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COMMITTEE PRINT

STAFF INVESTIGATION
RELATING TO THE NOMINATION OF
G. William Miller
TO BE CHAIRMAN OF THE BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

PART 1

CONTAINING SUMMARY OF INVESTIGATION AND TEXT OF
PROCEEDINGS CONDUCTED AT TEXTRON MAIN PLANT, FORT
WORTH, TEXAS, FEBRUARY 2, 3, 4, AND 5, 1978 AND IN WASH-
INGTON, D.C., FEBRUARY 13, 14, 15, AND 17, 1978

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UNITED STATES SENATE



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United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

February 21, 1978

MEMORANDUM

TO: Members of the Senate Committee on Banking,
Housing and Urban Affairs

FROM: Kenneth A. McLean^W Staff Director

RE: Summary of Staff Investigation of \$2.9 Million
Payment by Bell Helicopter

Attached is a summary of the staff's investigation of the \$2.9 million payment by Bell Helicopter to its sales representative in Iran, Air Taxi. This investigation was directed by the Committee in the course of its nomination hearings on Mr. G. William Miller to be a member of the Board of Governors of the Federal Reserve System.

The summary is an attempt to outline the evidence gathered by the staff in the investigation. It is not intended to draw and should not be interpreted as drawing any conclusions about the questions addressed during the course of the investigation.

The exhibits referred to in this summary and in the proceedings which follow are contained in Parts 2 and 3 of this publication.

SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

Summary of Staff Investigation of the \$2.9 Million
Payment by Bell Helicopter

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SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

Summary of Staff Investigation of the \$2.9 Million
Payment by Bell Helicopter

I. INTRODUCTION

On January 24, the Senate Committee on Banking, Housing and Urban Affairs held hearings on the nomination of Mr. G. William Miller to the Board of Governors of the Federal Reserve System. During the course of these hearings, members of the Committee questioned Mr. Miller about a payment of \$2,950,000 which the Bell division of Textron agreed to make to the Air Taxi Company of Iran in June of 1973 in connection with the winding up of that company's services to Bell as its sales agent for military sales to the Government of Iran. During the same period of time, Bell was awarded a contract valued at approximately \$500 million for the sale of helicopters to the Government of Iran.

On the basis of a verbal report received from an agency of the U.S. government, the Chairman of the Committee, Senator William Proxmire, asked Mr. Miller whether he was aware that the real owner of Air Taxi was the late General Mohammed Khatami, then Commander-in-Chief of the Imperial Iranian Air Force. Mr. Miller replied that he had no such knowledge and would not have approved the payment had he known of such a relationship.

Following these discussions, a member of the Committee, Senator John Heinz, asked for an investigation of this payment by the Committee's staff. As Chairman of the Committee, Senator Proxmire agreed to the investigation.

The following report is a summary of the investigation by the Committee's staff into the \$2.9 million payment by Bell. The investigation has been conducted by Charles L. Marinaccio and Bruce F. Freed of the Majority staff, John Collins of the Minority staff, and David Doherty, Associate Director of the Securities and Exchange Commission's Enforcement Division who was temporarily assigned to the Committee staff for the inquiry.

During the course of the investigation the staff took depositions in Fort Worth, Texas, and Washington, D.C. from Bell Helicopter and Textron officials, former Bell Helicopter officials and from a former manufacturers representative of Bell Helicopter in Iran and his lawyer.

Following are the individuals who testified before the Committee staff:

James F. Atkins, President, Bell Helicopter Textron

Frank M. Sylvester, Vice President for International Marketing, Bell Helicopter Textron

John E. Gallagher, Jr., director of operations, Bell Helicopter International; formerly Bell Helicopter sales official involved in Iranian helicopter sales

Charles R. Rudning, President, Bell Operations Corp.; formerly vice president for program management, Bell Helicopter Textron.

Edwin L. Farmer, Vice President for Finance, Bell Helicopter Textron until early 1978.

Thomas Soutter, Vice President and General Counsel, Textron.

George Galerstein, Chief Legal Counsel, Bell Helicopter Textron.

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Dwayne K. Jose, Vice President for Commercial Marketing,
Bell Helicopter Textron

E.J. Ducayet, President, Bell Helicopter Textron (1960 -
1972); Chairman (1972-1973); Member, Board of Directors,
Textron, 1973 - .

James A. Feliton, Area Export Manager for Europe, Africa
and the Middle East, Bell Helicopter Textron (1965-
1967).

William H. French, former Bell Helicopter sales repre-
sentative in Iran, 1964-1967, through his firm,
International Helicopter Consultants.

C. Robert Bell, Wichita, Kansas, lawyer who has represented
Mr. French since the early 1960's.

The Committee staff also asked for affidavits from
members of Textron's Board of Directors and U.S. embassy and
military personnel in Iran between the mid-1960's and 1975
on their knowledge of General Khatami's interest in Air Taxi
and the \$2.9 million payment by Bell Helicopter.

Furthermore, the Committee subpoenaed all documents
from Textron and its Bell Helicopter Division relating in any
way to Air Taxi, General Khatami and the \$2.9 million payment
and has subpoenaed the records of the First National Bank
and Trust Company of Oklahoma City, Oklahoma, and Citibank
N.A. Paris, France, branch*relating to A.H. Zanganeh, managing
director of Air Taxi, and Air Taxi.

The Committee sent letters to the U.S. government
intelligence agencies seeking confirmation of any link that
General Khatami had with Air Taxi between 1959 and 1973.

*Citibank cited French law is the basis for not complying
with the subpoena.

II. BACKGROUND AND CHRONOLOGY

Bell's Foreign Representative System: Bell Helicopter relied on a network of manufacturers representatives to sell its helicopters overseas. The representatives, which numbered from 30 to 50 during the 1960's, were usually natives of the countries in which they operated. In some instances, they would also represent manufacturers of fixed wing aircraft.

Standard Agreements: Foreign agents signed standard manufacturers foreign representative agreements with Bell that established commission fee schedules that would be paid on sales they made. (Ex. 60-62, 84J) The agreements signed by Air Taxi in 1959 and International Helicopter Consultants in 1965 included provisions prohibiting the payment of commissions for sales arranged on a government-to-government basis. (Ex. 60, 84J) However, Bell later changed its policy on commissions on government-to-government sales, allowing them in its 1968 agreement with Air Taxi.

Agency Representatives In Iran:1960 To Present

Air Taxi--1959-1963: In 1959, Bell Helicopter hired Air Taxi Company, a Tehran -- based air charter firm, as its sales representative in Iran. Air Taxi, which also represented other aircraft companies such as Aerocommander, was dropped by Bell in 1963. In their testimony to

Committee staff, Bell officials couldn't recall why Air Taxi was hired in 1959 or terminated in late 1963. The reason, they explained, was that helicopter sales in Iran were negligible during those years.

According to the State Department, General Mohammed Khatami, Commander-in-Chief of the Imperial Iranian Air Force, was listed on public records in Iran as an owner of Air Taxi between 1957 and 1965. (February 16, 1978 letter from Douglas J. Bennet, Jr., Assistant Secretary of State for Congressional Relations, to Kenneth A. McLean, Senate Banking Committee Staff Director)

International Helicopter Consultants--1964-1967: Bell Helicopter switched its sales franchise in Iran in early 1964 to International Helicopter Consultants, a firm that had been Bell's sales agent in Kuwait since 1959 and was representing Cessna Aircraft Company in Iran.

Mr. French said that within two years, he ran afoul of General Khatami, whose influence over aviation matters was growing, and the general had him expelled from Iran in May 1966. C. Robert Bell, a Wichita, Kansas lawyer retained by Mr. French in the early 1960's, said that he and Mr. French asked the State Department for advice in September 1966 on how to deal with the problem and were advised to negotiate "directly with General Khatami." (Bell 966-72 and Ex. 85, 86)

Mr. Bell said he traveled to Iran in October 1966 and met with Dr. Hasaan Safavi, a close associate of General Khatami. The two men agreed to create an Iranian company, Skerkat Sahami Tayar Pars (also known as STP), which would act as Mr. French's representative in Iran, Mr. Bell said. STP's ownership was divided on a 51 percent-49 percent basis between Dr. Safavi who acted as nominee for certain members of the High Council of Civil Aviation, including General Khatami, and Mr. French, Mr. Bell said. The lawyer said that Dr. Safavi "identified himself as speaking for General Khatami" during their discussions. Mr. Bell said General Khatami subsequently gave his blessings to the arrangement. (Bell 976-88)

Mr. Bell said he traveled to Bell Helicopter in Fort Worth, Texas on November 2, 1966 to report on his trip to Bell Helicopter officials. Mr. Bell said he met with E. J. Ducayet, Bell Helicopter's president, and told him of Mr. French's problems with General Khatami. Mr. Ducayet and Dwayne Jose, Bell Helicopter's Vice President for Commercial Marketing, couldn't recall the meeting in their testimony to Committee staff. (Bell 993-1017; Jose 1198-1214; Ducayet 1094-1104; Ex 88-90)

Mr. Bell and Mr. French corresponded with Bell Helicopter officials in 1967 providing additional details on the business arrangement with STP that Bell Helicopter would

be working through In Iran. (Bell 1018-42; Ex. 82, 83, 91, 91A, 93, 95, 96, 97, 102)

Bell Helicopter dropped International Helicopter Consultants as its Iranian agent in late 1967. (Ex. 102)

Air Taxi: 1968- : Mr. Orpen and two other Bell Helicopter officials traveled to Iran in late November 1967 to find a new sales agent. They brought back the name of Air Taxi. Mr. Orpen, who left Bell Helicopter in 1969, said in a telephone interview with the Committee staff that he heard from Mr. French earlier in 1967 that General Khatami had an ownership interest in Air Taxi. He also said he knew before his trip to Iran that there were "some ownership interests in Air Taxi that went up to the Shah's family."

Describing what Bell wanted in a new Iranian representative, Mr. Orpen said, "We looked for someone who had dealings with the royal family. We were looking for potential contacts since the sales of our helicopters are heavily dependent on high-level contacts." Shortly after he returned, Air Taxi was hired by Bell as its agent.

Asked about General Khatami's role, Mr. Orpen said, "Khatami would be important for sales of helicopters to the Army because he had a finger in all aviation except for the Navy. We got that story from General Toufanian."

In early February 1968, Bell asked Air Taxi to become its Iranian agent "based on the favorable recommendations we have received." (Ex. 7) Air Taxi accepted Bell's offer at the end of the month.

Sale of the 489 Helicopters:

1968 - 1973

1968-1969: Air Taxi officials met on many occasions with Generals Toufanian and Khatami to nurture Iranian interest in Bell Helicopter rather than Agusta, Bell's Italian licensee, as the chief provider of helicopters to the Iranian armed forces. During this period, Agusta was the main supplier of Bell helicopters to Iran.

December 1969: The Shah attended a dinner party at the home of General Khatami at which time A. H. Zanganeh, managing director of Air Taxi, showed a Bell Helicopter film on Bell's Huey Cobra gunship. Mr. Zanganeh, according to an Air Taxi internal memorandum, told the Shah about the Cobra's "great possibilities" for Iranian forces. (Ex. 41)

June 15, 1970: Air Taxi renewed its manufacturers foreign representative agreement with Bell Helicopter.

It was this agreement that was amended three times in 1972 and 1973. (Ex. 62)

1971-1972: Bell Helicopter, along with Air Taxi, undertook a major sales effort to get the Shah to purchase large numbers of Cobras and transport helicopters for the Iranian Army's new air cavalry unit. Throughout that period, Air Taxi received frequent advice from Generals Khatami and Toufanian and H. Dehesh, General Toufanian's assistant in the War Ministry, on the strategy and tactics Bell Helicopter should pursue to get the helicopter deal.

Early 1971: Bell Helicopter begins the use of code words in its telex traffic with Air Taxi.

April 1971: Frank Sylvester, Bell's Vice President for International Marketing, leads a Bell team to Iran to formally propose the Huey Cobra for the Iranian military. Mr. Sylvester met with Mr. Dehesh and Generals Toufanian and Khatami. According to an Air Taxi internal memorandum of April 24, 1971, "General Khatami gave very important and useful guidance and advice (to Mr. Sylvester) for the future sales of a Huey Cobra." (Ex. 43)

March 1971: Bell Helicopter was keeping U.S. military officials in Iran advised of its sales efforts. Mr. Sylvester wrote the following to General H. A. Twitchell, Chief of the Armish MAAG in Iran, in a March 31, 1971 letter:

"It seems appropriate to mention in this letter that the timing of Cobra procurement is now the pivotal planning factor.

"In April 1971 a final U.S. Military FY70 production run of approximately 200 Cobras will begin. We have no indication of any follow-on U.S. procurement. Therefore, in order to take advantage of the price of this production run, it is necessary that customers place firm orders no later than 30 September 1971. This is requisite to the procurement of long lead time components to mesh with any extended production schedule." (Ex. 14)

April 28, 1971: Mr. Sylvester wrote in an aide memoire that Generals Toufanian and Khatami strongly favored Iranian purchase of Cobras. (Ex. 34)

August 22, 1971: Air Taxi reported that the Iranian government planned to buy 60 Cobras and 100 model 205s (Hueys). The 205s will be purchased most likely from Augusta.

October 20, 1971: Mr. Sylvester, Bell Helicopter, wrote to Major General Ellis W. Williamson, Chief, MAAG, Iran/Armish, on the purpose of his upcoming trip to Iran: "Our basic objective remains unchanged. It is to steer both the (Iranian) government and civil helicopter business into our Fort Worth and other U.S. production facilities where, as you know, sustaining work loads are increasingly needed...."

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Late October 1971: Air Taxi internal memorandum of October 28, 1971: "We (Air Taxi officials) verbally informed Mr. Horsley (a Bell sales official) that since very important discussions are taking place and activities going on, to discontinue Agusta's efforts in Iran and replace them with BHC (Bell Helicopter) in this market, it is absolutely inadvisable to send reports in writing. We stressed that all our communications from now on be either verbal, long distance telephone calls or coded telex messages."

Late October 1971: Mr. Atkins, Bell's executive vice president, Mr. Sylvester, and a Bell team traveled to Iran. This was Mr. Atkins' first visit to Iran.

January 1972: Mr. Atkins takes over as President of Bell Helicopter. E. J. Ducayet, Mr. Atkins' predecessor, becomes chairman of the company.

April 18, 1972: Bell Helicopter received a letter of intent from General Toufanian of the Iranian government's plan to purchase AH-1J Cobras and Model 214 transport helicopters. The decision is contingent on a demonstration of the helicopters. (Ex. 13)

Mid-May 1972: Mr. Sylvester and a Bell team traveled to Iran to prepare for demonstration of Bell Helicopters.

June 16, 1972: Mr. Sylvester sent a copy of Amendment No. 1 to Bell-Air Taxi 1970 Agreement for Mr. Zanganeh to approve. (Ex. 38)

August 16, 1972: Zanganch and Charles R. Rudning, a Bell Vice President, signed Amendment No. 1 which was effective as of April 1, 1972. Amendment No. 1 provided for a 2.5 percent commission to Air Taxi on the sales of the Cobras and Model 214s to the Iranian government. Mr. Atkins said in his testimony that the commission excluded spare parts and service provided for in the helicopter deal with the Iranian government. (Ex. 63A)

Late August 1972: Bell Helicopter demonstrated its Cobra and Model 214 helicopters for Iranian military. Mr. Atkins accompanied Mr. Sylvester and the Bell team to Iran.

Shortly after that demonstration, Mr. Atkins was advised that Iran intended to buy about 500 helicopters from Bell. (Prior to the demonstration, Mr. Atkins estimated that the potential sale was between 300 and 500 helicopters.)

September 20, 1972: Air Taxi telex to Mr. Sylvester: "According to No. 1, Trout and Skate, the door is still open for Bell to secure training program and even logistic support direct. No. 1 referred to General Khatami. (Ex. 51)

October 14, 1972: Air Taxi signed Amendment No. 2 to its 1970 agreement with Bell Helicopter. Amendment No. 2, which superseded amendment No. 1 signed two months before, provided for a one percent commission to Air Taxi on the helicopter sale along with spare parts and service. (Ex. 64)

October 30, 1972: The Iranian government signed a letter of offer from the U.S. government for the purchase of the Cobras and Model 214s.

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November 1, 1972: Letter of offer sent by the U.S. Government to Iran for the sale of 489 helicopters to the Iranian government (202 Cobras and 287 Model 214s).

November 7, 1972: The Iranian government accepts the letter of offer from the U.S. Government.

December 21, 1972: The U.S. Army sends Bell Helicopter a letter contract for the 489 helicopters.

January 2, 1973: Mr. Zanganeh was scheduled to arrive at Bell Helicopter's Fort Worth headquarters to begin negotiating his final settlement with Bell. Mr. Zanganeh brought Air Taxi's file on its efforts on behalf of Bell Helicopter since 1968.

May 1973: U.S. Army Aviation Systems Command, (AVSCOM), which was handling the sale of the 489 helicopters to Iran, and Bell Helicopter were negotiating the amount of the commission payment to Air Taxi to be allowed under the Foreign Military Sales program.

June 16, 1973: AVSCOM concluded negotiations with Bell Helicopter on the commission payment to Air Taxi and set \$1,000 per helicopter as a fair and reasonable payment.

June 26, 1973: The Shah issued an edict placing limits on commission payments allowed on military sales to Iran.

June 28, 1973: Final agreement signed on the sale of the helicopters to Iran.

June 29, 1973: Bell Helicopter and Air Taxi signed Amendment No. 3 to the 1970 Agreement in which Bell Helicopter

said it would pay Air Taxi \$2,950,000 in three installments ending in 1975 in connection with its representation of Bell, including its efforts on behalf of the sale of the helicopters. (Ex. 65)

III. SUMMARY OF THE EVIDENCE ON MAJOR QUESTIONS

The following is a summary of the evidence gathered by the staff on the major questions arising during the course of the investigation. These questions deal with General Khatami's ownership interest in Air Taxi; General Khatami's role on the sale of Bell helicopters in Iran; the extent to which Bell officials had knowledge of any ownership interest in Air Taxi by General Khatami; the role played by Mr. Miller in the sale of the 489 helicopters and the \$2.9 million payment to Air Taxi; and whether the facts surrounding the \$2.9 million payment were as described in Mr. Miller's testimony before the Committee.

This summary is intended to make the Committee aware of all of the relevant testimony and evidence gathered in connection with these major questions. The summary is not intended to draw any conclusions with respect to these questions.

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A. Did General Khatami Have an Ownership Interest in Air Taxi?Testimony By William French and Attorney Bell

William French, Bell Helicopter's agent in Iran during the period 1964 to 1968, testified that General Khatami was an owner of Air Taxi from its inception. (French 830, 836, Ex. 81) In 1966, according to French and his attorney, General Khatami had French thrown out of Iran on trumped up charges for failing to comply with Khatami's demand that French turn over an interest in his Bell Helicopter franchise in Iran. (French 858, 859. Bell 966). The interest in the franchise was to be conveyed to General Khatami either by French turning over 51 percent ownership in French's Company (International Helicopter Consultants) to General Khatami or by French becoming a subcontractor of Air Taxi and another company controlled by Khatami and paying Khatami's companies 10 percent of French's gross earnings. (Ex 84A)

French's partner prepared a letter which he filed with General Pakravan, Minister of Courts and an Iranian Intelligence Official in 1966 complaining of the situation and the creation of a monopoly for Iranian business in General Khatami's companies (Air Taxi and Heli Taxi). (Ex. 84A) At this time, French's partner had the public records searched to determine the ownership of Air Taxi. Records of registered companies in Iran showed that Air Taxi was first registered in 1958 and that from 1958 until June of 1965 General Khatami was listed as a shareholder of 40 shares of 200 shares issued with Shafik and Jahambani holding 40 shares each and 80 shares unlisted. (Ex. 81) The search further revealed that in 1965 a second registration by Air TAXI

showed Zanganeh holding 50 shares of 100 shares issued with Shafik and Eshoo holding the balance of 50 shares equally. (Ex. 81) In 1966 French also filed a complaint to the State Department in which he stated that General Khatami was still a major stockholder in Air Taxi although in 1965 he and Jahambani had their names removed as owners of Record. (Ex. 83A). He charged Zanganeh with being Khatami's puppet in this letter.

General Khatami's associate and representatives openly discussed Khatami's ownership in Air Taxi. Mr. French said he talked with Shafik in 1959-1960 at which time Shafik told him Khatami was a partner in Air Taxi. French's attorney, Robert Bell talked briefly with General Khatami in person in Iran at which time Khatami told R. Bell that Dr. Safavi would speak for Khatami in respect to establishment of a corporation which would in effect be the parent corporation (STP) of French's companies in Iran. In October of 1966, Dr. Safavi told R. Bell that General Khatami controlled Air Taxi (Bell 981). Dr. Safavi further told R. Bell that STP (which was to be 51 percent owned by Dr. Safavi as nominee for Khatami and others and 49 percent owned by French) and Khatami's two other companies (Air Taxi and Heli Taxi) would be the only companies allowed to sell aircraft in Iran (Bell 1018, 1021). General Rafet, another Khatami representative in the take-over of the French Bell-Helicopter franchise, also told French that Khatami owned Air Taxi (French 858).

Official Record Information Supplied by State Department

French's testimony respecting Khatami's ownership interest in Air Taxi both before and after 1965 is corroborated by independent sources. By letter of 16 February 1978 the State Department in response to the staff's request for information stated that "General Mohammad Khatami was Chairman of Air Taxi between 1957 and 1965, according to oral statement to the (American) Embassy by Registration Office of Minister of Justice (of Iran)." French's testimony that Khatami retained a silent interest in Air Taxi after 1965 is also corroborated by independent sources in the form of affidavits supplied by State Department officials in response to the staff's inquiry.

Affidavits from U.S. Military and Embassy Officials

- 1) The Political and Military Affairs Officer in Tehran (Mr. Rouse) during the period 1968-1972 stated: "In conversations with personal and professional contacts, mention was made that General Khatami was a part-owner of Air Taxi. I have no personal knowledge of the accuracy of these reports. I believe it was widely assumed among prominent Iranians and U.S. businessmen with defense interests, that General Khatami did have an ownership interest in Air Taxi."
- 2) The Deputy Chief of Mission in Tehran (Mr. Miklos) stated that from time to time since 1960 he heard undocumented second

or third-hand stories that General Khatami had a financial interest in Air Taxi, generally from people associated with Iranian civil aviation affairs including U. S. government officials; and that such stories circulated widely among upper levels of Tehran business and social circles.

3) The Counselor for Economic Affairs (Mr. Bewin) who arrived in Tehran in 1974 heard from individuals in the Tehran business community that General Khatami had a financial interest in Air Taxi variously described as "silent partnership, minority interest, and part ownership"; and that General Khatami's interest in Air Taxi was fairly common knowledge in U. S. and Iranian aviation circles in the late 1960's or early 1970's.

4) The Commercial Attache (Mr. Westley) heard that General Khatami had a financial interest in Air Taxi soon after arriving in Tehran in 1974 from an Iranian commercial assistant employee. The Attache stated that General Khatami's "connection with Air Taxi was not common knowledge but appeared to be taken as an accepted fact by those in the aerospace business, especially those interested in doing business with Air Taxi."

5) The Deputy Director for Near Eastern and South Asian Regional Affairs (Mr. Precht) stated that possibly as early as 1974 and in 1975-1976, on several occasions he heard "cocktail party" gossip that General Khatami had a financial connection with Air Taxi which had been terminated on an unspecified date. The financial interest

was not common knowledge but was a "rumor that was only rarely and rather discretely mentioned" by "resident American businessmen."

6) Ambassador Andrew Killgore stated that "while General Khatami's financial interests may have been common knowledge among certain categories of people, such as high-ranking Iranian Air Force officers, it is doubtful that such information was common knowledge among the general public in Tehran."

7) Former General Hamilton A. Twitchell (Chief of the Military Advisory Group in Iran) stated that "sometime during my stay in Tehran from June 1968 until October 1971, probably in 1969 or 1970, I heard informally that General Khatami was associated in some manner with Air Taxi. I do not recall the circumstances under which I heard the allegation, nor do I remember who told me."

TABLE SUMMARIZING RESPONSES TO COMMITTEE AFFIDAVITS

	STATE DEPT.	MILITARY OFFICERS	AUDIT AVSCOM	TEXTRON
Knowledge of Khatami's ownership interest	7	3	0	0
No Knowledge of Khatami's ownership interest	7	4	10	10
No Reply	6	8	3	5

NOTE: Requests for information relating to knowledge of whether General Khatami had an ownership interest in Air Taxi were made to 63 individuals: former State Department officials, former U. S. military officers who served in Iran during the period, Army auditing personnel and Textron's accountants and Members of the Board of Directors of Textron. These individuals were requested to reply by affidavit. The Committee received 41 replies as of February 22, 1978.

EVIDENCE FROM INTELLIGENCE
AGENCIES

General Khatami's ownership interest in Air Taxi during the period 1960 to 1975, when he died in a glider accident, is also corroborated by the following information in the files of intelligence agencies of the U. S.:

1) A CIA report dated 5 February 1960 states that Air Taxi is being supported by prominent government personalities such as Khatami, Shafik and Jahambani.

2) A DOD intelligence report dated 1 March 1960 states that Khatami, Jahambani and Eshoo own Air Taxi, which is a distributor of Bell Helicopters in Iran.

3) A DOD intelligence report dated 25 July 1960 states that Air Taxi is owned by Khatami, Jahambani and Shafik.

4) A CIA biography on Khatami dated 26 March 1968 states that "he owns Air Taxi, the only chartered air service in Iran permitted to operate."

5) A DOD intelligence report dated 14 March 1970 states that Air Taxi is owned by a group of private individuals with General Khatami controlling a majority of the stock and Zanganeh the managing director.

6) A DOD biography (March 1971) on Khatami refers to the General as the owner of Air Taxi.

7) A CIA document dated 25 January 1978 which is sourced to World Trade Directories and other public sources states that Air Taxi was formed in 1959 by Zanganeh, Shafik and Eshoo and that Zanganeh sold his stock in 1975. However, other sources mentioned in this document reported the 'rumored' Khatami connection with Air Taxi and that shares in Air Taxi were owned by various members of the Royal Family and possibly General Khatami. According to the CIA document, Zanganeh sold his shares in 1975 to this same group.

Based upon the World Trade Report, the State Department by letter dated 31 January 1978 informed this Committee that its files contained contradictory information concerning the ownership of Air Taxi by General Khatami since it also had a DOD Intelligence Report of Marcy 1971 which referred to General Khatami as the owner of Air Taxi. This State Department letter, however, preceded its more specific reply of 16 February 1978 and the affidavits of its Tehran Embassy employees. Nevertheless, the World Trade Report is consistent with the ownership of Air Taxi as set forth in a document (Exhibit 57) supplied by Textron-Bell referred to hereinafter in this memorandum.

Evidence from Bell Helicopter

The President of Bell Helicopter, Atkins, testified that he spoke to Zanganeh directly in 1972 about the ownership of Air Taxi because it then appeared Bell Helicopter would be making a substantial sale to Iran and making a major payment to its agent Air Taxi. (Atkins 248). Mr. Atkins further stated that in coming to an agreement to pay Air Taxi \$2.9 million, Bell Helicopter asked Zanganeh to furnish Bell Helicopter with authorization to accept payment and complete the transaction by Air Taxi's Board of Directors. Exhibit 57 is the document supplied to Bell Helicopter. It states that such authority was given Zanganeh by Air Taxi at a meeting of 100 percent of its shareholders:

Zanganeh, Shafik and Eshoo. The information contained in Exhibit 57 is the same as that set forth in a Dunn and Bradstreet report dated 4 October 1970 which was supplied by Textron from its files showing Zanganeh, Shafik and Eshoo to be 100 percent owners of Air Taxi. By letter of 27 January 1978 Textron stated that "no indication of any ownership interest of General Khatami has been discovered and Bell Helicopter remains unaware of any such interest."

Following the preparation of this memorandum, First National Bank and Trust Company of Oklahoma City supplied information * relating to payments out of the accounts of Zanganeh and Air Taxi for the period 1973-1975 for transactions of over \$100,000. The documents and cancelled checks supplied (and attached hereto) show that on 27 January 1973 Zanganeh wrote three checks out of his account as follows: Mr. M. Khattami (\$290,000); Mr. N. Djahambani (\$131,000); and Mr. A. Chafik (\$131,000). Khatami, Jahambani and Shafik were the three individuals registered as stockholders of Air Taxi in its initial registration in 1958. (Ex. 81) These payments by Zanganeh were prior to the \$2.9 million payment by Bell Helicopter to Air Taxi.

Of the \$2.95 million payment, \$1.95 million was deposited in Zanganeh's account at the Oklahoma Bank (the other \$1 million was deposited by Zanganeh in Citibank, Paris). Substantially all of the \$1.95 million was withdrawn shortly after being deposited and invested in a note for \$870,000 and a time deposit of \$950,000. Therefore, the ultimate distribution of the \$1.95 million is not presently known.

* Citibank has advised the Committee that French law prohibits it from complying with the Committee's subpoena requesting information from its Paris branch. Citibank also advises that a petition filed with the French courts by the Committee may be honored by the French courts with an order for compliance.

B. What Role Did General Khatami Play in the Sale of Bell Helicopters to Iran?

From the documents we have received and the testimony we have heard, it is clear that General Khatami did have an input into the Government of Iran's decision to purchase 489 helicopters from Bell Helicopter. Some Bell officials stated that General Khatami's involvement related primarily to the technical advice he rendered as the aviation expert in the Iranian armed services. However, at least two Bell officials indicated that Khatami's tacit approval would be required before the sale could be concluded (Gallagher 624-8 and Rudning 659-660).

Through his military office and his marriage to the Shah's sister, General Khatami did have the opportunity to influence matters affecting aviation in Iran. As the Commander-in-Chief of the Iranian Air Force, Khatami controlled all types of Iranian military aviation. Moreover, since the Iranian Army did not have any aviation experts when the helicopter purchase was being considered prior to 1973, Khatami, as a helicopter pilot and Iranian authority on aviation, became the Iranian Government's expert advisor on helicopters. However, testimony also indicates that the Shah himself makes the final decisions on all major procurement actions.

As viewed by Bell helicopter officials, the major

decision maker, other than the Shah, in the Iranian Government's purchase of helicopters was General Toufanian, Deputy Minister of War for Armaments, and the head of the Military Industrial Organization (MIO), the Iranian military procurement agency. In a letter dated January 27, 1978 from Thomas Soutter, Textron's General Counsel, to Ken McLean, transmitting Bell Helicopter documents to the Committee Staff, Mr. Soutter indicated that "Bell's primary and successful sales effort" was made to General Toufanian (Ex. 4). This statement indicating Toufanian's importance was echoed by James Atkins, President of Bell Helicopter, (Atkins 102, 145) and by other Bell officials in testimony before the Committee staff. General Toufanian was described as the person who compiled all of the contract proposals and official recommendations and took the final program recommendations to the Shah for his approval (Gallagher 603). Thus, as head of military procurement, Toufanian was the official link between the Shah and a manufacturer such as Bell.

While Toufanian and MIO were described as the decision points just below the Shah, the Bell Helicopter officials did indicate that General Khatami played a significant, although not the major, role in the helicopter sale. In his testimony, Mr. Atkins described Khatami as being an outstanding Iranian Air Force officer and someone whose aviation judgment was very well respected at all levels of the Iranian government

(Atkins 192). Moreover, Mr. Atkins indicated that as an expert pilot, General Khatami would have an opinion as to the capability of the Bell aircraft and that his views would certainly be valued by those involved in the decision making process (Atkins 231). When asked to characterize General Khatami's role in the sale of the helicopters, Frank Sylvester, Bell Helicopter Vice President for International Sales, stated that it would be "the most natural thing in the world when the Shah decided to create an Army aviation unit ..., that he would go to (General Khatami for) the best and most trusted helicopter expertise and advice" (Sylvester 539).

When asked about Khatami's role in the helicopter sale, John Gallagher, a Bell international sales agent, indicated that General Khatami would have to give his "vote of approval" before the sale was consummated. Mr. Gallagher also indicated that he discussed Khatami's role with Messrs. Atkins and Sylvester and that they agreed that Khatami's approval was crucial to the success of Bell's sales effort (Gallagher 624-628). Charles Rudning, presently President of Bell Operations Corporation and formerly Vice President of Program Management, testified that Khatami would have had a vote or a recommendation on the prospective Iranian Army helicopter program (Rudning 659-660).

Recognizing that General Khatami would have some influence in the helicopter purchase decision, Bell Helicopter

officials personally briefed him on the various Bell proposals submitted to the Iranian government during 1971-1972. Both Atkins and Sylvester met with Khatami during trips to Iran, Atkins recalling the purpose of his visit in November 1971 as a discussion of the advantages of Bell's product line (Atkins 107). From these and additional contacts that Bell officials and sales agents made with Khatami, it appears that he was fully informed of the Bell sales proposals.

That General Khatami was actively interested and involved in advising the Shah about Bell helicopters is evident from two widely separated events. The first was the December 1969 showing by Khatami of a Bell promotional film about Bell Huey Cobra helicopters. The showing was in Khatami's home, after a dinner party attended by Princess Fatemeh, the Shah, the Iranian Prime Minister, and Mr. Zanganeh, manager of Air Taxi, Bell's Iranian agent. As recounted by Mr. Zanganeh in a memorandum to files, the Shah was very impressed with the Huey Cobra capabilities and indicated that he would consider using such aircraft in the Iranian Armed Forces (Ex. 41).

The second occurrence was General Khatami's flight in the Bell Helicopter models proposed to be sold to Iran, at the same time in August 1972 as the Shah flew such aircraft. In describing Khatami's favorable attitude toward the helicopters, Mr. Iranzad, Air Taxi's sales manager, stated in a memorandum to files dated August 28, 1972 that Khatami strongly recommended

the purchase of these helicopters to the Shah (Ex. 50).

General Khatami's interest in having Bell Helicopter products purchased by Iran during 1971-1972 is evident from many of the documents submitted to the Committee by Bell Helicopter. From the following documents, Khatami appears to be influential in favoring Bell products and, in some instances, advising Bell as to sales strategy.

- a. In an internal memorandum, dated April 10, 1971, written by Mr. Zanganeh of Air Taxi, regarding the arrival in Iran of a Bell Helicopter sales briefing team, Mr. Zanganeh reports that contrary to Bell's decision to make a maximum public sales effort, Generals Khatami and Toufanian agreed with Zanganeh that the Bell people should be very low key and only "adhere to further guidance instructions which would be given to them" (Ex. 33).
- b. In Mr. Iranzad's memorandum to files of April 24, 1971, describing the visit of the Bell sales team to Iran the previous week, he stated that Khatami met with the group and "gave very important and useful guidance and advice for the future sales" of Bell Huey Cobras (Ex. 43).
- c. In an internal memorandum, dated April 28, 1971, Mr. Sylvester of Bell Helicopter stated

that Khatami had told the Shah that he is in favor of the Huey Cobra for the Iranian Army (Ex. 44).

- d. In July 1971, General Howze, retired from the U.S. Army and then employed by Bell, travelled to Iran to promote the sale of Bell products. Mr. Iranzad prepared a memorandum dated July 6, 1971 about General Howze's trip, indicating, among other things, that Khatami gave General Howze very useful guidance and advice which would assist Bell Helicopter's future programs in Iran. Iranzad also reported that Khatami stated that he would definitely recommend the purchase of Bell Helicopters for the Iranian armed forces (Ex. 46).

During 1971, Bell was competing with, among other helicopter manufacturers, its own Italian licensee, Agusta. While Agusta had sold and continued to be interested in selling its transport helicopters to Iran, Mr. Atkins and other Bell officials have testified that Iranian military leaders, while satisfied with Bell helicopters produced by Agusta, had become dissatisfied with Agusta's spare parts and service operation (Atkins 149). Iranian officials had apparently expressed a preliminary interest in having Bell Helicopter replace Agusta and, as such, the Iranians did not

want Bell Helicopter to be publicly discussing such preliminary interest. Thus, in the minds of Bell officials, references in the documents to such matters as General Khatami's recommendation to maintain a low profile are merely indicative of the fact that Iranian officials recognized the high quality of Bell products and services, but that the Iranians intended to take their time in reaching a decision on any prospective purchase.

Due to what has been described as poor communications privacy and security by Bell Helicopter officials, cable messages between Iran and the U.S. sent by Bell or its agent, Air Taxi, were encoded during 1971-1972. Individuals, products, and companies were given such names as "Trout", "Skate", and "Grooper". One cable sent on September 20, 1972 by Mr. Zanganeh of Air Taxi to Mr. Sylvester of Bell Helicopter, indicated that "according to No. 1, Trout, and Skate, the door is still open for Bell to secure training program and even logistic support direct " (Ex. 51). The code words, as translated from Bell's code list, indicate that General Khatami was No. 1, Mr. Dehesh, from the Military Industrial Organization, was Trout, and General Khosrodad, Chief of Army Aviation was Skate. Thus, Mr. Zanganeh's message to Bell was that the support program that would be awarded in conjunction with the government to government helicopter purchase from Bell might be awarded by Iran to Bell on a direct basis without

the U.S. government acting as an intermediary. When asked about the significance of the reference in the cable to Khatami as No. 1, Messrs. Sylvester and Atkins indicated that they do not know why Khatami was referred to in such a manner and that, in any event, the only No. 1 they have had knowledge of in Iran has been the Shah (Atkins 208, Sylvester 471).

C. What knowledge Did Bell Helicopter Officials Have Of Any Ownership Interest Of General Khatami In Air Taxi?

The following is a summary of the testimony gathered during the staff's investigation which bears directly upon whether officials of Bell Helicopter had knowledge of General Khatami's ownership interest in their Iranian sales representative, Air Taxi.

The staff took testimony under oath from a number of Bell officials including James F. Atkins, Frank M. Sylvester, John E. Gallagher, Charles R. Rudning, and Edwin L. Farmer.¹ Each of these individuals testified in substance that he did not know that General Khatami had an ownership interest in Air Taxi; he had no knowledge that Air Taxi ever made any payments to Iranian Government officials; he had no knowledge that any part of the \$2.9 million paid Air Taxi inured to the benefit of any Government official; he knew of no payments to any Iranian Government official in connection with this sale to Iran; and he had no knowledge of any fund of Bell monies or other assets not recorded on Bell's books and records.

¹The testimony of other Bell officials is set forth in more detail, infra.

Each of these persons in turn testified in substance that he did not discuss the above matters with Mr. Miller and had no knowledge that Mr. Miller was aware of any of the above matters.

During the negotiations of the settlement payment, Mr. Atkins said he was told by Mr. Zanganeh that the owners of Air Taxi were Mr. Zanganeh, Chafik and Eshoo. Zanganeh gave no indication that Khatami had any kind of ownership interest in Air Taxi. (Atkins 248) He further testified that in connection with the final negotiation, Zanganeh was requested to furnish a board resolution to Air Taxi indicating his authority to agree to the settlement. (Atkins 248) Such a resolution was furnished to Bell in and around May 1973. This resolution stated that the above three parties were 100 percent owners of Air Taxi. (Atkins 257, Exhibit 57).

Mr. Sylvester testified that he may have heard rumors of ownership of Air Taxi by Khatami as follows (page 532): "Were there rumors in Iran that you know of that Khatami had an ownership interest in Air Taxi, have you ever heard such rumors?" (answer) "Well I think I probably did but I am just at a complete loss to carry it any further than that. You know, I just, you know --." Later on in his testimony at page 550 he stated: "I don't remember, I don't remember hearing a rumor to the effect that Khatami had an involvement in Air Taxi."

William H. French, Volume VI, Pages 806-945

A. Position

During the period of 1964 to 1968, Mr. French, through his company, International Helicopter Consultants, was the sales representative for Bell Helicopter in Iran (French 814). He was also a sales representative for Cessna in Iran, and he represented Bell Helicopter in Kuwait as well (French 846).

B. Knowledge of Bell Officials

Mr. French testified that during the period of 1964 through 1967 he discussed Khatami's ownership of Air Taxi with Messrs. Orpen, Feliton, Jose, Pierrot, Harry Miller, and, he believes, Mr. Kling (French 896, 817, 822, 827, 828, 843).

Mr. French testified that it was general knowledge in and around the 1960's that Khatami was an owner of Air Taxi (French 842, 843). He testified that Khatami would not let him do business in Iran unless he gave 50 percent of his franchises to Khatami (French 858, 861, 876, 877). Mr. French formed a new company called STP. STP would be 51 percent owned in name by Dr. Safavi, which interest in part would be held for General Khatami (French 880, 890, 892). Mr. French's other companies, including International Helicopter Consultants, would own the other 49 percent.

Mr. French testified that on January 14, 1967, he wrote a letter to Feliton in which he refers to the establishment

of STP and states that "now that we have General Khatami as partner silently along with Dr. Safavi" it should open many doors (Exhibit 82). No one at Bell Helicopter, including Mr. Kling, raised any problem with respect to his having Khatami as a silent partner in STP (French 902, 903, 942). (His letter of January 14, referring to the STP arrangement and General Khatami's silent partnership, was distributed within Bell to Messrs. Kling, Jose, Orpen, Felton, Spirtas, Baden, Shields and Pierrot (French 203, Exhibit 82).) That letter was acknowledged by Mr. Kling's letter of January 30 (French 902, Exhibit 83).

French had no discussions with Mr. Miller concerning Khatami's ownership of Air Taxi. He has no information that Bell representatives told Mr. Miller about Air Taxi (French 919, 922).

Charles Robert Bell, Jr., Volume VII, Pages 949-1083

A. Position

Mr. Bell is an attorney who represented Mr. French during the relevant period (Bell 952-955).

B. Knowledge of Bell Officials

Mr. Bell testified that he set up the arrangement with Dr. Safavi in October of 1966 whereby STP would be created. Safavi would hold 51 percent for "certain members of the high council of civil aviation" and Mr. French's companies would

own the other 49 percent (Bell 971-980). Safavi said he was speaking for General Khatami (Bell 981). General Khatami confirmed to Mr. Bell that Safavi was speaking for him (Bell 981, 985).

Mr. Bell testified that after his trip to Iran to set up the above arrangement, he went to Fort Worth and met on November 2, 1966, with Mr. Feliton and Mr. Jose in Jose's office (Bell 992-994). At that meeting, Mr. Bell testified that he told them the entire story, including the fact that Khatami owned and controlled Air Taxi, that Khatami had demanded 50 percent of Mr. French's business and when French initially refused, he was thrown out of the country. Mr. Bell told Feliton and Jose that he had just returned from negotiating a solution to Mr. French's problem and he explained the entire STP arrangement to them (Bell 997-1008), including the fact that General Khatami would own a substantial interest in STP. At the end of that meeting, Jose said, "I want you to repeat this to our president" (Bell 1000). Mr. Jose and Bell then proceeded to Mr. Ducayet's office, then president of Bell Helicopter, where Mr. Bell testified he repeated the entire story for approximately 45 minutes (Bell 1000). Mr. Ducayet, at the end of the meeting, thanked him for telling him that information (Bell 1009).

Mr. Bell testified that no one at Bell indicated to him it was contrary to Bell's policy to do business with government officials; in fact, they indicated the opposite -- "they

were concerned to be certain that they were going to be doing business with General Khatami" (Bell 1009). On January 5, 1967, Mr. Bell wrote a letter to Mr. Feliton in which he advised that STP had been formed and it was the only company besides General Khatami's two companies that were authorized to do certain kinds of business in Iran (Bell 1014, 1021, Exhibit 91). Mr. Orpen acknowledged the January 5 letter by a letter of January 17 and gave him temporary authority to continue as Bell's representative (Bell 1025, Exhibit 93).

Mr. Bell testified that in June of 1967, he travelled again to Iran and spoke with Dr. Safavi, who indicated that General Khatami was displeased and wanted the Bell franchise directly with STP rather than through French's International Helicopter Consultants (Bell 1032). Upon his return from Iran, Mr. Bell reported on his trip both by telephone and by a lengthy letter of July 7, 1967, to Mr. Jose (Bell 1035, Exhibit 96)¹

1 None of the documentation supplied by Mr. French and Mr. Bell, including correspondence to Bell Helicopter indicating a Khatami ownership interest in STP, as well as a connection between Khatami and Air Taxi, was supplied to the Committee staff by Textron in its first documentary submission in response to the Committee subpoena. (Exhibits 82, 83, 89, 90, 91, 93, 94, 96). When the documents from Mr. French and Mr. Bell were brought to Textron's attention, Textron made a further submission which included much of the above-referenced correspondence. Textron explained that it had not concentrated its initial search prior to 1968 and had not thought to look into the French, International Helicopter Consultant file.

In this six page letter, Mr. Bell went over in detail the past and current problems of Mr. French and specifically mentioned that General Khatami was one of the owners of STP and that General Khatami had decided to handle transactions of STP in "much the fashion he had set up for Air Taxi and Helitaxi

Mr. Bell testified that he has never met or corresponded with Mr. Miller and never heard Mr. Miller's name mentioned in his conversations with Bell personnel (Bell 1065, 1067).

Edwin J. Ducayet, Volume VIII, Pages 1086-1192

A. Position

President of Bell Helicopter from 1962 through 1972. Chairman of the Board during 1972. A member of Textron's board of directors since April 1973. He reported directly to Mr. Miller (Ducayet 1090).

B. Role

Mr. Ducayet testified he did not participate in Air Taxi negotiations. Mr. Atkins did and generally kept him informed (Ducayet 1137). He, in turn, generally kept Mr. Miller informed (Ducayet 1138).

C. His Knowledge

Mr. Ducayet testified he has no recollection of ever having met Robert Bell (Ducayet 1092). "I have no recollection of the gentleman or ever meeting him or not

meeting him. He just means nothing to me"(Ducayet 1093). He does not deny that Bell told him about Khatami and the other matters as read to him from Mr. Bell's testimony. He testified he just does not recall one way or the other (Ducayet 1151).

Mr. Ducayet testified that Mr. Jose reported directly to him or through Mr. Atkins (Ducayet 1093). He met practically daily with his marketing department (Ducayet 1155). He believes that his people would have brought it to his attention if a sales representative was owned in substantial part by a government official in a country where that representative would be doing business (Ducayet 1105). He, however, does not remember that happening (Ducayet 1109). If a significant deviation from Bell Helicopter's policy was brought to his attention, it was his practice to correct it. It was also his practice to report a serious breach of policy to Mr. Miller (Ducayet 1174, 1161).

Mr. Ducayet testified he has no recollection of ever hearing that General Khatami had an ownership interest in Air Taxi (Ducayet 1097-1103, 1179, 1190). If he had known of Khatami's interest in STP, he would not have continued Bell Helicopter's relationship with French and STP (Ducayet 1119, 1124). He knows of no payments by Bell Helicopter to government officials in connection with this sale (Ducayet 1164). He knows of no fund of corporate monies which are not recorded on the company's books and records (Ducayet 1165).

Mr. Ducayet testified he talked to Mr. Miller approximately once a week (Ducayet 1163). He does not recall ever discussing Air Taxi or Khatami with Mr. Miller or the \$2.9 million payment to Air Taxi (Ducayet 1135, 1138). He recalls no discussion of the \$2.9 million payment with the board of directors (Ducayet 1132) or with the audit committee (Ducayet 1174).

Dwayne K. Jose, Volume IX, Pages 1193-1290

A. Position

Jose is vice-president of commercial marketing (Jose 1195). He reported to Mr. Ducayet (Jose 1197).

B. Role

He was in charge of international marketing for Bell until 1969 at which time his responsibilities with respect to Iran ceased (Jose 1227).

C. His Knowledge

Mr. Jose testified that he recalls having a meeting with Mr. Bell. He does not recall the date nor who was present (Jose 1198, 1200). He recalls that Mr. Bell said to him then or later that Khatami was to have an interest in the new company, STP. He testified that "the whole story was so preposterous that I didn't pay much attention to it" (Jose 1202-1206). Mr. Jose testified that Mr. Bell was proposing a "scheme that involved pay-offs to officials within the

government" (Jose 1209). Mr. Bell told him then or at a later time that Khatami had an ownership interest in Air Taxi (Jose 1210). He was told on three occasions by Mr. French or Mr. Bell that Khatami had an ownership interest in Air Taxi. Once was at the meeting he had with Mr. Bell, once was in a July, 1967 letter written to him by Mr. Bell reporting on his recent trip to Iran (Exhibit 96), and finally Mr. French so stated to him at the Paris air show in 1967 (Jose 1215). He testified that he did not believe what they said and determined that French was not the "kind of person Bell Helicopter wanted to deal with" (Jose 1216).

Mr. Jose testified he made the allegation of Khatami's ownership of Air Taxi known to Mr. Orpen, Kling and Pierrot in connection with a trip they made to Iran for the purpose of hiring a new manufacturer's representative (Jose 1220, 1222). They reported back no conflict of interest. He does not know how they made this determination (Jose 1224, 1262).

Mr. Jose testified he does not recall one way or the other whether his meeting with Mr. Bell was followed by another meeting between him, Mr. Bell and Mr. Ducayet (Jose 1213). He has no recollection of ever discussing the ownership of Air Taxi with Mr. Ducayet (Jose 1214, 1225). He testified he does not recall if he discussed the Air Taxi-Khatami

ownership with Mr. Atkins (Jose 1226)¹ In the normal course of his management responsibilities, he could have mentioned such a matter to his superior, Mr. Atkins, because it was so unusual (Jose 1226).

On December 11, 1967, a letter was sent to Mr. French terminating his representation of Bell in Iran but providing for the continuance of his representation of Bell in Kuwait (Jose, 1230, Exhibit 101).

He has no recollection of discussing the Iranian program or discussing the Air Taxi matter with Mr. Miller (Jose 1227).

¹Mr. Jose said the company had informal procedures that were subsequently published in late 1968, for investigating the reputation of firms hired as Bell agents and whether any government officials had ownership interests in them. (Jose 1236-1237). Bell officials differed in their testimony over company policy on investigations into the background and reputation of potential manufacturers representatives when Air Taxi was rehired as Bell's agent in early 1968. James F. Atkins, Bell's executive vice president at that time, who became president in 1972, said, "There was no specific method of retaining an agent." The company, he said, investigated the ownership of a firm with which it contracted only if it would owe Bell money. "And, of course, in this case, Air Taxi was not ever going to owe Bell money"(Atkins 27-31, 251).

James August Feliton* Vol X Page 1307-1372

Position

Mr. Feliton was employed by Bell from mid 1965 to the end of January 1967 as an area export manager which included Iran. He reported to Mr. Orpen. (Feliton 1310, 1355)

Knowledge of Bell official

He testified he had a vague recollection of a meeting with Mr. Bell, but does not recall who else attended. (Feliton 1320, 1321), or whether a meeting took place between Mr. Bell and Ducayet (Feliton 1327), although it would have been a normal procedure for a sales representative or his representative to meet with management. (Feliton 1329) He does recall that Mr. French or Mr. Bell proposed the STP arrangement in which Khatami would have an ownership interest. (Feliton 1331) He does not recall discussing this matter with people at Bell. (Feliton 1332, 1333) Feliton testified that he has no recollection that Jose told him the STP arrangement was preposterous, or any words to that effect, or that Jose told him not to pursue the STP proposal. (Feliton 1334)

*Mr. Feliton's employment at Bell was terminated, but not, according to his testimony, for any of his activities relating to the STP-Khatami relationship. (Feliton 1314, 1316)

He is unaware that he violated any Bell policy in connection with STP and he received no instructions from Jose or Orpen not to pursue the proposal. (Feliton 1335)

Feliton testified that he has no recollection that the STP proposal received a negative reaction within Bell. He has no recollection that Jose told him French should be terminated and he believes he would have remembered it if he had received such an instruction. (Feliton 1359-1361) He testified his incoming letters from French or Mr. Bell, as well as his outgoing letters to French or Mr. Bell, were copied to both Mr. Jose and Mr. Orpen. (Feliton 1302, 1335)

He testified that he had never met Mr. Miller.

D. What role did Miller play in the sale of the 489 helicopters to Iran and the \$2.9 million payment to Air Taxi?

Miller became President of Textron in 1960 and became Chairman of the Board in 1974. Bell Helicopter is a division of Textron. Textron is the parent of thirty separate divisions or companies. Each division or company operates autonomously with overall coordination for matters such as financing handled at the Textron level. In order to manage this large enterprise, the thirty divisions and companies are divided into five product areas with a group vice president of Textron for each product area. The group vice president functions as a supervisor of the division and companies falling within the product area.

Bell Helicopter falls within the Textron aerospace group. From 1960 to about 1974 Miller functioned in the capacity of group vice president of Textron for aerospace. Miller did not hold the title group vice president because he was President of Textron during that period. Miller had a particular interest in aerospace and guided Bell Helicopter (Atkins 26). Ducayet was President of Bell Helicopter to 1972 when Atkins became President. Both were supervised by Miller. Both stated they brought matters to Miller's attention on a regular basis in the form of recommended solutions they had worked out to problems that arose. (Atkins 17 and Ducayet 1163).

Atkins did not have a direct relationship with the Textron Board of Directors. As supervisor of Bell Helicopter, Miller was responsible for handling Bell Helicopter matters at the Board of Directors level. Atkins wrote no memos on conversation he had with Miller of other memos to Miller about foreign sales except on matters which went to the Board of Directors for resolution. (Atkins 23).

Miller was informed of the possibilities of the Iranian program before October 1972 because it was a large program in the process of development. (Atkins 40) Miller was informed of the progress of the sale in 1972. Ducayet stated that "it was a big sale" so he discussed it with Miller many times. (Ducayet 1135) Ducayet also said that since the contract was so large the Board of Directors of Textron was kept informed. (Ducayet 1130)

Miller indicated some detailed knowledge of the sale which was the single largest in dollar volume in Bell Helicopter history (\$500 million short term for the sale of helicopters and \$1 billion long term including co-production -- Miller 121). Miller stated that the sale of the 489 helicopters required his personal attention in "being knowledgeable that it was being pursued." (Miller 132). On the other hand, Atkins stated that Miller was not kept informed of Air Taxi's contacts in Iran on behalf of Bell Helicopter. At his confirmation hearing, Miller appeared

to have some detail knowledge of the Iran agency during the 1960-1972 period being familiar with Air Taxi as the agent in 1959-1964. Air Taxi's replacement, and subsequent re-establishment in 1968 by Bell Helicopter. Miller also was familiar with the terms of agency agreements relating to commissions (Miller 46) but he did not negotiate the agency agreement. (Miller 46)

Miller testified that he did not know General Khatami had an ownership interest in Air Taxi and the name did not "ring a bell". Miller assumed Zanganeh to be the owner or part owner of Air Taxi (Miller 108). Miller made no personal effort to find out the ownership of an agent with whom Bell Helicopter had had a long relationship with no significant activity (Miller 119). Miller stated he had no reason to believe Air Taxi had a relationship with a member of the government (Miller 116) and he would have been surprised to learn that General Khatami owned Air Taxi (Miller 122). Miller stated that he did not believe it to be true that Khatami owned Air Taxi; if he had known it he would not have permitted the agency relationship. (Miller 431, 133) Miller said as far as he knew if Khatami had anything to do with Air Taxi it was undisclosed. (Miller 142)

Miller stated that he was familiar with the negotiations leading to the \$2.9 million payment by Bell Helicopter to Air Taxi.

Atkins testified that it was his responsibility to negotiate a payment to Air Taxi and that he was responsible for the \$2.9 million figure. (Atkins 281) Atkins said he reported to Miller--discussed the final amount with Miller, but Atkins said he "probably solely" made the decision on the \$2.9 million within guidelines set by Miller. (Atkins 289) Atkins considered the handling of the compensation to Air Taxi to be a "major problem" so he kept Miller informed. Nevertheless, there were no memoranda written to Miller or otherwise on the \$2.9 million payment. The only document written was the amendment to the contract itself obligating Bell Helicopter to pay Air Taxi \$2.9 million. (Atkins 415) Atkins did not write a memo to the Textron Board of Directors nor did he appear personally before them on the \$2.9 million payment. Ducayet stated that the \$2.9 million payment was not considered by the Textron Board of Directors and he did not discuss the payment with Miller. (Ducayet 1132, 1135)

Ducayet stated that Atkins handled the \$2.9 million payment. By letter dated 15 February 1978 Textron stated that the Board of Directors was made generally aware of the settlement with Air Taxi. But the settlement was not before the Board for action and it is not reflected in the minutes. Arthur Young, Textron's accountant, brought the matter to the attention of the Audit Committee of the Board in February 1977. The matter was discussed and no

action taken. Arthur Young's report states: "I was satisfied that it had been brought to the Committee's attention and that they would not be surprised if the amount was disclosed in the future."

Miller testified that regular Textron procedures found no circumstances to indicate that the payment to Air Taxi went to influence government officials. In 1975, in the light of public revelations of foreign corporate bribery, consideration of sales of securities to the public and the SEC examinations of the 25 top defense contractors--including Textron--Textron "reduce (d) to writing the results of its internal "investigation as to whether or not there have been any illegal or improper payments made by Textron to its overseas representatives." (Ex. 66) According to Ex. 66, Miller advised that he knew of no such illegal or improper payments; agents fees or commissions were not a significant factor in the business of a Textron unit other than Bell Helicopter; Miller and Ames (successor to Miller in 1974 as group vice president of Textron for aerospace) indicated that the only significant commission paid by Bell Helicopter was the \$2.9 million payment to Air Taxi. Thus the internal inquiry focused solely on the \$2.9 million payment.

The inquiry was conducted by Textron's General Counsel. It took the form of a meeting lasting a day or two at which the General Counsel, Mr. Ames, Atkins, Farmer and Rudning

were present for the discussion. Following this meeting the General Counsel drafted a memo which stated in part that "no one could remember" why International Helicopter Consultants (French's firm) was substituted for Air Taxi in 1964 and that in 1968 Air Taxi was reappointed Bell Helicopters representative.

A conclusion stated in the memo is that "none of the principals of Air Taxi are known or believed to be Iranian Government officials." Counsel did not discuss the matter of the ownership of Air Taxi with any of the individuals in Bell Helicopter who had been told that General Khatami had an ownership interest in Air Taxi: Orpen, Kling, Feliton, and Jose. Nor did he review the documents relating to International Helicopter Consultants nor talk to Mr. French or Mr. Bell. The General Counsel did not request Bell Helicopter to gather all documents from its files relating to Air Taxi for his review. Mr. Jose testified that if he had been asked about the ownership of Air Taxi he would have informed the inquirer that he had been told on two or three occasions that General Khatami owned Air Taxi. (Jose 1254)

Following his investigation, the General Counsel reported back to Miller that he had traveled to Bell Helicopter; that he had seen the documentation and heard the explanations; and was satisfied that the \$2.9 million payment to Air Taxi

did not fall in the questionable payment category (no part of the funds went to an Iranian Government Official).

(Soutter 798-799)

E. Are the facts surrounding the \$2.9 million payment consistent with the explanations given by Mr. Miller at the Committee's hearing?

During the Committee's nomination hearing, Mr. Miller was asked about the size of the \$2.9 million payment, which to at least one member of the Committee appeared to be an "exorbitant" amount. The relevant excerpts from Mr. Miller's testimony on this issue are as follows:

"The fee, Senator, was a large amount of money. But as you probably know, once there is a contract with a dealer and suddenly a big order comes along, there's no way contractually to disavow the dealer's role. In most foreign countries if one tries to terminate a dealer, the cost of doing so is quite expensive, because foreign countries usually protect their nationals from being cut off at a time when sales are developing....So we just did the best we could. I'm sure our officers tried as conscientiously as they could to minimize the payment....It was something we just had to pay to settle a dealership, such as might be paid to terminate a Chevrolet dealership or a Westinghouse dealership or any other dealership. (Hearings - p. 25.)

"I didn't arrive at that figure. That was a matter delegated to officers of Bell Helicopter. I had faith that they did

their best to get the lowest figure they could under the circumstances. The alternative would be litigation which could be expensive and could have resulted in higher claims. (Hearings - p. 52.)

"I wouldn't consider the settlement of a contract of that type in the face of the level of the market that was developing as exorbitant. (Hearings - p. 53.)

"...as I knew the circumstances, I knew and I now know of no impropriety. We had an agent of long standing; we had a sales contract that turned out to involve originally \$500 million, and later over \$1 billion; we had an agent who had worked on it and would have a claim to some compensation. I believe the Bell officials who worked on it did their best to minimize the settlement payment, because it was a cost and the less we paid, the better." (Hearings - p. 55.)

A review of the contract between Bell and Air Taxi reveals that at the time of the \$2.9 million settlement on June 29, 1973, Bell was, in fact, potentially liable for a greater amount. Under the terms of amendment No. 2 (exhibit 64) to the standard manufacturer's foreign representative agreement (exhibit 62) then in effect between Bell and Air Taxi, Bell was obligated to pay a commission of 1% to Air Taxi on any sale of certain Bell helicopters including spare parts and related services and training

to the government of Iran through the Foreign Military Sales Program. The final contract price on the 489 helicopters sold to Iran was approximately \$436.2 million, hence, Bell's potential liability to Air Taxi under amendment no. 2 was \$4.362 million. In addition, Bell had a potential liability for a commission payment of at least \$375,000 against a \$15 million training contract executed directly with the government of Iran on February 21, 1973. (This training contract eventually grew to \$114 million on July 1, 1974 when it was converted to an FMS contract.) The final settlement with Air Taxi in the amount of \$2.950 million thus represented a reduction of at least \$1.787 million in potential commission payments on the part of Bell and possibly more due to future sales. This settlement became amendment no. 3 (exhibit 65) to the basic contract.

The final agreement reached under amendment no. 3 is consistent with Mr. Miller's testimony. The Company did, in fact, have a binding contract and it successfully negotiated to minimize its liability. However, in order to gain a fuller understanding of the situation, it is necessary to examine how Bell's liability under the contract evolved.

Prior to the inception of the Iranian sale, Bell entered into its standard representative agreement with Air Taxi in 1968. This agreement was updated on June 15, 1970 and provided that Air Taxi would be entitled to certain specified commissions on the sale of specified Bell products in Iran. The agreement further specified that the commission would be subject to negotiation on all sales in excess of five helicopters.

Amendment no. 1 (exhibit 63-A) to the basic agreement was signed on or about August 16, 1972 (exhibit 72) with an effective date of April 1. This amendment described the potential sale that was then developing and established a commission of 2-1/2% payable to Air Taxi if the sale were concluded. Amendment no. 2 was signed the following October 14 and reduced the commission rate to 1% in the event the sale were made through the U.S. government under the Foreign Military Sales Program. A 2.5% commission would continue on direct sales from Bell to Iran. Amendment no. 2 was, in turn, superseded by amendment no. 3 on June 29, 1973 which provided for the final settlement of \$2.9 million.

The negotiations culminating in amendment no. 1 were the most crucial because they established an upper limit to Bell's liability under the contract with Air Taxi. At the same time, they also entitled Air Taxi to receive a specific percentage commission on the forthcoming sale in Iran, whereas prior to the amendment the commission was subject to negotiation. So while the percentage commission agreed to in amendment no. 1 established a ceiling on the amount that Bell would be legally required to pay, it also established a floor on the amount that Air Taxi would be legally entitled to collect. Therefore, the reasonableness of the final payment of \$2.9 million agreed to on June 29, 1973 can only be assessed against the reasonableness of amendment no.1 which was agreed to the preceding August.

Measured against the ultimate sale of 489 helicopters, Bell would have been liable for a commission payment to Air Taxi in the amount of \$9.77 million under amendment no. 1 (Tr. 308-10). However, at the time amendment no. 1 was agreed to, Bell officials were still uncertain over the exact size of the program. The President of Bell, Mr. Atkins, testified that during August of 1972 the anticipated size of the sale ranged from a low of 300 to a high of 500 ships. Thus the potential commission anticipated by Bell at the time amendment no. 1 was signed ranged from a low of \$6 million to a high of \$10 million. (Atkins: 370)

The staff attempted to find out from the Bell officials it interviewed what Air Taxi did that from Bell's viewpoint warranted a potential payment of \$6 to \$10 million dollars under amendment no. 1. This testimony is summarized as follows:

(1) Compensation for cost of services. There is no evidence from Bell records to substantiate that the actual costs incurred by Air Taxi in representing Bell from 1968 to 1973 anywhere approached the \$2.9 million payment agreed to under amendment no. 3 or the \$6 to \$10 million potential liability under amendment no. 1. The records of Air Taxi-Bell correspondence furnished to the Committee and the testimony of Bell officials indicate that Air Taxi's role over the period primarily involved setting up meetings with Iranian officials, obtaining information about potential contract awards, and furnishing secretarial, transportation and related support services to visiting Bell officials. (Atkins : 84, 112,116; Rudnig: 673-74) Moreover, Mr. Atkins

testified that he assumed statements made by Air Taxi were "over-exaggerations of their efforts to assist us in the sale."

(Atkins: 243) Also, the Bell official principally in charge of negotiating the three contract amendments testified that Air Taxi was unable or unwilling to produce documentary evidence to substantiate its expenses. (Rudnig: 727)

The record also indicates that U.S. Army Procurement officials regarded the proposed commission payment as excessive. On its original submission to the Army under the Foreign Military Sales Contract, Bell officials had claimed a commission payment of \$5.0 million to Air Taxi. After negotiations between Bell and Army officials at the Aviation Systems Command, Bell agreed to reduce the commission claimed under the contract to \$1,000 per ship for a total of \$489,000. At that time, the Armed Services Procurement Regulations permitted the inclusion of dealer commissions on Foreign Military Sales Contracts provided they were "reasonable". Eventually, the \$489,000 was removed from the contract following the Shah's edict against commission payments being included on FMS contracts with Iran.

The President of Bell, Mr. Atkins, testified that he, Rudnig and Sylvester felt that \$500,000 was a reasonable estimate of the amount Air Taxi might have spent in supporting Bell. (Atkins: 323) Mr. Rudnig testified: "I'm really reaching now, but

I'd put him (Air Taxi) in the zone of one to two million dollars of probable costs that he could have incurred." (Rudnig: 730)

(2) Legal liability under the basic contract. Whatever the actual expenses of Air Taxi, Bell officials testified they negotiated amendment no. 1 partly in an effort to contain their legal liability under the basic contract. (Atkins: 312; Rudnig: 653) Mr. Atkins also testified that commissions were running much higher than two and one-half percent in Iran at the time. (Atkins: 300) Thus, Bell apparently concluded that Air Taxi might have been able to obtain a commission through litigation in excess of the \$6 to \$10 million liability agreed to under amendment no. 1.

In responding to the Committee's subpoena, Bell did not produce any internal memos or opinions from outside counsel analyzing Bell's legal exposure under the basic contract or assessing the probability of an award in the \$6 to \$10 million range in the event of litigation. Moreover, Mr. Atkins testified that neither Bell's chief legal counsel nor Textron's general counsel participated in the drafting of or negotiations on the three amendments. (Atkins: 285, 288) Mr. Atkins further testified that he recalled discussing the amendments with these officials. However, subsequent testimony indicated the discussion with Textron's general counsel occurred in 1975, well after the three amendments had been agreed to. (Atkins: 290)

Also, Bell's chief legal counsel testified that he had no recollection of being consulted on the amendments although he could not deny that he had not been consulted. (Galerstein: 435)

Had Bell decided not to agree to amendment no. 1, thus forcing Air Taxi to sue to claim its commission, Bell might have been able to use a legal technicality in the basic contract to help limit its liability. The basic contract signed on June 15, 1970 entitled Air Taxi to commissions only on certain listed products specified on a Schedule A which was attached to the contract. These listed products did not include the two models eventually sold to the government of Iran -- the Model 209 AH-1J and the Model 214. Air Taxi was not expressly entitled to receive a commission on these two models until amendment no. 1 was signed. Bell's chief legal counsel minimizes the legal effect of this omission, arguing that the two models were essentially second generation versions of models listed under the basic contract and therefore within the scope of the basic contract.

Bell's only record of litigation concerning dealer termination rights involved its former representative in Turkey. This representative claimed a commission of \$1.4 million or 5% on a \$28 million sale of 150 helicopters to the government of Turkey. The suit was filed in the U.S. Federal Court, Southern District

of New York. Bell reached an out of court settlement on October 22, 1974 in the amount of \$90,000 or less than one-third of one percent of the sale price.

(3) Continuing incentive to perform. Another reason given by Bell officials to explain the agreements reached with Air Taxi was that Bell wanted to give its representative a continuing incentive to perform. Textron conducted its own internal investigation of the final \$2.9 million payment in 1975 and in a memo prepared by Textron's general counsel, Tom Soutter, it was reported that the reason for the amendments were partly "to serve as a 'carrot' for improved performance by Air Taxi." (Exhibit 66)¹

Footnote

1. The existence of this internal investigation seems to contradict a statement by Mr. Miller in response to Senator Proxmire's request for copies of any internal investigation of overseas payments during the hearings. Mr. Miller replied that "there was not a one-time investigation" although it is possible Mr. Miller thought the question referred solely to an investigation by Textron's audit committee as opposed to its general counsel. (Hearings, p. 76) A copy of Mr. Soutter's memo was produced following the Committee's subpoena but was not furnished voluntarily in response to the staff's request for all documents bearing on the \$2.9 million payment.

The incentive or "carrot" function of Bell's agreement was confirmed by Mr. Atkins, who testified that "I think we wanted the representative to feel that he was going to receive a fair commission for his services to encourage him to give us as much assistance as he could in obtaining the final contract. I think we're talking amendment 1 here. (Atkins:312)¹

Amendment no. 1 was finally signed on August 16, 1972 at a time when Bell already had many of its officials in Iran for a demonstration of the two models it eventually sold to the government of Iran. Mr. Atkins had elsewhere testified that Air Taxi was primarily engaged in a logistics or support type of role and had been helpful in introducing Bell to the right officials, but that all of the subsequent selling efforts were undertaken by Bell officials. (Atkins: 84, 112, 116) Given this description of Air Taxi's role by Bell's president, the record is not clear

Footnote

1. This incentive or "carrot" function was also intended to apply to amendment no. 3 which resulted in the final payment of \$2.9 million to Air Taxi. Amendment no. 3 provided that this amount would be reduced by \$3,000 for each helicopter less than the 489 helicopters expected to be sold to Iran. Mr. Atkins agreed that at that time, Bell Helicopter felt that Air Taxi continued to have an incentive to continue to see to it that all of the ships would be sold and delivered to the government of Iran. (Atkins: p. 305) This continuing financial incentive on the part

as to why Bell felt it was necessary to provide Air Taxi with substantial financial incentives to continue its support assistance, especially since a final decision from the Shah was only two weeks away.

The need to provide Air Taxi with a substantial financial incentive to continue its services also seems to be in contradiction with advice received from General Toufanian in late 1971 and early 1972 that Bell should begin to phase out its agent and deal directly with General Toufanian's department. (Sylvester:503-4)

(4) Allowability of commission payment in contract.

Another fact that might explain Bell's willingness to expose itself to a potential commission payment of as much as \$10 million under amendment no. 1 was the belief of Bell officials at the time that the commission payment could be included as a cost in the

Footnote continued

of Air Taxi to see that the sale was not reduced does not strictly conform to the characterization of the \$2.9 million payment given by Mr. Miller during the Committee's hearings when he described the payment as follows: "It settled in a universal way this particular contract. It settled past services and current services, and it discontinued services for the future.

contract for the sale of helicopters to Iran. (Atkins:

397) As long as it was possible to pass the cost on to the customer, Bell had no direct financial incentive to minimize its liability to Air Taxi for commission payments.

At the same time, Bell officials received signals throughout 1972 from General Toufanian that he was upset about large commission fees. Mr. Sylvester, Bell's Vice President for International Marketing, testified on this point as follows:

"...General Toufanian made that position known repeatedly, and in the 1970's--late 1970's--well let's say the 1972 time frame, it was a regular item on his agenda for discussion when you came into his office, you know. He was...kind of an obsession with him. And he took great pride in being able to say that he had procured for his government large quantities of defense equipment without any agent's fees. He was very vocal on the subject." (Sylvester: 510)

(5) Value to Bell. A final explanation of Bell's willingness to enter into amendment no. 1 was given by Mr. Sylvester,, who was asked whether he regarded the potential commission of between \$6 to \$10 million under amendment no. 1 as a fair and equitable compensation for the services rendered by Air Taxi. Mr. Sylvester replied that he did and continued with the following observation:

".....I couldn't put a value on his (Air Taxi) services. All I know is that we made the sale. I can't tell you that we wouldn't have made it without him. I can't tell you that we did make it because of him. But, in our view --- in my view --- and I was the one that kicked this thing off, we would have been at a very serious disadvantage without him. Now, one more time, how do you put a finite value on something like that? It was worth that to us to make the sale. Certainly, that was a pretty modest thing." (Sylvester: 577-78)

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PARTICIPANTS

G. WILLIAM MILLER	President, Textron 1960-1974; de facto group Vice President of Aerospace (and Bell Helicopter) 1960-1974; Chairman of Board of Directors, Textron, 1974-
EDWIN J. DUCAYET	President, Bell Helicopter-Textron, 1960-1972; Chairman 1972-1973; Member, Textron Board of Directors 1973.
JAMES F. ATKINS	Executive Vice President, Bell Helicopter-Textron, 1960-1972; President, Bell Helicopter-Textron, 1972-
ROBERT AMES	Textron Group Vice President for Aerospace, 1974-
C. ROBERT BELL	Wichita, Kansas, lawyer for William French
WILLIAM FRENCH	Bell Helicopter's sales representative Iran, 1964-1967, through his firm International Helicopter Consultants
JAMES FELITON	Bell Helicopter's sales official 1965-1967; responsible for Iran
E.J. FARMER	Bell Helicopter-Textron Vice President for Finance, until early 1978.
· DWAYNE JOSE	Bell Helicopter-Textron Vice President for Commercial Marketing
JOHN E. GALLAGHER	Bell sales official involved in Iran
FRANK M. SYLVESTER	Bell Helicopter-Textron Vice President for International Marketing since late 1969.
J. H. (BUD) ORPEN	Bell Helicopter-Textron International Marketing Manager until Nov. 1969
GEORGE KLING	Bell Helicopter-Textron Sales Manager for International sales, 1965-1968.
RICHARD PIERROT	Bell Helicopter-Textron official located in Washington, D. C. with State Dept. connections.
A. H. ZANGANEH	Managing Director, Air Taxi

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KHALIL IRANZAD	Sales Manager, Air Taxi
AIR TAXI	Tehran based air charter firm which was Bell's sales representative in Iran from 1959-63 and from 1968 on.
DR. HASSAN SAFAVI	Legal adviser, High Council of Civil Aviation; Close associate of General Khatami. Nominee for Khatami and others as owner of STP.
STP (SHERKAT SAHAMI TAYAR PARS)	Persian corporation formed in 1966 to act as the representative of International Helicopter Consultants in Iran
GENERAL KHATAMI	Commander in Chief, Imperial Iranian Air Force; an owner of Air Taxi and STP; close to Shah whom he flew from Iran at time of Mossadegh uprising in 1953.
PRINCESS FATEMAH	General Khatami's wife; Shah's younger sister
PRINCE SHAHRIAR CHAFIK	Son of A. Chafik; nephew of the Shah; an Iranian Naval commander.
AHMED CHAFIK	An owner of record of Air Taxi along with Mr. Zanganeh in 1973; married at one time to Princess Ashraf, Shah's sister.
FREDERICK ESHOO	An owner of record of Air Taxi along with Mr. Zanganeh in 1973
THOMAS SOUTTER	Textron Vice President and General Counsel
GEORGE GALERSTEIN	Bell Helicopter-Textron Chief Legal Counsel
GENERAL RAFAAT	Close associate of General Khatami in Imperial Iranian Air Force
GENERAL H. TOUFANIAN	Vice Minister of War, Chief of Military Procurement
ENG. TOUFANIAN	Chief, Iranian Helicopter Industries; brother of General Toufanian

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MR. H. DEHESH	Deputy Minister of War for Armament; Assistant to General Toufanian
GENERAL HAMILTON HOWZE	Bell Helicopter consultant; involved in early 1960s in formulation of U. S. Army air mobile doctrine
GEN. MINBASHIAN	Commander in Chief; Imperial Iranian Army
MAJ. GEN. TWITCHELL	Commanding General, MAAG in Iran
GENERAL KHOSRODAD	Commander in Chief, Imperial Iranian Army Aviation
MEHRABAD AIRPORT	Tehran's main airport
CHARLES R. RUDNING	Bell Helicopter-Textron Vice President for program management; involved in negotiations in 1972-73 on commission payment to Air Taxi
COL. JAHAMBANI	Listed as an owner of record of Air Taxi from 1958 to 1965; an associate of General Khatami.

GLOSSARY OF CODE WORDS
 (Used in Bell Helicopter cables involving
 sales program in Iran)

No. 1	General Khatami
Turtles	206 Jet Ranger
Sail, Lizards	205 Huey
Sandfly	Army
Dragonfly	Navy
Bluefly	Air Force
IFN	Imperial Flight Hanger
RLS	Red Lion and Sun Society
Girls, Fish, Reptiles	Helicopters
Grooper, Grace	Augusta
Jane, Pike	Shah
Shark	AH-1G (Hueycobra-single engine version)
Swordy	AH-1J (Hueycobra-twin engine version)
Sea, School	Iran
Trout, Alice	Dehesh
Betty, Bass	Bell Helicpoter
Joe, Snapper	Air Taxi
Babs, Coddler	General Twitchell
FIN	Iran Helicpoter Industries
Dotty	Model 212
Skate	General Khosrodad
Martha, COD	MAAG

US Shad	U. S. Army
Suzy, Salmon	General Toufanian
Shad, NEL	Army
Bones	Spares
GFE	Government furnished equipment
Fishtail	Armed Helicopter
EJD	E. J. Ducayet, Bell Helicopter Pres.
KIS	Sikorsky Helicopter
King Snake	Bell Helicopter's King Cobra Helicopter
Karen	Imperial Iranian Air Force
Blackhawk	A Sikorsky prototype attack helicopter
Kay	General Minbashian
JFA	James F. Atkins
CRR	Charles R. Rudning
HHH	General Howze, Bell Helicopter Consultant
Mr. H.	Christopher Horsely, Bell Helicopter Sales Representative
Sail	Bell's Huey Model 205

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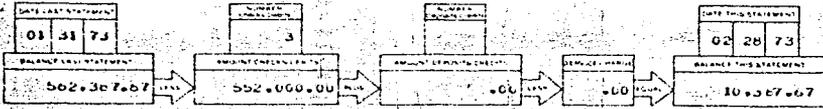
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A. H. ZANGARIN
31 AVENUE MARCHEL FRANCHET D'ESPERLEY
PARIS 16, FRANCE
AIR MAIL



CREDITS AND OTHER DEBITS		DEBITS AND OTHER CREDITS	DATE	BALANCE
290,000.00			01 31	562,367.67
131,000.00			02 08	272,367.67
121,000.00			02 09	141,367.67
			02 22	10,367.67

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 OF OKLAHOMA CITY

NO. _____ 39-1
 1030

DATE 27th JAN 1973

MR. M. KHATTAMI \$ 222,000.00
TWO HUNDRED AND NINETY THOUSAND DOLLARS

A. H. ZANGANER, 211155

[Signature]

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THE FIRST
 NATIONAL BANK & TRUST COMPANY
 OF OKLAHOMA CITY

NO. _____ 39-1
 1030

DATE 27th JAN 1973

MR. N. DIAHABANI \$ 131,000.00
ONE HUNDRED AND THIRTY ONE THOUSAND DOLLARS

A. H. ZANGANER

[Signature]

⑆1030⑉000⑆ ⑆1958⑉033⑆ ⑆00⑉13100000⑆

THE FIRST
 NATIONAL BANK & TRUST COMPANY
 OF OKLAHOMA CITY

NO. _____ 39-1
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DATE 27th JAN 1973

MR. A. CHAIK \$ 131,000.00
ONE HUNDRED AND THIRTY ONE THOUSAND DOLLARS

A. H. ZANGANER

[Signature]

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UNITED STATES SENATE
STAFF OF
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

STAFF INVESTIGATION RELATING TO
THE NOMINATION OF
G. WILLIAM MILLER

VOLUME I

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1 UNITED STATES SENATE
2 STAFF OF
3 COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
4 STAFF INVESTIGATION RELATING TO
5 THE NOMINATION OF
6 G. WILLIAM MILLER

7 -----
8 9:20 o'clock a.m.
9 Thursday, February 2, 1978
10 Textron Main Plant
11 P. O. Box 482
12 Highway 183
13 Fort Worth, Texas 76101

14 APPEARANCES
15 FOR STAFF OF COMMITTEE ON BANKING, HOUSING
16 AND URBAN AFFAIRS:

17 Charles L. Marinaccio
18 Bruce F. Freed
19 John T. Collins
20 David P. Doherty

21 FOR TEXTRON:

22 Thomas D. Soutter
23 George Galerstein
24
25

1 PROCEEDINGS

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MR. MARINACCIO: The President has

nominated G. William Miller to be a member of the Board of
Governors of the Federal Reserve System. And I believe
it's envisioned that he will be the Chairman of the
Board of Governors.

The nomination of G. William Miller is
pending before the United States Senate pursuant to its
advise and consent, responsibilities, and with the
Constitution.

The Committee on Banking, Housing and Urban
Affairs of the United States Senate has jurisdiction over
that nomination, and pursuant thereto commenced a hearing
on the nomination of G. William Miller.

G. William Miller appeared before the Committee
at a hearing, and during the course of that hearing the
Committee determined to conduct a staff inquiry
into the circumstances surrounding the payment of
\$2.9 million to Air Taxi relating to the sale of
approximately \$500 million in helicopters to the
government of Iran during the period approximately 1973,
1974 and 1975.

This proceeding is held pursuant to the
direction of the Senate Banking Committee and is a part of

1 the hearing of the nomination of G. William Miller to be
2 a member of the Federal Reserve Board.

3 This is a fact-finding inquiry. No negative
4 inference should be drawn by virtue of the fact that this
5 proceeding is being held, nor should any negative
6 inference be drawn by virtue of the fact that any
7 question will be asked of the witness. We recognize that
8 the witness is appearing here voluntarily. I should
9 say the witnesses, plural, will be appearing here
10 voluntarily, witnesses from Textron.

11 Nonetheless, the witnesses will be under oath.
12 And since the witnesses will be under oath, they will be
13 subject to all of the laws relating to perjury and false
14 statements that are applicable in proceedings by the
15 United States Senate under oath and, of course, the
16 witnesses would be entitled to be represented by counsel.
17 And I note for the record that two Textron counsels are
18 here at these proceedings today, and I will identify
19 them later for the record.

20 At this time I would like to introduce into
21 the record a letter from the Chairman of the Senate
22 Banking Committee, Senator William Proxmire, addressed
23 to Messrs. Marinaccio, Freed, Collins and Doherty. The
24 letter states:

25 "Gentlemen: As Chairman of the Senate

1 Committee on Banking, Housing and Urban Affairs,
2 having jurisdiction over the nomination of G.
3 William Miller to be a member of the Board of
4 Governors of the Federal Reserve System, I
5 hereby authorize you to administer oaths and
6 take testimony under oath from various Textron
7 officials pertaining to the subject matter of
8 the inquiry."

9 I would like to have that put into the
10 record and marked as Exhibit Number 1.

11 (The letter referred to
12 was marked "Exhibit No. 1"
for identification.)

13 It is possible that the information elicited
14 during the course of these proceedings could be used in
15 enforcement proceedings by the relevant agencies of the
16 United States Executive Department.

17 I would like to introduce the representatives
18 of the Staff of the Senate Banking Committee who are
19 conducting this inquiry today.

20 My name is Charles L. Marinaccio. I'm Special
21 Counsel to the Senate Banking Committee.

22 This is Bruce F. Freed. He's a Professional
23 Staff Member of the Senate Banking Committee.

24 This is John T. Collins. He's the Counsel to
25 the Minority of the Senate Banking Committee.

1 And this gentleman is David Doherty, Associate
2 Director of the Division of Enforcement at the Securities
3 and Exchange Commission. Mr. Doherty has been detailed
4 to the Senate Banking Committee at the request of the
5 Chairman of the Senate Banking Committee. Mr. Doherty
6 will not reveal any information to the SEC that is
7 elicited during the course of these proceedings which
8 the Committee considers and determines to be confidential.
9 That is to say that Mr. Doherty would be free to make
10 such information available to the SEC, unless the
11 Committee determined that the information was confidential.

12 All of the materials gathered during the course
13 of this investigation will be made available first to the
14 Senate Banking Committee, and the Senate Banking Committee
15 would then have the opportunity to make the determination
16 of whether the information is confidential or not.

17 If I may, I would like to ask counsel for
18 Textron to identify themselves for the record.

19 MR. SOUTTER: I'm Thomas D. Soutter,
20 Vice President and General Counsel of Textron.

21 This is George Galerstein, Chief Legal Counsel
22 for the Bell Helicopter Division of Textron.

23 MR. MARINACCIO: Now, there are four
24 staff members of the Senate Banking Committee here
25 conducting this investigation. And they may all have

1 questions of the witness from time to time.

2 It is customary procedure in proceedings by
3 Congressional committees to have each of the members of
4 the inquiry have the opportunity to question the witness.
5 We want to be completely fair to the witness. And if at
6 any time the witness or his counsel feels that the
7 rotation of questioning is a burden upon the witness,
8 counsel should raise that for the record, and we will
9 endeavor to arrange our coordination so that it will not
10 be a burden on the witness.

11 Before I administer the oath to Mr. Atkins,
12 I would like to, for the record, introduce this document,
13 Exhibit Number 2, which is a copy of the subpoena
14 which the Committee on Banking, Housing and Urban Affairs
15 served upon Mr. Thomas D. Soutter, counsel for Textron,
16 yesterday, and ask Mr. Soutter to state for the record in
17 summary the examination which he conducted or had conducted
18 on behalf of Textron and its Board of Directors and G.
19 William Miller, to comply with the subpoena and ask him
20 whether or not all documents have been given to the
21 Committee in compliance with the subpoena. Mr. Soutter,
22 could you state that for the record?

23 MR. SOUTTER: I requested of George
24 Galerstein, Bell Helicopter's counsel, that an investiga-
25 tion of the records and documents of Bell Helicopter and

1 its affiliated companies should be conducted in response
2 to the Senate Committee's--Senate staff letter, I think, of
3 January--

4 MR. MARINACCIO: 31st?

5 MR. SOUTTER: No, the--

6 MR. GALERSTEIN: The 25th.

7 MR. SOUTTER: No, the letter first,
8 which is not substantially different from the subpoena
9 that was served on me yesterday.

10 I participated with Mr. Galerstein in part of
11 that search, and Mr. Galerstein has advised me that in
12 fact he has made a search of those files and records.

13 In addition, at the corporate office of
14 Textron, I have directed that those files be searched for
15 documents relevant to both the initial letter and to the
16 subpoena.

17 To the best of my knowledge, the staff currently
18 has all documents which are relevant to the subpoena.

19 MR. MARINACCIO: If I may, Mr. Soutter,
20 just for the record, you referred to the letter, I
21 believe the letter is dated January 25, 1978, and it's
22 from Kenneth McQueen, Staff Director of the Senate
23 Banking Committee to you, requesting--

24 MR. SOUTTER: That is correct. In my
25 reply to him of January 27th, we supplied virtually all

1 of the documents at that time. Additional submission
2 was made by hand delivery this morning.

3 MR. MARINACCIO: And I will, for the
4 record, mark the letter of January 25th from the
5 Committee to Mr. Soutter as Exhibit Number 3 and mark
6 for the record as Exhibit Number 4 the letter from Mr.
7 Soutter to Mr. McQueen dated January 28th, 1978--January
8 27th, 1978, excuse me--mark those for the record, and
9 state my understanding from what Mr. Soutter has said
10 that the documents that he submitted pursuant to the
11 letter of January 25, 1978, together with the documents
12 which he submitted this morning, to myself, represent a
13 complete compliance with the subpoena issued by the
14 Senate Banking Committee and served upon Mr. Soutter
15 yesterday.

16 MR. SOUTTER: To the best of my
17 knowledge, that's correct.

18 (The letters referred to were
19 marked "Exhibit 3" and
20 "Exhibit 4" for identifi-
cation.)

21 MR. GALERSTEIN: Excuse me. Did you make
22 that letter Exhibit 3?

23 MR. MARINACCIO: Yes, the letter of
24 January 25 was Exhibit 3, and Mr. Soutter's letter of
25 January 27 is Exhibit 4.

1 MR. GALERSTEIN: Okay.

2 MR. MARINACCIO: Mr. Atkins, at this
3 time, I wish you would rise and raise your right hand
4 so I can administer the oath to you.

5 Do you solemnly swear that during these
6 proceedings you will tell the whole truth and nothing but
7 the truth, so help you, God?

8 MR. ATKINS: I do.

9 MR. MARINACCIO: Please be seated.
10 Thank you.

11
12 JAMES F. ATKINS,
13 having been first duly sworn to tell the truth, the
14 whole truth and nothing but the truth, testified as
15 follows, to-wit:

16 EXAMINATION

17 BY MR. MARINACCIO

18 Q Mr. Atkins, would you please state your full
19 name and your title here at Textron?

20 A James F. Atkins, President, Bell Helicopter
21 Textron, a Division of Textron, Inc.

22 Q And would you state for the record a brief
23 description of the responsibilities of that position
24 and how long you have held this position?

25 A I've been President since January 1, '72, and

1 I have the responsibility for the management of Bell
2 Helicopter Textron and our associated companies, Bell
3 Helicopter International and Bell Operations Corporation.

4 Q How long have you been employed by Textron?

5 A Well, Textron purchased Bell in 1960, and I
6 was with Bell at the time it was purchased.

7 Q What positions did you occupy with Bell
8 during the 1960's and up to 1972 when you became
9 President at Bell Helicopter? A brief description.

10 A Yes. Basically, when Textron purchased Bell
11 in 1960, I became the Executive Vice President of the
12 Bell Helicopter Company, a Division of Bell Aerospace,
13 which was a separately owned corporation, a hundred
14 per cent owned by Textron.

15 Q And you--

16 A And I held that position up to January of '72.

17 Q When you became President?

18 A Right.

19 Q And as President, are you the chief executive
20 officer of the Bell Division?

21 A Yes, I am.

22 Q Now, is it correct that as President of Bell
23 Helicopter, you would have personal knowledge and be
24 familiar with and have had responsibility for the sale
25 of approximately \$500 million in helicopters to the

1 government of Iran?

2 A Yes, it is.

3 Q And that you would have responsibility for
4 matters relating to the payments to agents in connection
5 with that sale and such sales by Bell Helicopter?

6 A Yes. I have total responsibility for the
7 company.

8 Q And specifically you had responsibility—did
9 you have responsibility in that connection for the \$2.9
10 million payment that was made to Air Taxi in connection
11 with the sale of those helicopters to the Government of
12 Iran?

13 A Yes, I did.

14 Q And would you have had responsibility, also,
15 in that connection for the hiring of agents that Bell
16 Helicopter may be dealing with on a worldwide basis?

17 A Well, Bell established a dealer organization
18 to represent it around the world back in the, I assume
19 probably during the fifties. And I had no particular
20 responsibility for the direct hiring of agents, but it
21 comes under my overall responsibility for the operation
22 of the company.

23 Q Can you describe that dealer structure for
24 me for the record?

25 A Okay.

1 Q Who was a member of it, is it a part of
2 Textron?

3 A No. Each Textron Division is autonomous, and
4 each Textron Division has its own sales programs.

5 Bell, as part of its sales programs,
6 established, I think we called them manufacturing
7 representatives, around the world, and that organization
8 has been developed over a period of perhaps 25 years. And
9 these representatives cover the major portion of the
10 world and carry on sales activities in behalf of our
11 company. Many of them have maintenance facilities, spare
12 parts facilities, to support our product line.

13 Q And I take it from what you're saying that
14 they do so as individual agents, they are not an
15 organization with a formal structure, in other words
16 your various agents in parts of the world don't meet as
17 an organization?

18 A They are individual--

19 Q They are individual--

20 MR. SOUTTER: Individual or independent?

21 A --independent corporations or partnerships
22 or entrepreneurs, as it may be.

23 Q Mr. Atkins, can you describe generally how
24 you function as a chief executive officer of Bell in
25 relation to the Textron parent in Providence, can you

1 describe what the parent is, for the record, what its
2 functions are and how you interface with that structure
3 on a daily and monthly and yearly basis?

4 A Uh huh. Well--

5 Q In a management sense?

6 A Yeah, yeah. Well, Textron, of course, is
7 the corporate entity that owns and manages some thirty
8 independent companies. Textron itself is broken down
9 into five major product areas. We happen to be a part
10 of the Aerospace group. Textron has group vice
11 presidents for each of these major areas. And we would
12 fall under the purview of the group vice president for
13 Aerospace.

14 Textron, of course, furnishes capital to
15 each of its divisions. It has basic responsibility for
16 the supervision of the operations of those divisions
17 which it assigns to its various presidents. Textron,
18 of course, maintains all the financial--corporate financial
19 records and, of course, are active in legal areas, so
20 forth, to protect the corporation.

21 We as a division operate under that structure.

22 Q Now, who is the group vice president for
23 Aerospace?

24 A At this time?

25 Q At this time, and if you will for the record,

1 name each group vice president for Aerospace, going back
2 to 1968.

3 A I believe that when I--- I know that when I
4 took over as President, Mr. Miller acted as the
5 supervisor of the Bell Helicopter Division.

6 At some point in time, which I'm guessing,
7 but about 1974, Robert S. Ames took over as Group Vice
8 President of Aerospace, and we in turn report up through
9 Mr. Ames at this time.

10 Q Do you know whether Mr. G. William Miller
11 functioned in that capacity prior to 1972 when you became
12 President of Bell Helicopter?

13 A Yes, he did.

14 Q Do you know how far back he would have
15 functioned in that capacity? Would he have functioned in
16 that capacity back as far as 1967, '68?

17 A Yes, I believe he did.

18 Q Further back, maybe 1964 or---

19 A I think he--- I think he served from 1960
20 through the '73-'74 time frame.

21 Q And Mr. Miller in that capacity and you in
22 the capacity as the chief executive officer at Bell,
23 would you have contact with Mr. Miller as your supervisor--

24 A Yes.

25 Q ---on a daily, weekly basis, on an intensive

1 basis, on major projects that Bell is undertaking?

2 A Not probably on a daily or maybe not even on
3 a weekly basis. Textron assigned considerable autonomy
4 to their divisions. And I would report to Miller and
5 bring to his attention anything that I thought was
6 worthy of his attention. But I would say a weekly or
7 semi-weekly basis.

8 Q And it is clear that--

9 A Semi-monthly basis.

10 Q --that in that capacity he was your super-
11 visor?

12 A Yes, sir.

13 Q And what was your relationship with the
14 Board of Directors of Textron, or what is your relation-
15 ship with the Board of Directors of Textron as the
16 President of Bell Helicopter?

17 A I would have no direct relationship with the
18 Board. I, of course, would know the members of the Board
19 and would see them at various Textron functions. But I
20 have no direct relationship with the Board. I'm a
21 division, not a corporation.

22 Q To your knowledge on matters that would
23 need the Board of Directors' attention having to do with
24 Bell Helicopter, would that be the function of--would
25 that have been the function of Mr. G. William Miller as

1 your supervisor to deal with the Board of Directors of
2 Textron on matters of business dealing with Bell
3 Helicopter?

4 A That's correct.

5 Q Mr. Atkins, if I may, as I said at the
6 outset, each of us are going to have some questions, and
7 I'm going to ask Mr. Freed in a moment to ask you some
8 questions about the general area of organization, structure
9 and how you relate to your superiors and so on. But
10 before I do that, I think in fairness to you as the
11 witness, I should point out that in order to be fair to
12 you as a witness, because of this procedure and more
13 than one person questioning the witness, we have an
14 outline of areas that we want to cover with you. And
15 our intent is to cover each area with each of the
16 participants making an inquiry. And then we'll finish
17 an area and move on to the next area, and then each of
18 the participants would have the further opportunity to get
19 into that area.

20 A Fine.

21 Q Some of these areas may overlap, but we hope
22 to keep the overlap to a minimum so that anybody coming
23 along and reading the record would see the development
24 of it. And I'd be very happy to in a shorthand way
25 tell you what the areas are that we're going to cover.

1 A Fine.

2 Q The first area that we've just gotten into
3 is your position and background and the organizational
4 structure.

5 We would intend next to go into the area of
6 the company policy with respect to the hiring of agents.

7 Following that, we would intend to go into
8 the matter of the rehiring of Air Taxi in 1968.

9 Following that we would intend to cover the
10 area of the sale of the helicopters to the government of
11 Iran, including such things as the participation of Air
12 Taxi in that sale.

13 We would then intend to cover the area of
14 the participation of General Khatami--that's K-h-a-t-a-m-i,
15 I believe--and the matter of the ownership of Air Taxi.

16 Following that we would expect to develop
17 the facts relating to the payment of the \$2.9 million.

18 And following that there may be some general
19 wrap-up questions at the end. But those are the major
20 areas that we would want to cover with you.

21 A Fine.

22 (Short break.)

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(Short break.)

MR. MARINACCIO: For the record, may I state that we've just had a short break to accommodate the Court Reporter in making a short change of the paper in his machine. And that during that short break, it occurred to Mr. Soutter that he had one more matter concerning the submission of documents pursuant to the subpoena that I thought should be stated for the record.

And at this point, I'll ask Mr. Soutter to make a statement for the record.

MR. SOUTTER: Arthur Young, Textron's accountants, at the request of the Staff of the Senate Banking Committee had also made a submission in connection with this proceeding.

I consider the materials that Arthur Young submitted to the Staff to, in effect, have been submitted also on behalf of Textron under the subpoena.

MR. MARINACCIO: That's fine. Mr. Soutter may I ask you one clarifying question on that: Are the Arthur Young documents which have been tendered to the Committee, are they in your files also? In other words, if Arthur Young had not submitted them, would they have turned up in your files to be submitted, or are you saying that—

2-2

1 MR. SOUTTER: In the main, those docu-
2 ments were not in our files, but they had arrived prior
3 to the time that the subpoena was issued to me on the
4 first of February, and I am just simply turning around
5 and saying that you may also consider those now to have
6 been resubmitted to the Staff.

7 MR. MARINACCIO: So they would have been
8 documents in your possession relating to this matter at
9 that time?

10 MR. SOUTTER: Only as of their submission
11 to us from Arthur Young, with some very minor exceptions.

12 MR. MARINACCIO: Thank you very much,
13 Mr. Soutter.

14 And a further qualifying matter on the sub-
15 poena is one that Mr. Collins wishes to raise, so I will
16 ask Mr. Collins to discuss that matter directly with
17 Mr. Soutter at this point.

18 MR. COLLINS: The submission of docu-
19 ments pursuant to the subpoena, as we understand it,
20 includes those documents that you submitted prior to
21 the issuance of the subpoena, as well as those that you
22 have submitted today.

23 MR. SOUTTER: Correct.

24 MR. COLLINS: And the ones submitted
25 prior also include materials that you submitted

2-3

1 informally to the Staff prior to the hearing conducted
2 with respect to Mr. Miller's nomination?

3 MR. SOUTTER: That would be correct.

4 MR. COLLINS: I believe that you sub-
5 mitted some copies of the contracts?

6 MR. SOUTTER: That would be correct.

7 MR. COLLINS: All right. That's fine.

8 MR. MARINACCIO: Mr. Atkins, I'm going
9 to turn the questioning over to Mr. Freed in a moment,
10 but I might just say that, of course, there may be
11 variation from time to time from the outline which
12 I've mentioned to you a moment ago that will depend on
13 the nature and primacy of the questions and so on and
14 so forth.

15 We will now ask Mr. Freed to go into this
16 matter.

17
18 EXAMINATION

19 BY MR. FREED

20 Q Mr. Atkins, I just have just a very few
21 questions. I just want to clarify with you the method
22 of your communication with Textron Corporate headquarters.

23 A Much of the communication is by telephone.
24 Some are in the form of an annual or a semiannual
25 business review where several of the Textron officers

2-4

1 will come to our company and spend perhaps two days
2 here. And, others, of course, I may visit Textron from
3 time to time. And, of course, there will be certain
4 written memorandums.

5 Q Now, in connection with the phone conversa-
6 tions, would you have written memoranda—

7 A No, sir.

8 Q —as to those?

9 A No, sir.

10 Q In discussion of important matters with
11 Mr. Miller or with other top Textron officials involv-
12 ing overseas sales or anything in relation to agents,
13 would there be memoranda of phone conversations?

14 A No, sir.

15 Q Was most of the communication orally by
16 phone?

17 A Yes, well—is "most of it," did you say?

18 Q Yes.

19 A Yes. I would say most of our business con-
20 versations are orally.

21 Q With no record of the substance of the con-
22 versation?

23 A No, sir. The only thing that would be re-
24 corded is anything that would go to the Board for the
25 form of a resolution.

2-5

1 Q When decisions were reached, were they spelled
2 out in memoranda or any other form or any other documents?

3 A Now, you are limiting yourself to this—

4 Q To the various—

5 A —to these inquiries on overseas sales?

6 Q Any other matters, any matters in general, as
7 a general policy.

8 A Well, there will be exchange of correspondence
9 from time to time, sure.

10 MR. FREED: Okay. That's all I had.

11 MR. MARINACCIO: I believe Mr. Collins
12 has some questions in this area also.

13

14 EXAMINATION

15 BY MR. COLLINS

16 Q Mr. Atkins, what was the chain of command
17 above Mr. Miller during the time in which he acted as
18 group vice president over Bell? Was he also the presi-
19 dent of the corporation of Textron, Inc.?

20 A From 1960, at the time of our acquisition,
21 Mr. Little was chairman of the corporation. I believe
22 Mr. Thompson was president of the corporation. At some
23 point in the 1960's, Mr. Miller became president of the
24 corporation; Mr. Little retired. So, I would say that
25 the majority of the time, he was also president of the

2-6

1 Corporation.

2 Q And were there, during this time, were there
3 other officers of Textron, possibly a vice chairman of
4 the board, executive vice president, who also acted as
5 group vice presidents?

6 A There--there may be some occasions where an
7 officer has also acted as a group vice president.

8 Q And do you know if Mr. Miller acted as a
9 group vice president with respect to any other divisions--

10 A I do not--

11 Q --during this time--during that time?

12 A He probably also acted as group vice presi-
13 dent of Bell Aerospace.

14 Q A separate division?

15 A Yes, sir.

16 MR. COLLINS: All right. That's fine.

17

18 EXAMINATION

19 BY MR. MARINACCIO

20 Q I have one final question in this area of
21 background and organizational structure, and we may
22 have gone into this slightly before, but I would just
23 like to ask the question directly:

24 To your knowledge, what was Mr. Miller's
25 specific responsibility during the period in which he

2/7

1 was a group vice president for Aerospace with respect
2 to not only Bell, but other components of whatever
3 Aerospace business Textron was in?

4 Would you explain Mr. Miller's role a little
5 bit in that precise position?

6 A I don't believe that Mr. Miller ever held a
7 group vice president title. I believe that because of
8 the fact that Aerospace was large and he had a particular
9 interest in Aerospace that he served to guide Bell
10 Helicopter and Bell Aerospace. And, most of that time, I
11 believe he held the title of president.

12 Q I see. Mr. Atkins, we are about to move on
13 to your policy on agents here. .

14 Is there any statement that you would like to
15 make with respect to the matters we have just covered
16 that you would feel would clarify the record or anything
17 that occurs to you that would be in any way with respect
18 to those particular matters helpful to the inquiry?

19 A I don't believe so.

20 Q Mr. Atkins, we'll now cover the policy on
21 agents.

22 Does Bell Helicopter or Textron have, or did
23 they have during the period 1968 to the present date,
24 any policy written, formal or informal, relating to the
25 hiring of agents overseas for the sale of helicopters?

2-8

1 And if there is such a policy, formal or
2 informal, can you state for the record what it is; how
3 it operates; how it functions? This is just your general
4 policy on the hiring of agents.

5 A Well, I know that there is no written pro-
6 cedure covering the retention of representatives or
7 agents, whatever you wish to call them.

8 Basicallly, we are looking for reliable people
9 who can represent our company around the world and can
10 add to our total sales growth and support of our product
11 in the field.

12 Q Can you describe the process by which Bell
13 Helicopter goes about the business of hiring agents? I
14 take it from what you've said that it's on an individual
15 basis?

16 A That's right.

17 Q Yes. All right. Can you describe the process,
18 and, specifically, within that, please direct yourself
19 to what inquiries that Bell Helicopter or Textron makes
20 concerning the reputation of the agents?

21 A Well, you have to look back to the fact that
22 in the 50's, and perhaps midway through the 60's, our
23 sales overseas were very small.

24 The responsibility for selecting repre-
25 sentatives in various parts of the world fell under the

2/9

1 jurisdiction of our International Sales Department.

2 I would say that there was no specific
3 method of retaining an agent. We would quite often look
4 at representatives who represented some of the general
5 aviation companies like Beech or Cessna or Piper. And
6 they tended to be candidates for representing Bell.

7 Normally, I believe that the representatives
8 would be a matter that was discussed within the Inter-
9 national Sales Department, and they would make a
10 selection and they would assign this particular repre-
11 sentative based upon our standard Representative Agree-
12 ment, our legal agreement, prepared by our Legal
13 Department that each representative was required to
14 sign and become a part of. And that was, generally, the
15 procedure that was followed.

16 Q Is there any procedure for any written
17 report, what the reputation of the agent is that's
18 under consideration as a prospective agent?

19 A Well, I think it somewhat depends upon the
20 country of the world you are talking about and a— For
21 example, a representative in Germany or England would
22 probably get different consideration than a representa-
23 tive in some small island out in the Caribbean or some-
24 thing of that type.

25 And I know that I have participated in

2/10

1 selection of some representatives. I know that there's
2 a lot more that I have not participated in.

3 Q For example, when a company wishes to hire
4 a representative in another state, the company might
5 get a Dunn and Bradstreet report on that company or it
6 might have his business background or review of annual
7 reports and so on.

8 My question is: Is there any procedure in
9 Bell Helicopter for going through that kind of a
10 management exercise with respect to the hiring of
11 agents overseas?

12 A I would say that we sometimes do it, but
13 not always.

14 Q To what extent in the hiring of a agent do
15 you consider the ability of the agent to influence
16 foreign government officials with respect to the pur-
17 chase and sale of goods?

18 A Well—

19 Q "Influence" being defined as very broadly
20 knowledgeable about the government, having personal
21 relationships with various government officials and so
22 on?

23 A Well, certainly, we are looking for capable,
24 qualified people who can sell our products abroad. And,
25 certainly, foreign governments of the world have been

2/11

1 some of our main customers.

2 Q What is the organizational structure below
3 you which deals with the hiring of foreign agents?

4 What I'm asking is: How do you maintain
5 management control over your people in the field that
6 negotiates over the hiring of agents?

7 A Well, our organizational structure has
8 changed over the years, but our present structure is
9 that I have a Senior Vice President of Marketing and
10 Programs.

11 Q And who would that be, sir?

12 A His name would be Horner.

13 And under him would be a Vice President of
14 International Sales, who would be Sylvester.

15 Q And who, in the organization, would have the
16 authority to approve the entering into a contract with
17 a foregin agent?

18 Would that be a matter that would have to
19 come to you, personally?

20 A Let's say that the Sales Department probably
21 understands the countries I would be interested in and
22 they would bring those to me at the time that they were
23 ready to make their selection.

24 Q Can you tell us what countries you are
25 interested in? Is Iran one of the countries you are

2/12

1 interested in?

2 A I am today. I wasn't in 1968.

3 Q Were you in 1972 and '3?

4 A I became interested in the Iranian situation
5 actually in 1971.6 Q I am going to ask at this point Mr. Doherty
7 to ask you some questions. I know he has some questions
8 about the general policy of foreign payments and some
9 more specifics on this area that I've covered. So at
10 this point, I'd like Mr. Doherty to ask you some
11 questions.

12 A Sure.

13

14

EXAMINATION

15

BY MR. DOHERTY

16

17 Q Mr. Atkins, you indicated that perhaps the
18 structure had changed recently. There is a particular
19 focus here in terms of the time periods surrounding
20 the negotiations for and consummation of a large contract
21 in Iran with respect to approximately 500 helicopters.

22

23 Q Could you describe to us the procedures that
24 were operative at that time with respect to the general
25 procedures now with respect to the letting of contracts
and controls in that area?

26

A We are—in thinking about the— Let's pick a

2/13

1 time frame. Shall we pick '72 or '71 or—

2 Q Why don't we start with—

3 A See, January 1, '72, I became president.

4 Q I think we ought to start with '71.

5 A Okay. In 1971, I was Executive Vice Presi-

6 dent of Bell Helicopter Company, and we had three

7 separate marketing departments, a U. S. Government Mar-

8 keting Department, a Commercial Marketing Department,

9 and an International Marketing Department.

10 Sylvester was the International man. He

11 worked for me as Executive Vice President.

12 Q What was the structure below him?

13 A Well, basically, at that point, I believe

14 that there would be salesmen covering areas of the world,

15 and they would be, I think, reporting directly to him

16 at that point.

17 Q And during the period of time from '71 through

18 '74, was there any substantial change in that structure?

19 A I believe that there was not, because the

20 basic sales role was Atkins, Sylvester, and that way.

21 Q Now, did Bell or Textron have a particular

22 procedure that was operative at that time with respect

23 to who had authority to negotiate agent contracts?

24 A Well, Textron did not put any specific

25 limitations on us, and I'm sure I had total responsibility

2/14

1 for the negotiations of the contracts.

2 Q When you say "total responsibility" you mean
3 ultimate responsibility, the contract would have to be
4 approved by you?

5 A Yes, that's right.

6 Q Were there ever occasions during this period
7 of time when a contract would be approved by the Board?

8 A I know of no approvals by the Board.

9 Q Were there ever occasions during this period
10 of time where such a contract would be approved by
11 someone above you or where you would secure someone's
12 concurrence above you?

13 A I believe that most of the contracts were
14 not of great importance to the corporation, and probably
15 the only one that I discussed with Textron officials
16 would be the Iranian situation.

17 Q During the period of time we are discussing
18 right now—let me restate that:

19 Does Textron have any different procedure
20 that is applicable to a letting of agent contracts at
21 this time, other than what you've described to me?

22 A Well, Bill Miller as the Chairman of Textron
23 issued a memorandum on Standards of Conduct back in
24 the '76 time frame. And that memorandum requires
25 certifications from individuals involved in sales work

2/15

1 to make certain stipulations and we all do that.

2 MR. SOUTTER: Plus the provisions to
3 be put into the Agreement.

4 THE WITNESS: Yes. In addition to that,
5 Bill issued a memorandum suggesting that—or requiring
6 that all foreign agreements have certain specified
7 language with regard to the conduct of our agents,
8 themselves. And those—that language requirement has
9 been put into our agreements and is now effective, I
10 believe, in all our agreements overseas.

11 MR. SOUTTER: That last document that
12 Mr. Atkins was referring to is a memorandum from Textron
13 of August 16, 1976, a copy of which has previously
14 been delivered to the Staff.

15 MR. DOHERTY: Yes, we have it here
16 as part of a group of larger documents. I think it
17 would be appropriate to mark that document for the
18 record at this time.

19 Do you have another copy or shall we pull
20 out—

21 MR. SOUTTER: We can provide you with
22 a copy.

23 MR. DOHERTY: Fine. Let's have that
24 document marked as Exhibit No. 5 as an August 16, 1976
25 two-page document entitled "Standards of Conduct Policy

2/16

1 as to Representatives, Agents, Consultants, Dealers or
2 Distributors."

3 (The document referred to was
4 marked "Exhibit No. 5" for
identification.)

T3

5 MR. DOHERTY: We just had marked as
6 Exhibit No. 5 the August 16, 1976 Policy Statement which
7 sets forth in writing a policy which--well, it speaks
8 for itself. I'll just paraphrase it for the clarity
9 of the record: It seems to indicate that Bell is
10 setting forth the policy that all of its contracts
11 should be acquired through merit of the product; that
12 no improper or illegal payment should be made to
13 government officials or those affiliated in order to
14 secure those contracts.

15 Would that be a correct statement, Mr. Atkins?

16 A Yes, it would be.

17 MR. SOUTTER: May I interject that
18 while you said it's applicable to Bell and that is
19 correct, it is a Textron companywide memorandum.

20 MR. DOHERTY: Thank you.

21 Q It also sets forth the requirement that in
22 all future agent contracts, that there will be a pro-
23 vision that the agent represents that it will not use
24 its efforts to secure the contract through improper
25 payments as well.

1 Mr. Atkins, was prior to this time a policy
2 in effect at Bell or at Textron with respect to these
3 matters?

4 A Was there a policy?

5 Q Yes, sir.

6 A I think it was— I think it was our policy
7 that we never desired to participate in transactions
8 where illegal payments would be made.

9 Q Was this policy ever communicated to you by
10 any of your superiors?

11 A I am sure that that kind of guidance has
12 always been guidance out of Textron.

13 Q Did you ever communicate that policy to any
14 of your subordinates? And, if so, was it in writing, or
15 orally or, specifically, what can you tell us about
16 that, prior, again, to this memo of October 16, 1976?

17 A Well, it's— It's always been my policy that
18 we had no desire to participate in that kind of business.
19 And I'm sure I've communicated that on many occasions
20 to our total sales team. We do want to sell our product
21 on its merits. We are quite successful in the world.
22 And, basically, our position in the world helps us sell
23 our products. And I think the fact that our integrity
24 has been unquestioned in these areas is one of the reasons
25 for our success.

1 Q Do you know, sir, whether that policy was
2 conveyed to Bell's sales agents?

3 A I've made speeches at conventions on these
4 very subjects.

5 Q And could you describe to me generally
6 what they were and—

7 A Well, quite often—

8 Q --generally, what was said and who were the
9 participants at those meetings?

10 A On an annual or a semi—or on an every two
11 year basis, we have international sales meetings. And
12 quite often we have talked to the question of commissions
13 and we have always encouraged our representatives to
14 represent us in the right way, because even though they
15 are independent and are separate companies, their
16 actions reflect on us. And so we do have great interest
17 in doing that.

18 Q And it's your testimony then that generally
19 at these meetings which would be attended by you said
20 sales reps or would that include your foreign commission
21 agents?

22 A It would be— An International Sales Meeting
23 here at Bell would be a meeting of our representatives
24 from around the world, plus our sales team that are
25 directly employed by Bell.

1 Q And by "representatives," you include sales
2 agents or commission agents; is that correct?

3 A We only have manufacturing representatives.

4 Q But it's your testimony that at these meetings
5 you would convey to them the message that they should
6 represent Bell in a manner consistent with the policies
7 you indicated are set forth in your October—

8 A That's right.

9 Q —16, 1976 written policy statement; is that
10 correct?

11 A That's right.

12 MR. MARINACCIO: Mr. Freed would now
13 like to ask some question in the same area Mr. Doherty
14 did.

15 THE WITNESS: Sure.

16
17 EXAMINATION

18 BY MR. FREED

19 Q Mr. Atkins, I just want to check with you:
20 You had said that the only contract you had discussed
21 with Textron officials would be the Iranian situation.

22 I just wanted to check on the series of con-
23 tracts you discussed and what the time frame was, just
24 in general terms, the time frame of those discussions.

25 And, again, what were the contracts that you

1 discussed with them?

2 A On the Iranian situation?

3 Q Yes. You made that statement.

4 A Yes.

5 Q I want the time frame and the—

6 A Yes, I would say that I had discussions in
7 the 1972-1973 time frame about the Iranian program, be-
8 cause I recognized the importance of the Iranian pro-
9 gram, and because I recognized that the representative
10 situation could be difficult on such a large proposed
11 program.

12 I should also probably correct myself. I
13 think at various times, I think we also talked about a
14 Turkey contract where we had terminated a representative
15 and we became involved in a lawsuit because of that
16 termination.

17 And it was eventually, the lawsuit was
18 eventually handled by the Textron Legal Department,
19 and they assigned attorneys to handle the settlement
20 or that particular case. So that's another one that
21 we talked about.

22 Q Now, what, specifically, were the contracts
23 that you talked about? This, again, are these your
24 conversations with Mr. Miller?

25 A Well, here we were talking about a large

1 program. And we probably didn't know the size of the
2 program until October of '72, but it was a large pro-
3 gram, and it was in the process of development.

4 And I'm sure that all through that time frame, when we were
5 involved in the marketing effort, that we had talked
6 about the possibilities of this program. And, here,
7 I am talking about the contract, itself, that we re-
8 ceived.

9 Q This is the contract?

10 A Bell received.

11 Q From whom?

12 A It ended up to be a U. S. Government con-
13 tract.

14 Q For the helicopters?

15 A Yes, sir.

16 Q For the sale of helicopters to the Government
17 of Iran?

18 A That's correct.

19 Q And so to recapitulate, you had the
20 discussions in '72-'73 time frame with Mr. Miller on
21 this contract?

22 A On the total sales program for the helicopters,
23 spare parts, training, logistics, the whole package that
24 we were involved in discussions with the Government of
25 Iran and with the United States Government.

1 * Q Could you be more specific when you talk
2 about '72-'73 time frame; about when in '72 did you
3 begin the discussions? Or did the discussions become
4 more frequent?

5 A Well, my first trip to Iran was in late '71.
6 That was followed by—and, at the same time—
7 I'm not the "sales program." We have a whole team
8 working this program. So there were many people from
9 Bell who were involved in the marketing programs. But my
10 first discussions, really, was in late '71.

11 Then in the spring of '72, we had further
12 discussions. And out of these discussions we agreed
13 to bring our products to Iran to demonstrate their
14 performance in certain difficult, hot and high areas
15 of Iran. That was in the spring of '72.

16 So the demonstrations were carried out
17 basically in the month of August and early September
18 of '72.

19 At that point, the Iranian Government made
20 the decision to purchase; at the same time made the
21 decision that the sale would be an FMS sale.

22 Q A question you raised: Now, these discussions
23 that we're talking about, are these discussions with
24 Mr. Miller? Were you reporting all of this to Mr. Miller?

25 A Well, I'm sure I've talked to Mr. Miller,

1 but I'm sure I've talked to other officials in Textron,
2 too.

3 Q In Providence?

4 A Yes, sir.

5 Q But how much of the discussions were with
6 Mr. Miller?

7 A Mr. Miller had knowledge of the total program
8 that we were—that we were formulating.

9 Q And who were the other officials you spoke
10 with in Providence?

11 A Well, I'm sure that we probably had dis-
12 cussions with the Legal Department. I feel sure that
13 the Financial Department was probably also involved
14 in some discussions regarding the transaction. It was
15 a big transaction.

16 Q Would you be talking to the General Counsel,
17 the Legal Department?

18 A Sure.

19 Q The Vice President for Finance?

20 A Sure.

21 Q It would be with the top Textron officials?

22 A Yes. Yes, it would be.

23 Q And do you know whether they would then have
24 subsequent conversations with Mr. Miller also?

25 A I have no knowledge.

1 MR. FREED: Thank you.

2 MR. MARINACCIO: Mr. Collins has some
3 questions.

4 THE WITNESS: Sure.

5

6 EXAMINATION

7 BY MR. COLLINS

8 Q Let's go back to the general area of agency
9 relationships.

10 A Right.

11 Q We are talking here about manufacturer's
12 representatives—

13 A Right.

14 Q —in this discussion.

15 You also had other types of arrangements
16 whereby people would manufacture and sell Bell Helicopters
17 or Bell Helicopter products and services in foreign
18 countries; is that correct?

19 Would you just explain your distribution
20 network—

21 A Yes.

22 Q —to include manufacturer's agents, but also
23 what other arrangements did you have?

24 A I would say that the manufacturing repre-
25 sentatives, together with our own international sales

1 force, represented 99 and 1/2 per cent of our sales
2 effort overseas.

3 I would say from time to time, there might
4 have been a special consultant of some kind retained,
5 never resulting in any magnitude as far as sales were
6 concerned.

7 Q But would you have other, like a licensee?

8 A Oh, yes.

9 Q For that area, you would gain income from
10 sales by licensee; is that correct?

11 A Yes.

12 Q And they would be foreign sales?

13 A Yes, sir. It would not be included in our
14 foreign sales. We would earn royalties which we would
15 record on our—

16 Q Bell Helicopter would?

17 A Yes, sir.

18 Q Now, how significant would that be compared
19 to your manufacturer's representatives' business?

20 A Well, the royalties—well, over the years,
21 we have had probably seven or eight licensees, and/or
22 co-production programs. The two major programs have
23 been Agusta of Italy and Mitsui of Japan.

24 Q Licensees to produce?

25 A To produce Bell products and sell in certain

1 specified market places. And, in addition to that,
2 we've had co-production plans in various countries of
3 the world: Germany, England, Australia.

4 And, yes, we would earn royalties on those
5 programs.

6 Q Now, with respect to the manufacturer's
7 representatives, would they be given or is it ordinary
8 policy to give them an exclusive territory? You know,
9 an exclusive agency contract in a specific territory?

10 A I think we considered it to be an exclusive
11 agency contract, yes.

12 Q And with respect to licensees, would that
13 be the same type of an arrangement?

14 A No. In the case of a licensee, we sometimes
15 would give them an exclusive arrangement in certain
16 territories and non-exclusive in other territories.

17 Q Now, would you define for the record a "manu-
18 facturer's representative licensee" and "co-production"?

19 A Okay. A "licensee," first off, would be a
20 rather large corporation which would have full facility
21 capabilities to produce our product, and who would
22 establish an independent sales force of their own to
23 market their product in the licensed territory.

24 A co-production program would result when
25 a major government decided to make a procurement of a

1 substantial quantity of aircraft and probably required
2 that we join with an aerospace company of their
3 nation in a co-production effort in order to retain
4 labor in their own country, content in their own country.

5 Manufacturer's representatives would be a
6 separate company or a separate individual who would act
7 independently of Bell and for whom we took no responsi-
8 bility for their commitments. And their function would
9 be to market and product support our price in a
10 specified area.

11 Q Would Bell have a licensee with the authority
12 to sell in a territory a specific product that an
13 agent or a manufacturer's representative would also have
14 the right to try to sell?

15 A Could you give me that again?

16 Q Okay, if you have a licensee—

17 A Right.

18 Q —who has the right to manufacture a product—
19 I assume the product is defined.

20 A Right.

21 Q A specific type of helicopter, perhaps. Then,
22 the licensee also has the authority to sell that product—

23 A Yes.

24 Q —in a territory?

25 A (The witness nodded his head up and down.)

1 Q . What would Bell's relationship be with the
2 manufacturer's representative in that same territory?

3 A Well, if we granted an exclusive right to
4 sell to a licensee, then we would not grant a manu-
5 facturer's representative contract in the same country.

6 Q So that would be part of your contract with
7 the manufacturer's representative?

8 A That's right, sir.

9 Q That you cannot sell these products. We have
10 a licensee?

11 A Right.

12 Q Fine. In choosing a manufacturer's repre-
13 sentative in a specific territory or country, you
14 mentioned that you would try to get someone who was
15 familiar with aviation, who may have handled other
16 accounts, manufacturers of aircraft.

17 Would it happen that you would try to engage
18 an agent who may also be an agent or may have been an
19 agent for a competitor?

20 A We probably would not select a manufacturer's
21 representative who represented another helicopter
22 manufacturer.

23 Q So—

24 A He might be.

25 Q —might be an agent for a fixed wing

1 manufacturer?

2 A Yes, sir.

3 Q So it would be company policy then, you don't
4 go with an agent for one of your competitors?

5 A Right.

6 MR. COLLINS: That's fine. Thank you.

7 MR. MARINACCIO: Mr. Atkins, before we
8 move on to the next area which is going to be the hiring
9 of Air Taxi or the rehiring of Air Taxi in 1968, I'd
10 like to give you the same opportunity, if you wish, to
11 make any statement for the record, for clarification,
12 any statement that you feel might be helpful to the
13 Committee or anything that comes to your mind in any
14 way with respect to these matters that we've just covered
15 under the last area?

16 THE WITNESS: I think your questioning
17 is quite complete. It covers the areas real well.

18 MR. MARINACCIO: I will say for the
19 record, "Thank you."

20 Q Now, with respect to the rehiring of the
21 Air Taxi as an agent in 1968: It is true, is it not,
22 that there was a previous agreement between Bell and Air
23 Taxi that ran from roughly 1959 until 1964?

24 A Yes, sir.

25 Q Is that correct?

1 A Yes, sir.

2 Q Then there was a period, I believe, from
3 about 1964 until about 1968 when you had no relationship
4 with Air Taxi; is that not correct?

5 A That's correct.

6 Q And then Bell Helicopter picked Air Taxi up
7 again in 1968 as an agent; is that not correct?

8 A Yes, sir.

9 Q Could you explain for the Committee's benefit,
10 the agreement during the period 1959 to 1964 between
11 Bell and Air Taxi? Tell us a little bit about it,
12 including the kind of sales that were made under that
13 agreement, the volume for Bell, the sales commissions,
14 and, finally, for the record, discuss the circumstances
15 under which the agreement was terminated, if that's a
16 proper word, in 1964?

17 A Okay. I have reviewed the agreement that
18 was signed with Air Taxi in 1959. That agreement was
19 signed on our standard legal form for manufacturer's
20 representatives.

21 As to the best of my recollection, I don't
22 remember knowing about Air Taxi in '59 or in '68. And,
23 really, my knowledge is based upon strictly reading
24 the agreements which we have made available to you.

25 I understand that we paid them a small amount

1 of commission, something less than \$20,000 in this
2 ten or twelve year period.

3 You have to recognize that commercial
4 aviation is very limited in Iran. And it certainly was
5 much more limited back in those early days.

6 And so the representative's ability to sell
7 was very limited.

8 I really don't have any information on why
9 there was that four-year lapse in agreements, and why
10 we signed with Air Taxi again in 1968.

11 Q Did you approve the 1968 agreement? I be-
12 lieve you previously testified that you approved that
13 1968 agreement?

14 A No, sir. I don't think I said that. I don't
15 believe I approved the agreement in 1968. I negotiated
16 the settlement of that agreement, finally, in 1972 or '3.

17 Q 1972?

18 A Yes, sir.

19 Q May I ask you, who, to your knowledge, would
20 know about the circumstances relating to the termination
21 of the contract in 1964, and all the circumstances
22 relating to the entering into the agreement with Air
23 Taxi in 1968?

24 A It's a difficult question for me to answer
25 from the standpoint: I do not believe that Mr.

1 Sylvester was employed by us in 1968. So it was someone
2 prior to his time. And it was probably a manager of
3 International Sales who probably does not work for us
4 any longer.

5 Q Would you know his name?

6 A It probably was— I would think that it was
7 probably a man by the name of Orpen.

8 Q Who is Mr. Ducayet.

9 A Ed Ducayet was my predecessor as president
10 of Bell Helicopter. D-u-c-a-y-e-t.

11 Q And he was president of Bell Helicopter
12 during the period 1959 up to 1972, when you became
13 president?

14 A 1960 to 1972.

15 Q 1960 to 1972?

16 A Yes.

17 Q So, as president at Bell Helicopter during
18 that period, would he appear to be the person who had
19 the final responsibility for the termination and enter-
20 ing into these agreements with Air Taxi at those times?

21 A I really feel that the volume of our inter-
22 national business at that time was so small, that these
23 kind of matters would be handled down in the— We didn't
24 even have a separate International Department at that
25 time, but down in our Sales Department.

1 Q Well, have you since come to learn or have you
2 heard from information within the Textron Corporation
3 in discussions with anybody in Textron, about the circum-
4 stances of the termination of the agreement with Air
5 Taxi in 1964? And if you have heard, would you please
6 state for the record whatever you have heard?

7 A I have not heard.

8 Q You have not heard?

9 A (The witness nodded his head.)

10 Q Have you heard anything relating to the
11 circumstances of the re-entering of the agreement—

12 A No, sir.

13 Q —with Air Taxi in 1968?

14 A No, sir.

15 Q Do you know, have you any knowledge, from
16 any discussions with anyone, and if so, state, what
17 Air Taxi's reputation was in 1968?

18 A I have no discussions on that particular
19 matter.

20 Q And you haven't heard of anything on that
21 particular matter?

22 A No, sir.

23 Q Do you know whether or not Textron or Bell—
24 and please, whenever I say "Textron," I include Bell—
25 ever made an inquiry into the ownership or reputation of

1 Air Taxi back in 1968, when they entered into agreement
2 with them?

3 A I have no knowledge that they did in 1968,
4 no.

5 Q If I may, Mr. Atkins, I'd like to mark for
6 the record Exhibits No. 6 and 7. Exhibit No. 6 is a
7 letter from Mr. Zanganeh of Air Taxi to Mr. Orpen,
8 Export Sales Manager of Bell Helicopter, again dated
9 November 28, 1967.

10 And Exhibit No. 7 would be a letter from
11 Mr. Orpen to Mr. Zanganeh, dated February 16, 1968.

12 (The two letters referred to were
13 marked "Exhibit No. 6" and "Exhibit
14 No. 7" for identification.)

15 Q I'd like to, if I may, show you this document,
16 No. 7, which document was received from Textron pursuant
17 to the subpoena, and read from it and ask you to review
18 it and ask you a question about it.

19 The document states in part to Mr. Zanganeh:

20 "Dear Jose: We would like to discuss
21 with you the possibility that the firm of Air
22 Taxi represent Bell for the sale of its heli-
23 copter products in Iran, based on the favorable
24 recommendations we have received."

25 I would like you to please take a look at
that document and ask you if you have any knowledge as

1 to who Mr. Orpen may be referring to concerning the
2 recommendations, "the favorable recommendations," I
3 believe, that he's referring to with respect to the
4 firm of Air Taxi and Mr. Zanganeh?

5 A I have no knowledge with regard to the
6 recommendations that he's speaking of. I'm amazed
7 that his name is "Jose." I didn't know that.

8 MR. SOUTTER: Have you ever seen that
9 before?

10 THE WITNESS: No, sir.

11 BY MR. MARINACCIO

12 Q During that period of time, you were
13 functioning as the Vice President of Bell Helicopter
14 Company?

15 A Yes.

16 MR. SOUTTER: What is the date of the
17 letter?

18 MR. MARINACCIO: 1968.

19 A Yes. Executive vice president.

20 Q Yes. Executive vice president?

21 A Right.

22 Q I'd like to discuss with you Exhibit No. 6
23 which is an exhibit from Mr. Zanganeh to Mr. Orpen, in
24 which he states in part, and, again, I'll read the
25 pertinent portion and I'll show you the document and

1 then I'll ask you a question for the record.

2 A Sure.

3 Q In which he states:

4 "I have given a great deal of thought to
5 the subject of our discussion —"

6 Referring to the discussion apparently be-
7 tween Orpen and Zanganeh:

8 "—and feel that in the event I am
9 appointed as your representative in Iran, it
10 would be a good idea to employ a qualified
11 helicopter engineer on your recommendation
12 and from your organization, for a period of one
13 to two years to advise our Iranian staff on
14 the special problems involved in the helicopter
15 sales and after sales services."

16 I'll ask you to look at that document and
17 the question that I would have to you is: If that
18 statement would appear to you to be an accurate one,
19 and if it does not—if it reflects that Air Taxi had
20 no special knowledge about the Bell Helicopter products,
21 and that if Air Taxi was taken on as an agent, why
22 they would need technical assistance from Bell Heli-
23 copter to manage that agency contract.

24 A Uh huh. Well, Air Taxi had a fixed base
25 operation at Mehrabad Airport during this time.

1 I believe that they represented Aero-Commander
2 at that time. And they, certainly, in order to sell our
3 product would need technical assistance from us. And
4 it's not unusual for us to furnish technical assistance
5 to many of our manufacturer's representatives around
6 the world.

7 We have engineers in our Sales Departments.
8 We have service people across the world. And sometimes
9 we detail just engineers out of our basic Engineering
10 Department to assist a manufacturer's rep in properly
11 representing our product.

12 Q Do you have any knowledge at that time that
13 Air Taxi had any special relationship with any govern-
14 ment officials of Iran—

15 A I have no knowledge.

16 Q —including, but not limited to military
17 personnel, individuals that might be related or friendly
18 with the Shah of Iran or other government officials?

19 A I have no knowledge of the status of Air
20 Taxi in 1968. I have no knowledge of it.

21 Q Could I ask you once again, please, if you
22 could point us to any individuals in the organization
23 that might have direct knowledge at that time of Air
24 Taxi's reputation and background and so on and why they
25 were chosen, other than Mr.— I would pronounce it

1 "Ducayet" because there's a "t" at the end, but I
2 realize you pronounce it "Ducayet."

3 A Well, Mr. Ducayet served as the president of
4 the company, and basically was very involved in the
5 total operation of the company.

6 He and I worked very closely as a team. I
7 would say that I would be more likely to have knowledge
8 of the International situation on a situation like this
9 than he would have, because he was my boss and, actually,
10 the International thing worked for me; the sales effort
11 worked for me.

12 And I really believe that Mr. Orpen was
13 probably our Export Manager at that time. And, probably,
14 we had a very small department, four or five people,
15 maybe.

16 Q So Mr. Orpen was working for you at that time?

17 A No, I think he didn't work for me. I think
18 there was somebody in between me.

19 Q And do you recall who that individual would
20 be?

21 A I don't, but I certainly can find out.

22 Q We would appreciate it, if you would.

23 A Sure.

24 Q But, is it not correct then from what you are
25 stating in your testimony, that this would have been an

1 area that fell within your responsibility at that time?

2 A Sure, yes.

3 Q So that your testimony is--

4 A I had to assign responsibility for a function.
5 I would be involved in the big policy matters that the
6 corporation was involved in. For example, at that time,
7 we were heavily involved in Vietnam and I was up to my
8 ears in Vietnam and I wasn't worrying about appointing
9 a representative out in Iran at that time.

10 Q So that for whatever management reason there
11 was for your testimony that you are not knowledgeable--

12 A That's right.

13 Q ---it arises either because you didn't ask
14 somebody down below or they didn't report it up to you?

15 A Because it wasn't that important to the
16 company. It was a small matter.

17 Q Now, may I ask you if you know whether or not
18 there is a difference in the contract with Air Taxi
19 during the period of 1959 to 1974 and the contract
20 entered into with Air Taxi in 1968 with respect to the
21 ability or the requirement of the payment of commissions
22 to Air Taxi as a representative on direct sales from
23 government to government? That is to say that: Is it
24 correct that under the 1959 to 1964 agreement, there was
25 a prohibition in that agreement on commission payments

1 to Air Taxi for any sales that arose on a government to
2 government basis; and that the agreement entered into
3 in 1968 with Air Taxi and Bell provided that on sales
4 of items, including helicopters, made on a government to
5 government basis, the commission to Air Taxi would be
6 negotiated or subject to negotiation?

7 A I believe what you are speaking of is the
8 normal evolution in the basic manufacturer's-representa-
9 tive agreement which we used across the world. And it
10 was just the most recent addition of that agreement
11 form that we signed with Air Taxi.

12 Q I recognize that. I'm asking a precise
13 question about the terms of the contract, and whether
14 or not that between the period 1959 to '64, there was
15 a prohibition on commissions to Air Taxi for government
16 to government sales; and in the 1968 agreement, there
17 was no more prohibition, but it was a matter subject to
18 negotiation? Albeit, it was part of the normal evo-
19 lutionary process, but is it not a fact that what you
20 characterize as the "normal evolutionary process,"
21 there was a substantive change?

22 A I would have to read the print of the agree-
23 ment, but I believe that's correct.

24 MR. MARINACCIO: At this point, with re-
25 spect to the hiring of Air Taxi in these matters, I would
like to turn the questioning over to Mr. Freed.

THE WITNESS: Fine.

cw
4-01

1 (Brief break.)

2 EXAMINATION

3 BY MR. MARINACCIO

4 Q Mr. Atkins, before I turn the questioning
5 over to Mr. Freed, I have one clarifying question.
6 There have been times when I referred to agents and sales
7 agents and others have, too. I think we all meant to
8 say manufacturer's representative, but we've been using
9 the terms interchangeably.

10 Have you understood the questions when we've
11 talked about agents to also refer to manufacturer's
12 representatives?

13 A Yes, sir.

14 Q We'll try to keep referring to manufacturer's
15 representatives, but--

16 MR. SOUTTER: Before we go on to the
17 questions from Mr. Freed, the last series of questions to
18 Mr. Atkins before the break related to the evolution of
19 the agreement with Air Taxi. And basically I think it
20 was sort of stated in terms of the 1959 agreement and the
21 1968 agreement.

22 For the record, I'd just like to state that
23 we've provided the Staff with a copy of the '59 agreement,
24 the standard form of agreement as it existed in 1968, and
25 also the standard form of agreement in 1970. I don't

4-02 1 believe Mr. Atkins reviewed these in preparation for
2 these proceedings, but I submit that the evolution of
3 those is stated within the confines of each agreement.

4 MR. MARINACCIO: I appreciate that
5 comment, and think the agreements do speak for themselves.
6 I was only—the only point I was making at this stage
7 with respect to the agreements is, there appears to be a
8 change in the ability of the manufacturer's representative
9 to get a commission on government-to-government sales.
10 And I wanted to know if Mr. Atkins, or his counsel at
11 this stage, had anything contrary to that to put into the
12 record, or is my understanding correct?

13 MR. SOUTTER: There were changes in the
14 course of those agreements. I'm not prepared to say right
15 now whether they were done in 1968 or the 1970 amendment.
16 I just point out for the change in form there.

17 MR. MARINACCIO: I see. With that,
18 we'll go ahead with Mr. Freed.

19
20 EXAMINATION

21 BY MR. FREED

22 Q I have several documents here which I want
23 to have marked as exhibits. I think as we go along I'll
24 put the numbers on them because there are quite a few.
25 We can do one exhibit 8, 9, 10, 11, 12, 13, 14.

4-03

1 (The instruments referred to
2 were marked "Exhibit 8"
3 through "Exhibit 12" for
4 identification.)

4 Q Mr. Atkins, did Bell Helicopter rehire Air
5 Taxi in 1968 because it knew that some large helicopter
6 deals were in the offing in Iran?

7 A Not to my knowledge.

8 Q I want to read you a copy of a cable. This
9 cable will be marked Exhibit 8. It's a cable from
10 Mr. Zanganeh. That's Z-a-n-g-a-n-e-h--of Air Taxi, and
11 it's to Bell Helicopter, Attention Mr. Orpen. And in it
12 Mr. Zanganeh thanks him for the letter of February 16th,
13 says he accepts the offer to become the manufacturer's
14 representative for Air Taxi, for Bell Helicopter. And
15 he says:

16 "Offer accepted but have important
17 information necessitating discussion.
18 Departing Tehran for Europe. Request you
19 cable suggestion re possible meeting."

