beach revolves around us,’ and it was true. There was drinking, dancing, people making out in the Jacuzzi – sometimes more than just making out. Outside my balcony there was always at least a few women sunbathing topless. People at parties would ask us what we did for a living. The girls were models or cosmetologists. The guys were stockbrokers and lawyers. We would say we were international arms dealers. ‘You know the war in Afghanistan?’ we would say. ‘All the bullets are coming from us.’ It was heaven. It was wild. We felt like we were on top of the world.”

In the evenings, Packouz and Diveroli would get high and go to the American Range and Gun Shop – the only range near Miami that would let them fire off the Uzis and MP5s that Diveroli was licensed to own. “When we let go with our machine guns, all the other shoot-

ers would stop and look at us like, ‘What the fuck was that?’ Everyone else had pistols going *pop pop*. We loved it. Shooting an automatic machine gun feels powerful.”

THE BIGGEST PIECE OF THE Afghan contract, in terms of sheer quantity, was ammunition for AK-47s. Packouz had received excellent quotes from suppliers in Hungary and the Czech Republic. But Diveroli insisted on using the Swiss arms dealer Heinrich Thomet’s high-level contacts in Albania. The move made sense. The Albanians didn’t require a large deposit as a down payment, which made it easier for AEY to place big orders. And Albania’s government could certainly handle the volume: Its paranoid communist leaders had been so convinced they were going to be attacked by foreign powers that they had effectively transformed the nation into a vast military stockpile, with bunkers scattered throughout the countryside. In fact, AK-47 ammunition was so plentiful that Albania’s president had recently flown to Baghdad and offered to donate millions of rounds to Gen. David Petraeus.

The structure for AEY’s purchase of the Albanian ammo was standard in the world of illegal arms deals, where the whole point is to disguise origins and end-users. It was perfectly legal, but it had the stench of double-dealing. A shell company called Evdin, which Thomet had incorporated in Cyprus, would buy the ammo from Albania’s arms-exporting company. Evdin would then resell the rounds to AEY. That way Thomet got a cut as broker, and AEY and the U.S. government were insulated from any legal or moral quandaries that came with doing business in a country as notoriously corrupt and unpredictable as Albania.

There was only one snag: When Diveroli bid on the contract, he had miscalculated the cost of shipping, failing to anticipate the rising cost of fuel. The Army had given him permission to repackage the rounds into cardboard boxes, but getting anything done in a country as dysfunctional as Albania wasn’t easy. So Diveroli dispatched another friend from their synagogue, Alex Podrizki, to the capital city of Tirana to oversee the details of fulfilling the deal.

Despite the hands-on approach, signs of trouble emerged immediately. When Podrizki went to look at a cache of ammunition in one bunker, it was apparent that the Albanians had a haphazard attitude about safety; they used an ax to open crates containing live rounds and lit cigarettes in a room filled with gunpowder. The ammunition itself, though decades old, seemed to be in working order, but the rounds were stored in rusty cans and stacked on rotting wooden pallets –

not the protocol normally used for such dangerous materiel. Worst of all, Podrizki noticed that the steel containers holding the ammunition – known as “sardine cans” – were covered in Chinese markings. Podrizki called Packouz in Miami.

“I inspected the stuff and it seems good,” Podrizki told him. “But dude, you know this is Chinese ammo, right?”

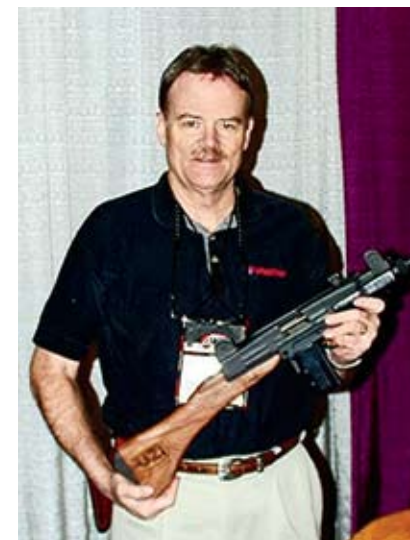
“What are you talking about?” Packouz said.

