[COMMITTEE PRINT]

THE PENN CENTRAL FAILURE AND THE ROLE OF FINANCIAL INSTITUTIONS

PART II

CASE STUDY OF A PENN CENTRAL SUBSIDIARY: EXECUTIVE JET AVIATION

STAFF REPORT OF THE

COMMITTEE ON BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

91st Congress, Second Session

DECEMBER 21, 1970

Printed for the use of the Committee on Banking and Currency

U.S. GOVERNMENT PRINTING OFFICE

51-903 WASHINGTON : 1970

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price 40 cents

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LETTER OF TRANSMITTAL

To Members of the Committee on Banking and Currency:

On July 16, 1970, the Banking and Currency Committee authorized the staff to investigate the collapse of the Penn Central Transportation Company with particular emphasis on the role of financial institutions in the operation of the corporation, its parent holding company, and the various subsidiaries. Part One of the staff report, transmitted to the Committee on November 2, analyzed the cash flow impact of the diversification program undertaken by the Penn Central Transportation Company. Transmitted herewith is Part Two of the staff report which is a case study of a major Penn Central subsidiary, Executive Jet Aviation.

The staff will be submitting additional parts of the report in the next few weeks. Additional sections will detail, among other things, insider trading in Penn Central stock by various commercial banks and the operations of Penphil, an investment club composed primarily of Penn Central executives and close business and banking associates.

The document being transmitted to you today is a case study of corporate disaster stemming from unusual, almost unbelievable circumstances. It is the history of one of the Penn Central Transportation Company's important non-railroad related subsidiaries—Executive Jet Aviation, Inc. (EJA)—and how Penn Central lost almost all of its $21 million investment. While the EJA debacle has certain unique characteristics, it nevertheless contains important clues leading to an explanation of why the Penn Central Transportation Company, the nation's sixth largest nonfinancial corporation, found itself presenting the country with the largest single business failure in its history on June 21, 1970, when it filed for reorganization under the Federal Bankruptcy Act.

The report is based on months of detailed investigation by the staff of the Banking and Currency Committee. It involves dozens of interviews conducted in various parts of the nation. It includes extensive analysis of court documents, correspondence, bank records, documents obtained from Penn Central and Executive Jet Aviation, and similar material. The examination conducted by the staff is one of the most careful and detailed investigations ever conducted under the auspices of the Committee.

As Part One of the staff investigation revealed, the large nonrailroad investments were a major factor in the collapse of the Penn Central Transportation Company. The staff study of Executive Jet Aviation reconfirms this fact, but it reveals a great deal more about the inner workings of Penn Central and the decision-making processes of those officials who controlled the investment practices of the railroad. The facts laid out by the staff in the following pages present one of the saddest—and at times one of the most sordid—pictures of the American business community that has ever been revealed in an official document. It is a case study which reveals just how loosely the operations of the Penn Central Transportation Company were conducted by its most trusted officials.

The study raises most serious questions about the involvement of the commercial banking industry in the strange and far-flung operations of Executive Jet Aviation. Commercial banks made massive amounts of credit available to EJA for what appeared to be highly questionable—if not at times illegal—activities. From the data collected by the staff, it appears that the commercial banks asked few, if any, questions before making the loans to EJA. One can only assume that the banks approached the affairs of Executive Jet Aviation with child-like naivete or were actually part and parcel of the high-flying schemes. It is hard to believe that the bank loan officers were not aware of EJA's operations, its questionable control by Penn Central, and its always shaky financial position.

The staff analysis certainly establishes that the banks did not make their loan decisions regarding EJA on any normally accepted banking standards, such as the credit-worthiness of the corporation. The staff data suggests strongly that the loan decisions were made exclusively because the banks and EJA had mutual friends at Penn Central; that is, the chief financial officers of the railroad.

The staff makes ten key findings in its study:

1. There was an astonishing lack of fiduciary concern and control by the Pennsylvania Railroad (PRR) Board of Directors over the $21 million that was poured into EJA. The decisions which eventually provided this total investment in the air service were made almost exclusively by David Bevan, chairman of the PRR Finance Committee, and his protege, William Gerstnecker, PRR Treasurer. They did not request nor did they receive Board approval for the EJA investment. In fact, $5 million had been funneled into EJA before the board even knew PRR investments were being made in EJA.

2. The investment in EJA was aimed at providing entry by PRR into the air passenger and air cargo transportation industry on a worldwide basis. The project was initiated with the full realization on the part of Bevan that a railroad's control of an air carrier without CAB approval was in direct violation of the law. Indeed, awareness of the illegal nature of the project was dramatized by repeated efforts to conceal from the CAB the control over EJA exercised by the PRR. This deception included two attempts by the PRR to appear to divest itself of control of EJA while in fact its domination of that company remained virtually intact and, along with the foreign illegal activities, cost the PRR and EJA a total of $70,000 in fines levied by the CAB, the second largest total ever levied by the CAB in a single case.

Some $6 million in unsecured PRR investments were made in EJA after the CAB order to the railroad to divest itself of its air carrier interest.

3. A principal wellspring for PRR investments in EJA were commercial banks which, without any real investigation, virtually automatically approved loans based on what they sadly came to recognize as the PRR myth of financial power and economic invulnerability. Close to $18 million of commercial bank loan money, secured by EJA planes, went into EJA with the only requirement being that the PRR maintain sufficient compensating balances at these institu-

tions and that the PRR agree to give up its security interest in EJA planes in favor of the banks' own loans to EJA. No effort was made to examine the credit worthiness of EJA itself. Moreover, the blind, open-arms attitude of the commercial banks gave EJA easy access to the funds it needed to purchase large jet aircraft, which proved to be a crushing financial burden for the company. Ironically, the PRR's channeling of financial resources away from the railroad and into subsidiary interests like EJA, deprived it of the funds it desperately needed to stay afloat in the spring of 1970.

4. The disastrous PRR nonrailroad investment program was mapped to a large extent by Charles J. Hodge, a senior member of the investment firm of f. i. Dupont-Glore Forgan. He also played a key role as financial adviser for PRR and its nonrailroad subsidiaries.

5. EJA, with guidance and assistance from the PRR, represented by Bevan, Gerstnecker & Hodge, entered into a series of secret, illegal, and extraordinarily complex transactions with a group of European financial and air transportation operatives. A mantle of secrecy was an absolute requirement for these activities, which were conducted in a manner to deceive the CAB while moving toward establishment of a worldwide air system.

Four million dollars—part of $10 million in European bank loans to the PRR to finance the reconditioning of railroad cars—was seized from a Liechtenstein trust by one of the men involved in EJA's program to establish an international air service system. Bevan did not disclose the loss of these funds to the chairman of the PRR board until 9 months after the disappearance of the funds. The railroad is now threatening to sue for return of the money.

6. Bevan was aware of authoritative and repeated recommendations made in 1967 calling for removal of O. F. Lassiter from the post of chief executive of EJA in order to assure survival of the company. Hodge himself made such a recommendation to Bevan in 1968. Despite this deluge of advice, Bevan ignored the recommendations. Nor did Bevan seek Lassiter's removal even after discovery that Lassiter had transferred EJA funds to his own company, Lassiter Aircraft Corp., under questionable authority, without EJA board approval and under circumstances that can only be characterized as a blatant conflict-of-interest situation. The decision to make the transfers of sums totaling more than $100,000 in 1969 and 1970 was made by Lassiter himself and one other member of the EJA Executive Committee, W. P. Swancutt, a friend of Lassiter's who had loaned him money. Swancutt had a brother-in-law who held Lassiter Aircraft Corp. stock options.

7. In addition to recommendations to remove Lassiter as EJA's chief executive, Bevan and Hodge were both aware that Lassiter had squandered millions of dollars of EJA assets and, therefore, PRR funds by undertaking costly, ill-advised projects, by authorizing an enormous number of

nonrevenue-producing administrative flights, and by conducting both his professional and private life in such a manner as to demoralize the EJA staff. As a result, any chance that the company may have had of achieving financial success, was greatly diminished.

8. David Bevan and William Gerstnecker spent an inordinate amount of time on EJA matters at a time when the closest attention to the financial condition of the railroad was demanded. In short, the EJA investment by the railroad can be characterized as improvident, devious, and profligate. It was essentially the decision of one man, David Bevan, to continue to pump money into EJA when even a modicum of business judgment would have counseled for a complete divestment. That the EJA investment was doomed to failure and that its president, Gen. O. F. Lassiter, was not the man to lead the Pennsylvania Railroad into the air transport field should have been apparent to anyone with a minimum of business judgment. An apt description of the EJA escapade is found in a letter written to William Gerstnecker from the lawyer who represented the railroad in the EJA case:

> As it is, the whole picture is one of amateurish intrigue, vividly colored with the devious, that suggests a consciousness of guilt deeper than is justified by the bare facts.

9. In 1968, J. H. Ricciardi, a former EJA employee, filed suit against the company to recover salary and expenses he alleged that EJA owed him. During legal proceedings, Ricciardi testified under oath that at Lassiter's request he had provided female companions for Bevan and Hodge in order to relieve the pressure they were exerting on Lassiter regarding his failure to move EJA out of the red and into the black. The suit was settled out of court in 1969 on payment of $13,000 to Ricciardi. Lassiter, Bevan and Hodge have denied the allegations. They, as well as EJA, have denied that the settlement payment was made in whole or in part by them individually or collectively. The question of where the money came from remains unanswered.

10. In light of Bevan's knowledge of all of the deteriorating conditions outlined above regarding EJA, and his singular ability to rectify the situation, a serious question is raised as to why a man of such apparent shrewdness, financial acumen and reputation in the business world would have allowed the continued and ultimately disastrous deterioration of EJA to remain unchecked.

The views and conclusions found in this report do not necessarily express the views of the Committee or any of its individual Members.

Wright Patman

WRIGHT PATMAN, *Chairman*

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INTRODUCTION

Part I of the staff report analyzed the cash-flow impact of the diversification program undertaken by the Pennsylvania Railroad Co. (subsequently renamed the Penn Central Transportation Co. following the merger with the New York Central Railroad in February 1968) beginning in 1963. Prior to that date, the Pennsylvania Railroad (PRR) confined its acquisition program to railroads or companies engaged in railroad-related activities. For the first time in its history, the railroad actively sought to acquire control of significant non-railroad-related companies. This change in management philosophy occurred at the same time plans for the merger with the New York Central Railroad were publicly revealed.

The decision to invest in capital intensive non-railroad-related companies was shown in part I of the staff report to be damaging to the railroad's cash position, contrary to the claims of the Railroad's officers. The investment of millions of dollars in a company called Executive Jet Aviation, while subject to the same criticism, is actually a separate and distinct story and—in the opinion of many—evidences many of the problems which led to the filing for reorganization under Section 77(B) of the Federal Bankruptcy Act of the Penn Central Transportation Company on June 21, 1970.

Initial contact made between PRR and EJA

As was true for all of the companies acquired by the Pennsylvania Railroad under its new diversification program, information regarding the possible investment by the Railroad in Executive Jet Aviation, Inc. (EJA) was obtained from Gen. Charles J. Hodge, chairman of the executive committee of Glore-Forgan, Wm. R. Staats, Inc. (now known as f. i. DuPont-Glore Forgan), an investment banking firm having its principal office in New York City.

The sequence of events which brought EJA to the attention of General Hodge is as follows: Brigadier General of the Air Force Olbert F. Lassiter (retired) conceived the idea of having a special fleet of jet planes and pilots which would contract with the executives of large corporations to fly them on short notice to specified destinations. In this manner, corporate officers could avail themselves of the convenience and luxury of private jet service without investing in the purchase price of these expensive planes. General Lassiter came upon this concept quite naturally, as he was the commanding officer of the identical type of program while in the Air Force. Much of

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the groundwork and even the actual incorporation was accomplished while General Lassiter was still technically a member of the Air Force.

What was missing, of course, was the money needed to buy the planes and begin operation. General Lassiter contacted a Washington attorney familiar with aviation matters, Bruce G. Sundlun, who also happened to be an Air Force Reserve officer. Mr. Sundlun then went to New York in search of investment capital and one of his stops was at Glore Forgan, where a partner of that firm, Sam Hartwell, was given the background information. Mr. Hartwell referred the matter to General Hodge, who was at the time the investment advisor to the Pennsylvania Railroad, then actively seeking investment opportunities.

EJA board of directors

The makeup of the board of directors of Executive Jet Aviation soon after incorporation in 1964 certainly did not lack for fame and distinction. Besides General Lassiter, Sam Hartwell, General Hodge and Bruce Sundlun, the list included Curtis E. LeMay, former Air Force Chief of Staff; Perry M. Hoisington, retired Air Force general; F. H. Billups, president of Tropical Gas Co.; M. J. Rathbone, former chairman of the board of Standard Oil Co. (New Jersey); James Hopkins Smith, former Assistant Secretary of the Navy; and entertainers Arthur Godfrey and James Stewart. With this lineup of directors, it is not surprising to learn that there was a military overtone to EJA and, in fact, EJA was described by General LeMay as a small Strategic Air Command (SAC) operation. In view of subsequent events, it is hoped that SAC, for the sake of our national defense, is operated more efficiently.

PRR INVESTMENTS IN EJA

Initial investment by PRR

All investments in EJA made by the Pennsylvania Railroad were accomplished through a wholly owned subsidiary, American Contract Co. (ACC), which up to November 1964 had only minor investments in transportation companies. The first record of money advanced to EJA by ACC consists solely of the following letter to William Gerstnecker, treasurer of the PRR:

November 2, 1964.

Dear Bill: Since you had the foresight and interest to advance $275,000 for our project, I thought it important to give you some protection. Enclosed is a note for the proper amount with the interest blank. Thought you'd have a better idea on that subject.

Looking forward to getting this project off the ground with you.

Kind regards,

Dick Lassiter.

The incredibly casual manner in which this money was advanced to EJA was not at all unusual in the affairs of American Contract Co. At the time of this loan (Nov. 2, 1964), David Bevan, chairman of the finance committee of the Pennsylvania Railroad, was the president of American Contract Co. (ACC). At the board meeting of ACC on December 22, 1964, "the action of the president in approving and making loans to Executive Jet Aviation, in the total amount of $575,000, evidenced by 90-day promissory notes" was ratified. "This established the pattern followed consistently thereafter. The officers of American Contract would purchase stock, make loans, and enter into other financial transactions with Executive Jet, then, at the next meeting of the board—which was usually held only once a year—the directors would 'ratify and confirm' whatever action had been taken in the meantime." [1]

At the time the first advances were made to EJA, the board of ACC consisted of David Bevan, William Gerstnecker, and three other high-level employees of the Pennsylvania Railroad. A very interesting development took place at the abovementioned December 22, 1964, AAC board meeting. These five gentlemen all resigned as directors and in their place three officers in the financial department of PRR—all directly subordinate to Messrs. Bevan and Gerstnecker—were elected in their places. Similarly, the newly elected officers of ACC were low-level employees of PRR who obviously were not capable of acting on their own initiative in matters dealing with EJA. In point of fact, all objective evidence indicates that Mr. Bevan and Mr. Gerstnecker at all times retained the decision making authority with respect to PRR's investment in EJA.

The question of whether the procedure by which moneys were advanced to EJA complied with the internal bylaws of the Pennsylvania Railroad was examined in the Cole report. Pertinent portions of that report follow:

> Although it is not possible to trace the original source and flow of all of the funds which American Contract invested in EJA, it is clear that most of them came in the form of "advances" from PRR or Pennsylvania Co. On June 23, 1965, Mr. Bevan reported to the PRR board—and this is the first such report on EJA that we have been able to find—that the company had advanced funds to American Contract which had made loans in the amount of $4.7 million to Executive Jet and had paid $328,000 for nonvoting stock.
>
> On February 24, 1965, there appeared on the PRR treasurer's report (a tabular form containing financial data which is routinely presented to and approved by the board) an entry in the loan account indicating an advance of $3,700,000 to American Contract, "to restore advance account." And, on 20 occasions during the ensuing 31 months, or to September 27, 1967, there were shown on this report advances from PRR to American Contract for, "additional working capital" in amounts ranging from $50,000 to $2,400,000, for a total of about $15.9 million.
>
> The use that American Contract was going to make of these advances was never disclosed on the treasurer's report, and the minutes do not indicate that there was any verbal explanation. The information was there for anyone to question, however, and while there may be room for doubt, this form of report presumably complied with the PRR By-Law * * *.

Legal impediments to Penn Central investment in EJA

There is no documentation to be found of any inquiries as to the legality of the Pennsylvania Railroad investment in EJA at the time the initial advances were made in late 1964. Not until March 1965 did the railroad seek an outside legal opinion on the nature and extent of their proposed relationship with EJA; with one opinion being solicited from none other than the general counsel of EJA, Bruce Sundlun, not exactly the advice of independent counsel. Pertinent portions of the letter to Sundlun written by David Wilson, the assistant general counsel of the PRR, appearing below, clearly indicate the

[1] From report prepared by Mr. Basil Cole of the PRR at the request of the conflict of interest committee of the Penn Central board of directors, in May 1970, hereinafter referred to as the Cole report.

Railroad's intent to enlarge on the original concept of EJA being merely a small passenger contract carrier:

As I explained to you, we would like to have an opinion covering the matters in question in order to permit us to consider the nature and extent of our relations with EJA in the future. For reasons of policy, we would prefer that none of these questions be taken up either formally or informally at this particular time with the agency or any of its staff people if our identity would have to be disclosed. Accordingly, if you conclude that an approach of that nature would be necessary or desirable, I would appreciate your advising me about it in advance.

As to the matters on which we desire your opinion, you will recall that we were at first concerned primarily with the legality of any control relationship between this company and EJA. This is still our main concern but the question may be broader than we originally contemplated. Instead of our acquiring immediately a majority equity position, we might prefer to begin with a creditor relationship including some convertibility feature, option or other form of stock right, which would permit us to obtain the majority equity position at our discretion in the future. Your opinion should therefore clarify the status of this alternative type of relationship from the standpoint of CAB regulation.

Going beyond this feature we would also want to be advised as to the nature and extent of the procedure which would be involved if any existing exemption by general regulation were to expire or otherwise become inapplicable. This would include a general estimate of the action which the board might be expected to take in such a situation based on its policy positions in comparable circumstances. Finally, this should be clarified to indicate the procedures and policy issues which would be involved if the board action would have to be in the form of affirmative approval and under what type of circumstances, if any, would that be required.

Mr. Sundlun's detailed opinion in response to this letter hinged on the definition of the term "air carrier" within the meaning of the Federal Aviation Act of 1958, since Section 408 of the Act prohibits a surface carrier, such as the PRR, from acquiring control of an "air carrier" unless approved by order of the Civil Aeronautics Board. Such approval will only be granted if it can be shown that such an acquisition is in the public interest. The Sundlun legal opinion also concluded that EJA may in the future become an "air carrier" without Board approval if their service was limited to aircraft having a maximum takeoff weight of 12,500 pounds or less, the theory being that the control question is only applicable at the time of acquisition.

The introductory paragraph of Sundlun's opinion is quoted below. It should be noted that a contrary opinion had already been given to the PRR from an attorney who supposedly "had not been furnished all the material facts."

We have examined the question as to whether the Pennsylvania Railroad (PRR) can acquire a controlling equity interest in Executive Jet Aviation (EJA) without the approval of the Civil Aeronautics Board (Board). Since it is our opinion that EJA is not an "air carrier," we have concluded that the economic regulatory provisions (title IV) of the Federal Aviation Act permit PRR both to acquire control of and operate EJA without Board sanction. Hugh Cox, Esquire, of Messrs. Covington and Burling, on March 31, 1965, gave PRR an opinion that the act prohibited the acquisition of EJA. Mr. Cox, however, had not been furnished all the material facts, and incorrectly assumed as the hypothesis of his opinion that EJA was an "air carrier." While we would agree with Mr. Cox's opinion if EJA were an "air carrier," the facts of EJA's operation require a different conclusion.

PRR's future expectations for EJA

Aware of the legal obstacles facing them, why did the officers of the PRR decide to make such a sizable investment in EJA? Even the most glowing financial predictions for EJA's operation under the original concept of executive jet service would hardly have enticed a corporation of PRR's size and importance to risk such large sums of money in an unproven venture so obviously fraught with risks. That there was potential for greater things is supported by numerous statements and speeches by top level PRR officers.

In a number of major speeches, the chairman of the board of the PRR, Stuart Saunders, urged that railroads be permitted to engage in other forms of transportation thereby offering its shippers a complete package. The PRR was hoping it would become "a department store of transportation." An important step would, of course, be entrance into the air cargo business and this is where EJA figured most heavily. In one speech EJA was mentioned specifically as the vehicle through which the PRR would enter the air cargo business. This reference precipitated a stern memorandum from William Gerstnecker to PRR's director of public relations reminding him that no mention of PRR's interest in EJA was to be publicly discussed.

General Hodge, of Glore Forgan, investment brokers to the PRR, was quoted as saying: "I screened and proposed EJA. I thought any railroad management not aware of what's coming in air freight was not doing its job."

Despite all these pronouncements, the potential for entry into the air freight business was limited by a simple fact: It was against the law at the time. An unsigned memorandum to the file in August 1969 presumably written by an officer of Penn Central sheds additional light on the railroad's motivation:

> The transaction was handled in this way (through purchase of nonvoting stock) because of the fact that rail carriers, under the law, cannot become involved in the operation of air freight services. The whole project was undertaken, however, in the hope that Executive Jet would expand into the freight area and at some future date laws might be changed so that Penn Central would move in.

PRR investment in EJA through August 1966

Through August 1966, the PRR advanced approximately $13 million to EJA. These funds were utilized to purchase the Lear jets needed to serve as the backbone fleet for the executive contract flying service. These funds were advanced under a basic agreement whereby principal and interest payments were deferred until 1970, with the level of interest payments geared to the earnings of EJA. Security for these advances initially was the airplanes themselves. However, when outside financing, principally from commercial banks, became necessary, PRR agreed to subordinate its security interest in the airplanes to these later investors.

PRR's investments in EJA are detailed in table I below:

TABLE I.—*American Contract Co., Investments in Executive Jet Aviation, Incorporated*

Explanation:	*Amount*
1965 advances	$11, 182, 596. 00
1966 advances	6, 251, 518. 25
Total advance through December 31, 1966	17, 434, 114. 25
Plus:	
Interest on certain notes	277, 224. 56
Advances after December 31, 1966	4, 086, 544. 00
Total	21, 797, 882. 81
Less:	
Repayments	5, 102, 005. 50
Total direct advances by American Contract Co	16, 695, 877. 31
Plus: Advances to E.J.A. through Detroit bank	4, 316, 000. 00
Total	**21, 011, 877. 31**

In point of fact, the PRR was at all times extremely loose in their dealings as the principal creditor of EJA. Not until June of 1965, seven months after its initial investment, did PRR enter into a formal written agreement with EJA for purchase of stock in that company. With an eye toward the CAB jurisdictional question, PRR (through ACC) purchased 655,960 shares of class B nonvoting stock for approximately $328,000, which constituted 58 percent of the total equity of EJA. Glore Forgan also purchased a limited amount of class B nonvoting stock, and ACC and Glore Forgan remain the only class B stockholders. While class B stock is nonvoting, class B stockholders were given the right to purchase additional shares which would enable them to retain the 58:42% "equity ratio." If the original class B stockholders sold their interest to another party, or if the Congress could be persuaded to change the law, then the shares of class B stock could become convertible to shares of class A voting stock. This stockholder arrangement became extremely important in future deliberations of the CAB.

How did these funds advanced by ACC find their way into EJA? Were these substantial advances authorized by the board of directors of the PRR? The facts are somewhat confusing, but it appears that the circumstances were substantially those disclosed by the Cole report, quoted above: David Bevan had full authority over EJA investments.

Independent staff inquiry confirms the following statement in the Cole Report:

> By practice, it appears to have been assumed or implied that the chairman of the finance committee [David Bevan] had unlimited authority to make such investments and full discretion as to whether they should be reported to the Board.

Interviews with bank loan officers and other participants in the EJA venture evidence quite clearly that David Bevan, chief financial officer, and William Gerstnecker, treasurer of the Penn Central Co. (and the PRR prior to the merger) retained the decision-making authority with respect to the PRR's investment in EJA. This fact becomes important in the analysis of further developments in the EJA venture.

Purchase of Johnson Flying Service certificate

The entire nature of the EJA operation, and with it the PRR's involvement with EJA, changed dramatically in August of 1966. Up to that time, EJA restricted itself to its original business jet concept, albeit not very successfully. As of August 31, 1966, EJA's 12-month figures showed revenues of about $2.8 million and a net loss of $1.8 million. (The losses have continued to mount with accumulated losses at the end of 1969 totaling about $12.5 million.)

In August of 1966, EJA successfully negotiated for the acquisition of 80 percent of Johnson Flying Service (JFS), a supplemental air carrier. Johnson Flying Service, based in Missoula, Mont., had as its principal business client the U.S. Forest Service, for which it engaged in numerous phases of firefighting. Its principal asset, however, was its permanent certificate as a supplemental airline granted by the CAB in May of 1966. Of the 10 carriers granted such status, Johnson was one of the smallest and, therefore, relatively inexpensive to purchase. EJA offered $1.75 million for controlling interest in the airline. Acquisition of this certificate would permit EJA, and therefore PRR, to engage in the air charter and cargo business, the phase of airline operations they appeared to be most interested in.

While the acquisition was certainly discussed with David Bevan, portions of an August 19, 1966, letter from General Lassiter to Mr. Bevan, quoted below, reveal the haste with which this transaction was consummated:

The purpose of this letter is to set down in one place our thoughts concerning the future activities of EJA, particularly with respect to the large jet aircraft and Johnson Flying Service. I know the recent acquisition of the Johnson group must have seemed like a Chinese fire drill to you—and in some respects it did seem like that to us, also. However, I am firmly convinced that the acquisition of a supplemental air ticket, coupled together with the acquisition of larger aircraft, will be a very profitable venture. The short notice we were able to give you to do your planning was partially due to the fact that the option we wanted to pick-up was due to expire. After careful review of the Johnson and Vance groups, it was our unanimous opinion that the Johnson group offered us the most potential; however, the time was shortest to take advantage of the option for the Johnson operation.

You and I have discussed large aircraft at some length in the past * * *.

The question of whether EJA was legally an "air carrier," examined at the initial stage of PRR's investment in EJA, was no longer an important issue, since Johnson Flying Service was without question an "air carrier" under the Federal Aviation Act. Acquisition of that airline by EJA would clearly require CAB approval. Again, legal counsel was sought from Mr. Hugh Cox of the law firm of Covington & Burling. He stated in a letter dated August 4, 1966:

We believe that the question whether the Pennsylvania controls EJA is very likely to be the subject of inquiry in the CAB proceeding on EJA's application to acquire control of a supplemental air carrier. It is quite possible that other supplemental air carriers will oppose EJA's proposed acquisition and will attempt to show that the acquired company would have the financial backing of the Pennsylvania, thereby giving it an unfair competitive advantage. In any event, we believe that the CAB's economic bureau will inquire into the relationship between EJA and the Pennsylvania, notwithstanding the earlier investigation of the matter by the Board's enforcement bureau.

As we have said, we believe there is a reasonable chance that the CAB would hold that the Pennsylvania does not control EJA. However, if the CAB were to find that EJA was controlled by the Pennsylvania, it would undoubtedly not approve the acquisition of the supplemental air carrier since it would view the transaction as an acquisition by the Pennsylvania and the requirement of the second provision of section 408(b) of the Federal Aviation Act could not be met.

The expected opposition from other supplemental airlines did materialize out of their concern that such an acquisition would produce a competitor having the financial backing of the then solvent Pennsylvania Railroad. They argued that PRR controlled EJA, and alternately that EJA was a common carrier and had violated the law by not obtaining prior CAB approval. What would normally have been a routine hearing before the CAB was transformed into a most complex and protracted administrative proceeding.

Even though fully aware of the potential for delay—and the possibility of CAB disapproval—General Lassiter, David Bevan, and William Gerstnecker decided in the fall of 1966 to commit EJA to the purchase of large aircraft, specifically two Boeing 707 and two Boeing 727 jets. The total cost on delivery was $26.2 million, with the first plane to be delivered in May of 1967 and the last in November of that year. Unless and until the CAB approved EJA's acquisition of Johnson, EJA had absolutely no use for these planes. Because of this fact, the decision to purchase the large aircraft at this time proved to be a most serious blunder. General Lassiter was also interested in purchasing the Lockheed L–500, the civilian counterpart of the C–5A, and at one point signed a letter of intent with Lockheed for six of them at a total cost of $136,500,000. He obviously thought the PRR had an extremely deep pocket.

CAB's examiner decision

The import of this blunder was not long in coming. On April 11, 1967, the examiner handed down his decision on the Johnson Flying Service acquisition request by EJA (docket No. 17657 et al.). The examiner found that PRR was in control of EJA in violation of section 408(a)(5) of the Federal Aviation Act of 1958 (49 U.S.C. 1378(a)(5)). Therefore, the acquisition of Johnson by EJA was dependent on the filing of an acceptable plan for divestiture of PRR interest in EJA. Control of EJA by PRR was found to exist by virtue of the following: (1) The nonvoting stock held by PRR (through ACC), constituting a 58-percent equity interest in EJA, could under certain conditions be converted to voting stock; (2) the size and nature of the debt obligation of EJA to PRR allowed the railroad to control the day-to-day operations of EJA; (3) two of the 11 directors of EJA, General Charles Hodge and Sam Hartwell, were members of the investment firm of Glore Forgan, Wm. R. Staats, Inc., which had a longstanding relationship with the PRR, thus making Glore Forgan the "alter ego" of PRR; and (4) the treasurer of EJA, A. W. Estes, was a former employee of the PRR, which potentially could afford the PRR access to confidential information.

On June 30, 1967, the CAB in Order No. 25371, adopted the examiner's initial decision, with limited exceptions such as the granting of an exemption to operate certain larger aircraft (not the 707 or 727 jets), and allowed 6 months for the filing of an acceptable plan of divestiture.

As soon as the examiner's decision was handed down, various plans for divestiture were discussed. At an April 13, 1967, meeting of the EJA board of directors, all agreed that General Hodge and Sam Hartwell should resign from the EJA board, but the terms of the financial divestiture remained in doubt. The plan finally adopted can best be summarized in a memorandum written to Stuart Saunders, chairman of the board of PRR, by David Bevan on August 9, 1967:

> Much work has been done and every effort has been made to put together a financial plan for Executive Jet Aviation which can be submitted to the CAB at the earliest possible date.
>
> In summary, General Hodge and Sam Hartwell (one of Glore Forgan's partners) will resign from the executive jet board and Glore Forgan's class A stock, which is now voting stock, will be exchanged for class B nonvoting stock. Both these moves will meet objections raised by the CAB examiner and eliminate any possible claim that Hodge and Hartwell are "tools" of ours and eliminate their stock from any vote in the affairs of Executive Jet.
>
> The total cash requirement is approximately $45 million. Under the plan, $23 million will be raised through senior financing in the form of lease arrangements for the two 727's and two 707's. Leasing of one of the 707's has been consummated and we believe we have attractive leases available for the other three. The balance of $22 million will be required primarily for working capital, down payments on the four airplanes, spare parts, and repayment of loans made by us to Executive Jet since the first of this year. This $22 million would be raised through the sale of $11 million of debentures and $11 million of common stock. It is hoped that the

debentures can be sold at a 7 percent interest rate with warrants to purchase 30 shares of common stock per $1,000 debenture at a price still to be determined but probably at $10 a share. The $11 million of common stock will be sold at $10 a share (you will recall our present stock which amounts to 659,405 shares, representing 58 percent of the total outstanding, was subscribed for by us at 50¢ a share).

Under the plan, we will receive approximately $8,500,000 of debentures similar to those which are to be sold to the public and approximately $4,500,000 of additional nonvoting stock at a value of $10 per share in exchange for the debt executive jet owed us at the end of last year amounting to approximately $13 million. About $2,500,000 will come back to us in cash.

As a result of this kind of transaction we would own initially about 39 percent of the company after the financing and Glore Forgan would own 4 percent or a total of 43 percent. It is believed by Howard Westwood of Covington & Burling and by Bruce Sundlun that such total percentage holding by us and Glore Forgan of nonvoting stock would meet the requirements of the CAB primarily because it would mean that our total ownership would be equivalent to the amount of stock being sold to new investors.

Under the plan, the debentures we receive will include warrants for the purchase of additional stock on the same basis as the debentures being sold to the public so that we will be protected against a dilution in our equity position if and when the warrants are eventually exercised.

At all times, Glore Forgan remained the investment banking firm in charge of obtaining the financial commitments for the new funds, and was the underwriter for the proposed EJA common stock offering (Form S–1) filed with the SEC on November 7, 1967. Glore Forgan obtained firm commitments for $17 million of the $22 million financing package from the following parties:

	Amount
Colonial Management of Boston	$5, 000, 000
Keystone Custodian Fund	4, 000, 000
Old Suez Co. Group	2, 000, 000
Reliance Insurance	1, 000, 000
Individual investors for amounts under $500,000	5, 000, 000

On October 27, 1967, EJA filed a motion, enclosing the financing and divestiture plan, requesting CAB approval of the JFS acquisition plan. All of this came to naught, as the CAB on December 22, 1967, issued an order (No. E–26170) holding that the proposed plan did not comply with the Board's previous order. Pertinent portions of that opinion follow:

On the basis of its motion and accompanying documents, there is substantial doubt that EJA has made a *prima facie* showing that it has complied with either of the requirements of our previous order. In the memorandum accompanying its motion EJA sets forth five steps which it has taken to accomplish divestiture: (1) amendment of EJA's articles of incorporation to prevent PRR or Glore Forgan from converting their class B common stock to class A voting common stock so long as that stock is held by them or someone under their control; (2) conversion of all stock held by Glore Forgan to class B common stock; (3) the resignation of two officers of Glore Forgan from the EJA board of directors; (4) election of a new director from one of the proposed new investors in EJA; and (5) approval of the issuance of various new securities pursuant to the proposed financial reorganization plan. *Although clearly designed to meet some of the aspects of control which the examiner described in his initial decision, these actions appear to us to fall short of accomplishing divestiture. PRR continues as the largest stockholder with 57 percent of the outstanding common stock; it continues as by far the largest single debt holder—$16 million of $25 million; and EJA seems to continue to be dependent on PRR for financial support, as evidenced by cash advancements of over $2,200,000 made on "open account" by PRR over the period January 1 through October 25, 1967—and the "open account" continues.* Even though the majority block of stock held by PRR is nominally nonvoting, it could give PRR a substantial power to control EJA management. In addition to the right of "nonvoting" stock to vote in certain cases on matters which may affect it, the power PRR has to sell its stock to a third party who could vote the existing management out of power gives PRR a substantial influence over that management. Even the steps already taken in the refinancing plan disclose a continuing close association with PRR and, more important, an apparent reliance by EJA on PRR and Glore Forgan, PRR's alter ego in dealings with EJA. * * * *Considering the past history of the relationships and the policy of PRR to control the companies in which it maintains sizable investments, we are inclined to believe that only complete liquidation of all or the vast bulk of PRR's financial interest will insure divestiture of the control relationship.* (Emphasis supplied.)