20 Then Exhibit Number 9 is a cable from Mr.
21 Orpen at Bell to Air Taxi, and it says:

22 "Zanganeh, advise possibility your coming
23 here from Europe for visit which would be
24 desirable many standpoints."

25 Did Mr.--do you know whether Mr. Zanganeh

4/04 1 did come to Bell Helicopter in Fort Worth then to
2 discuss--to have these discussions, and do you know what
3 he was referring to when he said--

4 A What date was this, again?

5 Q These were cables on February 27th, 1968,
6 and then the second cable was on--the first one is
7 February 27th. The Air Taxi cable is February 27. The
8 Orpen cable was on February 28th.

9 A I have no information.

10 Q Let me just mark these.

11 Then there is an Air Taxi internal memo dated
12 March 1st, which I am calling Exhibit Number 10--it's
13 from Mr. Zanganeh--in which he talks about:

14 "The continuous visits of Agusta Brothers
15 to Teheran and also the meeting of Prince Emanuel
16 with the highest authority as well as rumors
17 regarding the sale of a large number of heli-
18 copters in Iran, was reported to Mr. Orpen by
19 long distance telephone in Fort Worth. Because
20 of the confidential nature of the reports, it
21 was agreed that communication with Bell Helicopter
22 Company be made either through telephone or to
23 Bell's representative in Teheran or by my visit
24 to Fort Worth."

25 Were you aware of these rumors? Didn't Orpen

4/05

1 report to you on the possibility of these?

2 MR. SOUTTER: Can we have the date of
3 that again?

4 MR. FREED: That was on March 1st.

5 MR. SOUTTER: What year?

6 MR. FREED: 1968.

7 MR. SOUTTER: Okay.

8 A I recollect that Agusta made a sale in Iran.

9 In fact, I encouraged that sale.

10 BY MR. FREED

11 Q How large was the sale and what was it?

12 A I guess I— I shouldn't speculate but it was—

13 Q To the best of your recollection?

14 A Fifty ships.

15 Q Now—

16 A The history of that was that Bell was very
17 busy in that time frame working the best it could to
18 support the United States Army. And I felt that we were
19 not desirous of starting another program in Iran.

20 Q Now, I want to quote from a cable which I
21 will— an Air Taxi internal memo which we will mark as
22 Exhibit 11. This is again from Mr. Zanganeh. And the
23 memo reads as follows:

24 "During repeated meetings with General
25 Khatami, K-h-a-t-a-m-i, and a General Toufanian,

4/06

1 spelled T-o-u-f-a-n-i-a-n, as well as other
2 interested authorities concerning the Agusta
3 contract, we did our best to persuade the
4 Government to conclude the contract with Bell
5 Helicopter Company rather than Agusta."

6 The question is: What was Bell at that point
7 working--- Do you have any knowledge about this internal
8 memo and about that situation with Bell moving into---

9 A No, I have no information about that memo.

10 But I do know that our sales department made
11 some efforts at this time, and I personally didn't push
12 the sale because I felt it was not a commitment that
13 we should make at that point.

14 Q Did you recognize the possibility of
15 increased sales to Iran, though, at that point?

16 A I did not recognize the great program that
17 might be in the future, no.

18 Q What about the meetings, were you aware of
19 the meetings or of any relationship or any contact
20 between Air Taxi and Generals Toufanian and Khatami?

21 A At that time I hadn't even been to Iran. I
22 didn't even know what those names meant.

23 Q What did Mr. Orpen report to you?

24 A Oh, I recollect some discussions about the
25 fact that there was a possible Iranian program, that they

4/07

1 wanted help not only in helicopters but they wanted
2 training help. And I recollect some discussions that we
3 would have to find financing for the sale. And to me it
4 was not a program that Bell should undertake at that
5 time under those circumstances, considering all the
6 other things that we were doing.

7 Q Was Bell then possibly moving into Iran
8 over your better judgment at that point?

9 A I cut it off, I didn't permit it to happen.

10 Q Who was pushing it?

11 A Probably the sales department.

12 Q Were you aware then at that point of Mr.
13 Chafik, that's Mr. A. Chafik, C-h-a-f-i-k, who was a
14 partner in Air Taxi, and the fact that Mr. Chafik's son,
15 Prince Shahrirar, that's S-h-a-h-r-i-r-a-r, Chafik was
16 commander of an Imperial Iranian Naval base and also a
17 nephew of the Shah?

18 A I don't know that I knew of Mr. Chafik at
19 that point.

20 Q So at that point you knew little about who
21 the owners of Air Taxi were, what their relationships were
22 with the Shah or

23 A I really

24 Q or with the Iranian military?

25 A I really had had so little involvement with

4/-8

1 Iran at that point that my knowledge was very limited.

2 Q Then let me ask you about this. We'll mark
3 this cable as Exhibit 12. It's a cable from Mr. Kling
4 at Bell to Air Taxi, and it's dated April 30th, 1968.
5 And it reads as follows:

6 "Zanganeh, we want UH1H sale and you must
7 sell our proposal STOP Financing can be
8 made STOP Representation agreement airmailed
9 April 25."

10 Now, how would this cable square with your
11 statement that you wanted to stop this, these were
12 against your better judgment?

13 A Because I just took a position--dates, I
14 can't tell you. I can't tell you where it came to me and
15 I made a decision that we would not do the program.

16 Q Who is Mr. Kling?

17 A He was a sales rep at that time.

18 MR. FREED: Kling is spelled K-l-i-n-g.

19 MR. GALERSTEIN: What's the date of the
20 cable?

21 MR. FREED: That's April 30, '68.

22 MR. GALERSTEIN: Okay.

23 BY MR. FREED

24 Q Let me ask you this: Was the international
25 sales staff working independently? How much freedom did

4/09

1 they have?

2 A They would have considerable freedom.

3 Q But they were reporting to you?

4 A That's right.

5 Q And were you aware then of their at least
6 what appeared to be strong efforts, from these cables,
7 to get that sale, to move into Iran and to get this sale
8 to head off Agusta?

9 A Well, Agusta was our representative. They
10 had the right to sell in Iran.

11 Q All right.

12 A As I remember the transaction, our international
13 people reported to me the status of the sale. And at
14 some point—what the date was, I don't know—I took the
15 position that we would not pursue the sale, we would not
16 attempt to get the financing, we would not commit our-
17 selves to that program at that time. And we didn't.

18 Q Let me ask you then: Is it reasonable,
19 then, that you at that point, in 1968, or early '68, you
20 felt that because of Vietnam, at least your commitment to
21 produce helicopters to Vietnam, that it was not advisable
22 to get into Iran or to get into any other large contracts?

23 A That's correct.

24 MR. SOUTTER: Can we go off the record
25 for a second?

4/10 1 MR. MARINACCIO: I would prefer to stay
2 on the record.

3 MR. SOUTTER: All right. I find your
4 whispering to Mr. Freed disconcerting at this end of the
5 table.

6 MR. MARINACCIO: Do you hear me
7 whispering?

8 MR. GALERSTEIN: Oh, yes.

9 MR. SOUTTER: Absolutely. And I don't
10 know whether the witness is being distracted through
11 your passing on questions to Mr. Freed.

12 MR. GALERSTEIN: If I may make a
13 suggestion, what is even more disconcerting to me is
14 that you're not listening to the witness.

15 MR. SOUTTER: Yes.

16 MR. MARINACCIO: I am listening to the
17 witness.

18 MR. SOUTTER: I don't believe Mr. Freed
19 can listen to you and the witness.

20 MR. MARINACCIO: I heard what the
21 witness said. And hereafter, instead of orally
22 communicating to Mr. Freed, I will write him written notes.
23 And if I whisper something in his ear, I will do so, so
24 that it will not be audible. I didn't realize that my
25 whispering to Mr. Freed was audible.

4/11

1 MR. SOUTTER: Thank you.

2 MR. MARINACCIO: Mr. Atkins, may I
3 ask you for the record, has my whispering in Mr. Freed's
4 ear been disturbing to you in any way?

5 THE WITNESS: No. The only thing that
6 I felt was that it was kind of difficult to understand
7 what I was saying while you two guys were talking.
8 That's all.

9 MR. MARINACCIO: Fine. I appreciate
10 your bringing that up for the record. And if it happens
11 again, I wish you'd bring it to our attention again.

12 BY MR. FREED

13 Q I'm going to give you these exhibits.

14 MR. MARINACCIO: I might say for the
15 record, to put that matter to rest, that on occasion I
16 had noted that Mr. Atkins' astute counsel had been
17 conferring in a low voice at the other end of the table.

18 A Touché.

19 MR. SOUTTER: We hope it was not
20 disconcerting to you, counsel.

21 MR. MARINACCIO: Mr. Collins, do you
22 have any questions?

23 MR. COLLINS: No.

24 MR. MARINACCIO: Mr. Doherty?

25 MR. DOHERTY: I have just one question.

4/12

1

EXAMINATION

2 BY MR. DOHERTY

3 Q Mr. Atkins, it was my understanding of your
4 earlier testimony that at least as of 1971, the
5 applicable procedure at Bell was that in connection with
6 the letting or the granting of a manufacturer's rep's
7 contract, you would approve that, is that correct?

8 A I would approve some of the contracts.
9 Basically, the important contracts as we looked at
10 them at that time.

11 Q I see. So that was not an across-the-board--

12 A No, sir.

13 Q --policy?

14 A No, sir.

15 Q Could you define for us the breakdown in terms
16 of--give us some idea of what would fall under an
17 important category as opposed to the unimportant which I
18 would gather you would not approve?

19 A I would say, basically the ones that I was
20 interested in were the European contracts, because that
21 was where the market was the most developed. The Middle
22 East had not been developed at that time.

23 Q Is it then--are you defining important then
24 in terms of size or potential size of the market?

25 A Yes. And also my area of knowledge at that

4/13

1 time and my area of knowledge of people at that time,
2 because I had some knowledge of the European people.

3 Q And on the contracts, again, terms of the
4 procedures applicable at the time of the start, '68
5 now through the relevant time period, with respect to the
6 contracts which you did not yourself approve, at what
7 level would the authority be delegated to approve?

8 A The manager of the export effort.

9 Q And was, in your opinion, the letting of
10 the 1968 contract to Air Taxi consistent with the procedures
11 applicable at that time as you described them?

12 A Yes, I believe it was.

13 Q Is there any different--or do those same
14 procedures apply to amendments to the contracts? And I
15 would say amendments that would deal with compensation,
16 the amount of compensation that could potentially flow to
17 the agent.

18 A Well, at some point in this period of time--
19 and I think it was later than what we're talking about-- I
20 delegated the responsibility for setting compensation to
21 the Vice President of Finance. And it was his
22 responsibility. I wrote an official memorandum establish-
23 ing his responsibility, that any compensation which was
24 not in accordance with our standard agreement on the form,
25 would be established by him.

4/14 1 Q Now, I'm not sure whether we have that
 2 memorandum to the extent it would help us place the date
 3 on when that policy was set.

4 A Yes.

5 Q I think it would be helpful to the record if
 6 that could be supplied to us.

7 A I would guess it was '75, '76, offhand.

8 Q So it's subsequent—

9 A Yes, sir.

10 Q —at least to the time we've been discussing?

11 A Yes, sir.

12 Q Until that time, what was the appropriate
 13 or the applicable procedure followed with respect to any
 14 amendments that would deal with changes in compensation?

15 MR. SOUTTER: May I interject, are you
 16 talking, as we were earlier, about the evolution of the
 17 standard form, or are you talking a specific amendment
 18 to a specific contract?

19 MR. DOHERTY: That's correct.

20 MR. SOUTTER: I mean, that's both.

21 MR. DOHERTY: Yes, I'm discussing now
 22 what happens once a contract has been granted, and then—

23 MR. SOUTTER: For Representative "X"?

24 MR. DOHERTY: That's right. And then
 25 as time comes where there's an amendment to that contract

4/15 1 with respect to compensation or some other significant
2 aspect of that contract, what procedures in the 1968 to--
3 the memo you've described to us were applicable with
4 respect to those kinds of amendments?

5 A Well, I would say that in an amendment to an
6 agreement to specify compensation that was not specifically
7 called for in the agreement, for example, if they sold
8 more than five ships and therefore it was a negotiation
9 thing, that probably somebody in the Finance Department
10 or in the Contracts Department would participate. It
11 would not be a decision just made by the international
12 people.

13 And in the important ones I probably was
14 involved.

15 Q Thank you.

16 Mr. Atkins, we are about to move on to the
17 matter of the sale of the helicopters. As previously,
18 you'll have the opportunity to make any clarifying
19 statement or any other statement you wish to make that
20 you feel might be helpful with respect to the matters
21 we've just been discussing, namely the hiring of Air
22 Taxi in 1968 and so on.

23 A Thank you, but I think it's been well covered.
24
25

4/16

1

EXAMINATION

2

BY MR. MARINACCIO

3

Q Now, Mr. Atkins, there did come a time, did
4 there not, in April of 1972, when you received a letter
5 from Lieutenant General Toufanian which I would describe
6 as a letter of intent—

7

A Yes, sir.

8

Q —setting forth his intent to purchase a
9 substantial number of helicopters from the Bell Company,
10 is that not correct?

11

MR. SOUTTER: Do you intend to introduce
12 that for the record?

13

MR. MARINACCIO: I will indeed, right
14 now.

15

A Okay. Well, I don't think the letter specified
16 any number of helicopters. It merely specified that they
17 would procure, provided the ships met certain performance.

18

MR. MARINACCIO: Okay. If I may, I would
19 like to mark this as Exhibit Number 14.

20

MR. FREED: 13.

21

MR. MARINACCIO: 13.

22

(The letter referred to was
23 marked "Exhibit 13" for
identification.)

24

Q And I show you the document and ask you if
25 this isn't the document that you received, the one I'm

4/17 1 referring to, and I'll read the document into the record
2 and ask you some questions about it.

3 A I worked very hard to obtain that document.

4 Q So it is the document that you received?

5 A Yes, sir.

6 MR. GALERSTEIN: What's the date,
7 please?

8 MR. MARINACCIO: The date of the
9 document is April 18, 1972, and it's from Lieutenant
10 General Toufanian, Deputy Minister of War for Armament of
11 the Government of Iran to Mr. Atkins, and it reads:

12 "Dear Mr. Atkins:

13 Further to our conversations during my
14 visit to Fort Worth I am pleased to inform you
15 of the firm intent of the Imperial Government
16 of Iran to acquire the AH-1J and 214 helicopters
17 for the Imperial Iranian Ground Forces.
18 2. This decision is contingent upon satisfactory
19 performance of subject aircrafts per applicable
20 specifications and satisfactory coproduction
21 arrangements.
22 3. We shall provide two C-130 aircrafts to
23 airtransports--(sic.; his error)--these helicopters
24 to Iran and return; you shall, however, bear the
25 cost of the evaluation.

4/18

1 " Very truly, Lieutenant General H.
2 Toufanian."

3 . Mr. Atkins, I'll ask you if at that time you
4 thought that this letter of intent indicated that the
5 Iranian Government would be purchasing a substantial
6 number of helicopters from Bell, and if so, state the
7 approximate amount that you thought that Bell was going
8 to be supplying?

9 A Well, the letter of intent to me was no
10 authority to proceed with the contract. It did mean to
11 me that the Iranian Government was serious about pro-
12 curement of our aircraft, and that if we were successful
13 in our demonstrations in the country that they would
14 subsequently procure aircraft.

15 I didn't, as far as quantity, I guess I
16 thought maybe 200 aircraft total, at that point.

17 Q What was the dollar value of the 200 aircraft
18 at that point, approximately?

19 A Five hundred was five hundred million, two
20 hundred would be---

21 Two hundred million?

22 A Yes.

23 Q Also roughly they were a million dollars each?

24 A Yes, sir.

25 Q I see. But the letter of intent did indicate

4/19 1 that Iran had made an initial selection of Bell as the
2 supplier?

3 A Yes, that's correct.

4 Q Now, for the record, did Bell subsequently
5 enter into a contract with the Government of Iran for the
6 sale of a number of helicopters pursuant to this letter of
7 intent, and if so, when was the contract entered into,
8 when were the helicopters delivered, over what period of
9 time, how many were there and what were the approximate
10 dollar amounts of the helicopters delivered?

11 A The Government of Iran signed a letter of
12 offer from the United States Government in approximately
13 September or October, 1972 for the procurement of the
14 202 AH-1J's and 287 Model 214's.

15 That letter of offer was followed up by a
16 letter contract from the U. S. Government to Bell in
17 probably November of '72. And then the letter contract
18 was confirmed into a fully executed definitive contract
19 in June of '73.

20 MR. SOUTTER: Between?

21 A Between, of course, the U. S. Government and
22 Bell.

23 BY MR. MARINACCIO

24 Q And how many helicopters did the agreement in
25 1973 provide for?

4/20

1 A 489.

2 Q 489?

3 A Pardon me. May I correct?

4 Q Please do.

5 A There were two separate—two separate
6 contracts, one for 202, one for 287.7 Q Just in order to clarify the record, when
8 you've been speaking of an arrangement with the
9 Government of the United States, are you referring to the
10 FMS contract, and if so, could you tell us for the record
11 what an FMS contract is?12 A Well, the contract with Bell was between the
13 Army Aviation Systems Command in St. Louis and Bell
14 Helicopter. In other words, the U. S. Government had
15 accepted an Iranian request to purchase and had agreed
16 to sell to the Iranians, and then the U. S. Government
17 in turn contracted with Bell.18 Q Is it fair to say, from your testimony, that
19 in your mind, at or about the time of April 18th, 1972
20 when you received a letter of intent, that you thought
21 that approximately 200 helicopters were going to be
22 delivered, and sometime over the course of the next year
23 that this amount was increased up to 489?24 A That is correct. The Iranians were forming
25 an aviation program. And they were in the preliminary

4/21 1 stages of their thinking in April of '72. And in the
2 next four or five months they consolidated their thinking,
3 they determined the number of operating units they were
4 going to have, and they made their equipment selections.
5 And, of course, the U. S. Government was acting as
6 advisers to the country.

7 Q Now, can you tell us what role or part
8 Mr. Zanganeh and Air Taxi played, what their performance
9 was with respect to obtaining your initial letter of
10 intent from General Toufanian on behalf of the Iranian
11 Government, and then subsequently for the increase from
12 200 helicopters to 489? How far back do the Zanganeh-
13 Air Taxi efforts go, what were they, how important
14 were they and describe with specificity, what is your
15 understanding of what they were?

16 A Well, Air Taxi, in my mind, performed the
17 sales representative function that is normally furnished
18 in a country. We had no people that were stationed in
19 Iran. They represented our product with various people
20 in the Iranian Government.

21 When the sale began to develop, our people
22 would move in and they would introduce our people to the
23 Iranian people, and our people would take over the sales
24 effort and become the leaders in the sales effort.

25 They supported us in various ways. And, for

4/22 1 example, I used their airplanes to fly down to Esfahan
2 when we were told that we were going to train at Esfahan.
3 They carried me down to Esfahan and took me to the
4 locations in Esfahan where we would probably operate.

5 So they furnished the--during the demonstration
6 period they furnished a lot of support for the people
7 we were bringing to the country and for the equipment
8 we were bringing to the country.

9 I would say that they did not obtain the
10 letter of intent, I would say we obtained it.

11 Q Were you aware of any contacts made by Air
12 Taxi or Mr. Zanganeh or any other officials of Air Taxi
13 with various high government officials--

14 A I knew that--

15 Q --of the Government of Iran?

16 A I certainly knew that they knew some of the
17 high government officials.

18 Q Were you aware that they were making contact
19 on this sale with the Shah of Iran and people--important
20 people that had direct contact with the Shah of Iran?

21 A I don't think they-- I don't know that they
22 ever had any contact with the Shah of Iran, no.

23 Q How about with people who had direct access
24 to the Shah of Iran?

25 A Well, I assume that they had high level

4/23 1 contacts in the government and they knew people who had
2 contacts with the Shah, yes.

3 Q And at or about this time when this contract--
4 and I believe you referred to it as an important contract--
5 were you discussing the development of the contract with
6 Mr. Miller at that time, who was functioning as your
7 supervisor?

8 A I'm sure I was reporting to him on the progress
9 that we were making in formulating the contract.

10 Q Did you ever--

11 A The program.

12 Q Did you ever discuss with Mr. Miller the high
13 level contacts that Air Taxi and Mr. Zanganeh had in Iran,
14 that they were making on behalf of the sales effort in
15 Iran?

16 A Well, you know, I guess I don't consider
17 Generals in the Army to be real high level people. To me,
18 in my contacts, I talk to Generals in the United States
19 Army all the time. And I think that's a normal contact
20 to be made by any company selling its product. And I
21 don't think I would report that as something that was
22 outstanding.

23 Q Would you report it as something that was
24 taking place by Air Taxi and its officials, that they
25 were discussing this sale with various Generals?

4/24 1 A I don't know that I would, because I just
2 don't consider that unusual. I was reporting my own
3 contacts. I was talking to people.

4 Q Did you ever discuss Air Taxi with Mr.
5 Miller in the context of contacts that Air Taxi or any of
6 its officials might have with the Shah of Iran or---

7 A No, sir.

8 Q How would you characterize Air Taxi's sales
9 efforts relating to this major contract, if you will?
10 Would you---

11 A I would say that Air Taxi, certainly they
12 had people they knew. However, the real thing that sold
13 the program was the Bell products. It was not contacts
14 that sold the Bell products. The Iranian Government
15 desired to form an aviation program, and they knew what
16 the Bell products were doing in other parts of the world.
17 And it was the Bell products and, I like to think, some of
18 my own efforts and perhaps some of the advice they received
19 from the U. S. Government that made the sale happen.
20 To me it wasn't Air Taxi that made the sale happen. They
21 contributed to it, they introduced it, they brought us
22 at the right time. But it was the total Bell thing, the
23 product, the people, the use of the product in other
24 parts of the world, the U. S. Advisory Service, those were
25 the things that made the sale happen.

4/25

1 Q Would it be fair to characterize Air Taxi and
2 Mr. Zanganeh's efforts in this with respect to the sale as
3 having played a leadership role with respect to the
4 granting of the contract, vis-a-vis, themselves and
5 Bell Helicopter Company?

6 A No, sir.

7 Q Would it be fair to characterize their
8 efforts as being substantial and significant?

9 A It was certainly supportive.

10 Q Would it be fair to characterize it as
11 crucial?

12 A No, sir.

13 Q Do you think you would have made the sale
14 without Air Taxi?

15 A It depends upon whether we made the initial
16 contacts at the proper time, and recognized the potential
17 of the program.

18 Q Can you describe the contacts that were made
19 by Air Taxi at the proper time to which you refer?

20 A I believe that they brought the program to us
21 at the right time, to our attention.

22 Q Can you describe the program that they brought
23 to your attention and the time they brought it to your
24 attention?

25 A Well, in my mind, Air Taxi was working with

4/26

1 our sales department in the time frame of 1970 and 1971.

2 In 1971 there was a Paris Air Show. Many of
3 the high level people from Iran visited us at the Paris
4 Air Show and showed considerable interest in our products.

5 Our international marketing department
6 convinced me that I needed to go to Iran in the latter
7 part of 1971.

8 That trip was a very significant trip because
9 of the fact that the Iranians were operating the Agusta
10 ships and were having problems because of their hot and
11 high conditions.

12 For the first time, I introduced them to the
13 fact that Bell had a--in development, had a Super Huey,
14 and they became very interested in this Super Huey. For
15 example, a Huey would take off from Mehrabad Airport on
16 a hot day with three or four people aboard. It had a
17 capacity of ten or twelve. But because of the hot and
18 high situation, it would not perform. I saw that, and
19 I encouraged them to think about the Super Huey that Bell
20 was developing back home. That led to their decisions
21 to come to the States and look at what we had. And they
22 came to the States and looked at our facilities.

23 They talked to us about the capability of
24 both our Huey and our Super Huey--at the time we called it
25 the Tug, and it became the 214. And they talked to us

4/27 1 about the Cobras, and should they buy the same Cobra that
2 the U. S. Army was buying? Or should they buy the Cobra
3 that the U. S. Marines were buying? And these discussions
4 were between Bell and the Iranian Government, they weren't
5 between Air Taxi and the Iranian Government.

6 And out of those discussions, the Government
7 of Iran suggested that we bring these two prototypes to
8 the country and take them out in the desert and take them
9 out in the high and hot places and do a formal test and
10 evaluation plan for them.

11 Q Who in the Government of Iran suggested that
12 to you?

13 A General Toufanian.

14 Q Suggested that to you?

15 A Yes, sir.

16 Q When, can you fix the date?

17 A April of '72.

18 Q April of 1972?

19 A Yes, sir. And that's why he wrote the letter
20 of intent the way he did, to indicate, okay, you prove
21 to me that your aircraft will do what you say it will do
22 and I will buy them.

23 Q When you say that you stated you had direct
24 contact yourself with officials of the Iranian Government,
25 including Generals--

4/28

1 A Uh huh.

2 Q --you had personal contact with General
3 Toufanian?

4 A Yes.

5 Q Mr. Dehesh?

6 A Yes, sir.

7 Q General Khatami?

8 A I'd met him once.

9 Q Could you, for the record at this point, just
10 describe the time and the place where you met General
11 Khatami?12 A I had an appointment with him in his office
13 and it was, I would guess it was the summer of '72.14 Q And just tell us the purpose of your visit
15 to General Khatami?16 A Well, General Khatami, that's how you really
17 pronounce his name, General Khatami--

18 Q And how do you spell it?

19 A K-h-a-t-a-m-i. --was the Chief of the Iranian
20 Air Force. And he was a very respected person Country.
21 And the Iranian Army was moving into aviation. And so it
22 was natural as part of our sales program that we would
23 stop and talk with General Khatami and explain to him the
24 advantages of our helicopters. And we did that in that
25 discussion.

4/29

1 (Exhibits Nos. 14 and 15
2 were marked for
3 identification.)

4 Q Mr. Atkins, I've marked for the record Exhibit
5 Number 14, a letter from Mr. Frank Sylvester who I
6 believe is on your staff and reports to you, to Major
7 General H. A. Twitchell concerning the sale of helicopters
8 to Iran. And the pertinent part that I want to bring to
9 your attention is as follows:

10 "In April 1971 a final U. S. Military
11 FY 70 production run of approximately 200 Cobras
12 will begin. We have no indication of any
13 follow-on U.S. procurement. Therefore, in order
14 to take advantage of the price of this production
15 run, it is necessary that customers place firm
16 orders not later than 30 September 1971. This
17 is requisite to the procurement of long lead
18 time components to mesh with any extended
19 production schedule.?

20 I'd like to show you this document and have
21 you have a look at it.

22 MR. GALERSTEIN: What's the date of
23 that?

24 MR. FREED: March 31, 1971.

25 A March 31, '71.

4/30

1 BY MR. MARINACCIO

2 Q Okay, The matter I would like to discuss
3 with you that this document raises is the matter of the
4 production line for Bell helicopters and the need for
5 production, and so on. And you had mentioned previously
6 that during the Vietnam War and, particularly in 1968,
7 you were—

8 A Uh huh.

9 Q —producing—

10 A Large quantities.

11 Q —large quantities of helicopters and
12 presumably your production line was operating at
13 capacity. And does this document reflect the situation
14 that your production had begun to scale off after the
15 Vietnam War and there was a time at or about this time
16 that you were looking for substantial replacement
17 production for the Bell helicopter line and Iran was one
18 of your good prospects?

19 A Without looking at production schedules, I
20 can't remember the exact situation, but certainly as
21 Vietnam phased out, certainly we were looking for other
22 possible customers for our products.

23 Q And would it be fair to say that Iran was
24 a good prospect for replacement in this regard?

25 A I would say at the time that that letter was

4/31 1 written, we saw a small program in Iran, not a large
2 program.

3 And you'll notice that letter only refers to
4 Cobras.

5 Q Can you discuss that and tell us what the
6 significance of that statement is?

7 A Well, the significance of that was that
8 Agusta had sold Hueys into Iran, and therefore we were
9 not going up against those Hueys in a sales effort. We
10 were suggesting that they buy armed helicopters only.
11 And I think at the time that we wrote that letter we were
12 thinking of a program of fifty or a hundred ships.

13 Q Now, the next document I wanted to bring to
14 your attention was Number 15, which precisely I think
15 raises the Agusta situation that you referred to—

16 A Uh huh.

17 Q —in your answer to that question. And I'd
18 like to discuss with you for the record the matter of
19 Agusta as your licensee in Iran and so on.

20 A Right.

21 Q And in order to lead us into that, I would
22 like to read from the document marked Exhibit Number 15.
23 It's a cable from Kenworthy, who's an individual that
24 apparently works for you?

25 A Uh huh.

4/32

1 Q At Bellcraft, to Iran, dated 2 June 1971,
2 stating:

3 "By virtue of our licensing agreement
4 with Agusta which provides Agusta exclusive
5 sales rights for 212 in Iran, we are unable to
6 quote availability or delivery of the UH'IN STOP
7 However, this does not preclude Iranian
8 Government requesting U. S. Government for this
9 information on government-to-government basis
10 as provided in license agreement.
11 Regards. Kenworthy."

12 Now, with the use of this document as a
13 lead-in, I would like to ask you to begin discussing the
14 Agusta situation. They were, were they not, your sales
15 agent in Iran for the sale of helicopters?

16 A That's correct.

17 Q And does that--

18 MR. SOUTTER: Was that just a model,
19 Mr. Atkins?

20 MR. MARINACCIO: Pardon me, could
21 you--because I missed that, please?

22 MR. SOUTTER: I don't know myself as to
23 what Agusta sales rights were, whether it was by model
24 or--

25 A Agusta had exclusive rights to sell Model 212's

4/33

1 at Iran, and therefore we did not have the right to
2 quote them directly to the Government of Iran.

3 If the U. S. Government should decide to
4 accept a letter of offer for an FMS sale from the
5 Government of Iran, then the U. S. Government could
6 deliver 212's in Iran. That's the way our license
7 agreements are written.

8 BY MR. MARINACCIO

9 Q Well, I want to discuss this Agusta--

10 A Yes, sir.

11 Q --matter with you at some length and go over
12 many of the documents, and then I'm sure some of the
13 others are going to have some questions on this, too.

14 But my lead-in question is this, and I'd
15 like to get your testimony on it: The documents appear
16 to indicate that Agusta had the right to sell certain
17 helicopters to Iran, and that in order to allow Bell to
18 sell direct and bring the production to Texas, that the
19 sale of helicopters had to be made on a government-to-
20 government basis. And, further, if I may, that throughout
21 this transation at that time--and I think the documents
22 will fairly show this--that in order to move Bell in and
23 Agusta out, there was a need for what I would characterize
24 as, and you may disagree with this, extreme secrecy about
25 the Bell discussions and negotiations in order that Agusta

4/34

1 nor anyone else became aware that Bell was about to take
2 a substantially large position in Iran.

3 I'd ask you to comment on that.

4 A Yes.

5 Q And then I'm going to develop that through
6 the use of these documents which we've gotten pursuant
7 to the subpoena.

8 A First of all, we went there to sell Cobras
9 in '71. Agusta had no rights to sell Cobras. It didn't
10 have at that time, they don't have today. We never
11 licensed the armed helicopter to Agusta.

12 So we were in there on the basis of selling
13 Cobras, not transports. Okay?

14 Now, as I remember the license agreement,
15 talking off the cuff, I believe that the only model on
16 which they had an exclusive right in Iran was on the Model
17 212. They had non-exclusive rights to sell the Jet
18 Ranger and Huey series, but not exclusive rights.

19 So, the 212 was the only territory granted
20 on an exclusive basis. And then, of course, an FMS
21 sale could be made, but was never made; we never sold a
22 212 in Iran.

23 MR. GALERSTEIN: It's a quarter after
24 12:00. Do you wish to break or continue or what?

25 MR. MARINACCIO: Let's break for

4/35 1 lunch now and we'll come back in 45 minutes.
2 A Okay. So we're at Agusta.
3 MR. MARINACCIO: We are indeed.
4 A Okay.
5 (Whereupon, the luncheon recess was
6 taken, to reconvene at 1:00 o'clock p.m.)
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THURSDAY, FEBRUARY 2, 1978

AFTERNOON SESSION

(Whereupon, the hearing was reconvened at
1:00 o'clock p.m., pursuant to the luncheon recess.)

(Exhibits Nos. 16, 17, 18
and 19 were marked for
identification.)

JAMES F. ATKINS

resumed the witness stand and testified further as
follows, to-wit:

EXAMINATION (Continued.)

BY MR. MARINACCIO

Q Mr. Atkins, before we took the break, we
were discussing the Agusta situation. And I'd like to
show you a series of documents and get your comments
on them.

I'd like to show you Exhibit Number 16,
Exhibit Number 17 and Exhibit Number 18. These are all
documents that appear to have originated from Air Taxi
and communicated to Bell Helicopter. And Exhibit Number
16 says in pertinent part with respect to prospective
helicopter sales, and this is dated August 24, 1971.

MR. FREED: Let me get--what number is
that?

MR. MARINACCIO: Number 16.

5/02

1 MR. FREED: Let me get that down.
2 August 24, '71. And a cable from whom?

3 MR. MARINACCIO: Cable from Air Taxi
4 to Bell Helicopter. And Exhibit Number 17 is a cable
5 from Air Taxi to Bell Helicopter dated 27 August '71.

6 MR. FREED: That's cable, August 27,
7 '71.

8 MR. MARINACCIO: And Exhibit Number 18
9 is an Air Taxi Internal Memorandum dated October 28th,
10 1971.

11 Q And Exhibit Number 16, speaking in terms of
12 the prospective helicopter sales, talks about the
13 secrecy matter, quote:

14 "Once again must remind importance of
15 maintaining concealment. Regards, Snapper."

16 Incidentally, who was Snapper?

17 A I don't know.

18 Q There appeared to be many, many documents
19 in which codes are used.

20 A I know they were using codes.

21 Q Could you tell us the reason why they were
22 using codes?

23 A Well, because at that time in that country,
24 particularly, nothing was privileged and communications
25 were apt to be intercepted. And I'm sure that's the

5/03 1 reason they did.

2 Q Letters would be intercepted or telexes
3 intercepted?

4 MR. SOUTTER: Was this a competitive
5 situation?

6 A Well, to me, the telephone, the telex, was
7 not protected at that time, and I think our people used
8 codes because of that reason.

9 BY MR. MARINACCIO

10 Q Again, Exhibit Number 17 says in pertinent
11 part:

12 "We strongly recommend that this delicate
13 matter be treated with maximum caution,
14 otherwise it will result in great conflict to
15 our mutual disadvantage. Best regards. Snapper."

16 I think this document indicates that Snapper
17 is Air Taxi, isn't it, under the code?

18 A I don't know.

19 Q Document Number 18 states in pertinent part:

20 "On a few occasions during his stay in
21 Teheran with the Bell Helicopter's team consisting
22 of Mr. Sylvester, Mr. Mitchell and Mr. Gallagher,
23 we verbally informed Mr. Horsley--"

24 And I think those are all employees of Textron.

25 "--that since very important discussions are

5/04

1 taking place and activities going on, to
2 discontinue Augusta's efforts in Iran and
3 replace them with BHC, Bell Helicopter Company,
4 in this market, it is absolutely inadvisable to
5 send reports in writing. We stressed that all
6 our communications from now on be either verbal,
7 long distance telephone calls or coded telex
8 messages. Therefore, except for routine
9 activities, we agreed not to submit any
10 written reports."

11 Now, I wish to show you these documents,
12 Mr. Atkins, and I would like to ask you to explain the
13 relationship between Augusta and Bell and why the need for
14 this extreme secrecy?

15 A Well, the Augusta situation—as I say, we went
16 to Iran with the thought of selling the armed helicopters.
17 We felt that Augusta had sold Hueys in Iran, and if there
18 was additional purchases of Hueys made, that perhaps
19 they should be made from Augusta.

20 Now, Augusta had certain commitments to train
21 the Iranians, to build a maintenance facility for the
22 Iranians, to deliver aircraft on schedule, and to
23 deliver spare parts on schedule. The Government of Iran
24 was unhappy with the Augusta performance in all these
25 areas. And they in effect were encouraging us to take

5/05 1 over the total helicopter business in Iran, certain
2 elements of the Iranian Government were encouraging us to
3 do that.

4 Q Who would those elements in the Iranian
5 Government have been, would it have been Mr. Dehesh?

6 A Oh, we talked about that with General
7 Toufania and Mr. Dehesh. And so, we were going down
8 the centerline and saying, "Look, we're selling our
9 helicopters, this is a different situation over here."

10 The facility that Agusta had built at Mehrabad
11 was a nice facility, but it was not productive. They
12 thought we should take that facility over and run it. I
13 was taken out there and inspected the facility.

14 Q The Iranian Government officials thought that
15 Bell should take over the Agusta facility?

16 A And run it. There was a joint--

17 Q Who were those government officials?

18 A There was a joint company formed, partially
19 owned by the Iranians, partially owned by Agusta, that
20 had built the facility. But they were trying to get
21 Agusta to perform, and at the same time they were weighing
22 their alternatives to turn to us if Agusta did not perform.

23 And so it became a very competitive thing out
24 there, and Agusta are very competitive people.

25 So that's really the competitive side of it.

5/06 1 I think they were talking about in there. And, of course,
2 eventually we did take them over.

3 Q They were your licensee at the time--

4 A Uh huh.

5 Q --for certain aspects of it, and then you
6 took over your own licensee?

7 A No. Actually what happened was that the
8 Iranian Government bought the facilities from Agusta
9 and turned it over to us to operate.

10 Q And who were the Iranian Government
11 officials that were instrumental--

12 A Basically--

13 Q --in having you--

14 A Basically, the military industrial organization
15 headed by--

16 Q Specifically?

17 A --the Vice Minister of War--

18 Q Would that be General Toufanian?

19 A Yes. --is in charge of industrial facilities
20 such as this facility at Mehrabad. And it was this
21 level that we were talking about.

22 Q Was Mr. Dehesh involved in those discussions?

23 A Yes, in some of them.

24 Q In some of them?

25 A He was at that time an assistant of some kind

5/07

1 to General Touvanian.

2 Q Was General Khatami--

3 A He was not involved.

4 Q --involved?

5 A Never involved. I met General Khatami once.

6 Q And that was in 1972, I believe you stated?

7 A I think it was. I'm not sure whether it was

8 '72 or '71, but it was during that sales effort of that

9 time, right.

10 Q During the sales effort having to do with--

11 A Trying--

12 Q --what came out to be the sale--

13 A --to formulate the program.

14 Q --the sale of 489 helicopters?

15 A Right, to formulate the program.

16 Q Did you have a long discussion with General

17 Khatami?

18 A I don't think it was very long. I remember

19 spending maybe a half hour is my recollection of it.

20 Q What did he say to you and what did you say to

21 him?

22 A It's pretty hard to say, five or six or seven

23 years ago. But, basically, I went in there with the purpose

24 of talking about our product line and how it was the right

25 product line for the Iranian Government to purchase.

5/08 1 Q Now, why would you have gone to see General
2 Khatami about that?

3 A Well, because--

4 Q Because he--

5 A Because I'm a good marketing man. And when
6 you go out to sell a program, you cover all your bases.
7 You don't leave anyone out. And I had-- I knew that
8 the decision point was not General Khatami. I knew the
9 decision point was in MIO, Military Industrial Organiza-
10 tion.

11 Q What part did you think that General Khatami
12 might play in the subsequent sale of helicopters from
13 Bell to MIO--through MIO to the Government of Iran?

14 A The Government of Iran is a very small thing.
15 And everyone plays in these things, see. It's not a
16 great big operation where you have thousands of Generals
17 like we have in Washington. It's a very small operation.
18 And the Chief of the Air Force is a very important person.

19 Q And General Khatami was the Chief of the Air
20 Force?

21 A Yes, sir.

22 Q And he would have had an important input, at
23 least in your mind, in any decision on the sale of--

24 A Well, the helicopters--

25 Q --on the sale of helicopters from Bell to Iran?

5/09

1 A The helicopters were going on the ground
2 forces, and what his influence would be on the ground
3 forces, I had no idea. But they might look at him as a
4 qualified expert in the aviation business, and as such, I
5 wanted to tell him about the value of the Bell products.

6 Q Since he was a General of the Air Force and
7 had no specific responsibility for the acquisition of
8 helicopters by the Iranian Army, what was in your mind,
9 why did you think that what you told General Khatami
10 would have an important influence on the sale of heli-
11 copters to the Iranian Army?

12 A Well, I assumed that the tops of the military
13 services had discussions and talked among themselves, and
14 I would assume that the chief of the ground forces would
15 be interested in the opinions of General Khatami about
16 the value of a particular make helicopter.

17 Q So in fairness then, you felt that General
18 Khatami would possibly have some input into the decision
19 to acquire the helicopters from Bell?

20 A I didn't think he would have necessarily an
21 input. But I've learned enough in this world that you
22 can't afford to have this little pocket over here opposing
23 you. And sometimes when you overlook a pocket like that
24 in a marketing program, that pocket takes a negative
25 position because you did not advise them of the merits of

5/10 1 your program. And so I wanted to cover all the bases
2 and I went to see him once. I think it was the proper
3 thing to do.

4 Q Did you think in your mind that that pocket,
5 as you described it, had an interest in this transaction
6 of some nature?

7 A No, sir.

8 Q Of whatever nature?

9 A Just an aviation interest. General Khatami
10 was a good aviator, and as such he was interested.

11 Q We want to get back to General Khatami later.

12 A Sure.

13 Q But I want to continue with--

14 A Yeah.

15 Q --this line on the Agusta transaction and
16 the need for secrecy and concealment.

17 I show you document Exhibit Number 19, which
18 is an internal memorandum from Mr. Zanganeh to his files
19 which we got from Bell Helicopter. He says--

20 MR. GALERSTEIN: Pardon me. What's the
21 date?

22 MR. MARINACCIO: Excuse me. September
23 21, 1971.

24 MR. FREED: Is this another document?

25 MR. GALERSTEIN: Number 19.

5/11 1 MR. FREED: Okay. Let me get that.
2 Air Taxi Internal Memo.
3 MR. MARINACCIO: September 21, 1971.
4 Q And this document says in pertinent part,
5 and then I'll let you look at it for your review:
6 "As previously scheduled at a very private
7 meeting, Mr. Dehesh on behalf of General
8 Toufanian asked me to send a telex requesting
9 Bell Helicopter Corporation to definitely send
10 a representative or team to Teheran with full
11 powers on November 1, 1971, and officially
12 informed the Iranian Government of the
13 willingness and ability of Bell Helicopter
14 to co-produce Huey and Huey Cobras. At the
15 same meeting, Mr. Dehesh re-emphasized the
16 importance of Bell Helicopter Company avoiding
17 support to Agusta under any condition. We
18 know very well that Agusta is making his last
19 effort both in Iran and back in Fort Worth.
20 In this respect we are confident about their
21 position in Iran, but wonder about it back in
22 Fort Worth?"
23 Are you familiar with what Mr. Zanganeh is
24 talking about in this document?
25 A I think so.

5/12

1 Q Could you give us your comments on that?

2 A Uh huh.

3 Q And with particular reference to what
4 interest Mr. Dehesh would have in advising the agent of
5 Bell Helicopter to avoid supporting Agusta, and I think
6 implicitly because he probably said it in other
7 documents, maintaining concealment and secrecy?

8 A Okay. Well, I think what they're referring
9 to in the Agusta matter is that, as I told you before,
10 Bell Fort Worth was saying, we have gone to Iran to sell
11 armed helicopters. You have purchased transports from
12 our licensee. We do not want to interfere in that
13 program. And I think that's the discussion that they're
14 talking about in secrecy as far as Agusta is concerned.

15 Now, Agusta was trying to encourage us to
16 stay with that position because they recognized the
17 program was developing, also.

18 Q Did you and Bell Helicopter agree with the
19 need to maintain secrecy and concealment from Agusta?

20 A Well, I think you're using---

21 Q And did you behave in that way?

22 A Well, I think you're using the word secrecy---
23 you're overdoing the word "secrecy" and "concealment."

24 Q I'm just using the document---

25 A Yes.

5/13

1 Q I'm using the words in the document.

2 A You don't normally go out and lay your
3 marketing program out in front of your competitors,
4 you just don't do that, as a matter of good business
5 practice.

6 Q But Agusta was your licensee as well as your
7 potential competitor?

8 A That's right.

9 Q And one of the documents, I believe, from
10 one of your people indicated that any transaction entered
11 into had to be structured from government to government
12 because if it was structured through the agent--

13 A Oh, no.

14 Q --the agent, Agusta would--

15 A Now, you're--you're--

16 Q --have to derive a commission. Would you
17 explain that?

18 A No.

19 Q What it is?

20 A You're making mistakes in what you're saying.

21 Q All right. I think I am summarizing what I
22 read in a document, so I'd like your comments on that.

23 A Well, I think I commented before that Agusta
24 had an exclusive right to sell the Model 212, and Bell
25 could not sell the Model 212 directly to the Government of

5/14

1 Iran.

2 But I believe that all other models were not
3 subject to an exclusive arrangement, and therefore Bell
4 could sell those directly to the Government of Iran.

5 Q Okay. If I may, I'd like to go through a
6 series of documents to discuss Air Taxi's and Mr.
7 Zanganeh's performance and the success of Bell Helicopter
8 in being able to get—deriving the contract for the sale
9 of the helicopters from the Government of Iran. And this
10 series of documents does go back to 1968 and I'd like to
11 ask you some questions about them.

12 A Sure.

13 MR. MARINACCIO: Would you mark these
14 documents, please.

15 (Exhibits Nos. 20 through 32
16 were marked for
identification.)

17 Q Mr. Atkins, I'd like to refer to Exhibit Number
18 20 which is a communication from Mr. Zanganeh to Bell
19 Helicopter dated March 2, 1968.

20 Mr. Zanganeh says:

21 "Am arranging meeting with vitally important
22 contact here within 15 days affecting your sales
23 project. Subsequent this meeting will schedule
24 visit Texas. Regards, Zanganeh Air Taxi."

25 Would you know who Mr. Zanganeh is referring

5/15 1 to in this document?

2 A No, I have no idea.

3 Q Do you have any recollection of any person
4 visiting Texas, presumably your plant, in 1968, who
5 would be characterized by Mr. Zanganeh as a "vitally
6 important contact" involving the sales of helicopters?

7 A I would have no idea who that is.

8 Q Who in Bell Helicopter would have gotten a
9 communication from Mr. Zanganeh at that time?

10 A The Export Department, probably, Orpen.

11 Q Which was under your

12 A Yes.

13 Q supervision and jurisdiction.

14 And your testimony was that Orpen did not
15 report any of this to you?

16 A No, I didn't say that.

17 Q Did not report this to you?

18 A Well, my testimony is that in 1968 a lot of
19 people visited the Bell Plant. And I personally have no
20 idea who that telex is referring to.

21 Q Okay. I'd like to refer to document Exhibit
22 Number 21 from an official of Air Taxi to Mr. Gallagher,
23 dated December 10, 1972, in which he says in pertinent
24 part:

25 "Mr. Zanganeh will be carrying with him

5/16 1 Air Taxi's file regarding our efforts for Bell
2 during the past years. While going through
3 this file you will appreciate the valuable
4 cooperation devoted and contributed by us
5 which resulted in the recent large order."

6 Do you recall if Mr. Zanganeh visited Bell
7 Helicopter, Texas, at a time subsequent to December 10,
8 1972, at a time in which he carried a file with him
9 containing documentary evidence of his contribution in
10 the efforts to the Bell Helicopter sales in Iran?

11 A I think that's probably part of the file
12 you're reading from. And it was our request to Air Taxi
13 to document their case because we felt that we would have
14 to document the commissions that we might submit as part
15 of the FMS case to the U. S. Government.

16 Q So you were aware that Mr. Zanganeh was
17 coming here with that file. Did you--

18 A Well, I can't say that I was aware that he
19 was coming here with that file, but I know that he asked
20 him to prepare such a file, and I know he was here
21 several times.

22 Q On one of those visits at or about that time,
23 did you have occasion to sit down and talk with Mr.
24 Zanganeh about this specific matter of efforts that he had
25 made to get the--

5/17 1 A Oh, I'm sure--
2 Q --get the Bell Helicopter contracts?
3 A I'm sure I talked to him about that, yes.
4 Q Here in Texas?
5 A Probably, yes.
6 Q On his visit?
7 A Yes.
8 Q And how many occasions would you have talked
9 to him when he was here, would you have had a conference
10 with him?
11 A Oh, I may have talked to--well, I may have
12 talked to Mr. Zanganeh in Texas--
13 Q How many discussions did you have with Mr.
14 Zanganeh that particularly focused on his participation
15 and his contribution in the obtaining of the "recent
16 large order" with the Government of Iran?
17 A Oh, I'd say four or five.
18 Q Four or five?
19 A Yes.
20 Q And could you tell us the substance of those
21 conversations?
22 A Well, I--
23 Q What was Mr. Zanganeh saying to you as to
24 what his contribution was?
25 A Well, he considered himself to be our

5/18 1 manufacturer's rep in Iran; that he had been our rep at
2 the beginning of development of a large helicopter program,
3 that he had assisted us in many ways, logistic support if
4 nothing else; and that, of course, he expected to be well
5 compensated for his efforts.

6 Q When you refer to "logistic support if
7 nothing else," did you include in that contacts with
8 Iranian Government officials—

9 A No.

10 Q —such as Generals and perhaps the Shah
11 and General Khatami?

12 A No, I don't. Logistic support to me means
13 just that, transportation, typing, various support that
14 you need to conduct a program in that country. We brought
15 a lot of equipment to Iran to demonstrate. He was very
16 helpful in getting the equipment through customs, very
17 helpful in seeing it was delivered to the right place.
18 Many services of that type he performed for us.

19 Q Am I understanding you correctly then to be
20 saying that he was—at this meeting where he was discussing
21 with you a file about his important contributions—

22 A No, no, wait a minute.

23 Q —to a very—

24 MR. SOUTTER: That's not what he said.

25 Q Okay. Please clarify it.

5/19 1 A I said that we asked for a file to support
2 his claim of a commission on the sale. I didn't
3 personally discuss that file with him, but I did talk
4 with him about the proper compensation for his efforts in
5 Iran.

6 Q And did he mention to you, discuss with you,
7 the specific contributions that he had made, did he make
8 his case with you, so to speak?

9 A Well, of course, I had seen his operation in
10 Iran. I knew that he had been instrumental in developing
11 Bell as a possible contender for the program. I knew
12 that he had supported us in our demonstration program.
13 I knew all these things from firsthand knowledge, he didn't
14 have to tell me about them.

15 Q Did he tell you or didn't he tell you and if
16 so, if he discussed that with you, I would appreciate
17 your stating for the record what he told you?

18 A Well, Mr. Zanganeh is a good salesman, and,
19 of course, he talked about what his organization had done
20 to assist us in our program.

21 Q And what did he tell you, what did he talk
22 about?

23 A Well—

24 Q What kinds of things did he point to as being
25 his contribution?

5/20 1 A Well, basically, he talked about the fact
2 that he had been in Iran at the time the program was
3 instigated, that he had helped us develop the sale, that
4 he had supported us throughout as you expect a sales
5 representative to do, that he had performed all these
6 physical services for us. These were the things that he
7 told us about.

8 Q Now, you seem to be--this is the second time
9 now you've focused on logistical, physical services.

10 A Yes.

11 Q Would you regard that as his most important
12 contribution--

13 A No.

14 Q --sort of logistical things?

15 A No. But it is a big thing.

16 Q Yes.

17 A You don't recognize the problems of going
18 into a new country where it's very difficult to get a
19 typewriter or to get an automobile. You don't
20 recognize those things.

21 Q Well, I'm not recognizing or not recognizing--

22 A Okay, okay.

23 Q --I'm just asking you what he told you at
24 these conversations?

25 A I'm giving you as clear an understanding as

5/21 1 I can give you of those conversations.

2 Q Did he ever mention to you during the course
3 of these conversations that he had been instrumental
4 in developing contacts for Bell Helicopter Corporations
5 with high government officials, including Generals and
6 persons who had a direct access to the Shah of Iran?

7 A Certainly, he introduced us to his associates
8 that he knew in Iran, and members of his Government that
9 he knew in Iran, certainly he introduced us to those, if
10 that's your question.

11 Q Did he mention that to you in his conversa-
12 tions with you? That was my question.

13 A I can't tell you whether he did or not. He
14 knew that I had been in country and I had observed their
15 actions.

16 Q What is your best recollection as to whether
17 he mentioned that to you or not?

18 A I would say that he probably said that his
19 company was influential in Iran.

20 Q With Government officials?

21 A Sure.

22 Q Did you--

23 MR. SOUTTER: Can we put this in context
24 just a little bit more?

25 MR. MARINACCIO: I would like the

5/22 1 witness to answer these questions.

2 MR. SOUTTER: Fine.

3 BY MR. MARINACCIO

4 Q Did you ever tell him that you agreed with
5 him, that he had been helpful and instrumental in
6 gaining the contract by virtue of contacts with high
7 Iranian Government officials?

8 A I would say— I would like to sort of— Can I
9 respond freely?

10 Q Oh, please do, please do. I just— I would
11 just— Sure.

12 A Okay.

13 Q Make a statement.

14 A Okay. To me, a company that retains a sales
15 representative in any foreign country expects that sales
16 representative to use his best efforts to sell your
17 products. And sales representatives cannot live in a
18 dungeon and not have friends and not know people and be
19 of any value to you.

20 So, certainly in my mind, Air Taxi played a
21 part in the sales program, did know people of influence
22 in the country, did introduce us to those people.

23 But the real sale was made by Bell and it was
24 made by Bell based on its products, and it was made by
25 Bell based upon probably the recommendation of the U. S.

5/23 1 Government that that was the way to go. And it wasn't
2 through the fact that Mr. Zanganeh knew General Khatami
3 that we made a sale. That had not a damned thing to do
4 with it.

5 Q Did Mr. Zanganeh ever mention General Khatami
6 to you?

7 A Yes.

8 Q And on what occasions and in what context did
9 he mention General Khatami to you?

10 A He mentioned General Khatami as a friend who
11 he knew. He arranged for me to go to see General Khatami.
12 And at one time I saw General Khatami, he made the
13 arrangements for me to see General Khatami.

14 He recognized fully that General Khatami was
15 not the--not the decision point on the program.

16 We also recognized that sometime later in the
17 program there might be an Air Force helicopter program.
18 And I guess in 1977 or so, we sold 40 or 50 ships to the
19 Air Force.

20 I think General Khatami had died by that
21 time. That's about the basis of it.

22 Q With respect to these conversations and the
23 input of Zanganeh and Air Taxi and General Khatami as
24 you've just discussed, had you ever discussed those
25 particular aspects of this transaction with G. William

5/24

1 Miller?

2 A I would think not.

3 Q What is your best recollection of whether
4 you did or not?

5 A I would say I did not.

6 Q You would say you did not?

7 A Yes, sir.

8 Q If I may, I'd like to break that question down
9 into two further parts: What is your best recollection
10 as to whether you ever mentioned Mr. Zanganeh to Mr.
11 Miller?12 A I would say that Mr. Miller knew that our
13 representative was Air Taxi. Whether he was familiar
14 with the particular name Zanganeh or not, I don't know.15 Q What is your best recollection as to if you
16 ever discussed General Khatami with G. William Miller?17 A I would say I did not discuss General Khatami
18 with Mr. Miller.19 Q On the occasion of your visit to Iran in
20 1972 when you met General Khatami, did you, before you
21 left on that trip, discuss your leaving the country and
22 going to Iran with Mr. G. William Miller?23 A Oh, I'm certain I told him I was going to
24 Iran.

25 Q Did you provide him with an itinerary of the

5/25 1 people that you would be visiting when you were in Iran?

2 A No, sir.

3 MR. SOUTTER: Was the purpose of your
4 trip to go see General Khatami?

5 THE WITNESS: Pardon?

6 MR. SOUTTER: Was the purpose of the
7 trip to go see General Khatami?

8 THE WITNESS: No.

9 BY MR. MARINACCIO

10 Q What was the purpose of the trip?

11 A Which trip are you talking about?

12 Q The trip in 1972 when you saw General Khatami.

13 A Well, probably the purpose was to see
14 General Khatami who was the Chief of Procurement of MIO,
15 and to help formulate the program that was developing.

16 Q And would you have informed your superior,
17 G. William Miller, at that time that you were going to
18 travel to Iran for that purpose?

19 A I would have informed him that I was going
20 over to Iran on a sales program. I wouldn't get into
21 specifics of who I was going to deal with or do business
22 with.

23 Q You wouldn't discuss in the normal course of
24 business with your superior in a large corporation a trip
25 to a foreign country in which you had, I think it would

5/26

1 be fair to say, had hopes to sell a large amount of
2 helicopters to; you wouldn't discuss that kind of a trip
3 with your superior in the normal course of business in
4 some detail?

5 A Not in that kind of detail.

6 Q And that goes to who you were going to see and
7 what you were going to do and what you hoped to
8 accomplish and—

9 A Well, I probably would talk about the program
10 and what we hoped to accomplish, but I wouldn't get into
11 individuals or who we were going to see, and probably
12 didn't know when I went who we were going to see.

13 I would probably have a principal appointment
14 with somebody like Toufanian. Other than that I would
15 probably not know.

16 Now when I go to country, I don't see one
17 person, I see a bunch of people.

18 Q And you stated previously, I think, that
19 it's your best recollection that Zanganeh arranged the
20 meeting with Mr. Khatami?

21 A Yes.

22 Q I think for the purpose of clarification of
23 the record, Khatami, Khatomi (phonetic), and there are
24 several different pronunciations of the same individual,
25 we're all talking about General K-h-a-t-a-m-i, the

5/27 1 General of the Air Force, at least that's the way it's
2 spelled in those documents that come from Air Taxi.

3 A Yes, Khatami, though, is the way you
4 pronounce it.

5 Q If I may, I'd like to read from Exhibit
6 Number 22---

7 A Uh huh.

8 Q ---an internal memorandum from Air Taxi dated
9 September 23, 1971.

10 "We are pleased to see that the directions
11 made by Air Taxi were accepted by Bell
12 Helicopter Company, and in a telex BHC
13 agreed to send its representatives to Teheran
14 on November 1, 1971. This information was
15 immediately relayed by Mr. Zanganeh to Mr.
16 Dehesh. Moreover, in the same telex Bell
17 Helicopter agrees the following:

18 A. To avoid any support to Agusta.

19 B. To treat all the useful information
20 relayed to them fully confidential.

21 Contrary to the desire of Bell, Air Taxi
22 still recommends that prior reconnaissance by no
23 one is advisable before November 1, 1971."

24 Does this document indicate that Air Taxi had
25 a substantial amount of discretion in both its actions and

5/28

1 with respect to recommendations that it was making to
2 Bell Helicopter Company and, indeed, that the Bell
3 Helicopter Company heeded the advice of Air Taxi?

4 A Well--

5 Q Can you comment on that situation as it's--

6 A Let me put it--

7 --as it's surfaced by this document?

8 A Let me put it in context for you.

9 Q Sure.

10 A In June--or May or June of '71, there was a
11 Paris Air Show. Representatives of the Government of
12 Iran visited the Paris Air Show and the Bell Chalet and
13 expressed an interest in our products.

14 From those discussions, what Air Taxi is
15 relaying is a request that some top management of Bell
16 come to Iran to discuss a possible program. And that
17 was my first trip to Iran in that November of '71. And
18 the purpose was to discuss the total requirements of
19 helicopters of the Government of Iran and what they saw
20 in a program, what they wanted to do. That's what
21 that says. And--

22 Q Is it fair to characterize it as the kind of
23 beginning of the program that resulted in the ultimate
24 sale of--

25 A Well, I think we had had representatives in

5/29

1 country many times before, and probably what that
2 indicates there is that they thought that Bell should not
3 be in country until the top management people arrived
4 in November.

5 Q I'd like to read to you from Document Number
6 23 which raises another question. It's a document from
7 Horsley to Mr. Zanganeh. Horsley was an employee of
8 Textron. I believe he was operating out of Brussels.

9 He says:

10 "Further need to know with whom meetings
11 scheduled to take place. We are preparing full
12 co-production. We cannot afford to lose the
13 business through basic lack of knowledge in
14 what exactly it is that Sea/Suzy/Trout desire,
15 and in that regard I will plan to arrive end of
16 next week even if just to assist in the
17 preliminaries. This may be our one big change -
18 so let's not leave anything to chance."

19 Would you know who Sea, Suzy and Trout are,
20 offhand? This is the same--

21 A Yes. Yes. I don't remember who those were
22 now. It was just some of the code. It probably
23 referred to the invitation to visit MIO. What date is
24 that compared to--

25 Q This is October 14th, 1971.

5/30

1 A Yes.

2 Q This document raises the co-production.

3 A Yes.

4 Q Could you discuss the co-production?

5 A Yes.

6 Q Now, I don't know how that fits in and
7 relates to the supply of helicopters, in with Agusta
8 and so on.

9 A Yes.

10 Q Because I think the record needs to be clear
11 on that co-production situation.

12 A Okay. Well, the Iranians felt that they
13 would like to co-produce part of these helicopters that
14 they were going to procure. I had not been to country
15 yet at that point there. But after I got to country and
16 saw the situation in the country--

17 Q Meaning Iran country?

18 A Yes. I recommended that they not co-produce
19 the helicopters. And I felt that they had a basic lack
20 of knowledge of the product, they had no facilities, or
21 very limited facilities, and I felt that they needed to
22 concentrate on training their aviation people and
23 building a logistics capability and not go into co-produc-
24 tion. And I made this very clear and really refused to
25 enter into a co-production program.

5/31

1 And as time went on and we had the chance to
2 show the people our facilities and what it took to
3 build helicopters, they basically agreed with us and
4 said, "Okay, let's get the training done first and let's
5 get the logistics done, and then in the future at some
6 point we will talk about co-production."

7 Q I see. Do you have a recollection as to
8 whether or not if you entered into a co-production
9 agreement, whether or not your manufacturer's representative
10 in Iran, Air Taxi, would have been entitled to any
11 commission?

12 A I believe it was referred to in one of
13 those amendments and was specifically excluded. I think
14 IHI was mentioned, IHI, Iranian Helicopter Industries,
15 was mentioned as being an exclusion from the commission.

16 Q I'd like to read a pertinent part from
17 Exhibit Number 25.

18 MR. FREED: 24.

19 MR. MARINACCIO: I've skipped 24 because
20 24 refers to the secrecy issue again talking about the
21 slightest unwise move upsetting the whole thing, and
22 so on.

23 MR. FREED: Are you going to leave 24
24 in the record?

25 MR. MARINACCIO: Yes. Because I think

5/32 1 it sheds light on some of the documents.

2 MR. GALERSTEIN: Just tell us what
3 date it is so we can mark it.

4 MR. MARINACCIO: September 24, 1971.

5 MR. FREED: What is that?

6 MR. MARINACCIO: It's a document from
7 the coded name Snapper again, to Bell Helicopter,
8 Brussels.

9 MR. FREED: Snapper cable to Bell
10 Helicopter.

11 BY MR. MARINACCIO

12 Q Document Number 25, August 31, 1971, from
13 Air Taxi, Customer's Weekly Progress Report-- I think
14 that would have gone to Bell Helicopter-- says in
15 pertinent part:

16 "The authorities have been emphasizing the
17 importance of keeping all of the information
18 under cover and keep them very confidential,
19 otherwise the whole future possibility will be
20 seriously jeopardized as we repeatedly brought
21 to your attention the gravity of the situation.
22 Please make sure to avoid any unnecessary attempt
23 or move without consulting us first."

24 Does that indicate, in all candor, that they
25 thought, that is to say, Air Taxi, as communicated to Bell,

5/33 1 that they were playing a more significant and discretionary
2 role than logistical support and things of that nature?

3 A I think that--

4 Q I mean, they seem to be giving you pretty
5 strong advice here, and the advice was taken, was it not?

6 A No. A lot of the advice wasn't taken. I
7 think that applies to the Agusta situation.

8 Q The next document is Document Number 26,
9 dated August 22nd, 1971, another Air Taxi internal memo.

10 MR. FREED: What date is that?

11 MR. MARINACCIO: August 22, 1971,
12 another internal Air Taxi memo made available by Bell.

13 "Upon inquiry from Bell Helicopter Company
14 and thorough investigation I confidentially found
15 out that the Government of Iran has decided to
16 procure Huey and Huey Cobra helicopters. For
17 the time being the quantity of these helicopters
18 totals 160 ships, Model AH-1G, Model AH-1J,
19 Huey 205, a total of 160 ships."

20 Does this refer to the types of-- Do the
21 types of ships, helicopters referred to here, refer
22 to the types of helicopters that were subsequently sold
23 in fact to the Government of Iran?

24 A The AH-1G, the AH-1J. The J was sold in an
25 approved form. The Huey, it was grown into a much more

5/34 1 powerful helicopter. And it was sold as a Bell 214 which
2 was developed specifically for Iran and Iran paid for the
3 development of the program.

4 Q Now, did--

5 A So the program grew from that point there,
6 the 160, to the 489.

7 Q To the 489?

8 A Yes.

9 Q That was really my question.

10 A Yes.

11 Q And I thank you for that.

12 A Yes.

13 Q Now, did Air Taxi ever indicate to you or to
14 anybody in Bell Helicopter the name of the individual
15 from whom they confidentially--the name of the Government
16 official--excuse me, it doesn't say Government official,
17 it just says they "confidentially found out that the
18 Government of Iran--"

19 A Uh huh.

20 Q Did they ever communicate to you their
21 source of this confidential information?

22 A They did not to me. I don't know whether
23 they did to any of the sales people or not.

24 Q Would it be fair to conclude that the
25 confidential information that they had at that time was

5/35 1 pointing in the right direction with respect to the
2 large sale of helicopters to Iran? It turned out to be
3 a lot more than 160, but at least it was going in the
4 right direction, isn't that a fair assessment of that
5 situation at the time?

6 A Yes, but they said some things that were
7 wrong in that wire, if you notice. They said
8 "co-production." That never happened.

9 Q I don't think in this particular wire they
10 did say "co-production."

11 A Okay.

12 Q But I could be wrong. Would you review that
13 document, please?

14 A I'll read it.

15 Q Yes.

16 (Short pause.)

17 A See, it's interesting. This really meant
18 that they were going to procure 130 helicopters, because
19 they wouldn't buy---this really means that they would
20 buy AH-1G's or AH-1J's, they would not buy both models.
21 So it really means 130 helicopters.

22 Q I see.

23 A Now, we were at that time only contending
24 for the gun ships. The Huey was something that we felt
25 should be placed with Agusta. So we were really chasing

5/36 1 30 gun ships at that point.

2 Q I see.

3 (Brief break.)

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1 BY MR. MARINACCIO

2 Q I'd like to read you a pertinent part of
3 Exhibit No. 27 which is a document dated August 13,
4 1971, the communication from Mr. Sylvester to Mr. Atkins
5 and Mr. Ducayet.

6 A What date is that now?

7 Q August 13th, 1976.

8 A Okay.

9 Q He says in the pertinent part and he's
10 referring to a document—well, I'll read the whole thing.
11 It's just one paragraph:

12 "By telex today from A. H. Zanganeh,
13 Managing Director for Air Taxi, he confirms
14 that he has seen a copy of the Shah's Directive
15 to General Toufanian to commence immediate
16 procurement of 30 AH-1G or J's, plus 60 205's.
17 The same document also directs Toufanian to
18 give Agusta a RFP first. If their response is
19 not immediate, positive and acceptable (and I
20 assume this applies to the complete package)
21 then Toufanian is directed to proceed personally
22 to the U. S. and to undertake procurement
23 activities here."

24 Would you have any knowledge as to who would
25 have directed Toufanian to proceed personally to the

6/2

1 U. S.?

2 I realize that this may be a better question
3 to ask of Sylvester, but I thought that he may have
4 mentioned this document to you, because it seems to
5 be a fairly important one.

6 A I would offhand—my reaction would be from
7 knowing the situation in the country, that there was
8 no document.

9 I would feel that probably the general had
10 discussed the program with His Majesty, and His Majesty
11 had given him certain instructions. Whether those were
12 his instructions, or others, I have no way of knowing.
13 But I would say that they do not communicate through
14 documents.

15 Q You would say that there was probably no
16 Shah directive—

17 A That's right.

18 Q —and that it was an oral communication?

19 A Yes, sir.

20 Q Could you speculate with me a little bit?
21 If you didn't think that there was one, what do you
22 think Zanganeh would have been referring to?

23 A I have no idea what he was referring to, but,
24 see, this gets into the business of whether Agusta or
25 Bell. Now—

6/3

1 Q Yes, it does.

2 A Yes.

3 Q And it's a terribly complex thing, and it's—

4 A Now, notice that—

5 Q —a thread that seems to run throughout this

6 whole thing and that's what I'm trying to clarify.

7 A See this? It says:

8 "The same document also directs Toufanian to

9 give Agusta an RFP first."

10 Q Yes.

11 A So what this is saying is that Agusta would

12 have a chance to bid the 60 205's.

13 Q Yes.

14 A He didn't have the right to bid Cobras because

15 he had no license with Cobras. So what this indicates

16 is that they were going to buy 30 Cobras, 60 205's and

17 they were going to come to us for the Cobras and go some

18 place else for the 205's.

19 Q I see. I'd like to refer to Document No. 28,

20 a communication from Air Taxi to Bell Helicopter, Fort

21 Worth, again, from Mr. Sylvester. This document says

22 in pertinent part:

23 "With reference to your recent telex dated

24 March 30, 1971, we immediately contacted General

25 Toufanian and Mr. Dehesh and briefed them

6/4

1 regarding your forthcoming visit to Teheran.
2 As we telexed you on April 1, 1971, they were
3 of the opinion that the Huey Cobra presentation
4 should be made solely to them. They believe
5 that, contrary to your decision, the minimum
6 exposure is most advisable. As to the timing,
7 locations and invitations, we assure you that the
8 necessary arrangements will be made by us."

9 This document would indicate that General
10 Toufanian, Mr. Dehesh and Air Taxi are making sub-
11 stantial decisions?

12 A I don't see why you say Air Taxi.

13 Q Go ahead, will you?

14 A Yes, well, I read this as saying that Syl-
15 vester telexed Air Taxi as our sales representative on
16 the fact that he was going to come to Iran and he
17 wanted to brief a possible sale of Cobras. And those are
18 the same 30 Cobras we've been talking about.

19 And that Air Taxi contacted MIO and MIO
20 said back, "Well, the briefing should be made to us at
21 MIO," and that was appropriate.

22 Q Of course, Air Taxi does use this language
23 that seems to crop up in many of these documents.
24 "Minimum exposure is most advisable." I mean, that's
25 a recurring thing. And it says, "As to the timing,

6/5 1 *locations and invitations, we assure you that the
2 necessary arrangements will be made by us."

3 That would sort of indicate, on its face,
4 that Air Taxi is taking upon itself to make substantial
5 decisions that they expect Bell Helicopter to rely on?

6 A Well, I think what they are saying there to
7 Sylvester is that you should agree to come and make
8 your presentations and we will establish an appropriate
9 time, and an appropriate place at MIO for those
10 discussions.

11 Q I'd like to move on to Exhibit No. 29,
12 dated November 2, 1969, another Air Taxi internal
13 memorandum, and in pertinent part:

14 "During the inauguration ceremony,
15 His Imperial Majesty stopped by Air Taxi's
16 stand and asked a few questions regarding the
17 various models of Bell Helicopters. Mr.
18 Zanganeh personally gave all the necessary
19 explanations to His Imperial Majesty."

20 We may have discussed this aspect of it
21 before when we talked about your knowledge of Mr.
22 Zanganeh's having discussed various matters with the
23 Shah?

24 A I imagine that was that public affair they
25 had over there; that Air Taxi was represented there,

6/6

1 and His Majesty, because of his interest in helicopters,
2 stopped and asked some questions.

3 Q What was your understanding with respect to
4 how much influence Zanganeh had on His Imperial Majesty
5 or people that were in close touch with the Shah of
6 Iran?

7 A I don't think he had any influence with
8 His Imperial Majesty. He never took me to see His
9 Imperial Majesty.

10 Q Document No. 30 goes back again to November
11 10th, 1968 where Air Taxi is discussing a meeting with
12 General Toufanian about the quantity of Model Jet
13 Rangers that the Iranian Government intended to buy.
14 And it says:

15 "General Toufanian confidentially in-
16 formed me that the quantity would be somewhere
17 between 75 to 100 'copters. The General
18 disclosed that should Bell's prices and terms
19 of payment be more attractive, they would
20 have a chance of getting the business. He
21 also recommended us to ask Bell Helicopter
22 to send an authorized representative to
23 Teheran for the necessary negotiations
24 definitely not later than the morning of
25 November 19th. We immediately sent a cable

6/7

1 to Bell Helicopter in this connection."

2 . Now, I think you testified previously that
3 at that time you were not that interested in the big--

4 A That's correct.

5 Q --arrangement with-- Did you, in fact, turn
6 down any business in 1968 with Iran or--

7 A We didn't specifically turn it down. We
8 suggested to them that they go to our licensee on the
9 basis that we were very busy with what we were doing
10 for Uncle Sam at that point.

11 Q It is fair, though, that I think this
12 document does indicate that shortly after or at or
13 about the time that Air Taxi became your manufacturer's
14 representative, again, in Iran, that they began to be-
15 come possessed of information which indicated that there
16 might be substantial sales to Iran?

17 A Well, we recognized that Agusta made a sale.
18 We knew that.

19 Q Document No. 31 concerns Agusta again and
20 I'm going to leave that.

21 MR. FREED: What is that?

22 MR. GALERSTEIN: You are putting it in?

23 MR. MARINACCIO: I'm putting it in.

24 MR. FREED: What is that?

25 MR. MARINACCIO: It's an Air Taxi

6/8

1 document, 1 March, 1968.

2 MR. FREED: Okay.

3 BY MR. MARINACCIO

4 Q And the last document I want to discuss with
5 you before I ask Mr. Freed to ask his questions is
6 a document, Exhibit No. 32— I believe it's a Bell
7 Helicopter document, an internal document from somebody
8 here in Texas to Hunt and Horsley, and various discussions
9 are had. This is in code again and it's awfully
10 difficult to read.

11 MR. FREED: Did you ever think nobody
12 could break the code?

13 MR. GALERSTEIN: That's why they put it
14 in code.

15 MR. FREED: What's the date on that?

16 MR. MARINACCIO: September 21, 1971.

17 Well, it's just a short document and I'll
18 indicate again, just to read the four or five sentences
19 that it is, and indicate how difficult it is to decipher
20 some of these documents:

21 "With reference to your telex dated
22 September 16th, had meetings with Alice who
23 recommended that Betty's representative should
24 arrive here on or about November 1st with au-
25 thorization to express Betty's desire and

6/9

1 readiness to manufacture 98 sails and 30
2 Sharks/Swordies in school. Also advised
3 that Bass should absolutely avoid assistance
4 and support Grooper on this program. However,
5 should Bass permit Grace Manufacturing in
6 sea, for one reason or another, Joe's efforts
7 should be seriously determined and compensated.
8 Snapper."

9 I really wanted to ask you about the last
10 sentence, though, because I think Joe is Air Taxi.
11 And I'm not so sure who Snapper is.

12 But, anyway, this is a document that indicates
13 that whoever originated this document at Bell Helicopter
14 in 1971 was thinking fairly highly of Air Taxi's
15 contributions for their efforts and beginning to
16 generate what later turned out to be a large sale,
17 that they ought to get substantial compensation, I
18 mean, if that's a fair characterization or not.

19 But I think going back to '71, it's beginning
20 to be recognized that Air Taxi is doing a substantial
21 amount of work?

22 A Well, I can't read anything about compensa-
23 tion in that. I don't know how you are doing it.

24 Q Well, it says—no, the word—it says:
25 "Joe's efforts should be seriously

6/10

1 determined and compensated."

2 A I don't know who Joe is.

3 Q Well, I think at the bottom of the document,
4 Joe is indicated to be Air Taxi.

5 I am going to ask Mr. Freed to go through
6 his questions.

7 A Okay. The one thing I would like to say is
8 that I think the codes that were used were really the
9 result of a couple of young salesmen who felt that there
10 wasn't much security in Iran and felt that whatever we
11 sent back on a telex machine was becoming public and I
12 think that that's the reason that they set that thing
13 up among themselves as a method of communication.

14 MR. MARINACCIO: Mr. Freed?

15 MR. FREED: Yes. Could we take just a
16 two minute break because I just want to number the
17 exhibits.

18 THE WITNESS: Sure.

19 MR. FREED: So we can just get them in
20 quickly.

21 (Short recess.)

22 MR. MARINACCIO: Mr. Atkins, did you
23 want to make a comment?

24 A Yes. Okay, it's my opinion that counsel is
25 devoting too much attention to the efforts of Air Taxi.

6/11

1 I believe that the sale was consummated based on
2 the merits of the products and based on the demonstra-
3 tions that were performed in August of 1972 in Iran.

4 By the letter of April '72, the Government
5 of Iran made an intent agreement to purchase the AH 1J
6 and Model 214 provided the aircraft met the performance
7 as stipulated by Bell.

8 The Government of Iran sent two C 130's to
9 Fort Worth in July of '72. The aircraft, plus associated
10 equipment was transported to Iran. A Bell crew of 50
11 people supported by representatives of other manu-
12 facturers such as the engine people and the armament
13 people then demonstrated the aircraft in six or seven
14 very difficult locations in Iran. The purpose was to
15 prove the performance of the machines in the high and
16 hot altitudes of Iran.

17 These demonstrations culminated in a major
18 demonstration in a mountainous area outside of Teheran,
19 attended by several hundred military people. This was
20 probably late October or early September of '72.

21 At that time, His Majesty came out to the
22 Mehrabad Airport and flew both machines. And the follow-
23 ing day, General Toufanian took me to the palace and His
24 Majesty made the decision to purchase the machines and
25 instructed General Toufanian to request an FMS case from

6/12

1 the U. S. Government.

2 Q Were you present, Mr. Atkins, at discussions
3 between the Shah of Iran and General Toufanian that led
4 to that directive that the Shah issued that day?

5 A There was no directive issued formally. I
6 was in the palace and His Majesty instructed General
7 Toufanian in my presence to procure both machines and to
8 request a letter of offer from the United States Govern-
9 ment for that procurement.

10 Q What was the approximate date of the meeting
11 with the Shah that you had?

12 A Late August or early September.

13 Q 1972?

14 A Yes, sir.

15 Q Do you recall how long you met with General
16 Toufanian and the Shah of Iran that date?

17 A About a half hour.

18 Q Could you, for the record, give us the gist
19 of that conversation; what you said; what General Tou-
20 fanian said and what the Shah said?

21 A Well, His Majesty expressed his great interest
22 in the helicopter program. He indicated that he desired
23 to establish a helicopter force, not only for defense of
24 his country, but also for commercial, let's say, or
25 medical purposes.

6/13

1 He foresaw the fact that he was having
2 difficulty providing his people with the proper medical
3 help and he foresaw that you could transport injured
4 people to clinics that might be set up at strategic
5 places across his country.

6 His Majesty talked about the performance of
7 the machines. He, of course, is a very good helicopter
8 pilot, and he was very impressed with the performance
9 of the aircraft.

10 We talked about the possibility that Bell
11 would conduct his training program for him and that was
12 about the sum total of the discussion.

13 Q Did the name "Agusta" come up during the
14 course of that conversation?

15 A I don't believe so.

16 Q Was there any mention made of General Khatemi
17 in that conversation?

18 A There was no mention of General Khatemi.

19 Q Who had arranged to have the meeting with
20 General Toufanian and the Shah? Who informed you that you
21 would be meeting with them?

22 A Well, I was meeting with General Toufanian
23 on a continuing basis in formulating this program. And
24 this day I was told by General Toufanian that we were to
25 go to the palace and His Majesty wanted to discuss the

6/14

1 program.

2 MR. COLLINS: Who was present at the
3 meeting?

4 THE WITNESS: Just the three of us.

5 MR. MARINACCIO: I would like to
6 relinquish the floor to Mr. Freed at this time.

7

8 EXAMINATION

9 BY MR. FREED

10 Q I just have very few questions. Let me
11 just introduce five exhibits and I'll just read them
12 off so you can get them down:

13 It's Exhibit No. 33, an Air Taxi internal
14 memo of April 10, 1971.

15 Exhibit No. 34 is an "aide memoire" by
16 Mr. Sylvester on the Iranian Cobras, April 28th, 1971.

17 No. 35 is an Air Taxi internal memorandum
18 of July 23, 1971.

19 And No. 36 is a cable from Gallagher of
20 Bell to Mr. Iranzad; that's spelled I-r-a-n-z-a-d, on
21 August 10, 1971.

22 What I just wanted to do, the questions—is
23 just try to elaborate a little more on the type of
24 advice that General Toufanian and his associate, Mr.
25 Dehesh, were providing to Bell in developing the sales

6/15

1 'strategy and the tactics to be followed in the sales
2 to Iran, just so we can get on the record how close
3 they were and how closely involved they were in the
4 situation.

(The memos referred to were marked
"Exhibit No. 33" through "Exhibit
No. 36" for identification.)

7 Q What was your understanding of the roles that
8 they played?

9 A Of General Toufanian?

10 Q Of Toufanian and also of Mr. Dehesh. Mr.
11 Dehesh, I think, is a key figure as you read through
12 all of the documents.

13 A Well--

14 Q Their roles, say, in '71 and then in '72,
15 the prelude?

16 A Yes, well, the military industrial organiza-
17 tion which General Toufanian heads was the procurement
18 agency for the helicopter equipment and most of the
19 other defense force equipment that was being procured
20 by the Government of Iran.

21 They were instructed, I'm sure, to establish
22 a program, a helicopter program, and they were looking
23 at us as a possible major participant in this program.

24 And so they were meeting with us to discuss
25 our products, to discuss our possible deliveries. They

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1 were talking co-production at that point. They were
2 talking training and logistics. They were making what
3 they thought was a major decision for their country
4 on a helicopter program. And they were deeply involved
5 in these discussion of formulating this program.

6 Q That would be formulating the program, would
7 be the government policy about what type of helicopters
8 they wanted to buy?

9 A Right.

10 Q Let me ask you this now: In Exhibit No. 33,
11 that's the Air Tax internal memo. Mr. Zanganeh says:

12 "Upon receipt of Bell Helicopter's telex
13 dated March 30, 1971 regarding the arrival
14 of the Bell team consisting of Sylvester" and
15 three other individuals, including Mr. Horsley,
16 said:

17 "Contrary to Bell's decision to make a
18 maximum exposure and wide publicity, both
19 General Khatemi and General Toufanian, as well
20 as Mr. Dehesh, agreed with me that Bell should
21 play a very low key and only coordinate and adhere to
22 further guidance/instructions which would be
23 given to them."

24 A What date was that?

25 Q That's on April 10, 1971.

6/17

1 And then in Exhibit No. 34, this is Mr.
2 Sylvester's "Aide Memoire" of April 28th. It says:
3 "General Toufanian and Dehesh requested
4 us to leave Horsley in Teheran through the week
5 ending April 30 and have now requested a seven-
6 day extension to this, to which I acceded."
7 Then you have the internal memorandum of Air
8 Taxi on July 23, '71. This is about a discussion in the
9 Bell Chalet at the Paris Air Show. It said:
10 "On behalf of General Toufanian and the
11 Government of Iran, Mr. Dehesh expressed the
12 desire to Bell's management to procure Huey and
13 Huey Cobras for Iran. . . . in particular, Mr.
14 Dehesh assured Bell Helicopter's management
15 about the qualification and capability of
16 Air Taxi and added that their assistance and
17 guidance towards your program is unprecedented."
18 And then in the final exhibit, that would be
19 No. 36, the cable from Gallagher to Iranzad on August
20 10th, it says—it's a code telex and it says:
21 "We anxiously await further details and
22 desire at the earliest possible opportunity
23 a request from school"(which is Iran)"for a pro-
24 posal to assemble/manufacture"Huey 205's, which
25 are referred to in the telegram as "sails" that

6/18

1 "We agree and will comply with Trout's" and
2 Trout in this case is Dehesh's "recommendation
3 that Bass remain in background until called in."

4 "Bass" in this case is Bell.

5 Now, it appears from reading these that Mr.
6 Dehesh is playing a very close role in advising Bell on
7 the sales strategy, you know.

8 Was this the case and why would a government
9 official be so intimately involved in helping Bell arrange
10 the sale, putting Bell in the best possible position?

11 A Well, see, they don't have a very large
12 procurement department in the Government of Iran. At
13 that time the two main officials were Mr. Dehesh and
14 General Toufanian.

15 I'd like to think that Dehesh was a formulator
16 of programs. And I saw that on many of the programs that
17 he worked on over there. He was the man that had the
18 ideas of what the program should be.

19 And there's no doubt that the Iranians had
20 decided that early in the game that they wanted to buy
21 Bell machines.

22 There's no doubt that they were dissatisfied
23 at that point with the Agusta performance and they wanted
24 the performance from the United States' company.

25 And—but other than that, I don't know what to

1\ say.

2 Q But Dehesh's role appears to be— Dehesh
3 is more than a formulator. Dehesh appears to be an
4 advisor.

5 A He's an advisor to Toufanian.

6 Q But he's an advisor, also, to Bell?

7 A Oh, no.

8 Q I mean, that's what it appears. He is giving
9 advice?

10 A Oh, no. Well, only in his role of, "We'd like
11 to co-produce." And Bell says, "No, we don't think
12 you ought to co-produce for these kind of reasons."

13 Q But this is going beyond corporate records.
14 This is going into the acquisition of helicopters, the
15 Cobras and then 205's.

16 A But I mean only that kind of conversation.
17 For example, one of the basic questions that they have
18 there, all through that stuff is whether they buy those
19 205's from Bell or they buy them from Agusta.

20 Q But at least it appears from reading through
21 the internal memoranda and cables, that Dehesh was in-
22 volved in developing the strategy and then advising you
23 on the strategy and tactics on how Bell would come in and
24 dislodge Agusta.

25 A No, I don't think that's true. I think he was—

1 e—I think he— He was trying to formulate a program
2 that would work well for his country and he was trying
3 to advise Toufanian on how that program should go.
4 And see, you know, this thing included the training;
5 it included logistics; it included the whole thing. And
6 they came up with the thought that some one company should
7 be the father of this whole program. They did not want
8 to turn to several different people for responsibility.
9 They didn't have the capability of running several
10 different people. They'd rather be able to get a
11 telephone and send me a telex and say, "Come to country
12 and fix my problem for me."

13 Q But there were several other companies that
14 could have come in at certain points such as Northrup?

15 A Northrup?

16 Q That was talked about at the end in '72 as
17 possibly providing logistics and support.

18 A Yeah.

19 Q That was mentioned in the cable.

20 A Yeah.

21 Q Sikorsky was mentioned and then—

22 A Well, see—

23 Q —you have Dehesh in those cases providing
24 advice.

25 A Sikorsky was the only helicopter manufacturer;

1 maybe Aerospatiale, but, Sikorsky was never a problem,
2 because they didn't have the right equipment for the use
3 in Iran. And that had been proven in Vietnam. They had
4 big helicopters like the F 61 which the Iranian Govern-
5 ment, they bought a few of them for the purpose of the
6 Navy, but for the Army mission, it wasn't proper. And
7 this had already been proven by the U. S. Army.

8 Q But Dehesh had a personal interest in seeing
9 to it that Bell was brought in as the main 'copter
10 provider, was he not?

11 A I would say that if he had any personal
12 interest, it was from the standpoint that Agusta had
13 fallen on their face and they needed help in that pro-
14 gram.

15 Q Dehesh was in there advising on how to arrange
16 for Bell to come in?

17 A But the big thing was, they had had a failure.
18 They didn't want another failure, and, therefore, they
19 were looking for a competent company from the United
20 States to conduct the program.

21 Q But Mr. Dehesh was providing advice?

22 A Pardon?

23 Q But Mr. Dehesh was providing advice to Bell,
24 either directly to Bell, personnel or through Mr. Zan-
25 ganeh? Is that the case?

1 A No, I don't think so.

2 Q You don't think so after you got the advice
3 when Bell should lay low, minimum visibility in terms
4 of its reconnoitering?

5 A See, I have no idea of where that comes from.
6 That may be somebody's words in a cable or it may not
7 be. It may be part of a program to say, "Look, we are
8 doing these things for you on the program." But I met
9 with Mr. Dehesh and General Toufanian on many, many
10 occasions and I didn't feel they were— I felt that they
11 were interested in a real good program. But, at the
12 same time, they were trying to protect their government
13 in every possible way.

14 MR. MARINACCIO: Mr. Collins I believe
15 has some questions on this subject.

16 THE WITNESS: Okay.

17

18 EXAMINATION

19 BY MR. COLLINS

20 Q A couple more on this subject. I just want
21 to go back to that meeting that you had with Mr. Zanganeh
22 in the summer of '72 when you discussed the commission
23 that you felt he was due or at least the compensation.
24 I just wanted to ask whether he, at any time during the
25 conversation with him, whether he ever mentioned that he

1 made a payment to any of the officials in the Iranian
2 Government, or whether they—or any of the officials
3 in the Iranian Government had an interest in Air Taxi,
4 either direct or indirect?

5 A No, he did not.

6 Q So his only discussion about Government
7 officials was that he had visited them and he had per-
8 formed services of putting Bell Helicopter in touch with
9 them?

10 A Yes.

11 Q Okay.

12 A Now, you recognize that in—what's our
13 timing at— Amendment 1 to the contract was negotiated—
14 Was that October of '72?

15 MR. SOUTTER: I believe Amendment 1 to
16 the Air Taxi agreement is April.

17 A April.

18 MR. SOUTTER: April of '72.

19 A April of '72.

20 BY MR. COLLINS

21 Q It was signed?

22 A Yes.

23 Q Signed in April?

24 A April of '72, yes. And the purpose of that,
25 at that time, was to establish a ceiling on payments

1 that might be due.

2 Q This is in April?

3 A April of '72.

4 Q '72?

5 A That was before— Well, you know, it said,
6 two and a half per cent. And so that was— That
7 happened in April of '72.

8 Q And the relationship between that and your
9 meeting with them in December?

10 A Well, I think we picked December as a month
11 there.

12 Q Okay, well, fall, whatever?

13 A I don't remember exactly.

14 Q Yes.

15 A But I met with them several times on the
16 whole subject.

17 Q Oh, I see. But during your meetings, you
18 never really discussed making any payments or anything
19 like that to the officials?

20 A We didn't expect to make any payments.

21 Q Yes. But he may have mentioned—

22 A No, sir.

23 Q —that he had some expenses or he paid third
24 parties or anything like that?

25 A No, sir.

1 Q Did Air Taxi receive compensation for the
2 services they performed during the demonstrations by
3 Bell Helicopter in the summer of '72 and I guess you
4 said August and September?
5 A I don't believe so.
6 Q So their only compensation then during that
7 period was the possibility of the commission?
8 A That's right.
9 Q No advance payments?
10 A No, sir.
11 Q I believe you said that Agusta had a license
12 for transport helicopters?
13 A Yes, sir.
14 Q And was that exclusive?
15 A On the 212 which is one model. It did not
16 have exclusive on the 205.
17 Q I just wanted to
18 A Yes.
19 Q —put this into the record. It's a cable
20 from Mr. Gallagher to Mr. Sylvester dated April 12th,
21 1972. And I believe at that time Mr. Gallagher was in
22 Teheran and he's discussing the possibility of the
23 helicopter program. General Toufanian, of course, signed
24 the letter of intent following or during that same week.
25 And Mr. Gallagher indicated to Mr. Sylvester:

1 "Dehesh confirms Bell at least attack
2 portion of program. Transport portion is still
3 clouded by Agusta and will not likely clear
4 until after Corrado visit."

5 And from that, it's not clear to me whether
6 Messrs. Gallagher and Sylvester felt that Bell would,
7 in addition, to getting the attack portion, have some
8 chance of getting the transport portion in April of
9 '72.

10 A Uh huh.

11 Q Is that your understanding of that situation?

12 A Yes, I— I understand what they are saying.

13 Q That they were still trying to get the
14 transport?

15 A That Agusta was trying to get the transport
16 portion, yes, sir.

17 Q But "it's clouded." One inference I think
18 you can make from that is that the transport—that
19 "Dehesh confirms that Bell has the attack portion. The
20 transport portion is clouded by Agusta," meaning that
21 we are not going to get it. "We," being Bell Helicopter,
22 but we may be interested in it.

23 Was Bell still interested at this time in
24 getting the transport portion?

25 A See, we had offered to demonstrate the 214,

1 not the 205. In my mind, if they had bought 205's, it
2 would have gone to Agusta. They didn't buy those.

3 Q But that was the understanding of Messrs.
4 Gallagher and Sylvester?

5 A I think that they were saying that the
6 transports, if they were 205's were going to go to
7 Agusta.

8 Q Okay. And at the end with respect to the
9 involvement by Air Taxi, Mr. Gallagher finishes by
10 saying, and I'm quoting:

11 "Performance of Air Taxi has been out-
12 standing and has contributed significantly
13 to program."

14 So it would appear from this, or at least from
15 that last sentence, that Mr. Gallagher believed that
16 Air Taxi did play a large role in the contract and
17 gaining the contract?

18 A In providing sales services, not necessarily
19 in gaining the contract, the product.

20 Q I should back up then.

21 A You've got to sell the product.

22 Q Right, right. It's talking about Toufanian,
23 the number of helicopters in the program. It goes on:

24 "Presentation of program to H.I.M. is
25 scheduled for this afternoon and Thursday

1 morning for approval. Dehesh states he will
2 do utmost to shoot down in country demo as it
3 is not necessary and result in delay of program
4 implementation."

5 Dehesh was trying to shoot down a demonstra-
6 tion. I assume that's the demonstration in August-
7 September. I don't know what his interest in not having
8 a demonstration would have been.

9 A He wanted to get the program rolling. They
10 lost six months on the demonstration.

11 MR. MARINACCIO: Are you putting that
12 in the record?

13 MR. COLLINS: Yes, it's 37.

14 (The cable referred to was
15 marked "Exhibit No. 37" for
identification.)

16 THE WITNESS: Could I make a correction?

17 MR. MARINACCIO: Please do.

18 THE WITNESS: In the discussion with
19 General Toufanian and the Shah at the palace, Mr.
20 Sylvester was also present. I forgot that, sorry.

21 MR. MARINACCIO: Appreciate your
22 clarifying the record on that point.

23 THE WITNESS: Yes.

24 BY MR. COLLINS

25 A The only other thing I'd like to ask at this

1 time: Let's see, in April of '72, I think you stated
2 earlier that you felt there were a couple of hundred
3 helicopters in the offing?

4 A (The witness nodded his head up and down.)

5 Q In June, did you have that same impression,
6 just a couple of—or how many helicopters?

7 A I don't think, you know, the program had
8 become any more firm by that time.

9 Q No one here knew?

10 A No, sir.

11 Q So, I'd like to put this into the record
12 also. This would be 38.

13 MR. FREED: What is that?

14 MR. COLLINS: A letter from Mr. Sylvester
15 to Air Taxi Company.

16 (The letter referred to was
17 marked "Exhibit No. 38" for
identification.)

18 BY MR. COLLINS

19 Q (Reading) Attention of Mr. Zanganeh, June
20 16th, 1972.

21 He's sending an amendment to the Foreign
22 Representative Agreement between Bell and Air Taxi.
23 This is Amendment No. 1. And on page 1 of the amendment
24 which is Amendment No. 1, it says:

25 "The program anticipated consists of:

1 "100 206A's; 50 205A's; 200 209's; and
2 200 214's and related spare parts and services
3 and training."

4 A That was to give them coverage.

5 Q Give?

6 A To give Air Taxi coverage of the possible
7 various things they had taugt.

8 Now, it was never meant that they were going
9 to buy all of those. They would select from those.

10 Q But you would be sending a commission?

11 A That would apply to whatever they purchased.

12 Q So these are just round figures that they--

13 A These are just figures that--

14 A They must have had some idea--

15 A If they bought the 205's, they weren't going
16 to buy the 214's.

17 Q Yes, because one was a transport or--

18 A See.

19 Q Well, he's talking there also about, in the
20 letter he refers to conversations that they had earlier.

21 A Yeah.

22 Q About the compensation agreement?

23 A Yeah.

24 Q About, I presume, the proposed amendment?

25 A But there was never any possibility of Bell

1 selling these machines as a total program.

2 Q And why not?

3 A Because, first of all, if they bought 214
4 transports, they probably wouldn't buy 205A transports.

5 The 206A's were something that were going to
6 be manufactured by Agusta. They wouldn't come to Bell.

7 The 209's, how we came out with 200 there,
8 I don't know, because that quantity, you know, another
9 document says it was 30 and I don't know why that number
10 was written that way.

11 But what that says is that we would pay two
12 and a half per cent of whatever was sold.

13 Q Okay. Ultimately, this wasn't what was sold,
14 these types of aircraft?

15 A No, no. We sold 287 transports and 202 H 1J's,
16 is what we ultimately sold.

17

18 EXAMINATION

19 BY MR. MARINACCIO

20 Q I have two wrap-up questions on this section:
21 When you say you sold two hundred and something trans-
22 ports and two hundred and something H 1J's, which ones
23 of those were also under license to Agusta, the transports?

24 A At that point, neither the 214 or the AH 1J
25 was under license to Agusta.

1 Q Which one had been under license to Agusta?
2 A Neither of those two had ever been under
3 license to Agusta.
4 Q Never had been under license?
5 A 214 was really a new aircraft. AH 1J, Agusta
6 never had a license on any of our armed helicopters.
7 Q But they had a license to an earlier version
8 of the transport?
9 A The 205.
10 Q To the 205?
11 A Yes, sir.
12 Q And would you have considered the 205 to be
13 competitive with the 214 or was it?
14 A No. For example, the 205 probably had 15,
15 16, 1700 horsepower and the 214 had 3,000 horsepower.
16 Q I see.
17 A So it was a whole new dynamic system, a
18 whole new transmission system.
19 Q They are both basically transport helicopters?
20 A Yes, sir.
21 Q I'd just like to ask you two more questions
22 about Agusta.
23 A Yes, sir.
24 Q To get the record clear: Has Agusta been your
25 licensee in various parts of the world for a number of

1 years?

2 A Yes, it has.

3 Q And what is your opinion of how Agusta has
4 performed in these various parts of the world?

5 A Well, Agusta has always delivered a very
6 quality helicopter. They have done very well in
7 quality.

8 Q The reason why I ask this is because you did
9 say, you made two statements there that I couldn't
10 quite mesh.

11 A Let me---

12 Q Well, let me go on. Let me tell you my question
13 so you'll be able to focus on this.

14 You said once that they fell on their face and
15 another time you said, "Well, if they were going to
16 sell 205's, they would have gotten from Agusta."

17 A Yes.

18 Q So would you kind of comment on that whole
19 situation there?

20 A Well, Agusta has always delivered quality
21 birds. They are usually late to schedule. They have
22 been very poor on product support. They have not
23 supported the product properly in the field.

24 And in parts of their license territory,
25 we have taken over the spare parts support, because of

1 that.

2 For example, we have a depo in Amsterdam now
3 that services the total Agusta territory throughout the
4 world. And we put that there strictly because of the
5 problems that Agusta had in product support.

6 Now, Corrado is a great salesman and he has
7 done well selling throughout the world.

8 MR. MARINACCIO: Thank you for that
9 clarification. Before we go on to the next area which
10 is participation of General Khatami in the ownership of
11 Air Taxi, I would ask you if you want to make any
12 statement on the record for the sale of the helicopters
13 that we have covered?

14 A No. I think we've done that.

15 MR. FREED: Should we take another break?

16 MR. MARINACCIO: Let's take a five minute
17 recess.

18 (Brief recess.)

T7 19 BY MR. MARINACCIO

20 Q Mr. Atkins, I would now like to direct your
21 attention to the matter of the participation of General
22 Khatami in the granting of the contract to Bell
23 Helicopter for the sale of 489 helicopters, and the
24 matter of the ownership of the Air Taxi company.

25 Do you know or have you ever heard from any

1 source whatsoever that General Khatami had an ownership
2 interest of whatsoever nature in Air Taxi?

3 A I have never heard that General had any
4 ownership in Air Taxi.

5 Q General Khatami?

6 A Khatami.

7 Q Khatami.

8 MR. GALERSTEIN: That's why he didn't
9 say it. He didn't want to correct you again.

10 MR. MARINACCIO: Spelled K-h-a-t-a-m-i?

11 THE WITNESS: Yeah, okay.

12 MR. MARINACCIO: Khatami.

13 THE WITNESS: Khatami.

14 BY MR. MARINACCIO

15 Q Do you know or have you ever heard from any
16 source whatsoever that Air Taxi made any payment or
17 gift or gave any emolument to any government official—

18 A I haven't.

19 Q —to the Government of Iran in connection
20 with either the sale of 489 helicopters or from the
21 2.9 million dollar payment made from Bell Helicopter
22 to Air Taxi?

23 A I have no knowledge or never have heard that
24 Air Taxi has made any payment to any government of Iran
25 official as a result of the purchase of the 489

1 helicopters or the payment of the two million nine.

2 MR. GALERSTEIN: It needn't be stated,
3 I'm sure, but that's apart from the allegation by
4 Senator Proxmire to that effect. I mean, prior to that
5 allegation.

6 MR. MARINACCIO: Yes. I would clarify
7 the question that way, and even would clarify the record
8 that I don't think there's been any allegation by the
9 Chairman of the Banking Committee that a payment was
10 made. I think the allegation is that General Khatami
11 has an ownership interest.

12 The information from an agency of the
13 government to the United States is that General Khatami
14 has an ownership interest in Air Taxi. And by virtue
15 of that ownership interest, of course, part of the 2.9
16 million dollar payment may have flowed through to
17 General Khatami.

18 A Well, that's certainly counter to any infor-
19 mation that I hold.

20 Q Now, you have stated previously that you met
21 with General Khatami on one occasion?

22 A Yes, sir.

23 Q I believe you stated the substance of the
24 conversation that you had with him?

25 A Yes, sir.

1 Q At that time, and that you have stated that
2 you had never mentioned to the best of your knowledge
3 the name of General Khatami to G. William Miller?

4 A That is correct.

5 Q Did G. William Miller ever mention the
6 name, to the best of your knowledge, "General Khatami",
7 to you?

8 A Oh, I think we might have talked about it
9 when General Khatami died. I think that might have been
10 that was news in the paper and I think I might have
11 mentioned to him that General Khatami had been killed
12 in an accident.

13 Q Why would you have mentioned to G. William
14 Miller at that time that General Khatami had been killed
15 in an accident?

16 A Well, it was--

17 Q What was the conversation at that time?

18 A I don't remember what the conversation was,
19 particularly. And just that a major defense official
20 from Iran had been killed in an accident.

21 Q Did you mention to G. William Miller at
22 that time that you had met General Khatami?

23 A I don't think so.

24 Q Was there any discussion with G. William
25 Miller at that time or any other time that General

1 Khatami may have played or had some participation of
2 whatsoever nature in the letting of a contract for
3 489 helicopters from the Government of Iran to Bell
4 Helicopter Company?

5 A There was no such conversation, and I
6 don't think General Khatami had anything to do with
7 the 489 ships coming from Bell.

8 Q For the record, I would like to go into the
9 documentation that has been made available to the
10 Committee from Bell—

11 A Sure.

12 Q —pursuant to the subpoena which I think
13 bears on the question of the extent to which, if any,
14 General Khatami had participation in the said helicopter
15 sale.

16 I'd like to mark for the record a series of
17 documents.

18 (The documents referred to were
19 marked "Exhibit No. 39" through
Exhibit No. 53" for identification.)

20 Q Mr. Atkins, with respect to the participation
21 of General Khatami in the letting of the contract to
22 Bell Helicopters, I have a series of documents that
23 were made available by Bell, Textron, pursuant to the
24 subpoena that speak to that issue and I'd like to show
25 you the documents and get your testimony on each of these

1 documents.

2 The first document is Exhibit No. 39, a
3 Zanganeh, Air Taxi internal memo, dated April 11, 1968,
4 which states in pertinent part:

5 "During repeated meetings with General
6 Khatami and General Toufanian as well as other
7 interested authorities concerning the Agusta
8 contract, we did our best to persuade the
9 Government to conclude the contract with Bell
10 Helicopter rather than Agusta."

11 I show you this document and ask you if
12 it doesn't indicate that your manufacturer's repre-
13 sentative in Iran, Mr. Zanganeh, was meeting with General
14 Khatami and General Toufanian to have the business go
15 to Bell, rather than Agusta?

16 A I believe that this memorandum was dealing
17 with the procurement of Model 206's. And what it shows
18 is that our sales representative was unsuccessful in
19 obtaining the business for Bell.

20 Q Could you point to where in the document
21 this indicates that it's dealing with 206's for the
22 benefit of the record?

23 A It doesn't say that in the document, but
24 I'm fairly sure that there was a procurement being
25 made at that time of 206's, and that it did go to Agusta.

1 And I think that's what he was referring to.

2 Q I see.

3 I direct your attention next to Exhibit No.
4 40, which is a communication again from Zanganeh and
5 Air Taxi to Mr. Taylor.

6 Who is Mr. Taylor, by the way?

7 A He's a sales rep.

8 Q And he works under your—

9 A Yes.

10 Q —organizational structure?

11 A Yes, yes.

12 Q Dated December 29th, 1969, I believe. No,
13 it's the 24th. The 29 has been stricken and it's re-
14 written. It's December 24th. The document says in
15 pertinent part:

16 "On my return to Teheran, Mr. Iranzad"
17 who also works for Air Taxi "handed me the
18 Huey Cobra film, brochures and proposals. I
19 will arrange an immediate presentation of same
20 to His Majesty and the authorities concerned.
21 In the event that your proposals are found to
22 be interesting, we will do our best at this end
23 to give you all assistance possible. You are
24 well aware that unless you can provide financing
25 of this deal through the U. S. Government

1 'Tranch' or, alternatively, arrange better and
2 lower term credit facilities than Agusta,
3 the deal will finally be diverted to them."

4 "Since the interested party will be
5 leaving the country within two weeks for a
6 period of one month, I should make arrangements
7 before his departure. Under these circumstances,
8 I regret that I will not be able to attend the
9 Bell Sales Conference from January 7th to 9th.
10 I will cable you my arrival if otherwise."

11 I show you this document and I particularly
12 ask you to look at that paragraph that refers to the
13 "interested party" and ask you whether or not you have
14 any knowledge, direct or indirect, or have ever heard
15 that the interested party referred to in that document
16 is General Khatami?

17 A Well, as I read the memorandum, I think he's
18 referring to His Majesty as the "interested party."
19 And, of course, His Majesty normally went skiing in the
20 month of February, and that seemed to tie in pretty
21 closely to that.

22 Q Have you ever discussed this particular
23 document with Mr. Taylor?

24 A No, I haven't.

25 Q You haven't?

1 A Just off the record for a moment.

2 Q Oh, sure.

3 (Off the record discussion.)

4 Q Why don't you say that for the record?

5 A All right. Further, I believe that the
6 possibility that Air Taxi could have the opportunity to
7 present the Huey Cobra film to His Majesty was very un-
8 likely.

9 Q Mr. Atkins made that statement off the record
10 and I asked him to make it on the record.

11 Mr. Atkins, I show you Exhibit No. 41, which
12 is an internal document of Air Taxi, Mr. Zanganeh, once
13 again. And it says in pertinent part:

14 "In a dinner party given at the residence
15 of General Khatami, His Imperial Majesty, the
16 Queen, Princess Fatemeh and the Prime Minister
17 saw the film. His Imperial Majesty displayed
18 a great interest in the film and raised several
19 questions. I gave the necessary explanations
20 to His Majesty. His Imperial Majesty was most
21 impressed with the Huey Cobra capabilities and
22 pointed out the great possibility of utilizing
23 this helicopter in the Iranian Forces. I
24 immediately communicated the result of His
25 Imperial Majesty's interest and comments to

1 Bell representatives."

2 I show you this document and ask you if it
3 doesn't indicate His Imperial Majesty, the Shah, was,
4 in fact, shown the film and in the presence of General
5 Khatami, a film related to Bell Helicopters?

6 A I have no knowledge of this piece of paper,
7 and—

8 Q You had no previous knowledge that the
9 Shah had seen this film in the presence of General
10 Khatami?

11 A No, I have none.

12 Q I show you Exhibit No. 42,, which is an
13 Air Taxi internal memorandum, dated April 10, 1971,
14 which states in pertinent part:

15 "Upon receipt of Bell Helicopter's telex
16 No. 231, dated March 30, 1971, regarding the
17 arrival of the Bell's team consisting of the
18 following, Sylvester, Striker, Kulik, Horsley.
19 I immediately approached General Khatami,
20 C-in-C" (must mean Commander-in-Chief) "IIAF,"
21 Imperial Iranian Air Force, "and also General
22 Toufanian of the MIO, and personally related
23 the purpose of the visit of Bell's team to
24 Iran."

25 "Contrary to Bell's decision to make a

1 maximum exposure and wide publicity, both
2 General Khatami and General Toufanian, as well
3 as Mr. Dehesh, agreed with me that Bell should
4 play a very low key and only coordinate and
5 adhere to further guidance/instructions which
6 would be given to them."

7 I ask you to review this document and ask you
8 if it doesn't indicate that General Khatami, as well as
9 General Toufanian and Mr. Dehesh, were interested in
10 the Bell sales program in Iran?

11 A Well, reading this memorandum, I believe
12 that this was a Bell sales team that we were sending in
13 to work on the sale of the armed helicopter in Iran.

14 Looking back on it, you'd have to feel that
15 our sales representative was directing us in the wrong
16 direction, because General Khatami, of course, in his
17 position as Chief of the Air Force, really had no
18 direct connection with the helicopter purchase.

19 His advice might be sought by the ground
20 forces as to whether or not that was the proper equip-
21 ment. Certainly, General Khatami did not or was not
22 going to be the user of the aircraft that were being
23 procured.

24 Q But this document indicates that General
25 Khatami was giving advice concerning the procurement?

1 A No, I think this would have been a briefing
2 that was going to be made, and he was going to take a
3 briefing. I think that's what that indicates. The
4 Bell team was going to give a briefing. And I see some
5 specialists on there and that's why I know. Kulik is
6 a specialist in armament.

7 Q Once again, I'll ask you to comment on this:
8 The document does say General Khatami and General
9 Toufanian, as well as Mr. Dehesh agreed with me that
10 Bell should play a very low key and only coordinate
11 and adhere to further guidance and instructions which
12 would be given to them.

13 It indicates that General Khatami, at least
14 in Mr. Zanganeh's mind, who was your manufacturer's
15 representative in Iran, is of the mind that General
16 Khatami is issuing instructions and that Bell should
17 listen to the instructions.

18 A I think it's more likely that that means
19 that MIO said the briefing should be made to us and
20 not to other people.

21 Q I show you document, Exhibit No. 43, dated
22 April 24th, 1971. It's another internal memorandum
23 from Mr. Iranzad who is an official of Air Taxi. And
24 he says here in pertinent part:

25 "Meeting in Air Taxi Company at 9:00

1 A.M. on April 17, 1971. Lengthy discussions
2 concerning the implementation of Bell Heli-
3 copter Company's program, fact finding about
4 Agusta's activities and presentation of the
5 Huey Cobra Helicopter to the Commanders of
6 the Iranian Armed Forces ensued."

7 A Ensued?

8 Q Ensued, "followed," I think he means.

9 A Okay.

10 Q April 18, a meeting with General Toufanian
11 and Mr. Dehesh.

12 "At this meeting, the Huey Cobra was
13 presented to the General who was considerably
14 impressed and indicated that it is the intention
15 of the Iranian Government to evaluate this
16 helicopter and most probably purchase Huey
17 Cobra helicopters in the future."

18 "At both the above meetings, lengthy
19 discussions were held concerning future
20 programs. The team returned to Air Taxi about
21 noon."

22 The team apparently included Sylvester,
23 Striker, Kulik and Horsley.

24 "After a quick lunch, Mr. Zanganeh piloted
25 an Aero Commander aircraft and flew the team

1 from Mehrabad Airport to Doshan Tappeh Air
2 Base to meet General Khatami, Commander in
3 Chief of the Imperial Iranian Air Force and
4 other high ranking officers."

5 "After preliminary introductions of the
6 Bell Helicopter team regarding their program
7 in Iran, discussions took place in a friendly
8 atmosphere for about an hour and a half.
9 General Khatami gave very important and
10 useful guidance and advice for the future sales
11 of a Huey Cobra. The Bell Helicopter Company
12 team were very impressed."

13 "At the end of the meeting, they returned
14 with the same aircraft to Air Taxi's premises
15 at Mehrabad Airport."

16 I ask you to review this document and ask you
17 to comment on General Khatami's interest in providing
18 guidance and advice to the Bell Helicopter team,
19 including its manufacturer's representative, in making
20 sales of helicopters to Iran?

21 A Well, I would think that General Khatami's
22 remarks would probably be in the area of configurations
23 and armament. And, of course, he had possession at that
24 time of F4's and F5's in his Air Force. And he, most
25 likely, would be talking about configurations,

1 armament, avionics, things that would make the machine
2 a better machine for use in Iran. That's the only
3 knowledge I have of this.

4 Q And Sylvester, Striker, Kulik and Horsley,
5 do they work in your organization?

6 A Yes, sir.

7 Q Did you receive a report from these in-
8 dividuals when they came back from this meeting? Do
9 you have any recollection of it?

10 A I think Sylvester talked to me about their
11 trip in general.

12 Q Do you recall--

13 A And felt optimistic that we might sell 20 or
14 30 Cobras in Iran.

15 Q Wouldn't Mr. Sylvester's optimism in that
16 regard be consistent with General Khatami's guidance
17 and advice for future sales of those instruments, ships,
18 helicopters?

19 A Counsel, you know, I've been in this business
20 a long time. My sales teams often come back and tell
21 me how many ships we're going to sell tomorrow. Until
22 such time as we receive a contract with a signature on
23 it, I don't really put much faith in this optimism. It
24 has to be the real thing.

25 Q But wouldn't you agree that the optimism over

1 'a long period of time, in this case finally came to
2 fruition? You did end up selling a half a billion
3 dollars' worth of items to Iran.

4 A Again, we were talking to the wrong person
5 who wasn't going to buy aircraft from us. He might buy
6 them from MacDonald or somebody else, but he wouldn't be
7 buying them from Bell.

8 Q Did your team ever indicate to you that
9 General Khatami had expressed an interest in aiding in
10 the sale of Bell Helicopters to the Government of Iran?

11 A No, no, it did not.

12 Q Mr. Atkins, I show you Exhibit No. 44, a
13 letter, a memorandum from Mr. Sylvester to apparently
14 Mr. Horsley in which they state in pertinent part:

15 "General Khatemi, Commander-in-Chief of
16 the Iranian Air Force, has also reported to
17 the Shah as being in favor of Cobra for the
18 Air Cav Mission."

19 And a copy of this document is noted as
20 having gone to you in 1971.

21 Does this document indicate to you that you
22 were then given knowledge by Mr. Sylvester that
23 General Khatami had been making recommendations in
24 favor of the purchase of Bell Helicopters directly to
25 the Shah as far back as April 28th, 1971?

1 A Now, this memorandum is a Horsley conversa-
2 tion with Sylvester, and these remarks are Horsley's
3 remarks, not Sylvester's remarks.

4 Q I appreciate the clarification of the
5 document. The document does appear to be signed at
6 the bottom of the page 2, by Mr. Sylvester.

7 A He's reporting a telephone conversation.

8 Q All right.

9 MR. FREED: Excuse me. Is this No. 44?

10 MR. MARINACCIO: Yes.

11 MR. FREED: Could you just tell me what
12 that is?

13 MR. GALERSTEIN: Memo. Sylvester to
14 Horsley.

15 MR. FREED: Thank you.

16 MR. SOUTTER: It's Aide Memoire dated
17 April 28th, '71.

18 THE WITNESS: Well, the first sentence
19 here, it says:

20 "General Toufanian, Commanding General of
21 the Iranian Military Industrial Organization,
22 who reports in that capacity directly to the
23 Shah and is responsible for all military pro-
24 curement, and General Minbashian, Commander-in-
25 Chief of the Iranian Ground Forces, have met

1 with the Shah and have come out strongly in
2 favor of the Cobra."

3 Now, how Horsley would know that, I don't
4 know. Then there is a similar remark, later in the
5 memorandum by General Khatami.

6 MR. GALERSTEIN: Let me make a correction
7 right now if I may: I said that was a memo, Sylvester
8 to Horsley. It is not a memo, Sylvester to Horsley. It's
9 an Aide Memoire by Sylvester recording a telephone
10 conversation with Horsley. It is not directed to
11 Horsley.

12 THE WITNESS: And, to me, this is a
13 salesman reporting more than he knows as facts.

14 BY MR. MARINACCIO

15 Q Now this document, Mr. Atkins, shows that
16 you got a "cc"?

17 A Uh huh.

18 Q You got a copy of this document in 1971?

19 A Uh huh.

20 Q Did you call either Mr. Sylvester in or Mr.
21 Horsley who were then in your organization and admonish
22 them for reporting more than what they knew as facts?

23 A I am sure I didn't. They report their
24 feelings on situations, and I am sure that if that
25 triumvirate of generals had recommended the Cobra way

1 back then, they probably would have bought them at that
2 time. Because General Minbashian was Chief of the
3 Ground Forces, and the aircraft were actually for him.

4 Q On the point of General Khatami, however,
5 does this document indicate that as far back as 1971,
6 you were apprised by your staff of General Khatami's
7 recommendation to the Shah in favor of the sale of
8 Bell Helicopters to Iran?

9 A Yes, but my staff had no way of knowing that
10 General Khatami had recommended them to the Shah. And
11 I would have to consider the document accordingly.

12 Q So, in effect, your testimony is that the
13 document is to a degree puffed?

14 A That's right.

15 Q But you made no effort to admonish your
16 staff at that time to take care and not to puff too
17 much, in your words, in your words? I mean, I'm trying
18 to be fair to you, in your testimony.

19 A Well, salesmen, in general, are optimistic
20 people. And salesmen will make statements regarding
21 their sales potential. And many salesmen are name-
22 droppers. And to one degree, I don't want to discourage
23 their efforts across the world. And, certainly, I
24 wouldn't think it a bit unusual for Bell, as part of
25 of their normal sales program, to be talking to General

1 Toufanian over here as Director of Procurement, MIO,
2 of talking to General Minbashian over here, who is
3 Chief of the Defense Forces, who are going to use the
4 product. And then talking to a General Khatami, who
5 is an air expert in that country, to get his support
6 for a program. I wouldn't think that would be a bit
7 unusual. It's part of a good sales program.

8 Q My question is: Whether these series of
9 documents don't begin to show that General Khatami
10 for the alleged lack of direct responsibility he had
11 with respect to the procurement of helicopters is be-
12 ginning to show an inordinate amount of interest in
13 the sale of Bell Helicopters to Iran?

14 I would like to you comment on that.

15 A I think General Khatami, again, was an
16 aviation expert. There weren't many aviation experts
17 in that country. And I would think that he would have
18 an input to make to the final sale. But, he is not
19 the procuring officer and he is not the user of the
20 aircraft.

21 Q Well, since he had an input to make to the
22 final sale and the final sale was pretty important to
23 Bell Helicopter, you should have been, as president of
24 the company, cognizant of his input and interest, and
25 I think you were, as we stated.

1 You went to see him.

2 A I went to see him.

3 Q Yes, and you stated that, previously, sure.

4 A Yes. And if I really thought he was con-
5 trolling, I would have been knocking on that door more
6 than one time.

7 Q But isn't it also logical from a management
8 point of view of a large corporation on a sale of this
9 importance to the company, with your knowledge of
10 Khatami, that you would have mentioned this as a part of
11 the package of the whole to your superior, G. William
12 Miller?

13 A We were selling 30 Cobras. And let's say
14 they were a million dollar apiece. That was thirty
15 million dollars. That sale was not that important to
16 us, 30 million dollar sale. And, sure, we kept Bill
17 Miller appraised that we had a sales program going on in
18 Europe. But at this point in time, we had no idea of
19 the total possibilities or the potential of that program.
20 We were still selling 30 Cobras by that point.

21 Q But I think by this point, and certainly by
22 '72 and '73, the potential was fairly great?

23 A But, you know, there are so many programs
24 around the world that you start out on— You have a
25 batting average of something. And, to me, I have

1 responsibility around this company. I have a responsi-
2 bility to keep my payroll up, keep feeding my people.
3 And I don't run to my superior everytime we're taking off
4 on a 30 million dollar sales program.

5 I sold that many helicopters in California
6 this week. So, you know, it isn't that big a deal.

7 Q What, with respect to the sale you made this
8 week, maybe a lesson, maybe we can learn a lesson on
9 how your organization operates.

10 Did you talk to the people in Providence
11 about that sale?

12 A No, no. They don't even know about it yet.

13 I have to recognize the fact that at the
14 amount of sales to support this organization, I have
15 to sell something sixty or seventy million dollars a
16 month. And, you know, I don't run off and say, "We
17 made a great big sale" when we sell 15 or 20 or 30
18 million dollars worth of helicopters. It's not that big.

19 Q Nevertheless, the sale of 489 helicopters—

20 A Was very important.

21 Q —was a very important venture?

22 A It was— It was important— It was more
23 important than 489 helicopters.

24 Q How so?

25 A From the standpoint of the future. 489

1 helicopters wasn't so important. That was only 500
2 million dollars. It was the fact that we had a
3 continuing program.

4 Q In Iran?

5 A Yes. That was the important thing.

6 Q And I think it's fair to say, though, that
7 the germs of that continuing program began a long time
8 ago, maybe even as far as the early 1970's?

9 A Could be.

10 Q You began to put that program together a long
11 time ago?

12 A Yes, but the potential of it, none of us could
13 see.

14 Q And that's really why I keep asking the
15 question: Since the potential of the program was so
16 large and since it was—groping outlines of it were dim-
17 ly perceived a long time ago, whether or not you wouldn't
18 have sat down with your superior, G. William Miller,
19 and had a long chat with him about it and informed him
20 of who the players were; who this guy was; who that
21 guy was; this general; that general—just in a business
22 sense, I mean, you know.

23 A Well, I think I said I kept him advised of
24 the program we were selling. And I would guess that
25 the input I would have made wouldn't have been very

1 'serious until after I had been in Iran in November of
2 '71. And, at that point, I think I saw some of the
3 potential. And that was really when our real sales
4 programs began, was at that point.

5 Q I'd like to continue with Exhibit No. 45.

6 A Sure.

7 Q An internal memorandum of Air Taxi again.
8 Sill on the point of General Khatami's participation
9 in the sale.

10 This document says in pertinent part:

11 "In the absence of Mr. Zanganeh, who is
12 in Europe, General Khatami, Commander-in-Chief,
13 IIAF, instructed me to inquire from Bell
14 Helicopter Company the price and delivery time
15 of two helicopters, Model UH-1N, for Search/
16 Rescue operations. He indicated that despite
17 the fact that he has received proposals from
18 other manufacturers, he personally prefers to
19 have the U. S.-made Bell Helicopter in his
20 fleet."

21 This is General Khatami talking, according
22 to Air Taxi.

23 "He," General Khatami, "indicated that
24 until the time when the requirements of all the
25 other Armed Forces are known and the total

1 order is placed through FMS to Bell Helicopter
2 Company, this matter be left in abeyance,
3 and the result was phoned to Fort Worth and
4 verbally conveyed to BHC's representative
5 from Teheran."

6 I think this document, again, follows the
7 discussion that we've just been having about the
8 inception of sales back in 1971.

9 And I ask you if it doesn't indicate that
10 General Khatami is now beginning to show an inordinate
11 amount of interest in the sale of Bell Helicopters.

12 MR. SOUTTER: Counsel, I'd like to
13 say I think "inordinate" is a loaded phrase.

14 MR. MARINACCIO: All right.

15 MR. SOUTTER: You know, draw your own
16 conclusions and say what you want, but I find that loaded
17 with a slant on it.

18 THE WITNESS: Yeah.

19 MR. MARINACCIO: I will withdraw the
20 question and rephrase it.

21 MR. SOUTTER: Just, you know— Mr.
22 Atkins may want to—

23 MR. MARINACCIO: I think my point is
24 that since Khatami apparently has no responsibility
25 for the purchase of these helicopters for the Air Force

1 that he's even beginning to talk about FMS which is a
2 government-to-government sale, and seems to be pre--
3 you know--presaging the sale of 489 helicopters?

4 A You notice it said there that Khatami wanted
5 to procure two UH-1N's for Search and Rescue purposes.

6 Now, that is probably his mission. And he
7 had a fleet of Command Huskies that was performing that
8 mission. I didn't-- I don't think I ever heard of this
9 particular two-ship inquiry for UH-1N's, but I don't
10 believe that he ever bought those UH-1N's, and, certain-
11 ly, not from us.

12 Q Could I ask you to look at the last few
13 sentences of the document and comment on that?

14 It seems to be talking about a different
15 transaction there, and one to be structured from govern-
16 ment-to-government through an FMS sale?

17 A Yeah.

18 Q Which is the way the final--

19 A Yeah.

20 Q --contract with Bell Helicopter and Iran was
21 structured.

22 He seems to be talking about two separate
23 items in that.

24 A Well, what I--

25 Q One, the two helicopters and one, a very

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large sale to be done through FMS?

A No. I think what he's said there: Maybe the two-ship sale would be held until an FMS program was entered into. Because Bell could not sell the UH-1N's direct to the Government of Iran. It was a licensed territory to Agusta.

I think that's what he said.

(Short break.)

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1 (Brief break.)

2 BY MR. MARRINACCIO

3 Q Mr. Atkins, on the previous question, I know
4 I used the term "inordinate" in my question. I did not
5 intend to indicate that I have concluded that. I was
6 asking a question of whether or not a document--if that
7 couldn't be inferred from the document.

8 Now, if your testimony is that you disagree
9 with that characterization, please so state for the
10 record. And we're here to get your testimony.

11 A Well, I'd just like to maybe make a little
12 general statement maybe on General Khatami.

13 As I said before, I met him only on one
14 occasion, that was in office, and we discussed the
15 proposed helicopter program in Iran.

16 He was recognized in his country as an out-
17 standing Air Force officer. I'm sure his aviation
18 judgment was something that was very well respected at
19 all levels of the Government.

20 I do not feel that General Khatami played any
21 part in the decision-making process as far as the
22 helicopter program was concerned. I think he may have
23 been consulted as to the suitability of the product. And
24 to the best of my knowledge, he had no ownership interest
25 in Air Taxi. He obviously, from his communique, was a

8/02 1 friend of Mr. Zanganeh. But I think that's the total
2 relationship.

3 MR. GALERSTEIN: Mr. Marinaccio, may
4 I interject?

5 MR. MARINACCIO: Please do interject.

6 MR. GALERSTEIN: Mr. Atkins has not
7 looked through all of the documents that we have provided
8 to you and so he's not aware of what is ordinate or is
9 inordinate in view of the tremendous bulk of contacts
10 that we have provided to you that were had between Air
11 Taxi and Bell and others.

12 And, just for the record, I'd like to say
13 that if one had to objectively decide whether it was
14 an inordinate amount of a large number, let us say, of
15 contacts with General Khatami, or a small number of
16 contacts in view of his position as Chief of the Air
17 Force, one must conclude that it is an inordinately
18 small amount of contacts, not an inordinately large
19 amount of contacts. And I say that simply because you
20 have extracted these documents that we provided to you
21 and willingly, and incidentally before subpoena, and
22 presented only those to Mr. Atkins and not shown him the
23 tremendous mass of communications which bore no reference
24 whatsoever to General Khatami but to all high ranking
25 Government officials in Iran, as one would expect in a

8/03 1 sale of this type.

2 BY MR. MARINACCIO

3 Q I think it's important and relevant for the
4 record to discuss with you all documents which indicate
5 the quality of General Khatami's input into the sale of
6 the helicopter, regardless of the quantity of contacts.

7 I am endeavoring to discuss with you not the
8 sum total of every document where General Khatami's name
9 appears, but those documents which indicate that a
10 proper question should be asked concerning the quality of
11 his participation in the sale of those helicopters.

12 A And I have--

13 Q And whether it's one document or five
14 documents out of 42 documents, they call for questions to
15 be discussed and your responses.

16 A Yes. And I have no objection to that. But
17 on the other hand, you appreciate my limited knowledge of
18 General Khatami when I have met with the man one time.
19 And it seems to me that if I were the chief officer of a
20 company who was contemplating a large sale, if I really
21 felt that he was the controlling factor in that sale, I
22 would have talked to him many more times than once, like I
23 did other officers.

24 Q Well, I think in that context it's going to
25 become relevant after I'm finished with these documents to

8/04 1 ask you such questions as, what did you do to inform
2 yourself of various persons who may or may not have had
3 an interest in Air Taxi, and—

4 A All right.

5 Q —various persons who may or may not have had
6 an interest and so on, to develop whether or not Bell
7 Helicopter apprised itself in a management way of what
8 was going on with respect to its agent in a foreign land.

9 A Well, let's wait till we get to that.

10 Q Sure.

11 I show you document Exhibit Number 46,
12 another internal memorandum from Air Taxi, stating in
13 pertinent part, referring to a meeting July 3rd, 1971:

14 "Prior to this meeting, Mr. Zanganeh
15 (who is a close friend of General Minbashian)
16 had briefed him regarding the future of Huey
17 Cobra helicopters in Iran as well as the keen
18 interest shown by His Imperial Majesty and
19 General Khatami."

20 Later on in the document it says:

21 "Later on I heard from Mr. Zanganeh—"
22 "I" meaning Iranzad, who is Mr. Zanganeh's deputy or
23 whatever.

24 "Later on I heard from Mr. Zanganeh
25 that General Khatami spent more time than

8/05

1 scheduled and gave General Howze very useful
2 guidance and advice which, undoubtedly, will be
3 most vital for the future programmes of Bell
4 Helicopter Company in Iran. General Khatami
5 referred to his viewing of the Huey Cobra film
6 and commented that it is certainly a well-
7 equipped and fast helicopter with many
8 diversified capabilities, and definitely this
9 helicopter will be recommended by him to be
10 utilized in the Armed Forces."

11 I ask you to review this document and state
12 whether or not this document doesn't indicate that
13 General Khatami had a recommendation responsibility
14 over the procurement of helicopters by all Armed Forces
15 in Iran?

16 A Without reviewing the document, I have no
17 knowledge of General Khatami having any particular
18 responsibility or authority to recommend helicopters for
19 purchase for the Army Aviation Program.

20 Now, after reviewing the document--

21 MR. GALERSTEIN: What number is that?

22 MR. FREED: 46.

23 A --I find that Mr. Iranzad, who evidently
24 was not present at any of these conversations-- I really
25 can't take this as very much fact. He heard from Mr.

8/06

1 Zanganeh certain things. But he was not present at these
2 conversations. And for General Khatami to be talking to
3 Retired General Howze, they were no doubt talking on
4 tactical matters. And it seems to me quite reasonable
5 that Khatami would express to Howze his feelings on how
6 this ship could be adapted to the Iranian missions. It
7 doesn't seem unusual.

8 Q May I ask you if General Howze ever became
9 employed by Bell Helicopter in any capacity?

10 A Yes. General Howze was employed by us for
11 several years. He worked in our planning area, and he
12 assisted us in briefing on the tactical use of our
13 machine in certain parts of the world.

14 Q Over what period of time was General Howze
15 employed by the Bell Helicopter Company?

16 A Oh, about ten years.

17 Q Could you give us the approximate dates?

18 A I'd say--- I'd say the 1960's, probably.

19 Q Was he an employee of Bell Helicopter at
20 this time---

21 A I do not know.

22 Q ---when this document was---

23 A I do not know. We used---he was an employee---
24 a full-time employee for a period of time, and then he
25 wanted to go into retirement and he stayed on working for

8/07

1 us as a consultant for a period of time. But it was a
2 consecutive period of time which was about ten years.

3 Q I don't think I could place my hand on the
4 document immediately, but I recall seeing a document
5 which indicated that General Howze participated in some
6 way in the entering into of the contract with the
7 Government of Iran for the 489 helicopters.

8 A No.

9 Q Do you have any knowledge of that?

10 A No. He participated in no way in the
11 contractual discussions. He--

12 Q But he did take a trip to Iran at one point--

13 A He took--

14 Q --to discuss the matter with various Iranian
15 officials?

16 A Well, we ran a demonstration which was based
17 upon his tactical thinking.

18 Q So he had a participation in the--

19 A He was--

20 Q --in the sale of the helicopters?

21 A His purpose was to show the Iranians how
22 the helicopters could be used.

23 MR. SOUTER: He was part of the
24 demonstration team?

25 THE WITNESS: Yes.

8/08

1 MR. GALERSTEIN: Mr. Marinaccio, we
2 have provided you with a report by General Howze.

3 MR. MARINACCIO: That's the report that
4 I was referring to.

5 MR. GALERSTEIN: And in that report—
6 Do you have that in front of you, may I ask?

7 MR. MARINACCIO: It's not one of the
8 documents that I have marked for an exhibit. But if
9 you'll hand it to me, I'll be very glad to—

10 MR. GALERSTEIN: I don't have it here.
11 But the reason I ask—

12 MR. MARINACCIO: If you'll hand it to
13 me, I'll be very glad—

14 MR. GALERSTEIN: —why it isⁱⁿ there
15 is because it does refer to General Khatami. And I
16 wondered why you don't include it in the list of
17 documents that you're now referring to?

18 MR. MARINACCIO: If you'll give me the
19 document I'll be very glad to have the witness's testimony.

20 MR. GALERSTEIN: I don't have— Well,
21 the reason that I bring it up is because General Howze
22 specifically, which as I'm sure you know, says that he
23 tried to get General Khatami to take him to the Shah
24 and that General Khatami wouldn't do it.

25 MR. COLLINS: Do you have a date of that

8/09

1 report? *

2 MR. GALERSTEIN: No, I don't know the
3 date. But I think in all fairness it ought to be
4 included within the general reference to General Khatami.

5 MR. MARINACCIO: Well, as I say--

6 MR. GALERSTEIN: But it's your show
7 and I don't mean to--

8 MR. MARINACCIO: No. There are many
9 documents that refer to General Khatami that--

10 MR. GALERSTEIN: Well, excuse me for
11 interrupting.

12 MR. MARINACCIO: --I haven't pulled for
13 particular questioning of Mr. Atkins. However, since
14 you raised the issue of that particular document, I
15 would appreciate it very much if you would put your hands
16 on that document, and I would be most happy to let Mr.
17 Atkins review it forthwith and get his comments on it
18 for the record.

19 MR. GALERSTEIN: I will get the
20 document. I don't have it available at the moment.
21 BY MR. MARINACCIO

22 Q I show you Exhibit Number 47, which is
23 another internal document from Air Taxi dated March 19,
24 1972, stating in pertinent part that:

25 "The Iranian Calendar Year is about to end.

8/10

1 I had several very important meetings with
2 General Khatami and General Toufanian upon their
3 return from abroad."

4 And it discusses a number of things. Well,
5 I'll just read the whole document.

6 "My intention is to bring myself up to
7 date regarding the overall situation existing
8 these days. Agusta has no important representa-
9 tives in Teheran. I learned that Victor
10 Emanuel and Corado Agusta had an audience with
11 His Imperial Majesty in St. Moritz and once
12 again they begged him for a further chance.
13 Presently the circumstances are in favour of
14 Bell Helicopter Company. At a meeting with
15 General Toufanian and Mr. Dehesh I learned that
16 they were very impressed and pleased with their
17 trip to the United States, particularly with
18 their visit to Fort Worth. Moreover, they
19 said that now that the ground has been broken
20 in favour of Bell Helicopter Company, most
21 probably the number of helicopters required
22 will considerably increase. The required models
23 will also be determined shortly."

24 This is on March 19, 1972, and I'll ask you to
25 just review this document and comment on it because I

8/11 1 think it—it shows, does it not, that in March of 1972
2 that the sale of the helicopters is progressing to the
3 point to where substantial sales are envisaged?

4 A Uh huh.

5 Q And of course that's consistent with the
6 letter of intent signed by General Toufanian the following
7 month?

8 A Yes.

9 Q Sure.

10 A Of course, this was where we had the
11 opportunity to take General Toufanian and Mr. Dehesh
12 and show them through our facility, show them the scope
13 of what it took to manufacture helicopters and where
14 really we convinced them that co-production was not
15 prudent at this time. And this was the trip where we
16 discussed the possibility of a demonstration. And
17 then, of course, that was later confirmed by General
18 Toufanian's letter of April of '72.

19 Q I show you Exhibit Number 48, another internal
20 document from Air Taxi dated August 25, 1972, stating in
21 pertinent part:

22 "We reported this valuable complimentary
23 service of Bell Helicopter Company to General
24 Khatami, Commander in Chief of the Iranian Air
25 Force, to be notified to His Imperial Majesty.

8/12

1 Later on we learned that His Imperial Majesty
2 was very pleased and expressed his appreciation."

3 A Oh, yeah, I know all about this. Yes,
4 I know all about this.

5 Q May we have your comment on it for the
6 record, please?

7 A I was in Teheran and Agusta manufactured
8 Bell Model 212's were serving the royal hanger. His
9 Majesty was flying those ships every day. And we found
10 that they were having great difficulty in the hanger.
11 They didn't have the required spare parts. And we sent
12 a technical team into the hanger to make sure that those
13 helicopters were in first-class shape. And we got some
14 spare parts from Fort Worth to help do that with.
15 This is what they're talking about. This was just a
16 fact, we improved the safety of the fleet that they were
17 operating.

18 Q I show you Document Number 49 dated August
19 26, 1972, another document from Air Taxi, an internal
20 document, which says in pertinent part:

21 "His Majesty and General Khatami and all
22 the dignitaries attended this demonstration
23 and were much impressed."

24 I wish you'd look at that document and give us
25 your comments on it.

8/13 1 A This memorandum of August 26, '72 refers to
2 the major demonstration that Bell made of the AH-1J
3 and the 214 to the Iranian Military at Karaj Dam.

4 We probably had 200 military guests, we had
5 our demonstration teams out there. His Majesty was
6 not there, contrary to what this sounds like. And
7 General Khatami was not there.

8 So now, that's how these memorandums come in.
9 "His Imperial Majesty and General Khatami and all the
10 dignitaries attending this demonstration were very
11 impressed," says the memorandum.

