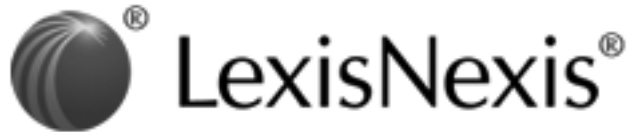


# **EXHIBIT 11**



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January 1, 2010

**SECTION:** Pg. 70(9) Vol. 57 No. 1 ISSN: 0032-1478

**ACC-NO:** 219177486

**LENGTH:** 5978 words

**HEADLINE:** The man who conned the pentagon: Dennis Montgomery claimed he could intercept satellite transmissions being sent to Al Qaeda agents. for a while he had the U.S. government believing he was right.

**BYLINE:** Roston, Aram

**BODY:**

The weeks before Christmas brought no hint of terror. But by the afternoon of December 21, 2003, police stood guard in heavy assault gear on the streets of Manhattan. Fighter jets patrolled the skies. When a gift box was left on Fifth Avenue, it was labeled a suspicious package and 5,000 people in the Metropolitan Museum of Art were herded into the cold.

It was Code Orange. Americans first heard of it at a Sunday press conference in Washington, D.C. Weekend assignment editors sent their crews up Nebraska Avenue to the new Homeland Security offices, where DHS secretary Tom Ridge announced the terror alert. "There's continued discussion," he told reporters, "these are from credible sources--about near-term attacks that could either rival or exceed what we experienced on September 11." The New York Times reported that intelligence sources warned "about some unspecified but spectacular attack."

The financial markets trembled. By Tuesday the panic had ratcheted up as the Associated Press reported threats to "power plants, dams and even oil facilities in Alaska." The feds forced the cancellation of dozens of French, British and Mexican commercial "flights of interest" and pushed foreign governments to put armed air marshals on certain flights. Air France flight 68 was canceled, as was Air France flight 70. By Christmas the headline in the Los Angeles Times was SIX FLIGHTS CANCELED AS SIGNS OF TERROR PLOT POINT TO L.A. Journalists speculated over the basis for these terror alerts. "Credible sources," Ridge said. "Intelligence chatter," said CNN.

But there were no real intercepts, no new informants, no increase in chatter. And the suspicious package turned out to contain a stuffed snowman. This was, instead, the beginning of a bizarre scam. Behind that terror alert, and a string of contracts and intrigue that continues to this date, there is one unlikely character.

The man who conned the pentagon: Dennis Montgomery claimed he could intercept satellite transmissions being sent to Al Qaeda agents. for a while he had the U.S. government believing he was right. Play

The man's name is Dennis Montgomery, a self-proclaimed scientist who said he could predict terrorist attacks. Operating with a small software development company, he apparently convinced the Bush White House, the CIA, the Air Force and other agencies that Al Jazeera--the Qatari-owned TV network--was unwittingly transmitting target data to Al Qaeda sleepers.

An unusual team arrived in Reno, Nevada in 2003 from the Central Intelligence Agency. They drove up Trademark Drive, well south of the casinos, past new desert warehouses. Then they turned into an almost empty parking lot, where a sign read ETREPPID TECHNOLOGIES. It was an attractively designed building of stone tile and mirrored windows that had once been a sprinkler-head factory.

ETreppid Technologies was a four-year-old firm trying to find its way. Some of its employees had been hired to design video games. One game under construction was Roadhouse, based on the 1989 movie in which Patrick Swayze plays a bouncer in a dive. bar. Other programmers worked on streaming video for security cameras.

When the liaison team stepped into eTreppid's office, the CIA man in charge introduced himself as Sid but didn't give his last name. Hewas tall and in his 50s, with a well-ironed shirt, a paunch and a mildly robotic politeness. "We called him Sid Vicious," one eTreppid technician explained, "because he was anything but."