In situations analogous to this, it has been the Board's practice in the past to insist upon complete divestiture or liquidation of its holdings by the controlling party in the illegal relationship. To avoid distress sales and limit, to the extent possible, the possibility of loss, we have frequently approved liquidating voting trusts as providing an effective means of insulating control pending final sale of the interest. We believe that such a liquidating trust or comparable arrangement would be appropriate in this case.

Leasing of large aircraft

While the question of approval of the acquisition of JFS was delayed by the lengthy proceeding before the CAB, the Boeing Co. was completing delivery of the two 707 and two 727 jets under their contract at a total cost of $26.2 million. Leasing of these planes became essential, since EJA did not then have the requisite authority to operate these planes. Various leasing agreements were entered into with Airlift International (707) through July 1, 1968, United Airlines (two 727's) through May 1968, and Boeing leased back the other 707 until June 1, 1968. Nothing in these leasing agreements appears to be unusual, but the question of what to do with these planes by mid–1968 became a pressing one.

PRR advances to EJA after mid-1967

After the CAB decision in June of 1967, it would seem reasonable to expect that the PRR would become much more cautious in their financial transactions with EJA. The contrary appears to be the case. As the findings of the Cole report, quoted below, indicate, any change in PRR's dealings with EJA was more of form than substance. Through what appear to border on deceptive bookkeeping practices substantial additional sums were invested by PRR in EJA after the CAB order.

The method of supplying funds to EJA changed abruptly after September 27, 1967, and the treasurer's report presented at the next (PRR) meeting (on Oct. 25, 1967) indicates that American Contract repaid PRR $16.2 million. Concurrently, American Contract borrowed $16.3 million from Pennsylvania Co.

Thereafter, the only funds that we have been able to identify originated in Pennsylvania Co. The Pennsylvania Co. bylaws do not require reporting of advances to subsidiaries and while EJA's indebtedness to American Contract increased by an estimated $5–$8 million during 1968 and 1969, we were able to find only one advance for $200,000 from Pennsylvania Co. to American Contract, this advance being noted in the treasurer's report submitted to the Pennsylvania Co. board at its meeting on June 26. It is probable that the money being supplied to American Contract in this period was reflected in the Pennsylvania Co.'s treasurer's report as "loans to subsidiaries," since the totals reported in corresponding accounts roughly match. If this is the case, these transactions were recorded in the wrong account (American Contract is not a subsidiary of Pennsylvania Co.) and at no time is either the source or destination of these funds into or out of Pennsylvania Co. explained in such a way that the closest scrutiny would reveal that they were ultimately intended for EJA.

The significance of this change in the method of obtaining funds for EJA is that it came shortly after PRR was required to eliminate its economic domination of EJA, a time when those not wise to the ways of finance might have been surprised to learn this investment was steadily increasing.

What was also surprising was the fact that the increased EJA indebtedness in the years 1967, 1968 and 1969 was not reported by the railroad to the ICC in Form A annual reports. All investments in short-term obligations of other companies and commercial paper must be filed with ICC, and this was done for EJA investments in 1965 and 1966.

"WORLD OPERATING RIGHTS" PROGRAM

What proved to be the fatal flaw in EJA's effort to win approval of the JFS acquisition was the decision to establish a worldwide network of air carriers prior to winning such approval. While the CAB found, in a later decision, that such activities began on or about the date of the December 22, 1967, CAB order, evidence obtained by the staff indicates such activities began in the middle of 1967. The complexity of these dealings is truly mind-boggling, and this report will only attempt to summarize them. The detailed background information is on file with the CAB or in the possession of the staff.

The first mention of European acquisitions is found in the minutes of the EJA board of directors meeting of July 20, 1967. In the discussion of the new financing plan to be submitted to the CAB, General Hodge indicates that "possible European investments" will require a portion of the new money to be raised. Also at that meeting, the board adopted a resolution authorizing acquisition of Sudwestflug, a German supplemental air carrier.

Immediately after that meeting, General Lassiter and General Hodge went to Europe "to investigate the formation and/or purchase of European companies for our world operation rights objective."

One of the meetings, and there were many, centered on the Sudwestflug acquisition. Present were Fidel Goetz, a German national controlling numerous Liechtenstein corporations, conveniently known as the Goetz group; Francis S. Rosenbaum, a Washington, D.C. attorney now serving 10 years in prison for defrauding the U.S. Government through foreign corporate and bank transactions; Carl Hirschmann, a wealthy Swiss financier (vice-chairman of EJA, S.A., in 1968 and 1969); and Perry Hoisington, an EJA, S.A., officer in Europe. EJA, S.A. was a wholly owned subsidiary of EJA located in Switzerland, which proceeded, like the parent company, to lose over $2 million during its existence.

The deal agreed to at this meeting was that Goetz would purchase 100 percent of Sudwestflug until CAB approval of the JFS acquisition, then 48 percent would be purchased by EJA. All of these gentlemen, along with Joseph Rosenbaum—the brother of Francis and a partner in the same law firm—figured substantially in all of the consummated foreign EJA transactions.

In a memorandum written in July 1967 by General Lassiter on the results of the European trip, with copies sent to David Bevan and William Gerstnecker of PRR, he states:

> Although we are a minority partner in the companies shown on the enclosed chart [including Sudwestflug], Charlie (Hodge), Perry (Hoisington) and I unanimously agree that we have absolute and positive operational control of each of them.

Further evidence of foreign acquisition plans is found in a September 11, 1967, telegram from Bruce Sundlun to Perry Hoisington stating:

> Charlie [Hodge] and Dick [Lassiter] agree that we should spread the flag wherever possible.

The documents on file with the CAB clearly indicate that Bruce Sundlun, now the president of EJA, was fully aware of all these foreign transactions and, in fact, played a substantial role in many of them.

Also, a memorandum to the file written by a First National City Bank loan officer, who had already loaned $16 million to EJA, on February 28, 1968, discloses the following:

On January 10, EJA's Board voted to withdraw its S-1 Form in connection with the proposed public sale of $22 million of financing from registration so that it did not have to disclose its plans for overseas expansion. . . . The major plans for overseas operations include (1) the purchase of four supplemental airlines owned by "friendly hands" and located, respectively, in the Netherlands, Spain, Switzerland and Germany (financing reportedly has been arranged abroad); (2) the purchase of International Air Bahamas, a non-IATA Carrier, with routes from Nassau to Luxembourg; (3) the formation of a new company to operate as the flag carrier of Panama.

There was almost no limit to the number of people and countries visited in hopes of securing some interest in foreign carriers. Some, like the Sudwestflug deal, came close to fruition, while others never got off the ground. Discussions were held with supplemental carriers in Spain, Germany, Switzerland, Panama, Saudi Arabia, France, Netherland Antilles, and even Indonesia.

Two of the proposed acquisitions did come to pass: EJA acquired control of Transavia Holland and International Air Bahamas (IAB) and, in fact, the two EJA 707's found their way to these carriers under separate lease agreements. The similarities between the two transactions does not end there. Both airlines were controlled at one time by the Swiss banker Carl Hirschmann, both were acquired with the help of EJA funds, both were later sold to companies controlled by Fidel Goetz and both ran up enormous debts to EJA under their lease agreements which were later settled for a fraction of the face amount of the debts.

Transavia

In February 1968, Carl Hirschmann purchased approximately 90 percent of the stock of Transavia. He put up $200,000 of the $400,000 down payment, the rest being borrowed from the Commercial Credit Bank of Zurich, which Mr. Hirschmann controlled. EJA supposedly was to show its "good faith" by depositing $660,000 for the account of EJA, S.A., in the Commercial Credit Bank's account in the Bank of America, International Division, New York. At least $500,000 of that amount was advanced by the PRR with the full knowledge and approval of David Bevan and William Gerstnecker, and without the advice of counsel. Within 2 weeks, after counsel had objected, the money was returned to the PRR.

On July 29, 1968, Hirschmann's shares in Transavia were sold to a company controlled by Goetz. Goetz later sold these shares back to the Amsterdam Credit Bank but the majority of the shares found their way back to a Liechtenstein company—Stichting Transavia en Luchtvaart. (Liechtenstein corporations and banks are able to maintain complete secrecy as to the real parties in interest. This fact was highlighted in hearings before this committee in consideration of the Foreign Bank Secrecy bill, now Public Law 91-508).

The CAB also found that the leased 707 jet was delivered to Transavia prior to seeking approval from the CAB, and that the approval was improperly obtained by failing to "disclose the control which

EJA had acquired over Transavia" since Hirschmann was found to be "acting as a representative and associate of EJA pursuant to agreement with General O. F. Lassiter." Also, on two separate occasions the CAB found that "707 aircraft leased to Transavia have been used in foreign air transportation without board approval."

Transavia continually fell behind in its lease payments to EJA and efforts to collect this money were thwarted by General Lassiter for undetermined reasons. The final sale of Transavia included a note in the amount of $100,000 given to EJA in settlement of the debt. This did not even represent one-tenth of the total amount owed to EJA.

The CAB found that EJA and PRR violated sections 408(a)(2), (6) and (7) by virtue of its acquiring control of Transavia and leasing the 707 jet without the proper authority from the board.

International Air Bahama

IAB, at the time EJA became interested in acquiring it, was not an operating airline. Its only asset was the landing rights in Nassau and Luxembourg which could allow transatlantic service at rates well below those charged by members of the International Air Transport Association.

On March 11, 1968, Carl Hirschmann purchased 70 percent of the common stock of IAB for $200,000, with $100,000 as a down payment. Payment was made with money again borrowed from the Commercial Credit Bank of Zurich, which Mr. Hirschmann controlled, a pattern similar to the Transavia acquisition. Mr. Goetz lent $650,000 to EJA for which he received a note bearing warrants for 40,000 shares of EJA common stock, exercisable at $10 per share. This money was also deposited in the Commercial Credit Bank of Zurich to show EJA's "good faith." This loan was repaid to Goetz on July 29, 1968.

Why EJA had to deposit "good faith" money to its own account in Mr. Hirschmann's bank for both the Transavia and IAB acquisition is never fully explained. Both David Bevan and William Gerstnecker admitted it was unusual, but offered no further explanation to the CAB.

EJA, acting through Hirschmann, contributed $50,000 to IAB for working capital. This was the beginning of a constant pattern of a debt buildup owing to EJA. IAB failed to make its lease payments and efforts to collect this debt—which finally grew to $2,600,000—by officers of EJA were always blocked by the president of EJA, General Lassiter. Control of IAB was achieved through agreements with Hirschmann and the total economic domination represented by the debt owing EJA.

By July 20, 1968, IAB had begun flight operations directed by two individuals, I. H. Mansfield and A. N. Thompson, acting as consultants to EJA. Mansfield and Thompson came to EJA by virtue of their combined 20 percent stock interest in Johnson Flying Service. Handling the Bahamian portion of IAB affairs was Walter Johnson, of a firm called Infoplan, under the direction of General Lassiter. By virtue of the wet-lease of the 707 to IAB (the term "wet lease" refers to a lease where the airplane crew is furnished by and is under the direction of the lessor, in this case EJA) and the managerial personnel placed by EJA, complete operational control in IAB was retained by EJA. In addition, EJA, through an investment group called Penphil, controlled a travel agency (Holiday International Tours) organized to sell tickets on IAB flights. This relationship will be discussed more fully in a later section of this report.

On September 3, 1968, Hirschmann's stock in IAB was transferred to Ovid Anstalt, a Liechtenstein corporation, controlled by Fidel Goetz and represented by Joseph Rosenbaum. The role played by Francis Rosenbaum, and later by Joseph Rosenbaum, in these foreign transactions deserves special mention. First of all, Joseph Rosenbaum has had continuous dealings with the Penn Central Co. (formerly the PRR) through equipment trust transactions involving freight cars of the railroad. Joseph Rosenbaum was a principal and agent in many conditional sales agreements, where new and used freight cars were purchased by him and then leased back to the railroad. The used cars were allegedly rehabilitated in the Penn Central yards and then leased back to the railroad. General Hodge was a participant in at least a portion of these transactions.

In the Sudwestflug acquisition, the Rosenbaum "group," under the direction of Francis Rosenbaum (who was not then in prison), was to be the purchaser of that airline for the purpose of achieving control by EJA. The next association with EJA came about when Joseph Rosenbaum acted as Fidel Goetz's attorney in the Ovid Anstalt acquisition of Transavia and IAB, as well as being associated with Hirschmann. Goetz and Hirschmann were found by the CAB to be financial associates of EJA.

After IAB was in financial ruin, owing $2,600,000 to EJA, Joseph Rosenbaum represented Ovid Anstalt in the sale of IAB. At one meeting held to discuss the sale of IAB, Mr. Rosenbaum allegedly offered the officers of the First National Bank of Lake Worth, Fla., a chance to purchase some of the Penn Central used freight cars at an attractive price. At this same meeting, with no representatives of EJA present, Mr. Rosenbaum stated that EJA would be willing to settle for 10 cents on the dollar for the IAB debt to EJA.

The sale was finally consummated with Icelandic Airlines through their holding company, Hekla Holdings, Ltd. What is particularly puzzling is the fact that Icelandic had already become the general sales agent for IAB and was intimately involved in the management of IAB. The president of Icelandic Airlines, Sigurdur Helgason, who was known to be on very close terms with General Lassiter, testified in a U.S. District Court in Miami that he was the general manager and chief executive officer of IAB. The terms of the sale were a $400,000 note to Ovid Anstalt, a $400,000 note to EJA (which EJA mysteriously sold back to Hekla Holdings at a substantial discount), a check for $225,000 to EJA and an agreement to pay 10 percent of IAB's profit to EJA, if any, for 10 years. This latter portion of the agreement permitted EJA to rescind this method of discharge of IAB's indebtedness. However, the CAB has refused to permit EJA to exercise this option. The record shows other parties interested in acquiring IAB from Ovid Anstalt, but in a letter from Mr. Rosenbaum to Icelandic dated March 5, 1969, Rosenbaum states:

> Neither Ovid Anstalt nor *myself* ever received the concurrence of Executive Jet Aviation to contract with any of the groups named above. (i.e. Norris group and Boileau group.) (Emphasis added.)

Suffice it to say that the entire transaction lacks those features which would allow it to be described as an arms length agreement. Other individuals interviewed by the staff have indicated that, in their opinion, Icelandic purchased IAB for an "extremely reasonable" price. The attorney for Major Ricketts, the original owner of IAB, made the following statement:

> The documents on file here in Nassau prove that the other principals in the case are involved in much secrecy to try and cover the trail of what turns out to be the most illegal move in aviation history.

Purchase of third Boeing 707

Joseph Rosenbaum's involvement with EJA does not end there. In January of 1968, Mr. Rosenbaum was intimately involved with the proposed financing by EJA for a third Boeing 707. In an April 1968, memorandum to Bruce Sundlun from Bardyl Tirana (an associate in Sundlun's law firm), the following appears:

> On January 16, 1968, Mr. Conace and Mr. Estes (EJA officers) telephoned me to explain orally that General Lassiter had made an informal commitment with Joseph Rosenbaum for 12-year 100 percent financing. I was told that General Lassiter was working through Henry Glendenning, Jr., at Butcher and Sherrerd [Mr. Howard Butcher, a senior partner of this brokerage firm, was then a member of the board of the PRR] in Philadelphia. Permanent financing was to be effected by the Rosenbaum group through the Provident National Bank [on whose board Bevan and Gerstnecker then sat] or through their offices. Because of a possible CAB problem, and [sic] alternate source of senior financing was International Utilities [the president of which, John Seabrook, was on the board of the New York Central soon to be merged with the PRR]. * * *
>
> CONCLUSION
>
> At all times during the history of the proposed acquisition of the third Boeing 707, EJS's [an EJA subsidiary] principal officers, Mr. Estes and Mr. Conace, and this office, were advised not to insist on the normal documentation and preparation that is required for an $8,000,000 transaction. Instructions were given to us to rely upon the conclusion of all necessary details by Joseph Rosenbaum, or by Mr. Henry Glendenning in Philadelphia. We had no initiative in this matter. EJA was placed in a position of depending totally on an informal understanding between General Lassiter and Joseph Rosenbaum or Henry Glendenning.

PENN CENTRAL'S FAILURE TO COMPLY IN GOOD FAITH WITH CAB ORDER TO DIVEST ITSELF OF EJA CONTROL

While the implementation of the "World Operating Rights" program was proceeding rapidly with the full knowledge of certain Penn Central officers, the railroad was ostensibly attempting to locate a potential buyer for its interest in EJA in conformity with the CAB decision of December 22, 1967. Many large corporations were contacted but all seemed to lose interest when Penn Central insisted on some form of buy-back rights. This came to be an absolute condition in any divestiture plan. As William Gerstnecker later told the CAB:

> We are saying that in our opinion we could not get any kind of a purchase agreement with anybody which would assure us in any way of our being able to come out of this whole, or *with the profit that we were entitled to*, except by taking something less than dollars for the sale and being enabled to stay in it and get it later. (Emphasis supplied.)

On June 3, 1968, an agreement was signed with United States Steel and Burlington Industries, by which they would equally purchase Penn Central's interest in EJA but, at the same time, also giving Penn Central the right to repurchase (at $4 a share) up to 659,405 shares of EJA common stock, the full block of 58 percent then owned by Penn Central. Also, in August of 1968 a Voting Trust was established between Penn Central (through ACC) and the Detroit Bank & Trust Co. This bank was chosen, the staff has been informed, simply because it was one of the few major banks in the entire country not having an interlocking relationship with the Penn Central Co., and even this choice necessitated the resignation of one of the bank's officers from the board of a subsidiary railroad of Penn Central.

CAB hearings

CAB hearings reopened in November of 1968 in order to obtain approval of these steps taken toward divestiture of the PRR's interest in EJA. At the outset of these hearings, it became apparent that the intervening supplemental carriers (and even Pan American World Airways, after a time) had knowledge of the international acquisitions of EJA. As quoted in a "Business Week" article of August 16, 1969, a supplemental airline lawyer remarked, "Pan Am has an intelligence system that makes the CIA look like a bunch of little boys reading graffiti on the bathroom wall." After hearing the testimony of General Lassiter, General Hodge, and William Gerstnecker of Penn Central, the CAB ordered a recess to permit a file search of EJA, Penn Central, Glore Forgan, and others, since new and damaging evidence about the overseas adventures of EJA was continually being uncovered throughout the course of the hearing.

When the hearing was reconvened in January of 1969, and the results of the file search were distributed to the parties, EJA immediately moved to withdraw its application for approval of the Johnson Flying Service acquisition. David Bevan was scheduled to be the next witness.

Penn Central and EJA spent the next 9 months bargaining with the CAB on the language of the soon-to-be-issued CAB order. They were not very successful as the CAB, on October 14, 1969, handed down its cease-and-desist order finding 13 separate violations of the Federal Aviation Act. Penn Central was fined $65,000 and EJA $5,000. As the CAB stated "the acceptance of a lower penalty from EJA than from PRR is based on differences in the size and ability to pay of the two companies and should not be construed as an expression of the board's views as to the relative culpability of the two companies." To put the size of the fine in perspective, the only higher penalty ever imposed by the CAB for violations of the Federal Aviation Act was $75,000.

The order found the PRR had full knowledge and, in fact, controlled EJA while engaging in these unlawful activities. The CAB ordered that the voting and liquidating trust be amended to make it an irrevocable one, and the trustee was given all power necessary to liquidate PRR's interest in EJA before March 1, 1971.

PENN CENTRAL AND EJA AFTER JANUARY 1969

Even after January 1969, when the JFS acquisition attempt was finally dropped, Penn Central continued to feed funds into EJA. Presumably, this was done to keep EJA afloat, as no other source of financing was possible. The Cole report (cited previously) put it this way:

> Resolutions of American Contract dated Feburary 21, 1969, approve and ratify $2,324,000 which had been previously furnished the trustees and authorize an additional $2 million to the trustees. These amounts roughly, correspond to the increased indebtedness of EJA in the last 2 years. We see no significance to the fact that funds were channeled to American Contract [from the Penn Central] through the trust rather than directly, as it apparently did not impede the flow of money to EJA and was probably only done to demonstrate that the further investments were not a device for regaining control.

Attempted Zimet acquisition

The CAB cease-and-desist order required divestiture of the Penn Central interest in EJA by March 1, 1971, before which all such interest was to be held by Detroit Bank & Trust Co. in an irrevocable trust with full powers of disposition. As of the date of this report, such divestiture has not been accomplished. However, one attempted disposition is of particular interest.

Some time in March of 1970, Penn Central began negotiating with a Sydney Zimet for the acquisition of its interest in EJA. There are many puzzling features surrounding this entire transaction, starting with Mr. Zimet himself. He is alternately addressed as the chairman of the board of Security Equities Corp., and as the head of Investors Diversified Growth Ltd. Inquiries to the SEC reveal absolutely no information on either of these corporations, although Investors Diversified Growth Ltd. is described as a Grenada, West Indies, corporation in one of the documents obtained by the staff. Zimet, on the other hand, is well known by the SEC. On two separate occasions, Zimet was permanently enjoined by the U.S. District Court for the Southern District of New York from further violations of the antifraud provisions of the Securities Act of 1933 in connection with the sale of fractional undivided interests in oil and gas leaseholds through a corporation known as Zimoco Petroleum Corp. He was charged with making false and misleading statements about the nature of the assets of Zimoco Petroleum. It would be charitable to say that Mr. Zimet was a man of questionable business character, as he was described to the staff by loan officers of First National City Bank, whose consent was required before any assets of EJA were transferred to a third party.

The terms of the Zimet transaction were as mysterious as the participants themselves. The inducement for the entire transaction was the exchange by Penn Central's subsidiary, Pennsylvania Co., of two \$10.4 million Norfolk and Western 4⅝ percent subordinated convertible debentures maturing June 1, 1984, and June 1, 1985, respectively, for \$27.5 million in noninterest bearing bank paper from Zimet; \$2.5 million payable in 9 years and \$25 million in 10 years. If the bonds were negotiable at 60 percent of par, as they were said to be by Penn Central, Zimet would realize \$12,480,000, while the bank paper discounted at 9 percent would be worth only \$11,500,000. The profit to Zimet would be almost a million dollars, which was all he would need to fulfill his obligations in the remaining portions of the deal. It was essentially a riskless transaction for Zimet. If he could sell the bonds at 60, he would have acquired EJA for nothing, but if he could not, all Penn Central could do was sue Investors Diversified Growth, Ltd. of Grenada, which was just a shell of a corporation having no assets. Penn Central had the covering rationale of realizing cash for bonds which they were required to sell under an earlier ICC order of divestiture by Penn Central of N. & W. securities. Zimet allegedly insisted on the bond swap as compensation for an earlier basically similar bond deal that did not materialize.

A second part of the transaction was a loan to EJA by Zimet of \$500,000 for 60 days at an interest rate 2 percent over the prime rate. This loan originated from the North & South Trust Co. of Liechtenstein (Liechtenstein business entities always seem to be involved in

EJA deals) but no indication is given how Zimet obtained this commitment.

The third part of the transaction—these three parts to occur simultaneously—was a personel loan by Zimet to Lassiter of $300,000. One hundred fifty thousand dollars was to be paid to EJA in repayment of advances made by EJA to Lassiter Aircraft Corp. (the authorization for which was in dispute as will be more fully described in a later section of the report), and $150,000 to Lassiter personally for unspecified purposes.

All parties were fully aware that these three elements were mutually interdependent, but in order to satisfy the CAB, it was publicly stated that the swap of the bonds and bank paper could stand alone. The final step in the transaction described below, would certainly require CAB approval. Therefore, it was decided to delay the consummation of this step until a respectable amount of time had passed after the bond swap.

The final step involved the cash purchase by Zimet of the EJA stock held by Penn Central for $330,000, release of all debt of EJA held by Penn Central for $18 million in 6 percent cumulative subordinated income debentures due in 20 years and certain receivables allegedly worth $3.5 million. (These were the IAB and Transavia receivables which were already reduced to $325,000 in the sale of these air carriers.) In addition, Zimet pledged an additional $1 million in loans to EJA evidenced by notes which could be converted into EJA common stock at a later date.

The deal was planned to be executed by June 4, 1970, but the price of the N. & W. bonds began falling precipitously, due to the public awareness of the financial condition of Penn Central. Zimet left for Europe to secure the bank paper from a European branch of a New York bank; a bank large enough to convince Penn Central that the paper could be discounted for cash. The price of the N. & W. bonds fell to 50 on or about June 8, 1970, when David Bevan and Stuart Saunders were fired by the Penn Central board. That same day a stop order was placed on the bond transaction, and the escrow agent, First National City Bank of New York, sent the papers back to Penn Central, since Zimet had not been able to deliver the bank paper by that date.

The negotiations had the personal attention of David Bevan, who lists two dinners with Sydney Zimet on his expense account reports of April 11 and 13. It was Bevan who agreed to sell the entire Penn Central interest in EJA (over $21 million) for $330,000 cash, practically worthless accounts receivable and $18 million in debentures not payable until 1990. On June 3, 1970, David Bevan received clearance from the Pennsylvania Co. board to proceed with the transaction.

There was at all times a deliberate attempt to conceal the nature of the transaction from the CAB. When the general counsel of EJA objected to certain provisions, the deal was changed to substitute Lassiter personally for EJA so that CAB approval could be forestalled. There was an air of great urgency and panic surrounding the entire transaction as the financial condition of EJA and Lassiter grew more desperate. Unless Lassiter received a quick dose of funds to repay the disputed advances to Lassiter Aircraft Corp. by EJA, public disclosure of these missing funds through the soon-to-be released financial statements of EJA was a certainty.

Zimet threatened suit when the deal was called off but Penn Central countered by appointing the law firm of Mudge, Rose, Guthrie & Alexander to represent Penn Central's interest in EJA. No suit was ever brought, since there was a termination clause in the executed agreements. The entire matter was put to rest at the next board meeting of the Penn Central Transportation Co. on June 15, 1970, when the chairman of the board, Paul Gorman, commenting on the Zimet transaction, "explained that the agreement executed (the bond sale) appeared to be different in several important respects from the one authorized by the board of Directors of Pennsylvania Co. and that the transaction was being held in abeyance pending a further study of the matter."

FINANCING SECURED FOR EJA BY PRR

Bank loans to EJA

While a major portion of EJA's financing came from the railroad itself, banks also played a substantial role in the financing of EJA. The three banks involved were the National Newark and Essex Bank, Philadelphia National Bank, and First National City Bank of New York, the latter by far being the most deeply committed. (Table II below lists the amount of bank loans obtained by EJA.)

TABLE II.—BANK LOANS TO EXECUTIVE JET AVIATION

Year and bank	Original amount	Total original amount	Principal balance at Jan. 1, 1970	Total principal balance at Jan. 1, 1970	Principal balance at Nov. 30, 1970	Total principal balance at Nov. 30, 1970
1965 Philadelphia Nat'l Bank	1,069,448		501,912		368,230	
1966 Philadelphia Nat'l Bank	1,019,176		562,304		421,728	
Total		2,088,624		1,064,216		789,958
1965 Nat'l. Newark & Essex Bank	1,076,968	1,076,968	605,830	605,830	471,208	471,208
1967 First Nat'l. City Bank	13,550,000		2,276,792			
1968 First Nat'l. City Bank	1,100,734		274,045			
Total		14,650,734		2,550,837		
Total		17,816,326		4,220,883		1,261,166

Without question, all three bank loan commitments to EJA were made on the basis of the bank's relationship with the Pennsylvania Railroad (later the Penn Central Transportation Co.). For example, a memorandum of September 19, 1969, from the files of the Philadelphia National Bank clearly evidences this fact:

> We then discussed the company's [EJA] relationship with PNB [Philadelphia National Bank] and I pointed out that our loans * * * were really granted at the request of the Penn Central and based on the balance treatment which we have from them. If ownership should be changing hands, we would feel that we should be adequately compensated through balances by the new owners.

The initial First National City Bank (FNCB) loan of $8,365,000 is another case in point. On January 29, 1967, just 4 days before a progress payment was due from EJA to Boeing on one of the large 707 jets, David Bevan and William Gerstnecker of the PRR called on FNCB to request a major loan commitment from FNCB to EJA. Without talking to the management of EJA or examining the financial statements of the company, FNCB approved the loan by the February

2 deadline. FNCB loan officers freely admitted to the staff that the loan was granted solely on the request of these two PRR officers. The entire EJA credit line was considered at all times to be a Penn Central obligation, and was, in fact, so evaluated for purposes of the legal lending limit of FNCB to any one company. FNCB also judged EJA to be part of the PRR corporate complex in determining whether compensating balances were adequate to support loans outstanding. These facts are documented in the FNCB internal memoranda obtained by the staff.

In order to get FNCB to make the loan, the PRR waived its security interest in the planes then covered under earlier agreements, leaving PRR with absolutely no collateral for the loans outstanding to EJA. A further inducement for the loan was an oral commitment from the PRR to FNCB to invest an additional $2 million in EJA to satisfy FNCB if the permanent financing was not to FNCB's liking. As it happened, this oral commitment was found not to be legally binding, and when the CAB made the finding of PRR control of EJA, the railroad contended that payment of the $2 million would violate the CAB order. It was one of the few times the PRR officers heeded CAB admonitions; predictably, when it was to their advantage.

At one point, EJA's obligation to FNCB totaled nearly $15 million. Naturally, the bank became concerned about the CAB proceedings, since it was the potential air cargo concept rather than the original business jet operation which was attractive to FNCB. In a September 27, 1967, letter from FNCB, Vice President Robert Rice to David Bevan, this becomes quite obvious:

> However, as you can imagine, we are relying heavily on your and Bill Gerstnecker's statements to us to get us out if the CAB does not approve the purchase of Johnson Flying Service by EJA.

After the unfavorable CAB decisions, FNCB clearly appreciated the potential for nonpayment of its loans to EJA. They had a security interest in many of the planes and urged that they be sold. David Bevan and William Gerstnecker found it necessary to contact the loan officers at FNCB very frequently in order to placate them and obtain their approval for certain transactions. An example of this was a request for approval of a lease of one of the 707's to Transavia. When the original lease to Transavia was signed in April of 1968, FNCB had no information as to Transavia's ownership or credit strength. This is evidenced by an August 22, 1969, internal memorandum from the FNCB files written by Neil Volweider, assistant cashier, stating that he spoke with a Mr. Currie of Gatx/Boothe—a company interested in purchasing a Boeing 707—asking about Transavia. He stated that "after some deliberation, Currie elected to shed some light on Transavia." They were certainly not alone in their ignorance, but one would expect the bank holding the security interest in a plane worth millions of dollars to know about those to whom the plane was being leased.

FNCB, in late 1969, informed Penn Central that it had "exhausted its patience" with respect to the EJA loans. During these discussions, the cash picture at Penn Central was a lively topic. John O'Herron, who had then just become the first assistant to David Bevan, was asked about the cash produced from the real estate subsidiaries. Contrary to the public utterances on the subject, O'Herron, according to a memo in the FNCB files, "indicated that each real estate subsidiary itself needed to use most of the cash it generated to expand internally."

The present outstanding debt owed to FNCB by EJA is approximately \$2.5 million, reduced substantially by the sale of one of EJA's Boeing 707 to Caledonian Airways. There is still concern over this amount, however. Foreclosure was considered, but it is apparent from the following March 6, 1970, internal memorandum that the Penn Central relationship was still paramount:

In consideration of the future Penn Central relationship and certain assurances from the railroad's financial officers. FNCB has agreed to postpone liquidation of collateral for a period of time in order to permit the railroad to locate a credit worthy purchaser for EJA. Hence, it is our recent decision to be cooperative with the railroad's financial officers, given their present efforts to work out this situation.

FNCB was contacted about the Zimet acquisition by David Bevan and would only agree to the sale if completely repaid. The bank's information on Sydney Zimet was of a highly unsatisfactory nature, but the bank contends it wouldn't have objected if the bank's loan was paid off. A June 4, 1970, internal FNCB memorandum indicates that David Bevan evidenced to FNCB some skepticism about the Zimet transaction yet, the day before, he had urged and secured approval from the Pennsylvania Co. board to proceed with it.

When asked by the staff whether FNCB would ever have lent \$15 million to EJA if it were not controlled by the PRR, the loan officer replied it was highly unlikely. The loan was actually granted on the word of David Bevan, according to this same FNCB official. Not only did the loan approvals prove to be bad judgment on the part of the banks, the railroad also suffered since the approximately \$18 million lent by the banks to EJA at the urging of PRR officials eliminated any chance of the railroad obtaining that much more credit when the need for borrowed funds became critical in the spring of 1970.

Other outside financing

The cost of the large Boeing aircraft necessitated seeking funds from other large financial institutions and, again, it was the PRR which used its substantial influence in the investment field to secure these loans. The 727 jets were principally financed by CIT Corp. with a loan of \$12.3 million. While the investment was secured by the planes themselves it is clear from the written documentation that the railroad played a vital role in this financial commitment. One Boeing 707 was purchased by John Ledbetter representing a group of investors including Northwestern Mutual Insurance Co. and Ford Credit Corp., and leased back to EJA. It must be remembered that the financed planes were to be utilized by a company, EJA, which at that time did not possess the requisite CAB authority to fly them. It is highly understandable why General Lassiter wrote to David Bevan on January 11, 1967, thanking him for all his help in securing these financial commitments even to the point of "laying your career on the line." This statement proved to be prophetic.