12 Neither His Majesty nor General Khatami
13 attended that demonstration. I did. They were not there.

14 Q Uh huh.

15 A There were probably 200 military people there,
16 but General Khatami was not there and His Majesty was not
17 there. That's the kind of paper work we're dealing with.

18 Q Had you seen this document--

19 A No.

20 Q --previous to--

21 A No, I haven't seen this.

22 Q --today?

23 A No.

24 Q Have you ever taken any steps in all the years
25 that Air Taxi was your manufacturer's representative, to

8/14 1 caution them against puffing?

2 A No, sir. But that is a very good example,
3 though, because I was on that site that day. And if
4 His Majesty was there or if General Khatami was there, I
5 would have been very aware of it. And I know they were
6 not there.

7 Q I show you a document Exhibit Number 50,
8 dated August 28, 1972, an internal Air Taxi document,
9 which states in pertinent part:

10 "The following day General Khatami, at
11 his request, flew both helicopters and was
12 also most excited with the performance of these
13 aircraft. After his flights he commented -

14 'I hope to change my entire existing
15 fleet to these new models.'

16 The General's attitude was a great help
17 in the successful sale of these helicopters,
18 since we learned of his strong recommendations
19 to His Imperial Majesty."

20 Can I ask you to comment on that?

21 A Let's read the whole memorandum.

22 Q Please do.

23 A "His Imperial Majesty expressed his desire
24 to personally fly these two helicopters. At
25 1400 hours he arrived at the Imperial Flight

8/15

1 Hanger in his private 212 Bell helicopter. He
2 flew both models around Teheran and over the
3 large Stadium where he made several landings
4 and take-offs."

5 That's the first paragraph in the memorandum.

6 This was the day that I previously mentioned
7 when His Majesty came out to Mehrabad and flew both the
8 AH-1J Cobra and the Model 214.

9 Now it says: "The following day General
10 Khatami flew both helicopters and was also most
11 excited with the performance of these aircraft."

12 General Khatami did fly both aircraft.
13 The time frame in which he flew those aircraft I don't
14 think is expressed correctly in this memorandum. I
15 think he flew both those aircraft before His Majesty
16 flew them.

17 MR. SOUTTER: The timing of that
18 memo would suggest this occurred, as written, after the
19 last demonstration at Karaj?

20 THE WITNESS: Yes. .

21 BY MR. MARINACCIO

22 Q Again, this is a memorandum written by your
23 manufacturer's representative in Iran?

24 A Right. Which doesn't report facts.

25 Q And I ask you the number of occasions in all

8/16 1 the years in which they've been your manufacturer's
2 representative in Iran in which you have cautioned them from
3 a management point of view to report only facts and
4 to not puff?

5 A Obviously we haven't succeeded in cautioning
6 them to limit their remarks to facts which they know.

7 Q Had you ever cautioned them, that you can
8 recall?

9 A I can't recall we've cautioned them. I didn't
10 have that much to do with them.

11 Q Who, incidentally, did deal with them on a
12 daily basis? I realize you had management control.

13 A Yes.

14 Q But who would you say in your organization--

15 A Mostly Frank Sylvester..

16 Q Frank Sylvester?

17 A Yes. And Jack Gallagher.

18 Q And Jack Gallagher?

19 A Uh huh.

20 Q I show you a document marked Exhibit Number 51,
21 another document that we received from Bell Textron. I
22 believe it's a document from Mr. Zanganeh to Frank
23 Sylvester. And it discusses the sale of the helicopters.
24 And it says, in code--this is another document that's in
25 code. It says:

8/17

1 "According to No. 1, Trout and Skate,
2 the door is still open for Bell to secure training
3 program and even logistic support direct.'

4 And down at the bottom of the page there is
5 a decoding notation. Trout is Dehesh, Skate is
6 denominated as General Khosrodad, and No. 1 is General
7 Khatami.

8 I show you this document and ask you if you
9 have ever heard that General Khatami was referred to as
10 No. 1 at any time?

11 A To me, there's only one person that's Number
12 1 in Iran. And when I refer to Number 1 in Iran, I
13 respectfully refer to His Majesty. But I don't think--

14 Q But apparently--

15 A I don't think they were referring to His
16 Majesty.

17 Q Apparently this document refers to Number 1
18 as General Khatami.

19 A They're over-estimating his position if they
20 are.

21 Q Have you ever heard reference to Number 1
22 previous to today? I mean, have you--

23 A To--

24 Q To any individual who was coded in any way in
25 any of these transactions with Iran, have you ever heard

8/18

1 the code, Number 1?

2 A Whenever I heard Number 1, I thought of His
3 Majesty.

4 Q Well, how many occasions have you heard the
5 code Number 1?

6 A I haven't heard codes, I don't play around in
7 that kind of stuff.

8 Q Well, how many occasions then have you heard
9 the denomination Number 1 with reference to any individual?

10 A University of Texas football team, a few
11 things like that.

12 No, sir. I know of no references to
13 General Khatami as Number 1. And, incidentally, I was
14 very involved in the sale of the training program and the
15 logistics program. General Khatami, I assure you, was
16 not involved at all in those discussions in any way.
17 And I don't think he had any part in the decision of those
18 items.

19 Q I show you Document Number 52, an Air Taxi
20 memorandum dated April 18, 1972, which states in pertinent
21 part, and I'll show you the document:

22 "Today is one of the most remarkable days
23 in the history of Air Taxi Company in that we
24 reaped the harvest of several years of efforts."

25 And later down in the document it says:

8/19

1 "Immediately, after receipt of this letter
2 Mr. Zanganeh approached General Khatami who
3 personally instructed General Azarbarzin,
4 DCS/Ops, Iranian Air Force, to arrange the
5 departure of two C-130 aircraft for this
6 purpose."

7 The purpose of the transmission of the two helicopters to
8 Iran, I believe.

9 A That's coming back or going over there?

10 Q I think it's going over. But I'll show you
11 the document in a minute.

12 A Okay.

13 Q Because I think this document relates to
14 the General Toufanian document which indicates that in
15 the letter of intent you need to fly the helicopters
16 over in a C-130.

17 A Uh huh.

18 Q Finally, the document says that:

19 "General Khatami's orders explicitly
20 indicated that in the event of the unavailability
21 of C-130's in Iran for this specific purpose, any
22 other C-130 aircraft already assigned for another
23 mission would be diverted to fly to Fort Worth
24 and accomplish this important mission."

25 I show you this document and ask you for

8/20

1 your comments.

2 A My comments on it would be that General
3 Khatami was authorized by General Toufanian's letter of
4 intent to commit two of the Iranian Air Force C-130's
5 to Fort Worth to pick up the two prototype aircraft.

6 The aircraft actually came in here sometime
7 in the month of July and carried our equipment to Iran.

8 Just off the record for a moment, if I
9 could, I'll tell you a little funny thing about this.

10 Q I wish you'd tell it on the record.

11 A Well, the funny thing about it was, we had
12 great difficulty in getting two C-130's to get the
13 aircraft back.

14 But General Khatami, as Chief of the Air Force,
15 was merely instructed to use two of his transport aircraft
16 to bring the helicopters over by Toufanian's letter of
17 intent.

18 Q I show you Document Exhibit Number 53, a
19 document from Mr. Zanganeh, internal document again, in
20 which he states in pertinent part:

21 "At my weekly meeting with General Khatami
22 I brought this subject to his attention.
23 Needless to say, the heavy burden of this
24 demonstration will rest on the shoulders of
25 the Iranian Air Force such as the demonstration

8/21 1 sites, fuel, airports, ground support, live
2 firing sites, et cetera."

3 I'll ask you to review this document and
4 comment on it because I think it refers to the
5 demonstration in 1972 which you previously said was
6 fairly important.

7 A You know, there's one thing I might comment
8 about here, and this document brings it to mind. And
9 that is that Air Taxi had many relationships with the
10 Iranian Air Force. And, for example, the weekly meeting
11 here was probably not for the purpose of helicopter work.
12 But, for example, they furnished the Aero Commander
13 Turboprops that the Air Force had.

14 And so I assume that there were maintenance
15 contracts and so forth that ran between Air Taxi and the
16 Iranian Air Force.

17 So, we shouldn't consider that Mr. Zanganeh
18 only knew General Khatami in talking about helicopters,
19 he had other business with General Khatami.

20 Q Had you been made aware at any point that—
21 Were you ever aware that Mr. Zanganeh met weekly with
22 Mr. Khatami—

23 A No.

24 Q —for any purpose?

25 A I never knew that until you read this

8/22 1 memorandum.

2 MR. MIRANACCIO: I think that's all the
3 questions I have at this point. I'll ask Mr. Freed to
4 ask his questions.

5 A Okay.

6

7

EXAMINATION

8 BY MR. FREED

9 Q There are just two documents that I want to
10 place in the record just to pursue just very, very
11 briefly the line of questioning Mr. Marinaccio has been
12 pursuing.

13 The first document is a telex from Mr.
14 Horsley to Mr. Zangahey and Mr. Iranzad dated February
15 7, 1972. In it he says:

16 "General K. I understand returns Teheran
17 this week. Feel it very important his viewpoints
18 especially in relation to his recent visit
19 to St. Moritz enroute home be ascertained.
20 Please advise soonest."

21 I assume, in this context, that he would be
22 referring to General Khatami, since he's the only
23 General K who has been coming up at this point.

24 What would Horsley be interested in with
25 this? I assume the Shah was out skiing in St. Moritz at

8/23 1 this point.

2 (Exhibits 54 and 55 were
3 marked for identification.)

4 Q Again, that's where Mr. Horsley is initiating
5 the contact with Khatami through Zanganeh.

6 A Uh huh. I really have no knowledge of this,
7 and I can't speculate on what it means.

8 Q Let me ask you one other question on that:
9 Did the Bell officials or any of the Bell officials
10 such as Mr. Horsley, Mr. Callagher or others, initiate,
11 go seek advice from General Khatami on their own or
12 work through Mr. Zanganeh in this case, or was it their
13 policy to maintain frequent and regular contact with him?

14 A My opinion is that General Khatami was not
15 that available to him, and I don't think they sought
16 advice from him, no.

17 Q At this point in February of 1972, was
18 there—this is about two months away from the letter of
19 intent, and certainly the Shah is going to play a major
20 role in making a decision. Would it be a fair assumption
21 that Mr. Horsley wanted to get the latest reading of the
22 Shah's thinking, General Khatami would be the source of
23 that because of swinging through St. Moritz on the way
24 back?

25 A I could only speculate and I really don't want

8/24

1 to do that.

2 Q Let me ask you, there's one other document I
3 want to put in the record, it's an Air Taxi internal
4 memorandum dated October 2nd, 1971. This deals with a
5 visit to Iran of Tony Bearden, that's spelled B-e-a-r-d-e-n,
6 who was Bell Helicopter's cameraman. It appears that he's
7 over in Iran to take some pictures. And in that he
8 mentions:

9 "Mr. Zanganeh also arranged for Mr. Tony
10 Bearden to visit H.R.H. Princess Fatemeh--"
11 That's F-a-t-e-m-e-h.

12 "--(Sister of His Imperial Majesty and wife of
13 General Khatami, Commander in Chief, Iranian
14 Air Force), to shoot very interesting films
15 while H.R.H. Princess Fatemah piloted the
16 helicopter."

17 Did you know that General Khatami's wife was
18 a sister of the Shah?

19 A Yes, I did.

20 Q Would a connection like that be of importance
21 in terms of getting an entree to the Shah, given the way
22 things work in Iran?

23 A I wouldn't think so.

24 Q Of course, the Shah places great importance
25 on familial connections.

8/25 1 A Well, I have no knowledge of that. And my
2 experience with those people at those levels are very
3 limited. I don't feel qualified to talk about it.

4 Q You didn't feel that the fact that Khatami's
5 wife was the Princess of the Shah gave him any extra
6 influence or put him in a better position to provide
7 information for you for him to exert his influence or
8 help Bell at all given all the documents that we've
9 laid out?

10 A I don't think that was his purpose.

11 Q That was 55.

12 Did you know at the time that— Did you
13 know in this period from '68 and 1972 that Khatami's
14 wife was the sister of the Shah?

15 A I became knowledgeable at some point in that
16 period. It certainly wouldn't have been before '71.

17 Q Certainly that could be a key factor when you
18 talked about the dinner party that General Khatami gave
19 for the Shah, I think that was in 1969, at which Mr.
20 Zanganeh showed the film on the Huey Cobra and then made
21 his presentation.

22 A I wasn't there. I have no idea.

23 MR. FREED: That's the end of my
24 questioning.

25 MR. MARINACCIO: Mr. Collins?

8/26

1 MR. COLLINS: Just a few.

2

3

EXAMINATION

4 BY MR. COLLINS

5 Q One thing, one preliminary question I would
6 like to ask: All the documents we've been reviewing, I
7 think there are over six hundred pages, why did they
8 all come in to Bell Helicopter, particularly those
9 coming from Air Taxi? There's a lot of internal memos
10 from Air Taxi. Were those sent in after they were written
11 or were they all given to you or others here at any one
12 period of time, any one date?

13 A Well, I believe that--

14 Q You know, they could have formed supporting--

15 A Yeah.

16 Q --documents.

17 A I believe that we were having discussions
18 with the GOI regarding our representative.

19 Q What's that?

20 MR. SOUTTER: Government of Iran.

21 A Government of Iran--regarding our representa-
22 tive and his compensation. And I remember that they were
23 interested in what services he had rendered and what he
24 had done. And I think that Bell said to the representative,
25 "Gather together your files and show us what you have done."

8/27 1 Q So when was this? This was after the contract
2 had been consummated?

3 A I would guess that it was sometime in late
4 '72.

5 Q When it was going to be an IFM?

6 A Yes, sir.

7 Q Then the Government of Iran wanted to know
8 what the commission was going to be?

9 A Well, I had several discussions with the
10 Government of Iran about compensation.

11 Q The size?

12 A I had several conversations. And when we get
13 to that, we'll talk about those.

14 Q You mentioned that General Khatami was not
15 involved in negotiations on the training or logistics
16 program. Who was the person that you mentioned—and I
17 think you mentioned that you were active, very active,
18 in that.

19 A Mr. Dehesh and General Toufaniaan.
20 Everything centers on the procurement office,
21 and—

22 Q Those two individuals?

23 A And those two were the head of the procurement
24 office.

25 Q It's interesting to me in going through

8/28

1 and read all of these pieces of paper, that General
2 Khatami is mentioned quite often with respect to the
3 helicopters and other matters. And this General
4 Minbashian-- Minboshian?

5 A Minbashian.

6 Q --Minbashian, whose forces would use the
7 equipment, were mentioned very sparingly by Air Taxi, the
8 representative over there.

9 A Uh huh.

10 Q I don't know, you know, if--that doesn't
11 say I'm concluding anything.

12 A Yes.

13 Q You know, just as an observation, it does
14 show, I think, in their minds, in Air Taxi's mind,--that is
15 Iranzad and Zanganeh--that if Toufanian, Dehesh and
16 Khatami, this other General, Minbashian, was involved in
17 the discussions, but he wasn't a central figure, you
18 know, at least in their minds. I just wondered, what
19 part did he take in a decision? If his forces were
20 going to use the equipment--

21 A You mean Minbashian?

22 Q Yes. Did he play an active role in the
23 negotiations and the playing stages or--

24 A No, he didn't.

25

MR. FREED: Why?

8/29 1 A Well, I would say that the-- You see the
2 emphasis on General Khatami probably because of the fact
3 that Air Taxi had prior relationships on other programs
4 with the Air Force.

5 Now, the ground forces were really just
6 coming into aviation. And, really, Minbashian or his
7 successor, General Relvasian, neither of them have really
8 played a big role in Army aviation. Rather, they have
9 delegated that to another gentleman who is Chief of Army
10 Aviation for the--

11 Q At that time?

12 A Yes.

13 Q During these negotiations they had an
14 individual that they--

15 A Yes.

16 Q Do you remember his name?

17 A General Koshradad.

18 Q Can you spell that?

19 A Koshradad, K-o-s-h-r-a-d-a-d, or something
20 like that.

21 Q Yes. And I think he is mentioned in--

22 A Yes.

23 Q --the papers, also?

24 A Yes.

25 Q But again, not as frequently as these other

8/30 1 three, Toufanian, Dehesh and Khatami.

2 The other thing I want to ask you: With
3 respect to General Toufanian, Dehesh, Mr. Dehesh or
4 General Khatami, did you ever have any discussion with
5 them or with anyone else concerning any outside interest
6 that they might have, that is, a business or investment
7 interest? They're all, well, the two were Generals, the
8 other one was a civil servant in the Iranian Government.
9 I was wondering whether in your conversations with
10 Zanganeh, other people in Iran, or even here with your
11 own employees, whether it ever came up that these
12 people had any investments, any outside investments of
13 any significance? And I'm not talking about the fact
14 that they might own a hundred shares of General Motors.

15 A Yes. Well, of course, as I've said before, I
16 met General Khatami once and I know nothing about—

17 Q Yes.

18 A —his background or his business connections
19 or anything else.

20 General Toufanian I know well, but I have
21 never heard of any outside business connections on his
22 part.

23 Mr. Dehesh had some outside business
24 connections. He had a textile mill of some kind in Iran.
25 I don't know any more about it than that, but I know at

8/31 1 one time he was attempting to buy some machinery from
2 some company in the States and he mentioned that to me at
3 one time.

4 Q And he was, I believe, Deputy Minister of
5 War for Armaments, that was his title?

6 A I don't believe he had the Deputy Minister of
7 War title.

8 Q Well, I'll try to find the document, but in
9 one of the documents they ran down the titles and he
10 was described as Deputy Minister of War for Armaments.

11 A I don't believe that he was ever Deputy
12 Minister of War.

13 Q Okay. Someone may have thought he was.

14 A Yeah. I think that--

15 Q It would certainly appear that he--

16 A That's reserved for the military, titles of
17 that type.

18 Q Oh, I see, okay. And as far as General
19 Khatami, you mentioned the other two you never heard of,
20 anything, you never heard of any outside interest of his,
21 too? I recognize you--

22 A I mentioned that first.

23 Q Yeah.

24 A I said I have no-- I met General Khatami once.
25 I have no idea of any of his outside business interests.

8/32 1 Q Oh, okay. And the last thing I would just
2 like to ask you: Did any of your subordinates here at
3 Bell, or else I guess you can include Air Taxi in this,
4 did any of them ever report or discuss the fact that they
5 may have been solicited by a foreign official to pay a
6 bribe for improper payment?

7 A No, sir.

8 MR. COLLINS: I think that's fine.

9 MR. MARINACCIO: I think we ought to
10 break.

11 A Okay.

12 (Whereupon, the evening recess was taken at
13 4:50 p.m., to reconvene at 9:00 a.m., on Friday, February
14 2, 1978.)

15 (The transcript is continued in Volume II.)
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UNITED STATES SENATE

STAFF OF

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

STAFF INVESTIGATION RELATING TO

THE NOMINATION OF

G. WILLIAM MILLER

VOLUME II

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Federal Courthouse
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Telephone: 817 336-3042

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1 FRIDAY, FEBRUARY 3, 1978

2 MORNING SESSION

3 (Whereupon, the proceedings were reconvened at
4 9:00 o'clock a.m., pursuant to the afternoon recess on
5 Thursday, February 2, 1978.)

6 MR. MARINACCIO: Good morning. Mr.
7 Atkins, may I remind you that you're still under oath.

8 MR. ATKINS: Yes, sir.

9 MR. MARINACCIO: And, as yesterday,
10 all the testimony you give today will be under oath.

11 MR. ATKINS: Yes, sir.

12 MR. MARINACCIO: I would like to note
13 for the record that Mr. Atkins has his counsel with him
14 again today, Mr. Soutter and Mr. Galerstein, and
15 representing the Staff of the Senate Banking Committee
16 today are again the same persons that were here yesterday,
17 namely, Mr. Marinaccio, Mr. Freed, Mr. Collins and Mr.
18 Doherty.

19
20 MR. JAMES F. ATKINS

21 resumed the witness stand and testified further as follows,
22 to-wit:

23 EXAMINATION

24 BY MR. MARINACCIO

25 Q Mr. Atkins, yesterday we left of where we

1 were discussing the role of General Khatami, and we had
2 previously discussed the role of Air Taxi and Mr.
3 Zanganeh. And I'd like to continue with that.

4 The question that I have to open the proceed-
5 ing this morning is: What efforts did Bell Division of
6 Textron undertake to keep itself fully informed over the
7 period of years that the sale of 489 helicopters was
8 being discussed and negotiated, to keep itself informed
9 as to what its manufactuer's representative was
10 specifically doing with respect to that sale in Iran,
11 including its efforts to contact various Iranian
12 Government officials, military officials, the Shah and
13 the manufacturer's representative's contact with General
14 Khatami? You, as chief executive officer of Bell
15 Division, of course, would be familiar with those efforts.

16 A Well, in selling a major program, it's Bell's
17 policy to sell at all levels of government, and to start
18 at the lowest level and work your way up.

19 Bell never attempted to see the Shah of Iran
20 during these negotiations. We finally were invited
21 but we made no particular effort to see His Majesty.

22 Bell had a small sales team that visited the
23 country on a fairly constant basis, perhaps during the
24 last year of the sale, and in my mind the sales effort
25 was mainly conducted by this Bell team.

1 The representative was in a supporting role
2 to the Bell team.

3 We do not— I think it's quite customary for
4 us and the way we do foreign business, that a sales
5 representative is a presence in country, and is an
6 assist in developing a program. But quite often the
7 major sales effort is made by the Bell marketing people.
8 I think that was true in this case.

9 Q I would like to return to the question that
10 I specifically asked, namely, what efforts did Bell
11 Textron undertake to keep itself fully apprised of what
12 its manufacturer's representative/agent in Iran was doing
13 with respect to contacting high government officials,
14 including military officials, the Shah and General
15 Khatami?

16 A I think I tried to answer that question by
17 saying that we were conducting the sales effort in that
18 last year, we were leading the sales effort. And, to me,
19 the major contacts were made by our company and not by
20 our sales rep.

21 Q What period do you refer to as the last year
22 of the sale, for the clarification of the record on that?

23 A On November '71 to November '72.

24 Q There were some documents that we went over
25 yesterday and discussed with you that indicated that

1 your manufacturer's representative in Iran had contacts
2 with both General Khatami and, through Khatami, with the
3 Shah of Iran.

4 I ask the question again: What steps, what
5 management controls, did Textron Bell place in motion
6 and what steps did you take, as chief executive officer
7 of Bell, to keep yourself fully informed as to what
8 Air Taxi was doing with respect to General Khatami and
9 the Shah of Iran and other high government officials?

10 A Well, I don't think that any of the documents
11 yesterday showed that Air Taxi was in contact with the
12 Shah of Iran. So I think you're misstating the case.

13 Q May I ask you to answer my question with
14 respect to General Khatami?

15 A I'm sure that Air Taxi had contacts with
16 General Khatami. I'm sure that they had contacts with
17 him on many programs, because they were in a supportive
18 role to the Iranian Air Force.

19 As I told you yesterday, I had one contact
20 with General Khatami, and that's about the sum of my
21 knowledge on General Khatami.

22 Q And what steps did Textron Bell take over
23 this period of time to keep itself fully informed as to
24 what Air Taxi was doing with respect to General Khatami?

25 A Well, I don't think it was our right to

1 attempt to control their actions in respect to their
2 relationship with the Iranian Air Force, and they had a
3 relationship with the Iranian Air Force.

4 And what they did for us in talking
5 helicopters, as I told you before, I don't think— I
6 think that General Khatami would well be contacted
7 because of his expertise in aviation. But I don't think
8 that he was a role player in the final decisions that
9 were made in the country.

10 Q Nevertheless, Air Taxi was your representative
11 in Iran, and the Air Taxi documents indicate a substantial
12 number of contacts directly with General Khatami over this
13 matter. Let the record reflect that the witness is
14 nodding his head, yes.

15 And I ask you, what did Textron Bell do to
16 keep itself fully apprised during this period of time
17 as to what contacts were being made between Air Taxi and
18 General Khatami?

19 A Well, I think the best thing we did was put
20 our own people in country, and basically, to me, Air Taxi
21 was not representing us at the highest levels of
22 government, we were doing our own representation.

23 Q And was your staff informed and did they
24 inform you of the contacts made between Air Taxi and
25 General Khatami over this period of time?

1 A I knew that Air Taxi had contacted General
2 Khatami, yes. And I don't think that's a bit unusual.

3 Q And what was your understanding as to the
4 reason Air Taxi had contacted General Khatami?

5 A Because of the General's knowledge of aviation
6 and because of the fact that in any major sales program
7 you contact anyone who you feel may be in a position
8 to consider your program.

9 Q And what consideration of your program did
10 you think that General Khatami would get?

11 A I had no idea what he would get.

12 Q What consideration would he give to the
13 program?

14 A I assume that he would give a technical
15 consideration to the program. He was an expert pilot,
16 he was an expert aviator, and he would have an opinion
17 on the capability of the product.

18 Q Did you think during this period of time that
19 General Khatami's opinion as to the technical capability
20 of the product would be a factor which would go into the
21 decision making of the Government of Iran with respect to
22 the purchase of the helicopters?

23 A I have a great respect for all Four Star
24 Generals, and I felt certainly his opinions would be
25 valued.

1 Q And during this period of time, G. William
2 Miller was your superior and you were in contact with him
3 concerning this sale of helicopters to Iran, were you not?

4 A Yes, sir.

5 Q And on approximately how many occasions over
6 the period of years did you discuss the prospective sale
7 of the helicopters to Iran with G. William Miller?

8 A How many times?

9 Q Yes.

10 A I just offhand don't have any idea, but I
11 would guess ten, twenty times.

12 Q And during all of these occasions in which
13 you discussed the sale of the helicopters to Iran with
14 G. William Miller, on how many occasions did you discuss
15 General Khatami's role?

16 A I don't think I did. Because, in my mind,
17 the focus point was MIO. And I think that if I discussed
18 the program, I would— First of all, I wasn't talking
19 about individuals involved in the program. I was talking
20 about the program, as such, and the strategy of winning
21 the program. And if I had discussions with Bill Miller,
22 I would think they more likely concerned the actions that
23 were going on within the U.S. Government and within the
24 MIO Organization of the Iranian Government.

25 Q I believe you said you didn't think you had

1 discussions with him, and so on.

2 What is your testimony, your best recollection,
3 as to whether you did or not?

4 A My best recollection is that I did not.

5 Q You did know at that time that General
6 Khatami was the brother-in-law of the Shah of Iran, did
7 you not?

8 A Yes, sir.

9 Q And it was ultimately the Shah of Iran that
10 issued the directive in your presence to purchase the
11 helicopters?

12 A That's correct.

13 Q Was there ever an occasion in which you
14 discussed the Shah's decision with G. William Miller?

15 A Well, certainly.

16 Q Did G. William Miller, to your knowledge,
17 know whether or not General Khatami was the brother-in-law
18 to the Shah of Iran?

19 A I don't know that.

20 Q And what was the occasion of your discussion
21 with G. William Miller of your meeting with the Shah of
22 Iran relative to the sale of the helicopters?

23 A I'm sure that I reported to Mr. Miller upon
24 my return from Iran that we had had a very successful
25 demonstration, and that His Majesty had flown the aircraft,

1 and that he had made a favorable decision to proceed with
2 the program and had instructed General Toufanian to go
3 to the U.S. Government and ask for a letter of order.

4 Q Do you recall the date, the approximate date,
5 the month and the year, in which you met with the Shah—on
6 that occasion in which the Shah issued the directive?

7 A It was either in August or September of '72.

8 Q And was it on that same trip to Iran that
9 you met with General Khatami?

10 A No, sir.

11 Q What was the approximate date— Your testimony
12 stated that—

13 A Yeah.

14 Q —you met with General Khatami on one
15 occasion.

16 A Yeah.

17 Q When was that, sir?

18 A I think it may have been in the—during the
19 November '71 trip.

20 Q Now, I believe, in response to one of my
21 questions earlier this morning, you indicated that Air
22 Taxi and Zanganeh had not had contacts with the Shah of
23 Iran?

24 A Well, I have no way of knowing whether Mr.
25 Zanganeh had a contact directly with the Shah of Iran.

1 But I had no knowledge that he had the capability to have
2 that contact.

3 Q I'd like to read to you from Document Exhibit
4 Number 41, an internal memorandum from Mr. Zanganeh
5 dated December 27, 1969, which states in pertinent part:

6 "On my return from Europe I received a
7 Huey Cobra film and proposal which Mr. Taylor
8 left with Mr. Iranzad during my absence. In a
9 dinner party given at the residence of General
10 Khatauni, His Imperial Majesty, The Queen,
11 Princess Fatemeh and the Prime Minister saw the
12 film. His Imperial Majesty displayed great
13 interest in the film and raised several questions.
14 I gave the necessary explanations to His Imperial
15 Majesty. His Imperial Majesty was most
16 impressed with the Huey Cobra capabilities and
17 pointed out the great possibility of utilizing
18 this helicopter in the Iranian Forces. I
19 immediately communicated the result of His
20 Imperial Majesty's interest and comments to
21 Bell's representative."

22 I ask you whether or not that document
23 refreshes your recollection as to whether or not Air Taxi
24 had the General—and Mr. Zanganeh in particular—had the
25 ability to contact, be with on occasion, the Shaw of Iran

1 in circumstances where the sale of Bell helicopters
2 would be discussed?

3 A The memorandum speaks for itself. But I
4 have no way of knowing if Mr. Zanganeh was actually present
5 during that meeting.

6 Q The document does say—

7 A The document speaks for itself.

8 Q Yes, sir.

9 A But I have no way of knowing that Mr. Zanganeh
10 was at that dinner.

11 Q If I may, I'd like to continue with this
12 question for a moment. The document does indicate that
13 Mr. Zanganeh was at the dinner party.

14 A It speaks for itself, it says that.

15 Q The document says that?

16 A Yes, sir.

17 Q Now, wouldn't it have been important to you,
18 as the chief executive officer of Textron Bell, to
19 apprise yourself of the capability of your manufacturer's
20 representative in Iran to be with and deal directly with
21 the Shah of Iran who, after all, issued the directive for
22 the purchase of the helicopters at a subsequent time?

23 A Well, I don't understand where we're going,
24 I don't understand what you're getting at, really. If
25 a sales representative could be in the presence of His

1 Majesty, certainly it would add to his capability as a
2 sales representative, certainly that would be. But
3 that--part of--

4 Q Excuse me, please finish your answer.

5 A But I had no method of knowing whether or not
6 he actually attended this dinner. It's like the other
7 memorandum that's in this file that says His Majesty and
8 General Khatami were at the demonstration at Karaj. I
9 was there. I know they were not there.

10 Q Did you not feel it important to keep yourself
11 apprised fully of the capability of your agent to contact
12 a person like the Shah of Iran with respect to the sale
13 of helicopters?

14 A Well, did I not-- Repeat your question, please.

15 MR. MARINACCIO: Would you read the
16 question back for us, please?

17 THE REPORTER (Reading from his notes):

18 "Did you not feel it important to keep
19 yourself apprised fully of the capability of
20 your agent to contact a person like the Shah
21 of Iran with respect to the sale of
22 helicopters?"

23 A I always consider it important to control our
24 sales programs.

25 Q Specifically, you previously stated that you

1 had no knowledge of the capability of your manufacturer's
2 representative in Iran to have contact with the Shah of
3 Iran.

4 A Uh huh. Uh huh.

5 Q Don't you think it would have been important
6 for you to know the capability of your manufacturer's
7 representative to have those kinds of contacts and to be
8 able to meet with the Shah?

9 A Well, you know, a meeting with the Shah of
10 Iran can be good or it can be bad. It depends upon the
11 impression that the person makes.

12 And I guess in talking with the Shah of Iran,
13 I would rather represent my company myself than have a
14 representative represent my company.

15 So, I don't know what his social contacts
16 were and I don't know whether he traveled in the group of
17 people who had access to the Shah or not. I can read
18 your memorandum and he said—and it says he was at this
19 dinner. But I don't know what his relationship, if any,
20 was with the Shah of Iran.

21 Q Your testimony then is that you did not
22 contemporaneously keep yourself fully apprised of the
23 contacts of Air Taxi and Mr. Zanganeh with the Shah of
24 Iran?

25 A What do you mean by contemporaneously?

1 Q Contemporaneously, at the time they were made.

2 A No, no. I wouldn't have known of this until
3 after it happened.

4 Q Well, when did you first know when it
5 happened?

6 A I'm sure that somebody told me about this
7 memorandum.

8 Q When did they first tell you about the
9 memorandum?

10 A I would probably guess when it came in.

11 Q Would that have been shortly after December
12 27, 1969?

13 A I assume it would have been.

14 Q So at that time you would have been apprised
15 by whom?

16 A Probably one of our sales reps who read the
17 memorandum.

18 Q Who would that have been?

19 A I have no idea.

20 Q And the sales rep would have advised you at
21 that time that Mr. Zanganeh had met with the Shah of
22 Iran?

23 A He would have said what his memorandum said.

24 Q And would you have believed that Mr. Zanganeh
25 had been in the personal presence of the Shah of Iran or

1 would you have not believed it?

2 A I could believe that that were possible.

3 Q Did you or did you not believe it at that
4 time?

5 A I don't know.

6 MR. GALERSTEIN: May I interject
7 one purely to clarify: This document—

8 MR. MARINACCIO: I'm eliciting the
9 testimony of the witness.

10 MR. GALERSTEIN: Yes, I understand.

11 MR. MARINACCIO: I'm not taking your
12 testimony on any clarification point.

13 MR. GALERSTEIN: I don't wish to
14 testify. I'm trying to be of assistance.

15 MR. MARINACCIO: To whom?

16 MR. GALERSTEIN: To you. But if you
17 wish not, it's perfectly okay.

18 MR. MARINACCIO: If you want to confer
19 with your client, you may do so.

20 MR. GALERSTEIN: No, I don't want to
21 confer with him. I am only trying to be of assistance
22 to you, but if you wish me not to speak, I will not speak.

23 MR. MARINACCIO: If at any time you
24 have any statement to make on behalf of your client,
25 you're free to make it for the record.

1 MR. GALERSTEIN: Well, that's what I
2 was trying to do, Mr.—not to you, but you told me not
3 to talk.

4 THE WITNESS: Now, let's get off of
5 this. Let's go on.

6 MR. MARINACCIO: Well, you make your
7 statement for the record.

8 MR. GALERSTEIN: It's okay.

9 THE WITNESS: Let's go ahead.

10 BY MR. MARINACCIO

11 Q Mr. Atkins, on approximately how many
12 occasions between early 1970 and 1973 were you apprised
13 by your sales people that Mr. Zanganeh and Air Taxi had
14 been in contact with the Shah of Iran?

15 A I have no idea.

16 Q Would it have been more than one but less than
17 five, five to ten, ten to twenty, what's your best
18 recollection?

19 A I don't want— I don't want to speculate.

20 Q I do not wish to have your speculation for
21 the record, I wish to have your best recollection.

22 A My best recollection is that I really don't
23 feel that I was apprised of that probably more than—
24 certainly your five is high.

25 Q And who in your sales organization would have

1 apprised you of the circumstances of Zanganeh's contacts
2 with the Shah of Iran?

3 A Well, I was deeply involved in the sales
4 program, and it might have been any of our sales people
5 who were working the program, basically Sylvester and
6 Gallagher and—

7 Q And in any of your discussions with G. William
8 Miller during this time, did you apprise G. William Miller
9 that your agent in Iran, Mr. Zanganeh, had been in the
10 company of and had met with the Shah of Iran?

11 A I did not.

12 Q And on occasion had discussed the sale of
13 Bell helicopters in the Shah's company?

14 A I did not. And I probably did not because,
15 like you talked about yesterday, I feel many of these
16 memorandums from Air Taxi are puffed. I think you used
17 that word.

18 Q I did use that word in my question because
19 you were indicating that they were puffed.

20 A That's right.

21 Q I did not indicate that I had concluded that
22 they were puffed.

23 A Well—

24 Q I thought that I was trying to be fair in
25 giving you a characterization that described what I

1 thought you were telling me in your testimony.

2 A Well, I thought I took an important memorandum
3 and showed you it was puffed.

4 Q But this document, Document Number 41,
5 wasn't puffed?

6 A I have no knowledge of whether Mr. Zanganeh
7 was at that dinner or he wasn't at that dinner. All I
8 see is what the memorandum says.

9 Q Well now, if on more than one occasion but
10 less than five occasions you were told by your sales
11 people that your agent in Iran had been in contact with
12 the Shah over the sale of Bell helicopters, don't you
13 think that would have been an important thing for you to
14 check out to see if it was true or untrue?

15 A I don't know how I would check that out.

16 Q Did you assume it was true or did you assume
17 it was untrue?

18 A I assumed that the—that the statements made
19 by Air Taxi were over-exaggerations of their efforts to
20 assist us in the sale.

21 Q If I may, I'd like to ask you, for the record,
22 because I don't think this is in the record: The sale
23 of 489 helicopters represented about \$500 million in
24 business.

25 What percentage of Bell Helicopter's yearly

1 sales was made up by the sales of helicopters to Iran
2 during the periods when the 489 helicopters were being
3 delivered?

4 A Probably 30 per cent.

5 Q Did you have—by "you" I mean Bell Helicopter
6 Textron—have an office in Iran staffed by your own
7 people?

8 A Not at that point, not back in the '71 time
9 frame.

10 Q When did you establish an office in Iran?

11 A I believe we established an office in Iran
12 in '73. We worked out of our hotels, really.

13 Q In '73?

14 A In '72 and in '71 we worked out of the hotels.

15 (Brief break.)
16
17
18
19
20
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22
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24
25

GS-gt
T10-1

1 BY MR. MARINACCIO

2 Q Mr. Atkins, did you feel at the time in
3 1970, '71, '72, that Mr. Zanganeh may have been puffing,
4 or when did you first begin to feel that Mr. Zanganeh
5 may have exaggerated his ability to deal with the high
6 Government officials?

7 A Well, in--

8 Q And is that a fair characterization of what you
9 really feel? I want your testimony, not mine.

10 A In my mind, Air Taxi was a good sales repre-
11 sentative. At the same time, I believe the type of
12 people that are engaged in sales promotion normally
13 overstate their accomplishments.

14 And I was dealing at the key point where the
15 decisions were going to be made; and I know he wasn't
16 dealing at that point.

17 And, therefore, I thought he was an assist
18 to the sales program, and I don't think there's anything
19 wrong with that.

20 MR. MARINACCIO: I'd like to mark for
21 the record Exhibit No. 56.

22 (The document referred to was
23 marked "Exhibit No. 56" for
24 identification.)

25 Q Which is a document dated 9 May, 1973, from
C. F. Rudning, Vice President, Program Management at

10/2

1 Bell Helicopter to the Department of the Army, and it
2 states in pertinent part, and then I'll let you review
3 the document to get your testimony:

4 "Air Taxi has been a very responsive
5 and responsible foreign representative for
6 us and has significantly contributed to the
7 successful sales efforts for our U. S.
8 manufactured products in Iran."

9 I'll ask you to review this document and
10 ask you for your comments with respect to the pertinent
11 portion that I have read into the record.

12 A Well, Mr. Rudning was transmitting to the
13 U. S. Army Aviation Systems Command, U. S. Government
14 Form 119, "Contractor's Statement of Contingent or
15 Other Fees."

16 He was also transmitting a copy of our
17 Manufacturer's Foreign Representative Agreement with
18 Amendments 1 and 2 thereof.

19 He was also advising the Aviation Systems
20 Command that we were still in negotiation to determine
21 the final settlement which we would make with the
22 manufacturer's representative.

23 And so as part of his language, he made the
24 statement that you emphasized:

25 "Air Taxi has been a very responsive and

10/3

1 responsible foreign representative and has significantly
2 contributed to the successful sales effort."

3 Q Would you agree with that, Mr. Rudning's
4 characterization?

5 A I think that they were very responsive.

6 The word, "responsible," yes, I guess I
7 would say that they were responsible people.

8 Q To your knowledge, did anybody in Textron/Bell
9 indicate to the Department of the Army that was re-
10 viewing the commission matter to Air Taxi, that Air
11 Taxi may have on occasion puffed?

12 A I don't know that they did. You can, when
13 you question Mr. Rudning, he handled most of the U.
14 S. Government discussions and he can comment on that
15 better than I can.

16 Q What was the first time that you ever learned
17 or heard of, from anyone, who the owner or owners or
18 persons having any interest whatsoever in the ownership
19 nature in Air Taxi?

20 A I would say that the first time that I ever
21 gave much thought to that question was during the year
22 '72 when I saw that or felt that we were going to
23 conclude a major sale.

24 Q And could you tell us what your thought
25 process was during that period in 1972?

10/4

1 A Well—

2 Q I mean, what did you think?

3 A Yeah.

4 Q And what did you do?

5 A Well, we were negotiating for the sale. I
6 recognized that we had a representative who was pro-
7 bably going to receive a major payment. And I discussed
8 with Mr. Zanganeh the ownership of his company.

9 Q And this was in 1972?

10 A I believe so. '72 I would think it was, yes.

11 Q And did you discuss this with Mr. Zanganeh
12 on one occasion or more than one occasion, and where
13 did this discussion take place?

14 A Well, I can't remember whether it occurred
15 in Iran or it occurred here. But, I discussed with
16 him: Who were the owners of his company? And he told
17 me at that time that Mr. Eshoo, who had signed some of
18 these agreements, I think, and Mr. Chafix, were his
19 partners in the company and that they owned a hundred
20 per cent of the stock of Air Taxi.

21 Q During this discussion, did you or Mr.
22 Zanganeh ever mention the name of General Khatami?

23 A No, sir.

24 Q Did Mr. Zanganeh ever indicate to you that
25 General Khatami had any kind of ownership interest,

10/5

1 whatsoever, in Air Taxi?

2 A No, sir.

3 Q Did Mr. Zanganeh ever indicate to you or did
4 you ever know from any source whatsoever, or ever hear
5 that Mr. Khatami had an ownership interest in Air Taxi?

6 A I did not.

7 Q Who else did you discuss the matter of the
8 ownership of Air Taxi with other than Mr. Zanganeh,
9 including any officials of Bell Helicopter or anyone
10 else?

11 A I think Rudning and I may have discussed it.
12 Rudning was the contractual man in this situation, and
13 so I was watching the contractual side of this situation
14 pretty close and he worked with me on that.

15 Q And would Rudning have been in the position
16 to know or have heard of the ownership of Air Taxi?

17 A I don't know whether he was involved in the
18 discussions or not at that point.

19 Q Rudning worked for you?

20 A Yes, sir.

21 Q Did he, on occasion, travel to Iran?

22 A Oh, yes, sir.

23 Q And what was his responsibility in traveling
24 to Iran? For what purpose would he go there?

25 A Well, Rudning at that time, I believe, was

10/6

1 Vice President of Program Management here at Bell. And
2 that included not only the management of the programs in-
3 house, but also the contractual relations with our
4 customers.

5 And he traveled to Iran on the basis that
6 we were formulating this program. He was assisting in
7 the formulation of what the program was and how it would
8 work. And he was also handling the contractual matters
9 involved.

10 Q Was it a part of his responsibility in con-
11 tractual matters to keep himself informed of the owner-
12 ship of the companies that—

13 A I wouldn't say—

14 Q —he would be signing contracts with?

15 A I wouldn't say that he did.

16 Q On behalf of the company?

17 A I don't think that responsibility is spelled
18 out any place, no.

19 Q Do you place upon him the responsibility for
20 ascertaining the ownership of companies with whom he
21 signs contracts?

22 A No.

23 Q Upon whom do you place that responsibility?

24 A Well, we don't go out and check the owner-
25 ship of every company with whom we place a contract.

10/7

1 Q When do you check the ownership of companies
2 with whom you are placing a contract and when do you not?

3 A Well, first of all, there's a matter of
4 whether or not you have any financial—whether that
5 company is going to owe Bell money, financial responsi-
6 bility. That's when we are basically interested in
7 checking out ownership.

8 And, of course, in this case, Air Taxi was
9 not ever going to owe Bell money.

10 Q So then what was the purpose of, in your
11 words, being interested in the ownership of Air Taxi
12 then at that time, if they were not going to owe you
13 money?

14 A Well, I certainly just felt that I should
15 know who owned Air Taxi. And, frankly, I felt when I
16 asked the question of Mr. Zanganeh, I guess I asked it
17 on the basis of, "Well, you own a hundred per cent of
18 your company," probably and he said, "No, I don't. I
19 have two partners and they are these two individuals."

20 Q And that was the first occasion at which you
21 ever had interest in ascertaining the ownership of Air
22 Taxi?

23 A That's right.

24 Q Did you ever discuss the matter of the ownership
25 of Air Taxi with the State Department or any employee

10/8

1 of the State Department?

2 A No, I can't say—

3 Q Either in the U. S. or Iran?

4 A No, I can't say I did.

5 Q To your knowledge, did any of Textron/Bell
6 employees have such discussions with State Department
7 employees?

8 A No, sir.

9 Q Did you ever discuss the matter of the owner-
10 ship of Air Taxi with any official of the Department of
11 the Army?

12 A No, we did not.

13 Q Did you ever discuss—and when I say "you,"
14 I mean you as an individual or anybody in your company
15 of whom you had knowledge—ever discuss the matter of
16 the ownership of Air Taxi with any Intelligence Agency
17 of the U. S. Government?

18 A No, did not.

19 Q Did you ever discuss the sale of helicopters
20 in Iran with any official of the State Department?

21 A Well, I'm sure that the— I'm sure that we
22 talked with the Embassy in Iran.

23 Q And when you say "we," who would that have
24 been? Would that have been you, directly?

25 A I am sure I did.

1 Q And who did you discuss that with? Do you
2 remember the name of the official?

3 A I believe most of our contacts were with the
4 Chief of the Armish-Maag, who was General Williamson.
5 And he, in turn, of course, was talking to the
6 Ambassador.

7 I don't think that I talked to the Ambassador
8 about the program at that time. And there was a change
9 of Ambassadors in there. It was before Mr. Helms came
10 in. And—so, I don't believe— I believe that I talked
11 to General Williamson on several occasions, but I don't
12 believe that I ever talked to the Embassy people.

13 Q Of course, I appreciate your answer and it's
14 a clarifying answer. But to the specific questions,
15 your best recollection is that you did not talk to
16 the State Department about this matter?

17 A Yeah, now, of course, we— It's hard to
18 straighten this all out, because, of course— Let's
19 see, this sale was an FMS sale. And, therefore, it did
20 not go through the State Department. Now, I'm sure
21 that the DSAA people would have their clearance from
22 the State Department for the sale.

23 So, I don't really think we were involved
24 with the State Department on this sale. DSAA, Defense,
25 Security, Assistance.

1 Q You mentioned Ambassador Helms. Did you
2 discuss the sale of the helicopters with him?

3 A No, but he was in the country during the—
4 during the—during the time that Bell moved into country
5 for the training and logistics programs. And I talked
6 to the Ambassador at various times on various problems
7 that we had in country.

8 Q When did Mr. Helms become Ambassador, do you
9 remember?

10 A I don't remember.

11 Q About 1973?

12 A I think so, yeah.

13 Q Did you ever have any discussions with any
14 member of any U. S. Intelligence Agency?

15 A No, sir.

16 Q About the sale of the helicopters in Iran?

17 A Are you talking about the CIA or who are
18 you talking about?

19 Q Any intelligence agency?

20 A No, I had no discussion. If I did, I didn't
21 know it.

22 Q To your knowledge, did any other Bell offi-
23 cials have any discussions with any—

24 A Not to my knowledge.

25 Q —intelligence agencies about this sale?

1 A Not to my knowledge.

2 Q I'd now like to ask Mr. Bruce Freed to ask
3 you some questions.

4 A Sure.

5

6

EXAMINATION

7

BY MR. FREED

8

9 Q Mr. Atkins, what was General Khatami's
10 reputation in Iran at the time that sales were being
11 considered and then negotiated?

12 A Well, his reputation, of course, this is
13 hearsay on my part, but he was a highly respected
14 Commanding General of the Air Force. And he was highly
15 respected by the U. S. Government people who dealt in
16 country. And he was considered to be a most able man.

17 Q What was his reputation in terms of the
18 role he was going to play in any aircraft acquisitions
19 or sales in Iran?

20 A Well, to the best of my knowledge, the way
21 the Government of Iran is set up, the actual acquisition
22 is done by the Military Industrial Organization. And
23 the requirements and so forth may be stipulated by a
24 service, but the actual procurement is done over here
25 by the Military Industrial Organization.

You have to remember that the U. S. Government

1 is very influential, especially in those days, about
2 what the Government of Iran was going to procure, be-
3 cause they were advising as to the best weapons for
4 their use in Iran.

5 So, I'm sure that the General flew a lot of
6 the airplanes that he was going to buy and was going
7 to come into his inventory and so forth.

8 The actual procurement was always over here
9 in the Military Industrial Organization, as far as I
10 know.

11 Q But General Khatami was Commander-in-Chief
12 of the Air Force?

13 A Right.

14 Q With great interest in all aviation. And
15 isn't it fair to assume that he would play a very
16 central role in acquisitions and purchases?

17 A Well—

18 Q In clearing?

19 A —well, take a look at the U. S. Army and
20 consider the fact that you have Commanding Generals
21 of the European Command and you have Commanding Generals
22 of CONUS and you have Commanding Generals of RUCKER and
23 so forth. They are recommending bodies to a procurement
24 agency. That procurement agency runs the competition
25 and selects the source. It isn't selected by the

1 Q Mr. Atkins, this instrument of ownership is
2 the first formal document in Textron's submission under
3 the subpoena of any indication of who the owners of
4 Air Taxi were.

5 A Uh huh.

6 Q It comes on May 21, 1973. Why, at that time?

7 A Well, this document resulted as—from a
8 whole series of negotiations, and rather painful
9 negotiations, in which we were attempting to reach a
10 settlement of our Manufacturer's Representative Agree-
11 ment with Air Taxi.

12 And when we came to a final agreement with
13 Mr. Zanganeh, we asked that he furnish us a resolution
14 of his Board of Directors of his authority to accept
15 the settlement which we were offering.

16 I believe and to the best of my recollection,
17 the ownership thing was something that they added, and
18 we had never requested.

19 What we were interested in was: Did Mr.
20 Zanganeh have authority from his Board to settle this
21 agreement?

22 And I believe that the part of this thing
23 here that says, "We're the owners," was something that
24 just came out of their own legal form of doing something.

25 Q When was the final agreement with Mr.

1 Zanganeh reached?

2 A June the—well, to me it was reached some-
3 time; the tentative agreement was reached some time in
4 the month of May, I would say, '73. And this was
5 the final confirmation which we finally signed in June
6 of '73.

7 Q What do you mean, this was the final? Are
8 you referring to this ownership document as the
9 final confirmation?

10 A Well, the Amendment 3 to the Manufacturer's
11 Agreement.

12 Q When did the negotiations with Mr. Zanganeh
13 begin?

14 A Well, of course, there was a whole series
15 of negotiations, starting way back in April of '72. And
16 this final negotiation, I would guess, went over a
17 period of several months.

18 Q So, in effect, the negotiations went over a
19 year period?

20 A Well, we reached an agreement in April of
21 '72 and we changed that agreement in October of '72.
22 And then we got down to a negotiation of a final
23 settlement on the total transaction. And I would guess
24 that happened in the April-June, 1973 time frame.

25 Q Was this document in any way related to

1 submissions that you were going to be making, that
2 you were making to the Army Aviation Systems Command?

3 A To me, this document was something that we
4 legally wanted to tie this transaction up.

5 And I'm talking about Mr. Zanganeh's authority
6 to make the final settlement.

7 Q Why didn't the issue of Air Taxi ownership
8 come up before 1973?

9 A I am not saying that this was a matter of
10 ownership I was worried about here. I was worried
11 about the matter of Mr. Zanganeh's authority to
12 consummate this transaction for his company.

13 Q I want to just say for the record, the
14 document that I refer to was the ownership instrument
15 of Air Taxi that was certified by the U. S. Embassy
16 official on May 21, 1973.

17 A I don't think it was a statement of ownership.
18 It was a resolution of the Board of Directors stating
19 certain things. And the ownership just fell out of it
20 was the way they signed it.

21 Q Bell was not interested before May of 1973
22 in getting a statement of who the managing partners
23 were, what the lines of authority were at the—

24 A No. I previously testified that I had
25 talked to Mr. Zanganeh about that, and that he had

1 informed me who the owners were of the company. And
2 at this point, we were not interested in— We were not
3 thinking of the ownership. We were thinking about:
4 Did Mr. Zanganeh have authority to act for his company
5 in this important transaction? And therefore we said:
6 "Mr. Zanganeh, you get your approval of your Board of
7 Directors and show us that you have authority to act
8 for the company."

9 Q Wouldn't this have been important when you
10 signed the contract, resigned the contract with Air
11 Taxi in 1968?

12 A Well, it wasn't considered important, no.

13 Q Why did you doubt, or Bell Helicopter doubt,
14 Mr. Zanganeh's authority?

15 A I don't think there was any particular
16 reason. I don't think we really did doubt his authority.
17 I think we merely wanted to confirm that his Board
18 accepted the settlement that we made. And we didn't
19 want to come back and negotiate another time.

20 Q And that's why the May 21, 1973 document—

21 A Yes, sir.

22 Q —was provided?

23 A Yes, sir.

24 Q Was this provided at Bell's request?

25 A Yes, sir.

1 MR. FREED: Okay, let's take a break now.
2 (Brief recess.)
3 MR. FREED: I want to introduce Exhibit
4 No. 58 for the record.
5 (The résumé referred to was
6 marked "Exhibit No. 58" for
7 identification.)
8 MR. MARINACCIO: May I point out at this
9 time that all of the documents that have been tendered
10 by Textron are in the record before the Committee.
11 The reason why the particular documents are
12 being marked here is so that the reviewer of the
13 particular testimony, as in the case of Mr. Atkins,
14 will be able to identify the particular documents that
15 we're talking about in Mr. Atkins' testimony. But all
16 of the documents are in the record.
17 MR. FREED: This will be Exhibit No. 58
18 and it appears to be a résumé of Air Taxi of the
19 company with no date on it.
20 Q Mr. Atkins, could you just characterize this
21 document also?
22 May I have that so we can then discuss it
23 when you are through reading it?
24 MR. SOUTTER: Do you want Mr. Atkins to
25 characterize it first?
MR. FREED: Yes, if he can.

1 A This appears to be a statement and description
2 of the Air Taxi Company. It names the directors.
3 It names the number of employees. It talks about their
4 activities and the companies they represent. It talks
5 about banks in which they do business.

6 Q Could I have that back?

7 A Yes.

8 Q Thank you.

9 Mr. Atkins, who prepared this document,
10 the Exhibit No. 58 on Air Taxi?

11 A I do not know.

12 Q Do you know when it was prepared, Exhibit
13 No. 58?

14 A No, I don't.

15 Q Do you know why Exhibit No. 58 was prepared?

16 A Is this one of the documents that we provided?

17 MR. SOUTTER: Yes.

18 MR. FREED: This Exhibit No. 58 was
19 provided in the submission.

20 A I don't remember, really, seeing that docu-
21 ment before.

22 Q Do you know what Exhibit No. 58, what the
23 information on Exhibit No. 58 is based on?

24 A No, I don't.

25 Q Do you know whether Exhibit No. 58 was

1 prepared before the Committee's request for information,
2 for the documents, or the Exhibit No. 58 was prepared
3 in response to the Committee's request?

4 A I am sure it was not prepared after the
5 Committee's request.

6 Q And why is there no indication in Exhibit No.
7 58 of ownership of Air Taxi?

8 A I have no idea, because I assume that's merely
9 one of the documents that's been gathered up as business
10 has gone along with Air Taxi. And I don't really
11 remember seeing that document before.

12 Q Would Exhibit No. 58 characterize what Bell
13 Helicopter knew about Air Taxi until it received Exhibit
14 No. 57 on it?

15 A I would guess that that was not prepared by
16 Bell.

17 Q You would guess? You would assume then that
18 Exhibit No. 58 was prepared by Air Taxi?

19 A Yes, I would. Now, that's my opinion.

20 Q And there was no attempt by Bell to check the
21 information provided by Air Taxi in Exhibit No. 58?

22 A Well, as I say, I believe this is the first
23 time I have seen it. I didn't review all the exhibits
24 that were submitted to the Committee.

25 Q Now, in Exhibit No. 58, it lists Air Taxi as

1 the distributor in Iran for Bell Helicopter, Avco Ly-
2 coming, Aero Commander, King Radio and Sunair Electronics.

3 Which was the largest account in Exhibit No.
4 58 of Air Taxi?

5 A I imagine Aero Commander.

6 Q Aero Commander was the largest account?

7 A (The witness nodded his head up and down.)

8 Q And what would be the second largest?

9 A I think Bell would be the second largest.

10 Q Now, for the record, what is Aero Commander?

11 A Aero Commander is a—was at one time a
12 separate General Aviation Company. I believe it's
13 now been purchased by Rockwell. And Air Taxi was
14 distributing Aero Commanders. Excuse me—was distributing
15 Aero Commanders.

16 Q And Aero Commanders are what, executive
17 aircraft?

18 A They are a turboprop airplane. It could be
19 considered executive aircraft or it could be considered
20 military aircraft.

21 MR. FREED: I have no further questions.

22 MR. MARINACCIO: Mr. Collins?

23 EXAMINATION

24 BY MR. COLLINS

25 Q Mr. Atkins, you mentioned that you didn't

1 really have an occasion to inquire as to the ownership
2 of an agent, unless the agent was doing business for you,
3 in such a manner that they would owe you money. And that
4 in the case of Air Taxi, they generally didn't owe you
5 money?

6 A Uh huh, yes.

7 Q You also had commercial contract with Air
8 Taxi, that they acted as your Manufacturer's Repre-
9 sentative, and I believe they still do; is that correct?

10 A Yes, sir.

11 Q Would you have investigated or inquired as
12 to the ownership because of the commercial agreement?

13 A Well, see, we ship everything out of here
14 normally on prepayment or on letters of credit. And,
15 therefore, we never have a— Nobody overseas— Generally,
16 the people overseas do not have an open account with us.

17 Now, maybe some of our major distributors
18 in Europe or some place like that do, but not
19 generally the small agencies of this type.

20 Q So you require the money up front?

21 A Yes, sir.

22 Q Or at least part of it?

23 A Yes, sir—most of it—all of it.

24 Q So, in a commercial area, you wouldn't have
25 asked Air Taxi about their ownership?

1 A That's right.

2 Q You would have established that they had
3 sufficient credit here so that they could cover—

4 A Their purchases.

5 Q —any purchases they made?

6 A That's right.

7 Q What does IHI stand for? I believe there was
8 an Engineer Toufanian as the head of that?

9 A That's Iranian Helicopter Industry.

10 Q And is that in government or a private con-
11 cern?

12 A Well, that started out to be the plant built
13 by Agusta and jointly owned by MIO and Agusta.
14 That now has been purchased 100 per cent by
15 the Iranian Government.

16 Q When was it purchased by the Iranian Govern-
17 ment, do you recall?

18 A Probably '73. We are now operating that
19 factory.

20 Q And since when have you operated it?

21 A Since '73.

22 Q That is, Bell Helicopter?

23 A Yes.

24 Q Since '73?

25 A Yes. It's a— It's not a factory. It's a

1 depo type operation or repair type facility.

2 Q It's not production?

3 A No, sir.

4 Q This had nothing to do then with co-production?

5 A No, sir.

6 Q Repair of the helicopters?

7 A Yes, sir.

8 Q Bell Helicopters?

9 A Yes, sir.

10 Q Engineer Toufanian was the brother of General
11 Toufanian?

12 A That's right.

13 Q And Prince Chafik, I believe he was a Commander
14 in the Iranian Imperial Navy, and he was, personally,
15 the nephew of the Shah.

16 And in that capacity as Commander of the
17 Naval Base, I believe that he, Prince Chafik, was
18 interested in acquiring spare parts for his helicopters,
19 aircraft and also considered purchasing some Bell products
20 from Air Taxi; is that correct?

21 A I don't know that.

22 Q In 1971? That he had dealings with Air Taxi
23 concerning Bell Products; do you know that?

24 A I know that he was concerned about the support
25 of the Bell machines that they had acquired from Agusta.

1 And he was looking for spare support. I don't know
2 whether he was looking to Air Taxi for that or not.

3 Q And that his father was one of the partners,
4 one of the three partners owning Air Taxi; is that
5 correct?

6 A I'm not certain of the relationship between
7 the Chafik and Air Taxi and Prince Chafik. I'm not
8 certain of their relationship.

9 Q When you discussed the agency agreement that
10 you had with Air Taxi with your personnel during 1972,
11 did the relationships, excluding Chafik, we don't know
12 whether he was the son of the Chafik who was an owner
13 of Air Taxi— Did Engineer Toufanian, that relationship,
14 was it ever discussed or was the relationship between
15 Khatami's wife as Princess and sister of the Shah,
16 was that ever discussed?

17 A Engineer Toufanian was completely divorced
18 from anything to do with the Air Taxi situation. He had—

19 Q But at the time in 1972, co-production was an
20 issue, at least in the Iranians' mind?

21 A Well, basically, Engineer Toufanian had
22 facility cognizance, more or less at this depo I'm
23 talking about. He was the guy that planted the trees
24 and did some of the facility work at the depo. He was
25 in charge of that. And there was no connection there

1 with Air Taxi in any way.

2 Q Was there any discussion about General
3 Khatami's wife, the Princess?

4 A No.

5 Q And her relationship with the Shah?

6 A (The witness shakes his head.)

7 Q I believe she was a pilot also?

8 A That's right.

9 Q She flew some of the Bell Helicopters?

10 A That's right.

11 MR. COLLINS: Okay. That's fine. Thank
12 you.

13 THE WITNESS: They have a royal hangar
14 there with the products of Bell, some products of
15 Sikorsky and so forth. And they fly them quite often.

16 Q Did anyone discuss with her, your personnel,
17 did they discuss with her what she thought of the
18 product?

19 A I really don't know. I never met her.

20 Q I mean, she never participated in negotia-
21 tions at all?

22 A Oh, no, no.

23 MR. MARINACCIO: Is that all?

24 MR. COLLINS: Let me ask one more:

25 Q Did she have any role in the Iranian

1 Government, other than being the Princess?

2 A Not that I know of.

3 MR. COLLINS: Okay, thank you.

4 MR. MARINACCIO: Mr. Doherty?

5

6

EXAMINATION

7

BY MR. DOHERTY

8

Q I have just a couple of questions:

9 You were questioned earlier, Mr. Atkins,
10 with respect to your's and company's—and when I say
11 "company" I mean Bell and Textron Company's knowledge
12 of the ownership of Air Taxi.

13

I would like to broaden that a little bit.

14

To your knowledge, does anyone at Bell have any knowledge
15 with respect to whether Air Taxi has any other kind of
16 a relationship with Iranian Government officials? And,
17 if so, a control relationship or a relationship, an
18 indirect one where Air Taxi may do business with another
19 company which is somehow affiliated with a foreign
20 government official? I'd just like to broaden that—

21

A Yes, yes.

22

Q —and ask you, generally, whether you, to
23 your knowledge, anyone at Bell has any knowledge with
24 respect to any kind of a relationship of Air Taxi with
25 Iranian Government officials?

1 A I know of no relationship with them.

2 Q Do you know whether anyone at Bell made any
3 inquiry of Air Taxi as to whether it had any kind of a
4 relationship like that with the Iranian Government
5 officials?

6 A No, I don't.

7 Q Aside from the specific ownership question,
8 to your knowledge, does anyone at Bell have any knowledge
9 as to whether any part of the 2.9 million dollar payment
10 made by Bell to Air Taxi in any way inured to the
11 benefit of, directly or indirectly, any Iranian Govern-
12 ment official?

13 A I have no knowledge of that and I don't think
14 any Bell people do.

15 Q Do you know whether anyone at Bell made
16 any inquiry as to whether any portion of such payment
17 would or did, directly or indirectly, inure to the
18 benefit of any Iranian Government officials?

19 A No, I don't. I think those people would think
20 it was insulting if we asked that kind of a question.

21 Q Then I think the logical consequence of that
22 is the answer to my next question: Do you know whether
23 anyone at Bell directed or suggested to Air Taxi that
24 no portion of the funds paid to Air Taxi should be in
25 any way or should in any way inure to the benefit of any

1 Iranian Government official?

2 A I'm certain that, you know, we made an
3 agreement with Air Taxi as a corporation. We would
4 expect them to use the funds for their purposes. And
5 we certainly would not expect anything to go back to
6 any Iranian Government official.

7 Q But, at that time, no directive was made to
8 Air Taxi, nor was any representation secured from Air
9 Taxi that no portion of the payment would inure—

10 A No, sir.

11 Q —to the benefit of any Government official?
12 Is that correct?

13 A That's correct.

14 Q There is, however, a provision, as I under-
15 stand it in the current manufacturer's representative's
16 agreement that would effectively secure that kind of a
17 commitment from manufacturer's representatives, is it
18 not?

19 A That is correct.

20 Q Apart from the particular distribution of
21 the 2.9 million dollar payment, do you know to your
22 knowledge whether anyone at Bell had any knowledge with
23 respect to whether any payment or any benefit of any
24 kind was passed along by Air Taxi for the benefit of
25 any Iranian Government official in connection with the

1 procurement of the contract under discussion?

2 A I have no knowledge and I know of no Bell
3 employees that have knowledge.

4 Q And to your knowledge, no specific inquiry
5 was made on the part of any Bell people with respect
6 to that?

7 A That's correct.

8 Q Did you participate in any discussions or
9 did any information come to you in any fashion that
10 Air Taxi either had discussed or considered any such
11 improper—engaging in any such methods in order to assist
12 in securing the contract?

13 A There was never any indication that Air Taxi
14 was making any improper payments in connection with the
15 contract.

16 MR. DOHERTY: Thank you, sir.

17 MR. COLLINS: Please?

18 MR. MARINACCIO: We'd like to go back
19 to Mr. Collins for he indicates he has some follow-up
20 questions.

21 THE WITNESS: Okay.

22 EXAMINATION

23 BY MR. COLLINS

24 Q Mr. Atkins, with respect to my earlier
25

1 questions on Prince Chafik, I want to introduce as
2 Exhibit 59 an internal memo from Mr. Zanganeh, dated
3 April 19, 1968, in which he indicates that meetings
4 were held with Prince Chafik, identified as the nephew
5 of His Imperial Majesty and son of Mr. Chafik, partner
6 of Air Taxi Company, concerning logistical support by
7 Air Taxi and the possible purchase of six helicopters.

8 I just want to introduce that into the record,
9 showing that, at least in Mr. Zanganeh's mind, Prince
10 Chafik was also—in addition to being the nephew of the
11 Shah, was also the son of Mr. Chafik, a partner in
12 Air Taxi.

13 (The memo referred to was
14 marked "Exhibit No. 59" for
15 identification.)

16 A Well, I would take it that this information
17 is probably correct.

18 Q You would doubt that Mr. Zanganeh would know
19 whether—

20 A I say, it would be correct.

21 Q It would be?

22 A Yes, sir. (The witness indicated Exhibit No.
23 59.) And the six helicopters I don't think ever
24 came about.

25 Q Yes, but I just wanted to know with respect
to other negotiations whether Prince Chafik's name ever

1 came up since he—

2 A Prince Chafik was—operates for the Navy,
3 and down in the Persian Gulf area, way down at Bandar
4 Abbas. And his name came up early in the discussions
5 because he was unhappy about the support of his Bell
6 Helicopters down in the Gulf. He had a few Agusta-
7 built helicopters down there and he didn't have spare
8 parts for them.

9 A And that's about all I know about Chafik.

10 Q But that was his only Government duty, as far
11 as you know, was the Navy?

12 A He was a—Yeah, he was a—

13 Q And he wouldn't participate or advise the
14 Shah?

15 A Oh, no.

16 Q In any deals?

17 A No. He was— I think he might have been
18 the rank of—

19 Q Well, he was the Prince?

20 A No, he was a—but I think his rank was some-
21 thing like less than a Captain, I believe.

22 Q Was he one of many princes, do you know?

23 A Oh, I am sure there are many.

24 Q Nephews of the Shah?

25 A I am sure there are many.

1 MR. COLLINS: All right. Thank you.

2 MR. MARINACCIO: Mr. Atkins, we are
3 now finished with that aspect of the outline we discussed
4 at the outset and we're about to get into the matter of
5 the 2.9 million dollar payment.

6 As previously, with all the other matters
7 we've discussed, I'd now like to give you the opportunity
8 to add anything to the record that you would like with
9 respect to the transaction that we've been discussing.

10 And, if you would, because I think we have
11 had a rather lengthy discussion on it, if you'd like
12 comments on what you are feeling is about Zanganeh's
13 relationship to General Khatami and the Shah?

14 THE WITNESS: Well, I've commented on that
15 for two days.

16 MR. MARINACCIO: That's fine. And if you
17 don't care to anymore—

18 THE WITNESS: I think it's okay.

19 MR. MARINACCIO: —we'll lay it to rest,
20 fine.

21 THE WITNESS: I think it's fine.

22 MR. MARINACCIO: Do you have any other—

23 THE WITNESS: No, sir, I'm happy with it.

24 MR. MARINACCIO: —if you do, you can
25 just state it for the record.

1 THE WITNESS: I'm happy with it.

2 MR. MARINACCIO: Thank you.

3

4 EXAMINATION

5 BY MR. MARINACCIO

6 Q With respect to the matter of the 2.9 million
7 dollar payment to Air Taxi, I'd like to read for your
8 benefit, into the record here and find out whether you
9 agree or disagree with this statement, this exchange
10 between Senator Brooke and Mr. Miller at the hearing
11 before the Senate Banking Committee on Tuesday, January
12 24, 1978. And Senator Brooke and Mr. Miller are
13 discussing the 2.9 million dollar payment:

14 "Senator Brooke: Who was the chief
15 negotiator for Bell?"

16 "Mr. Miller: The president of Bell."

17 "Senator Brooke: Who is that?"

18 "Mr. Miller: James Atkins."

19 "Senator Brooke: Is he still president?"

20 "Mr. Miller: Yes, sir."

21 "Senator Brooke: He negotiated these?"

22 "Mr. Miller: Yes, sir."

23 "Senator Brooke: Would they have been
24 reported to you as chief executive officer
25 of the parent corporation?"

1 "Mr. Miller: Yes."
2 Q Would you agree with—
3 A Yes, I would.
4 Q —Mr. Miller's testimony on that?
5 A Yes, I concur exactly with what he said. That
6 was the easiest question to answer.
7 Q And, further, two pages later, the exchange
8 is still going on:
9 "Senator Brooke: Do you know with whom
10 your president or the president of Bell Heli-
11 copter negotiated with?"
12 "Mr. Miller: I believe he negotiated
13 with Mr.—"
14 The record said "Yanganeh", but it's
15 "Zanganeh."
16 "Mr. Miller: I believe he negotiated
17 with Mr. Zanganeh. I don't know of anyone else
18 he would have negotiated with. His report to
19 me was they had reported to Mr. Zanganeh."
20 A That's correct.
21 Q That is correct?
22 A (The witness nodded his head up and down.)
23 Q Is it your testimony that you negotiated with
24 Mr. Zanganeh?
25 A I did.

1 Q Further going on with the testimony at
2 the hearing:

3 "Senator Brooke: Was this a formal
4 report to you as Chief Executive Officer?"

5 "Mr. Miller: This had been through the
6 group vice presidents; discussions of this over
7 time, as they had tried to negotiate as best
8 they could, and asked for counsel of us. And
9 I don't know that there was a formal report.
10 There was a final formal document."

11 "Senator Brooke: It would have been reduced
12 to writing, would it not?"

13 "Mr. Miller: Yes."

14 Q Do you know which document Mr. Miller is
15 referring to?

16 A Amendment 3 to the manufacturer's agreement.

17 Q And there is no document in memorandum form
18 from you to Mr. Miller or to the Board of Directors
19 of Textron analyzing and giving a background to the
20 history of the negotiations with Mr. Zanganeh on the
21 2.9 million dollar payment?

22 A No, sir, there is not.

23 Q To your knowledge, was there any such docu-
24 ment?

25 A There was not. The whole transaction is

1 clearly set forth in Amendment 3.

2 Q Now, you stated you were responsible for the
3 negotiations?

4 A Yes, sir.

5 Q And you reported to Mr. Miller?

6 Were there reports made to the Board of
7 Directors of Textron, to your knowledge?

8 A I have no direct knowledge of that.

9 Q Have you ever heard whether there were or
10 there weren't?

11 A I am not prepared to comment on that and
12 I am sure you can get that information some place else.

13 Q No, but have you heard whether or not the
14 Board of Directors considered the 2.9 million dollar
15 payment? If you heard it, yes. If you haven't heard
16 it, no.

17 A I think I heard it was discussed by the
18 Audit Committee, and I think that's the extent of my
19 knowledge.

20 Q And where did you hear that it had been
21 discussed by the Audit Committee? From whom did you
22 hear that?

23 A I can't remember exactly where I heard it,
24 but I think I also read it in the testimony. I think I
25 read Mr. Miller's testimony and I think it said there

1 that it was talked about in the Audit Committee.

2 Q I take it from what your testimony has been
3 that you did not appear at any Board of Directors'
4 meeting of Textron—

5 A I have been.

6 Q —at which the 2.9 million dollar payment
7 to Air Taxi was discussed in any way?

8 A That's correct, I did not.

9 Q Did you ever appear before the Audit Committee—

10 A No, sir.

11 Q —in regard to the 2.9 million dollar
12 payment?

13 A No, sir.

14 Q Now, we've discussed the word "negotiations."
15 Whenever we use the term "negotiations," can we agree
16 that we are talking about the negotiations for the
17 2.9 million dollar fee, at this point, and not the
18 negotiations for the sale of the helicopters?

19 A Yes, sir.

20 Q Now, over what period of time did those
21 negotiations take place?

22 A From—let's set the scene first, remembering
23 that we entered into Amendment 1 to the Agreement in
24 April of '72. And then we went to Amendment 2 in
25 October of '72.

1 Q I would assume that the—well, I feel that
2 the negotiations for the final Amendment 3 was in the
3 period of April through June of '73.

4 Q So when you—

5 MR. SOUTTER: Mr. Marinaccio, may I
6 interrupt you?

7 MR. MARINACCIO: Surely.

8 MR. SOUTTER: Are those amendments iden-
9 tified as exhibits? Is anybody planning to? I just
10 don't recall.

11 MR. MARINACCIO: We intend to very
12 shortly.

13 MR. SOUTTER: Thank you.

14 BY MR. MARINACCIO

15 Q So when you refer to negotiations, are you
16 referring the period in 1973 only?

17 A Yes.

18 Q You are not referring to any discussions
19 that might have taken place during the period in which
20 Amendment No. 1 was agreed to or Amendment No. 2 was
21 agreed to?

22 A That's correct.

23 Q Who was involved in the process by which
24 Amendment No. 1 and No. 2 came to be agreed upon? Were
25 you involved?

1 A To the best of my recollection, I was involved
2 and I was giving instructions for the negotiations for
3 Amendment 1 and 2.

4 I can't remember being directly involved in
5 the negotiation, itself.

6 And in Amendment 3, I personally negotiated
7 that amendment.

8 Q And you negotiated it with Mr. Zanganeh?

9 A That's correct.

10 Q Over the course of how many meetings?

11 A Probably three or four meetings.

12 Q Both here and in Iran?

13 A I believe they were all here.

14 Q And to your knowledge, who would have
15 negotiated on both sides, Bell's side and Air Taxi's
16 side, Amendment No. 1?

17 A I believe Chuck Rudning was our principal
18 negotiator on 1. And Mr. Zanganeh on Air Taxi's side.
19 And I believe that Chuck also negotiated No. 2.

20 Q And Mr. Zanganeh for—

21 A Yes.

22 Q —Air Taxi?

23 A Yes.

24 Q To your knowledge, were there any attorneys,
25 either for the company or for Mr. Zanganeh involved in

1 any of those negotiations?

2 A I don't believe there were any attorneys.

3 Q Your testimony is that you negotiated
4 Amendment No. 3 by yourself with Mr. Zanganeh?

5 A Mr. Rudning helped. Mr. Sylvester was present.

6 But, basically, Mr. Rudning is a good con-
7 tractual writer, and, basically, he wrote the amendments.
8 He was basically responsible for the words in the
9 amendments.

10 Q Did you have any discussions with your
11 attorneys about those—

12 A I am sure we did.

13 Q —amendments?

14 A Yes, I'm sure we did.

15 Q And who would those discussions have been
16 with, which lawyers?

17 A Well, I think we had discussions here with
18 George. And I think we also talked with Textron legal—

19 Q George?

20 A Galerstein.

21 Q Galerstein? And who in Textron legal?

22 A I am not sure whether it was Tom Soutter or
23 John Henderson.

24 Q What's your best recollection as to whether
25 or not you had any conversations about Amendment No. 3

1 with Mr. Soutter or with Mr. Henderson?

2 A I think we did have.

3 Q With both?

4 A Well, one of them, and I'm not sure which
5 one.

6 Q What is the relationship between Mr. Soutter
7 and Mr. Henderson? Is Mr. Soutter in charge of the
8 Legal Department?

9 A Mr. Henderson was in charge of the Legal
10 Department and he was succeeded by Mr. Soutter. And
11 exactly what date that was, I'm not sure.

12 MR. SOUTTER: Would you like me to
13 clarify that?

14 MR. MARINACCIO: Yes, please.

15 MR. SOUTTER: I've been in charge of
16 the Legal Department since June of '71.

17 MR. MARINACCIO: Thank you.

18 Q Do you have any recollection, Mr. Atkins, of
19 ever having discussed the matter of a payment to Air
20 Taxi with Mr. Henderson prior to 1971?

21 A No, I don't.

22 Q Mr. Atkins, I'm going to mark for the
23 purpose of this examination, Exhibit No. 60, which is
24 the Bell agreement with Air Taxi in 1959 that was out-
25 standing, I believe, until 1964.

end gt
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Exhibit No. 61, which is an agreement between Bell and Air Taxi, entered into in 1968.

Exhibit No. 62, which is Manufacturer's-Representative Agreement entered into between Bell and Air Taxi on June 15th, 1970.

Exhibit No. 63, which is Amendment No. 1, Exhibit No. 63.

Exhibit No. 64, which is Amendment No. 2 to the agreement.

And Exhibit No. 65, which is Amendment No. 3 to the agreement.

(The documents referred to were marked "Exhibit-60" through "-65" for identification.)

MR. MARINACCIO: We will take a five minute recess at this point.

(Brief recess.)

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1 (Brief break.)

2 THE WITNESS: Could I make a correction
3 on some prior testimony?

4 MR. MARINACCIO: Please do.

5 THE WITNESS: During the break I had a
6 discussion with Mr. Soutter and Mr. Galerstein about
7 their possible participation in writing the agreement.

8 Mr. Soutter advises me that he really did not
9 participate in writing the agreement, and first reviewed
10 the agreement in 1975. And he had a particular reason
11 at that time to review the agreement and he did. But
12 he did not participate in writing the agreement.

13 Similarly, Mr. Galerstein did not participate
14 in writing the agreement.

15 The agreement was basically written by myself,
16 as a contributor to it, Rudning probably being the
17 contracts man on it, and maybe somebody in his department
18 assisted him in writing the agreement. I wanted to get
19 that clear.

20 MR. MARINACCIO: Appreciate your
21 clarification.

22 BY MR. MARINACCIO

23 Q And just so I understand your testimony:
24 What is your best recollection as to, not only with respect
25 to the writing of the agreement, but the participation in

12/02 1 any manner and the discussions you may have had—

2 A Yes.

3 Q —with our counsel here or counsel in
4 Providence with respect to the negotiations of the
5 agreement?

6 A Well, after talking to counsel, I feel that I
7 basically had conversations with Mr. Miller about the
8 road along which I intended to proceed in the negotiations.

9 I feel that I probably solely made the
10 decision on the amount of money that was paid under the
11 agreement.

12 I think that I had guidelines that I was
13 operating under, and I made a settlement within those
14 guidelines.

15 And then I'm sure that after it was all over,
16 I had a discussion with Mr. Miller about the agreement
17 itself and that we had consummated for \$2,950,000.

18 Q Now, you prefaced your statement by saying,
19 "After discussing this matter with my counsel," and so
20 on—

21 A Yeah.

22 Q —which is fine for the record.

23 A Yeah.

24 Q But I'm asking for your best recollection—

25 A Uh huh. Well—

12/03 1 Q —as to whether or not you discussed,
2 contemporaneously, at the time you were negotiating,
3 whether you had any discussions with either counsel about
4 the dollar figure?

5 A Well, I'm sure I had discussions with Mr.
6 Soutter at the time that he was examining the agreement
7 in 1975, and that's probably what I originally remembered.

8 Q Except my question was more precise. It was
9 contemporaneous with the negotiations of the dollar
10 figure.

11 A Well, I would agree that they had no
12 participation in those discussions.

13 Q They had no participation in the discussions
14 with Mr. Zanganeh?

15 A Or with—that I— When I discussed—

16 Q Did you discuss—

17 A When I discussed with Mr. Miller, Mr. Soutter
18 was not present.

19 Q Did you discuss separately in any conversation,
20 with any counsel of Textron or any other counsel, the
21 matter of the negotiations and the dollar figure setting
22 a fee to Air Taxi while negotiations were going on?

23 A No, sir.

24 Q During the period of, I believe you
25 denominated it early 1973 until June 1973?

12/04

1 A Right. No, sir.

2 Q I have one more document, Mr. Atkins, that
3 I'd like to mark as Exhibit Number 63-A, a document
4 that was also submitted by Textron, and it's also
5 denominated as Amendment Number 1.

6 (Exhibit Number 63-A
7 was marked for
8 identification.)

8 Q If I may, Mr. Atkins, I'll just come over
9 here and stand near you so we can both have a look at
10 these documents.

11 A Okay.

12 Q And I'll just ask you to go through them and
13 verify, for the purpose of your testimony, that these are
14 the documents, if you'll just describe Exhibit Number
15 60 and what it is for the record, then 61 and so on?

16 A Okay. Exhibit Number 60, a Manufacturer-
17 Foreign Sales Representative Agreement dated 27 August
18 1959 between Bell Helicopter Corporation and Air Taxi
19 Company, executed for Air Taxi by Mr. Eshoo, executed for
20 Bell Helicopter Corporation by Mr. Ducayet.

21 There are several riders to this agreement
22 attached. In effect, there are seven riders attached,
23 which generally affect the terms and conditions of the
24 basic agreement. And the last rider, Number 7, is dated
25 June 21st, 1963.

12/05

1 Exhibit Number 61, Manufacturer's Foreign
2 Representative Agreement between Bell Helicopter Company
3 and Air Taxi Company, dated April 1st, '68. This
4 agreement is exercised for Air Taxi by Mr. Zanganeh
5 and for Bell Helicopter by E. L. Farmer.

6 Exhibit Number 62, Manufacturer's Foreign
7 Representative Agreement between Bell Helicopter Company
8 and Air Taxi Company, dated June 15th, 1970, executed for
9 Air Taxi by Mr. Zanganeh and for Bell Helicopter by Mr.
10 Sylvester.

11 MR. SOUTTER: With the exception of some
12 of the riders on the first agreement, are those agreements
13 on the standard printed form?

14 THE WITNESS: Yes, they are. They are
15 the same basic legal form that we use across the world.

16 BY MR. MARINACCIO

17 Q May I also ask you as you're going through
18 these documents to verify, as best you can, if you can,
19 the signatures on these documents? If you see a
20 signature that you don't regard as authentic, please
21 note it.

22 A Fine. Okay.

23 MR. SOUTTER: Exhibit 63 and 63-A, at
24 first blush, if I may—

25 MR. MARINACCIO: Yes, you may.

12/06

1 MR. SOUTTER: —purport to be each a
2 Manufacturer's Foreign Representative Agreement Amendment
3 No. 1. They are in fact, however—they're not duplicates
4 of each other. One would appear to have been a retyping
5 of the others. And I for one am not sure whether the
6 wording of each is identical. And I wondered if counsel
7 can tell us if there are any substantive differences
8 before, or may we have time to—

9 MR. MARINACCIO: I think that counsel
10 will be going into that matter a little later on. I just
11 wanted to have you look at those documents and get your
12 identification of them at this point.

13 A Just put them in and then worry about them?

14 BY MR. MARINACCIO:

15 Q Pardon me?

16 A Well, you want me to describe these documents
17 and then we'll come back to them?

18 Q Sure.

19 A Manufacturer's Foreign Representative
20 Agreement, Amendment No. 1, between Bell Helicopter Company
21 and Air Taxi. This amendment was executed for Bell by
22 C. R. Rudning and for Air Taxi by Mr. Zanganeh.

23 Exhibit Number 63-A, Amendment No. 1, between
24 Bell Helicopter and Air Taxi, executed on behalf of Bell
25 by C. R. Rudning and by Air Taxi by Mr. Zanganeh.

12/07

1 Amendment Number 2 is Exhibit 64. This
2 exhibit is an amendment to Foreign Representative
3 Agreement between Bell Helicopter Company and Air Taxi.
4 It's executed for Bell by C. R. Rudning and for Air Taxi
5 by A. H. Zanganeh. The date of this agreement is October
6 14th, '72.

7 Amendment Number 3 to the Manufacturer's
8 Foreign Representative Agreement between Bell Helicopter
9 Company and Air Taxi, executed for Bell by C. R. Rudning
10 and for Air Taxi by Mr. Zanganeh. And this agreement is
11 dated June 29th, 1973.

12 Q Thank you.

13 If I may, I'd like to go through each one of
14 these agreements and—

15 A Sure.

16 Q —get your testimony with respect to the
17 obligations of the parties with respect to commissions
18 that are contained in each one of these agreements.

19 In the Exhibit Number 60, which is the
20 original agreement between Bell and Air Taxi, of August,
21 1969, the last rider, r-i-d-e-r, is dated 27 August 1959,
22 and it provides—

23 MR. SOUTTER: Correct that date?

24 MR. MARINACCIO: It says "27 August 1959."

25 MR. SOUTTER: That is the date of the

12/08

1 rider?

2 MR. MARINACCIO: That is the date of
3 Rider Number 7 on the document. Would that—

4 MR. SOUTTER: I think that's to an
5 agreement of '59. The rider itself has a different date.

6 MR. MARINACCIO: I appreciate your
7 pointing that out. You're right, exactly right.

8 BY MR. MARINACCIO

9 Q The Rider became effective 12 June 1963,
10 and the Rider states as follows:

11 "Sales Representative—"

12 Which is Air Taxi.

13 "—acknowledges and agrees that Manufacturer
14 has no obligations whatsoever to pay commissions
15 to Sales Representative on any sale which results
16 from:

17 (1) An order placed by a foreign government
18 through the United States Government, or

19 (2) An order placed by the United States
20 Government for delivery to a foreign government
21 pursuant to the Foreign Assistance Act or other
22 similar United States Government programs."

23 So that under this agreement at that time,
24 on a sale from government to government, a commission to
25 Air Taxi would have been prohibited by this agreement, is

12/09

1 that not correct?

2 A I'd like to read it.

3 Q Sure.

4 (Short pause.)

5 A I would agree with your interpretation of
6 that agreement.7 Q Thank you. I now refer you to Exhibit Number
8 61, which was the agreement entered into between Bell
9 and Air Taxi in 1968, and the agreement provides in one
10 of the provisions that:11 "Bell will pay fair commissions to be
12 negotiated where a listed product is delivered
13 by or by direction of the United States
14 Government or—"15 And so on. It appears to me that in this agreement there
16 is no prohibition on commissions on government-to-
17 government sales but that such commission will be
18 negotiated.

19 A That's correct.

20 Q Is that correct?

21 A That's correct.

22 MR. SOUTTER: Mr. Marinaccio, may I,
23 please?

24 MR. MARINACCIO: Yes, sir.

25 MR. SOUTTER: Thank you.

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MR. MARINACCIO: Thank you.

Q Exhibit Number 62, which is an agreement between Bell and Air Taxi dated 6/15/1970, that's June 15th, 1970, I believe that the ability to pay commission on government-to-government sales to Air Taxi is still subject to negotiation, and it's consistent with or identical to the 1968 agreement?

A That is correct.

Q Thank you. Amendment Number 1 to the agreement of January 15th, 1970, provides in pertinent part—

MR. SOUTTER: Counsel, because I think it may come up later, this is Exhibit 63.

MR. MARINACCIO: Yes.

MR. SOUTTER: Thank you.

MR. MARINACCIO: I appreciate your pointing that out.

Q With respect to Exhibit Number 63, which is Amendment Number 1 to the agreement of June 15th, 1970, and Amendment Number 1 provides in pertinent part that:

"Bell will pay to the Representative—"
Meaning Air Taxi.

"—a commission of 2.5% of the value of any contract Bell receives from the U.S. Government for the purchase and delivery of helicopters resulting from a contract between the U.S.

12/11

1 Government and the Imperial Iranian Government."

2 And I'll ask you if that is not correct, and
3 if Amendment Number 1 had been in effect, or was the
4 final controlling document with respect to the sales of
5 approximately 500 million in sales of helicopters to Iran,
6 whether or not the commission under this agreement would
7 have been approximately five times 2.5%, or \$12.5 million?

8 A Well, this agreement provides in paragraph A
9 that Bell will pay a commission of two and a half per cent
10 of the value of any contract between Bell and the Imperial
11 Iranian Government.

12 As to a contract between Bell and the U.S.
13 Government for subsequent delivery to Iran, it provides
14 that a commission of two and a half per cent of the
15 value of the helicopters would be paid, helicopters as
16 distinguished from spare parts, technical data, or things
17 that could be included in a normal contract.

18 Q And is Amendment Number B the provision that
19 would have been controlling with respect to the sale of
20 the helicopters that we've been discussing for the last
21 two days?

22 A Yes, sir.

23 Q Would Provision Number B be the one?

24 A Yes, sir.

25 Q And if that Amendment Number 1 had remained

12/12 1 controlling throughout, the commission under that would
2 have been 2.5% of what dollar figure, can you give us an
3 approximate dollar figure so we can get the approximate
4 commission that that document envisaged?

5 A Well, it would be the \$500 million less the
6 spare parts, technical data, the supporting items that
7 were in that contract. I don't know what the dollar
8 value of those items were.

9 Q Can you give me an approximation of the
10 dollar value of those items? Would it have been a
11 hundred million, less than a hundred million, fifty million,
12 twenty-five million, ten million, five million?

13 A I probably should not speculate. I would
14 prefer to get the figure.

15 MR. SOUTTER: Mr. Atkins, this
16 Amendment Number 1 is dated— I thought there was a date
17 on it. My impression was that it would have been April
18 of 197—

19 THE WITNESS: Two.

20 MR. SOUTTER: —2.

21 I believe you testified yesterday that the
22 scope of the program in April of '72 was considerably less
23 than what it developed to be at the end. Paragraph E
24 states that the amendment shall become effective on
25 April 1, '72. I just wondered if the mathematics then get

12/13

1 to be as high a figure as has been suggested?

2 THE WITNESS: Well, the amendment was
3 made on the basis that we wanted to limit liability on
4 the contract. It was a known fact that commissions in
5 Iran were running much higher than two and a half per
6 cent at the time. And we felt that it was desirable to
7 put a limit on the maximum commission we would have to
8 pay, and that's why this agreement was entered into.

9 Now, the number of aircraft had not been
10 determined, and the value of the program had not been
11 determined at that point.

12 And the other thing that we wanted to do with
13 this amendment was to take out all the supporting items
14 which would continue over a long number of years, and
15 that was the reason for relating it only to helicopters.

16 BY MR. MARINACCIO

17 Q I appreciate that clarification. We are ten
18 minutes away from the luncheon break. I would appreciate
19 it if, for the record, during the luncheon break you
20 could give me, for the record, the value of the final
21 helicopter sales minus spare parts that you have been
22 discussing?

23 A Yes.

24 Q And I realize that you may want to qualify
25 that, and you have every right to do so. But I wish to

12/14 1 place those numbers in the record.

2 A Yes, okay.

3 Q Refer to Exhibit Number 64, which is
4 Amendment Number 2 to the agreement, and direct your
5 attention to the pertinent part which reads as follows:

6 "As provided in Paragraph D hereof,
7 Bell will pay to the Representative a
8 commission of 1 per cent of the price of any
9 listed product or service sold by Bell under
10 any contract Bell receives from the U.S.
11 Government."

12 And I'll ask you to review this document and
13 ask you if it does not reflect that between Amendment
14 Number 1 and Amendment Number 2, the commission had gone
15 down from 2.5 per cent of the sale of helicopters to
16 1 per cent of the sale of helicopters? And we'll have
17 that discussion after the luncheon break with respect to
18 the gross amount of the figures as to what the value of
19 the commission would have been.

20 A Well, this amendment was entered into at the
21 time that the size of the program had been fairly well
22 determined, and also that it had been determined that it
23 probably would be an FMS sale.

24 And we went back to the representative and
25 took the position that, in light of the size of the

12/15 1 program, that we desired to renegotiate the contract
2 and establish a commission which would be of a lesser
3 amount and which could be better supported as a fair
4 and reasonable commission for the services rendered.

5 Q Which was 1 per cent in the document?

6 A Right.

7 Q And was that still 1 per cent minus spare
8 parts, service, et cetera?

9 A No. This was 1 per cent of the total program.

10 Q 1 per cent of the total program, including
11 the sales, price of the helicopter, service—

12 A Spare parts.

13 Q —spare parts, et cetera?

14 A Yes.

15 Q Now, over the luncheon break which we are
16 about to take, can you please give me the figure on
17 what the total dollar value of that would be? I assume
18 that would be the 500 million?

19 A That would be 1 per cent of 500 million.

20 Q Which is 5 million?

21 A Yes.

22 Q Thank you.

23 Finally, before we break, I'd like to direct
24 your attention to Exhibit Number 65, which, and I'll
25 ask you if this is not the operative document under

12/16 1 which the \$2.9 million payment was made?

2 A It is.

3 Q And it provides in pertinent part that:

4 "Air Taxi agrees, in consideration of the
5 payments specified in paragraph A, which total
6 \$2.9 million, to continue to provide assistance
7 and support to Bell Helicopter Company and Bell
8 Helicopter International in Iran, in performance
9 of contracts executed prior to the effective
10 date hereof, directly with Iran and through the
11 U.S. Government for supplies and services until
12 all such contracts are completely performed.

13 In the event the present program, which
14 calls for delivery of 489 helicopters to Iran by
15 Bell Helicopter Company, is reduced for any
16 reason, the compensation specified in paragraph
17 A, that is to say, the \$2.9 million, will be
18 reduced by \$3,000 for each helicopter less
19 than the 489 which is not delivered to Iran."

20 Is that correct and is that the agreement
21 which you negotiated?

22 A That's correct.

23 Q And so the commission fee to—

24 MR. SOUTTER: Can I just look at the
25 copy for a moment?

12/17

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MR. MARINACCIO: Yes.

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Q And so the commission fee to Air Taxi, the final commission fee worked out, was on the basis of a payment of \$2.9 million less \$3,000 for any helicopter that was not delivered?

A Well, of course, we didn't consider this a commission fee.

Q All right.

A We considered this a settlement of a contract between two parties. And Air Taxi had certain rights under their manufacturer's agreement, and in this agreement we settled all claims that they might have for any sale which we had made or would make to the Military Industrial Organization.

Q Is it not true that under this agreement Air Taxi continued to have an incentive as manufacturer's representative to see to it that all of the 489 helicopters were sold to the Government of Iran?

A Oh, yes, sure.

Q And that is because by virtue of the specific language of the agreement, if you work out the mathematics, if zero ships are delivered, Air Taxi would have been entitled to \$1.5 million, and for every ship that was delivered over zero, they would get an additional \$3,000, up to a total of \$2.9 million if all 489 helicopters

12/18 1 were delivered, is that not correct?

2 A That's correct.

3 Q So that at that time, Bell Helicopter felt
4 that Air Taxi continued to have an incentive to continue
5 to see to it that all of the ships would be sold and
6 delivered to the Government of Iran?

7 A That's correct.

8 MR. MARINACCIO: I'd like to now break
9 for lunch. Let's take a break and be back in 45 minutes.

10 THE WITNESS: Okay.

11 (Whereupon, the luncheon recess was
12 taken, to reconvene at 1:00 o'clock p.m., on Friday,
13 February 3, 1978.)

14 (The transcript is continued in
15 Volume III.)
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UNITED STATES SENATE
STAFF OF
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

STAFF INVESTIGATION RELATING TO
THE NOMINATION OF
G. WILLIAM MILLER

VOLUME III

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INFORMATION TO BE FURNISHED

24 Page 374, line 20 - Correct version of Amendment No. 1.

25

1 FRIDAY, FEBRUARY 3, 1978

2 AFTERNOON SESSION

3 (Whereupon, the proceedings were resumed at
4 1:00 o'clock p.m., pursuant to the luncheon recess.)

5 JAMES F. ATKINS

6 resumed the witness stand and testified further as follows,
7 to-wit:

8 EXAMINATION (Continued.)

9 BY MR. MARINACCIO

10 Q Mr. Atkins, before we took the break, I had
11 asked you to, over the break, compile some figures relat-
12 ing to Amendments Number 1, 2 and 3. Do you have those?

13 A Yes, I do.

14 Q Could you please read them into the record?

15 A The original U.S. Government contracts issued
16 in June of '73; there were two separate contracts, one
17 on the Cobras and the second one on the 214s. The total
18 of those two contracts was \$436,243,000.

19 The helicopters included in those contracts
20 had a value of \$390,762,000.

21 Q So, under Amendment Number 1, which provided
22 for a 2.5 per cent commission to Air Taxi, it would be
23 2.5 per cent of \$390 million?

24 A That's correct.

25 MR. MARINACCIO: Could we compute that

1 figure right now?

2 MR. GALERSTEIN: Do you want it?

3 MR. MARINACCIO: Yes.

4 ME. GALERSTEIN: 8-7-6-9-0-5-0.

5 8,769,050. That's two and a half per cent times

6 3-9-0-7-6-2.

7 A Now, of course, when the Amendment 1 was
8 negotiated in April of '72, we had no idea what the
9 number of aircraft would be procured or what the final
10 value of those contracts would be.

11 BY MR. MARINACCIO

12 Q Would you have any reasonable approximation
13 at that time of what the fee would be in the final sale
14 of the helicopters?

15 A We just didn't know how many helicopters they
16 would buy. And that probably wasn't determined until
17 September of '72.

18 Q So, at that time, you then had no specific
19 commission in your mind—

20 A That's right.

21 Q —that would be payable to Air Taxi?

22 A Yes. We were trying to put a limit on our
23 exposure because we recognized that dealers in Iran were
24 being paid somewhere between five and seven and a half
25 per cent, perhaps.

1 Q Now, on Amendment Number 2, which provided for
2 1 per cent commission to Air Taxi—

3 A That would be on \$436 million.

4 Q —and based on the—

5 A So that would be \$4 million 362.

6 Q \$4 million 362, \$4.36 million. And then, of
7 course, under Amendment Number 3 the final commission
8 was \$2.9 million?

9 A Right.

10 Q I'd like to mark Exhibit Number 66 for the
11 record, which is a document which was tendered by counsel
12 for Textron, a memorandum to the file, Re: Commissions
13 of fees paid to foreign representatives.

14 (Exhibit Number 66
15 was marked for
identification.)

16 MR. GALERSTEIN: Excuse me. Let me
17 interrupt. It is \$9,769,050 for the two and a half per
18 cent of 390 something million.

19 MR. MARINACCIO: It is 9 million?

20 MR. GALERSTEIN: 9 million 7-6-9-0-5-0.

21 BY MR. MARINACCIO

22 Q I'm referring to Exhibit Number 66, which I
23 say was tendered by Textron and purports to be a privileged,
24 confidential attorney work product document, an internal
25 inquiry related to, at least in substantial part, this

1 particular payment of \$2.9 million. And the document
2 states in pertinent part that:

3 "On June 18th—"

4 I believe that would be 1975.

5 "—Bob Ames and I—"

6 "I" meaning Mr. Souter, counsel for Textron.

7 "—met with Jim Atkins, Ed Farmer and Chuck
8 Rudning at Bell Helicopter to discuss the
9 payment of commissions by Bell Helicopter in
10 Iran. The following summarizes what we learned."
11 And then there are a number of paragraphs in summary.

12 And the one paragraph that I wish to direct
13 your particular attention to is as follows:

14 "In 1972, indications of potential
15 business in Iran came to Bell's attention.
16 As this business began to be developed, the
17 agreement with Air Taxi was amended three
18 times. The reason for the amendments were
19 partly to reduce any exposure to excessive
20 commissions and partly to serve as a 'carrot'
21 for improved performance by Air Taxi."

22 I'll ask you whether or not that characterizes
23 your understanding of what the payments were for?

24 A What is the date he's talking about there?

25 Q I'll ask you to review the document and read

1 it. It says, "In 1972, indications of potential business,"
2 et cetera. "The reason for the amendments—" and I take
3 it the three amendments, "—were partly to reduce any
4 exposure to excessive commissions and partly to serve as
5 a 'carrot' for improved performance by Air Taxi."

6 Would you agree with that?

7 A I would comment that, yes, we were trying to
8 limit our exposure on excessive commissions. And I'm
9 particularly talking about Amendment Number 1 now.

10 And secondly, I think we wanted the repre-
11 sentative to feel that he was going to receive a fair
12 commission for his services to encourage him to give us as
13 much assistance as he could in obtaining the final contract.
14 I think we're talking Amendment 1 here.

15 Now, in Amendment 2 we reduced commissions
16 further.

17 And then, of course, in Amendment 3 we reduced
18 them further.

19 So I don't think they had the same purposes
20 as Amendment 1 had. Amendment 1 was there to set a
21 limitation on the amount of the commission that the agent
22 would receive. And it was also there to give him some
23 feeling that he was going to receive a reasonable
24 compensation for his services.

25 Q So you think that this paragraph really

1 particularly talks about—and I know you were not the
2 author of the document.

3 A Yeah.

4 Q But this particularly refers to Amendment
5 Number 1, even though it does say "amendments"?

6 A Yes, I believe it—

7 Q And it is true that under Amendment Number 1,
8 the 2.5 per cent figure was probably the highest figure
9 of the three amendments?

10 A That's correct.

11 Q I'd also like to direct your attention to
12 that portion of this same document which talks about,
13 on June 18th, Bob Ames and Mr. Soutter meeting with Jim
14 Atkins, Ed Farmer and Chuck Rudning to discuss this. Was
15 that the only meeting you had with Mr. Ames and Mr.
16 Soutter where you discussed this \$2.9 million payment?

17 A In this time frame?

18 Q Yes, in 1975.

19 I believe you testified this morning that
20 contemporaneously with the negotiation—

21 A Yes.

22 Q —of the payment that you did not—

23 A Yeah.

24 Q —discuss the matter with—

25 A With Mr. Soutter, that's right.

1 Q —with Mr. Soutter.

2 A That's right.

3 Q You came back and clarified the record on
4 that point.

5 A That's right.

6 Well, in the '75 time frame here when Tom
7 was preparing this memorandum and doing his examination
8 of the records, I'm not aware of whether there was one
9 discussion or whether there were several discussions at
10 that time. But they were here for a couple of days, I
11 guess. And during that time I'm sure we tried to give
12 them everything they needed for their examination.

13 Q And what is your recollection of the
14 discussion that was had at that meeting, what do you
15 remember that the parties talked about, what you said
16 and what everybody else there said and so on?

17 A They just wanted a factual presentation of
18 the Iranian commission thing as it might affect some work
19 that Tom was doing, and he needed some background.

20 Q Do you recall if the word "carrot" was used—

21 A I don't remember that.

22 Q —during the—

23 A No.

24 Q Since your counsel is here, Mr. Soutter, and
25 since he was present at the meeting, I would be happy to

1 give him an opportunity to make whatever comment he
2 wishes to make for the record, if any, on this subject.

3 MR. SOUTTER: I think that the
4 characterization of "carrot" is probably my verbiage.
5 I cannot recall anybody saying that. That is a draft of
6 a memorandum which I did prepare after the meeting down
7 here, I think you said it was on June 18, of 1975; that
8 is correct.

9 That must have been, I believe, probably my
10 impression from the time.

11 Mr. Atkins has just now sort of refreshed my
12 memory as to the whole meeting on that, and I would not
13 characterize his feeling as perhaps that was more
14 oriented towards the first amendment than to all three.
15 But I don't think I have anything else further to add,
16 but I'll answer questions, if you wish, on that memorandum.

17 MR. MARINACCIO: It's not my intent to
18 get into the questioning on the memo at this point. But
19 I didn't quite understand your last statement. Did you
20 agree or not agree that this paragraph focused on the
21 first amendment, or was it your feeling that the meeting
22 really talked about all three amendments?

23 MR. SOUTTER: Well, we discussed the
24 entire factual situation in the course of that, and I
25 believe it was at least most of the day and maybe parts of

1 two days, down here.

2 I am reminded now, in the course of these
3 discussions, that that type of phraseology may well have
4 been more applicable to the first amendment as it was
5 being described to me than as I wrote that memorandum
6 it would have been applicable to all three.

7 MR. MARINACCIO: All right. And your
8 recollection is presently that Mr. Ames— Who is Mr. Ames?

9 MR. SOUTTER: Mr. Ames is a Group Vice
10 President for Textron.

11 MR. MARINACCIO: And yourself and
12 Atkins and Farmer and Rudning met for the better part of
13 a day, day and a half, two days, on this subject?

14 MR. SOUTTER: Well, closer to a day
15 but, yes.

16 MR. MARINACCIO: And do you recall that
17 at the discussion of whether or not you reviewed any
18 documents, or was this just an oral discussion among the
19 participants?

20 MR. SOUTTER: Attached to that memoran-
21 dum are tabs which go out to, I think, around fourteen—
22 you correct me if I'm wrong. Substantially all of those
23 documents were produced in the course of our meeting,
24 which were reviewed then and copies were attached to the
25 cover memorandum.

1 BY MR. MARINACCIO

2 Q Mr. Atkins, did you want to add anything to
3 what Mr. Soutter has just said?

4 A No, no, I don't think I'd care to add any-
5 thing.

6 MR. FREED: Did you put in Mr. Soutter's
7 internal investigation as Exhibit Number 66?

8 MR. GALERSTEIN: Yes.

9 MR. MARINACCIO: Yes, it's been
10 numbered 66.

11 BY MR. MARINACCIO

12 Q Mr. Atkins, I'd like to refer back to Exhibit
13 Number 56, which was the communication from Mr. Rudning
14 to the Department of the Army concerning his fee.

15 A Uh huh.

16 Q Or the payment of \$2.9 million.

17 In paragraph 3 of that document—

18 MR. SOUTTER: Just a minor correction,
19 I believe. The \$2.9 million didn't come until Amendment
20 Number 3, and this particular document only transmitted
21 the first two amendments. There is another letter, I
22 believe, as you know, transmitting the third amendment.

23 MR. MARINACCIO: That is correct. I
24 should not have said \$2.9 million. It relates to the
25 matter of a payment to Air Taxi.

1 A Uh huh.

2 Q And in paragraph Number 3 of this letter, on
3 page 2, Mr. Rudning states in pertinent part:

4 "We recognize that this matter should be
5 resolved for the purposes of the definitizing
6 of the subject contracts, therefore, the
7 forthcoming amendments to our definitive
8 proposals will contain a commission of \$1000
9 per helicopter and a proposed clause limiting
10 the commission to that amount and providing for
11 reduction to a lesser sum per helicopter if we
12 do so negotiate subsequently with Air Taxi."

13 'And I'll ask you if that doesn't indicate that
14 at this time the representation to the Department of the
15 Army was that the payment to Air Taxi would be limited to
16 \$1000 per helicopter and which, if my numbering mathematics
17 is correct, on the sale of 489 helicopters, would be
18 \$489,000?

19 A No. That clause—or that paragraph does not
20 mean that.

21 I had made a decision that we would claim
22 \$1000 per ship under our U.S. Government contract, and
23 the balance of the fee that we paid would be from Bell's
24 profits. And I had made that decision going in, without
25 knowing what the eventual outcome of the negotiation would

1 be.

2 Q When did you make that decision and why did
3 you make that decision?

4 A During this whole time frame, the representa-
5 tive commission situation was being closely reviewed by
6 the Government of Iran. They had become concerned about
7 the commissions they had paid on other orders, not to
8 Bell but to other people.

9 And in the course of my discussions with the
10 GOI, they recognized that Air Taxi was our representative
11 and they were concerned about the fees that might be
12 payable to Air Taxi.

13 And we had discussions about, well, what is a
14 reasonable fee? And there was an expression that maybe
15 something like the expenses incurred by Air Taxi would be
16 a reasonable fee.

17 Now, based upon this discussion, and feeling
18 that the potential of the program in Iran was great, I
19 just arbitrarily made a decision that we would claim
20 something that was representative of \$500,000. Because
21 we felt that the representative might well have spent that
22 amount of money during his representation of Bell.

23 And so that was a thousand dollars times
24 489 ships. And so we claimed in our contract proposal to
25 the U.S. Government a thousand dollars per ship. And, as

1 this says, we agreed that if we should negotiate anything
2 less than that, we'd reduce it. If we negotiated anything
3 more than that, it would not be a matter of contract
4 claim.

5 Now, later in the program, as the contract
6 was being processed, the Government of Iran requested the
7 U.S. Government to revise the U.S. Government ASPIR, to
8 provide that no commissions would be payable on FMS sales
9 to Iran.

10 Q When was the date of that?

11 A I'm not sure. The actual revision of ASPIR
12 happened in 1974, but the notification to the U.S.
13 Government came sometime in the June '73 time frame.

14 We were advised of that by the U.S. Government,
15 and we withdrew our claim for a thousand dollars per ship.
16 And instead of that we inserted a clause in our contract
17 that said, depending upon what was finally worked out on
18 the ASPIR change, we would have the right to make a future
19 claim. Based upon the change in ASPIR, we never made a
20 claim. So, in effect, the \$2.9 million that was paid
21 has been paid out of Bell profits and none of it has been
22 charged to a U.S. Government contract or to the Government
23 of Iran in any way.

24 Q Still referring to this document, and with
25 respect to any discussions that you were informed of

1 between Textron and the Department of the Army, was the
2 Department of the Army ever informed that the actual
3 payment would be higher than \$1000 per helicopter to Air
4 Taxi?

5 A They were actually furnished with Amendment 3
6 to the Manufacturer's Representative Agreement as part of
7 our compliance with contingent fee statements under the
8 contract.

9 I think you have a letter on that.

10 Q Yes, we do.

11 Now, you refer to a discussion with the
12 Government of Iran about fees—

13 A Yes, sir.

14 Q —to Air Taxi.

15 When was that discussion or discussions,
16 can you place a date on it and tell us who that discussion
17 was with?

18 A It was probably maybe one or two discussions
19 in the '72, early '73 time frame, and it would have been
20 with MIO, Military Industrial Organization.

21 Q And did you personally attend this meeting—

22 A I did, sir.

23 Q —with the MIO?

24 A I did, sir.

25 Q And who was present at that meeting?

1 A From Bell?

2 Q From Bell.

3 A I don't really know who was present with me.
4 I know I was there and I wouldn't be surprised if Mr.
5 Rudning was there; I'm not sure of that.

6 Q And who was there from the Government of Iran?

7 A General Toufanian.

8 Q And what did General Toufanian say to you at
9 that meeting about—

10 A Well, he—

11 Q —about fees or payments of any kind to Air
12 Taxi?

13 A Well, he had been very active in attempting
14 to eliminate fees and contracts which his Government
15 negotiates. And he understood through the time frame of
16 these discussions that Air Taxi was our representative,
17 and he was interested that they be—they receive only a
18 reasonable commission for their services rendered. And
19 I respect his judgment very greatly, and he advised me
20 that the Government of Iran did not intend to pay
21 commissions. And we talked about the fact that, well, if
22 you have a sales office, well, you have expenses.

23 So he said, "Well, I'll pay the reasonable
24 expenses."

25 Q Of Air Taxi?

1 A Of your representative.

2 And so, I guess it was very difficult to
3 find out what were the reasonable expenses from the
4 standpoint that they were operating a total business and
5 how much of their expenses pertained to Bell as against
6 their other business.

7 And so, I think Rudning and Sylvester and I
8 judged, well, they may have spent \$500,000 in supporting
9 our program, and we'll claim that amount as a reasonable
10 fee and we'll absorb anything else over and above that.
11 And we so advised the Government of Iran. And then they,
12 of course, had discussions with Washington saying they
13 didn't want to pay any fees to agents. And rather than to
14 have a problem on the program and with a half a million
15 dollars involved, we just withdrew that from our contract
16 discussions and wrote it off to cost of sales.

17 Q Now, at that time, when you were discussing
18 the matter of fees and payments, commissions, with General
19 Toufanian, was he indicating, is it fair to infer from
20 what you've said, that he indicated that—he recognized
21 that Air Taxi was entitled to a reasonable payment on the
22 contract that might be over and above what he was willing
23 to absorb by the Government of Iran in the contract?

24 A Oh, yes. And General Toufanian recognizes
25 that we finally made a settlement with Air Taxi.

1 Q Did you discuss with General Toufanian at
2 that time what would be a fair gross payment to Air Taxi—

3 A No, we didn't.

4 Q —for all of its services—

5 A No.

6 Q —what might be—

7 A No, we did not.

8 Q —what might be a fair ball park figure for
9 Air Taxi to get from you for its services?

10 A No, we didn't.

11 Q Did you indicate to him what ball park figure
12 you were talking about with respect to the payment of a
13 commission to Air Taxi?

14 A No, I do not believe so.

15 Q Did you tell him at that time that you had
16 already entered into Amendment Number 1 that called for a
17 payment of 2.5 per cent?

18 A I may have told him that, I'm not sure.

19 Q What is your best recollection as to whether
20 you did or did not in terms of how the flow of the
21 conversation was going and your recollection?

22 A I would guess that by that time we probably
23 had gone to Amendment 2. And we probably talked about the
24 1 per cent that we had Amendment 2 on. That's the best of
25 my recollection on that.

1 Q And when General Toufanian was concerned about
2 fees and payments to agents in Iran, is it fair to infer
3 from your testimony that his main concern was with the
4 fees that would be charged to the Government of Iran on
5 the contract and not necessarily the fees that would be
6 paid otherwise?

7 A Well, he recognized that we had a legal
8 responsibility to Air Taxi that we had to fulfill in some
9 way. And I'm certain he knew that we had to make some
10 kind of a settlement with Air Taxi in order not to be
11 involved in legal problems.

12 Q You say you're certain that he recognized that?

13 A Yes, sir.

14 Q And did he mention that—did you mention that?

15 A I mentioned it, sure.

16 Q You mentioned it?

17 A Sure.

18 Q Was the mentioning of it and the discussion of
19 it in the context that the Government of Iran was headed
20 toward a program where they wanted no commissions or
21 fees to be paid—

22 A Yes.

23 Q —to agents?

24 A Yes.

25 Q Whether or not the costs were going to be

1 absorbed in the contract?

2 A Well, I don't think that that point really
3 came out. I think you look back and things are different
4 now than they were in— His primary concern was that his
5 Government did not want to pay commissions. And when
6 you consider that he influenced the U.S. ASPIR and changed
7 the ASPIR and the ASPIR—the first change that went into
8 ASPIR was written that, you will pay—commissions are
9 allowable under U.S. Government contracts, provided
10 they're fair and reasonable, except they will not be paid
11 on any FMS business to the Government of Iran. He
12 caused that change in the U.S. ASPIR. So you can see he
13 had strong feelings about that.

14 Q And when was that change, in 1974 you say?

15 A Yes.

16 Q Now, under that change, and operating under
17 the change that General Toufanian had caused to come about
18 as you say, would it be proper today, operating under that
19 new procedure, for Bell to pay the kind of a commission
20 that it paid to Air Taxi under an FMS sale?

21 A Yes.

22 Q It would still be proper?

23 A Yes, as long as it was properly exposed to
24 the U.S. Government in your contingent fee statement,
25 and as long as it's not a cost that's chargeable to the

1 Government of Iran in any way.

2 Q So, in other words, the two key factors on
3 propriety in such payment, operating under the present
4 rules realizing that these rules are not applicable, at
5 least as far as I know, when it was entered into that
6 the two key factors are, one, disclosure of the gross
7 amount of the payment to the U.S. Government?

8 A That's correct.

9 Q And that would be so-called AVSCOM, is that—

10 A That's right.

11 Q —is that the Department of the Army?

12 A Aviation Systems Command.

13 Q Aviation Systems Command.

14 And, two, that the cost not be absorbed in the
15 contract—

16 A That's correct.

17 Q —but be separately expensed on your profit
18 and loss statement—

19 A That's right.

20 Q —or however—

21 A That's right.

22 Q —or however that accounting works out.

23 A Pardon?

24 Q However that accounting works out. If you can
25 explain it, please do.

1 the sale of the 214.

2 Of course, then we had our meetings in April
3 of '72 which led to the letter of intent from the MIO.

4 Q But did you have some idea that it would be
5 a couple of hundred helicopters that they would—

6 A At that point, with the fact that I felt that
7 they were quite likely to buy a Cobra and some 214s—no,
8 you didn't know how many, but I guess I think at that
9 point we might have thought 200 was reasonable.

10 Q All right, that's fine.

11 As far as the discussions about the commission—

12 A Yes, sir.

13 Q —the amendments to the June 15th, 1970
14 agreement, those took place at what times prior to April
15 of '72?

16 A Would you phrase that again, please?

17 Q Yes. When did the discussions take place
18 concerning Amendment Number 1 to the June 15th, 1970
19 agreement between Bell and Air Taxi?

20 A I would guess in probably March, April of '72.

21 Q And you did not participate in them?

22 A I don't remember participating directly in
23 the negotiation of Amendment 1. I certainly was aware of
24 what was being negotiated and agreed with what was being
25 negotiated.

1 Q Who was doing the negotiating for Bell?

2 A I believe Rudning was doing the negotiation.

3 Q And on behalf of Air Taxi?

4 A Zanganeh.

5 Q During the negotiations concerning Amendment
6 Number 1, was there any involvement by government
7 officials, that is, Iranian Government officials or U.S.
8 Government officials?

9 A No, of course not.

10 Q So that neither Bell nor Air Taxi would be
11 contacting government officials about the agreement?

12 A This is a private matter between two separate
13 private companies.

14 Q Okay. I'd like to introduce into the record
15 a few exhibits.

16 During the course of for the past two weeks,
17 we have received several documents from Textron. Among
18 them, four copies of an Amendment Number 1, which appear
19 to be different documents. One is a proposed amendment
20 and three are signed versions of Amendment Number 1. I'd
21 like to have you, Mr. Atkins, review these, and if you
22 could, tell us which one is the correct Amendment 1.
23 And I'd like to introduce them as exhibits now.

24 MR. SOUTTER: May we ask if the Staff
25 knows of any difference in the languages contained in the

1 copies? This is, I believe—it is certainly news to
2 me as counsel.

3 MR. COLLINS: Well, I should indicate,
4 June 16th, 1972 letter from Mr. Sylvester to Air Taxi
5 Company, attention Mr. Zanganeh:

6 "Enclosed a proposed Amendment Number 1
7 to the Agreement dated June 15th, 1970 between
8 Air Taxi and Bell Helicopter,"
9 as a proposed document.
10 Exhibit 67.

11 (The letter was marked
12 "Exhibit No. 67" for
identification.)

13 MR. COLLINS: The next document is one
14 that has already been entered, 63-A, the version of
15 Amendment Number 1 that is signed by Mr. Zanganeh,
16 Rodning, witnessed by Mr. Mitchell, and dated, typewritten
17 date in front of Mr. Zanganeh's name, April 1, 1972.

18 MR. GALERSTEIN: That is 63-A.

19 MR. COLLINS. "A".

20 The other two versions—and let me clarify
21 that. 63-A was submitted to the Staff of the Committee
22 prior to the hearing conducted concerning Mr. Miller's
23 nomination. It was submitted with copies of the
24 Manufacturer's Representative Agreement between Bell and
25 Air Taxi.

1 The other two copies of Amendment Number 1,
2 one of which is Exhibit 63. However, they appear to have
3 been signed at different times, so I'm unable to determine
4 which one might be 63.

5 Each of them is signed by Mr. Rudning for
6 Textron as witnessed by Mr. Mitchell, and on behalf of
7 Air Taxi by Mr. Zanganeh, witnessed by Mr. Iranzad,
8 I-r-a-n-z-a-d.

9 MR. GALERSTEIN: May I offer some
10 assistance on these two?

11 MR. COLLINS: Yes.

12 MR. GALERSTEIN: We have had 63 and
13 63-A proofread, and we can find no difference in the
14 wording of these two. The only difference we find
15 between 63 and 63-A was that the signatures of the one
16 are on the opposite side, so to speak, of the signatures
17 of the other, and a different party has signed it as
18 witness.

19 MR. COLLINS: And there's a date on one.

20 MR. GALERSTEIN: And there's a date on
21 one.

22 MR. COLLINS: Typewritten date.

23 MR. GALERSTEIN: Typewritten date.

24 But the signature—the content on these two
25 we find exactly the same.

1 MR. COLLINS: We'll have to mark these
2 other two.

3 (Exhibits Nos. 68 and 69
4 were marked for
identification.)

5 BY MR. COLLINS

6 Q Mr. Atkins, I'd just like to mention that there
7 are differences between the proposed agreement and these
8 other three that were signed in some manner.

9 MR. SOUTTER: The three that were
10 signed in some manner as to text, are they—

11 MR. COLLINS: As far as I can determine
12 they are similar.

13 MR. SOUTTER: —identical?

14 MR. COLLINS: Similar, yes.

15 MR. SOUTTER: Thank you.

16 MR. COLLINS: The differences are in
17 the number of models, models of helicopters that are
18 anticipated to be sold in the program.

19 MR. SOUTTER: That is between the
20 proposed and—

21 MR. COLLINS: And the three signed—

22 MR. SOUTTER: Signed.

23 MR. COLLINS: —signed documents.

24 THE WITNESS: Could I see the proposed
25 agreement?

1 MR. COLLINS: I'll state for the record
2 that the proposed is Exhibit 67.

3 BY MR. COLLINS

4 Q The other difference is Clause B. In the
5 proposed version, I believe it states that "as approved
6 by the U.S. Government."

7 Mr. Atkins, you have the document, if you
8 will just read the first phrase in Clause B, paragraph B.

9 A "Subject to the approval of the U.S. Government,
10 Bell will pay to the Representative."

11 Q Thank you, that's all. That the clause
12 "subject to the approval of the U.S. Government" is not in
13 the other three versions.

14 A Uh huh.

15 Q The other difference—

16 MR. GALERSTEIN: Excuse me. A question
17 for my edification. You say "the other three versions,"
18 what are the other three?

19 MR. COLLINS: Okay. Those are 63-A,
20 68 and 69.

21 MR. SOUTTER: Is not 63 also a same copy
22 of either 68 or 69?

23 MR. COLLINS: It is. But—

24 MR. SOUTTER: I just want to make sure
25 there aren't four signed versions.

1 MR. COLLINS: No.

2 MR. SOUTTER: There's one proposed and
3 three signed versions.

4 MR. COLLINS: And three signed versions.
5 BY MR. COLLINS

6 Q The other difference between Exhibit 67 and
7 the other three exhibits: 63-A, 68 and 69, is the
8 operative date of the amendment. Paragraph E, and I'm
9 reading from Exhibit 68, it says:

10 "This Amendment shall become effective on
11 April 1, 1972."

12 And the proposed version, Exhibit 67, I believe it says
13 that it will become operative at the date it was signed.
14 Is that correct, Mr. Atkins?

15 A Yes, yes.

16 Q You have the document there in front of you?

17 A Yeah.

18 Q Okay.

19 MR. COLLINS: Why don't we take five
20 minutes so you can look through these, if you wish.
21 Would you want to do that or—

22 A I don't really have much trouble with this.

23 Q All right, fine, fine, okay.

24 A I can reply to the proposed—this here one
25 right now.

1 Subject to the approval of the U.S. Government,
2 that would have been a nice clause for Bell to have in
3 an agreement of this type at that point.

4 We would have been assured that if we would
5 recover whatever money was paid to our representative.
6 And, of course, he objected to that on the basis that he did
7 not want his compensation subject to any U.S. Government
8 approval. His contract was not with the U.S. Government,
9 it was with Bell. And he objected to that clause on
10 that basis and we subsequently removed that clause.

11 Q At that time did you anticipate that it would
12 go FMS, that is, the contract?

13 A It was unknown at that time.

14 Q The letter—

15 A So—so, I would say that this proposed
16 agreement, Exhibit Number 67, was never an executed
17 contract between the parties.

18 Q That's correct.

19 A And that would set that aside. Then we have
20 three others to talk about.

21 Q Well, there is another part to that.

22 The question comes up as to when the agreement
23 was signed, when it was negotiated.

24 A Well, this one was never—

25 Q Amendment Number 1.

1 A This one was never signed.

2 Q That's correct.

3 A Okay.

4 Q There's a letter that enclosed that from
5 Mr. Sylvester to Mr. Zanganeh mentioning previous meetings
6 that they had on the subject.

7 A Right.

8 Q Do you know anything about those meetings,
9 did Mr. Sylvester contact you concerning them?

10 A Well, I knew that Mr. Sylvester and Mr.
11 Rudning were having meetings regarding an amendment to
12 the Manufacturer's Agreement to establish a basis for a
13 future payment, yes, I knew that.

14 Q Was there any particular reason why at that
15 time the proposed amendment, as Exhibit 67, contained the
16 language that the Amendment Number 1 would be effective
17 on the date it was signed rather than the amendments
18 that were signed, stating that the amendment is effective
19 April 1?

20 A I don't believe those dates make any
21 difference to anyone.

22 Q Because the letter of intent from General
23 Toufanian, I believe, was sent on April 18th.

24 A But that wasn't the basis of what we would
25 have to do under this—

1 Q To have established an agreement as to the
2 commissions beforehand?

3 A We had an agreement, you know, we had a
4 Manufacturer's Agreement that was in existence.

5 Q That was to be negotiated as part of it?

6 A Yes. But, I mean, to me that made no difference,
7 really, in the final outcome of it.

8 I assume, and maybe I'm wrong, but I assume
9 that maybe the negotiations had gone on for that kind of
10 a period of time.

11 Q And Mr. Sylvester never indicated that either
12 he or anyone else who participated in the negotiations had
13 any knowledge of government people being involved, having
14 any type of role in negotiating the agreement?

15 A No. And all through this situation, neither
16 the U.S. Government nor the Government of Iran were in any
17 way involved in the negotiations of our contractual
18 relations with our manufacturer's representative.

19 Q Do you know when Amendment Number 1 was signed?

20 A No, sir.

21 Q Do you have any knowledge?

22 A No, sir, I don't.

23 Q Any speculation as to when it was signed?

24 Would Mr. Sylvester have mentioned in the Spring of '72
25 that it was signed?

1 A Well, let's go on to— What about Amendment
2 2—the other copies of the amendment that you had there,
3 what do they show?

4 Q The other copies of—

5 A You have put in certain exhibits.

6 Q That's correct.

7 A Let me see the other three exhibits.

8 Q Okay.

9 A Let me see those three exhibits.

10 MR. SOUTTER: We've got 63-A, 69 and
11 68.

12 MR. GALERSTEIN: Do you have 63 there?
13 Here's 63.

14 MR. SOUTTER: I think one of those is
15 a duplicate.

16 (Short recess.)

17 BY MR. COLLINS

18 Q Mr. Atkins just asked how it could be
19 determined that Exhibit 68 and 69 and Exhibit 67—

20 A No, 63—

21 MR. SOUTTER: No. 63.

22 BY MR. COLLINS

23 Q —63-A—

24 A No. 63, 68 and 69 appear to be all the same
25 and signed in the same manner.

1 Q That is correct, except for the fact that
2 they were signed at different times, to my understanding.
3 The signatures appear to be different, if you'll look
4 at the documents. The "Z" in Zanganeh goes below the line
5 in 63, goes above the line in 68.

6 I did say when I submitted them that one,
7 either 68 or 69, was going to be similar to 63. I had
8 not looked at them when I submitted the Exhibit 68 and 69.

9 MR. GALERSTEIN: But the substance is
10 exactly—the content is exactly the same.

11 MR. COLLINS: That's right.

12 MR. GALERSTEIN: So the only difference
13 you're pointing out—

14 MR. COLLINS: They were signed at
15 different times.

16 MR. GALERSTEIN: --is this question of
17 signatures coming below the line and above the line.

18 MR. COLLINS: That's correct.

19 MR. GALERSTEIN: That possibly they
20 were signed at different times.

21 MR. SOUTTER: Or signed in counterpart.

22 MR. GALERSTEIN: Or signed in counterpart.

23 MR. COLLINS: It could be. But at least
24 they were signed at different times, not the same
25 document.

1 Q Mr. Atkins, Exhibit 63-A is the only one of
2 these exhibits concerning amendments, Amendment Number 1,
3 that has a date, is dated April 1, 1972, as being signed
4 by Mr. Zanganeh—or someone typed that in, at least.
5 And yet the June—or the letter from Mr. Sylvester to
6 Mr. Zanganeh proposing the amendment was sent on June
7 16th, 1972.

8 Do you have any knowledge as to why that
9 discrepancy is there? Was the amendment under considera-
10 tion in June or had it been signed?

11 A I can't recollect whether it had been signed
12 or was under consideration in June.

13 Let's see if we can clear up the record
14 just a bit.

15 Q Yes.

16 A We now have an Exhibit 63, another one 63-A,
17 another one 67. Elimiate that 67. Another one 68 and
18 another one 69.

19 Now, the text of those four amendments is
20 exactly the same.

21 Q Now you have a proposed—

22 MR. SOUTTER: No. 67 is the proposed
23 and he's eliminated that.

24 A I eliminated that.

25 MR. SOUTTER: 63, 68, 63-A and 69—

1 THE WITNESS: Yes.

2 MR. SOUTTER: —are signed—purportedly
3 signed copies of Amendment Number 1.

4 MR. COLLINS: That's correct.

5 THE WITNESS: And they're the same
6 text.

7 BY MR. COLLINS

8 Q Fine.

9 A And you have picked out some difference in a
10 signature which—

11 Q And a date on 63-A.

12 A On 63-A there's a date.

13 Q The only one that's dated.

14 A That's right.

15 Q Okay.

16 A Now, the proposed amendment, Exhibit 67, was
17 the one that was negotiated and was never signed between
18 the parties.

19 So as far as the four exhibits that we have
20 pending in front of us, I guess the one remaining question
21 is, when were they signed?

22 Q That's correct.

23 A I have no recollection of that, sir.

24 Q To your knowledge—

25 A Maybe Mr. Rudning can help you out on that.

1 Q But to your knowledge, the signing did not
2 occur in April?

3 A Looking at Mr. Sylvester's letter, I would
4 say it couldn't have occurred in April, could not have
5 occurred.

6 Q Do you know why they were all dated, that
7 is, Exhibits 63, 63-A, 68, 69, why they were dated as
8 of April 1, the effective date?

9 A I can only assume that negotiations were
10 going on for that kind of a period of time and that's
11 why they put the date in. It's obvious that it has made
12 no difference in the outcome of the agreement.

13 Q I'd like to introduce three additional
14 exhibits, all cables, the first one being a cable from
15 Mr. Mitchell of Bellcraft to Mr. Sylvester in Teheran,
16 dated August 18, 1972, concerning the signing of an
17 agreement.

18 The next one, the exhibit concerns efforts
19 by Mr. Gallagher to have an agreement signed; it's a
20 cable from Mr. Gallagher to Mr. Sylvester dated July
21 26, 1972.

22 The last exhibit, a cable from Mr. Sylvester
23 to Mr. Mitchell, International Marketing, August 9, 1972.

24 (Exhibits 70, 71 and 72
25 were marked for
identification.)

1 MR. COLLINS: To clarify for the
2 record, put the exhibits in chronological order. Exhibit
3 Number 70 would be the cable from Mr. Gallagher to Mr.
4 Sylvester dated July 26, 1972, Exhibit Number 71 would
5 be the cable from Mr. Sylvester to Mr. Mitchell dated
6 August 9, 1972, and Exhibit Number 72 will be the cable
7 from Mr. Mitchell to Mr. Sylvester dated August 16th,
8 1972.

9 Q Mr. Atkins, if I could just read them--
10 they're in code--just read them to you, the pertinent
11 parts.

12 A I don't see how you broke our code.

13 Q Get your impressions. Well, fortunately,
14 someone broke it for us and wrote it down on the bottom
15 of these documents.

16 The July 26th cable from Mr. Gallagher,
17 who at the time was in Iran, got the cable, it was sent
18 from Air Taxi to Mr. Sylvester, indicates that Mr.
19 Gallagher was using max effort-- Strike that, I'll quote
20 it.

21 "Am using max effort. Joe will sign
22 agreement after consultation with Alice."

23 Quoting from the Sylvester cable to Mitchell,
24 on August 9th, 1972:

25 "MFRA Amendment No. 1 executed by Joe

1 airmailed today. Execution at your end and
2 return airmail is urgent repeat urgent.
3 Please confirm receipt and acceptance this
4 plan by return telex."

5 The last document, cable from Mitchell to
6 Sylvester dated August 16th, 1972:

7 "Agreements prepared by you signed by Joe
8 received today. Rudning has signed on behalf of
9 Bell and will hand carry fully signed copy."

10 Mr. Atkins, if you would look at these
11 documents. And I want to, before I give them to you,
12 I would like to ask you to read the code, because in the
13 cable from Gallagher to Sylvester, July of '72, in
14 deciphering it using the code on this piece of paper,
15 would read:

16 "Am using max effort. Air Taxi will sign
17 agreement after consultation with Dehesh."

18 (Short pause.)

19 A Uh huh.

20 Q From those cables, it would appear that
21 Amendment Number 1 was under negotiation for a long
22 period of time, several months, at least from June 16th
23 through the latter part of August.

24 A Uh huh.

25 Q It was still under consideration.

1 A Uh huh.

2 Q And as part of that, it would appear that
3 Air Taxi was consulting with a person who was a government
4 official of Iran, Mr. Dehesh.

5 The question is, whether you were ever
6 apprised of this matter or whether you even have ever
7 seen that cable before?

8 For the record, state "yes" or "no."

9 A Those cables indicate that that agreement
10 was signed on August 16th, '72. I have no knowledge
11 regarding the Gallagher cable and the reference to talking
12 with Dehesh about the situation.

13 Q During that period of time, was it ever
14 discussed or were the number of helicopters that might
15 be sold discussed by you from April '72 through the
16 first part of August, do you have any—

17 A With who, now?

18 Q With the Iranian Government.

19 A Oh, I'm sure that—

20 Q Had it been established that 200 or 250 heli-
21 copters would be provided?

22 A Mr. Collins, the number of helicopters to be
23 purchased was decided by Toufanian and His Majesty
24 probably after I saw them. And it was those two people
25 that determined the number of helicopters that were to be

1 purchased. Nobody else was involved in deciding those
2 numbers.

3 The U.S. Government had given them studies on
4 what air mobile forces they recommended. Based upon
5 those studies, Toufanian made recommendations which were
6 acted on by His Majesty.

7 All these matters, you have to understand,
8 are handled at the highest level of that Government.
9 They are not decisions made down the line, they are
10 all at the top.

11 Q That's correct. But someone has to provide
12 the information to the Shah or to Toufanian.

13 A Toufanian did.

14 Q That's correct. And from that cable from
15 Gallagher to Sylvester, it would appear that Air Taxi
16 had consulted or wanted to consult with Dehesh before
17 they would sign an amendment to the agency agreement.

18 A But it didn't affect the number of helicopters
19 to be procured.

20 Q No, but it might have affected the percentage
21 of the fee.

22 A I don't think it did.

23 Q And you have no knowledge?

24 A I have no knowledge. The two and a half
25 per cent was something that we agreed among ourselves that

1 we would establish as a maximum fee, not knowing what
2 size of program.

3 Q When did you determine that?

4 A We determined that in this April to August
5 time frame. It was a negotiation. They asked for more
6 than two and a half and so forth, and we decided this was
7 the maximum we could go.

8 Q You were in Iran in the latter part of
9 August and September?

10 A Yes, sir.

11 Q And were the other Bell people there through
12 the summer?

13 A Yes, sir. Well, they were there, I would
14 say that they were there probably starting in mid July
15 through August. We had various people coming in and out
16 and various crews that were going around the country
17 demonstrating the aircraft and so forth.

18 Q The time period was when the demonstrations
19 were occurring?

20 A Yes. I came in--

21 Q They were scheduling--

22 A I came in at the end of the demonstration--
23 just before the end of the demonstration.

24 Q Would there have been any reason why Air
25 Taxi would have consulted with Mr. Dehesh about the

1 agreement between you and—

2 A Not that I know of.

3 Q —and Air Taxi?

4 A Not that I know of.

5 Q At that time there wouldn't have been any
6 need to establish with the Government of Iran what
7 compensation was being considered?

8 A Ruh uh.

9 Q And your meetings with Mr. Toufanian on the
10 compensation agreement I believe you stated was Amendment
11 Number 3, is that correct—

12 A That's correct.

13 Q —before, to Mr. Marinaccio?
14 That occurred when?

15 A Well, I—

16 Q Your discussions with Mr. Toufanian.

17 A I think I said there were discussions
18 through late '72 and early '73.

19 Q About compensation?

20 A About compensation. This was a major problem
21 to General Toufanian. And he was concerned about it
22 with all the U.S. contractors that were in country. Very
23 prominent in his mind.

24 Q Who would be in charge of assuring that a
25 document like this was properly signed and dated, that is,

1 an amendment to an agreement?

2 A I'm sure Rudning was in charge of that.

3 Q Because I believe the other agreements and
4 amendments that Mr. Marinaccio placed in the record
5 earlier indicate that all of them were signed and dated,
6 and particularly the amendments 2 and 3.

7 A Uh huh. I think this was our first attempt
8 to work out the problem of compensation on this
9 Manufacturer's Agreement, and I think there was lots of
10 discussion. And there was a feeling on the part of Air
11 Taxi that we were not being fair and reasonable, and
12 they were basing that on what was being paid on other
13 major programs in the country.

14 Q Was Mr. Miller apprised of negotiations in
15 the Spring of 1972 or even in the Summer with respect to
16 the compensation arrangement between Air Taxi and Bell?

17 A I'm sure I kept Mr. Miller advised of what we
18 were doing in the matter of handling the representative
19 because I considered it to be a major problem.