“The ammo is Chinese.”

“How do you know it’s Chinese?”

“There are Chinese markings all over the crates.”

Packouz’s heart sank. There was not only an embargo against selling weapons manufactured in China: The Afghan con-



THE MONEY MAN

Ralph Merrill, the Mormon machine-gun manufacturer who helped finance AEY’s contract with the Pentagon

tract specifically stipulated that Chinese ammo was not permitted. Then again, maybe AEY could argue that the ammunition didn’t violate the ban, since it had been imported to Albania decades before the embargo was imposed, back when Albania’s communist government had forged an alliance with Mao. There was precedent for such an argument: Only the year before, the Army had been delighted with Chinese ammo that AEY had shipped from Albania. But this time, when Diveroli wrote the State Department’s legal advisory desk to ask if he could use Chinese rounds made prior to the embargo, he received a curt and unequivocal reply: not without a presidential decree.

Given the deadline on the contract, there was no time to find another supplier. The Hungarians could fill half the deal, but the ammunition would not be ready for shipment until the fall; the Czechs could fill the entire order, but they wanted \$1 million. Any delay would risk losing

the entire contract. “The Army was pushing us for the ammo,” says Packouz. “They needed it ASAP.”

So the two friends chose a third option. As arms dealers, subverting the law wasn’t some sort of extreme scenario – it was a routine part of the business. There was even a term of art for it: *circumvention*. Packouz e-mailed Podrizki in Albania and instructed him to have the rounds repackaged to get rid of any Chinese markings. It was time to circumvent.

Alone in a strange city, Podrizki improvised. He picked up a phone book and found a cardboard-box manufacturer named Kosta Trebicka. The two men met at a bar near the Sky Tower in the center of town. Trebicka was in his late forties, a wiry and intense man with thick worker’s hands. He told Podrizki that he could supply cardboard boxes strong enough to hold the ammunition, as well as the labor to transfer the rounds to new pallets. A week later, Podrizki called to ask if Trebicka could hire enough men to repack 100 million rounds of ammunition by taking them out of metal sardine cans and placing them in cardboard boxes. Trebicka thought the request exceedingly odd. Why go to all that trouble? Podrizki fibbed, saying it was to lighten the load and save money on air freight. After extended haggling with Diveroli back in Miami, Trebicka agreed to do the job for \$280,000 and hired a team of men to begin repackaging the rounds.

As he worked at the warehouse, however, Trebicka grew even more suspicious. Concerned that something nefarious was happening, he called the U.S. Embassy and met with the economic attache. Over coffee at a cafe called Chocolate, Trebicka confided that the ammunition was covered in Chinese markings. Was that a problem? Not at all, the U.S. official replied. The embassy had been trying to find the money to pay for demolishing the ammunition, so sending the rounds to Afghanistan would actually do them a favor. AEY appeared to be in the clear.

But greed got the better of Diveroli. In a phone call from Miami, he asked Trebicka to use his contacts in the Albanian government to find out how much Thomet was paying the Albanians for the ammunition. AEY was giving the Swiss arms broker just over four cents per round and reselling them to the Pentagon for 10 cents. But Diveroli suspected that Thomet was ripping him off.

He turned out to be right. A few days later, Trebicka reported that Thomet was paying the Albanians only two cents per round – meaning that he was charging AEY double the asking price, just for serving as a broker. Diveroli was enraged. He asked Trebicka to meet with his Albanian connections and find a way to cut Thomet out of the deal entirely.

Trebicka was happy to help. The Albanians, he thought, would be glad to deal with AEY directly. After all, by doing an end run around Thomet, there would be more money for everyone else. But when Trebicka met with the Albanian defense minister, his intervention had the opposite effect: The Albanians cut him out of the deal, informing AEY that the repackaging job would be completed instead by a friend of the prime minister's son. What Trebicka had failed to grasp was that Thomet was paying a kickback to the Albanians from the large margin he was making on the deal. Getting rid of Thomet was impossible, because that was how the Albanians were being paid off the books.