RECENT EVENTS

Change of management at EJA

No financial statements were issued by EJA for the years 1968 and 1969. In the spring of this year, Penn Central sent a team of auditors to Columbus, Ohio, to prepare a financial accounting of EJA. Besides the continual losses (about $4 million for 1968 and 1969) which everyone had come to expect as commonplace for EJA, there appeared another unusual item. It was listed as a receivable from General Lassiter of $131,303 for funds forwarded to Lassiter Aircraft Corp., a company allegedly attempting to develop a supersonic jet made of fiber glass material. Bruce Sundlun, who was by this time the only outside director of EJA, noticed this and wrote to Michael Mandish, the treasurer of EJA, for an explanation. Mr. Mandish replied that he assumed Mr. Sundlun knew about these advances. In fact, Sundlun had never heard about this item at all.

Mr. Sundlun called a special meeting of the board of EJA on June 27, 1970, at which he was told by General Lassiter that these advances were authorized by the EJA executive committee in June of 1969. An attempt to authenticate such approval failed when it was found that a post-dated note from Lassiter Aircraft Corp. to EJA contained the signatures of people not then on the EJA executive committee. That this note was a complete fabrication was sworn to in an affidavit signed by Michael Mandish.

Armed with this affidavit and other evidence of wrongdoings, Mr. Sundlun went to the trust officer of the Detroit Bank & Trust Co., Harry Pratt. Mr. Pratt, voting the shares held in trust for the Penn Central, authorized the removal of General Lassister, two other retired Air Force generals, W. P. Swancutt and Perry Hoisington, and others from executive positions in EJA. Mr. Sundlun was named president and in a midnight raid on July 1, 1970, took physical control of the Columbus headquarters.

Stockholder derivative suits were brought by Mr. Sundlun in Delaware and also California, where a house costing $116,000 allegedly bought with EJA funds for use of Lassiter's current fiancée is located. Litigation is proceeding in both jurisdictions with the question of who rightfully controls EJA at issue.

General Lassiter attempted to physically regain control of EJA headquarters with the help of armed guards on July 23, 1970, but was thwarted by hired personnel under the direction of the present management. The Delaware court has since enjoined General Lassiter from any further attempts to regain physical control of EJA.

Present situation at EJA

Wholesale personnel changes, a ban on administrative flying, and other cost-cutting procedures have allowed EJA to get into the black in recent months. However, there is still the problem of the enormous debt outstanding and the necessity for divesting of the Penn Central interest in EJA. Also, two 727's originally costing $12 million are still owned by EJA. Attempted sales have all fallen through, as the market for used nonstretch 727's is very soft at this time. One of the planes is under lease, but the other is just sitting at the Columbus airport draining the already limited resources of EJA.

As of this time, no buyers have been found for the Penn Central interest in EJA. The most optimistic estimate of its value by the present management of EJA is $2 million; a fraction of the $21 million invested by Penn Central. It appears that every investment in an EJA venture resulted in a 10 cents on the dollar (see Transavia and IAB ventures) settlement. To say, as David Bevan did, before the Senate Commerce Committee in June of this year that the Penn Central investment in EJA was not a good one, is a masterpiece of understatement.

A MISSING $4 MILLION

In September of 1969, David Bevan secured a $10 million loan from a consortium of foreign banks, headed by the Berliner Bank Aktiengesellschaft. The money was to be used to finance the rehabilitation of used Penn Central freight cars under conditional sales agreements issued in favor of American Contract Co., although the Transportation Co. actually financed the transaction. The money was then transferred to a Chemical Bank of New York account in the Allgemeine Bank Gesellschaft A.G. of Frankfurt, Germany. From there, the entire $10 million was transferred to a Liechtenstein trust to be invested pending the finalization of the conditional sales agreements on the cars. Of the conditional sales paper, $6 million was actually delivered to the Berliner Bank Aktiengesellschaft as security for the loan. A funny thing happened to the other $4 million. None other than Fidel Goetz, the chief operative in the illegal EJA foreign acquisition program, presented the managers of the Liechtenstein trust with an accounting showing that he lost over $4 million in the various EJA ventures, and was therefore entitled to this money. Somehow, and the details are not at this time known to the staff, Goetz was able to transfer the $4 million to an account in his name in Liechtenstein, and presumably that is where the money is today.

Goetz contends that he was assured by David Bevan that he would be made whole for any losses incurred in the EJA airline acquisitions. Since no distinction was made between EJA and Penn Central in his dealings, he considered the Penn Central funds on deposit with the Liechtenstein trust, funds of EJA.

David Bevan, on the other hand, contends that the money was funnelled through the Liechtenstein trust as a compensating balance to show "good faith" to Goetz (Liechtenstein entities and "good faith" money always seem to crop up in EJA transactions). Bevan alleges he did not know Goetz could get the money transferred to him. It was not until June 1970 (Goetz appropriated the money in September 1969) that David Bevan informed the chairman of the board of Penn Central, Paul Gorman, of the missing funds. This is especially strange, since the Penn Central's Annual Report Form A as of December 31, 1969, prepared under the direction of David Bevan, lists the entire $10 million conditional sales agreement from the Berliner Bank Aktiengesellschaft as a completed transaction.

All the parties involved in this highly unusual transaction have been contacted by the trustees of the railroad and recovery of the missing $4 million has been demanded. To this date, the effort has not been successful. It is known, however, that the filing of suit against the parties in question is imminent unless full restitution is made.

HOLIDAY INTERNATIONAL TOURS: THE INSIDERS' CREATION

The foregoing material in this report established these facts:

Penn Central dominated and controlled Executive Jet Airways (EJA) and International Air Bahama (IAB).

IAB to all intents and purposes was essentially an extension of EJA.

The men primarily responsible for Penn Central investments in these corporations and who exercised the control afforded by the investments were David Bevan, chief financial officer of the railroad, and Charles Hodge, a ranking member of the investment banking firm of Glore Forgan, William R. Staats (now F. I. DuPont-Glore Forgan), the principal investment adviser serving the Penn Central in its program to diversify into nonrailroad interests.

The Penphil Club

These men, together with David Bevan's brother, Thomas, a Philadelphia attorney, constituted the leadership and exercised control over what David Bevan has described as "a private investment club" called Penphil, formed in 1962. The membership of this private club is composed almost entirely of persons affiliated with the Penn Central, Glore Forgan and companies in which Penn Central and Penphil had invested. Penphil held 51 percent of the stock of a Miami travel service, Holiday International Tours, which was designed to be the general sales agent for and to control all ticket sales for IAB.

Penphil stockholders are:

Thomas R. Bevan, Penphil president, and a partner in the law firm of Duane, Morris, and Hecksher.

David C. Bevan (brother of Thomas Bevan) former chairman of the PRR Finance Committee; former director of the Pennsylvania Co., a Penn Central subsidiary; former director of Arvida and Great Southwest companies, more than 50 percent of the stock of which is owned by the Pennsylvania Co.; former director of Tropical Gas and Kaneb Pipeline Co., of which the Pennsylvania Co. is a major stockholder.

William R. Gerstnecker, vice chairman, Provident National Bank of Philadelphia; former vice president, PRR; former director of Arvida and Great Southwest.

Robert Haslett, vice president, PRR investments.

Cornelius A. Dorsey, assistant to Haslett.

Mrs. Dorothy H. Warner, wife of T. K. Warner, former vice president, accounting, for the PRR.

Paul D. Fox, former vice president, administration, PRR.

Mrs. Marie L. Hodge, wife of Charles J. Hodge, senior partner in Glore Forgan, chief Penn Central investment adviser; chairman of the board of Tropical Gas; a member of the Arvida and Great Southwest boards of directors.

Alfonso Manero, former partner in Glore Forgan.

Hobart C. Ramsey, vice president, Glore Forgan.

O. F. Lassiter, president and chairman of the board of EJA.

Angus G. Wynne, president and chief executive officer ot Great Southwest and a member of the Arvida board of directors.

Brown L. Whatley, Arvida president and chairman of the board of Stockton, Whatley, Davin & Co., which manages Arvida and which is the second largest Arvida stockholder.

Joseph W. Davin, vice president and a director of Arvida; first vice president of Stockton, Whatley, Davin & Co.

Thomas F. Fleming, Jr., chairman of the Board of First Bancshares of Florida, Inc., a Boca Raton, Fla., bank holding company in which Penphil is a major stockholder. Bancshares is comprised of four Florida banks, one of which, First Bank and Trust Co. of Boca Raton, extended a $1 million line of credit to the Boca Raton Hotel and Club which is owned by Arvida.

Benjamin F. Sawin, chairman of the board of Provident International, a division of Provident National Bank of Philadelphia which held substantial loan and deposit accounts for the PRR Railroad. Sawin is also a member of the board of First Bank and Trust and University National Bank of Boca Raton, two of the four banks comprising First Bancshares.

Fred H. Billups (deceased), formerly president of Tropical Gas.

Herbert E. Fisher, chairman of the Board of Kaneb Pipeline.

Samuel A. Breene, Oil City, Pa., attorney.

Mrs. Dorothy B. Stevens, wife of the late Lawrence M. Stevens, former partner in Hornblower & Weeks-Hemphill, Noyes.

Warren H. Bodman, partner, Yarnall, Biddle & Co., Philadelphia investment brokers.

Francis A. Cannon, administrative vice president, First Boston Corp.

Edwin B. Horner, First Colony Life Insurance Co.

Harry F. Ortlipp, president, Harry T. Ortlipp Co.

Vince G. Kling, Philadelphia architect.

Frederick B. Holmes, vice president of Gladfelter Paper Co.

Penphil stockholders who were not directly connected with the Penn Central or its subsidiary holdings were friends of those stockholders who did have such ties and were there by invitation from the insiders.

The beginning of HIT

The chain of events which led to Penphil control of Holiday International Tours (HIT) began in 1967. As a Penphil stockholder, Lassiter was aware of the Penphil's interest in the travel field by virtue of its effort to acquire the Fugazy Travel Bureau, one of the largest in the world. He was contacted by a friend, Julian Lifsey, a Tampa, Fla., attorney who informed Lassiter of the possibility of investing in Bowen Travel Services, Inc., of Tampa, a firm operated by Mrs. Irene Bowen. Meetings were held between Mrs. Bowen, Lassiter, David Bevan, Hodge and William Gerstnecker with the result that Penphil purchased a 51-percent interest in Bowen Travel Services for $25,000 early in 1968. The remaining 49 percent of the stock was held equally by Mrs. Bowen and Lifsey. The name of the firm was changed to Holiday International Tours, and its offices were moved from Tampa to Miami where it was to be funded with loans from Penphil under a $200,000 line of credit, payable within 5 years. Mrs. Bowen was made president of the corporation and Lifsey was chairman of the board.

That the operation of HIT was to have been of fundamental importance to both EJA and IAB is borne out in the files of correspondence held by Penphil principals. In a letter dated March 26, 1968, from Lifsey to Hodge, Lifsey stated:

> Immediately after receiving your approval and authorization to proceed, we met with officials of IAB in Miami and were informed that the company had been capitalized and activated. In these initial meetings we were asked to act as the general tour operator and were requested to organize a tour program on a priority basis and to dedicate our initial first efforts to that program.
>
> After some negotiation we agreed to give top priority to their program for the first 3 months with the understanding that IAB would pay all of the expenses

incident thereto. Subsequently we were asked to consider acting as their general sales agent, and to assist in everything from hiring of reservation personnel to the ordering of ticket stock, flight bags, baggage checks, boarding cards, and so forth, for a fee of 3½ percent of gross sales.

On Saturday of last week, at a meeting in Miami, we finally concluded our agreement with IAB, which agreement provides that for a period of 3 months we will dedicate the entire efforts of our staff to getting IAB off the ground. Since their schedule has not yet become operative we are to receive a fee of $5,000 per month for the initial 3 months, and they are to pay all expenses. The $5,000 fee is to be charged against the 3½ percent commission which has been established as our continuing fee for acting as their general agent.

It should be noted that the $5,000 a month fee to be charged IAB is the total monthly sum required to meet HIT's projected salary requirements for 1968 and 1969. In other words, if the relationship with IAB had developed along the lines envisioned, HIT would need no other accounts or clients to sustain its staff financially during the firm's initial years of operation, if not longer.

A further description of the HIT concept and how it was to be executed is contained in a letter to Thomas Bevan from John Germany, a member of the law firm of Holland & Knight of Tampa, Fla., representing HIT. It contains the following statement:

As discussed with you on the telephone, the initial concept as outlined by General Lassiter was that Executive Jet Aviation would lease the airplane or airplanes to International Air Bahama who in turn would fly them and Holiday International Tours was set up to be the agent for sales. Under this concept there would be no need for IAB to trouble itself with a sales manager or sales at all.

Moving downhill

From this point—March of 1968—HIT's relationship with IAB began heading toward collapse and the internal situation at HIT deteriorated to a severe degree.

The agreement designating HIT as IAB's general sales agent had not yet been signed, even though Lifsey said he had drafted the contract and had submitted it for approval to the airline. Bruce G. Sundlun, then EJA's secretary and general counsel, and Lassiter, were involved in both HIT's agreement with IAB and HIT's internal problems.

At Lifsey's request, Sundlun reviewed the general agency agreement drafted by Lifsey and made the following comment in a letter to Lifsey dated July 10, 1968:

My chief problem with this agreement is that I do not know from which side to approach it, the IAB or HIT side. Actually, I represent EJA, and that company should have an interest in neither IAB nor HIT. On the assumption that some time in the future EJA may have a desire to acquire an interest in IAB, and on the fact that EJA has currently had close business relationships with IAB, I feel that the proposed agency agreement is excessively favorable to HIT and detrimental to IAB.

Sundlun's quandary about which point of view he should adopt was further complicated by what he saw as lack of clarity regarding HIT's commitment to IAB and the reflection of this condition in Lifsey's draft of the contract. Sundlun remarked:

* * * again there is no clear definition of duties between IAB and HIT. Is HIT to be an exclusive agent for IAB or not? According to my conversation with you, I understand the answer to be "yes"; whereas General Lassiter and Frank Conace [an EJA vice president] indicate the answer is "no". This difference must be cleared up.

Having raised this question, Sundlun then went on to say that in his opinion there should be no connection between EJA and HIT. The last paragraph of his letter reads:

> One thing about HIT concerns me, and I would like you to reassure me in writing if you can. I know it is going to be involved in the EJA/JFS case [EJA's effort to obtain the Johnson Flying Service license]. I must have a statement in writing that EJA, its officers, directors and employees own no part of HIT. Will you please forward to me that statement on HIT letterhead as soon as you can.

The request was, to say the least, a strange one to make in view of the fact that Sundlun, in the same letter, indicated an awareness of Lassiter's connection with HIT, and inasmuch as Sundlun knew or should have known that Lassiter, Hodge and Fred Billups were on the EJA board and stockholders in Penphil which controlled HIT. Moreover, Sundlun knew or should have known of David Bevan's direct link to both EJA through Penn Central's financial domination of the air service and to HIT through his stockholdings and management position in Penphil.

Business in reverse

The Sundlun letter was written shortly after HIT had concluded the 3-month period during which the travel agency was to have devoted all of its personnel to IAB sales promotion. But instead of receiving $15,000 plus expenses, as prescribed under the terms of the so-called oral agreement, HIT, according to Lifsey in a letter dated June 18, 1968, to Thomas Bevan, had been paid $7,000 by IAB but was owed more than three times this amount by the airlines. In that letter Lifsey said:

> We have, on direction, accepted their account receivable at face value and have depleted our treasury on their behalf. The obligations of International Air Bahama to Holiday International Tours as of June 1 was $23,133 and is evidenced by the enclosed promissory note due on or before July 15. We are continuing to incur expenses on their behalf at the rate of about $20,000 per month. In addition to these expenses they are obligated to us for the advance of $5,000 per month which means that International Air Bahama will owe us another $25,000 as of July 1, less a cash payment received today of $7,000 or a net of about $18,000.
>
> In order to continue to assist International Air Bahama and to keep our company on a sound financial basis, I wish to request an advance of $40,000 against the enclosed endorsed note and against the subordinated note from Holiday International Tours for the balance.

That letter had been written following a meeting in Miami between Lassiter, Lifsey, Mrs. Bowen, Albert Engle, then general manager and now president of HIT; and Robert F. Blake, then general manager of IAB. During that meeting Lassiter told HIT principals to meet the loan requests of IAB, and Penphil would reimburse HIT. Lassiter is quoted as saying that such an arrangement had been approved by David Bevan.

The $40,000 requested by Lifsey was advanced to HIT by Penphil through a transfer of funds from a Swiss bank to the City National Bank of Miami. Engle has said he did not know why a Swiss bank figured in the transaction but that he understood that Lassiter had been meeting with Swiss bankers on EJA business trips to Europe.

No sales contract agreement

By late summer 1968 IAB had not only failed to sign the contract based on the oral sales agreement, it was denying that such an agreement had ever been made. On September 14, Alexander P. Maillis, IAB president, wrote to Mrs. Bowen:

Your attorney, Judge Germany, telephoned me on Wednesday, September 11, 1968, regarding formalizing a sales agency agreement between our companies. My recollection is that he mentioned world wide sales, but upon discussing this matter with Mr. Mansfield and Mr. Thompson [IAB representatives] I am advised that this has never been considered. They did state that discussions have taken place dating back to March 1968, re a general sales agency agreement with Holiday International Tours for the seven Southern States of Alabama, Georgia, Louisiana, Mississippi, South Carolina, Tennessee, and Texas, but due to conflicting interests within your organization, nothing was ever finalized.

I regret that I was not involved in the discussions and therefore must delegate Mr. Mansfield and Mr. Thompson to continue the negotiations to a logical conclusion. I will feel obliged to abide by their recommendations.

Prolonged discussions over a sales agency agreement between HIT and IAB were further complicated by the appearance on the scene of Icelandic Airlines, which purchased IAB the following year. The argument was finally resolved when HIT filed a breach of contract suit against IAB and Icelandic and settled out of court, agreeing to accept $150,000.

Meanwhile, inside HIT

The internal problems of HIT centered on a running argument between Mrs. Bowen and Lifsey as to who was to have overall executive authority in the firm. Mrs. Bowen's chief complaint was based on the contention that Lifsey's absence from the office prevented him from fulfilling this role. As will be seen from the following excerpts from correspondence, Lassiter played a prominent role in the controversy.

On June 17, 1968, Mrs. Bowen wrote a memorandum to John Germany describing a meeting that took place the same day between her, Lassiter, Lifsey, and Engle. Mrs. Bowen said:

* * * Lassiter agreed that there could only be one chief executive officer and that was to be Julian [Lifsey]. I pointed out that no one could administer a business of this size on an absentee basis and Lassiter did warn Julian that he must put at least 90 percent of his time in on this business. I have been told that I must not be feminine about this and must work with Julian and Lassister is going to draw up a directive setting out our respective responsibilities.

Hide and seek with the CAB

Lassiter's position regarding HIT is further described in a letter to him from Lifsey, dated July 25, 1968, in which Lifsey said:

As you know, we had a meeting in Miami at which meeting all parties with any beneficial interest in HIT were present in person or by proxy, and you stated at the meeting that you were representing the Penphil group, and in very clear terms outlined your views as to how you wanted the corporation operated.

A meeting between Mrs. Bowen, Lassiter, Lifsey, and Germany was held July 31, 1968. In a memorandum written to the other three, Germany wrote:

General Lassiter presented to Mrs. Bowen and Mr. Lifsey job descriptions for the chairman of the board and chief executive officer and the president [sic] and they were asked to review these and inform him as to either their suggestions for change or acceptance.

Other matters discussed at the meeting included Lassiter's contention that he, personally, was to receive 10 percent of HIT's stock.

Germany wrote that during the course of the meeting, while Lassiter was telling Mrs. Bowen and Lifsey how he wanted HIT to be run—

General Lassiter stated that he did not want to be shown to be representing 51 percent of the stock of Penphil.

The request can only be described as peculiar because Lassiter could not rightfully issue such directives to officers of HIT unless he did in fact represent Penphil stockholders and their 51 percent interest in the travel agency. Lassiter's wish to avoid connection with the meeting was obviously to prevent the CAB from discovering the true relationship that existed between the Penn Central, Penphil, EJA, HIT, and IAB.

The effort to deceive the CAB is also evident in a memorandum written August 12, 1968, by Mrs. Bowen to Germany. She stated:

* * * General Lassiter has given strict instruction to both Lifsey and myself that all correspondence between General Lassiter and either of us must be addressed to his home and there must be no copies in existence anywhere. However, for what it's worth, there is a file full of letters in the Miami office. Mr. Lifsey has most certainly not destroyed copies of these letters.

Capitalizing on the Penn Central

The fact that Penphil intended to have HIT capitalize on the Penn Central's investment in the EJA–IAB operation was also indicated in Mrs. Bowen's memorandum where she wrote:

It was asked quite clearly of Mr. Lifsey at a meeting we had at Boca Raton before Penphil invested in Holiday International Tours whether Mr. Lifsey did intend to devote full time to the agency. Mr. Lifsey tried very hard to make them agree to putting the office in Tampa and at the time General Hodge said they did not want an office in Tampa and General Lassiter further reiterated this to me. This was clarified by the fact that they have no business interests on the west coast of Florida. They all come down to southern Florida frequently and some of them have homes in Boca Raton. Therefore, it was quite clearly understood that our office and operation had to be out of Miami. In any case, bearing in mind that this (IAB) is an international airline and the center of international airlines for the South is Miami, there could be no other reasonable choice.

Lifsey departs

By this time (mid-August 1968) Mrs. Bowen was demanding that Lifsey be separated from HIT, an attitude that Lassiter also came to adopt. In a letter written to Thomas Bevan by Germany, August 27, it was stated:

As a consideration of his [Lifsey's] complete elimination she [Mrs. Bowen] would forego a $2,500 debt which Lifsey owes her. [Lifsey had contended he was not indebted to her for this sum.]

Lifsey stated his intention to resign from HIT in a letter written August 14 to Lassiter. In that letter he complained of what he viewed as Lassiter's interference in the affairs of HIT:

I would like to say that my view of what I intended to do was to operate as an executive running a company parallel to yours and not that of having you as a super executive listening to all the people in my company and thereafter judging and passing upon everything that I was charged with doing, prior to my doing it. In other words, I expected to be put in the position of an executive with authority to perform and after the performance, I would expect to be held accountable for the performance of my company and for the people under me. So long as people under an executive are able to successfully challenge this authority, it is my opinion that no company can exist.

Arrangements were made to purchase Lifsey's stock in HIT—arrangements that Lassiter claimed to have engineered. The following month, Lassiter wrote to Lifsey saying:

This stock was issued to you in consideration of your service in conceiving, organizing and setting up that company [HIT]. On behalf of the controlling stockholders of that company [Penphil], I worked out the agreement with you which has now been concluded whereby the company purchased your stock from you for $12,250.

"Sale" of HIT stock

The arrangement was one of the last, if not the last act performed by Lassiter in his role as chief arbitrator for HIT. His letter to Lifsey was written 16 days after Penphil sold its 51 percent interest in HIT to Mrs. Bowen. EJA's application to the CAB for approval to purchase the Johnson Flying Service license had reached a crucial stage by late August. The warning voiced by Sundlun in his letter to Lassiter earlier in the summer was now being viewed in a more serious light with regard to the Penn Central—EJA game plan.

On August 28, Thomas Bevan wrote Germany:

> * * * enclosing certificate No. 1 for 51,000 shares of Holiday International Tours, Inc., in the name of Penphil Co. which is endorsed over to Mrs. Irene Bowen.
>
> Also enclosed is a simple form of demand promissary note in the amount of $25,000 which I would appreciate your having Mrs. Bowen sign and return to me * * *. The amount of $25,000 is the amount we paid for the stock.

The note was interest free.

This left Mrs. Bowen in the position of being controlling stockholder in HIT, something the leaders of Penphil were to regret because they had no intention of really divesting themselves of their interest in the travel agency. The sale of stock to Mrs. Bowen was designed to be a ruse to temporarily hide from the CAB their investment and control of HIT.

This maneuver was disclosed in a letter from Germany to Mrs. Bowen, dated October 30, 1968, describing meetings earlier in the month with EJA, Penphil, and IAB principals. Germany wrote:

> On Thursday, October 10, while I was in New York, I received a telephone call from Bruce Sundlun asking me to attend a meeting with him and General Lassiter at the headquarters of EJA at 555 Madison Avenue * * *.
>
> When I arrived General Lassiter had not returned from lunch but he did return shortly and with him were Bruce Sundlun and Buck Mansfield [a representative of IAB, formerly with EJA as a supplemental airlines expert].
>
> Most of the time at the conference was spent [sic] as to whether or not there had been an agreement that Holiday International Tours would be the general sales agent for IAB. I continually pressed the point that from the correspondence we would make out a case that such was the intent of the parties at the time of the initial negotiations and had been acquiesced in by all parties in subsequent actions. One of the points that I raised was the difficulty in attempting to do business with IAB due to the lack of a person in authority that we could call. I pointed out that Mrs. Bowen and I had been told by General Lassiter at a poolside conference that Mr. Blake [general manager of IAB] was the individual with whom we should deal and that he was no longer with the company and that we had been receiving cablegrams from Mr. Maillis telling us to do or not to do certain things. At this point in the conversation Mr. Mansfield stated that we should have known that he was the person that spoke for IAB and that actually the cablegrams, although signed by Maillis, were written by him. Finally at the end General Lassiter said that it was not Mr. Bevan who was making the decisions as to HIT but Lassiter himself spoke for the investors. (This statement was later denied by Lassiter when I brought it up in front of the investors at the Philadelphia conference.)
>
> At the conclusion of the meeting, when I said that I had to leave, General Lassiter said that he wanted certain things. He enumerated the first of these to be that a new chief executive officer be hired by HIT and that Mrs. Bowen could remain an officer and part of the operating team but not as chief executive officer; second, that Mrs. Bowen remain out of Nassau and discontinue making any connection with the operational efforts of IAB. I reminded General Lassiter that Mrs. Bowen was 100 percent owner of the stock of HIT and that under no circumstances would she step down as chief executive officer. The conference was then concluded on this indecisive note.

On Friday, October 11, after my return to Tampa, I was called by Tom Bevan and asked if I would meet with the investors in Philadelphia at noon on October 17. Later that afternoon I went to Miami to meet with Mrs. Bowen in preparation for a conference which we attended in Nassau on Saturday, October 12. At this time I informed her of the request of the investors to meet in Philadelphia on Thursday. It was agreed that as a settlement between IAB and HIT we would ask for all expenses and a $5,000 agent's fee through the 31st of October 1968. This figure would amount to approximately $85,000. We would then request a written 2-year agency agreement with IAB in which HIT would receive 25 percent commission on all sales made in the United States. HIT would charge 5 percent of the gross on charter sales and HIT would guarantee an average eastbound load figure of 100 passengers per flight with such average to be determined at the anniversary date of the contract. There would also be a requirement for IAB to spend additional sums of money for advertising to reinstate the image of a flying airline which they had lost due to the mishandling of negotiations in the Bahamas.

I met with Mr. Tom Bevan at his office on Thursday, October 17, at approximately 10:30 in the morning. We reviewed the different positions on all sides, and it appeared that the major controversy would be as to whether or not Mrs. Bowen would remain as the chief executive officer of HIT. At approximately noon we met with Mr. [David] Bevan, General Lassiter, and General Hodge for lunch and discussed the various problems concerning all of the parties present. Mr. [David] Bevan opened the conversation by saying that it was never his intention nor of any of the investors that HIT devote all of its energies to IAB and that such a contract in his opinion would have to come before the board of directors for approval and that as it had not been approved, then HIT could not claim that it had been operating under a valid contract to devote all of its services to IAB. I pointed out to Mr. [David] Bevan that one of the negotiators for this exclusive contract was General Lassiter, who was not only involved in IAB but was a member of the investor group.

The question * * * arose as to who should be the chief executive officer for HIT and the question was asked if I would approve the new chief executive officer would Mrs. Bowen step down. I told them that I would in no way be involved and that Mrs. Bowen should continue as chief executive officer. We then discussed the transfer of stock, and General Hodge stated that while it appeared there was no legal requirement that Mrs. Bowen should return the stock, there was certainly a moral obligation for her to do so. There was discussion as to their repurchase of the stock and placing 51 percent in a voting trust, and they asked if I would vote this trust. I stated once again that I would not become involved in this matter except from an attorney-client relationship and that I had no desire to vote such stock.

Engle disclosed to staff investigators that about a year later, in September of 1969, David Bevan telephoned Mrs. Bowen demanding payment on the $25,000 note or the return of the HIT stock to Penphil. This incident occurred shortly after Icelandic Airlines purchased IAB and it was no longer necessary to hide the Penphil-HIT connection. Mrs. Bowen refused to comply with either request and instead replied that the $25,000 note should be written off by Penphil because of what she claimed was the damage her business reputation had suffered through association with Lifsey, Lassiter, Hodge and the Bevans.

Engle said he wrote to Penphil last fall asking about the availability of the remaining $160,000 line of credit to HIT promised by Penphil—$200,000 less the $40,000 advanced in 1968. No reply was received. HIT has not repaid any of the $40,000 because it views the sum as part of the money due from Penphil and payable in 1973. No request for payment has been made by Penphil.

Conclusions

The facts of the Penphil-HIT case make the following conclusions inescapable:

HIT was established and controlled by Penphil primarily if not entirely for the purpose of profiting from the exclusive ticket sales rights on IAB flights. The HIT concept as it was outlined to Penphil relied very heavily on sales of IAB flights between Nassau and Luxembourg. Indeed, had the plan gone according to schedule, HIT would have been in virtual control of IAB through control of all ticket sales and reservations. Moreover, it is not beyond the realm of possibility that HIT would have played the same role on a global scale had the Lassiter-David Bevan-Hodge dream of a worldwide air service been realized.

Three men controlled Penphil and therefore controlled HIT: Thomas Bevan, David Bevan, and Charles Hodge. Two of these men, David Bevan and Hodge, dominated the Penn Central's investment diversification program and exercised control over EJA and thereby control over IAB, in contravention of the Federal Aviation Act. EJA, which relied entirely on Penn Central financial resources for existence, was being made to serve the private business interests of Bevan and Hodge.

The potentially enormous profits of the Penphil-HIT–IAB arrangement would accrue directly to Penphil stockholders. All of the power and the additional financial advantages provided by such power would have been enjoyed and exercised by the men who controlled Penphil: David Bevan and Charles Hodge.

A detailed description of Penphil and its relationship to the PRR and PRR subsidiaries will be given in Part III of the staff report.

INSIDE EJA

The never ending struggle to overcome a red ink operation and the question of Lassiter's ability to provide leadership to this end has haunted the executive staff of EJA almost since the inception of the air service in 1965. For Lassiter, the chief executive and board chairman of EJA, the problem of deficit financing was compounded by mounting pressure from David Bevan and Charles Hodge to move EJA into the status of profitmaker to justify the continuing heavy investments by PRR. By early 1967, the deficit situation was a well established fact of life at EJA and the possibility of change was something that Lassiter was impatiently watching to see come over his business horizon.

Early in the year 1967 Lassiter complained to David Bevan about the failure of EJA to develop approaches that would change the imbalance between costs and revenue. Bevan suggested that Lassiter contact the Wharton School of Finance at the University of Pennsylvania to seek help. Lassiter accepted the suggestion and turned the project over to Frank Conace, vice president in charge of administration and finance at EJA. Conace, in turn, contacted W. W. Abendroth, executive officer at the Wharton School's Management Science Center and an agreement was reached whereby Abendroth, and when necessary other members of the school's staff, would conduct a 3-month study. Abendroth was retained on a private basis and the Wharton School was not directly involved in the project. In a letter dated February 13, 1967, Abendroth wrote to Conace and said:

> Our efforts will be focused on the marketing, promotional, sales, and price aspects of the business, including employee effectiveness and organizational structure.

That Bevan was well aware of the study is indicated by a note written by Abendroth to Conace 5 days earlier:

* * * I've had an opportunity to meet with our Dean Willis Winn and Mr. David Bevan. The former is willing to have us offer our services to you individually, and the latter takes the position that as long as the confrontation is requested by Executive Jet Aviation, more power to them. He, of course, is bending over backward to avoid any implications of his requesting the effort.

The letter is interesting for three reasons:

(1) It establishes Bevan's knowlege of the study.

(2) It indicates Bevan's expectation that some of the recommendations in the study would be critical of Lassiter's executive ability.

(3) It is another example of Bevan's efforts to maintain an illusion that the Penn Central was not controlling EJA in contravention of CAB regulations.

Further evidence that Bevan was aware of the study was supplied by Dean Winn. He said that he and Bevan had known each other socially and professionally for a long time. Winn is currently Chairman of the Board of the Philadelphia Federal Reserve Bank. He has been a Board member since 1960. Bevan was a Board member from 1960 to 1964. Winn said he had seen Bevan several times on social occasions during the 3-month period the study was being made and they had casually discussed it. Winn said he knew a few details of the study from having talked about it with Abendroth and that he (Winn) joked about the study and Penn Central's connection with EJA. Bevan, said Winn, tried to cut him off by saying that Winn really didn't know what was in the report.

The report's recommendations

The Abendroth report with its mouth-filling title, "Some Observations on Executive Jet Aviation as a Business Enterprise and on its Marketing Services," was completed May 31, 1967, and submitted to Lassiter. Lassiter circulated copies of the report among EJA executives, but only after he had removed the first two pages.