20 Q But to the best of your recollection, you
21 didn't recall when Amendment Number 1 was signed?

22 A No, I didn't, sir.

23 Q Okay.

24 MR. COLLINS: I'd like to introduce into
25 the record another exhibit. 72?

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MR. FREED: 73.

MR. COLLINS: 73. A cable from Mr. Yates, Bellcraft, to Mr. Gallagher. And I'm not sure what the message is. May 22nd, 1972.

(Exhibit No. 73
was marked for
identification.

MR. MARINACCIO: Excuse me, Mr. Atkins, while that exhibit is being marked for the record. I didn't hear your full response to the last question. Did you indicate that you kept Mr. Miller informed because it was a major problem?

THE WITNESS: Yes.

MR. MARINACCIO: Yes.

BY MR. COLLINS

Q Mr. Atkins, this cable is the only one, it's the only document I have read in the 600 odd pages that we have received that concerns the name "Miller." And I'd just like to ask you if you knew of any other Miller that was employed by Bell Helicopter or by Air Taxi or—

A We have—

Q —or by anyone else that you were dealing with, with respect to the Iranian contract?

A We have—

Q And before you respond, I will let you certainly

1 read this. It appears to refer to some agreement. Then
2 the message ends with a word, or the middle of the message,
3 that part of it ends with the term "garble."

4 I'd like to get your impressions of that.

5 A Oh, I know what this is all about.

6 My interpretation of this message would be
7 that we were taking an AH-1J owned by the U.S. Government
8 to Iran, and this was a question about a hold harmless
9 statement that probably the U.S. Government was requiring.
10 And Miller is the Navy guy who was handling the FMS sale.
11 And I would interpret it that Miller is the guy in
12 Washington, the Navy guy, and they refer to our guy,
13 "Ramsey," he's in our Washington office. So Miller will
14 not release copy to Ramsey in Bell's Washington office.
15 He had sent it on to General Williamson who was the MAAG.

16 Q And the hold harmless was what?

17 A I think the hold harmless had to do with the
18 fact that Bell was taking a U.S. Government AH-1J to Iran.
19 We had a lease from the U.S. Government to take this ship
20 to Iran, and they were asking for a hold harmless
21 statement, and I think that's what it had to do with.

22 Q Who was going to be held harmless?

23 A I think the U.S. Government was going to be
24 held harmless if we did some damage or something in Iran.
25 Now, that's me talking from reading that statement there.

1 Q Sure.

2 A The reference to the agreement, the complexity
3 of the agreement—

4 A Is probably the hold harmless agreement.

5 Q And this Admiral Miller?

6 A He's not an Admiral. No, he's a civilian.

7 Q Oh, I see. Of the Navy Department?

8 A He's a civilian working in the Navy FMS
9 Department.

10 Q Okay.

11 A Those kind I like. I can handle those real
12 easy.

13 Q We like to ask them.

14 Just to clarify: At the time that this cable
15 was sent, was Mr. Yates of Bellcraft, he was in Iran,
16 do you have any knowledge?

17 A I believe he was at this end (Indicating).

18 Q Okay. He was in the U.S., Mr. Gallagher was
19 at Mehrabad Airport?

20 A Yes, yes. He's one of our administrators
21 back in our International Department.

22 Q You mentioned earlier that Bell Helicopter
23 had taken over most of the negotiating effort with the
24 Iranian Government in order to gain the sale of the
25 helicopters you made in 1973.

1 If that were the case, why, in the Spring of
2 1972, would you have even agreed to a 2.5 per cent or
3 considered to agree to a 2.5 per cent commission? If
4 you were doing all the work, why wouldn't it have been
5 proper just to have given them enough to cover their
6 expenses, as I think you've mentioned expenses did come
7 up in discussions with the Iranian Government as to what
8 they would agree to under the terms of the contract?
9 Was that considered?

10 A Well, Mr. Collins, if you were in business
11 for yourself and you had held a Bell representation in
12 Iran since 1959 and you had conducted some marketing
13 effort for all those fifteen years, would you be willing
14 to accept reimbursement of your expenses as fair and
15 reasonable compensation?

16 Q Well, the question is that what you considered
17 to be fair?

18 A Yes, sir.

19 Q And I should state that Air Taxi was the
20 agent from 1959 to 1964, and then was not between 1964 and
21 1968. So the question is, what compensation was proper
22 between 1968 and 1973? And I believe some of the
23 documents we received indicated that Air Taxi was paid
24 \$19,000 in commissions on certain spare parts and other
25 equipment.

1 A Uh huh.

2 Q So that you were paying some commissions to
3 them, so they were being compensated.

4 A Uh huh. But--

5 Q It wasn't that you hadn't compensated them
6 at all during this period of time.

7 A Mr. Collins, in the aviation business and
8 in--and I particularly look at the general aviation
9 business, you look at the Beeches and the Cessnas and the
10 Pipers. And they pay their representatives something
11 like 25 per cent of sales price as normal commission.

12 Now, granted, it isn't--they sell the
13 products individually and so forth and therefore there's
14 much reason for it.

15 But when you consider that the \$2.9 million
16 was something like a half of one per cent of the initial
17 contract and didn't even consider the potential of this
18 program, I had to feel that a 2.95 settlement was a very
19 reasonable thing.

20 Q Even though you have indicated that Bell
21 Helicopter really made the sale, that is, it was through
22 the demonstration of the helicopter?

23 A Yes, sir.

24 Q In effect--

25 A Yes, sir.

1 Q --the product sold itself?

2 A Yes, sir. I think a bunch of us put some
3 effort to help the product sell itself, but--

4 Q But the efforts of Air Taxi--

5 A Was a contributing factor.

6 Q Enough to compensate them in terms of
7 \$2.9 million?

8 A Mr. Collins, when I take \$2,950,000 out of
9 my profit and pay it to somebody, you know, I feel it's
10 fair and reasonable or I wouldn't do it.

11 Q During the negotiations with Air Taxi over
12 the amendments, amendment--well, right now looking at
13 Amendment Number 1, you indicated that you kept Mr. Miller
14 apprised of the negotiations?

15 A Yes, sir.

16 Q Did you do the same for Amendment Number 2?

17 A Yes, sir.

18 Q And 3?

19 A Yes, sir.

20 Q And during this time you never had any
21 knowledge that Mr. Dehesh may have been consulting with
22 Air Taxi as to the terms of the contract or the
23 amendments to the contract, or anyone else in the Iranian
24 Government?

25 A No, I don't see any reason why they should.

1 I'm sure Mr. Dehesh, like General Toufanian, had the
2 same directive that they desired to minimize or eliminate
3 commissions from all purchases under FMS contracts.

4 Q But would he have held that in the summer
5 of 1972, would Mr. Dehesh have had that in his mind?

6 A I'm sure he would because General Toufanian
7 had it in his mind, I know that.

8 MR. COLLINS: All right. Thank you.

9 MR. MARINACCIO: I'd like for Mr. Freed
10 to ask his questions now.

11

12

EXAMINATION

13 BY MR. FREED

14 Q Mr. Atkins, the Exhibit Number 13 mentions
15 the co-production arrangements, that is, the letter from
16 General Toufanian to you on April 18th, 1972. And that
17 was in the letter of intent.

18 When did Bell and the Iranian Government sign
19 the co-production agreement?

20 A I'm sorry. I'm not with you as to where that
21 talks about that.

22 Q It's in paragraph number—

23 A Oh, here it is.

24 Q Number 2.

25 A Yes. The co-production agreement was signed

1 in November of 1975.

2 Q. So, after the letter of intent in 1972, there
3 were three and a half years negotiations?

4 A Well, the letter pertains to co-production of
5 the first four hundred—of the first procured aircraft.
6 Those aircraft the Government of Iran agreed not to
7 co-product.

8 Q That's after you brought them over here and
9 you showed them the difficulties?

10 A That's right.

11 Q The fact they didn't have the capability?

12 A That's right.

13 Q You thought they should buy the complete
14 aircraft from here?

15 A That's right.

16 Then in 1974 the Iranian Government asked us
17 to submit a proposal to develop two new aircraft for
18 them, the 215 and the 216, and to build a factory for
19 them and a community and to co-produce in Iran.

20 This request came to us through the U.S.
21 Government, and we prepared the information based upon
22 which a major FMS case was presented to General Toufanian
23 in Washington by all the Secretaries of all the Services
24 and Four Star Generals and all the rest.

25 The proposal was not acceptable to General

1 Toufanian and he refused to— Well, I don't know whether
2 he refused or not, but he never accepted the letter of
3 offer.

4 Subsequently, he went out on a worldwide
5 competition for somebody in the worldwide industry to
6 build a plant, build a community, co-produce four hundred
7 helicopters.

8 There were many proposals: Aerospatiale, Belco,
9 Agusta, Sikorsky, and, of course, Bell. And we won that
10 competition. And out of that we negotiated in November
11 1975 the co-production program.

12 Q Now, you refer to a letter of offer. When was
13 that letter of offer?

14 A In 1974.

15 MR. SOUTTER: Is it fair to say that
16 the co-production mentioned in 1972 just simply went by
17 the way and never was?

18 THE WITNESS: That's right.

19 MR. SOUTTER: The co-production later
20 on became a new—

21 THE WITNESS: Program.

22 MR. SOUTTER: —program and started
23 again from '74 on?

24 THE WITNESS: Right.

25 (Brief break.)

GS/gt
14/1

1 BY MR. FREED
2 Q We were discussing when we broke the co-pro-
3 duction agreement between Bell and the Iranian Govern-
4 ment for the production of helicopters.
5 Mr. Atkins, did Mr. Zanganeh for Air Taxi
6 play any role in the development of arranging a co-pro-
7 duction agreement in laying the groundwork in '71-'72?
8 A Well, let's go back and remember that General
9 Toufanian in his letter of April '72 mentioned co-pro-
10 duction.
11 The events that followed led the Government of
12 Iran to understand that the first procurement of heli-
13 copters should not be on a co-produced basis.
14 So this procurement was made in late '72.
15 Now, their next thinking on co-production
16 started in '74 and was an entirely new program for
17 400 additional aircraft.
18 Air Taxi or Mr. Zanganeh had no connection
19 of any kind with the co-production program then.
20 Q Did you begin negotiations afresh?
21 A Yes, sir. This was an entirely new trans-
22 action.
23 Q So Air Taxi and Mr. Zanganeh would have
24 played—
25 A No part.

14/2

1 Q —no role, no part in that?

2 A (The witness shakes his head.)

3 Q Mr. Miller said that he negotiated the co-
4 production agreement at his testimony in Washington.

5 When were the negotiations started. This
6 would be for the '75 agreement. When did he enter them?

7 A Well, there was a proposal period that
8 probably ran through the year '75. And we submitted
9 a rather elaborate proposal covering the total program.

10 We went to Iran some time in October of
11 1975 to complete that program. And Mr. Miller joined
12 us in those final negotiations.

13 Q So Mr. Miller came in at the end and was
14 there to wrap up?

15 A When we actually got down to writing the
16 words of the agreement and so forth, Mr. Miller was
17 there.

18 Q Did Bell or Textron retain or have an agent
19 or manufacturer's representative in Iran then?

20 A No, sir.

21 Q There were no Iranian represented as
22 manufacturers representatives or agents for Bell who
23 were involved in co-production agreement of 1975?

24 A The only representative that Bell has had
25 in Iran was Air Taxi and their relationship was

14/3

1 concluded basically with the payment of the 2.9 million.
2 And we have no representatives of any kind on all the
3 future programs that we have negotiated.

4 Q Does Air Taxi represent Bell for commercial
5 sales in Iran?

6 A They do. But commercial aviation in Iran
7 is very limited.

8 Q Now, in the agreement, the final agreement
9 that Bell reached with the Iranian Government for
10 the sale of 489 helicopters, did that include anything
11 about co-production?

12 A Bell actually reached agreement with the U. S.
13 Government and our contract was with the U. S. Govern-
14 ment. And there was no provision for co-production of
15 any kind in that first contract.

16 Q So the FMS agreement for the sale of 489 then
17 dropped any mention?

18 A That's right.

19 Q The last mention was in the letter of intent
20 on April 18, 1972?

21 A That's correct.

22 Q Exhibit No. 13.

23 A That's correct.

24 Q When then was co-production separated?

25 A Well, the Government of Iran desired to make

14/4

1 their initial procurement and they discussed the
2 possibility of co-production. And it was mentioned in
3 that April '72 letter.

4 During the course of the negotiations,
5 and the explanation of the complexities of the helicopter
6 industry, the Government of Iran recognized that they
7 were not prepared to go forward on a co-production
8 basis. And that happened, say, midway through the
9 year '72 perhaps.

10 Q To your best recollection, about when, when
11 you say midway '72?

12 A Well, certainly by—certainly by September
13 '72.

14 Q Now, when you visited Iran then and saw the
15 Shah, had the decision been made then to drop co-pro-
16 duction?

17 A Yes, it had.

18 Q And just go with a straight purchase of
19 'copters on an FMS basis?

20 A Yes, it had.

21 Q Now, if the Iranian Government had gone the
22 co-production route, would there have been a prohibition
23 of an MNO fee to Air Taxi?

24 A I believe that some of the agreements stipu-
25 lated that no fees would be payable on parts produced

14/5

1 in Iran for a co-production program. But the parts
2 coming from the United States would still be subject
3 to a fee.

4 Q A spare parts commission or a commission
5 based on those parts?

6 A Well, again, it would have to be a negotiated
7 thing because it would have been a large amount of
8 money.

9 Q So it would be certainly in Air Taxi's
10 interest not to have a co-production agreement?

11 A Perhaps, yes.

12 Q And that would have deprived them of a
13 commission?

14 A Perhaps.

15 Q Now, in the 2.9 million dollar payment that
16 was eventually settled on Air Taxi, did that include
17 any money or anything relating to a co-production
18 or even a proposed co-production agreement?

19 A No, sir. The 2.9 million was a payment
20 made to settle a contract relationship between Air Taxi
21 and Bell. And this settlement provided that Air Taxi
22 would receive no further payments for any services they
23 had rendered in the past and on any business that we
24 would obtain in the future.

25 Q I want to talk for a moment, discuss the

14/6

1 status of Iranian law and regulations concerning the
2 commission payments.

3 Would a direct commission payment to Air
4 Taxi have been legal under Iranian law and regulations
5 even if charged off to Bell on its profit and loss?

6 A To the best of my knowledge, it would be
7 legal.

8 Q This is even after General Toufanian issued
9 his edict or at least issued his—raised the whole
10 issue of commissions and had initiated the change in
11 the ASPIR relations.

12 A But that doesn't change the law of the land.

13 Q No.

14 A And there is much business done in Iran
15 based upon commissions today.

16 Q So the commissions would have been illegal?

17 A Would have been legal.

18 Q The commissions would have been legal, but
19 they would have been illegal, though, under ASPIR—or—

20 A Well, they wouldn't have been illegal.

21 Q They would not have been permitted?

22 A Let me go back and say that commission pay-
23 ments on sales in Iran today, the best of my knowledge,
24 are very legal payments. The ASPIR governing the
25 provisions of U. S. Government contracts, would state

14/7

1 that commission payments are unallowable costs under
2 the contract. That asper does not make those payments
3 illegal.

4 Q Unallowable in the sense—in what sense?

5 A That if a contractor expends money for
6 commissions, he cannot recover it under the U. S.
7 Government contract.

8 Q Which means—

9 MR. SOUTTER: May I suggest that Tab
10 No. 13 of Exhibit No. 66 has what I believe to be the
11 asper provisions and they speak for themselves, and you
12 are quite welcome to read from them in whole.

13 BY MR. FREED

14 Q Now, I'm referring to Exhibit No. 56 which
15 was the May 9th, 1973 letter from Mr. Rudning at Bell
16 to the U. S. Army Aviation Systems Command. This
17 deals with the payments to Air Taxi?

18 A Yeah.

19 Q Paragraph No. 4 states that:

20 "We consider the commission agreement
21 between Bell and Air Taxi to be confidential
22 information. We therefore request that this
23 matter be handled in a confidential nature
24 and that the enclosures to this letter not be
25 reproduced."

14/9

1 does not allow any commissions to be paid on
2 sales to them."

3 There is a marginal note there. I don't
4 know who put it in. It's in handwriting, saying:

5 "No. Only if charged to them. It hasn't
6 been charged to the Iranian program."

7 But why would Arthur Young make a note of
8 that nature?

9 A Probably because of their ignorance of the
10 whole matter.

11 Q Would not Bell have told Arthur Young about
12 the Iranian Government regulations beforehand, before
13 Arthur Young coming to review the payment?

14 A Well, Arthur Young—meet with some of our
15 accountants to verify our records. And where that comment
16 came from, I have no information. They probably had made
17 available to them the letter written by Farmer which
18 instructed our people on how to handle the payment.

19 Q Now, also in this document, there are in
20 each year of the discussion of the payments to Iran,
21 there is the notation that these payments are confidential.
22 Bell does not want any information disclosed on this.

23 Why was that?

24 A I think we don't want any information disclosed
25 on our books and records of any kind. I think we want

14/10

1 to disclose only what we are required to disclose
2 through our normal public reporting.

3 MR. FREED: I'd like to introduce
4 Exhibit No. 75 which is a memo from Mr. Farmer about
5 the dealer commissions in the Iranian program.

6 (The memo referred to was
7 marked "Exhibit No. 75" for
8 identification.)

8 Q And, again, this memo is marked as "Confidential."
9

10 Did Bell keep all of its documents on the
11 Iranian commission confidential?

12 A Probably.

13 Q Again, to protect the information?

14 A Certainly.

15 Q Now, under Amendment No. 2 to the 1970
16 agreement that Bell had with Air Taxi, I believe that
17 is Exhibit No. 64. What was the maximum potential
18 commission liability just prior to the 2.9 million
19 dollar agreement?

20 A I think we talked about that figure before.
21 And it was something like four million dollars.

22 Q 4.3 million was based on the one per cent?

23 A Yes, sir.

24 MR. GALERSTEIN: The precise figure is
25 4,362,430.

14/11

1 BY MR. FREED

2 Q Now, Amendment No. 2 limits the commission
3 to one per cent on foreign military sales.

4 How does this square with Mr. Miller's
5 testimony that the exposure of Bell at that point was
6 two and a half per cent?

7 This was Mr. Miller's testimony in his
8 confirmation hearing in Washington.

9 MR. GALERSTEIN: Do you have the testimony?

10 MR. FREED: Do we have that?

11 (Off the record discussion.)

12 MR. SOUTTER: Mr. Marinaccio?

13 MR. MARINACCIO: Yes, sir?

14 MR. SOUTTER: While you were searching
15 for the testimony of Mr. Miller on this point, may I
16 have your permission to read into the record what I
17 believe to be the asper provisions on charging fees or
18 commissions to an Iranian contract?

19 MR. MARINACCIO: By all means. I
20 believe you are reading from a document that has already
21 been marked. And if you will just give the page number
22 and the document for the record?

23 MR. SOUTTER: I'm reading from what is
24 Tab 13 of Exhibit No. 66. It says:

25 "Foreign Military Sales to Iran."

14/12

1 "One of the following provisions shall
2 be included in all contracts for FMS require-
3 ments of the Government of Iran, unless the
4 agent's fees/commission has been identified
5 and payment thereof approved by the Government
6 of Iran before contract award:

7 (a) For firm fixed price contracts, or
8 fixed price contracts with escalation: "The
9 contractor certifies that the contract price
10 does not include any direct or indirect cost
11 of agent's fees/commissions for contractor
12 sales agents involved in the foreign military
13 sales to the Government of Iran."

14 (b) All other types of contracts:
15 "Notwithstanding any other provisions
16 of this contract, any direct or indirect
17 cost of agent's fees/commissions for contractor
18 sales agents involved in the foreign military
19 sales to the Government of Iran shall not be
20 considered as an allowable item of cost under
21 this contract."

22 End quote; end my reading.

23 MR. MARINACCIO: Thank you. Appreciate
24 your clarifying that for the record.
25

14/13

1 BY MR. FREED

2 Q I want to read from the record of the transcript
3 of the confirmation hearings of Mr. Miller:

4 "Question: Senator Brooke: Do you know
5 how much Mr. Zanganeh asked for which precipi-
6 tated negotiations?"

7 "Mr. Miller: The original agreements and
8 they were signed modifications contemplated
9 commissions of two and a half per cent of
10 which on 500 million would be seven and a
11 half million dollars, something like that."

12 "Am I right?"

13 "Yes. And I know that as the program
14 progressed, it became more and more apparent
15 that it would be a bigger program and that
16 Air Taxi would provide its services. It con-
17 tinued to be negotiated at lower rates as our
18 people became more involved and renegotiated
19 until they got the best deal."

20 Q So, at that point, do you agree or disagree?
21 Could you comment on this?

22 A Well, I think Mr. Miller is commenting on
23 Amendment 1 which provided that we had a responsibility
24 to pay two and a half per cent of contract price. And
25 in addition to that, we had the future liability of

14/14

1 additional monies on any new business. And, therefore,
2 by settling out for \$2,950,000, we settled out at a
3 much lower figure, which we thought was fair and
4 reasonable for the services rendered, and which, at the
5 same time, took out any future claims of Air Taxi
6 against us on new business.

7 Q Let me ask you about the contract with Air
8 Taxi. The contract seems to provide that any dispute
9 would be handled under New York State Law.

10 Could Air Taxi have sued under Iranian law?

11 A I believe they could.

12 Q Now what rights would Bell have if it had
13 moved the suit to New York?

14 MR. GALERSTEIN: Excuse me. I really,
15 Mr. Atkins is not an attorney and you are asking him
16 rather complex legal questions.

17 I don't think it's fair. And if you want
18 to ask legal questions, you ought to ask some legal
19 party.

20 MR. FREED: Let me just ask Mr. Atkins
21 this: Did you ever discuss this matter with anybody?

22 A No, sir.

23 MR. MARINACCIO: I believe Mr. Collins
24 has an additional question that he would like to put
25 at this time to you.

14/15

1 THE WITNESS: Okay.

2

3

EXAMINATION

4

BY MR. COLLINS

5

Q Mr. Atkins, I would just like to ask, if you
6 would provide for the record what you consider the
7 correct Amendment 1 to the June 15th, 1970 agreement.
8 We discussed these various versions of the amendment.
9 And if you could—

10

A Could I suggest to you that you review that
11 matter with Rudning when he comes in? I think he would
12 have more firsthand knowledge of that situation than I
13 would.

14

Q But we would also want a copy of the document,
15 itself. So, I will ask you and I will ask him also.
16 I don't know who will have it.

17

A I think you have the document, but—

18

MR. MARINACCIO: Well, I think, if I may,
19 for the purpose of the clarification of the record,
20 we would request that your counsel make a search of
21 Bell's personnel and tell us which one of the exhibits,
22 which has been marked, is the document that Mr. Collins
23 has reference to.

24

MR. SOUTTER: Mr. Marinaccio, we will
25 happily endeavor to go on, but the agreements which were

14/16

1 signed, leaving out the proposed one, are verbatim
2 agreements of one another and to us, it is of no
3 consequence at all, and they would have had the same
4 legal efficacy. As you know, Amendment No. 1, never
5 became operative in any sense. It was superseded by
6 the terms of Amendment No. 2, which, in turn, was super-
7 seded by Amendment No. 3. We will make the effort that
8 you request, but I, at the present time, certainly can't
9 tell you and doubt that it really makes any difference.

10 MR. COLLINS: I think one issue here
11 is that you have a few exhibits, all pertaining—being
12 named as Amendments No. 1. One of them is dated April
13 1, 1972. There are cables indicating that it was
14 signed. The amendment was signed in August. So, I
15 think we want to have it clear as to when—

16 MR. SOUTTER: Well, let's not have a
17 legal argument on this. There is a provision in the
18 operative agreements, all of which say it will be
19 effective as of April 1, 1972. One, of them, actually,
20 has an April date on it. The others do not have an
21 April date. It is not uncustomary in many, many situa-
22 tions to do agreements as of, to provide effective
23 dates which will either be before or retrospective.

24 We will do as we were asked, to try and
25 identify for you what everybody considered to be the

14/17

1 first, but I can see no legal operative effect between
2 any of those documents.

3 MR. MARINACCIO: Just for clarification
4 of the record. I think it's important to be clear
5 as to which one of the agreements is considered the
6 operative agreement. Because I think we have to be
7 clear on the record as to the precise date that operative
8 agreement was, in fact, entered into, and if and when
9 it was entered into as a date subsequent to April 1,
10 or if it was a date before April 1, is a matter that
11 ought to be very clear on the record.

12 And I do not agree that the matter of timing
13 is a matter irrelevant to the record. It's a matter of
14 relevancy to the record, and I think the record is
15 entitled to be clear on which of the documents is an
16 operative document.

17 At this point, I would like to ask Mr. Doherty
18 to ask the questions that he has.

EXAMINATION

BY MR. DOHERTY

22 Q Mr. Atkins, did you testify that you had
23 personally gone to Iran in the latter part of August
24 of 1972?

25 A Yes, I did.

14/18

1 Q Could you tell us what the program looked
2 like at that time in terms of numbers and dollars?

3 A The—when I arrived in country, we had almost
4 completed our month of demonstrations, and we had a
5 final demonstration to make at garage for a large group
6 of the Iranian military.

7 It was shortly later that the decision was
8 made on the program to go forward with the program.

9 I believe at the point I was informed that
10 the program would go forward, I believe I was not told
11 the numbers, numbers of helicopters that would be pro-
12 cured. I would believe it was some time within the next
13 week after that, that they finalized the numbers. I
14 would say someplace mid September.

15 Q But, mid-September, what were you talking
16 about in terms of numbers?

17 A I think we were, at that point, believed
18 that the program was 400, 500 ships.

19 Q So that's the 480?

20 A Yes.

21 Q Ballpark area anyway?

22 A Yes.

23 Q But as of August in going over there, did
24 you realize you were speaking in terms of, I mean, this
25 was a big program, I gather. You knew the potential was

14/19

1 there at that point?

2 A (The witness nodded his head.)

3 Q The record won't reflect a nod of your
4 head, sir. Would you answer?

5 A Yes. I realized it was a big program.

6 Q Would it be safe to say that you knew you
7 were dealing in terms of potentially two or three hundred
8 or more ships at that time?

9 A Yes, sir.

10 Q Would it be more—did you realize it was
11 potentially more at that time?

12 A I don't think I can be real specific, but
13 I would think that I understood the program magnitude
14 was three to five hundred ships.

15 Q So the parameters of the program in August
16 then would appear to be three to five hundred ship area?

17 A (The witness nodded his head.)

18 Q Is that correct, sir?

19 A Yes, sir.

20 Q If No. 1, Amendment No. 1, was not finalized
21 until some part or some time in mid-August of that year,
22 which would appear to be the case from Exhibit No. '72,
23 indicating that Zanganeh has signed as part of it on
24 August 16, making the calculations of two and a half
25 per cent provided for in Amendment No. 1, based even on

14/20

1 300 ships, I think we'd be talking about a commission
2 of somewhere in the vicinity of— That would be nine
3 million dollars, just ballpark?

4 A No, I don't think that's correct.

5 Q Seven million?

6 A I think we calculated— Didn't we calculate
7 the figures on the procurement at the rate of two and
8 a half per cent, wasn't it about seven and a half
9 million or eight and a half million dollars?

10 MR. GALERSTEIN: 9.7.

11 BY MR. DOHERTY

12 Q 9.7 on the—

13 A One the 500 ships.

14 Q Yes, so on 300, we'd probably be talking
15 in terms of six or seven million, somewhere in that
16 ballpark?

17 A Yes.

18 Q So it would be correct to say then that
19 at the time Amendment No. 1 was executed, which appears
20 to be sometime in August of 1972, as opposed to April
21 of 1972, that the Commission that was potentially pro-
22 vided for therein was somewhere between approximately
23 six million, if it's a 300 plane program and nine or ten
24 million, if it went up to 500?

25 A Yes, sir.

14/21

1 Q Now, I believe you had testified that as
2 early as November of 1971, a determination had pretty
3 much been made on the part of Bell people that there
4 was a potentially very large program, "potential" in
5 Iran, and that Air Taxi was just not up to handling
6 that negotiation; is that correct?

7 A Well, I don't think we would let a repre-
8 sentative handle a negotiation of that size in any
9 country, no matter how capable.

10 Q Now, I am not throwing stones at—

11 A Yes.

12 Q I'm not suggesting that—

13 A Yes.

14 Q —Air Taxi had a particular problem, per se,
15 but that Bell had made a determination in and about that
16 time that it would take the lead on the negotiations
17 as opposed to Air Taxi. Is that right?

18 A Yes, we needed to be definitely involved.

19 Q And, in fact, Bell did take the lead on the
20 negotiations at that time?

21 A (The witness nodded his head.)

22 Q And did take the lead in April of '72, the
23 letter of intent was issued and actually through August
24 you were over there and had, after the demonstration, I
25 gather, a fairly positive commitment that the program

14/22

1 was going to go through in August or September—

2 A That's correct.

3 Q —of '72?

4 A That's correct.

5 Q Now, in light of those facts, was it your
6 opinion in your negotiations with Air Taxi that in
7 August of 1972, they were entitled to a commission
8 for their efforts of anywhere between six and ten
9 million dollars on this program?

10 A Well, certainly, we had an agreement under
11 which they could have received that amount of commission.

12 Q Now, up until August of 1972, the agreement
13 didn't provide a set percentage commission; is that
14 correct?

15 A That's correct.

16 Q The original contract of June 1970 provided
17 that any commission on this kind of a sale would be
18 negotiable?

19 A That's correct.

20 Q So that until this agreement, and Amendment
21 No. 1 was entered into in August of 1972, would it
22 be correct to say that no determination had been made
23 as to what the precise amount of money would be that
24 was due to Air Taxi under that contract?

25 A That's correct.

14/23

1 Q What principle fact guided you in terms of
2 negotiating the provision into this contract in Amendment
3 No. 1, that provided for a potential commission to Air
4 Taxi of six to ten million dollars?

5 A Well, basically, we were looking at rate of
6 commissions. And, as I mentioned before, commission
7 rates in the aviation industry were averaging anywhere
8 from 25 per cent on our products; on our Jet Rangers,
9 they run about 12 and a half per cent. On our Huey
10 series, our standard agreement provides for about six
11 per cent.

12 Q But you did know at that time that you were
13 talking about 300 to 500 helicopters?

14 A That's correct.

15 Q So it translates into six to ten million
16 dollars?

17 A That's correct. But we looked at the rates of
18 commissions paid in the field, paid by Bell. We knew
19 quite a bit about the rates of commissions that were being
20 paid in Iran. We thought two and a half per cent was a
21 reasonable commission on that sale.

22 Q Would you agree that you could not consider
23 only the rate by itself; that the rate had to be con-
24 sidered in relationship to the size of the contract?

25 A Of course.

~~14/24~~

1 Q Were there any other factors that entered
2 into your consideration?

3 A No. I think those were the basic ones.

4 Q So, basically, it was—as I understand what
5 you said, a figure which you considered to be— I don't
6 want to put words in your mouth: Did you consider that
7 this provision was a fair compensation to Air Taxi for
8 its services?

9 A Yes. We considered it to be a fair and
10 reasonable compensation, and to be less than we were
11 being paid on similar contracts in Iran.

12 Q The standard contract, the standard manu-
13 facturer's representative contract by Bell during that
14 period, as I understand it, contained provisos for
15 two separate kind of sales. One would generally be
16 the direct sale from Bell to a third party, be it a
17 foreign government or otherwise. And that proviso, as
18 I understand it, generally carried a set rate of
19 commission written into the contract; is that right?

20 A That's correct.

21 Q On the other hand, as I understand the set
22 standard contract, the proviso that dealt with Government
23 sales, the kind of transactions we're dealing with here,
24 did not contain a specific set percentage rate of
25 compensation; is that correct?

14/25

1

A Was subject to negotiation.

2

Q So the contract itself, when written, did not contain a certain per cent for compensation; is that correct?

3

4

A That's correct.

5

Q Now, could you explain to us what the reason for that was?

6

7

A Well, our base—

8

Q Now, I'm saying—

9

A Yeah.

10

Q —just to clarify—not just on this particular transaction, but in terms of why did Bell draft its contracts that way? Why was that the standard form?

11

12

A Well, our manufacturer's representative agreement provided a, let's say a standard rate of commission payable to all our foreign agents on—based on small quantity purchases.

13

14

If the purchases exceeded a certain number of aircraft, then the commission payable to the representative would be negotiable.

15

16

17

18

19

We had no way of foreseeing all the different circumstances, all the different types of contracts, types of arrangements and services of dealers that we would have all over the world. And, therefore, we kept the thing open for negotiation between the parties.

20

21

22

23

24

25

14/26

1 Q Well, I may have misunderstood something. But
2 it was my impression that if there was a direct sale
3 between Bell and a foreign country, your manufacturer's
4 reps agreement generally just said up front, "If you
5 negotiate it, your compensation on a direct sale will
6 be "X" per cent?

7 A I don't believe so.

8 Q Does not?

9 A No. I think you are incorrect, that we have
10 stipulated a certain number of aircraft; and if more
11 than that number were sold, then the commissions were
12 open to negotiations, whether an FMS or a direct sale.

13 Q I see.

14 Could you explain to us why the contract
15 does contain the provisions with respect to negotiation
16 if over a certain number of aircraft is sold?

17 A Well, if we—if we use this case as an
18 example, the standard commission would have probably
19 run around 10 per cent when you weight together the
20 aircraft and the spare parts. And, therefore, the
21 commission for which we would have been committed
22 would have been much higher than we finally negotiated.

23 Q Is there any relationship generally between
24 the commission that was paid on direct sales as compared
25 with the commission that was paid on FMS or government-

14/27

1 -to-government sales?

2 A Yes. I would say that there is a direct
3 relationship.

4 Q And how do those two relate? Are they equal,
5 one larger than the other? Is there any relationship
6 of that sort?

7 A I would say that the commission on a direct
8 sale—and let's use under five ships, where we have a
9 standard arrangement—would always be at least as high
10 as the commission might be on an FMS sale.

11 Q Would you say that the commercial will be
12 at least as high? Is that what you said?

13 A Yes.

14 Q As a general rule, is the commercial—

15 A Somewhat higher than the FMS sale.

16 Q Thank you.

17 And when I say "commercial," I mean a direct
18 sale.

19 A Yes, sir.

20 Q Is it unusual at all for the FMS, for the
21 government-to-government sale, to contain or provide
22 for a commission that is equal to the direct sale
23 commission in terms of percentages?

24 A Is it unusual for an FMS sale to bear the same
25 percentage as a direct sale? I would not say it was

14/28

1 unusual.

2 Q You mentioned certain meetings with General
3 Toufanian.

4 I believe you indicated you had two meetings;
5 is that correct?

6 A I think I said at least two meetings.

7 Q Can you recall or do you have a record of
8 when these meetings took place?

9 A I have no record. But I believe we spoke
10 about agents and representatives on several occasions.
11 Certainly, the Government of Iran understood that
12 Air Taxi was our representative. They saw them par-
13 ticipating in the support of our demonstrations. And
14 I would—the major conversations on this subject would
15 have occurred in the second six months of '72, and
16 maybe early '73, too.

17 Q Did they take place in Iran?

18 A Yes.

19 Q Do you recall whether one of the meetings
20 that took place in which agents or commissions were
21 discussed took place at the time of your trip to Iran
22 in August of 1972?

23 A I don't think so.

24 Q Do you know whether the discussions that you
25 refer to took place or any of them took place prior to

14/29

1 that trip to Iran?

2 A It's difficult for me to pinpoint exactly
3 when those discussions occurred.

4 Q Can you pinpoint them in terms of— I realize
5 dates are hard to recall, certainly after a period of
6 years, but can you set them relative to other events?
7 In other words, let me throw out a couple of suggestions
8 and see whether it helps; whether one of these meetings
9 might have taken place prior to the issuance of the
10 letter of intent in August of 19—excuse me—in April
11 of 1972?

12 A I don't think it did. They really at that
13 point had not made a firm decision to buy. And that
14 piece of paper we had was no better than a piece of
15 paper, if they had decided they did not want to procure.

16 Q Did you?

17 A Because, certainly, they could approve that
18 the helicopters didn't meet a certain point or something
19 of that type. So that piece of paper we had was not
20 a firm commitment to buy.

21 Q Is it your recollection then that these dis-
22 cussions took place after Iran had made a firm deter-
23 mination to buy?

24 A I think that's when the major conversations
25 were.

14/30

1 Q And I believe you testified that that was Aug-
2 ust or September?

3 A Yes.

4 Q Of 1972?

5 A Yes.

6 MR. DOHERTY: I think that someone
7 else intends to discuss again the contents of those
8 meetings. I won't get into that.

9 Q But, I would like to ask you whether anyone
10 of the Government of Iran was provided with the copies
11 of the agent, Air Taxi contract and the various amend-
12 ments?

13 A Not to the best of my knowledge.

14 Q Do you know whether the substance of what
15 was provided in the contract in the various amendments,
16 were known to any of the government officials of the
17 Government of Iran?

18 A Not to the best of my knowledge. I know that
19 I told them we had made a settlement with the dealer,
20 but didn't go past that point.

21 Q Was any determination made to your knowledge
22 that if possible that information should not be provided
23 to the officials of the Government of Iran?

24 A Would you repeat your question?

25 Q Would you read it back, please?

14/31

1 THE REPORTER (Reading from his notes):
2 "Was any determination made to your
3 knowledge that, if possible, that information
4 should not be provided to the officials of the
5 Government of Iran?"
6 A Determination by Bell?
7 Q By Bell or by anyone else, to your knowledge;
8 initially, by Bell.
9 A I would say that we would not normally pro-
10 vide the details of our arrangements with our repre-
11 sentatives to our customers. I think the same thing
12 held true in this situation.
13 Q Well, I think the question is: Was there
14 any particular discussion about this matter with Bell?
15 A There was no request for information.
16 Q All right. Bearing that in mind, however,
17 was there any discussion among Bell people, between
18 Bell people and any third parties that this information
19 should not be provided?
20 A I just think it's our basic policy that we
21 don't take our business arrangements and go out and
22 lay them open to everyone. And we would not provide
23 the details of our business arrangements with our
24 representatives or employees or anyone else with our
25 customers. It wouldn't be done.

14/32

1 Q Now, I understand. I am not suggesting—

2 A Yes.

3 Q —that something—

4 A No—

5 Q —contrary to your usual policy was done
6 here.

7 A Yes.

8 Q Or that there was something inappropriate
9 about it. I am simply asking at this point whether
10 any discussions of that sort were held with respect to
11 this?

12 A Not that I—not to my knowledge.

13 Q A very large volume of materials were
14 provided to us in response to—both voluntarily—and
15 in response to the subpoena issued to Textron. And we
16 noted that there were very few, if any— I am sure there
17 were some, but very few memoranda of meetings or very
18 few internal memoranda within Bell or between Bell and
19 its employees, although there were some in terms of
20 cables coming from overseas.

21 Do you have any explanation for that or can you
22 explain that to us, Mr. Atkins?

23 MR. MARINACCIO: May I clarify that
24 question, please?

25 THE WITNESS: Yes.

14/33

1 MR. MARINACCIO: Because it will save
2 us from duplicating this later.

3 I think the documentation that was submitted
4 to the Committee stops rather abruptly at the end of
5 1972. And as I recall the submission and the documents,
6 there were no documents, no internal documents, no
7 analysis during the period which you have denominated
8 to be the negotiating period, the first part of 1973 up
9 until June.

10 So, I think in response to his question,
11 would you please take note of my comment along the
12 same lines?

13 A Well—

14 BY MR. DOHERTY

15 Q And if I could just interject one thing.
16 I think that even prior to '72, there seemed to be very
17 few documents in the way of internal memoranda.

18 A I don't think it—

19 Q Again, we are not suggesting—

20 A Yeah, yeah.

21 Q —and I don't want you to infer that we are
22 suggesting there's something inappropriate, but we are—
23 It was something we know that we'd like to ask you
24 about.

25 A I think that normal documents that we would

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1 generate on a program like this are the proposals we
2 would make to our customers.

3 I think it would be very abnormal for us to
4 generate any documents with regard to our relations
5 with our representative, because they have already been
6 defined in a formal legal document.

7 Q Let me focus in on a few specifics, if I
8 could.

9 I believe the testimony indicates that you
10 attended and perhaps some of your associates attended
11 two or three meetings with General Toufanian. The
12 testimony indicates that you and certain of your asso-
13 ciates had something in the nature of on-going meetings
14 with the Air Taxi people where hard negotiations took
15 place with respect to the three amendments that were
16 finally worked out with Air Taxi.

17 I don't believe we noted in the documents
18 provided any memoranda or materials that indicated what
19 discussions took place at those meetings.

20 So, just focusing in on those, is that
21 consistent with the unusual procedure or practice here
22 at Bell that memos would not have been generated at
23 those meetings?

24 A I would say that whatever understandings we
25 reached were put forward in the agreements we would

14/35

1 write. And, you know, this aviation business is a fast-
2 moving business. And I'm involved in many, many trans-
3 actions each day. And I have to use my memory and so
4 forth to deal with those transactions.

5 And on something like a negotiation like this,
6 which, really, is a pretty simple negotiation, it's
7 really entirely a matter of opinion. There's no hard
8 facts that you can put down to substantiate whether
9 it's the right or the wrong amount of money. There
10 has to be a judgment. I don't think it's—

11 We just wouldn't prepare memorandum on
12 things of that type.

13 Q I see. Is it your practice, sir, to take
14 notes?

15 A Not usually.

16 Q Your own notes?

17 A Not usually.

18 Q Do you know whether you took notes at any of
19 those meetings?

20 A I don't think so, no.

21 Q Does Bell have a policy that notes not be
22 taken or that memoranda not be prepared?

23 A We don't have a policy.

24 Q There's no policy?

25 A No policy.

14/36

1 Q I think that it would help to clarify the
2 record if Air Taxi, itself, could be described in terms
3 of what it is. Is it a mail drop? Is it a substantial
4 company with operations in the country?

5 I don't think the record has been developed
6 on that point at all.

7 There are some documents that would indicate
8 that it's a company of substance.

9 But, if you know, perhaps you could give us
10 a basic description of what Air Taxi is?

11 A Uh huh. Well, Air Taxi is a fixed base
12 operator on Mehrabad Airport.

13 I believe at the time, 1972 time frame, they
14 had two major maintenance facilities on the field. They
15 owned several Aero Commanders. They maintained many
16 aircraft, basically, for the Government of Iran.

17 They had pilots, mechanics, secretaries,
18 offices, a substantial operation.

19 (Off the record discussion.)

20 MR. DOHERTY: Can we take a five minute
21 recess?

22 THE WITNESS: Sure.

23 (Short recess.)

24 BY MR. DOHERTY

25 Q In your negotiations with respect to Amendment

14/37

1 No. 1, what was Air Taxi's position in those negotiations?

2 A Well, I am certain that they wanted a much
3 higher fee than two and a half per cent. I can't recall
4 their exact offers. And, as I told you, I don't think
5 that I participated in that. I believe that Rudning
6 and Sylvester probably conducted those negotiations.
7 But I think they were talking five per cent.

8 Q Which translates into twelve to twenty
9 million dollars, potentially?

10 A Yes.

11 Q Did Mr. Rudning indicate to you what their
12 stated justification was for arguing for that kind of a
13 fee?

14 A I think the justification that they used was
15 their long standing relationship with Bell; the fact
16 that they had earned very little money over that whole
17 period of time. And also they felt that that was the
18 going rate in Iran on major contracts.

19 Q Did Mr. Rudning report directly to you on an
20 ongoing basis—

21 A Yes, he did.

22 Q —around these negotiations?

23 A Yes, he did.

24 Q What were your marching orders to Mr. Rudning?

25 A Well, we—we needed to establish the ceiling

14/38

1 on the amount that we would have to pay our representative.

2 We had to recognize that we had the addi-
3 tional responsibility to justify this to whomever we
4 contracted with, whether it be the U. S. Government
5 or the Government of Iran.

6 And so our purpose in life was to pay the
7 representative a fair and reasonable commission, and
8 one that we could justify in our final price to our
9 customer.

10 Q Is it your view then that you felt you could
11 justify the six to ten million dollar commission?

12 A Yes. I thought that two and a half per cent,
13 and, again, depending upon size of programs, was
14 probably a reasonable commission.

15 Q At that time was it your anticipation that
16 that fee would be folded into the cost of the contract?

17 A Yes, it was.

18 Q The second amendment was finalized, I believe,
19 October of 1972, just a few months later.

20 What factors intervened between the agreement
21 in August of two and a half per cent and the October
22 agreement in which a one per cent fee was negotiated
23 that enabled Bell to scale down the rate of commission?

24 A Well, I think the— I think in that period
25 of time, it was quite definite that the program was a

14/39

1 "go" program. And I also think it was quite definite
2 that it was probably going to go FMS.

3 And for the purpose of negotiating with our
4 representative we were using the leverage with the
5 representative that we were going to have difficulty
6 in justifying to our government the fact that two and a
7 half per cent was a reasonable commission.

8 And that we felt that he should take that
9 into consideration and provide for a different commis-
10 sion rate on an FMS sale than on a direct sale. And so
11 we took the FMS sale to this one per cent. And it was a
12 hard negotiation and it took a lot of time.

13 Q On the direct sale, who would the justifica-
14 tion have been made to?

15 A On the direct sale, there probably wouldn't
16 have had to have been a justification, because we had a
17 We had a direct offer of a contract price with the
18 customer. And, eventually, they would be matching that
19 with an offer from the U. S. Government under a letter
20 of offer, so they could compare the two prices, and
21 choose as they would from those prices.

22 So, in our minds, on a fixed price direct
23 contract with the Government of Iran, we had no—we
24 did not have to justify. It was just a contract offer.
25 Over here, you had to justify.

14/40

1 Q You testified before that the going rate,
2 so to speak, of commissions in Iran was much higher than
3 even the two and a half per cent?

4 A Uh huh.

5 Q Was that only with respect to non-FMS con-
6 tracts?

7 A Well, I don't have access to the U. S. Govern-
8 ment records, but I think there were substantial commis-
9 sions paid on FMS sales.

10 Q Over and above two and a half per cent in some
11 instances?

12 A Uh huh.

13 Q What was it then about this particular commis-
14 sion that you felt would make it difficult to justify
15 the two and a half per cent level? Was it simply the
16 two and a half per cent translated into dollars?

17 A Well, I felt our job would be much easier
18 with the U. S. Government if it was a more reasonable
19 rate of commission. And we, at that point— See, we had
20 some leverage on our representative from the standpoint
21 we had not signed a contract. And if we could not— We
22 always had the leverage that, well, if we can't reach a
23 reasonable transaction with you, then we don't have to
24 accept the contract.

25 Q By the "contract," you mean—

14/41

1 A With a customer.

2 Q —with the customer?

3 A Yes.

4 So, I think he just took his chances, and I
5 assume that he would have liked to have seen it gone
6 direct. But it went FMS. And that again shows that Air
7 Taxi didn't have all the power in the world.

8 Q Were there any other considerations for
9 reaching the one per cent figure discussed in any of
10 these other meetings?

11 A It was strictly a judgment figure.

12 Q And can you tell us what transpired in be-
13 tween the October 1972 agreement for one per cent which
14 translates into about four and a half or five million
15 dollars, between that and the final Amendment No. 3
16 in June of '73 which finally came down to about 2.9
17 million dollars, I think?

18 A Yes. Of course, in I guess it was December
19 of '72, we received a letter of intent from the U. S.
20 Government for the 489 ships.

21 So now we had a definite quantity of air-
22 craft and we had a definite customer, the U. S. Govern-
23 ment. It was an FMS sale.

24 At the same time, the Government of Iran had
25 become more and more interested in the commission

14/42

1 situation across all the contractors.

2 And, as I say, I had discussions with MIO
3 and told them that we would be including in our FMS
4 offer a commission to our representative.

5 They, in turn, told me that they weren't
6 interested in paying commissions.

7 I told them we had a responsibility to the
8 representative and it was a good size amount of money,
9 and it wasn't something I could carry by myself. And
10 there was discussions that, well, maybe we could recog-
11 nize their cost as a cost under our contract.

12 And we did make an attempt to determine their
13 cost and it was pretty difficult to do.

14 And so we made the independent judgment
15 that we would establish \$500,000 as the amount of cost
16 and we would charge to our contract a thousand dollars
17 per ship, which I thought was very generous on our part.
18 And, at the same time, we recognized that we were going
19 to have to settle with our representative, to meet the
20 program that had such potential and such future; that
21 I wanted to then reach an agreement which would take
22 the representative out of our business forever and a day.

23 So, we offered a settlement to divorce the
24 representative from any further participation in the
25 military business.

14/43

1 Q How did you convince the representative to
2 cut, so to speak, his commission or his fee?

3 A Well, it was a very difficult negotiation.

4 One basic thing that we offered to do, we
5 offered to move the payment up front. In other words,
6 instead of being paid at the time of delivery, he was
7 paid on a schedule. And, therefore, he received his
8 money earlier than he otherwise would have received his
9 money. That was the only thing that we really offered
10 the representative. I don't know how much money that
11 is worth in interest, but not a heck of a lot.

12 But we just told the representative that under
13 our contract, we could not recover the money, and,
14 therefore, we needed to reach an agreement that was
15 something that the company could afford to pay. And we
16 negotiated out on this kind of a basis.

17 Q Were any other concessions made to him—

18 A No, sir.

19 Q —to induce him to make that cut?

20 A The full disclosure is in that agreement.

21 Q Did he at any time simply take the position
22 that he would not accept less since he had a valid
23 and binding contract?

24 A Oh, yes.

25 Q For his fee?

14/44

1 A Oh, yes.

2 Q What got him to change his mind?

3 A Well, you know, we told him his recourse was
4 to sue us. We tried to say to him, "Look, we're trying
5 to pay you something that's fair and reasonable and
6 that we can afford to pay you. You've got to recognize
7 that this is going to come from our funds entirely and
8 we can't recover it from our customers."

9 Q There is a provision in Amendment No. 3, I
10 believe, that provides that the 2.9 million dollars
11 will be reduced or a repayment would be due to Bell of
12 \$3,000 for each of the 489 helicopters that was not
13 ultimately delivered, if that were the case.

How was that provision reached?

14 A Well, that was purely a negotiated item. We
15 recognized that we had in our possession a contract that
16 was worth four or five hundred million dollars. We
17 knew that we had full authority to spend money and we
18 were spending money rapidly.

19 We knew that the contract could never be
20 terminated in its entirety; that there would be a
21 substantial termination claim if there should be an intent
22 to terminate the contract.

23 And we just felt that it was a long term
24 program, and that as a long term program, we ought to
25

14/45

1 have some protection, if, indeed the Government of Iran
2 decided to terminate part of the aircraft, and, of
3 course, they never did. All the aircraft are now
4 delivered.

5 Q Now, normally, as I understand it, the pay-
6 out to the agent is made over the life of the contract;
7 is that correct?

8 A That's correct.

9 Q So that you would not, normally, be dealing
10 with the kind of problem you are dealing with, with
11 that provision?

12 A That's right.

13 Q Your testimony is, however, that the up-
14 front payout that was provided for here, as opposed to
15 a payout over the life of the contract, was a nego-
16 tiated one, and was a consideration to the agent to
17 accept a lesser commission; is that correct?

18 A That's correct.

19 Q Or at lesser fee?

20 A The fact that we made advanced payments
21 early in the program rather than making payments later
22 in the program, yes.

23 Q Now, can you tell me how the \$3,000 figure
24 was arrived at?

25 A We just grabbed a figure out of the air.

14/46

1 Q Because the fee on a 489 helicopter sale
2 would translate into about \$6,000 a helicopter, I
3 believe.

4 But you have no other explanation for the
5 \$3,000 figure? The figure was arbitrary?

6 A Well, I think we reationalized it on this
7 kind of a basis. At that time, we expected to recover
8 \$500,000 from the U. S. Government under the contract,
9 at a thousand dollars per ship. So that reduced our
10 exposure.

11 Then we knew that probably if the Government
12 of Iran tried to terminate, say, within the first year,
13 perhaps the termination costs would be a hundred
14 million dollars, and we would earn profit on that
15 hundred million dollars. And I think that was the basis
16 on which we generally just reached an amount of money
17 that we would recover if the contract was terminated.

18 Q Did Bell make an effort to cause this to be
19 a government-to-government sale? Was that preferable
20 to Bell in this situation?

21 A Well, at the time we would have preferred—at
22 least some of our people would have preferred to go on
23 a direct contract.

24 I, personally, never had that leaning. I
25 like the protection of the U. S. Government. It was a

14/47

1 major transaction. I guess I recognized that the pro-
2 visions of a U. S. Government contract are pretty
3 good when you have a long-term transaction.

4 I like to know my customer and I knew the
5 U. S. Government as a customer a lot better than I did
6 the Government of Iran. I liked the protection.

7 Q Did there come a point where it became fairly
8 apparent that it would be an FMS sale?

9 A To me that point was reached the day that the
10 Shah said to me, "And it will be an FMS transaction."
11 That was the day.

12 Q And when was that?

13 A That was in late August or early September
14 of '72.

15 Q Would you say that within a month prior to
16 that time, there was a leaning toward it looked as
17 though it would be an FMS or, was it a toss of a coin
18 at that point?

19 A Well, the Government of Iran are good
20 negotiators. And they always play their hand all the
21 way. And, therefore, to me, we never really had an
22 understanding of which way they intended to go, until
23 that day.

24 Q Was it their choice or did Bell have—

25 A Oh, no.

14/48

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1 Q —a good deal of—

2 A No, no. It was—

3 Q —influence over how it would be done?

4 A No, no. It was the Government of Iran's
5 choice. We would have accepted a direct contract.

6 Q How does the size of this contract, which I
7 gather is in the vicinity of 500 million dollars, stack
8 up against other sales by Bell or Textron?

9 A Oh, I think we sold the U. S. Army 2,200
10 Huey's at one time. That's a pretty good size contract.

11 Basically, it was a big contract, but the
12 kind of contract that Bell was able to handle in size.

13 Q Aside from sales to the U. S. Government?

14 A It's the next biggest.

15 Q There are a few other areas I'd like to
16 cover quickly, unless there's something that anyone
17 wants to get into now.

18 We may have had an answer to this, I am not
19 sure. As I am sure you know, the IRS has sent out to
20 many, many large corporations a questionnaire with
21 respect to questionable payments that has come to be
22 known as the Series 11 Questionnaire.

23 Was one sent to Bell or Textron, to your
24 knowledge?

25 A The identity that you give to it, I don't

14/49

1 know. But, yes, we received that letter.

2 Q Was that questionnaire responded to by Bell
3 or Textron?

4 A Yes, it was.

5 Q And have we received a copy of that response?

6 MR. SOUTTER: No, you have not.

7 BY MR. DOHERTY

8 Q In your opinion, did it fall within the scope
9 of the subpoena issued to Textron?

10 MR. SOUTTER: In my opinion, it did not
11 fall within the scope of the subpoena.

12 BY MR. DOHERTY

13 Q Mr. Atkins, during the relevant period of
14 time that we have been discussing here— I guess we
15 don't have to redefine it. I think we know at this
16 point— Were you or did Bell or Textron, to your
17 knowledge, maintain any funds of corporate monies or
18 other assets that were not recorded on the books and
19 records?

20 A No, sir.

21 Q Of the corporation?

22 A No, sir. I can stipulate that for Bell. I
23 have no knowledge of the Textron situation.

24 Q Thank you.

25 With respect to the internal policy statement

14/50

1 that was referred to the other day of August 16, 1976,
2 do you know what the distribution has been of that
3 statement? How has that policy been communicated to
4 your people, if at all?

5 A I turned that over to the Vice President of
6 Finance and asked him to get representative statements
7 from the principal people who might be involved in
8 these areas. And I think he's— I saw a report on '77
9 that he said he had them all but one, and that was some
10 guy that was out of the country. And there's a con-
11 siderable number of them that we're asking for.

12 MR. SOUTTER: Could I interrupt and go
13 back to your preceding questions about the off-book
14 transactions? Mr. Atkins said he was speaking for Bell
15 and he knew of none.

16 MR. DOHERTY: Sure.

17 MR. SOUTTER: I am just saying that I
18 am speaking for Textron and I know of none.

19 MR. DOHERTY: Thanks.

20 THE WITNESS: I shouldn't have said I
21 was speaking for Bell.

22 MR. SOUTTER: Well, I didn't want it
23 to look like you were "Mr. Clean" and we weren't.

24 BY MR. DOHERTY

25 Q I had asked you a few broad questions before

14/51

1 with respect to Air Taxi; just two or three questions
2 I'd like to ask them of you now in a broader sense
3 with respect to not only Air Taxi, but Bell, Textron or
4 otherwise.

5 To your knowledge, sir, has any payment of
6 funds or any benefit been made by Bell or anyone else
7 to your knowledge to any of the officials of the
8 Iranian Government directly or indirectly in connection
9 with the sale that we have been discussing here?

10 A I know of no payments of any kind to any
11 official of the Iranian Government.

12 Q Was any such payment or consideration, to
13 your knowledge, considered by anyone or discussed by
14 anyone, to your knowledge?

15 A I know of no request for any payments from
16 anyone.

17 Q Do you know of any discussion with respect
18 to the possibility of making such a payment?

19 A No, I do not.

20 Q I know Mr. Marinaccio has a few more questions,
21 but I'd like to ask you one last question, which is:

22 Do you know of any additional information
23 or the existence of any other documents that would shed
24 any further light on the subject matter of this inquiry?

25 A I do not think so. I do not know of anything.

14/52

1 MR. DOHERTY: Thank you.

2 THE WITNESS: Okay.

3 BY MR. MARINACCIO

4 Q Mr. Atkins, we've been at this for approxi-
5 mately sixteen and a half hours, and we're all tired
6 and we've got to continue this on Saturday and Sunday.
7 So, I've just got a few more questions and hopefully
8 we can wind this up with you.

9 A Okay, fire.

10 Q We appreciate your patience.

11 You indicated previously in your testimony
12 that, in fact, I think you said, that G. William
13 Miller viewed this as a "major problem," or this was
14 a "major problem for Miller."

15 A No. I said I reviewed it as a major problem
16 for me to settle.

17 Q I thought in your testimony you specifically
18 said this was a major problem for Mr. Miller?

19 A No. I said I considered it a major problem
20 and therefore I disclosed it to Mr. Miller.

21 Q I see.

22 A My relationship with Textron is based on, if
23 I have a major problem, I don't hide that problem. I
24 bring it forward. And, to me, the handling of the
25 representative was a major problem, and that's why I

14/53

1 brought it to Mr. Miller's attention.

2 Q And as we discussed yesterday for the
3 record, Mr. Miller was your immediate supervisor and
4 he would be the person to whom you would bring major
5 problems?

6 A That's right.

7 Q Now, why did you regard this particular 2.9
8 million dollar payment as a major problem?

9 A Well, because that kind of money is important
10 to my division, and I wanted to assure that I was
11 successful in handling the representative in a method
12 that he would be satisfied, and hopefully—my hope was
13 to recover the money in my contract pricing.

14 Q Was Mr. Miller satisfied with the way that
15 you handled the 2.9 million dollar payment, to your
16 knowledge?

17 A Yes, I think he felt that that was an
18 appropriate way to handle the settlement. He felt that
19 it was good that we closed out our relationship with
20 the representative as far as the military business in
21 Iran was concerned.

22 Q Did you make Mr. Miller aware of the obli-
23 gations under contract of Textron/Bell under Amendment
24 No. 1, Amendment No. 2 and Amendment No. 3?

25 A Yes, I did.

14/54

1 Q So that Mr. Miller was aware that under
2 Amendment No. 3, there was a provision in there for
3 a payment of maximum 2.9 million to Air Taxi to be
4 reduced by 3,000 per helicopter under 489 that was
5 not delivered?

6 A That 's correct.

7 Q He was aware of that provision?

8 A He was aware of that provision.

9 Q Now, you have spoken on several occasions
10 here of the termination of the contract with Air Taxi,
11 and that was the purpose, a purpose of the 2.9 million
12 dollar payment. You've used the word "termination,"
13 have you not?

14 A I think I have. Perhaps incorrectly, because
15 the total contract still remains in existence, except for
16 the fact that we have deleted the representative's
17 rights to sell to the Iranian Government.

18 Q So you were using "termination" in the sense
19 of termination of on government-to-government sales?

20 A No. On any sale of Bell equipment to the
21 Iranian military.

22 Q I see.

23 A Direct or indirect.

24 Q Direct or indirect. Pardon me, I think you
25 wanted to finish your answer?

14/55

1 A No, go ahead.

2 Q Except that that termination did not apply,
3 of course, with respect to the 489 helicopters that
4 were the subject of the 2.9 million dollar payment.
5 Because, strictly speaking, the delivery of those ships
6 had to take place over a period of years, and Air Taxi
7 was expected to keep performing on that contract in
8 order to obtain the full 2.9 million dollars; is that
9 not correct?

10 A That's correct.

11 Q You mentioned previously in your—if I may
12 just go back to this major problem discussion for a
13 moment:

14 Since it was a major problem to you, since
15 you regarded it as a major problem, and since the sale
16 of five hundred million dollars in helicopters was a
17 substantial part of the business of Bell, and I would
18 say of major importance to Textron—and you would agree
19 with that because you are nodding your head in the
20 affirmative, I think?

21 A Run out of voice. Yes, I agree.

22 Q Wouldn't it be usual, in terms of the manage-
23 ment of such a large project, for some action memoranda
24 to be written to Mr. Miller and to go from Mr. Miller
25 to the Board of Directors of Textron in a matter of

14/56

1 this importance?

2 A Well, as it turned out, we reached a
3 reasonable settlement with our representative and we
4 summarized that into a—into an agreement, an amendment
5 to his contract. And to me that was the memorandum,
6 it itself. It spoke for itself.

7 Q But that was the contract?

8 A That was the change to the representative
9 agreement.

10 Q No documents over a period of months, late
11 '72 on into '73 which discussed the payment of six to
12 ten million dollars negotiated on down to 4.3 million
13 and finally down to 2.9? No documents discussing the—

14 A No.

15 Q —negotiating positions of the parties,
16 what position the company should take, and what position
17 Air Taxi was taking, how the company could get a
18 better business deal in this? Could you explain why
19 there is an absence of those kinds of documents?

20 A Because of the type of operation that Textron
21 is. They assign considerable autonomy to their presi-
22 dents. And it was within my authority to make that
23 settlement. And I would keep my superior advised of what
24 I was doing, but I did not need to document that
25 with a whole bunch of paper.

14/57

1 Q Wasn't Mr. Miller as the management supervisor
2 of Bell Helicopter interested in the details of this
3 division?

4 A I am sure he was more interested in whether
5 or not I had signed the 500 million dollar contract with
6 the U. S. Government.

7 Q Would he not be interested in who the owner-
8 ship of Air Taxi and a representative of Bell Helicopter

9 A Mr. Miller has got 30 companies to take care
10 of and he can't get into that kind of detail. That's
11 his presidents. That's why he's got 30 of us out here
12 for. We have to take care of those problems.

13 Q How large is the sale of 500 million dollars
14 in helicopters in relation to the business of Textron?
15 Is that one of the largest sales that Textron has ever
16 been involved in, in the history of the company, in the
17 last 10 or 15 years?

18 A I assume it is.

19 Q Wouldn't you think that that was a matter of
20 such importance that Mr. Miller would want to get into
21 the details on his own of the operation of Bell Helicopter
22 in that circumstance?

23 A Well, for example, he didn't get into the
24 details of the 500 million dollar contract. And, to me,
25 that's a lot more important than the three million dollar

14/58

1 settlement that was made with our representative.

2 Q Now, in your previous testimony a little
3 while ago, you mentioned that all of the decisions
4 were made at the top in Iran.

5 Wouldn't the ability of your representative
6 in Iran to contact the top officials in the Iranian
7 Government and be present on various occasions with the
8 Shah then loom as a very important contact?

9 A Well, you know, I have to look at a leader
10 of a country as a person of great integrity and as
11 doing the best thing for his country. And I can't
12 imagine a social contact being important to him.

13 Q So that even if the decisions in Iran were
14 made at the top by just a handful of people, you would
15 not regard it as important that your representative
16 there had direct access to these top people?

17 A I don't think business is sold in that way,
18 myself.

19 Q Wouldn't you have recorded in the normal
20 course of business the fact to Mr. Miller that you
21 had a representative in Iran that had direct access
22 to the Shah and the Shah's brother-in-law—

23 A No.

24 Q —namely, General Khatami?

25 A I think I would have reported to Mr. Miller

14/59

1 that I had seen the Shah and what I had been able to
2 accomplish. I don't think I would have taken on hearsay
3 information about some representative seeing the Shah
4 and passing that along.

5 Q But at the time you received that information,
6 as we discussed this morning in early 1970, you had no
7 reason to doubt the veracity that Zanganeh had met with
8 the Shah on occasion?

9 A And that memorandum was dated when?

10 Q December 1969.

11 A And we had no program in Iran, and we were
12 several years away from a program in Iran, and I should
13 worry about whether a representative that hadn't done
14 more than a hundred thousand dollars worth of business
15 in all his career with us had a meeting with this
16 government? (The witness shakes his head.)

17 Q But he ended up helping you out on the biggest
18 contract that Textron was able to develop in the last
19 ten years?

20 A Well, I just didn't see it as that important,
21 sir.

22 Q Now, could you please tell me why the date of
23 April 1, 1972 was so important; so important that it
24 was put into both Amendment No. 1 and Amendment No. 2?

25 A I am not aware of any reason why it was

14/60

1 that important, because I think they are— It made no
2 difference what date those amendments were signed.

3 Q Were either one or both of those amendments
4 negotiated and signed subsequent to 1 April 1972?

5 A Oh, I'm certain the second one was, and it
6 appeared from the correspondence the first one was
7 signed after April 1, '72, yes.

8 Q Why were they made effective at a prior date?
9 And I believe that one of them was even dated April 1,
10 1972, in which case that document would have been back-
11 dated. Why was that done?

12 A Well, as Mr. Soutter says, you select an
13 effective date for any document.

14 Q Well, why was the date 1 April 1972?

15 A Sir, I don't know.

16 MR. GALERSTEIN: Let me say for the
17 record that the same question has now been asked
18 numerous times. And not only at this time, but previous
19 in the day, and I think that really goes a little too
20 far. I don't think that's fair to this witness who
21 has extended himself so much throughout all of this
22 questioning to keep pounding away when he has answered
23 the question fully.

24 MR. MARINACCIO: I want his best
25 recollection.

14/61

1 MR. GALERSTEIN: He has given it to you.

2 MR. MARINACCIO: Finally, for the
3 reason for dating a document as signed 1 April 1972,
4 when that document was signed probably in August, or
5 I mean October of 1972.

6 MR. GALERSTEIN: Would you read back—

7 MR. SOUTTER: Correction please?

8 MR. MARINACCIO: Yes, sir?

9 MR. SOUTTER: There's no indication that
10 Amendment No. 1 was signed anywhere after August.
11 Amendment No. 2, right on it, says, "Signed, October
12 date, effective as of April. Amendment No. 2 is very
13 clear. The date is on the back when it was signed. The
14 paragraph says:

15 "Effective April 1."

16 Amendment No. 1 is a different story.

17 BY MR. MARINACCIO

18 Q And what is your testimony then with respect
19 to Amendment No. 1 which is the "different story"?

20 A I know of no reason to date the amendments
21 as of April 1st, '72.

22 Q Did you ever have a discussion with anyone
23 or in your mind, did you feel that those amendments
24 had to be made effective for any reason prior to the
25 date of General Toufanian's letter of intent to purchase

14/62

1 the helicopters?

2 A I certainly didn't feel that that had any
3 substantial effect on the whole contract, because to
4 me we didn't have any kind of a procurement from the
5 Government of Iran until such time as the U. S. Govern-
6 ment signed a letter of intent with us in December of
7 '72.

8 Q I think it's extremely important to us for
9 us to discuss a little more fully those meetings you
10 had with General Toufanian, where you discussed with
11 him the payment of a commission or the making of a payment
12 to Air Taxi.

13 I believe you said those discussions with
14 General Toufanian took place in the August-September,
15 1972 period?

16 A I said also in the—later in the year and
17 early in '73.

18 Q Later in the year and possibly in the first
19 part of 1973?

20 A Yes.

21 Q Who else was present at those meetings with
22 General Toufanian besides yourself and General Toufanian?

23 A I don't remember anyone being present.

24 Q It was just the two of you?

25 A I don't know that.

14/63

- 1 Q To the best of your recollection?
- 2 A I don't know— I— Sir, I go to Iran and I
3 see the procurement people many times when I'm in Iran.
4 And I can't tell you who sat in any one meeting with me.
5 All that I know, he was the principal on one side and I
6 was the principal on the other side. I don't know if
7 anyone else was there or not.
- 8 Q Where did these discussions take place?
- 9 A In his office.
- 10 Q In General Toufanian's offices?
- 11 A Yes, sir.
- 12 Q And who initiated those meetings? Did General
13 Toufanian ask you to come in because he wanted to talk
14 to you?
- 15 A We would be discussing many, many subjects.
16 And this would be just one of many subjects.
- 17 Q And what would those subjects be, the pro-
18 curement of helicopters for the Government of Iran?
- 19 A The formation of this great big program. You
20 just don't press a button and make a program like this
21 happen.
- 22 Q Of which the 489 helicopters were a part of
23 the program?
- 24 A Yes, sir.
- 25 Q Did Toufanian ever say to you that he flatly

14/64

1 didn't want any commissions paid to anyone in connection
2 with the sale of these helicopters, unless it were an
3 allowable cost under the U. S. Government FMS Regulations?

4 A No, sir. He never said that.

5 Q Well, what did he say on that subject?

6 A General Toufanian was interested in obtaining
7 the lowest possible price on the product he was going
8 to procure, whether it came from a direct contract
9 or whether it came from an FMS contract.

10 He was also concerned about the commissions
11 that were being paid under U. S. Government FMS con-
12 tracts. And it was a turning point in Iran relations
13 with the U. S. Government as far as how you handle
14 representatives in Iran.

15 And he understood from the beginning that
16 Air Taxi was Bell's representative in country.

17 We talked several times about the fact that
18 Air Taxi should only receive a reasonable commission.

19 As we came down into the 1973 time frame,
20 he told me, okay, "We want to pay no commissions." And
21 I said, "General, we've got a problem. We've got this
22 representative has incurred costs on our behalf," and
23 he said, "perhaps I can recognize the costs as repre-
24 sentative of a commission payment." And I said, "Okay.
25 I would try to estimate a cost and include a fair

14/65

1 amount in the U. S. Government contract which we are
2 now negotiating." That's where we selected the thousand
3 dollars per ship.

4 Between the time of this conversation and
5 the time of the signing of the U. S. Government con-
6 tract, he advised the U. S. Government that he did not
7 want to pay any commissions on any U. S. Government FMS
8 contract.

9 I was informed of that by the U. S. Govern-
10 ment and I agreed to withdraw the thousand dollars per
11 ship from our proposal.

12 Q But it's your testimony that General Toufanian
13 had no objections to your paying a commission, as long
14 as it was not included in the FMS cost?

15 A Well, he recognized—

16 Q The cost under the FMS?

17 A He recognizes that we are an individual
18 business and we are able to conduct our own business, as
19 we see fit.

20 Q My question was whether or not General Tou-
21 fanian had no objection, whether he said he had no
22 objection to Bell Helicopter's paying the commission
23 to Air Taxi—

24 A I don't think the—

25 Q —even though it was not included as

14/66

1 reimbursable?

2 A I don't think the General ever came out and
3 said that. But, on the other hand, I know that he
4 understood that I made a settlement with the repre-
5 sentative. And he was very happy that I did. And he
6 no longer worried about Bell like he is still worrying
7 about other companies.

8 Q Can you explain that? Why would he not worry
9 about Bell—

10 A Because he recognized—

11 Q —because of the payment to Air Taxi?

12 A —because—because he recognized that we made
13 a settlement with a representative. And, as a result
14 of that settlement, no further commissions of any kind
15 would be payable on sales to his government from Bell.

16 Q And what would be the source of his worries
17 about other companies that you refer to?

18 A Well, all you have to do is read the papers.
19 You read them as well as I do.

20 Q You are indicating, of course, I think that
21 we are talking about the areas of payments to foreign
22 government officials?

23 A No, I'm not.

24 Q Oh, I see. Well, that's why I asked you to
25 explain it. Then what are you talking about when you

14/67

1 say your settlement relieved him of worries with respect
2 to Bell, but he still has those worries with respect
3 to other companies?

4 A Because he—because he's still getting—be-
5 cause companies are still—have representatives in
6 country and pay commissions on sales and include them
7 in the prices of their products.

8 Q Under the FMS program?

9 A Since the law changed in '74, they can't.
10 That's what shut it down, really.

11 Now, what I'm really saying is that we were
12 in a time frame when representatives was the way you
13 did business in Iran. And every major procurement
14 probably had a representative involved.

15 And the General made a big effort to eliminate
16 all that from U. S. Government FMS contracts. And he
17 did that by saying to the U. S. Government, "I demand
18 that you change the ASPIR!" And the U. S. Government
19 changed the ASPIR.

20 And then they added other countries like
21 Saudi and so forth to that exception.

22 Q As a businessman, what benefit would you
23 see that flows to the Government of Iran by virtue of a
24 policy that allows commissions to be paid as long as
25 they are not in reimbursable costs? Isn't ultimately

14/68

1 the commission reflected in the price of the article
2 to be sold to Iran either way?

3 A How do you figure that?

4 Q If Bell has to write the commission or
5 against its profit and loss statement, then its profit
6 is going to be less for a particular year?

7 A Right.

8 Q Right?

9 A Right.

10 Q So wouldn't it normally, in the course of
11 business, charge a price for the sale of its helicopters
12 that would give it a return that it feels adequate on
13 its profit and loss statement?

14 A Well, no. That's not how these big contracts
15 are done. These big contracts are negotiated, based
16 upon good cost data that 722 auditors and 433 con-
17 tracting officers message. And those contracts are
18 very carefully negotiated and represent what everyone
19 thinks is a fair price—fair cost. And to that they
20 add a profit percentage. And that profit percentage
21 is something that's not very big and is also nego-
22 tiated very carefully.

23 So you don't recover any added costs that
24 you pay out to a representative under that kind of a
25 contract negotiation.

14/69

1 MR. MARINACCIO: Mr. Atkins, you've been a
2 very patient and cooperative witness. And we thank you
3 very kindly for your testimony. We've been at it a long time.
4 And I will ask you now that we are finished with the ques-
5 tioning if you'd like to make any statement, any addi-
6 tional statement for the record--

7 THE WITNESS: Yes, I would, sure would.

8 MR. MARINACCIO: Of a clarifying nature
9 or not?

10 THE WITNESS: I'd like to say that I think
11 you fellows have run your review and investigation, what
12 have you, in a very nice manner, and I appreciate the
13 courtesies that you have extended to me.

14 I think we have gone into this thing very
15 deeply. You have to remember that it's very difficult for
16 a witness to recall events of five years ago, when you
17 lead a life that is so fast that you are doing something
18 different everyday in the week. So, I hope my dates have
19 been accurate. But, I've certainly used my best efforts
20 to give you as good a picture of the situation as I
21 could. Thank you.

22 MR. MARINACCIO: Thank you very much.

23 (Whereupon the evening recess was taken, to
24 reconvene at 9:00 a.m. Saturday, February 4, 1978.)

25 (The Transcript is continued in Volume IV.)

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UNITED STATES SENATE
STAFF OF
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

STAFF INVESTIGATION RELATING TO
THE NOMINATION OF
G. WILLIAM MILLER

VOLUME IV

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Registered Professional Reporters
1102 Oil & Gas Building
Fort Worth, Texas 76102

Vincent G. Meyer
Gaylord Sturgess
Larry Shetter
Donna McMullen
Kathy Sanders
Bart Wells

Charles L. Koe
Room 410
Federal Courthouse
Fort Worth, Texas

Telephone: 817 336-3042

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2

3

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Gallagher, Atkins, Sylvester,
4 Rudning and Farmer, "find out what
5 they are, what was in them and
6 whether or not they should be
produced pursuant to the subpoena

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15-03

1

SATURDAY, FEBRUARY 4, 1978

2

MORNING SESSION

3

(Whereupon, the proceedings were

4

reconvened at 9:00 o'clock a.m., on Saturday, February 4,

5

1978, pursuant to the evening recess on Friday, February

6

3, 1978.)

7

MR. MARINACCIO: Good morning. Before

8

we commence the proceedings this morning, there are two

9

matters I would like to discuss on the record with

10

counsel.

11

Yesterday, during the testimony of Mr.

12

Atkins, reference was made to an IRS inquiry to Textron

13

relating to payments of commissions to overseas agents.

14

Could counsel for Textron make a copy of that

15

document available to the Committee Staff?

16

MR. SOUTTER: We will provide the

17

Committee Staff with our reply to the Service, yes.

18

MR. MARINACCIO: And when will you be

19

able to provide that to the Staff?

20

MR. SOUTTER: Certainly not later than

21

Monday or Tuesday. We've got a Telecopy facility, we

22

can have it Telecopied on Monday.

23

MR. MARINACCIO: Appreciate that very

24

much.

25

The other matter I'd like to discuss with

15-04 1 counsel is the matter of Amendment Number 1, of which we
2 have one or more copies, signed copies, in the record.

3 Did counsel have an opportunity last evening
4 to check on that situation and be able to inform us which
5 one of those documents was the operative Amendment
6 Number 1?

7 MR. SOUTTER: I think Mr. Gallagher, or
8 excuse me, Mr. Galerstein, should speak to that point.

9 MR. GALERSTEIN: I think it would be of
10 assistance to the Staff if I explained the procedures by
11 which we normally execute this kind of document. And I
12 think it's particularly important in view of the issues
13 that were raised by the Staff yesterday.

14 It is—

15 MR. MARINACCIO: Mr. Sylvester, you
16 haven't been sworn yet. But because we may be getting
17 into some of these issues with you later on in the
18 questioning, I would ask you to step out of the room for
19 the moment while Mr. Galerstein is making his statement
20 about his understanding—

21 MR. SYLVESTER: Sure.

22 MR. MARINACCIO: —of the practices and
23 procedures relating to Amendment Number 1, so that if any
24 question is subsequently asked of you on that subject,
25 we'll be sure we're getting your own reaction of it.

15-05

1

MR. SYLVESTER: Certainly.

2

MR. MARINACCIO: Thank you.

3

(Whereupon, the witness, Mr. Sylvester,

4

left the room.)

5

MR. GALERSTEIN: I am not speaking

6

precisely to Amendment Number 1. What I am speaking to

7

are the procedures that we, as far as I know, always

8

engage in, in the execution of documents such as

9

Amendment Number 1 or Amendment Number 2 3 or anything.

10

We always have more than one copy signed.

11

Most of the times two copies, often three copies.

12

In general practice, what we do is have the

13

customer or the other party sign two or three times,

14

whereupon we then get the document, sign the document,

15

each of those three documents, and then send one back

16

to the other party.

17

In the interim between the time that we signed

18

it and the time that we send it back to the other party,

19

it is not unusual to have secretaries xeroxing copies

20

either for other people in the organization to look at or

21

for whatever purpose it may be necessary.

22

MR. MARINACCIO: So would it be your

23

statement then that each one of these documents is the

24

operative document?

25

MR. GALERSTEIN: Well, that would have

15-06 1 to be my conclusion from what I see, that each one of them
2 is the operative document, yes.

3 MR. MARINACCIO: May I ask you this in
4 the light of your statement for the record: My best recol-
5 lection was that Mr. Atkins stated yesterday that he and
6 his people entered into this agreement without conferring
7 with the legal division, including yourself. And so,
8 how was it that you're in a position this morning to
9 inform us precisely of what went on with respect to the
10 signing of these documents?

11 MR. GALERSTEIN: Well, as you will
12 recall, Mr. Marinaccio, I did not say that I was informing
13 you of what precisely went on with respect to these
14 documents. I made it a very special point to notify you
15 that I was giving you the general procedures which have
16 been followed, as far as I know, all the time.

17 But since you bring the matter up, let me--
18 (Knock at the door.)

19 That's the secretary.

20 --let me speak to that point. Yesterday, Mr. Atkins
21 stated that it was his impression that he had consulted
22 with, I believe he said, Mr. Soutter or Mr. Henderson and
23 with me.

24 And during the break after his testimony,
25 Mr. Soutter told him he didn't recall any such

15-07 1 consultation. And I told him likewise, that I did not
2 recall it. But, I said to Mr. Atkins, I wouldn't deny
3 that I was consulted, I just don't have any memory of
4 that at this point.

5 When Mr. Atkins returned, he advised you of
6 that but he did not advise you of the qualification that I
7 put on it, that I would not have any memory of it.

8 MR. MARINACCIO: My recollection of
9 what Mr. Atkins was saying was that he had discussed the
10 matter with the two counsel over the break and he had a
11 statement to make for the record.

12 MR. GALERSTEIN: Yes. And I think I
13 have related what that statement was, to the best of
14 my ability.

15 Last night I thought about this, and, for
16 what it's worth, I do want to notify the Staff that
17 during the period of 1971 my memory is a very distinct
18 blur, if I may use that contradiction of terms. Because
19 my wife was critically ill and I was in and out of the
20 office, out more often than in. And she died in
21 approximately July of that year.

22 As a matter of fact, I had a—we had at Bell
23 a lawsuit filed against us for a default judgment a year
24 later, because during that time the records show that I
25 received a service of a lawsuit and failed to give it to

15-08 1 the insurance company. And I bring that up just to tell
2 you that I have a blurry memory in that period of time.

3 MR. MARINACCIO: Sure. I can under-
4 stand that.

5 My only point--and I did appreciate your
6 qualification. My point of further clarification was that
7 the best evidence as to the precise dates of those
8 documents and when they were entered into and so on, in
9 the light of the testimony that we heard from Mr. Atkins
10 and even from what you seem to be saying now, are the
11 people that were involved directly themselves: that is
12 to say, Mr. Atkins, undoubtedly; Mr. Rudning; and maybe
13 Mr. Sylvester; and maybe some others, as Mr. Atkins outlined
14 yesterday.

15 MR. GALERSTEIN: Well, certainly the
16 only point that I'm making to you at your request is that
17 it is not unusual to have two or three copies of
18 documents signed concurrently.

19 MR. MARINACCIO: Thank you.

20 Mr. Doherty has some questions.

21 MR. DOHERTY: Just one or two, Mr.
22 Galerstein. You're indicating to us the usual procedures
23 followed in the consummating--developing and consummating
24 a contract.

25 Is it also the case that oftentimes the

15-09 1 contract or an amendment will speak as of a date, to be
2 effective as of the date prior to the time that it's
3 actually consummated, as we have seen with Amendment
4 Number 1?

5 MR. GALERSTEIN: Yes, that is a
6 procedure often followed.

7 MR. DOHERTY: But in those cases, even
8 though the contract or the amendment might become
9 effective as of the date prior to the time it's actually
10 signed, is it the usual procedure to date the document as
11 of the time that it is signed?

12 MR. GALERSTEIN: It is not the usual
13 procedure for the Legal Department to do that. And
14 if— May I expand a bit on that?

15 MR. DOHERTY: Certainly.

16 MR. GALERSTEIN: That is not my
17 procedure. Because I am aware of the technical
18 implications involved in that kind of process. That is,
19 I am aware of the fact that when you date an article,
20 there is an implication that the signature was processed
21 or executed as of that date.

22 But that I will say in all honesty and candor
23 I do not believe is appreciated by most people outside of
24 the Legal Department.

25 And if I may, with your permission, give you my

15-10 1 interpretation of what I saw yesterday?
2 MR. DOHERTY: Certainly.
3 MR. GALERSTEIN: It is that the
4 proposed agreement was meant to have the same interpreta-
5 tion as the executed agreement, and that the date April--
6 was it 21, 1968?
7 MR. DOHERTY: I.
8 MR. COLLINS: April 1.
9 MR. GALERSTEIN: April 1, 1968, was
10 intended--
11 MR. DOHERTY: Excuse me, April 1, 1972.
12 MR. SOUTTER: '72.
13 MR. GALERSTEIN: I'm sorry, April 1,
14 1972, was intended by non legal people to carry the
15 connotation that it is effective as of that date.
16 MR. DOHERTY: Even though the body of
17 the instrument certainly indicates that it would be
18 effective as of April 1, although on Exhibit 63-A, just
19 reading from the last page, it states:
20 "In witness hereof the parties hereto
21 have caused this amendment to be duly executed
22 as of the day and year set forth below."
23 And 63-A carries a date of April 1, 1972.
24 So you would agree that on the face of this
25 document, it indicates that it has been signed on April 1,

15-11

1 1972?

2 MR. GALERSTEIN: Well, I agree with
3 your—what you say. And if I had written it, I would
4 not have done that. But my honest belief and strong
5 belief is that this was done by non legal people who
6 didn't understand the implications such as we are deriving
7 from it at this point.

8 MR. DOHERTY: But the people that were
9 involved in these amendments were, for Bell, Mr. Rudning, is
10 that correct?

11 MR. GALERSTEIN: I'm not looking at it.
12 I'll take your word. I haven't even looked.

13 MR. DOHERTY: Yes. It has Mr. Rudning's
14 signature. You think that perhaps he didn't realize the
15 significance of the distinction there?

16 MR. GALERSTEIN: That's correct.

17 MR. DOHERTY: I guess we can discuss
18 that with him then when he comes in.

19 MR. GALERSTEIN: Certainly.

20 MR. DOHERTY: Perhaps he would be the
21 most knowledgeable person on that particular point.

22 Thank you.

23 MR. MARINACCIO: I have one clarifying
24 question just so that the record right now—there's been
25 a long discussion on that April 1, 1972 date.

15/12 1 What's your best understanding of the actual
2 date of the execution of that document?

3 MR. GALERSTEIN: I don't know.

4 MR. MARINACCIO: Was it later on in
5 August or September of 1972?

6 MR. GALERSTEIN: I really don't know.
7 I don't have any knowledge.

8 MR. MARINACCIO: Thank you.

9 At this point I think we'll call Mr. Sylvester
10 back into the room and proceed with his testimony under
11 oath.

12 (Whereupon, the witness, Mr. Sylvester,
13 returned back into the room, after which time the following
14 proceedings were had.)

15 MR. MARINACCIO: This is the continua-
16 tion of the Senate Banking Committee Staff inquiry
17 into the facts and circumstances surrounding the \$2.9
18 million payment by Textron relating to the sale of
19 approximately 489 helicopters to the Government of Iran,
20 payment to Air Taxi in connection with that transaction
21 in the 1973, '74, '75 time period. That's been ordered
22 by the Senate Banking Committee.

23 My name is Charles Marinaccio, this is Bruce
24 Freed and John Collins and David Doherty. And we are
25 all working for the Senate Banking Committee on this

1 inquiry. Dave Doherty is assigned to the Senate Banking
2 Committee and detailed to the Committee pursuant to the
3 request of our Chairman from the Securities and Exchange
4 Commission.

5 A letter from the Chairman of the Senate
6 Banking Committee, Mr. Sylvester, has been put into the
7 record authorizing the four of us to administer oaths
8 of witnesses and take testimony under oath in respect
9 to this matter.

10 So, I will be putting you under oath very
11 shortly.

12 And in that context I would add that, even
13 though you are appearing here voluntarily, your testimony
14 is under oath, and therefore you'll be subjected to all of
15 with respect to your testimony, all of the laws of the
16 United States respecting perjury and false testimony
17 given by witnesses in United States Senate proceedings.

18 I might also say that it is possible that
19 any information elicited from you could be used by an
20 enforcement agency of the United States Executive
21 Department. And in those contexts, you certainly have the
22 opportunity to be represented by counsel. And, for the
23 record, I will state that you are represented by counsel
24 here today in the person of Mr. Soutter and Mr. Galerstein.

25 would you please stand and raise your right

1 hand so that I can administer the oath to you.

2 Do you solemnly swear that the testimony
3 that you're about to give will be the whole truth and
4 nothing but the truth, so help you, God?

5 MR. SYLVESTER: I do.

6 MR. MARINACCIO: Thank you. Please be
7 seated.

8
9 FRANK M. SYLVESTER,
10 having been first duly sworn to tell the truth, the
11 whole truth and nothing but the truth, testified as
12 follows, to-wit:

13 EXAMINATION

14 BY MR. MARINACCIO

15 Q Would you please state your full name and
16 position at Textron for the record?

17 A My full name is Frank M. Sylvester. I'm
18 Vice President, International Marketing for Bell
19 Helicopter, Textron.

20 Q And how long have you been employed in that
21 capacity?

22 A Since October 1969.

23 Q And where had you been employed previously--

24 A I was previous--

25 Q --in the 1965 to 1969 period?

1 A Piper Aircraft in Lock Haven, Pennsylvania.

2 Q So, you were a new employee of Textron in
3 1969?

4 A That's correct.

5 Q With whom did you have your discussions when
6 you became employed by Textron in 1969, were you hired
7 by Mr. Atkins?

8 A Yes.

9 Q And what did he discuss with you at that time?
10 Was one of the subjects under discussion the responsibilities
11 that you would have relating to the sale of helicopters to
12 Iran?

13 A No.

14 Q Did you discuss with him at that time in any
15 way the matter of the representative, Air Taxi Company
16 and Mr. Zanganeh in Iran?

17 A At that time, no.

18 Q When you became employed by Textron in 1969,
19 what did you understand would be your principal
20 responsibilities?

21 A My principal responsibilities would be for
22 marketing the company's products in the international
23 marketplace outside of the United States, except for
24 Canada, and eastern block countries.

25 Q Do you know G. William Miller?

1 A Yes, I do.

2 Q Do you know him personally?

3 A Well, ours has been a business relationship.

4 Q What has been your business relationship?

5 (Brief pause.)

6 A Well, it's been a fairly distant one. I have
7 met him and had contact with him from time to time on his
8 visits here, and have met him several times abroad.

9 Q Have you met him in Iran?

10 (Brief pause.)

11 A I think he came into Iran one time just about
12 the time I was leaving. If I met him in Iran, it was
13 pretty much in passing, I guess.

14 Q What was the approximate date of that meeting?

15 A I don't remember.

16 Q Do you remember the year?

17 A Not specifically, no.

18 Q Do you remember the approximate year, time
19 frame?

20 A Well, I would guess that it would be '74, '75.

21 Q What were the circumstances of your meeting
22 him there, what did you understand him to be doing in
23 Iran at that time? Did you talk to him in Iran?

24 A No, I don't think I did.

25 Q Did you see him?

1 A I believe I did, yeah.

2 Q Where did you see him?

3 A Probably in the hotel.

4 Q Did you attend any meetings with any Iranian
5 official with Mr. Miller when he was present?

6 A I don't think so.

7 Q What is your best recollection of whether
8 you did or not?

9 A My best recollection of whether I did or not
10 is that I did not.

11 Q Did you ever discuss the matter of Air Taxi
12 with G. William Miller?

13 A No.

14 Q Did the name "Air Taxi" ever come up in any
15 conversation in any way when you and Mr. Miller were
16 present one with the other--

17 A No.

18 Q --at any time?

19 A (Witness shakes head from side to side.)

20 MR. GALERSTEIN: I think he got the
21 answer--the question and answer.

22 THE WITNESS: Pardon me?

23 MR. GALERSTEIN: The question and
24 answer crossed each other.

25 MR. MARINACCIO: Would the Court Reporter

1 please read the question to the witness and have the
2 witness answer? I thought he did answer.

3 THE REPORTER (Reading from his notes):

4 "Did you ever discuss the matter of Air
5 Taxi with G. William Miller?

6 Answer: No.

7 Question: Did the name 'Air Taxi' ever
8 come up in any conversation in any way when
9 you and Mr. Miller were present one with the
10 other--"

11 Answer: No.

12 Question: --at any time?

13 Answer: (Witness shakes head from side
14 to side.)"

15 MR. GALERSTEIN: Oh, I'm sorry.

16 Excuse me.

17 A No.

18 BY MR. MARINACCIO

19 Q Do your knowledge, did Mr. Miller ever
20 indicate to anyone, including yourself, that he knew
21 or had any knowledge of the ownership or reputation of
22 Air Taxi?

23 A No.

24 Q Did you ever mention the name or did Mr.
25 Miller ever mention the name of General Khatami to you?

1 A No.

2 Q Do you have any knowledge whatsoever that
3 Mr. Miller ever knew of General Khatami's participation in
4 the sale of the Bell helicopters to Iran?

5 (Brief pause.)

6 A Would you say that again, please?

7 MR. MARINACCIO: Would you please read
8 back the question?

9 THE REPORTER (Reading from his notes):

10 "Do you have any knowledge whatsoever
11 that Mr. Miller ever knew of General Khatami's
12 participation in the sale of the Bell
13 helicopters to Iran?"

14 A Can I talk to him?

15 MR. SOUTTER: Sure.

16 BY MR. MARINACCIO

17 Q Talk to who?

18 A To counsel.

19 Q Your lawyer?

20 A Yes.

21 Q Oh, by all means. Sure, you're allowed to
22 confer with your counsel. Go ahead.

23 (Off record discussion between Mr.
24 Soutter and the witness.)

25 MR. GALERSTEIN: Mr. Sylvester, Mr.

1 Marinaccio is not posing any trick questions. He really
2 is just trying to get information.

3 May I say something, Mr. Marinaccio?

4 MR. MARINACCIO: Sure, you may,
5 whatever you want.

6 MR. GALERSTEIN: From what I heard the
7 witness say, he feels that there is an assumption in the
8 question that will make a "yes" or a "no" answer accept
9 that assumption which is that General Khatami had,
10 actually had, participation in the sale of the ships from
11 Bell. And I am assuring him that that is not your
12 intention.

13 MR. MARINACCIO: That's not the
14 implication of that question, although we may get into
15 the specific matter of General Khatami's participation
16 later on.

17 THE WITNESS: Okay. Then my answer to
18 it is, no.

19 MR. SOUTTER: Just be straightforward.

20 THE WITNESS: Yes.

21 BY MR. MARINACCIO

22 Q And if you want to qualify or discuss any of
23 your answers, we're here to get all of your testimony.

24 A Sure.

25 Q So please feel free to discuss this matter

1 with us to develop the record.

2 A Okay.

3 Q So I ask you once again: To your knowledge,
4 did Mr. Miller ever talk to you about General Khatami
5 or anyone else, to you or anyone else, about General
6 Khatami, to the best of your knowledge?

7 A No.

8 Q Did you ever discuss the \$2.9 million payment
9 to Air Taxi with G. William Miller?

10 A No.

11 Q Did you ever have a conversation with anyone
12 else concerning G. William Miller's knowledge of the
13 \$2.9 million payment?

14 A No.

15 Q Now, in your position as Vice President for
16 International Sales at Bell Helicopter, it was one of
17 your responsibilities to keep yourself fully apprised of
18 Air Taxi's and Mr. Zanganeh's efforts as manufacturer's
19 representative in Iran respecting the sale of the
20 helicopters to the Iranian Government, was it not?

21 A Yes, sir.

22 Q And in respect of this matter, were you aware
23 and kept yourself apprised of whatever participation
24 General Khatami may have had in that transaction?

25 (Brief pause.)

1 A Say that again, please.

2 THE REPORTER (Reading from his notes):

3 "And in respect of this matter, were
4 you aware and kept yourself apprised of
5 whatever participation General Khatami may
6 have had in that transaction?"

7 A No, I don't think so. I-- I'm not aware of
8 his participation in that transaction.

9 Q Mr. Sylvester, I now want to turn the
10 questioning over to Mr. Freed who's going to be
11 primarily responsible for developing the record on this
12 matter this morning. I just wanted to ask those
13 preliminary questions to get for the record your back-
14 ground and responsibilities and your general knowledge of
15 some of these matters before Mr. Freed gets into the
16 specifics. I'll now ask him to conduct the questioning.

17 MR. SOUTTER: Did you have a question?

18 (Soto voce discussion between Mr.
19 Soutter and the witness.)

20 MR. MARINACCIO: Did you want to make a
21 further clarifying statement for the record? We'd be
22 extremely happy to receive any statement which you would
23 like to make. Please do so.

24 THE WITNESS: No, I-- I think we're
25 all right.

EXAMINATION

1
2 BY MR. FREED

3 Q Mr. Sylvester, why was Air Taxi rehired by
4 Bell Helicopter in 1968?

5 A Why was Air Taxi---

6 Q Yes, Air Taxi in Iran--in Teheran, rehired as
7 Bell's manufacturing representative in Iran in 1968?

8 A I don't know.

9 Q After you joined Bell, what did you hear about
10 Air Taxi's reputation?

11 (Brief pause.)

12 A I don't remember hearing anything about Air
13 Taxi's reputation.

14 Q What about Air Taxi's contacts with
15 Government officials in Iran, its reputation for
16 influencing high Government officials, having access to
17 them?

18 A Well, I didn't hear anything at all along
19 those lines about Air Taxi.

20 Q You joined Bell in October 1969, am I correct?

21 A That's correct.

22 Q What responsibility did you have for Iran
23 after you joined?

24 A Well, my responsibilities with respect to Iran
25 were no different than for any other international

1 marketplace.

2 Q And what would that be?

3 A To promote the sale of the company's
4 products wherever possible, wherever I could find an
5 opportunity.

6 Q Could you give us a brief run-through of what
7 you did with Iran, with the Iranian market, between,
8 say, late 1969 and early 1971?

9 A Early '71?

10 Q Yes.

11 A Sure.

12 (Brief pause.)

13 A We then had an office in Brussels, and one of
14 the people in that office had delegated responsibility
15 for sales and marketing activities in the Middle East.
16 And on a routine trip through that area in, uhmm, late
17 1970, he visited Teheran and met with a number of
18 government officials. And I don't know who, but in any
19 event, that produced an invitation to us to come out and
20 take a look at their present helicopter situation as it
21 then existed in their Armed Forces, and also to conduct
22 briefings on the AH-1G, armed helicopter.

23 I need to clear a time point here.

24 (Soto voce discussion between Mr.
25 Soutter and the witness.)

1 A Okay. So our first real exposure to that
2 marketplace was in early '71 when I took a team of people
3 out to do what I just described. And I think that— I
4 think that answers your question.

5 Q In late 1970, who was the Bell official going
6 to Iran and which Government officials did he meet with?

7 A The man that I--that we had traveling out of
8 Brussels office?

9 Q Uh huh, yes.

10 A His name was Chris Horsley and--and I don't
11 know who he met with in Iran other than he--he did have a
12 meeting, I think, with General Toufanian. But it was on
13 the basis of his report that we pulled a team together
14 and went out to do what I just described.

15 Q When did you make your first trip to Iran?

16 A Early in 1971.

17 Q Could you be more precise?

18 A Not much more. I think it was about March.

19 Q April?

20 A Maybe April. March, April.

21 Q So you had been with Bell since late 1969
22 and your first trip to Iran was in early 1971?

23 A That's correct.

24 Q Could you please give us a chronology in
25 your own words of the development of Bell's eventual

1 contract for the purchase of the Iranian Government's
2 eventual contract for the purchase of 489 Bell helicopters?

3 (Brief pause.)

4 A Well, beginning with that initial trip in
5 1971, there followed a pretty steady dialogue between
6 ourselves and Iranian officials.

7 We were aware that they were--that they had
8 made a decision to form an Army aviation organization
9 very similar to our own in terms of organization and
10 missions, and that the specifics of that organization were
11 still unresolved. And so--so were the helicopters that
12 would go into the organization.

13 So we went through a series of trips to Iran,
14 each trip responding to a request for a proposal. And
15 each time we went to Iran with a proposal, we would find
16 that the situation had changed sufficiently to make our
17 proposal not completely responsive.

18 And so we'd--we'd spend whatever time was
19 necessary there to determine what changes had occurred
20 in their thinking and what the next proposal step should
21 be--come back, prepare another proposal and go out again.

22 And this was a--this was a continuing
23 procedure until--continuing procedure for about a year and
24 a half until we finally came to the hardware sale that
25 you've just mentioned.

1 Q Which was when?

2 A I think the helicopter sale on a government-to-
3 government basis was in November of '72? --for the 487
4 helicopters.

5 Q Was that perhaps earlier when there was a
6 meeting with the Shah?

7 (Brief pause.)

8 A No. I'm not sure that I understand your
9 question as to a meeting with the Shah.

10 Q Mr. Atkins testified yesterday that he had
11 met with the Shah, I think it was in August or September
12 of 1972.

13 A Yeah.

14 Q And that firmed up the numbers.

15 MR. SOUTTER: My recollection is that
16 at the meeting the decision to go forward was announced
17 and I thought he said subsequently in his testimony that
18 the numbers came down--

19 MR. FREED: Yeah, but--

20 MR. SOUTTER: --approximately a week
21 later. And then later in the fall--I thought it was said
22 that it was December, it may have been November, but
23 late that time--I believe what they call a letter of
24 offer, the first letter agreements with the U.S. Government,
25 were entered into, and then they were definitized the

1 following June.

2 MR. FREED: But this situation was
3 clarified at that meeting with the Shah in August-September,
4 at least they--

5 MR. SOUTTER: I'm just recounting my
6 recollection of the testimony.

7 MR. COLLINS: I believe that the Shah
8 gave a directive that he wanted Bell helicopters. I
9 don't know if there was any indication as to the number or
10 any testimony as to the number from Mr. Atkins, but the
11 directive was given by the Shah, as I understand.

12

13 EXAMINATION

14 BY MR. MARINACCIO

15 Q If I may, Mr. Sylvester: How many meetings
16 were you personally present with the Shah of Iran?

17 A Meetings?

18 Q Yes.

19 A One.

20 Q With Mr. Atkins?

21 A One.

22 Q One?

23 A Uh huh.

24 Q And who else was present at that meeting?

25 A General Toufanian.

1 Q So it was you, Mr. Atkins, General Toufanian
2 and the Shah of Iran?

3 A (Witness nods head up and down.)

4 Q And where did this meeting take place?

5 A At the—huh. What they call the Summer
6 Palace in Teheran.

7 Q Do you remember the approximate date of the
8 meeting?

9 A I think August is about right.

10 Q August of 1972?

11 A Yeah, yes. I think so.

12 Q And who had set up the meeting?

13 A Who had set up the meeting?

14 Q Yes. Who arranged to have you meet with the
15 Shah of Iran, wasn't it Air Taxi and Mr. Zanganeh?

16 A No, it was not.

17 Q Who was it?

18 A It was General Toufanian.

19 Q Who had requested General Toufanian to set up
20 the meeting? Did you request General Toufanian to set up
21 the meeting?

22 A No.

23 Q Did Mr. Atkins request General Toufanian to
24 set up the meeting?

25 A No. My understanding is, it was on the General's

1 initiative.

2 Q For what purpose?

3 A I guess the Shah of Iran had expressed a
4 desire to meet the President of Bell Helicopter, with
5 whom he was apparently going to do some business.

6 Q And how long were you present at the meeting,
7 how long did the meeting take place?

8 A Oh, twenty minutes?

9 Q And what was said, what did the Shah say, what
10 did Mr. Atkins say, what did General Toufanian say and
11 what did you say?

12 A Well, I didn't say anything.

13 Q What did you hear the others say?

14 A And General Toufanian didn't say much after
15 the introductions were over.

16 There was conversation between Mr. Atkins
17 and the Shah, and--

18 Q About what?

19 A About helicopters.

20 Q Well, was this just a general roundtable
21 discussion about nothing in particular? I mean, what
22 did each person say, to the best of your recollection?
23 We do have to move this proceeding along.

24 A Yeah. Well, I'm not--

25 Q With all due respect--

1 A I'm not being obstructive but we're talking
2 about something that happened--

3 Q And we'll be here for a long, long time.
4 Please just tell us your best recollection of what went
5 on at that meeting.

6 A Okay. My best recollection of what went on
7 at that meeting was a--a statement by the Shah that his
8 Government intended to buy Bell helicopters.

9 Now, I don't remember any quantities being
10 mentioned, and--there was some discussion about-- I think
11 there was some discussion about a possible co-production
12 effort whereby some of the helicopters might be assembled
13 or partly made in Iran. The Shah was obviously interested
14 in the establishment of an aircraft industry.

15 Q So from what you're saying, would it be fair
16 to conclude that at this short meeting you went in and
17 had a meeting with the Shah, and basically, the Shah
18 informed all the parties present that he would be buying
19 Bell helicopters?

20 A Yeah, I think--yeah, uh huh.

21 Q Mainly it was an informative session from the
22 Shah to the rest of the people at the meeting of the
23 decision that he had made?

24 A I think so, yeah.

25 MR. GALERSTEIN: Mr. Marinaccio, just

1 the "pauses" referred to on the record, that is Mr.
2 Sylvester's normal style of conversation. And I just
3 want to put on the record these pauses are not sinister.
4 Mr. Sylvester is reflective when he talks and my normal
5 conversations with him are conducted in this fashion.
6 I appreciate that we want to get moving, nobody wants to
7 get moving more than I. But I do want-- I do think
8 that, you know, this is a serious matter, as you well
9 know, and I'd hate to see any witness, this or any other
10 witness, speed up and talk before thinking.

11 MR. MARINACCIO: Well, frankly, for the
12 record, my impression is that Mr. Sylvester is taking
13 an awful long time in responding to the questions. And
14 I'm not sure that we're getting what comes to his mind
15 initially when the question is asked. And that was the
16 nature of my discussion of the long pauses. The pauses
17 had been extremely long, and he's taking an awful long
18 time to respond, sits there for quite a while, saying
19 nothing and staring. And it was my impression that we're
20 not getting his immediate reactions to the questions.
21 And I think that we're entitled to that. And that's the
22 only reason I mentioned that with respect to the pauses.

23 MR. GALERSTEIN: Exactly the point,
24 precisely what I am responding to. You are entitled to
25 his reaction, normal reactions and answers, and I think it

1 is improper to imply on the record that this witness is
2 not giving you that, because he is. And I'm telling you, and
3 I'm really trying to be of assistance, that this witness
4 speaks normally in this slow manner.

5 Okay. Why don't we just go ahead.

6 MR. MARINACCIO: All right. I just
7 gave you my observations from looking at the demeanor
8 of the witness.

9 THE WITNESS: Well, I'm sorry you got
10 that impression because it's—it's pretty inaccurate.
11 I'm going to answer your questions to the best of my
12 ability and to the best of my recollection.

13 MR. MARINACCIO: Thank you. Appreciate
14 that you are.

15
16 EXAMINATION

17 BY MR. FREED

18 Q Mr. Sylvester, how many trips did you make
19 to Iran?

20 A From when to when?

21 Q Let's say from—you said your first trip
22 was in April of '71, we'll say in the '71 through '73
23 period.

24 A '73?

25 Q Uh huh.

1 (Short pause.)

2 A About five or six, I suppose. I don't know
3 how many trips. I spent a lot of time there.

4 Q But to the best of your recollection?

5 A How many trips between '71 and '73?

6 Q Yes, how many did you make in 1971?

7 A In '71. I think about three--two or three
8 in '71.

9 Q Do you know about when in the year in 1971?

10 A Huh. Well, we made the first one in March
11 or April.

12 (Short pause.)

13 A Probably made another one in June or July
14 and another one in June or July and another one in the
15 fall.

16 Q November?

17 A Probably, yeah.

18 Q And in 1972 how many trips did you make?

19 A I really don't remember, sir.

20 Q Did you make a trip in the Spring of 1972
21 in connection with the letter of intent or shortly
22 thereafter?

23 A When you say "letter of intent"--

24 Q This is the letter of intent from General
25 Toufanian--

1 A Okay.

2 Q --to Mr. Atkins about the intent to purchase
3 the helicopters and go into co-production.

4 A I had made a trip to Iran just before that.

5 Q Uh huh.

6 A The letter itself followed.

7 Q And then later in August of 1972, you visited
8 The Shah with Mr. Atkins?

9 A That's correct.

10 Q And when did you--did you make any trips to
11 Iran in 1973?

12 A Oh, yes. I've been there every year.

13 Q Let me ask you when--

14 A More than once. You know, this is my
15 problem. I've probably made twenty trips to Iran, and
16 they tend to sort of run together in, you know-- I've
17 spent a lot of time there.

18 Q In your trips in 1971 and 1972, who did you
19 talk with when you went to Iran?

20 A Well, I talked to-- I guess we start with Air
21 Taxi, I talked with people in Air Taxi, Mr. Zanganeh.
22 I talked to people in-- I talked to a number of Iranian
23 officials, military people, in all of the services.

24 I talked to General Toufanian and people on
25 his staff.

1 I talked to people in our own embassy.
2 I talked to people in the MAAG, the Military
3 Assistance Group.
4 Q Did you talk to Mr. Dehesh?
5 A Yes, I did.
6 Q Frequently when you were in Iran?
7 A I would see Mr. Dehesh, yes, frequently,
8 uh huh.
9 Q And did you meet with General Toufanian---
10 A Yes.
11 Q ---frequently?
12 A Well, less frequently, but certainly once
13 or twice each time I visited there.
14 Q And did you meet with General Khatami?
15 A Yes, I--- I met with him, but--- In all of my
16 trips to Iran, I met with him twice.
17 Q In all of your trips, you met with him twice?
18 A Yeah, that I can---that I can remember. I can
19 remember two, two meetings with him. Well, wait a
20 minute, three.
21 Q And when were your meetings with General
22 Khatami?
23 A Well, they were---they were in 1971 and 1972,
24 and not after.
25 Q When in 1972?

1 A Okay. I had-- I met with him-- I met him in
2 1972 after we had completed the test and evaluation
3 program on our two aircraft, and after we had done a
4 demonstration of the same aircraft for the Iranian
5 general staff, we took the two aircraft to his
6 headquarters base and he--no, we took one aircraft to
7 his headquarters base and he flew in it--flew it as a
8 pilot.

9 I met with him-- I met with him, I think,
10 on the occasion of my first visit, and I-- I recall--as I
11 recall, I took the team that I had with me and we--and we
12 did a briefing of the--of our product line to him in his
13 office.

14 Q What was General Khatami's reputation?

15 A His reputation? Well, I've heard him
16 described as an Air Force General who could run anybody's
17 Air Force--reputation.

18 Q Did you hear--what was his reputation for
19 influence?

20 A Oh, I-- I can't speak to that, I don't know.

21 Q Influence with the Shah?

22 A Well, General Khatami, as Commander of the
23 Air Force, was also the Shah's brother-in-law, and I
24 would--you know, I would speculate with you that the
25 Shah sought his advice on aviation matters and probably

1 did so in connection with the--with the establishment of
2 the Iranian Army aviation unit. Because they had had no
3 aviation before. And this was a new thing to them, and
4 it was probably only done outside of the Air Force
5 because the Air Force had everything it could handle
6 itself at the moment.

7 Q But the Shah would seek General Khatami's
8 advice even though General--for purchases for the
9 Army, even though General Khatami was a General in the
10 Air Force as the Commander in Chief?

11 A Well, what I just tried to say was that
12 there was no other place that he could go to for reliable
13 expertise in his own country.

14 Q What was General Khatami's influence over
15 military, specifically aircraft purchases, and that would
16 include helicopters?

17 A I don't know.

18 Q Was General Khatami a major influential
19 figure in deciding which helicopter would be bought or
20 which company the Shah would buy--the Iranians would
21 buy from?

22 A I don't know, no.

23 Q Now, when you said you met with General
24 Khatami on your first visit to Iran, that was in April
25 of 1971, what did you and General Khatami talk about?

1 A Well, I think I said that we—that it was—we
2 briefed him on the Bell Helicopter product line, and
3 that was the purpose of the visit and that's—that's all
4 that happened.

5 Q Did General Khatami give Bell advice?

6 A No. Not—not in my presence.

7 Q I want to read from Exhibit Number 33.

8 MR. FREED: And, John, let's see if we
9 can't assemble these exhibits.

10 Q And Exhibit 34.

11 Exhibit Number 33 is an Air Taxi internal
12 memo of April 10, 1970 in which Mr. Zanganeh talks of
13 the up-coming visit of the Bell team headed by Mr.
14 Sylvester. Mr. Zanganeh said:

15 "I immediately approached General Khatami
16 and also General Toufanian and personally
17 related the purpose of the visit of Bell's
18 team.

19 Contrary to Bell's decision to make a
20 maximum exposure and wide publicity, both
21 General Khatami and General Toufanian as well
22 as Mr. Dehesh, agreed with me that Bell should
23 play a very low-key and only coordinate and
24 adhere to further guidance/instructions which
25 would be given to them."

1 And Exhibit Number 43, which is an Air Taxi
2 internal memo of April 24, Mr. Iranzad reviews the Bell
3 team visit. And he talks about the meeting on April 19th,
4 1971, between Mr. Sylvester and General Khatami. He
5 said:

6 "After preliminary introductions of the
7 Bell team regarding the program in Iran--"
8 This is preliminary introduction of General Khatami.
9 "--discussions took place in a friendly
10 atmosphere for about an hour and a half.
11 General Khatami gave very important and
12 useful guidance and advice for the future
13 sales of the Huey Cobra. The Bell team was
14 very impressed."

15 What type of advice and guidance did General
16 Khatami give to you?

17 Let me ask: Do those memos accurately
18 reflect the content of the discussions?

19 A I don't think so. No. I don't remember
20 General Khatami giving Bell a very important and useful
21 guidance and advice for the future sales of the Huey
22 Cobra at all.

23 Q Well, to the best of your recollection, what
24 did General Khatami do?

25 A Well, he took the briefing on the product line

1 which included the armed helicopter. And if you're
2 suggesting that he gave advice as to how we could best
3 advance the sale of the Huey Cobra or any other helicopter
4 to the Iranian military, I can assure you that he did not.

5 Q He never gave any advice on Bell's sales
6 tactics, the sales strategy?

7 A Huh uh.

8 Q He never gave it to you directly?

9 A Absolutely not.

10 Q Or through Air Taxi?

11 A No.

12 Q Or Mr. Zanganeh?

13 A (Shakes head from side to side.) Absolutely
14 not. Right?

15 Q Could you please answer for the record "yes"
16 or "no"?

17 A No.

18 MR. SOUTTER: He said "Absolutely not."

19 MR. GALERSTEIN: He answered.

20 BY MR. FREED

21 Q Was General Khatami an important person for
22 Bell to know and deal with in Iran?

23 A Oh, I would think so, sure. He was the
24 Commanding General of that Air Force and, as such, was
25 the top man in an organization that--that had use for

1 helicopters.

2 Q Now, General Khatami favored the acquisition
3 of Huey Cobras by Iran, is that correct?

4 A I don't know.

5 Q I just want to quote from Exhibit Number 34,
6 which was an aide memoir that you wrote on April 28,
7 1971, in which you talk about "General Khatami has also
8 reported to the Shah as being in favor of Cobra for the
9 Air Cav Mission."

10 A Well now, that is an aide memoir that says,
11 "Horsley called to advise on the following points," and
12 that's one of the points.

13 Q Now, was Mr. Horsley correct about General
14 Khatami favoring the Huey Cobra?

15 A Sir, all I know is what--is what this thing
16 says. I don't know whether that's a correct statement
17 or not, I really don't. Horsley said that Khatami has
18 reported to the Shah as being in favor of the Cobra. If
19 he did, he did. If he--somewhere he got this information.
20 He may have gotten it anywhere, you know.

21 Q Were the reports by Mr. Horsley accurate to
22 you?

23 A Well, I think so.

24 Q So if Mr. Horsley said that, you would have
25 believed that it was--that it was the case?

1 A Well, I wouldn't have reason to disbelieve it.

2 Q I want to--

3 A But my point is that I had no knowledge of
4 whether Khatami did or didn't report favorably.

5 Q I want to quote on Exhibit Number 51, which
6 was a cable from Mr. Zanganeh to you on September 20th,
7 1972. In the cable from Mr. Zanganeh it says, in the
8 cable that's in code, it says that:

9 "According to No. 1, Trout and Skate, the
10 door is still open for Bell to secure training
11 program and even logistic support direct."

12 Now, in this cable, "Number 1" is the code for
13 General Khatami. Why did Mr. Zanganeh refer to General
14 Khatami as Number 1?

15 A I don't know why. That's just--any more than
16 I know why Dehesh is coded as "Trout."

17 Q Was there any significance to use of the
18 term "Number 1"?

19 A Not to me.

20 Q Especially when other people are given
21 other names like Trout and Skate but no numerical
22 denomination?

23 A No, not--no significance to me at all.

24 Q Was anyone else more important than General
25 Khatami in the acquisition of aircraft or decisions to

1 buy aircraft?

2 A I don't know the relative importance of the
3 decision makers on that--on that purchase, I really
4 don't.

5 Maybe it would be helpful for me to say that
6 at this point in time we were in a very active sales or
7 selling mode, and we were leaving no--well, we were
8 doing our best to touch all the bases anywhere that we
9 thought we might find someone who could get a favorable
10 impression of our helicopters and have a--any kind of an
11 advisory or decision-making position, we paid close
12 attention to those people.

13 Q Now, as Vice President for International
14 Marketing, did you receive on a regular basis the memos
15 from Air Taxi?

16 A Regular?

17 Q Basis. Did you receive on a regular basis--

18 A Oh.

19 Q --Air Taxi's memos on their dealings with
20 Iranian officials?

21 A Well, we have a practice of asking for
22 regular reports from all of our representatives around
23 the world. We don't always get them. But it would have
24 been fairly normal for--especially in this kind of a
25 situation, for Air Taxi to report to us regularly.

1 Q In this 1971 period, did Air Taxi report to
2 you regularly?

3 A I think so.

4 Q And did they apprise you of their contacts
5 with General Khatami and General Toufanian and Mr.
6 Dehesh?

7 A Yeah, uh huh.

8 Q And you were aware that they had a close
9 relationship with General Khatami and Toufanian and Mr.
10 Dehesh?

11 A Well, "close" is a kind of an adjective, isn't
12 it? I don't know how close the relationships were
13 between those people.

14 Q Well--

15 A Or from Air Taxi to them.

16 Q Mr. Zanganeh and Air Taxi officials
17 frequently met with them?

18 A Yeah, uh huh, I think so.

19 Q And Air Taxi apprised you of advice that
20 they were receiving from Mr. Dehesh and General
21 Toufanian and General Khatami on how Bell should pursue
22 its sales--the sale of the helicopters?

23 A Well, that's, I think, a fair statement.

24 Q So you knew that those three men were taking
25 a very active interest in the sale of Bell helicopters to

1 Iran, certainly in this 1971 and 1972 period?

2 A No, I didn't say that. I said that Air Taxi
3 was acting properly as our representative there and were
4 contacting those people, and then advising us, based on
5 those contacts.

6 Q You just said that Air Taxi apprised you of the
7 advice that Generals Khatami and Toufanian and Mr.
8 Dehesh were giving to Air Taxi on how Bell should go
9 about selling the helicopters and gaining the purchase.

10 MR. SOUTTER: If I may, I think what
11 may be concerning Mr. Sylvester is on the advice of
12 selling. I think he testified earlier that they didn't
13 give advice on selling, or I'm not trying to put words in
14 his mouth. But they may have given technical advice
15 or procedural advice. Is that what's puzzling you, Frank?

16 THE WITNESS: Yeah. I'm--they would--
17 (Short pause.)

18 Q Huh. I don't know how to describe it. The
19 contacts made by Air Taxi and Zanganeh with Toufanian
20 and Dehesh and, I suppose, Khatami, were made to--for the
21 purpose of advancing our objectives in that marketplace
22 and in that sale.

23 But if you're suggesting that someone like
24 Dehesh told Zanganeh how--or what Bell's tactics and
25 strategy ought to be, I don't think so. We--

1 Q Would you please continue?

2 A Well--

3 Q You said that you were-- You said that you
4 were apprised of their advice, that Air Taxi apprised you
5 of the advice of General Khatami, Toufanian and Mr.
6 Dehesh, and that you saw the Air Taxi memos, that
7 Air Taxi kept you closely apprised of the advice that
8 they were receiving.

9 A Uh huh.

10 Q Now, again in Exhibit Number 33, Mr. Zanganeh
11 says--that's the Air Taxi internal memo of April 10--
12 said that"

13 Both General Khatami and General Toufanian,
14 as well as Mr. Dehesh, agreed with me that Bell
15 should play a very low key and only coordinate
16 and adhere to further guidance/instructions
17 which would be given to them."

18 And then in Exhibit Number 28, which was a
19 letter from Mr. Iranzad of April 6, 1971 to you, said--
20 they talk about-- Mr. Iranzad talks about the presentation
21 of a Huey Cobra--Huey Cobra presentation. It says,
22 "They believe," referring to General Toufanian and Mr.
23 Dehesh, "that, contrary to your decision, the minimum
24 exposure is most advisable."

25 Now, the advice that was being passed on was

1 more than just technical or procedural advice, is that
2 the case?

3 A Well, no, I don't think so. The Government of
4 Iran has been very, very security conscious. They have
5 been adverse to publicity. And where we--where we may
6 have taken one direction-- For instance, we--we did not
7 follow an Army chain of command up to and into the Army
8 general's staff.

9 And we were told by Dehesh that--that this
10 was--was the wrong way to go, it wouldn't--we wouldn't be
11 productive, that's not where the decision-makers were,
12 there was nobody in that big Army organization that was
13 infantry and artillery and tanks that knew how to spell
14 "helicopter."

15 But the people who were developing the air
16 mobility organization and had cognizance over it were in
17 another organization that was just forming.

18 Q So Mr. Dehesh--

19 A And--

20 Q Excuse me.

21 A And--well, you know, I think Dehesh gave us
22 the same kind of advice that he would, if you want to call
23 it advice, that he'd give other prospective manufacturers.
24 I know he was seeing the Sikorsky people and he was
25 regularly seeing the Agusta people, and probably others.

1 But in order not to waste our time and the time of others
2 who we might have talked to, he would advise against it.

3 Q Were the Air Taxi memos, internal memos, being
4 sent to you on a regular basis?

5 MR. SOUTTER: Take Exhibit 33, for
6 instance, Frank.

7 A No.

8 MR. SOUTTER: Do you recall seeing it
9 and, you know, in any kind of contemporaneous way?

10 A No, I probably did see it. It's—oh, no.
11 This was an internal thing. I never saw any of their
12 internal stuff.

13 MR. SOUTTER: I think that was the
14 question. Were you getting copies of these—

15 A No.

16 MR. SOUTTER: —internal memoranda?

17 A No, I was not.

18 BY MR. FREED

19 Q How were you being apprised by Mr. Zanganeh
20 and Air Taxi of their activity? I asked you before about
21 whether you had seen any internal memos.

22 A Oh, I'm sorry, I missed the word "internal."
23 I never saw any of these internal memos until—you know.
24 But we would be kept apprised of activities by letter from
25 Air Taxi or by telexes as they felt that the occasion

1 warranted or as we requested information and so forth.

2 And I might also add that in 1971 onwards,
3 we kept a pretty close watch in Iran. In other words,
4 there was usually someone in Iran on a continuous basis.

5 MR. SOUTTER: From Bell?

6 A From Bell.

7 BY MR. FREED

8 Q When did you see the Air Taxi internal
9 memos?

10 A When Mr. Galerstein talked to me about this
11 hearing.

12 Q Mr. Galerstein showed you these before you
13 appeared before us?

14 A That's correct.

15 MR. GALERSTEIN: May I say something
16 about the internal memos which I tried to say yesterday
17 in the interest of advancing this hearing? And if you
18 wish, I will explain how the internal memos came to Bell.
19 May I do that?

20 MR. FREED: Yes.

21 MR. GALERSTEIN: Okay. These internal
22 memos, and I think it was testified to, I think I'm
23 simply repeating testimony that Mr. Atkins, I believe, made.
24 But whether he made it or not, these internal memos were
25 requested, not particularly as internal memos, but support

1 for Air Taxi's payment was requested from Bell of Air
2 Taxi. In other words, we said—Bell said, "We want to
3 accumulate a file that illustrates your activities."

4 In response to that, Air Taxi sent the
5 internal memos. That is what I understand it. Now, I'm
6 not testifying and— But as the honest situation as I
7 know it, the—as far as I know, nobody at Bell prior to
8 that had ever seen Air Taxi internal memos.

9 MR. DOHERTY: Mr. Galerstein, is it
10 your recollection that these were delivered in sometime
11 around December of 1972? My recollection is that Mr.
12 Atkins testified these supporting documents were
13 requested from Air Taxi in and around the time of the
14 negotiations surrounding the amendments and the fee-setting
15 arrangement. Is that the time frame that you recall being
16 testified to?

17 MR. GALERSTEIN: I don't recall. I
18 don't really recall.

19 MR. SOUTTER: My recollection is that
20 your recollection of the testimony is correct, that Mr.
21 Atkins thought it was late '72 when this had come in, but
22 I have no first-hand knowledge.

23 MR. GALERSTEIN: Well, that's my point.
24 I have no first-hand knowledge, but I think the testimony
25 is—

1 MR. MARINACCIO: Well, can we ask the
2 witness a question, because it's the witness's testimony
3 that we want to get.

4 MR. GALERSTEIN: Sure.

5
6 EXAMINATION

7 BY MR. MARINACCIO

8 Q After having reviewed these memoranda
9 recently, do you find the information therein to be
10 consistent or inconsistent with what you knew to be the
11 activities of Air Taxi during that period of time with
12 respect to the information contained therein relating
13 to the sale of Bell helicopters to the Government of Iran?

14 (Short pause.)

15 A Well, nothing in those documents-- I hope
16 I'm answering your question. But nothing in those
17 documents had to me the appearance of anything that--of
18 anything for which there-- I haven't an explanation. In
19 other words, I saw nothing in there that jumped out at me
20 as a--with the impression of an impropriety of any kind.

21 Q That wasn't the question.

22 A Okay.

23 Q I asked you, on your review of those
24 documents, you looked at what the information therein was
25 contained.

1 A Uh huh.

2 Q I asked you if the information therein with
3 respect to Air Taxi's activities was consistent or
4 inconsistent with your understanding and knowledge of
5 what they were doing at the time?

6 A Oh.

7 MR. GALERSTEIN: I'm going to object
8 and I'm going to tell you, for the record, that is a
9 wife-beating question. It is extremely broad. It doesn't
10 permit any witness to look at the subject matter and say,
11 "Well, this is true, or this is— I don't know," or "this
12 is not true to the best of my knowledge." It lumps
13 everything together, and therefore asks the witness to
14 conclude whether everything they say is inconsistent or
15 consistent or accurate or not accurate. It's an unfair
16 question.

17 And I think—let me suggest that it would be
18 much better were you to ask him specifics. I'm sure he
19 will answer. But ask him a broad general question like
20 that is really unfair.

21 (Soto voce discussion between the
22 witness and Mr. Soutter.)

23 MR. MARINACCIO: I appreciate your
24 objection. I think the question was a neutral question
25 asked of the witness, didn't infer any conclusion one way

1 or the other. The witness had stated that he had reviewed
2 the documents and I asked him if upon his review of the
3 documents he felt that the information contained therein
4 was consistent or inconsistent with what he knew of the
5 activities of Air Taxi at that time.

6 MR. SOUTTER: Go ahead.

7 A Okay. Well, as an opinion, I would say that
8 the documents that are in question were generally
9 consistent with my understanding of what Air Taxi was
10 doing at the time.

11 BY MR. MARINACCIO

12 Q Thank you very kindly.

13 MR. SOUTTER: Could we make one just
14 further clarifying point? I believe we provided Mr.
15 Sylvester--we're talking about documents. Mr. Galerstein
16 can corroborate this because I think he's the one which
17 actually did it. Just pull the documents in which Mr.
18 Sylvester's name is mentioned. Because there are other
19 internal memoranda of Air Taxi we have not provided to
20 Mr. Sylvester in preparation for this hearing.

21 MR. GALERSTEIN: That is correct.

22 There were relatively few that he was provided with. But
23 on a general basis, those in which his name appeared.

24 MR. MARINACCIO: Thank you.

25 MR. FREED: For the record, those that

1 we are referring to, or most of them, had Mr. Sylvester's
2 name in them.

3 MR. SOUTTER: Fine.

4
5 EXAMINATION

6 BY MR. FREED

7 Q Mr. Sylvester, what was Mr. Dehesh's position
8 in the Iranian Government in the 1971 through 1973
9 period?

10 A Well, he--he was a member of General
11 Toufanian's staff and had responsibility for procurements
12 that were made by General Toufanian for the Armed
13 Services. Now, he had a staff responsibility. He did
14 not have a line responsibility, he didn't have--didn't
15 have a decision-making authority, but he had a very
16 real--he acted in an advisory capacity to General
17 Toufanian and therefore had a responsible position.

18 Q Was he a close advisor-- Was Mr. Dehesh a
19 close advisor to General Toufanian?

20 A Yes.

21 Q Do you recall his formal title or formal
22 position--

23 A No. He--

24 Q --with General Toufanian?

25 A I think his formal title was Technical

1 Advisor. But it was a--

2 Q Do you know who owned Air Taxi?

3 A Well, as an element of--of the settlement
4 payment that was made to them, I have seen the affidavit,
5 I think it is, that Zanganeh presented to us, which was
6 his authority for receiving payment on behalf of Air Taxi.
7 And I think you're familiar with that document. And
8 that's the extent of my knowledge as to the ownership of
9 Air Taxi.

10 Q Now, when you--

11 A I didn't know before that and I only saw that
12 document recently and--

13 Q When you started having frequent dealings
14 with Air Taxi or--did you make any effort to check out
15 Air Taxi yourself, to find out who you were dealing with?

16 A No.

17 THE REPORTER: Is your answer, "No"?

18 A The answer is, no.

19 BY MR. FREED

20 Q Do you know whether any other Iranian Government
21 officials had an ownership interest in Air Taxi?

22 A No, I did not.

23 Q What contacts did you have with the State
24 Department in connection with Iranian sales or with Air
25 Taxi?

1 A The State Department? I don't recall any.
2 I don't think I had any.

3 Q Did you have any contacts with the State
4 Department in Iran about involving Iran?

5 A (Shakes head from side to side.) Well, I---
6 Yeah, K--- I think I said before that we had contact with
7 our Embassy there. The first or second Secretary and the
8 Ambassador from time to time on the basis of more or less
9 keeping him advised of our presence in country and---

10 Q Did you have any discussions with Embassy
11 personnel, including the Ambassador, about Air Taxi?

12 A I don't---no, I'm sure I didn't, but I
13 certainly don't recall any.

14 Q Discussions about General Khatami?

15 A Discussions about General Khatami? We would
16 have said to the Ambassador or whoever we contacted in
17 the Embassy as a matter of an entry briefing, if you
18 will, or an exit briefing, that we intended to see
19 Khatami and others, or that we, on departure, that we
20 saw Khatami and others, and we kept them informed.

21 Q And nobody at the Embassy mentioned to you
22 whether General Khatami had an ownership interest in Air Taxi?

23 A Oh, no.

24 Q What contacts did you have with the Defense
25 Department, involving---

1 A Defense?

2 Q Yes, Defense, U.S. Defense Department.

3 A Well, we worked very closely with the MAAG,
4 who was--which was commanded by a Major General, and
5 then with the Army section of that MAAG, which was
6 commanded by a One Star General, and with the people in
7 the aviation section of that Army section. So we had
8 close contact, and in fact it was--it got to be pretty
9 much of a team effort.

10 Q Did you ever discuss with them or did they
11 ever discuss with you or mention to you who owned Air
12 Taxi?

13 A No.

14 Q Whether General Khatami had an ownership
15 interest in Air Taxi?

16 A No.

17 Q What contacts did you have with American
18 intelligence agencies--

19 A None.

20 Q --involving--

21 A None that I know of.

22 Q No contacts with the CIA personnel or DIA
23 personnel or any other intelligence agency personnel?

24 A I don't think so. They didn't identify
25 themselves as such to me.

1 Q And so there would be no information from any
2 of those sources that you heard of or were aware of
3 involving ownership of Air Taxi?

4 A Oh, no.

5 MR. GALERSTEIN: Mr. Freed, when you
6 get to a good point, at your choosing, why don't we take a
7 break?

8 MR. FREED: Should we take a break now?
9 Okay, we'll take a break.

10 MR. MARINACCIO: Five minute break.

11 (Short break.)

12 BY MR. FREED

13 Q I just want to pick up the line of questioning
14 again.

15 Mr. Sylvester, I want to refer to Exhibit
16 Number 18, which was an Air Taxi internal memo dated
17 October 28, 1971. It states:

18 "On a few occasions during his stay in
19 Teheran with the Bell Helicopter team,
20 consisting of Mr. Sylvester, Mr. Mitchell and
21 Mr. Gallagher, we verbally informed Mr. Horsley
22 that since very important discussions are
23 taking place and activities going on, to
24 discontinue Agusta's efforts in Iran and replace
25 them with BHC in this market, it is absolutely

1 inadvisable to send reports in writing. We
2 stressed that all our communications from now
3 on be either verbal, long distance telephone
4 calls or coded telex messages. We therefore,
5 except for routine activities, agreed not to
6 submit any written reports."

7 Why was that decision taken?

8 A Well, Agusta, as you know, is our licensee.
9 They have exclusive rights to certain models in certain
10 countries. Others are non-exclusive. And it's a kind of
11 a random pattern of exclusivity, non-exclusivity, model
12 by model.

13 But where a model is non-exclusive, we
14 become intensely competitive.

15 Now, Iran, prior to 1972 and in terms of
16 helicopters, was pretty much in an exclusive—it was
17 pretty much Agusta territory. And so when we went to
18 Iran in response to that invitation that I earlier
19 mentioned, we were immediately in a very, very competitive
20 atmosphere, and we were playing in an arena where
21 security is very bad, security of business communications.

22 The same thing would apply to Sikorski.
23 They were mounting a very aggressive marketing campaign.
24 And it was just prudent business practice to be very
25 guarded in your communications about the advancement of

1 your objectives in that arena.

2 Q Was it common practice for Bell to compete
3 actively with its licensee—licensees?

4 A All right, let me say it one more time.

5 We have— Agusta is our licensee for each
6 of our models except for the armed helicopter. And
7 each license has in it expressed a sales territory,
8 country by country, categorized as to exclusive or
9 non-exclusive.

10 In the non-exclusive territories, my
11 interpretation and this company's interpretation of
12 those licenses is that in the non-exclusive territories
13 competition is enshrined in the licenses. They come
14 close to saying that—we'll compete, we will compete, and
15 we do compete. And it's a known fact and it's an accepted
16 fact.

17 Q And the reason—

18 A But we're meticulously correct in not competing
19 anywhere where they have an exclusive right to that model.

20 Q And then the reason for the decisions as to
21 the discussion of coded telex messages and secrecy
22 mentioned in Exhibit Number 18 was to prevent Agusta from
23 knowing what Bell was doing?

24 A Let's say it was to prevent industrial
25 espionage, to try to, on the part of Agusta or Sikorsky or

1 whoever.

2 Q But in this memo, it talks about the activities
3 going on to discontinue Agusta's efforts in Iran and
4 replace them with Bell Helicopter in this market. Bell
5 was concerned that Agusta not know, is that correct?

6 A Yeah. You bet. Absolutely. Is there
7 anything—is there something improper in that, that I've
8 missed?

9 Q Now I'd like to put in the record Exhibit
10 Number 76, which is an Air Taxi internal memoranda of
11 October 27, 1972.

(Exhibit No. 76
was marked for
identification.)

12 Q In that it states in part:

13 "According to Mr. Sylvester's request to
14 take precautionary measures not to let the
15 Black Hawk Demonstration be magnified, we
16 approached our friends in the IIFA, IIAA,
17 IIGF and IIN, to obtain a favorable response.
18 They promised to act accordingly."

19 What did this involve?

20 MR. GALERSTEIN: Excuse me. What
21 exhibit is that?

22 MR. FREED: 76.

23 MR. SOUTTER: Just read it.
24
25

1 THE WITNESS: Huh?
2 MR. SOUTTER: Just read it.
3 BY MR. FREED
4 Q Now, in this case you were asking that certain
5 steps be taken, in Exhibit Number 76, to down-play
6 Sikorsky's demonstration of its Black Hawk, and you're
7 asking that to be passed on to Iranian military personnel?
8 A Now, what?
9 Q Do you recall— Excuse me.
10 A No, I don't recall doing this. But if I did,
11 it would have been to say to Air Taxi, you know, run your
12 trap line and see what you can do to offset the Sikorsky
13 efforts, whatever they are.
14 Q And Air Taxi was your conduit for passing on
15 that information to—
16 A For passing?
17 Q For passing on the request—
18 A No.
19 Q —to their contacts in the Iranian military?
20 A Well, maybe I— I'm not sure we understand
21 each other.
22 My action would have been to tell Air Taxi—or
23 to ask Air Taxi to make contacts across the armed forces
24 and do whatever they could to offset the Sikorsky efforts
25 and to find out what those efforts were.

1 But, you know, it was pretty late in the
2 day at this time. The Government of Iran had made its
3 decision, and at this point in time the U.S. Government
4 was busily engaged in preparing this letter of offer
5 which, if you don't know what that is, it's a contract--
6 it's a letter that offers to a foreign government a
7 product or service which, if accepted by that government,
8 becomes a contract. A letter of offer is contractual in
9 nature. And that was in October of '72, that was just
10 about to happen.

11 Q Now, in Exhibit Number 76, what does the term,
12 "approaching our friends" refer to?

13 A Contact. This is-- I read it to--we approached
14 our contacts in--contacts or friends or whatever.

15 Q But "friends" appears to be more than
16 contacts, "friends" appears to be somebody favorably
17 disposed.

18 A Not to me, no.

19 Now, this is written by a man using a
20 second language and he's not--he has more problem of
21 grammar and semantics than you and I do in the English
22 language.

23 Q Let me ask you this: How fluent was Mr.
24 Zanganeh in English as a spoken language, perhaps?

25 A Well, he could do business in the language.

1 He could make himself understood.

2 Q When you were with him in Iran, did he use
3 an interpreter—

4 A No.

5 Q —or just you personally?

6 A He didn't need an interpreter.

7 Q So, he could converse fluently and easily
8 with you?

9 A Yeah.

10 Q When you spoke with Mr. Zanganeh, what did
11 you speak about with him?

12 A What did I speak about with him?

13 Q Yes.

14 MR. SOUTTER: Is there a time frame
15 on that?

16 BY MR. FREED

17 Q Let's say in the '71, '72 period in Iran
18 on your trips?

19 A I would speak to Mr. Zanganeh about the
20 advancement of our helicopter programs, get from him
21 his views on how our program was going, advice on what
22 we ought to do next, how to conduct ourselves.