Sid's team set up on the first floor in an unused office and had special cipher locks installed. Workers carted, in a heavy-duty paper shredder that could transform classified documents to dust in seconds. They set up impenetrable safes with combination locks protected by privacy screens so bystanders couldn't steal the code.

The CIA team was there to work with Dennis Montgomery, at the timeeTreppid's chief technology officer and part owner. Then 50 years old, with a full head of gray hair, the street-smart Montgomery stood at about five feet eight inches. Other eTreppid workers, hearing the buzz about the spooks in town, peered through their blinds and watchedas Montgomery worked at his desk at the north end of the building. He wore his usual jeans and Tommy Bahama shirt.

He could be seen handing off reams of paper to Sid and the CIA. "They would sit in the room and review these numbers or whatever the heck Dennis was printing out," one former eTreppid employee, Sloan Venables, told me. "We called them Sid's guys, and no one knew what the hell they did."

Montgomery called the work he was doing noise filtering. He was churning out reams of data he called output. It consisted of latitudes and longitudes and flight numbers. After it went to Sid, it went to Washington, D.C. Then it found its way to the CIA's seventh floor, to Director George Tenet. Eventually it ended up in the White House. Montgomery's output was to have an extraordinary effect. Ridge's announcement, the canceled flights and the holiday disruptions were all the results of Montgomery's mysterious doings.

He is an unusual man. In court papers filed in Los Angeles, a former lawyer for Montgomery calls the software designer a "habitual liarengaged in fraud." Last June Montgomery was charged in Las Vegas with bouncing nine checks (totaling \$1 million) in September 2008 and was arrested on a felony warrant in Raricho Mirage, California. That million is only a portion of what he lost to five casinos in Nevada andCalifornia in just one year. That's according to his federal bankruptcy filing, Where he reported personal debts of \$12 million. The FBI has investigated him, and some of his own co-workers say he staged phony demonstrations of military technology for the U.S. government.

Montgomery has no formal scientific education, but over the past six years he seems to have convinced top people in the national security establishment that he had developed secret tools to save the worldfrom terror and had decoded Al Qaeda transmissions. But the communications Montgomery said he was decrypting apparently didn't exist.

Since 1996 the Al Jazeera news network had been operating in the nation of Qatar, a U.S. ally in the war on terror. Montgomery claimed he had found something sinister disguised in Al Jazeera's broadcast signal that had nothing to do with what was being said on the air: Hidden in the signal were secret bar codes that told terrorists the terms of their next mission, laying out the latitudes and longitudes of targets, sometimes even flight numbers and dates. And he was the

The man who conned the pentagon: Dennis Montgomery claimed he could intercept satellite transmissions being sent to Al Qaeda agents. for a while he had the U.S. government believing he was right. Play

only man who had the technology to decrypt this code.

As strange as his technology appeared to be, it was nevertheless an attractive concept. Montgomery was as persuasive as some within the intelligence community were receptive. Al Jazeera was an inspired target since its pan-Arabic mission had been viewed with suspicion by those who saw an anti-American bias in the network's coverage. In 2004 Secretary of Defense Donald Rumsfeld accused Al Jazeera of "vicious, inaccurate and inexcusable" reporting. Will Stebbins, Al Jazeera's Washington bureau chief, told The Washington Post, "There was clearly an attempt to delegitimize Al Jazeera that came during a period of a lot of national hysteria and paranoia about the Arabic world." ("It is unfortunate," an Al Jazeera spokesperson told playboy when asked for comment, "that a select few people continue to drag up these completely false conspiracy theories about Al Jazeera, which were generated by the previous U.S. administration.") Over the years Montgomery's intelligence found its way to the CIA, the Department of Homeland Security, Special Forces Command, the Navy, the Air Force, the Senate Intelligence Committee and even to Vice President Dick Cheney's office.