Those pages contained the recommended changes that Abendroth considered necessary to follow if EJA was to achieve a self-sustaining position. Chief among the suggestions for change was a politely worded recommendation that in effect said that Lassiter should be fired as EJA's top administrator and kicked upstairs into a "planning and strategy position." The full text of the first two recommendations read as follows:

The most pressing needs of EJA are, in order:

A chief administrator, with a record of achievement developed totally in the business world, empowered to make all tactical decisions now made by the President, solely responsible on a day-to-day basis, for the profitable conduct of the company's affairs, including the integration of the Marketing and Operating functions, and in the short term context, the financial department as well.

Complete release of the President to full involvement with long-range corporate planning and strategy. Continued participation in a day to day tactical decisions represents, at this point in the company's emergence, a dissipation of creative talent and an underutilization of the company's most valuable resource.

The other recommendations called for employment of a "marketing vice president and two assistant vice presidents sufficiently well accepted in the industrial world to have ready access to the corporate level of decisionmaking, establishment of a management information system, a marketing analysis section, and hiring an applications-oriented-field-sales-service force capable of proving the dollar payoff of EJA services.

Of the six recommendations only two—those dealing with a marketing vice president and a sales force—have been utilized and they have been only partially enacted. The other four recommendations, including removal of Lassiter, were ignored.

There is no record as to whether a copy of the report, with or without the recommendations, was ever submitted to Bevan. But his failure to see the report, especially the recommendations, can only be counted as a failure on his part as much as that of Lassiter or any other executive in EJA, inasmuch as Bevan knew the study was being made and expected that recommendations would be presented calling for significant personnel changes in the company which at that point was indebted in the amount of $17 million to the PRR.

Responsibility for recovery of those investments, to say nothing of achieving a profit for the PRR, rested with Bevan. It could be argued that Bevan would have violated CAB regulations had he exercised authority or influence regarding implementation of the recommendations. But the argument does not hold when it is recognized that Penn Central has always dominated EJA and that, in fact, EJA's existence was due entirely to PRR financing, either directly or secured by PRR from banks and other financial institutions.

A second set of recommendations

Six and a half months later Abendroth was involved in another effort to improve EJA's financial situation as indicated in a memorandum written to Lassiter by John Kunkel, EJA's vice president for operations, A. W. Estes, the firm's treasurer, and Conace. The document reads in part:

> A few days ago you requested that we consider how EJA's P. & L. (profit and loss) performance could be improved. The three of us closeted ourselves (and Bill Abendroth) in the board room most of the day on November 15, 1967, and examined and discussed areas about what major changes need to be made.
>
> Our principal recommendations aimed at getting EJA into profit territory are presented below, in order of importance with respect to timing and the action itself:
>
> 1. In the best interests of EJA we believe it is absolutely essential that final authority to make all decisions with respect to day-to-day, month-to-month operations of EJA be vested in someone else, whose qualifications should be from the business world, and someone who could devote most of his time to management problems in Columbus. It is our opinion that this change must be made in order for EJA to become profitable.

Other recommendations urged a reduction of the European business jet operations, halting the stationing of business jet aircraft on the west coast of the United States, negotiating the company out of acceptance of a third Boeing 707, eliminating various regional offices and two EJA departments, reducing the payroll 15 percent, holding administrative flights (nonrevenue producing flights) to an absolute minimum, and drastically cutting executive travel expenses.

The last two recommendations, like the first, were aimed directly at Lassiter. A subsequent analysis of the administrative flights for the year 1968 showed that out of a total of 668, over half, 355, were made by Lassiter himself at a minimum out-of-pocket cost of $133,000 and that virtually all of the flights, costing a total out-of-pocket expense to EJA of nearly $300,000, were authorized by him. To these sums must be added revenue lost because aircraft being used for administrative flight purposes were not available for revenue flights.

By the same token most of the cost of executive travel expenses was incurred by Lassiter. The recommendation dealing with this point asserted:

We understand that you want to tackle this area yourself so we will simply point out here that the month to month executive travel expense in recent months has been running from $5,000 to $10,000, which is approximately 25 to 40 percent of the traveling expenses of all our airplane crews.

A summary of EJA administrative flights for the years 1968, 1969, and the first 6 months of 1970 was made for EJA by Lybrand, Ross Bros. & Montgomery, certified public accountants, following the Sundlun takeover of the company. That summary, dealing with these nonrevenue hours flown, miles flown, and the cost of such flights to EJA is as follows:

SCHEDULE VIII.—ADMINISTRATIVE FLYING

	Year ended December		6 months ended June 30, 1970	Total
	1968	1969		
Lear:				
Miles flown	224,764	100,039	33,032	357,835
Hours flown	546.4	249.1	82.1	877.6
Company's actual cost per hour flown [1]	$407	$505	$555	
Estimated cost	$222,385	$125,796	$45,566	$393,747
Falcon:				
Miles flown	23,934	5,224	2,686	31,844
Hours flown	61.4	12.8	8.0	82.2
Company's actual cost per hour flown [1]	$677	$725	$1,132	
Estimated cost	$41,568	$9,280	$9,056	$59,904
JetStar:				
Miles flown	9,428			9,428
Hours flown	23.1			23.1
Company's actual cost per hour flown [1]	$1,547			
Estimated cost	$35,736			$35,736
Total:				
Miles flown	258,126	105,263	35,718	399,107
Hours flown	630.9	261.9	90.1	982.9
Estimated cost	$299,689	$135,067	$54,622	$489,387

[1] The company's actual cost per hour is based upon historical data and includes all costs. Such costs have been converted to an hourly rate based upon total miles flown and the average speed of the aircraft per hour flown.

Note: The above summary of administrative flying is recorded in the company's mechanical flight log by individual flight and is further supported by a flight request and itinerary and a flight summary prepared by the flight pilot.

One of EJA's better customers was the PRR. During the period 1965 to June 30, 1970, PRR through its wholly owned subsidiary, Manor Real Estate, paid $395,330 in flights for PRR officials. At least half of these flights were of less than 500 miles in length and many of them were less than 300 miles. A glance at the following table will indicate the high cost of such short hop flying. For example, a flight from Newark to Philadelphia, a distance of 105 miles, cost $162. This is not to imply that longer flights were inexpensive. A number of flights from Philadelphia to Boca Raton, Fla., where Bevan and Hodge both had business interests and condominium apartments, cost PRR $1,350 per flight. The extensive use of such costly transportation is highly questionable given the financial condition, especially in recent years, of PRR.

The following are a series of schedules which show EJA flights made by top executives and board members of PRR, and in some instances, flights made by people with PRR business connections. Out of the total of $395,330 paid by PRR for such flights, 60 percent, or $234,148.98, was charged for EJA flights made by David Bevan, William Gerstnecker and Charles Hodge. The number of flights involved in the above expenditure was 348.

TABLE III.—SCHEDULE OF FLIGHTS PAID BY MANOR REAL ESTATE CO.

Passengers	Date	From—	Invoice No.	To—	Aircraft	Statute miles	Invoice addressee	Rate	Amount charged for flight as per invoice	Bevan (and parties)	Hodge	Gerst-necker	Others
	1970												
Mr. Bevan	May 15	Newark	5-18040	Pittsburgh	Lear	329	Manor Real Estate Co.	$155	$509.95	$509.95			
Do	do	Pittsburgh	5-18040	Philadelphia	do	275	do	[1] 155	551.25	551.25			
Hodge Gerstnecker, Herron, Bevan	May 12		11637	GSC Board Meeting			Penn Central (Payee) for $884.10						
Bevan	Apr. 16	Newark	4-17736	Philadelphia	Lear	105	Manor Real Estate Co.	155	162.75	162.75			
Do	do	Philadelphia	4-17736	Boca Raton	do	999	do	155	1,548.45	1,548.45			
Do	Apr. 21	Miami	4-17736	do	do	66	do	155	102.30	102.30			
Do	do	Boca Raton	4-17736	Philadelphia	do	999	do	155	1,548.45	1,548.45			
Do	Apr. 24	Philadelphia	4-17736	Pittsburgh	do	275	do	155	426.25	426.25			
Do	do	Pittsburgh	4-17736	Newark	do	329	do	155	509.95	509.95			
Bevan +1	Apr. 29	Newark	4-17736	Philadelphia	do	105	do	155	162.75	162.75			
Bevan +3	do	Philadelphia	4-17736	Fort Worth	do	1,328	do	155	2,058.40	2,058.40			
Bevan	do	Fort Worth	4-17736	Philadelphia	do	1,328	do	155	2,058.40	2,058.40			
Gen. Hodge	do	Philadelphia	4-17736	Newark	do	105	do	155	162.75		$162.75		
W. R. Gerstnecker	Apr. 17			Miami			Penn Central (payee) for $91.35.[2]		91.35			$91.35	
C. J. Hodge	Apr. 29	New York	11637	Dallas (and return).			Penn Central (payee) for $228.90.[2]		228.90		228.90		
W. R. Gerstnecker	do	Philadelphia	11637	do			Penn Central (payee) for $216.30.[2]		216.30			216.30	
J. O'Herron	do	do	11637	do			do		216.30				$216.30
David C. Bevan	do	New York	11637	Dallas (to Philadelphia and return).			Penn Central (payee) for $222.60.[2]		222.60	222.60			
Bevan +2	Mar. 9	Boca Raton	3-17249	Philadelphia	Lear	1,000	Manor Real Estate Co.	155	1,550.00	1,550.00			
General Hodge	do	Philadelphia	3-17249	Newark	do	108	do	155	167.40		167.40		
Griffiths +1	Mar. 21	Indianapolis	3-17249	Palm Beach	do	995	do	155	1,542.25				1,542.25
Bevan +3	Feb. 4	Fort Worth	2-16814	Philadelphia	Falcon	1,330	do	345	4,588.50	4,588.50			
Bevan +2	do	Philadelphia	2-16814	Fort Worth	Lear	1,330	do	155	2,615.00	2,615.00			
Do	Feb. 27	Newark	2-16814	Washington	do	227	do	155	351.85	351.85			
R. Lepley	Feb. 19	Philadelphia	2-16814	Miami	do	1,042	do	155	1,615.10				1,615.10
Bevan +1	Feb. 28	do	2-16814	Boca Raton	do	1,000	do	155	1,550.00	1,550.00			
Bevan +2	Jan. 12	Boca Raton	1-16512	Philadelphia	do	1,000	do	155	1,550.00	1,550.00			
Do	Jan. 16	Newark	do	Pittsburgh	do	330	do	do	511.50	511.50			
Bevan +1	Jan. 23	White Plains	do	do	do	356	do	do	551.80	551.80			
Bevan +3	do	Pittsburgh	do	Philadelphia	do	276	do	do	427.80	427.80			

1969

Bevan	Dec. 19	Philadelphia	12-16156	Pittsburgh	do	300	do	[3] 155	715.00	715.00		
Do	do	Pittsburgh	do	Philadelphia	do	300	do	155	465.00	465.00		
Bevan +3	Dec. 26	Philadelphia	do	Boca Raton	Falcon	1,000	do	345	3,450.00	3,450.00		
Saunders +3	Nov. 17	do	11-15714	Detroit	Falcon	479	do	345	1,652.50			1,652.50
Do	do	Detroit	11-15714	Philadelphia	do	479	do	345	1,652.50			1,652.50
Bevan	Nov. 20	Newark	11-15714	Pittsburgh	Lear	330	do	155	511.50	511.50		
Do	Nov. 21	Pittsburgh	11-15714	Newark	do	330	do	155	511.50	511.50		
Bevan +1	Oct. 16	Burbank	10-15328	Boca Raton	do	2,356	do	155	3,651.80	3,651.80		
Do	Oct. 20	Boca Raton	10-15328	Philadelphia	do	1,000	do	155	1,550.00	1,550.00		
Bevan	Oct. 24	Washington	10-15328	do	do	146	do	155	226.30	226.30		
Gen. Hodge	Sept. 12	Newark	9-14829	do	do	108	do	155	167.40		167.40	
Bevan	do	Philadelphia	9-14829	Latrobe	do	247	do	155	382.85	382.85		
Barton	do	Columbus	9-14829	Washington	do	351	do	155	544.05			544.05
Bevan +2	Sept. 13	Latrobe	9-14829	Philadelphia	do	247	do	155	382.85	382.85		
Do	do	Philadelphia	9-14829	Newark	do	108	do	155	167.40	167.40		
Bevan	Sept. 19	Pittsburgh	9-14829	Philadelphia	do	276	do	155	427.80	427.80		
Do	do	Philadelphia	9-14829	Pittsburgh	do	294	do	155	455.70	455.70		
Bevan +2	Sept. 20	do	9-14829	Santa Ana	do	2,413	do	155	3,740.15	3,740.15		
Bevan +1	Aug. 9	Nassau	8-14387	Washington	do	1,004	do	155	1,556.20	1,556.20		
Do	Aug. 13	Latrobe	8-14387	Philadelphia	do	247	do	155	382.85	382.85		
Bevan	do	Philadelphia	8-14387	Newark	do	108	do	155	167.40	167.40		
Bevan +1	do	do	8-14387	Latrobe	do	247	do	155	382.85	382.85		
Bevan +3	Aug. 2	Norfolk	8-14387	Philadelphia	do	241		155	373.55	373.55		
Bevan	do	Philadelphia	8-14387	Newark	do	108	do	155	167.40	167.40		
Bevan +1	July 1	White Plains	7-14023	Washington	do	260	do	155	403.00	403.00		
Bevan + (additional pass. not numbered).	July 8	Newark	7-14023	Philadelphia	do	108	do	155	167.40	167.40		
Bevan +1	do	Philadelphia	7-14023	Washington	do	146	do	155	226.30	226.30		
Do	do	Washington	7-14023	Philadelphia	do	146	do	[4] 155	351.30	351.30		
Vaughn +7	July 14	Syracuse	7-14023	Cleveland	Falcon	333	do	345	1,148.85			1,148.85
Vaughn	do	Philadelphia	7-14023	Syracuse	do	254	do	345	876.30			876.30
Vaughn +7	July 15	Chicago	7-14023	Indianapolis	do	188	do	345	648.60			648.60
Vaughn	do	Indianapolis	7-14023	Pittsburgh	do	350	do	345	1,207.50			1,207.50
Do	July 14	Cleveland	7-14023	Detroit	do	127	do	345	438.15			438.15
Bevan +2	July 15	Philadelphia	7-14023	Columbus	Lear	433	do	155	671.15	671.15		
Bevan +4	July 25	Chicago	7-14023	Philadelphia	do	693	do	155	1,074.15	1,074.15		
Bevan +3	do	Philadelphia	7-14023	Chicago	do	693	do	155	1,074.15	1,074.15		
Bevan +2	July 16	Columbus	7-14023	Philadelphia	do	433	do	155	671.15	671.15		
Bevan	July 18	Philadelphia	7-14023	Pittsburgh	do	276	do	155	427.80	427.80		
Bevan +1	June 5	do	6-13617	Latrobe	do	300	do	[5] 130	390.00	390.00		
Do	do	do	6-13617	Philadelphia	do	300	do	130	390.00	390.00		
Bevan	June 6	do	6-13617	do	do	300	do	130	390.00	390.00		
Do	June 12	do	6-13617	Pittsburgh	Falcon	300	do	[6] 130	390.00	390.00		
Do	do	Pittsburgh	6-13617	Philadelphia	Lear	300	do	130	390.00	390.00		
Do	June 13	Philadelphia	6-13617	Latrobe	do	300	do	130	390.00	390.00		
Do	June 14	Latrobe	6-13617	Philadelphia	do	300	do	130	390.00	390.00		
Do	June 20	Philadelphia	6 13617	Pittsburgh	do	300	do	130	390.00	390.00		

See footnotes at end of table, p. 47.

TABLE III.—SCHEDULE OF FLIGHTS PAID BY MANOR REAL ESTATE CO.—Continued

Passengers	Date	From—	Invoice No.	To—	Aircraft	Statute miles	Invoice addressee	Rate	Amount for flight as per invoice	Bevan (and parties)	Hodge	Gerst-necker	Other
	1969												
Saunders +2	May 14	Detroit	5–13061	Newark	Falcon	514	do	$245	$1,259.30				$1,259.30
Bevan	May 15	Philadelphia	5, 13061	Cincinnati	Lear	518	do	[5] 130	673.40	$673.40			
Do	do	Cincinnati	5–13061	Allentown	do	514	do	130	668.20	668.20			
Do	May 16	Philadelphia	5–13061	Pittsburgh	do	300	do	130	390.00	390.00			
Bevan +2	do	Pittsburgh	5–13061	Philadelphia	do	394	do	130	382.20	382.20			
Bevan	do	Philadelphia	5–13061	White Plains	do	142	do	130	184.60	184.60			
Baxter +2	May 22	Jacksonville	5–13061	Philadelphia		773	do	135	1,043.50				1,043.50
Perlman +5	Apr 14	Los Angeles	4–12528	San Francisco	Falcon	365	Manor Real Estate Company.	245	894.25				894.25
Perlman	Apr 16	San Francisco	4–12528	Portland	do	577	do	245	1,413.65				1,413.65
Do	Apr 18	Houston	4–12528	Windsor Locks	do	1,543	do	245	3,780.35				3,780,35
Gen. Hodge	Apr 17	Newark	4–12528	Philadelphia	Lear	108	do	135	145.80		$145.80		
Bevan +4	do	Philadelphia	4–12528	Boca Raton	do	1,000	do	135	1,350.00	1,350.00			
Perlman +5	do	Dallas	4–12538	Seattle	Falcon	1,694	do	245	4,150.30				4,150.30
Bevan +1	Apr 30	Boca Raton	4–12528	Philadelphia	Lear	1,000	do	135	1,350.00	1,350.00			
Perlman +7	Mar 5	Pittsburgh	3–12016	Cleveland	Falcon	300	do	245	735.00				735.00
Do	do	Cleveland	3–12061	Indianapolis	do	300	do	245	735.00				735.00
Bevan & Hodge	Mar 4	Ocean Reef	3–12016	Boca Raton	Lear	98	do	135	132.30	66.15	66.15		
Bevan	do	Boca Raton	3–12016	Philadelphia	do	1,000	do	135	1,350.00	1,350.00			
Bevan +1	Mar 7	Newark	3–12016	do	do	300	do	135	405.00	405.00			
Do	do	Philadelphia	3–12016	Washington	do	300	do	135	405.00	405.00			
Rosenbaum	Mar. 19	Newark	3–12016	do	Falcon	300	do	245	735.00				735.00
Bevan	Mar. 21	Philadelphia	3–12016	Pittsburgh	Lear	300	do	135	405.00	405.00			
Perlman+1	do	Cincinnati	3–12016	New York	do	594	do	135	801.90				801.90
Bevan+2	Mar. 28	Philadelphia	3–12016	Chicago	do	693	do	135	935.55	935.55			
Bevan +4	do	Chicago	3–12016	Philadelphia	do	693	do	135	935.55	935.55			
Do	do	Philadelphia	3–12016	New York	do	121	do	135	163.35	163.35			
1—Pax (?)	Feb. 5	do	2–11477	Washington	Falcon	300	do	245	735.00				735.00
Rosenbaum	do	Washington	2–11477	Newark	Lear	300	do	135	405.00				405.00
Bevan	Feb. 14	Philadelphia	2–11477	Pittsburgh	do	300	do	135	405.00	405.00			
Rosenbaum	Feb. 13	do	2–11477	Washington	Jet Star	300	do	[7] 135	405.00				405.00
Bevan	Feb. 17	Newark	2–11477	Philadelphia	Lear	108	Manor Real Estate	135	145.80	145.80			
Do	do	Philadelphia	2–11477	Miami	do	1,042	do	135	1,046.70	1,046.70			
Do	do	Miami	2–11477	Philadelphia	do	1,042	do	135	1,046.70	1,046.70			
Hodge	do	Philadelphia	2–11477	Newark	do	108	do	135	145.80		145.80		
Bevan	Feb. 21	do	2–11477	Pittsburgh	Falcon	300	do	[4,6] 135	530.00	530.00			
Hodge +1	Feb. 28	Newark	2–11477	Philadelphia	Lear	108	do	135	145.80		145.80		

Hodge +2	do	Philadelphia	2-11477	Boca Raton	do	1,000	do	135	1,350.00		1,350.00		
Do	do	Boca Raton	2-11477	Ocean Reef	do	300	do	135	405.00		405.00		
Perlman +1	do	White Plains	2-11477	Philadelphia	do	300	do	135	405.00				405.00
Perlman	do	Philadelphia	2-11477	Washington	do	300	do	135	405.00				405.00
Do	do	Washington	2-11477	White Plains	do	300	do	135	405.00				405.00
Bevan + 2	Jan. 5	Ft. Lauderdale	1-11007	Philadelphia	Lear	1,020	do	135	1,377.00	1,377.00			
Sanders + 5	Jan. 7	Baltimore	1-11007	Windsor Locks	Falcon	310	do	245	759.50				759.50
Sanders + 7	do	Windsor Locks	1-11007	Boston	do	121	do	245	296.45				296.45
Sanders + 4	do	Boston	1-11007	Windsor Locks	do	121	do	245	296.45				296.45
Sanders + 2	do	Windsor Locks	1-11007	Philadelphia	do	222	do	245	543.90				543.90
Bevan	Jan. 17	Philadelphia	1-11007	Pittsburgh	Lear	300	do	135	405.00	405.00			
Do	do	Pittsburgh	1-11007	Philadelphia	do	300	do	135	405.00	405.00			
Do	Jan. 22	Newark	1-11007	do	Falcon	300	do	[6] 135	405.00	405.00			
Do	Jan. 24	Pittsburgh	1-11007	do	Lear	300	do	135	405.00	405.00			
Do	Jan. 25	Washington	1-11007	do	do	300	do	135	405.00	405.00			
Gen. Hodge + 3	Jan. 26	Philadelphia	1-11007	Columbus	do	541	MACCO	135	730.35		730.35		
Bevan + 4	do	Columbus	1-11007	Los Angeles	Jet Star	2,018	do	[4 7] 135	2,849.30	2,849.30			
Gerstnecker	Jan. 24	Pittsburgh	1-11007	Pittsburgh	Lear	300	Manor Real Estate Co	135	405.00			405.00	
1968													
Large +4	Dec. 4	Detroit	1-11007	Philadelphia	Falcon	479	do	245	1,173.55				1,173.55
Gerstnecker +2	Dec. 7	Boca Raton	1-11007	do	Lear	1,000	do	135	1,350.00			1,350.00	
Bevan +1	Dec. 27	Philadelphia	1-11007	Boca Raton	Falcon	1,000	do	[6] 135	1,350.00	1,350.00			
Bevan	Dec. 20	do	1-11007	Pittsburgh	Lear	300	do	135	405.00	405.00			
Do	do	Pittsburgh	1-11007	Philadelphia	do	300	do	135	405.00	405.00			
Do	Dec. 21	Bridgeport	1-11007	Boca Raton	do	1,123	do	135	1,516.05	1,516.05			
Roth +1	Nov. 5	White Plains	11-10124	do	Falcon	1,104	do	[6] 135	1,490.40				1,490.40
Roth	do	Boca Raton	11-10124	New York	do	1,081	do	[6] 135	1,459.35				1,459.35
Bevan +1	Nov. 13	do	11-10124	Philadelphia	Lear	1,000	do	135	1,350.00	1,350.00			
Bevan	Nov. 15	Philadelphia	11-10124	Pittsburgh	do	300	do	135	405.00	405.00			
Gerstnecker	Nov. 21	do	11-10124	Boca Raton	do	1,000	do	135	1,350.00			1,350.00	
Taylor +2	Nov. 22	do	11-10124	Chicago	do	693	do	135	935.55				935.55
Taylor +4	do	Chicago	11-10124	Philadelphia	Falcon	693	do	[6] 135	935.55				935.55
Gerstnecker	Nov. 24	Boca Raton	11-10124	Washington	Lear	906	do	135	1,223.10			1,223.10	
Bevan	do	Philadelphia	11-10124	do	do	300	do	135	405.00	405.00			
Gerstnecker	Nov. 25	Washington	11-10124	do	do	906	do	135	1,223.10			1,223.10	
Grant	Nov. 28	Philadelphia	11-10124	New York	do	300	do	135	405.00				405.00
Mr. Saunders	Oct. 1	Winston Salem	10-9656	Washington	Falcon	300	do	245	735.00				735.00
Bevan +3	Oct 12	Chicago	10-9656	Phoenix	Lear	1,468	do	[8] 135	2,356.80	2,356.80			
Bevan +1	Oct. 16	Phoenix	10-9656	Philadelphia	do	2,098	do	135	2,832.30	2,832.30			
Bevan	Oct. 18	Philadelphia	10-9656	Pittsburgh	do	300	do	135	405.00	405.00			
Mr. & Mrs. Bevan	Oct. 25	do	10-9656	Boca Raton	do	1,000	do	135	1,350.00	1,350.00			
Bevan	Sept. 11	do	9-9023	Newark	do	108	do	135	145.80	145.80			
Gerstnecker +1	Sept. 10	do	9-9023	Washington	do	146	do	135	197.10			197.10	
Do	do	Washington	9-9023	Philadelphia	do	146	do	135	197.10			197.10	
Bevan	Sept. 13	Philadelphia	9-9023	Pittsburgh	do	300	do	135	405.00	405.00			
Do	do	Pittsburgh	9-9023	Philadelphia	do	300	do	135	405.00	405.00			
Seabrook	Sept. 18	New York	9-9023	Wilmington	do	144	do	135	194.40				194.40
Do	do	Wilmington	9-9023	Little Rock	do	1,002	do	135	1,352.70				1,352.70
Seabrook +3	Sept. 19	Pine Bluff	9-9023	Philadelphia	do	1,026	do	135	1,385.10				1,385.10

See footnotes at end of table, p. 47.

TABLE III.—SCHEDULE OF FLIGHTS PAID BY MANOR REAL ESTATE CO.—Continued

Passengers	Date	From—	Invoice No.	To—	Aircraft	Statute miles	Invoice addressee	Rate	Amount charged for flight as per invoice	Bevan (and parties)	Hodge	Gerstnecker	Others
	1968												
Bevan	Sept. 20	Philadelphia	9–9023	Pittsburgh	Lear	300	Manor Real Estate Co.	$135	$405.00	$405.00			
Saunders +1	Aug. 1	Kansas City	8–8491	Washington	Jet Star	945	do	[9] 245	2,315.25				$2,315.25
Schneider +7	Aug. 2	Indianapolis	8–8491	Miami	Falcon	1,049	do	245	2,570.05				2,570.05
Bevans +3	Aug. 19	Philadelphia	8–8491	Cleveland	Lear	388	do	135	523.80	523.80			
Bevan	do	Cleveland	8–8491	Detroit	do	121	do	135	163.35	163.35			
Do	do	Detroit	8–8491	Philadelphia	do	467	do	135	630.45	630.45			
Do	do	Philadelphia	8–8491	New York	do	121	do	135	163.35	163.35			
Bevan +5	Aug. 26	Denver	8–8491	Philadelphia	Jet Star	1,593	do	[9] 245	3,902.85	3,902.85			
Bevan	do	Philadelphia	8–8491	Norfolk	Lear	241	do	135	325.35	325.35			
Bevan +5	Aug. 27	Norfolk	8–8491	Philadelphia	do	241	do	135	325.35	325.35			
Bevan	do	Philadelphia	8–8491	Newark	do	108	do	135	145.80	145.80			
Bevan, Hodge, Haslett +3.	Aug. 23	Chicago	8–8491	Denver	Jet Star	925	do	300	2,775.00	925.00	$925.00		925.00
Mr. Carney	July 1	Philadelphia	7–7980	Chicago	do	693	Mr. W. R. Gerstnecker, Manor Real Estate Co.	[9] 245	1,697.85				1,697.85
Do	do	Chicago	7–7980	St. Louis	do	377	do	[9] 245	678.65				678.65
Mr. Carney +9	July 2	St. Louis	7–7980	Cincinnati	do	348	do	[9] 245	852.60				852.60
Bevan +1	July 11	Philadelphia	7–7980	Boston	Falcon	306	do	[6] 135	413.10	413.10			
Bevan	July 19	do	7–7980	Pittsburgh	Lear	276	do	135	372.60	372.60			
Mr. Bevan +2	July 26	Chicago	7–7980	Philadelphia	do	693	do	135	935.55	935.55			
Mr. Bevan	do	Philadelphia	7–7980	Chicago	do	693	do	135	935.55	935.55			
Bevan +2	July 31	do	7–7980	Washington	do	146	do	135	197.10	197.10			
Bevan +1	May 1	Newark	5–7028	do	do	222	Mr. W. R. Gerstnecker, Manor Real Estate Co.	135	299.70	299.70			
Bevan	do	Washington	5–7028	Philadelphia	do	146	do	135	197.10	197.10			
Bevan +1	May 8	Philadelphia	5–7028	Washington	do	146	do	135	197.10	197.10			
Bevan	do	Washington	5–7028	Philadelphia	do	146	do	135	197.10	197.10			
Bevan +1	May 10	Philadelphia	5–7028	Boca Raton	do	1,000	do	135	1,350.00	1,350.00			
Bevan +1	May 16	Boca Raton	5–7028	Philadelphia	do	1,000	do	135	1,350.00	1,350.00			
Bevan	May 17	Philadelphia	5–7028	Pittsburgh	do	276	do	135	372.60	372.60			
Do	do	Pittsburgh	5–7080	Philadelphia	do	276	do	135	372.60	372.60			
Bevan	May 24	Newark	5–7028	do	do	108	Manor Real Estate Co.	135	145.80	145.80			
Do	May 29	Philadelphia	5–7028	Pittsburgh	do	276	do	135	372.60	372.60			
Do	do	Pittsburgh	5–7028	Philadelphia	do	276	do	135	372.60	372.60			
Do	Apr. 2	Philadelphia	4–6559	Cincinnati	do	518	do	135	699.30	699.30			
Do	do	Cincinnati	4–6559	Newark	do	580	do	135	783.00	783.00			
Pkg for Bevan	Apr. 10	Columbus	4–6559	do	do	488	do	135	658.80	658.80			

Bevan	Apr. 16	Philadelphia	4–6559	Chicago	do	693	do	135	935.55	935.55			
Bevan +1	do	Chicago	4–6559	Philadelphia	do	693	do	135	935.55	935.55			
Hodge +1	Apr. 17	Newark	4–6559	Allentown	do	93	do	[10]	300.00		300.00		
Hodge	do	Allentown	4–6559	Newark	do	93	do	[10]	300.00		300.00		
Gerstnecker	Apr. 18	Philadelphia	4–6559	Boca Raton	do	1,000	do	135	1,350.00			$1,350.00	
Bevan	Apr. 26	do	4–6559	Pittsburgh	do	276	do	135	372.60	372.60			
Do	Apr. 25	Newark	4–6559	Allentown	do	93	do	[10]	300.00	300.00			
Gerstnecker +1	Apr. 28	Boca Raton	4–6559	Philadelphia	do	1,000	do	135	1,350.00			1,350.00	
Bevan	Apr. 29	Wilmington	4–6559	Newark	do	131	do	[10]	300.00	300.00			
Bevan +3	Mar. 1	Philadelphia	3–6150	Boca Raton	do	1,000	do	135	1,350.00	1,350.00			
Bevan +1	Mar. 6	Boca Raton	3–6150	Philadelphia	do	1,000	do	135	1,350.00	1,350,00			
Varner +3	Mar 10	Eluthera	3–6150	Miami	Falcon	232	do	235	686.20				686.20
Varner	do	Miami	3–6150	Roanoke	do	822	do	235	1,931.70				1,931.70
Bevan +2	Mar. 22	Philadelphia	3–6150	Chicago	Lear	702	do	135	947.70	947.70			
Bevan +3	do	Chicago	3–6150	Philadelphia	do	702	do	135	947.70	947.70			
Grimshaw +1	Mar. 27	Boca Raton	3–6150	do	do	1,000	do	135	1,350.00				1,350.00
Bevan	Mar. 25	Philadelphia	3–6150	Newark	do	108	do	[10]	300.00	300.00			
Do	do	Newark	3–6150	Philadelphia	do	108	do	[10]	300.00	300.00			
McGruder	Mar. 27	Philadelphia	3–6150	Boca Raton	do	1,000	do	135	1,350.00				1,350.00
Bevan +1	Jan. 17	Boca Raton	1–5392	Philadelphia	do	1,000	do	135	1,350.00	1,350.00			
Bevan	Jan. 19	Philadelphia	1–5392	Pittsburgh	do	276	do	135	372.60	372.60			
Do	do	Pittsburgh	1–5392	Philadelphia	do	276	do	135	372.60	372.60			
Bevan +1	Jan. 20	Philadelphia	1–5392	Boca Raton	do	1,000	do	135	1,350.00	1,350.00			
Bevan	Jan. 23	Boca Raton	1–5392	Philadelphia	do	1,000	do	135	1,350.00	1,350.00			
Bevan +2	Jan. 25	Philadelphia	1–5392	Washington	do	146	do	[10]	300.00	300.00			
Do	do	Washington	1–5392	Allentown	do	178	do	[10]	300.00	300.00			
Bevan +1	Jan. 31	Philadelphia	1–5392	Indianapolis	do	613	do	135	827.55	827.55			
Bevan	do	Indianapolis	1–5392	Philadelphia	do	613	do	135	827.55	827.55			
Mr. and Mrs. Patten	Feb. 9	White Plains	2–5757	do	Falcon	146	do	235	343.10				343.10
Do	do	Philadelphia	2–5757	Boca Raton	do	1,000	do	235	2,350.00				2,350.00
Magruder +5	Feb. 11	Boca Raton	2–5757	Philadelphia	do	1,000	do	235	2,350.00				2,350.00
Bevan +3	Feb. 26	Philadelphia	2–5757	Washington	Lear	146	do	[10]	300.00	300.00			
Bevan +1	do	Washington	2–5757	Philadelphia	do	146	do	[10]	300.00	300.00			
Bevan	Feb. 29	Newark	2–5757	Allentown	Falcon	93	do	[10]	300.00	300.00			
	1967												
Prizer & Snyder +1	Nov. 3	Boco Raton	11–4638	Philadelphia	Lear	1,000	do	135	1,350.00				1,350.00
Large +2	Nov. 8	Washington	11–4638	San Francisco	Falcon	2,464	do	235	5,790.40				5,790.40
Large	do	San Francisco	11–4638	Los Angeles	do	365	do	235	857.75				857.75
Butcher +4	Nov. 9	Jacksonville	11–4638	Philadelphia	Lear	773	do	135	1,043.55				1,043.55
Saunders	do	San Francisco	11–4638	Palm Springs	Falcon	447	do	235	1,050.45				1,050.45
Seabrook +3	do	Jacksonville	11–4638	New York	Lear	863	do	135	1,165.05				1,165.05
Large, Talbot & Carney	Nov. 10	Wichita	11–4638	Philadelphia	do	1,229	do	135	1,659.15				1,659.15
Large +1	do	Los Angeles	11–4638	Wichita	Falcon	1,227	do	235	2,883.45				2,883.45
Bevan +1	Nov. 15	Philadelphia	11–4638	Chicago	Lear	693	do	135	935.55	935.55			
Bevan	do	Chicago	11–4638	Philadelphia	do	693	do	135	935.55	935.55			
Do	Nov. 17	Philadelphia	11–4638	Pittsburgh	do	276	do	135	372.60	372.60			
Do	do	Pittsburgh	11–4638	Philadelphia	do	276	do	135	372.60	372.60			
Do	Dec. 4	Philadelphia	12–5119	Chicago	do	693	do	135	935.55	935.55			
Do	Dec. 15	do	12–5119	Pittsburgh	do	276	do	135	372.60	372.60			

See footnotes at end of table, p. 47.