23 Q How well did Mr. Zanganeh know Generals
24 Toufanian, Khatami and Mr. Dehesh?

25 A How well? Well, he knew them pretty well, I

1 guess. You know, Air Taxi was a pretty large and very
2 reputable operation in Iran. It was no hole-in-the-wall
3 company. Big assets on the airport. Flew a lot of
4 aircraft.

5 Q How well did Mr. Zanganeh know the Shah?

6 A I really don't know.

7 Q Do you know whether Mr. Zanganeh--

8 A I have no feel for that.

9 Q Do you know whether Mr. Zanganeh had contact
10 with the Shah or had met with the Shah?

11 A I don't know that he didn't but I don't know
12 that he did. He never, to me, said that he had met with
13 the Shah, certainly not on our behalf.

14 Q Did Mr. Zanganeh give you advice on who would
15 be the key people to see in Iran in selling Bell
16 helicopters--

17 A Sure.

18 Q --in this '72 period?

19 A Certainly.

20 Q And did he discuss with you their reputations
21 or the influence that they had?

22 A Oh, sure.

23 Q What did he say about General Khatami?

24 A Well, I think he said pretty much what I've
25 said to you, that in the absence of any aviation expertise

1 in the Army, the Air Force kind of played a big brother
2 role in getting this helicopter, this Army-aviation unit,
3 pulled together and organized and into operation. And
4 there were many Air Force officers that were supportive of
5 this activity.

6 Q Did Mr. Zanganeh ever say to you that General
7 Khatami was the man you had to work through?

8 A Oh, no, huh uh. Never said it to me and, in
9 fact, General Khatami wasn't the man who we did work
10 through.

11 Q General Tufanian was the man you had to work
12 through?

13 A Uh huh, yeah. He gave us very good and
14 clear guidance at the outset. But that--the decision and
15 the--the decision would come to us via Toufanian, and that
16 Toufanian would be the procurement organization, his
17 organization would. And otherwise, logic would probably
18 have led us off into other directions in a sales--in a
19 marketing effort.

20 Q What was Mr. Zanganeh's and Air Taxi's role
21 in getting the large contract or arranging the large
22 contract, helicopter contract for Bell?

23 A His role?

24 Q Both Mr. Zanganeh's-- Mr. Zanganeh's role.

25 A Well, as I said, he's the one that introduced

1 us around town and set up appointments for us and provided
2 us with a place to work and some secretarial assistance
3 and transportation, without which life would have been
4 very difficult if not impossible.

5 In the early stages and up to a point where
6 we—where we had established ourselves with General
7 Toufanian as people of integrity and had established a
8 position of trust, which we did with him, Zanganeh
9 played an invaluable role. You know, you can't— In Iran,
10 things that you and I take for granted here become big
11 problems, just getting around town, finding your way
12 around. You and I can't stop a taxi and say, I want to
13 go somewhere and get there. That doesn't happen.

14 So, anyway, up until the time that we had
15 established this good position with Toufanian and with the
16 people in the Army aviation organization, the newly formed
17 organization, we were very dependent on him.

18 Q Mr. Zanganeh then was your entree—

19 A Yes.

20 Q —to General Khatami, General Toufanian and
21 Mr. Dehesh?

22 A Yeah, sure.

23 Q And what type of advice did he give you on
24 sales and on strategy and tactics?

25 A I described it all.

1 Q Was that advice--

2 A No.

3 Q --important?

4 A Bell needs to-- Bell needs to make its
5 presence known across the Armed Forces, in Toufanian's
6 organization, in the Air Force, in the Army, in the Navy,
7 and--

8 Q Mr. Zanganeh gave advice, though, on timing
9 of approaches, on how to make an approach? That's what
10 I'm talking about, strategy and tactics.

11 A Well, to a degree, I suppose he did.
12 Although I can't be more specific.

13 Q But you considered that advice important on
14 strategy and tactics?

15 A Sure. We listened to it. We were listening
16 to anybody we could find at that point in time. We
17 were, like I say, we were performing in a brand new
18 world, a whole new arena, very strange one.

19 Q And you followed his advice?

20 A Not always, no.

21 Q Well, how much did you follow his advice?

22 A Well, his advice, you know, his advice only
23 went as far as--very little further than what I've just
24 described. You know, here are the people that are going
25 to use the helicopters and you need to know them and

1 they need to be convinced that that's what they need.
2 And here are the people that are going to buy them. And
3 here are the people that are--that have got the aviation
4 expertise, the real deep expertise in country.

5 And from then on, we simply responded to the
6 requests laid on us by Toufanian and the newly formed
7 Army aviation people.

8 Q And they--

9 A And the MAAG.

10 Q But with Toufanian and the Iranian military,
11 they would sometimes pass requests to you, to Bell,
12 through Mr. Zanganeh?

13 A I would say not. Only if such a request were
14 to come at a point in time when there was no Bell
15 presence in the country, generally.

16 Q Did you at any time doubt the veracity of the
17 facts in the reports that were submitted by Air Taxi?

18 A Did I ever doubt the veracity? You mean
19 doubt their truth?

20 Q Uh huh.

21 A I don't remember.

22 Q To the best of your recollection?

23 A To the best of your recollection, yes.

24 Q You don't remember what?

25 A I don't remember his reports causing me any

1 doubts as to their veracity.

2 Q Were you ever concerned about Mr. Zanganeh
3 or Air Taxi trying to inflate their role?

4 A Oh, you always have to make your assessment
5 of that because any agent is going to try to exaggerate
6 his importance to you, you know.

7 Q Was there any exaggeration in their reports?

8 A I don't know. But—I don't—

9 Q To the best of your recollection?

10 A To the best of my recollection, I don't
11 remember anything that I regarded as an exaggeration.
12 Except for the general statement that I just made, that
13 any agent that is working in a representative capacity
14 for you, trying to advance the sale of your products or
15 services in a country, is going to do everything he can
16 to impress you with his importance. You know that's what
17 makes his—

18 Q At any point did you doubt Mr. Zanganeh's
19 importance or question it?

20 A I don't recall any cause for doubts. You
21 know, there was always a lot of name-dropping going on.
22 And you just—you sort of sweep that aside (Indicating)
23 and try to get at some facts.

24 Q Who did you report to in Bell on your dealings
25 in Iran?

1 A To Jim Atkins.

2 Q Did you report at all to Mr. Miller?

3 A No.

4 Q Did you report to anyone in Textron's—

5 A No.

6 Q —Providence headquarters?

7 A Huh uh.

8 Q So Jim Atkins was the man who received all
9 of your reports?

10 A That's correct.

11 Q Who reported to you within Bell?

12 A Well, I have an organization that has in it
13 a sales manager, an administrative manager, and a sales
14 engineering unit. And each of them has a—have
15 subordinates. It's a very normal marketing organization.

16 Q Were there any written reports by you or to
17 you involving dealings in Iran?

18 A There must have been reports by me or to me
19 about dealings in Iran. Sure.

20 Q Yes. In the '71, '73 period?

21 A Oh, of course. We were undertaking the
22 advancement of a very big program and there were most
23 certainly communications to me and from me.

24 Q Did you have written communications, "written"
25 in the broadest sense, to Mr. Atkins on your Iranian

1 dealings?

2 A I think not. All of that would have been
3 verbal.

4 Q There were no--

5 A I don't say that there were none. I may have
6 written to him or telexed to him from Iran or may have
7 written a summary of the situation to him. I don't
8 remember specifically. But for the most part communica-
9 tions between us on Iran were one-on-one, verbal.

10 Q Was it your practice--did you ever keep notes
11 of meetings or conversations that you had with Mr. Atkins
12 about Iranian sales?

13 A I don't think so.

14 Q Did you ever prepare memorandum or memoranda
15 after your conversations to be able to refresh your
16 memory at a later point?

17 A I don't remember doing anything like that.

18 Q To the best of your recollection?

19 A To the best of my recollection, no.

20 Q Did you ever prepare memoranda or notes on
21 conversations that you had with Mr. Zanganeh or with
22 any of the Bell representatives in Iran on dealings there?

23 A Well, yeah, I probably did that.

24 Q Memoranda--

25 A You know, maybe I would just come from a

1 meeting and sit down and make an outline of points that
2 were discussed, to--

3 Q And you did that after the meetings that you
4 had in Iran?

5 A Not on a--you know, you're talking about on
6 a regular basis? Not necessarily, huh uh.

7 Q On an irregular basis on important meetings?

8 A Yeah, sometimes, sure.

9 Q Now, at what point did Bell decide to take
10 the lead itself in pursuing the Iranian contract?

11 A Along about March of 1971, I guess. I never
12 had any other charter.

13 Q Mr. Atkins said that, yesterday, November of
14 '71, Bell decided to move in and take the lead in
15 arranging--

16 A There had been discussions between Bell and
17 Toufanian's office, Toufanian's staff, and between Bell
18 and Agusta and between Agusta and Toufanian's staff about
19 a possible sharing arrangement.

20 Q Sharing arrangement involving what?

21 A Involving the, you know, the sale. We would
22 go prime and sub, one way or another. Those discussions
23 never bore fruit.

24 Q Could you just describe for the record what
25 prime and sub mean?

1 A Prime contractor and subcontractor.

2 Q When were those discussions?

3 A Oh, they would have been in 1972.

4 Q What directions did you get from above on
5 how Bell would deal in Iran after late 1971?

6 MR. SOUTTER: Can you be somewhat more
7 precise?

8 MR. GALERSTEIN: Yes.

9 A I'm not sure I--

10 BY MR. FREED

11 Q Did you get instructions on possibly down-
12 grading Air Taxi's role?

13 A Oh, okay.

14 (Short pause.)

15 A At--not 1971, but I think in more like '72--
16 well, okay. Late '71 or early '72, Toufanian made it
17 pretty clear to us that military procurements made for
18 the Iranian military by his office would no longer
19 recognize the use of an agent. And his words ran
20 something like this: That Air Taxi has performed well
21 for you, have gotten you well introduced and you know your
22 way around town by yourselves now. And so you don't
23 need them any more.

24 And he made it pretty clear that any procure-
25 ments made by his organization would not henceforth allow

1 as an element of cost any agent's fees.

2 Q To the best of your recollection, that was in
3 late 1970 and—

4 A '71 or early '72, uh huh.

5 Q Could you be more precise in terms of—

6 A No, I couldn't.

7 Q Was it on General Toufanian's advice, then,
8 that Bell decided—that Bell made the decision to take
9 the lead and handle the deal itself?

10 A Well, now, I thought when you said "take the
11 lead," you were referring to take the lead, vis-a-vis,
12 Agusta. If you mean take the lead, vis-a-vis Bell as
13 represented by Air Taxi—

14 Q Uh huh.

15 A —we took that lead from day one. You know,
16 we were—we don't deed away our responsibility for making
17 a sale to an agent. He's useful and has his purposes in
18 helping us to do business in a strange arena. But when
19 it comes to making up a—making a transaction with a
20 customer, nobody—nobody does that for us.

21 Q What was Mr. Zanganeh's reaction when he
22 realized or understood that Air Taxi would be playing a
23 reduced role in arranging the large helicopter deal?

24 A His reaction was very calm.

25 In the first place, the transaction had gone

1 from something quite small to something very large.
2 And, you know, he understood the order of magnitude problem
3 as well as we did. And it didn't give him any visible
4 problems.

5 Q Were there any communications between Air
6 Taxi and Bell after late 1972, any written communications?

7 A After 1972?

8 Q Yes.

9 A Well, I think there probably were. You see,
10 Air Taxi continued and in fact does today represent us
11 in the civil sector. There's been no business, they
12 haven't turned up any business in the civil sector,
13 largely because there's almost no civil aviation activity
14 in Iran that requires a helicopter.

15 Q But were there any written--

16 A But they have written to us a couple of times
17 about prospective sales to civil agencies of government,
18 the national oil company, power and light and this sort
19 of thing, where there is a recognized application for
20 helicopters.

21 Q But were there any written communications
22 from Air Taxi or Mr. Zanganeh during the time in 1973
23 when Air Taxi was playing a reduced role after Mr.
24 Zanganeh's trip to Fort Worth in late 1972 or early 1973,
25 certainly in the time frame between the beginning of 1973

1 through very late 1973?

2 A On the subject of--

3 Q Involving, you know, the Iranian helicopter
4 deal and any payments or negotiations of contracts or
5 amendments or his reaction to--

6 A On the contracts or amendments between the
7 Iranian Government and ourselves or--

8 Q Between Air Taxi and--

9 A Between Air Taxi and us?

10 Q Yes.

11 A About the Iranian military?

12 Q Yes, sir.

13 A I don't think so. I don't recall any. No.
14 After--from 1973 onwards, he was out of that business
15 and he accepted it and I believe honored it. No, I
16 don't-- I don't think we had any communications on that
17 subject with him.

18 Q Mr. Zanganeh came to the U.S. with a sheath
19 of files showing his activity--what role he played in
20 arranging the 489 helicopter acquisition.

21 Now, were there any communications, written
22 communications or communications of any sort, between
23 Mr. Zanganeh and Bell on arranging--

24 A Okay, on arranging--

25 Q --arranging or dealing with the compensation

1 he was going to receive?

2 A Okay. Now, we have—or we had then, a
3 program management department which had inside it a
4 contracts unit. And they took over that sort of
5 negotiation—not negotiation, but preparation of the
6 agreement or amendments. And I was pretty well out of
7 that loop. I never saw that file and I—

8 Q Who headed that project, the unit that dealt
9 with Mr. Zanganeh, who took over?

10 A Well, Mr. Rudning was the then Vice President,
11 Program Management.

12 Q So by early 1973, Mr.—what was the status of
13 your contacts with Mr. Zanganeh from '73 through the
14 negotiations on these amendments?

15 A Well, when he came to Fort Worth, I saw him.
16 But the negotiations as to that compensation were really
17 between Zanganeh and Atkins.

18 Q Did Mr. Atkins discuss these negotiations with
19 you?

20 A Oh, yeah, sure. Yes.

21 Q Did you keep any notes? What did Mr. Atkins
22 say to you?

23 A Oh, I can't recall what those conversations
24 were. But they would have been the—about the change in
25 the relationship as expressed by the amendments that were

1 written and the—let me talk to him a minute.

2 I think I signed one of those. Didn't I?

3 MR. GALERSTEIN: You can tell him that.

4 MR. SOUTTER: You can tell him that.

5 MR. GALERSTEIN: Tell him whatever you
6 told Mr. Soutter.

7 A Okay. I think the first amendment that dealt
8 with the helicopter sale to the Iranian military, I
9 may have signed, I think I did.

10 BY MR. FREED

11 Q That first amendment was when? Is that the
12 one in 19—a letter dated June 16, 1972?

13 A June 16, '72?

14 MR. GALERSTEIN: Why don't you show him
15 the amendments?

16 MR. FREED: Yes.

17 A That would be about right.

18 Q That's Exhibit Number 38 and Exhibit Number
19 67.

20 A Okay.

21 (Off record discussion.)

22 MR. GALERSTEIN: For your information,
23 Mr. Freed, we do not see Mr. Sylvester's signature on
24 any of these—

25 MR. FREED: No, I was talking about the

1 letter.

2 MR. GALERSTEIN: Yes, I know.

3 MR. FREED: The cover letter.

4 MR. GALERSTEIN: Mr. Sylvester expressed the
5 thought that perhaps he had signed one of the amendments.

6 MR. FREED: No. Actually I thought I
7 saw the signature.

8 BY MR. FREED

9 Q Mr. Atkins— Mr. Sylvester—

10 MR. GALERSTEIN: Just got promoted.

11 Q —what was Mr. Zanganeh's reaction as Bell
12 reduced the amount of the payment in the amendments to
13 Air Taxi from 2.5 per cent to 1 per cent and eventually
14 to the negotiated \$2.9 million?

15 A His reactions?

16 Q Yes.

17 A I think I answered that before by saying that
18 his reaction was very calm. He accepted it.

19 Q Even though the amount of money being paid to
20 Air Taxi was just—was being reduced each time?

21 A Sure. Because it was—it was supported by
22 very easy-to-understand rationale. I mean, just taking
23 it on the order of magnitude problem.

24 Q How would you carry— Oh, excuse me.

25 A —order of magnitude problem plus General

1 Toufanian's stated and known position about agents of
2 manufacturers doing business with his organization.

3 MR. MARINACCIO: May I ask you a
4 question on that?

5 THE WITNESS: Sure.

6

7 EXAMINATION

8 BY MR. MARINACCIO

9 Q Is it true that you attended a meeting with
10 General Toufanian and Mr. Atkins where the subject of
11 payment to agents was specifically discussed?

12 A I would think it's true, yes.

13 Q Do you recall attending such a meeting?

14 A No, but—no, but General Toufanian made that
15 position known repeatedly, and in the 1970—late 1970—well,
16 let's say the 1972 time frame, it was a regular item on
17 his agenda for discussion when you came into his office,
18 you know. He was—

19 MR. FREED: That's General Toufanian?

20 A He was a—kind of an obsession with him. And
21 he took great pride in being able to say that he had
22 procured for his Government large quantities of defense
23 equipment without any agent's fees. He was very, very
24 vocal on the subject.

25

1 BY MR. MARINACCIO

2 Q Did he specifically say that there should be
3 no agent fee to Air Taxi in this case?

4 A No. No, he didn't.

5 Q What did he say with respect to the agent
6 fee to Air Taxi in this case?

7 A In the beginning he was saying, "you need to—
8 you need to make a reasonable arrangement (witness
9 indicating quotes with fingers) with your agent. He has
10 represented you for many years, he's been very loyal and
11 very good. He has represented you well. But now you
12 don't need him any more. You know me, I know you. We're
13 going to do business together and there's no agent in
14 between us."

15 Q What did General Toufanian indicate, if he did
16 indicate, as to what a reasonable agent fee—

17 A Oh, he never did.

18 Q —reasonable fee to Air Taxi would be?

19 A He didn't do that.

20 Q He didn't name a specific fee?

21 A Not ever.

22 Q Did he ever say that you should not pay a
23 commission or fee to Air Taxi with respect to the sale of
24 these 489 helicopters?

25 A Okay. As you know, we negotiated down in two

1 steps as the program expanded. It seemed for a while
2 there like every time we went to Iran the thing doubled.
3 You know, we'd go home and do our proposal effort and
4 come back and find a whole new requirement, it had been
5 expanded.

6 So as this thing grew, again, you had the
7 order of magnitude problem even on the first amendment.
8 And I can assure you that we're--we're not the kind of
9 people that would try to live with that.

10 Q When you discussed the matter of agent fees with
11 General Toufanian concerning Air Taxi, did the matter of
12 ownership of Air Taxi--

13 A No, sir.

14 Q --ever come up, was that ever discussed?

15 A Absolutely not.

16 Q Was General Khatami's name ever discussed--

17 A No.

18 Q --in that connection?

19 A No.

20 Q Do you know whether or not General Toufanian--
21 Did General Toufanian ever indicate to you that he
22 thought or had knowledge of the ownership of Air Taxi?

23 A No.

24 Q Did he ever indicate to you that he thought or
25 knew that General Khatami had an ownership in Air Taxi?

1 A No.

2 Q To the best of your knowledge, did you or did
3 you not attend the meeting with General Toufanian and Mr.
4 Atkins at which this subject was discussed?

5 A Of General Khatami's--

6 Q No, I'm sorry, excuse me. Of the subject of
7 agency fees to Air Taxi in connection with the 489
8 helicopter sale?

9 (Short pause.)

10 A I don't remember it being discussed with
11 General Toufanian and Mr. Atkins.

12 Q Where did you derive your understanding as
13 to General Toufanian's position on the agency commission
14 issue?

15 A Well, you know, I made many trips by myself
16 to Iran, or without Atkins. And I would be--

17 Q Would you discuss this with General Toufanian
18 directly, you and he?

19 A Oh sure, yeah.

20 Q And was this at or about the time that the
21 Iranian Government had indicated that they would rather
22 have Bell supply the helicopters rather than either
23 Agusta or a joint production with Agusta or a joint program
24 or a program in which Agusta would be included?

25 A Can he do that back to me?

1 Q Either that or I'll clarify it.

2 A Okay.

3 Q I thought I understood you previously to
4 say that there was a time when there was consideration of
5 whether or not Agusta would supply these helicopters or
6 there would be a program in which Agusta would supply a
7 part and Bell would supply a part, and then there were
8 some discussions that Bell should supply it only.

9 Now, were those discussions that I've just
10 referred to and those decisions in the Government of Iran
11 contemporaneous with your discussion with General
12 Toufanian about commissions or fees to Air Taxi, was this
13 all taking---

14 A Yes, they were.

15 Q ---taking place at about the same time?

16 A Yeah, they were pretty much concurrent,
17 pretty much at the same time, but not related.

18 Q Would they take place in the same--- Would
19 discussions of all those matters take place in the same
20 meeting with General Toufanian?

21 A No, huh uh. The discussions of participation---
22 The discussions that centered around the possible
23 participation of Agusta, I think, were pretty much
24 restricted to the time or times when Atkins was in the
25 country. It wasn't my charter to speak to that. My

1 charter was to sell a big helicopter program, and not
2 to share it with anyone.

3 Q Were these discussions that you had with
4 General Toufanian about commission or agent's fees, were
5 they, in your mind, before or after Toufanian's letter of
6 intent on April 18th, 1972?

7 A Both.

8 Q Both before and after?

9 A Yeah. And, again, not related, but it was—it
10 was either just before or soon after the acceptance of
11 the letter of offer, U.S. Government letter of offer. It
12 was either just before or soon after that Toufanian made
13 known that he would not allow as an element of cost any
14 agent's fees or commissions.

15 Q Was that sometime in the Fall of 1972? I'm
16 asking him for his best recollection.

17 MR. SOUTTER: I can perhaps just provide

18 MR. MARINACCIO: Oh, sure.

19 MR. SOUTTER: —the letters of offer, I
20 believe, are dated in December of 1972, just to help, and
21 I can confirm that to you at some other time.

22 MR. MARINACCIO: Fine.

23 Q Did General Toufanian ever indicate that he
24 had ever had a conversation with anyone in the U.S.
25 Government concerning the unallowability of commission

1 costs to Air Taxi in connection with this sale of
2 helicopters?

3 A No.

4 MR. GALERSTEIN: Let me suggest, if I
5 may, that when you get to a point in the reasonably
6 near future, we ought to stop for lunch.

7 MR. FREED: I'm almost done.

8 MR. GALERSTEIN: Okay.

9 May I ask with respect to Mr. Sylvester, how
10 long you're going to keep him, because that may determine
11 whether we want to break for lunch or not.

12 MR. FREED: I just--

13 MR. MARINACCIO: I think we've got a
14 little way to go with Mr. Sylvester.

15 MR. GALERSTEIN: So we had best break
16 for lunch?

17 MR. SOUTTER: At a time--

18 MR. MARINACCIO: I would rather continue
19 and finish this particular line of questioning and then
20 commence again with Mr. Sylvester after lunch.

21 MR. GALERSTEIN: Yes, fine.

22

23 EXAMINATION

24 BY MR. FREED

25 Q Mr. Sylvester, how would you characterize the

1 \$2.9 million payment to Air Taxi?

2 A My opinion?

3 Q Yes.

4 A Modest.

5 Q Was it a commission payment, a settlement, a
6 termination payment?

7 A Oh, well, it was--

8 (Short pause.)

9 A Excuse me.

10 MR. SOUTTER: I've just presented
11 Mr. Sylvester with a copy of Exhibit Number 65 which is
12 Amendment Number 3.

13 A Well, commission--what were your other--

14 BY MR. FREED

15 Q Settlement or termination payment.

16 A Settlement? Well, I think it was a settlement
17 of a contractual obligation. We had this relationship
18 with them and it was a perfectly good, normal business
19 relationship, until the things that we've described
20 happened, and then it was as written, a relationship that
21 I would say neither side could live with, certainly not
22 us.

23 And we had to find a way out of it.

24 MR. MARINACCIO: When you say "what
25 happened," what do you mean, the sale of the helicopters or

1 General Toufanian's decree about no commissions?

2 A The order of magnitude and the Government of
3 Iran's stated position as to agents, agency relationships.

4 BY MR. FREED

5 Q Mr. Sylvester, what do you know of Mr.
6 Miller's involvement in the negotiations with Iran on
7 this helicopter sale?

8 A I don't know of any.

9 Q Did anyone at Bell tell you that you shouldn't
10 make a payoff to get a contract in this, say, through the
11 1973 period?

12 A Say it again, please.

13 Q I say, up to 1973, did anyone at Bell tell
14 you that you shouldn't make a payoff or that Bell
15 shouldn't make a payoff to get a contract?

16 A I would submit to you, sir, that that would
17 not be necessary. It's not my style or Bell's style to do
18 that.

19 Q But did anybody tell you?

20 A Not to my recollection.

21 Q Mr. Atkins or anyone else?

22 So nobody gave you that instruction or said
23 that this was Bell policy? I'm just trying to clarify this
24 for the record.

25 A Okay. No.

1 Q I'm not impugning anyone.

2 Did anybody at Bell tell you that you or
3 Bell shouldn't deal with agents who made payoffs to get
4 contracts?

5 (Short pause.)

6 A I--no, huh uh. I, you know--we all sort of
7 make assumptions about integrity around here, which I
8 think are pretty valid.

9 Q Do you know of any payoffs to General Khatami
10 or any other Iranian Government officials, military or
11 civilian?

12 A No.

13 Q No payoffs by Gell or--

14 A (Shakes head from side to side.)

15 Q Do you know of any payoffs by Air Taxi in
16 connection with this contract?

17 A No.

18 Q No payoffs by Mr. Zanganeh in connection with
19 this contract?

20 A Not that I know of, no.

21 Q Did anybody ever discuss payoffs with you?

22 A No.

23 Q Did anybody offer you a bribe?

24 A No.

25 Q --in connection with-- Did anybody ever offer

1 Air Taxi a bribe in connection with the contract or--

2 A Did anybody offer Air Taxi a bribe in--

3 Q --in connection with the contract or--

4 A No, not to my knowledge.

5 Q Or General Khatami?

6 A No.

7 Q Do you know of any off-book funds held by

8 Textron or any of its divisions or subsidiaries?

9 A No, I don't.

10 MR. MARINACCIO: All right.

11 Mr. Collins?

12

13

EXAMINATION

14 BY MR. COLLINS

15 Q Yes. Mr. Sylvester, I have a few questions

16 I'd like to ask you.

17

18 MR. GALERSTEIN: Excuse me for a

19 second. Are you ready to-- We've gone-- We've only had

20 one break and we've gone since 9:00 o'clock or thereabouts,

21 and it's now 12:15. And I want to ask the witness whether

22 he's ready to eat or not.

23

24 MR. MARINACCIO: I would ask the witness

25 if he'd rather break now or if he can go maybe until

26 a quarter of 1:00 or 1:00 o'clock?

27

THE WITNESS: That's fine with me.

1 MR. GALERSTEIN: Okay. Fine.

2 THE WITNESS: You know, it's your show.

3 (Short recess.)

4 BY MR. COLLINS

5 Q Mr. Sylvester, what was the relationship between
6 your office and Brussels, I believe it was the sales
7 office of Bell Helicopter, and in particular the role of
8 people from your office and those from the Brussels office?

9 A Okay. It was as though we lifted a section
10 of my sales group up and put them down in Brussels with
11 the same kind of responsibilities as they would have
12 had, had they been here. It was headed up by an area
13 manager with a couple of regional people and a technical
14 guy and it was supposed to be a self-contained marketing
15 unit.

16 Q Now, who oversaw that office's work?

17 A Me.

18 Q And what was—

19 A Well, me and my staff.

20 Q Well, I'd like to know what the duties of
21 Mr. Gallagher were on your staff, that is, I believe—
22 could you indicate what titles he held during 1971-'72?

23 A Yeah, I guess you could call him a regional
24 sales manager. And there was duplication because—

25 Q He did not supervise the Brussels office?

1 A No, no.

2 Q That was your responsibility?

3 A Yes.

4 Q With respect to the amendments to the
5 Manufacturer's Representative Agreement between Bell
6 and Air Taxi, Amendment Number 1 was made effective
7 April 1, 1972.

8 I'd like to know if there's any significance
9 in that date, making it effective as of April 1, 1972?
10 I believe the letter of intent from General Toufanian
11 was dated April 18th, 1972.

12 A No, there's no relationship or significance,
13 really, none at all.

14 Q The letter that you signed dated June 16th,
15 1972 that Mr. Freed showed you earlier indicates that
16 the Amendment Number 1 that was then proposed, that you
17 sent to Air Taxi, would be effective as of the date that
18 it was signed, and that subsequently when Amendment Number
19 1 was signed, the effective date was made to be April 1.
20 All these activities--

21 A Yeah.

22 Q --were post April 1.

23 A Right.

24 Q And at some point a decision was made to make
25 the effective date April 1?

1 A I don't remember why that was, but it had no
2 bearing on the letter of intent at all.

3 Q Mr. Gallagher, I believe, was in Iran during
4 the summer, or I believe he was there in May of 1972
5 and again in the summer of 1972, and had communications
6 with you, cable communications, regarding the Amendment
7 Number 1 to the Manufacturer's Representative Agreement,
8 is that correct, do you recall?

9 A Well, I don't recall but it's probable.

10 Q And I'd just like to know whether he was
11 engaged in any way in the negotiations between Bell and
12 Air Taxi---

13 A No, sir.

14 Q ---with respect to the compensation arrangement?

15 A He had no negotiating authority at all in
16 that.

17 Q I'd like to show you Exhibit Number 70, it's
18 a cable that Mr. Gallagher sent to you dated July 26,
19 1972, and it's in reference, I believe, to an earlier
20 cable which I couldn't find in the documents we received.
21 But one item, one of the three items listed, and I'm
22 quoting, sates:

23 "Am using max effort. Joe will sign
24 agreement after consultation with Alice."

25 That's in code, Joe standing for Air Taxi, Alice for

1 Dehesh. That's the code that is listed on the bottom of
2 the—is written in on the bottom of the cable.

3 A Uh huh.

4 Q I'd just like to show this to you and get
5 your impression as to what caused Mr. Gallagher to send
6 this to you and why Mr.—well, Air Taxi would be
7 consulting with Mr. Dehesh about Amendment Number 1 to
8 the Manufacturer's Representative Agreement?

9 A Just pure speculation. But I would say that
10 Toufanian would probably make it his business to find
11 out what kind of a settlement we—or what kind of an
12 amendment arrangement we had made, make it his business
13 to find out. And it's a pretty small—

14 Q For what purpose would he do that?

15 A To judge on the reasonableness. Zanganeh,
16 you know, he's the—he's an Iranian businessman and he
17 probably went and got Dehesh's advice, and Dehesh probably
18 went to the old man and said, "Hey, this is what they're
19 getting ready to do, and is that what you had in mind?"
20 sort of thing.

21 Q Do you recall that this was done—

22 A No.

23 Q —with respect to—while this amendment, I
24 realize is the only one, but with respect to Amendment
25 Number 2 and the final Amendment Number 3, all three

1 amendments, I believe, were executed within a period of
2 about a year.

3 A Yes.

4 Q Do you recall whether Dehesh or anyone else
5 was consulted by Air Taxi, did that information come back
6 to you at all?

7 A No.

8 Q This was the only indication that you can
9 recall that—

10 A Yes.

11 Q And what is the use of the code in this type
12 of a cable, at this time you're still in competition
13 with Agusta and what purpose would that serve to
14 describe Air Taxi and Mr. Dehesh in code?

15 A I guess we just got into that habit. And
16 these telexes were, for the most part, went out from—well,
17 this one, I think, was sent from Air Taxi, but either
18 from Air Taxi or the hotel, and we just didn't want—you
19 know, we still had a security problem, we felt.

20 Q So you would put something like that in code,
21 just the—

22 A Yeah.

23 Q —fact that someone was consulting, Air Taxi
24 was consulting with Dehesh, you would feel that that would
25 be—that it would be necessary to put that in code?

1 A We just, at that point in time, did every-
2 thing that way, just--

3 Q Whose policy was that, to put things in code?

4 A I don't remember.

5 Q You don't remember who started that or--

6 A No.

7 Q The first indication I had in going through
8 these documents was that sometime in 1971 Mr. Horsley
9 from the Brussels office said something to, I believe,
10 Zanganeh, in code.

11 A Yeah. I think he-- I think he sat down and
12 put that thing together. I think he was the author of
13 that.

14 Q But it wasn't at your direction?

15 A No, no.

16 Q At your direction?

17 A (Witness shakes head.)

18 Q The Amendment Number 1 was signed in August
19 of 1972. Do you recall that?

20 A Let me--

21 Q Yes.

22 A --just make a--maybe I can clarify something
23 for you.

24 As a for instance, we had it as a report more
25 than once that Telex' operator, operator or operators,

1 in the hotel were very good leaks of information, you
2 know. Someone could go through the hotel's telex files
3 and learn a whole lot of things that--that's a funny
4 country.

5 Q Amendment Number 1, I believe, was signed by
6 Air Taxi and then by Bell, Mr. Rudning, in the month of
7 August; one signed August 9th or thereabouts, and--let me
8 clarify that. Air Taxi signed on August 9th and then
9 Bell then signed on August 16th. I'll show you these two
10 exhibits, Exhibit 71 and 72, 71 being a cable from
11 yourself to Mr. Mitchell dated August 9th, 1972,
12 indicating that Amendment Number 1 had been executed by
13 Joe, meaning Air Taxi; and then you've got a return cable
14 from Mr. Mitchell, that's Exhibit 72, dated August 16th,
15 1972, indicating that the agreements signed by Joe, as
16 Air Taxi, received today and that Mr. Rudning had
17 signed on behalf of Bell.

18 A Okay.

19 Q And you had sent the proposed Amendment Number
20 1 on June 16th, 1972, to Mr. Zanganeh, to his attention.

21 A Yeah.

22 Q Do you know why the negotiations, from the time
23 you sent the proposed Amendment Number 1 until they were
24 signed--until it was signed, took a period of approximately
25 three months? Is there anything about the process or

1 what went on, whether Air Taxi refused to go along with
2 the content of what had been proposed in June?

3 A No. I--there-- I don't think there was any
4 refusal or even resistance.

5 Q All right.

6 A But I will say to you that at that--in that
7 time span, we were--everyone connected with that program
8 was extremely busy.

9 Q Well, you were at a demonstration, I
10 believe.

11 A We had a--

12 Q You had a demonstration?

13 A Well, we had a test and evaluation thing that
14 took us all around the country, and with a team of about
15 30, 35 people. And just the logistics of running that
16 thing were-- You know, nobody was paying much attention
17 to anything else.

18 Q I just wondered whether during that period of
19 time you were involved in the demonstrations of the
20 aircraft, whether you would come in contact with people
21 who were engaging in negotiations with Air Taxi and gain
22 any knowledge from that?

23 A No, sir.

24 Q From those contacts?

25 A (Shakes head from side to side.)

1 Q Did you ever gain any knowledge or have any
2 discussions with any persons about personal investments
3 by General Toufanian, General Khatami or Mr. Dehesh or
4 any other people in the Government of Iran?

5 A No. No.

6 Q You never heard whether they had an interest
7 in any consulting firms, sales agencies?

8 A No.

9 Q I'm not talking about just Air Taxi.

10 A No, not at all.

11 MR. COLLINS: Mr. Marinaccio.

12 MR. MARINACCIO: Thank you very much.

13

14

EXAMINATION

15 BY MR. MARINACCIO

16 Q Mr. Sylvester, do you know or have you
17 ever heard that any part of the \$2.9 million that was
18 paid by Bell to Air Taxi went to any Government official
19 of Iran, military or civilian?

20 A The answer is, no, I did not.

21 Q You did not and you do not?

22 A Do not.

23 Q Do you know or have you ever heard of any
24 discussion between Textron or Bell about any portion of
25 that \$2.9 million payment going to any official of the

1 Government of Iran?

2 A No, sir.

3 Q I include in that question any discussion that
4 you may be familiar with pursuant to any internal investi-
5 gation conducted by Bell into the circumstances of that
6 payment, including any report that may or may not have
7 been made to the Audit Committee?

8 A No. I wasn't even aware of an investigation.

9 MR. GALERSTEIN: The witness has said
10 he was not even aware of any investigation, and I say
11 that just to remind him that your question did not imply
12 that there was an investigation. Is that correct, Mr.
13 Marinaccio?

14 MR. MARINACCIO: My question didn't
15 imply it. I was asking for the witness's knowledge.

16 MR. GALERSTEIN: I know. But the form of
17 the question led him that way.

18 BY MR. MARINACCIO

19 Q Do you know or have you ever heard at any
20 time that General Khatami had an ownership or a monetary
21 or a proprietary interest or any other interest whatso-
22 ever in Air Taxi?

23 A One more time, please.

24 MR. MARINACCIO: Would you read that
25 question back, please?

1 THE REPORTER (Reading from his notes):

2 "Do you know or have you ever heard at
3 any time that General Khatami had an ownership
4 or a monetary or a proprietary interest or any
5 other interest whatsoever in Air Taxi?"

6 A Don't think so. You know, it's a--the business
7 climate of Iran is a constant blizzard of rumors and
8 hearsay, and people gossip and talk about each other for
9 impressions that they are trying to create.

10 So, if I heard something like that, it wasn't
11 from a reliable or reputable source, and I don't recall.

12 Q To the best of your recollection, what source
13 did you hear from, if you did--

14 A Yeah, I just--

15 Q --that General Khatami had any interest
16 whatsoever in Air Taxi, any rumor, any gossip, any
17 discussion that may have come to your attention--

18 A Well--

19 Q --I wish you would state it for the record--

20 A Yeah.

21 Q --from any source whatsoever.

22 A Yeah, I am aware and many people are aware
23 that there was a personal friendship, pretty close
24 personal friendship, between Zanganeh and Khatami. They
25 played tennis together, they were good friends, obviously.

1 But that's--that's the extent of my knowledge of any
2 relationship.

3 Q Were there rumors in Iran that you know of
4 that Khatami had an ownership interest in Air Taxi, have
5 you ever heard such rumors?

6 A Well, I think I probably did, but I'm just
7 at a complete loss to carry it any further than that.
8 You know, I just, you know--

9 Q When would you have heard those rumors, would
10 you have picked those rumors up in Iran?

11 A Sure, nowhere else.

12 Q And who would you have heard them from,
13 would you contact--

14 A Oh, other Iranians, you know.

15 Q Can you specify the names of any individuals
16 who would have given you that rumor?

17 A No, I couldn't. But it's the kind of a world
18 where, as I said before, you just hear rumors and hearsay
19 are things that people have almost as a stock in trade.

20 Q Would you have picked up that rumor from
21 Mr. Zanganeh or any one of the Air Taxi employees?

22 A No.

23 Q Would they have ever bragged, for example,
24 in name dropping that General Khatami may have had an
25 interest in Air Taxi?

1 A No, not--not in that organization.

2 (Short pause.)

3 A I guess the best I can do is to say to you
4 that I can't say that I didn't hear that somewhere.
5 Where I did or if I did, I'm really not sure. But it
6 wouldn't have been an unusual--in that environment it
7 wouldn't have been an unusual or remarkable thing to have
8 heard.

9 There are lots of very scratchy relationships
10 in that country, people vying for power and power is at
11 one point in that country. And there's all kinds of
12 character assassination and things like that going on
13 all around you. You can hear anything you want to turn
14 your antenna to.

15 Q Did you ever, to the best of your knowledge,
16 discuss any such rumors about General Khatami's--any
17 possible or rumored interest in Air Taxi with Mr.
18 Atkins?

19 A I don't think so. I don't--

20 Q What is your best recollection and your best
21 testimony as to whether or not you did?

22 A My best recollection is that I didn't.

23 Q That you did not?

24 A Did not, uh huh.

25 Q Did you ever wonder about the ownership of

1 Air Taxi? And I say that in this context, after all,
2 this was, I understand, a capitalized country of
3 fifty million, had three or four hundred employees in--

4 A That many?

5 Q --at least one of the documents that we've
6 seen from here. And so I would have concluded that it
7 was an operating company and not just a mail box in Iran.

8 A Oh, yes, very much so. Sure.

9 Q And in those circumstances, since they were
10 your agent, would you have, in the normal course of
11 business, wondered about who owned the company, and
12 did you wonder about who owned the company?

13 A No, I guess not. They had no--you know, they--
14 they performed for us in the manner that we expected them
15 to perform. They had no financial relationship with us,
16 no obligations, there was no reason for me to go and seek
17 out a balance sheet or an annual report or anything like
18 that. In fact, from the onset of the development of
19 that program in '71, I really didn't have much cause or
20 any time to think about that sort of thing. They were
21 obviously well organized and efficient, effective people
22 doing an operating job.

23 Q When they delivered--

24 A You know, just looking at their place of
25 business, you had no cause to-- I had no cause to ask

1 questions like that.

2 Q When they delivered, in terms of effectiveness,
3 the way they did with respect to contacts with various
4 officials of the Government of Iran that subsequently led
5 to a very large order for Textron, did that cause you to
6 wonder in your own mind as to where the real--or where the
7 authority and power in Air Taxi came from, did you wonder
8 in that context who owned Air Taxi and think about it,
9 beyond Zanganeh?

10 A No, no, I didn't. You know, you just take
11 it for granted that they are what I would call well
12 placed people. They are people of position and
13 influence in the country. And Iranian air space is a
14 very close held commodity. You don't see much--little or
15 no private aviation, as we understand it, general
16 aviation as we understand it in this country. And so
17 there are two commercial operating entities, and one of
18 them is Iran Air, which is the airline, and the
19 other is Air Taxi, which was then a charter service,
20 substantially.

21 Q Do I understand it, from what you've just
22 said, that you kind of have an implicit feeling that when
23 you're in Iran, because most of what goes on there is
24 really held in the hands of a few people, and particularly
25 with respect to aviation, that when you're dealing with

1 the country you're dealing with the government?

2 A When you're dealing with Air Taxi?

3 Q Yes.

4 A No, no. I didn't mean to create that
5 impression.

6 Q Well, I'm just trying to get--

7 A Yes, I understand. But I'm trying--

8 Q I kind of sensed something from what you're
9 saying and I'm trying to understand what you were getting
10 at.

11 A Well, I don't know what I was trying to get
12 at, except to say that Air Taxi was one of very few
13 aviation operating entities in the country. And, you
14 know, I don't know what or how the thing got started or
15 who started it or who owned it, if not Zanganeh and
16 the two people on that affidavit that he presented to us.

17 Q Would it have surprised you to learn that
18 General Khatami had an ownership interest in Air Taxi?

19 A Yeah, I think it would have. I don't know,
20 but I think it would have. You know, that certain knowledge
21 would have put a very different complexion upon our
22 relationships, that's for sure.

23 Q What kind of a different complexion would it
24 have put on your relationship?

25 A Well, if we'd had pre-knowledge of that kind

1 of an ownership in Air Taxi, I think I can pretty clearly
2 say to you that Jim Atkins wouldn't have permitted the
3 relationship to exist, to continue. I don't know what
4 we'd have done, but I can-- I can come across pretty loud
5 and clear on that one.

6 Q Would your conclusion be the same even in the
7 light of knowledge that persons close to the scene, like
8 Zanganeh who was your agent, were meeting with Khatami
9 from time to time, sometimes in the presence of the Shah
10 and sometimes, I believe, even in the presence of
11 individuals like yourself when Khatami would be somewhat
12 effusive anyway about his desire to transfer all of his
13 purchases to Bell and--

14 A Oh, oh--

15 Q --things of that nature, and--

16 A I never heard him say anything like that and
17 I--

18 Q You never heard--

19 A And I never heard him in an effusive mode or
20 mood. He was always very correct and polite and asked
21 the right questions, you know, about the technical--the
22 performance of the helicopters, and was a pretty
23 accomplished helicopter pilot in his own right. I rode
24 with him, and he knew where all the knobs and buttons and
25 switches were and what they were for, and--

1 Q How would you characterize, and tell us,
2 General Khatami's role or participation in the sale of
3 the 489 helicopters to the Government of Iran by Bell, if
4 any?

5 A If any? Okay. It was a decision, as all
6 such decisions are taken by the Shah. Now, one more time,
7 this is where the aviation expertise in that country was
8 to be found, there and nowhere else.

9 Q In General Khatami?

10 A In his Air Force. He's the brother-in-law
11 of the Shah. And so the Shah very— I would think it
12 would be the most natural thing in the world when the
13 Shah decided to create an Army aviation unit in his
14 Army, that he would go to where he could find the best
15 and most trusted helicopter expertise and advice. And
16 to me it would be the most natural thing in the world.

17 Q And you knew, or were you aware at that time,
18 of this kind of a role for General Khatami?

19 A I knew that he was the Shah's brother-in-law,
20 and I knew that there wasn't any—

21 Q And that the Shah made the decisions?

22 A Pardon me?

23 Q And that the Shah made the decisions, as
24 you said before, I believe?

25 A Yeah, well, sure, I—of course I did, yeah.

1 Q And did you--

2 A I was--we were trying--we were trying to
3 generate helicopter programs in the Air Force, as well,
4 and in the Navy. We were--we were pretty busy.

5 Q And I would gather from what you've said that
6 that was an important factor, as I'm sure there were many
7 other important factors, but a factor was generally the
8 presence of General Khatami.

9 Now, is that a factor that you would have
10 discussed with Mr. Atkins, would he have been aware of
11 this in the discussions that you would have had with Mr.
12 Atkins who was your superior, in reporting to him?

13 A My reports to Atkins about my contacts with
14 General Khatami and his--

15 Q No, not your personal contacts with General
16 Khatami but about the situation in Iran--

17 A Sure, certainly.

18 Q --you know, people at the top making
19 decisions.

20 A Oh, decisions. Oh, yeah.

21 Q General Khatami being the--

22 A You bet, yeah.

23 Q --aviation guy, so to speak, and playing an
24 important role, you would have discussed this with Mr.
25 Atkins?

1 A Yes.

2 Q Would you think that in the normal course of
3 management affairs this would have been a factor that
4 Mr. Atkins would be discussing with G. William Miller?

5 A I really don't know. I couldn't judge that.
6 I wouldn't see much reason for it.

7 Q First of all, do you know whether or not
8 Mr. Atkins ever did discuss the Shah's relationship with
9 General Khatami with--

10 A No, I don't.

11 Q --with G. William Miller?

12 A No, sir.

13 Q Have you ever heard that he did?

14 A No.

15 Q Did he ever mention to you that he did?

16 A No, sir.

17 Q Did you ever think that he should have, if
18 he didn't?

19 A No.

20 Q Now, was it your understanding that the
21 \$2.9 million payment to Air Taxi was partly dependent upon
22 the full delivery of the 489 helicopters?

23 A (No response.)

24 Q Can I refresh your recollection?

25 A Sure.

1 Q I believe Amendment Number 3 provided that
2 there would be a payment of \$2.9 million and it would
3 be reduced by \$3,000--

4 A Yeah.

5 Q --for each helicopter under 489 that wasn't
6 sold.

7 So that under the terms of the Amendment
8 Number 3 which was the final figure arrived at with
9 Mr. Zanganeh--and I believe even Mr. Atkins yesterday
10 testified that under that agreement Mr. Zanganeh did have
11 some incentive to see the completion of the sale of the
12 489 helicopters. Would you agree with that?

13 A Well, obviously, it's in his interest to see
14 the 489 helicopters delivered. It says so in so many
15 words.

16 Q Now, just refresh my recollection for the
17 purpose of my asking the next question: What was the
18 date of that Amendment Number 3?

19 A June 29, 1973.

20 Q Now, to your knowledge, what services or
21 participation in any manner, way, shape or form, did Air
22 Taxi or Mr. Zanganeh have in the subsequent delivery,
23 insuring that the sale of helicopters went to 489 and
24 so on, what did Mr. Zanganeh do--

25 A After this date?

1 Q --after the date of that agreement?

2 A I don't know. I have no knowledge of any-
3 thing that he did that I can recall.

4 Q Who would know?

5 A I don't know. You know, what was there-- I
6 can't even think of anything that there was to be done.
7 The helicopters were the subject of a contract between
8 that government and ours. And it's certainly not the
9 Iranian's track record or style not to perform to a
10 contract with the U.S. Government. They're pretty
11 meticulous about that.

12 Q Did you ever believe in your mind that it was
13 necessary for Bell to have Air Taxi as an agent in order
14 to be able to do business with Iran, the Government of
15 Iran?

16 A Well, certainly initially their services
17 were, in my opinion, invaluable. You can't put a finite
18 number on the value of what they did for us. But you can
19 say that without them, we might never have gotten off
20 the--out of the starting gate. No, I can remember having
21 serious questions in my mind about the direction that we
22 were taking in the initial advancement of the program.
23 And I felt that we should at least be establishing a trap
24 line in the Iranian ground forces in the general staff.
25 But in fact that was--that would have been quite

1 unproductive, and we were so advised.

2 Q By Mr. Zanganeh?

3 A Sure.

4 Q So he advised you that it would be unproductive
5 to deal with—

6 A The Iranian ground forces in—

7 Q —the Iranian ground forces—

8 A And General—

9 Q —who were actually going to use the
10 equipment?

11 A A new aviation, Army aviation unit under the
12 command of a then Brigadier General.

13 Q What was his name, Moshatan?

14 A No. Khosrodad.

15 Q Khosrodad?

16 A Khosrodad. Now, that was a very important
17 element in the advancement of the transaction.

18 Q And his advice at that time was that you
19 should go through the route of General Toufanian or whom,
20 what was his advice to you?

21 A That the procurement would be made by
22 Toufanian and his office, and his staff. The decision
23 would come from the Shah to Toufanian, Toufanian would
24 implement it. And that's what happened.

25 See, we were new boys on the block, we were

1 in a whole—very strange environment. We moved into
2 Iran and we didn't know our way from the hotel to the
3 airport sort of thing. It was a whole new culture, a
4 whole new environment, a whole new set of players and
5 a very complicated set of players. And it took a while
6 to understand the inter-relationship. And it took a
7 while to establish a position in Iran, a position that
8 enabled us to get around by ourselves and make appoint-
9 ments and be received.

10 Q From what you have subsequently come to learn
11 about doing business with the military in Iran, is the
12 way that sale was handled for Bell Helicopter consistent
13 with the way sales of other commodities to the military
14 are handled? In other words, does General Toufanian
15 have responsibility for the purchase of all equipment?

16 A Yes, tanks—

17 Q All across the board?

18 A Tanks and guns and uniforms and the whole bit.

19 Q So this purchase is consistent with the way—

20 A Oh, yes.

21 Q —their military is organized?

22 A Oh, yes, sure.

23 Q Well, can I ask you, wouldn't that have been a
24 fairly easy thing for you to ascertain at the outset?

25 A No.

1 Q You know, that Toufanian runs the show?

2 A No. You know, it's difficult to explain.

3 But we could very easily have proceeded up the Army
4 chain of command and general staff and been well received
5 and listened to. And this is the Iranian temperament,
6 you know, it just is. And eventually we'd have probably
7 gotten into the right--on the right track. But I don't
8 know how long it would have taken us. We'd certainly have
9 wasted a lot of time and effort and perhaps to the
10 advantage of our competitors, I don't know.

11 Q I'd like to backtrack one moment.

12 Did you ever have any chats with any military
13 people about--did they ever bring to your attention in any
14 way, shape or form any rumor or fact or otherwise that
15 Khatami may have had an interest in Air Taxi?

16 A Iranian military?

17 Q Yes.

18 A No, sir.

19 Q No, American military, I'm sorry.

20 A No to both.

21 Q No to both?

22 A Uh huh.

23 Q I know it's customary practice when American
24 business men go overseas that they oftentimes stop at the
25 local Embassy and they talk to the commercial attache and

1 they get the lay of the land.

2 A We did.

3 Q You did?

4 A Sure. I said that earlier.

5 Q And you went into the Embassy in Iran, in
6 Teheran?

7 A Oh, yes.

8 Q And chatted with--which official did you talk
9 to?

10 A We talked to the Ambassador and one of the
11 secretaries, I can't remember his name right now. But
12 we had a pretty good relationship with them for the
13 first couple of years. And I don't mean by that that it
14 then deteriorated. But the necessity for those kinds of
15 contacts went away after the program was sold and
16 running.

17 Q Did any of those people in the State
18 Department ever mention to you that General Khatami had
19 an ownership interest in Air Taxi?

20 A No.

21 Q Did you ever ask any of those people who the
22 owners of Air Taxi were?

23 A No. No. That flows--

24 Q Did you ever discuss the ownership of Air
25 Taxi with any of those State Department people?

1 A No.

2 Q What did they tell you about Air Taxi?

3 A You know, I don't think we ever discussed our
4 relationship with Air Taxi in the Embassy. We were
5 much more concerned with getting their--getting
6 intelligence and advice from them on our prospective
7 customers.

8 MR. MARINACCIO: It's five minutes
9 after 1:00. Let's take a 45 minute break for lunch and
10 then we'll come back. Mr. Doherty has some questions.

11 THE WITNESS: Okay.

12 MR. GALERSTEIN: Okay, fine. I know
13 you're tired and you really don't want to continue and
14 finish him up?

15 MR. DOHERTY: It's not five minutes.
16 If it were there, fine, but--

17 MR. GALERSTEIN: Oh, okay.

18 (Whereupon, the luncheon recess was taken, to
19 reconvene at 1:45 p.m.)
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1 SATURDAY, FEBRUARY 4, 1978

2 AFTERNOON SESSION

3 (The proceedings were continued at 1:00
4 o'clock p.m. pursuant to the luncheon recess.)

5
6 MR. FRANK M. SYLVESTER,
7 the witness hereinbefore named, resumed the witness
8 stand and testified further as follows:

9 EXAMINATION

10 BY MR. DOHERTY

11 Q Mr. Sylvester, during the time period of
12 the negotiations for the contract that we are discussing
13 and the negotiations with respect to the payments we
14 are discussing, would it have been consistent with
15 Bell or Textron's policy to make a payment to a foreign
16 government official in connection with that contract?

17 A No.

18 Q Would it have been consistent with Bell's
19 policy—and when I say "Bell," I mean Textron, as
20 well—to have made a payment to a company that was owned,
21 controlled or in which a foreign government official
22 had interest?

23 A No, sir.

24 Q Under those circumstances, when you heard
25 some rumors with respect to a possible ownership

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1 interest of General Khatami and Air Taxi which was
2 Bell's agent, did you make any inquiry or did you cause
3 any inquiry to be made into whether there was any
4 substance to that rumor?

5 A No. And let me make it clear. I think
6 I said before that I don't really remember that happen-
7 ing.

8 Q When you say "that happening," what do you
9 mean, sir?

10 A I don't remember. I don't remember hearing
11 a rumor to the effect that Khatami had any involvement
12 in Air Taxi.

13 Q I'm sorry. I thought you had previously
14 testified that you thought you had. Just tell us for
15 the record now, what is your best recollection?

16 A I think I said or I intended to say that
17 it was entirely possible for such a rumor to have been
18 circulating and for me to have heard it, but, I can't
19 pin it down as such, as a thing that happened, and I--

20 I guess maybe I said it badly, but what I
21 was trying to get across was that in the Iranian
22 environment at that time, you could hear anything that
23 you wanted to. The place was just a firestorm of
24 rumor and hearsay, all the time. It was just a
25 bubbling situation.

16/3

1 Q Wouldn't it have made some good business
2 sense under those circumstances to have asked some
3 direct questions of people who would know as to whether
4 there were any ownership interests of that sort by
5 government officials?

6 A Perhaps it would in this environment, but in
7 that one, I think it would have been an exercise in
8 futility.

9 Q In any event, you made no inquiry of Air Taxi
10 people and you didn't direct anyone to make an inquiry
11 of Air Taxi people with respect to that matter?

12 A No, I didn't.

13 Q Let me show you what's previously been
14 marked as Exhibit 57. It is the resolution of the Board
15 of Directors of Air Taxi authorizing Mr. Zanganeh to
16 enter into the agreement for the payment of 2.9 million
17 dollars.

18 On page 2 of that document there is a reference
19 to the ownership interests in Air Taxi as being a hundred
20 per cent owned by Mr. Zanganeh, Chafik and Eshoo.

21 This document is dated—

22 MR. SOUTTER: It reflects a meeting
23 held on January 6, '73, and it was legalized, if I may,
24 before the Consulate officials in Iran, apparently on
25 the 21st of May, 1973.

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1 BY MR. DOHERTY

2 Q Now, sir, do you have any knowledge with
3 respect to the circumstances under which the paragraph
4 on page 2 concerning the ownership interest of Air Taxi
5 came to be included in that document, Exhibit 57?

6 A No, I haven't. No, none at all.

7 Q Had you heard any other rumors or did you
8 have any other information with respect to any possible
9 ownership or interest of any kind of any other government
10 officials in Air Taxi?

11 A No, I didn't.

12 Q Who were your competitors in Iran at the
13 period we're discussing for this potential contract?

14 A Well, Agusta of Italy; Sikorsky of United
15 Technologies; certainly, Westland, British. Westland
16 Helicopters. W-e-s-t-l-a-n-d Helicopters. They are
17 a British manufacturer.

18 Q Did all of your competitors have agents in the
19 country to the best of your knowledge?

20 A Yes.

21 Q Were you concerned at all as to whether any
22 of your competitors might consider making a payoff in
23 order to secure a contract to a government official?

24 A No. Never had cause to be concerned.

25 Q This was not discussed by you or among Bell

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1 people as an element of the competition that might
2 work to the disadvantage of Bell in securing this
3 contract?

4 A No, huh uh.

5 Q You indicated that, if I could paraphrase
6 your testimony—you can tell me whether it's the
7 correct conclusion from it—that you had used your
8 agent principally as an entree to the country, and
9 thereafter, basically, for support, logistical support,
10 because the Bell people essentially took over the
11 negotiations; is that correct?

12 A That's correct.

13 Q Do you know whether your competitors utilized
14 their agents in a different way? Did their agents take
15 the lead to negotiate for the sales?

16 A I dont— I have no knowledge of that, but
17 I would think so.

18 Q Did Bell, during the period of time we are
19 discussing from 1970 to date, have any other companies
20 in Iran or have any other contractual arrangements in
21 Iran that are on-going at this point?

22 A Agency relationships or—

23 Q Any kind of contractual relationships?

24 A No, no. The answer is, no, we didn't.

25 Q Could you tell us, sir, what the present

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1 policy is of Bell and Textron with respect to foreign
2 sales insofar as the methods that are appropriate to
3 use and the controls, the internal controls in order to
4 assure compliance with the policy, if any?

5 MR. SOUTTER: Mr. Doherty, on that
6 question, you said "Bell and Textron." Now, I'm not
7 presuming for Mr. Sylvester, but my guess is he doesn't
8 have any firsthand knowledge of how the other twenty-odd
9 divisions of Textron sell.

10 MR. DOHERTY: That's fine. Just
11 speak from Bell's experience, he can tell us about
12 what he knows.

13 THE WITNESS: Well---

14 BY MR. DOHERTY

15 Q I am asking you now about the present policy
16 and the present controls, if any?

17 (Short pause.)

18 Q Do you understand my question?

19 A I think I understand. And let me see if I can--
20 if I can address that properly.

21 Neither--no one in my organization, including
22 me, has authority to establish an agent's compensation
23 for a sale except-- Well, an agent's compensation for
24 a sale.

25 Now, we have agents--we have standard agency

16/7

1 agreements that spell out the compensation that a
2 representative gets on specific helicopters up to
3 a, currently, a quantity of ten. And that's clearly
4 stated.

5 Anything over that is a negotiated thing
6 and we-- My responsibility is to recommend with a
7 reason-substantiated recommendation, and the decision
8 is made elsewhere.

9 Q Who makes it?

10 A Well, Mr. Farmer until the time of his
11 departure, and I think the responsibility now rests
12 with Mr. Treff, T-r-e-f-f. But Farmer's departure is
13 so recent that there have been, I think, no such de-
14 cisions, since he retired, which is just a week or so
15 ago.

16 Q Could you identify for the record who Mr.
17 Farmer is and who Mr. Treff is?

18 A Yeah. Mr. Farmer was Vice President of
19 Finance. And Mr. Treff is Treasurer.

20 Q Now, you would make then a direct recommenda-
21 tion to Mr. Farmer or--

22 A Yeah.

23 Q --now Mr. Treff?

24 A Yeah.

25 Q In terms of, again, this issue of compensation,

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1 does Mr. Atkins have any input to this decision?

2 A Yes, as a general rule, yes.

3 Q And how does he become involved? Is it

4 Mr. Farmer who would then go to Mr. Atkins?

5 A Yeah, sometimes both of us together, but--

6 Q On some occasions, did Mr. Farmer simply make

7 the decision himself?

8 A Well, I really don't-- I can't answer that,

9 because I don't know that he didn't, you know.

10 Q Then you don't know?

11 A No, I don't.

12 Q With respect to entering into the standard

13 form contractual arrangement, what are the procedures

14 there, if any?

15 MR. SOUTTER: Are we talking current

16 procedures or--

17 MR. DOHERTY: Current procedures, yes,

18 sir. I'm discussing current procedures.

19 THE WITNESS: The appointment of a new

20 representative?

21 BY MR. DOHERTY

22 Q That's correct.

23 A Okay, we-- We located a-- We locate a firm or

24 an organization that we think can represent us in a

25 given country. And I might add that this happens very

16/9

1 seldom. Most of our representation has been with
2 us and stays with us for a long time.

3 But, in the case of a new appointment, we—
4 Well, we find out as much about them as we can. We ask
5 for financial statements. We get a trade report on
6 them, if we can, from Commerce. We go and look at them
7 and visit with them and become acquainted with them.

8 And, again, the approval to go ahead is an
9 Atkins' approval.

10 Q Do you ask who owns them?

11 A No, I don't think we do as a routine and
12 specific thing.

13 Q And who is in charge of seeing that this
14 inquiry that you have described is made in connection
15 with checking into a potential new agent?

16 A Well, the selection process starts as a rule
17 with the man, the regional sales manager who has
18 responsibility for that area. And most of those people
19 have very detailed and intimate familiarity with business
20 firms and business conditions, and doing business in
21 a country, so they—they go through a selection process
22 and come up with recommendations and they are passed on
23 up the line.

24 Q And how does it come back up the line? Does
25 it come to you?

16/10

1

A Oh, sure, yes.

2

Q And you look at it and then you recommend it

3

to someone else?

4

A Uh huh.

5

Q Tell me about that procedure, what do you do?

6

A Well, I would-- I work-- I report now to a senior vice president, Marketing, who has all three of the marketing groups.

9

Q Who is that, sir?

10

A L. M. Horner. H-o-r-n-e-r.

11

Q And who does he report to?

12

A Atkins.

13

Q And who makes the decision on the contract?

14

A Final decision is an Atkins' decision, or approval.

16.

Q What other procedures, if any, are currently utilized by Bell or Textron that you know?

18

A Procedures to--

19

Q With respect to hiring sales agents or with respect to policies that are presently utilized by Textron or Bell with respect to how they do their foreign business, what guidelines?

23

A (Short pause.)

24

Q If there are any others that you know or

25

that you can think of?

16/11

1 A Well, I—

2 Q Let me ask you a couple of specific questions

3 To this point: Are any of the procedures

4 that you've described to us in writing?

5 A I don't think so.

6 MR. SOUTTER: Could I refresh the

7 witness's memory with a—

8 MR. DOHERTY: Certainly.

9 MR. SOUTTER: One piece that I believe

10 is in writing and that would be Exhibit No. 5.

11 THE WITNESS: Oh, yes, okay.

12 BY MR. DOHERTY

13 Q Now, you've been shown Exhibit No. 5 which

14 is an August 16, 1976 Textron statement with respect to

15 "Standards of Conduct Policy as to Representatives,

16 Agents, Consultants, Dealers or Distributors."

17 Have you seen that document before, sir?

18 A Yes, I have.

19 Q And when did you first see that document?

20 A Well, on or about August the 20th.

21 Q Of 1976?

22 A Yes.

23 Q Have you distributed that document to anyone?

24 A Well, everyone that reports to me has read

25 this and is familiar with it.

16/12

1 Q And would that include all of the people in
2 your—the chain of command below you?

3 A Yes, and to include all of our foreign
4 representation. In fact, we incorporated this, I think,
5 almost verbatim into the representative agreements. We
6 made it a matter of a temporary or a change order for
7 si x months, pending the issuance of a new set of
8 agreements for each representative. So we, yes. This
9 has been widely disseminated..

10 MR. GALERSTEIN: If you wish, I could
11 give you some information on that because I was involved.

12 MR. DOHERTY: Sure.

13 MR. GALERSTEIN: When the letter or
14 directive came down from Mr. Miller, I had it distributed
15 throughout the company and proceeded to revise the
16 representative agreement, as Mr. Sylvester has alluded
17 to. And I, at this moment, forget the precise form in
18 which we handled it on a so-called temporary basis while
19 the forms were being printed up. But it was something
20 in the nature of a directive letter to all foreign
21 representatives..

22 THE WITNESS: It was an amendment, George.

23 MR. GALERSTEIN: It was an amendment?

24 THE WITNESS: Uh huh.

25 MR. GALERSTEIN: It was an amendment to

16/13

1 the existing non-including agreements.

2 MR. DOHERTY: So that even the existing
3 agency contracts were amended substantially in accordance
4 with the policy articulated in Exhibit 5?

5 MR. GALERSTEIN: It was, actually, as
6 I recall it, it was a verbatim--

7 THE WITNESS: Yeah.

8 MR. GALERSTEIN: --copy of that. And
9 now I do recall that it was an amendment, and I recall
10 Mr. Atkins pursuing it to some extent as to whether he
11 had received those signed copies.

12 BY MR. DOHERTY

13 Q Do you know, sir, whether any steps in
14 addition to those that have been described have been
15 taken in order to assure that this policy has been
16 implemented and continues to be complied with?

17 A No, I don't know of any steps. I mean, you
18 know, we have made our position very clear. Our repre-
19 sentation accepted that position as a matter of agree-
20 ment contract between us. And I hadn't done any--anything
21 to-- I haven't had any cause to go out and police the
22 thing.

23 Q Do you know whether any of the issues of
24 letting a contract or compensation go to the Textron
25 Board of Directors?

6/14

1 A Say again?

2 Q Do you know whether there is a procedure
3 at Textron at this time that the Board of Directors
4 will pass on any of the contracts that you've just
5 described?

6 A No.

7 Q There is not or you don't know?

8 MR. SOUTTER: There is no procedure or
9 you don't know if there is a procedure?

10 THE WITNESS: I'm not aware of a pro-
11 cedure.

12 BY MR. DOHERTY

13 Q Does Bell have an Audit Committee?

14 A I don't know. Certainly there are ad hoc
15 audit teams made up from time to time, but—

16 Q Do you know whether any field audits are
17 periodically undertaken by the Internal Accounting
18 Staff which in any way are concerned with compliance
19 with this current Textron policy that we are discussing?

20 A No.

21 Q Do you know that there are no field audits?

22 A No, I don't know— I am not aware of any.

23 Q Are any questionnaires or periodic repre-
24 sentations sought from persons responsible in the foreign
25 sales area to the effect that they are complying with

16/15

1 the current policy that we are discussing?

2 A I don't want to answer you with another
3 question, but are you asking me—

4 Q Let me rephrase it. In other words—

5 A Are we asking our representation are they
6 complying with this? Is that what your question is?

7 Q Yes.

8 A I haven't.

9 Q My question is basically that the policy
10 is only as good as it is implemented, and as it is
11 enforced. And the question is whether, No. 1, it has
12 been conveyed, which it appears that it has from the
13 information provided.

14 The second part of the inquiry is whether
15 there is a continuing effort to determine whether it
16 continues to be complied with, or whether people within
17 the organization know of any breach in compliance with
18 the policy?

19 As I understand your testimony, you are not
20 aware of whether there is such a continued effort to
21 determine whether there is compliance?

22 A Well—

23 MR. SOUTTER: May I refer to a pre-hear-
24 ing submission made by Textron to the Staff of the
25 Senate Banking Subcommittee, generally entitled, "Response

16/16

1 to Questions Posed by the Staff of the Senate Committee
2 With Respect to Textron's 'Standards of Conduct.'"

3 One of the enclosures which is supposed to
4 be representative of some of the standards that we have
5 set in the company is a memorandum from Mr. Miller dated
6 December 27, 1976 to Division Presidents, Corporate
7 Officers and Department Heads, in which he suggested
8 that we do police ourselves and have somewhat of a self-
9 audit. And distribution of a questionnaire was to be
10 made to the principal officers of the company and of the
11 divisions, both here and abroad.

12 And that statement, the form of that state-
13 ment is attached to the memorandum. And I will ask
14 Mr. Sylvester if he's ever seen one like that, and if
15 that's the kind of thing that you are talking of,
16 Mr. Doherty?

17 MR. DOHERTY: Yes, it is. That's helpful.
18 I think we ought to mark that in just a moment.

19 But, have you seen that questionnaire, sir?

20 A Oh, yes.

21 Q And have you been asked to answer such a
22 questionnaire?

23 A Well, I have— I have signed this statement
24 in each of at least two successive years.

25 MR. SOUTTER: Go ahead and put it in, if

16/17

1 you want to.

2 (Short pause.)

3 MR. DOHERTY: I think we ought to mark
4 this entire document as Exhibit No. 77.

5 MR. FREED: Which one is that?

6 MR. DOHERTY: It's under cover of a
7 January 17, 1978 document entitled "Response to
8 Questions By the Staff of the Senate Committee on
9 Banking, Housing and Urban Affairs with Respect to
10 Textron's Standards of Conduct."

11 And it indicates that there are approximately
12 six attachments that deal with this subject.

13 (The document referred to was
14 marked "Exhibit No. 77" for
identification.)

15 Q And it's your testimony, Mr. Sylvester, that
16 you have seen and have executed certain of the forms
17 that are contained in Exhibit No. 77?

18 A Yes, it is.

19 Q With respect to compliance with the company's
20 policy dealing with its foreign sales; is that correct?

21 A That is correct.

22 Q Are there any other current policies or
23 procedures, sir, with respect to this subject area that
24 are in existence, are being implemented, that have not
25 yet been covered?

16/18

1 A I can't think of any.

2 Q Are any of the policies and procedures which
3 have been described as being current policies and pro-
4 cedures different from those which were in existence
5 in 1970, '71, '72, '73?

6 A No.

7 Q Well, just for clarity's sake, I gather the
8 current policy is to obtain a statement from your agent
9 in the agency contract that the agency will not engage in
10 illegal or improper conduct through payments to a foreign
11 official?

12 A The language is embodied in the contract and
13 he signs it.

14 Q Was that policy in existence several years
15 ago?

16 A Sure.

17 MR. GALERSTEIN: May I interject?

18 MR. DOHERTY: Certainly, if you can
19 clarify the question, I'd be glad to have you.

20 MR. GALERSTEIN: I think I can clarify.

21 That statement was not within the agreement
22 until Mr. Miller's letter, and I forget the precise
23 date.

24 If I may take the liberty to interpret—

25 MR. DOHERTY: Go ahead.

16/19

1 MR. GALERSTEIN: ---what I believe Mr.
2 Sylvester is saying is that we followed those policies
3 as best we could. But we did not on a formal basis
4 include the statement within the contract and we did
5 not have this form to sign prior to the last two or three
6 years, I forget which.

7 BY MR. DOHERTY

8 Q Well, let me ask the direct question: Was
9 it the policy and practice of Bell or Textron in 1971
10 through 1974 to ask its manufacturer's representatives
11 to agree that they would not engage in any illegal or
12 improper conduct in connection with securing a contract?

13 A No.

14 Q So that is a difference then between now
15 and several years ago?

16 A Yeah, I guess so.

17 Q Are there any other differences that you can
18 recall or that you know between the practices and
19 policies now as opposed to what they were several years
20 ago?

21 MR. SOUTTER: Speaking for Textron,
22 it would have been expected, as a matter of policy that
23 they not deal in improper or questionable practices and
24 this probably goes back to what Mr. Galerstein has just
25 said. We now ask for it to be confirmed in writing.

16/20

1 The clear expectation is a matter of unwritten policy
2 would have been there.

3 MR. GALERSTEIN: I was having a little
4 trouble, if I may, with the words "policy and proce-
5 dures." And insofar as we at Bell are concerned, this
6 has always been the policy. It has not always been the
7 procedure to incorporate within the agreements the
8 substance of the Miller letter.

9 MR. DOHERTY: Well, I'm not suggesting
10 that Bell had a policy that its agents should make
11 improper payments, but I am asking the direct question
12 whether there was any procedure to ask them not to make
13 such kinds of payments?

14 MR. GALERSTEIN: I understand.

15 MR. DOHERTY: The answer is, no, there
16 was no procedure to ask them not to.

17 Q Is that correct?

18 A Correct.

19 Q You testified earlier, sir, with respect
20 to a policy conveyed to you by General Toufanian in
21 which he conveyed the message that you didn't need an
22 agent anymore in order to secure the contract you were
23 after.

24 And you testified that that message was
25 conveyed to you in late 1971 or early 1972.

16/21

1 Can you tell us how you placed that date
2 on that meeting?

3 (Short pause.)

4 Q If you are having difficulty with that, can
5 I ask you a few questions about the substance? Was
6 this at a meeting with General Toufanian in which you
7 received this information?

8 A Yes.

9 Q And did he say to you that you should not
10 have an agent or simply that if you did, he didn't
11 intend to pay for the agent?

12 A It was the latter.

13 Q So from the meeting, you didn't come away
14 with the understanding that you should not have an
15 agent, but I gather it was your understanding that he
16 was conveying a message that if you did have an agent,
17 "you," being Bell, were going to foot the bill for the
18 agent; is that correct?

19 A Yes, yes. And he made the point that we
20 didn't need an agent, that there would not be an agency
21 relationship in any of the dealings with his organiza-
22 tion.

23 Q In other words, it would be direct dealing.
24 The agent wouldn't be the middleman?

25 A That's correct.

16/22

1 Q Did this meeting take place—if you can't
2 recall the specific date, perhaps you can recall it
3 in relationship to certain events. Did the meeting
4 take place prior to the issuance of the letter of intent
5 in April of 1972?

6 (Short pause.)

7 A I am pretty sure that we were talking—there
8 came a point in time when— I think I said this before:
9 Toufanian almost got an obsession about agents. And I
10 think he talked to everyone who would listen to him or
11 who had a problem. Everyone who was trying to sell to
12 his organization who had an agent was getting the same
13 words to the same music. And at almost every occasion
14 that we would talk with him, he would— He just seemed
15 to take great pride and joy in having eliminated agents
16 and agent's compensation from his procurement function.

17 So, I really can't light on a specific time
18 when this happened, but—

19 Q Well, Mr. Atkins first came to Iran, I believe,
20 in August of 1972 in connection with the demonstration?

21 A No.

22 MR. SOUTTER: I believe he said yester-
23 day that he first came in November of '71.

24 MR. GALERSTEIN: I believe so.

25 MR. DOHERTY: All right.

16/23

1 MR. SOUTTER: And that he came at the
2 end of the demonstration also, in August of '72?

3 MR. DOHERTY: I stand corrected on that.

4 Q Mr. Atkins did come to Iran in August of 1972
5 in connection with the demonstration of your product
6 shortly after which, as I understand it, the Shah
7 indicated in a direct way that— "Yes, this was the
8 product" that he wanted.

9 Was it prior to that time that you under-
10 stood that anything, any compensation that Bell made to
11 its agent would be footed by Bell and would not be
12 included into the price of the contract?

13 A Now—

14 (Short pause.)

15 Toufanian didn't—didn't say that he would
16 disallow an agent's compensation until pretty late in
17 the game. I said, before today, he would say to us,
18 "Your agent has served you well. He's represented you
19 for many years. He's worked hard and you've done
20 everything properly and correctly, having been guided
21 and advised by him. But we've now reached a point where
22 you don't need him anymore. So you need to do whatever
23 is necessary to compensate him for what he's done and
24 then take him out of my business. Continued performance
25 in the civil sector is up to you, whatever you want to

16/24

1 do."

2 So then we did that two-step amendment
3 exercise and then after that—it was after that—it was
4 after that when it became abundantly clear that we
5 were going to take a big contract; that it was going
6 to be a government-to-government transaction.

7 It was that late in the game when he said,
8 "And also at no cost to me." There will be, you know,
9 "I will not have as a cost to the contract an agent's
10 commission."

11 And he later, just to tie it up, he later
12 caused it to be incorporated as a change to our
13 international traffic and arms regulations, which put
14 a paragraph in there that specifically excluded Iran
15 from commissions on government-to-government sales.

16 Q Well, what message did you think that
17 General Toufanian was conveying to you in the initial
18 meetings when he discussed this matter when as you've
19 described he said, "You don't need that agent any more?"

20 A What message?

21 Q Yes.

22 A That was it.

23 Q Didn't you feel that he was saying to you
24 that if you kept the agent after that time that he
25 wasn't going to be paying for what that agent was

16/25 1 costing you?

2 A Oh, yeah. That was implicit, I would say,
3 sure.

4 Q So that is it your understanding at the time
5 this initial message was conveyed that General Tou-
6 fanian was basically saying that if you had an agent
7 I may allow you to charge against my government,
8 compensation he's earned, the fair compensation he's
9 earned up to this date; that I'm giving you the message,
10 but you might as well get rid of him now, because
11 anything he earns after this time is going to be your
12 cost, not the Government of Iran's.

13 Would that—

14 A You could interpret what he said.

15 Q —be a fair interpretation of what he said?

16 A You could take that interpretation.

17 Q Would that be your understanding? Is that
18 your interpretation?

19 A Well, sure.

20 Q Did you have some involvement, sir, in the
21 negotiation of Amendments No. 1, 2 and 3 to the contract?

22 A Yeah, involvement. I knew what was going
23 on. I didn't write the language, but certainly we
24 talked about it.

25 Q Was the initial message that we've just been

16/26

1 discussing from General Toufanian, would you say that
2 that was conveyed to you some period of months prior to
3 the demonstration of the aircraft in August of 1972?

4 A Well, we were— We had talked to Toufanian
5 on that subject before the demonstrations.

6 Q Would you say in terms of an estimate, was it
7 a period of several months prior to the demonstrations,
8 a week before, the year before?

9 A I couldn't put a time to it. It was about
10 that time.

11 Q Had you met with General Toufanian a number
12 of times prior to that August '73 demonstration?

13 A Oh, yes. I met with him any number of times
14 from 1971 onwards.

15 Q Would you have any record of when this
16 particular discussion that you've described took place?

17 A I don't think so.

18 Q Anyone else attend that particular meeting
19 with you?

20 A I don't remember.

21 I usually took—well, I say "I usually." I
22 would, depending on the discussions that I expected to
23 have, I would take someone with me, whoever I happened
24 to have in town for the purpose. And I met sometimes
25 with him by myself.

16/27

1 Q Now, I think it's been established that the
2 Amendment No. 1 was not actually executed until some
3 time around August 16th of 1972.

4 Is it possible that that Amendment No. 1
5 was made effective as of April 1 in order to put it in a
6 time period prior to the issuance of General Toufanian's
7 message that you no longer needed an agent?

8 (Short pause.)

9 A I don't think so.

10 Q Do you recall that as being a consideration
11 or--

12 A No, I don't.

13 Q --having had any discussions with respect
14 to that point?

15 A No, I don't.

16 Q Could you tell us, sir, how the Amendment
17 No. 1 compensation of two and a half per cent was
18 reached; what the considerations were, if you know?

19 A Well, I think Amendment No. 1 recites a
20 quantity of aircraft contemplated. And I guess it seemed
21 to be a reasonable level of compensation for that kind of
22 quantity of aircraft set against what we might have
23 paid on a--under the--on the modified agreement that we
24 had. You know, it was a giant step down from what you
25 might have viewed as a contractual exposure.

16/28

1 Q The original contract provided simply that
2 on at least a government-to-government sale, the com-
3 pensation would be negotiable; is that right?

4 A Uh huh.

5 Q And then in approximately August of 1972,
6 Amendment No. 1 was executed which provided for a
7 two and a half per cent commission; is that correct?

8 A (The witness nodded his head.)

9 Q You'll have to answer so—

10 A Yes.

11 Q —the record won't reflect a nod of your
12 head.

13 A Yes.

14 Q I believe it was established through Mr.
15 Atkins' testimony yesterday—and if you have a different
16 view, you can express it—that around the time that
17 Amendment was entered into in August of 1972, it looked
18 as though the program was somewhere in the vicinity of
19 300 to 500 helicopters.

20 Is that your basic understanding?

21 A Yeah. (The witness nodded his head.)

22 Q And that would translate into a commission
23 of somewhere between six or seven million on the low
24 side to approximately ten million on the high side.

25 Is it your testimony that you viewed that

16/29

1 as a fair and equitable compensation for the services
2 rendered by Air Taxi and it's contract?

3 A Yeah, yes. If you take an aircraft and
4 equip it fairly modestly or put an average suit of
5 avionics, electronics and accessories on it, and
6 apply the commissions that are spelled out in the
7 standard agreement, you usually get to something like
8 12 per cent, 10 per cent. The basic aircraft will
9 carry four to five to six per cent by agreement.
10 Accessories and spare parts are a 20 per cent thing.
11 So the applied, the installed accessories are computed
12 in that manner.

13 That brings the overall compensation up to
14 the 10 per cent level.

15 Where I am heading here is that that agent
16 would start negotiating from that. You might start
17 down here, (indicating) but he's going to start with
18 what he thinks he would get on a—if he had made a—if
19 he had sold them one by one or two by two or five by
20 five, if you follow me.

21 Q But isn't it your testimony that essentially
22 Bell sold its contract, not the agent, that the
23 agent had really only provided entree and thereafter
24 some support services?

25 A Well, now, I— Mr. Doherty, I couldn't put

16/30

1 a value on his services. All I know is that we made
2 the sale. I can't tell you that we wouldn't have made
3 it without him. I can't tell you that we did make it
4 because of him.

5 But, in our view—in my view—and I was the
6 one that kicked this thing off— We would have been
7 at a very serious disadvantage without him.

8 Now, one more time, how do you put a finite
9 value on something like that? It was worth that to us
10 to make the sale. Certainly, that was a pretty modest
11 thing.

12 Q At the time Amendment No. 1 was entered into,
13 was it your view that that commission could be folded
14 into the cost of the contract?

15 A Well, let me say that it was my view that it
16 would have been folded, as your words, into the cost
17 of the contract had the contract gone direct.

18 Q Between Bell?

19 A Between—yeah.

20 Q And the Government of Iran?

21 A And the Government of Iran.

22 Q Even in light of what General Toufanian had
23 said?

24 A In light of what General Toufanian was then
25 saying. Now, he hadn't yet come out with his no element

16/31

1 of cost position.

2 Now, to answer your question in another way:
3 Would that commission have been "folded into the contract"
4 by government-to-government sale, I don't know, because
5 under those circumstances, we would, we would negotiate
6 with the U. S. Government as to compensation for an
7 agent, and they would make an assessment. "They," the
8 Army Aviation Systems Command.

9 Q So, on an FMS sale, you would have to justify
10 the commission to the U. S. Government; is that correct?

11 A That's correct.

12 Q What factors intervened between Amendment
13 No. 1 and Amendment No. 2 that you know which con-
14 tributed to the reduction in the provided-for fee from
15 two and a half per cent to one per cent?

16 A I think we were still bothered by probably
17 what you are driving at, you know. It's an order of
18 magnitude thing. And Amendment No. 2 represented, I
19 believe, a more finite— We had a better view of the
20 program. It had been pretty well sized and scoped by
21 that time. And I think we were having a pretty difficult
22 time accepting in our own minds a, as you put it, and
23 I haven't run the numbers, a six to ten million dollar
24 commission.

25 Q Between Amendment 1 in August and Amendment

16/32

1 2 which I believe was in October, were there any other
2 intervening factors? Did General Toufanian come out
3 with a firm policy with respect to whether the Government
4 would sustain the cost of a commission like that or
5 had there been a determination to go non-direct,
6 government-to government? Any other factors that you
7 can think of that intervened?

8 A Well, by October, I guess we knew it was
9 going to be a government-to-government transaction, or
10 it certainly looked that way. I am a little hazy on
11 it, but I think the letter of offer was presented and
12 accepted, negotiated in late November. I—

13 MR. SOUTTER: That's the general time
14 frame that has been testified to before.

15 THE WITNESS: Yeah.

16 BY MR. DOHERTY

17 Q Well, I am not asking for your speculation.

18 A Yeah.

19 Q I am just asking if you know, that's all.
20 Do you know of any intervening factors that in your
21 mind may have contributed to the reduction in the fee
22 from two and a half per cent to one per cent?

23 A No, I can't— I really can't think of any.

24 Q Do you know what Air Taxi's view was with
25 respect to accepting a one per cent fee as opposed to

16/33

1 to the two and a half per cent fee?

2 A Well, I— I guess their reaction was one
3 of disappointment, but it wasn't very articulately
4 expressed.

5 Q You were not negotiating directly; is that
6 correct?

7 A That 's correct.

8 Q Who set the one per cent fee?

9 A I don't know.

10 Q Who was negotiating directly?

11 A Well, it must have been— Rudning signed it,
12 so it must have been Rudning and— Rudning and Atkins.

13 Q Who was Rudning reporting to?

14 A Atkins.

15 Q In these negotiations, Atkins?

16 A (The witness nods his head up and down.)

17 Q Do you know what factors contributed to the
18 production of the one per cent fee, the final 2.9
19 million dollar fee?

20 A No, I don't.

21 Q Mr. Sylvester, do you have any other
22 information that we have not elicited that you feel in
23 any way shed any light on this matter?

24 A Nothing comes to mind, Mr. Doherty.

25 MR. MARINACCIO: Thank you very kindly

16/34

1 for appearing here today.

2 MR. SOUTTER: Mr. Marinaccio, may I
3 ask one question of the witness--

4 MR. MARINACCIO: Sure, you may.

5 MR. SOUTTER: --because of the thrust
6 of some of the earlier questioning today.

7 Have you any reason to believe that the
8 decision of the Government of Iran to acquire Bell
9 Helicopters was made on any basis other than the merit
10 of Bell products?

11 THE WITNESS: Oh, absolutely not, huh
12 uh.

13 MR. SOUTTER: Thank you.

14 MR. MARINACCIO: Thank you very kindly.

15
16 MR. JOHN E. GALLAGHER, JR.,
17 the witness hereinbefore named, being first duly sworn
18 to testify the truth, the whole truth and nothing but
19 the truth, testified upon his oath as follows:

20 EXAMINATION

21 BY MR. MARINACCIO

22 Q Mr. Gallagher, this is the continuation of
23 the proceeding ordered by the Senate Banking Committee
24 concerning the confirmation hearing of G. William
25 Miller to be a member of the Board of Governors of the

16/35

1 Federal Reserve System.

2 The Senate Banking Committee ordered a Staff
3 investigation into the facts relating to the payment of
4 2.9 million dollars to Air Taxi in connection with the
5 sale of approximately 489 helicopters to the Government
6 of Iran during the period 1973, 1974 and 1975.

7 We, here, have been authorized by the
8 Committee to conduct the inquiry and to place witnesses
9 under oath.

10 My name is Marinaccio. I am a lawyer for
11 the Committee.

12 This is Mr. Freed. He's a professional
13 staff member of the Committee.

14 This is John Collins. He's counsel to the
15 Minority Committee.

16 This is Mr. Doherty. He's on detail to
17 the Committee from the Securities and Exchange Commis-
18 sion.

19 We appreciate your voluntary appearance here
20 today.

21 Nevertheless, I must tell you that I will
22 be putting you under oath and that any testimony that
23 you give will be subject to all of the laws relating
24 to perjury of witness applicable to United States
25 Senate proceedings and any laws relating to false

16/36

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statements thereto.

I must also advise you that any of your testimony may be used in an enforcement proceeding by the U. S. Government, may possibly be used.

And, therefore, you are entitled to be represented by counsel. And you are, in fact, represented by counsel, Mr. Soutter and Mr. Galerstein.

At this point, I would like you to rise now and I'll administer the oath.

Raise your right hand. Do you promise to tell the truth, the whole truth and nothing but the truth, so help you God?

THE WITNESS: I do.

MR. MARINACCIO: Thank you very much.

Be seated.

Q Would you state your full name for the record?

A John Edgar Gallagher, Jr.

Q How long have you been employed by Bell Helicopter?

A Eight and half years.

Q Going back to approximately when, 1967?

A 1969.

Q 1969. And what capacities have you been employed in from 1969 until now?

16/37

1 A As an international sales representative and
2 assistant area manager in the International Marketing
3 Department, area manager, program manager for the Iran
4 project, and now director of operations for Bell Helicopter International.

6 Q And in those positions have you basically
7 reported to Mr. Sylvester?

8 A I reported to Mr. Sylvester until February of
9 1973.

10 Q And then who did you begin reporting to?

11 A Mr. John Finn, and now General Robert Williams.

12 Q And during those periods of time, did you
13 have responsibility for projects in Iran? Were you
14 particularly focused on the Iranian situation?

15 A Primarily speaking, yes.

16 MR. MARINACCIO: I am going to ask Mr.
17 Collins to conduct this inquiry for the record.
18 Mr. Collins?

19

20 EXAMINATION

21 BY MR. COLLINS

22 Q Thank you, Mr. Marinacchio.

23 Mr. Gallagher, could you explain for the
24 record what Bell Helicopter International is?

25 A Well, Bell Helicopter International was

16/38

1 developed to provide the training of pilots and
2 mechanics and the establishment of a logistics system
3 in support of the hardware sale of 489 helicopters to
4 the Government of Iran.

5 Q That was established after the sale?
6 A Yes, sir.
7 Q So that would be after 1973?
8 A 1973, February.
9 Q February?
10 A Uh huh.
11 Q Prior to that, you worked for Bell Helicopter?
12 A (The witness nodded his head up and down.)
13 Q And as program manager for them; is that
14 correct?
15 A That's correct.

16 MR. MARINACCIO: Excuse me, please,
17 Mr. Gallagher.

18 THE WITNESS: Yes?
19 MR. MARINACCIO: The record won't re-
20 flect a nod of your head, so answer "Yes" or "No."
21 THE WITNESS: Okay, I understand.

22 BY MR. COLLINS
23 Q When did you begin your activities with
24 respect to selling Bell Helicopter products in Iran?
25 What year was that?

16/39 1 A 1969.

2 Q And you were dealing with whom? Air Taxi,
3 the agent of Bell Helicopter?

4 A I was dealing with Air Taxi, yes.

5 Q And what type of sales were you making or
6 trying to make?

7 A Generally various helicopter sales in
8 response to the requirements that we may have received
9 from our Air Taxi representative.

10 Q What types of products would it be? Would
11 they be helicopters?

12 A They would range the whole helicopter line.

13 Q Which would be?

14 A The 206, 205, 212.

15 Q Helicopters?

16 A Helicopters.

17 Q Spare parts?

18 A Spare parts as associated with the sale of
19 the aircraft, yes.

20 Q And in those activities, to whom would you
21 report?

22 A I would report to Mr. Sylvester.

23 Q And did you spend a lot of time in Iran prior
24 to 1971?

25 A Well, a lot of time I spent— I've taken many

16/40

1 trips—I'd say maybe five a year, something like that.

2 Q Since when?

3 A Prior to '71.

4 Q And how would you communicate with Mr.
5 Sylvester when you would take a trip to Iran?

6 A Via telex communications.

7 Q Telex. And when making contacts there with
8 Air Taxi or others, would you write down any notes or
9 anything else for future reference when you came back
10 to Bell Helicopter in Fort Worth?

11 A It was standard practice to write a trip
12 report when you came back from a trip, and that goes
13 as a matter of record into the central files.

14 Q For each trip?

15 A Generally most trips, unless it was very
16 short and then it was just a verbal report.

17 Q Well, when you went to Iran since 1969, have
18 you recalled making reports generally for each trip?

19 A Yes, sir.

20 Q In your sales activities until 1971, did
21 you come in contact with a General Khatami at all?

22 A I met General Khatami in 197—in the
23 latter part of '71.

24 Q With respect to what?

25 A In the presentation of the sales film and

16/41

1 briefing of hardware.

2 Q Now was this-- Was this in anticipation of
3 the sale of the 489 helicopters?

4 A Yes, sir.

5 Q Was it part of this program?

6 A Yes, sir.

7 Q Did you have any other dealings with him?

8 A No, sir.

9 Q In any other sales effort?

10 A No, sir.

11 Q And on that trip, did you write a report,
12 do you recall?

13 A Yes, there was a report written.

14 Q On that sales presentation?

15 A Yes.

16 Q Now, you send that report to Central Records
17 here?

18 A Yes, sir.

19 Q Were you ever in contact with G. W. Miller,
20 president of Textron, in any of dealings, or with
21 respect to any of your dealings in Iran?

22 A No, sir.

23 Q Who would you deal with here at Bell Heli-
24 copter?

25 A Primarily with Mr. Sylvester, and as you

16/42

1 were required to build presentations, the various
2 administrative people, gathering together the reports
3 or films or--

4 Q Mr. Atkins, would you brief him on any of
5 your trips?

6 A Yes, sir. At certain periods of time during
7 the sales effort, we would be required to brief Mr.
8 Atkins.

9 Q With respect to Air Taxi, they became the
10 agent for Bell Helicopter, I believe it was in 1968,
11 after a brief period during which they were not.

12 Were you ever informed as to why they were
13 rehired as agent for Bell Helicopter?

14 A No, sir. I was not.

15 Q You never heard anything about why they
16 would have been rehired?

17 A No, sir.

18 Q Not that you were directly involved. I
19 realize you didn't arrive at Bell until 1969.

20 You never heard that the reason they were
21 rehired was because they had some influence with the
22 Government of Iran?

23 A No, sir.

24 Q What was your recollection of the general
25 reputation of Air Taxi as a sales agent?

16/43

1 A As far as my recollection is, they were—had a
2 very fine reputation as a representative.

3 Q What was their strong point? Was it that they
4 had some type of entree to government officials? Were
5 they just super sales people or did they have a strong
6 point in your mind?

7 A In my mind, their strong point was a thorough
8 knowledge of the requirements that existed in the country
9 with respect to helicopters; a thorough understanding
10 of how the government must go through its procedure,
11 the selections of an aircraft, in our case, the heli-
12 copters. I would say those would be it.

13 Q So it was a combination?

14 A Yeah.

15 Q Did you ever hear or have any knowledge of
16 who owned Air Taxi? What was your understanding of
17 the ownership of Air Taxi?

18 A No. I don't know who owns them.

19 Q Who did you deal with in Air Taxi?

20 A Well, two people I dealt with in Air Taxi
21 were Mr. Zanganeh and Mr. Iranzad.

22 Q And what was Mr. Zanganeh's role?

23 A I understood him--

24 Q In Air Taxi.

25 A He was the president of it.

16/44

1 Q Mr. Iranzad?

2 A Was his assistant.

3 Q Was it your role to inquire as to the
4 ownership of Air Taxi? Did you ever feel an obligation
5 to ask them who owned it?

6 A No, sir.

7 Q You saw no need for that?

8 A No, sir.

9 Q Do you know what Bell Helicopter's policy
10 is with respect to the ownership of one of their
11 sales representatives?

12 A No, sir, I don't.

13 Q Would you give us a brief chronology of
14 your involvement in the sale of the 489 helicopters?

15 I guess the starting point would be 1971,
16 if that's in fact, when you did become involved in
17 that effort. Can you bring us from that point up to
18 the consummation?

19 A Well, actually, I guess you could say I was
20 a glorified "gopher". I brought over the presentations
21 and made presentations to various authorities that we
22 were required to make presentations; assisted in writing
23 proposals; tried to analyze—

24 Q There were several proposals over this period
25 of time?

16/45

1 A Yes, sir. The requirements changed quite
2 substantially from the initial, the Government of Iran
3 said they wanted 50 Cobras and a hundred 205's.

4 Q And when was that?

5 A That was in '70, I guess it was, but the
6 requirement stated by the Government of Iran was to
7 expand their fleet, and, therefore, they would ask
8 questions on various other aircraft and what their
9 capabilities were to meet their missions. So this re-
10 quired constant writing of technical data and proposals
11 as to the capabilities of our aircraft and that was
12 my primary responsibility and the delivery of that data.

13 Q When you delivered it, you did present it,
14 though, and discuss it--

15 A Yes.

16 Q --with Air Taxi representatives and offi-
17 cials of the Iranian Government?

18 A Yes, sir.

19 Q Could you describe some of the meetings you
20 had in 1971 with Air Taxi personnel or officials of the
21 Iranian Government?

22 A Okay. Well, generally, I would arrive in
23 country and make the presentation for--

24 Q Could you give us some dates?

25 A Dates?

16/46

1 Q Yes.

2 A Okay.

3 Q The time period?

4 A Okay, I guess.

5 Q To refresh your memory and I should indicate
6 and you probably realize this, we received a large
7 volume of documents concerning the sale by Bell Heli-
8 copter of 489 helicopters to Iran so that we have some
9 knowledge of dates and things like that. We want to
10 make sure that this record is complete, so, we'd like
11 you to refer to some of these dates.

12 A Okay, well, I'm probably not to--

13 Q Well, let me start with--

14 A I can't remember exact dates.

15 Q There was a Paris Air Show in the Spring of
16 1971?

17 A Okay.

18 Q I believe you attended that and--

19 A No, sir. I wasn't at the Paris Air Show.

20 Q You did not attend it?

21 A No.

22 Q All right.

23 A If I can do it in quarters, I could remember
24 better.

25 Q That's fine.

16/47

1 A Is that all right?

2 Q That's fine.

3 A It was, let's see, the first quarter of '71
4 would be the original presentation of the Models 205
5 and single engine Cobra. And that presentation was
6 one of bringing over a slide presentation and technical
7 data; that I would brief both Mr. Zanganeh and Mr.
8 Iranzad so that they were familiar with its content.

9 And then I would brief the various generals
10 by appointment and go to their office with their staff
11 and aides and make the presentation to them. And--

12 Q So you made one presentation in the first
13 quarter of 1971?

14 A Yeah, I would-- I was going to say, I probably
15 made presentations in each quarter of '71.

16 Q As the proposals were updated?

17 A Yes, sir.

18 Q Specifications were changed?

19 A Changed, yes.

20 Q When you went in the first quarter of 1971,
21 do you recall whom you met in the Iranian Government?

22 A Let's see. It was-- I met General Toufanian
23 in '71. But I'm not sure that was the first quarter of
24 '71, but I think it was the first quarter of '71.

25 And we made a presentation to him. And I remember

16/48

1 making a presentation to the Army-to-be-Commander.

2 It was General Khosrodad.

3 I made a presentation to Air Force General
4 Arzarbazin. It was later in the year I made a presen-
5 tation to General Khatami.

6 I made a presentation to the Navy Commander.
7 I am not sure, as I recall, what—he was the Commander
8 of the Kharg Island his name was Commander Chafik. He
9 was commander of Kharg Island, and I think that's about
10 it.

11 Q In these presentations, did you discuss
12 anything in addition to the technical attributes of
13 the Bell products?

14 A No, sir.

15 Q Pricing?

16 A No, sir.

17 Q Any thing like that?

18 A No.

19 Q Did you ever discuss the various relation-
20 ships among the people who you may have been dealing
21 with, that is, people from Air Taxi and those in the
22 military?

23 A No, sir.

24 Q Relationships between Mr. Iranzad or Mr.
25 Zanganeh and General Khatami or Prince Chafik or General

16/49

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Toufanian?

A No, sir, I didn't.

Q Were you aware of any relationship between General Khatami and the Shah?

A I didn't--

Q Or a relationship between Prince Chafik and any of the principals of Air Taxi?

A Okay. Wait now. The first question, the only relationship--

Q Khatami and the Shah.

A Okay. Khatami was married to the Shah's sister, and that's all I know there.

The Chafik to who did you say?

Q To any of the principals in Air Taxi?

A No, sir.

Q It's disclosed in some of these documents that Prince Chafik was the son of one of the principals of Air Taxi and, in addition a nephew of the Shah. But you weren't aware--

A I knew he was a nephew of the Shah.

Q You were aware of that?

A That I knew, yeah.

Q In your dealings with the Iranian Government in these presentations, what role would Air Taxi play?

A General administrative role in assisting us

16/50

1 in letting us use the telephone to set up the meetings,
2 advising us of who to contact to set up the meeting,
3 telephone numbers, such as that, transportation.

4 Q Did they participate in any of the nego-
5 tiations or even the presentation? Did they aid you in
6 that?

7 A No, sir, they did not.

8 Q You gave the presentations?

9 A Yes, sir.

10 Q During your visits to Iran, did it ever be-
11 come clear to you or what type of information would
12 you receive from Air Taxi as to the impressions of
13 the Iranian officials about Bell products?

14 A Yes, they would report various—

15 Q They would report to you directly?

16 A Yes, generally speaking, they would.

17 Q Iranzad and Zanganeh?

18 A Iranzad would communicate directly with
19 me, telexes and letters and Mr. Zanganeh, depending,
20 and they would report as to the feeling of the various
21 Iranian officials that this particular product looked
22 good or that one wasn't as good as this one or what
23 have you.

24 Q And what was your impression of those reports?

25 A Very accurate.

16/51

1 Q We have some documents introduced in the
2 record that would indicate that General Khatami was
3 impressed with Bell products?

4 A Yes, sir.

5 Q And thought that he wanted to have Air
6 Force with a lot of Bell Helicopters.

7 A (The witness nodded his head.)

8 Q Or at least to be equipped with Bell Heli-
9 copters. And it would appear that they were giving
10 some lessons in strategy to Air Taxi, or at least to
11 relay through Air Taxi to Bell Helicopter.

12 I'm referring there to the attempts by Bell
13 Helicopter to gain contracts with Iran in competition
14 with Agusta or other helicopter manufacturers.

15 In your discussions or in your visits with
16 people from Air Taxi or any other people you came in
17 contact with in Iran, was it ever disclosed to you
18 or discussed that General Khatami may have had an owner-
19 ship or any interest in Air Taxi?

20 A No, sir.

21 Q You never heard any rumors or anything like
22 that?

23 A No, sir.

24 Q To the effect that General Khatami may have
25 had some type of investment interest in Air Taxi?

16/52

1 A No, sir.

2 Q Did you ever hear or become aware of any
3 payments that might have been made from Air Taxi to
4 General Khatami or any other officials of the Iranian
5 Government?

6 A No, sir.

7 Q When you would communicate to the officials
8 here at Bell Helicopter when you were in Iran, I believe
9 you used some codes.

10 A (The witness nodded his head.)

11 Q What was the purpose of the codes?

12 A Well, we considered this potential sale as
13 very competitive. We felt it was a very competitive
14 situation, and therefore used a code.

15 Q Competitive?

16 A From other manufacturers.

17 Q You felt they might get hold of the documents
18 or what?

19 A Well, information that is transmitted back
20 and forth at Telex contains in many cases performance
21 data and requirements to assist in the presentation
22 that I might have been making or what have you. And
23 that data is sensitive data to us and its delivery to
24 the customer. And we didn't feel our competitors ought
25 to have the same information.

16/53

1 Q Do you recall receiving any advice from Mr.
2 Zanganeh or Mr. Iranzad to maintain—to have Bell Heli-
3 copter maintain a low profile in negotiations or in
4 selling products in Iran?

5 A Yes, sir. We had at times, I recall.

6 Q And what was the purpose of that?

7 A Well, the purpose of that was not to pressure.

8 Q If I may, let me just show you one of the
9 exhibits, Exhibit No. 33, dated April 10, 1971. It's
10 an internal memo by Mr. Zanganeh. And I'll read from
11 it. You've got it?

12 A Yeah.

13 Q The memo indicates that:

14 "General Khatami and General Toufanian, as
15 well as Mr. Dehesh agree with Mr. Zanganeh
16 that Bell should play a very low key and only
17 coordinate and adhere to further guidance and
18 instructions which would be given to them."

19 A Okay, ask it again.

20 Q What was--

21 A To answer your question of why? Not—ask
22 it again. Not to pressure the situation, you know. You
23 get in a situation where you want the sale to go and you
24 pressure and you knock on doors and you say, "Why don't
25 you buy it?" or "What other information can we give you

16/54

1 and at this point in time, the advice that Mr. Zanganeh
2 was giving was to not pressure and to give the oppor-
3 tunity to the Government of Iran and particularly
4 these gentlemen in Exhibit No. 33, "time of evaluate
5 that data and proposals that have been presented to
6 them."

7 Q Would this also be an indication that
8 General Khatami and General Toufanian and Mr. Dehesh
9 wanted Bell Helicopter to maintain a low profile? Mr.
10 Zanganeh is indicating that they agreed with him that
11 Bell should maintain a low profile and await further
12 instructions.

13 A Yes, sir.

14 Q Did you have any knowledge that General
15 Khatami and General Toufanian or Mr. Dehesh was
16 giving instructions to Bell Helicopter in its efforts
17 to make the sale?

18 A No, sir, only from what this memo told us.

19 Q In your discussions, in your contacts with
20 Mr. Zanganeh, Mr. Iranzad, what was your impression
21 of the role of General Khatami, of General Toufanian
22 and Mr. Dehesh in the sales or possible acquisition
23 by Iran?

24 A Okay, that the first one. General Khatami,
25 being the Commander of the Air Force, had considerable

16/55

1 influence with respect to operating aircraft, in
2 his air space, if you will, the Air Force, controlling
3 the air space in Iran. And viewed all aircraft, of
4 whatever make or size and gave his recommendations
5 with respect to its compatibility to perform the
6 mission for whatever service in Iran.

7 His approval of that—or the use of specific
8 aircraft is a very key and a good thing to have in your
9 behalf.

10 General Toufanian was the man that finally
11 compiled all the data that was submitted to him by
12 various vendors trying to submit proposals and would—had
13 the responsibility of weeding all this out and taking
14 the recommendations to His Majesty for final approval.

15 Mr. Dehesh was the individual that reported
16 to the Toufanian that these proposals and data went
17 through to get to General Toufanian.

18 So, you know, part of the administrative
19 decision-making process, all three played in this—played
20 that particular part, General Toufanian being the
21 top of that and from there went to His Majesty.

22 Q Mr. Dehesh's role was mostly administrative
23 or did he have some discretion in making a recommenda-
24 tion? Were you aware of any?

25 A Well, he was obviously a very important

16/56

1 person in the sense that you had to make your presen-
2 tation to him, and he was aware of the requirements,
3 and if your particular product wasn't any good and didn't
4 meet the needs, it didn't get past him.

5 And so it was the chain of command one had
6 to work through, just like in any other governmental
7 procedure to prove yours was worthy of consideration
8 at the next higher echelon.

9 Q Do you recall to whom you made the first
10 presentation? I guess it would go back to 1971. ^Uid
11 you make it to Mr. Dehesh or General Khatami, General
12 Toufanian or some other Iranian official?

13 A I think the first presentation that I made
14 was to General Toufanian. And I— I'm fairly sure Mr.
15 Dehesh was in the room. There were several other
16 generals in the room and I can't remember their names,
17 the staff, if you will.

18 Q And General Khatami's role, in your mind was
19 related to his technical expertise?

20 A In the government of Iran, with respect to
21 aviation and knowledge of aviation and its requirements,
22 General Khatami was regarded as an expert. And, there-
23 fore, he would comment and had a lot to say with respect
24 to the products that Iran used.

25 And it's for that reason that he participates

16/57

1 in it.

2 Q Did Mr. Iranzad or Mr. Zanganeh ever indicate
3 or did they indicate who, in the government, would make
4 the final recommendations to the Shah?

5 A Yes, sir.

6 Q Who was that?

7 A General Toufanian.

8 Q What did they say about General Khatami?

9 A They said that General Khatami was a very
10 important man to give a—would you say a good word,
11 a blessing, "Yes," this is a good product; "Yes, it's
12 a product the Army should use." And from that standpoint,
13 a vote of confidence.

14 Q What was your relationship in Bell Helicopter
15 with Mr. Horsley? I believe he was in the Brussels
16 office?

17 A (The witness nodded his head.)

18 Q Were you doing the same thing in Iran or did
19 you have different duties? I believe you were here in
20 Fort Worth?

21 A Yes, sir.

22 Q At the time, based in Fort Worth. He was
23 based in Brussels, but you were both active in Iran.

24 A Yes, sir. We worked together—on the project,
25 and were both, basically, had the same sort of function.

16/58

1 Q We switched off and he, you know, he, in
2 Iran and I would come back and sometimes and then reverse,
3 so that we had constant presence in country to under-
4 stand the various competitor situation and keep constantly
5 responding to the customers' requirements.

6 Q But he would report to someone else; is that
7 correct?

8 A Yes, sir. He reported to the manager of the
9 Brussels office.

10 Q Whereas you reported to?

11 A Mr. Sylvester.

12 Q Sylvester, did you compare notes with him
13 about the sales effort at all?

14 A Oh, sure.

15 Q And would you discuss things with him?

16 A Sure, yes, sir.

17 Q Did you ever have discussions about the
18 possibility that Air Taxi might be owned by a government
19 official in Iran?

20 A No, sir.

21 Q Did you ever discuss with anyone the possi-
22 bility that payment would have to be made in order for
23 Bell Helicopter to get the contract for the 489 heli-
24 copters from the government of Iran?

25 A No, sir.

16/59

1 Q With respect to competitors of Bell Heli-
2 copter, did you ever hear of any of them being approached
3 to make a payment to a government official, or, in fact,
4 making a payment, improper payment to a government
5 official of Iran?

6 A No, sir.

7 Q Your sales effort on behalf of Bell Heli-
8 copter, you were as I understand it, presenting proposals
9 to Air Taxi, the agent, and officials of the government
10 of Iran.

11 Was there a time when you had taken over the
12 sales effort from Air Taxi for products sold by Bell
13 in Iran? I presume at some point, or at some point
14 there may have been an active participation by Air Taxi
15 in the sales efforts.

16 A Yes, if I understand your question correctly,
17 I don't think there was any time in my involvement that
18 I took over the total sales efforts.

19 MR. SOUTTER: I think when he said "you,"
20 I think he meant Bell.

21 MR. COLLINS: Oh, I'm sorry, yes, Bell
22 Helicopter, I'm sorry.

23 THE WITNESS: Oh, I'm sorry, yes. Well,
24 during the latter part of the program in the sales effort,
25 General Toufanian requested that we deal on a more direct

16/60

1 basis with him and his appointed staff in furthering
2 the sale. So, I would say I guess at that point in
3 time, yeah, you would be.

4 Q And when was that, do you recall?

5 A '72. It would be probably August, right
6 after August of '72, something, right after the demon-
7 stration.

8 Q And he communicated that how, in a meeting?

9 A That General Toufanian, yeah, it was in a
10 meeting that he said he wanted us to deal directly with
11 them.

12 Q And would you have made a record of that
13 meeting?

14 A No, sir, because I don't think I was the
15 senior member there. I think Mr. Sylvester was there.
16 I am not sure who was at that meeting. I couldn't
17 recall.

18 Q But most of the meetings you attended, you
19 would have written a memorandum for files about the
20 meeting?

21 A Yes, sir.

22 Q Did you ever come in contact with Mr.
23 Miller in your sales efforts in Iran?

24 A No, sir.

25 Q Was he ever there while you were there?

16/61

1 A No, sir.

2 Q Was he ever in Fort Worth discussing the
3 sale while you were here or---

4 A I think he was in Fort Worth discussing the
5 sale once.

6 Q But you never attended a meeting here?

7 A But I never talked to him.

8 Q With respect to the 2.9 million dollar
9 payment by Bell Helicopter to Air Taxi to terminate
10 the contract, the manufacturer's-representative agree-
11 ment, did you ever hear that any part of that money
12 was to be paid to a government official in Iran?

13 A No, sir.

14 Q And what did you feel the purpose of the
15 2.9 million dollar payments was?

16 A Well, sir, I wasn't involved in any of that--
17 or that portion of the relationship at all. In fact, I
18 didn't know there was that kind of payment made till I
19 read it in the papers.

20 Q Were you involved in any of the negotiations
21 between Bell Helicopter and Air Taxi on compensation
22 arrangements?

23 A No, sir.

24 Q You never attended the meetings in Iran or
25 here in Fort Worth or any other place where the

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1 compensation was discussed?

2 A No, sir.

3 Q In your presentation, you never would discuss
4 the price of the helicopter?

5 A Oh, yes. In the presentation, sure, we
6 discussed the price.

7 Q And the commission to the agent would never
8 come up in that context?

9 A No, sir, it's just— It was just the price
10 of helicopter, you know, one each, "X" number of
11 dollars.

12 Q In June, 1972, Mr. Sylvester sent to Mr.
13 Zanganeh at Air Taxi a proposed amendment No. 1 to the
14 agreement between Air Taxi and Bell Helicopter. And
15 in that letter he referred to earlier discussions which
16 took place concerning, I presume, the agreement, the
17 proposed amendment.

18 Do you have any knowledge of such negotiations?

19 A No, sir, I don't.

20 Q Proposed Amendment No. 1, I should indicate
21 for the record that it's both Exhibit 38 and Exhibit 67.
22 Were you in Iran in the spring of 1972?

23 A Yes, sir.

24 Q And what was the purpose of your visit then?
25 I believe you were there some time in mid-May; is that

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1 correct?

2 A Yes, I was there--in '72, I think I went
3 over in February--no, in March, and stayed through April
4 --April 19th or 20th, and came back.

5 Q And were you there in late May, in mid-May,
6 May 19th or thereabouts?

7 A I went back shortly thereafter, but I
8 can't-- Yeah, let's see. In April 18th, I brought the
9 letter of intent back.

10 Q Well, let me try to refresh your memory.

11 A And in May I went back to set up a demonstra-
12 tion or something, as I'm trying to remember.

13 Q Let me introduce for the record, Exhibit
14 No.?

15 MR. FREED: 78.

16 MR. COLLINS: 78.

17 (The letter referred to was
18 marked "Exhibit No. 78" for
identification.)

19 Q It's a letter to General Toufanian from Mr.
20 Sylvester, in which he indicates that you and Mr. Rudning
21 and Mr. Smith would be in Iran on May 19th?

22 A Yeah, okay, that was the demonstration.

23 MR. FREED: What is the date of that
24 letter?

25 MR. COLLINS: That is dated May 4th,

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1 1972.

2 Q And the purpose of that visit was what
3 about May 19th?

4 A Well, the purpose was to then set up a
5 demonstration as requested by the Government of Iran
6 of the AH-1J and 214A helicopters.

7 Q And that was the only purpose of the visit?

8 A Yes, sir.

9 Q Because I want to refer back to Mr. Sylvester's
10 letter of June 16th which had enclosed the proposed
11 Amendment No. 1 to the manufacturer's-representative
12 agreement.

13 He indicates in his letter to Mr. Zanganeh
14 that the proposed amendment reflects the agreement reached
15 on this subject on recent meetings in your office.

16 Do you know when such meetings would have
17 taken place, the negotiations on a proposed amendment
18 to the agreement between Air Taxi and Bell?

19 A No, sir.

20 Q Did you have any involvement in the nego-
21 tiations process through the summer of 1972—

22 A No, sir.

23 Q —concerning the compensation agreements?

24 A No, sir.

25 Q Would one of your duties have been to see

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1 that an agreement like this between Bell Helicopter
2 and Air Taxi concerning compensation, the agreement
3 would be signed?

4 A No, sir.

5 Q Did you ever talk to Mr. Dehesh or any other
6 government officials in Iran about the agreement?

7 A No, sir.

8 Q Let me show you some exhibits and possibly
9 refresh your memory. This is Exhibit 70, dated July
10 26, 1972. It's a telex from Mr. Gallagher to Mr.
11 Sylvester. And the third item states:

12 "Am using max effort. Joe will sign
13 agreement after consultation with Alice."

14 "Joe" being Air Taxi and "Alice" being Dehesh?

15 A Yes, uh huh.

16 Q Then on August 9th, Mr. Sylvester sent a
17 cable to Mr. Mitchell indicating that the Amendment No.
18 1, manufacturer's representative agreement was executed
19 by Joe; that is Air Taxi, and airtailed to Mr. Mitchell
20 today.

21 And Mr. Sylvester requested that it be returned
22 urgently.

23 And that was Exhibit No. 71.

24 Exhibit No. 72, dated August 16th, 1972, from
25 Mr. Mitchell to Sylvester indicated that the agreements

16/66

1 prepared by you, that is Mr. Sylvester, signed by
2 Joe, Air Taxi, and that Mr. Rudning has signed it
3 on behalf of Bell and will handcarry it.

4 Now, I refer back to Exhibit 70. Do you
5 have any recollection of that, of sending that to
6 Mr. Sylvester?

7 A Oh, yes. I'm—no doubt that I sent the
8 message, yeah.

9 Q But you don't recall?

10 A I didn't carry any agreement, or did I ?

11 Q No, but you'd have sent the agreement? It
12 indicates there that you were making a max effort
13 and that Air Taxi had to consult with Mr. Dehesh?

14 A As I recall, this is a combination of
15 talking to the problems with a demonstration as well as
16 responding back to Mr. Sylvester. And I fairly recall
17 that it was information that Air Taxi would have asked
18 me include in my message, as this telex comes from
19 Air Taxi.

20 Q I believe several of the telexes would have
21 been from Air Taxi's offices, though. That wasn't an
22 unusual occurrence, was it?

23 A No, that's also--

24 Q I mean, it wouldn't necessarily have been
25 initiated or directed to be sent by them?

16/67

1 A No, but there's always— There were many
2 times when there would be several subjects concerned
3 in that telex that didn't necessarily have one indivi-
4 dual's input.

5 Q So with respect to the consultation with
6 Mr. Dehesh, you really don't know what—

7 A No, sir, I do not.

8 Q Did you ever discuss the agreements with
9 Mr. Iranzad or Mr. Zanganeh?

10 A No, sir.

11 Q That is, the agreements between Bell Heli-
12 copter and Air Taxi?

13 A No, sir. That wasn't my job.

14 Q During your visits to Iran, were you ever
15 solicited by anyone to make a payment in order that
16 Bell might receive any type of contract?

17 A No, sir. I was not.

18 Q Were you aware that any payments might have
19 been made by Air Taxi to a government official on behalf
20 of any of their other customers?

21 A No, sir.

22 Q We have heard testimony today that they did
23 in fact have other clients?

24 A Yes, sir.

25 Q But you never heard that they may have made

16/68 1 payments on their behalf, on behalf of another client?

2 A No, sir.

3 Q In any of the presentations or meetings that
4 you participated in, were any of the subjects covered,
5 compensation of Air Taxi by Bell for its efforts in
6 possible sale of helicopters to Iran?

7 A Not in any presentation that I can recall.

8 Q Or any meeting?

9 A Or in a meeting.

10 Q In Iran, I believe you indicated you were
11 there several times. I believe you were accompanied
12 at different times by Mr. Sylvester.

13 A Yes, sir.

14 Q Or other officials here at Bell.

15 I wonder whether any of the subjects discussed
16 at those meetings would include compensation of Air
17 Taxi by Bell?

18 A No, sir.

19 Q Do you have any knowledge of investments
20 by General Khatami, General Toufanian or Mr. Dehesh;
21 that is, personal investments, whether they had any
22 interest in a corporation, company, a partnership in
23 Iran or here in the United States or any other country?

24 A Not that I can recall, no, sir.

25 Q Who did the negotiating for Air Taxi and for

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1 Bell Helicopter, that you know of, with respect to the
2 compensation agreements between Bell and Air Taxi?

3 A I don't specifically know. I could only
4 assume that it had to be handled at the very highest,
5 Mr. Atkins level.

6 Q But you don't know, personally recollect
7 who may have done it in 1972?

8 A I don't know who was involved in those. I
9 couldn't tell you.

10 Q Air Taxi provided, I think you indicated,
11 logistical services when you were in Iran to demonstrate
12 the products of Bell Helicopter.

13 Were they ever compensated for such services
14 at that time that you can recall?

15 A No, sir.

16 Q They never received any expense money or
17 anything like that?

18 A I wasn't aware of any compensation at
19 the time, no.

20 Q And they never discussed that with you, the pos-
21 sibility perhaps of being compensated or that they had,
22 in fact, been compensated by Bell for services that
23 they may have provided with respect to the demonstration
24 of the helicopters or anything like that?

25 A No, they didn't discuss any compensation

16/70

1 arrangements with me.

2 MR. GALERSTEIN: Excuse me. If you want
3 to take a break, speak up, otherwise we'll just keep
4 on going, or unless they want to take a break?

5 MR. COLLINS: Why don't we take a
6 five minute break. That's good.

7 THE WITNESS: Okay.

8 (Short recess.)

9 BY MR. COLLINS

10 Q Mr. Gallagher, when you were working here
11 at Bell instead of traveling to Iran or any other
12 spot, any other country, how would you communicate with
13 Air Taxi?

14 A When I was here?

15 Q Yes. What would you—or what type of
16 communication would you receive from them?

17 A Letters, telexes, and I would respond in
18 the same manner.

19 Q And would you receive periodic reports of
20 their activities, their sales activities, on behalf of
21 Bell?

22 A Yes, we require the representatives to
23 submit periodic reports as to their activities on our
24 behalf.

25 Q And they submitted those to you?

16/71

1 A Yes, sometimes, not as often as we wanted,
2 yes.

3 Q How would you describe Air Taxi's efforts
4 on behalf of Bell with respect to the sale of 489
5 helicopters by Bell to the government of Iran?

6 A I guess I would describe their activities
7 as one typical of a manufacturer's representative in
8 a foreign country, that of providing administrative
9 services, office space, transportation, and, as I
10 indicated earlier, the strong suit of their being
11 guidance as to who to talk to and how the system works
12 so that we could make the appropriate presentations to
13 the right folks.

14 Q Now, I presume that when you were going to
15 Iran, you would deal with Air Taxi and then also
16 possibly be aware of the activities of other manu-
17 facturer's representatives in Iran.

18 How would you rate Air Taxi as compared to
19 other manufacturer's representatives??

20 A In?

21 Q You say in Iran?

22 A In Iran.

23 Q Yes.

24 A I would rate Air Taxi's performance as the
25 best in the country.

16/72

1 Q For what reason?

2 A Because of their—in my view, my association
3 with them, they always knew what was happening. They
4 knew the climate, they knew what the other guy was
5 doing, the competitor was doing. And their advice was
6 always sound. I never found it to be faulty.

7 Q You say they knew what was happening with
8 respect to what?

9 A To the competitors and what the requirements
10 were.

11 Q Requirements of the government?

12 A Of the government, as far as the government.

13 Q Do you know how they would gain this type of
14 information?

15 A The same way that I would gain it, by talking
16 to the various governmental officers, generals, or what
17 have you, and asking questions.

18 Q Is there ever any possibility that Bell might
19 have been able to make the sale of helicopters— I am
20 talking now about the 489 helicopters—without a demon-
21 stration in Iran?

22 A There's no doubt in my mind that without
23 that demonstration, we'd have never made it.

24 Q And would it be in the interest of any of the
25 government officials to not have a demonstration?

1 A I wouldn't know, I guess.

2 Q Let me show you Exhibit No. 37. It's a
3 cable that you sent to Mr. Sylvester dated April 12th,
4 1972 in which you indicate the presentation of a program
5 to HIM "is scheduled for this afternoon and Thursday
6 morning for approval. Dehesh states he will do utmost
7 to shoot down in country demo as it is not necessary
8 and may result in delay of the program implementation."

9 A Let me see if I can find out what he's
10 referring to. Okay.

11 (Short pause.)

12 A I admit that catches me cold, because I
13 wouldn't— I don't remember that at all.

14 Q Do you recall discussing something like
15 that with Mr. Dehesh?

16 A I honestly don't. I don't recall him—that
17 surprises me. I don't remember him being that negative
18 about the demonstration. He was pretty positive about
19 it.

20 Q There wouldn't be any purpose then for him to
21 want to shoot down the demonstration?

22 A Not—not in my mind.

23 Q A good choice of words, I guess?

24 A Yeah, it's my choice, obviously. I don't
25 remember that. I don't remember it at all. I don't

1 recall any reason why he would want to do that.

2 MR. COLLINS: I believe that's fine,
3 Mr. Marinaccio.

4
5 EXAMINATION

6 BY MR. MARINACCIO

7 Q Mr. Gallagher, could you kind of fill me in
8 on precisely what your responsibility was over in Iran
9 during the period '72, '73 and '74? Can you kind of
10 give me just a general statement?

11 A Okay, sir.

12 Q Of what you were about when you were over there?

13 A In '72, my primary responsibility in the
14 first part of '72 was to, (1) monitor the situation,
15 to understand where we stood as a manufacturer presenting
16 our pitch and where that was in the decision cycle.

17 In April of '72, I received a letter from
18 General Toufanian saying that he would like to have a
19 demonstration of the two birds in Iran in August. And
20 this letter was approved by His Majesty.

21 Okay, from that point on, I then became
22 more of the organizer of the demonstration activity
23 that was to take place which required extensive
24 coordination, various people and activities, getting
25 the birds over there, setting up the demonstration.

1 Throughout that period, during the demon-
2 stration, I was the manager of that demonstration.

3 In August of '72, I became very ill and I
4 was sent back home.

5 Q What happened to you?

6 A I got a very, I guess, rare bug of amoebic
7 dysentery and I was sent back home.

8 So then I stayed back here and I didn't go
9 back to Iran until I think it was the first of '73.
10 And in '73, I was then assigned to BHI with respect to
11 organizing the establishment of a training, of pilots
12 and mechanics, organization and activity in Iran.

13 And in '74, it was a continuation of
14 that effort. And then I've been in BHI since that time,
15 or working on the BHI thing since that time.

16 Q I think with that background, I can now
17 better understand previous testimony about who the
18 players were over there in terms of what they were and
19 what their responsibilities were, Khatami, Toufanian,
20 and so forth.

21 In a lot of your background and your ex-
22 perience with that project and so on, what would be
23 your judgment as to the three or four people in Iran
24 who absolutely had to sign off and say, "Yes," to the
25 purchase of 489 helicopters before that deal would go

1 through? And, obviously, one would be the Shah, I
2 would think?

3 A Yes, he would.

4 Q Wouldn't you agree?

5 A Yes, sir, he has to.

6 Q Going on down from the Shah, who would be
7 the two or three others, including civilians or military
8 people that would have to say "Yes," before the deal
9 could go?

10 A Okay. I would say General Toufanian would
11 have to be. The Commander of the Air Force, Khatami,
12 would have to give his vote of approval.

13 The Commander of the Ground Forces, as it would
14 be the Army, who was now General Hovesi, at that time,
15 it was General Minbashian.

16 And that would be your hierarchy, the
17 absolute folks to say, "yes."

18 Q And those would be the people, would it not,
19 who Zanganeh, in his capacity as manufacturer's repre-
20 sentative would be concentrating on?

21 A Yes, sir.

22 Q Now, do you remember discussing with any
23 higher officials in Bell, including Mr. Sylvester or
24 Mr. Atkins or even Mr. Miller— Incidentally, have you
25 ever met Mr. Miller?

1 A Yes, sir.

2 Q In connection with this project, with this
3 sale?

4 A No, sir. I was privileged to go to the
5 Textron class, a course that they give for executive
6 development, up at Exeter, and Mr. Miller conducted the
7 last portion of the course. And then we had dinner
8 with him that evening, the completion of the course,
9 and that's where I met him.

10 I met him at the Textron Management Business
11 Reviews when he comes to Texas.

12 Q Did you happen to talk--is that the only
13 occasion you met Miller, G. William Miller?

14 A On those occasions, yes, sir.

15 Q On either one of those occasions, did you
16 happen to mention to him that you worked in the Iranian
17 helicopter deal?

18 A I can't recall any time that I specifically
19 talked to him about my activities, my efforts in Iran.
20 He knew that I was one of the member of the Bell team
21 that had gone to Iran and he may have said, "How's it
22 going?" and I said, "Fine," or something like that.

23 Q Did that general subject come up in cocktail
24 chitchat, whatever?

25 A Not with me.

1 Q Not with you?

2 A No.

3 Q Did the name Toufanian ever come up that
4 you can recall when you were present with Miller?

5 A No, sir.

6 Q Or the Shah?

7 A Not--not that I recall, no.

8 Q Did the name Khatami ever come up?

9 A No, sir.

10 Q Or Dاهش?

11 A No, sir.

12 Q Getting back to the sort of key players,
13 Toufanian, Khatami, the Shah and the General of the
14 Army: Did you ever mention to higher-ups or who was
15 your immediate superior during that time?

16 A Mr. Sylvester.

17 Q Mr. Sylvester. Did you ever have a conver-
18 sation with Sylvester about who the key players were?

19 A Yes, sir.

20 Q Khatami. Did he recognize, generally, that
21 Khatami, Toufanian and the Shah were crucial to this
22 effort?

23 A Yes, sir.

24 Q And did you ever talk to Atkins about that
25 situation?

1 A Yes, sir.

2 Q Did Atkins recognize that Khatami, Toufanian
3 and the Shah were crucial to this effort?

4 A Yes, sir.

5 Q Did you talk to him about it?

6 A Yes, sir.

7 Q Atkins?

8 A Yes, sir.

9 Q I mean, how many conversations would you have
10 had with Sylvester and Atkins about that subject where
11 you would have discussed the real solid key players
12 that you needed to sign off "Yes" on before the con-
13 tract could be made?

14 A Well, I would say that we had had several
15 discussions, numbers, I couldn't give you a number, but,
16 primarily, the discussions centered around getting
17 the proposal to Mr. or General Toufanian and then to
18 His Majesty and that's really—were the two key people
19 and the obvious point that we had to get the channel
20 to get it approved.

21 So discussions about the higher officials
22 on, you know, who do we need to get approvals from,
23 really centered around those two people at that time.
24 Yes, Khatami was mentioned and other people were
25 mentioned, but—

1 Q Well, how was Khatami mentioned, specifically?
2 Was Khatami mentioned and recognized as being one of the
3 people that had to sign off on this project before you
4 could get the contract?

5 A He had to— He didn't have to sign anything.
6 He had to give his approval and he was mentioned because
7 we had to demonstrate the aircraft to General Khatami.
8 So discussions ensued that we needed to get the aircraft
9 and get the schedules so that it was applicable for him
10 to ride in the ships and fly in the aircraft and go
11 through the various demonstrations on the aircraft,
12 as he was a key member of the Armed Forces, that we
13 needed his blessing on it.

14 Q Did Mr. Atkins or Mr. Sylvester, either one
15 of them, say that they needed Khatami's blessing to
16 get the deal?

17 A No.

18 Q That's your conclusion from the conversation?

19 A I guess I was the one saying, "We need these
20 people all to agree or we're not going to get the sale."
21 I'm trying to—

22 Q Would they agree with you?

23 A Yes, sir.

24 Q Now, were you ever told or did you know or
25 have you ever heard from any source whatsoever, that any

1 part of the 2.9 million dollar payment to Air Taxi
2 ever went to a government official of Iran?

3 A No, sir, I did not.

4 Q Either military or civilian?

5 A No, sir.

6 Q Do you know or have you ever heard any
7 discussion at Bell Helicopter about money being paid
8 to Iranian Government officials in connection with the
9 sale of those helicopters to Iran?

10 A No, sir, I have not.

11 Q What was the scuttlebutt in Iran about the
12 ownership of Air Taxi? I mean you strike me as a
13 fellow who's got his ear to the ground, frankly.

14 A I, really, was not in a position to even be
15 in a discussion where that would come up. And I, quite
16 frankly, didn't hear any scuttlebutt. It's a pretty
17 closemouthed nation over there. And my primary thrust
18 was, as I said earlier, trying to get the right data to
19 the right people. So I really—really couldn't give
20 you any scuttlebutt, as you call it.

21 Q Did you ever think that General Toufanian
22 had an ownership interest in Air Taxi? Did you ever
23 suspect that?

24 A No, sir. I never did suspect it whatsoever.

25 Q Would it have surprised you if you had found

1 out that he did have such an ownership interest?

2 A Quite frankly, it would have surprised me,
3 yes.

4 Q Did Zanganeh ever mention Khatami having a
5 close relationship to Air Taxi or having ownership
6 interest in Air Taxi?

7 A No, sir, did not.

8 Q Now, with respect to G. William Miller:
9 Had you ever heard any rumor or conversation anywhere
10 that he knew or was a friend of General Khatami?

11 A No, sir.

12 Q Now, you previously testified here today
13 that there came a time when General Toufanian
14 requested that Bell Helicopter deal directly with him?

15 A Yes, sir.

16 Q And not go through Air Taxi?

17 A Oh, I don't think he said that in those
18 specific words. I—

19 Q He said, "Go through him." Well, what's
20 your testimony about that? Let's get your own words.

21 A I think, as I recall my testimony, it was
22 that we were requested to deal directly with General
23 Toufanian and his assigned officers, as I recall.

24 Q And was it implicit in that, that there was
25 no longer a need to deal with Air Taxi or, in other

1 words, did that statement by General Toufanian have some
2 relation to Air Taxi?

3 A I could not conjecture that. From my stand-
4 point, the man was the guy who was taking this thing
5 up to the top. And what he said he wanted done, that's
6 what I did.

7 Q What kind of a fellow is Mr. Zanganeh?
8 Tell us a little bit about his social life, how he
9 operates, what things he chitchats about; what's the
10 scuttlebutt on Zanganeh?

11 A Well, I-- Mr. Zanganeh is a very nice man.
12 And that doesn't say a whole bunch. I mean, he's
13 very cordial. He's articulate. He's a gentleman.

14 Social activity, I know nothing of his
15 social activity other than he likes to play tennis.

16 He's a member of the various country clubs.

17 Q Does he talk about his social contacts a
18 lot?

19 A He--

20 Q Did he, I mean?

21 A No.

22 Q Did he lead you to believe that he was a
23 man of influence in the higher government circles in Iran?

24 A No. The main discussion that we would talk
25 about if there was anything to talk about, was his wife.

1 He was very concerned about his wife because she was
2 blind. And he was very active with her in supporting
3 the blind community in Iran. And that— He talked about
4 that a lot, but that's about it.

5 Q Did he ever indicate that he had a close
6 relationship with the Shah, to you?

7 A No, sir.

8 Q Did you ever chitchat about that?

9 A No.

10 Q What would he say about General Khatami?

11 A He would say that General Khatami was a very
12 astute advisor to His Majesty in aviation affairs; that
13 General Khatami was very close to His Majesty for several
14 reasons, one of which he was married to his sister;
15 and the other being that he was helpful in maintaining
16 the Shah's crown, back when he back into power; that
17 he was a very poor pilot, but that's about it.

18 Q Do you know, or have you ever heard any
19 discussion within Bell Helicopter of the use of any
20 slush funds or off the record books?

21 A No, sir.

22 Q For the distribution of monies to government
23 officials?

24 A No, sir.

25 Q Monies or anything else of any value?

1 A No, sir.

2 MR. MARINACCIO: Could I raise one more
3 question with both the witness and Mr. Soutter:

4 Q You mentioned almost at the outset of your
5 testimony that when you went to Iran and came back
6 during the relevant period, let's say, '72, '73, '74,
7 that you would make trip reports. And then a little
8 further on in your testimony, you said, "Well, I didn't
9 make a trip report in that particular meeting because
10 somebody higher up than me was there, namely, Mr.
11 Sylvester." And I think you indicated that it would
12 have been Sylvester who would have been the fellow to
13 do the trip report on that?

14 A (The witness nodded his head.)

15 Q Is it common policy or common practice in
16 Bell Helicopter for a trip report to be made on every
17 trip by the fellow leading the delegation?

18 A Well, it's common practice to try to document
19 your trips. That's common.

20 It varies as to who writes the report. Gen-
21 erally speaking, the senior member of the group signs
22 the report.

23 If it's a very short trip and there wasn't
24 anything significant during the visit, sometimes the
25 report isn't necessary, and a report won't be filed,

1 because nothing happened.

2 But, generally speaking, yeah, it's the
3 policy to write a trip report.

4 Q For example, if you were with Sylvester on
5 the trip and it was his responsibility to write the
6 trip report, would he show you a draft before he put
7 it into the file or would he just send you a copy
8 after he did the final?

9 A He generally would send a copy. He wouldn't
10 necessarily give me a draft.

11 Q Sure. How many trip reports in '72, '73,
12 and '74 did you do on this sale of helicopters thing?

13 A Boy, I don't know, but it must have been—
14 I'd say several. I couldn't say how many without
15 going to the files and looking.

16 Q Have you recently looked at your files to
17 check and see how many trip reports you did that
18 mentioned Air Taxi and Zanganeh?

19 A I don't have any of those files.

20 Q Who's got those?

21 A These files are all international marketing.

22 Q And where are they?

23 A I don't know.

24 Q Over in Sylvester's office?

25 A I would suppose so, I don't know.

1 Q Did you retain any of those files, yourself?

2 A No, sir. I have my personal notebook that
3 I kept, but that's all.

4 MR. MARINACCIO: Mr. Soutter, can I
5 make a request that--well, let me ask you: one of
6 two ways: (1), I think we would like to look at trip
7 reports. And, (2), I'd like to ask you if you would
8 look through particular files in response to the sub-
9 poena and whether we have some of those documents or
10 not.

11 MR. SOUTTER: I personally looked
12 through some of what I believe was in excess of
13 11 cartons of material from International Marketing
14 during the time period we're talking about, and do
15 not recall seeing any trip report, as such. There were
16 documents that reflected Khatami or Zanganeh or Air
17 Taxi, and those were submitted. Mr. Galerstein
18 completed that and I'll let him finish.

19 MR. GALERSTEIN: I have made as complete
20 an investigation as I could possibly make. I don't
21 know anything about trip reports. I hear Mr. Gallagher.
22 I believe him, but I've looked through International
23 Sales, existing files. We got up I think it was 11
24 large files from--what we call "dead storage." I have
25 looked at Mr. Gallagher's personal diary, if it is

1 such a diary. It's very meager and not responsive
2 at all to the—and his other file.

3 I've gone over to Bell Helicopter Inter-
4 national. I've gone over to Bell Operations Corpora-
5 tion. I've gone to Mr. Atkins. I have spoken to
6 Sylvester. I cannot think of another place in this
7 organization that I can go to, to get any more
8 documents than I have looked at.

9 Tom and I, and that's Tom Soutter and I,
10 spent, what is it, two full days, looking through all
11 of those files. I continued that search. I went up
12 to Finance. I went up to Estimating. I've done about
13 everything I can do. I don't know what else to do.

14 MR. MARINACCIO: Well, could we have
15 the opportunity to look at his personal log that
16 he referred to?

17 MR. GALERSTEIN: Well—

18 MR. MARINACCIO: I mean, I would
19 gather—

20 MR. GALERSTEIN: —I, I—that—

21 MR. MARINACCIO: Wait a minute now. I
22 would understand that on that log there would be
23 notations that involved Zanganeh and—

24 MR. GALERSTEON: That's not true.

25 MR. MARINACCIO: That's not true.

1 MR. GALERSTEIN: Not true.

2 MR. MARINACCIO: No notations involving
3 Air Taxi?

4 THE WITNESS: No. There would be no
5 notations on that.

6 MR. MARINACCIO: What notations would
7 be in the log, in that diary?

8 THE WITNESS: Organization of the
9 demonstration; hardware performance data; a note for
10 me to collect a particular chart that shows hovering-
11 above-ground effect performance, and that's really
12 about it.