Back in 2003, just before the terror alert caused by Montgomery's technology, eTreppid held a Christmas party in a ballroom at the Atlantis Casino in Reno. Employees gathered at round tables to dine and drink. Even a CIA man showed up, a lanky fellow wearing a button-down shirt with an oxford collar. By the end of the night, employees noticed Montgomery and eTreppid chief executive Warren Trepp talking closely. A photo snapped by an employee shows Montgomery with his jacket off and a Christmas ribbon wrapped around his head like a turban with a rose tucked into it. He was hugging Trepp, who sobbed into his shoulder. The festivities were a rare break for Montgomery, who had been busy churning out terrorist target coordinates for the CIA.

On Sunday, January 4, 2004 a British Airways flight out of Heathrow was delayed for hours for security reasons, and FBI agents demanded that hotels in Vegas turn over their guest lists. It was also the day a top CIA official flew to the eTreppid office in Reno. There, on eTreppid letterhead, the CIA official promised the company's name would not be revealed and that the government would not "unilaterally use or otherwise take" Montgomery's Al Jazeera technology.

Back in Washington, few insiders in government knew where the intelligence was coming from. Aside from Tenet and a select few, no one was told about eTreppid's Al Jazeera finds. Even veteran intelligence operatives within the CIA could only wonder. "These guys were trying to hide it like it was some little treasure," one former counterterrorist official told me.

The reason the whole thing worked was because Montgomery's CIA contact was with the agency's Directorate of Science and Technology. That's the whiz-bang branch of the intelligence service, where employees make and break codes, design disguises and figure out the latest gadgets. S&T was eventually ordered by CIA brass to reveal its source to small groups from other parts of the agency. And when some experienced officers heard about it, they couldn't believe it. One former counterterrorism official remembers the briefing: "They found encoded location data for previous and future threat locations on these Al Jazeera tapes," he says. "It got so emotional. We were fucking livid. I was told to shut up. I was saying, 'This is crazy. This is embarrassing.' They claimed they were breaking the code, getting latitude and longitude, and Al Qaeda operatives were decoding it. They were coming up with airports and everything, and we were just saying, 'You know, this is horseshit!'" Another former officer, who has decades of experience, says, "We were told that, like magic, these guys were able to exploit this Al Jazeera stuff and come up with bar codes, and these barcodes translated to numbers and letters that gave them target locations. I thought it was total bullshit."

The federal government was acting on the Al Jazeera claims without even understanding how Montgomery found his coordinates. "I said, 'Give us the algorithms that allowed you to come up with this stuff.' They wouldn't even do that," says the first officer. "And I was screaming, 'You gave these people fucking money?'"

Despite such skepticism, the information found its way to the top of the U.S. government. Frances Townsend, a Homeland Security advisor to President George W. Bush, chaired daily meetings to address the crisis. She now admits that the bar codes sounded far-fetched. And, she says, even though it all proved to be false, they had no choice but to

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pursue the claim. "It didn't seem beyond the realm of possibility," she says. "We were relying on technical people to tell us whether or not it was feasible. I don't regret having acted on it." The feds, after all, had a responsibility to look into the technology. "There were lots of meetings going on during the time of this threat," says Townsend. "What were we going to do and how would we screen people? If we weren't comfortable we wouldn't let a flight take off." Eventually, though Montgomery continued to crank out his figures, cooler heads prevailed. The threat was ultimately deemed "not credible," as Townsend puts it.

A former CIA official went through the scenario with me and explained why sanity finally won out. First, Montgomery never explained how he was finding and interpreting the bar codes. How could one scientist find the codes when no one else could? More implausibly, the scheme required Al Jazeera's complicity. At the very least, a technician at the network would have to inject the codes into video broadcasts, and every terrorist operative would need some sort of decoding device. What would be the advantage of this method of transmission?

A branch of the French intelligence services helped convince the Americans that the bar codes were fake. The CIA and the French commissioned a technology company to locate or re-create codes in the Al Jazeera transmission. They found definitively that what Montgomery claimed was there was not. Quietly, as far as the CIA was concerned, the case was closed. The agency turned the matter over to the counterintelligence side to see where it had gone wrong.