Diveroli flew to Albania and tried to intervene to help Trebicka keep the job, but he didn't have enough clout to get the decision reversed. Trebicka was stuck with the tab for the workers he had hired to repackage the rounds, along with a warehouse full of useless cardboard boxes he had printed to hold the ammo. Furious at being frozen out, he called Diveroli and secretly recorded the conversation, threatening to tell the CIA what he knew about the deal. "If the Albanians want to still work with me, I will not open my mouth," he promised. "I will do whatever you tell me to do."

Diveroli suggested that Trebicka try bribing Ylli Pinari, the head of the Albanian arms-exporting agency that was supplying the ammunition. "Why don't you kiss Pinari's ass one more time," Diveroli said. "Call him up. Beg. Kiss him. Send one of your girls to fuck him. Let's get him happy. Maybe we can play on his fears. Or give him a little money, something in his pocket. And he's not going to get much - \$20,000 from you."

When Trebicka complained about being muscled out of the deal, Diveroli said there was nothing he could do about it. There were too many thugs involved on the Albanian end of the deal, and it was just too dangerous. "It went up higher, to the prime minister and his son," Diveroli said. "This mafia is too strong for me. I can't fight this mafia. It got too big. The animals just got too out of control."

**W**ITH THINGS UP IN THE AIR in Albania, Packouz was starting to feel the pressure. He was stressed out, working around the clock, negotiating multimillion-dollar purchases and arranging for transportation. It felt like AEY was under siege from all directions. So when the cargo plane had finally taken off from Hungary on its way to Kabul loaded with 5 million rounds of ammunition, Packouz had breathed a sigh of relief. Then the plane had been abruptly seized in Kyrgyzstan - and Packouz had been forced to swing into action

once more, working the phones for weeks to get the ammo released. Fortunately, AEY had friends in high places. When Packouz contacted the U.S. Embassy in Kyrgyzstan, the military attache immediately wrote to the Kyrgyz government, explaining that the cargo was "urgently needed for the war on terrorism being fought by your neighboring Afghan forces." Two weeks later, Defense Secretary Robert Gates traveled to Kyrgyzstan on a mission to keep supplies flowing through the airport there. Under pressure from top U.S. officials, the ammo was eventually released.

"I never did find out what really happened, or why the plane was seized," says Packouz. "It was how things were done in international arms dealing. The defense industry and politics were extremely intertwined - you couldn't do business in one without dealing with the other. Your fate depended on political machinations behind the scenes. You don't even know whose side you were on - who you were helping and who you were hurting."

With the plane released and the Albanian supply line secured, Packouz and Diveroli thought they finally had everything under control. Cargo planes filled with ammunition were taking off from airports across Eastern Europe. The military officials receiving the ammo in Kabul had to know it was Chinese: Every round is stamped with the place of manufacture, as any soldier knows. But the shipments were routinely approved, and there were no complaints from the Afghans about the quality of the rounds. The ammo worked, and that was all that mattered. Millions of dollars were being transferred via wire from the Pentagon into AEY's accounts, and the \$300 million contract was moving along smoothly. Diveroli was rich. Packouz was going to be rich. They had it made.

But it didn't take long for success to drive a wedge between the two friends. The exhausted Packouz no longer had to work 18 hours a day to track down suppliers. He started coming in late and knocking off early. Diveroli, who owed him commission but had yet to cut a check to his partner, started to argue with him about his hours.

"Efraim started looking at me differently," Packouz says. "I could tell he was working things over in his head. There was real money in the bank - millions and millions. He was about to be forced to pay me a huge chunk of change. He said he didn't want to 'give' me all that money. That was how he put it. Not like I had earned the money."

One day, Diveroli finally made his move. He wanted to renegotiate the deal. Packouz knew he was in a bad bargaining position. The money coming in from the Army went directly to AEY. Packouz

had no written contract with Diveroli, only an oral agreement. The handshake deal they had made was worth just that - a handshake.