13 MR. GALERSTEIN: I guarantee that if
14 that had any reference to Mr. Zanganeh or anything
15 responsive to the letter and then subsequently the
16 subpoena, it would be here before you.

17 MR. MARINACCIO: Is there any policy
18 in Bell Helicopter of destruction of documents after a
19 certain time?

20 MR. GALERSTEIN: Yes.

21 MR. MARINACCIO: What is the policy?

22 MR. GALERSTEIN: Well, each department
23 has a separate policy. The files that we looked through,
24 that Tom Soutter and I looked through, I found out
25 later were scheduled to be destroyed one week later.

1 MR. MARINACCIO: Had they been destroyed?

2 MR. GALERSTEIN: No, they have not now
3 been destroyed. I ordered them to be put back onto
4 dead storage. I hope they have not been destroyed. I
5 don't believe they have and I will check in the morning
6 to make sure they have not.

7 MR. MARINACCIO: Can we request that
8 those files not be destroyed?

9 MR. GALERSTEIN: Sure. I don't want
10 them destroyed under these circumstances. As a matter
11 of fact, I am absolutely sure they have not been
12 destroyed, but it did not occur to me to--

13 MR. MARINACCIO: Mr. Gallagher, did you
14 retain copies in your personal files of your trip
15 reports?

16 THE WITNESS: No, sir, I did not.

17 BY MR. DOHERTY

18 Q The only question that occurs to me is: I
19 gather these particular trip reports went to what Mr.
20 Gallagher referred to as Central Files. Is there a
21 policy that governs Central Files, if you know, with
22 respect to retention of documents?

23 MR. GALERSTEIN: What Mr. Gallagher
24 is referring to as Central Files are the files that
25 we looked through.

1 MR. DOHERTY: Is there a policy with
2 respect to those, their retention and distribution?

3 MR. GALERSTEIN: As I said, that policy
4 is established by each department, except as to those
5 items that we are legally bound to maintain for a certain
6 number of years. And I have, on many occasions—well,
7 I won't say on "many" occasions, but I have on several
8 occasions distributed memoranda with respect to the
9 maintenance of that type of file.

10 MR. DOHERTY: In what department would
11 those trip reports have gone to?

12 MR. GALERSTEIN: I am not familiar with
13 the— I assume—with the procedures. I assume that if
14 it's a trip report having to do with International
15 Sales, it goes to the International Sales Department.

16 MR. DOHERTY: Would it, in your best
17 judgment, have gone to the same department that the
18 other telexes and most of the other documents that you've
19 produced have gone to that same department?

20 MR. GALERSTEIN: In my judgment, yes.

21 MR. DOHERTY: So, it would appear as though,
22 to the extent of that policy, the same policy would have
23 applied to the trip reports as to the other documents?

24 MR. GALERSTEIN: I mean, it doesn't appear
25 to me from that. It just makes sense that that policy

1 applies to all documents, but I don't draw any con-
2 clusions—that conclusion, based on what I find and
3 what I don't find.

4 MR. DOHERTY: Well, do you have any
5 explanation or can you shed any light on what you
6 think may be the reason that the trip reports apparently
7 didn't turn up in the search?

8 MR. GALERSTEIN: I have an explanation
9 that it's sloppy filing and that it's sloppy dead
10 storage keeping, and that it's just sloppy work.

11 MR. COLLINS: But no report showed up.

12 MR. GALERSTEIN: You asked for my
13 explanation and I can't debate it with you.

14 MR. MARINACCIO: We are not engaging
15 in any debate.

16 Could I make a request of you, in the light
17 of Mr. Gallagher's testimony about these trip reports,
18 to, in the next few days, make a search in the light
19 of these circumstances, of the documents and make a
20 statement to the Senate Banking Committee concerning
21 the trip reports?

22 MR. GALERSTEIN: Well, I can't make any
23 statement concerning the trip reports. All I can tell
24 the Senate Banking Committee is what I've done in order
25 to find whatever documents are available. I never saw a

1 trip report. I don't understand what they are in this
2 context. I mean, I understand what trip reports are
3 generally, but all I can do is look for the items
4 and I have done that.

5 MR. MARINACCIO: Well, I think at this
6 point, since a subpoena is outstanding and since this
7 witness has talked about trip reports during the relevant
8 period, that I think there's an obligation to specifically
9 run down the trip reports that may have been written by
10 Gallagher, Atkins, Sylvester, and Rudning, and Farmer,
11 and find out where they are, what was in them and
12 whether or not they should be produced pursuant to
13 the subpoena.

14 MR. GALERSTEIN: In,--

15 MR. MARINACCIO: Is that reasonable?

16 MR. GALERSTEIN: Sure, it's reasonable.

17 MR. MARINACCIO: Thank you very much.

18 MR. GALERSTEIN: And, if I knew what to
19 do, I'd do it.

20 MR. MARINACCIO: Well, let's see. I
21 think you should, at a minimum, talk to the people
22 involved, find out where they sent their documents,
23 try to find the documents and have somebody go through
24 the documents to see if they can identify trip reports.

25 MR. GALERSTEIN: Well, I have gone-- I--

1 MR. MARINACCIO: It's obvious that
2 these documents could possibly be relevant here.

3 MR. GALERSTEIN: Nobody wants to get
4 those documents more than I. I am very much interested
5 in getting those documents so that there is never any
6 uncertainty.

7 I have looked very carefully through all
8 of those files, 11 folders. I spent hours upon hours.
9 I know a trip report when I see it, so, therefore, if—
10 I mean, I think it says, "trip report," usually.

11 MR. MARINACCIO: Does it say "trip
12 report", Mr. Gallagher?

13 THE WITNESS: Usually, yes.

14 MR. GALERSTEIN: So, if it were there,
15 you would have it before you.

16 I am perfectly willing. In fact, almost
17 insisting, that I retrace my steps and make another
18 effort.

19 MR. MARINACCIO: More than that, we
20 cannot ask.

21 MR. GALERSTEIN: Off the record.

22 (Off the record discussion.)

23 BY MR. MARINACCIO

24 Q I have one final question: I don't know
25 whether this document is marked as an exhibit for

1 reference of your testimony, but it's so short, I
2 can read it to you. Perhaps it's been marked already.
3 But here's a communique from Zanganeh to Atkins, and it's
4 dated April 18, 1972 and it says:

5 "As a result of the supreme and tireless
6 efforts of Gallagher, I am pleased to inform
7 you that the letter of intent evidencing firm
8 intent of Government of Iran to acquire models
9 AH-1J and 214A, subject to satisfactory in
10 country demonstrations has been signed today.
11 Mr. Gallagher, who is on his way to Fort
12 Worth, is handcarrying the same letter; awaiting
13 further instructions and congratulations to
14 all concerned. Best personal regards,
15 Zanganeh."

16 Q You handcarried the letter of intent back?

17 A Yes.

18 Q That was General Toufanian's letter of
19 intent dated April 18, 1972?

20 A Yes, sir.

21 MR. FREED: '72?

22 MR. MARINACCIO: '72, I'm sorry.

23 Q What were your supreme, tireless efforts
24 that Zanganeh was referring to?

25 A All those presentations, all those trips,

1 all that data provided.

2 Q Were you duly congratulated by Mr. Atkins
3 when you got here about that?

4 A Well, the letter was very short, you know.
5 I think it was a sentence and a half and he looked at
6 it and said—it wasn't really— "Is this a good letter
7 of intent;" you know.

8 Yes, I guess I was duly congratulated.

9 Q And it subsequently bore fruit when you
10 sold the helicopters?

11 A Contingent upon the demonstration, yes,
12 sir.

13 MR. MARINACCIO: I have no further
14 questions.

15 I appreciate your coming here and thank you
16 for your testimony.

17 MR. GALERSTEIN: Thank you, Edgar.

18 (The evening recess was taken to reconvene
19 at 8:30 a.m. on Sunday, February 5, 1978.)

20 (The Transcript is continued in Volume V.)
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UNITED STATES SENATE
STAFF OF
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

STAFF INVESTIGATION RELATING TO
THE NOMINATION OF
G. WILLIAM MILLER.

VOLUME V

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Charles L. Kee
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Federal Courthouse
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17-03

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SUNDAY, FEBRUARY 5, 1978

MORNING SESSION

(Whereupon, the proceedings were reconvened at 8:30 o'clock a.m., pursuant to the evening recess on Saturday, February 4, 1978.)

MR. MARINACCIO: Good Sunday morning, Mr. Rudning. We appreciate your coming by to give your testimony, interrupting your Sunday.

MR. RUDNING: Happy to help you.

MR. MARINACCIO: This is a continuation of the Staff inquiry into the facts surrounding the payment of the \$2.9 million by Textron Bell to Air Taxi in 1973, '74 and '75, and into the sale of 489 helicopters to the Government of Iran.

The purpose of the inquiry is to elicit the facts relating to this transaction so that the Senate Banking Committee may be more fully informed with respect to the nomination of G. William Miller to be a member of the Federal Reserve Board.

We appreciate your appearing here voluntarily this morning, but you will be under oath. We are authorized by the Senate Banking Committee to administer oaths and take testimony under oath. And because you'll be under oath, all of the testimony that you give will be subject to all of the laws of the United States

17-04 1 applicable to Senate proceedings that involve perjury
2 or false statements of witnesses. And I do have to
3 advise you that the testimony that you will give could
4 possibly be used in a subsequent enforcement proceeding
5 by a relevent agency of the Executive Department.

6 And you do have the right to have counsel
7 present with you, and you do have counsel present with
8 you, Mr. Soutter and Mr. Galerstein.

9 I'll identify myself. My name is Lindy
10 Marinaccio and I'm Special Counsel to the Senate Banking
11 Committee. This is Bruce Freed, he's Professional Staff
12 Member of the Senate Banking Committee; John Collins,
13 Counsel to the Minority of the Senate Banking Committee.
14 This is David Doherty. He's Associate Director of the
15 Division of Enforcement at the SEC, and he's been detailed
16 to the Senate Banking Committee for the purpose of
17 conducting this inquiry at the request of the Chairman
18 of the Senate Banking Committee.

19 At this time I'd like you to rise and take
20 an oath for your testimony. Raise your right hand.

21 Do you solemnly swear that the testimony that
22 you're about to give will be the truth, the whole truth
23 and nothing but the truth, so help you, God?

24 MR. RUDNING: I do.

25 MR. MARINACCIO: Please be seated.

17-05

1 CHARLES R. RUDNING,
2 having been first duly sworn to tell the truth, the
3 whole truth and nothing but the truth, testified as
4 follows, to-wit:

EXAMINATION

BY MR. MARINACCIO

6 Q Would you state your full name for the
7 record?

8 A Charles Roger Rudning.

9 Q And in what capacity are you employed by
10 Textron Bell?

11 A I'm a President of Bell Operations Corporation
12 which is a wholly owned subsidiary of Textron.

13 Q How long have you been employed by them in
14 that capacity?

15 A I believe we formed the corporation in
16 January of '76. So since that date.

17 Q And what does that company do, does that
18 company have some particular relationship to the Iranian
19 situation?

20 A Yes, it does. We're performing the
21 co-production program for Iran. We are creating a
22 helicopter industry for them, the ultimate goal of which
23 is that we turn over an operating industry to them; I
24 think it's 1983.
25

17-06 1 Q Would you describe the positions that you
2 held in Textron Bell from the period 1967 until you
3 became President of, what is it, Bell Helicopter Company,
4 or Bell International?
5 A Bell Operations
6 Q Bell Operations.
7 A Corporation.
8 This is from memory. I don't remember exact
9 dates.
10 Q To the best of your recollection.
11 A But I would guess about the middle sixties
12 I was Manager of Contracts Administration for Bell
13 Helicopter.
14 In the later sixties I was promoted to Vice
15 President of Program Management, again for Bell Helicopter
16 And then to the President of Bell Operations
17 in early '76.
18 Q What responsibilities would you have had as
19 contract officer for Bell in 1968 with respect to the
20 retention of Air Taxi as Bell's agent at that time?
21 A None. The Contracts Department that I was
22 heading up at that time was mostly engaged in all of our
23 contractual relationships with the U.S. Government. And
24 at that point the Vietnam situation had our full attention.
25 There were separate contracts activities

17-07 1 within International Marketing that dealt with the
2 international marketing business. The only exception to
3 that statement I can think of is that we had a
4 co-production program working in the Federal Republic of
5 Germany, and I as an exception was handling that
6 transaction.

7 But my responsibilities related to Bell's
8 relationships with the U.S. Government in the area of,
9 I'll say, the Department of Defense.

10 Q Do you know or have you ever heard the reason
11 why Air Taxi or the reasons why Air Taxi was retained
12 in 1968?

13 A Well my knowledge relates to that we as a
14 matter of policy or practice utilize manufacturer's
15 representatives around the world instead of putting our
16 own employees in all of these countries. And I believe
17 Air Taxi was engaged by us as a manufacturer's representa-
18 tive, middle--well, I guess the first time was in the
19 late fifties. And then there was a period of apparently
20 about four years, and I believe you have the documents.
21 They came back on line with us. I think the date's 1968.
22 And I believe they have been under a line of contracts
23 with us since that time.

24 But I had nothing to do with the original
25 relationship with Air Taxi or that relationship which

17-08 1 reactivated in the late sixties. I just didn't
2 participate in that.

3 Q Have you ever heard that Air Taxi was
4 retained in 1968 because either Air Taxi or Mr. Zanganeh
5 had a relationship with General Khatami?

6 A No.

7 Q Or the Shah?

8 A No.

9 Q Or some special relationship with General
10 Toufanian?

11 A No.

12 Q Now, could you describe in a general way
13 your familiarity with the Amendments Number 1, 2 and 3 to
14 the agreement between Air Taxi and Bell which led to the
15 payment of the \$2.9 million, just in a general sort of a
16 way, whether you participated or didn't, what participa-
17 tion you had and so on?

18 A Well, you've asked me—

19 Q You did sign some of the documents.

20 A Sir?

21 Q You did sign some of those documents.

22 A Signed all of them, I believe.

23 Q I see.

24 A You've asked me a very big question. Let me
25 give you some off-the-top answers.

17-09

1 I was asked to get into the Iranian situation,
2 I think, in early 1972 is the first time I had anything
3 to do with Iran.

4 It was reported to me that there was a
5 strong possibility of a big market development, and
6 I think my first visit to Iran was in early '72.

7 As part of doing some homework, it looked to
8 me that we had a liability, it could be argued we had a
9 liability with Air Taxi that could be big if a large
10 program came to pass.

11 So my memory is that one of the things I was
12 concerned about in early '72 was trying to contain that
13 liability in some way. And I don't think it was clear to
14 anybody at that point just how big a program might come
15 to pass.

16 So, I believe the first amendment, which we
17 had difficulty negotiating, was to put some limits--and
18 I think we put some limits in the area of about two and
19 a half per cent, I believe that's what Amendment Number 1
20 says.

21 At that time, the proposals which our people
22 had filed were for small numbers of ships, I think in
23 the area of 50 or less of our transport helicopter and
24 50 or less of our gun ship. But there was hope, marketing
25 talk or, any way you'd care to call it, that it might get

1 to be bigger than that.

2 So we were quite lucky to participate in an
3 expanding market. And I assume that you heard about all
4 the test programs and things that went on.

5 But as it turned into large numbers and as it
6 began to go from a direct contractual relationship to an
7 FMS relationship, we had the feeling that we again needed
8 to gather up our liabilities with Air Taxi, and we made a
9 move on Amendment—I believe it's Amendment Number 2, to
10 pull the amount we owed Air Taxi from two and a half
11 per cent down to 1 per cent. And I believe we started
12 maneuvering to take out spares and to take out training
13 programs because at that point it began to look like we
14 were going to be asked to at least bid on and possibly
15 we would be the winner for some major logistics and
16 training activities to support the helicopter.

17 So, I believe we brought Amendment 2 into
18 operation before the U.S. Government and the Iranian
19 Government consummated an FMS arrangement for the hardware
20 program. I think you said 489 ships and I think that's
21 the right number.

22 Then the Iranians became interested in the
23 training and logistic situation. They asked us to
24 participate in that. And we elected to try to further
25 reduce our risk with Air Taxi.

1 We went through a very difficult set of
2 negotiations. They had strong feelings that they could
3 take us to court and end up with numbers I'll say in the
4 five to six million dollar area.

5 We finally said, "All right, we're going to
6 put you at, I believe the number is \$2.5 million, and
7 that's our final offer, and accept that or we'll have to
8 fight it out in court." And they accepted it. And I
9 think that occurred about the middle of 1973.

10 So this whole situation operated over a
11 period of a little more than twelve months.

12 And during that period of time, I think, as
13 you know, the FMS situation put together on the
14 helicopters, the Iranians that had competitions for
15 training and logistics which we ended up taking as
16 direct contracts in early '73, we ended up with a
17 definitive contract with the U.S. Government for the
18 helicopters about the middle of '73, and it was all there
19 in a period of about, what, 14, 15 months.

20 Q Now, Mr. Rudning, do you know or have you
21 ever heard that any part of the \$2.9 million payment to
22 Air Taxi went to any Iranian Government official, either
23 in the military or in the civilian, including General
24 Khatami?

25 A No, to both questions.

1 Q Are you aware of any discussion whatsoever
2 in Bell, Textron Bell, about any money or anything of any
3 value going to any Iranian Government official, including
4 General Khatami?

5 A I'm not aware.

6 Q Of any such discussions?

7 A That's correct.

8 Q Or conversation?

9 A That's right.

10 Q Have you ever heard any rumors to that effect
11 within the company?

12 A No.

13 Q Outside the company, in Iran?

14 A You're asking me an awfully broad question.

15 My experience is that if you get on an air-
16 plane going to that part of the world, you're going to run
17 into lots of people that were hypothesizing about
18 situations in the Mideast. And I'm not an expert in that
19 part of the world at all.

20 I think you find a lot of people who are doing
21 a lot of fishing. I don't relate to rumors and so I
22 don't follow through on those conversations. But it's
23 the biggest subject in--it was the biggest subject in
24 that part of the world at that time. I have no facts,
25 nor did I try to follow down any rumors that people would

1 try to offer.

2 I'm of the opinion that there's a lot of
3 companies that go on fishing expeditions for their own
4 advantage. And there was a big market at that time.

5 Q Now, my question was, any rumors to the
6 effect that the 2.9—any part of the \$2.9 million payment
7 that Bill made went to an Iranian official or General
8 Khatami?

9 A No, I have no problem with that. The answer
10 is, no.

11 Q You heard no rumor—

12 A No.

13 Q —to that effect?

14 A No.

15 Q Do you know or have you ever heard that
16 General Khatami had an ownership interest of any nature
17 whatsoever in Air Taxi at any time?

18 A I don't know it, and to the best of my
19 recollection I don't believe I ever heard it. I have no
20 evidence on it.

21 Q Did you ever hear a rumor to that effect on
22 an airplane going to Iran, or chit-chat in Iran?

23 A That's a very big question.

24 Q Yes, I know it is. And I'd like your best
25 recollection of whether or not you had ever heard that

1 General Khatami had an interest in Air Taxi?

2 A To the question of Khatami having an interest
3 in Air Taxi, no. I'm editorializing at this point.

4 Q Please do.

5 A But I think if you look back in, oh, 1972
6 which is the area we're talking about, and I think it's
7 still true today, they keep the aviation of that country
8 under very tight control. That's my opinion, I can't
9 cite you documents to prove it. Just like they keep
10 their internal communications network, their radio
11 network, et cetera, under very tight control. So that if
12 they ever wanted to ground everything in that country
13 for their own purposes, they could do it. They know--
14 there's very few, if any, civil aircraft over there.

15 So, when you go speak to anybody about
16 aviation, my impression is, you very quickly relate to the
17 head of the Air Force, whoever it is.

18 I believe Air Taxi is, I meant to say Iran
19 Air, under very direct control of someone within that
20 government. I think at that time all of Air Taxi's
21 flight operations were under very direct control. And I
22 think if you now try to take in a civil aircraft for any
23 purpose, you encounter the same situation.

24 And so I'm trying to talk about a management
25 operational control of everything that flies.

1 Business relationshipwise, I have no information,
2 I can't contribute at all.

3 Q What role or part, to the best of your
4 knowledge, did General Khatami play in the sale of Bell
5 helicopters to the Government of Iran?

6 A Well, I have nothing that I can prove.

7 My personal impression is that the decisions—
8 major decisions in that country are all made by His
9 Majesty. To me, that's a premise that you have to start
10 with.

11 I think Toufanian had probably the next
12 strongest vote because he would—he or his office would
13 be the channel that presents program recommendations to
14 His Majesty.

15 Then after that comes the operational
16 judgments, the question of the using forces and is this
17 what they want?

18 And my perception at that time was that the
19 Air Force was farther along in its developing cycle,
20 they had operations going on very sophisticated aircraft,
21 and the Army was coming along trying to bring up its
22 air army.

23 So my perception is that the Air Force was
24 looking over what the Army was doing to see that their
25 planning made sense, that it was in an orderly fashion.

1 And I don't say it because I know it but my guess would
2 be that the Air Force had an opportunity to vote or at
3 least make a recommendation on whether the Army's plan
4 was a sound plan.

5 Q And that would have been General Khatami?

6 A At that point he was the head of the Air
7 Force, and I believe that would be correct.

8 But I think there's a lot of staff officers
9 in the Air Force who also were in a position to make
10 comment on this.

11 I think I'm-- I'm trying to describe a
12 situation that is not unlike what you can argue exists or
13 did exist in this country, roles and missions, perhaps.
14 Plus my perception is that Khatami was a very capable
15 person, a very strong person.

16 So not only did he have a position of
17 strength as being the head of the Air Force, but also
18 in the country was extremely well respected.

19 Q On how many occasions did you meet personally
20 with General Khatami?

21 A One time.

22 Q Do you recall when that occasion was?

23 A I would guess it--to me it was probably in
24 the summer of '72. I have nothing I can relate it to
25 as an event that I can recall but--

1 Q Sure. Who was present with you and General
2 Khatami and where did you meet?

3 A We met at his house. Sylvester, Gallagher,
4 and, I believe, Zanganeh.

5 Q And what was the purpose of the meeting?
6 Who had set the meeting up?

7 A Well, my recollection is that Bell Helicopter
8 had made a movie--was shooting a movie around the world of,
9 I'll say, peaceful use of Bell helicopters, commercial,
10 MED-EVAC, that sort of thing. And one of our film crews
11 had gone into Iran. Khatami's wife was apparently a
12 very good helicopter pilot. And they had taken some
13 footage of her flying in her Jet Ranger-- I believe it
14 was her Jet Ranger at that point.

15 And Bell had collected all this footage and
16 did what you call the first draft of a final movie and
17 were going around the world checking to see if in fact
18 the film displayed what the people expected it would
19 display properly. You know, you have to cut a lot of
20 footage out.

21 So, I gather Bell-- I was on the outside of
22 this, but Bell had offered to screen the film for Mrs.
23 Khatami. And so one evening Bell was invited to do this,
24 and I was asked, with very little notice, would I like
25 to come along? I said, yes.

1 I guess we were there about two hours. Very
2 fine meeting.

3 Q And was there a conversation? And if so, what
4 did the parties say, what was discussed?

5 A Well, I don't remember any business discussed
6 at all.

7 Q Was the sale or purchase of helicopters by
8 the Iranian Government discussed in any way?

9 A No.

10 Q Did General Khatami mention at all that he
11 was enthusiastic or favorably inclined toward Bell
12 helicopters?

13 A I--

14 Q He hoped that the Iranian Government would
15 buy them?

16 A I don't remember a single bit of business
17 discussed that evening. It was very informal. As I
18 remember, he was in--well, it wasn't a business suit or a
19 uniform, it was just a kind of relaxed kind of attire.

20 Someone came and served us some drinks, and
21 we went to his projection room and he threaded the film
22 himself in his home movie studio, and we screened it and
23 his wife talked about her flying activities. And our
24 people were very glad that they had shown the movie
25 because we had badly mistaken in the sense that apparently

1 the—we had something in there in the audio about she would
2 fly her helicopter to Isfahan for lunch, and that's wrong.
3 Isfahan is 250 miles away, you just don't do that, and
4 she picked us up on that.

5 The only thing I remember is Khatami fussing
6 about the smog situation in Teheran and how it was
7 starting to mess up his aircraft flight activities.

8 When it was all over, the only thing I
9 would score at is, Bell was being sized up.

10 The Iranians have a strong personal relation-
11 ship situation. They just don't do business with people
12 unless they feel that—again, my impression—unless they
13 decide what kind of person you are and if they want to
14 personally do business with you. And when it was all
15 over, my feeling was that that was no accident. I got
16 checked out pretty well. And it wasn't from a business
17 side. Very comfortable evening, no business.

18 Q Did you ever discuss General Khatami with
19 Mr. Atkins?

20 A I believe I told him of that evening. But I
21 was not present during any of the— Our team made some
22 briefings around the country at the beginning, and I
23 believe they made some briefings including Khatami. And
24 I didn't participate in any of those. And I—

25 Q Did you ever discuss General Khatami with Mr.

1 Atkins in any way? And I believe you said previously
2 that General Khatami is head of the Air Force, had a place,
3 a role, in the aviation in Iran. Presumably that would
4 put him in a position to make some recommendation with
5 respect to the purchase of helicopters.

6 Did you discuss that with Mr. Atkins at any
7 time?

8 A I'm sure the answer to that is, yes, but I
9 can't recall when or what was said.

10 His Majesty had Khatami fly our two aircraft,
11 I believe, right after His Majesty flew them after the
12 test program over there. And I'm sure we talked about
13 that and how well he handled the helicopters and that
14 sort of thing.

15 But there were just no relationships going
16 that I know of. I'm sure we speculated as to what kind
17 of a report Khatami would give after testing the ships.
18 I believe we had one or two Air Force officers in the
19 test program, the GOI testing team itself, I believe there
20 were one or two Air Force officers. I would guess they
21 were of about the captain level, but I don't say that
22 because I remember exactly.

23 The Air Force was flying logistic support
24 for the test program. The Air Force provided the C-130s
25 to take us over and bring us home, and we had a lot of

1 work and problems connected with those air lifts.

2 But I think I already told you all I know
3 about the relationships of Khatami in the procurement
4 transaction.

5 Q Did Mr. Atkins ever mention to you that he had
6 discussed General Khatami with G. William Miller?

7 A To the best of my recollection, no.

8 Q Do you know G. William Miller?

9 A Yes.

10 Q On how many occasions have you had opportunity
11 to talk to him in the last four or five years, on a
12 regular basis or--

13 A I would be guessing. I've probably been to
14 Textron four or five times in that period of time. He's
15 probably been here ten or twenty times.

16 He was very interested in our co-production
17 program, the program I'm working now. He helped us with
18 the negotiations in Iran on that.

19 Many times.

20 Q Would you have had an occasion to meet with
21 Mr. Miller individually or was it always in groups?

22 A Both ways.

23 Q Both ways?

24 A (Nods head up and down.)

25 Q And when you met with him, either individually

1 or in groups, did you discuss with him the matter of
2 the purchase of helicopters by the Government of Iran?

3 A I remember many conversations with him with
4 regard to our co-production program. But that was '74
5 and subsequent. I can't recall any conversations with
6 him on the hardware program. I'm sure there were some
7 but I can't recall them.

8 Q Do you recall any conversation with G.
9 William Miller individually or when others were present
10 at which you mentioned to him, you discussed any role
11 or any participation or even the name of General Khatami?

12 A Khatami was not a problem to me. So I
13 would-- I would doubt that I would ever have mentioned
14 his name to Miller.

15 Q When you say he was not a problem to you, what
16 do you mean? I mean, do you mean that he was favorably
17 inclined toward you so therefore you wouldn't have
18 mentioned it?

19 A No. I didn't see Khatami as a problem. I
20 didn't see him as contributing to our program at the
21 beginning. Maybe I'm not saying it to you right.

22 I didn't see that Khatami had, from my side
23 of it, from the business side, any involvement. I wasn't
24 worried about him, I wasn't thinking about him. He
25 wasn't where my problems were.

1 So, on that basis, I would be very surprised
2 if Khatami was used in any conversation, no.

3 Q What is your best recollection with respect
4 to whether or not you discussed Air Taxi with G. William
5 Miller?

6 A Frankly, I don't remember. I don't remember
7 how involved Miller was in that original hardware program.
8 I just can't contribute.

9 Q When did G. William Miller become involved, to
10 the best of your knowledge, in the co-production program,
11 and can you describe his involvement in the co-production
12 program?

13 A Well, the Iranians-- I guess I'm going to have
14 to set the stage for you a little bit. The Iranians asked
15 us at the very beginning, were we interested in setting up
16 a co-production program in Iran?

17 We said, "It's too early to consider that
18 now. We will discuss it with you later."

19 And that kind of a conversation was back in
20 the '72-'73 time frame. So they came--

21 Q Was Mr. Miller involved in that decision on
22 the part of Bell to advise--

23 A Not to my knowledge.

24 We were asked more directly in '74, would we
25 make proposals for a co-production program? We did.

1 I don't remember any conversations between
2 Mr. Miller and myself on that subject.

3 We saw the Iranians go for an FMS approach
4 to co-production. And we participated with the
5 Government—the U.S. Government—in that.

6 The Iranians rejected the U.S. Government's
7 proposals early in 1975, and they came out with an
8 international, RFP. That's where I remember discussions
9 beginning with Mr. Miller because this one had lots of
10 interesting policy questions in it from a corporation
11 commitment standpoint.

12 Q What was the approximate date of that?

13 A Early '75 would be my recollection. This
14 was an interesting corporate challenge. And that's
15 where I can recall conversations with Mr. Miller about
16 Iran and the co-production area, which was where I was
17 spending all my time at that point.

18 Q General Khatami have any involvement at all
19 in the co-production aspect of it?

20 A None that I know of. And he—he was killed
21 in a glider accident about then, I would guess, '74, '75.

22 Q Do you recall if Mr. Miller ever mentioned to
23 you the fact that General Khatami had been killed in a
24 glider accident, commiserating over his death or anything
25 like that?

1 A No, I don't remember anything like that.

2 Q Do you have any knowledge or have you ever
3 heard that Textron or Bell maintained any slush funds,
4 off-the-book slush funds, for the purpose of entertaining
5 government officials or for any other purpose, including
6 foreign government?

7 A Your question is, have I ever heard? No.

8 Q Have you ever heard, do you have any knowledge
9 of?

10 A No.

11 Q Are you aware of?

12 A No.

13 MR. MARINACCIO: I'd like to ask Mr.
14 Collins to put his questions to you at this point.

15 THE WITNESS: Okay.

16

17 EXAMINATION

18 BY MR. COLLINS

19 Q Mr. Rudning, you mentioned to Mr. Marinaccio
20 that you had no problems with General Khatami.

21 With whom did you have problems, if you did?

22 A I was trying to say it in a business sense.
23 I was trying to put together a contractual relationship with
24 our customer, terms and conditions and delivery schedules and
25 prices, and that was the area I was worrying about. And

1 also trying to contain Air Taxi.

2 Q The customer being?

3 A The Government of Iran.

4 Q I'd like to go back a little bit and get a
5 better understanding of exactly what you were doing with
6 respect to the Iranian contract. That is, your
7 responsibilities and duties in the period 1971, '72. I
8 believe you said that you become involved in Iranian
9 matters in 1972.

10 A (Nods head up and down.)

11 Q So let's go to that time period, whenever
12 you began, what your responsibilities were, what areas
13 were you in charge of?

14 A Well, Bell uses a, I'll say, a management
15 team approach.

16 When we get into a big program, we have some-
17 one from the business side and someone from the marketing
18 side. I had the business side and the International
19 Marketing, of course, was doing the marketing side of it.

20 So my area was what kind of commitments was
21 the company making in configurations of helicopters,
22 delivery schedules, warranties, prices, contractual
23 relationships.

24 Q So it would include not only negotiating a
25 contract with a manufacturer's representative, but other

1 matters?

2 A Really the other way around. All of the
3 direct contractual relationships and commitments with our
4 ultimate customer and in trying to help the International
5 Marketing people in their relationships with their
6 manufacturer's representative.

7 Q Did you ever accompany the sales people in
8 their meetings with Air Taxi or government officials, was
9 it a dual effort, would you go in with them and meet
10 together, or would each--the business side meet first and
11 later on the marketing team would meet?

12 A We were playing as a team at that point, and
13 the exception would be when we would go in separate
14 directions. Accept their--that demonstration program, the
15 test program of theirs, I didn't participate in that at
16 all, did not participate in at all.

17 Q With whom did you deal in the Government of
18 Iran? You were negotiating or having discussions. With
19 whom did you deal most often?

20 A General Toufanian and his-- Mr. Dehesh. I'm
21 trying to remember his title and I don't recall it.

22 Q But never General Khatami?

23 A No. As I said before, I met Khatami once
24 socially and that's all.

25 Q Did they ever discuss in meetings with them

1 with General Toufanian and Mr. Dehesh that General Khatami
2 would have to be consulted in any way in the possible
3 acquisition by Iran of Bell helicopters?

4 A I don't recall it put in that sense.

5 There were discussions about this very important
6 test program that we were going to have and the Air
7 Force's participation in it.

8 There were other officers of the Air Force
9 who had active roles in that, and if Khatami's name was
10 mentioned, I don't remember it as such.

11 Q How often did you visit Iran during this
12 time period, that is, 1972, '73?

13 A I would be guessing but probably at least
14 once every six weeks.

15 Q And do these start in the spring of 1972 or
16 at what point in the year? Do you recall when you first
17 went there?

18 A I would guess it was about February of '72.

19 Q And for what purpose did you go at that time?

20 A Well, the first purpose was to introduce me
21 to Iran.

22 We had some proposals. I think we were
23 taking over proposals like I previously said of 50 or
24 less of two models of our ships.

25 We had outlined a complete contractual

1 transaction which we wanted to try out on the Iranian
2 Government. And we wanted to have some discussions with
3 the Army, the Iranian Army.

4 We were really in a fact-finding mode, trying
5 to see what the situation was that was developing over
6 there and how we could best handle it.

7 Q What was the—

8 A And let me just add one thing. And also to
9 vote whether we were prepared to make the major commitment
10 as a company to enter that marketplace, because there were
11 going to be some large performance responsibilities put
12 upon us schedulewise and they were apparently going to
13 ask a major commitment of us.

14 Q What was the involvement of Air Taxi in this
15 visit, the first visit, what type of information did you
16 have from them with respect to the program when you went
17 there for the first time?

18 A Well, the people who I was with had previously
19 been in country. So, to me, Air Taxi was more of a
20 logistics support. Other than the one meeting I already
21 mentioned, I don't believe that I ever saw Zanganeh in
22 a meeting that I was having with the Iranian Government.

23 But Zanganeh was extremely helpful to me.

24 We had no office, so all of the letters that
25 we were writing, Zanganeh typed for us.

1 We didn't have a telex system, and communica-
2 tions out of Iran at that time were very difficult.

3 And things like finding lost bags and lost
4 excess baggage proposals, the things that you came in
5 country with, never got there with you.

6 So from an administrative standpoint, he was
7 very helpful.

8 Q Mr. Iranzad was, I believe, Mr. Zanganeh's
9 assistant at Air Taxi, second in charge.

10 A Uh huh.

11 Q Did he ever participate?

12 A Well, he did a lot of the detail work for
13 me, lining up typists and sending TWX's and that sort of
14 thing. But no one from Air Taxi participated in any of
15 the meetings that I had with the Iranian Government.

16 Q Did you ever discuss your meetings with them,
17 with the people from Air Taxi?

18 A No. They were, in my view, they helped us
19 get started, and then they stood back. As a matter of
20 principle, I didn't tell them how we were proceeding, what
21 our contractual terms were or anything else. It was our
22 relationship with the GOI at that point and I didn't
23 think that they were trying to cut themselves in on it,
24 they weren't trying to find out.

25 Q They might find out some details if you were

1 sending messages back and forth through their office,
2 wouldn't they?

3 A Of course. Of course.

4 Q What type of messages would you be sending to
5 Fort Worth to the Bell headquarters here?

6 A I don't believe I sent a lot of TWX's. We
7 tried to do most of it by phone.

8 I remember--well, the only thing that comes
9 to mind is, I was having trouble setting up a logistics
10 program, spare parts and that sort of thing, and I needed
11 a lot of data and I used Air Taxi for that purpose.
12 There were some TWX's in spare parts areas, funding
13 levels. Hotel reservations, lots of--lots of
14 administrative sorts of traffic.

15 Q Did you ever have any conversations with
16 people from Air Taxi or anyone else concerning the
17 ownership of Air Taxi?

18 A If I did, I can't recall it.

19 Q Then that never became an issue?

20 A Not in my mind.

21 When I first got in country, I deliberately
22 went out to visit their facilities to see what they had,
23 and, in my judgment, they are a very responsible, fixed
24 base operator, they had a very large operation going on.
25 Maintenance work, there were helicopters in there, lots of

1 aero commanders.

2 I believe they were the single air charter
3 operation active in Iran at that point. And from a
4 cursory view on my part, they were a very viable business
5 activity.

6 Q So what was your perception of them as an
7 agent for Bell Helicopter in comparison to other agents
8 that Bell might have employed in Iran?

9 A Well, that's a hard question for me to
10 answer.

11 I never did see or hear of alternatives for
12 manufacturer's representatives that we might have used,
13 so I have no—no reference point for that. And I'm not
14 knowledgeable on other manufacturer's representatives
15 that Bell has. So I can only comment that they looked
16 like a responsible and responsive, going business.

17 Q Of course, Bell Helicopter engaged Air Taxi
18 as a manufacturer's representative from 1959 to about
19 1964 and then picked them up again in 1968. I believe in
20 some of the correspondence we have in these documents it
21 indicates there's some reference to an agent between
22 1964 and 1968. I think we all recognize that there may
23 not have been that much business in Iran so that the
24 agent may not have been used to any great degree.

25 However, the question remains, you know, why

1 drop Air Taxi in 1964, why pick them up in 1968? And I
2 just wondered whether you had any knowledge as to why
3 Bell would have made that decision in 1968?

4 A I have no information on that.

5 Q You never--

6 A I think I remember wondering about that. And
7 I believe what I was told was that we were looking at all
8 of our representatives or dealers in that part of the
9 world. We had some people on our staff who switched some
10 people out, not just there but in other parts of the
11 world. And those people aren't with us any longer. And
12 I think what I was told is that we maybe didn't use some
13 good judgments and we put some relationship back together
14 again.

15 It was just in the management of manufacturer's
16 representatives in that time in that part of the world.
17 And I don't even remember the names of the Bell people
18 who were involved in that. But I couldn't find anything
19 that seemed to be of substance.

20 Q Do you recall who would have been the person
21 or persons to have rehired Air Taxi in 1968 as Bell's
22 representative?

23 A Memory tells me that it was one of our area
24 representatives by the name of Bud Orpen. But I'm
25 reaching on that one.

1 Q But the decision would be made here in Fort
2 Worth as to who would get final approval to act as
3 agent?

4 A I'm outside of that loop. I believe the
5 answer is, yes, but I don't know.

6 Q With respect to the negotiations with Air
7 Taxi on the compensation agreements, arrangements under
8 the Manufacturer's Representative Agreement of 1970, when
9 did those negotiations begin, that is, to negotiate the
10 commission, possible commission, on the sale of the 489
11 helicopters?

12 A Well, they started on my first trip in
13 country, which I think was about February. But I'm
14 guessing on the date. It was early in '72.

15 Q So at that time you had discussions with
16 the Government of Iran as to the program that they were
17 interested in?

18 A (Nods head up and down.)

19 Q And also possible commissions that would flow
20 to Air Taxi?

21 A Yes. I recognize, if I may, those are
22 separate transactions. On one hand we're trying to put a
23 program together with the Government of Iran, on the
24 other hand we're trying to gather up what our potential
25 liabilities would be with an established manufacturer's

1 representative.

2 Q And at that point in time, what did the
3 program look like with respect to the number of heli-
4 copters?

5 A Well, that's hard to answer. Our marketing
6 people were going in with small proposals, with big
7 dreams in their eyes that this thing was going to turn
8 into a great big situation.

9 My impression from that first trip was that
10 there was a strong probability it was going to be a very
11 large program. But there was a very big question in my
12 mind as to whether Bell was going to get to participate.
13 Other companies and other countries were also aware that
14 this was a big situation.

15 And, remember that Iran didn't have the money
16 to pay for the things they were talking about then,
17 either. So you could wonder where it was going.

18 Q I'm just trying to understand in my own mind
19 how you would negotiate with your manufacturer's
20 representative as to the commission, possible commission
21 rate, sum, whatever, without some idea as to the number
22 of goods or services that you're going to deliver to the
23 ultimate customer?

24 A I guess I don't understand your question.
25 There was a possibility of large commissions. I was

1 trying to put a fence around them, put some limits on
2 them, regardless of the size of the program. I
3 believe that we were speaking in percentages. So what
4 actually turned out, and what number of ships were
5 actually procured, it still could be computed. It wasn't
6 a fixed sum at that point.

7 Q What types of percentages were you talking
8 about, do you recall?

9 A I believe it was two and a half per cent.

10 Q At that time?

11 A That wasn't what they wanted. That's what
12 came out of it.

13 THE WITNESS: Am I right?

14 MR. SOUTTER: There are copies of the
15 things, three amendments. And you are correct.

16 A Yes.

17 BY MR. COLLINS

18 Q At that time, did Air Taxi indicate what
19 amount they wanted, or percentage?

20 A My memory is that they were pushing very hard
21 for 5 per cent.

22 Q Do you know whether 5 per cent or what per
23 cent would have been the usual commission on a sale to
24 the Government of Iran through an agent?

25 A I have no knowledge. I'm just dealing off of

1 I think our basic contract had for some models percentages
2 of seven and a half and for some five, and to be
3 negotiated, over thresholds of, what is it, five ships
4 or something like that.

5 Q Yes. Did you participate in meetings in the
6 spring of 1972 with respect to negotiations on proposed
7 Amendment Number 1?

8 A Yes, sir.

9 Q And at that time was it still 2.5 per cent,
10 in your mind?

11 A I was trying to bring it in under 2. And
12 the timing, if you're asking me timing questions as to
13 what particular month we settled this thing, I don't
14 remember. But it was a moving negotiation over a period
15 of time of, I want to remember, at least four or five
16 months from when we started to when we finally finished.

17 Q I believe that General Toufanian sent the
18 letter of intent to Mr. Atkins of Bell Helicopter,
19 indicating that Iran was interested in purchasing
20 helicopters from Bell. That letter was in the middle of
21 April, April 18th, 1972.

22 The first amendment was originally proposed
23 to be effective on the date it was signed. Do you want
24 to look at that?

25 A Yeah. I don't remember those dates.

1 Q Okay, fine.

2 MR. SOUTTER: Chuck, this is Exhibit 67,
3 and it's a copy of a letter from Frank Sylvester to Air
4 Taxi sending a proposed Amendment Number 1 in June of
5 '72. And it says here, "This amendment shall become
6 effective on the date hereof." And the actual amendment
7 as executed by providing, "This amendment shall become
8 effective on April 1, '72.

9 There are some, I believe, telexes which
10 effectively indicate that Amendment Number 1 was probably
11 actually signed in mid August.

12 MR. COLLINS: August 16th.

13 We'll take a recess for five minutes.

14 (Brief break.)

15 BY MR. COLLINS

16 Q Before we took the break, we were discussing
17 Amendment Number 1 to the June 15th, 1970 Manufacturer's
18 Representative Agreement between Bell and Air Taxi. And
19 Mr. Rudning was looking at a cable from, I believe, Mr.
20 Mitchell to Mr. Sylvester indicating that the amendment
21 had been signed by Bell in August, 1972.

22 The proposed Amendment Number 1 that was sent
23 to Air Taxi by Mr. Sylvester in June of 1972 had an
24 effective date, and as an effective date the date that
25 the amendment would be signed.

1 Now, the agreement that was finally signed,
2 from all indications, was made effective April 1, 1972.
3 And, in fact, one copy of the Amendment Number 1 that we
4 have that is signed does have the date April 1, 1972
5 under the signature of Mr. Zanganeh, that is, Exhibit
6 63-A. You have that, is that correct, Mr. Rudning?

7 A Yes.

8 Q I'd like to ask you the significance of the
9 April 1, 1972 date? Did it have any significance?

10 A It didn't have any significance that I
11 remember.

12 Q Would you have prepared the amendment, the
13 proposed amendment? Did you write the--draft the
14 amendment that was sent by Mr. Sylvester in June of 1972
15 to Air Taxi?

16 A I would be guessing. I would think the
17 answer is, yes. It's very possible that a number of us
18 participated in that document. But it would be normal
19 in a situation like this for me or my people to draft it.

20 Q But it would be your office's responsibility
21 to draft it?

22 A Well, technically, these agreements are the
23 responsibility of the International Marketing, they're
24 the custodian of them.

25 Memory tells me--and I'm reaching--but I

1 believe draft documents existed before June. I'd
2 forgotten that we transmitted one in June.

3 Q So there may have been other proposed Amendment
4 Number 1's?

5 A I think so.

6 Q Do you recall when those were prepared, or
7 were they discussed with Air Taxi?

8 A My style would have been that I would have
9 had a draft of a document before I first went over
10 there. But most probably I wouldn't have put it
11 on the table at that point.

12 Q When you first went over in February, 1972?

13 A Whatever that date was, but it was early in
14 '72.

15 Q Do you normally save copies of those things,
16 would you have a record of that?

17 A I don't know what kind of an answer to give
18 you there, frankly. Sometimes I do and sometimes I
19 don't.

20 I'm not a big keeper of paper. That gives me
21 a problem when I get into one of these things. We have
22 so many things going on that I just— I don't try to save
23 all that string, frankly, and I believe our people have
24 gone through our stuff in dead storage, trying to pull
25 things out for you.

1 I would be surprised at--what are we going
2 back, seven, six years? I'd be surprised that our files
3 would have that kind of thing in them. But I'm guessing.

4 Q The June 16th letter from Mr. Sylvester to
5 Air Taxi mentions that the proposed Amendment Number 1
6 that was enclosed with the letter, in Mr. Sylvester's
7 mind, at least, reflected the agreement reached on the
8 subject of the amendments during recent meetings in
9 Mr. Zanganeh's office.

10 Now, do you recall those meetings at all?
11 Were you there in Iran prior to June 16th--just prior?
12 I presume by "recent meetings," it must have been just
13 prior to June 16th.

14 A Well, you've asked a number of questions.
15 Sylvester and I tried to be together when
16 we were meeting on this issue with Zanganeh. There were
17 times, however, when he was in Iran and I was here or the
18 other way around that we had separate meetings with
19 Zanganeh. I think we were quite well coordinated.

20 You're asking, does this particular document
21 reflect our total thinking at that point?

22 I haven't read this out against the other one.
23 It looks like it's the same document except for the
24 effective date issue, the same numbers of ships, same
25 percentages.

1 Q Was Mr. Sylvester—you mentioned that you
2 both would go to Iran. Did you both participate in the
3 negotiation of this amendment?

4 A Yes. But except for what I just told you,
5 there were times when I think we were doing it differently
6 that we were not together in that I believe we were
7 getting very close to a very major demonstration starting
8 about now, timewise. And I was trying to put together
9 a major direct proposal for the full program to the
10 Iranians. We're probably 99 per cent completely
11 coordinated at that point, I would guess.

12 Q After your trips to Iran, would you prepare
13 a report on negotiations that took place?

14 A I'm bad in that area. I don't write trip
15 reports and I don't write memorandums of negotiations.
16 I just— I don't have the time.

17 Q So you don't recall whether you had ever
18 prepared one during this time period, during 1972?

19 A The odds are that I did not.

20 Q And your best recollection of the significance
21 of the April 1, 1972 date is that there really isn't any?

22 A You're correct. I have zero recollection
23 about an effective date. I don't remember there was
24 anything significant about it.

25 There are times when—this is a generality on

1 my part now—that people will ask you to take a document
2 back, once you started negotiating on a subject, and I
3 don't have any objection to that unless there's some
4 circumstances around it that have something different
5 to do with it, like an effective date for an order of
6 helicopters that give you "X" number of months to delivery.
7 You watch those kinds of dates pretty carefully.

8 But my memory doesn't relate anything
9 significant to a date here.

10 I know I opened negotiations with Air Taxi
11 before April. I guess these documents show that it
12 didn't get wrapped up until sometime in what, August?
13 In that ~~twix~~?

14 Q Yes. Did the Government of Iran or any of
15 its officials have any involvement in your negotiations
16 with Air Taxi concerning Amendment Number 1?

17 A There was no participation by any Iranian
18 official in those negotiations, nor were they asking us
19 any questions that I can remember about them. They knew
20 very clearly that we had a representative. They knew him,
21 they knew the company.

22 Q Let me just show you Exhibit Number 70, it's
23 from Mr. Gallagher to Mr. Sylvester dated July 26, 1972.
24 Mr. Gallagher saying to Mr. Sylvester:

25 "Am using max effort. Joe will sign

1 agreement after consultation with Alice."

2 Joe being Air Taxi, Alice being Dehesh. The code is
3 at the bottom of the page.

4 Does that have any significance to you?

5 A Are we talking about the same agreement, do
6 you suppose? I don't know.

7 Q Well, I presume that's—it's the only
8 agreement that we have knowledge of between Air Taxi and
9 Bell Helicopter.

10 A I can't help you. I don't relate to this.

11 Q And Exhibit 71 is a cable from Mr. Sylvester
12 to Mr. Mitchell.

13 A What was the date of this thing?

14 Q That's July 26.

15 A Okay.

16 Q Now, Exhibit 71 shows that the Amendment
17 Number 1 was executed by Air Taxi.

18 A And what's the date on this?

19 Q That is August 9th. Within a two-week period.
20 You don't know whether that July 26th cable
21 had reference to the Amendment Number 1?

22 A I don't know that.

23 Q That Mr. Zanganeh, Mr. Iranzad, or any other
24 person in Air Taxi or anyone in the Government of Iran
25 never indicated that the agreement reached on compensation

1 between Air Taxi and Bell Helicopter would have to be
2 reviewed in any way or approved by the Government?

3 A From our side there was never any thrust that
4 we had to report back on what we were doing. It wasn't
5 asked, discussed. As far as I'm concerned, that was
6 an arm's length transaction. I don't remember anything
7 around the edges of that.

8 Q Did General Toufanian ever indicate to you or
9 to any other people in Bell Helicopter prior to the
10 signing of Amendment Number 1 that he or the Government
11 of Iran was concerned about the size of commissions paid
12 to Iranian agents by foreign manufacturers dealing with
13 the Iranian Government?

14 A You've asked about six questions. Let me
15 see if I can remember them.

16 I believe— I'm dealing from memory now—that
17 there were a number of manufacturers, things you hear,
18 that were coming into this new market. And I believe it's
19 correct to say that Toufanian was starting to worry
20 about that.

21 What I'm asking you to recognize is that by
22 then we'd had many meetings with Toufanian, and he was—
23 he's capable of lots of good advice, he's got good judgment.

24 If he was trying to give us a message, it
25 didn't come out as a directed kind of a message.

1 I don't recall him ever giving us any direct
2 or indirect advice with regard to Air Taxi.

3 Before I went in country, I believe that
4 Bell made it very clear that we had a manufacturer's
5 representative of long standing and that was a fact and
6 we put it on the table.

7 Does that cover your questions?

8 Q Yes.

9 A Okay.

10 MR. MARINACCIO: May I, for clarifica-
11 tion?

12 THE WITNESS: Sure.

13

14 EXAMINATION

15 BY MR. MARINACCIO

16 Q I'm not sure that I understand what your
17 response was.

18 I think the question would be, what was your
19 understanding of what General Toufanian was saying with
20 respect to payment of commissions on contracts about
21 that time? Do you have any knowledge of that?

22 A You're asking about our specific situation?

23 Q About your specific, about a, your specific
24 situation.

25 A The answer to that is: no guidance from him,

1 either direct or indirect, that I can remember.

2 Q No mention whatsoever of anything having to
3 do with the payment of a commission to Air Taxi in connec-
4 tion with the sale of Bell helicopters to the Government
5 of Iran?

6 A I believe that's correct.

7 Q Were you present at any meetings between
8 General Toufanian and Mr. Atkins—

9 A Of course.

10 Q —at which the subject of commissions or
11 payments to Air Taxi or the agent that you were using
12 in connection with the sale of Bell helicopters was
13 discussed?

14 A Before we were settling with Air Taxi or
15 after?

16 Q Either before or after.

17 A Before, no. After, I'm not sure. I don't
18 remember.

19 Q How about any discussions with respect to
20 commissions to agents, generally?

21 A Well, as I answered to the other gentleman,
22 my memory says that—and I don't remember the words he
23 used or when it was—but that they, the Iranians, were
24 beginning to worry about the situation that was develop-
25 ing in their country about that time.

1 Q Did Mr. Atkins ever inform you that General
2 Toufanian had said that there could be either no
3 commission payable to Air Taxi or only a limited commission
4 paid to Air Taxi that could be absorbed in the contract,
5 and that any remaining part of the commission would have
6 to be outside the contract and absorbed in the profit
7 and loss statement of Bell Helicopter, do you recall any
8 discussion like that with Mr. Atkins?

9 A In the context you put it, no.

10 Q Not in the context of his having discussed
11 this matter with General Toufanian?

12 A I think you've got your date sequence off.

13 Q What date sequence are you referring to?

14 A Well, the question we started with was, did
15 we have advice from Toufanian with regard to how to set
16 up or the propriety—and that's a bad word—how to
17 establish a relationship with Air Taxi in '72. The
18 answer to that is, no.

19 As you can see, after Amendment 2, we decided
20 that even Amendment 2 wasn't a good solution to the
21 situation. The program had again gotten big. The
22 addition of the logistics situation and the training
23 situation.

24 And so we made a move to close out our
25 relationships with Air Taxi as regards the sales to— I

1 don't know whether I ought to say the Military Industrial
2 Organization or all governmental activities. I forget
3 exactly the words that are in Amendment Number 3. But
4 we left Air Taxi with just a relationship with us on
5 commercial transactions.

6 And it's my perception that Toufanian knew
7 what we were doing, that he was encouraging that we
8 settle on a good way with Air Taxi and close him out of
9 future business.

10 Whether he made statements to Atkins that
11 Atkins told me, I don't remember how the sequence went.
12 But in early '73, he gave me good advice that said,
13 "Bell, you've come to this country, you come with a
14 good reputation, we put faith in you. If you do well,
15 there will be much more business for you. You had a
16 manufacturer's representative at the beginning. You now
17 know the MIO, you know me, General Toufanian, and I
18 want you to deal directly with me. I want you to settle
19 with Air Taxi. And it would be good for you to do that
20 because there's much more to come in your program if
21 you do a good job."

22 And we went forward and did that.

23 There was no, I will pay, I won't pay. We
24 didn't get that kind of guidance. Just "Settle with Air
25 Taxi."

1 Q What was his reason for asking you to settle
2 with Air Taxi?

3 A I have no idea.

4 Q Was Atkins there at those discussions?

5 A No.

6 Q These were discussions between you and
7 Mr. Toufanian?

8 A Uh huh.

9 Q Did Mr. Toufanian ever indicate to you the
10 size of the commission to Air Taxi that would be
11 appropriate?

12 A The only thing I remember is, he said, "You
13 should try to settle based on the costs that they've
14 encountered and will encounter in support of your Iranian
15 program." I don't ever remember that he gave us guidance
16 in dollars.

17

18

EXAMINATION

19 BY MR. COLLINS

20 Q Mr. Rudning, in your negotiations prior to the
21 signing of Amendment Number 1—you were in charge of those
22 negotiations with Air Taxi?

23 A No. I'd say that Sylvester and I were in
24 parallel doing that.

25

Q All right. And who had the final word on

1 what the amount would be in Amendment Number 1, that is,
2 on behalf of Bell Helicopter?

3 A Well, I would answer you this way: so long
4 as Sylvester and I agreed on a particular solution, that
5 finished it.

6 If we couldn't settle it, then we'd have to
7 go up the management line to find someone else to
8 settle with. That's the way Bell works.

9 Q And your instructions from Mr. Atkins or any
10 other official above you in Bell Helicopter or Textron
11 with respect to the maximum amount which you would pay
12 to agree to pay to Air Taxi, were there any discussions
13 about that?

14 A I'm sure that there were discussions with my
15 boss, Mr. Atkins.

16 I don't recall that I was given limits. It
17 was just more in the vein as Bell works of, make a
18 reasonable situation, a good business transaction.

19 Q And that's the way you handled this--

20 A That's correct.

21 Q --Amendment Number 1?

22 A That's correct.

23 Q At the time that you were negotiating Amendment
24 Number 1, was there any thought that the sale of the
25 helicopters would go FMS, that is, government-to-government,

1 and would that have affected the way you negotiated the
2 commission with Air Taxi?

3 A Well, we didn't know which way it was going
4 to go. The preponderance of dealings— I think this is
5 correct—the preponderance of dealings at that time
6 were FMS. But on the other hand, there weren't a lot of
7 FMS programs in Iran.

8 I think the program we were talking about
9 was at that time the largest FMS program that the U.S.
10 Government had with anybody. So it was—would have
11 had with anybody. So it was very hard to predict.

12 There was a question in our mind as to—well,
13 they're pretty good rug merchants—and what they'd talk
14 about and what you end up with, you know, there's a pretty
15 big question about that.

16 So we were worrying about, could a program
17 like this be accomplished FMS, just could it be handled
18 as fast as it was going to be, especially if you went on
19 into training and logistics?

20 So, I don't remember anything clever about
21 the negotiations of those documents that tried to
22 predisposition how something would come about.

23 At one time—one of the documents has a
24 percentage for direct and a different percentage for FMS.
25 That was part of our, we thought at the time, clever way

1 of starting to begin getting at lowering the commission
2 rates that were coming.

3 The program-- I think that second document
4 was in the fall of '72. The program was getting bigger.
5 The U.S. Government was just about to come over with a
6 letter of offer. I couldn't vote whether it would be
7 accepted or not. But it seemed a good time to make
8 another step to try to contain Zanganeh's-- I should say
9 Air Taxi's commission level.

10 You know, at the time you think you're doing
11 things in a good, orderly way and you're using things
12 as pressure tactics. And when you look back on it, you
13 say, "What did you do that for?"

14 But we thought we had something we could
15 ride to reduce the commissions, and as it turned out, it
16 worked for us.

17 Had the thing gone on a direct contract,
18 we'd have had to come up with something else, frankly.
19 It, at the time, was the best deal, as I remember, that
20 we could make.

21 These people are very good business people
22 and they're--well, you ought to go negotiate with the
23 Iranians sometime. They're very good, they're very tough.

24 Q And prior to the execution of Amendment
25 Number 1, you didn't have any real knowledge that it would

1 go FMS or direct, you were negotiating just on the basis
2 that there might be a sale?

3 A That's right.

4 Q That it might be FMS?

5 A That's right.

6 Q Or it might be direct?

7 A That's right. And, frankly, when we did the
8 second amendment, it was a fielder's choice as to which
9 way it was going to go. Because the Iranians were
10 settling themselves up with a direct proposal from Bell
11 and then bringing in a parallel proposal from the U.S.
12 Government. They were going to sit there and evaluate.
13 And they did.

14 Q Do you know when the Shah made the decision
15 to purchase the helicopters?

16 A I believe the final decision was—you know,
17 they made a lot of tentative decisions along the way. I
18 think the final decision was after Toufanian received the
19 U.S. Government's letter of offer and had negotiated with
20 them and with us over—who then took it to His Majesty.
21 It must have been the very end of October of '72. I
22 think the letter of offer was accepted in early November
23 of '72, so, in that zone.

24 Q So prior to that time you had an FMS proposal
25 and a direct proposal both under consideration?

1 A That's correct.

2 Q Do you know if the Shah made any initial
3 decision in late August or early September, 1972, to
4 purchase the helicopters, and whether at that time he
5 said, "I want a direct purchase," or "I want an FMS
6 contract through the U.S. Government"?

7 I believe that Mr. Atkins, Mr. Sylvester and
8 others, and you may have been Iran at the time yourself,
9 were in Iran at the time the demonstration of the
10 helicopters was being made. And sometime in late August
11 or early September, Mr. Atkins, I believe, Mr. Sylvester,
12 I believe those are the only people from Bell Helicopter,
13 met with the Shah, and he gave—the Shah gave some
14 instructions as to the possible purchase by Iran of Bell
15 helicopters.

16 Do you recall that at all?

17 A Well, yes, I do.

18 My memory is that after the test program had
19 been successfully concluded and His Majesty flew the
20 aircraft, that we concluded—I don't want to say a
21 negotiation—but we had presented our complete direct
22 proposal, and the Iranians understood it, Toufanian, and
23 he presented that, we understand, to His Majesty. His
24 Majesty then asked for Mr. Atkins to have an audience.
25 And then after he had done all that fact finding, he

1 elected to go request a letter of offer from the U.S.
2 Government.

3 My understanding was that they sill had an
4 open mind as to which way they were going to go pending
5 receipt of a proposal from the U.S. Government. They
6 keep you off balance till the last possible minute.
7 Very successful. And they had us off balance. We didn't
8 know which way it was going to go.

9 Q So in your mind, after the meeting between
10 the Shah, Mr. Atkins, Mr. Sylvester, you weren't sure
11 whether the contract would be FMS or direct, you just
12 knew that the Shah indicated an interest in purchasing
13 the helicopters?

14 A That's correct.

15 Q Do you recall how many helicopters he
16 expressed an interest in purchasing?

17 A The number was, I believe— The numbers that
18 they were talking about were clear. I think the request
19 for letter of offer was for the number of helicopters
20 he actually ended up with. What, 287 214's, and 202—no,
21 I'm sorry. There was a change. The "J" number changed
22 at one point—the AH-1J was a bigger number, and at
23 some point it converted to 202, and I forget when that was.
24 I think the letter of offer request had a bigger number
25 than 202 in it, but I'd have to do some checking.

1 Q As far as what the Shah told Mr. Atkins and
2 Mr. Sylvester, do you recall after that meeting whether
3 Mr. Atkins or Mr. Sylvester told you that Iran is
4 interested in purchasing 200 helicopters or 400
5 helicopters?

6 A I don't remember. My memory is that we had
7 the quantity pretty well figured out at that point.

8 There was a--there's a 10 per cent excursion
9 in the AH-1J number and I don't remember where, when
10 that happened.

11 Q Do you remember when you established the
12 types and number of helicopters? You said that you had
13 it pretty well established at that time. I wondered if
14 you can recall when you did have types and numbers of
15 helicopters established?

16 A I don't remember.

17 Q With respect--

18 THE WITNESS: What number was in that
19 letter of intent? Tom, do you--

20 MR. SOUTTER: I don't recall, Chuck.

21 A Memory tells me that the number in the letter
22 of intent wasn't what we ended up with. But it was plus
23 or minus 10 per cent, it was in the zone.

24 BY MR. COLLINS

25 Q With respect to Air Taxi and the final

1 negotiations with them on the compensation arrangement,
2 you mentioned earlier that they had threatened to sue
3 Bell Helicopter, or at least it was in the air.

4 Had they in fact threatened to sue on the
5 contract?

6 A Yes. My memory is that the second amendment
7 was in the fall of '72 before or about the same time
8 that the letters of offer were presented, but signed with
9 Air Taxi before the Iranian decision was made—or at
10 least before we had heard that the letters of offer had
11 been accepted.

12 Then we started negotiations with them in
13 early '73 around the time that it looked like we might
14 get the training and logistics programs, which at the
15 beginning sounded like they were going to be very large
16 programs.

17 We started into negotiations to close them
18 out from future involvement in Iranian military, let's
19 say, programs.

20 And, needless to say, Air Taxi didn't
21 think much of that. And we had a—a real difficult set
22 of negotiations that ran, well, till, I think, sometime
23 in June of '73. And they were making very good argu-
24 ments: that they had been a responsible and responsive
25 dealer for a long time, they weren't fly-by-night, et

1 cetera, and if they took us to court they could come
2 in the five and six million dollar area. And listening
3 to them, you, you know, you could worry about that.
4 Plus all the problems you get into of a court fight on
5 something like that. What I mean by that is, the
6 expenses of it and tying up a lot of management time
7 you'd really rather be spending someplace else.

8 Q Rather not have to pay lawyers?

9 A I guess that's what I had in mind. But
10 anyway—

11 Q Yes.

12 A So it went round and round and round. And
13 we, of course, opened ridiculously low and they
14 opened ridiculously high. And it didn't go anyplace.

15 Q Was it ever discussed where they might sue
16 you, where they might sue Bell Helicopter. Did they say,
17 "We'll sue you in Iran, we'll sue you in the United
18 States," any particular location?

19 A All of the above. They were taking comfort
20 and they could run us pretty hard under Iranian law,
21 and I think they were taking comfort— I think these
22 agreements say they're based on New York law. But
23 the Iranians seemed to feel that they had a way of
24 getting out of that. And there was a lot of debate
25 and smoke and things.

1 We used every argument we could think of.
2 And finally just made them a final offer and said,
3 "That's it."

4 Q Did they ever indicate that they would have
5 the benefit of advice or counsel from any government
6 official, did they ever threaten that?

7 A No.

8 Q That if Bell did not come up with a—

9 A I don't remember that.

10 Q —reasonable figure, that some—that it
11 might jeopardize getting the contract?

12 A We had the contracts. Well, we had the
13 hardware contracts. And during the run at this
14 negotiation, we picked up the training and logistics
15 contract.

16 So, no, there was no threat like that and
17 they wouldn't have had a basis for it anyway.

18 I think those contracts came to us in
19 February and— March?

20 MR. SOUTTER: April.

21 A Okay. Of '73. No. That was an arm's length
22 transaction. There weren't threats of any outside
23 forces, save the courts and the lawyers.

24 MR. COLLINS: Mr. Marinaccio?

25 MR. MARINACCIO: Mr. Doherty would

1 like to ask you some questions at this point.

2 THE WITNESS: Okay.

3
4 EXAMINATION

5 BY MR. DOHERTY

6 Q Mr. Rudning, in addition to what you've
7 described to us, did you have any other role in the
8 negotiations or activities which led to the obtaining
9 of this contract or any of the negotiations with
10 respect to the amendments thereto?

11 A I'm not sure I understand your question,
12 frankly.

13 Q I'm asking that---

14 A My only reservation would be, if you
15 understand my job at Bell.

16 Q I'm asking that in terms of your areas of
17 responsibility and areas in which you may have taken
18 a part with respect to this matter?

19 A I--unless you and I are having a communica-
20 tion problem: I was handling the Iranian program on our
21 relationships with the U.S. Government on a contractual
22 side. I also had the responsibility internally to
23 implement the program within Bell.

24 And, because of all that, had to go into a
25 supporting role, not an active role, in bringing in the

1 training and logistics business. But was also trying
2 to narrow down the fence on Air Taxi to put them in
3 what struck me as a better relationship.

4 So there were a number of things going on
5 at the same time. But I think you understand.

6 Q As I understand your testimony, you,
7 together with Mr. Sylvester, not only did the
8 negotiations with respect to Amendment Number 1 and
9 Number 2, but had the authority to make the decision
10 as to what the percentage rate would be, is that
11 correct?

12 A Yes. So long as it was a reasonable
13 transaction.

14 Q And, in fact, was that decision made
15 between the two of you?

16 A Yes.

17 Q Did you report the progress of your
18 activities and did you seek Mr. Atkins or Mr. Miller's
19 advice as to what would be the appropriate rate of
20 commission on Amendment Number 1 and Number 2?

21 A Well, I have an open relationship with Mr.
22 Atkins, so I'm sure that we were advising him of how
23 we were going.

24 I don't recall a formality of seeking and
25 getting advice, but I'm sure it was part of discussions.

1 As I said before, I cannot recall conversa-
2 tions on the specifics of this with Mr. Miller.

3 I don't believe that I've ever talked Air
4 Taxi with Mr. Miller, I don't—I don't recall it.

5 Q Did Mr. Atkins become personally involved
6 in negotiating Amendment Number 3?

7 A Yes, sir. When we couldn't draw that into
8 what seemed to be a reasonable solution to us, we asked
9 Jimmy's help.

10 Q So he came into the picture at your request,
11 is that correct?

12 A I think that's correct. I remember going
13 around with Air Taxi several times, and it was
14 obvious that it just wasn't going to settle where we'd
15 like to settle it. And whether he invited himself in
16 or we said, "Please come," I—I don't remember.

17 Q Did you and Mr. Sylvester continue to
18 participate with Mr. Atkins?

19 A Yes. Now, I believe there were several
20 times because of conflicts I had, I was not present.
21 And I think that could be said for all three of us at
22 one point or another as this went along, but I can't
23 tell you dates or numbers or times.

24 Q Did you discuss any of the three amendments
25 to the contract or do you know whether any of the

1 three amendments to the contract were discussed with
2 Mr. Miller or the Audit Committee or the Board of
3 Directors?

4 A I don't recall any discussions on my part
5 with any of those people. I couldn't even name the
6 Audit Committee for you.

7 Q Do you know whether any such discussions
8 took place?

9 A No, sir, I don't.

10 Q Just prior to the demonstration, which I
11 think we've established took place in Iran in the latter
12 part of August, what did it look like the size of the
13 program would be in terms of numbers of ships?

14 A Well, we had a number in the letter of
15 intent. There was a lot of, I'll call fore-structure
16 studies going on in Iran as to what would the operational
17 field units look like and how they would be supported.

18 There were lots of questions as to whether
19 that was a viable program.

20 So on one hand we could speak numbers with
21 degrees of knowledge and phasing, but on the other hand
22 we had real doubts about whether that program could be
23 put together. And then there were some pretty interest-
24 ing questions about the funding of that program.

25 Q Well, let—

1 A Does that answer the question?

2 Q Let me clarify a couple of things.

3 When you refer to a letter of intent, we
4 have in this hearing previously been referring to a
5 letter of intent which was sent from Iran April 18,
6 1972. Is that the letter you're referring to?

7 A I don't remember the date, but I think some-
8 body earlier sent a letter to Mr. Atkins signed by
9 Toufanian saying, "We're interested in 'X' number of
10 helicopters."

11 Q Okay.

12 A That's what I have in mind.

13 Q Let's get the letter of intent. I don't have
14 that.

15 MR. SOUTTER: It's Exhibit 13 and
16 it's right here. And it doesn't actually say numbers.
17 It talks about models and demonstrations.

18 A Oh, my error. I'm sorry, my mistake. I
19 thought there were numbers in this letter.

20 BY MR. DOHERTY

21 Q Let me ask you this, sir: As of April 18th,
22 at the time of that letter of intent, in your opinion,
23 what was the size of the program that was being
24 considered?

25 A I—I can't give you a good answer. I

1 thought there were numbers in there. My error.

2 Q Moving up to August, I believe you testified
3 that right after the demonstration, in the latter part
4 of August, the Shah indicated, Number one, that he
5 was inclined to go with Bell on this program, and Number
6 two, that at that time the Shah was speaking in terms
7 of the same kinds of numbers that were ultimately--
8 became a part of the contract, 450 or 500 ships, is that
9 correct, sir?

10 A That's my memory.

11 Q Fine.

12 A We were talking about several hundred of
13 each model.

14 Q Now, in August just prior to that demonstra-
15 tion, what was the size of the program that was being
16 considered just a few weeks prior to that, was it
17 substantially the same, was it a hundred ships then?
18 I'm just asking for your view as a negotiator as to
19 what the program looked like in mid August?

20 A I'm having trouble with exact dates and
21 numbers, but I'd say several hundred of each.

22 Q All right. Now--

23 A Let me add one further point, if I may.
24 There was the possibility of ships from models which
25 they could buy from us to models they could buy from

1 our licensee, also. So, program scope is one thing,
2 where that some of these ships came from could be a
3 further complexity. And I'm not trying to confuse the
4 issue but that was another factor that was loose.

5 Q Now, I believe it's been established
6 through certain of the exhibits, but Amendment Number 1
7 was actually signed on approximately August 16th,
8 at which a contractual agreement was reached between
9 Bell and Air Taxi to pay two and a half per cent on the
10 sales, is that correct, sir?

11 A That's right.

12 Q I'd like to show you contracts that have been
13 previously marked 63, 63-A and—68?

14 MR. COLLINS: And 69, I believe.

15 BY MR. DOHERTY

16 Q I direct your attention to the signature
17 page.

18 Do you recognize the signatures on those
19 pages, sir?

20 A Yeah. I recognize my signature.

21 Q Your signature is contained on each of
22 those—

23 A Yes.

24 Q —signature pages?

25 A Yes.

1 Q Can you tell us anything about why there
2 appear to be three different contracts?

3 A Three or two?

4 MR. SOUTTER: Chuck, let me help you
5 a little bit. It's obvious that on--

6 A This one's obviously different.

7 MR. SOUTTER: Can we have a set that
8 are marked so we can refer to the--

9 MR. DOHERTY: I might point out that
10 the principal difference between 63 and 68 and 69
11 appears to be simply that, while the same signatures
12 appear, they're just not copies of one another, it's
13 a different, manually signed one.

14 MR. SOUTTER: The text of all of these
15 is the same. Obviously 63-A has a different arrangement
16 of the signature lines.

17 A Uh huh.

18 MR. SOUTTER: The others are identical,
19 however. The signature of Mr. Zanganeh here comes up
20 above the line.

21 A I see.

22 MR. SOUTTER: There, it stays below
23 the line. There was more than one copy signed.

24 A Yes. Well, it's normal for us to sign more
25 than one copy of a document. That might explain what

1 you're looking at here, Exhibit Numbers what, 63 and--
2 what's that?

3 MR. DOHERTY: 68.

4 A And 69.

5 MR. SOUTTER: And 69.

6 A So, if you're telling me that these are,
7 you know, verbatim, I would assume that if you lined
8 up the typing on this, you would find that they are the
9 same document. But it's just a situation where in
10 our contracts we usually process three to four copies.
11 I don't recall the number of copies we were running
12 here.

13 Now, as to the other problem.

14 BY MR. DOHERTY

15 Q You're referring to Exhibit 63-A?

16 A No, you're jogging my memory. I think we
17 had the case of a lost document. The mail system is
18 terrible between Iran and here and we usually hand
19 carried--one of our amendments was either lost and
20 found later or lost and never found, but I think one of
21 the amendments, and it may be this one, we cycled it
22 twice. Do you find evidence of that, Tom, in--

23 MR. SOUTTER: Only as to these multiple
24 copies and the difference between 63-A and the others,
25 in physical preparation.

1 A I think there was a time when Zanganeh had
2 signed a set and I had signed a set and we didn't
3 ever get them together— I think. That's the only answer
4 that strikes me right now. Do they say the same
5 thing?

6 MR. SOUTTER: Well, I believe we had
7 them compared yesterday and I think the answer is, yes.

8 A Okay.

9 MR. SOUTTER: That all of those say
10 exactly the same thing.

11 A All right.

12 BY MR. DOHERTY

13 Q But I think we did essentially establish that
14 the documents were not signed until sometime
15 approximately August 16, 1972, according to various
16 exhibits that have been submitted.

17 MR. SOUTTER: That seems to be a fair
18 assumption from the telexes. But all of them were on
19 their own terms, effective as of April 1, '72. One
20 of them actually in the date of signature has the
21 date—63-A has the date typed in, in addition to the
22 effective date stated in the text.

23 BY MR. DOHERTY

24 Q I'd like to direct your attention to that
25 point, sir, on Exhibit 63-A.

1 This contract provides, as the others do,
2 that it is effective on April 1. However, on the last
3 page it says: "In witness hereof the parties have
4 caused this amendment to be duly executed as of the
5 day and year set forth below," and it's dated April 1,
6 1972.

7 Now, I think it's been established that it
8 could not have been signed on April 1, 1972.

9 Do you have any explanation for why that
10 document was back-dated?

11 A No, I don't. We leave it to the signer to
12 put a date on it, and I can't explain why this one
13 isn't dated. I usually have my girl do it. Sometimes
14 I write it in. I have no answer for you as to why
15 that is typed in as April 1, '72.

16 Q Let me ask you this question: As this
17 contract is set up, it contains a block for two
18 dates. There is a block for a date to be inserted
19 under the signatures of Air Taxi, which is for the
20 April 1 date, as indicated.

21 There's a block for a date to be inserted
22 under the signatures of Bell Helicopter people.

23 Now, can you tell us, in your opinion, whether
24 the April 1, 1972 date was inserted on this contract by
25 the Air Taxi people or by Bell Helicopter?

1 A I really don't have an opinion.

2 Q Is it your custom and practice to date
3 contracts on the date the document is signed, in
4 accordance with the form provided?

5 A Now, are you asking that in the sense of
6 trying to establish an effective date or a signature
7 date? I'm not sure I understand your question.

8 Q Yes. I'm simply trying to find out what
9 happened here and I'm asking whether it's, as the head
10 of the Contract Department, it's the Contract
11 Department's practice to sign the signature page and
12 to date—put a date on the signature page which
13 corresponds to the date the document is signed?

14 A It's our practice to put a date on it as of
15 the date of signature on our part. Why we didn't do it
16 here, I don't know.

17 Q Do you know which of the documents you have
18 just reviewed is in fact the final document agreed to
19 here?

20 A Unless I'm missing the point, we have two
21 documents that say the same thing, that have the
22 signatures arranged on different sides of the page.
23 So, either one of those documents is enforceable and
24 it's the same document.

25 MR. SOUTTER: I, as your counsel, will

1 tell you that any one of those documents, were it still
2 in force, having been superseded by Amendment Number 2,
3 would have been an enforceable agreement and signed
4 by both sides.

5 A Yeah.

6 BY MR. DOHERTY

7 Q I'm simply asking you whether the original
8 one of these documents is the final document, if you
9 know?

10 A Well, I believe that if you check the typing,
11 it's the same document. So I don't have a problem
12 with that.

13 So, what am I saying? You can take the
14 thing that you marked 63-A and then the one you've
15 marked, what is this, 6—what is that, 68 or 69?

16 Q Yes.

17 A They're the same document. I would have to
18 sit and read these out. I can't sit here and be
19 accurate on it.

20 Q You testified you had certain meetings with
21 General Toufanian with respect to commissions and
22 commission agents. You indicated you had a meeting
23 with him in early 1963, is that correct, sir, with
24 respect to this matter?

25 A '73.

1 Q Excuse me, 1973.

2 Did you have any meetings with him or were
3 you advised prior to that time concerning any policy
4 that the Iranian Government had with respect to
5 commission agents, the amount of commission that could
6 be paid to them, or whether the Government of Iran was
7 prepared to allow commission payments to be passed on
8 to the Government?

9 A Well, you've asked many questions.

10 Q I'm doing that because I'd like for you to
11 give us whatever knowledge you have with respect to
12 this matter prior to the early 1973 meeting.

13 A Well, let's communicate very carefully.

14 I think we've said to you that we from the
15 beginning said we had a manufacturer's representative,
16 they knew that.

17 I'm not aware of any guidance during '72
18 that we received that said how we should or should not
19 handle our problem with Air Taxi.

20 Whether they, the Iranians, knew how we were
21 handling Air Taxi, I have no information.

22 Now, we were advised, I was advised by
23 Toufanian in early '73— I'll say given some advice,
24 recommendations, and I'm repeating what I said before,
25 that, "Bell, you're probably going to have a long

1 relationship in this country. You can now deal
2 directly with us, and you should resolve on—" I think
3 he said the words "—on a reasonable arm's length basis,
4 your relationship with Air Taxi and leave them to have
5 a relationship with you in the commercial sector."
6 And we proceeded to do that.

7 I have no evidence that he, then or now,
8 knows what our exact settlement was with Air Taxi.
9 He obviously—well, he probably knows it today because
10 of the hearings of a couple of weeks ago. But he
11 never, I believe, asked us or heard it from us how we
12 settled with them.

13 Q Did General Toufanian indicate to you at this
14 meeting why your relationship with Air Taxi was of any
15 concern to him?

16 A I'm trying to give you a good answer. It's
17 hard for me to reach back and pick the exact words out.

18 I don't believe so.

19 Q Did you come away with an impression as to
20 why General Toufanian was concerned with respect to
21 whether you continued your relationship to Air Taxi or
22 generally whether you continued to deal through Air
23 Taxi?

24 A I came away with the clear understanding that
25 he expected for us in the future—he requested for us

1 in the future to deal directly with Toufanian and his
2 organization, and that we did not need Air Taxi any
3 longer, and requested that we close them out to future
4 transactions. That to me was clear.

5 What orders he had, what guidance he had,
6 what other forces were working on him on other programs,
7 I would be speculating, I have no knowledge.

8 Q What I'm trying to get at is: Was it your
9 impression that that meeting took place because he had
10 a strong desire simply to deal directly with the Bell
11 people, or whether he felt strongly that Iran should
12 not pay for the commissions that might be earned by
13 Air Taxi? Do you know what the considerations were
14 after coming away from that meeting as to why he
15 delivered that message?

16 A Well, you're asking me to speculate.

17 Q No, I'm--

18 A I have no evidence that I could put to this
19 in any way. My--

20 Q So that was not indicated to you one way or
21 the other in the meeting? That was my question.

22 A That-- that's very clear.

23 Q Did there come a point in time where you were
24 advised that the Government of Iran was concerned with
25 the payment of commissions to agents in that country?

1 A Did there come a time? Yes. Anybody that
2 reads the papers can sense that over that period of
3 time there was a marked shift in Iran.

4 Q I'm asking you for your knowledge, when it
5 came to your attention that the Government of Iran had
6 concerns with the payment of commissions to agents in
7 that country?

8 A Well, you're asking for my opinions, and--

9 Q No, I'm not asking for your opinion. I'm
10 asking you whether you became informed at a particular
11 point in time during the period we're discussing it, that
12 the Government of Iran was concerned with the payment
13 of commissions to agents in connection with contracts
14 with that Government?

15 A Did I become aware? Yes. How did I
16 become aware? Well, the press was starting to pick it
17 up, the Iranian press, the American press. The
18 Iranians were becoming concerned about what then felt
19 like a developing problem of some magnitude--and I'm
20 speaking of all countries now, it wasn't their dealings
21 just with the U.S.

22 And you could sense that things were going
23 to change.

24 However, I never had a feeling that there
25 was a problem being expressed to us either directly or

1 obliquely with regard to Air Taxi other than what at
2 that time was advice given to us that, looking back,
3 was good advice. "Air Taxi has served for you, you
4 now are capable, you have offices in this country, you
5 are in place in this country. From this point on,
6 please deal direct with the Government of Iran."

7 Q Did there come a time during this period of
8 negotiation where you learned or were concerned with
9 whether you could include the cost of the payment to
10 Air Taxi in your contract with Iran?

11 A No. Well, did there come a time? Yes,
12 there came a time, right at the time that we were
13 closing out our definitive contract with the U.S.
14 Government, which was what, June of '73 when the, I'll
15 call it, Iran agent issue, I'll say, boiled over. The
16 thing that was forecasted to happen. And Toufanian
17 apparently, I don't know how it happened, but apparently
18 there was a communication between the governments that
19 said, "No more." And we just happened to have our
20 contract up in Washington for approval at that point.
21 So we abided by that direction.

22 Q So is it your testimony then that you didn't
23 learn that the commission payment or the payment that
24 was made or that was being negotiated with your commission
25 agent might not be a cost which could be included in the

1 contract to Iran until approximately June of 1973?

2 A Yes.

3 Q And therefore that factor was not a
4 consideration in the negotiation with your agent, is
5 that correct?

6 A That is correct.

7 Q What was the intervening factor, if any,
8 between Amendment Number 2 and—excuse me—between
9 Amendment Number 1 and Amendment Number 2 that you
10 used for leverage to negotiate down from the two and a
11 half per cent to the 1 per cent commission?

12 A My memory is, program magnitude—probability
13 of program magnitude.

14 You're asking me to go back quite a
15 distance but—

16 Q Well, we have established that Amendment
17 Number 1 was not actually signed until mid August, and
18 that at that time it appeared as though you were talking
19 in terms of four or five hundred ships.

20 And then Amendment Number 2 was signed,
21 I believe, in October.

22 Now, to the best of your recollection, do
23 you recall what factors went into enabling you to
24 negotiate from the two and a half per cent to the one
25 per cent commission?

1 A It's hard for me to put fact to it that far
2 back. But I think the two—well, maybe more than two
3 significant things, were that we had successfully—very
4 successfully completed a test program. I can't relate
5 the dates as to whether His Majesty had by that time
6 flown the aircraft or not.

7 The second thing was that they had
8 requested letters of offer, which were just ready to
9 come over and they were responsive and responsible
10 letters of offer.

11 And we were beginning to feel we could
12 predict our position in the marketplace as opposed to
13 the position that our licensee might be able to take.

14 So, things were becoming more positive on
15 our side, but yet were not obviously predictable
16 because final decisions hadn't been taken.

17 Q What were the factors that intervened
18 between Amendment Number 2 in October of '72 and the
19 final amendment which, I believe, was signed in
20 June of '73 that enabled you or Bell to negotiate down
21 from what was the equivalent, I suppose, of a
22 commission in Amendment Number 2 of approximately four
23 or five million dollars, to a \$2.9 million payment in
24 Amendment Number 3?

25 A I haven't done the math lately, but I

1 thought that Amendment 2 could generate numbers above
2 five or six million because it didn't close him out.
3 He had--he had further rights if we sold more aircraft,
4 and there was a strong possibility that we would if
5 we were good boys and delivered what we said we would
6 on time and they flew well.

7 I'm not sure that I can at this point say
8 to you what was in our mind and in his mind.

9 Q Well, do you recall what-- You had a
10 contract which obligated your agent, but, of course, it
11 also obligated Bell, as well, and to the extent it was
12 a ceiling, it was also a floor at least in terms of the
13 contractual obligations, I suppose.

14 So, do you recall what you said to Air Taxi
15 when you went back in after that and said, "Now we
16 want to change, we want to make a substantial change in
17 compensation we're going to pay you." Do you have any
18 recollection at all about what you were dealing with
19 when you got in there? What was your leverage, what
20 were the factors, how did you convince them? You've told
21 us that at one point you said, "All we're going to pay
22 you is \$2.9 million." But I presume there were other
23 matters that were discussed, if you can recall.

24 A Well, I think the major issue is--and we
25 used it as best we could--we had been advised that we

1 should settle out with him with regard to the business
2 relationship with the military sector. And I think that's
3 a very important ingredient to a responsible Iranian
4 businessman. He has to worry about what his government
5 thinks of him. So we were running that for all it was
6 worth.

7 We were trying to make some guesses as
8 to how much he had incurred in supporting us, and--

9 Q Did he indicate to you at all as to what
10 costs he had incurred?

11 A Oh, we had a very unsuccessful discussion
12 in that area which really said that his books aren't
13 ordered in that fashion, and I couldn't get my hands
14 on anything that would help me. I couldn't get my
15 hands on anything that would work at all in that area.

16 He said he didn't have cost centers and he
17 had his charter service and the procurement of all
18 his aircraft and it just--

19 Q Did he give you an estimate of what his
20 costs had been?

21 A He reluctantly said he thought he was in
22 the area of several million dollars but as a responsible
23 businessman there was much more he was going to do to
24 support us in the future, and if he did--could support
25 work in the military area, then it would open up the

1 commercial sector to him.

2 Q Did he say anything to you that would
3 indicate in any way that certain of the costs he had
4 incurred involved making some sort of a payment or some
5 sort of a gratuity to any Iranian official in order to
6 secure this contract?

7 A Absolutely not.

8 Q Is there anything else you can recall about
9 the discussions surrounding the negotiations for the
10 \$2.9 million payment?

11 A Well, that was one of the toughest
12 negotiations I participated in. I guess what I'm trying
13 to convey to you is that we had a man who felt that he
14 had performed a good service, he was a responsible guy,
15 and we owed him some money and he had every intention
16 of getting it, and he was going to take us to court if
17 he had to.

18 Q Is it unusual to make an up-front payment
19 to an agent on a contract of this sort?

20 A I'm not sure that there's anything called
21 "usual" in a situation like this. You don't run into
22 in our business many just very large transactions. And
23 when you do, you have to handle them on a good judgment
24 basis.

25 His argument obviously was that he had

1 incurred a lot of expenses and he had zero recovery
2 on it, and he needed some. And we had recognized
3 that, I believe, in the amendments that we had--those
4 Amendments Numbers 1 and 2, if we had progress
5 payments from our customer, we would work his percentage
6 off of those.

7 Q Did he give you any indication as to what
8 his expenses had been that could have amounted to
9 several million dollars in the assistance to Bell
10 for this contract?

11 A Do you mean a good cost break-out of it?
12 No.

13 Q Well, just what he said to you.

14 A No. He talked about the flights that he had
15 flown for us to different places, and the work he had
16 done and his staff and what percentage of the staff
17 he thought could be reasonably allocated to our
18 activities. And, no, I-- I was searching for a
19 spread sheet that I could work on him from, and he was
20 too clever for that.

21 Q Anything else that you can recall that went
22 into these negotiations?

23 A I think I've said it all. It was a very
24 strong arm's length--well, you can see the level of
25 people we had at Bell on it, and we worked a long time

1 on it. It was a real liability and we were trying to
2 contain it.

3 Q Do you have any idea who audits Air Taxi?

4 A For sure, the Iranian Government is part of
5 Air Taxi. I say this because I hear it. The Iranian
6 tax authorities have access rights to Iranian business
7 just like our tax authorities do.

8 If they have a commercial audit activity,
9 I don't know it—I don't believe we ever explored that.

10 Q Did you ever make any inquiry or do you
11 know whether anyone else at Bell made any inquiry as
12 to the ownership of Air Taxi?

13 A I don't remember making an inquiry. And I
14 can't recall or find any evidence that any of us did.

15 I think you have to understand that if
16 somebody owes us some money, we check him out pretty
17 carefully to see what kind of a relationship we're
18 getting into.

19 We didn't really go behind this guy, he'd
20 been in business a long time, and just—there were
21 no signals that said we should.

22 Q Mr. Rudning, do you have any other information
23 that would in any way shed any further light on the
24 subject matter of this inquiry? If so, we'd like you
25 to provide it to us at this time.

1 We-- I think our opening offers to him were
2 less than a million dollars, which we felt he surely
3 experienced that or more. We thought we were safely
4 on the low side. And I guess-- I'm really reaching
5 now, but I'd put him in the zone of one to two million
6 dollars of probable costs that he could have incurred.

7 He's got a big operation.

8 The thing you have to ask yourself is, how
9 much of the management level people's time worked the
10 program and for how long? How long did it take Air
11 Taxi to cause Bell to be invited to come to Iran?

12 Q Please answer that question.

13 A I, you know--

14 Q What's your judgment of that question?

15 A I don't know. I mean, there's the math of
16 it, when you start saying, what were his costs? How
17 much of Zanganeh's time and how much of his people's
18 time? He's got a big business there. Where do you
19 put his overhead account, is what I'm really saying to
20 you.

21 If they were really trying to help us get
22 into the helicopter market over there, he could have
23 expended considerable-- I'm talking about his funds, his
24 work, data generation, meetings, all sorts of things.

25 I could put his actual costs--now it's

1 dangerous to—you know, I'm just pulling numbers at
2 this point. But I think we opened at around a half
3 a million, so I'm sure that it was in our mind that
4 his costs were above a million, just to give us some
5 negotiating room.

6 Q When you say you "opened," what is the time
7 period of opening?

8 A '73.

9 Q Now, in '73, you're saying after Amendment
10 Number 1 and Amendment Number 2?

11 A Yeah, sure, when we're trying to negotiate a
12 close-out with them. February, March, something
13 like that. That was a long negotiation. It went for,
14 oh, three or four months.

15 Q Did Air Taxi and Mr. Zanganeh come away
16 with this settlement pleased and happy, in your view?

17 A Well, he's a very good negotiator. He went
18 out of here crying. But whether— I don't know.

19 Q I ask that question because under Amendment
20 Number 1 which was a contract, he conceivably, if he
21 had stuck to his guns, could have come out somewhere
22 in the nine million dollar range. You indicated in
23 your testimony that he started out with a five per cent
24 figure in the beginning which, in my rough calculations,
25 would have worked out to 25 million.

1 A Yes, yes. You've got to play percentages
2 against quantities of ships.

3 When he saw how big the program was getting,
4 he, too, I think, as a responsible businessman, has to
5 worry about what he has.

6 Did he go out the gate with a big smile
7 on his face? Well, I didn't see the smile. I saw an
8 awful lot of tears, now.

9 Q And in the process of, you know, his coming
10 down from 25 million to 3 million over a period of
11 months, he must have been fairly forcefully telling
12 you that he was worth way above 3 million and maybe
13 up to 25 million. What was he saying in support of his
14 position as to what he had done to warrant that kind
15 of money, and what was his negotiating posture?

16 A My memory is that he was saying he had an
17 enforceable contract.

18 Q I mean, did he ever say to you, as it might
19 be reasonable for somebody to say in a negotiation like
20 this, and I'm not— I want your judgment on this, you
21 know, bang his fist on the table and say, "Look, I'm
22 responsible for this contract. You guys owe me
23 25 million."

24 A Well, not in that sense. But he was
25 arguing, "What do you mean I didn't do a good job? Look

1 what—look what we got here. You know, Bell came to
2 the country and ended up with a very good program."
3 And that's a pretty good argument for him to use.

4 Q And was he taking credit for the program?

5 A Well, not in the sense of he alone taking
6 credit, but he was saying obviously, "I helped you,"
7 you know, "I let you come into country, I gave you
8 support. Look at all the things I did." And he went
9 back through all the letters he wrote for us and all
10 the TWX's and support here and there.

11 Q And did you think you were doing fair by
12 him in relation to what he had done, and so on, to
13 start off with a figure of \$500,000?

14 A Did I say \$500,000 was a fair settlement?

15 Q Yes.

16 A No. You always start low, he starts high,
17 and you're hoping it will come out at some reasonable
18 place. What do you do when you buy a car? It's the
19 same ball game, or anything else. Or negotiate with
20 the U.S. Government. You crawl way over in one corner
21 and they come out in another, and you see where it
22 leads.

23 Q What did you think in your own mind was the
24 primary factor operating on Zanganeh to get him to come
25 down from a fairly high figure to \$2.9 million, was it

1 the Toufanian attitude?

2 A That's one that I guess I really can't answer.
3 I don't know what forces he would feel. I know that he
4 saw a very dedicated Bell to close him out in an honorable
5 way, and we were simply debating what—honorable in the
6 sense of a reasonable compensation for services
7 performed. And he didn't want to take it to court any
8 more than we did. But that's about as close as I've
9 come to that threat of, you know, this one can't be
10 settled. It was a good honest negotiation. I can't
11 quantify it for you, it becomes pure judgment.

12 MR. MARINACCIO: We've appreciate your
13 coming here this Sunday morning and appreciate your
14 testimony and thank you very much.

15 THE WITNESS: Thank you.

16 (Brief break.)
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1 SUNDAY, FEBRUARY 5, 1978

2 AFTERNOON SESSION

3 (The proceedings were continued at 11:50
4 a.m. pursuant to a short recess.)

5
6 MR. EDWIN L. FARMER,

7 the witness hereinbefore named, was duly sworn as follows
8 to testify the truth, the whole truth and nothing but
9 the truth:

10 EXAMINATION

11 BY MR. MARINACCIO

12 Q Mr. Farmer, we appreciate your coming here
13 this Sunday afternoon.

14 This is a continuation of the Staff investi-
15 gation into the facts surrounding the 2.9 million dollar
16 payment by Textron/Bell to Air Taxi in connection with
17 the sale of approximately 489 helicopters to the Govern-
18 ment of Iran during the 1973-'75 period.

19 This fact inquiry has been directed by the
20 Senate Banking Committee tending to its responsibilities
21 in connection with the nomination of G. William Miller
22 to be a Member of the Board of Governors of the Federal
23 Reserve System.

24 And, as I have indicated, we do appreciate your
25 coming here voluntarily. Nevertheless, I must tell you,

19/2

1 we will be placing you under oath.

2 A Uh huh, fine.

3 Q And the answers to all the questions that
4 we put to you will be given to us under oath for the
5 record.

6 A Uh huh.

7 Q And that being the case, your responses will
8 be subjected to all the laws of the United States in
9 respect to the United States Senate proceedings having
10 to do with perjury or false statements of witnesses.

11 And I must also tell you that any testimony
12 that you give could also possibly be used in any
13 subsequent enforcement proceedings by an Executive
14 Department of the United States. And, that being the
15 case, you are entitled to have counsel present with
16 you and you do—

17 A Uh huh.

18 Q —in the person of Mr. Soutter and Mr.
19 Galerstein.

20 I should tell you that my name is Marinaccio
21 and I am Special Counsel to the Senate Banking Committee.

22 And this is Mr. Bruce Freed. He's a pro-
23 fessional Staff Member of the Senate Banking Committee.

24 Mr. Collins is Counsel to the minority of
25 the Committee.

19/3

1 And Mr. Doherty is Associate Director of
2 the Division of Enforcement of the Securities and Exchange
3 Commission who is on assignment detail to the Senate
4 Banking Committee at the request of the Chairman of
5 the Committee for this fact inquiry.

6 At this time, I would like you to stand and
7 raise your right hand and take an oath and we'll pro-
8 ceed with the questioning.

9 Do you state that the testimony that you are
10 about to give will be the whole truth, nothing but the
11 truth, so help you God?

12 A Yes.

13 Q Thank you. And be seated.

14 Will you please state your full name for the
15 record?

16 A Edwin Lodge Farmer.

17 Q And you are retired, Mr. Farmer?

18 A Yes, as of December 31st, 1977.

19 Q Previous to your retirement, you were employed
20 by Textron/Bell, were you not?

21 A Yes.

22 Q And how long have you been employed by Tex-
23 tron/Bell?

24 A Approximately fifteen and a half years.

25 Q And could you, for the record, detail the

19/4

1 positions you've held since 1968 with Textron/Bell
2 down to the time of your retirement?

3 A Yes, it's been the same position continu-
4 ously, Vice President of Finance.

5 Q Mr. Farmer, you did, did you not, sign the
6 1968 agreement with Air Taxi which was the manu-
7 7 facturer's representative agreement with Air Taxi?

8 A The record would show, I presume. I don't
9 know whether I signed it or not, actually.

10 There were various persons authorized to
11 sign.

12 MR. SOUTTER: You said the 1968
13 agreement?

14 MR. FREED: That's No. 61.

15 MR. SOUTTER: Exhibit No. 61.

16 THE WITNESS: Yes, that's my signature.

17 BY MR. MARINACCIO

18 Q What was your understanding of the reasons
19 that Bell Helicopter entered into that 1968 agreement
20 with Air Taxi?

21 A I believe it was the standard dealer's
22 agreement that we use world-wide. The reason would have
23 been the same as for any other dealer's agreement.
24 These types of agreements are entered into in about
25 40 countries of the world, approximately. It's a

19/5

1 standard agreement, I think the same as all.

2 Q Did you or anyone else in Bell at that time,
3 to your knowledge, conduct an inquiry or an investiga-
4 tion into the ownership of Air Taxi, the company that
5 you were signing the agreement with?

6 A I— I don't believe the Finance Department
7 did. The Marketing people may have.

8 Normally, credit reports we would get, if
9 we were going to extend credit. There was no credit
10 extension in this case, I don't believe.

11 Q Were you aware of the ownership of Air Taxi
12 at that time—

13 A No.

14 Q —when you signed that agreement?

15 A No, I was not.

16 Q Mr. Farmer, are you familiar with the fact that
17 a 2.9 million dollar payment was made by Bell to Air
18 Taxi?

19 A Yes.

20 Q Have you ever heard or do you know that any
21 part of that 2.9 million dollar payment went to any
22 government official, the Government of Iran, or to
23 General Khatami?

24 A No.

25 Q Do you know of any discussion or have you

19/6

1 ever heard of any discussion in Bell, Textron/Bell, about
2 any part of that money or any payment of any money
3 or any benefit would be made to any official of the
4 Government of Iran or General Khatami--

5 A No.

6 Q --in connection with that sale?

7 A No. Actually, the first recollection I have
8 of the name Khatami was when I saw it in the newspaper
9 recently.

10 Q You had never heard of the name General
11 Khatami--

12 A I don't--

13 Q --previous to seeing it in the newspaper
14 recently?

15 A I don't believe I had, no.

16 Q Do you know or have you ever known who
17 owned or owns Air Taxi?

18 A No, I don't have personal knowledge of
19 the ownership.

20 Q Have you ever heard that General Khatami had
21 an ownership interest in Air Taxi?

22 A No. I saw the accusation or statement in
23 the paper, but I had no knowledge of it.

24 Q Had you ever heard in any conversation at
25 . Textron/Bell that General Khatami may have had an

19/7

1 ownership interest in Air Taxi?

2 A No.

3 Q Could I ask you just to outline very briefly
4 what responsibilities you had in relation to the 2.9
5 million dollar payment?

6 A Simply the disbursement by the Accounting
7 Department which was one of the departments under my
8 direction.

9 Q Who told you to disburse the funds to Air
10 Taxi?

11 A Disbursement was authorized by the dealer's
12 agreement, which I presume you have a copy of, that
13 outlines the 2.9 million. The copy I just looked at,
14 I think, is the original agreement, which I don't
15 think specified the dollar amounts.

16 The amendment covered the dollar amount.

17 Q Did somebody walk into your office with the
18 amendment and say, "Draft a check to Air Taxi for
19 2.9 million," and, if so, who was that?

20 A I presume it was given to me by Mr. Atkins.
21 It does specify the amount and the dates on which the
22 amounts are due.

23 This was the authorizing document from
24 which the payments were made.

25 Q And did you subsequently thereto draft three

19/8

1 checks in the amount of 2.9 million dollars payable to
2 Air Taxi?

3 A The Accounting Department did, yes.

4 Q Are you aware of where the Accounting Depart-
5 ment deposited those checks? Or did you deposit the
6 checks?

7 A No, I don't— My recollection is they were
8 given personally to a representative of Air Taxi.

9 Q Who came to the plant here and picked them
10 up, physically?

11 A I believe so, yes. I never met the man, but
12 I understand a representative did come to the plant.

13 Q Do you have any knowledge that those checks
14 were deposited first in an Oklahoma City Bank?

15 A As I recall, I think one was deposited in an
16 Oklahoma City Bank, but I don't remember the name of
17 the bank.

18 Q Are you aware of any reason for the deposit
19 of any of those sums in the Oklahoma City bank?

20 A I think I recall that Air Taxi was also
21 a representative or dealer for Aero Commander, and
22 their location was Bethany, Oklahoma, I believe, just
23 outside of Oklahoma City or Tulsa, I've forgotten which.

24 So I presume the reason for the deposit was
25 because of that business connection, I presume.

19/9

1 Q Are you aware of any disbursements of any
2 of these funds that were made out of that account
3 at the Oklahoma City bank?

4 A I have no knowledge whatever of any disburse-
5 ments, no.

6 MR. MARINACCIO: Mr. Farmer, at this
7 time, I am going to ask Mr. Freed to put a number of
8 questions to you.

9 THE WITNESS: Okay.

10

11

EXAMINATION

12

BY MR. FREED

13

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25

Q Mr. Farmer, I want to show you Exhibit No.
75 which is a confidential memo dated July 30, 1973.
The subject is "Dealer's Commissions, Iran Program."

I just want to check with you whether you
recall this and whether you prepared that?

A Yes, I did, uh huh. July, 1973. This
follows the date of this agreement by some 30 days, I
guess.

Q The agreement states that Mr. Zanganeh or
that Air Taxi Company will be paid 2.9 million dollars
commission over three years in payments 1973, 1974 and
1975.

And in the memo it states that the account

19/10

1 handling will be as follows:

2 "The one million dollar commission paid
3 in June, 1973, will be transferred from the
4 suspense account to the Selling Expense and
5 treated as a separate line item in our P&L
6 as "Other Sales Expense."

7 And it says:

8 "The two remaining commission payments
9 will be treated as a separate P&L item when
10 paid in the same manner. We should not set
11 up any accrual accounts for these commissions,
12 but simply pay them when they become payable
13 and absorb them in our P&L as outlined above."

14 Why did Bell expense the commission over three
15 years as paid rather than over the life of the contract,
16 the contract involving the—

17 A It was expensed in exact accord with the
18 dates required in the agreement for payment. So when the
19 date arrived, it was then expensed at that point.

20 Q Why wasn't it, though, in terms of the handling
21 of Bell's books—

22 A I think—

23 Q Why wasn't it handled on Bell books over the
24 life of the contract for the 489 helicopters?

25 A I think the amounts were payable on certain

19/11

1 dates, irrespective of whether the contract continued
2 or not. So it was expensed at that point. We could
3 not have retrieved it or the contract could have been
4 canceled. So it was expensed on our books, and I think
5 properly treated when booked as of the date required
6 by the contract.

7 Q Did any official of Bell ask you to handle
8 the payment of the commissions in that manner?

9 A I don't recall any conversations on that
10 point. I think the handling was simply a matter of
11 good accounting on our part; probably it was my decision
12 to handle it that way.

13 Q So this was a decision handled by you—

14 A Uh huh.

15 Q —and made by you on how to treat this?

16 A Yes. And I think it was according to good
17 accounting principals. We expensed it at the point when
18 it was earned according to the agreement.

19 Q Do you know what portion of 2.9 million
20 dollar payment to Mr. Zanganeh was a reimbursement for
21 his actual costs?

22 A No, I certainly don't.

23 Q Do you know what portion of the 2.9 million
24 dollar payment was for profits to Mr. Zanganeh?

25 A No, I do not.

19/12

1 Q Did you look into what the 2.9 million dollar
2 payment included?

3 A No. The amount to sign the contract
4 was the basis for our payment. It was to cover services
5 rendered and termination of all future commissions as I
6 recall.

7 Q Now the payment also included a carrot to
8 get Mr. Zanganeh to continue providing services to Bell
9 in carrying out the contract in that the payment would
10 be reduced by \$3,000 each helicopter under 489 that was
11 not acquired?

12 A Uh huh.

13 Q Now, that indicated that the payment was more
14 than just a termination payment at that point; that
15 there was also a provision that he would provide con-
16 tinuing services on this contract.

17 A Perhaps so. I don't know the reason for
18 that clause.

19 Q Were you involved at all in negotiating any
20 of the amendments, Amendments 1, 2 and 3 to the 1970
21 contract with Mr. Zanganeh?

22 A No.

23 Q Were you consulted at all during the nego-
24 tiations?

25 A No. I was aware that there were negotiations

19/13

1 being conducted. I wasn't consulted.
2 Q By any Bell officials?
3 A No.
4 Q Or anybody?
5 A No.
6 Q Were you involved at all in negotiating any
7 of the activities leading up to the 1968 manufacturer's
8 representative agreement with Mr. Zanganeh—with Air
9 Taxi?
10 A No.
11 Q So, in other words, your role was just to
12 put a signature for Bell—
13 A Uh huh.
14 Q —on that document?
15 A (The witness nodded his head up and down.)
16 Q Have you traveled to Iran at all—
17 A No.
18 Q —in connection with this?
19 A No.
20 Q So you basically stayed in Fort Worth?
21 A Right.
22 Q Now, Mr. Farmer, at the bottom of the July
23 30th, 1973 memo, there are certain numbers around the
24 initials placed by the secretary and let me read that
25 into the record.

19/14

1 It's: "13:ELF:bjr:8300."

2 Q Did you number the memos that you wrote?

3 A Yes. All memos I wrote were numbered
4 serially, simply as a matter of reference record.

5 Q Now, did you write any other memos on the
6 Iranian program?

7 A I may have written a memo specifically
8 authorizing payment as of a certain date. Although
9 this agreement, this letter seems to cover the payments.

10 I don't specifically recall other memos on
11 the subject of payments of a commission. There may have
12 been, but I think this is the substance. This is the
13 principal memo, I believe.

14 I've written many memos on Iranian matters,
15 because we've done a lot of business with Iran, but
16 not on this particular subject.

17 Q What did the other memos that you write deal
18 with?

19 A They may have had to do with pricing or
20 schedules or that sort of thing, just operational,
21 routine matters.

22 Q Did any of the other memos deal with any
23 dealings with Air Taxi or anything involving payments
24 to Iranian Government officials?

25 A No.

19/15

1 Q Now, at the top of the memo there appears
2 to be writing, on the top of the memo, Exhibit No. 75,
3 there appears to be writing saying:
4 "File, Iran-"
5 A Dealer commission.
6 Q "-dealer commission."
7 A Uh huh.
8 Q Now, does that indicate that there is a file
9 on Iran Dealer Commissions where there are other memos?
10 A The file probably contained this original
11 agreement and the amendment. We maintain files on
12 all of our dealer agreements and commissions.
13 Q And to the best of your recollection, are
14 there any other memoranda?
15 A No. That notation is simply---that's my
16 writing, says, "File, Iran-dealer commissions."
17 I make notations on file documents, just to
18 help my secretary know where to file them. That's
19 all it means.
20 Q Now, has the Internal Revenue Service at
21 any time questioned you or spoken with you about the
22 payments to Air Taxi?
23 A No. Internal Revenue did review the files
24 on all of our dealer commissions, not just Iran. We
25 gave a complete schedule; gave them all records.

19/16

1 The last year reviewed I think was 1973.
2 They did look at the files on this payment. I didn't
3 talk to them about it, but they reviewed it with the
4 Accounting Department. As I recall, they had no
5 questions on the matter.

6 Q The Internal Revenue Service had no questions?

7 A Well, they asked for the documents, but, I
8 mean, as far as I know, they had no remaining questions,
9 open questions.

10 Q Are there any notes of that meeting with the
11 Internal Revenue Service about this, about Exhibit No.
12 75, or anything dealing with the Iranian commission
13 payment?

14 A I don't think so. I wasn't present at the
15 time of the actual interview with IRS.

16 Q Now, has the Internal Revenue Service spoken
17 with you subsequent to that, to 1973, about the commission
18 payments to Iran?

19 A No.

20 MR. SOUTTER: May I interject. The
21 Staff has been provided and they fully know that the IRS
22 did, in fact, come to Bell and make a request for infor-
23 mation on the payments to Iran. The agent apparently
24 was shown the materials, made notes. He apparently
25 left a copy of his notes here, which, in turn, have been

19/17

1 copied and provided to the Staff.

2 That's not to say that you, personally
3 participated—

4 THE WITNESS: No.

5 MR. SOUTTER: —or remembered them at
6 all. But they have them in front of them.

7 THE WITNESS: I don't recall ever
8 seeing any notes left by IRS. I think they must have
9 been given to the company after their interview, I
10 think.

11 MR. SOUTTER: Mr. Farmer made a bit of
12 a trailing statement there as you were concluding
13 down there. Perhaps— I don't know if you heard it
14 or not.

15 MR. FREED: Can you just reread that?

16 THE REPORTER (Reading from his notes):

17 "I don't recall ever seeing any notes
18 left by IRS. I think they must have been
19 given to the company after their interview,
20 I think."

21 BY MR. FREED

22 Q Mr. Farmer, do you know whether Bell or
23 Textron maintained or had any off-book funds?

24 A I didn't understand the last of that question.
25 Any what kind of funds?

19/18

- 1 Q Off-book funds?
- 2 A No, no.
- 3 Q Did anyone at Bell tell you that Bell should
4 not make pay-offs to get a contract?
- 5 A It's our policy not to do that.
- 6 Q Were you told? Was that communicated to you?
- 7 A It's been our company policy. No one par-
8 ticularly told me that. It's been our policy from
9 the beginning.
- 10 Q And also, that Bell should not deal with
11 agents who make pay-offs to get contracts?
- 12 A That's right.
- 13 Q That again is, you were told that?
- 14 A I was told it in the sense it was a company
15 policy which I am generally familiar with, yes.
- 16 Q Were you told this during the period 1973,
17 when payments were made to Mr. Zanganeh?
- 18 A It's been a continuous policy. 1973 is
19 no different from any other year.
- 20 Q Do you know whether any pay-offs were made
21 to General Khatami or any other Iranian Government
22 officials--
- 23 A No.
- 24 Q --military or civilian?
- 25 A As I mentioned earlier, the name Khatami was

19/19

1 not known to me until I saw it in the newspapers a
2 couple of weeks ago, whenever it appeared.

3 Q Do you know whether there were any pay-offs
4 made by Air Taxi to anybody else—

5 A I certainly do not.

6 Q —in connection with this contract?

7 A No.

8

9

EXAMINATION

10

BY MR. COLLINS

11

12 Q Mr. Farmer, what duties and responsibilities
13 did you have with respect to arrangements between Bell
14 Helicopter and the manufacturer's representatives?

15

16 I believe you've mentioned that you signed
17 a document in 1968—

18

19 A Uh huh.

20

21 Q —between Bell and Air Taxi.

22

23 Could you just provide us with some general
24 description of your responsibilities with respect to
25 agency agreements?

26

27 A Well, I am authorized or was authorized while
28 I was with the company to sign any kind of engagements
29 for any amount of money, government contracts, commercial
30 contracts, agreements of this sort, various kinds of
31 other agreements.

19/20

1 So, my signing was just a normal function
2 for this kind of an agreement.

3 Q Did you or your department have any other
4 function in addition to just yourself signing the docu-
5 ment, or your department, in just processing the accounts
6 or the payments, did you review agreements to evaluate
7 the compensation arrangements?

8 A This amendment had already been negotiated.
9 I was not a party to the negotiation. Our function was
10 to honor the agreement. We recorded the costs, made the
11 disbursements in accordance with the agreement.

12 Q But you didn't review or analyze the compen-
13 sation at all? I mean, what would the Sales Department
14 or whoever brought you the contract to be signed, before
15 you signed it, what type of evaluation would you make?

16 A The agreement had been negotiated by the
17 Marketing Department, by the Bell representatives who
18 were in Iran at the time.

19 Normally, I would not evaluate it. It had
20 already been agreed to by responsible persons.

21 Q Would anyone brief you as to what was con-
22 tained in the document before you signed it? Would
23 you read it through?

24 A Yes, I would have read it through, yes.

25 Q Did they prepare a memo or anything like that.

19/21

1 that would explain it?

2 A I don't think so. I was, of course, aware
3 of the size of the program. The contracts then con-
4 templated and the possibility of additional future
5 contracts.

6 So, in my opinion, the amount of commission
7 here was very reasonable under the circumstances.

8 Q I'm just trying to understand your function
9 in signing the agency agreements, because I believe
10 yesterday Mr. Sylvester in his testimony mentioned
11 that you had some type of review function that agency
12 agreements were generally subject to your review.

13 MR. SOUTTER: May I?

14 MR. COLLINS: Mr. Soutter?

15 MR. SOUTTER: I would like to—

16 THE WITNESS: That's not—

17 MR. SOUTTER: --characterize Mr.

18 Sylvester's testimony at that point as saying that in
19 more recent years, that the negotiations for settlement
20 of commissions was something that required the input
21 of the Financial Department.

22 THE WITNESS: Uh huh, yes.

23 MR. SOUTTER: Can you say something as
24 to the timing of that policy?

25 THE WITNESS: Perhaps I should say—

19/22

1 MR. COLLINS: Yes. I should say we
2 don't have the transcript here right now as—

3 THE WITNESS: Well, let me say this:
4 If I had thought this was unreasonable, I would not
5 have signed it. I was aware of the size of the contract,
6 the future potential of the program. To me it was
7 reasonable.

8 I believe Mr. Sylvester's comments, although
9 I didn't hear them, undoubtedly related to the function
10 of approving commissions other than standard commissions.

11 Let me explain: All of our dealer agreements
12 state the exact amount of commission to be paid for
13 all commercial catalog items. There is no negotiation,
14 no argument. When the sale is made, the dealer is
15 automatically entitled to the standard commission. It's
16 like a Chevrolet dealer gets a certain commission.

17 All of the items we sell are not commercial
18 items. They may be specially made articles, such as
19 the case here. These are U. S. Army type of helicopters.

20 And there are other sales made which are not
21 commercial items. Those kinds of sales where the
22 commission is to be negotiated are evaluated and for
23 about the past, I would say approximately three years,
24 it's been my responsibility to perform these evaluations.
25

19/23

1

BY MR. COLLINS

2

Q But in 1968—

3

A No.

4

Q —you did not perform that function?

5

A Did not, no.

6

Q And you didn't do that with respect to any

7

of the amendments to the agreement between Air Taxi and

8

Bell Helicopter; that is, the 1968 agreement and the 1970

9

agreement?

10

A No, no.

11

Q Does your department perform an internal

12

audit function for Bell Helicopter?

13

A Yes, internal audit was one of the functions

14

under my direction, yes.

15

Q Did you ever audit, perform an audit of the

16

payment of the 2.9 million dollars to Air Taxi by Bell

17

Helicopter?

18

A You mean an audit of Air Taxi's books?

19

Q Well, I should back up: What type of audit

20

would you perform internally?

21

A An audit of the authorizing documents to

22

support the payment that would be a typical internal

23

audit function; whether it be a commission payment or a

24

payment for raw materials or whatever.

25

Q And did you ever perform such an audit with

19/24

1 respect to the payment of 2.9 million dollars to
2 Air Taxi?

3 A I don't know. Like all expenditures, dealers'
4 commissions were periodically audited by internal audit.
5 I can't say specifically whether they may have covered
6 this in an audit program or not, probably did, but I
7 would not want to say.

8 Q This fee we're talking about, the 2.9 million
9 dollars. I believe it's a fairly substantial commission
10 paid by Bell Helicopter in relation to other dealer
11 commissions.

12 And to the best of your recollection, though,
13 you can't recall whether an internal audit was conducted
14 with respect to that fee?

15 A I can't say.

16 Q Or would it be likely to have been done,
17 because of the size of the fee?

18 A If an audit of the dealer commissions
19 for the time period involved was made by our internal
20 audit, in all probability, they would have audited this
21 one, yes; verified that there was underlying documents
22 such as this to support the payment.

23 MR. SOUTTER: And if there had been those
24 documents in the file, would they have made note of it,
25 or would they have passed over or—

19/25

1 THE WITNESS: I would surmise that if
2 the authorizing documents appeared to be proper, there
3 would have been no further questions raised by internal
4 audit.

5 BY MR. COLLINS

6 Q By authorizing documents, are you talking
7 about the contract or amendments to the contract?

8 A Uh huh.

9 Q What other types of documents would internal
10 audit be reviewing?

11 A The disbursement of checks, the book records.
12 The authorizing document, I think, would consist of
13 the amendment and the underlying agreement. I don't
14 believe there are any other documents involved.

15

16 EXAMINATION

17 BY MR. DOHERTY

18 Q Mr. Farmer, are you the chief financial
19 officer of Bell?

20 A I was until December 31, yes.

21 Q Or were you?

22 A Yes.

23 Q Who did you report to, sir?

24 A Mr. Atkins.

25 Q Let me just ask you a very general question:

19/26

1 Other than what you have described to us
2 at this point, did you have any other involvement in
3 the transactions leading to the sale of the helicopters
4 that we are discussing here, including the sales effort
5 and negotiations for the sale and the amendments to
6 the contracts?

7 A No. That would normally have not been a
8 function of the Finance Department.

9 I was involved in a negotiation with the
10 U. S. Government of the prime contract, the FMS contract.

11 All price proposals originated in the
12 Estimating Department which came under my direction.

13 I was not involved in negotiation in Iran of
14 the requirement or the dealer's agreement.

15 Q Did there come a time during the negotiations
16 of this contract that it came to your attention that
17 the Government of Iran would not allow payments to a
18 commission agent to be included in costs of sales?

19 A Yes.

20 Q Can you tell us how and when that information
21 first came to your attention?

22 A About the time we were negotiating the prime
23 contract with the government, we received information
24 that the ASPIR was going to be revised to preclude in-
25 clusions of commissions on FMS sales to Iran. I don't

19/27

1 recall now the date of that, but it was about the time
2 of our prime contract negotiation which simply meant
3 that any commission we paid or were obligated to pay
4 would have to come out of our profit.

5 Q At that point in time, what had been the
6 profit margin that had been worked up by your department
7 on this contract?

8 A I presume you are referring to the profit
9 margin that may have been in our price proposal? Well,
10 let me say there were various proposals made to Iran
11 before the program solidified into a contract for
12 287 214 aircraft and 202 J-type.

13 I can't recall the profit margin we may have
14 proposed. We made various proposals to Iran as direct
15 sales. And up until a short period before negotiating
16 this time contract with the U. S. Government, where
17 the government acted as Iran's purchasing agent, my
18 recollection is that we weren't certain whether it would
19 be a direct sale or go through the FMS channels.

20 Now the profit margins in those various pro-
21 posals were probably in excess of (*) per cent, I would
22 say.

23 Q Do you recall making a mental calculation or
24 making a calculation as to what the effect of the new
25 Iranian policy was on the profit margin?

* Figure deleted at the request of Textron.

19/28

1 A No. I don't recall the amount that was
2 contemplated to be included in the cost. Of course,
3 until we negotiated the prime contract, we didn't know
4 what the profit margin would be. It turned out, as
5 your records may indicate, the target profit negotiated
6 for the 287 Model 214 was (*) per cent of cost; not of
7 selling price, but of cost and of course less than
8 selling price.

9 Our actual profit yield, as I recall, is
10 indicated to be about eight to nine per cent of infla-
11 tion, anticipated costs.

12 Q And can you describe to us whether the
13 knowledge of the new proposed policy caused any
14 particular or significant reaction in the Financial
15 Department?

16 A No. As you know, dealers' commissions aren't
17 typically included in FMS contracts and ASPIR, of
18 course, covers this.

19 But, in this case, we were unable to ne-
20 gotiate any of the commission as part of the cost,
21 because of the requirement of Iran which you mentioned
22 that the commissions not be included in target costs.

23 Q Did you discuss the 2.9 million dollar
24 payment with Mr. Atkins?

25 A Before it was agreed to, no. I don't recall

* Figure deleted at the request of Textron.

19/29

1 any discussions on that.

2 Q How was the payment brought to your attention,
3 through Mr. Atkins?

4 A Yes. He must have given me or sent it
5 through the office mail a copy of the amendment. There
6 may have been some discussion. I don't recall speci-
7 fically what it might have been.

8 Q Was it your custom to write the kind of
9 memo that had been marked as Exhibit 75 to your
10 accounting people in connection with making a large
11 payment?

12 A The Accounting Department will make payments
13 only on written authority. In this case, we wanted to
14 make certain that none of the commission was charged
15 to the contract.

16 Without having read this, I think this
17 letter probably says to the Accounting Department not
18 to charge any of it to the contract; to take it out
19 of profit.

20 Q Could you take a moment and just examine that
21 memo, please?

22 A Yes.
23 (Short pause.)

24 A Uh huh, yes. Well, normally commissions on
25 FMS sales are charged to contracts. In this case, it

19/30

1 was clear that we did not intend to charge it to
2 contract. So, this memo instructed the Accounting
3 Department accordingly.

4 Q Was this memo written at your own initiation
5 or did someone instruct you to write this memo?

6 A At my own initiation, I believe. It was
7 simply to instruct the Accounting Department as to how
8 to treat the cost.

9 Q Why was the memo written on July 30, 1973
10 after the first check had been issued on June 29, 1973?

11 A July 30th would have been a time to book it
12 in the July closing, I presume, just a normal time lag.

13 Q Can you think of any other reason?

14 A I can't think of any other reason, no.

15 Q Isn't a payment to a commission agent
16 normally paid out to him over the life of the contract?

17 A There are many arrangements.

18 Perhaps "normally" it would be paid out over
19 the life of the agreement, yes.

20 Q Isn't that a--

21 A But, well--

22 Q --good business practice?

23 A Yes. Sometimes commissions are paid in-
24 crementally by time dates, such as the case here.
25 Sometimes they--are paid as deliveries are made.

19/31 1 Q Were you surprised to see the payout scheduled
2 here?
3 A No.
4 Q Did you discuss that with anyone that you
5 recall?
6 A I don't believe so, no.
7 Q Now, you indicated because of the particular
8 situation in Iran, it was necessary to book this as an
9 expense rather than including it in cost of sales;
10 is that right?
11 A I don't believe I quite understood your
12 question. Why it was booked as a selling expense?
13 Q Yes, rather than as cost of sales, as you
14 indicated, if I understood you there.
15 A Well, normally, the commission is charged
16 to the cost of the contract which automatically becomes
17 cost of sales. In this case, we did not desire to charge
18 the contract with the cost, so it had to be treated
19 otherwise on the profit and loss which is simply selling
20 expense.
21 Q Now, how is the determination made that these
22 checks would be expensed as written, rather than spread
23 over the life of the contract?
24 A The agreement requires payments by certain
25 dates, so it was proper in my opinion to expense the

19/32

1 payments within those time frames rather than a time
2 frame that did not correspond with the agreement.

3 Q Could you discuss the use of that accounting
4 treatment?

5 Did you discuss the use of that accounting
6 treatment with anyone before you determined to account
7 for it in that manner?

8 A I may have. Normally, we follow a very
9 conservative accounting policy. We like to expense as
10 best we can and be in a very conservative position.

11 I can't say with certainty. I may have
12 discussed it with Mr. Atkins, but, clearly, I believe
13 the payments we made and the way the costs are treated on
14 the books were in accordance with the agreement.

15 Q Now, Arthur Young is your independent
16 accountant?

17 A Yes.

18 Q Did they agree with that kind of treatment?

19 A They agreed with it, yes. As I recall, they
20 did ask the question, why—why not amortize the expense
21 over the life of the contract, as you are suggesting.

22 And we pointed out to them— I think I was
23 in the discussion with them, as I recall: We felt it
24 was proper to absorb the expense, when paid, in accordance
25 with the agreement, simply as a matter of conservative

19/33

1 accounting, just to get rid of the cost when spent.

2 Q Let me read to you from Exhibit No. 74 which
3 is a copy of certain of the Arthur Young work papers.
4 There is a page contained in there dated January 20,
5 1975 entitled, "Commissions Related to Iranian Program."

6 And I'd like to read just a couple of
7 sentences from that—

8 A All right.

9 Q —memorandum. The pages don't seem to be
10 numbered chronologically, so I'll just show it to you
11 so we can both read it at the same time:

12 "We contend this expense should be treated
13 as a prepaid item and amortized over the program
14 as the ships are delivered."

15 A Uh huh.

16 Q And then skip down a few lines.

17 A Uh huh.

18 Q (Quoting):

19 "If this item were treated as a prepaid
20 and amortized over sales to date, the effect
21 would be an increase on profit to date of
22 \$2,353,000."

23 A Uh huh, yes.

24 Q Now, does that refresh your recollection,
25 sir?

19/34

1 A Yes, sir. That's what I was referring to.

2 Q As to whether Arthur Young agreed with the
3 accounting treatment?

4 A Uh huh. This is simply, I think, a question
5 of accounting theory. They were suggesting it should
6 be amortized, and it could have been. Accounting is
7 not an exact science, as you know. We lean towards
8 conservatism continuously. They accepted our treatment.

9 MR. SOUTTER: Arthur Young did acquiesce
10 in your treatment?

11 THE WITNESS: Yes, certainly did.
12 We quite often had disagreements, let's say "friendly
13 disagreements" or discussions with Arthur Young about
14 accounting treatments, but they concurred with it.

15 As I recall in discussing it with them, I
16 pointed out that if the contract were to be terminated,
17 we would still owe them money as of these dates and
18 therefore it should be treated expense.

19 BY MR. DOHERTY

20 Q Could you describe for us, sir, the income
21 tax treatment accorded to this 2.9 million dollar payment?

22 A I presume it was just deducted as a business
23 expense when paid.

24 MR. DOHERTY: Let's have marked as
25 Exhibit No. 79 a photocopy of a seven-page document

19/35

1 containing various handwritten notes. It seems to be
2 a form entitled "Information Document Request, Depart-
3 ment of the Treasury, Internal Revenue Service."

4 A Yes. That's the form they normally use
5 when requesting data from us, I believe. What is the
6 date of that, please?

7 Q The date of this appears to be 6/1/77.

8 A Uh huh.

9 Q And it appears to deal with the period ended
10 year 1973.

11 A Uh huh.

12 (The 7-page document, referred to
13 was marked "Exhibit No. 79"
for identification.)

14 Q I'd like to show you this document, sir.

15 Have you seen this document before, and, if
16 so, could you describe to us for the record what it is?

17 A It's a request from the Internal Revenue
18 Agent for certain documents. This is the typical
19 procedure used by IRS.

20 I may have seen this, I am not certain. I
21 knew they requested data on the contract as well as many
22 other dealer agreements.

23 Q Let me direct your attention to the second
24 page of this document. I'd like to read one of the
25 paragraphs here.

19/36

1 "\$1,500,000 is shown as being deducted
2 in "other expenses" as outside commissions.
3 On Schedule "M" at year end, \$500,000 was used
4 as a reduction of purchases resulting in a
5 net deduction for income tax purposes of
6 \$1,000,000 for outside commissions. The
7 following is an explanation of this adjustment."
8 A Uh huh.
9 Q Then there follows several pages of notes.
10 A Uh huh.
11 Q Do you know whose notes these are, sir?
12 A I believe they were prepared by the IRS agent,
13 were they not?
14 Q I see. They would appear to have been
15 prepared by the IRS agent?
16 A I believe so, uh huh.
17 Q Do you know who at Bell provided this infor-
18 mation to him?
19 A I don't know specifically who. It was some-
20 one in the Accounting organization, uh huh.
21 Q Now, let me read one more sentence from
22 this, the last page, and then I'll have a few questions
23 "Based on preceding, it appears that
24 these total expenses of \$2,900,000 should be
25 amortized over the length of time it takes Bell

19/37

1 to produce and collect the sales price on
2 these 489 helicopters. The following is a
3 computation of the amortization."

4 A Uh huh.

5 Q The first question, sir is: Can you ascer-
6 tain from this whether the commission payment was
7 deducted as a business expense for income tax purposes?

8 A I presume it was. We don't prepare the tax
9 returns here at Fort Worth, but I can't say factually,
10 but I presume it was.

11 Q And one other question that you may be
12 able to help us on: Can you describe to us what
13 Schedule "M" is on an income tax form?

14 A It's a schedule that reconciles figures used
15 for tax purposes versus book.

16 So it may be at year-end, this \$500,000
17 was an accrual, not yet disbursed. And, therefore, the
18 tax deduction fell in a time period different from the
19 booking, and I'm not sure.

20 Q It would appear that was an adjustment to—

21 A The Schedule "M" is a customary schedule
22 used for IRS purposes.

23 Q All right.

24 A For example, depreciation. We may depreciate
25 something over, say, a ten-year period. IRS will insist

19/38

1 it be twelve years. So the Schedule "M" simply adjusts
2 our book figures to the tax return.

3 Q Do you know, sir, whether the IRS allowed
4 the deduction on the three-year basis or whether they
5 required that it be amortized over the life of the
6 contract?

7 A I doubt that this question has been settled
8 yet. I am not certain. This review was conducted
9 by IRS only about, what, eight months ago, some such
10 time, so it probably hasn't yet been resolved.

11 This is not unusual, though. IRS, very
12 understandably, likes to defer costs as much as possible,
13 be it depreciation or whatever.

14 We may depreciate a building over, say, 25
15 years. They will say it should be 40. So it's then
16 compromised in some way. The more expense can be de-
17 ferred, the more tax you pay in the current year, of
18 course, which is what IRS desires.

19 Q Did you discuss this payment with Mr. Miller
20 or the audit committee or the Textron Board of Directors?

21 A No.

22 Q Do you know whether it was discussed with
23 any of those?

24 A It's my understanding that Mr. Atkins
25 discussed it with Mr. Miller, yes.

19/39

1 Q Did you discuss this payment with anyone in
2 the Legal Department before you were permitted to pay it?

3 A I don't believe so.

4 Q Or in connection with the making of that pay-
5 ment?

6 A I don't believe there would have been a need
7 for such a discussion. I don't believe such a discussion
8 occurred.

9 Q I believe this question was asked of you,
10 but just to be certain: Are you aware of any fund of
11 monies or other assets of any kind that was ever maintained
12 by Bell or Textron that was not recorded on its books
13 and records?

14 A No. We don't operate in that manner.

15 Q Have you participated, Mr. Farmer, in any
16 internal investigation of Bell or Textron with respect
17 to the question of any foreign payments problems?

18 A We have discussed and made clear to all of
19 our personnel our company policy. It's in writing. No
20 special discussions, that I recall.

21 Q I am referring to the more recent activity,
22 I think, that we've been advised that certain Textron
23 or Bell personnel had undertaken in an effort to in-
24 quire into this payment and other matters. And, in fact,
25 gave us a report on that, which I believe was marked as

19/40

1 an exhibit here.

2 MR. SOUTTER: If you are referring to
3 Exhibit 66 or whatever it is, they are referring to a
4 memo of mine, Ed, when we came down here and talked
5 about— I came down to talk about the Air Taxi payment.

6 THE WITNESS: Oh.

7 MR. SOUTTER: That was June of 1975.

8 THE WITNESS: I don't believe I recall
9 that memo, Tom.

10 MR. SOUTTER: I didn't distribute it.

11 BY MR. DOHERTY

12 Q My question is: You are familiar now with
13 the inquiry that I am asking you about. My question
14 to you is: Did you participate in that inquiry in any
15 way, other than to have answered some questions of
16 Mr. Soutter?

17 A I was in the discussion with Mr. Soutter
18 and others.

19 Q Did you participate in any other way?

20 A I don't believe in any way other than the
21 open discussion.

22 Q Could you tell us what the makeup was of the
23 investigative group, if you know; the scope of that
24 investigation; or any other information you have with
25 respect to how it was conducted?

19/41

1 A Well, I recall a discussion in this room,
2 I believe. I was present with Mr. Soutter, Mr. Atkins,
3 Mr. Rudning, I believe. Possibly Mr. Sylvester, I'm not
4 sure.

5 MR. SOUTTER: The memo reads, and my
6 recollection of the meeting is consistent with the way
7 this draft was prepared. It says:

8 "Bob Ames and I met with Atkins, Farmer
9 and Rudning."

10 THE WITNESS: Uh huh. I believe Bob
11 Ames was present there, yes.

12 MR. SOUTTER: I do not believe that
13 Frank was present at any time.

14 THE WITNESS: Yeah, okay.

15 BY MR. DOHERTY

16 Q Something was said that wasn't clear to me.
17 Did you indicate Mr. Farmer was not at the
18 meeting?

19 MR. SOUTTER: No, Mr. Farmer was here.

20 THE WITNESS: I was present.

21 MR. SOUTTER: Right.

22 BY MR. DOHERTY

23 Q Sir, before you examine the document, which
24 is Exhibit

25 A 66.

19/42

1 Q —66, could you give us your recollection
2 of what was discussed at the meeting?

3 A As I recall, it was to provide a complete
4 understanding of the whole transaction. And I presume
5 the reasons were because of the widespread attention
6 being given to this whole subject in the news, because
7 of the Northrop situation and perhaps others.

8 Q Can you describe to us the discussion with
9 respect to the scope of the inquiry, that was discussed
10 at that meeting?

11 A I believe it was just to review the entire
12 transaction; the supplemental agreement to the basic
13 dealer agreement, which would have been the one dated
14 1968, I believe.

15 Q Did the inquiry encompass the foreign
16 sales operations as a whole as well as any off-book
17 funds or what was the scope? Did it focus only on this
18 transaction?

19 A I don't recall. Our over-all general policy
20 with respect to our foreign dealer sales representatives
21 may have been discussed at the same time. I don't
22 recall, really.

23 Q Other than the people you have described
24 in the meeting, did anyone else that you know of
25 participate in the inquiry?

19/43

1 A I don't recall anyone else, no.

2 Q Did you marshal your accounting staff?
3 Were questionnaires sent out to the field to various
4 offices? I'm just trying to ascertain what was done,
5 if anything, in addition to the meeting that took place?

6 A I don't recall that any special action was
7 taken. I believe our policy with respect to dealers
8 commissions has been very consistent through the years.

9 Q So, insofar as you know, basically the inquiry
10 that was conducted was conducted at the meeting that
11 took place which you've described to us?

12 A Yes, I think so.

13 Q Is there anything else that you think we
14 should know about the scope of that inquiry or how it
15 was conducted?

16 A I don't recall anything.

17 Q To your knowledge, does Bell have any addi-
18 tional contracts operative in Iran at this time?

19 MR. SOUTTER: That's a very broad
20 question. We are doing business there.

21 THE WITNESS: We have several contracts
22 involving Iran.

23 MR. DOHERTY

24 Q Are there any contracts to your knowledge
25 with any entity that has affiliated with it any government

19/44

1 official?

2 A Not to my knowledge.

3 Q And when the questions were asked to you
4 previously with respect to whether you were aware of any
5 payments to any foreign government official, just so
6 the record is clear, we would include within that a
7 very broad category of things such as any gift or any
8 contract or any loan or any benefit whatsoever, either
9 directly or through some third party that might somehow
10 be affiliated with a foreign government official.

11 Is your answer still the same?

12 A Yes.

13 Q That you know of no such—

14 A No.

15 Q —payment; is that correct?

16 A Correct.

17 Q Do you have any knowledge, sir, as to who
18 audits the records of Air Taxi?

19 A I do not have any knowledge of that, no.

20 Q Mr. Farmer, do you have any other informa-
21 tion at all that would be helpful or that you feel would
22 shed any light on the subject matter of this inquiry
23 that wasn't developed here today?

24 A I don't believe so. It might be of interest
25 to simply mention it, but the past two or three years,

19/45

1 we have been obtaining written statements, letters of
2 representation from all of our sales people, persons
3 that contact foreign customers, letters of representation,
4 simply stating that they do not have knowledge of
5 any payments to government officials or gifts, et
6 cetera.

7 Q Are there any other internal controls that
8 are now, or that have recently been implemented that
9 you could tell us about? I think it would be helpful,
10 or that were in existence in the past?

11 A Well, during the past year we made a few
12 changes in procedure to just avoid even the taint of
13 any suspicion regarding payments of commissions, wherein
14 we ceased making deposits to foreign dealers, United
15 States bank accounts.

16 Most of our dealers do business in the
17 United States with other companies. They like to have
18 U. S. funds here to use for other purposes. Most of
19 them maintain bank accounts with Chase Manhattan and
20 other large banks. We stopped making deposits to their
21 accounts and now make the deposit to an account in
22 their home country, at their request.