Born in Mena, Arkansas, Dennis Montgomery graduated in 1971 from Grossmont College near San Diego with a two-year associate's degree in medical technology. He worked a few years as a hospital medical technician. And then, it appears, he shifted gears. He says he designed technology to analyze blood gas and became a consultant to some of the biggest companies in America. He maintains he invented and secured copyrights for various technologies related to "pattern recognition," "anomaly detection" and "data compression." Montgomery had attained some success with his media-compression software.

By the late 1990s Montgomery was in Reno, where he had a meeting at the Eldorado Hotel Casino downtown with a financier named Warren Trepp. Trepp had been head trader at Drexel Burnham Lambert in the 1980s, when it was led by junk-bond fraudster Michael Milken. During that time Trepp was a big spender, riding around in his white Rolls-Royce Corniche. He sat at Milken's right hand and eventually earned \$25 million a year. In a 1997 SEC decision, an administrative law judge described Trepp's "violations" as "egregious, recurring and intentional." But the case against Trepp was dismissed, and by the time he met Montgomery, he was legally in the clear.

Montgomery convinced Trepp he had invented a remarkable technology. He could compress data, he said, a whole movie to just a fraction of the space it took up on a drive. He impressed his patron with his demonstration, using software to highlight images from the 1939 film *Gunga Din*. It was enough for them to launch their operation. Montgomery contributed his technological breakthrough, and Trepp invested \$1.3 million to start. Montgomery soon hired Sloan Venables, a video-game designer, as one of his first employees. Venables had helped design the Ted Nugent *Wild Hunting Adventure* video game. From the beginning, Venables realized things were odd and doubted Montgomery knew much about software programming. One day at a Chinese restaurant at the same Eldorado Hotel Casino, Montgomery told him about the time he'd been abducted by a UFO. "He told me about his encounter with aliens," Venables says. "He went to his uncle's or grandfather's or great uncle's barn in the middle of the night, and a spaceship descended on him. They wanted him to go with them, and he was abducted. Then he came back with extra knowledge." Venables started laughing at the story, he says.

Montgomery was prone to temper tantrums, according to Venables. Once he hurled a steak at a waitress. As volatile as he was at times, Venables says, he was at other times warm and confiding. When Venables threatened to quit after Montgomery threw a can of grape soda at him, Montgomery took Venables's dying mother to dinner. Every Friday he would take all his employees skeet and trapshooting at a desert range.

Venables brought in a childhood friend to work at eTreppid. Jim Bauder, who was in his 20s, was soon working on the video games eTreppid was trying to design. Bauder and Venables say Montgomery ran the place, and they saw little

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of Trepp but were aware of his background. They also say they saw Milken at eTreppid. "I saw him come in once, and he had this entourage of five or six people with him," says Bauder. "They came walking down the hallway, and he looked at me and smiled, introduced himself and then went on down the hall."

eTreppid landed its first big contract from General Electric in 2002 for use of its video compression technology in gaming surveillance. The company eventually got a contract with the Air Force dealing with aspects of video shot by unmanned Predator drones. Montgomery claimed his software could automatically recognize weapons and faces. In 2004 the U.S. Special Operations Command gave eTreppid a \$30 million no-bid contract for "compression" and "automatic target recognition." Venables and Bauder acknowledge they can't be certain that no "anomaly detection" or "pattern recognition" software existed, but they doubt it did. In fact, eTreppid workers later told the FBI they thought Montgomery had developed little if any original software.

Montgomery and eTreppid did, over time, receive five patents for various inventions and theoretical methods related to video and data. These included a "method and apparatus for storing digital video content provided from a plurality of cameras" and a "method and apparatus for detecting and reacting to occurrence of an event." But Montgomery said these patents had nothing to do with his government work, and they never seemed to lead to business or profit.

FBI reports indicate Montgomery rigged tests to make government officials think his software could detect weapons in video streams. Apparently it was all part of Montgomery's claim to have developed "automatic target recognition" software. Imagine how useful it would be if a computer could pick out AK-47s in enemy hands. That's how eTreppid got at least one contract. One former employee told agents he helped fake as many as 40 demonstrations.