In an effort to protect his interests, Packouz demanded a meeting with lawyers present. Before the session, the two friends had a quick exchange.

"Listen, dude, if you fuck me, I'm going to fuck you," Packouz warned.

"Whatever," said Diveroli.

"It's going to be war," Packouz said. Then he played his trump card. "You don't want the IRS starting to come and look around."

Diveroli's face went white.

"Calm down," Diveroli said. "Don't throw around three-letter words like IRS. We can find a settlement."

"I know all of your contacts, and I can send them the actual documents showing what the government is paying," Packouz said. "You'll lose your entire profit margin."

"Take it easy," said Diveroli.

"We both know you're delivering Chinese," Packouz said.

A deal was struck, with Packouz agreeing to a fraction of the commission he had been promised. He figured he had something more precious than money: He knew how to work FedBizOpps. To compete with his former partner, he opened up his own one-man shop, Dynacore Industries, claiming on his website that his "staff" had done business with the State Department, the Pentagon, and the Iraqi and Afghan armies. "Sometimes you have to fake it until you make it," Packouz says. "People won't do business with you unless you have experience, but how can you get experience if they won't do business with you? Everyone has got to lie sometimes." Fearing that Diveroli might decide it was cheaper to have him killed than to pay him, Packouz also bought a .357 revolver as insurance.

**I**T TURNED OUT THAT PACKOUZ HAD bigger things to worry about. Winning the Afghan contract had earned AEY powerful enemies in the industry. One American arms dealer had complained to the State Department, claiming that AEY was buying Chinese-made AK-47s and shipping them to the Iraqi army. The allegation was false, but it had apparently triggered a criminal investigation by the Pentagon. On August 23rd, 2007 - the very day Packouz was supposed to sign the settlement papers with Diveroli - federal agents raided AEY's offices in Miami Beach. Ordering everyone to step away from their computers, the agents seized all of the company's hard drives and files.

The raid led agents directly to the e-mails about the Chinese markings on the ammunition from Albania, and the conspiracy to repackage it. "The e-mails

were incredibly incriminating - they spelled out everything," Packouz says. "I knew once they saw them we were in trouble. We were so stupid. If we didn't e-mail, we could probably have denied the whole thing. But there were the names and dates. It was undeniable. I realized I was going to get caught no matter what I did, so I turned myself in. When the agents came to my lawyer's office to interview me, they were joking about how they had seen all the e-mails and notes. They were laughing."

To avoid indictment, Packouz agreed to cooperate, as did Alex Podrizki. But Diveroli went right on shipping Chinese ammo to Afghanistan - and the Army went right on accepting it. By now, though, the repackaging being done in Albania was getting even sloppier. Some of the crates were infested with termites, and the ammunition had been damaged by water. Tipped off by an attorney for Kosta Trebicka, who had begun a crusade against corruption in Albania, *The New York Times* ran a front-page story in March 2008 entitled "Supplier Under Scrutiny on Arms for Afghans."

Before the *Times* story ran, Packouz had been led to believe that he wasn't going to be charged for shipping pre-embargo Chinese ammunition. But after the article appeared, he and Podrizki and Diveroli were indicted on 71 counts of fraud. Faced with overwhelming evidence, all pleaded guilty. The Mormon gun manufacturer from Utah, Ralph Merrill, pleaded not guilty and was convicted in December. Heinrich Thomet simply vanished; according to rumors, he was last seen somewhere in Bosnia.

After the story broke, Kosta Trebicka traveled to the United States to talk to congressional investigators and federal prosecutors in Miami. He soon became terrified that the U.S. government was going to indict him as well. But back in Albania, he also became the lead witness in a case that targeted Albanian thugs and gangsters with ties to the prime minister. Then one afternoon in September 2008, Trebicka was killed in a mysterious "accident" when his truck somehow managed to flip over on a flat stretch of land outside Tirana. He was found alive by villagers, but medical crews and the police were slow to arrive. One of the first officials on the scene, in fact, was the Albanian prime minister's former bodyguard. "If it was an accident," says Erion Veliaj, an Albanian activist who worked with Trebicka, "it was a very strange kind."