23 Most foreign payments, we don't trust to the
24 mails in these foreign countries. We send them through
25 banking channels. The mails are quite undependable,

19/46

1 quite slow, in many cases.

2 That's about the only change I recall.

3 Q Do you have any internal control to ascertain
4 whether the written statements are received from the
5 field?

6 A The letters of representation I mentioned,
7 yes. We make up a list of all the persons to whom the
8 letters were sent, and then verify that they were
9 answered, and this data has all been given to Arthur
10 Young.

11 Q Do you have an Internal Audit Department?

12 A Yes.

13 Q Do they have access to the Audit Committee?
14 Who do they report to?

15 A The Internal Audit Department reports to
16 Mr. Treff, the Treasurer.

17 MR. SOUTTER: The Audit Committee, as
18 such. I'm not quite sure how you are using it. The
19 Board of Directors of Textron has an Audit Committee.

20 THE WITNESS: We don't have an Audit
21 Committee. The Audit Department here simply reports
22 as a line organization to a person, namely, Mr. Treff,
23 the Treasurer, who reports to me.

24 BY MR. DOHERTY

25 Q I see. Textron has an Audit Committee?

19/47

1 A Yes.

2 Q Does your Internal Audit Department have
3 access to the Textron Audit Committee?

4 A They normally wouldn't have direct contact.
5 Normally, contacts would come through the group vice
6 president.

7 BY MR. COLLINS

8 Q With respect to any internal audit formed
9 to review the 2.9 million dollar payment, I realize,
10 Mr. Farmer, you are no longer here at Bell Helicopter,
11 but I wondered if you'd ask Mr. Galerstein, when you go
12 back and review some of the documents to make sure
13 that we have received everything that there are no— I
14 think we mentioned yesterday the trip reports, the
15 possibility some may have existed.

16 Could you also check to determine whether
17 an internal audit was performed?

18 I believe Mr. Farmer indicated he doesn't
19 recollect whether one was or not. So we would request
20 that you would determine whether one was.

21 MR. GALERSTEIN: I certainly will.

22 THE WITNESS: I do know that dealer
23 commissions are on the audit program. Perhaps every
24 year that area isn't covered, and when covered, it's
25 usually on a test-check basis, not every one of many

19/48

1 transactions.

2 BY MR. COLLINS

3 Q So it's not a regularly scheduled program
4 then?

5 A I don't think so. It's done periodically.
6 I can't say, certainly, how frequently; perhaps every
7 two years, something like that.

8 Q And the criteria for an audit, does it go
9 according to the size of the commission or—

10 A It would probably be a scientific sampling of
11 it.

12 MR. GALERSTEIN: Let me ask a question so
13 that I understand what it is that I am supposed to do.

14 MR. COLLINS: Well, just to check whether
15 there was an internal audit performed and, if so, if
16 there are documents you can find concerning it, we
17 would request them.

18 MR. GALERSTEIN: Well, as I understood
19 Mr. Farmer's testimony, if there was an internal audit
20 performed covering that period, then there would probably
21 be no documents, were nothing to be found wrong with
22 that payment. So it's really sort of a negative "if."

23 I will certainly try to determine whether an
24 audit was performed. If it was performed, I will pro-
25 vide you with any documents that cover that date.

19/49

1 MR. COLLINS: Fine. I'm saying that
2 there may be work papers or memos in the file or some-
3 thing like that.

4 MR. GALERSTEIN: Yes. What I am trying
5 to establish is that I don't have to give you documents
6 covering everything else, all other payments of any
7 other kind that they audited—

8 MR. COLLINS: No.

9 MR. GALERSTEIN: —unrelated to this
10 matter and unrelated to foreign commissions and un-
11 related to this.

12 MR. COLLINS: Well, related to this
13 matter, to Air Taxi.

14 MR. GALERSTEIN: Yes, very good.

15

16 EXAMINATION

17 BY MR. MARINACCIO

18 Q Mr. Farmer, to your knowledge, were there any
19 payments other than the 2.9 million dollar payment
20 made to Air Taxi during the period 1973 to the present
21 date, any other payments whatsoever?

22 A Since the date of this last payment in this
23 supplemental agreements; is that correct?

24 Q No, sir. Since the date, January 1, 1973 until
25 the present day.

19/50

1 A Not to my knowledge, unless there might have
2 been some small commissions still due on some direct
3 sales which would not have been large commissions.

4 I believe, however, there's something in the
5 agreement that terminated all those, didn't it?

6 I don't think there are any other commissions
7 since that date.

8 Q You mentioned "small commissions."

9 You certainly would have recalled if there
10 had been any payment made to Air Taxi from January 1,
11 1973 until the present time that was over, for example,
12 \$25,000, would you not?

13 A I believe I would, yes.

14 Q Was there any?

15 A What I was referring to is: I just noted the
16 last paragraph of my July 30, '73 memo, the reference
17 to some direct spare sales which had been in progress
18 for several months but then stopped any further payments.

19 It goes on to say:

20 "This memo is to advise that no further
21 commissions will be due on subject spares
22 contracts because the above outlined commission
23 understanding covers all commissions due on
24 subject spares."

25 So, I would say that no commissions were paid

19/51

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1 after the date you mentioned, other than the
2 commissions outlined in this supplemental agreement.

3 Q I understand that.

4 Now, my question was not only commissions.
5 My question was: To your knowledge were there any
6 payments—

7 A No.

8 Q —whatsoever at any time?

9 A Not to my knowledge.

10 Q From January 1, 1973 to this date other than
11 the 2.9 million dollars?

12 A No, not to my knowledge.

13 Q That was over \$25,000?

14 A Not to my knowledge.

15 Q Mr. Farmer, if I may, I'd like to go back
16 to your testimony with respect to the inquiry that was
17 conducted within Textron that Mr. Soutter participated
18 in, relating to the 2.9 million dollar payment.

19 I believe you said that that inquiry focused
20 on the 2.9 payment to the best of your understanding?

21 A I believe so, yes. It may have also covered
22 the general subject of—

23 Q Do you recall any discussion of any other
24 payment other than the 2.9 million dollars?

25 A I don't recall any other specific payment.

19/52

1 Q All right.

2 A But I haven't reviewed this document.

3 Q No. I'm now asking you for your independent
4 recollection.

5 A Yes. I don't recall.

6 Q I'm not asking you to review the document.

7 A Yeah.

8 Q Now, what was your understanding of why the
9 2.9 million dollar payment was being reviewed, I think
10 as you stated, at a time frame because of various
11 other payments that have been made by Northrop and
12 possibly Lockheed. It was being reviewed, I think it's
13 fair to characterize it, from your testimony, in
14 connection with the surfacing of a lot of payments to
15 foreign government officials; is that not right?

16 A Yes, I believe that's correct.

17 Q Now, what is your understanding of why that
18 payment was being reviewed in connection with the foreign
19 bribery issue?

20 A Oh, simply because—

21 Q Mr. Farmer, I would appreciate it if you would
22 put that document down. I want your independent
23 recollection of this matter.

24 A Okay.

25 Q And I wish your response now to my question.

19/53

1 A Okay. Will you state the question again,
2 please?

3 MR. MARINACCIO: Please read the
4 question back to the witness.

5 THE REPORTER(Reading from his notes):

6 "Now, what is your understanding of why
7 that payment was being reviewed in connection
8 with the foreign bribery issue?"

9 THE WITNESS: I believe to provide the
10 corporate office with a general understanding or more
11 complete understanding of the transaction and documenta-
12 tion. I believe that's correct.

13 BY MR. MARINACCIO

14 Q Was there any discussion among the par-
15 ticipants in that meeting that this might be reviewed
16 by the Securities and Exchange Commission under its
17 program on foreign payments and that therefore this
18 ought to be reviewed within Textron/Bell?

19 A I don't recall any specific discussion. I
20 believe at that time there had been a list of major
21 contracts prepared by perhaps SEC, which were to be
22 reviewed for documentation purposes.

23 I believe the corporate office wanted to
24 become fully aware of the way the costs were treated.
25 It was a large payment.

19/54

1 Q Was there any discussion at that meeting among
2 any of the participants that this 2.9 million dollar
3 payment raised any question of whether money went to
4 an Iranian government official?

5 A No, no discussion of that sort.

6 Q Did you make any notes at that meeting? Did
7 you take any notes?

8 A I don't believe so.

9 Q Who asked you to come into the meeting?

10 A I don't recall. I presume Mr. Atkins.

11 Q Do you remember what Mr. Atkins told you
12 about the reason for the meeting?

13 A I don't recall. I presume to generally
14 familiarize Mr. Soutter with the amendment to the dealer's
15 agreement and the facts in the case.

16 Q Did you discuss what happened at that meeting
17 with anyone after the meeting; have a discussion with
18 Mr. Atkins about that subject matter after the meeting?

19 A I don't recall any discussion after the
20 meeting.

21 Q Do you recall meeting with Cecil E. Smith
22 of Arthur Young?

23 A I met with him many times. He's the audit
24 manager for our account, yes.

25 Q Do you recall discussing the 2.9 million

19/55

1 dollar payment with him?

2 A Yes. They raised the question as to why
3 it would not have been good accounting to amortize
4 the payment over the life of the contract rather
5 than book the expense by time periods as the memo
6 you earlier showed to me indicates.

7 I recall that discussion, yes.

8 Q Did you ever indicate to Mr. Smith that the
9 2.9 million dollar payment was a confidential item with
10 Textron/Bell?

11 A With Textron/Bell?

12 Q Within your company, which is Textron/Bell
13 Company?

14 A Oh, I don't recall any discussion of that
15 particular, no, sir. Like any commissions, we treat
16 them confidentially.

17 Q Do you recall telling any of your people,
18 your subordinates, that you were discussing this matter
19 with Arthur Young, that they should tell Arthur Young
20 that this was a confidential item; that is to say, the
21 payment of the 2.9 million dollars?

22 A I don't recall, no.

23 Q How many people in your office were aware
24 that the 2.9 million dollar payment was made, beside
25 yourself?

19/56

1 A Those persons in Accounting normally involved
2 in processing any payment would have been aware of it.
3 Persons that prepared the payment voucher, wrote the
4 check, signed the check, saw the underlying document
5 authorizing the check. Several persons would have seen
6 it.

7 Q Is it customary when you make a payment of
8 this size to someone, would a memorandum come to you
9 including the contract and the analysis of the
10 contract and obligations and so on and so forth, which
11 you agreed, reviewed and sign-off on, and then agree
12 that the payment was proper and duly authorized?

13 A Well, the payment would not be made to any
14 dealer without a signed agreement, amendment to the
15 dealer, basic agreement.

16 In this case, it was negotiated by Mr.
17 Atkins and I presume others who may have been in Iran.

18 I recall no memorandum from those persons.
19 The agreement, itself, was the basic authority for the
20 Accounting Department to make payment.

21 Q Is that the usual method of doing business
22 in the Accounting Department?

23 A If the payment is not to be charged to a
24 contract cost, there would be a memo of instructions
25 such as this to tell the Accounting Department not to

1 charge the contract.

2 Q Did you ever appear before the Audit Commit-
3 tee, the Board of Directors of Textron--

4 A No.

5 Q --relating to the 2.9 million dollar pay-
6 ment?

7 A No.

8 Q Did you ever receive any inquiry from the
9 Audit Committee, from any member of the Audit Committee,
10 I should say?

11 A I don't believe so.

12 Q What is your best recollection as to whether
13 you did or not?

14 A No. Unless Tom is a member of the Audit
15 Committee; I don't believe he is.

16 MR. SOUTTER: I am not.

17 THE WITNESS: No.

18 MR. DOHERTY: There were a number of
19 questions on the record as to Arthur Young's position
20 on the accounting treatment of this matter, and a number
21 of comments as to how Arthur Young ultimately dealt
22 with it.

23 I thought it would help clarify the record to
24 put in a letter of January 27, 1978, from William F.
25 Slattery of Arthur Young to Bruce Freed of the Banking

1 Committee which enclosed the work papers which have
2 been marked as Exhibit No. 74.

3 It states a number of things, including this
4 paragraph which I thought I would simply read into the
5 record for purposes of clarifying their position.

6 Page 2, paragraph 3. I will read the para-
7 graph in its entirety:

8 "As our work papers indicate, based on
9 our review of the contract and discussions with
10 management at the Bell Helicopter Division and
11 Textron Corporate, there was no indication that
12 the payment was anything other than a legal and
13 ethical contractual business arrangement. We
14 did propose to the company that this payment
15 be charged to expense over a different period;
16 however, the difference between our proposal
17 and that followed by the company was clearly
18 immaterial to the consolidated financial
19 statements of Textron, Inc. and such adjust-
20 ment was waived."

21 Why don't we mark this as Exhibit 80.

22 (The letter referred to was
23 marked "Exhibit No. 80" for
identification.)

24 MR. MARINACCIO: Mr. Farmer, I thank you
25 very kindly. If you'd like to make any kind of a

1 statement at this point for the record, it would be
2 fine. Otherwise, we have concluded the questioning.

3 THE WITNESS: Thank you. I don't
4 believe I have anything else that would be pertinent
5 to it.

6 MR. MARINACCIO: Thank you very kindly.
7 There are some matters we would like to
8 discuss with Mr. Soutter at this point.

9 THE WITNESS: Okay, I'm dismissed,
10 correct?

11 MR. MARINACCIO: That's correct.

12 THE WITNESS: Okay.

13 MR. SOUTTER: Thank you very much.

14 MR. GALERSTEIN: Thanks for coming, Ed.

15 THE WITNESS: You are welcome.

16 (The witness, Mr. E. L. Farmer, left the
17 room.)

18 MR. MARINACCIO: Mr. Soutter, reference
19 has been made to the internal inquiry that you conducted
20 in connection with the 2.9 million dollar payment.

21 And, for the record, we'd like to give you
22 this opportunity to state the purpose of that inquiry
23 and the scope of that and what conclusions you reached,
24 if any, and your subsequent report, if any, to the
25 Audit Committee; what the Audit Committee did or didn't

1 do; and whether the Board of Directors of Textron
2 was in that.

3 Appreciate your comments on those matters.

4 MR. SOUTTER: My recollection of the
5 time that I came down here in June of 1975 was
6 occasioned essentially by two factors. There was in
7 the Press revelations of illegal, improper, questionable,
8 however you want to characterize the payments.

9 Senator Proxmire had asked of the SEC, would
10 it go through the records on file of the SEC, of the
11 top 25 Defense Contractors, of which Textron is one.

12 In addition, I either knew or we were think-
13 ing of the fact that we would be having a public debt
14 offering later in 1975, either later that summer or
15 earlier in the fall.

16 I had at some time prior to that become
17 aware of the settlement with Air Taxi, but I thought
18 it prudent and as a matter of due diligence to come
19 down here and get some firsthand knowledge of what
20 had transpired.

21 I did come down here. I don't remember whether
22 I came with Mr. Ames, but, in any event, I joined him
23 down here. As my draft of the memo, I think accurately
24 reflects, we met here in this room with Messrs. Farmer,
25 Atkins and Rudning, and it went on, I believe, for most

1 of the day or half a day—the afternoon of one day and
2 the morning of the next. That's not totally clear to
3 me, but call it essentially a working day was spent
4 in those discussions.

5 The documentation was produced. And when I
6 say the "documentation," the early agreements with Air
7 Taxi. I don't remember if I saw the '59 agreement at
8 that time, but the— I was made aware that there had
9 been a relationship from '59 to '64; that there had been
10 a break in the mid-60's; that the relationship had
11 started up again in 1968.

12 We followed the transaction through to
13 conclusion. And that included the three amendments,
14 the legalized document authorizing Mr. Zanganeh to
15 act for Air Taxi.

16 I believe the receipts that had been signed at
17 the time of payment were available to me then.

18 And those documents, I believe, were all made
19 available to me that day. Some may have been xeroxed
20 and sent to me from my file which became the tabs to
21 Exhibit 66, at subsequent time, but I believe all of
22 those documents were presented for me to look at that,
23 at that time.

24 The question was asked, you know: Were these
25 payments for any improper, illegal, questionable

1 purposes? and the answers were, no; that Air Taxi
2 had performed its services; that Bell felt obligated
3 under the amendments which evolved through the
4 agreements to bargain in good faith with them over the
5 amount of the commission.

6 I have been here now with you for these four
7 days. I did not get anywhere's near the detail that
8 we have gotten through these.

9 But, in substance, I do not find what's been
10 said in these past things, to differ from what I have
11 been told, that this was a straightforward, honestly
12 bargained for windup of the relationship with Air Taxi
13 insofar as the business of the Government of Iran was
14 concerned.

15 And, as I say, that took essentially a day.

16 As to the Audit Committee of Textron, I am
17 aware that the matter did come before the Audit
18 Committee. I was not present, but I am aware that it was
19 discussed. I've been told that it was.

20 I believe the Arthur Young material submitted
21 to you indicates that Mr. Slattery who was present at
22 the Audit Committee, did raise the subject.

23 I am also advised that the Board of
24 Directors at, at least one meeting, and possibly more,
25 have had the settlement of Air Taxi explained to them,

1 although I, personally, was not present.

2 MR. MARINACCIO: Could you get us,
3 please, for the Committee's files, the date that the
4 Audit Committee considered the 2.9 million dollar
5 payment and--

6 MR. SOUTTER: We might be able to resolve
7 that right now if we will look in Arthur Young's
8 submittal. I think Mr. Slattery notes the date of
9 that meeting.

10 MR. MARINACCIO: And also the dates
11 on which the Board of Directors of Textron considered
12 the matter and--

13 MR. SOUTTER: I can try to pinpoint
14 those dates, but I am not sure that the Minutes--most
15 of our Minutes of the Board of Directors are very
16 shorthand Minutes. And through a review today, we
17 find no specific reference to this matter, so I may
18 have a harder time pinpointing the dates.

19 MR. MARINACCIO: At least if you can
20 get us the dates of the meetings and who was present
21 at the meeting.

22 MR. SOUTTER: I am sighing as to who
23 was present. I think it's going to be very hard to
24 pinpoint the exact meeting of the Board. I will ask
25 and then we'll just look at the record that were there.

1 But, you know, most of our Directors of a Board of
2 13, most of them are there.

3 MR. MARINACCIO: May I ask you this for
4 the record: Did you discuss this matter with G. William
5 Miller either before you came down here or after you
6 came down here?

7 MR. SOUTTER: I can't remember whether
8 I told him was coming down to make the inquiry in
9 advance. I did report back to him when I returned.

10 MR. MARINACCIO: Could you tell us,
11 essentially what you told him, what the conversation
12 was?

13 MR. SOUTTER: To the best of my
14 recollection, I reported back to him in summary fashion;
15 that I had come down to Bell; spent the day with, and
16 I probably told him who had participated in the discus-
17 sions; that I had seen the documentation; had heard the
18 explanations and was satisfied that it did not fall
19 within the illegal, improper or questionable payment
20 category.

21 MR. MARINACCIO: The illegal, improper
22 or questionable payment category: Can you be a little
23 more specific, that there was no--

24 MR. SOUTTER: Well, that's become sort
25 of a--

1 MR. MARINACCIO: I know it has and
2 that's why I want to be a little more specific.

3 Do you mean by saying that, that no part of
4 any of these funds went to any Iranian Government
5 official, including—

6 MR. SOUTTER: I think that would be
7 understood by that phraseology. Whether I turned it
8 around and said, "There's no indication—" but I am
9 sure I gave him all the inclinations that it was an
10 "all right" payment and we had nothing to be ashamed
11 of or to hide.

12 MR. MARINACCIO: At any time, in any
13 conversation you had with G. William Miller or any
14 information you have about G. William Miller's
15 knowledge, do you know whether or not he was ever aware
16 of General Khatami's alleged ownership of Air Taxi?

17 MR. SOUTTER: I was never aware, and
18 there were no discussions with Mr. Miller of General
19 Khatami.

20 When his name was first raised at Mr. Miller's
21 confirmation hearings, I could remember back to the
22 name, because I think it's been described that he died
23 in a glider accident. I believe, precisely, it's a
24 hang glider accident and that just made it memorable
25 to me, of that name.

1 But I had never heard the name before then
2 or again until the hearing, in any context.

3 MR. DOHERTY: Reference was made to
4 whether Exhibit 74 which is the Arthur Young work papers
5 reflected discussion of this matter with the Audit
6 Committee. The last two pages of this exhibit do re-
7 flect such a discussion.

8 I will read the better portion of the para-
9 graph so it's clear, because it seems as though there
10 were two different time frames being discussed here.

11 This is from a memo of Arthur Young personnel.
12 It's entitled, "Textron Audit Committee Meeting, Febru-
13 ary 23—24, 1977," and I will quote:

14 "Later in the meeting, I was asked whether
15 I had any confidential comments to give the
16 Committee. I responded that while I had no
17 confidential comments, I did wish to bring
18 to the Committee's attention the \$2,950,000
19 payment to Textron's former agent in Iran
20 over 1973, 1974 and 1975 in connection with
21 Textron's contract with the Iranian Government
22 for the sale of helicopters."

23 "I added that while I had understood
24 this situation had been discussed either at
25 a previous Audit Committee meeting at which

1 I had not been present, or at a Board of
2 Directors' meeting, I felt that it was
3 appropriate that it be discussed while I was
4 present, should there be questions or further
5 action desired of me."

6 "The three members of the Committee
7 first expressed some surprise and lack of
8 knowledge about the item. However, Campbell,
9 (C-a-m-b-e-l-l) upon reflection, stated that
10 he did recall it being discussed at a Board
11 meeting."

12 "Mrs. Sisco (S-i-s-c-o) had apparently
13 never heard of the payments."

14 "Bill Ledbetter (L-e-d-b-e-t-t-e-r)
15 described the arrangement as a buy-out of
16 the agent's franchise and also said that the
17 company was satisfied that there was nothing
18 illegal about it. No further action was taken
19 on the matter; I was satisfied that it had
20 been brought to the Committee's attention
21 and that they would not be surprised if the
22 amount was disclosed in the future."

23 MR. DOHERTY: That, I think, is the
24 reference that you made.

25 MR. SOUTTER: That is the reference I was

1 referring to.

2 MR. MARINACCIO: And just before we
3 close for today, I'd like to thank counsel for making
4 his witnesses available.

5 And I'd also like to state that this fact
6 investigation will be continuing and we may wish to
7 discuss these matters with other Textron officials.

8 And upon review of the transcripts of the
9 testimony, we may even wish to discuss some of these
10 matters with some of the witnesses that we've been
11 talking to in the last three days.

12 Thank you.

13 MR. SOUTTER: You don't need a speech
14 from me, but let me say that I do think I--

15 MR. MARINACCIO: Do you want to say it
16 on the record?

17 MR. SOUTTER: Yes, I would like to
18 say it on the record.

19 MR. MARINACCIO: Please.

20 MR. SOUTTER: I think the Staff has
21 been afforded and availed itself of the persons at
22 Bell Helicopter whom they selected and questioned.

23 I think their questioning, it's essentially
24 been about the broadest possible.

25 At times, I've questioned myself as to

1 whether or not it, in fact, related to Mr. Miller or
2 his knowledge or any participation in the events under
3 discussion.

4 Be that as it may, the investigation has
5 gone on for four days with minor interruptions, I
6 think, from counsel from Textron.

7 And I would just like to say that you say
8 the investigation will proceed. Be assured of our
9 continued cooperation in going forward, but I
10 would hope that the Staff will now be in a position
11 to go forward to a rather prompt conclusion of the
12 investigation. I think a lot of people are counting
13 on us to wrap this up with due, deliberate speed.

14 MR. MARINACCIO: The Committee discussed
15 this very subject several days ago and I think the
16 Committee specifically pointed out that it wished to
17 proceed with dispatch, consistent with the public
18 interest, but that no speculation should be had if
19 the matter was not concluded in two or three days
20 after the Staff came back from discussing these matters
21 with the witnesses in Texas.

22 It was clearly understood that these matters
23 can sometimes be complex and no inferences should be
24 drawn one way or the other with respect to whether or
25 not the matter was concluded in two or three days or

1 five days or ten days to even a couple of weeks.

2 I think it's quite clear that since we
3 spent that weekend down here, taking the testimony of
4 the witnesses under oath, that we are attempting to
5 conclude the investigation as expeditiously as possible
6 consistent with our responsibility of laying out all
7 the facts.

8 MR. SOUTTER: Well, I think we have a
9 mutual desire to achieve this and bring it to a con-
10 clusion as promptly as possible.

11 MR. MARINACCIO: Thank you very much.

12 MR. SOUTTER: Thank you.

13 (Whereupon the proceedings were adjourned.)

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CERTIFICATE

THE STATE OF TEXAS §
§
COUNTY OF TARRANT §

This is to certify that I, Gaylord Sturgess,
Certified Shorthand Reporter and Notary Public in
Tarrant County for the State of Texas, reported the
proceedings as set out in the caption hereto, and
that the foregoing 809 pages bound in five volumes
are a full, true and complete transcript of said
proceedings.

Given under my hand and seal of office on
this 6th day of February, 1978.



GAYLORD STURGESS
Certified Shorthand Reporter
Notary Public in Tarrant County
For the State of Texas

KEE, MEYER, STURGESS,
SHETTER AND ASSOCIATES
1102 Oil and Gas Building
Fort Worth, Texas 76102
Phone: 817-336-3042

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UNITED STATES SENATE
STAFF OF
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

STAFF INVESTIGATION RELATING TO
THE NOMINATION OF
G. WILLIAM MILLER

VOLUME VI
Washington, D.C.
Monday, February 13, 1978

Ace-Federal Reporters, Inc.

I N D E X

<u>WITNESS</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>REXCROSS</u>
William H. French	809			

EXHIBITS

<u>NUMBER</u>	<u>PAGE MARKED</u>
Exhibit 81	887
Exhibit 82	893
Exhibit 83	902
Exhibits 83-A and 83-B	904

1 Mr. McLean. Mr. French, my name is Kenneth McLean. I am
2 the Staff Director of the Senate Committee on Banking, Housing
3 and Urban Affairs, and this deposition is in connection with
4 the Committee staff investigation of a \$2.9 million payment by
5 Bell Helicopter to the Air Taxi firm of Iran in 1973 and this
6 payment arose in connection with the Committee's nomination
7 hearing of Mr. G. William Miller to be a member of the Board
8 of Governors of the Federal Reserve System.

9 The interrogation today will be conducted by Mr. Charles
10 Marinaccio, special counsel to the Committee, and he will be
11 accompanied by Mr. John Collins, minority counsel to the
12 Committee, and Mr. David Dougherty. And with that introduction,
13 I will turn it over to Mr. Marinaccio who will formally swear
14 you in and provide you with certain additional information
15 about this proceeding.

16 Mr. Marinaccio. Mr. French, as Mr. McLean just stated,
17 the Committee has authorized the staff to conduct a fact
18 inquiry relating to the \$2.9 million payment. In that
19 connection it has authorized the staff to place witnesses
20 under oath and to take testimony under oath, so we will be
21 placing you under oath in a short while and you should under-
22 stand that all of your testimony that you give this morning
23 will be under oath and will be subject to all of the laws of
24 the United States pertaining to Senate proceedings and pro-
25 ceedings under oath respecting perjury or false testimony.

1 In that connection you are advised that you may, if you
2 wish, have an attorney present with you. You don't have an
3 attorney present with you and do you wish to waive at this time
4 your right to have an attorney present with you?

5 Mr. French. We've got one. I suppose we should, but it
6 doesn't make any difference really because what I'm going to
7 say is what I know.

8 Mr. Marinaccio. All right.

9 Mr. French. If you think I should, if it might be best,
10 I don't know. I've never went through one of these before.

11 Mr. Marinaccio. Well, whatever you wish.

12 Mr. French. I think we ought to, then, possibly have one
13 if you want one. I think it would be best.

14 Mr. Marinaccio. At this point we will adjourn for 30
15 seconds to give Mr. French the opportunity to have his lawyer
16 come into the room and be present.

17 Mr. French. Can we have Bob? You said another attorney.
18 It doesn't make any difference.

19 Mr. McLean. Whoever you designate.

20 Mr. French. I don't believe an attorney is necessary at
21 this stage.

22 Mr. Marinaccio. I should point out to you also, Mr.
23 French, that Mr. Dougherty is an Associate Director of the
24 Division of Enforcement of the Securities and Exchange
25 Commission and he's detailed to the Senate Banking Committee to

1 work on this matter, this specific matter, and at the request
2 of the Chairman of the Senate Banking Committee, and I must
3 advise you that any information that you give may be subse-
4 quently used in an enforcement proceeding by an agency of the
5 executive department of the U.S.

6 The procedure will be that from time to time all of us
7 sitting here may have some questions to ask of you and if at
8 any time you feel that that procedure is a burden why just say
9 so and we will make arrangements to be completely fair.

10 At this time I'd like you to rise and raise your right
11 hand, please, and take the oath. Do you solemnly swear that
12 the testimony you are about to give will be the truth, the
13 whole truth, and nothing but the truth, so help you God?

14 Mr. French. So help me, God.

15 Mr. Marinaccio. Please be seated.

16 Whereupon,

17 WILLIAM HENRY FRENCH

18 was called as a witness and, after having been first duly
19 sworn, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. MARINACCIO:

22 Q Will you state your full name for the record?

23 A William Henry French.

24 Q Mr. French, did there come a time when you became an
25 agent for Textron Bell Helicopter in Iran?

1 A Yes.

2 Q And what was the period during which you operated as
3 an agent for Textron Bell in Iran?

4 A This is a period I can't date exactly, but I think
5 it was from '63 to the termination of the period in '68. The
6 dates I can't remember.

7 Q Now what were the circumstances under which you became
8 Bell Helicopter's agent in Iran in 1963 and when you give us the
9 circumstances I wish you would direct your specific attention
10 to the persons in Bell Helicopter that contacted you, the
11 persons that you talked to in Bell Helicopter, any negotiations
12 leading up to your being employed as their manufacturer's
13 representative in Iran and so on?

14 A Well, first, these discussions were with Richard
15 Pierot. He was Bell's consultant out of the Washington office.
16 That was the man I ususally was in contact with. The next
17 man I was in contact with was with Duane Jose. The next man
18 who I discussed with in between was Harry Miller. These were
19 all domestic sales people. At a later stage, Bud Orpen was
20 appointed as export manager who was my direct contact. At a
21 later stage, James Feloton. At a later stage, George Kling,
22 and the last meeting I had with anybody at Bell was with Mr.
23 Sylvester and that was in '68.

24 Q Now these individuals that you have named, did you
25 discuss the matter of your becoming the manufacturer's

1 representative for Bell with all of these people at that time
2 in 1963? We are particularly focusing now on the inception of
3 your manufacturer's representation for Bell in Iran in 1963.

4 A The people I discussed with was Richard Pierot and
5 Duage Jose. Those were the two because Duane Jose had just
6 came to work to set up this program.

7 Q And did you initiate the contact with these indi-
8 viduals or did they initiate the contact with you?

9 A No, I was always continuously in contact with them
10 because I had already the manufacturer's representation for
11 Kuwait since 1959.

12 Q For Bell Helicopter?

13 A For Bell Helicopter, and I was continuously advising
14 the people in the Middle East as to potential sales.

15 Q Can you give us a brief summary of your discussions
16 with Pierot and Jose over the period of 1959 to 1963 which led
17 to your being retained as the manufacturer's representative in
18 Iran?

19 A I explained to them that there was a Panocean Oil
20 contract office at Kharg Island which was being supported
21 basically by competitors using Western Helicopter. The
22 consortium was using Alloutte for all surveys which was
23 competitors, too. The Topal team had army helicopters which
24 again was competitors to ours. I explained that there were
25 programs coming up for agricultural spraying, surveys for

1 Topal team contracts, pipeline surveys -- name it -- all these
2 projects were coming up and as the Iranian Government Gendarmy
3 was going to get into a helicopter training program we thought
4 possibly we could bring Bells in and have an in-country
5 training program to get the basic training through before the
6 pilots went to the States to go through advanced training which
7 would save a lot of the wash-out and expenses to the Iranian
8 Government of sending somebody and having them wash out and
9 then come back in repetition. We did that with the fixed-wing
10 program.

11 Q Now were you aware at that time through discussions
12 with Mr. Pierot and Mr. Jose that from 1959 to approximately
13 1963 the firm of Air Taxi was Bell Helicopter's manufacturer's
14 representative in Iran?

15 A That's correct, and I originally discussed this with
16 Mr. Pierot when I first met him, I think in August of 1959 in
17 Tehran, and he came there and through a friend of mine they
18 were looking for somebody who was a helicopter pilot who was
19 an engineer and who was familiar with the area and what
20 companies and where we could get and develop sales.

21 Out of that meeting he said, "Well, it's usually our
22 policy to try to have somebody in the country, a local man,
23 because he knows more of the ins and outs," and he says, "We
24 can give you Kuwait if that's acceptable and we'll see where we
25 go and we will appoint this company," and I said, "That's fair

1 enough for me." And he told me he was going to have a meeting
2 with Mr. Khatami, the head of the Air Force -- General Khatami--
3 he wasn't a General at that time, I think he was a Colonel --
4 and that meeting did take place and I talked to him two days
5 later when he left Iran and he said, "Bill, I'm going to let
6 Air Taxi have the Bell Helicopter contract for Iran."

7 Q That was a conversation you had with Mr. Pierot in
8 1959?

9 A In Tehran.

10 Q Had you indicated to him that you would like to be the
11 Bell Helicopter manufacturer's representative at that time?

12 A Yes, I did, and I said I had the Cessna franchise
13 fixed-wing and I said, with the supply of that at the executive
14 end and the Bell Helicopter franchise -- and we discussed what
15 was coming up in the development stages -- the larger turbine
16 helicopters which was coming all over the world -- this would
17 be the logical support system.

18 Q Mr. Pierot, as I understand your testimony, said to
19 you at that time that he had discussed the matter with General
20 Khatami and others and he had determined to hire Air Taxi at
21 that time?

22 A Yes.

23 Q Now did Mr. Pierot inform you as to why he talked to
24 General Khatami at that time?

25 A Yes, because he had been appointed the Air Marshal

1 when he first came back from pilot training in the States for
2 the Iranian Government and he would be more or less moving up
3 to in charge of all civil aviation matters and operations as the
4 authority more or less.

5 Q That is to say, when you refer to "he" you are
6 referring to General Khatami?

7 A Yes.

8 Q Now had Mr. Pierot subsequently had a discussion with
9 you about the conversation that he had with General Khatami?

10 A Yes.

11 Q That led to the retention by Bell Helicopter of Air
12 Taxi as its agent in 1959?

13 A That's correct.

14 Q Now what did Mr. Pierot tell you as to the substance
15 of the conversation he had with General Khatami and who was
16 present at this conversation with Mr. Pierot?

17 A Just myself and hisself basically.

18 Q And where did that take place?

19 A That was in the hotel he was staying at in Tehran.

20 Q What was the substance of the conversation?

21 A Well, he just -- he asked me to come in. He said,
22 "Bill, before I depart I'd like you to understand my decision.
23 I think the company will go along with it. I think we will
24 have Air Taxi representing us for Iran," and he says, "All I
25 can do is tell you that you can start with Kuwait," and he says,

1 "I want to develop the sales and I would like you to come back
2 to the factory to go over the complete overhaul of the heli-
3 copter maintenance program." And he says, "I'll try to see if
4 Bell will not pick up the schooling if you will pick up the air
5 transportation and accommodations. It will offset the balance."
6 I said, "Fine. That's good enough." And we went from there.

7 Q At that time did Mr. Pierot indicate to you his
8 knowledge in any respect of the ownership of Air Taxi?

9 A No. I think it was just -- the only information he
10 had was hearsay from like everybody did in the country.

11 Q Did he ever mention to you at that time about the
12 ownership of Air Taxi?

13 A Not physically, I don't think. It's a long time ago.
14 I imagine he was told. That's all I can say. I just don't
15 know.

16 Q Between the years 1959 and 1963, did you have a
17 conversation with any employee of Bell Helicopter wherein the
18 matter under discussion or any reference was made to the
19 ownership of Air Taxi?

20 A Yes. I discussed it with Mr. Pierot in Washington.
21 I know I discussed it with Bud Orpen. I know I discussed it
22 with Duane Jose.

23 Q Now this is during what period of time? Is this the
24 period of time 1959 to 1963?

25 A Yes, most likely. I'd say this was from about the

1 middle of '60 to maybe '61 or '62, in that period when I was
2 writing reports on what was happening to the country.

3 Q And you say you had a discussion with Mr. Pierot at
4 that time in Washington?

5 A Yes.

6 Q Do you recall the purpose of your visit to Washington
7 at that time?

8 A No. I used to just stop here on the way going
9 through to Fort Worth or coming back.

10 Q And what was the substance of your discussion with
11 Mr. Pierot in Washington during that period of time relative
12 to the ownership of Air Taxi?

13 A Well, I was discussing with him I thought a lot of
14 these companies in Iran were blocking the American sales' efforts
15 and I explained some of the problems we had just to push through
16 and try to get away from Sud Aviation which is the Alloutte
17 Helicopter group, because it looked to me the talk was around
18 through all the public that they were going to go into the Air
19 Taxi group and I don't know for a fact but I would think Air
20 Taxi had that monopoly too because they recently sold Bell
21 jets to the Air Force.

22 Q Now what was the substance of the conversation that
23 you had at that time with Mr. Pierot relative to the ownership
24 of Air Taxi?

25 A Well, I just told him --

1 Q What did he say about it and what did you say about
2 it?

3 A Well, I told him that the Air Force was controlling
4 it and he just -- which was General Khatami --

5 Q You told him --

6 A The Air Force was controlling Air Taxi.

7 Q That is to say, the company Air Taxi?

8 A Air Taxi, and he just kind of chuckled. He said,
9 "Well, what else is new?"

10 Q In other words, you told him at that time?

11 A Right.

12 Q That General Khatami owned Air Taxi? Is that a fair
13 thing to say or is that not a fair thing to say?

14 A Yes, I did say that because I told him we were
15 running into problems on getting Cessna into the country
16 because we were being blocked by the Air Force which was
17 General Khatami and I told him if we're going to get the
18 programs going with the Gendarmerie I do not think General
19 Khatami can stop anything or sway anything because that's
20 under the Ministry of Interior.

21 Q Now did Mr. Pierot at that time by his response --
22 chuckle -- how did you take it at that time? Did you take
23 that as indicating his agreement or disagreement with what you
24 were saying?

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25 A No. I took it that more or less was agreement with

1 what I was saying. He already knew this, you see. I wasn't
2 telling him anything new.

3 Q In other words, you're saying that at that time
4 Mr. Pierot already knew that General Khatami had an ownership
5 interest in Air Taxi?

6 A I would say, yes, he did.

7 Q Now how did you know that?

8 A I can't really tell you how I know that. I don't
9 know how far he checked. I know later on we checked -- our
10 Iranian lawyer checked this out and it was later on in the
11 reports.

12 Q Yes, but your Iranian lawyer checked this out when,
13 what year?

14 A Well, they checked it out in 1965, I guess.

15 Q But we're discussing now the conversation you had
16 with Bell officials during the period 1959 to 1963. Now you
17 also indicated that -- well, let me go back just a little bit
18 before I get into these other individuals.

19 Did you know who Mr. Pierot was reporting to in Bell
20 Helicopter at that time? Did Mr. Pierot ever tell you who he
21 was reporting to in Bell Helicopter at that time?

22 A Yes, I'm sure he told me, but I don't remember the
23 man's name. I imagine it was the head officer in Washington
24 and in Fort Worth.

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25 Q Did he ever mention to you that he was reporting to

1 Mr. Atkins?

2 A No, I don't remember that.

3 Q Did he ever mention to you that he was reporting to

4 Mr. Ducayet?

5 A He didn't specifically say that, but I'm sure the
6 report had to go there. You see, he was a consultant, so
7 anything he went and found out should have went through all the
8 people who were responsible for that job as the overseas
9 marketing group.

10 Q Could you give us just a brief summary of your
11 understanding of what Mr. Pierot's job was during that period
12 of time? You say he was a consultant. What was his specific
13 job?

14 A Well, he was a consultant.

15 Q And the degree of importance that you attached to it?

16 A He was a consultant for Bell. I think for just about
17 all over the world. I know South America because he was
18 originally from there; he worked there. I know he was very
19 active in Africa trying to bust into the market, and Ethiopia
20 especially, and I know his interest in Iraq because they got
21 helicopters in 1956 or 1955, and I think he just went all over
22 and he was more or less the senior overall experienced person
23 of the factory and he formerly had been with the U.S.
24 Government years before.

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25 Q When you say the "factory," you mean the Bell

1 Helicopter factory from Dallas?

2 A Yes.

3 Q Is it fair to conclude from what you're saying that
4 he was -- a primary concern of his was the development of new
5 markets?

6 A That's correct.

7 Q And was it a part of his responsibilities in your
8 perception that in that connection he would have responsibility
9 for the retention of manufacturer's representatives?

10 A Yes. I think with his recommendation and his
11 reports the company would go along with more or less what he
12 said, and it wasn't until later when they set up Mr. Orpen and
13 Duane Jose because the volume of business just got so big
14 they had to do something -- they had to get more people.

15 Q Now you indicated that you not only talked to
16 Mr. Pierot during the period 1959 to 1963 about the ownership
17 of Air Taxi, but you also indicated that you talked to Bud
18 Orpen and Duane Jose?

19 A Yes.

20 Q Do you recall on how many occasions you would have
21 discussed that subject with Bud Orpen? First of all, what is
22 your recollection of who Bud Orpen was at that time?

23 A He was the export manager that Duane Jose I believe
24 hired to handle that area and when new people came in --

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25 Q He was the export manager for Bell Helicopter?

1 A Right, and for I think Africa his area was, and the
2 Middle East. Every time somebody new came I used to always
3 brief them basically on who was where, what was their
4 opposition, what new contracts had been signed, what was the
5 new potential, and I most likely many times never made positive
6 reference -- I'd just say, "Well, this group is controlling
7 that; that person is involved in this; this happened."

8 Q So during that period of time, 1959 to 1963, on how
9 many occasions would you say you had the opportunity to discuss
10 this kind of a matter with Bud Orpen and where would you have
11 discussed it? Would it have been in Tehran or Kuwait?

12 A It would most likely been only once. You see, when
13 a person first came into the area most likely I'd always discuss
14 this when they first came to Tehran or we would be going on a
15 trip and we would be talking about politics or what do you
16 think is happening here or what else is happening in the
17 country and explain the facts to them. Whatever they asked
18 me I'd tell them whatever I knew.

19 Q What is your best recollection as to whether or not
20 you had such a discussion with Bud Orpen during the 1959 to
21 1963 period about Iran?

22 A I would imagine when he first came to Iran. I'm
23 hazy here. I think it was about 1961 or 1962 the first time
24 he came -- no, it must have been '62 when he came to Iran,
25 roughly.

1 Q And your recollection is you did have a discussion
2 at that time?

3 A I briefed him on everything.

4 Q What did you brief Mr. Orpen at that time with
5 respect to Air Taxi and the ownership of Air Taxi and what did
6 you tell him and what did you convey to him, your best
7 recollection? Of course, we know it was a long time ago.

8 A I most likely didn't discuss the ownership. I could
9 have. I don't remember exactly, but I told him -- because I
10 was more interested in pushing the Gendarmerie program because
11 it was the farthest advanced at that time -- it had the most
12 potential instead of the civilian group, and I most likely
13 would have said to him I think that the Air Force cannot
14 interfere with the equipment being chosen for the Gendarmerie
15 and I think if we proceed right that the American advisers will
16 go along with the most logical type of equipment as long as
17 it's an off-the-shelf purchase because it could not get
18 anything out of inventory at that time because everything
19 was going to Vietnam.

20 Q Do you recall whether or not you discussed General
21 Khatami with Bud Orpen at that time?

22 A Oh, yes. I'm sure I did, because I would have
23 briefed him because he was the head of the -- Air Marshal for
24 the country.

25 Q And what was the substance of your briefing to

1 Mr. Orpen as it relates to General Khatami at that time? What
2 did you tell him?

3 A My discussion most likely was that the equipment
4 being chosen will not have to go through the Air Marshal or
5 High Council for approval if we submit an off-the-shelf product
6 and it meets the specifications the advisers will push it and
7 most likely will just pass through and automatically be
8 approved.

9 Q So is it fair, then, to characterize your testimony
10 as indicating that that was a reason why they should retain
11 you to represent them in Iran?

12 A Yes, because I thought I could do more, as nobody
13 else was doing anything, and you see at that time in the
14 country when I was there -- I had been there so long -- you
15 understand the difference in different sets of groups of power
16 and I was more interested in working with the Gendarmerie
17 because that was a program we were getting sales in and get
18 our volume of sales. The rest of the programs we would be
19 following much later down the road, many years.

20 Q What was the Gendarmerie for the record?

21 A It's like a state police group. It's a militia. It
22 does counter-narcotics, road control. It's a separate force
23 in the country. It's like maybe we call our National Guard to
24 a certain extent.

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25 Q Now during this period of time you also indicated

1 that you had conversations with Duane Jose concerning the
2 matter of ownership of Air Taxi?

3 A Yes.

4 MR. MARINACCIO: Mr. McLean has a question.

5 BY MR. MC LEAN:

6 Q Mr. French, you said that in your discussions with
7 Mr. Orpen one of your arguments for getting the contract with
8 your firm was that it would not have to be approved by the
9 Air Marshal, the Air Marshal being General Khatami. Could you
10 explain the significance of that and why was that a particularly
11 important thing for you to bring to Mr. Orpen's attention?

12 A Well, because you see in the various military groups
13 in Iran, all the advisers don't get along, the top military
14 leaders, and it's just general knowledge -- I mean, give due
15 force and credit to everybody, but every commander was more or
16 less kind of proud of his own operation and it's the only way--
17 I thought what was important about it is it could succeed --
18 it could not be interrupted by any European supplier of equip-
19 ment if we followed this route. It's the same as the American
20 companies, the pipeline, the oil companies came in and they
21 wanted to have American equipment because they had quite a bit
22 of problems with European manufactured equipment not being
23 reliable, shortage of spare parts. So to me it was only
24 logical seeing I was talking to all these people to explain it
25 to these people.

1 Q Why wouldn't the Air Taxi firm have the same
2 advantages as your firm then if a contract did not in fact have
3 to be approved by the Air Marshall? What advantage would you
4 have over Air Taxi in seeking the business?

5 A First of all, I was acting as a consultant, not being
6 paid by the Gendarmerie, helping them in any way to support
7 their aircraft. We were training their pilots. The pilots
8 I had under contract were being paid. The Gendarmerie being
9 proud, they did not want to have anything to do with the Air
10 Force because the Air Force previously had trained the pilots,
11 soloed them before they went to the States. I was asked by one
12 of the American advisers what could be done to stop the wash-out
13 factor and I told him we had trained crop duster pilots, which
14 is much more difficult in Iran, and I did not understand Parsi
15 and we stopped the accident rate. We had almost eliminated it
16 and I said it's only by continuous training we'd teach these
17 pilots. He said, would you like to have a local contract?" So
18 I had two of my pilots take over the contract. We started
19 training them instead of the Iranian Air Force training them.
20 We started training them the American way and we stopped the
21 wash-out factor by about 37 or 40 percent, going through school,
22 graduation in the States, and that proved to the Gendarmerie and
23 they reached a stage where when I supplied them spare parts
24 they would take my word because they knew I would sell them
25 original stuff, nothing that was from another manufacturer of

1 material.

2 BY MR. MARINACCIO:

3 Q Now you previously indicated that during this period,
4 1959 to 1963, you had some conversations with Duane Jose
5 relative to the ownership of Air Taxi?

6 A Right.

7 Q Could you tell us who Duane Jose was at that time
8 and the conversations that you had with him, who was present
9 and the substance of the conversation?

10 A Well, Duane Jose was the commercial -- manager of
11 commercial sales who was hired by Bell from Cessna and in dis-
12 cussions with him I told him what we had done with the
13 Gendarmerie in getting the Cessna program and how we had stopped
14 the Dehavilland program from materializing. I explained that
15 Air Taxi was the Dehavilland representative and with my
16 discussions with everybody in the Gendarmerie there was
17 differences of opinions between the Air Force and the Gendarmerie.
18 The Gendarmerie, after we showed them the problem they had
19 with their pilots deliberately wanted to stay as far away from
20 the Air Force as possible. Also, they had some Beavers that
21 were given to them under MAP and the Air Force had charged them
22 a very, very high sum of money for overhaul and this is what
23 I told Duane Jose.

24 Q Now when were these conversations with Jose? How
25 many were there?

1 A Just myself and hisself and I would say that must
2 have been shortly after he arrived at Bell.

3 Q And when was that, your best recollection?

4 A I'd say it must have been some time in late '61 or
5 early '62.

6 Q What did you two talk about relative to the ownership
7 of Air Taxi at that time?

8 A I'm not sure how much we discussed, but I'm sure I
9 must have mentioned that Air Taxi was controlled by the Air
10 Force which would have been General Khatami, and that this had
11 been our biggest opposition in getting Bell into the programs
12 unless it was controlled, and I said the way to get out from
13 under this is to go now with the Gendarmerie because they need
14 this helicopter training program and this, I imagine, he dis-
15 cussed with his management and this most likely went on for
16 several months and finally when, I think, the Air Taxi contract
17 ended he wrote a letter to me saying, "I'm going to take the
18 bull by the horns and I'll appoint your company."

19 Q Now, once again, you mentioned that to him, that the
20 ownership with Air Taxi was controlled by the Iranian Air Force,
21 as you put it?

22 A Right.

23 Q Did you mention the name General Khatami to him at
24 that time?

25 A I'm sure I did.

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1 Q What is your best recollection as to whether or not
2 you mentioned the name General Khatami to him in connection with
3 the ownership of Air Taxi?

4 A I'm sure I mentioned it to him. I know it's in
5 letters, but I may not have discussed -- yes, I'm sure I dis-
6 cussed he had stock at the company that I originally knew when
7 it was registered in 1959. I knew that.

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1 Q Now what was Mr. Jose's reaction when you informed
2 him in the manner in which you did, that Air Taxi was controlled
3 by the Air Force and General Khatami had an ownership
4 interest in Air Taxi, as I say, in the manner in which you
5 are indicating, what was Mr. Jose's reaction?

6 A Nothing much definite. Just I think it was
7 general knowledge that when he took over the job he was also
8 briefed by Mr. Pierot, like in every country, everybody is
9 more or less briefed as to who you have to talk to, where
10 are your potential sales. He didn't specifically state "That
11 is real bad," or something like that, no.

12 Q Did anybody in Bell Helicopter, during all of this
13 period of time we are talking about, 1959 to 1963, in
14 any discussions you had with them, indicate that they should
15 not be doing business with Air Taxi because a government
16 official may have an ownership interest in the company?

17 A No, nobody definitely said that to me.

18 Q Did they indicate at that time that they were
19 pleased to have Air Taxi as their representative because
20 they had alleged ownership interests in it by an Iranian
21 government official?

22 A Well, in the years --

23 Q That is, General Khatami.

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24 A IN the years say from the early '60s through, I
25 kept writing and saying there is no activity here, and I

DB 2 1 remember getting letters back and when I came back through,
2 I think in June of 1960, I talked to Dick Pierot again, and
3 he said well, they are our representatives, we have to go
4 along with them and give them a try.

5 Q During this period of time, aside from the
6 conversations that you had with the Bell Helicopter officials,
7 what was your own knowledge of the ownership of Air Taxi,
8 from 1959 to 1963?

9 A My actual physically seeing the registration
10 documents, I never did.

11 Q That is to say the registration documents of
12 Air Taxi Company in Tehran?

13 A Air Taxi. I only know when I talked with
14 Ahmed Chafik, he definitely stated that the partners in Air
15 Taxi were General Khatami, Jabani, Fred Ishoo, and Hussein
16 Zangenah. And that most likely it was in '59 or '60,
17 because I was trying to negotiate how we could work together
18 with Air Taxi at that time. Because I had the Cessna franchise
19 and they had Aero Commander and we were competing.

20 Q This is Mr. Ahmed Chafik?

21 A Yes.

22 Q Was he an Iranian naval official?

23 A No, no. He is in the Persian Air Services,
24 which was a competitor to Iran Air. He was the husband of
25 Princess Arratt. He was originally the High Council Civil

DB 3

1 Aviation, who was later replaced with General Khatami,
2 when he came back and made Air Marshal.

3 Q Did you initiate the contact with Mr. Chafik at
4 that time?

5 A Yes, I talked to him several times, because we
6 were friends, and then I had another Iranian friend of mine
7 negotiate with the higher-ups, bring us together, and he,
8 Chafik, acted as the mediator between the other partners
9 of Air Taxi.

10 Q Who was this other Iranian official?

11 A He wasn't an official, just an Iranian citizen.

12 Q What was his name?

13 A Ahmadamini.

14 Q At that time did Mr. Chafik indicate to you he
15 was one of the owners of Air Taxi?

16 A Yes, he did.

17 Q Did he indicate what percentage ownership he had in
18 Air Taxi at that time?

19 A No, he did not.

20 Q Did he indicate to you at that time who the other
21 owners of Air Taxi were?

22 A Yes, he told me all of them.

23 Q Could you state for the record the individuals he
24 indicated to be the other owners of Air Taxi at that time?

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25 A He said Khatami, Jabani, Fred Eshoo, and Hussein

DB4

1 Zangenah.

2 Q In this conversation with Mr. Chafik, when he
3 indicated to you that all of these individuals, including
4 General Khatami, had an ownership interest in Air Taxi,
5 did he indicate whether or not any one of those individuals
6 had a primary or controlling interest?

7 Did he indicate the various interests that these
8 individuals had?

9 A No, he never broke down the percentages, that I
10 remember exactly, or who had invested what amounts of money.
11 Just that we could possibly make some arrangement, be
12 working together, so we wouldn't be competing in the general
13 development of aviation. And he was going to try to explain
14 to the other parnters that it was better to work together
15 and get more business, instead of competing on the same
16 contracts.

17 Q Did he ever subsequently indicate to you that he
18 had discussed this matter with the other partners specifically?

19 A Yes.

20 Q Specifically General Khatami?

21 A Not, not specifically General Khatami. He
22 said "I discussed it with the partners," and he says "We are
23 in agreement, if you will pay us 10 percent of gross
24 royalties on all of your contracts, you can work with us,
25 and we will not give you any opposition."

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DB 5

1 Q What was your response to him at that time?

2 A We tried to negotiate a lower contract price,
3 the percentage was too high of gross. And it just kind of
4 died a natural death, and I kept working with the oil companies
5 and with the Gendarmerie, and went my own way.

6 Q The timeframe in which your testimony is now
7 being directed, as I understand it, is 1961 and 1962.

8 A No, wait a second. This is before we came --
9 this mostlikely was in late '59, or early '60, in there.

10 Q This is before you became the Bell representative?

11 A Yes.

12 Q Did Mr. Chafik ever indicate to you that he had
13 had any conversations with anybody in Bell Helicopter
14 at which time he informed them that individuals, including
15 General Khatami, had an ownership interest in Air Taxi?

16 A No, he never stated that to me. The only thing
17 I remember is when DICK Pierot and myself discussed in July
18 or August of '59, after he had met with Chafik, and
19 General Khatami, and I guess Jabani, the rest of the members
20 of the Board, in Tehran, that he was going to appoint them, or
21 consider appointing them as a representative.

22 Q Let's go back to that conversation for a moment.
23 Mr. Pierot told you that he had met with all of those
24 individuals?

Monick Reporting Company

25 A He was going to meet with them. I think I met

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1 with him on a Friday, which was a holiday there, and he was
2 going to meet with them on Saturday or Sunday and he said
3 what is your opinion. He explained to me again it is
4 best to have the local people who are influential to help you
5 get business done. I said go meet them, in all fairness.

6 Q Was General Khatami one of the individuals that he
7 mentioned?

8 A Yes, he was, or Chafik also talked with Mr.
9 Pierot, because when Dick came back he said "I have met all of
10 them," and he says "I think we can make out a representation
11 with them. Are you satisfied with it?" And I said yes.

12 Q This is specifically with respect to the matter of
13 the retention of Air Taxi?

14 A Yes.

15 Q As Bell Helicopter's representative in Iran
16 in 1959?

17 A That is correct, yes.

18 Q Getting back to the matter of your knowledge during
19 that period of time of the ownership of Air Taxi, aside from
20 your conversations with Mr. Chafik, what was your knowledge
21 of the ownership of Air Taxi?

22 A Well, just what you have hearsay of people, I
23 mean, the rest of the Iranian people, the subject of what is
24 happening in civil aviation, you say, yes, so and so
25 bought into this and that. It is just hearsay you hear. You

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1 never know in Iran who was owning exactly what stock of what.
2 And you really don't care about it too much, because it is
3 really none of your business.

4 If you start asking too many questions, they will say
5 why are you so curious.

6 Q What is your testimony with respect to the matter
7 of general knowledge in Iran, among the people you would come
8 in contact with, businessmen, embassy personnel, people in
9 civil aviation, with respect to all of those people that you
10 would come into contact with, what is your distillation and
11 best recollection of whether or not it was generally known among
12 that circle of people as to the ownership interests of Air
13 Taxi and if there was a general knowledge as to who Air Taxi
14 was owned by, could you indicate the individuals that were
15 indicated as having an ownership interest?

16 I focus this particularly on public individuals,
17 government employees.

18 A I think the only people who would know the actual
19 information would be the Civil Aviation Director General,
20 the legal body, and the maintenance group, who physically
21 did the examination. They would have records. You see,
22 when you have a company registered to apply for aviation
23 rights, it has to go before the Civil Aviation Council, you have
24 to know all of the partners in it. It has to say if there
25 are foreigners involved or if it is all locals.

8 1 Q Do you know whether or not at that time Air Taxi
2 had disclosed its ownership interests to that body?

3 A I am sure they did, because I talked with the
4 legal body of Civil Aviation at that time. I think it was
5 General Stoudard, S-t-o-u-d-a-r-d, something like that.
6 It is a German name, German ancestry, I think.

7 Q What did he indicate to you as to the ownership
8 of Air Taxi at that time?

9 A He just says the younger group have registered
10 air Taxi, because I was complaining because we had some
11 contracts, I said we are having opposition. He said well,
12 you know Air Taxi and you know who controls it.

13 Q Who did he indicate?

14 A He was indicating to me general knowledge,
15 General Khatami, Jonny Eshoo, Jabani and Chafik. You see,
16 the Director General of Civil Aviation really doesn't have any
17 control, it is a High Council. They can tell you this,
18 like Arbabi, who was the Director General when we had trouble,
19 general knowledge, he will try to help you, but he can't
20 do anything until the high Council says something.

21 Q With respect to the matter of general knowledge
22 among the people you came in contact with in your business
23 on a daily basis as to the ownership of air Taxi, what would
24 you say as to whether or not it was the general working
25 assumption or not that any government official had an ownership

9 1 in Air Taxi at that time?

2 A Well, any of the people that you went and talked
3 to, including the American oil companies, if they came or
4 didn't, or they wanted any aviation services, the construction
5 companies, they would always be contacted either by General
6 Raffat or General Stoudard used to go--that was before they
7 put out new officers could not be involved--they used to go
8 to the companies directly and try to impress them wearing
9 their Air Force uniforms.

10 Q Was it indicated these two generals had an ownership
11 in Air Taxi?

12 A No, General Stoudard had nothing, he was Director
13 of Civil Aviation. He was replaced by Mr. Arbabi.

14 Q General Raffat --

15 A Raffat was out of the Air Force, and he had a
16 Heli-Taxi as a front person.

17 Q In your judgment, what is your testimony with
18 respect to the matter of general knowledge in this group of
19 people that you would come in contact with on a daily basis,
20 as to whether or not General Khatami had an ownership interest
21 in Air Taxi?

22 A Well, all I can say is just general knowledge,
23 to anybody you went to and talked to on a contract, they
24 would say are you capable of competing with your opposition,
25 politically-wise, and always my answer was if you bring the

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1 equipment in under your own rights, we can operate it,
2 as long as it has a foreign registration.

3 Q These would be discussions you would be having with
4 American companies?

5 A American companies, European companies, Italian
6 companies, the power line companies, all of this.

7 Q And when the discussion concerned itself with
8 Mr. French's, your own opposition, who would they be
9 referring to?

10 A They would always refer to Air Taxi or Heli-Taxi.

11 Q And with respect to the matter of the political
12 influence, I think you referred to it as, as to your
13 competitor, what were they referring to?

14 A They would never specifically refer to anybody's
15 name. I mean you see after a while you just don't ever mention
16 anybody's name.

17 Q Now there came a time in approximately 1963 or
18 1964 that you did become the manufacturer's representative
19 for Bell Helicopter in Iran, is that not correct?

20 A That is correct.

21 Q Who in Bell Helicopter retained you at that time?

22 A Duane Jose.

23 Q What did Mr. Jose tell you was the reason why
24 he was retaining your firm at that time?

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25 A He didn't specifically state. Well, he says

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1 from your reports, if I remember right, your potential sales
2 appear much greater than what we have done, or something
3 similar to this, and I am going to take the bull by the
4 horns -- this is a two-page letter -- and when their contract
5 expires, we will appoint your firm. See, because I had been
6 writing --

7 Q Their contract, meaning Air Taxi?

8 A Yes.

9 Q Do you have that correspondence available?

10 A I don't know if Bob has it. I am sure it is in
11 my files in Beirut.

12 Q Bob who?

13 A Bob Bell, my lawyer.

14 Q Bob Bell is your lawyer from Wichita, Kansas?

15 A Right.

16 Q Can you undertake to see whether or not you can
17 make that correspondence available?

18 A I will try to get that as soon as I get there.

19 Q Now your understanding then at that time was that
20 Air Taxi, you were going to replace Air Taxi as their repre-
21 sentative in Iran?

22 A Yes. You see, when I first had any discussions
23 with Mr. Chafik, I thought we could work together and we could
24 develop the helicopter thing and we would all share. I could
25 put the Cessna, they would put the Bell, we would all come

12 1 together as a group and work in harmony together, you know.

2 Q We do want to take a five-minute break, in about
3 two minutes, but I want to ask you this one question, to
4 tie up this area.

5 What was your understanding of why you were being retained
6 in 1964 to be Bell's representative, Bell Helicopter's
7 representative in Iran, in light of all of the previous
8 testimony that you have given up until now that Air Taxi was
9 a firm that had an amount of political influence and was
10 either owned or controlled by individuals who were in the
11 Iranian government?

12 A I think it was the fact that I explained to Bell
13 that we didn't need this political help at this stage to develop
14 the stage into the army which was coming. We needed it
15 only to the Gendarmerie, because the Gendarmerie program had
16 already accelerated about four years ahead of the Iranian
17 Army, it was even going to be considered an aviation battalion.
18 That was our first big potential sales. Because all of these
19 pilots were getting trained through the U.S. Army, let's
20 stay with that, because we had started to get competition from
21 Weslyn, we started to get competition from Sud Aviation, which
22 is the Alloutte. That was the only logical thing to
23 do. We had to do something or we are going to lose it.
24 Seeing it was, you see, a funding organization, it did not
25 come under the military assistance.

13 1 Q So you and Bell discussed it and concluded that
2 the direction in which helicopter purchases were going in Iran
3 was to a sector over which the Air Taxi political influence
4 was not significant?

5 A Right. And the Gendarmerie, because they had
6 this trouble, I repeat, of the pilot training program,
7 they did not want to get involved in the high costs of
8 maintenance under the Air Force. They wanted to have their own
9 independent group that could do maintenance, pilots, the
10 works.

11 Q At that time what was the name of your firm?

12 A International Helicopter Consultants.

13 Q Was this wholly owned by you?

14 A Yes, myself and my wife.

15 MR. MARNACCIO: Can we take a five-minute break now?

16 (Short recess)

17 BY MR. MARNACCIO:

18 Q Mr. French, before we get into the matter of your
19 retention by Hell Helicopter, as their manufacturer's repre-
20 sentative in 1964, I briefly want to go back to the area which
21 was covered.

22 When you had that conversation with Mr. Chafik, and
23 he told you who the owners of air Taxi were, including
24 General Khatami, did he say that he was imparting this
25 information to you in confidence, it was something you should

14 1 keep a secret?

2 A No, it was just general knowledge, openly discussed.
3 Mr. Amini was there, my associate in the Helo Construction
4 Company was there. We had an open lunch and dinner, a couple
5 of drinks, and it was discussed. A hmad Amini, to give you
6 some background --

7 Q Please continue with the background.

8 A Ahmadamini's family used to be the old Khajars,
9 before the present Shah's father was in power. He had a
10 lot of connections with a lot of the oil companies that I
11 was flying airplanes for. And they were all for me, because
12 they wanted me to develop the resort area which he had on the
13 caspian Sea, and the general development of the country.
14 So they were trying to help me any way they could to
15 stay in Iran, because they knew my financial situation was
16 getting lower and lower from savings.

17 Q How many people were present at this dinner
18 again?

19 A There were four of us, if I remember right.

20 Q You, Chafik --

21 A Yes, and Mr. Amini.

22 Q Who was Mr. Amini?

23 A He was one of the Khajars, the family of the
24 old ruler in Iran.

Monick Reporting Company

25 Q What was his position?

15

1 A Just a personal friend of mine, who was helping
2 me.

3 Q Who was the fourth person?

4 A Paul Steinheil, who was a personal friend at that
5 time also trying to help me. He was an engineer and surveyor.

6 Q With respect to a related matter, in your mind
7 were the Bell officials that you came in contact with in
8 the period 1959 to 1963 that we have just been discussing,
9 were they aware, in your judgment, of General Khatami's
10 ownership interest in Air Taxi?

11 A I know Dick Pierrot was very much so. I don't
12 know how far the other people thought of its importance,
13 because there really was no big development in sales at that
14 time. Nothing was happening in the Middle East. I can't
15 truly say how far people passed the information on. I just
16 don't know. Maybe a lot of them just thought it was irrelevant,
17 you know, nothing.

18 Q But you said Mr. Pierrot was aware of this?

19 A Oh, yes.

20 Q Of this relationship of Khatami and Air Taxi at
21 that time?

22 A Yes, definitely he was.

23 Q And you would have gained this knowledge or awareness
24 from what? Conversations with him?

Monet Reporting Company

25 A With him first, but also I knew it because

16 1 just the general talk at the airport, the Civil Aviation
2 people, you see. And with the NIOC.

3 Q Could you go into that a little bit? What was
4 the general talk at the airport, with whom at NIOC?

5 A NIOC was the National Iranian Oil Company and we
6 had an aircraft on lease with them and we were advised
7 one day that the contract would be shortly terminated, that
8 another aero commander under Air Taxi was coming in and they
9 had the only rights in the country, that we could keep the
10 airplane and use it for our own purposes, carry ou
11 company people, but they no longer needed our services.

12 So, again, this was about '58 or '59, shortly after Air
13 Taxi registered. Because the talk goes over the City real
14 fast in aviation, in aviation circles, all of the pilots
15 talk about it.

16 Q What was the talk, that Air Taxi had a monopoly
17 on aviation in Iran?

18 A Yes, very shortly we would be put out of business,
19 and that Khatami, Jabani, Eshoo, that whole group had
20 taken over all private aviation.

21 Q And this was generally known and openly discussed?

22 A Generally known -- well, around the airport talk.

23 Q That General Khatami had, in part with others,
24 taken over all of the civil aviation through Air Taxi?

Monick Reporting Company

25 A Right, all light aviation. And Iran Air would

17 1 remain handling the rest of aviation. Pretty soon
2 Persian Air Services would be amalgamated and put into
3 Iran Air.

4 Q At this time Mr. Pierrot was an independent con-
5 sultant, or was he a Bell employee?

6 A I think he was an independent consultant to Bell,
- Because he once mentioned to me that he would not have any
8 retirement when he left Bell, so he would keep working as
9 long as he could. I only assume this, I don't know for sure.

10 Q Do you know what portion of his working day he
11 spent on Bell affairs? Or did he have other clients?

12 A No, I think he was fulltime employed by Bell.

13 Q Where was he physically located?

14 A Here in Washington.

15 Q Was he physically located in a Bell Helicopter
16 office in Washington?

17 A Yes, I think it is 1,000 Connecticut Avenue,
18 if I am right.

19 Q Were there other Bell Helicopter employees in that
20 office?

21 A Oh, yes, many. The office was kind of segregated.
22 Maybe six or eight, ten, at first. It got bigger later on.

23 Q Was the office a Bell Helicopter office or was it --

24 A Yes, I am sure it was. The second floor, if I
25 am right.

18 1 Q And he is an independent consultant, and had an
2 office there?

3 A Yes.

4 Q To your knowledge, to the best of your knowledge,
5 he spent all of his time on Bell Helicopter affairs?

6 A I think so, yes.

7 Q If we may, I would like to go back to the matter
8 of your being hired by Bell Helicopter in 1964, I believe
9 you said.

10 A 1963 or '64. I am not sure. I could dig the
11 records out.

12 Q You were retained as their manufacturer's repre-
13 sentative in Iran. You say Mr. Jose was responsible for
14 your retention?

15 A He was the man -- I imagine Dick Pierrot, too,
16 because we used to correspond with Dick all of the time.

17 Q Now for how long a period of time did you maintain
18 this representation status?

19 A Up through to the end, when our agreement franchise
20 was terminated or ended, in '68, and we still kept the
21 one in Kuwait, that still was in effect, and the other one
22 for the other countries was in effect maybe another six to
23 eight months.

24 Monck Reporting Company

25 Q During the period 1964 to 1968, or 1963 to 1968,
which you have just referred to, to your knowledge were you the

19 1 only manufacturer's representative in Iran for Bell Helicopter?

2 A Yes, to my knowledge I was the only one.

3 Q Air Taxi had, to your knowledge, no representational
4 status for Bell Helicopter at that time?

5 A No, because the letter that Duanne Jose wrote to
6 me, going from memory, when their contract expires, yes, when
7 their contract expires, I have taken the bull by the horns,
8 we will appoint your firm.

9 Q That is the third or fourth time you have mentioned
10 that phrase by Mr. Jose, "taking the bull by the horns."
11 What did he mean by that?

12 A Making his own decision, I think, as the manager,
13 believing what I had told him, that we were going to get
14 sales, the program was going to be pushed.

15 Q During the period 1963 to 1968, when your firm
16 was Bell Helicopter's representative in Iran, what were the
17 approximate amount of commissions that were paid to your
18 firm by Bell, and approximately how many helicopters did you
19 sell for them?

20 A I would say the total amount of spares we sold
21 most likely did not exceed more than about \$20,000 to \$30,000.

22 Q What are spares?

23 A Spare parts, which would include rotor blades,
24 transmissions, tail rotor blades, gear drives, skids, basic
25 instruments, normal everyday consumable items, turbo

20

1 chargers, things like this. The rotor head mast, the
2 various bearings you have to change.

3 Q How much in commissions would your firm have gotten
4 out of that?

5 A We most likely made about 15 percent on the total
6 amount. In helicopters we sold, I think it is a total of
7 four we sold, two to Giatronics, which went to Thailand, and
8 we bought our own demonstrator, and we bought the second
9 ship, which was to replace the demonstrator after it crashed.

10 Q So during the whole period 1963 to 1968, you
11 sold approximately how many helicopters to the Iranian
12 Government?

13 A We sold, from about '64 through about '66,
14 the four helicopters.

15 Q You sold four?

16 A Yes, roughly.

17 Q How much money did that involve?

18 A The commissions on those most likely amounted
19 to about \$25,000 total.

20 Q What was the gross amount of the sale?

21 A The gross amount of the sales were about two
22 hundred and some thousand dollars.. It averages out about 10
23 percent across the board.

24 Q So during the period of your representation of Bell
25 Helicopter, during that period you were responsible for about

Manick Reporting Company

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1 \$300,000 in sales, or a little under \$300,000?

2 A I would say that is a rough figure, yes.

3 Q To your knowledge was Agusta a licensee of
4 Bell Helicopter in Iran at that time?

5 A No, Aguste was not a licensee of Bell Helicopter
6 at all until sometime most likely in late '65, or let's
7 say early '66, early '67, in there. The reason I know
8 this is just, again, rumblings that they were going to
9 buy Agusta, from general information, because we could not
10 get the Huies, which were going to Vietnam, into the military
11 system. And that was when I discussed with Jose in '64-'65,
12 I said we have got to get the bigger helicopter. And this
13 is some of the invoices which we have in the file here, which
14 were the first submittals to the Gendarmerie.

15 Q So is it your testimony then that it was your
16 understanding that the Iranian Government was interested
17 in buying more Bell helicopters, but Bell had to turn to
18 Agusta because their production was already spoken for in
19 Vietnam?

20 A Right. But we had gotten permission to lease, what
21 I was told, to lease the jigs and dies back to manufacture
22 a civilian helicopter or the Hughey, but it cost a higher
23 price, because the whole program at Bell at that time had been
24 geared up to the Vietnam production, and that decision was
25 made by Bell not to go ahead and they allowed Agusta to sell

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22

1 instead. I just don't know what happened here.

2 Q What was your position at that time, though, as the
3 Bell Helicopter manufacturer's representative in Iran?
4 Were you aware of, or were you looking forward to a much
5 larger position of Bell Helicopter directly in Iran?

6 A Oh, yes, yes. I knew what the planning programs
7 were, where they had to expand the heliports, where they had
8 to put this, I went and got the original helicopter manuals
9 from FAA to give to the advisors on how to set up in-country,
10 in-city heliports for the Gendarmerie, to patrol the roads,
11 all of this information I used to give to them, because I
12 had access through the FAA to get this stuff, U.S. Government
13 Printing Office copies.

14 Q How large a program in your judgment was
15 envisaged by this expansion? How many helicopters would the
16 Iranian government need?

17 A The original purchase was for 10 type Hue
18 helicopters, of which we quoted the 204, because we couldn't
19 get the Hughy at that time. That program every year would
20 have increased, or every two years would increase another
21 10. I think up until a fleet of 33, if I am not mistaken.
22 And then there was supposed to be the Bell 206, which would
23 follow on, and I think if I am not mistaken, that should have
24 been about another 30 or so helicopters. Then the training
25 helicopters, like the demonstrator we bought, we were going

23

1 to try to get four of those for training in-country.

2 Q Was there any discussion at that time to your
3 knowledge of a program that would have gone as high as 489
4 helicopters?

5 A No, it has not reached that stage in those days.
6 I knew, from my discussions with the advisory group in 1965,
7 down the road I think it was programmed -- we started to
8 get involved with the fixed wing fleet, down the road about
9 four or five years and into the '70s, the whole thing could
10 build up to a phenomenal amount of equipment.

11 But it was all classified stuff.

12 Q Were were you getting this information at that
13 time?

14 A Basically the information I was getting would be
15 what I would hear from the Iranians who would be at the
16 meeting, some of the American group, they would say well,
17 can you get us spare parts, how fast can you get the spare
18 parts, just general discussion.

19 Nobody would ever tell you the totals. The only way
20 I ever got to know some of the totals, for example, is how
21 many heliports and how many helicopters would be based at
22 the different positions. And because this would have to be
23 planned and put into a program for budgetary costing.

24 Q I see. How many heliports were they building? What
25 was your judgement as to that?

Monick Reporting Company

DB 24 1 A If I remember, it was supposed to be something
2 like about 11, I think was the original planning, over the
3 country. But that would be increased automatically.

4 Q Who was to have jurisdiction over the heliports?
5 The Air Force or the Army?

6 A No, that would have been the gendarmerie, their
7 own, for their own purposes.

8 Q How many helicopters would they have at each port?

9 A I imagine at least two, to have a back-up. You
10 start in, and until you get the pilots and everything into
11 it, you just can't move that much equipment, it just takes
12 slow putting in.

13 Q That is two helicopters at each port times 11.
14 That sounds like 22 helicopters?

15 A Yes, they were going to get ten of the larger
16 ones, and then get the smaller ones for road patrol in
17 between. Some of the big cities would have four or five at one
18 place. And you would also have at your base in Tehran most
19 likely at least eight or ten as back-up emergency equipment.

20 Q But the scope of that program at that time didn't
21 envisage anything as large as 400 helicopters?

22 A No, in that period of time I think what we are
23 talking about from '63 onwards to about '68 would have been
24 about 40 helicopters for the Gendarmerie.

Monick Reporting Company

25 Q Coming into the '67-'68 period, did you have any

25 1 indication that perhaps the Iranian government requirements
2 were going to go up as high as 400 or 500 helicopters?

3 A No, not to that figure. I knew it was going to
4 go to at least -- the plans or discussions, figuring the
5 pilot input, and training facilities, I knew it was going
6 to go to possibly at least 180 to 200 helicopters. Then when
7 I could not get back in, my manager, before we got the
8 ferry contract, through that we had to sign a contract for
9 how many helicopters we were going to ferry. The first
10 program was about 60, the next was 100 and some, and those
11 records are in Beirut, I just can't tell you from memory.

12 Q Where did your indicatin come from that the
13 requirements would go as high as 160 or 200 helicopters?

14 A Because my manager at that time, John Bolton, who
15 was in Iran, I had sent him there to keep the Bell thing
16 active, he was the manager of STP, our company that Mr.
17 Bell had formed for us, and we did a costing as to how much
18 it will cost, and this is the number we had to move. That is
19 the reason I had knowledge of it. It went from what I
20 originally knew to that volume.

21 Q I don't quite understand it, I am afraid the
22 record won't be understandable. John Bolton is your employee?

23 A He was my manager at that time in Iran.

24 Q And he was doing an analysis of the requirements
25 of the Iranian government?

26

1 A Right.

2 Q From that analysis, he came up with a figure
3 of 160 to 200 helicopters?

4 A That we contracted to move from Italy, Agusta
5 helicopters, from Italy to Tehran, fly them.

6 Q Were those helicopters subsequently delivered?

7 A Yes, all of them.

8 BY MR. MC LEAN:

9 Q Let me follow up on that. The contract with your
10 firm, was it in 1967, to move the Agusta helicopters from
11 Italy?

12 A No, it was later than that. We started negotiations
13 and discussion in 1968; I think we moved the first helicopters
14 in '69.

15 Q This was a contract to simply transport the
16 helicopters that were manufactured by Augusta in Italy, to
17 ferry them to Iran?

18 A Right.

19 BY MR. MARNACCIO:

20 Q Now, following that, did you at that time have
21 any indication or possess any knowledge of any projections
22 by the Iranian government that over and above those Augusta
23 ships that they were going to need another 400 or 500 helicopters
24 that could possibly be supplied by Bell Helicopter?

Manick Reporting Company

25 A Yes, in the fall of '73 or the spring of '74, my

27 1 manager, John Bolton, used to come to Beirut and he said
2 "Bill, I have to go to the States to see if I can't buy
3 or lease some guppies, because Bell has a fantastic program
4 to sell a whole bunch of huey cobras to the Iranian Government",
5 and we lost the contract for ferrying them because of the
6 Cypriot Turkish war. They closed the air space and the
7 U.S. Air Force came in and started picking up the C-5-As,
8 helicopters from Agusta. If they hadn't come we would
9 have continued to fly over the water, outside of the air space.

10 Q So that the --

11 A I knew there was at least 200 or possibly 300
12 more helicopters coming from the States.

13 Q Let's go back to the 1964-'68 period. Did there
14 come a time during that period when you had some difficulty
15 with the Government of Iran?

16 A Yes.

17 Q Particularly with reference to your gaining
18 entrance into the country?

19 A That is true.

20 Q Could you describe how that came about, and
21 whether or not General Khatami, to your knowledge, had
22 anything to do with that?

23 A To my knowledge, I didn't really know one hundred
24 percent I was -- well, let me retrack a second. I knew we
25 were having difficulties when they passed, or when the

DB 28

1 U.S. Government closed off all aid to Iran in '65.
2 Difficulties started to appear then. They passed a law, I think
3 it happened real fast, in either '65 or '66, saying no
4 foreigners could be involved in aviation of any shape or
5 anything else.

6 This was my first inkling there was a very big program
7 in the wind, that they ought to get rid of our franchise
8 somehow.

9 We were bidding for the four American oil companies at
10 that time, the offshore drilling contracts. I got letters
11 from them recommending us to contract for the services.

12 We formed another company called Heli Construction.
13 In the negotiations with all of the companies, the companies
14 said look, your opposition is Heli-Taxi, you know who that
15 is, that is the Air Force agin, can you proceed?

16 We went to Civil Aviation; Mr. Arbabi stated you have
17 to have a local company, 51 percent Iranian ownership, and you
18 can proceed.

19 We applied for all of this, and in our meetings with
20 the legal counsel, I can't remember his name offhand, of
21 Civil Aviation he told us that General Khatami, who was
22 the head of the High Council, was in Europe, and when he came
23 back we would receive the decision yes or no.

24 And we were told no.

25 Q Could you briefly describe the circumstances

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1 under which you were kept out of the country of Iran?

2 Did there come a time when you were kept out of the country?

3 A Yes.

4 Q What was the date of that?

5 A I went on a trip in May of '66 to Jordan and I
6 came back on a Pan Am flight, and I was told you can not enter
7 the country. My passport was stamped in, they got a phone
8 call there, and they scribbled across my visa, like that, and
9 the next morning I went back to Beirut on Pan Am.

10 I then called the consul, and he and another
11 man by the name of Schmitt came out.

12 Q Called which consul?

13 A The American consul. He came out and he couldn't
14 understand it.

15 Finally I called Mr. Schmitt, and I think that was the
16 name, another American, but don't quote me on that for
17 sure, and he stated to the consul you are wasting your time
18 with this man, nothing can be done. I said why? He just
19 laughed at me, and said "Nothing can be done; you have got
20 problems."

21 Q Did he indicate what the nature of the problems
22 were at that time?

23 A No, he didn't say nothing. He just kind of
24 sarcastically said it to me and I wondered what is wrong with
25 me.

30

1 I went back to Beirut and got hold of Lynn Dwar,
2 the civil air attache at that time, and he started sending
3 messages back and forth to Tehran.

4 Q Did you subsequent to that ever have a personal
5 conversation with General Khatami relating to your being kept
6 out of Iran?

7 A No. The only thing I heard was he would pass
8 the word around to General Raffat, who had told Steinheil
9 that if I didn't come over and give them 50 percent of the
10 company, they were going to run me out of the country.

11 Q Was this subsequent to the time you were
12 denied entrance to the country?

13 A That's right, most likely in January or February
14 1966.

15 Q You were told this by General Raffat?

16 A Who was the head of Heli-Taxi, yes.

17 Q At that time did General Khatami have an ownership
18 interest in Heli-Taxi, that you know of?

19 A That I am sure he did, but I have never seen
20 the records of Heli-Taxi's registration.

21 Q Did anybody ever tell you that General Khatami
22 had an ownership interest in Air Taxi?

23 A Yes, Raffat did.

24 Monck Recording Company

25 Q Raffat was at that time what? The president of
Heli-Taxi?

1 A He was the Chairman or the manager of Heli-Taxi
2 and also of the Civil Aviation CLub.

3 Q He told you General Khatami had an ownership
4 interest in Heli-Taxi?

5 A Yes.

6 Q And you are indicating that General Raffat also
7 told you General Khatami told him something with respect to
8 your coming back into Iran?

9 A Well, no --

10 Q Could you tell us what he said?

11 A His statement was to myself and also to Paul
12 Steinheil, he says if you don't go this way, we are going
13 to run you out of the country.

14 Q We are going to run you out of the country?

15 A That was his statement.

16 Q Did you know what he meant when he said that?

17 Z I imagine the controlling sector, Air Taxi-Heli-
18 taxi, that whole group, because they wanted the franchise,
19 everything was starting to go so fast at that time --

20 Q Which franchise?

21 A The Bell and the Cessna franchise.

22 Q Which were International Helicopter Consultants
23 Inc., which was your firm?

24 A Yes, and the other company called Aviation Development
25 Consultants.

 Q Which was your firm also?

32

1 A Yes.

2 Q Who was Aviation Consultants' representative at
3 that time?

4 A We represented Cessna at that time.

5 Q Which firms did International Helicopter Consultants
6 represent?

7 A Bell.

8 Q I see. So the International Helicopters was Bell
9 and the other form was Cessna.

10 Now you are placing this conversation with General Raffat
11 at a time subsequent to the time when you were denied
12 entrance into Iran?

13 A Yes.

14 Q Which would be when? Sometime in late '66 or
15 early '67?

16 A No, this was early '66, because I didn't leave,
17 going on the trip, I had no knowledge of what was happening,
18 really. The actual facts. You hear so many rumblings,
19 but I didn't know and I had written a report and made an
20 official complaint, after we could not get our own permit, to the
21 U.S. embassy and then my associate in Helo Corporation,
22 Paul Steinheil, he went and dug up this information so we
23 could make a formal protest to the government.

24 Q We are going to get into this, but I just want
25 to get our dates straight. This conversation you had with

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1 General Raffat was at the time before you left Iran?

2 A Oh, yes.

3 Q And subsequently you were denied entrance back
4 into Iran?

5 A That's correct.

6 Q Now General Raffat, as I understand your testimony,
7 he was telling you that unless -- would you supply the missing
8 words again?

9 A If I did not give them 50 percent of my franchises,
10 they were going to run me out of the country.

11 Q as this the first time you had ever heard this, in
12 early '66?

13 A Yes, that is when it started getting serious. You
14 hear rumblings, I had heard that late in '65 this is going
15 to happen, they are closing everybody out, no more foreigners
16 can come into the country, everything is nationalized.

17 Q Okay. Now give us the history and background of
18 this? When was the first time that you heard that you were
19 going to be asked to turn over ownership interest?

20 A I would think this most likely was when the
21 first offshore concessions were let, which was in the first
22 part of '65, late summer, when we were talking to all of the
23 American oil companies.

24 Q Who would have told you that a demand was going to
25 be made like that?

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DB 34

1 A General Raffat. Because we were competing with
2 Heli-Taxi on these projects.

3 Q Were you also competing with Air Taxi at that time?

4 A On fixed wing, yes. And with Heli-Taxi, which
5 was the British group, pushing British products.

6 Q How did General Raffat approach you? What did
7 he say to you and what did you say back to him, and where
8 did this conversation take place?

9 A This took place at the Civil Aviation Club,
10 because I used to go there and supply them spare parts,
11 and we used to joke and talk. He said "Well, they are going
12 to get you, Bill, we are going to get you."

13 And I said "Go ahead and try."

14 Q What did he mean when he said "We are going to
15 get you"?

16 A Eventually put us out of business. They were
17 going to get the monopoly somehow. I took it as a joke,
18 like someone says "Who is going to stop you," you know.

19 Q Was this at or about the time that Iran was in the
20 process of passing a law that said that certain companies had
21 to be 50 percent owned by Iranians?

22 A That was already done.

23 Q This was already done?

24 A Yes, that had already happened, overnight; nobody
25 knew about it before.

Manick Reporting Company

DB 35

1 Q When was that that the law passed?

2 A I am pretty sure it was in the spring of '65. I
3 am pretty sure of that. The embassy called me and said "Are
4 you aware of this new regulation that is out?" That was when
5 we formed Helo Corporation.

6 Q What was the new regulation? What understanding
7 did you have of the new regulation?

8 A That no foreigners could own controlling interests
9 in representing any companies or any aviation operations
10 in the country at all. That it had to be 15 percent owned by
11 Iranian nationals, and that is when we formed the Helo
12 corporation, which was 51 percent Iranian national, which was
13 Paul Steinheil and myself.

14 Q Paul Steinheil being an Iranian national?

15 A Right.

16 Q He owned 51 percent?

17 A Yes.

18 Q What did you do with International Helicopter
19 Consultants and Aero Space?

20 A International Helicopter Consultants and Aviation
21 development Consultants were the 49 percent holders, which
22 I put into the company.

23 Q I see. So subsequent to this all taking place,
24 you were then approached by General Raffat, in the beginning
25 of 1965. What did he specifically say to you at that time?

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1 A He said "Well, we are going to stop all foreigners
2 from operating in the country; there will be no more
3 private companies that can have their own airplanes. Air
4 Taxi will have a complete monopoly and Heli-Taxi will have a
5 complete monopoly.

6 Q Did you tell him at that time that you had the
7 Helo Company, which was 50 percent Iranian owned?

8 A No. When he told me that, I immediately got
9 together with Paul and said "What do we do?" He says "Let's
10 form our own company, and I will be the front for you." He
11 was a construction engineer. We were working on power lines,
12 lifting the towers, this is where we were going to use the
13 Bell products, rights of way. The projects totalled about
14 \$40 or \$50 million.

15 Q At that time did you begin informing the Bell
16 helicopter officials of this conversation you had with General
17 Raffat?

18 A No, not necessarily, I don't think I did. Because
19 I didn't really think it was serious. But I am sure I told
20 them we had formed a local company to comply with the latest
21 regulations in the country, and we were going forward.
22 Because I had a lot of discussions with the people at the
23 Bell factory, who were lifting towers, and the programs out in
24 the western part of the United States.

Manick Reporting Company

25 Q Who did you keep informed at Bell Helicopter at
that time?

37 DB

1 A That was Jim Felton I am pretty sure at that
2 time.

3 Q We are now placing ourselves in the time period,
4 as I understand your testimony, of sometime during 1965,
5 when General Raffat made what you have described as an initial
6 approach?

7 A Yes.

8 Q So then you set up the --

9 A The local company to comply with the law.

10 Q The local company to comply with the law. What
11 was the next contact you had with respect to that matter?

12 A After we did that, we submitted our quotations and
13 talked with all of the American oil companies, we talked to the
14 power erection companies, the right-of-way companies, and
15 Raffat was also -- Heli-Taxi was trying to compete with us,
16 with the American companies, and he was pushing the British
17 line.

18 The more he got into it, the more he was trying to
19 pressure the American companies. So I got letters from
20 the American companies asking us specifically that they
21 would consider our services if we could get a permit to operate.

22 So we submitted all of the stuff to Civil Aviation.

23 Q What kind of pressure was General Raffat putting
24 on the American companies?

Monick Reporting Company

25 A He would go around telling them look, it is
impossible for that guy to operate, he will never get a permit,

38 1 and they are the only company, and the High Civil Aviation
2 Council has ordered it.

3 Q Has ordered that Heli-Taxi would be the only
4 company that would be getting the business?

5 A Would be the only company submitting a bid, and this
6 is what the Americans didn't like, because the prices were
7 highly inflated.

8 Q Was General Raffat at that time the head --

9 A The Air Marshal, Civilian Aviation Council. He
10 was the Chairman of this.

11 Q What is your understanding of the functions of that
12 governmental organization?

13 A Well, everything -- the Director General and
14 the Legal Department can approve it only so far. They can
15 say yes or no and give you a general opinion. Then it goes
16 before this Council that meets every two weeks, I think,
17 or once a month, and they would give their approval yes
18 or no.

19 Q Was that a government regulatory body?

20 A Yes, as far as I know.

21 Q They would have jurisdiction to approve licenses
22 for aircraft?

23 A What licenses would be issued, or everything else.

24 Q Licenses for flying aircraft, owning and operating
25 aircraft?

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1 A Aircraft maintenance, anything, they just
2 controlled it.

3 Q And you were being told by the American companies
4 that that regulatory body wanted those American companies
5 to do business with Heli-Taxi, and not with you?

6 A That's right.

7 Q Did they ever indicate, these American companies
8 ever indicate to you who was giving them that information?

9 A o, they would only say "Your competitor has been
10 here."

11 Q Meaning?

12 A Heli-Taxi. He would say "Heli-Taxi has been
13 here, Bill, and if you think you can compete, we want the
14 American products, we don't want the British products." So
15 I asked them to back me up and support me, please give me
16 letters that you would accept our services if we are
17 competitive, something like that. They all did this, every
18 one of them.

19 Q This is bringing us into the time period --
20 could you tell us what the difference is between Air Taxi
21 and Heli-Taxi at this point, for the record?

22 A Heli-Taxi was registered -- again I am going from
23 memory -- I think about 1964, to put all of the foreigners
24 out, and a consortium to force the Topo teams into using
25 Bristol Helicopters. They came in, they made an agreement,

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1 I imagine, and put the equipment in. It was a
2 front, basically, so Bristol could operate, for which they
3 paid a royalty to the shareholders. But it was set up on
4 purpose just to put the monopoly -- my own opinion -- in, and
5 not to let Air Taxi appear to be a big balloon. They had
6 to diversify and make smaller companies.

7 Q Well, Heli-Taxi and Air Taxi were owned by the
8 same people?

9 A Different names appeared, that I know, but the
10 general knowledge was, when I talked to General Raffatt,
11 it was still General Khatami's company. But again I can
12 not prove that.

13 Q Did Raffat say to you Heli-Taxi was General
14 Khatami's company?

15 A Yes.

16 Q We are now into the time period sometime beginning
17 in 1966, when you are hearing this from the American companies?

18 A This was in '65, late '65.

19 Q This was still in late '65?

20 A Yes, or early '66.

21 Q What happened next with respect to your companies?
22 And General Raffatt and Heli-Taxi and Air Taxi?

23 A Well, when I couldn't get back into the country
24 in May, '66, all I had going was the one helicopter on
25 contract. I had to set up offices in Beirut, and I got in

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41 1 touch with the embassy, sending messages back and forth,
2 trying to get back in, because everything is going to fall
3 apart eventually.

4 When the helicopter crashed in August, in which my
5 American pilot was killed, I went back to Bell, bought
6 another helicopter, hired two Americans to go back in on contract.

7 Q So that from the time in 1965, when General Raffat
8 raised this subject matter for discussion with you, until
9 May of 1966, when you were denied entrance into the country,
10 the corporate forms which you were operating under were
11 still International Helicopter Consultants, Aero Space and
12 Helo?

13 A Right.

14 Q Now did there come a time when a firm called
15 STP became incorporated?

16 A Yes.

17 Q What was the date of incorporation of that firm?

18 A That was later, in 1966, but I would like to back
19 track if I can.

20 Q Please do.

21 A In August, after the helicopter crashed, I went
22 back to Bell. We got another helicopter, we put it in the
23 airplane, and I hired John Bolton to be manager, and Gene
24 Lloyd to go back into the project to support this company
25 called Geotronics. The helicopter was supposed to be put

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1 on board and Geotronics sent me a frantic message saying
2 "Please stop shipment, we have cancelled our contract with you
3 because we are forced to take the contract with Heli-taxi."

4 Q They sent you a letter to this effect?

5 A No, they sent a telex to Beirut saying stop
6 shipment, stop everything.

7 So then I got in touch with Geotronics' manager in
8 California, and he came to Beirut, and he says there is
9 nothing we can do.

10 In fact, one of the managers from Tehran from Geotronics
11 came down and said "There is nothing we can do, we are
12 forced, we have to use Heli-Taxi."

13 Q Did he ever indicate to you who was forcing
14 them to use Heli-Taxi?

15 A General Raffat, and he was backed by the High
16 Council, which was General Khatami.

17 Q In other words, this man was saying to you
18 that General Raffat said they had to do business with Heli-
19 Taxi, and not with your firm?

20 A That's right.

21 Q And you were out of the country at this time?

22 A That is true, I was sitting in Beirut.

23 Q Who had you left back in Tehran in charge of
24 your shop?

Mand's Reporting Company

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A Well, there is Paul Steinheil. What he could do.

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1 The pilot was dead. I sent our manager, Barry Musser,
2 up from Jordan immediately, who was on the railroad contract,
3 to see what he could do. He came back out in two days and
4 says: "Bill, there is nothing we can do." So I came back
5 to the States and went to Bell and hired the two pilots to
6 start my operation up again, they would have to handle it.
7 I was going to function out of Beirut.

8 Q So you lost the sale of that helicopter?

9 A I lost the contract, I lost everything.

10 Q You lost the contract. Did you inform Bell about
11 this particular situation?

12 A Yes, I told Bell.

13 Q Who did you tell at Bell?

14 A I told Jim Feliton, because I said "I can't ship
15 the helicopter into Iran, we lost the contract, Heli-Taxi
16 has it."

17 So I went to Saudi Arabia and got a contract there and
18 shipped the helicopter to Beirut.

19 Q What did Mr. Feliton say to you at that time?

20 A " It is too bad, but sometimes in politics you
21 can't fight city hall."

22 Q Was there any mention specifically of General
23 Khatami in that conversation you had with Mr. Feliton?

24 A NO.

25 Q Mr. Feliton was then an employee of Bell Helicopter?

Mandl Reporting Company

1 A Yes.

2 Q What was his position at that time?

3 A Well, he was sad because we lost it, because that
4 was our demonstrator, and that contract would most likely bring
5 in about another four or five helicopters in the next two
6 years on that program. And we were doing a very satisfactory
7 job with them, and it was just one of those things, he just
8 said you can't fight city hall all of the time.

9 Q So now we are in a period when, subsequent to
10 May 1966, you are out of Iran?

11 A Right.

12 Q YOU lost the contract with --

13 A Wait. This is after May 1966. This is all August,
14 September, and October of '66.

15 Q You lost a contract for the sale of the helicopter,
16 which Mr. Feliton had indicated was because of some political
17 problems. WHAT happened next?

18 A Well, in the meantime Mr. Bell had come out,
19 I talked to him --

20 Q Mr. Bell, your lawyer, Mr. Robert Bell?

21 A Yes. I went to Wichita, got hold of him, I had
22 stopped and explained the situation to Bell and I went there --

23 Q When you refer to Bell, your lawyer, would you
24 please for the clarity of the record call him Robert Bell,
25 because otherwise references to Bell will probably be Bell
Helicopter.

DB45 1 A All right. I went from the Bell Helicopter company
2 to see Robert Bell in Wichita, told him the story, and asked
3 him "I need some help." I talked to the State Department and
4 they said you better get a lawyer, they could only help
5 me so far. The State Department said you have got to come
6 to a means somehow with your opposition force. And which I
7 had written the State Department several letters previously
8 about the troubles we were having and my concern that I
9 wanted to see all American products sold, not foreigners getting
10 into the market if I could help it.

11 And then we went to Washington and had meetings, and
12 then Bob Bell went abck to Wichita and went to Beirut and
13 on to Tehran.

14 Q Who did you talk to in the State Department about
15 your problems?

16 A I talked to Mr. Elliott, who used to be in the
17 embassy in Iran, and he had known the whole problem, about
18 a year before that. Mr. Mulligan or Milligan, one of
19 the two. Then I think they brought down a lady attorney,
20 because Robert Bell was there, my attorney. I think that is
21 about it.

22 Q Now was there any discussion of Air Taxi, or General
23 Khatami in that conversation you had with the State Department
24 people?

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25 A Yes. I don't think Mr. Mulligan knew too much

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1 about it, but Mr. Elliott knew and we discussed it openly.

2 I just told them --

3 Q What did he know? What was said about this
4 situation?

5 A All I know is he said well, I am aware of the
6 situation, Bill, and the only thing possible -- in fact,
7 they were pleased because I had my lawyer, Mr. Bell, going
8 to Tehran, because I think it took the burden off of them.
9 He just said I am aware of the situation, Bill, I wish
10 you all the luck, more or less. I don't remember exactly
11 all of the words of the discussion.

12 Q Was there any mention of General Khatami at that
13 meeting?

14 A Yes. I mentioned General Khatami's name.

15 Q What did you say about General Khatami?

16 A I just said I think General Khatami, I am sure, one
17 hundred percent, is behind blocking all of this. It has
18 been going on now for several years, it has now become
19 apparent in the last two years that we are losing out fast
20 and Aguste is in there already, they are going to get the sales,
21 and Bell is going to be completely out, because we can't
22 get helicopters, because they are all going to Vietnam.

23 Q And what did the State Department people reply
24 to that?

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25 A Well, all they suggested was "Well, I think you

47 1 should go to Tehran, contact the embassy, and we will try
2 to make appointments, contact the Air Attache's office,
3 and go see General Khatami.

4 Q Did they indicate any familiarity with General
5 Khatami at that time?

6 A Just that we should go see General Khatami. See,
7 Mr. Thatcher, who was in the embassy in Tehran, I talked to
8 him from Ankara, Turkey in about July of 1966 on a central
9 telephone line, because I couldn't get through from Beirut
10 and he told me General Khatami had officially, Civil Aviation
11 had officially charged me with making illegal flights, and
12 it was a criminal offense, and if I wanted to come back
13 and face it. I said "Well, I will come." He says, "You
14 better consider again. You better send a lawyer."

15 Q Did you feel at that time you had done anything
16 illegal?

17 A No, I hadn't done nothing.

18 Q What was your feeling as to the reason why
19 you were kept out of Iran?

20 A Basically to show the American companies that
21 I couldn't function and get the franchises.

22 Q Then who would get the franchises?

23 A Eventually they would have their people all
24 contact these companies and eventually they would be
25 disappointed in me and they would bet them automatically.

Q Who is "they"?

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1 A I would say Air Taxi and Heli-Taxi. Heli-Taxi
2 most likely would take the Cessna or Bell franchise or vice
3 versa. They would put enough pressure on, if they could down-
4 grade me, show I was a bad enough person, it was automatic.

5 Q How did you arrive at your understanding or
6 feeling that you were being driven out of Iran for the
7 purpose of allowing Air Taxi and Heli-Taxi to take over the
8 Bell representation in Iran?

9 Did anybody ever tell you that? And if so, who did?

10 A Oh, General Raffat.

11 Q General Raffat told you that?

12 A Yes.

13 Q What did he say?

14 A He always said "We are going to get rid of you,
15 Bill," and I said "Why don't you try?"

16 Q Did he ever say why he was going to get rid of
17 you?

18 A No, because I think basically they wanted me to
19 throw in everything with them, they didn't want to pay for
20 anything, I was supposed to give them 50 percent of everything.
21 I went to the American embassy and complained and they
22 said, no, don't do this, this is against the laws, they will
23 pull something else on you. So I followed their advice.

24 Q Did General Raffatt make a demand for 50 percent
25 of your profits?

A No, 50 percent of everything we were doing, just

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1 throw 50 percent into their company. He was going to
2 take it over.

3 Q Was he asking you to form a new company?

4 A No, no way. Air Taxi and Heli-Taxi were the
5 ones that were going to control everything at that time,
6 and what was it.

7 Q And he was asking you to turn over 50 percent
8 of the stock in your companies to Air Taxi and Heli-Taxi?

9 A Right, yes.

10 Q Did he say that?

11 A Yes, he said those exact words, or something similar
12 to that. I sent Steinheil down, I said "Paul, you are my
13 partner, go see what you can do before we start going
14 topside."

15 After Paul went, Paul said "That is exactly what he wants
16 to do." So we made the official letter of complaint to
17 the Minister of Information, because we needed higher support.

18 Q What was the date of that letter?

19 A That was in the spring, I don't know --

20 Q Was that before you were kept out of the country?

21 A Yes, that was most likely sometime in April, I
22 think.

23 Q Now did anybody else besides General Raffat tell
24 you that you had to turn over 50 percent of your companies
25 to Air Taxi and Heli-Taxi?

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1 A No, nobody else told me. He was the one
2 that was always --

3 Q Which company did he demand the shares be turned
4 over to Air Taxi, and which company did he demand the
5 shares be turned voer to Heli-Taxi? You had three companies
6 at that time.

7 A He didn't specifically state. He just said --
8 I think he wanted both of them. I imagine that would have
9 been discussed. It wouldn't have made any difference. Most
10 likely the Cessna franchise could have stayed under Heli-
11 Taxi, and the Bell franchise would have went back to Air
12 Taxi, because Air Taxi had the aero commander distributorship.

13 As long as AIR Taxi had that, Cessna would never go
14 along with that.

15 Q You say most likely. Did he tell you that?

16 A No, I am assuming this.

17 Q Did you discuss this with Bell Helicopter at any
18 time and inform them as to what was happening at this point?

19 A No, I did not. I didn't tell it because these
20 things happen. I told Mr. Feliton we had formed a new
21 company, and I thought everything would comply with the
22 new laws and requirements, that we were pushing forward on
23 the American oil companies, and the gendarmerie was going
24 along good.

Monack Reporting Company

25 Q Then what happened? Was your problem solved

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1 by setting up the new company?

2 A No.

3 Q Then what happened?

4 A Well, earlier than that, in the spring, before we
5 wrote the letter of complaint to General Pakravan, we went
6 to Civil Aviation and that is when we were told by the legal
7 counsel that we had to wait until General Khatami came back
8 and he disapproved us.

9 Q Disapproved --

10 A Our operating permit, not setting up the company.

11 Q So he wouldn't let you operate?

12 A No.

13 Q Do you specifically know Genral Khatami denied it?

14 A I was told that by the legal counsel, Paul
15 Steinheil and myself, at Civil Aviation, and I can't
16 remember his name.

17 Q You were told by the legal counsel of this Iran
18 regulatory body that was headed by General Khatami?

19 A Right.

20 Q That General Khatami --

21 A The High Council, General Khatami, would not approve
22 it.

23 Q So at this point you were then technically not
24 in compliance with Irani law?

25 A No, we weren't.

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1 Q What did you do next then with respect to bringing
2 yourself into compliance with Irani law?

3 A We were in compliance in registering the company,
4 but we weren't operating any aircraft at that time. So we
5 weren't breaking any law.

6 Q Did there come a time when a company by the name
7 of STP was incorporated?

8 A Yes. That was in November 1966, roughly.

9 Q Could you tell us the circumstances under which
10 that company came to be organized, its ownership, and all of
11 the circumstances relating to the establishment of that
12 company?

13 A Robert Bell in September - October, went to Tehran,
14 after we had the meeting with the State Department,
15 and met the embassy officials, who set up a meeting, or they
16 got the information from General Khatami, who he should
17 contact in forming the new company.

18 He contacted a lawyer by the name of Mr. Safavi,
19 I think. They discussed what would be the terms and
20 conditions, we wanted to continue selling aircraft in Iran,
21 helicopters, and all this, and they agreed on the formula
22 for doing this. I don't know exactly the percentages, but
23 nevertheless International Helicopter Consultants and
24 Aviation Development Consultants would have 49 percent in
25 the company, with 51 percent Iranian ownership, which by the

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DB53 1 way is the same identical thing that we more or less had done
2 with Helo Construction.

3 After that, the approval, I guess, Mr. Safavi
4 contacted Genral Khatami, and Mr. Bell came to Beirut to see
5 me and told me the terms and conditions, we would have to put
6 in more capital, and I said okay, if you think this is the
7 route to go, we will do it.

8 He then returned to Tehran, and at that time he met
9 again with Safavi, and with General Khatami, at which time
10 General Khatami was very cold to him, and stated he agreed
11 with this, all of this, and Mr. Safavi told Mr. Bell, if I am
12 not mistaken, that the General had approved everything and
13 everything more or less would be worked out.

14 However, they wanted the franchises in their names,
15 in STP's name, which I refused because I said knowing the
16 Iranians, it will just be another way of closing us out.
17 We will keep it in our own company name. I don't know all
18 of the details from memory.

19 Q Who did most of the negotiating with respect
20 to this? Was this Robert Bell, your attorney?

21 A Robert Bell, my lawyer.

22 Q You did not take part personally in any discussions
23 with the State Department on that matter?

24 A No, nothing later, no.

25 Q Because you were in Beirut at the time?

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1 A I was in BEirut.

2 Q So your lawyer handled all of these matters?

3 A Yes.

4 Q But nevertheless you gave your approval finally to
5 the establishment of the STP corporation?

6 A Yes, sir.

7 BY MR. MC LEAN:

8 Q Mr. French, could I develop for the record the
9 relationship, or proposed relationship between the new firm,
10 STP, and the two franchisees that you had, International
11 Helicopter consultants and Aviation Development Consultants?
12 What were the contemplated arrangements? Would the sales
13 go from Bell through International Helicopter and then
14 through the firm STP to the final customer?

15 A No. Well, yes. We were actually providing the
16 equipment, the total sales of the commissions or anything
17 else developed would come to STP and would be shared equally.
18 But International Helicopter Consultants would actually be
19 the ordering body for any helicopters or anything else, for
20 STP. It would be marketed under STP and also under Civil
21 Aviation, The Societe Tayar Pars only had rights to sell
22 helicopters and spare parts. They did not have the permit to
23 operate helicopters or aircraft.

24 So, again, we were almost the same as we were with Helo.

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25 MR. MARNACCIO: Why don't we take a short recess

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for lunch and reconvene at 1:30?

(Thereupon, at 12:50 p.m. the questioning was
recessed, to reconvene at 1:30 p.m. the same
day.)

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AFTERNOON SESSION (1:40 p.m.)

BY MR. MARINACCIO:

Q Mr. French, may I remind you that you're still under oath.

A Yes.

Q Continuing your testimony from this morning, we left off just prior to the luncheon break where we were discussing the STP Corporation. That is a corporation that was incorporated in Iran?

A Yes, that's correct.

Q And it was incorporated in about the year 1967?

A End of '66.

Q Now can you describe the ownership of STP?

A Our two American firms were to have 49 percent, if I remember right, and the Iranian group would have 51 percent. The profits would be shared on anything sold proportionately of 49-51 percent I assume after all expenses were deducted. We were to appoint a manager, which I did, which was John Bolton, as technical manager. Dr. Safavi would remain I guess as the managing director for the Iranian group. I don't remember the other people's names that was put in exactly on the 51 side. I'm not exactly sure if I'm telling you correct, but this is basically from my memory.

Q That's what we want. We want your best recollection of what transpired.

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1 A Mr. Bell is the only one that can tell you because
2 he did the actual work.

3 Q Robert Bell, your lawyer?

4 A Yes, who is the individual who did the work, setting
5 up the corporation, so he would be in the best position to
6 testify.

7 To my knowledge, General Khatami gave final approval
8 of this and when Mr. Bell went and saw him he agreed to the
9 whole thing.

10 Q But you were not present at that meeting between
11 Robert Bell and General Khatami?

12 A No. And Robert Bell did ask General Khatami if I
13 could come back into the country and he said, "In no way."
14 Even if it was only for a two or three -- well, say a week at a
15 time, just to keep the stuff's continuity of the operations going,
16 and he said, "No way."

17 Q Why is General Khatami so mad at you?

18 A Because we had written this letter to General
19 Pakravan complaining about the monopolistic setup and we
20 thought we had the same rights as anybody else in the country
21 to have a company. Helo Construction was owned according to
22 the laws of civilization and this was our formal complaint.

23 Q Did you sign that letter to General Khatami?

24 A No. I think Paul Steinheil signed that letter because
25 he said, "Let me take the brunt of this," and from what I

3

1 understood, again from what Robert Bell told me, General
2 Khatami stated or somebody stated to him that Paul Steinheil
3 was not considered as Iranian, although he had an Iranian
4 passport. He was a naturalized citizen.

5 Q Who was General Pakravan at that time?

6 A He was part of the SAVAT group.

7 Q That was the internal intelligence?

8 A Yes, like RCA, similar to that type of organization.

9 And he was the Minister of Information and Paul had known him
10 for years and I went and talked with General Pakravan, Paul
11 did, and he thought we had validity to make an official com-
12 plaint and that's what we did.

13 Q Do you recall the substance of that letter to
14 General Pakravan? Did you mention in there that General
15 Khatami had an ownership interest in Air Taxi?

16 A Yes. I think Paul went through his Iranian lawyers
17 group or somebody who went down and got the percentages out of
18 the company registration documents. He told me not to get
19 involved with it because as a foreigner, he said, "You won't
20 get anywheres."

21 Q Paul Steinheil?

22 A Paul Steinheil, who was my 51 percent owner of Helo
23 Construction.

24 Q And he actually went down and searched the public
25 records of Iranian corporations to ascertain the ownership

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1 interest of Air Taxi?

2 A I don't know if he physically did or if he had
3 somebody else. I think he had somebody else do this because
4 you had to have -- usually in Iran or in most countries you have
5 to have a legal body to go and check anything. They just won't
6 give it out to the public.

7 Q Do you recall whether or not Mr. Steinheil prepared
8 a document showing the ownership interest of Air Taxi at that
9 time?

10 A Yes. He prepared a statement I think on the original
11 registration of Air Taxi and the second registration of Air
12 Taxi and also on Heli-Taxi.

13 (Whereupon, a document was marked for
14 for identification as Exhibit No. 81.)

15 BY MR. MARINACCIO:

16 Q I show you a document which we have marked as
17 Exhibit No. 81 and ask you if this is a document that you
18 were referring to that Mr. Steinheil prepared at that time in
19 preparation to the letter to General Pakravan?

20 A That was an attachment to it.

21 Q That was an attachment to it?

22 A Yes.

23 Q And does that document show an ownership interest of
24 General Khatami in Air Taxi?

25 A Yes. That was the first registration. That must

5

1 have been in early '58 when he came back from the States.

2 Q Now that document does show that as of 1965, I
3 believe, that Mr. Khatami's shares did not appear as a matter
4 of public record; is that right or wrong?

5 A That's right, and also Mr. Jahambani, another Air
6 Force officer, was taken off.

7 Q Do you have any indication that since that document
8 as of 1965 -- do you have any indication that General Khatami
9 retained an ownership interest in Air Taxi?

10 A No. Only hearsay at the airport that they had
11 changed everything around because the Shah's order that no
12 officials would be in business, or military people.

13 Q Was the effect of Steinheil's research with respect
14 to the ownership of Air Taxi interest by General Khatami from
15 1958 to 1965 -- was that made known to Bell Helicopter at any
16 time?

17 A Yes, I'm sure that I talked -- not Mr. Steinheil, but
18 I'm sure Mr. Pierrot knew it because this was discussed with
19 him and myself.

20 Q The fact that you had examined --

21 A No, not that I had examined public records.

22 Q Just the fact of the ownership?

23 A Right. The only ownership that I knew of was what
24 Ahmad Shafik told me and what Mr. Pierrot said that there was
25 this body of five people that formed Air Taxi.

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6

1 Q Did Mr. Pierrot indicate that this group had told him
2 that they had formed Air Taxi in 1958?

3 A Yes. Ahmad Shafik evidently did because this was
4 discussed.

5 Q Mr. Pierrot told you that?

6 A Yes, but I knew that even before I met with Mr.
7 Pierrot, that this had been done, but I mean, I hadn't talked
8 with anybody.

9 Q And that General Khatami was one of the individuals
10 who formed Air Taxi?

11 A One of the individuals and along with Colonel
12 Jahambani.

13 Q Mr. Pierrot mentioned that to you?

14 A Yes.

15 Q Getting back to the ownership of Air Taxi, 49 percent
16 was owned jointly by your two companies, International
17 Helicopter and Aerospace?

18 A Would you repeat that, please?

19 MR. MARINACCIO: I'm sorry. Would you read that
20 back?

21 (Whereupon, the preceding question was read by the
22 reporter.)

23 BY MR. MARINACCIO:

24 Q That's incorrect.

25 A You said Air Taxi.

1 Q I said Air Taxi. I withdraw the question. I will
2 rephrase the question. I meant to say STP and not Air Taxi.

3 A Yes.

4 Q You stated that STP was 49 percent owned by your two
5 companies?

6 A Right.

7 Q International Helicopter

8 A International Helicopter Consultants and Aviation
9 Development Associates.

10 Q Did they own 49 percent jointly or did they own --

11 A One owned 25 and one owned 24 percent.

12 Q Do you know which owned 25 percent?

13 A I think International -- I'm not clear on this. I
14 think International Helicopter Consultants was the one that had
15 25 percent.

16 Q And that was the organization that was the Bell
17 Helicopter agent in Iran?

18 A Agent franchise.

19 Q Agent franchise. Now who was the ownership of the
20 51 percent?

21 A I don't know all the people's names, but from
22 records, Safavi and another individual were carrying that in
23 behalf of General Khatami or the High Council of Civil Aviation
24 members was what the terminology was given to Mr. Robert Bell.

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25 Q So the owners of record in the company as far as you

1 know was Dr. Safavi and another individual?

2 A Right, and my remembering of what Mr. Robert Bell
3 told me in his discussions General Khatami said 51 percent of the
4 controlling interest would be for the High Council of Civil
5 Aviation.

6 Q And did you know this directly from any conversations
7 you had from Dr. Safavi or anybody else other than your conver-
8 sations with Robert Bell?

9 A Only from John Bolton, my manager, because he was
10 familiar with the setup and he was there when Mr. Bell left --
11 put in charge to maintain and do the discussions and set up the
12 programs and the follow-through and sales and what we had to do
13 to support the programs,

14 Q And you were out of Iran at this time and you were in
15 Beirut?

16 A Right.

17 Q And John Bolton was the manager of your operation in
18 Iran at that time?

19 A Yes.

20 Q Did John Bolton tell you that he attended these
21 meetings with Robert Bell or did Robert Bell do this?

22 A The first meetings were by Mr. Bell alone with
23 General Khatami when he went there. Later, after the setup of
24 the company, Bolton got there I think in October of '66 and when
25 Bob finally finalized the company, introduced everybody, that

1 was when General Raffat and Bolton got together and Safavi and
2 working and following through the sales, spare parts basically
3 for Cessna they were working on at that time because I had many
4 outstanding orders for the Army and the Gendarmerie.

5 Q Now did your understanding go to how much of an
6 interest General Khatami had in the 51 percent?

7 A No. I have no knowledge of that. I would have no
8 knowledge of that.

9 Q Did you ever talk to Mr. Safavi personally about that
10 situation?

11 A No, I never talked to him.

12 Q Who is the other Iranian gentleman that you mentioned?

13 A General Raffat.

14 Q Did you talk with him?

15 A With Heli-Taxi. No. He was not really involved. He
16 was trying to work with us afterwards. I assumed General
17 Khatami says to Raffat, "You work with them and try to get
18 something going," but nothing ever materialized out of it.

19 Q So you did not have any personal conversations with
20 General Khatami about this?

21 A No.

22 Q Or Dr. Safavi?

23 A No, none whatsoever.

24 Q And all of your knowledge comes from your dis-
25 cussions with Mr. Bolton and Robert Bell, your attorney?

10

1 A That's right.

2 Q Nevertheless, did you inform Bell Helicopter of the
3 fact that General Khatami had an interest in STP?

4 A Not specifically to my knowledge. I think that
5 Mr. Bell most likely explained this all to him when he went
6 back to see the Bell Helicopter people as he did with the
7 Cessna people, what had been done to make sure that we're going
8 to have continuity, that we had a manager in there, regardless
9 of if I was there or not it was going to continue to function.

10 Q Let me show you a document that we will mark as
11 Exhibit No. 82.

12 (Whereupon, a document was marked for
13 identification as Exhibit No. 82)

14 BY MR. MARINACCIO:

15 Q It purports to be a letter from your to Mr. Feliton,
16 export manager, Bell Helicopter Company in Fort Worth, Texas,
17 dated 14 January 1967, and I ask you if you wrote that letter
18 to Mr. Feliton?

19 A Oh, yes.

20 Q Do you recall that letter?

21 A Yes, I did write this letter. There's no reason for
22 me to deny it.

23 Q And this letter states in pertinent part in the
24 first paragraph -- and then I want you to review the letter
25 so you can get your testimony in -- "Dear Jim: John Bolton

1 just left Beirut last night after coming into tell me we have
2 finally gotten the new company completed and registered, and
3 with the new set up it should open many doors now that we have
4 General Khatami as partner silently along with Dr. Safavi the head
5 of the legal department of civil aviation and others, we own 49%
6 of the new company and it is 51% Iranian."

7 Do you recall writing that to Jim Feliton at that time?

8 A Yes.

9 Q Now the new company completed and registered that
10 you are referring to in the second sentence of this letter
11 would be which company?

12 A STP.

13 Q And you're informing James Feliton that General
14 Khatami is a silent partner in STP along with Dr. Safavi?

15 A Yes.

16 Q Was Dr. Safavi a public official of Iran at that
17 time?

18 A I don't know. I know he used to be on the Council
19 of Civil Aviation as a lawyer and legal adviser and I think he
20 still at that time was part of the Council of Civil Aviation,
21 but I don't know for sure.

22 Q To your knowledge, did James Feliton know at that
23 time that General Khatami was a General in the Iranian military?

24 A Oh, I'm sure he did because there would be no other
25 way -- because we had discussed this and he most likely would

12

1 have read the files.

2 Q Would you have ever discussed with James Feliton the
3 fact that General Khatami was an Iranian official?

4 A Oh, I'm sure I did, yes; but most likely I never
5 brought it up -- usually I tell somebody something once, the
6 new group in there, what's happening, and I don't go back over
7 it again.

8 Q Well, now review this letter and the first paragraph
9 thereof and tell us in your own words what you were telling
10 James Feliton at that time.

11 A Well, I was telling James Feliton that Skerkat Sahami
12 Tayar Pars had been formed and we had 49 percent by the two
13 American companies and that 51 percent would be Iranian owned
14 and General Khatami more or less gave his blessings and
15 Mr. Safavi would be the man doing the front work.

16 Q Now you say General Khatami gave his blessings. The
17 document says that General Khatami "as partner silently."

18 A Well, he sits behind the scenes like he did with the
19 rest of the companies and somebody else does the front work
20 and he remains a silent partner.

21 Q Mr. French, this document is signed off, "Sincerely
22 yours, William H. French, Man".

23 A Managing Director it should have been.

24 Q I see. And you recall sending this document to
25 Mr. Feliton?

1 A Yes, definitely.

2 Q Now earlier in the day we discussed at some length
3 the discussions that you had concerning the ownership of Air
4 Taxi by General Khatami with various Bell Helicopter officials
5 during the period of 1959 up to 1963 and we discussed the
6 conversations that you had with Harry Miller, Mr. Pierrot.
7 Right?

8 A And Mr. Jose.

9 Q And Mr. Jose. And at that time you indicated that
10 you had also had discussions subsequently about that specific
11 matter with Mr. Orpen, Mr. Feliton, Mr. Kling, and Mr.
12 Sylvester?

13 A No, I did not discuss that with Mr. Sylvester because
14 he did not come to Bell until '68. I know I discussed it with
15 Mr. Pierrot, Harry Miller, Duane Jose, James Feliton, Bud Orpen
16 and I'm pretty sure Mr. Kling, too, briefing him when he took
17 over.

18 Q Now can you describe for the record the conversations
19 you had about the ownership of Air Taxi with Mr. Orpen to the
20 best of your recollection, when those took place, and what the
21 purpose of the discussion was, what you said, what he said,
22 and what he understood?

23 A Well, the purpose of the discussions -- what I used
24 to do in all the countries I covered was I give them a break-
25 down. They'd ask me, well, who is doing what; and I would say,

1 this is the group who are owners of that company and this is
2 their responsibility; this is where they sit in government
3 power; and I most likely said General Khatami is in there,
4 Jahambani is in there from the Air Force side, although they
5 remain silent; Zanghani is a managing director, Frederick Eshoo
6 is sitting more or less as a silent, dormant partner and Ahmad
7 Shafik sits in the background, but the managing director is
8 Zanghani and that most likely I'm sure I would have said that
9 to all of them.

10 Q And you were referring to Air Taxi?

11 A Air Taxi.

12 Q This is the period subsequent to 1963?

13 A Yes.

14 Q When you were Bell Helicopter's agent?

15 A Right.

16 Q Or their manufacturer's representative in Iran?

17 A Right.

18 Q What would have been the purpose in those dis-
19 cussions of your bringing up the matter of Air Taxi with those
20 officials in Bell Helicopter at that time?

21 A Just to show them who was in power and who was doing
22 what. Like I told them that Allen Bristow -- when Heli-Taxi
23 was formed, that Allen Bristow was coming in very strong with
24 our competitors Westland's turbine powered helicopters and
25 unless we did something fast to get the American support and

1 .get big Bell helicopters, 205, we're going to lose the off-shore
2 drilling market. And I would most likely tell them General
3 Raffat was in there as a front and the rest of the various
4 people.

5 Q General Raffat was in as a front for whom?

6 A For Heli-Taxi. He was a man contacting all the oil
7 companies.

8 Q So these were your competitors at that time, Air
9 Taxi and Heli-Taxi?

10 A Right.

11 Q And you were, I take it what you're saying is you
12 were informing your master in a sense, the company that had
13 denominated you agent, what the competitive situation was and
14 who were your competitors and who they were owned by?

15 A Right, and I used to tell them what contracts we're
16 bidding, who we contacted. The same with Kuwait, I would tell
17 them who I met with, the Prime Minister or the head of the Air
18 Force. Every country I went to I did this.

19 Q Now Mr. Orpen was at that time occupying what
20 position, to the best of your recollection? In other words,
21 why would you have been reporting this to Mr. Orpen respecting
22 your competitive situation?

23 A Well, as the export manager it's my responsibility
24 to keep them informed of anything that was happening with the
25 competitors' market -- if anybody came through as a demonstration

1 flight, anything new or changing happening that would affect
2 what we were trying to do -- it was my responsibility to try to
3 get them the information as soon as possible. If we were
4 thinking of bringing a demonstration helicopter through the
5 area they wanted to always know what is our competition doing
6 because then they'd have to set up a budget and allocate funds.

7 Q So Mr. Orpen was the export manager of Bell Helicopter
8 at that time?

9 A Right.

10 Q Now do you know who he reported to at Bell Helicopter?

11 A He reported to Duane Jose.

12 Q Do you know who Mr. Jose reported to?

13 A I would imagine Mr. Ducayet or Mr. Atkins. I don't
14 know that chain up above.

15 Q Had you ever discussed any matter with Mr. Atkins
16 or Mr. Ducayet?

17 A No, only at lunch once in a while I would tell them
18 what is happening with the programs, what it's going to be in
19 the program the Gendarmerie was going to do. We had
20 four or five years to wait until the Iranian Army was going to
21 get into it, but the basic thing was the Gendarmerie because that
22 was four or five years.

23 Q Do you recall mentioning at any of these luncheons
24 at which they were present that Air Taxi was owned by General
25 Khatami?

17

1 A No. I wouldn't have brought it up to them because it
2 doesn't really affect them. I would tell the people I report
3 to and it's material if they want to transmit it or they don't.

4 Q Now what position was Mr. Feliton occupying that you
5 would in the normal course of business be reporting the owner-
6 ship of Air Taxi, your competitor, to him?

7 A He replaced James Feliton for this area and James
8 Feliton was given all export sales and -- Bud Orpen was given
9 all export sales and James Feliton was given responsibility of
10 Africa and the Middle East.

11 Q So Orpen was working for Feliton you said?

12 A No. Orpen was working for Jose and Feliton came in
13 to replace Orpen. Orpen was given a bigger responsibility.

14 Q I see. Now how about Mr. Kling, in what context
15 would you have filled Mr. Kling in on these matters of ownership
16 of Air Taxi?

17 A Well, he replaced Mr. Feliton when Mr. Feliton went
18 to work for I think Boeing. I don't know. I think that's who he
19 went to work with.

20 Q And all during that period of time these individuals,
21 one replacing the other, Mr. Jose was their immediate superior?

22 A As far as I know, and, yes, I would say that because
23 every time we came back for discussions with Mr. Bell or Mr.

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24 Nahkle, our Lebanese lawyer, when we would go to Bell we would
25 always end up talking to Mr. Jose in the end.

1 Q Now this morning we discussed the conversations that
2 you had with Mr. Jose during the 1959 to 1963 period concerning
3 the ownership of Air Taxi.

4 A Yes.

5 Q Do you recall any specific conversations that you had
6 with Mr. Jose during the period 1964 to 1968 concerning the
7 ownership of Air Taxi?

8 A No, nothing specific because I really didn't have
9 that much contact in '64-68 with him, only after '66 we had the
10 trouble we went down and saw him and talked to him and explained
11 the situation -- the helicopter had crashed. We were getting
12 a replacement. This was going on. They helped me locate pilots,
13 the two that I hired, but I didn't specifically bring this up
14 again. Usually I never, if I told somebody once something, I
15 never brought it up again unless they asked me, and then I
16 started digging into it again.

17 Q So you felt you had filled Mr. Jose in previously on
18 the ownership of Air Taxi concerning General Khatami and as far
19 as you were concerned nothing had changed and that fact
20 remained operational?

21 A That fact is there. There would be no reason for it
22 really to change because everything was functioning in aviation
23 through the Air Marshal which was General Khatami.

24 Q Mr. French, I show you a document which we will
25 mark as Exhibit No. 83.

1 (Whereupon, a document was marked for
2 identification as Exhibit No. 83.)

3 BY MR. MARINACCIO:

4 Q Mr. French, I show you a document marked Exhibit
5 No. 83 and I will ask you to identify that document. It's a
6 copy of a document, first of all, and I will ask you to identify
7 it, the substance of the document. Do you recall seeing the
8 original of that document?

9 A Yes, I do.

10 Q When did you recall seeing the original of that
11 document?

12 A Most likely the first part of February in '67 when I
13 got the letter -- when I got my mail.

14 Q And is this a letter to you?

15 A Yes. This is addressed to me in Beirut.

16 Q Who is it from?

17 A It's from George Kling, the new man who replaced
18 Jim Feliton.

19 Q And Mr. Feliton was at that time being replaced as
20 an employee of Bell Helicopter by Mr. Kling?

21 A Yes.

22 Q And Mr. Kling was becoming the export area manager?

23 A Yes. That was Middle East and Africa.

24 Q It reads in pertinent part, "Jim has passed to me
25 your letter of 14 January, and the requested proformas are

20

1 enclosed. Per a telephone conversation with Mr. Bell in
2 Wichita I have reduced the quantity of G-3B-1's from two to
3 one."

4 Going down the line, another paragraph, it says, "We hope
5 your new association will permit you to resume residence and
6 business in Tehran, and want you to keep us advised."

7 What letter is he talking about, your letter of 14 January?
8 Which letter is he referring to, to the best of your knowledge?

9 A That most likely was the letter I wrote to him
10 telling what had happened and processed from the time we set up
11 the company and I guess at the end of November, whatever it
12 was, through December and January.

13 Q Would that be the letter dated 14 January, Exhibit
14 No. 82?

15 A Yes, that would be the same document, yes.

16 Q Which refers to the silent interest of General
17 Khatami?

18 A Yes.

19 Q And did Mr. Kling either in that letter or at any
20 time or anybody at all in Bell Helicopter ever raise any
21 objection to your having as a silent partner, as you termed it,
22 a General of the Air Force?

23 A No, no. No, nobody ever raised any objection at all.

24 Q And the purpose of your association with STP was for
25 what ultimate purpose with respect to Bell Helicopter?

1 A This is a letter I wrote to Mr. Raymond Hare who
2 was Assistant Secretary for near Eastern and South Asian
3 Affairs, and the embassy in Beirut suggested I write this
4 letter and list all of my basic information and facts that I
5 knew and see if the State Department would not help us.

6 Q Now this was addressed to the White House but it was
7 Mr. Har to Mr. Hare, an Assistant Secretary in the Department
8 of State at the time?

9 A Yes, he was. I don't know. I got that from the
10 embassy is all I know.

11 Q And you had informed which individuals at the
12 embassies that you were having problems?

13 A Lynn Dwar and somebody else -- I don't remember the
14 individual's name who was one of the Secretaries -- First or
15 Second Secretary in the embassy.

16 Q And they suggested that you write to Mr. Hare?

17 A Yes, because they could not do anything from Beirut.

18 Q Telling Mr. Hare all the facts with respect to your
19 being kept out of Iran?

20 A Yes, that's correct.

21 Q Now in this document you state that with respect to
22 General Khatami that he is a major stockholder in Air Taxi the
23 only approved fixed wing charter company in Iran; he is a stock-
24 holder in Heli Taxi; and you also mention in this document all
25 the positions that General Khatami held at that time and his

1 ownership in various companies.

2 Now I want to ask you to review this document and tell us
3 how you put together this information which is contained in the
4 document. First of all, with respect to General Khatami's
5 position in the Iranian Air Force and in the aviation section
6 of the Imperial Iranian and with respect to the Civil Aviation
7 High Council, etc.

8 A All right. In regard to the Imperial Iranian Army,
9 he was a commanding general or the Air Marshal. As the Air
10 Marshal of the country supposedly all the aviation for the
11 Army, the Gendarmerie, SAVAT, which I understand he closed out
12 their group, civil aviation. He oversaw everything that per-
13 tained as Air Marshal to aviation.

14 Now in reference to the Imperial Army and Gendarmerie, the
15 equipment chosen I imagine would have been discussed, as long
16 as specifications met the requirements -- it was off-the-shelf
17 procurements for the Iranian Gendarmerie. He would not pay
18 too much attention to it, but he would supervise maybe and give
19 his blessings for equipment coming in under the Military
20 Assistance Program. As Civil Aviation High Council, well,
21 there he sits there.

22 Q Now with respect to civil aviation companies that
23 you're listing which he has either control or an ownership
24 share in Iran National Airlines --

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25 A I don't think he has any shares. I don't know about

1 that. I think that was all bought out from Reza Afshar, to my
 2 knowledge, when they nationalized the airline and they closed
 3 out Persian Air Services which was Ahmed Chafik's outfit, and he
 4 sat more or less as the supreme commander or air marshal over
 5 anything being done really or knew I imagine any negotiations
 6 for companies coming in for management which would be Pan
 7 American came in at that time -- I know he was involved with
 8 that; the Air Taxi, the Heli Taxi, he was behind that.

9 Q Now in this document you also state that with
 10 particular respect to Air Taxi Company General Khatami is a
 11 major shareholder in this company, although last year -- that
 12 is 1965 -- he had his name and General Jahambani's name removed
 13 from the ownership of record. Then you say Mr. Zanghani, the
 14 managing director of Air Taxi, is nothing but a puppet with
 15 Khatami and Jahambani pulling the strings. This is common
 16 knowledge and is easily checked out. Could you tell us --

17 A Well, "puppet" may be the wrong terminology to use.
 18 He's the managing director. He would most likely say yes or
 19 no, but any decisions on any equipment to be bought, the prices
 20 being charged for contracts, usually Jahambani was handling
 21 this on behalf of Khatami because Jahambani was the one that
 22 used to go to all the various companies in his Air Force
 23 uniform trying to develop business to impress people and
 24 finally I think somebody told him don't do it in Air Force
 25 uniform again and he stopped it.

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25

1 Q How do you know that Mr. Zanghani had to go check
2 everything out with Jahambani who in turn would check it out
3 with General Khatami? How deep does this common knowledge go
4 and where do you derive your information from?

5 A I derive it from some of the pilots that used to
6 work for us that went to work for them, some of the mechanics,
7 and just the general knowledge that Zanghani sits in the office,
8 he does the normal stuff; he's nice to people, does this and
9 that and signs the letters, but anything major concerning what
10 the company is going to do or expand or buy, the other people
11 still make the decisions.

12 Q Did you know Mr. Ahmad Said who worked for Mr.
13 Zanghani?

14 A No. I maybe saw his face, but I don't really
15 remember him.

16 Q Did you ever meet Mr. Zanghani?

17 A Yes, many times.

18 Q Many times?

19 A Oh, sure.

20 Q Did you ever discuss with Mr. Zanghani the ownership
21 of Air Taxi?

22 A No, not really, because I never thought it was my
23 business. If he wanted to tell me something he would tell me.

24 Q Did he ever discuss with you his association with
25 General Khatami?

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1 A No. I never used to pry because if you start asking
2 questions you get your name and information put on SAVAT record
3 and it just gets worse and worse. They've got a file on you.
4 So you never ask questions. Somebody tells you something, you
5 remember it.

6 Q Did you ever have any discussions with Mr. Jahambani?

7 A Oh, yes, but not recent discussions. I maybe said
8 "Hi" to him. I see him at civil aviation, but that's about it,
9 or I'd see him on the street and I'd say "Hi" to him.

10 Q Now Exhibit 83B, can you identify that document?

11 A Yes. That's one I wrote from Beirut to Mr. Hare.

12 Q And you wrote that letter when?

13 A In August, 27 of August, 1966.

14 Q And you're telling Mr. Hare in part that you have
15 been "blocked from entering Iran since May 1966. Again, you
16 can see by keeping myself out of Iran, General Khatami is
17 trying to show my franchised parent Company's Cessna and Bell
18 that they are not properly represented in Iran." Can you
19 comment on that statement you made at that time?

20 A Yes. That was true, and all messages I was sending
21 back and forth to Iran, to Paul Steinheil, what he could tell
22 me and -- I mean, information I was sending back and forth on
23 the Gendarmerie, the spare parts, everything -- everybody
24 started getting concerned. We couldn't get any orders, credits
25 are not being opened.

27

1 Q Did you tell anybody in Bell Helicopter that General
2 Khatami was trying to move you out of Iran because of --

3 A No, not at that time because I thought we could
4 resolve it without bringing everybody up and making everybody
5 panic, wondering what is happening.

6 Q When was the first time again that you began
7 reporting to Bell Helicopter that General Khatami wanted you
8 out of the country?

9 A I'm going from memory. I think sometime in October
10 once Bell had got there and saw the situation. Also, they had
11 sent a message to the factory someway because I think Dick
12 Pierrot is the first one who contacted me saying, "Are you
13 blocked from Iran" or something, and then I went back to him
14 and said, "Yes, but we are working it out. It's only a
15 temporary thing." This is all. This is from memory though.
16 That must have been about September of '66, somewhere in there.

17 Q Whatever happened to STP?

18 A It still sits in Iran in a dormant stage after we
19 lost -- after the stoppage of the ferry contracts which was
20 due to the Cyprus-Turkish war. We still tried to get
21 clearances and we could never get clearances and we decided --
22 Bolton came to Beirut and we decided, okay, we'll fly them like
23 we did the Lebanese helicopters, start from Athens, coming
24 across the water to Cyprus, pick up fuel and overfly Beirut,
25 most likely to Amin and Saudi Arabia and across to Kuwait and
up to Tehran.

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1 Q Now you spoke about ferrying helicopters. What about
2 the situation with respect to the sale of helicopters?

3 A Well, the whole thing kind of stopped when we ran out
4 of money or they wanted us to refloat the company again that
5 Mr. Bell had put together, and I think they deliberately -- to
6 my opinion and also to John Bolton's opinion, they just
7 deliberately bled the company down thinking, well, they're
8 going to run us out of money.

9 Q Who's the "they" that you're referring to?

10 A When I say "they," this is General Safavi and I
11 think acting on orders of General Khatami. I think they
12 basically thought they were going to get these franchises just
13 by showing what we had agreed to do in a year's time we could
14 not do. There weren't no sales made. There were only spare
15 parts made for Cessnas.

16 Q If you had come to this agreement, which you
17 apparently did, with General Khatami and STP, why was that not
18 satisfactory to General Khatami and why was that not sufficient
19 to keep your agency going in Iran?

20 A Well, I think they thought with talking to some of
21 the advisers there that they could force us out of the issue.
22 You see in the meantime the Iranian Air Force had set up the
23 Iranian Purchasing Mission in New York. Where we used to
24 supply all the Cessna spare parts to the Imperial Iranian
25 Army, all the sudden they ended up buying these from Cessna

29

1 through the Iranian Purchasing Mission. It had taken them a
2 year to almost put this organization together and I think they
3 saw once they could do this with Cessna Cessna was going to
4 drop us and Cessna did. Cessna was the first to drop out.