Bauder says he helped once, unwittingly. He told his story to the FBI, and he told it to me. In his demonstrations Montgomery often used a plastic toy bazooka that he said a computer could recognize as a weapon. He would do the demonstration in scrubland behind eTreppid's offices. "Some military guys were walking around the office," says Bauder. Montgomery suddenly came to him, he says, "and takes me back to his office. He closes the door and closes the blinds and was like, 'Need you to do something for me. Don't worry; we are just doing a demo. It's all good.'" Bauder was concerned about the secrecy. "I was like, 'But what's with the doors and blinds?'" Montgomery looked up at Bauder and told him it was okay. They would communicate via an open cell phone line. He told Bauder to listen to the phone. "'When you hear the tone, I want you to hit the space bar on the keyboard.'" Bauder, in other words, would be secretly communicating with Montgomery while the military guys watched the supposed software demo on another computer.

Montgomery ran off to do his demonstration outside. Bauder watched the computer screen, seeing what the camera saw. Montgomery held the toy bazooka in one hand while his other hand was hidden. When Bauder heard the tone, he says, "I hit the space bar. A little square encircled his image through the camera on the screen. He was running around with the fake plastic bazooka." Bauder figured Montgomery had rigged the computer screen so it seemed as if the square was tracking the bazooka. In reality, the square was brought up on the screen when Bauder hit the space bar.

eTreppid needed security clearances to get classified contracts. In 2004 Venables was selected as the firm's facilities security officer. He flew to Baltimore for Department of Defense training. It was an arduous process, with the Defense Security Service probing everyone's background.

Montgomery received an "interim secret" clearance in May 2003, according to records later released in a federal case. In February 2004 he got a top-secret clearance from the Defense Industrial Security Clearance Office. At eTreppid, Montgomery appears to have taken a curious approach to secrecy. Venables and Bauder say Montgomery had his own way of classifying items at the company. "He had rolls of classified stickers," Bauder says, "and he would just put them on random garbage."

The CIA was an eTreppid customer, as was SOCOM and the Air Force. Soon the Navy started coming by. Montgomery said he had another "filter" to identify underwater submarines by scanning a giant satellite photo of the

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ocean. Although Montgomery claimed he was using his software, Bauder and Venables say he appeared to be doing it by eye.

The pattern recognition, anomaly detection and compression work were nice, but it was the Al Jazeera stuff--the "noise filtering"--that had cash potential. Even though the CIA had abandoned Montgomery in 2004 after determining the bar codes didn't exist, he and eTreppid continued to try to sell it.

Trepp later told a judge in a federal lawsuit that he'd asked the government for \$100 million. Montgomery has also cited that figure in sworn declarations--though he also claimed Trepp wanted \$500 million for the "decoding technology." He would tell his lawyers and investors that the money was "appropriated" as part of the "black budget." eTreppid did have powerful friends and lobbyists on Capitol Hill. It had strong connections on the House Permanent Select Committee on Intelligence. The local congressional representative, Republican Jim Gibbons--soon to be governor of Nevada--was on the committee. But by late 2005 things were falling apart between Montgomery and Trepp. There were indications Montgomery was losing big at the blackjack tables. According to an FBI investigation, he borrowed \$275,000 from Trepp "to pay down casino and other debts." Trepp told FBI agents he'd made him sign a note that he'd pay it back--Trepp had loaned him more than \$1.3 million over the years.

One eTreppid employee told the FBI that she notified Trepp about the faked bazooka tests. Evidently Trepp hadn't known. She informed Trepp she didn't think Montgomery had written "any significant software" for the company. Trepp heard from others that Montgomery didn't have the technical skills he claimed to have.