TABLE III.—SCHEDULE OF FLIGHTS PAID BY MANOR REAL ESTATE CO.—Continued

Passengers	Date	From—	Invoice No.	To—	Aircraft	Statute miles	Invoice addressee	Rate	Amount charged for flight as per invoice	Bevan (and parties)	Hodge	Gerstnecker	Others
	1967												
Mr. and Mrs. Bevan, Mr. and Mrs. Gerstnecker.	Dec. 28	Philadelphia	12–5119	Boca Raton	Leha	1,000	Manor Real Estate Co	$135	$1,350.00	$675.00		$675.00	
Bevan +2	Oct. 4	Newark	11–4301	Philadelphia	do	108	do	135	145.80	145.80			
Bevan	do	Philadelphia	11–4301	Newport News	do	229	do	135	309.15	309.15			
Do	Oct. 6	Newport News	11–4301	Philadelphia	do	229	do	135	309.15	309.15			
Butcher, Bennet, Seabrook.	Oct. 10	Jacksonville	11–4301	do	do	773	do	135	1,043.55				$1,043.55
Bevan and Robert	Oct. 18	Philadelphia	11–4301	Cleveland	do	382	do	135	515.70	257.85			257.85
Do	do	Cleveland	11–4301	Philadelphia	do	382	do	135	515.70	257.85			257.85
Bevan	Oct. 20	Philadelphia	11–4301	Pittsburgh	do	276	do	135	372.60	372.60			
Do	do	Pittsburgh	11–4301	Philadelphia	do	276	do	135	372.60	372.60			
Large	Oct. 24	Boca Raton	11–4301	Harrisburg	do	1,000	do	135	1,350.00				1,350.00
Bevan +5	Oct. 26	Philadelphia	11–4301	Boca Raton	do	1,000	do	135	1,350.00	1,350.00			
Bevan +4	Oct. 30	Boca Raton	11–4301	Philadelphia	do	1,000	do	135	1,350.00	1,350.00			
Do	do	Philadelphia	11–4301	Newark	do	108	do	135	145.80	145.80			
Mr. Prizer +1	Oct. 31	do	11–4301	Boca Raton	do	1,000	do	135	1,350.00				1,350.00
Mr. Bevan	Sept. 29	do	9–3717	Latrobe	do	247	do	135	333.45	333.45			
Do	Sept. 20	Latrobe	9–3717	Philadelphia	do	247	do	135	333.45	333.45			
Do	Aug. 24	Atlantic City	9–3340	Newark	do	122	do	[10]	300.00	300.00			
Do	do	Newark	9–3340	Philadelphia	do	108	do	[10]	300.00	300.00			
Mr. Bevan +1	Aug. 31	Latrobe	9–3340	do	do	247	do	135	333.45	333.45			
Do	do	Philadelphia	9–3340	Newark	do	108	do	135	145.80	145.80			
Gerstnecker + 1	July 7	do	8–2934	Latrobe	Lear	247	do	135	333.45			333.45	
Gerstnecker	do	Latrobe	8–2934	Pittsburgh	do	75	do	135	101.25			101.25	
Gerstnecker + 1	July 8	Pittsburgh	8–2934	Latrobe	do	75	do	135	101.25			101.25	
Gerstnecker	do	Latrobe	8–2934	Philadelphia	do	247	do	135	333.45			333.45	
Bevan + Gerstnecker	July 17	Philadelphia	8–2934	New York	do	121	do	[10]	300.00	150.00		150.00	
Do	do	Newark	8–2934	Philadelphia	do	108	do	[10]	300.00	150.00		150.00	
Saunders	July 20	Philadelphia	8–2934	Santa Rosa	Falcon	2,545	do	235	5,980.75				5,980.75
Bevan	July 21	do	8–2934	Pittsburgh	Lear	276	do	135	372.60	372.60			
Saunders +1	July 30	Santa Rosa	8–2934	Philadelphia	Falcon	2,545	do	235	5,980.75				5,980.75
Names not listed [11]	May 18	Philadelphia	6–2144	Boca Raton	Lear	1,000	Pennsylvania R.R.	116	1,160.00				1,160.00
Do.[11]	May 23	Boca Raton	6–2144	Philadelphia	do	1,000	do	116	1,160.00				1,160.00
Do.[11]	Apr 20	Philadelphia	4–1651	Charlottesville	do	237	do	116	274.92				274.92
Do.[11]	do	Charlottesville	4–1651	Boca Raton	do	844	do	116	979.04				979.04
Do [11]	Apr. 23	Boca Raton	4–1651	Philadelphia	do	1,000	do	116	1,160.00				1,160.00

Do [11]	Apr. 26	Philadelphia	4-1651	Boca Raton	do	1,000	do	116	1,160.00			1,160.00
Do [11]	Apr. 27	Indianapolis	4-1651	Miami	do	1,049	do	116	1,216.84			1,216.84
Do. [11]	do	Chicago	4-1651	Boca Raton	do	1,191	do	116	1,381.56			1,381.56
Do. [11]	do	Philadelphia	4-1651	do	do	1,000	do	116	1,160.00			1,160.00
Do. [11]	do	do	4-1651	Miami	Falcon	1,042	do	200	2,084.00			2,084.00
Do. [11]	do	Miami	4-1651	Boca Raton	do	75	do	200	150.00			150.00
Do. [11]	do	Philadelphia	4-1651	Miami	do	1,042	do	200	2,084.00			2,084.00
Do. [11]	do	Talahassee	4-1651	Boca Raton	do	405	do	200	810.00			810.00
Do. [11]	Apr. 28	Boca Raton	4-1651	Indianapolis	Lear	1,015	do	116	1,177.40			1,177.40
Do. [11]	do	do	4-1651	Chicago	do	1,191	do	116	1,381.56			1,381.56
Do. [11]	do	do	4-1651	Philadelphia	Falcon	1,000	do	200	2,000.00			2,000.00
Do. [11]	Apr. 30	do	4-1651	do	do	1,000	do	200	2,000.00			2,000.00
Do. [11]	do	do	4-1651	do	do	1,000	do	200	2,000.00			2,000.00
Bevan +3	Mar. 3	Philadelphia		Boca Raton	Lear	1,000	Manor Real Estate Co.	116	1,160.00	1,160.00		
Bevan +1	Mar. 7	Boca Raton		Charlottesville	do	844	do	116	979.04	979.04		
Do	do	Charlottesville		Philadelphia	do	237	do	116	274.92	274.92		
Do	Mar. 9	Philadelphia		Newark	do	108	do	116	125.28	125.28		
Taylor +2 [13]	Mar. 17	do		Chicago	do	693	do	116	803.88		401.94	401.94
Taylor +3 [13]	do	Chicago		Philadelphia	do	693	do	116	803.88		401.94	401.94
Bevan +2	Mar. 20	Philadelphia		Allegheny	do	276	do	116	320.16	320.16		
Bevan +3	do	Allegheny		Philadelphia	do	276	do	116	320.16	320.16		
Mr. Greenough	Mar. 28	Philadelphia		Fairhope	do	1,015	do	116	1,177.40			1,177.40
Do	Mar. 29	Fairhope		Philadelphia	do	1,015	do	116	1,177.40			1,177.40
Fox	Mar. 30	Sarasota		Washington	do	879	do	116	1,019.64			1,019.64
Do	do	Washington		Sarasota	do	879	do	116	1,019.64			1,019.64
Bevan +1	Feb. 4	Philadelphia	2-0971	Pittsburgh	Lear	276	do	116	320.16	320.16		
Bevan +2	do	Pittsburgh	2-0971	Philadelphia	do	276	do	116	320.16	320.16		
Reiter +1	Feb. 10	Philadelphia	2-0971	do	do	980	do	116	1,136.80			1,136.80
Butcher +9	Feb. 8	New York	2-0971	Jacksonville	Falcon	859	do	200	1,718.00			1,718.00
Mr. Vore +7	Feb. 26	Rock Sound	2-0971	Fort Lauderdale	do	322	do	200	644.00			644.00
Do	do	Fort Lauderdale	2-0971	Pittsburgh	do	1,021	do	200	2,042.00			2,042.00
Bevan	Jan. 15	Boca Raton	1-0618	Philadelphia	Lear	1,000	do	116	1,160.00	1,160.00		
	1966											
Bevan [11]	Nov. 20	Boca Raton	11-0166	do	do	1,000	do	116	1,160.00	1,160.00		
Morris, Irvin, Hartley [11]	Nov. 8	Pittsburgh	11-0166	San Francisco	Falcon	2,275	do	200	4,550.00			4,550.00
Bevan	Dec. 5	Philadelphia		Boston	Lear	305	do	116	354.96	354.96		
Do	do	Boston		Newark	do	227	do	116	263.32	263.32		
Bevan, Hodge	Dec. 6	Newark		Dallas	do	1,389	do	116	1,611.24	805.62	$805.62	
Bevan	Dec. 7	Fort Worth		Philadelphia	do	1,330	do	116	1,542.80	1,542.80		
Do	Dec. 8	Philadelphia		Newark	do	108	do	116	125.28	125.28		
Do	Dec. 14	do		do	do	108	do	116	125.28	125.28		
Bevan + Hodge	Dec. 29	Newark		Philadelphia	do	108	do	116	125.28	62.64	62.64	
Do	do	Philadelphia		Boca Raton	do	1,000	do	116	1,160.00	580.00	580.00	
Bevan [11]	Nov. 20	Boca Raton	11-0166	Philadelphia	Lear	1,000	W. R. Gerstnecker c/o Manor Real Estate Co.	116	1,160.00	1,160.00		
Messrs Morris, Irvin, Hartley.	Nov. 8	Pittsburgh	11-0166	San Francisco	Falcon	2,275	do	200	4,550.00			4,550.00

See footnotes at end of table, p. 47.

TABLE III.—SCHEDULE OF FLIGHTS PAID BY MANOR REAL ESTATE CO.—Continued

Passengers	Date	From—	Invoice No.	To—	Aircraft	Statute miles	Invoice addressee	Rate	Amount charged for flight as per invoice	Bevan (and parties)	Hodge	Gerstnecker	Others
	1966												
Bevan	Oct. 15	Philadelphia		Bridgeport	Lear	169	Manor Real Estate Co.	$116	$196.04	$196.04			
Do	Oct. 16	Bridgeport		Philadelphia	do	169	do	116	196.04	196.04			
Do	Oct. 17	Philadelphia		Pittsburgh	do	276	do	116	320.16	320.16			
Do	do	Pittsburgh		Philadelphia	do	276	do	116	320.16	320.16			
Do	Oct. 27	Newark		do	do	108	do	116	125.28	125.28			
Do	do	Philadelphia		Boca Raton	do	1,000	do	116	1,160.00	1,160.00			
Do	Sept. 9	White Plains		Philadelphia	do	142	do	116	164.72	164.72			
Do	do	Philadelphia		Latrobe	do	247	do	116	286.52	286.52			
Do	Sept. 10	Latrobe		Philadelphia	do	247	do	116	286.52	286.52			
Do	do	Philadelphia		White Plains	do	142	do	116	164.72	164.72			
Do	Sept. 16	do		Chicago	do	693	do	116	803.88	803.88			
Do	do	Chicago		Philadelphia	do	693	do	116	803.88	803.88			
Do	Sept. 23	Philadelphia		Latrobe	do	247	do	116	286.52	286.52			
Do	Sept. 24	do		New York	do	121	do	116	140.36	140.36			
Do	Sept. 29	do		Cleveland	do	388	do	116	450.08	450.08			
Do	do	Willoughby, Ohio		Philadelphia	do	883	do	116	450.08	450.08			
Passengers not listed	Aug. 22	Boca Raton	do	Jacksonville	Falcon	321	do	200	642.00				$642.00
Do	do	Jacksonville, Fla.	do	Philadelphia	do	773	do	200	1,546.00				1,546.00
Bevan	Aug. 2	Santa Monica	do	Houston	Lear	1,412	do	116	1,637.92	1,637.92			
Do	do	Houston	do	Philadelphia	do	1,361	do	116	1,578.76	1,578.76			
Hodge	do	Philadelphia	do	Newark	do	108	do	116	125.28		$125.28		
Bevan	Aug. 18	do	do	Boca Raton	do	1,000	do	116	1,160.00	1,160.00			
Do	Aug. 22	Boca Raton	do	Jacksonville	do	321	do	116	372.36	372.36			
Do	do	Jacksonville	do	Philadelphia	do	773	do	116	896.68	896.68			
Do	Aug. 25	Philadelphia	do	Newark	do	108	do	116	125.28	125.28			
Do	do	Newark	do	Philadelphia	do	108	do	116	125.28	125.28			
Do	July 15	Philadelphia	do	Chicago	do	693	do	116	803.88	803.88			
Do	do	Chicago	do	Philadelphia	do	693	do	116	803.88	803.88			
Do	do	Philadelphia	do	Washington	do	146	do	116	169.36	169.36			
Do	do	Washington	do	Philadelphia	do	146	do	116	169.36	169.36			
Do	do	Philadelphia	do	Boca Raton	do	1,000	do	116	1,160.00	1,160.00			
Mr. Large	July 19	Orlando	do	Philadelphia	do	882	do	116	1,023.12				1,023.12
Bevan, Hodge, Wynn	July 29	Newark	do	Burbank	Falcon	2,475	do	[12] 135	3,341.25	1,113.75	1,113.75		1,113.75
Bevan	June 24	Philadelphia	July 7	Latrobe		247	do	116	286.52	286.52			
Do	June 25	Latrobe	do	Philadelphia		247	do	116	286.52	286.52			
Do	June 9	Philadelphia	do	Allentown	Falcon	86	do	200	172.00	172.00			
Do	do	Allentown	do	Boston	do	285	do	200	570.00	570.00			
Do	June 10	Boston	do	Allentown	do	285	do	200	570.00	570.00			

Do	do	Allentown	do	Philadelphia	do	86	do	200	172.00	172.00			
Do	June 3	Philadelphia	June 28	Latrobe		247	do	200	286.52	286.52			
Do	do	Johnstown	do	Philadelphia		220	do	116	255.20	255.20			
Do	June 6	Philadelphia	do	Naval War College, Prov.		254	do	116	294.64	294.64			
Do	do	Naval War College.	do	Philadelphia		254	do	116	294.64	294.64			
Do	May 5	Philadelphia	May 1966	Pittsburgh		276	do	116	320.16	320.16			
Do	May 6	do	do	Lebanon, N.H		326	do	116	378.16	378.16			
Do	do	Lebanon	do	Philadelphia		326	do	116	378.16	378.16			
Do	May 12	Newark	do	do		108	do	116	125.28	125.28			
Do	do	Philadelphia	do	Atlanta		692	do	116	802.72	802.72			
Do	do	Atlanta	do	Boca Raton		591	do	116	685.56	685.56			
Do	May 15	Boca Raton	do	Dallas		1,136	do	116	1,317.76	1,317.76			
Do	May 16	Dallas	do	Philadelphia		1,330	do	116	1,542.80	1,542.80			
Do	do	Philadelphia	do	Newark		108	do	116	125.28	125.28			
Do	May 19	do	do	Cincinnati		518	do	116	600.88	600.88			
Do	do	Cincinnati	do	Philadelphia		518	do	116	600.88	600.88			
Do	May 23	Newark	do	do		108	do	116	125.28	125.28			
Do	do	Philadelphia	do	Dallas (G.SW.)		1,346	do	116	1,561.36	1,561.36			
Do	do	Dallas	do	Burbank		1,254	do	116	1,454.64	1,454.64			
Do	May 25	Santa Monica	do	St. Louis		1,616	do	116	1,874.56	1,874.56			
Do	do	St. Louis	do	Philadelphia		838	do	116	972.08	972.08			
Saunders	Apr. 7	Philadelphia	May 5	Palm Springs	Falcon	2,379	do	200	4,758.00				4,758.00
Do	Apr. 10	Palm Springs	do	Philadelphia	Jet Star	2,379	do	200	4,758.00				4,758.00
Bevan	Mar. 1	Philadelphia	Mar. 1966	Newark		85	do	116	98.60	98.60			
Do	Mar. 2	do	do	Boston		241	do	116	279.56	279.56			
Do	do	Boston	do	Newark		212	do	116	245.92	245.92			
Do	Mar. 6	Boca Raton	do	Philadelphia		1,085	do	116	1,258.60	1,258.60			
Do	do	Philadelphia	do	Bridgeport		145	do	116	168.20	168.20			
Mr. Carpi	Mar. 11	Boca Raton	do	Philadelphia		1,085	do	116	1,258.60				1,258.60
Do	do	Philadelphia	do	Boca Raton		1,085	do	116	1,258.60				1,258.60
Bevan	do	do	do	Atlanta		684	do	116	793.44	793.44			
Do	do	Atlanta	do	Philadelphia		684	do	116	793.44	793.44			
Gerstnecker	Mar. 15	Washington	do	Newark		238	do	116	276.08			$276.08	
Bevan	Mar. 17	Philadelphia	do	Chicago		693	do	116	803.88	803.88			
Do	Mar. 18	Chicago	do	Philadelphia		693	do	116	803.88	803.88			
Do	Mar. 22	Philadelphia	do	Newark		85	do	116	98.60	98.60			
Hodge, Bevan	Feb. 14	Newark	Mar. 2	Philadelphia		85	do	116	98.60	49.30	49.30		
Do	do	Philadelphia	do	Dallas		1,299	do	116	1,506.84	753.42	753.42		
Do	Feb. 15	Dallas	do	Philadelphia		1,299	do	116	1,506.84	753.42	753.42		
Do	do	Philadelphia	do	Newark		85	do	116	98.60	49.30	49.30		
Do	Feb. 17	Newark	do	Philadelphia		85	do	116	98.60	49.30	49.30		
Do	do	Philadelphia	do	Boca Raton		1,085	do	116	1,258.60	629.30	629.30		
Do	Feb. 22	West Palm Beach	do	Philadelphia		1,067	do	116	1,237.72	618.86	618.86		
Do	do	Philadelphia	do	Newark		85	do	116	98.60	49.30	49.30		
Bevan	Jan. 27	do	Feb. 18	Washington		134	do	116	155.44	155.44			
Do	do	Washington	do	Philadelphia		134	do	116	155.44	155.44			
Do	Jan. 29	Philadelphia	do	Newark		85	do	116	98.60	98.60			
Do	do	Newark	do	Philadelphia		85	do	116	98.60	98.60			

See footnotes at end of table, p. 47.

TABLE III.—SCHEDULE OF FLIGHTS PAID BY MANOR REAL ESTATE CO.—Continued

Passengers	Date	From—	Invoice No.	To—	Aircraft	Statute miles	Invoice addressee	Rate	Amount charged for flight as per invoice	Bevan (and parties)	Hodge	Gerst-necker	Others
	1966												
Bevan, Hodge, Wynn	Jan. 21	Newark	Feb. 18	Columbus		478	Manor Real Estate Co	$116	$554.48	$184.83	$184.83		$184.82
Do	do	Columbus	do	Fort Worth		1,126	do	116	1,306.16	435.39	435.39		435.38
Do	do	Fort Worth	do	Las Vegas		1,093	do	116	1,267.88	422.63	422.63		422.62
Do	Jan. 23	Las Vegas	do	Burbank		267	do	116	309.72	103.24	103.24		103.24
Do	do	Burbank	do	Santa Ana		97	do	116	112.52	37.51	37.51		37.50
Do	Jan. 26	Santa Monica	do	Dallas		1,272	do	116	1475.52	491.84	491.84		491.84
Do	do	Dallas	do	Philadelphia		1,287	do	116	1,492.92	497.64	497.64		497.46
	1965												
Bevan	Dec. 1	Philadelphia	Jan. 17	Washington		134	Manor Real Estate Co	116	155.44	155.44			
Do	do	Washington	do	Philadelphia		134	do	116	155.44	155.44			
Do	Dec. 15	Philadelphia	do	Chicago		724	do	116	839.84	839.84			
Do	do	Chicago	do	Allentown		652	do	116	756.32	756.32			
Do	do	Allentown	do	Philadelphia		55	do	116	63.80	63.80			
Passengers not listed	Nov. 11–16	Zurich	Dec. 22	Basel		55	do	116	63.80				63.80
Do	do	Basel	do	Zurich		55	do	116	63.80				63.80
Do	do	Zurich	do	Venice		237	do	116	274.92				274.92
Do	do	Pisa	do	Hamburg		722	do	116	837.52				837.52
Do	do	Hamburg	do	Rotterdam		274	do	116	317.84				317.84
Do	do	Rotterdam	do	Brussels		273	do	116	316.68				316.68
Bevan	Sept. 28	Philadelphia	Nov. 19	Cleveland		420	do	116	487.20	487.20			
Do	do	Cleveland	do	Cincinnati		235	do	116	272.60	272.60			
Do	Sept. 29	Cincinnati	do	Cleveland		235	do	116	272.60	272.60			
Do	do	Cleveland	do	Newark		416	do	116	482.56	482.56			
Do	do	Newark	do	Philadelphia		85	do	116	98.60	98.60			
Bevan +1	Oct. 2	Philadelphia	do	Chicago (O'Hara)		704	do	116	816.64	816.64			
Do	Oct. 5	Chicago (Midway)	do	Philadelphia		724	do	116	839.84	839.84			
Hodge	Oct. 9	Morristown, N.J	do	do		75	do	116	87.00		87.00		
Bevan	do	Philadelphia	do	Craig Field, Fla		776	do	116	900.16	900.16			
Do	Oct. 10	Craig Field	do	Philadelphia		776	do	116	900.16	900.16			
C. J. Hodge	do	Philadelphia	do	Morristown		75	do	116	87.00		87.00		
Mr. and Mrs. Hodge, Mr. Bevan.	Sept. 9	Newark	Oct. 22	Philadelphia		85	Pennsylvania RR	116	98.60	49.30	49.30		
Do	do	Philadelphia	do	Boca Raton		1,095	do	116	1,270.20	635.10	635.10		
Do	Sept. 13	Boca Raton	do	Philadelphia		1,095	do	116	1,270.20	635.10	635.10		
Do	do	Philadelphia	do	Newark		85	do	116	98.60	49.30	49.30		

Mr. Bevan+party	Sept. 14	do	do	Chicago	724	do	116	839.84	839.84			
Do	do	Chicago	do	Newark	745	do	116	864.20	864.20			
Do	do	Newark	do	Philadelphia	85	do	116	98.60	98.60			
Saunders, Funkhouser	Sept. 21	Gary	do	do	672	do	116	779.52				779.52
Bevan+Gerstnecker	do	Philadelphia	do	Boston	241	do	116	279.56	139.78		$139.78	
Do	do	Boston	do	Philadelphia	241	do	116	279.56	139.78		139.78	
Bevan+party	Sept. 24	Philadelphia	do	Latrobe	253	do	116	293.48	293.48			
Do	Sept. 25	Latrobe	do	Philadelphia	253	do	116	293.48	293.48			
Do	do	Philadelphia	do	Newark	85	do	116	98.60	98.60			
Hodge	Aug. 5	Cody, Wyo	Oct. 5	Philadelphia	2,019	The Pennsylvania RR	116	2,342.04		2,342.04		
Do	Aug. 6	Philadelphia	do	Cody, Wyo	2,019	do	116	2,342.04		2,342.04		
Passengers not listed	July 27	Portland, Oreg	Aug. 27	Burbank, Calif	862	Pennsylvania RR	116	999.92				999.92
Do	July 28	Santa Ana, Calif	do	Greensboro, S.C	2,228	do	116	2,584.48				2,584.48
Bevan	June 16	Philadelphia	July 20	Chicago (Midway)	724	do	116	839.84	839.84			
C. J. Hodge	May 19	Newark	July 13	Philadelphia	84	do	116	97.44		97.44		
Hodge + Gerstnecker	do	Philadelphia	do	Houston	1,390	do	116	1,612.40		806.20	806.20	
Bevan	May 20	do	do	Houston (2 flights)	1,390	do	116	1,612.40	1,612.40			
Gerstnecker	do	Houston	do	Fort Worth	273	do	116	316.68			316.68	
Bevan + Hodge	do	do	do	Boca Raton	1,125	do	116	1,305.00	652.50	652.50		
Bevan	May 22	Boca Raton, Fla	June 11	Washington, D.C	955	do	116	1,107.80	1,107.80			
Do	May 23	Washington, D.C	do	Philadelphia	140	do	116	162.40	162.40			
Do	do	Philadelphia, Pa	do	Bridgeport	146	do	116	169.36	169.36			
Grand total								395,330.85	200,033.19	20,835.94	13,279.85	161,181.87

[1] Half-hour waiting time, $125 plus.
[2] Total for Penn Central (payee) $884.10.
[3] 1 hour waiting time, $250 plus.
[4] $125 waiting charge.
[5] Volume rate reduction through June only.
[6] Falcon at Lear rates.
[7] Jet Star at Lear rates.
[8] Waiting charge of $250 per hour for 1½ hours, $375.
[9] Jet Star at Falcon rates, $245 per hour.
[10] Minimum charge of $300.
[11] These flights were taken from EJA duplicate invoices. Because they are duplicate invoices the words "Duplicate do not pay" appear on the bottom. It is assumed that the original invoices were paid by the invoice addressee.
[12] Special rate.
[13] "W.R.G." was in parentheses beside "+2"; assumed to be W. R. Gerstnecker.

A month later a third recommendation for Lassiter's dismissal from EJA's top administrative position was made to Charles Hodge. Hodge was endeavoring to make arrangements for the sale of $22 million in EJA common stock and debentures. In this connection he had approached James H. Orr, president of Colonial Management Associates of Boston, an investment advisory corporation.

In a letter dated December 19, 1967, Orr wrote Hodge:

Following our visit with you on December 11 in New York I have had Glenn Strehle and Jerry Hunsaker restudy the financing of Executive Jet Aviation.

You have been aware of our concern over the substantial increase in losses in the business aircraft operation above those expected last summer. As a result, it is impossible for us to continue to recommend the purchase of the 7½ percent senior subordinated debentures of EJA to our clients without a change in the financing plans and management of the company.

We feel the following changes must be accomplished if our purchase recommendation to our clients is to be maintained:

(1) The company must obtain a new chief executive officer and president with business experience who is satisfactory to us. The role of the present senior management should be determined by the new chief executive in coordination with the board of directors.

Orr also said that:

The European based operations and proposed operations of EJA must be terminated immediately.

The 20-percent minority interest in Johnson Flying Service must be acquired by EJA for a reasonable cash price or exchange of common stock as a condition of financing.

Orr later was asked to present the recommendations together with supporting material at an EJA board meeting early in 1968. He described the meeting as being "pretty uncomfortable" because Lassiter, as expected, challenged the recommendations and argued against them.

Summary

In summary, three separate sets of recommendations, all calling for removal of Lassiter as president of EJA were made to Lassiter, to Hodge, and to the EJA board within an 8-month period ending early in 1968. It is inconceivable that David Bevan could remain completely unaware of what had taken place especially since he and Hodge provided the leadership for the Penn Central diversification program and since most of the members if not the entire EJA board, of which Hodge was a member, were aware of the Orr proposals. Despite these incidents, no discernible change occurred in the flow of PRR financial resources to EJA.

Hodge himself told staff investigators that he had recognized what he said was Lassiter's lack of administrative ability and that in 1968 he recommended to Bevan that Hodge be removed as EJA's top administrator. Hodge said that, "Bevan didn't like the recommendation." When asked why, Hodge replied he did not know.

THE PALACE REVOLT

As evidenced by the November 1967 memorandum from Kunkel, Estes, and Conace to Lassiter, a fullfledged palace revolt on the part of these EJA executives had been underway for some time. Lassiter came to dub them the "Three Musketeers." What follows is the narration of some of the events that fostered that revolt and led to a dramatic but unsuccessful attempt to persuade the EJA board to remove Lassiter about one year later.

It is also the chronicle of the loss of millions of dollars provided EJA by the Pennsylvania Railroad and the banks which made loans to EJA on PRR credit.

Memorandum from Lassiter to EJA executives, dated July 30, 1965:

I viewed the bills by company personnel with great alarm. I wish to make it clear that this company is not providing entertainment for its employees. * * * As I have mentioned many times, we are a new company and we have many knowledgeable and qualified advisers on the board—Glore Forgan, Pennsylvania Railroad. Therefore it is imperative that our expenses can be viewed as absolutely essential and not one of living it up.

I have notified the treasurer to return each expense account to any person who is not within the reasonable grounds. I do not want group expense reports as it is necessary to break up the responsibility of each charge to specific persons.

Memorandum from Estes to Lassiter, dated November 23, 1965:

As you know I have sent quite a number of hotel bills, restaurant bills, and certain credit card charges back to you from time to time requesting that you indicate the business purpose on each of the charge tickets.

To take a case in point, I recently returned a Carte Blanche statement with attached tickets to you involving charges totaling $268.71. One of the tickets involved in that charge was for $262.52 and was incurred at the Beverly Hilton. The notation written on the ticket was "trip to west coast to review sales." I think that type of information is useful but I don't think it is going to enable you to avoid personal tax problems in the future if such items are challenged by the Internal Revenue Service.

Memorandum from Kunkel to EJA staff members dated September 21, 1966:

All purchase requisitions will be accompanied with a transmittal slip indicating:
- Office for which purchased.
- Who requested.
- Reason and necessity for purchase.
- Are items in budget?

As final approval on purchase requisitions are made by General Lassiter, he has indicated you had better be '.1**$!.!. sure it can be justified if the originator is called into his office to stand up and say you can't do without it.

Memorandum from Estes to Lassiter, dated February 8, 1967:

In the interest of protecting your tax posture as well as EJA's position with the Internal Revenue Service, I have written to you in the past on the subject of substantiation of expense charges, and the inclusion of sufficient information to establish the business purpose of various expenditures . . . The only purpose of this memo is to keep you aware of my concern for substantiation of these items for your own protection.

Memorandum from Estes to Lassiter dated November 18, 1967:

This is my periodic memo to you lamenting your personal exposure to the Internal Revenue Service in connection with your travel expenses.

The lack of adequate substantiation of your travel expenses continues to be a source of concern for me, for EJA as a company and for you personally.

In 1967, your travel expenses have averaged between $3,000 and $4,000 a month. For the year, the total will likely come to roughly $40,000. If even half of that $40,000 were declared to be personal income to you the additional Federal income tax which you would be called upon to pay could easily be as much as $10,000 in a 50 percent tax bracket.

A recent case in point is an American Express bill for $1,827, nearly all of which was for hotel charges at the Century Plaza in Los Angeles. You indicated that $83.75 of those charges were personal and you paid for them with a personal check. The balance, however, was charged to EJA with no business purpose or other justification for the expense being established, at least in EJA's records.

Memorandum from Lassiter to all EJA personnel, dated May 29, 1968:

In order to conserve our cash from now until we acquire Johnson Flying Service, I want everyone to limit their requirements to the minimum essential to do their job. Additionally, I want to procure only those items necessary to prevent a work stoppage. Your cooperation in this area will help greatly in strengthening the company's financial position during this important period.

Memorandum from Estes to Lassiter, dated September 12, 1968:

I would like to request that the attached purchase requisition, No. 7759, which you approved on approximately September 5, 1968, be withdrawn at this time. The requisition as you can see is for 1,200 EJA tie tacks and lapel pins for a total cash commitment of $2,421. I see no way to stretch our imagination to justify spending critically needed funds for this type of thing. As you know, our cash balance is always at a critical level in relation to our obligations. At the present time we have $44,000 in cash available, compared with $3,600,000 in current liabilities, of which nearly $1 million is in the overdue category.

In the face of the above facts, our day to day struggle for survival and a deteriorating morale in EJA caused by unbridled spending habits, I strongly urge that this requisition be withdrawn and all others that are not necessary to keep operating be withheld at least until after the memo of understanding is implemented.

Memorandum from Estes to Lassiter, dated September 24, 1968:

Since I have written to you on this matter a number of times in the past, I realize you are pretty much aware of the requirements of the Internal Revenue Service for substantiation of travel and entertainment expenses, and the requirements on the part of EJA that such expenses must be documented.

As you know, you are traveling away from Columbus nearly all the time now, and therefore you are incurring substantial charges to EJA as a result.

Attached is a sample of what I am referring to; namely, a bill from Carte Blanche for a total of $1,085.87, which includes three tickets * * * One of the tickets is for $830.77 from the Eden Roc Hotel in Miami Beach, with no information other than the notation, "IAB Wet Lease." The other two tickets from the Atlanta Hilton for $204.83 and $64.77 respectively each have the notation on them "Lockheed-Georgia." There is no way to * * * establish from the information shown what was actually being done for whatever period of time was involved with either IAB or Lockheed.

LASSITER'S EXPENSES

Although Estes, throughout his memorandums to Lassiter, expressed concern about the possibility of needless trouble with the Internal Revenue Service, he was also saying in effect that the EJA treasurer's office was not sure that these and similar charges to the company were legitimate business expenses.