Through all the chaos, Diveroli and Packouz had done a huge amount of business with the U.S. military. All told, AEY made 85 deliveries of munitions to Afghanistan worth more than \$66 million, and had already received orders for another \$100 million in ammunition. But

the fiasco involved more than a couple of stoner kids who made a fortune in the arms trade. "The AEY contract can be viewed as a case study in what is wrong with the procurement process," an investigation by the House Committee on Oversight and Government Reform later concluded. There was a "questionable need for the contract," a "grossly inadequate assessment of AEY's qualifications" and "poor execution and oversight" of the contract. The Bush administration's push to outsource its wars in Iraq and Afghanistan, in short, had sent companies like AEY into the world of illegal arms dealers - but when things turned nasty, the federal government reacted with righteous indignation.

In January, Packouz was sentenced to seven months of house arrest after he stood before a federal judge in Miami and

## The Pentagon outsourced two wars, pushing firms like AEY into the illegal arms market - then reacted with indignation when things turned nasty.

expressed his remorse for the "embarrassment, stress and heartache that I have caused." But his real regret is political: He believes that he and Diveroli were scapegoats, prosecuted not for breaking the law but for embarrassing the Bush administration. No one from the government has been charged in the case, even though officials in both the Pentagon and the State Department clearly knew that AEY was shipping Chinese-made ammunition to Afghanistan.

"We were the Army's favorite contractors when we got the deal - poster boys for President Bush's small-business initiative," Packouz says. "We would have saved the government at least \$50 million. We were living the American dream, until it turned into a nightmare."

**I**N JANUARY, DRESSED IN A TAN prison-issued jumper, Diveroli came before Judge Joan Lenard for sentencing at Miami's gleaming new federal courthouse. The court was packed with his friends and relatives, but they didn't exactly give him the support he was hoping for. "Efraim needs to go to jail," a local rabbi told the judge. Even Diveroli's mother concurred. "I know you hate me for saying this," she said, addressing her

son directly, "but you need to go to jail." Diveroli's shoulders slumped.

Diveroli described his contrition to Judge Lenard. When prison guards saw his file, he said, they asked in amazement how such a young person had managed to win such a huge military contract. "I have no answer," Diveroli told the court. "I have had many experiences in my short life. I have done more than most people can dream of. But I would have done it differently. All the notoriety in my industry and all the good times - and there were some - cannot make up for the damage."

Judge Lenard gazed at Diveroli for a long time. "If it wasn't so amazing, you would laugh," she said. Then she sentenced him to four years.

The hearing was not the end of Diveroli's woes. As a convicted felon, he was barred from so much as holding a gun, let alone selling arms. But while he was awaiting sentencing on the fraud charges, Diveroli couldn't stay out of the business he loved. He contrived to act as a consultant to a licensed importer who wanted to buy Korean-made ammunition magazines. The deal was technically legal - the magazines only fed ammo into the guns, so Diveroli wasn't actually selling weapons - but it put him in the cross hairs of another federal sting operation.

An ATF agent posing as an arms dealer spent weeks trying to wheedle Diveroli into selling arms. Diveroli refused, but he couldn't resist bragging about his exploits; as agents recorded his every word, he talked about hunting alligators and hogs in the Everglades with a .50-caliber rifle. Finally, the ATF agent lured Diveroli to a meeting, asking him to bring along a gun so they could go shooting together. Diveroli didn't bring a weapon - he knew that would constitute a felony. But the ATF agent, who had thoughtfully brought along a gun of his own, handed Diveroli a Glock to try out.

The temptation was too much. Adopting his best tough-guy swagger, Diveroli cleared the chamber and inspected the weapon. As always, the 24-year-old arms dealer was the star of his own Hollywood movie. No matter what happened, he told the agent moments before his arrest, he would never leave the arms business.

"Once a gun runner," he boasted, "always a gun runner." **CS**

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