For his part, Montgomery was grumbling. Trepp had not adequately shared the tens of millions in government funds he had made. "Warren is screwing me out of the money," Montgomery said to Venables. In January 2006 Montgomery left eTreppid. He asked Bauder to help load his big Chevy twin-cab truck on a Saturday. When he left, according to eTreppid, the company's software had been deleted and the source code wiped out. Even the surveillance videotapes were blank. If eTreppid was a store, its inventory was gone. It couldn't do government contracts, video games or compression.

Trepp believed he had backup. After all, Montgomery had assured him he'd give him daily backups of his material. So Trepp went to his outside safe where he kept whatever Montgomery had given him. He gave the material to his security officer, Sloan Venables. Venables says the entire backup for the multimillion-dollar eTreppid operation consisted of three CDs and two hard drives. Venables looked at the disks and drives and turned back to Trepp. "In seven years, that's all? Three CDs and two hard drives?" I said, "Don't you think that's weird?"

Venables ran the supposed backup files through his computer. "There was nothing on them," he says. "There were a couple of zip files, and the hard drives had some source codes for an interface." It wasn't anything that could run as a program.

Trepp called the FBI. Not only was the company software gone and its tapes erased, but, he told them, classified tapes were missing. In January 2006 the U.S. government suspended Montgomery's security clearance. (Montgomery, however, later stated he was unaware his clearance had been suspended.)

Montgomery's phone rang on February 16. The voice on the other end was someone he trusted: Paul Haraldsen, an agent of the Air Force Office of Special Investigations. For years Haraldsen had reassured him the government was still interested in the Al Jazeera intercepts. "Hey, Dennis--Paul, how are you?" What Montgomery didn't know was that Haraldsen was working with the FBI on the investigation and was recording the call. Montgomery railed against Trepp and bragged about his bizarre intelligence work. "I did something very good for this country," he said. Montgomery boasted that even if the CIA didn't believe in him, the work he did was "100 percent accurate--more accurate than people will ever know." (The agency's name is blacked out in the court transcript, but it is clear what he means.) Haraldsen apparently tried to lure him in. Money might be available, he said. "You know, we had money loaded in a pipeline," Haraldsen said to Montgomery. He could go back to his bosses in Washington and let them know whether to

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spend it or not.

"Paul," Montgomery said, "why does it have to stop because [Trepp]is a prick?" The government money could flow even if it went to him rather than to eTreppid. Haraldsen tried to egg him on with promises he'd tell Washington to buy more of the Al Jazeera information. "Where do I go from here?" Haraldsen asked. "What do I tell the people back in D.C.? Do I tell them to forget about the money and put it away?" "Absolutely not," Montgomery said.

Montgomery and Trepp were soon in a no-holds-barred federal lawsuit. Each sued the other. Trepp obviously believed Montgomery's technology was real because he pursued the lawsuit with a vengeance. Montgomery, on the other hand, accused Trepp of trying to steal his inventions. Montgomery claimed he needed to bring the U.S. intelligence establishment into the case. He went so far as to name the Department of Defense as a defendant.

Eventually Director of National Intelligence John Negroponte weighed in. What secrets--what embarrassments--could be exposed if Montgomery and Trepp were to depose intelligence and military officials? Negroponte issued a declaration that warned of "serious, and in some cases exceptionally grave, damage to the national security of the UnitedStates." He invoked the state secrets privilege. The judge in the case issued a protective order; the secrets of eTreppid's government business would remain untold.

Trepp had deep pockets and a collection of associates who could bankroll him, but Montgomery had a new patron, someone with tremendous financial resources and connections in Washington, D.C. Her name was Edra Blixseth, wife of billionaire developer Tim Blixseth. The Blixseths had made their reputations as founders of the exclusive Yellowstone Club in Montana, a resort for the fabulously wealthy. Membership cost a quarter of a million dollars, but once there, vacationers like Bill Gates or Dan Quayle could enjoy "private powder" in the company of other elites.