An analysis performed by the EJA treasurer's office of Lassiter's expenses for calendar year 1968 shows the following:

Expense reports	$11, 662
Air travel	8, 929
Car rentals	1, 035
Aircraft rentals	728
Credit card payments	8, 764
Limousine service	2, 221
Hotels	7, 044
Restaurants	3, 456
Clubs	1, 463
Other	12, 525
Total	57, 827

When these expenses are coupled with his salary of $58,000, Lassiter's cost of EJA for calendar year 1968 comes to $115,827. The EJA treasurer's office compared that total with reports on compensation and expenses of airline presidents filed for the year 1967 with the CAB on form G–42 reports. The comparison shows that Lassiter received $74,380 more than the average paid the chief of eight supplemental air carriers. The average salary paid to these men was $36,409 and their average expenses came to $5,038.

The total of Lassiter's salary and expenses even exceeded by several thousand dollars the combined salaries and expenses for the presidents of Pan American, United Air Lines, and World Airways in 1967. It is interesting to note that the expenses reported for these men did not exceed $7,000 in any one case.

Another part of the Lassiter expense file involved what can only be labeled as a unique arrangement involving a New York City apartment leased by Lassiter personally with what he stated was the approval of Bevan and Hodge, and used intermittently for EJA business purposes.

The rationale for the apartment was based on the idea that EJA conducted much of its business in New York, and although the firm had an office there, it also needed to have an apartment available for business meetings and to accommodate EJA officials when they visited the city for business purposes. The use of a hotel was rejected because it was said that good hotel accommodations were frequently difficult if not impossible to obtain on short notice.

Located at 400 East 56th Street, Lassiter rented the apartment for $635 a month. The rent was billed to EJA, which in turn charged it as a personal expense to Lassiter. He negotiated the purchase of $2,850 worth of used furniture which was paid for and owned by EJA. The furniture was seized by the landlord of its previous owner for nonpayment of rent and in order to free the furniture for use, EJA paid $815 in legal fees and expenses.

Under the terms of an arrangement between Lassiter and EJA, Lassiter was to be paid $50 a day for each day the apartment was used for business purposes.

Construction work was being performed on the building after Lassiter leased the New York apartment. In order to hasten completion of the apartment, he authorized work to be done by EJA personnel and intended EJA to pay the attendant costs. Two EJA employees were flown to New York at various times and before they were through the cost of their labor and other expenses totaled $1,200.40.

Expense reports stating the purpose of the work was to "coordinate EJA facilities," and with Lassiter's signature of approval came to Estes attention. In a memorandum, dated October 23, 1968, to a subordinate, a copy of which went to Lassiter, Estes said:

> * * * the work * * * from everything I can determine had nothing to do with EJA business or property, and since I understand that the work was performed at General Lassiter's personal apartment, the charges should be charged to General Lassiter.
>
> In the future, on items which are not EJA business, will Mr. Jenson [Cal Jensen, director of EJA's Facilities Department] please handle them directly with General Lassiter or whomever the work is being performed for, so that cash requirements

on the part of EJA are not generated in this fashion. We have a trust agreement to live up to involving EJA, the Civil Aeronautics Board, a Detroit bank, and the Penn Central Co. which requires EJA to spend no funds unless they are required to be spent in order to "maintain the status quo."

To say the least, the arrangement under which Lassiter was renting the apartment and in turn rerenting it to EJA, was a good deal for him. As an example, Lassiter's secretary issued a transmittal slip to the EJA treasurer's department on November 10, 1969, stating:

Attached is a request for a check for $1,400 to cover the stays of those mentioned in the New York apartment since the first of the year.

The bill reflected the use of the apartment by six persons who were either EJA employees or had business connections with the company for 28 days during the first 4 months of 1969. Apparently Lassiter thought that the apartment service to EJA had even greater value to the firm because his secretary wrote in the transmittal slip:

General has decided that payment in the future will be made on the basis of man-days rather than the procedure we have been using.

In effect, Lassiter intended to raise the rent to an astronomical level. Under his proposal it would have cost EJA $50 per day per man for use of the apartment. Two men occupying the apartment for 5 days would have cost EJA the sum of $500.

The game plan on the apartment also included another stage, indicated in Lassiter's testimony when a deposition was taken from him in the fall of 1970 in connection with litigation following the Sundlun takeover of EJA. The pertinent material in that document reads as follows:

Question. I am going to show you a document entitled "Request for a check" dated September 24, 1969, and ask you if you can identify that and the signature on it. Is the signature your signature?

Answer. Yes, it is.

Question. Plaintiff's exhibit 26 for identification is a request for a check apparently in the amount of $2,000 as follows: General Lassiter is to receive $1,000 when the New York apartment is utilized for 1 or more days during the course of any given month. Attached is a complete breakdown for the month of August and September through the ninth of the month. We are, therefore, requesting payment for the month of August and September, $2,000.

Can you explain this language in this request for a check signed by you in the light of your testimony that you only should receive $50 a night?

Answer. Well, it's simple * * * $50 a night per person [using] the apartment is reasonable * * * but a minimum of a thousand dollars a month which was my expense. That was a minimum expense no matter if no one stayed there at all. There was furniture purchased, et cetera. * * *

Question. Who paid for the furniture in the apartment?

Answer. $2,800 of it was paid by the company. $18,000 to do the rest was done by me.

No explanation of the $18,000 investment is given.

The following is a summary of authorized and unauthorized EJA expenditures connected with Lassiter's New York apartment for the 30-month period ending June 30, 1970. The data was compiled for EJA by Lybrand, Ross Brothers, and Montgomery, certified public accountants.

SCHEDULE II.—NEW YORK CITY APARTMENT—O. F. LASSITER

Description	Year ended Dec. 31— 1968 Amount paid [1]	1968 Amount Authorized [2]	1969 Amount paid [1]	1969 Amount authorized [2]	6 months ended June 30, 1970 Amount paid [1]	6 months ended June 30, 1970 Amount authorized [2]	Total Amount paid [1]	Total Amount authorized [2]
October–December 1968: 19 days occupancy at $50 per day	$950	$950					$950	$950
January–June 1969:								
103 man-days based on $50 per day per person occupancy			$5,150				5,150	
72 days occupancy at $50 per day				$3,600				3,600
July–December 1969:								
$1,000 per month each month utilized for 1 day or more			6,000				6,000	
57 days occupancy at $50 per day				2,850				2,850
January–March 1970:								
$1,000 per month each month utilized for 1 day or more					$3,000		3,000	
24 days occupancy at $50 per day						$1,200		1,200
April and May 1970:								
84 man-days based on $50 per day per person occupancy					4,200		4,200	
44 days occupancy at $50 per day						2,200		2,200
Total	950	950	11,150	6,450	7,200	3,400	19,300	10,800

[1] Payments made directly to O. F. Lassiter, at his request, for use of New York apartment.
[2] On Jan. 31, 1969, the board of directors approved expenses attendant to the New York apartment at the rate of $50 per day.

Estes wrote a second memorandum to his subordinate on October 23, 1968, to block the possibility of EJA payment for work done on a home which Lassiter had recently purchased in Miami. Performed by EJA employees who were flown to Miami, the work cost totaled $1,241.24. Again the expense reports came through with the stated purpose of "coordinating EJA facilities," and again they carried Lassiter's signature of approval.

Not only did Lassiter want EJA to pay for work done on the house, he wanted the company to pay the expense of moving his wife to Miami as well. On October 31, 1968, Estes wrote a memorandum to Lassiter, saying:

Dick, the attached invoice for $3,077.05 from Allied Van Lines for moving your household effects from Columbus to Miami recently in no way can be construed as and EJA expense. The only justifiable means of processing this invoice through EJA is to book it as additional income to you and report it in that fashion in the proper manner to Internal Revenue Service.

Another highwater mark was reached the following month in the Lassiter-EJA expense account battle. John H. Perdue, an EJA treasurer's department employee who felt he had been thrust into the middle of the fight was trying to defend himself, when he wrote to Estes:

This will confirm various conversations relative to deductions from General Lassiter's checks for items billed to him on his personal account and such items as outlined in your letters of October 23, 1968. [The memorandum dealing with the New York apartment and Miami moving expenses.] We have been deducting invoices billed to General Lassiter from the $1,500 expense allowance given to him each month.

I have been told by General Lassiter that no deductions are to be made from the $1,500 expense allowance check. In no uncertain terms, I have been told that this check is to be given to him intact.

I am passing this information on to you so you will be fully aware of the position I am in.

Nine days later, on November 22, 1968, Estes shot off the following memorandum to Lassiter:

Approximately 8 months ago you indicated to me that you would prefer to have personal charges which have been paid by EJA invoiced to you, rather than deducted from your $1,500 per month expense allowance. We began doing that but we never received payments from you for items charged to you on an EJA invoice. Therefore, several months ago, I instructed John Perdue to resume the practice of deducting such items from your monthly expense allowance. Without such a procedure the accounts receivable from you would continue to build up into many thousands of dollars.

As a result of your instructions to John, items chargeable to you personally have accumulated to nearly $5,000 while at the same time you have recently approved and sent through for payment an additional $337 worth of charges which are personal. These include a doctor's bill of yours for $20, two doctor's bills for Helene Falk [an EJA employee and friend of Lassiter's] for $32, over $250 in items for your New York apartment such as carpet installation, coffeemaker, iron, toaster, waffle baker, towels, and so on. The payment requests mentioned above were sent to us in the normal "EJA expense" manner, whereas they are clearly personal charges and should be paid directly by you without involving EJA funds, the Detroit Bank Trusteeship, and so on.

In the light of everything mentioned in this memo as well as all of EJA's other problems, I refer your attention to purchase requisition No. 8945, approved by you, attached. It requests the purchase of one Model No. 1GP3200W 32, "The Diplomat Classic Globe" (same as the one in your office) at a cost of $800, to be shipped to General Hodge in New Jersey. Will you please advise whether it is your intention for this globe to be billed to General Hodge, paid for by you, or charged to EJA expense? If the latter, how do we justify it to the trustee of the voting and liquidating trust as necessary to maintain the status quo?

CORPORATE WASTE

The case of N366EJ

Other interoffice battles were also taking place at Columbus, among them ones centering on Lassiter's decisions to develop a highly sophisticated electronics system for Lear jets and to purchase a four-engine, 10-passenger Lockheed Jetstar.

Designated N 366 EJ, the Lear in question had "Gen. O. F. Lassiter" painted on its side and was heavily used by Lassiter for administrative flights around the country. In January of 1968, N 366 EJ was rolled into the EJA hangar at Columbus and work was planned to make it one of the most, if not the most, electronically complete aircraft of its kind in the world.

The concept, with Lassiter as its chief originator, involved the installation of a vast array of electronic gear provided by the Collins Radio Co. EJA was to use N 366 EJ as a prototype and tentatively planned to modify additional fleet units in the future as well as install the package for other privately owned Lear jets.

On April 5, 1968, Conace surveyed a number of EJA executives about the N 366 EJ program. Estes sent back the following comment:

I question the economic feasibility of this whole project, without challenging whether it is required from an operational or maintenance standpoint. I don't see how we can recover our investment unless we fly 21,000 statute miles per year additional (over everything already projected) for each aircraft of EJA we modify, or it would take an increase of 10 cents per revenue mile for the life of the aircraft to recoup the cost of this installation. Therefore, the decision to go ahead with the project depends primarily on,

(1) Whether other Lear jet owners would pay 20 percent or so of the original cost of the aircraft for this modification (seems doubtful).

(2) Whether it is required for operation or maintenance purposes.

An EJA document states that:

As of the 28th day of January 1969 the man-hours utilized in aircraft N 366 EJ to convert the aircraft to category II configuration, and to have this Lear Jet the most modern and up-to-date business jet in being has cost Executive Jet Aviation, Inc., a total of 8,394.3 man-hours, of which 5,189.5 were from other modifications being accomplished on the aircraft.

The value of the equipment being installed is approximately $166,000.

The document showed that the labor cost EJA $35,674.50 and that 30 hours of flying time at $200 an hour cost an additional $6,000 for a total of $41,000 directly financed by EJA.

Sources at EJA told staff investigators that the FAA never approved of the modification "because the work was not done in the right way." The agency did, however, say that N 366 EJ could be returned to normal service if it was restored to its original condition—something that would have cost $100,000. Rather than incur these additional costs, EJA returned the electronic equipment used for the modification to Collins Radio and sold the plane for $275,000, slightly less than half of what it cost new.

All in all EJA's losses on the plane totaled more than $300,000.

The Jetstar case

The Lockheed Jetstar was delivered in October of 1967, despite well established and solid EJA staff opposition to Lassiter regarding the need for such a plane.

More than a year earlier, on September 2, 1966, W. C. Lewis, then director of marketing for EJA, circulated a memorandum to Lassiter and other EJA staff members, laying out the following case against taking the Jetstar:

Early in 1964, you [Lassiter] asked me to prepare and submit a cost study of various business aircraft particularly in the turbine field. When the study was completed I had operating figures from Hercules Powder, Celanese Corp., Corning Glass, and Texaco in the Jetstar category. * * * The lowest, and I repeat, the lowest cost per operating mile was approximately $2.90, with the highest running $3.50, and the average of all of them about $3.20. This is for every single mile flown regardless of the nature or character of the trip. It costs $45 to make a 15-mile circle of an airport or $45 to fly from Newark to JFK with 10 passengers.

On today's flight schedule, we are making a trip for Norfolk & Western from Billings, Mont., to St. Louis. The aircraft we are using is positioned in Chicago. Let us assume that we will charge $3 per mile for positioning and deadhead and $3.50 per mile live. It would be necessary to charge $3,255 for positioning, $3,752 for the live mileage, and $1,305 to return the airplane to Columbus (certainly you will agree that we must charge for all miles in this airplane). The trip, therefore, costs Norfolk & Western $8,312. Dick, I just don't believe that we can keep a Jetstar that busy. A couple of months ago I sent a memo to each sales office asking them to sample their markets as to who might be possible Jetstar users. [Five regional sales office representatives replied in the negative, one did not reply at all.] In a meeting earlier this year, you agreed to my suggestion that we not purchase a Lockheed Jetstar unless we had it firmly committed, and the purchase of a Jetstar on speculation places an unjust and insupportable burden on your sales department simply because 90 percent of the people who can afford Jetstar prices already own one.

On October 18, 1966, the following month, Sam A. Hartwell, a Glore Forgan vice president and then a member of the EJA board, wrote a memorandum suggesting certain steps that could be taken to achieve economies in EJA. The memorandum was circulated among EJA executives and, because one copy was initialed "CJH" (Charles J. Hodge) it was apparently also distributed to EJA board members. In that memorandum Hartwell wrote:

> There is unanimous opinion, throughout the organization, that we should kill the Jetstar. The marketing people are against it as well as the finance people.

Despite this advice, Lassiter in a letter to Hodge dated May 26, 1967, said:

> There is strong interest on the part of Weyerhauser Timber Co. to lease a Jetstar with an EJA furnished crew for a period of 6 months * * * We hope to make a profit on the Weyerhauser deal of about $7,000 per month, or a total of $42,000. Assuming that the deal goes through, Lockheed will then use our Jetstar as their demonstrator for the 6 months period or until we have CAB approval to operate it in our regular service. This way it won't cost us any money until we have the operating rights.
>
> I think the Jetstar is an important addition to our fleet, as well as being a prestige item, and I believe we will derive substantial profit from its operation. Further, Lockheed has agreed to protect us from incurring any expense until we have the right to operate the airplane.

The plane arrived with an interior decorated in Pennsylvania Railroad red, so certain was Lassiter that the aircraft would receive heavy use by the PRR. But as it turned out, no one used it very much and before the plan was sold 16 months later EJA suffered a loss of approximately $480,000. Part of the total Jetstar loss was incurred because EJA ended up selling the plane for $96,000 less than the price it had to pay in order to dissolve its lease. Sale of the plane occurred in March of 1969.

A few weeks earlier, on January 27, 1969, Lassiter issued a memorandum to EJA executives indicating he was going to tighten up on spending. The memorandum states:

> My attention for some time has of necessity been primarily focused upon company financial matters and the CAB hearing. This resulted in frequent and sometimes lengthy absences from Columbus, thus precluding my keeping as closely in touch with some of the other facets of the business as I would ordinarily do.
>
> Now, in order that I may be more intimately aware of what is taking place, my specific approval will be obtained prior to an employee taking any of the actions that follow:
>
> 1. All expenditures and/or obligations of company funds in excess of $1,000.
> 2. Expenditures and/or obligations of the company funds for property or services in any amount of those items that are "nice to have" but not essential for conducting company business.
> 3. Employment, separation, and pay changes of personnel.
> 4. Utilizing company aircraft for administrative or personal flights.
> 5. Ferrying company aircraft for operations or maintenance where other than crew members are to be carried.
> 6. Traveling at company expense. Crew members exempted.
>
> In the event I am not present at the office, requisitions and/or requests in writing will be given to my office personnel, who will contact me for approval.

The Saga of Soga

That memorandum was written during the period in EJA's history when what has been called The Saga of Soga, had reached a high point. The title was invented by Conace for a one page report to his files. The report reads as follows:

Wally Soga was placed on the payroll of EJA on June 17, 1968, at $700 per month, which, when fringe benefits are added equates to about $800 per month. His title is director of physical training. His pedigree is indicated on the attached announcement of the EJA Health Spa.

That announcement was in the form of a memorandum from Lassiter to all EJA employees, dated February 11, 1969, and reads:

The EJA Health Club is an attractive and superbly equipped facility under the direction of Mr. Wally Soga, a nationally recognized authority on physical culture. He holds a fourth degree black belt in judo and was assistant coach and trainer for the U.S. International Judo Team, Pan Am Judo Team, and Olympic Judo Team. The exercise room contains the best obtainable weights and other exercise equipment (privately owned but available for use of members). Showers and sauna baths will be available in the near future.

Showers and sauna baths were, in fact, made available in the near future.

Lassiter's memorandum continues:

In an effort to retain the services of our director (whose reasonable salary is our principal club expense) it has been proposed that we establish minimum level charges for membership. [The rates ranged from $3 to $5 a month for employees.]

The following facilities and services will be available to members and their dependents:

Weight gaining and reducing exercise program on an individual basis, sauna health baths and showers, massage on an appointment basis, handball, squash, and paddleball court, classes in handball, judo, tennis, etc., will be conducted if sufficient people are interested. Members will be canvassed in respect to the requirements (charges) for these activities.

I hope we can get maximum participation in this activity. The President of the United States and the medical community have emphasized the importance to the country and to one's personal physical health and well being, of participating in a regular program of physical activity. I strongly support this program and urge your support.

Please fill in the blank below if you are interested in this program.

Back to Conace's Saga of Soga report:

The gymnasium was completed at a cost of several thousand dollars, none of which was budgeted, most costs being "buried" in other accounts. It is now in business, complete with rub down table, baby oil, baby powder and all the paraphenalia germane to a massage room, all of which were paid for by the company.

On January 30, 1969 [11 days prior to Lassiter's memorandum] action was initiated to terminate Mr. Soga, but then suspended. See attached memo by Gordon Shaffer, personnel director * * *.

The memorandum, written January 13, 1969, by Shaffer to Lassiter, reads:

This will confirm our meeting and discussions on January 30 and on February 6 concerning Mr. Wally Soga. On January 30, I was requested to provide Mr. Soga with a letter informing him that he was being laid off. Since there was a vacancy in the supply department, it was decided to delay his February 1 layoff and temporarily utilize him until the supply vacancy could be filled. The vacancy was filled on February 6 at $2.50 an hour.

On February 6 you and I reviewed the present job openings with the objective of placing Mr. Soga in another position for which he would be qualified at or near his present salary. There are still no positions available and it looks doubtful that any positions will materialize in the near future. Therefore in view of these circumstances I would appreciate your advice on whether or not Mr. Soga should be retained on the payroll at this time and if so, at what salary.

Once again, back to Conace's report:

The health spa announcement was issued on February 11, [1969]. Its fallacy is obvious, since to defray its monthly cost will require every business jet employee, including those away from Columbus, to be a member at the rates quoted. Membership of this size would quickly overtax the facilities, unless employees were allowed time off during working hours to use them, which would, of course, increase the overall cost to the company.

On February 13, the vice president of maintenance and engineering was requested [by Lassiter] to place Mr. Soga on the maintenance payroll because of "personal obligation." There's no requirement for additional help in maintenance fitting Mr. Soga's qualifications, and his salary is equivalent to that of an aircraft inspector for which he is not qualified. Further, that department harbors no illusions about his availability for continuous duty in the maintenance area since he would be detached for gymnasium duty at will, thereby disrupting the work proficiency as well as the morale of the rest of the force. This is the history of (Cal) Jensen who was hired as a first officer on Lear jets, was seldom available, and ended up as a sometimes available EJA facilities manager, recently changed to director of civil engineering and real estate. How quaint! It was also the history of a few other employees of both sexes.

One of those other employees was retired Canadian Air Vice Marshall A. F. Lang who was employed by EJA on July 15, 1965, and was paid as a full-time employee at $1,300 a month for the next 6 months. During this period, Lang's most notable assignment was to investigate establishment of an EJA business jet operation in Canada. He returned after a short absence to announce that the situation did not look favorable inasmuch as Canadian law required such an operation to be controlled by Canadian citizens, something that could have been determined while sitting in the EJA office in Columbus. Lang was later employed on a retainer basis at $125 a month. He was, according to his contract, to "be available on a 24-hour basis for assignments," whereupon he would be paid the assignment rate of compensation. The call for assignment never came during the following 10 months he was on the EJA roster. Lang departed EJA after having been paid a total of $11,407.72.

Another case in point involves a former EJA secretary which inspired the following memorandum from Conace to Lassiter, dated March 25, 1968:

We have a situation brewing now which has created a wave of dismay throughout the company and yet, I don't think that the many employees who are concerned will express their feelings to you. Since we have been friends for many years, Dick, I feel obligated to call it to your attention.

I am referring to the recent rehiring of Rhea Sauselen as secretary at $350 per month after she had been discharged for cause from her previous position of clerk-typist at $275 per month. I know nothing about the pros and cons of the action, and I assure you that all reactions were spontaneous and voluntary, with no canvassing whatever on my part. The specific points of dismay are:

1. Her hiring was preceded by several contacts by Jensen in an attempt to "peddle" her services.
2. She is not qualified as a secretary.
3. She was hired at $75 more than her previous salary, which she presumably didn't earn.
4. She made her own payroll change form and "walked it through," the only signature on it being yours when it was handed to accounting.

The credibility of our persistent cost control effort suffers seriously in a situation of this type, and the morale of employees who stick with us while feeling underpaid also suffers. The way they look at it, $350 per month would provide a 15 cent per hour raise or a $25 per month raise to 14 people. As you know, our employee turnover rate is now approaching 100 percent and no company can possibly sustain this rate very long and survive.

Aside from the above, Dick, which is intended purely as a report, there is something even more insidious which should concern you. The effectiveness of your supervision can be destroyed by such incidents, and we will end up with anarchy and organizational chaos. My greatest concern is that the result will be a fertile climate for union organizers who may someday strike without warning and we'll never know what hit us. No one man can develop personal allegiance strong enough to combat a union, but effective supervision and high morale and esprit de corps can.

Apparently Conace's memorandum had little, if any, effect. Six months later, on October 10, 1968, in a memorandum to Lassiter, Jensen requested and received approval for certain organizational changes at EJA. The memorandum is as follows:

I request the following changes be made in the Executive Jet Aviation Roster.
Facilities Department (changed to) Engineering & Real Estate.
Calvin Jensen (be given the title of) director of civil engineering.
Rhea Sauselen (be designated) secretary.
George Young (be designated) supervisor.

DETERIORATING MORALE

Incidents that may have contributed to what Estes described as "deteriorating morale" among members of the EJA staff include certain aspects of Lassiter's personal life. It was common knowledge in the Columbus office that the company's chief executive developed a number of friendships with EJA stewardesses and office personnel. The women in question were known to have taken trips to New York and to Europe with Lassiter, and to have spent considerable amounts of time away from their jobs while they were on the EJA payroll. In the case of at least two stewardesses, the time they were spending with Lassiter increasingly prevented them from showing up for work and they were finally discharged at the insistence of other EJA executives.

Lassiter's friendship with Linda Vaughn is another case in point, but in this instance one that is now known not only by the EJA staff but by the entire Nation as well. Miss Vaughn is employed by the public relations department of the Hurst Performance Products Co., Westminster, Pa., and is widely known in auto racing circles as "Miss Hurst Golden Shifter." One of her assignments is to ride around race tracks on a large replica of a floor-mounted automobile gear shift lever prior to the start of competition. Her connection with Lassiter was disclosed in an article which appeared in the April 1970 issue of *Car and Driver* magazine.

When interviewed by staff investigators, Miss Vaughn described herself as having been engaged in 1968 to Lassiter after meeting him at the Indianapolis 500 in 1967. Her recollections of their relationship include numerous instances when Lassiter, flying in EJA planes, visited her during racing events at various locations around the country. Miss Vaughn also said she took two trips to Europe at EJA expense in 1968 to help promote the use of IAB by firms and individuals involved in European and American auto racing. Her reasons for making the trips appear questionable considering her position with and duties performed for Hurst Performance Products. In addition, there were a number of instances when she was flown without cost aboard EJA planes to and from her home in Georgia and to Nassau.

Lassiter's current fiancee, Helene Falk, came from the ranks of IAB stewardesses employed by EJA under its wet lease contract with the Nassau based airline. Miss Falk was "hired away" from IAB by Lassiter and installed as an EJA secretary in New York. Later she was placed on leave of absence without pay status and was given title to a $116,000 home which Lassiter purchased in Beverly Hills, Calif., in connection with his efforts to establish the Lassiter Aircraft Corp. in nearby Culver City, Calif. EJA money was used to purchase the home.

The history of Lassiter's friendships with a variety of women in recent years is chronicled in hundreds of colored photographic prints and transparencies, the cost of which was charged by Lassiter to EJA and which EJA in turn endeavored to have Lassiter pay. The photographs, many of which show undraped women, were kept on the EJA premises and were seized in the Sundlun takeover.

A final example regarding circumstances tending to demoralize the EJA staff is the case of Barry Mahon, a self described "nudie film maker" and personal friend of Lassiter. Mahon is now producing children's movies in southern Florida—"Thumbelina" being one of his latest efforts. The chronicle of the Barry Mahon account is contained in the following EJA correspondence, beginning with a memorandum written by R. A. Korn, an EJA employee, to Lassiter, dated January 26, 1967:

> Presently, Barry Mahon owes us $4,603.98 and, by his own admission he can't pay us. * * * He called me and advised that he is having difficulty with undistributed motion pictures and asked for some extension of time. * * *

The memorandum was returned to Korn after Lassiter had written the following note at the bottom of the page:

> Korn, I have discussed this with Mahon and given him additional time. I I will handle this account. * * *

Estes took up the case on August 29, 1967, when he wrote a memorandum to Lassiter saying:

> I believe we should pursue payment of this bill. * * * At the present time we have no idea of what his (Mahon's) ability to repay really is because Ralph Korn has not been permitted to follow the usual procedure in bringing about collection. Can we now get your approval to pursue collection of this account * * *?

The same day, August 27, 1967, Lassiter wrote the following to Conace:

> * * * I have told you I would personally handle this account. * * *

On December 12, 1967, Estes wrote to Lassiter:

> * * * This account is now 15 months old and I again request that we be permitted to take whatever action is required to collect. * * *

On December 28, 1967, Mahon wrote a letter to Lassiter in which he said:

> Without a lot of B.S. I would like to reply to your letter of December 21, 1967 which embarrasses me considerably due to our relationship. I certainly understand your position and have not tried to take advantage of it. When this indebtedness was incurred a good portion was based on promotion which I felt at the time had a mutual benefit, such as Life magazine for the Piantinida jump, Charlie Heine with International Latex and a flight from the west coast to St. Louis with a fellow named Shaunessy who is president of a large advertising corporation. Don't misunderstand me, the advantages were mostly mine and at the time we intended to pay within 60 days.
>
> I have never once walked away from a debt, contrary to what others may think. But, several times in my business life I have banked heavily or shall we say gambled on certain happenings which when viewed beforehand seemed very logical and consequently caused certain business decisions to be made. You must be familiar with this as in my limited knowledge of your type of business and from what I've heard you say, events don't always take place as scheduled.
>
> First, in a series of unforeseen events was Nick's death in South Dakota. This not only cost the company $50,000 but the revenues of approximately $100,000 had it been successful.
>
> Second, Hal Evans had given me $100,000 in December and just as we embarked on this project to make television pictures, his wife's estate was attached and so far the money has not been released, even though we have taken legal action.

Third, we entered into a four-picture deal with some clients of Roy Cohen, the original amount being $100,000 and because of Cohen's problems with Internal Revenue and the 5th Avenue Transit Co., the papers were never completed and the escrow was returned to the investors.

All in all, an outlook of $350,000 cash flow plus the resulting profits from such that didn't materialize. Each was a valid contract, each had either been paid to us or was being held in escrow and each blew up.

On the good side, by robbing Peter to pay Paul, I managed to make four exploitation pictures in color, all of which are now finished and will start returning what appears to be over a quarter of a million dollars. As soon as any money comes into my hands that can be spent as I wish, I intend to pay you and several others in full, regardless of what legal pressures have been brought to bear.

Incidentally, until August of this year, no one has ever had to be refused some payment on our outstanding indebtedness. So far, only two people have taken legal action and both of these amounts were not for merchandise or services we received, they were guarantees. In the past, with other companies, I, as executive officer, had to do what I saw fit. In the case of Exploit Films, after Errol Flynn died, and in the case of Cinema Syndicate after the broker misappropriated the proceeds of their public offering.

General, I'm not trying to rationalize the position. When the cash flow is short, I myself take very little out of the business and attempt to disburse the balance fairly to keep things going. I will start sending you as much as I can in January.

Mahon wrote EJA on February 9, 1968:

Please hold this check [a check for $500] until March 1, then deposit.

R. E. Sizmur, EJA's assistant treasurer, wrote to Mahon February 26, 1968:

* * * We are proposing to deposit the check in our account at the end of this week and at this time we request your further check * * *.

On March 14, 1968, Sizmur wrote to Estes:

* * * We received a check early in February from Barry Mahon * * * I have today received from our bank, Mr. Mahon's check marked "returned for insufficient funds * * *"

On March 15, 1968, Estes wrote back:

* * * Suggest you call Barry Mahon and ask him what he intends to do about the check that bounced. Depending on his response, I think we should pursue collection through Furst & Furst * * *.

Sizmur wrote to Estes on April 9, 1968:

I would like your permission to turn the account over to Furst & Furst.

A note at the bottom of the page reads:

Hold off 30 days per OFL. Go ahead, per OFL June 6, 1968.

Sizmur made the following request to Estes on May 29, 1968:

I believe we should waste no further time on this account, but give it to Furst & Furst.

A note at the bottom of the page states:

OFL still says hold.

On June 6, 1968, Richard E. Colley, of General American Credits, Inc., wrote to EJA:

Thank you for this account. Collection procedures have started * * *

The same day American Credit wrote Mahon:

Your past due account has been placed with us for collection. Please remit in full * * *

Later that month—on June 20, 1968, Richard G. Henderson of American Credit, Commercial Division, wrote Sizmur:

Pursuant to our conversation of this date, Mr. Mahon informed me that he had spent this past Sunday in company with your General Lassiter at the races in New York. Mr. Mahon informed me that the General instructed him to disregard our original collection letter and to forward same to him as he would take care of it.

On July 21, 1968, Estes wrote to Lassiter:

Our collection effort on Mahon for $4,400 is stymied by your instructions that collection letter be disregarded and you "would take care of it."

American Credit, gave up the account on August 29, 1968. Henderson wrote to Sizmur:

Since placement of the above styled account for collection on June 15, 1968, we have been restrained from effecting collection."

J. H. Ricciardi, who worked for EJA in the company's New York office in the summer of 1967, was among those EJA employees who noted the unpaid Barry Mahon account and brought it to Lassiter's attention. Ricciardi quoted Lassiter as saying that, "Mahon is important to us for other reasons." Those "other reasons" were never disclosed to the EJA staff.

Mahon told staff investigators in October that he thinks the bill is an unjustified charge but that he will pay it anyway to remove any blot it may have caused to Lassiter's reputation at EJA.

An EJA document titled "Executive Jet Aviation Employee Turnover since February 1965," shows that the turnover within the company ranged from a low of 50 percent in the facilities department, to 107 percent for pilots, to 158 percent in the avionics (electronics) division of the maintenance department to 322 percent in the marketing department. The figures apply to the period ending December 31, 1968.

The document contained the assertion that the cost of this turnover in terms of recruiting, hiring, training, and orientation totaled $1,068,000.

Presentation to the board

Almost all of the items and incidents listed in this section of the staff report were presented in document form to the EJA Board of Directors by Conace, Estes, and Kunkel early in 1969. Their stated purpose was to inform the board about conditions inside EJA, but it is easy to assume that real objective was to have Lassiter removed from the post of EJA's chief administrative executive. The situation was even more complicated by the fact that Lassiter apparently knew what was coming, as indicated by a letter later written to Sundlun by Kunkel and Conace, dated April 8, 1969. (Estes had submitted his resignation late in 1968 with the understanding he would leave EJA the following March):

The pleas of Messrs. Kunkel and Conace are based on the events which transpired on January 19, 1969, and immediately thereafter. Late in the afternoon of the 19th, each of us received a telephone call from General Lassiter in Columbus, advising us that he had conferred by telephone with Mr. Rathbone [an EJA director], and as the result of that conference, it had been agreed that our presence at the January 20 meeting was not required. Since we had reason to believe that this was not an accurate statement of what had transpired, we elected to proceed to New York with the hope that we would there be invited to the meeting, and for the first time be afforded the opportunity to speak freely and present to the board of directors information vital to them to properly discharge their responsibilities.

At New York, after two last minute changes in location of the meeting, we were met at the conference room door and advised by General Lassiter that the board had decided that our presence was not desired, which surprised us since, at the time the meeting had not even started.

Conace, Kunkel, and Estes waited outside the meeting room. Later Rathbone came out to tell them that the board knew they were present and that a special board meeting had been called for January 31, 1969, in the Glore Forgan office in New York so that they could make their presentation. The letter continues:

Our sincere belief is that as the result of the January 31 meeting, the board of directors have been more fully informed than theretofore about the affairs of EJA * * *. Therefore, we are distressed by the punitive action represented by the enclosed invoices, and hope that the board of directors will see fit to direct their cancellation.

The "punitive action" referred to in the letter can be explained by a memorandum written March 24, 1969, by Lassiter to John Perdue in the EJA treasurer's office:

As stated in my memo of March 8, 1969, the trips to New York on January 19, 1969, taken by Messrs. Kunkel, Conace, and Estes were unauthorized. Therefore, the company is not obligated for their expenses even though they may have visited other business in the area.

The invoices of the three state they visited Ledbetter Associates [airplane leasing,] Sperry Rand [backup equipment for an EJA Falcon jet], and the New York EJA office [regarding sales in that office].

The punitive action went a step further. At the April meeting of the EJA board, Lassiter asked for and received approval to demand Kunkel's resignation. Kunkel left the following month.

LASSITER AIRCRAFT CORP.

During 1969 Lassiter formed the Lassiter Aircraft Corp., located at Culver City, Calif. The purpose of the firm was to design and develop an airplane that he said "would do the job for Executive Jet in the best manner possible, an airplane that would have superb performance, cost approximately the same price as the Falcon today and would have cheaper operating costs mainly because we would build airplanes with composite material and the manufacturing would be somewhat automated." By early spring of 1969 "we had a commitment to finance the production of the airplanes."

Details about Lassiter Aircraft and the way it was funded were given by Lassiter in the deposition taken from him in the fall of 1970 in connection with litigation involving the Sundlun takeover of EJA. On this point the deposition reads:

Q. When you say "We" whom do you mean, General Lassiter?

A. Well, myself and the people of the airplane company, Lassiter Aircraft. * * * In addition, they were going to buy Penn Central's shares in Executive Jet.

Q. Who is this that you are referring to when you say "They"?

A. Well, it is a group from the Far East that do not want to be identified. Then the Far East situation got more critical and the thing kept getting delayed and delayed. By this time I put some money of my own into the project. That is how it originally got going. I had quite a few people who spent their off-time from various companies.

Q. What time are you referring to now?

A. Oh, I'd say after March or April [1969] that we actively pursued the project. * * * The key staff [of EJA] thought it was mandatory for survival of Executive Jet to keep this project going.

I spent most of my time and effort trying to sell the Penn Central shares [in EJA] or have someone buy them. I briefed many corporations. * * * Without the airplane company they had very little interest in Executive Jet but they saw a great future for this new [airplane production] technique.

The financing that was promised by this mid-East group * * * continued to be delayed. In order to keep the program going, I talked to General Swancutt and tried to get hold of [Sundlun] but he was never available. * * * I'd say at least two dozen times he was unavailable.

Q. What time are you referring to when you spoke to General Swancutt?

A. In the summer of 1969. It was in the best interest of Executive Jet to support this program for the reason that I have just outlined, but in order to do it we'd have to give Executive Jet some consideration. The [EJA] executive committee—in the absence of Mr. Sundlun, Swancutt and I are the other two members of the executive committee—[decided] to go ahead and pump some funds into this thing until it was financed. In the beginning they were modest amounts. This is the way it started * * *.

*Q. * * * You said you could see that Executive Jet would have to get some consideration for this?*

A. Yes.

Q. What was that?

A. For this they would have the first refusal for these advances. They would have the first refusal on the franchise of the worldwide marketing for sales, service, and parts.

Q. You are referring to a contract now?

A. No. There was no written contract. This was just an agreement.

Q. Who was the agreement between, what people?

A. Well, myself as principal of the airplane company and General Swancutt as principal of Executive Jet.

*Q. Was there any * * * any kind of written memorandum or other document * * * made of it at the time you say this agreement was entered? * * * Anything which evidences any kind of agreement between Lassiter Aircraft Corp. and Executive Jet as described by General Lassiter * * * that existed in mid-1969?*

A. Yes. It is the brochure outlining the complete concept, organization, cash flow, profit, and so forth, where it commits itself to having this franchise with Executive Jet on a first refusal basis.

Q. When was it first printed?

A. Back in the summer of 1969.

Q. Do you have any copies of that?

A. Yes, and so does Mr. Sundlun.

The executive committee

Q. Was there any acceptance by Executive Jet other than in the brochure to which you refer?

A. Yes, the ratification of the executive committee meeting and the minutes [of the EJA board meeting] on the 27th of June.

Q. In 1970.

A. Yes.

Q. But I am asking you about 1969.

A. Well, the executive committee accepted the agreement for the advances.

Q. Are there minutes of that meeting?

A. I'm not sure. I don't have the records.

Q. Did you ever see minutes of that meeting?

A. I can't answer that question. I don't know.

Q. What is the approximate date of that meeting?

A. In the summer of 1969.

Q. Who was present at the executive committee meeting where the approval of the transaction was tentatively described?

A. General Swancutt and myself.* * * I think Colonel Steinmann was there and Mandish * * * It wasn't just one meeting. It was several meetings.

Q. Who is Mandish?

A. He was the treasurer [replacing Estes].* * * We had been working on an agreement for quite some time with a law firm to establish a more formal first refusal.

Q. Who did that firm represent?
A. They represented me personally.
Q. Am I correct that during this period no one represented Executive Jet in this matter?
A. Yes; General Swancutt did because I deferred from making a commitment since I was involved in the other company.
Q. But no lawyer or law firm represented Executive Jet in connection with the discussion?
A. We attempted to get our counsel [Sundlun], but he was never available.
Q. Did you at any time submit to your counsel any outline or memorandum or summary of a proposed agreement between Lassiter Aircraft and Executive Jet?
A. No. * * * I never submitted it to Mr. Sundlun * * * because I had no confidence [in his firm]. He made so many legal errors in the history of Executive Jet, I went to other people.
*Q. * * * There was no attorney on the other side representing Executive Jet in this matter?*
A. Well, as a major stockholder of Executive Jet I was interested that they get the best deal possible.
Q. So it was just a determination to make advances but in an amount not specified at that time?
A. An amount that was within the authorization of me personally.
Q. What was that amount?
A. $25,000.
Q. Was the decision then to make advances up to but not exceeding $25,000?
A. I think that would be basically the decision.
Q. And Executive Jet was to get in return for this commitment of an amount not exceeding $25,000 a franchise to market the aircraft being developed by Lassiter?
A. Sales, service and parts.
Q. As of the time of the executive committee meeting to which you referred was there a Lassiter Aircraft Corp?
A. I can't answer except [from] my memory. Without having anything to refer to I don't know.
Q. As of the time of the executive committee meeting to which you referred, what was the plan with respect to the stockownership of Lassiter Aircraft Corp.?
A. The financier and myself and some of the directors of Executive Jet. * * * There was no concrete plan because * * * the people putting up the money dictate where the stock goes.
Q. The plan was, in any event, that you would be a substantial stockholder, was it not?
A. I conceived the company and the project just like Executive Jet. Yes, [but] this of course has to be judged by the Civil Aeronautics Board * * * at the the point when it is determined that we are in a phase of aeronautics [and] there has to be some ruling by them of directorship and stock ownership and so forth. * * * We are not in the phase of aeronautics yet.
Q. Are you the owner of all the outstanding stock of Lassiter Aircraft?
A. Yes.
Q. Who holds options of Lassiter Aircraft?
A. There are probably half a dozen people. * * * I can name a couple of them * * * Mr. Fuerst and a gentleman by the name of Leachman.
Q. That's Myron M. Fuerst?
A. Yes.
Q. How did he happen to be an option holder?
A. He loaned money to the company.
Q. How did you happen to get in touch with him in connection with the company?
A. He is the brother-in-law of General Swancutt. I briefed him on the project and he likes the idea.
Q. And the other option holder is Leland Leachman, is he not?
A. If you say so.
Q. How did you happen to get in touch with him?
A. Through Mr. Fuerst.
Q. Do they have any relationship to EJA?
A. No.
Q. Does Swancutt hold any interest in Lassiter Aircraft Corp.?
A. No.
Q. Specifically, has he loaned money to the corporation?
A. Yes, he has. * * * Not to the corporation but to me personally.
Q. Is there any evidence of that loan?
A. There is a demand note * * * [for] $5,000.

Q. Was that money used for the corporation?

A. Well, it's hard to determine whether it is the airplane company or myself. I am paying for the airplane company from my personal checks. I could have used his money for my own personal expenses, I don't know.

Q. I'm going to show you a photostatic copy of the certified copy of the certificate of incorporation of Lassiter Aircraft Corp. indicating that it was filed on September 22, 1969, and ask you if you have ever seen that before.

A. Well, without going through all of it, it appears to be the incorporation of the airplane company.

Q. Was that before or after the executive committee meeting to which you referred?

A. Yes, but * * *. There were people under salary or consultants fees way in advance of this. The project was well underway.

Q. When were the first advances of money by Executive Jet to Lassiter Aircraft Corp., General Lassiter?

A. I would just guess August of 1969.

Q. We have already seen that the corporation was not even incorporated until September of 1969. Were there advances to the project before the corporation was actually formed?

A. Yes.

Q. At that time what security or what evidence of the advances was transmitted by Lasstier Aircraft Corp. to Executive Jet, if any?

A. I can't answer the question. I don't know.

Q. Were there even canceled checks at that time to show to whom the money was advanced?

A. I'm sure there was.

Q. To whom was the money advanced before the corporation was incorporated?

A.* * * It was to the consultants that were assisting in the development of the airplane program.

Q. Did the money go through your personal bank account or how was it handled and distributed to the consultants?

A. I believe it went through the airplane company's bank account.

Q. Well, we have seen that the corporation was not even formed at that time.

A. Then it must have gone through my personal account.

Q. I see. After the corporation was formed were the advances made to the corporation itself?

A. In some cases; in some cases it wasn't.

Q. Were there any papers prepared at that time, that is in August of 1969, when the first advances were made to show whether these advances were loans, or gifts, or purchases of stock, or some other type of disbursement?

A. I don't know how it was handled. All I know is the principal, the principal concept and what was being done * * *. The administration of it I'm not familiar with because I don't have the records * * *. I have characterized it since that time as loans and considered it as an obligation and have signed a note for it and collateralized it with my stock.

Q. What stock are you talking about as being used as collateral?

A. Initially, it was stock in Executive Jet and then it was changed to stock in the airplane company.

Q. Was there a collateral agreement entered into?

A. Well, I think the minutes of the meeting of the 27th outline the whole transaction.

Q. The meeting of 1970?

A. Yes.

Q. Are there any pieces of paper in 1969 that suggest or confirm that there was a collateral agreement?

Delaying a board decision

A. There was a purpose between the board meeting of * * * June 1970, and not having a board meeting to ratify this transaction earlier. This was because there were several eminent transactions that [could result in the sale of] Penn Central's stock and debt in Executive Jet * * *. We were advised by Mr. Sundlun's partner not to do anything until these transactions were completed. Finally in April a man by the name of Zimet made an offer which was consummated in June or in May * * * . The Penn Central shares were sold, new money was put in Executive Jet and a loan of $300,000 was given to me to pay back Executive Jet's $150,000 [advance] and put the other $150,000 into the airplane company. Mr. Zimet was in Europe funding this. The papers were in escrow. Mr. Sundlun's partner, Tirana, was part of the transaction and represented Executive Jet and even assisted me in the drawing up of papers to repay the loan to Executive Jet. Mr. Sundlun's firm was advising us all the time to wait until the completion of these dealings before we have any meetings or annual meeting or put out an annual report because this would affect the company substantially and, therefore, hold up on it * * *. Mr. Zimet still claims he has a deal and is suing the Penn Central and Executive Jet accordingly [because] this transaction has not [been] upheld. Then Mr. O'Herron of the Penn Central sent a wire to Mr. Zimet after he had already funded the project to hold up because of the situation we all knew that happened at Penn Central. Mr. Bevan was released and Saunders, and so forth.

On the one hand we were getting advice from Mr. Sundlun's firm as to what not to do, then they turn around and go to the Detroit Bank & Trust and represent that we had done this on our own volition.

* * * [The] potential purchasers [of Executive Jet] knew that I had borrowed money from the company, from Executive Jet, for the airplane company.

*"Q. * * * Let me once again ask you if during 1969 there was ever any piece of paper prepared which evidences [that in effect] you had supplied collateral to secure the loan from Executive Jet to Lassiter Aircraft Corp.?*

A. I believe there was but I don't know for sure.

"Q. You don't remember signing any stock power or any note which was a collateral note, do you?

A. I turned the stock over to them.

Q. To whom did you deliver it?

A. I delivered it to General Swancutt who in turn delivered it to the treasurer. This was done in 1969.

Q. What stock are you referring to?

A. The [Lassiter] airplane company stock.

Q. In fact, was there any stock of Lassiter Aircraft Corp. issued in 1969?

A. Yes, I believe there was.

*Q. I am going to show you a document which is the annual report of Lassiter Aircraft Corp. * * * dated December 31, 1969, and ask you if you can identify it.*

A. * * * It is an annual report of the Delaware corporation.

Q. [I ask you if] that refreshes your recollection that no stock had been issued by Lassiter Aircraft Corp. at least as of the end of 1969.

A. Yes. It refreshes my recollection. I would like to add it is very difficult for me to remember these exact dates. You people have all the records and I don't have anything to run a memory test from. I know that certainly if it wasn't in the latter stages of 1969 * * * then it was in the early stages of 1970 * * * no later than January.

Q. In any event, there was no Lassiter Aircraft Corp. stock pledged to support any loan from Executive Jet in 1969?

A. No. Executive Jet [stock] was pledged at that time that was the first transaction.

Q. But you don't know of any document that establishes that Executive Jet stock was pledged?

A. Yes, there is a document from Penn Central Railroad requesting that I put the stock, Executive Jet stock, up as collateral.

Q. When was that?

A. * * * Apparently it is in the early part of 1970.

Q. I am going to show you a document which appears to be a photostatic copy of the Lassiter Aircraft Corp. stock records and ask you if the stub there refreshes your recollection that in fact Lassiter Aircraft Corp. stock was not issued in January of 1970 either; no issuance was made until April of 1970.

A. All right. I don't have them [the records] available. I am saying the loan was collateralized by Executive Jet stock from the beginning and placed in the hands of the treasurer.

The Bevan letter

At this point in the proceedings Lassiter was shown a letter from Bevan dated February 27, 1970, to Executive Jet and marked for Lassiter's attention.

Q. The first paragraph reads as follows: "We have just been advised that funds were withdrawn from the account of Executive Jet Aviation, Inc., and deposited in the account of or otherwise used for the benefit of a totally unconnected company, Lassiter Aircraft Corp." Do you know how Mr. Bevan or Penn Central happened to be advised of this?

A. * * * I briefed Mr. Bevan and Mr. O'Herron on the airplane project in 1969.

Q. Did your briefing include a description of the proposed advances and whatever advances have been made there?

A. No. We didn't have plans to make any advances at that time.

Q. When was your briefing?

A. * * * I think it was in the summer of 1969, and that's the best I can remember.

*Q. My question really was directed to whether or not you were the person that brought to the attention of Penn Central the fact that Executive Jet had in fact advanced money to Lassiter Aircraft * * *.*

A. When they asked me I told them that there had been money demands. Whether I was the initial person that told them I don't know.

Q. Had you told them as of the time you received this letter?

A. I told them in advance of this letter * * * As a major stock holder in Executive Jet, I felt obligated to let them know my activities * * *.

Q. Did you inform the directors informally of the nature and extent of the loan as it grew?

A. It's my opinion that I did.

Q. Can you tell us when you informed each of the other directors?

A. I would hesitate to guess.

Q. Did you inform any of them in writing?

A. No. I might add that a lot of our actions in Executive Jet from the beginning, following the example of our secretary and counsel [were informally executed].

Q. Did you inform General Hoisington about this loan?

A. It is my opinion that I did.

Q. Did you inform Mr. France about the loan and the nature and extent of it?

A. Yes.

Q. Do you recall when you informed him?

A. It would be a guess. I would rather for him to testify.

Q. Did you inform him before June of 1970?

A. Yes.

Q. Do you know how much before?

A. No.

Q. The second sentence of Mr. Bevan's letter of February 27 says: "In view of the deficit position of EJA and its substantial indebtedness to one of our subsidiaries, we must demand that immediate steps be taken to assure that Lassiter Aircraft Corp. repays to Executive Jet, Inc., all of the sums involved with interest and that no further loans or advances be made by EJA to Lassiter Aircraft Corp. or to any other party." Was EJA in a deficit position at that time?

A. Yes.

Q. As of the date of this letter, February 27, had Lassiter Aircraft Corp. furnished any sort of security by way of promissory note to Executive Jet?

A. I don't recall the date of the promissory note. I think the note will speak for itself.

Q. I am going to show you a note which is dated October 1, 1969, and ask you if that is the note to which you refer?

A. Yes.

*Q. * * * Do you recall when it was actually prepared?*

A. I would imagine around the date * * *. Part of [the note] was personal expenses that the company [EJA] bills me for things that I did outside of the normal course of business. I think the accounting as of the last time I saw it was $43,000 of the total debt was just personal bills. It had nothing to do with Executive Jet and were not advances, just what I owed the company.

Q. Was this note from Lassiter Aircraft Corp. designed to cover those also?

A. Yes: because I used funds of my own personal salary and so forth to advance to the company to keep it going until it was financed.

Q. The note is in the amount of $135,000. Is that the amount that Lassiter Aircraft Corp., the promissor, owed as of October 1, 1969?

A. I don't know. I would imagine that it would be something approximating that because the ultimate amount was, by the time when we made no more advances, it got up to around $150,000. Obviously this was made in advance of that time.

Q. What was done with the note after it was executed by you on behalf of Lassiter Aircraft Corp.?

A. It was given to Mandish.

Q. Have you ever seen an affidavit prepared by Mr. Mandish in this lawsuit?

A. Yes. I vehemently disagree with it.

Q. You know that Mr. Mandish says that he first saw the note on June 24, 1970, when it was handed to him by General Swancutt?

A. That's incorrect.

*Q. You mentioned that you had collateralized the note initially with Executive Jet stock and later with Lassiter Aircraft stock * * *. Do you know where that collateral is now?*

A.* * * Mr. Sundlun's group moved [in] the Pinkerton guards and took everything and locked the doors—General Swancutt had the document in the New York office in his briefcase * * *.

Q. How did General Swancutt happen to have the collateral for an Executive Jet loan in his briefcase in [June] of 1970?

A. You'd better ask him.

Q. As of the end of 1969, what were the total gross assets of Lassiter Aircraft Corp.?

A. I don't know.

Q. I'm going to show you Plaintiff's exhibit 4 for identification [which] states that the total gross assets of Lassiter Aircraft Corporation as of December 31, 1969, were $13,968. Is it your recollection that this is inaccurate?

A. Yes.

Q. Can you tell us what the total gross assets of Lassiter Aircraft Corp. were at the end of 1969?

A. * * * I would say they were substantially different [than $13,968].

Q. More or less?

A. More.

*Q. I am going to show you a document dated May 7, 1970 * * *. It is a letter from you to Mr. Sidney Zimet, and ask you if you can identify that as a letter that you wrote at or about the date given on it.*

A. Yes.

*Q. General Lassiter, I assume that at the time you prepared this letter the figures you furnished were as correct as you could make them * * *.*

A. I tried to make them as accurate as I could.

Q. So as of May 7, Executive Jet was owed $154,605 by Lassiter Aircraft?

A. Well * * * at a later date I went through it [and found that] I was charged, or the airplane company [was charged] for some expenses for Executive Jet which were withdrawn from this $154,000 and reduced it to something like $149,000 * * *.

Q. Do you know what the $154,000 was used for?

A. I sure do * * * the development of the airplane program.

Q. Was it used for any other purposes?

A. What do you mean by other purposes?

*Q. Let me ask you about one other item * * * expended by Lassiter Aircraft Corp. Down at the bottom is an item, unaccountable out-of-pocket expenses of $50,000. What are those?*

A. I am glad you asked me that question.

Q. I am glad to please you, General Lassiter.

A. I don't know where you gain your knowledge to do any particular project * * *. By and large you do it with association with people who have brains and advanced technology in their particular field. Spending an evening with a guy like Al White, for instance, who flew the first B–70, taking him to dinner, or entertaining him in your house, or spending the weekend with him at the beach, or socializing with the chief engineer of the Boeing Airplane Co. * * *. By and large you don't get there for nothing. You have to entertain people, spend money to get there and expose yourself.

*Q. You have already mentioned * * * you were aware of the limitation on your power to authorize expenditures of $25,000 * * *?*

A. At any one point.

*Q. Did the loans * * * exceed the $25,000 amount at some point?*

A. As I mentioned, the funds expended never exceeded to the best of my knowledge around $5,000 or $10,000, somewhere in that vicinity. It was stretched over a period of several months.

The total of advances

Q. As of May 7, 1970, when you estimated the advances to be in the neighborhood of $150,000, had you received any authority to go beyond $25,000?

A. Yes, from the Executive Committee.

Q. That's from you and Swancutt?

A. That is right.

Q. So General Swancutt participated fully in your plan to continue these advances beyond the $25,000?

A. I think I have already testified that our judgment was substantiated by the potential customers and purchasers, therefore we proceeded.

The following are two schedules compiled by Lybrand, Ross Bros. and Montgomery, CPA, for EJA showing money owed the company by Lassiter Aircraft Corp. and money owed EJA by Lassiter personally:

SCHEDULE VII.—LASSITER AIRCRAFT CORP.

Description	Year ended Dec. 31, 1969	6 months ended June 30, 1970	Total
Cash advances:			
Security Pacific Bank deposit account of Lassiter Aircraft Corp	$40,000	$15,000	$55,000
Mitchell Bobrick	22,000		22,000
O. F. Lassiter		5,000	5,000
Other payments:			
Services rendered:			
Mitchell Bobrick	14,500		14,500
W. C. Lewis	5,000	625	5,625
Gordon Israel	2,000		2,000
Travel expenses:			
W. C. Lewis	3,383		3,383
F. C. Steinman	83		83
C. Jensen	273		273
A. DeBolt		246	246
Miscellaneous:			
Don Winkler Studio	232		232
Loving Chevrolet	575		575
Carte Blanche	31	274	305
Trans World Airlines		924	924
Use of Executive Jet Aviation, Inc., Lear jet at $200 per hour		1,440	1,440
Total	88,077	23,509	111,586

Notes: The above amounts represent an analysis of the balance reflected in the company's records as being a receivable from the Lassiter Aircraft Corp., a nonaffiliated company formed by O. F. Lassiter. Amounts disbursed to Security Pacific Bank, Mitchell Bobrick, and O. F. Lassiter were cash advances. Other disbursements were made in satisfaction of Lassiter Aircraft Corp. obligations.

On Jan. 31, 1969, the board of directors passed the following resolution:

"The powers of each officer of this corporation to act on behalf of the corporation will be limited as follows:

"(i) No expenditures of capital funds other than those included in an approved budget will be authorized for any project amounting to more than $25,000 in the aggregate, whether for a single transaction or a series of transactions involving the same project, without the approval of the full board of directors or the executive committee of the board of directors acting in its place.

"(ii) No personnel shall be hired at a salary in excess of $20,000 per annum without the approval of the board of directors or of the executive committee of the board of directors."

All expenditures listed above were made subsequent to Jan. 31, 1969. No approval for such expenditures was recorded in the board of directors minutes.

SCHEDULE VI.—ACCOUNT RECEIVABLE FROM O. F. LASSITER

Description	Year ended Dec. 31, 1969	6 months ended June 30, 1970	Total
Salary advances [1]	$3,077	$25,000	$28,077
Expense advances		500	500
Payment of personal obligations:			
Oil companies	543	371	914
American Express	1,679	1,879	3,558
Diners Club	1,056	1,421	2,477
Carte Blanche		877	877
Airtravel	1,540	380	1,920
Legal fees	205	350	555
Camera equipment	151		151
Automobile tires	114		114
New York apartment rent advance	318		318
Radio supplies	253	21	274
Kitchen supplies	29		29
Sporting goods equipment		35	35
Sam LaMacchin		450	450
Federal income taxes		5,552	5,552
Credit for expendable tools and photographic equipment owned by O. F. Lassiter and lost by the company		(2,182)	(2,182)
Total	8,965	34,654	43,619

[1] No approval for such advances was recorded in the board of directors minutes.

Note: The above amounts represent an analysis of charges reflected in the company's records as being receivable from O. F. Lassiter. Salary and expense advances were paid directly to O. F. Lassiter. Other amounts represent payments to vendors and others, by the company, deemed to be personal obligations of O. F. Lassiter. Such amounts have been invoiced to O. F. Lassiter by the company and are presented in the period according to invoice date.

The Middle East group

Q. General Lassiter, [*earlier*] *you referred to certain negotiations with a group which you described being from the Far East or from the Middle East?*

A. * * * If I said the Far East it was a mistake.

Q. Who in addition to yourself carried on negotiations with that group?

A. Steinmann was in on the meeting, Arthur De Bolt, General LeMay, Mitchell Bobrick—there were several other people at this meeting * * *. Let me tell you the story then it will ease your mind considerably, I think, as to the legitimacy of the project.

I was approached by a group of people requesting that Executive Jet develop a program for an industry, an aviation industry in the trucial states which includes all of the states around the Persian Gulf * * *. [There was] a representative of the President, the shiek apparently, who wanted to take the money they had developed from the oil business and improve their [country]. One of their problems, of course, is that all the Arab nations have been quite backward in the development of transportation * * *.

The idea was to go in and set up an air university that would include a trade school which would be developing mechanics, the basic labor to support an air industry. The second part of the university would be much like our Air Force Academy that would develop engineers and the technical levels. The third part would be the development of the crews, both flight crews and the air arm, so to speak * * *. This was to be a 25-year program depending on the motivation and the educational level. We would start right from scratch.

The shiek was to come to California and he was to visit Governor Reagan. We were included as part of the party. It wound up to be quite a bit of money. We spent a lot of effort, time, and energy on developing this whole program.

At this time the Middle East problem got rather critical and the unification of these trucial states was having some problems. One thing led to another and we dropped the program * * *.

Q. How did Lassiter Aircraft Corp. fit in?

A. It didn't. That was an Executive Jet project.

*Q. * * * I thought you were referring to a Middle East group with whom you discussed financing for Lassiter Aircraft?*

A. I did * * * the airplane company would be financed * * * we would ultimately move manufacturing into their area.

Q. By "we" you mean Lassiter Aircraft Corp?

A. Yes * * *.

Testimony taken from Lassiter also dealt with $12,000 sum advanced by EJA to provide him with funds for a purchase option on a home.

Q. Do you recall this transaction, General Lassiter?

A. Surely. The headquarters of the airplane company was in Culver City, Calif. We had two offices. One office is the engineering office where we have all engineers, computers, administrative work and so forth. The other office is in my so-called home which we used for practically all of our meetings with potential customers * * *. The concept of making the home a joint office * * * was done on the basis that we did not know where our ultimate headquarters was going to be. As a matter of fact, the plans envisioned the airplane company manufacturing facility to be built at Palomar. That is between San Diego and Los Angeles. We had a verbal option on the purchase of 400 acres of land next to the Palomar airport * * *. The $12,000 was payment for, I think, 6 months lease or something of this nature with an option to purchase.

Q. Was the house eventually purchased by Lassiter Aircraft Corporation?

A. Yes. It was purchased and the guarantee by Lassiter Aircraft Corporation was behind it. It was put in the name of my fiancee Helene Falk * * *. She has legal title. Hopefully (our marriage) will take place soon. It (the house) will be community property then.

Q. When you initially undertook to spend this money on that house had you intended to place it in the name of Helene Falk or in the name of Lassiter Aircraft Corporation?

A. No. I wanted to put it in the airplane company's name, but I was going through a divorce proceeding at that particular time. Just for reasons of my own I just put it in her name.

Q. What was the full purchase price paid for the house?

A. $116,000.

Q. What was the source of these funds, General Lassiter?

A. It's a combination of my own money and advances to the airplane company, or money from the airplane company.

Q. Is there any document that you know of or have seen which suggests that Lassiter Aircraft Corp. has any right to obtain conveyance of the property from Helene Falk?

A. Well, since I own the airplane company and since Miss Falk will be my wife I don't see that that is any problem.

Q. But you know of no such document?

A. I didn't need a document to make a transaction with myself.

Q. Does Helene Falk have any relationship to Lassiter Aircraft Corp. as stockholder, director, officer or employee?

A. She will be a director as soon as we are married.

Q. Does the house appear on the list of moneys expended by Lassiter Aircraft Corp. which you furnished to Mr. Zimet?

A. Yes, because it is included in the total obligation of the $149,000 * * *.

Q. So the house was paid for by advances from Executive Jet solely?

A. Yes. I have said that before.

Q. I must have misunderstood your testimony.

Lassiter Aircraft Corp's payroll

Q. Whose payroll was Mr. [W. C.] Lewis on?

A. Lassiter Aircraft Corp.

Q. Was he also on Executive Jet's payroll?

A. Yes * * * he was hired as an executive assistant to me back in the days when United States Steel and Burlington were [going to purchase] the Penn Central share (of EJA) and we were attempting to become a worldwide freight carrier * * *. I knew that we had to have a general manager for the airplane company. When he was transferred to the west coast I just assumed that [his salary is part of the $149,000 obligation to EJA].

Q. But he was paid from the Executive Jet payroll for a period of time after he began to work for Lassiter Aircraft Corp.?

A. I think there might have been 30 days or so that this happened, it might have been longer but it wasn't much longer than that.

Personal expenses

Q. General Lassiter, during 1969 and 1970 in addition to the salary payments that were due to you and paid to you; did you also receive salary advances?

A. Yes.

Q. Do you know the magnitude of those during 1970?

A. No.

Q. I am going to show you plaintiff's exhibit 1 for identification, which is the Lybrand, Ross Brothers (auditors) letter and direct your attention to page 3, item 2, indicating advance from Executive Jet Aviation, $25,000. Does that accord with your own general recollection of the magnitude of the advances in the first 6 months of 1970?

A. The only thing that I can refer to is the total of $43,000 which represents, as far as my knowledge is concerned, my total obligation to Executive Jet.

Q. Were the salary advances to you authorized by any board action?

A. This is, again, the executive committee authorization for the purpose of development of the airplane * * *.

Q. When you say executive committee authorization, you are referring to yourself and General Swancutt?

A. Yes.

* * * * * * *

The preceding material in this section of the report reveals that EJA was suffering from a chronic administrative problem that if left unchecked would have been, and may yet prove to be, a terminal illness for the company. The fact that Lassiter, the man who fathered the EJA concept and was its chief administrative executive, was responsible for the company's fantastic internal problems is made ironically clear by the examples cited. Indeed, the large and unusual problems that developed within EJA led the staff to decide to tell most of the EJA story in the words of its own documents, or legal documents relating to the company and its personnel to make the report as accurate and convincing as possible.

Once convinced that the material presented here is authentic, the reader must conclude:

Lassiter's poor judgment caused EJA and, therefore, the Pennsylvania Railroad, its stockholders and the banks extending credit to EJA through the Pennsylvania Railroad to lose millions of dollars in wasted financial, material, and human resources.

Lassiter consistently and insistently attempted to palm his monumental living expenses off on EJA through the credit card expense account route.

His conduct, both professional and private, constituted a major, if not the sole, factor in the demoralization of the EJA staff, resulting in an appalling turnover rate.

His decision to transfer funds from EJA to Lassiter Aircraft was, to say the least, highly irregular and questions about the legality of such action cannot be avoided.

Overriding all of this is the fact that David Bevan, the key person keeping EJA alive with a constant flow of money from the PRR, knew much of what was happening and failed to act. His failure to force Lassiter's removal from EJA after recommendations had been repeatedly made for such action and after he discovered Lassiter was transferring EJA funds to Lassiter Aircraft raises questions of the most serious nature regarding the elements of his relationship with Lassiter.

The Ricciardi Case

In October 1970, Lassiter asserted in a legal deposition that, in his opinion, David C. Bevan and Charles J. Hodge had been threatened with public disclosure of certain personal activities which might have proved embarrassing to their reputations. This threat was alleged to have been made in connection with a law suit brought by a former employee of EJA against EJA. The man Lassiter accused of making this threat is J. H. Ricciardi of Miami, Fla.

The record of the circumstances connecting Ricciardi to Lassiter, Bevan, and Hodge is contained in a deposition that was taken under oath from Ricciardi in connection with a $42,000 law suit he filed against EJA for recovery of salary and expenses. The suit was settled in February 1969. Information on this subject was also obtained from a deposition taken from Lassiter in the fall of 1970 in connection with pending litigation following the Sundlun takeover of EJA in the summer of 1970.

What follows is a portion of the testimony contained in the Ricciardi deposition.[1]

In addition, several persons in a position to have knowledge of the facts as stated in the Ricciardi and Lassiter depositions have been interviewed by staff investigators in order to verify the basic facts.

Lassiter and Ricciardi meet

Ricciardi met Lassiter in 1964 when he came to Ricciardi's houseboat in Miami, accompanied by Jane ———. He and Lassiter saw each other socially a number of times in the following 3 years and during these occasions Lassiter discussed the EJA concept with him and asked Ricciardi if he was interested in joining the company.

[1] The identity of the women mentioned in the deposition is known to staff investigators, but the last names of those who have not been otherwise publicly identified have been withheld to prevent needless invasion of their privacy.

Ricciardi did not seriously consider the proposal until June of 1967 when, during a dinner in Miami with Lassiter and Jane ——— and others, he told Lassiter, "Yes, I'm serious about it now. I think maybe we could do something."