The Blixseths lived in a \$200 million estate called Porcupine Creek in Rancho Mirage, California. It had a private golf course and a 30,000-square-foot mansion set among manicured gardens. This is where Montgomery pursued the next stage of his career as a software programmer.

A document in Superior Court in California--now unsealed--reveals how Montgomery explained his inventions and intelligence work for theU.S. government to Blixseth, her lawyers and her partners. He would pull out his laptop, demonstrate his software and brag how he was "decoding Al Jazeera broadcasts and using it for other 'top secret' programs." He found a new lawyer for his case against Trepp. He told him he had been "intercepting Al Qaeda 'target coordinates' for proposed terrorist attacks sent to its field operatives via digital Al Jazeerasatellite TV network transmissions." Montgomery also told his lawyerthe Department of Defense "paid approximately \$30 million in contracts and appropriated another \$100 million in their 'black budget.'"

In July 2006 Montgomery and Blixseth pitched their technology to an aide to Vice President Cheney. "I met for several hours with Samantha Ravich, deputy assistant to the vice president in charge of national security," Montgomery asserted in a sworn statement. His word may be suspect, but there is corroborating evidence. Ravich listened to Montgomery and Blixseth, but she was--even in Montgomery's recollection--unimpressed by his claims.

Still, Montgomery hailed his meeting as a victory. He claimed he provided Cheney's office with new output data on terror that would validate his work. He said the data, which had been encrypted in Al Jazeera, were the keys that allowed investigators to crack the liquid-bomb plot in London. On August 9, 2006 British police rounded up two dozen suspects and announced they'd halted a plan to bomb several transcontinental flights at once. Montgomery swore his warning was "used inthe disruption of that threat." In another declaration he said he "provided the output from [his] decoding programs, without compensation, to our government in order to stop terrorist attacks and save American lives."

Montgomery was now making \$100,000 a month as a software programmer. He worked for companies with different names, but they all received funding from Edra Blixseth. Montgomery had a home in a serene gatedcommunity in Rancho Mirage not far from Blixseth's estate. He drove a \$70,000 Porsche Cayenne GTS, and his



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home was near the gambling tables at the Agua Caliente Casino, where he lost \$422,000 in one day.

Blixware, the company through which Blixseth was doing business, had lofty connections. With the aid of Nevada senator Harry Reid's office, Montgomery's technology found its way to the Senate Intelligence Committee staff. This is no routine achievement: The committee staff, operating in a special office of the Dirksen Senate building, constitutes an elite sector in Washington. Normal lobbyists cannot walk in to see staffers because their offices are protected, with special access and guards. When intel staffers talk, the intelligence community listens because they hold the reins--they control oversight.

Montgomery claimed he was reading secret messages about three Americans who had been grabbed in the Sunni triangle. Signals were coming out "related to the recent hostage-taking of our three soldiers," Montgomery told the staffers. He warned them that something was up. The staffers didn't know what to make of it.

In 2007 things were looking up for Montgomery. He finally got some interest, this time from an agency he couldn't name in public. Reading between the lines, one can presume it was the National Security Agency. But then Montgomery had a strange reaction. He had just "purged" the software, he said, and it would take time to redo it. He wanted \$4 million from the U.S. government to get started.

The FBI investigation of Montgomery went nowhere. First, his new lawyer challenged the FBI searches, and the judge found in his favor. Then Montgomery went on the offensive, accusing his accuser. He went public with allegations that Trepp had committed bribery by paying off Nevada congressman Jim Gibbons. NBC News did an exclusive interview with Montgomery at Blixseth's house. He was dressed in a suit and tie and said he saw the bribe take place. He claimed Trepp had given Gibbons "casino chips and cash" worth about \$100,000. Montgomery backed this up with e-mails he said he'd taken off the eTreppid server. Trepp and Gibbons found themselves under a grand jury's scrutiny. They, not Montgomery, were targeted. But Montgomery's allegations fell apart after a forensic expert for eTreppid alleged in court papers that one crucial e-mail had been doctored. The Department of Justice later dropped the case, and Gibbons was cleared.