Lassiter was not suie what position Ricciardi was best suited for but there was discussion of work in customer and public relations, marketing and sales and personnel recruitment. In describing his background, Ricciardi said that between 1947 and 1967 he had been a real estate developer, a stock broker and owner of a service finance company providing student tuition loans, the owner of charter plane and boat services, the owner of slenderizing salons, the holder of 10 Arthur Murray Dance Studio franchises, an agent for movie companies, a representative of two steamship lines, and a court-appointed assistant trustee in two bankruptcy cases—all of this in Florida, except for one dance studio which was in Mississippi.

On July 5, 1967, Ricciardi, Lassiter and Julian Lifsey took off from Miami aboard an EJA Lear jet, dropped Lifsey off at Tampa and continued on to Columbus where Ricciardi was given a familiarization tour of the EJA facilities by Lassiter. That evening he, Lassiter and Michelle ———, an EJA stewardess, had dinner together in Columbus. The next day the three took a commercial airlines flight to New York City. Lassiter said he wanted Ricciardi to be indoctrinated at the New York office because most of EJA's sales activity at that time was developing there.

The Ricciardi Deposition

Q. Did he [Lassiter] indicate in any way specifically what services you would perform for EJA?

A. It would be one of three [personnel, sales or public relations] or all three at the time.

Q. I understand. But they are fairly broad fields. Marketing is very broad, sales is very broad.

A. Marketing and sales is actually selling.

Q. You would be then soliciting charter business——

A. Yes.

Q. —for EJA. Is that the idea?

A. That's part of it, yes.

Q. What would the other part have been?

A. Personnel. Since I had past experience with personnel in hiring young ladies, I would be very good in hiring . . . stewardesses.

Q. Hiring stewardesses.

A. Yes.

Q. Anything else?

A. And public relations.

Q. By public relations, do you mean preparation of advertising copy or supervision of advertising?

A. Part of advertising, but primarily I would say social engagements.

Q. I don't undsrstand what that means.

A. Well, if I was ever needed to get a group together for cocktails or to help to assist with personnel or possible future customers. I didn't know exactly how it would work.

Q. To put a group together for a party, you mean you would organize a party and rent a hall?

A. I don't know. I didn't know exactly what part of public relations I'd best be suited for.

Q. I still don't understand. I wonder if you would explain to me how your background suited you to organizing parties.

A. Well, I don't know. I've given some very successful parties in the [past] for public relations . . . and he did mention the public relations part of customer relations, that he thought I'd possibly be suited to iron out any difficulties Executive Jet Aviation was having with their clientele, with their contracted customers.

Q. By those difficulties you mean objections to price?

A. Or maybe something that happened during one of the service flights, a complaint.

Q. And you would be the guy who would go and smooth the ruffled feathers of the customers?

A. That's correct. General Lassiter thought I might help in that area.

Ricciardi meets Bevan and Hodge

In describing his activities in New York on the day of arrival, Ricciardi said:

That same day—I'm trying to follow the sequence. General Lassiter wanted me to meet a gentleman called David Bevan of the Pennsylvania Railroad, who is chairman of the executive committee and executive vice president. We went to his private pullman car at the Pennsylvania Railroad."

Q. You mean at the terminal?

A. Yes. He was trying to show me the type of people I'd be associated with.

Q. What transpired at that meeting? First who was present?

A. At first when we arrived there David Bevan was there by himself, and he introduced me.

Q. You, General Lassiter and Bevan.

A. Yes. He introduced me as a new employee of Executive Jet and I'd be in New York and he wanted me to get acquainted with him. And about a half hour later Charlie Hodge joined us.

Q. General Hodge?

A. Yes.

Q. Was General Hodge then in the Army?

A. No.

Q. Glore Forgan.

A. Glore Forgan.

Q. That's four of you now.

A. That's correct.

Q. What was discussed?

A. Oh, they had a discussion. I just sat down and listened to the last statement of Executive Jet and some of the difficulties they were having trying to get out of the red. And then we discussed having cocktails and dinner all together that evening.

Q. And did you?

A. Yes.

Q. Where did you have this?

A. We had dinner at Jose's.

Q. Who was present at dinner?

A. General Lassiter, General Hodge, Dave Bevan, myself and dates.

Q. Everybody had a date? Do you remember their names?

A. General Lassiter was with his girlfriend at the time, Michelle. I had a young lady, Carol ———, with me; and General Hodge and David Bevan had two young ladies. I don't recall their names.

Q. What was discussed at this dinner?

A. Just light chatter, no business.

Q. When was the next occasion when you had any contact with EJA?

A. On the next day I spent the whole day with General Lassiter in the office and at the company apartment, and it was then he said to "Get back to Florida, pick up the rest of your things and come up to New York."

Q. Did you do that?

A. Yes. I left about 2 days later after being in New York, went to Florida for a couple of days and then came back to New York.

Q. Did EJA reimburse you for your expenses in connection with this trip to Florida?

A. They paid my airline ticket, yes, maybe any cab expenses."

Ricciardi's understanding

Ricciardi then described his subleasing of an apartment for himself in New York City.

Q. Were you reimbursed for any of these moneys that you paid for the sublease rental?

A. No.

Q. Was there any understanding that you would be?
A. At the time I assumed I was on salary and I'd be reimbursed for any expenses incurred.
Q. You assumed you were on salary.
A. Yes, because I didn't know how long I was going to be in New York, whether it was a few weeks or a few months.
Q. What salary did you assume you were on?
A. A minimum of $18,000 a year.
Q. Payable how?
A. However the company pays. At the time I believe they paid monthly.
Q. Did you receive this salary?
A. Not while I was in New York.
Q. It was your assumption that you were a salaried employee as of, I guess, that flight to New York? Is that what your testimony is?
A. Yes.
Q. Did you get a salary check in August?
A. No.
Q. Did you get a salary check in September?
A. No.
Q. Did you think you should have?
A. I assumed I should have, yes.
Q. Did you do anything about it at the time?
A. During this period General Lassiter came back and forth to New York about every week or two and it was, I'd say, about a month later I asked him when will I be receiving my salary, and he said—"I'll take care of it." He said, "Don't worry. I'll take care of it."
Q. If you assumed you were to be on salary as a salaried employee, did you assume also that you would be reimbursed for your normal personal living expenses?
A. Yes. He told me to keep expenses down. Those were his words.
Q. During this period in July and August in New York, did you go to the office of EJA on a daily basis?
A. I was there every day.
Q. What did you do there?
A. I primarily was being indoctrinated by the Secretary, who was very capable.
Q. This is Miss ———
A. Korenakas. I listened to everything that was going on, whether it was a personal contact with customers, primarily by listening on the telephone conversations which was at the time approved.
Q. Whose telephone conversations were these?
A. Between primarily Miss Korenakas and any customer, contract customer, who is requesting information, getting ready to sign a contract or renew a contract.
Q. In addition to sitting in the office and listening on the telephone calls and talking to Miss Korenakas, what else did you do?
A. During this period, through General Lassiter's request, I was looking for a company apartment. I had applicants fill out applications and interviewed——
Q. Applicants for what?
A. For airline stewardesses, which I have there, starting with, I think, one in August.

In addition to this work, Ricciardi said he arranged meetings between Lassiter and Hodge and officials of Warner Brothers-Seven Arts in an unsuccessful effort to obtain loan funds totaling $4 million to $5 million for the acquisition of large jet planes and for EJA working capital.

Ricciardi's social arrangements

Q. What else did you do while you were in New York for EJA?
A. I could possibly refer to this as public relations. During the first day I was here in New York General Lassiter said I could be of great, great service to him if I would help in the social life of General Hodge and Dave Bevan, since he [Lassiter] was under a lot of pressure from them due to the company having financial problems in not getting their supplemental ticket, and to possibly alleviate some of the pressure he was under if I could see to it while they [Hodge and Bevan] were in New York and they wanted some companionship, that I do what I could to assist.
Q. Did you do any of this?
A. Yes.

Q. What did you do?

A. On one occasion General Hodge asked if I knew of any young ladies who would go on a business trip to Europe that he was taking with General Lassiter.

Q. And did you tell him that you did?

A. I said I'd see what I could do.

Q. Did you do anything?

A. Yes.

Q. What did you do?

A. I found a young lady that I—that was agreeable to taking a European trip with an amiable group.

Q. Do you know her name?

A. Yes, Helene ———.

Q. Do you know her address?

A. It's, I believe ———.

Q. Do you know her phone number?

A. I don't have it here, but I could get it.

Q. When did this take place?

A. This took place some time, I believe, August, early August or late July. I don't recall.

Q. You say that General Lassiter asked you to do this to take the pressure off him. What pressure was he referring to?

A. He was under pressure from David Bevan, who represented Pennsylvania Railroad and that supplied moneys to start Executive Jet, and they didn't seem to be too happy with the monthly statements. There didn't seem to be any improvement in business and that they were having difficulty with the FAA on acquiring a supplemental certificate and I guess they had to keep pouring more money every month into Executive Jet Aviation, and he felt that if they were socially happy it would take some of the pressure off them and off of him and make them very happy.

Another former EJA employee who was a personal friend of Lassiter's told staff investigators that Lassiter was constantly looking for girls for Bevan and Hodge.

Q. While you were in New York, were there other occasions where you assisted in this regard?

A. That young lady did go with General Hodge, and General Lassiter brought a young lady with him to Europe. I believe it was the same young lady, Michelle. Yes, it was.

Q. How long a trip was it?

A. I'd say approximately a week or 10 days, because I remember that the tickets were acquired through the New York office for everyone.

Q. Did EJA pay the air fare?

A. I believe so, yes.

Q. For all four people?

A. Yes; as far as I recall. In fact, I took a ride—I went to the airport with all of them to see them off.

Q. Were there any other occasions where you performed those public relalions functions?

A. Yes.

Q. This is still in New York?

A. Yes. I would say approximately in August they were acquiring a new Jet Star and they were planning a trip to Las Vegas and Los Angeles, and again General Lassiter asked me if I would find suitable companionship for David Bevan and General Hodge, which I proceeded—I found a couple of young ladies that were willing to take the trip. One was called Beth ———. She was with General Hodge—and a young lady called Corrinne ———. And General Lassiter.

Q. You said General Lassiter and then I——

A. I said General Lassiter was with the young lady, with the same young lady, Michelle. I went by myself.

Q. You were on this trip?

A. Yes. I was asked to go on the trip to get acquainted possibly with the Los Angeles office in the event I was stationed there, and also to assist in any of the social activities because during the stay in Los Angeles the three gentlemen had to make a special trip to Long Beach overnight, a business trip, and they wanted [me] to stay with the young ladies and see that they were suitably entertained that one night that all of them were gone.

Q. About when was this trip?

A. I'd say the latter part of August or possibly early September. I don't recall too well. Maybe it was the latter part of September. It may have been the latter part of September.

Q. But sometime in August or September '67?

A. Yes.

Q. Any other occasions where you performed these public relations functions?

A. During my whole stay in New York I did, on several occasions, have dinner with General Hodge and David Bevan and many times with General Hodge and his date. He seemed to enjoy [the company of] this young lady, Beth ——— very much.

Q. You say these dinners were with Hodge and Bevan?

A. On some occasions the whole group together sometimes with General Hodge.

Q. Any other occasions in New York that you performed these functions?

A. Yes. I once got a date for David Bevan with a young lady called Norma ———.

Q. Do you remember her address and phone?

A. She lives on East ———.

Q. Any others?

A. I don't believe so.

Q. Did you pay for any of the dinners or drinks?

A. No.

Q. Did you pay any moneys to these girls?

A. No.

Q. To your knowledge, did anyone pay any money to these girls?

A. I don't know. They all went their own way so I don't know.

Q. Then it would be fair to say these public relations functions involved fixing up these particular individuals with dates?

A. As I said, General Lassiter said he was doing this himself but he didn't have the time. He told me he had gotten several dates for them in the past but he just was under such pressure with his own business and doing so much that would I please assist him.

Q. During this period in New York, were there any further discussions of your employment with the company in terms of salary or expenses or placement or job or where you would be located, any of those things?

A. On every occasion that General Lassiter came to town, which I would say was approximately every two weeks, I did bring it up and asked him if he had made a decision, because I was getting apprehensive.

Q. Decision as to what?

A. Where I was going to be located, what my position was, when I was going to start realizing some money. And on each—I thought I'd be here only a couple of weeks. And, of course, it was extended to about 14 weeks. And each time he asked me to bear with him because he was under pressure, he didn't know exactly where [what] I'd be best suited for and to just be patient, that everything would work out well.

Q. And as you understood it, you were going to Florida to take over the Flordia office.

A. Correct.

Q. Was the salary fixed at this time?

A. At the time General Lassiter said that all they could pay at the time was, I think, a thousand a month or twelve thousand for the year. I don't recall. It came to a thousand a month. And I said, "How are we going to make up the difference of a minimum of $18,000?" And he said he would take care of it, just again work with him and try to be cooperative with him, but he would take care of all this. The main thing was—he was still under pressure, that they were waiting for a supplemental ticket. He had some way to compute it, how to work it out, how to reimburse me for the difference. I assumed that the job in that area only paid that.

Ricciardi's evaluation

In September 1967, before Ricciardi was transferred to the EJA Fort Lauderdale office, he was sent to Columbus to be evaluated for employment by Conace. In a memorandum addressed "To Whom It May Concern," and dated December 9, 1968, Conace wrote:

At the end of the interview I explained to Mr. Ricciardi that despite his own evaluation of himself, I thought his qualifications as a sales representative were far below that which we had been looking for, and that we already had several sales representatives on our payroll who were performing reasonably well and certainly better than could be expected of him for the foreseeable future, who were earning far less than he suggested ($20,000 per year in Miami). I further explained to him that I could not recommend his being hired by the company, although this was subject to being overruled by General Lassister, but, in any event, the maximum starting salary he could command here was $12,000 per year. Mr. Ricciardi was obviously perturbed by my reaction and advised me that he would have to discuss the matter further with General Lassiter.

Following this interview, I heard nothing further from him nor about him until October 12, 1967, when I was directed by General Lassiter to place him on the payroll at $12,000 per year for employment in the Fort Lauderdale sales office.

Shortly after he was hired, we asked our consultant, Mr. W. W. Abendroth of the Wharton School of Business Administration in Philadelphia (University of Pennsylvania) to interview and evaluate Mr. Ricciardi. Mr. Abendroth's evaluation of Mr. Ricciardi was that he was not qualified as a sales representative for EJA.

In a memorandum dated December 12, 1967, J. K. Wetherbee, then EJA vice president for marketing for EJA, wrote of Ricciardi:

From what I have been able to observe, he is almost completely lacking in sales ability, he does not have contacts with industrial firms, he is not cognizant of the peculiarities of private jet transportation and he does not have the stature to sell contracts to industrial leaders regardless of the geographical location to which he might be assigned. I am concerned about his performance following his receipt of the letter from O. F. Lassiter telling him that he is to report to Mr. Weill [Max Weill, supervisor of the Fort Lauderdale EJA office]—he has not been back to the office from that day to this.

The following section of the transcript contains testimony about the work performed by Ricciardi for EJA in Florida. This included writing business letters, contacting prospective industrial, business, and travel agency customers. It was brought out that at one point Ricciardi was ordered by the EJA headquarters in Columbus to stop approaching business and industrial prospects and concentrate solely on hotels and travel agencies in south Florida. It was also established that during all of the time he worked for EJA, Ricciardi was able to sell only two EJA contracts.

Ricciardi in Florida

Q. What else did you do for EJA in Florida?

A. That was it conclusively.

Q. Did you perform any of what you described in New York as public relations work while you were in Florida?

A. Yes. General Lassiter called me up on a couple of occasions and told me that General Hodge and also Dave Bevan would be visiting in Florida and that while they are there if I could assist in any way in getting them some companionship, to please cooperate.

Q. Did you do that?

A. On one occasion; yes.

Q. When was that, approximately?

A. I'd say approximately October.

Q. Shortly after you got down there?

A. I'd say November.

Q. What was that occasion?

A. General Hodge had called up and asked if I knew of anybody that would like to take a trip to Europe with him.

Q. And did you?

A. I came up with a young lady who was willing to go, and she had lunch with him.

Q. She had lunch with him?

A. Yes.

Q. What was her name?

A. Vonnie ———.

Q. Do you know her address and phone number?

A. I don't have it with me.

Q. Is there something special about Vonnie ———?

A. No, there's nothing.

Q. You said that this Vonnie ——— had lunch with General Hodge.

A. Yes. She spent the afternoon with him having lunch.

Q. Did she go to Europe with him?

A. I don't think so. I know she had agreed to go because he asked me to arrange the transportation. As far as I know, the arrangements were waiting for her to come to New York. I remember purchasing a ticket for her and then her transportation to Europe would continue. But what subsequently happened, I don't know.

Q. Did you pay her any money?

A. No.

Q. To your knowledge, did anybody pay her any money?

A. No, I don't know. I think—yes, she told me that—I think General Hodge told me he gave her money to purchase her ticket to New York, plus expense money.

Q. Any other occasions when you performed these public relations duties in Florida?

A. I think that was it. General Lassiter had one of the girls that applied as a stewardess come to Columbus for a personal interview.

Q. Do you know who that was?

A. Lynn ———. She told me what subsequently happened. He sent her a first-class ticket to Columbus. It was cold that day. He bought her a $100 coat, put her up in a hotel room, had dinner that night. She wanted to go to her home in Toronto. She was flown by Executive Jet to Toronto and she was given a first-class ticket from Toronto to Miami, all at the expense of Executive Jet.

Q. These services you arranged for?

A. No. I just was told about it.

Q. Other than what you have testified to so far today, did you perform any other services of any kind for Executive Jet Aviation?

A. I think that's it.

There follows extensive testimony dealing with Ricciardi's understanding that he was to ultimately receive a salary of $18,000 a year plus expenses while living in New York City and $32,000 worth of stock options. During discussions with Lassiter about money owed to Ricciardi it was agreed that Ricciardi, because of EJA's money problems, would accept payment of $25 a day for his living expenses in New York. The total to be paid him was $2,500. Lassiter later reduced the sum to $1,500.

In October Ricciardi was transferred to Florida to work in EJA's Fort Lauderdale office. It was after the move from New York that the $1,500 figure was stated in a letter written to Ricciardi by Lassiter which had the following postscript:

Charlie mentioned that you had discussed the salary situation with him and were somewhat annoyed. I suggest that matters like this you let me handle.

Ricciardi testified as follows:

Q. Is that General Lassiter's monogram at the bottom?

A. Yes.

Q. Who is Charlie?

A. Charles Hodge, General Hodge. At the time it was taking so long to get any answer from General Lassiter that on a couple of occasions, when I was talking to General Hodge I asked him if he could help expedite it.

Q. He said someone was annoyed. Was he referring to you being annoyed or Hodge being annoyed?

A. I have no idea.

Q. What did you do next about your expenses after you got this letter?

A. I was waiting for my full $2,500.

Q. What you did was nothing?

A. No. In subsequent telephone conversations I told him I wouldn't accept less than 2,500.

Q. That's what I'm asking you. What did you do next? Did you say, "General Lassiter, I want more money," or, "I want my $2,500?"

A. I said I cut it to the bone as it was and I know it must have cost me more than that while I was in New York and I was being reasonable and I think I was only being fair. I was really cooperating with him at the time at his suggestion and I accepted it and here he's trying to cut me down even more, which I thought was unfair. And he said, "All right, we'll straighten it out."

The Fort Lauderdale office of EJA was closed in December 1967, for economic reasons, and Ricciardi was eliminated from the EJA payroll. What happened next is indicated in a letter written January 6, 1969, by Lassiter to Elihu Inselbuch a New York attorney who represented EJA.

Pressure on Lassiter

There were many telephone calls from Ricciardi afterwards * * * Ricciardi started making demands, using threatening overtones. It appeared to me that he was having financial difficulties and saw a possible opportunity for a shakedown. He started talking about $1,000 a week for every week that he worked for us and threatened me by saying that if he were not paid he would disclose to the press certain social arrangements that he had made. His comments were irrational, almost as if he were losing his mind. Finally, I would not accept any of his calls. He went to Charles Hodge and started the same tactics there. Hodge intimated to Ricciardi that he would ask me to settle with him and somehow had gotten up to a figure of $5,000. When Hodge called me, I told him that I would settle with him for exactly what I thought he was worth and that would be paid expenses for the days that he had contributed something to the company. Finally, he annoyed Hodge and myself so much that I contacted an attorney in Florida, Judge Harold Van, who referred me to the former assistant district attorney of Miami, Max B. Kogan. Kogan and I met with Ricciardi and told him that if there were any more threatening calls, we would refer the matter to the DA as extortion. Further, we recommended that if he had a complaint about remuneration for his services, he should take it to a lawyer and handle it as a normal civil case and we would be glad to respond. After his meeting with the lawyer in Miami, he again called Hodge, creating quite a problem by having him called out of an important board meeting on the west coast.* * *

I am concerned only because of our present status with the Civil Aeronautics Board and the hearings that are in progress. Any publicity caused at this time could be quite detrimental. Therefore, it is most desirous that we delay this suit as long as possible. I believe you are aware that we agreed to settle for $2,500, but this was not accepted.

Ricciardi himself admitted to staff investigators that he threatened to call a press conference and detail the "social arrangements." Subsequently, Ricciardi filed suit against EJA.

Lassiter's view of the situation is represented by his testimony given in the fall of 1970 in the deposition taken from him in connection with legal action centering on the Sundlun takeover of EJA the preceding summer.

Lassiter's deposition

Q. Do you recall a trip you took in 1968 to Europe with Mr. Charles Hodge?

A. I took several trips to Europe with Mr. Charles Hodge. I probably took in 1968 two or three trips with General Hodge.

Q. To Europe?

A. Yes.

Q. On one or more of these were you accompanied by girls?

A. Yes * * * There were plenty of females on the airplanes.

Q. In 1968 when you went to Europe with Charles Hodge, on one of the trips you took Michelle——— and Helene ———, did you not?

A. Miss——— worked for Executive Jet.

Q. In what capacity?

A. She was a stewardess.

Q. And did she go on this trip as a stewardess?

A. She went on the trip as inspector of our European facility.

Q. Was she in stewardess' uniform?

A. No, I don't believe she was.

Q. And how about Helene ———?

A. I don't know Helene ———.

Q. Was there another girl on the trip to which you refer where Michelle ——— was along as an inspector?

A. Well, you have to specify the trip.

Q. How many trips did Michelle ——— accompany you to Europe on?

A. One, as I recall.

In response to questions on this subject, Harold E. Wonnell, attorney for Michelle ———, wrote staff investigators stating:

"Miss ——— recalls she went to Europe twice. The first time was in April, 1967, with General Hodge and General Lassiter. The second trip was made July 27, 1967, with General Hodge and General Lassiter and another girl who did not stay with them during their trip to Europe nor did she return with them. Miss ——— does not recall the identity of the other girl. According to Miss ———, both trips were necessitated because General Lassiter was endeavoring to put an airline together."

Q. Was there another girl on that trip?

A. I don't remember on that particular trip whether there was or not.

Q. Who paid Michelle ——— commercial ticket expense to and from Europe?

A. Executive Jet.

Flying to Europe

Lassiter's testimony continued on the following day when additional questions were asked about a trip to Europe with Michelle ——.

Q. General Lassiter, yesterday we were talking about the purpose of one Michelle ——— accompanying you on a trip to Europe in 1967, and you said that she had gone along in order to conduct an inspection. Do you recall what she was inspecting?

A. Surely. We were getting ready to transfer either a Falcon or buy a Falcon or two to put in service in Europe. Miss ——— was the chief stewardess of Executive Jet * * *, manuals have to be written, plans have to be made and this was the purpose she took the trip.

*Q. * * * [It has been brought to my attention that] I misstated the date. I said 1967. I believe you testified yesterday that the trip took place in 1968. Do you recall when——*

A. I didn't testify any such thing as far as the date is concerned. You asked me I believe, such and such a date did I take a trip with somebody, and I'm not testifying as to when it was. I don't know when it was.

Q. Was she actually employed by Executive Jet at the time she took this trip?

A. I believe so.

Q. Do you know when she terminated her employment?

A. No.

Q. According to my records, General Lassiter, she terminated her employment in the spring, specifically on April 30, 1967, and the trip took place in 1968. Does that refresh your recollection?

A. It doesn't change the purpose of the trip. Regardless of when she terminated, she was still a very capable, talented individual, and it would make no difference * * * she would have done the job. She was * * * most capable. She was the first stewardess we had on Executive Jet.

Q. And do you know if Executive Jet paid the expenses of any other girl going to Europe?

A. I can't answer the question. * * * I don't recall.

Q. Is it perfectly possible that Executive Jet paid the expenses of a girl not an employee of Executive Jet for the purpose of going along on that trip?

A. I say unless it was for a special purpose it would be unusual.

Linda Vaughn

Q. Were you accompanied by Linda Vaughn on a trip to Europe in 1969 on Executive Jet business?

A. Yes, I was.

Q. Who paid her expenses?

A. Executive Jet.

Q. And that includes not only her commercial trip over but also her ticket back?

A. There was no Executive Jet payment of Miss Vaughn's trip to Europe back and forth. She went on International (Air) Bahama and there was no charge.

Q. Was she traveling on Executive Jet business?

A. Yes she was.

Q. And what was her assignment?

A. Well, Miss Vaughn * * * is a member of the racing world, pretty well known, and she was accompanying her boss, Mr. Duffy, who was assisting us * * * in the racing world with companies like Fiat and Maserati, and we wound up on a couple of occasions getting substantial business from these people in Europe as a result of their introduction to the racing world.

Q. Was Miss Vaughn on the Executive Jet payroll at that time?
A. No.
Q. Has she ever been?
A. No.
Q. In 1969, did you also take Helene Falk to Europe?
A. On International [Air] Bahama, and it was not paid by Executive Jet.
Q. Did she pay for it?
A. She didn't have to pay for it. She was a stewardess on International [Air] Bahama.
Q. Was she on the International [Air] Bahama payroll at that time?
A. She was on leave and was entitled to free passage.
Q. Did her parents go also?
A. Yes.
Q. Did they pay for the trip?
A. No. The policy of the company is that the stewardesses and their parents on space available can fly in the airplane which is the same policy that every other airline has that I know.
Q. In 1970 did you take a girl to the Plaza Hotel and bill her accomodations at the Plaza Hotel to Executive Jet?
A. Well, I have taken several people several places. The Plaza Hotel? I don't know what you're talking about. Be specific.
Q. I was talking about Drema ———.
A. Miss ——— was an employee of Executive Jet. She was there to assist us in the workload for Executive Jet business.
Q. How long did she stay at the Plaza Hotel?
A. I have no idea.
Q. About a month?
A. I would say if it was over two days it would be strange.
Q. And did you authorize her to charge everything to Executive Jet?
A. As a matter of fact * * * I have paid that bill and it is not Executive Jet that has paid that bill.
Q. Why did you say it was [an] Executive Jet expense?
A. Because it was. But just to keep the thing from being taken out of context like you're trying to present it, I paid the bill.
Q. Did she threaten to sue Executive Jet if her bill was not paid?
A. Not to my knowledge.

Flight to Las Vegas

Q. Did you take a trip to Las Vegas at any time with Hodge and Bevan and some girls and charge it to Executive Jet?
A. Yes.
Q. When was it?
A. I don't remember the date, but it was not charged to Executive Jet. We were running proving runs on the Jet Star.
Q. At Las Vegas?
A. It didn't make any difference where I ran them. We had to fly the airplane 50 hours before we could put it in service, which is an FAA requirement. General Hodge and Mr. Bevan had some company, and it was not charged to Executive Jet.
Q. Who arranged the company for them?
A. You'll have to ask them * * * I'm not sure.
Q. Do you know Beth ———?
A. Yes, I've met Miss ———.
Q. And under what circumstances did you meet her?
A. At a social function.
Q. Did she take a trip on Executive Jet aircraft?
A. I really don't know * * * the name doesn't register. * * *"
*Q. Do you know if she took any trips on Executive Jet aircraft * * *.*
A. I don't even know her.
Q. Who is Joseph Ricciardi?
A. Well, I'm not sure that I can aptly describe him. He was to be an employee of Executive Jet.
Q. What did he do for Executive Jet?
A. Well, he tried to do quite a bit, but he was quite unsuccessful. He was dismissed.
Q. What did you ask him to to do for Executive Jet?
A. To get business as I described to you.

Q. What else?

A. Well, it would depend on whose version you want to listen to.

Q. I would like to hear your version, General Lassiter.

A. I just told you my version.

Q. Did you ask Ricciardi to locate a girl to go to Europe with General Hodge?

A. I didn't ask him; no.

Q. Did anyone on behalf of Executive Jet?

A. Well, you'll have to ask anyone. I don't know.

Q. Do you know?

A. I'm not sure.

Q. Who do you think did it?

A. Well, I said I don't know. I'm not going to make a statement that I am not sure of.

Q. And do you know who he arranged to go to Europe with General Hodge?

A. Oh, I remember that there was someone that he arranged, but I don't remember her name. I never saw her again.

Q. You were along on the trip though, weren't you?

A. Yes.

Q. And her name was Helene ———, wasn't it?

A. I have already answered your question once. I do not know.

Q. Who did you take on the trip with you?

A. Miss Michelle ———.

Q. Miss ———?

A. Went on the trip, I think you said who the other party was. * * *

Q. All right. Did Ricciardi arrange for other girls to accompany Hodge or Bevan?

A. You'll have to ask them.

Q. Well, you know whether he arranged it or not, don't you?

A. No. I don't know for sure what arrangements were made between Hodge and Bevan and Ricciardi. You had better ask them.

*Q. * * * I'm asking you to search your recollection.*

A. I'm not sure.

Q. Did you ask Ricciardi to make these arrangements for you?

A. I can make my own arrangements. I don't have to ask anybody to make my arrangements. To the best of my recollection, the request was made by whomever wanted something done.

Q. Did Ricciardi later take the position that Executive Jet owed him substantial sums of money as a result of his making these arrangements purportedly pursuant to instructions from you?

A. Would you repeat the question? Owed him substantial money for what?

Q. For getting the girls for Bevan and Hodge pursuant to your instructions.

Ricciardi sues

A. Well, he sued the company, and I'm sure you have a copy of the complaint and a deposition. It was a pure case of blackmail. That's my answer.

Q. And the suit was for, among other things, the services which he allegedly performed for you in getting these girls for Bevan and Hodge, was it not?

A. That's untrue. That is incorrect.

Q. This was not part of Ricciardi's allegation?

A. Well, it's part of his allegations, but I'm saying it's not factual.

Q. I see. Now, was that suit settled?

A. Ricciardi withdrew the suit.

Q. And was he paid anything on account of the suit or in connection with the withdrawal of the suit?

A. I believe that he was.

Q. And who paid him?

A. You'll have to ask the people who paid him.

Q. Did you participate in any way in the settlement of that suit?

A. I haven't yet.

Q. And what is your participation?

A. I was to pay a portion of the money that was paid to Ricciardi.

Q. How much were you to pay?

A. $5,000.

Q. And how much was paid by the others?

A. You'll have to ask them.

Q. Do you know?

A. No.

Q. Were you told?
A. No.
Q. You mean that you were advised that your share of the settlement was $5,000 but you weren't told what the others were going to pay?
A. I assume they paid the same amount.
Q. Who were the others who made payments or were to make payments?
A. Hodge and Bevan.
Q. Have they paid their $5,000 each?
A. You'll have to ask them.
Q. Do you know?
A. I do not know.
Q. Was the settlement of the suit pursuant to any written document or release?
A. I can't answer the question. I didn't handle it.
Q. Did you ever see any release or written document which settled the suit?
A. I'm not sure that I did.
Q. Did you sign any document undertaking to make payment of $5,000?
A. I can't answer the question. I don't remember. I wasn't concerned about the suit because it didn't mean anything to me except for the blackmailing of this man against two pretty fine people.
Q. Did Executive Jet pay any part of the settlement?
A. They absolutely did not.
Q. Who was going to pay the $5,000 that you were supposed to pay?
A. I was.
Q. And is that still your intention, that it should be paid by you personally?
A. Executive Jet hasn't paid any money.
Q. Well, neither have you, have you?
A. No, net yet.
Q. Well, where did the money come from that settled the suit?
A. I guess from Hodge and Bevan.
Q. Did any part of it come from Lassiter Aircraft Corp.?
A. No. This is long before then.

Staff investigators asked Ricciardi's law firm, Siegel & Crowe of New York City, whether settlement had been made and, if so, in what amount and by whom. The reply was that settlement had been made by a single check in the amount of $13,000, half of which was retained by the law firm for its services, the remaining $6,500 being turned over to Ricciardi. There was said to be no recollection or record of who made the settlement payment.

Both Sundlun and Conace confirmed Lassiter's statement that EJA had paid nothing in settlement of the Ricciardi suit. When questioned by staff investigators, Hodge denied all of the Ricciardi allegations regarding Ricciardi's efforts to provide him with female companions. Hodge said that he did know Beth ———, but not in the way described by Ricciardi. He also said he was unaware that any settlement of the Ricciardi suit had been made. "I heard the suit was dropped," he said.

Bevan's attorney, Edward C. German, said that Bevan also denied the Ricciardi allegations about providing female companionship for Bevan. German said that Bevan did not contribute to the settlement payment nor does he know who made the payment. Bevan himself was unavailable for questioning on this point, although repeated attempts were made to contact him.

This leaves unanswered the question of who paid the settlement money. However, no other parties, other than those indicated above, have been identified with the suit.

Conclusion

The question cries out to be answered why a man of David Bevan's apparent shrewdness, financial acumen, and reputation in the business world would have continued to have PRR make additional heavy investments in EJA after the CAB proceeding made it amply clear that the flow of funds should have been drastically curtailed; and would have continued to the end to resist having Lassiter removed as chief executive officer of EJA despite the repeated advice of reliable management experts and the firsthand knowledge possessed by him of corporate waste and the disastrous management problems at EJA. In short, Bevan's actions did not make good business sense.

How, then, can it be explained. Under the circumstances, consideration must be given to the possibility that public revelation of certain personal activities that might have been extremely embarrassing to Bevan is inevitably linked to the question of why Bevan acted in the strange way he did throughout the deteriorating EJA catastrophe.