By 2008 things seemed to have resolved themselves in the epic litigation between Montgomery and his old moneyman Warren Trepp. There was a glitch at first: Montgomery was supposed to produce a key CD with the breakthrough software he claimed he'd invented, the very heart of this case. But he couldn't find the disk, he said, and he claimed he couldn't re-create the lost and precious secret. He lashed out at the FBI in a court document. It was the agents who had ruined everything anyway, he said. The FBI had "damaged and in some cases destroyed" his property.

That backfired, but the parties all seemed to come to a temporary agreement. By the fall, Montgomery settled his long-standing suit with Warren Trepp. Terms weren't released at the time, but Trepp let Montgomery and his new financier, Edra Blixseth, keep the "software." Court records indicate Montgomery and Blixseth would now owe \$26.5 million to Trepp.

One can only assume it hit Montgomery hard: Four days after the settlement he spent his day at Caesars Palace on the Las Vegas Strip. He was a blackjack player by preference, according to all accounts, and so he presumably sat at the high roller's blackjack tables on September 27. He was, in the parlance of the gambling hall, a "whale." He took out his checkbook and tore out check after check, making them out to Caesars Palace Hotel and Casino, and buying cash and chips. The first check was for \$10,000, then \$100,000 and on and on. That's blackjack for you. In fact, Montgomery bought a cool million dollars' worth from the casino that day. Caesars won't comment on individual players, but prosecutors say Montgomery's checks later bounced. (In October 2009 Montgomery came up with \$250,000 in restitution, which kept him from being prosecuted.)

But Montgomery and the U.S. government were apparently still working together. The CIA had discredited the embarrassing Al Jazeera technology, but it was all still secret, still classified. Few people even in the government knew about the old scandal. Montgomery and his patron somehow found a new federal buyer willing to hand over taxpayer

The man who conned the pentagon: Dennis Montgomery claimed he could intercept satellite transmissions being sent to Al Qaeda agents. for a while he had the U.S. government believing he was right. Play

funds. In this case it was \$3 million for "research, development, test and evaluation." It was written in the dense language of federal procurement law and revived all the terms Montgomery had bandied about. The contract was so heavily redacted that even the name of the Air Force office is blacked out. I read through a version of the document, and at the end I found the nondisclosure agreement. "This agreement is entered into between the United States Air Force and Dennis Montgomery." He signed it January 29, 2009.

Montgomery did not cooperate with this story, but I managed to reach the Air Force program manager, Joseph Liberatore. "How do I want to say this?" he said. "We were testing some of the software. We were just looking at it to see if there was anything there. If there is anything there we wanted to make sure there was due diligence and it was looked at by the U.S. government."

I asked the Air Force how this could have happened. The chief of the Air Force press desk, Andrew Bourland, said Blxware represented its software as "innovative and transformational." But the results of the evaluation were "inconclusive" and discussions were over. The first taxpayer transfer to Edra Blixseth's company was a \$2 million payment on February 5, 2009. That same month, Blxware paid Dennis Montgomery \$600,000.

In June, four months after collecting all that money, Montgomery and his wife declared personal bankruptcy. One of his assets, he claimed, was the \$10 million value of his "copyrights"--all that software. His bankruptcy lawyer tells me the technology Montgomery claimed to have invented is an asset in the bankruptcy proceedings. "It'll be between the government authorities and Dennis," he says.

So in the end, was there ever any software designed by Montgomery? Sloan Venables and Jim Bauder say they doubt it. They shrug and laugh. "I never saw it," says Venables. But if it's all bogus, why is it still classified? And if Montgomery's claims have any truth, why can't anyone else find what he found? Did that \$100 million appropriation ever exist? And who will Dennis Montgomery reach out to with his next scheme?

"The aliens who stripped you naked--did they say which planet they were from?"

"Ours was okay. How did your office holiday party go?"

"It's been done."

**LOAD-DATE:** February 20, 2010