5 Q When were you first told that you were going to be
6 dropped as Bell Helicopter's manufacturer's representative in
7 Iran?

8 A Well, that was after the trip that Bud Orpen and
9 George Kling and I guess Dick Pierrot was on. I got a letter
10 telling me due to their evaluation -- and I imagine what they
11 had done when they talked up there, they talked to Khatami I
12 imagine through embassy arrangements or appointments, and I
13 imagine they talked to the mission and as they told Mr. Robert
14 Bell, our lawyer, they said, "Well, the Army program is much
15 bigger. Forget the Gendarmerie." And that was just when the
16 Army was starting to build up. That was starting to get their
17 pilots now. That was late in '68 and '69. They had to start
18 moving and after all the Army program was going to be a much
19 larger deal, 400 or 500 helicopter program on up to the '70s
20 and the early '80s.

21 Q One of the previous documents that we referred to you
22 had indicated in your search of General Khatami's background
23 that General Khatami had direct and positive control over the
24 Aviation Section of the Imperial Iranian Army.

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25 A That is what I understand. He would be -- this was

30 1 where -- how I knew this -- I can't remember the General's
2 name. This was a Brigadier General that they pulled out of
3 the Air Force to put in charge of the Imperial Iranian Army
4 because the Army did not have any aviation-minded people, and
5 that was talking to the people that I knew on the spare parts
6 sales that they would tell me -- the lieutenants and the
7 captains. They used to be my basic facts of information.

8 Q So with respect to Bell Helicopter choosing Air Taxi
9 as its agent over you in 1968 because the sales were going to
10 start flowing, not to the Gendarmerie but the bigger sales
11 would go to the Iranian Army -- is that an incorrect statement?
12 Is that an incorrect inference?

13 A No. I don't think at that time that General Khatami,
14 Jahambani or Zanghani knew what was going to happen on the
15 military side of the country because the U.S. Government had
16 just started to get the Iranian pilots into the circuit and out
17 from under the kind of left wing to accept American military
18 equipment, and this was the first phase. I think the only thing
19 they wanted us to be a prestigious organization -- they had
20 Bell helicopters, they might get them into the oil companies
21 and it would supplement their incomes.

22 Q Was it your understanding at that time that General
23 Khatami would have a veto power over any purchase of helicopters
24 by the Iranian Army?

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25 A Well, I was always told this. I was never given this--

1 Q Who was that, General Tifani?

2 A No, no. I'm trying to think of his name. He was a
3 Brigadier General loaned from the Air Force.

4 Q Is this the American Army?

5 A No. This is the Iranian Army. Like I said, they put
6 an Air Force officer in all the branches because they had no
7 Army aviation section.

8 Q Is it General Minbashin?

9 A No, that doesn't sound like the name. I'll think
10 of it eventually, but this was a group with the Iranian Army.
11 But then, when you talked to the advisers -- you see, a lot of
12 this -- you can also understand he would always have to approve
13 it. Those were his responsibilities.

14 Q Now which officials of Bell Helicopter did you
15 specifically have a discussion with concerning the termination
16 of your contract?

17 A I had that with Duane Jose, Bud Orpen, and George
18 Kling.

19 Q Was this in Texas or Iran?

20 A In Texas because I couldn't get back to Iran.

21 Q Did you meet with them singly or as a group?

22 A No. Bob Bell and Said Nahkle and myself went there
23 after we came back and submitted this one letter and the docu-
24 ments to the Senators here.

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25 Q What did they tell you at that time as to why you were

1 being terminated?

2 A Basically, it was just their decision that they had to
3 appoint somebody else, that the job was not being handled
4 properly in Iran, and it was going to go government-to-government.
5 We would not be involved in it but the decision had been made.
6 That was more or less all they said.

7 Q Did General Khatami's name come up at all in that
8 discussion?

9 A Not that I remember, no.

10 MR. MARINACCIO: At this time Mr. Collins, the
11 minority counsel, would like to ask some questions.

12 BY MR. COLLINS:

13 Q Mr. French, I understand from your testimony that
14 you dealt with Mr. Pierrot and others from Bell Helicopter
15 concerning the sales agency agreement.

16 A Right.

17 Q Do you know who finally approved the agency agreement
18 that you had with Bell Helicopter?

19 A The one in Kuwait, I'm not -- from memory, I'm not
20 sure -- was either signed by Mr. Pierrot or I think Harry
21 Miller back at Bell in '59. The agreement signed for Iran I'm
22 pretty sure was Duane Jose's signature on it.

23 Q Who was Mr. Harry Miller?

24 A He was also a Bell Fort Worth sales representative
25 in '59, or maybe his boss -- I don't remember all these names

1 because I only met them once and left.

2 Q So those people you feel they may have signed the
3 documents?

4 A Yes.

5 Q You mentioned the commissions that you had received
6 under these agreements. I believe you indicated that you
7 received a commission of about \$25,000 between 1963 and 1967.

8 A Well, we sold some spares before that but very little.
9 I'd say you should say between about '60 to 1967.

10 Q Did your contracts with Bell Helicopter specify
11 commission rate?

12 A Yes. On various models it was -- some models it
13 was 15 percent; some models it was 10 percent. The military
14 models were to be negotiated. From the record we know this was not
15 correct because the ASPR regulations covered this. They should
16 have written that percentage for us like the Cessna people did
17 on the first contract. We checked with a Mr. Wright here in
18 Washington and he also confirmed this to Robert Bell and Said
19 Nahkle and myself when we were here in '68. He could not
20 understand why the factories did not do that, that all the
21 rest of the manufacturers were doing this.

22 Q So the military models, they were negotiated?

23 A That was in the contracts. They would specify to be
24 negotiated. I think there is -- from memory, there's one
25 contract that Mr. Robert Bell does not have that I had where

1 there was a percentage, but that's in the files in Beirut.

2 Q The contracts that you had with Bell Helicopter,
3 did they provide for any compensation upon termination of the
4 agreement?

5 A No. It was an open contract and when they want to
6 dump you they dump you.

7 Q Was there a 30-day notice or 60-day notice?

8 A I think there was a 30-day notice more or less.

9 Q By either party?

10 A By either party, yes, if I remember right.

11 Q And the contract you had, was it for a fixed term
12 of years or renewable?

13 A Every year renewable.

14 Q And it was renewed then a few times.

15 A Yes, it was renewed at least -- the Kuwait contract
16 was continuously renewed and the Iranian contracts were
17 renewed until they terminated us or advised us that they didn't
18 need us any more.

19 Q Prior to renewal, would you have discussions with
20 Bell Helicopter personnel as to what you had done for them?

21 A Well, this was -- I was -- most likely, every week
22 or ten days I was writing a letter to them and telling them
23 what had been done during the week, who we had talked to, all
24 information. They most likely should have about 100 letters or
25 more.

1 Q With respect to the relationship with Bell in Kuwait
2 or in other countries, when were those contracts terminated, if
3 so?

4 A The last contract was terminated -- we had it --
5 George Kling wrote us a letter telling us -- or sent us a
6 Telex -- this was I think in '68 or '69 telling us that we
7 could not sell to Dubey or the Persian Gulf, the Arabian Gulf
8 areas because they had made arrangements with somebody, and
9 this happened out of the clear blue sky and it was shortly after
10 they cut off the one, maybe four or five months after they cut
11 off the ones in Iran.

12 Q So there were no discussions as to why they would
13 terminate the contract before they did it?

14 A No.

15 Q Had you made any sales in those other countries?

16 A No. What we had done, we had just started negotiation
17 with the Abidabbi defense force which later bought from the
18 Bellagoosta. I imagine we were pushing too hard and Bellagoosta
19 was complaining to Bell because Bellagoosta -- I had proposed
20 8 helicopters or 7 helicopters to the Kuwait Army in '67 and
21 Bellagoosta couldn't get clearance -- Bell Helicopter could not
22 get clearance to sell them and Bellagoosta took the sale and I
23 assume the same thing happened in Dubey. Bellagoosta started
24 to complain and --

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25 Q So your relationships with Bell terminated in '69?

1 A '68-69. I'm not sure of the last termination date.

2 Q And all of those contracts you had with Bell, were
3 they on the same standard form or were there any differences?

4 A No basic standard form. When the military equipment
5 started coming out, then they started inserting "to be
6 negotiated," when the military models was starting to phase out.

7 Q In your contacts with employees of Bell Helicopter,
8 did you ever come in contact with Mr. G. William Miller, the
9 President of Textron?

10 A Yes. I met Mr. Miller for the first time, if I
11 remember right, at the Ebourges Air Show in Paris in 1964 and I
12 was introduced to him by Dick Pierrot who walked up to him and
13 said, "Mr. Miller, I'd like you to meet Mr. French who is our
14 representative for Iran."

15 Q Is this the only time you met Mr. Miller?

16 A That's the only time.

17 Q Could you give us a description of what you discussed
18 with him?

19 A Just what the potential was of what we were doing
20 with the Gendarmerie and where we're going to phase in the
21 Iranian Army would be phasing into and what we're doing with
22 the American oil companies and the European oil companies that
23 we were bidding contracts for, and what we were starting to do
24 with the tower erection programs for all the high tension lines--
25 basic general knowledge.

1 Q Did you discuss with him the possibility of General
2 Khatami owned Air Taxi or had an interest in Air Taxi?

3 A No. I wouldn't discuss this. This was at a luncheon
4 at the air show and all the military people you see come there
5 and there's no sense to bring this up to anybody who's a head
6 of a company. I'm sure they all read the files. I'm sure all
7 the sales people, the export sales people read the predecessor's
8 files before he took over just to get some briefing on it.

9 Q So that the name General Khatami did not come up in
10 your conversation with Mr. Miller?

11 A No.

12 Q Or any other officials of the Iranian Government?

13 A No. Maybe I might have brought up General Malit or
14 General Vassy's name because they were the head of the
15 Gendarmerie because they were the ones I was directly involved
16 with all the time.

17 Q Would you have discussed with Mr. Miller at that time
18 what steps would be necessary to gain a contract from the
19 Iranian Government, whatever branch of the Iranian Government?

20 A No. Just normal procedures, submit the proposal to
21 the Gendarmerie and they accept the price and you get it
22 certified by the Chamber of Commerce, the Iranian Embassy; a
23 letter of credit is opened and it's a clean program. It's done.
24 The business is done and the parts arrive. The letters are
25 cashable in the States on delivery of the goods on board the
ship or documents.

1 Q During your relationship with Bell Helicopter, did
2 Bell Helicopter ever ask you for a document showing who owned
3 any of your companies?

4 A I don't remember if they did or didn't. I don't
5 think they did really. I don't remember exactly.

6 Q Before they appointed you as their agent or even
7 during the time that you were their agent?

8 A I would have to check my correspondence because I
9 most likely, if I did, I would have sent a covering letter with
10 them, but I don't remember specifically.

11 Q You don't recall any of the Bell people asking you
12 who owned International Helicopter Consultants or any of the
13 other companies?

14 A No. They never asked me on Helo Construction. I
15 most likely told them in letters, but I don't remember that
16 either specifically.

17 Q Do you have any information that would indicate
18 Mr. Miller knew of any relationship between General Khatami
19 and Air Taxi?

20 A Only if he had talked I would say with Bell management
21 at Fort Worth or with Mr. Pierrot or the other Bell people I'm
22 sure in the Washington office would have known this from notes.
23 Mr. Pierrot was a pretty efficient person, so I'm sure every-
24 thing -- whenever he talked with anybody would be in documents
25 somewhere.

1 Q Did he or any other employee of Bell Helicopter ever
2 indicate to you that they had spoken to Mr. Miller about
3 General Khatami?

4 A No, no. They never did that.

5 Q You mentioned this contract with the Gendarmerie
6 and the fact that this was not under General Khatami's control.

7 A Right.

8 Q I thought you also mentioned that General Khatami
9 had overall responsibility for all of the aviation in Iran.

10 A True.

11 Q So would he have any input into a decision to purchase
12 equipment for the Gendarmerie?

13 A He could give his opinion, but if the advisers there --
14 because, see, the Gendarmerie was an off-shelf procurement
15 organization. If you showed that your equipment was better
16 than any competing equipment, there's no way that he could say
17 no because you had the best equipment and that was the whole
18 trick of trying to always have the best piece of equipment, the
19 best performance; then he could never say anything.

20 Q Did you ever have any dealings with the military-
21 industrial organization, the Iranian MIO?

22 A Let's see, when were they --

23 Q I believe that was a procurement agency of the
24 Iranian Government.

25 A Yes. We bought originally through that organization.

1 That was a transport organization, yes. We originally ordered
2 the first Iranian Army Cessna spare parts through them. Yes,
3 we did.

4 Q I believe there was a General Tifani who was head of
5 that organization.

6 A He was the Minister of War. I never was in discussion
7 with him. I always went up to the Abassibad Depot where this was
8 processed. This was the truck depot and the procurement system
9 was up there away from the Ministry of War.

10 Q So with respect to procurement by the Iranian
11 military, who made the ultimate decision to purchase equipment?

12 A I would say the overall seer of the program was
13 General Khatami all the time, but the equipment that the U.S.
14 Government would allow Iran to have or the State Department
15 would clear or our Military Assistance Sales Program was only
16 the equipment that we had in our own inventory in our own
17 military system, and he more or less had to go along with it
18 because there's nothing else he could buy.

19 Q But there was no procurement agency in Iran at that
20 time?

21 A No.

22 Q Under the direction of General Khatami or anybody
23 else?

24 A No. I was handling everything for the Gendarmerie
25 when it started setting up the spare parts. They would tell me

1 the lists they need and I would go to Cessna and get the quotes.
2 We did the same thing across the board the first two years with
3 the Iranian Army. It was just a normal functional procedure.
4 They would call me saying, "Please, we need this," and I'd come
5 and get a quote and they'd open a letter of credit and we would
6 put up a 10 percent performance bond for their Iranian Army
7 performance, but we didn't have to put up a bond for the
8 Gendarmerie.

9 Q So you really didn't have a great deal of involvement
10 with General Tifani?

11 A No. That was always handled down below by this other
12 Air Force General in the Army Aviation Battalion and I can't
13 think of his name but I only contacted him two or three times
14 because the officers and the captains would be the ones I would
15 be talking to.

16 Q Dealing with employees from Bell Helicopter Company,
17 did you ever discuss with them that Iranian officials would have
18 to be paid money in order to get any contract with the Iranian
19 Government?

20 A No, I never discussed this with them because I hadn't
21 had to do that in the past with anybody.

22 Q I believe you mentioned earlier that Air Taxi did
23 not have much business during 1959-1963.

24 A True.

25 Q On behalf of Bell Helicopter?

1 A They had nothing to my knowledge.

2 Q In your dealings with the State Department, I believe
3 you sent two letters to Mr. Hare. What type of response did he
4 make to you after you sent those letters?

5 A He wrote me back one letter more or less explaining
6 basically, well, more or less you have to work out your own
7 problems; it isn't more or less a State Department -- I'm going
8 from memory -- it isn't our responsibility -- just a nice, well,
9 almost like, "too bad, too sad" type of a letter, but it's
10 happened. I have to again refresh my memory because it's a
11 long time ago, 1967. I just don't remember.

12 Q But they did not become involved on your behalf?

13 A No, they did not. They tried to help. Don't get me
14 wrong. Mr. Thatcher helped. The civil aviation here in
15 Washington, they did what they could, but they finally ended
16 up telling me you're going to have to get your own lawyer and
17 start your own thing, and that's what we did.

18 Q And they indicated that they knew General Khatami
19 controlled all aviation in Iran?

20 A Oh, yes. I mean, I complained in the spring before
21 we wrote this official letter of protest through General
22 Pakravan. I went to the embassy and told them all of this. I
23 talked to Elliot. I talked to Tom Stave there. I talked to
24 the Air attaches.

25 Q In talking with these people, did you discuss General

1 Khatami and his involvement?

2 A Yes. I even tried to have the Air attache help me out
3 any way he could and he tried to intervene but he said, "There's
4 no way." They all helped.

5 Q The Air attache, who would he have been involved with?

6 A He would be -- well basically, with General Khatami
7 always. I imagine they see each other once a week.

8 Q Did you discuss with the Air attache General
9 Khatami's ownership interest in Air Taxi?

10 A No, not specifically. I imagine I did with the
11 earlier Air attaches, with the Naval attaches and the Army
12 attaches back in 1960. I know I did. I definitely did at that
13 time because I was trying to get him to help us out and that
14 was when we were working still with Ahmad Chafik and Mr. Amini.
15 I was also trying to get some support from the American side
16 instead of just the Iranian side.

17 Q I believe you mentioned that you and your wife were
18 the owners of International Helicopter Consultants?

19 A Right.

20 Q Who had the ownership interest in your other companies?

21 A The same people, my wife and myself.

22 Q Would you list those companies?

23 A Aviation Development Consultants and International
24 Helicopter Consultants.

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25

Q And Helo?

1 A Helo Corporation was Paul Steinheil, his wife Janya,
2 and myself -- or I take that back. Myself, in behalf of
3 Aviation Development Consultants and International Helicopter
4 Consultants which I had put into the corporation.

5 Q So nobody other than those individuals had an interest
6 in your companies?

7 A No.

8 Q After your termination by Bell Helicopter, did you
9 ever discuss with any employees of Bell the relationship that
10 existed between General Khatami and Air Taxi?

11 A No, nothing. In fact, I didn't contact anybody except
12 I went -- I made another trip after the '68 trip and I met
13 Mr. Sylvester and tried to see if I couldn't work something out
14 with him in other countries and I was flatly told, "No, thank
15 you."

16 Q You met with Mr. Sylvester?

17 A Sylvester, who replaced I think Bud Orpen. He came
18 from Piper Aircraft.

19 Q Did you meet him in Fort Worth?

20 A I went to Fort Worth. I first tried to see Mr.
21 Ducayet and he didn't have time to see me. So I next saw
22 Mr. Sylvester.

23 Q And could you describe what you discussed with him?

24 A Well, I discussed the areas of the Gulf where we had
25 programs going. I mean, we had other civilian companies with

1 the oil companies. I discussed Amin where they knew they had
2 nothing going and I also discussed the Sudan area where I knew
3 they had nothing going. There were some programs starting there
4 but I just got a flat "No, thank you. We've got our own
5 arrangements."

6 Q You didn't discuss Iran?

7 A No, nothing could be discussed there.

8 Q I believe you mentioned earlier that you met with
9 Mr. Zanghani on several occasions.

10 A Yes.

11 Q And your discussions with him did not include any
12 reference to General Khatami or any other Iranian official?

13 A No. I discussed with him and Fred Eshoo -- I'm going
14 from memory -- in 1959 when we first started to work this
15 arrangement out with Mr. Chafik and Mr. Amini, I discussed with
16 them how we would do it, how we would work, who would put what
17 equipment where, and then because our airplanes were parked
18 next to theirs at Tehran at the airport I would see them every
19 once in a while and shake hands and say "Hi" and "How are you",
20 but nothing was ever discussed in a business relationship.
21 Maybe once about 1964 we discussed how we could work together,
22 but nothing every materialized out of it.

23 Q You never discussed with them General Khatami?

24 A No. I never bring this up because, again, suppose
25 you bring something up and it goes on the record and you just

1 don't do that in that country. You don't mention anybody's
2 names really.

3 Q With respect to manufacturer's representatives in
4 Iran, were there any other agents that were in a position such
5 as you?

6 A Not that I know of, no.

7 Q Were all of your competitors owned or controlled by
8 Iranian nationals?

9 A Yes. The Piper dealer was an Iranian, a fellow by
10 the name of Baktari. Baktari was a Piper representative. Air
11 Taxi had Dehavilland. It had Sud Aviation, Aerocommander,
12 Lycoming engines, I think Pratt & Whitney -- more or less the
13 whole line -- the aircraft models or the aircraft that they
14 had used as components and accessories.

15 Q Did you ever discuss with these other agents the
16 problems you were having with the Iranian Government?

17 A No, because they were all General Khatami's and
18 Zanghani's -- they were other companies. They had the other
19 monopoly. See, once we started selling Cessna, we put Piper
20 right out of the market. We put everybody out of the market
21 because that was the airplane we standardized for the country
22 and we started stocking spare parts and they could come to us
23 and get immediate supply and there was no waiting and worrying
24 around, and that's what we planned to do with the Bell
25 Helicopter, was we planned on setting up an FAA approved repair

1 station which would handle all of this, any repairs, any major
2 overhauls, but it never got started.

3 Q Other than Air Taxi and Heli Taxi, were there other
4 agents in Iran for aviation companies?

5 A Yes, there were several people. Somebody I know
6 represented Boeing. I don't know his name because I never had
7 any discussions with him.

8 Q Were those people still in business when you left?

9 A As far as I know, yes.

10 Q Do you know if they are still doing work over there?

11 A There's a lot of Boeing there. They standardized
12 the airline there.

13 Q Would that be through an Iranian agent?

14 A I imagine so.

15 Q Do you know if there are any foreign nationals acting
16 as agents for foreign manufacturers today?

17 A No, I don't think there are. It's all controlled
18 by Iranians.

19 Q Did you ever meet the Shah personally?

20 A Yes, several times. I used to fly him.

21 Q And would you ever discuss anything with the Shah?

22 A On an earthquake mission once I flew him off the
23 side of a mountain and landed in a road -- just general
24 aviation, what we were doing in administrative agriculture,
25 training the pilots. Then I flew him the next time -- we sold

1 him a Lockheed Jetstar and he said, "Hi, how are you." He flew
2 the airplane and all of us went along. General Khatami was on
3 board. The next time I flew him I guess was in '63 in Chajar
4 in a helicopter -- I take that back. I flew him to Central
5 Defense meetings south of Tehran and then we flew with him and
6 the Queen in Chajar I think about '63 or '63 in there when the
7 King and Queen of Denmark came down.

8 Q Did you ever discuss any business with him on these
9 flights and other times?

10 A Yes, just general -- what we were doing in the
11 Gendarmerie, what I thought -- how fast they were advancing. I
12 said, they are coming along much faster than we expected, much
13 faster than the Department of Agriculture is coming along.

14 Q During your conversations he recognized you were
15 doing work on behalf of the Iranian Government or acting as
16 agent for manufacturers?

17 A Oh, yes. Before our flight General Malit, who was head
18 of the Iranian Army at the time, would call us every two hours on
19 the night of a flight to go -- because of security reasons
20 they would most likely call me every two hours to tell me we'd
21 meet them tomorrow morning and we'd pick them up somewhere else
22 for the helicopter.

23 Q Did the Shah ever indicate to you that he wanted to
24 purchase helicopters from Bell?

25 A No, not necessarily. No, I don't think we ever did

1 discuss that. When I talked to him when I was trying to sell
2 him the Lockheed 104s he only said, "Please push your Senators
3 to allow me to have them and I will push from my government side
4 through the advisers," and that's about as far as it went. We
5 never specifically mentioned this, but I'm sure General Malit
6 had discussed all of this with him and I'm sure our Army
7 Aviation had discussed all of this.

8 Who was General Malit?

9 A He was the head of the Iranian Gendarmerie at that
10 time.

11 Q Do you recall whether in your meetings with the Shah
12 whether Bell Helicopter ever came up as a subject of dis-
13 cussion?

14 A No, not -- yes, I did -- I take that back. On the
15 flight to the Central Defense meeting he was asking me how the
16 Cessna helicopters were working and I said they're very fine.
17 I said one problem, as you know, is the Cessna has stopped the
18 production on this and eventually we'll have to switch to another
19 helicopter. He said, "Yes." He says, "We have been discussing
20 the Bell." But that's as far as it went, nothing more; and
21 with him you never pry. I mean, if he wants to talk, he says
22 something. If he doesn't, you don't say anything.

23 Q You indicated that you had been discussing the Bell
24 helicopter?

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25 A Yes. Therefore, when I remarked that Cessna had

1 stopped production on this he said, "Yes, we'll have to go to
2 another helicopter."

3 Q And at what time was this?

4 A This most likely was some time in the spring of '64
5 at the Central Defense meeting when I was flying south of
6 Tehran. I think it was about April or something like that.

7 Q Did he indicate that he would be interested in
8 purchasing the Bell helicopters?

9 A No. He said nothing like that.

10 Q Earlier you indicated that Bell gave as one reason
11 why they were terminating the contract with you was because
12 future sales to Iran would be on a government-to-government
13 basis; is that correct?

14 A That's what they told us when we went to Fort Worth.

15 Q Was there any indication by the Government of Iran
16 that that is how the contracts would be given?

17 A Not necessarily. I just don't know that because you
18 see military assistance sales started to compete with us and
19 do their own procurement through the advisory group for which
20 they charged 10 percent for more or less management and
21 handling the parts and that was starting to go through the
22 system, and I imagine that same process was handled for the
23 Piper airplanes and the future helicopters and I just don't
24 know.
25

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1 Q So you had no indication that the Government of
2 Iran was insisting on government-to-government sales?

3 A I was only told by a couple of the military
4 people in the offices up there, and I can't remember who it
5 was, that the military was going to start carrying all of the
6 spare parts for military assistance sales, and that was about,
7 I would say, it must have been early spring of '66. Not for
8 the Gendarmerie; that was a separate organization.

9 Q After the contract with Bell was terminated
10 by Bell, did you attempt to receive compensation for any past
11 services you had performed for Bell?

12 A Well, we went there and we started discussing it
13 with them, to see how we could be compensated because Bell had
14 authorized Aguste to sell in that country, where they should
15 not have been allowed to do this, we felt we were entitled
16 to something, because it was unfair competition by allowing
17 Aguste to compete with us, which we were never told about,
18 we only heard from Dick Pierrot that a letter was written
19 from Bell allowing Aguste to sell in the area. But this was
20 only a courtesy to us. He was retiring from Bell, and he
21 wanted to let me know what was happening.

22 Q The outcome of those negotiations was what?

23 A It was more or less thank you very much, it is
24 a government-to-government sale. We haven't costed your
25 charges into it.

Manick Reporting Company

DB 2 1 Q Did you ever hear that any part of the \$2.9 million
2 that Bell Helicopter had paid to Air Taxi was made in order
3 to pay monies to Iranian officials?

4 A No. The only time I knew about the \$2.9 million
5 was when my lawyer, Bob Bell, called me on the phone and
6 told me he read it in the newspaper and Time Magazine.
7 That is the first I knew about it. Otherwise, I would have
8 started complaining about it.

9 But I never knew about it until this time, I will
10 say two weeks ago.

11 Q So you never discussed that with Bell Helicopter
12 officials?

13 A No. Well, I don't know, because that happened
14 much later, in '73, and I haven't talked to them since
15 '68 or '69.

16 Q The last person you spoke to from Bell was who?

17 A Was Mr. Sylvester.

18 Q At that time you did not discuss the Irani situation
19 with him?

20 A No.

21 Q During the time from 1960 to 1968, were you an
22 agent in Iran for any other manufacturers?

23 A Only Cessna Aircraft, until they terminated us.

24 And we had Continental Motors, Alda Electronics, Goodyear

25 Tire, all of the accessories that went into Cessna and

Bell helicopters.

DB 3

1 Q Did you have any other businesses in Iran,
2 in addition to the ones you have discussed today?

3 A No, we only had the construction program for
4 the power erection lines, but that never got off the ground,
5 because basically I was stopped from going back.

6 Q With respect to the \$2.9 million payment by
7 Bell Helicopter to Air Taxi, if you had known about it, in
8 1973, what would have your complaint been?

9 A I would come back and have jumped all over
10 them and said why are they getting paid when they haven't
11 done anything and we did the work. We were the ones that
12 set up all of the groundwork. We were the ones that translated
13 all of the Bell and Cessna manuals, and everyting, into
14 Farsi, into the language, so other people could read it.
15 We paid for that ourselves. Bell didn't pay for any of this.
16 All of this was just repetition of what happened from the
17 original work.

18 Q It was your work in anticipation of selling
19 helicopters to the Gendarmerie, or in anticipation of other
20 contracts?

21 A Well, no, it was the Gendarmerie, the oil companies,
22 the Irani Army, as the whole program expanded. The whole
23 thing I knew was going to be a phenomenonal organization some
24 time.

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25 Q Your contacts with the Iranian Army, were they

DB4 1 limited or did you in fact know in 1967 that they
2 would have a program?

3 A I new as early as 1964 and '75 what the program
4 was going to be. I learned this from original meetings
5 in the Gendarmerie, when we tried to bring the Bell 204, the
6 smaller helicopter, in and they said no, we want to wait for
7 the bigger one.

8 I new what was going to come, and I started planning.
9 I talked with Bell also at that time about how we could work
10 together, we are going to have to support this program,
11 because I don't care what kind of facility the Iranians have,
12 it will never hold up.

13 I also talked to the Cessna people on setting up an
14 assembly plant in Iran. This was done in '64, start
15 assembling Cessnas, save money, and there were reports from
16 Cessna on the engineering of this, how we could cut costs and
17 reassemble there and train the Iranians to do this.

18 So this was all a joint idea of a package to be
19 built.

20 MR. COLLINS: Mr. McLean.

21 BY MR. MC LEAN:

22 Q Mr. French, I would like to go back, if I
23 could, to exhibit 82, and I hand you a copy of it to refresh
24 your memory.

25 This is a letter dated 14 January 1967, signed by

DB 5 1 yourself, Mr. William H. French, and addressed to Mr. James
2 Feliton, Export Area Manager, Bell Helicopter Company.

3 At the time you wrote this letter, Mr. French, were
4 you concerned about retaining the Bell franchise, in view
5 of your difficulties with the Iranian government?

6 A Oh, yes.

7 Q Now as I understand it, this letter describes the
8 set-up of your new company, which has been referred to else-
9 where in this questioning as STP.

10 A Right.

11 Q Under that arrangement, could you describe who
12 would have obtained the commissions in the event that Bell
13 made a sale there?

14 A If we got the commissions, STP 51 percent would have
15 gone to whoever was holders of the stock of that company, the
16 Iranian side, and the other 49 percent, which would have gone
17 to International Helicopter Consultants and Aviation Development
18 Consultants.

19 Q But in effect all of the commission would have
20 gone to STP, is that correct?

21 A STP, to be disbursed.

22 Q Now the first sentence of this letter reads as
23 follows: "John Bolton just left Beirut last night after
24 coming in to tell me we have finally gotten the new company
25 completed and registered, and with the new set-up it should

DB 6 1 open many doors now that we have General Khatami as
2 partner silently along with Dr. Safavi, the head of the legal
3 department of Civil Aviation, and others; we own 49 percent
4 of the new company, and it is 51 percent Iranian."

5 Had you discussed this company and the setting up of
6 this company previously with Mr. Feliton?

7 A No. I think when Mr. Bell came back, the lawyer
8 Mr. Bell, came back in November, after the basic agreements
9 were completed, he went to Cessna and Mr. Zuck was not
10 there, the Export Manager, then he flew to Forth Worth
11 to advise Mr. Ducayet and Mr. Jolson and that group of
12 what had been accomplished and agreed, and the paper work
13 would follow through.

14 Q Is it your testimony that Mr. Bell, your attorney,
15 had discussed with representatives of Bell Helicopter
16 the basic outlines of the establishment of STP?

17 A Yes, to the best of my knowledge, that is correct.

18 Q To the best of your knowledge, was the commission
19 arrangement also described to officials of Bell Helicopter,
20 whereby STP would receive, be entitled to any commissions
21 on the sale of Bell Helicopter products?

22 A I don't know about that, because under something
23 like that, still International Helicopter Consultants would
24 get 100 percent, which would be credited in, because the
25 franchise was under International Helicopter Consultants' name.

DB-7.

1 So whatever money that came in would be put automatically
2 in STP's bank account.

3 Q Now again referring to the first sentence of
4 that letter, you say specifically that thsi new set-up
5 should open many doors, and "now that we have General Khatami
6 as partner silently."

7 Why did you feel it necessary to mention speifically the
8 fact that you had General Khatami as a silent partner in STP?

9 A Basically because this is Mr. Pierrot's concern here
10 in Washington, how we were going to settle this. He more
11 or less handled, I think, most of the international affairs
12 for Bell. I am not sure of this, but I think so.

13 In our discussions with him, before Bob Bell and all
14 of us went back over in September, if I am not mistaken, of
15 1966, we said we will start sorting out our problems.

16 Q Did you think that the mentioning of General
17 Khatami's name would be helpful toyou in retaining the
18 Bell franchise?

19 A Well, I mentioned that because I am sure State
20 Department had told Bell or Bell had ogtten basic information
21 that I was stopped from going into Iran. And when we lost
22 the helicopter, you see, in August, I had sent a purchase
23 order for another one, and through the investigation, I
24 imagine Bell checked with the FAA and the CAB, to find out who
25 all was involved in all of the organizations.

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DB 8

1 Q Why, though, Mr. French, did you feel it was
2 necessary to specifically mention the fact that General
3 Khatami was the silent partner in STP in your letter to
4 Mr. Feliton?

5 A Well, only basically to let him know what we had
6 done.

7 Q Why did you think he would be interested in
8 the fact that General Khatami was the silent partner?

9 A Well, basically I think because they all had been
10 hearing rumblings from various advisors over there, some
11 of our own military, and there had been trips to the Bell
12 factory, and I am sure that they wanted to please everybody,
13 as he was the High Council of Civil Aviation.

14 Q Again, in that same sentence you state: "This
15 new set-up should open many doors now that we have General
16 Khatami as partner silently."

17 What did you mean by that?

18 A There would be no opposition, no more problems
19 of movement around or blockage from the civil end. I
20 mean to sell to the civilian oil companies, and this way, as
21 we were having before competition from Heli-Taxi, we would
22 more or less have a group working together, we would have
23 no competitors like we had before.

24 Q Were you attempting to convey to Mr. Feliton
25 and to Bell Helicopter Company your belief that with General

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DB9

1 Khatami as a silent partner, things would go a lot
2 smoother for you as a sales representative for the sale
3 of Bell helicopters?

4 A Yes, for that or any other products, the Cessnas,
5 the works.

6 Q Referring to that same letter, the fourth paragraph
7 down, you say: "I believe Jim, sincerely, that with this monopoly,
8 we will be able to really do something we started to before,
9 and slowly start to succeed.. But in this set-up we have all the
10 blessings of everybody. "

11 What did you mean by that?

12 A By that -- you see, we had with the STP, we
13 were authorized to only sell helicopters and spare parts,
14 airplanes and we no longer had to worry about competition
15 of flying the operation. We most likely would be operating
16 under Heli-Taxi, if we were going to do something, and the
17 Bells would flow into Heli-Taxi and we would not have
18 the competition of Sud Aviation and Weslyn.

19 Q After sending this letter of January 14, did
20 you ever receive a subsequent letter or other communication
21 from Bell representatives that they believed it was improper
22 for commissions to be paid to an organization in which an
23 official of the Iranian government had an ownership interest?

24 A No, I never heard any disagreement with that at
25 all. We have one acknowledgement, if I remember right,

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DB10

1 which came from Mr. Klig, acknowledging the receipt of this
2 letter.

3 Q Were you aware of any policy on the part of
4 Bell Helicopter that they considered it to be improper to have
5 commissions paid indirectly to officials of the government
6 to whom they were selling?

7 A I have never heard of it.

8 Q Were you concerned that if this fact were to be
9 disclosed, that Bell Helicopter might veto the arrangement,
10 or otherwise express their disapproval?

11 A If they wanted to, they could have done it.

12 Q Were you concerned that this was a possibility?

13 A Yes. If they wanted to tell me not to do
14 anything -- all of the companies I represent I always tell
15 them what I am going to do, if they agree or not, let me
16 know, because we can't change it once we do it.

17 Q Now the arrangements for STP did in fact go
18 through and was consummated, is that correct?

19 A Yes, we got the registration documents.

20 Q Did you ever receive any acknowledgement or
21 confirmation or expression of disapproval from Bell about
22 this arrangement?

23 A No, nothing ever came to me.

24 BY MR. MARNACCIO:

25 Q Mr. French, we have discussed a good deal of

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DB 11 1 information here today. Do you have anything to add with
2 respect to any of the matters we have discussed?

3 A No, not really.

4 Q Would you like to make a statement for the record,
5 anything that you feel would be clarifying or adding to it to
6 make it more understandable?

7 A No. My only contention on the whole thing was
8 how the military assistance sales really got into it to
9 start competing with private enterprise. That is all I
10 queried, and I have always queried, whereby we had conflict
11 of Bell authorizing Aguste to compete with us, which we
12 ddn't know about, they made the arrangement.

13 I would like to know who was the agent of Agusta, and
14 if there were commissions paid. This would be something of
15 interest.

16 That is about all I can tell you.

17 MR. MARNACCIO: Thank you very much.

18 (Thereupon, at 3:30 p.m. the questioning of Mr.
19 French was concluded.)

20

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UNITED STATES SENATE
STAFF OF
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

STAFF INVESTIGATION RELATING TO
THE NOMINATION OF
G. WILLIAM MILLER

VOLUME VII
Washington, D.C.
Tuesday, February 14, 1978

Ace-Federal Reporters, Inc.

C O N T E N T S

<u>WITNESS:</u>	<u>DIRECT EXAMINATION</u>
Charles Robert Bell, Jr.	952

E X H I B I T S

<u>Exhibit Number:</u>	<u>Marked</u>
Exhibit Nos. 84A thru 84I	961
Exhibit No. 85	969
Exhibit No. 86	972
Exhibit Nos. 87A & 87B	988
Exhibit No. 88	999
Exhibit No. 89	1012
Exhibit No. 90	1012
Exhibit No. 91	1020
Exhibit No. 92	1023
Exhibit No. 93	1025
Exhibit No. 94	1028
Exhibit No. 95	1030
Exhibit No. 96	1036
Exhibit No. 97	1042
Exhibit No. 98	1047
Exhibit No. 99	1050
Exhibit No. 100	1052
Exhibit No. 101	1053

P R O C E E D I N G S

1
2 Mr. McLean. Good morning, Mr. Bell. My name is Kenneth
3 McLean. I'm the Staff Director of the Senate Committee on
4 Banking, Housing and Urban Affairs, and the staff is conducting
5 an inquiry into the circumstances surrounding a payment of
6 \$2.9 million by Bell Helicopter in 1973 to Air Taxi. This
7 inquiry was ordered by the Committee in connection with the
8 Committee's nomination hearing on the nomination of Mr. G.
9 William Miller to be a member of the Board of Governors of the
10 Federal Reserve System.

11 The interrogation this morning will be conducted by
12 Mr. Charles Marinaccio, the Special Counsel to the Committee.
13 He, in turn, will formally swear you in, advise you of your
14 rights, make certain other disclosures to you, and introduce
15 the other members of our staff.

16 Mr. Marinaccio. Mr. Bell, as Mr. McLean said, we were
17 authorized by the Committee to place witnesses under oath and
18 we will be placing you under oath very shortly and as an
19 attorney you know that when you're placed under oath you will
20 be subject to all the laws of the United States Senate
21 proceedings with respect to perjury and all statements of
22 witnesses and I must tell you that the testimony that you give
23 may be subsequently used by an enforcement agency of the
24 executive department of the government.

25 In that connection you are certainly entitled to have

1 counsel of your choice to be present with you. I know you are
2 an attorney and you have the right to waive counsel. Would you
3 prefer to have counsel with you or do you waive that?

4 Mr. Bell. NO, thank you. I don't prefer to have any
5 additional counsel.

6 Mr. Marinaccio. Present with us this morning are Bruce
7 Freed, who's a professional staff member of the Senate Banking
8 Committee; and Mr. Collins who is the minority counsel to the
9 Committee; and sitting here on my right is David Dougherty who
10 is the Associate Director of the Division of Enforcement at the
11 Securities and Exchange Commission and he's been detailed to the
12 Committee at the request of the chairman of the Committee. He
13 is participating in this proceeding as a staff member of the
14 Senate Banking Committee.

15 The information and testimony as gathered by the Committee
16 will be made available to the public unless the Committee
17 decides that any matters are confidential.

18 The procedure will be that each one of us may from time
19 to time have questions of you and if at any time you feel that
20 more than one person asking you a question becomes burdensome
21 or anything of that nature, just so state and we will revise
22 our procedures accordingly so that it will be completely fair
23 to you.

24 At this time I'd like you to stand and raise your right
25 hand and take an oath. Do you solemnly swear that the testimony

1 you are about to give will be the truth, the whole truth, and
2 nothing but the truth, so help you, God?

3 Mr. Bell. I do.

4 Whereupon,

5 CHARLES ROBERT BELL, JR.

6 was called as a witness and, having been first duly sworn, was
7 examined and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. MARINACCIO:

10 Q Would you state your full name for the record?

11 A My full name is Charles Robert Bell, Jr.

12 Q And you are an attorney?

13 A I am an attorney.

14 Q In Wichita, Kansas?

15 A Yes.

16 Q How long have you been a member of the bar out there?

17 A Did you say out there?

18 Q Yes.

19 A Let's see. I think I was admitted to the Kansas Bar
20 in 1959 and have been a member since.

21 Q Are you a member of any other bars?

22 A Massachusetts Bar, admitted in 1955.

23 Q I see. Did there come a time in the course of your
24 practice in Kansas that you came to represent William French
25 and his companies?

1 A Yes there did.

2 Q Can you tell me when that was and the circumstances
3 relating to that?

4 A All right. The initial representation actually was
5 a representation connected with a firm I was then with, Morris,
6 Lang, Evans and Brock, and the senior partner or one of the
7 senior partners, Vern M. Lang, formed Aviation Development
8 Consultants for Bill French. There was then very little contact
9 with Mr. French except with respect to mail that came to our
10 office from time to time for a number of years and the first
11 time that I came actively into contact with him was in the late
12 summer of 1966.

13 Q Could you for the record detail the circumstances
14 under which you came in contact with Mr. French in the summer
15 of 1966? Did you receive a communication from Mr. French or
16 how did that come about and what were the circumstances of that
17 contact at that time?

18 A I believe the first thing that happened was that I
19 received a letter from Mr. French that he had been run out of
20 Iran by the Shah's brother-in-law, General Khatami, and he
21 needed some legal help and was coming to see me and a few days
22 after the receipt of that letter Mr. French appeared in my
23 office and told me that he had been attempting to operate
24 aircraft sales and operational activities in Iran for a number
25 of years and that he had been given a great deal of trouble by

1 General Khatami's representatives because General Khatami con-
2 trolled all the aircraft activities in Iran through two companies
3 in which he had substantial ownership interest --those companies
4 were Air Taxi and Heli-Taxi--and that Mr. French had attempted
5 to operate mostly fixed-wing aircraft as contract support
6 activities for various contractors and had secured operating
7 permission from some other Iranian General who was unaware of
8 General Khatami's disfafor and had been contacted by I believe
9 Mr. French said a General Raffat who said he was General
10 Khatami's representative. Mr. French had been requested to
11 turn over approximately 50 percent of his business to General
12 Khatami and had refused, whereupon he was told that he would be
13 run out of the country. He subsequently went to Beirut on a
14 business trip and was denied readmission to the country.

15 He was unable to learn the purported reason for his denial
16 of readmission for a substantial period of time, I think several
17 months.

18 Then, in approximately July, he had been informed by U.S.
19 Embassy personnel that the Iranians had charged him with having
20 made illegal aircraft flights in a Cessna 180 which he owned
21 in Iran and they had recommended that he retain counsel,
22 whereupon he had contacted me.

23 Q Now this was --

24 A This was Mr. French's story to me.

25 Q This was Mr. French's story to you in what period of
time?

1 A Approximately August 1966.

2 Q And he told you that he had been denied entrance into
3 Iran during what month of 1966?

4 A I believe it was May of 1966. I think it was May 19th
5 that he had attempted to return and had not been permitted to
6 do so.

7 Q And the circumstances that he related with respect
8 to General Raffat requesting on behalf of General Khatami
9 ownership interest in his companies, was Mr. French relating
10 that to you as having occurred prior to the time that he was
11 run out of the country?

12 A Yes. As I understand it, it happened on more than
13 one occasion and over a period of several months, possibly even
14 more than a year prior to the time that he was actually run out
15 of the country.

16 Q Do you recall at that time how many individuals Mr.
17 French stated to you that told him were acting on behalf of
18 General Khatami? Was it General Raffat or were there others
19 at that time?

20 A It was my understanding that there were quite a
21 few individuals but they weren't all identified. General
22 Raffat was one name that was given to me. Bill also said that
23 his Iranian joint venturer, a gentleman named Paul Steinheil,
24 had stated this to him. Now Mr. Steinheil was a naturalized
25 Iranian and he said others had told him this, mostly unnamed

1 officers in various Iranian armed forces with whom Mr. French
2 had a great deal of contact.

3 Q Did Mr. French mention to you at that time that he
4 had sent a letter of complaint to General Pakravan in which
5 he had attached Mr. Steinheil's analysis of the ownership of
6 Air Taxi that General Khatami had an ownership interest in Air
7 Taxi? Did he mention that to you at that time?

8 A He mentioned something like that to me. What he did
9 was provide me with a copy of a document that Mr. Steinheil
10 had prepared and I think Mr. Steinheil had actually submitted
11 it to General Pakravan who was a Minister of the Court on the
12 theory that ordinary methods of requesting redress through the
13 Royal Court were unavailable due to the fact that General
14 Khatami was married to the Shah's sister.

15 Q Could you tell us the number of documents that Mr.
16 French brought with him at this initial conversation he had with
17 you and describe each of the documents and tell us what the
18 document was and what it contained relative to General Khatami
19 and Air Taxi and so on?

20 A Well, this list may not be 100 percent inclusive
21 because there might be some documents that I just didn't turn
22 up in my files that he did bring along. He had a substantial
23 number of documents.

24 Included among them were a document labeled
25 "Chronological Aid Memoir" dated 26 April, 1966, which is signed

1 by Paul Steinheil and which had attached to it a document
2 showing records of company registrations that had been abstracted
3 purportedly from the central records in Tehran showing who
4 owned Air Taxi at various times.

5 Q Did General Khatami show up as an owner of Air Taxi
6 on any occasion since 1959?

7 A Yes. The first registration is on the Mohammed date
8 of 1 Farvadin 13, which I'm told is 1958, which showed as
9 registration number 6047, the shareholders were Nadir Jahambani
10 36 shares without name and four with name; Amir Khatami. Amir,
11 incidentally, is the gentleman who's frequently referred to as
12 Mohammed because I think his name is Mohammed Amir.

13 Q That's General Khatami?

14 A That's General Khatami who was married at some point
15 unknown to me to the Shah's youngest sister, Princess Fatima.
16 He had 36 shares without name and four with name. And Ahmad
17 Chafik who was married to the Shah's twin sister, Princess
18 Ashrif, and he had 36 shares without name and four with name.
19 Then there was a balance of 80 shares without name indicated
20 on this.

21 Q In the major document, the first document you
22 referred to, that was an attachment to that document, was there
23 anything in that first document concerning Khatami's ownership
24 of Air Taxi? Did the first document mention General Khatami?

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25 A Yes, it did. Paragraph five mentioned that General

1 Khatami had opposed the issuance of an operating license to the
2 company formed by Mr. French and Mr. Steinheil and states that
3 a factual monopoly had been created for Heli-Taxi and Air Taxi
4 permitting them to operate without competition at a high price
5 and it referred to General Raffat as having suggested the
6 payment of a percentage of operations to Heli-Taxi. It stated
7 on one occasion General Raffat went so far as to threaten
8 Mr. Steinheil with the deportation of Mr. French from Iran. I
9 think that's the principal connection with relation to General
10 Khatami.

11 Q What's the date of that document?

12 A 26 April, 1966.

13 Q And it's a chronology of events written by whom?

14 A By Mr. Steinheil.

15 Q By Mr. Steinheil who was at that time a business
16 association I believe of Mr. French, or at least an associate?

17 A Yes, that's right.

18 Q What other document did Mr. French bring to your
19 attention at that time? In other words, what I want to do is
20 try to establish for the record the documents that Mr. French
21 presented to you that backed up the incidents that he was
22 representing to you.

23 A All right. I have already mentioned this registration
24 document that was attached to the aid memoir. Also attached
25 to it was a sheet which is labeled "Dunn, Bradstreet Information

1 for Heli-Taxi." Then there was a copy of a letter dated
2 July 22, 1966 which Mr. French brought with him which was
3 addressed to the Air Taxi Company at Meribad Airport in Tehran,
4 Iran, by the Cessna Aircraft Company referring to their contact
5 and request for spare parts for Cessna aircraft and stating that
6 Mr. French was the representative for Iran and they should
7 contact him.

8 He also brought a copy of a letter dated April 10, 1966
9 addressed to International Helicopter Consultants, Inc., in
10 Tehran, signed by a Mr. McFarland as overseas projects
11 administrator for Geotronics, a division of Teledyne, Inc.,
12 which was a company which Mr. French had been doing business
13 with and they were stating in essence in this letter that they
14 had been contacted by certain personnel in Iran and they had
15 concluded that it was hazardous to do business with Mr. French's
16 company, therefore they were ceasing to carry out their contract
17 with him.

18 Q Did Mr. French give you any indication of who the
19 people were who were referred to in that letter that were
20 making it hazardous for him to do business?

21 A Mr. French told me he had been informed it was
22 General Raffat who had contacted Geotronics and told them
23 General Khatami was opposed to their method of operation.

24 He also brought a letter dated July 14, 1966 addressed
25 to him in care of the American Embassy at Beirut signed by

1 Nicholas G. Thacher, Minister Counselor, and it shows that it
2 came from Tehran.

3 He also brought a copy of a letter that he had addressed--
4 with some enclosures -- to Mr. Raymond A. Hare, Assistant
5 Secretary for Near Eastern-South Asian Affairs at the White
6 House, dated August 24, 1966.

7 Q Does that document contain any reference to General
8 Khatami and the Air Taxi situation?

9 A Yes, it does. It contains Mr. French's assertions of
10 his understanding that General Khatami was the major stock-
11 holder in Air Taxi and that he was a stockholder but not of
12 record in Heli-Taxi. It also contains a general resume of
13 various other positions held by General Khatami which included
14 Commander of the Imperial Air Force, Chairman of the Board of
15 the High Council of Civil Aviation, and I don't now recall if it
16 has other designations or not.

17 Mr. French also provided me with a copy of a letter
18 written by J. G. Laylin on Aviation Development Consultants
19 stationery at the time when I understand Mr. Laylin was employed
20 by Mr. French which letter was written to Duane L. Wallace,
21 President of the Cessna Aircraft Company, dated 1 April, 1961,
22 in which letter it is stated that General Khatami is Air
23 Marshal, Commander-in-chief of the Imperial Iranian Air Force,
24 and 20 percent owner, according to the U.S. Department of
25 Commerce, of an air taxi company with exclusive rights in Iran.

1 He also provided me with the original of a letter
2 dated March 17, 1964 addressed to International Helicopter
3 Consultants, Inc., from Mr. Diehl, Manager of Service for Bell
4 Helicopter Company, informing International Helicopter
5 Consultants that they understand that the sales department has
6 appointed International Helicopter Consultants, Inc., as
7 Bell's representative for Iran.

8 He also provided me at a later date, not at this
9 time, with a copy of a Bell Helicopter franchise dated
10 January 1, 1965, granting his company the right to represent
11 Bell Helicopter in Iran.

12 Q Now I'd like to mark these as exhibits for the
13 record if I may, as 84A through 84J.

14 (Whereupon, the documents were marked for
15 identification as Exhibit Nos. 84A
16 through 84I.)

17 BY MR. MARINACCIO:

18 Q Now the exhibits that you referred to as having been
19 received from Mr. French at that time of the first meeting have
20 been numbered 84A through I. Exhibit 84J is a manufacturer's
21 form representative agreement which you say you received at a
22 later time.

23 A That's correct.

24 Q Now at the time of your first meeting did Mr. French
25 -- what did Mr. French first mention to you or what was your

1 understanding at that time of his representation for Bell
2 Helicopter in Iran and what, if any, impact the allegations that
3 General Khatami was trying to move him out of the country would
4 have on his representation of Bell Helicopter in Iran?

5 A Well, he stated that he was the Bell Helicopter
6 representative as well as the Cessna representative for Iran.
7 He actually at that point was more concerned I believe about
8 the Cessna dealership than anything because there were
9 some immediate requirements for spare parts for the Iranian
10 Gendarmerie that had been delayed by his expulsion from the
11 country. He was, however, concerned that if he could not arrive
12 at a resolution of his problem that both Cessna and Bell
13 Helicopter would terminate his representation, his franchises.

14 Q Now following that conversation with Mr. French when
15 he made known his problems to you with General Khatami, what
16 did you then do as his lawyer in effect for that matter?

17 A My initial reaction to the story he told me was one
18 of disbelief. I had not been exposed to international dealings
19 at that point. I had not been exposed at all to Iran and it
20 seemed incredible to me that someone so closely related to the
21 Shah would engage in such activities and I told Mr. French
22 this. Whereupon he asked me to accompany him to Washington for
23 which he would pay me for my time to visit the State Department
24 and he told me that State Department personnel would confirm
25 his story.

1 So I accompanied him to Washington.

2 Q Did he make the appointment with the State Department
3 people in Washington or did you make the appointment?

4 A I don't think he did. I think we came to Washington
5 together and I believe I called the State Department and
6 identified myself as an attorney representing Mr. French and
7 requested an appointment to speak to them about his problems in
8 Iran.

9 I then received a call back at the hotel from a
10 Mr. Mulligan who stated that he was, I believe, an assistant
11 on the Iran desk, and he gave us an appointment I think for the
12 following day. It was about September 8th or 9th of '66, along
13 in there.

14 At the time of the appointment we went to the State
15 Department, Mr. French and I, and met with a Mr. Elliott who
16 identified himself as being the man newly placed in charge of
17 the Iran desk at the State Department in Washington and Mr.
18 Mulligan, his assistant, and a woman lawyer whose name I didn't
19 take down and don't recall. After they ascertained that I was
20 not engaged in any particularly illegal matter as distinguished
21 from other kinds of problems, the woman lawyer took no part in
22 the discussions.

23 I stated to Mr. Elliott and Mr. Mulligan --

24 Q Legal matter in what sense? In the sense you didn't
25 have a claim against the State Department or something like that?

1 A Yes.

2 Q I see.

3 A I told them that Mr. French had come to me with this
4 story which I frankly found incredible and I would like to
5 relate the story to them as Mr. French had related it to me and
6 have them either confirm or deny each part of it and told them
7 that I recognized that portions of it might involve matters
8 which would be classified or relate to the national security
9 and if so if they would just say that was the case I wouldn't
10 press the matter and I started through Mr. French's recitation
11 which was basically that --

12 Q And at that point there was present Mr. Elliott,
13 Mr. Mulligan, yourself, and Mr. French?

14 A And the woman lawyer.

15 Q And the woman.

16 A She wasn't really saying anything but she was present
17 throughout the entire inquiry.

18 Q I believe you said the meeting was on either
19 September 8th or 9th, about that period of time?

20 A In that vicinity, yes.

21 Q And did Mr. Elliott at that time tell you anything
22 more about his familiarity with Iran?

23 A Well, when I concluded my recitation he stated, "All
24 of what you have said is exactly correct and I know it because
25 I just came from a tour of duty at the American Embassy in

1 Tehran and I have personal knowledge of all of these things."

2 Q I see. So let's go back to what the story that you
3 best recall relating to them at that time was.

4 A All right. My recitation to them commenced with an
5 identification of the fact that Mr. French had gone to Iran
6 some time before and had engaged in aircraft operations from
7 time to time and that he had acquired a Cessna dealership and
8 that he had subsequently acquired a Bell Helicopter dealership;
9 that at the time there were only two companies supposedly
10 authorized to operate or sell aircraft in Iran; that was Air
11 Taxi and Heli-Taxi; and that they were both partially owned and
12 controlled by General Khatami, the Shah's brother-in-law; and
13 that he was insisting upon maintaining an absolutely monopoly
14 in Iran of all aircraft operations and sales; that Mr. French
15 had attempted to operate under the agency of various foreign
16 contractors who were doing work in the country and had managed
17 successfully to do so for a considerable period of time before
18 his company apparently started making enough money to attract
19 General Khatami's attention at which time Mr. French was warned
20 by General Rifaat who was one of General Khatami's messenger
21 generals, that he would have to give a substantial portion of
22 his business to General Khatami in order to continue to do
23 business in Iran.

24 Upon receiving that warning Mr. French consulted with
25 personnel at the American Embassy and told them this story and

1 was advised that he couldn't do that because that would be an
2 illegal bribe. This coincided with Mr. French's previously:
3 held views and he thereupon sent the message back to General
4 Khatami through General Rafaat that he would not do this. I
5 think he might have expressed it in less gentile terms than
6 that. He was then told that if he persisted in that General
7 Khatami would run him out of the country and his reply had
8 been they couldn't do that to him; he was an American citizen.
9 He, however, has subsequently discovered that they could do
10 that to American citizens in Iran, and that was the present
11 posture of the situation.

12 I believe I mentioned also Mr. French's wife and two
13 daughters were still in Tehran. I think that was the general
14 substance of what I related and what was confirmed by Mr.
15 Elliott.

16 Q So you related that to Mr. Elliott and Mr. Mulligan
17 in the presence of Mr. French and this woman lawyer and then
18 what did Mr. Elliott say and what did Mr. Mulligan say?

19 A As I previously stated, Mr. Elliott informed me about
20 his previous tour of duty in Iran and that he was familiar with
21 these things and that they were all exactly correct. I then
22 said, "Well, General Khatami has made up these charges against
23 Mr. French of conducting illegal flights in his Cessna 180
24 and it's my understanding of Iranian law that it is pretty much
25 what the Shah says it is and accordingly I would be very

1 reluctant to have Mr. French go back and stand trial before an
2 Iranian court. Mr. Elliott said he agreed with that assessment
3 on my part.

4 I then inquired what Mr. Elliott would recommend that
5 we do under the circumstances. Mr. Elliott said since it
6 appeared that a large part of this problem originated because
7 of Mr. French's intransigent attitude and refusal to accommodate
8 himself, as most businessmen must, to the varying mores and
9 customs of the country in which he was operating, and since it
10 appeared that I, as an attorney, had a more pragmatic view of
11 the world, perhaps it would be advisable for me to go to Iran
12 and negotiate on Mr. French's behalf directly with General
13 Khatami.

14 Mr. French indicated that he would like to have me do
15 that and would be willing to employ me to do so.

16 Q At that meeting?

17 A At that meeting. And I stated that I would be willing
18 to do so if I were assured of two things. The first was, being
19 unfamiliar with even what Iran conceives their law to be, I
20 wanted to be assured that the fact that they had pending
21 charges of a criminal nature against my client would not be
22 held against me as his representative if I appeared in their
23 country; and, second, that when I got ready to leave Iran if I
24 was delayed even for ten minutes they would send a whole
25 battalion of marines after me. They assured me that they

1 thought this was possible but they would contact the embassy
2 in Tehran and would be back in touch with me. They requested
3 in the meantime that I return to Wichita, Kansas and await word
4 from them and I did that.

5 Q And when you say "they," I take it that Mr. Mulligan
6 by his behavior and comments and so on was concurring in what
7 Mr. Elliott was saying?

8 A It appeared to be the case.

9 Q So was there anything else that transpired at that
10 meeting or was that the end of the meeting?

11 A That was the end of the meeting.

12 Q And then you went back to Wichita, Kansas as you
13 indicated?

14 A Yes.

15 Q And where did Mr. French go?

16 A It was my understanding that he proceeded more or
17 less directly to Beirut. He might have stopped at a place or
18 two enroute, although I'm not sure.

19 Q Which was where he was basing his operations at that
20 time, having been denied entrance into Iran?

21 A That's correct.

22 Q What happened next?

23 A Well, on September 22, 1966 I received a telephone
24 call from Mr. Mulligan of the State Department. I made
25 penciled notes on a yellow sheet that I keep on my desk which

1 I have abstracted from the file and have here with me and Mr.
2 Mulligan informed me that they had received a cable from Tehran.
3 He said the question of my visit had been discussed with General
4 Khatami and Mr. Arbabi, whom I was told was the Director General
5 of Civil Aviation, and that they were both willing to see me.
6 He said that Arbabi had stressed that I should not undertake --
7 no -- what he said was he stressed that they would not undertake
8 any steps to defer action in legal proceedings against Mr.
9 French but they had no objection to my coming.

10 Mulligan said that Khatami suggested that I have
11 discussions with Dr. Safavi who is the legal adviser of the
12 High Council of Aviation. Mulligan also stated that meanwhile
13 the embassy will doublecheck with Safavi --

14 Q This was a telephone call to you on September 22, 1966
15 from Mr. Mulligan?

16 A That's right.

17 Q Did Mr. Mulligan relate to you the names of the
18 individuals that he had contacted in the U.S. Embassy in Tehran
19 at that time or did he just tell you that he had these cabled
20 messages back and forth and this was what you were to do?

21 A He did not give me any indication of who had been
22 contacted in the embassy in Tehran.

23 Q I would like to have this document marked for the
24 record as Exhibit No. 85.

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25

(Whereupon, a document was marked for
for identification as Exhibit No. 85.)

1 BY MR. MARINACCIO:

2 Q I ask you to review this document. It's a copy of a
3 document that you made available to the Committee and I ask you
4 if that is or is not a copy of the notes that you transcribed
5 contemporaneously with the telephone call being made to you by
6 Mr. Mulligan?

7 A It is.

8 Q And would you read the last sentence of your notes?

9 A The last sentence is -- the last two sentences are:
10 "Khatami suggested discuss with Dr. Safavi who is legal adviser
11 of High Council of Aviation. Meanwhile embassy will doublecheck
12 with Safavi."

13 Q So these notes indicated that somebody apparently had
14 talked to General Khatami himself?

15 A Yes.

16 Q Was that your understanding of the conversation with
17 Mr. Mulligan?

18 A It was my understanding that some unnamed person at
19 the U.S. Embassy in Tehran at that time had talked to General
20 Khatami.

21 Q After that phone call on September 22, 1966 from
22 Mr. Mulligan, what happened next?

23 A They had indicated they were going to make further
24 contact with Iran and on September 28, 1966 I received another
25 telephone call from Mr. Mulligan and I also made notes in my own

1 handwriting during that phone conversation and Mulligan told me
2 that they had contacted Safavi who was attorney for and vice
3 president of the High Council of Aviation and that he would be
4 most happy to meet with me and discuss the case against Mr.
5 French. Mr. Mulligan stated that someone named Newbury, who
6 was unknown to me but who was related by Mulligan to be of the
7 State Department, just returned from Tehran and stressed that
8 I should be careful in performing any legal acts in behalf of
9 French other than information gathering.

10 Mulligan said the embassy feels that there might be
11 hope for French continuing in business in Iran as Khatami is
12 not vindictive, although somewhat put out. He asked that I
13 contact Robert Harland first in the embassy in Tehran if
14 possible and that I ask the embassy in Beirut to notify the
15 embassy in Tehran that I'm coming and when.

16 After our phone conversation I made some subsequent
17 notes on this same sheet of paper of the name of an attorney I
18 looked up in an international legal directory and of the address
19 of Mr. French's Lebanese lawyer, Said Nahkle.

20 Q At that time did Mr. Mulligan mention to you the names
21 of any individuals at the U.S. Embassy in Iran that he had
22 contacted with respect to this matter?

23 A No, he didn't.

24 Q I'd like to have a document marked for the record
25 as Exhibit 86.

1 (Whereupon, a document was marked for
2 identification as Exhibit No. 86.)

3 BY MR. MARINACCIO:

4 Q This is a copy of your handwritten notes that you made
5 available to the Committee and I'd like you to identify that
6 document, Exhibit No. 86, and ask you if that is a copy of the
7 notes that you transcribed contemporaneously with that conver-
8 sation with Mr. Mulligan on September 28, 1966?

9 A Yes, it is.

10 Q Now after the conversation with Mr. Mulligan on
11 September 28, 1966, what happened next?

12 A I shortly thereafter received my passport and in
13 company with my wife started overseas. We made an initial stop
14 in London, went to Beirut where I spent roughly a day and a
15 night conferring with Mr. French and receiving the names of
16 persons to contact while in Tehran, and then went to Tehran.

17 Q What was the date of that trip?

18 A It was in October of 1966 and I don't now recall the
19 exact day in October. Upon arrival in Tehran I contacted
20 Mr. Harland of the embassy.

21 Q Had you been told to contact Mr. Harland by Mr.
22 Mulligan?

23 A Yes, I had.

24 Q And who was Mr. Harland?

25 A Mr. Harland, as I understood it, was the commercial

1 attache or economic attache. I'm not sure of the exact title.
2 That was the general nature of his activities as he informed me.
3 He stated that he was relatively new in Tehran and did not have
4 personal familiarity with all of the history of Mr. French's
5 problem, although I gathered from his conversation that it was
6 a matter of wide discussion among embassy personnel and was
7 relatively well known by those who had been present.

8 Mr. Harland made an appointment for me to see Dr.
9 Safavi. We then went to confer with Mr. Thacher and I believe
10 Mr. Herb Ferguson of the American Embassy at which time we
11 discussed --

12 Q This was the same day you went to Harland's office?

13 A Yes, kind of went from one office to another and had
14 brief conferences.

15 Q Would you tell us who Mr. Thacher and the other
16 individuals were to the best of your recollection?

17 A Well, I never was exactly sure what their exact
18 titles were. Mr. Thacher I had noticed on some previous
19 correspondence to Bill French had indicated himself as a
20 minister-counselor or some such thing, and I was told what Mr.
21 Ferguson's position was but I just don't recall it and I didn't
22 make an independent note of it.

23 In all of the discussions with Mr. Ferguson and Mr.
24 Thacher I generally reviewed the situation that had been
25 related to me by Mr. French and how I had come to arrive in
Tehran on his behalf.

1 Q Including General Khatami and the Air Taxi?

2 A Yes, although I should say that nobody ever seemed to
3 be at all surprised at any indication that General Khatami was
4 at least a part owner and controller of both Air Taxi and Heli-
5 Taxi. That just seemed to be a matter taken for granted by
6 everyone.

7 Q In other words, you would mention this to individuals
8 at the embassy and they would just behave as if they recognized
9 that to be the case; is that what you're saying?

10 A That's correct. I would not be able to say that they
11 affirmatively stated, yes, that's true; but they just acted
12 as though it were an accepted fact.

13 They mainly were counseling me as to what method of
14 approach they thought I should take when I did eventually see
15 General Khatami and they were telling me such things as, for
16 example, I asked if General Khatami's command of the English
17 language was excellent or poor or somewhere in-between to try
18 and decide whether I would need an interpreter. They assured
19 me that his command of the English language was very good. They
20 also restated what Mr. Mulligan had earlier told me about
21 General Khatami being a man who could be negotiated with and
22 although he was personally unhappy with my client, Bill French,
23 they felt that he was not an unreasonable man.

24 A day or two later I kept my appointment with
25 Dr. Safavi and at that meeting Dr. Safavi identified himself --

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1 Q Can I just interrupt. I have a question on this
2 point. You had mentioned Khatami's ownership interest in Air
3 Taxi to these embassy officials. Did you have an understanding
4 at that time of Iranian law respecting the correctness or
5 incorrectness of government officials owning interests in
6 business that had dealings with the government?

7 A Yes. Mr. French had told me that originally General
8 Khatami's name had appeared as an owner of record in at least
9 one of these companies and that subsequently the Shah had
10 adopted laws indicating that Army officers, armed forces
11 officers in Iran should not own such interests and that thereupon
12 the registrations had been changed so that General Khatami's
13 interests were not a matter of record.

14 Q In which companies are you referring? You said
15 "these companies."

16 A Air Taxi and Heli-Taxi.

17 Q Okay. Did that subject come up at all with the State
18 Department people at that time?

19 A I don't believe it did.

20 Q Okay. Would you continue with your meeting with
21 Dr. Safavi, who was present? Did Mr. Harland come with you?

22 A No, he did not.

23 Q He just made the appointment?

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25

A Yes, and actually Dr. Safavi sent his driver to the
25 hotel to pick me up and take me to his office and the only

1 persons present were Dr. Safavi and myself.

2 Q This was in October of 1966?

3 A Yes, in October of '66. Dr. Safavi stated that he
4 was a member of the High Council of Civil Aviation and that he
5 was speaking on behalf of General Khatami. He then told me a
6 little of his professional background and stated some inter-
7 national societies that he belonged to and engaged in some
8 general conversation while we had a cup of tea, as appeared to be
9 the local custom.

10 Q Did you open up the conversation and tell him why
11 you were there or did he know why you were there and he opened
12 up the conversation with this general --

13 A He opened the conversation.

14 Q He opened the conversation?

15 A And appeared to know why I was there. After some
16 preliminary conversation of the sort I've just described, he
17 then launched into a description of what a terrible man my
18 client, Bill French, was for having committed all these awful
19 crimes of flying a Cessna 180 without previous permission and of
20 having flown it out of and back into Iran without permission
21 and having landed at unauthorized places in Iran, all of which
22 he said were very serious criminal charges in Iran.

23 I told him that I was not here to go into the question
24 of whether or not Mr. French had committed any acts which were
25 crimes in Iran, but while we were on the subject I would like

1 to inquire whether the charges were against Mr. French personally
2 or against his companies because I was interested in seeing what
3 could be done to permit his companies to continue to operate in
4 Iran. Dr. Safavi replied that the charges were against Mr.
5 French personally and that in Iran they welcomed his companies
6 doing business and they always enjoyed having American companies
7 doing business in Iran and he made quite a long speech about
8 how much Iran liked the Americans and their companies and how
9 much they enjoyed doing business with them.

10 I then told Dr. Safavi that since both he and I as
11 attorneys were practical men of affairs I thought it was up to
12 us to arrive at some method by which Mr. French's companies
13 could continue to do business in Iran. Dr. Safavi said that
14 there certainly was a way and it would involve the formation
15 of an Iranian corporation which would be owned to the extent of
16 at least 51 percent by Iranians.

17 At that point I said Mr. French had tried to do that
18 previously with his Iranian business associate Mr. Steinheil.
19 Dr. Safani's reply was, "Well, Mr. Steinheil was not a real
20 Iranian."

21 Q With reference to Steinheil and the Iranian corporation
22 at that time, was that to Helo Corporation?

23 A Yes.

24 Q Now during this discussion did Dr. Safani indicate
25 that he was familiar with the names of Mr. French's companies,

1 International Helicopter and that his companies represented
2 Bell Helicopter and Cessna?

3 A Yes, he did.

4 Q He did indicate that?

5 A Yes.

6 Q So when he's referring to "his companies" he's
7 really talking about the Bell Helicopter agency and the Cessna
8 agency?

9 A Well, yes. We discussed that because I brought the
10 point up to be certain that Dr. Safavi understood that there
11 were two companies principally owned by Mr. French. One was
12 Aviation Development Consultants which held the Cessna franchise
13 and the other was International Helicopter Consultants, Inc.
14 which held the Bell Helicopter franchise.

15 So Dr. Safani, after telling me that French's previous
16 attempt had not worked because his partner was not a real
17 Iranian, said that he would be glad to be of service in forma-
18 tion of an Iranian corporation and that he would charge, in
19 addition to the necessary expense money for one to pay "bashees"
20 to the clerks in the central office, he would charge 500 English
21 pounds.

22 Q "Bashees" being a gift or whatever that you had to
23 give?

24 A It was a Persian term they used for what we probably
25 would call small bribes.

1 Q So-called "grease" payments?

2 A Yes. They also under some occasions I think in our
3 culture would be called tips. At any rate, he also said since
4 I was an attorney and was instrumental in this business coming
5 to him, he would split his formation fee 50-50 with me. I
6 didn't demur to that because later on I told Mr. French that
7 since he had already retained me he was thus able to obtain
8 Dr. Safavi's services for half price. Dr. Safavi also said that
9 he would serve as the nominee holder of the 51 percent of the
10 company and that he would be the nominee on behalf of certain
11 members of the High Council of Civil Aviation. He did not
12 state exactly which members.

13 He wanted the initial capitalization of the company
14 to be one million Iranian riels which at that time was something
15 over \$13,000.

16 We discussed the potential name of such a company
17 and after being informed by Dr. Safavi of the meaning of certain
18 terms in Parsi, which is the Iranian language, we more or less
19 settled on Skerkat Sahami Tayar Pars.

20 Q So-called STP?

21 A Yes, which would be called STP for short. At this
22 point I had not yet agreed however to proceed. We were merely
23 laying the groundwork.

24 I told Dr. Safavi it would be necessary for me to
25 return to Beirut and secure authorization from my client to

1 engage in the formation of such a company.

2 Q And who was going to put up the \$13,000 that you
3 referred to?

4 A Mr. French was to put up all of it, including the
5 fees for the formation of the company as well as the capitali-
6 zation. That was about the end of our conference.

7 Q I see. Now I have some specific questions that I
8 want to direct your attention to. You mentioned a 51 percent
9 ownership in STP as being 51 percent to be owned by the
10 Iranians. Who was to hold the other 49 percent?

11 A Okay. We agreed thsa the two companies, Aviation
12 Development Consultants and International Helicopter Consultants,
13 would own the other 49 percent and I don't now recall without
14 looking at my file which company was to own 25 percent and which
15 company was to own 24 percent, but that was roughly how we
16 decided to do it.

17 Q And those are two companies that are owned 100 percent
18 by Mr. French?

19 A By Mr. French and his wife.

20 Q Now you mentioned that Dr. Safavi said that 51 percent
21 was to be held by him, Dr. Safavi, as a nominee for certain
22 members of the High Council of Civil Aviation in Iran?

23 A Yes.

24 Q Did you at that time know who the members of the High
25 Council of Civil Aviation were and was General Khatami a member
of that High Council?

1 A I didn't know who all of the members were but I did
2 know that General Khatami -- or I had been told that General
3 Khatami was the chairman of the board of the High Council, so I
4 assumed he was a member.

5 Q Now did the name General Khatami come up at all in
6 that initial conversation with Dr. Safavi?

7 A Oh, yes.

8 Q All right. Would you tell us how it came up and what
9 was the discussion about General Khatami at that time?

10 A Well, in the initial part of the discussion Dr. Safavi
11 identified himself as speaking for General Khatami. I think at
12 some point during the discussion he also mentioned the fact
13 that General Khatami controlled aviation in Iran and I believe
14 that his control of Air Taxi and Heli-Taxi was mentioned by
15 Dr. Safavi, although not extensively. I think it was just as
16 an indication of the kind of control that General Khatami had.

17 Q By "control," you mean an ownership interest or was
18 it unspecified at that time?

19 A It wasn't specified.

20 Q It wasn't specified at that time. Now after that
21 conversation with Dr. Safavi -- excuse me, I have one more
22 question on that.

23 At that time was there any discussion with Dr. Safavi
24 as to how commissions on sales of either Bell helicopters or
25 Cessna aircraft by Mr. French's two companies were to be

1 handled? In other words, what was the real principal purpose
2 of the establishment of STP?

3 A Well, at that particular meeting I don't believe we
4 discussed any mechanics.

5 Q I see.

6 A It was brought up later but it was not brought up at
7 that meeting. There was just the understanding that all sales
8 in Iran were to go through STP, but we didn't discuss any
9 mechanics.

10 Q But it was understood the basic understanding of the
11 conversation I take it, from what you're saying, is that all
12 sales of Bell helicopters and Cessna aircraft had to go through
13 STP?

14 A That's right.

15 Q Now after that initial conversation with Dr. Safavi
16 in October of 1966, what happened next?

17 A Well, at that time it was impossible to make a
18 telephone call from Tehran to Beirut so I got on the airplane
19 and flew back to Beirut and spent approximately a weekend con-
20 ferring with Mr. French concerning this proposal.

21 Mr. French elected to proceed with the formation of
22 STP and we both thought it was particularly appropriate because
23 that stood for an American product which meant that you had
24 the "grease" in. I went back to Tehran --

25 Q Could you discuss that a little bit? You and

1 Mr. French discussed the matter of having to "grease" in the
2 sense of what; that there was a General involved in the program?
3 Could you explain it?

4 A That General Khatami who had a monopoly of all aircraft
5 sales and operations in Iran was going to get his 51 percent or
6 whatever part of that he wanted of all sales and operations of
7 aircraft in Iran and this was the slick to make it work so you'd
8 have sales, and we made a joke out of it of course.

9 Q Did you and Mr. French think or talk about whether or
10 not more business might be coming your way because of the
11 Khatami connection?

12 A We did. We anticipated that the amount of business
13 should improve or increase substantially because of a connection
14 with General Khatami.

15 Q For the sale of either helicopters or Cessna aircraft
16 or both?

17 A For both, plus operations, both fixed-wing and rotary,
18 because there were a number of companies doing business in Iran
19 that needed aircraft support activities who were extremely
20 reluctant to use Iranian aircraft for their operations because
21 they didn't have that kind of confidence in the native trained
22 pilots and mechanics that they did in American aviation
23 personnel. So a great many companies were not using aircraft
24 and helicopter support who really would prefer to have it but
25 they had been blocked from using American companies because of

1 the General's companies. We anticipated we would be able to
2 secure their business.

3 Q When you say "the General's companies," you mean
4 General Khatami?

5 A General Khatami and Air Taxi and Heli-Taxi.

6 Q So after conferring with Mr. French subsequent to the
7 meeting with Dr. Safavi, what happened next?

8 A I returned to Tehran and asked the American Embassy
9 to make an appointment for me to see General Khatami.

10 Q Who did you talk to at the American Embassy?

11 A I think, again, Mr. Harland.

12 Q Did you tell Mr. Harland of the results of the con-
13 versation you had with Mr. Safavi and did you report to Mr.
14 French?

15 A Yes. I believe I told Mr. Harland. I think I also
16 told Mr. Thacher. I don't recall having told Mr. Ferguson.
17 Now I believe I told Harland and Thacher about the result of the
18 Safavi conversation before I went to see Mr. French in Beirut.
19 I did tell them that I was going to see him to obtain his
20 authorization.

21 So when I returned to Tehran then, I believe I
22 just had a short conversation on the phone with Mr. Harland in
23 which I requested that he obtain an appointment for me to see
24 General Khatami because I wanted to be certain that Dr. Safavi
25 was speaking on behalf of General Khatami with respect to all

1 of this. He secured the appointment for me and I was taken to
2 what I presume was an Air Force building.

3 Q Who took you?

4 A It was a driver I believe from General Khatami's
5 staff, and I did see General Khatami. He was in uniform at
6 the time.

7 Q Was he a four-star General or do you remember the
8 number of stars?

9 A I don't remember how many stars. There were a lot.

10 Q He had a lot of stars on his shoulders?

11 A Yes, but I didn't stop to count them. He was very
12 cool in his attitude toward me.

13 Q What color are their uniforms?

14 A It was kind of a light blue. It looked very similar
15 to I think an American Air Force uniform in color and I told
16 General Khatami that I had already spoken to Dr. Safavi as he
17 had instructed and that Dr. Safavi had suggested that Mr.
18 French's companies could continue to do business in Iran if we
19 formed a Persian corporation he called Skerkat Sahami Tayar
20 Pars in which Dr. Safavi would hold 51 percent of the shares as
21 a nominee for certain members of the High Council of Civil
22 Aviation.

23 I asked him if Dr. Safavi was speaking for him and
24 General Khatami said, "He is." I said, "Very well. We will
25 form the corporation then." Then I said the other problem is

1 Mr. French's personal problem of returning to the country. I
2 told General Khatami that Mr. French did not wish to return to
3 Iran to live but that he would like to receive permission to
4 come back to assist his wife and daughters in moving from
5 Tehran to Beirut and that he would like to be able, if this
6 business worked well, to come in from time to time, maybe stay
7 a week or so at a time, just to check up on business matters
8 and technical matters and see how they were going. General
9 Khatami replied that that was impossible, that Mr. French had
10 so insulted the Shah and him in his communications to the
11 President of the United States and the Secretary of State and
12 Members of Congress of the United States that he would never be
13 allowed to set foot in Iran again.

14 There wasn't anything else for us to discuss and I
15 thanked the General and left.

16 Q So you left with the understanding, with the word
17 from General Khatami, that Dr. Safavi would be speaking for
18 him in these matters?

19 A That's right.

20 Q Now did the name Bell Helicopter or Cessna ever come
21 up in the conversation specifically with General Khatami?

22 A It did not.

23 Q Did you discuss with General Khatami the purpose
24 of the setting up of STP or did he indicate an understanding
25 of what the purpose of STP was?

1 A Yes. He understood that it was to permit Mr. French's
2 companies to operate in Iran and for the money that they made
3 from such operations to go 51 percent to whomever Dr. Safavi was
4 the nominee for.

5 Q Did General Khatami at that time admit to you that
6 he was one of Dr. Safavi's specific nominees for the shares in
7 STP?

8 A He didn't say that in so many words. Our conversation
9 really was fairly short and I have related almost all of it.

10 Q Did he give you an indication by his behavior and
11 demeanor and his words and conversation that he had understood
12 the conversation that you had with Dr. Safavi and he was giving
13 you his approval of that?

14 A That's what I took it to mean, yes.

15 Q Was there anybody else present besides yourself and
16 General Khatami at that time?

17 A No. We were served tea by some apparently sergeant
18 I think or something just briefly, but he wasn't there while
19 any of the conversation occurred.

20 Q And the meeting you say lasted a few minutes. What
21 would that be, 15 minutes or half an hour?

22 A Maybe 20 minutes or half an hour.

23 Q After you left what did you do next?

24 A I then made another appointment to see Dr. Safavi.

25 Q Did you report back to the embassy of your meeting

1 with General Khatami, if you recall?

2 A I don't recall whether I talked with the embassy again
3 at that point or not. I made an appointment to see Dr. Safavi
4 and all these appointments always took two or three days to
5 arrange. Nothing ever happened like it does in this country.
6 It's a slow process. Then in the next meeting with Dr. Safavi
7 again he and I were the only ones present. I told him that I
8 had been authorized by my client to undertake the formation of
9 STP and I would secure the necessary funds for him upon my
10 return; that I needed to know what he needed and he gave me a
11 long detailed list of items that he wanted included in a special
12 power of attorney to authorize the formation of this company.

13 I made lengthy notes of those and later after I
14 returned to Beirut I typed up the special powers of attorney
15 and sent them to him under cover of a letter dated October 22,
16 1966.

17 (Whereupon, documents were marked for
18 identification as Exhibit Nos. 87A
19 and 87B.)

20 BY MR. MARINACCIO:

21 Q Let me show you a document which is marked as
22 Exhibit No. 87A and 87B, 87B being the attachment, and show
23 you these exhibits and ask you to identify them.

24 A 87A is my file copy of the letter that was actually
25 physically typed by Mr. French and which I mailed to Dr. Safavi
from Beirut.

1 87B is the special power of attorney of International
2 Helicopter Consultants, Inc. which was one of the enclosures
3 to that letter.

4 Q And the special power of attorney you drafted as a
5 result of the conversation you had with Dr. Safavi and these
6 reflect the things that I believe you said he wanted?

7 A That's exactly right.

8 Q Could you give us a brief description of what's in
9 here?

10 A Okay. He was authorized to do all things necessary
11 to incorporate an Iranian corporation to be called Skerkat
12 Sahami Tayar Pars, a company to have an initial capital of
13 one million riels. He was authorized to prepare the statutes
14 of the company, to sign all registration documents and do
15 things like that; define that the company was to have as its
16 subject the selling and maintaining of light aircraft and
17 helicopters and engines, spare parts and accessories therefor;
18 that the company was to have an unlimited duration; that the
19 shareholders were to be 51 nominal shares for Dr. Hassan Safavi
20 or his nominees, 24 nominal shares for International Helicopter
21 Consultants, Inc., 25 nominal shares for Aviation Development
22 Consultants, Inc.; that all shares of the corporation are to be
23 nominative and that the shares belonging to International
24 Helicopter Consultants and Aviation Development Consultants
25 could not be transferred without the prior approval of the

1 other shareholders but that the shares belonging to Dr. Safavi
2 or his nominees could be transferred at any time without the
3 approval of the other shareholders.

4 Q Now what was the purpose of that distinction in the
5 ability for Safavi to transfer his shares and the inability of
6 International Helicopter to transfer its shares?

7 A My understanding of the purpose was that they didn't
8 want anybody but our companies to own the shares that we were
9 to have but they wanted to be able to freely transfer shares on
10 their end of it to make whatever allocations that General
11 Khatami might decide should be made and to keep it available to
12 him to change that allocation from time to time.

13 Q And Mr. French was to supply the total capitalization
14 of the new company?

15 A That's correct, and he ultimately did.

16 Q How much did he ultimately provide for the capitali-
17 zation of the company?

18 A I don't have the exact figure in front of me but it
19 was a figure in excess of \$13,000, in addition to the expenses
20 of the formation of the company.

21 Q Now you sent this to Dr. Safavi?

22 A Yes.

23 Q And did you ultimately receive his approval for this?

24 A Yes. I received word from Dr. Safavi the first of
25 the next year that the corporation had been successfully formed

1 and was ready to commence business.

2 Q And there was no change in the special power of
3 attorney during that interim period?

4 A No.

5 Q You and Mr. French had signed the document?

6 A That's correct.

7 Q And sent it on to him? I believe Mr. French probably
8 would have signed the document, a power of attorney.

9 A Mr. French probably signed as president. I might have
10 attested as an assistant secretary or secretary. I don't recall
11 which of those corporate offices I held at that time.

12 Q Did you become an officer and have any position in
13 any one of those three companies?

14 A Yes. I was an officer in both Aviation Development
15 Consultants and International Helicopter Consultants. I never
16 was an officer in Skerkat Sahami Tayar Pars.

17 Q What position did you occupy in those companies?

18 A In both of those companies I was a vice president
19 and at various times I was either secretary or assistant
20 secretary.

21 Q This is over what period of time?

22 A This is over a period of time commencing probably
23 a year or two after their formation respectively. They weren't
24 both formed at the same time.

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25 Q This was somewhere -- an approximate date -- in the
early '60s?

1 A In the early '60s.

2 Q But you did not have an ownership interest in either
3 of these companies?

4 A No, I did not.

5 Q That was held I believe you said by Mr. French and
6 his wife?

7 A That's correct.

8 Q Now after having come back to your law firm in Kansas
9 and sent this power of attorney off to Dr. Safavi, what did you
10 do next?

11 A I attempted to report on my trip to Mr. Jack Zuke
12 who was export sales manager at Cessna and he was out of the
13 country as I recall on a prolonged trip. I wasn't able to see
14 him right a way. So I went to Fort Worth to report to Bell
15 Helicopter personnel.

16 I got to Fort Worth on November 2nd and I talked to
17 Mr. James Feliton who was area sales manager for an area which
18 included Iran.

19 Q May I ask you this: Did you call from Wichita to
20 Bell Helicopter and, if so, what did you tell them about coming
21 down there and so on and so forth, and who did you talk to or
22 did they call you?

23 A No, I called them and I'm pretty sure I called
24 Mr. Feliton and said I would like to come to Fort Worth to give
25 them a report of the results of my trip to Iran on behalf of

1 Bill French and International Helicopter Consultants, and we
2 agreed upon the time when the personnel he felt should be hear
3 this would be available and that was in the very near future.
4 I think it was just a day or two days time before I arrived
5 down there.

6 Q You had come back from Iran toward the end of October
7 or when?

8 A It was more like shortly before the end of October,
9 very shortly. This date that I went to Fort Worth was just
10 almost immediately after my return.

11 Q Did you know Mr. Feliton? Had you known him pre-
12 viously to the time you talked with him on the telephone?

13 A No.

14 Q How did you know to call Mr. Feliton?

15 A Mr. French had given me his name and then given me
16 some correspondence to and from him.

17 Q What was your understanding of Mr. Feliton's position
18 in Bell Helicopter at the time?

19 A My understanding was that he was area sales manager
20 for an area that included Iran. I think it also included some
21 other countries but I culdn't tell you at this point which ones.

22 Q When you talked to Mr. Feliton on the telephone did
23 he indicate that he knew that you had been to Iran on behalf of
24 Mr. French?

25 A Yes.

1 Q He indicated that to you?

2 A He seemed to be familiar with that.

3 Q Did he seem to indicate any familiarity with Mr.
4 French's problems at that time?

5 A Oh, yes. He seemed to be completely familiar with
6 them.

7 Q So he was receptive to your coming down to Bell
8 Helicopter and meeting with him?

9 A Yes. He indicated that he was eager to hear from me.

10 Q Did he indicate that he was going to have anybody
11 else there at the meeting?

12 A I think he did but I don't know that at that time he
13 specified who was going to be present.

14 Q So you then had occasion to travel to Fort Worth and
15 meet with Mr. Feliton when?

16 A On November 2nd. I met with Mr. Feliton and at the
17 same time in the initial part of the meeting with Mr. Jose. I
18 think his name is properly spelled J-o-s-e but in some of the
19 earlier communications with Mr. French I was given that name by
20 him as J-o-s-t and my secretary picked it up and thereafter in
21 every communication that went out of my office he was forever
22 Mr. Jost.

23 Q So you went down to Dallas and went in to talk to
24 Mr. Feliton and Mr. Jose and tell us about what happened down
25 there. Was the meeting in Mr. Jose's office?

1 A I think it was in Jose's office.
2 Q He was introduced to you at that time as what?
3 A I think he was introduced as commercial sales manager.
4 Q He was Mr. Feliton's superior?
5 A That was the indication I was given.
6 Q Did you understand at that time that there was
7 pending any issue as to whether or not French would be
8 continued as Bell's agent?
9 A French had told me that he was in danger of being
10 terminated as their representative.
11 Q Why?
12 A Because he couldn't get back into Iran and he had
13 incurred the displeasure of General Khatami.
14 Q Did you know at that time when Mr. French's dealership
15 was to have expired and what was the renewal date at that time?
16 A No, I did not.
17 Q Now please tell us what happened when you went to
18 Bell Helicopter that day.
19 A Okay. I started from the very beginning with a
20 recitation of something like, of course, they understood how
21 Mr. French had originally gone to Iran in the early '50s.
22 Q Excuse me. This is a conversation you are now
23 sitting in a room with Mr. --
24 A Jose and Feliton.
25 Q And yourself?

1 A And me.

2 Q Just the three of you?

3 A Yes.

4 Q Nobody else present?

5 A No.

6 Q Okay.

7 A And I recited some of Bill's early attempts and
8 history and reasons for going to Iran and his belief that it
9 could be a very important country in terms of aircraft, both
10 fixed-wing and rotary aircraft, because it had no road or rail
11 network and that Bill had elected to try and make a life for
12 himself there and had initially secured the Cessna dealership
13 and, of course, he had subsequently gotten their dealership
14 and that he had been attempting to operate in the face of a
15 great many hardships, some of which were imposed because
16 General Khatami held a virtual monopoly of all aircraft sales
17 and operations in the country, partly through his post as
18 chairman of the board of Civil Aviation and commanding General
19 of the Imperial Air Force and partly through his ownership and
20 control of Air Taxi and Heli-Taxi, and that he got lots of
21 assistance from various other Generals in frightening off
22 anybody who wanted to employ anybody else and that Mr. French
23 nevertheless had been fairly successful in conducting operations
24 in Iran.

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25

In fact, his success had become apparent enough to

1 the "Great General" to cause him to send someone to demand half
2 of Bill's business.

3 Q The "Great General" meaning?

4 A The "Great General" being a term that Dr. Safavi and
5 several others, including myself, frequently used to refer to
6 General Khatami.

7 I stated that French had refused his proposition and
8 had, as they knew, been run out of the country; that I had gone
9 to negotiate on his behalf with General Khatami and his repre-
10 sentatives and we believed that we had the solution to the
11 problem and I outlined the construction and proposed method
12 of operation of STP to them.

13 In fact, the subjects I covered in this discussion
14 are very well set out by a subsequent letter that I wrote to
15 Mr. Jack Zuke at Cessna Aircraft when I was still unable to
16 see him later that month. I tried very hard to convey exactly
17 the same information to both Bell and Cessna.

18 BY MR. MC LEAN:

19 Q Mr. Bell, before you go on, did you use the term
20 "Great General" when you had your conversations with Mr. Felton
21 and Mr. Jose?

22 A I think I did.

23 Q Did they know to whom you were referring?

24 A Well, I had also used the designation General
25 Khatami, so I'm sure there was no doubt in their mind to whom

1 I was referring.

2 MR. MC LEAN: Thank you.

3 BY MR. MARINACCIO:

4 Q So you're still discussing the matter with Mr.
5 Feliton and Mr. Jose and you're explaining to them all of this,
6 giving them all this information, and what is their reaction?

7 A Well, one of them -- and I'm not at this point sure
8 which one --I think it might have been Feliton -- told me that
9 I should get Dr. Safavi to write to Bill French describing STP
10 and to show a strong and continuing sales effort in Iran and to
11 show that other responsible members of the High Council of Civil
12 Aviation looked with favor on the company or that they didn't
13 look with disfavor on it, and to get the strongest language
14 possible in there, if possible get him to refer to General
15 Khatami; also to touch on the point of monopoly which this
16 company would supposedly have in the sales and servicing of
17 aircraft in Iran and for Bill then to forward that letter to
18 Bill French.

19 He also wanted me to make it very clear to Bill
20 Bell Helicopter wanted a solid, everyday sales organization and
21 wanted these people to be native Iranians. I made notes of
22 that during that --

23 Q You made a note of that during that conversation as
24 to what they wanted?

25 A Yes, I did.

1 MR. MARINACCIO: I'd like to mark this document as
2 Exhibit No. 88.

3 (Whereupon, a document was marked for
4 identification as Exhibit No. 88.)

5 BY MR. MARINACCIO:

6 Q I'll ask you to identify Exhibit No. 88.

7 A Exhibit 88 is a copy of the notes I made during that
8 interview.

9 Q With Jose and Feliton?

10 A That's correct.

11 Q And one of them specifically, according to your
12 notes, mentioned General Khatami?

13 A Well, the notes themselves don't mention General
14 Khatami. I didn't put that in because I didn't feel it to be
15 necessary. I knew I'd remember it. I just made -- I was
16 trying to obtain their minimum acceptable request which was to
17 have Dr. Safavi show that other responsible members of the High
18 Council of Civil Aviation would look with favor on the company
19 or at least not look with disfavor on it.

20 Q Did they know at that time that the High Council of
21 Civil Aviation was a governmental body in Iran, to your
22 knowledge?

23 A Well, if they didn't know it, they hadn't been
24 paying attention.

25 Q Now I believe you said that your recollection of the

1 total amount of the matters that you discussed with them is
2 really contained in a document dated November 28, 1966 to Mr.
3 Zuke?

4 A That's correct.

5 Q That's your best recollection of what you told them?

6 A Yes, that's right.

7 Q I'm going to want to get into that in a good deal of
8 detail a little later on, but how long did the meeting with
9 Mr. Feliton and Mr. Jose last?

10 A It probably lasted about an hour and a half, something
11 in that vicinity. At the end of the meeting Mr. Jose said, "I
12 want you to repeat this to our president," and he made a call
13 on his intercom and then Mr. Jose and I went over to another
14 office in another building. I don't believe Mr. Feliton came
15 with us.

16 I was then introduced to a man whose name I have
17 always had difficulty with. I think it's Ducayet or Duca y who
18 was introduced to me as the president of Bell Helicopter
19 Corporation. I was asked to repeat this entire story and I
20 did so.

21 Q In Mr. Ducayet's office?

22 A Yes, and he listened with no comment or reaction
23 throughout the entire story except that I had great difficulty
24 maintaining eye contact with him because he kept looking around
25 other places. But other than that, there was almost no reaction

1 from him throughout this entire story.

2 At the end of it he said something like, "Thank you
3 for coming to tell us this very interesting story. We'll be
4 in touch." We shook hands and we left.

5 Q Now we'll have to go over the details of what you
6 remember specifically telling Mr. Ducayet that day at that
7 meeting. Some of these things may have to be repeated in the
8 record according to your recollection or whatever, but I would
9 like to have your testimony in the record of what you recall
10 specifically telling Mr. Ducayet that day in the presence of
11 Mr. Jose.

12 A Well, my recollection, of course, is in generalities
13 more than in specifics, but I'm certain that I told Mr. Ducayet
14 everything that was in my letter of November 28 to Jack Zuke.

15 I started off with the history of Mr. French in Iran
16 in the early days. I described my contacts with the State
17 Department prior to my trip to Iran on French's behalf.

18 I recited that aviation in Iran is and has been for
19 some time entirely controlled by General Khatami who is the
20 commanding General of the Imperial Iranian Air Force or rather
21 the Chief of Staff of the Imperial Iranian Air Force. I wasn't
22 quite sure whether he was both; that he was chairman of the
23 board of directors of National Iranian Airlines which I had
24 been informed; that he was the president of the High Council
25 of Civil Aviation in Iran and that, in addition, he is the

1 brother-in-law of the Shah and that it was my observation and
2 confirmed by others that all aviation military, regardless of
3 which service, including the Air Force and the Army, the
4 Gendarmerie or civilian, is controlled by the dictates of
5 General Khatami.

6 I then recited the contact by a representative of
7 General Khatami with Mr. French informing him there were only
8 two companies --

9 Q Excuse me. I would like to mark -- you appear to be
10 refreshing your recollection of what you told Mr. Ducayet at
11 that time by referring to a document.

12 A I'm not exactly refreshing my recollection. I'm just
13 looking at it as kind of a check list to make sure I don't
14 omit any of the subjects.

15 Q I see. You have an independent recollection of what
16 you told Mr. Ducayet at that meeting?

17 A I have an independent recollection of everything I
18 subsequently put in my letter to Mr. Zuke and what I'm looking
19 at is the letter to Mr. Zuke.

20 Q So you're looking at it not to refresh your
21 recollection but merely as an independent check list. All
22 right. Go ahead.

23 A I then told him that a representative of General
24 Khatami had contacted French and informed him there were only
25 two companies which would be authorized to conduct civil

1 aviation business in Iran; that these were Air Taxi and Heli-
2 Taxi.

3 I then told him that General Khatami and/or his
4 representatives held substantial amounts of stock in each of
5 those companies; that our information led us to believe that he
6 held a larger amount of stock in Air Taxi than in Heli-Taxi;
7 and that French had been informed that the only way he could do
8 business in Iran would be as a subcontractor of those companies
9 for which he would have to pay them ten percent of the gross
10 or else he would have to let them be a 51 percent owner of his
11 company.

12 At the time he turned the proposal down and was told
13 by the messenger that General Khatami would run him out of the
14 country and that, in fact, he did go out of Iran on business
15 and when he returned he was informed he would not be readmitted
16 and after a great deal of effort on the part of the American
17 Embassy they finally got the Iranians to tell them the reason
18 was Mr. French had been charged with numerous violations of
19 the Iranian Civil Aviation Act.

20 I told him that this Act had been drafted by
21 Dr. Safavi and was enacted in 1949; that I was sure the contents
22 were available to anybody that was interested; that it was
23 never implemented in detail; that the general Persian attitude
24 toward their laws was that they had a very detailed code of
25 requirements in almost every instance they dealt with but in

1 practice they never enforced it and, in fact, would not actually
2 permit a person to always comply with the securing of written
3 approvals and such documents telling the person to just go
4 ahead and do it; it will be all right; and that then, if that
5 person subsequently fell into disfavor with them they would go
6 back and insist that they had committed serious crimes by
7 violating all of these technical codes.

8 I told him that the same thing had happened at the
9 U.S. Consulate while I was in Tehran in connection with
10 bringing teachers into the country. They were supposed to have
11 written permission in advance and were told by the Persian
12 officials that that wasn't necessary and then they did some-
13 thing which angered these officials and were given one or two
14 days' notice to secure the removal of a substantial number of
15 teachers in the country, about 50, who had been there allegedly
16 in violation of their law.

17 I then told him that I had caused an inquiry to be
18 initiated from the U.S. Embassy to General Khatami in connection
19 with my visit; that whatever charges were being pressed against
20 Mr. French wouldn't be held against me as his lawyer and that
21 in reply General Khatami had told the embassy that he would be
22 happy to see me and suggested that I see Dr. Safavi, the vice
23 president of the High Council of Civil Aviation.

24 I told him when I arrived in Tehran I first spent
25 time with various officials at the American Embassy briefing

1 them on information in my possession and in return receiving a
2 briefing from them, both of which seemed to fit what I had been
3 reciting; that throughout my stay in Iran I kept in touch with
4 the embassy.

5 My principal contact was Mr. Raymond Harland--and my
6 secretary misspelled that in the November 28 letter and it came
7 out Hartland with a "t" in the middle, but that's a typographical
8 error -- and his assistant, Mr. Herbert Ferguson.

9 Thereafter, I had a conference with Dr. Safavi who
10 told me that he had been the author of the original Civil
11 Aviation Act and also the author of an Act declaring the sales
12 of aircraft and parts therefor to be a national monopoly and he
13 told me that that Act had a grandfather clause in it which
14 provided that Air Taxi and Heli-Taxi could continue in operation
15 but that any other company wishing to do this business had to
16 secure the permission of the High Council of Civil Aviation to
17 do business in Iran in addition to the national monopolistic
18 company.

19 Dr. Safavi had made it clear that the charges against
20 Mr. French in Iran were not against his companies but against
21 French personally and that Iran would welcome the continuation
22 of doing business with French's company providing we formed a
23 Persian corporation with a 51 percent Persian partner.

24 I also informed him that Safavi agreed to be the
25 holder of that 51 percent and that I had made no reply to the

1 proposal initially since I wished to be assured that Dr. Safavi
2 was speaking on behalf of General Khatami and not as a mere
3 volunteer.

4 Then I informed him that a subsequent appointment was
5 arranged between me and General Khatami during which the General
6 made it quite clear that Dr. Safavi spoke on his behalf and that
7 this was the transaction the General would authorize.

8 I told him that General Khatami had made it clear
9 that he would not permit French personally to return to the
10 country because of statements that French had made that made it
11 almost a matter of what I termed "face" with the General.
12 However, I told him that he was of the opinion that if the new
13 arrangement proceeded smoothly maybe Mr. French would be some
14 day allowed to return.

15 I told him that I received this impression from
16 comments made by various embassy personnel.

17 I told him that Mr. French currently had two employees
18 in Iran, both located in Tehran. One was Mr. Eugene Loyd and
19 the other Mr. John Bolton; that both were experienced and
20 competent pilots and able to take care of the business involved.

21 I told him that I had subsequently authorized
22 Dr. Safavi to form the Persian corporation to be called Skerkat
23 Sahami Tayar Pars. I told him that Dr. Safavi had made it
24 clear to me he would not retain anywhere near all of the
25 51 percent and that other members of the High Council of Civil

1 Aviation would undoubtedly own portions of it, including General
2 Khatami as the largest owner.

3 I told him that the other 49 percent would be owned
4 by Aviation Development Consultants, Inc. and International
5 Helicopter Consultants, Inc., both of which are Mr. French's
6 corporations, and that Dr. Safavi would be the managing
7 director of the corporation and through General Khatami would
8 no doubt be the primary sales agent and that Bolton or Loyd
9 would be operating executives to take care of technical matters.

10 I told him I was confident this arrangement would be
11 highly beneficial to Mr. French's companies and to the companies
12 that he represented, including theirs, but that the franchise
13 for Iran should remain in the name of the company which then
14 held it and that sales would be made through that company which
15 would resell to STP, that this would provide the necessary
16 leverage for ultimate control of the actions with the Persians
17 with respect to products being sold; that Mr. French would
18 maintain his headquarters in Beirut and would receive frequent
19 reports from Tehran and that the employees, in addition to
20 sending written reports, would come to Beirut once a month for
21 additional review of actions and receipt of instructions.

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1 Q Your recollection of your conversation with
2 Ducayet is that you went into substantial detail, the entire
3 history of the Khatami transaction, in setting up STP and
4 its purposes and so on, and Khatami's interest in Air Taxi,
5 as you have indicated?

6 A That is correct, yes.

7 Q How long were you in there with Mr. Ducayet?

8 A Probably something like 45 minutes.

9 Q Was it primarily a presentation on your part?

10 A It was almost an unrelieved monologue by me.

11 Q What was said at the outset of the conversation
12 between Jose and Ducayet? In other words, you had not known
13 him previously, had you?

14 A No.

15 Q But Jose introduced you?

16 A Jose introduced me as the lawyer for Bill French,
17 from Whichita, Kansas, who had just been to Iran on behalf
18 of Bill, and he told Mr. Ducayet that I had an interesting
19 story to tell him and said something like "Would you go ahead,
20 please." So I told him the story.

21 Q Then at the end of the story, what did Mr.
22 Ducayet do or say?

23 Before you answer that, during the monologue, as you
24 described it, did Mr. Ducayet ever ask any questions?

Monaco Reporting Company

25 A I can't recall that he asked a single question.

DB 2 1 I don't think he made any comment at all.

2 Q Were there any distractions? Did he ever leave
3 the room, did he take a phone call, was he listening or
4 paying attention? COuld you describe his demeanor? I believe
5 you said it took about 45 minutes.

6 A That's right.

7 Q Was he behind his desk?

8 A No. It is my recollection that we were sitting
9 on some kind of a sofa and chair arrangement in another part
10 of the room than were his desk was. And he did not get up
11 or take a phone call or receive any kind of interruption at
12 all.

13 And when the meeting concluded, when I finished talking,
14 he stood up and said something like "Thank you very much for
15 telling me this very interesting story. It is nice to have
16 met you. We will be in touch with you."

17 Q Did anyone that day, including President Ducayet,
18 or Mr. Jose or Mr. Felton, indicate to you that it was
19 against the policy or practice of Bell Helicopter or Textron
20 to do business with companies owned by government officials
21 on business that was to go to the government?

22 A I am not sure if I heard your question correctly.
23 I think you might have had a double negative in there.

24 Q All right. Did you have --

25 A Nobody indicated to me that it was contrary to

Monica Reporting Company

DB 3

1 Bell Helicopter's policies to do business with a government
2 official.

3 In fact, they indicated the contrary to me. They were
4 concerned to be certain that they were going to be doing
5 business with General Khatami.

6 Q Who was this?

7 A It was Feliton, I believe.

8 Q But Mr. Ducayet, according to your testimony, did
9 not indicate any dissatisfaction with your making an arrange-
10 ment to do business through General Khatami, or with General
11 Khatami?

12 A No, he made no indication one way or the other.

13 Q Did anybody in Bell make any notes of these meetings?
14 Did you notice any one of the three taking any notes?

15 A During the meeting with Ducayet, I didn't notice
16 anyone taking any notes. During the earlier session with
17 Feliton and Jose, I kind of vaguely recall somebody making a
18 few notes. I think it might have been Jose. Of course,
19 at one point I made a few notes, because I wanted to be certain
20 that I had the requirements, as I regarded them, that Feliton
21 wanted to have in a letter from Dr. Safavi.

22 Q That was exhibit number 88 that we have already
23 referred to?

24 A That's right.
25

DB 4

1 Q After you walked out of Mr. Ducayet's office, what
2 did you and Mr. Jose do then?

3 A I think we went over to the company lunchroom
4 or cafeteria and had lunch. And I then went to the airport
5 and got on a airplane and returned to Wichita.

6 Q Were there any details that you were to attend to
7 after the meeting was over? How did you leave it with Feliton
8 or Jose? What was your understanding?

9 A It was my understanding that I was trying to secure
10 the letter of assurance from Dr. Safavi, that Feliton had
11 requested, and that was the only thing that was said.

12 Q Who do you recall having lunch with that day?

13 A It is my recollection I had lunch with Jose and
14 I think Feliton joined us again for lunch. And there might
15 have been some other people whose names I don't now recall;
16 because it seemed like there were four or five of us around
17 a fairly large table.

18 Q Do you reccall what you talked about? Did you
19 talk about this particular subject matter, STP and Khatami?

20 A I think we talked about the general affairs. I
21 kind of told sea stories about some other adventures I had
22 had on the trip. I was excited about having taken the trip;
23 it was the first trip abroad I had ever taken.

24 Q As a result of this meeting that day -- not as
25 a result, but was there any indication given to you by any

Munich Reprixtng Company

DB5 1 of the Bell officials one way or the other whether French
2 should or would continue as the Bell Helicopter agent in Iran?

3 A No, they didn't give me any indication on any
4 decision having been reached by them as to whether or not
5 he would be allowed to continue.

6 Q The only thing was, according to your testimony,
7 that you were to go to Dr. Safavi, to get some indications
8 out of him. Is that correct?

9 A That is right.

10 Q Mr. French was still their agent at this time in
11 Iran?

12 A Yes, he was, his company, International Helicopter
13 Consultants was.

14 Q He wasn't terminated, he was continuing to be
15 their agent?

16 A That is correct as far as I knew.

17 MR. MARINACCIO: I would like to, for the purpose
18 of reference to your testimony, mark as exhibit number 89
19 and 90, two documents, which I will ask you to identify.

20 (The documents were marked
21 Exhibits 89 and 90 for identifi-
22 cation.)

23 BY MR MARINACCIO:

24 Q I would ask you to look at the document marked
25 exhibit 89 and identify this document for the record.

DB6

1 A Exhibit number 89 is a copy of my file copy of
2 a letter that I wrote to Jack Zuck on November 28, 1966, which
3 is the one I referred to that contains all of the information
4 that I also gave both Mr. Ducayet and Mr. Feliton and Mr. Jose
5 at Bell Helicopter on November 2.

6 Q I show you exhibit 90 and ask you to identify that.

7 A Exhibit number 90 is my file copy of the letter
8 report that I wrote to Mr. French on November 3, the day
9 following my visit to the people at Bell Helicopter describing
10 that visit in general terms.

11 Q Now referring to exhibit number 90, what was
12 your purpose in writing this letter to Mr. French on November 3,
13 1966?

14 A My purpose was to report to him what I had done
15 with respect to his instructions to inform the people at
16 Bell Helicopter about what I had done in Iran.

17 I also wanted to convey some additional information
18 concerning my attempts to contact Cessna personnel.

19 I also relayed some detailed instructions that Mr. Feliton
20 had requested that I relay to Mr. French concerning the
21 sending of telexes, discussing an accounting which Bill had
22 asked me to ask Feliton to send about what Bill owed and what
23 it was for, to Bell Helicopter.

24 I also dealt with some return legs of some unused tickets
25 that Mr. French had furnished to me which I returned to him.

Merrick Reporting Company

DB7

1 And told him that I had talked to a gentleman named Dusty
2 Rhodes that he had instructed me to get in touch with.

3 Q Who is Dusty Rhodes? That is not the old
4 baseball player, is it?

5 A As nearly as I could gather, everybody with the
6 last name Rhodes ends up getting the nickname Dusty. He
7 was an individual that worked for Cessna, I believe.

8 Q Now referring to exhibit 90, the second sentence
9 says: "I spent the day down there yesterday" -- referring to
10 Bell Helicopter's plant--"and talked to Feliton and Jose
11 and to the President of the Company."

12 When you say "the president of the company," in this
13 particular document, who do you mean?

14 A I meant Ducayet. I was having a little trouble
15 with his name at that point, and I didn't want to try
16 and cope with spelling it, so I just called him the president
17 of the company.

18 Q That was going to be my next question, why did
19 you not refer to the man by his name, and you say you
20 referred to him as president simply because, as you stated,
21 you were having trouble with the spelling of his name?

22 A That's right.

23 Q I am going to ask you to comment on each one of
24 these sentences, if I can, some of the pertinent sentences.

Merrick Reporting Company

25 "Feliton's position was that what we were essentially

DB8

1 asking Bell to do was to allow STP to represent them in Iran
2 and they would therefore have to make the same kind of investi-
3 gation they do with any new dealer."

4 A Yes, Feliton said that.

5 Q Feliton said that. In the next sentence it says:
6 "I told him" -- referring to FELITON, I suppose --

7 A That is correct.

8 Q (Continuing) "that I appreciated the fact that they
9 would have to make some sort of an investigation, that they were
10 now in full possession of the information that we had, so
11 they should be cautious in the manner in which they proceeded
12 and he agreed that they would be."

13 Would you comment on that?

14 A Yes. What I meant by that was that we were
15 dealing with a very powerful individual in Iran, General
16 Khatami, who was very sensitive about what people said about
17 him in public. And that they should be cautious in the
18 manner of their investigation, and not just go barging into
19 Iran and ask in a public conference whether General Khatami
20 was in fact going to receive a portion of the proceeds
21 of the asles. Things of that nature. And they understood that,
22 I am sure.

23 Q Does that indicate that Feliton understood he was
24 to make no inquiry as to the ultimate ownership of STP?

25 A No, I don't think so. I think our understanding

Minnick Reporting Company

B09

1 was that he was to be careful and tactful in the manner in
2 which he did it. I certainly didn't attempt to lecture them
3 in any detail about how they should go about it.

4 Q Did you understand that the investigation that they
5 would be conducting would be to verify the information that you
6 had given them? Or what was the purpose of the investigation
7 that they were to do?

8 A It was my understanding that it would be to
9 verify that the information which I had given to them was
10 correct and that General Khatami in fact was satisfied with this
11 proposed new method of operating.

12 Q Did he indicate how they were going to carry out the
13 investigation?

14 A No, he didn't.

15 Q You also stated, reading again from your letter,
16 in the next sentence: "He also stated that the decision
17 would probably not be forthcoming for several months. He
18 also requested that I have Dr. Safavi write a letter to me
19 or to Bell Helicopter, whichever he wished, explaining the new
20 set-up, and basically assuring Bell that the new corporation
21 will have the blessings of the High Council of Civil Aviation
22 and General Khatami. I will arrange for this directly
23 with Safavi, and will send you a copy of the letter which you
24 should then forward to Bell with your comments."

Merrill Reporting Company

25 Is that what you have been referring to?

DB10

1 A Yes, that is one of the things.

2 Now I didn't understand that to be the only thing that
3 they were going to investigate, or the only means by which
4 they would investigate. But he did ask that.

5 Q On the second page of that document you state,
6 in the second paragraph: "As to the letters authorizing Bell
7 and Cessna to deal directly with STP, it appears that Bell
8 might be about to insist on this manner of proceeding
9 anyway."

10 Can you comment on that?

11 A Yes. Dr. Safavi, of course, had wanted that
12 manner of proceeding to be utilized, that instead of Bell and
13 Cessna selling to their actual current agent and
14 then reselling to STP, he wanted them to authorize sales
15 directly to STP. It was my feeling, after the conversations
16 I had with the people involved, with Bell the day before,
17 that they might be going to insist upon that.

18 I had that feeling primarily because of Feliton's
19 statement that what I essentially was asking them to do
20 was to allow STP to be their representative in Iran, and
21 they would have to make an investigation of that.

22 Q Following the meeting with the Bell officials
23 on November 2, and your letter to Mr. French of November 3,
24 could you tell us what happened next with respect to this
25 matter?

Mandl Reporting Company

DB11

1 A In January 1967 I was given information that Dr.
2 Safavi had formed our Persian corporation, and it was duly
3 authorized to carry on the activities we had discussed.

4 I was also informed by him that it was the only company
5 authorized to do so, apart from General Khatami's two
6 corporations. And that the apparent method of proceeding
7 would be that --

8 Q Can you identify the other two corporations?

9 A Yes, they were Air Taxi and Heli-Taxi. And that
10 what they apparently intended to do was to have Air Taxi
11 and Heli-Taxi concentrate on operations, that is, the actual
12 flying of both fixed wing and rotary aircraft, and have
13 STP carry on the sales and servicing of aircraft.

14 So I wrote this letter to James Felton on January 5,
15 telling him that information, and also telling him about an
16 order for spare parts for a Cessna that we had just received
17 from the Imperial Iranian Army, which I felt was an
18 indication of the actual operation of STP proving to be
19 a practical thing.

20 Q Now between the time of November 3 and the first
21 part of January, when you referred to this matter with
22 Safavi, did anything happen in that interim?

23 A Nothing of any significance that I recall.

24 Q You had left the meeting in Fort Worth or Dallas,
25 at Bell Helicopter, with an instruction of sorts to get in

DB12 1 touch with Dr. Safavi and get certain assurances?

2 A Yes.

3 Q Did you do that? And if so, how did you do it?

4 A I can't now recall, but I think Dr. Safavi and I
5 might have had a telephone conversation in the interim, because
6 I find nothing in my file to indicate a written communication
7 either from me to him or from him to me.

8 And I think it might have been in that conversation that
9 he told me the corporation was formed, and I think in the
10 same conversation I told him Bell Helicopter wanted a letter
11 and he told me he would obtain such a letter.

12 However, he never did.

13 Q You told him that Bell Helicopter wanted what
14 kind of a letter?

15 A The letter we previously described, stating that
16 STP had the consent of all important members of the High Council
17 of Civil Aviation, including General Khatami.

18 Q So as a result of your getting that information by
19 telephone, which is your best recollection, from Dr. Safavi,
20 what is your best recollection as to when you received that
21 information from Dr. Safavi?

22 A I think it was like probably the same day that I
23 wrote to Felton. It could have been a day before. But I
24 think it was just about the same time.

Murich Reporting Company

25 MR. MARINACCIO: I am going to have marked exhibit

DB13

1 number 91 for the record.

2

(The document was marked exhibit

3

91 for identification.)

4

BY MR. MARINACCIO:

5

Q I ask you to identify exhibit number 91?

6

A Exhibit number 91 appears to be a composite copy
7 of a two-page letter that I wrote to Mr. James Feliton on
8 January 5, 1967, where they have taken the language from the
9 top of the very short second page and superimposed it on
10 the bottom of the first page.

11

That is what was giving me pause.

12

Q Let's put both of the documents in the record
13 and then I will ask you to make a comment for the record on
14 both of these documents.

15

A All right. I just read all of the language in
16 both of them, and it is identical.

17

Q The language is identical?

18

A Yes.

19

MR. MARINACCIO: Let's take a five-minute break.

20

(Short recess)

21

MR. MARINACCIO: Will you mark this document
22 as exhibit 91-A?

23

(The document was marked exhibit

24

91-A for identification.

Munich Reporting Company

25

DB14

1 BY MR. MARINACCIO:

2 Q I show you exhibit number 91 and 91-A, and ask
3 you if they are the same document?

4 A Exhibit 91-A is an exact copy of my file copy
5 of my letter to James Feliton of January 5, 1967. Exhibit
6 91 contains all of the wording in identical form, but has
7 had the language from the second page superimposed on the
8 bottom of the first page.

9 Q So exhibit number 91 saved one page of xeroxing?

10 A Apparently.

11 Q Reading from exhibit 91-A, could you tell us
12 what that document is?

13 A Well, it was my communication to Feliton of
14 the information which I had received from Dr. Safavi
15 concerning the fact that the Persian corporation was now
16 authorized to sell, service, and maintain all types of light
17 aircraft and supply parts for them in Iran, and that
18 he also had informed me it was the only company authorized to
19 do so, apart from General Khatami's two corporations, which
20 apparently intended to concentrate primarily on the
21 charter and flying end of things, and leave the selling to our
22 company.

23 I also told him about a spare part order for Cessna
24 parts which had just been received from the Iranian Army.

Municel Reporting Company

25 And I gave him the address of STP and the method for addressing

DB15 1 communications to it, and I expressed the hope that they
2 would elect to proceed in the same manner as Cessna had.

3 Q What manner had Cessna elected to proceed in?
4 I believe it is referred to in the next paragraph. Could you
5 go over that?

6 A Yes. Cessna had, in connection with this Iranian
7 Army parts order, elected to go ahead and send the parts
8 directly to STP in Iran, but to send the billing to Aviation
9 Development Consultants, Inc. in Beirut. So that Aviation
10 Development Consultants could then make up an invoice to
11 STP for presentation to the Army in order to receive payment.

12 Q Did you mail this letter of January 5, 1967, to James
13 Feliton?

14 A I did. Or rather, my office personnel did.

15 Q Did you hear from Feliton about this matter?

16 A I subsequently heard from him on the telephone
17 on some date between that time and January 16. But in the
18 meantime, I had again communicated with Feliton, because
19 I had received a telegram from Mr. Bolton, who was Mr. French's
20 man riding herd on STP in Tehran, to the effect that we should
21 have Cessna and Bell Helicopter send wires to the Minister of
22 Agriculture in Tehran, because representatives from Air
23 Taxi and Heli-Taxi had introduced documents with that
24 Minister showing that they had dealerships for Cessna and
25 Bell Helicopter.

Monick Reporting Company

D16 1 MR. MARINACCIO: Would you mark this document
2 exhibit 92?

3 (The document was marked exhibit
4 92 for identification.)

5 BY MR. MARINACCIO:

6 Q I ask you to identify this document?

7 A That is a copy of the telegram that I received
8 from John Bolton in Tehran on January 15, 1967. It conveys
9 the information I have just described.

10 Q Could you comment once again with respect to the
11 last sentence here: "Representatives of Iran Air Taxi and
12 Heli-Taxi introduced documents showing dealerships."

13 What does that indicate to you?

14 A To me that meant that in Tehran representatives
15 of Air Taxi and Heli-Taxi had introduced documents showing
16 that they had dealerships from Cessna and Bell.

17 Q Had introduced documents to whom? To the Minister
18 of Agriculture?

19 A To the Minister of Agriculture.

20 Q Do you know what those documents were that they
21 introduced?

22 A No, I don't know what those documents were. I
23 believed at the time, and I still believe, that they must
24 have been spurious.

Manick Reporting Company

25 Q What is the significance of this particular
telegram?

DB17

1 A The significance is that our man in Tehran
2 wanted me to get the Bell factory and the Cessna factory
3 to tell the Minister of Agriculture in Tehran that STP
4 was the sole representative in Iran for these companies. Or
5 that ADC, which was Aviation Development Consultants,
6 and International Helicopter Consultants were the sole
7 representatives and their agent was STP.

8 Q Did you follow that up? Did you call Bell Helicopter
9 about that?

10 A Yes, I called Feliton, and I also called someone
11 at Cessna, I don't recall who I talked to at Cessna. Then
12 I wrote a report letter to Bill French on the following day,
13 January 16. And in my conversation with Feliton, he said
14 that he would send a cable to that effect.

15 Cessna had indicated that they were reluctant to send
16 such a cable, because they had had some problems previously
17 with the Department of Justice about exclusive dealerships,
18 so they were nervous about saying we were exclusive dealers.

19 Q Feliton indicated he would send a cable to the
20 Ministry of Agriculture?

21 A That's right.

22 Q Stating that STP was the authorized representative
23 in Iran and not Air Taxi and Heli-Taxi?

24 A I think he was going to say in his cable that
25 International Helicopter Consultants was the authorized

Monck Reporting Company

18 1 representative, and its agent was STP. And he also told me
2 that he didn't see any reason why Bell Helicopter would not
3 go along with our arrangement concerning STP.

4 Q Subsequent to your communication to Mr. Felton
5 on January 5, carrying forward the previous conversation that
6 you had had with him on November 2, what then happened next
7 with respect to that situation?

8 A I received a letter on the 17th of January from
9 Bud Orpen who at that time indicated his title was Export
10 Sales Manager, and he acknowledged receipt of my letter
11 to Felton informing him of the current status of
12 International Helicopter Consultants' operations in Iran.

13 MR. MARINACCIO: I would like this document marked
14 as exhibit 93.

15 (The document was marked exhibit
16 93 for identification.)

17 BY MR. MARINACCIO:

18 Q I ask you to identify this document?

19 A Yes. That is a copy of the letter I received
20 from Mr. Orpen.

21 Q Now in the first paragraph, Mr. Orpen states:
22 "Dear Mr. Bell: Thank you for your letter to Mr. Felton
23 informing of the current status of the International Helicopter
24 Consultants Inc. operation in Iran. Mr. Felton is leaving
25 Bell at the end of this month, and is being replaced by Mr.

DB19

1 Kling. It is our feeling that the arrangements for
2 handling sales through STP are not satisfactory to Bell as
3 long as Bill French is unable to personally follow through
4 with the Iranian contacts. However, a temporary authorization
5 is herewith given for continuing Bell's business interests
6 in Iran, as you have outlined in your letter of 5 January
7 1967 until such time as we have had an opportunity to
8 personally assess the situation by a visit to Iran. This will
9 most likely take place sometime this spring. We will keep
10 Bill informed of this."

11 Is this the only document that you have encompassing
12 Mr. Orpen's remarks to you? Did you have any telephone
13 conversations with him about this, or is this the only letter
14 that you received at this time on this?

15 And, if so, what did you do in response to this
16 particular letter, before we get to the substance of your
17 understanding of what is in it.

18 A I don't recall having any telephone coversations
19 with Mr. Orpen at or around this time. It is my recollection
20 that I just received this letter. I think I made a copy
21 of it and forwarded it to Bill French in Beirut, without
22 comment. I didn't do anything with respect to this letter,
23 other than that.

Monet Reporting Company

24 Q What was your understanding of what Mr. Orpen
25 was telling you in the second and third paragraphs of this
letter?

DB20 1 A It was my understanding that they were going to
2 investigate this thing, and they wanted to go personally to
3 Tehran.

4 Q When you say investigate this thing, just describe
5 that.

6 A This is the proposed sales arrangement utilizing
7 STP as the agent in Iran. It was my understanding that the
8 principal area of concern with them was whether it would in
9 fact work in practice and whether it really had the sanction
10 of General Khatami. And that they were putting the
11 second paragraph in there in order to keep a way out without
12 having to go into any detail about that kind of thing.

13 Q What was your understanding as to "as long as
14 Bill French is unable to personally follow through with
15 Iranian contacts"?

16 Does that mean admission to the country, do you think?

17 A That is what I understood it to mean. I understood
18 that they were saying as long as Bill French is unable
19 to go into the country, that might be the reason we are going
20 to terminate his representation of us on the record.

21 Q Was this the first time that you had been given
22 notification that a personal assessment of the situation would
23 be made in Iran by Bell Helicopter personnel?

24 A Yes.

25 Q Now after you received this letter and sent it on

DB 21

1 to Mr. French, what happened next in this situation?

2 A I think the next thing that happened was that
3 I got a copy of Bill French's letter to George Kling dated
4 February 3, 1967, discussing a great many items relating to
5 potential sales of Bell helicopters and that kind of thing,
6 in various areas, including Tehran, and also enclosing a copy
7 of Kling's letter to Bill French dated January 30, 1967,
8 which informed Bill that the Iranian Army Attache had
9 contacted Dick Pierrot, who was connected with Bell in
10 Washington, and had requested a proposal for certain helicopters,
11 and informing Bill of the delivery dates that were being
12 given to them in connection with such proposal.

13 MR. MARINACCIO: I think we ought to make copies
14 of those letters for the record at this point and put them
15 in.

16 I would like to mark this document as exhibit number 94.

17 (The document was marked exhibit
18 number 94 for identification.)

19 BY MR. MARINACCIO:

20 Q I ask you to identify exhibit number 94.

21 A Exhibit 94 is a copy of my file copy of a letter
22 I sent to Bill French on January 16, 1967.

23 Q Now in this letter you refer to Mr. Feliton
24 by saying: "Feliton confirms Geotronics has helicopter job
25 cooking somewhere in Asia. He says he knows where, but he

Monck Reporting Company

DB 22

1 can not violate customer confidence by telling me, which
2 is all right with me, but if you start to quote a job for
3 leasing helicopters to Geotronics, let me know, so that we
4 can check out local law and get local representation. This
5 is absolutely essential, as hard experience has demonstrated."

6 What were you referring to there?

7 A It was my understanding that there was a possibility
8 of a helicopter sale in some country other than Iran,
9 but somewhere in Asia. In other words, in Feliton's area of
10 contro. And that apparently Bill French was making arrangements
11 to have some kind of a helicopter sale or perhaps sale and
12 lease with Geotronics in that area. I was just urging Bill
13 to tell me waht country, so that we could check out local law
14 and get local representation and the hard experience I was
15 referring to was the experience of being run out of
16 Iran by General Khatami.

17 Q Did that statement come as a result of a conver-
18 sation you had with Feliton, or was that something --

19 A The only part of that that came as a result
20 of the conversation with FELITON was his conveying the
21 intelligence to me that there was a helicopter job cooking.
22 Feliton and I did not discuss the rest of that. That was
23 my advice to my client.

24 MR. MARINACCIO: I would like to mark this document
25 as exhibit number 95.

Monick Reporting Company

2

1

(The document was marked exhibit

2

number 95 for identification.)

3

BY MR. MARINACCIO:

4

Q I ask you to identify this document.

5

A That is a copy of a copy of a letter which Bill

6

French sent to me under date of February 3, 1967, which is

7

informing Kling of a great variety of things concerning

8

helicopters, including some in Iran, and which encloses

9

a copy of Kling's letter to French of 30 January 1967, that

10

I previously described.

11

Q So this document does indicate that as of 3 January

12

1967, or through February of 1967, Mr. French is still

13

Bell Helicopter's agent in Iran?

14

A That is right. And that they were treating him

15

as such.

16

Q "They" meaning Bell Helicopter?

17

A Yes.

18

Q Now after that date, and carrying forward the

19

situation that we have been discussing here with respect

20

to the meeting of November 2 and STP and so on, what happened

21

next?

22

A Well, the next thing that happened in general was

23

that I began to receive information from Bill French inquiring

24

why nothing was happening in Iran and that the arrangements

Monck Reporting Company

25

with STP did not seem to be operating, it wasn't producing any

results.

24

1 Q No sales, is that it?

2 A That's right, no sales or request for proposals,
3 or any of the things preliminary to sales.

4 I also was told by Mr. French that John Bolton reported
5 to him that Dr. Safavi had begun to insist on receiving
6 the franchises from Bell and Cessna directly into the name
7 of STP. And in accordance with our previous agreement between
8 Mr. French and me, we were unwilling to do that, as we
9 felt it was our only possible restraint upon the activities
10 of Dr. Safavi and the persons for whom he was nominee.

11 Q How did you feel that that was going to be a
12 restraint?

13 A We felt if they had to deal through us, that
14 we would always be able to have a certain measure of control
15 on their activities, because we could always just stop
16 delivering aircraft.

17 Q In other words, they couldn't completely cut you
18 out of the picture, as long as they had to go through you?
19 Is that a fair assessment of what you are saying?

20 A Well, that was the hope we had at that time.

21 Q Did you subsequently travel to Iran to get
22 first-hand information on this situation as it was developing?

23 A I did. Mr. French requested that I come
24 to see him in Beirut and when I did, we attempted to get
25 Dr. Safavi to come to Beirut to discuss the matter with us.

Monick Recording Company

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1 Dr. Safavi repeatedly indicated he was coming to Beirut,
2 in fact, we were at the airport meeting the Iran Air flight
3 in Tehran the morning a six-day war started. Dr. Safavi
4 was not on it.

5 Q This was October 1967?

6 A No, this was June, 1967, June 5, as I recall.

7 After an appropriate delay for the war, following
8 which Mr. French and I were evacuated to Rome and worked our
9 way back to Athens, where Mr. French remained, and I went
10 on to Tehran to again meet with Dr. Safavi.

11 Q Was that in June 1967?

12 A That was in June. By that time I suppose it would
13 have been the latter part of June of 1967, with all of the
14 excitement in between.

15 Dr. Safavi had a number of complaints. He didn't like
16 not having the Bell Helicopter and cessna franchises in the
17 name of STP. He said the great General was displeased with
18 that.

19 Q Do you know who he was referred to there?

20 A He meant General Khatami. He felt that we had not
21 dealt fairly with STP, because we had secured the supply
22 of some Cessna parts for I think both the Iranian Army and
23 the gendarmerie directly, without the assistance of STP,
24 because we had understood that it was an emergency matter,
25 and they were going to have aircraft grounded if they didn't

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1 get the parts there, and we had been unable to get Dr.
2 Safavi and STP to do anything in an efficacious manner.

3 I assured him that we intended to account to STP
4 for the dealer profit on all of such sales as soon as we
5 could resolve the operating problems that seemed to have arisen,
6 those being mainly that he, Safavi, and the persons he repre-
7 sented as nominee in STP, didn't seem to have been doing
8 anything to indicate to appropriate Iranian authorities that
9 they should buy parts, aircraft, and related matters from STP.

10 Q What was his reaction to that, Dr. Safavi's
11 reaction?

12 A His reaction was to assure me that they were going
13 to start doing that, and now that he understood that we were
14 going to cooperate with STP, and certainly if we could get
15 the franchises into the name of STP, this would all start to
16 happen.

17 I then went back to Athens to report to Bill French,
18 and it was our conclusion that it was very unlikely that
19 anything was going to ultimately develop through STP, because
20 we were still unwilling to let them have the franchises.

21 Q I see. Now when you were in Iran in June
22 1967 totalk to Dr. Safavi, did you pass through the U.S. embassy
23 at the time and inform Messrs. Harlan and the other
24 individuals what you were doing?

Monick Reporting Company

25 A I did go to the U.S. embassy at that time,

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1 because I wanted their assistance, if possible, in
2 obtaining the release of Mr. French's Cessna 180 which
3 had been impounded by the Iranians at the time of his
4 original expulsion from the country, and had been held ever
5 since, and which despite written correspondence to the
6 embassy, they had been unable to secure a release of.

7 They didn't seem to have any better plan of action
8 when I was there, so I personally took Dr. Safavi and went
9 to see the Deputy Director General of Civil Aviation and
10 secured the release of the aircraft in about two hours' time.

11 Q Did you discuss the particular situation with General
12 Khatami, and Dr. Safavi with the embassy personnel?

13 A I don't think we went into as much detail as we
14 had in previous times, but I believe I did in general tell
15 them we were having problems with the arrangement, and it
16 didn't seem to be working very well, because we were at
17 loggerheads about who was to retain the franchises.

18 Q Do you recall their reaction, if any, at that time?

19 A Their reaction was a sympathetic one, they could
20 certainly understand why we didn't want to turn loose of the
21 franchises, and that was about it. They didn't really
22 offer any advice or additional comments at that point.

23 Q So then it would be fair to say from your testimony
24 that when you returned to Athens, and discussed this with
25 Mr. French at that time, both you and Mr. French felt some

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1 degree of pessimism about the future sales in Iran, because
2 of the refusal to turn over the franchises to STP?

3 A That's right.

4 Q What happened subsequent to your discussions with
5 Mr. French in Athens? What did you do? Did you come back
6 home?

7 A I came back to the United States, and I made a
8 lengthy report to Mr. Jose of Bell Helicopter.

9 Q I know you did it in writing. Did you also
10 do it by telephone, or was it only in writing?

11 A I did it by phone in part, but Jose asked that
12 I expand on what I told him in a letter.

13 Q Now when did you telephone Mr. Jose, at or
14 about what date?

15 A July 6, 1967.

16 Q Do you recall what you told Mr. Jose at that
17 time in our oral conversation?

18 A I think I gave him a brief summary of what I had
19 done on the trip, who I had talked to, what we had discussed,
20 what we were trying to do to get this moving.

21 I also told him that as a result of various visits
22 I had had in Iran with different Iranian Army officers,
23 like General Ovesi and General Gandahari, I thought it would
24 be a good idea for them to get some helicopter models over
25 to Mr. Bolton for delivery to these people, so that they could

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1 recognize the difference between a Bell helicopter and
2 a Cayman.

3 Q Then the next day you wrote a letter to Mr. Jose?

4 A That's right.

5 MR. MARINACCIO: I would like this document marked
6 exhibit 96.

(The document was marked exhibit
96 for identification.)

9 BY MR. MARINACCIO:

10 Q I ask you to identify this document which has
11 been marked exhibit number 96?

12 A Yes, that is a copy of my file copy of my letter
13 of July 7 to Mr. Duanne Jose.

14 Q In this letter you tell him in the first sentence
15 that this letter is a confirmation of the telephone conver-
16 sation you had with Mr. Jose on July 6. And you state:
17 "As I reported to you last November, I made a trip to Iran on behalf
18 of MA. French and his company and made arrangements at that
19 time, with a representative of General Khatami, whose name is
20 Dr. Hassan Safavi, and who is the Vice President of the High
21 Council of Civil Aviation of Iran, for the formation of a
22 Persian corporation to act as the representative of Inter-
23 national Helicopter Consultants in Iran. "

24 Further on down you say: "The new company, STP, would
25 be owned by other members of the High Council of Civil Aviation,

Marion Reporting Company

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1 including General Khatami, although it would be held in the
2 name of other persons and not directly in their names."

3 A That is right.

4 Q Then you state: "Upon my arrival, I discovered
5 that during the interim period, while STP was being formed,
6 and before it was operative, Mr. French's representative in
7 Tehran, Mr. John Bolton, had, in an attempt to keeep organi-
8 zations such as the gendarmerie supplied with necessary
9 parts to keep their aircraft operative, had been continuing
10 to deal with them directly until STP became operative. Dr.
11 Safavi and other Persians involved thought he was
12 trying to do this behind their back and that we were going to cheat
13 them. Accordingly, they called everything to a halt until the
14 situation clarified."

15 Is that the situation you referred to previously?

16 A Yes, it is.

17 Q A little further down you state: "I assured Dr.
18 Safavi that the matter of the interim sales was no problem
19 and Mr. French's company would account to STP on those sales,
20 and I assured him, as a Vice President of the two companies
21 involved, if he would draw the contract he wished to have, I would
22 sign them while there. He drew them and I signed them and a
23 copy of the International Helicopter Consulstants agreement is
24 enclosed herewith. He informed me that the Persian 51 percent
25 of STP was owned percent by his own father-in-law and

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1 25 percent by Mr. Taghi Emami, who is the cousin of
 2 General Khatami. The Managing Director of STP is a Mr.
 3 Golshoyan, who is a former Minister of many departments,
 4 and a person of considerable standing in Iran, according to Dr.
 5 Safavi. Safavi also informed me that the 'great general',
 6 by whom he means General Khatami, had decided to handle
 7 transactions with STP in much the fashion he had set up for
 8 Air Taxi and Heli-Taxi, that is, one company for fixed wing
 9 aircraft and the other for helicopters."

10 Let me ask you about the discussion of the 51 percent,
 11 26 percent owned by Safavi's father-in-law, 25 percent by Mr.
 12 Taghi Emami, the cousin of General Khatami.

13 Did Safavi indicate what percentage of each
 14 of those shares, if any, was held for General Khatami?

15 A No, he didn't.

16 Q Go ahead in your own words, and describe, please
 17 what is in this letter, the remainder of it, and what your
 18 purpose in writing to Mr. Jose was and the message you were
 19 trying to convey to him?

20 A Well, I was not really trying to convey a message,
 21 I was trying to just report on what had happened. And as
 22 you have just read, Dr. Safavi indicated that General Khatami
 23 now wanted to make a division, he said, in the fixed wing and
 24 helicopter sales handling, just as he did with the operations
 25 in Air Taxi and Heli-Taxi. And I was told that another

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1 company, anotehr Iranian Company, had been formed called
 2 Helicopter Services, and that in that company Mr. Bristol,
 3 who had had an interest in Heli- Taxi, now had no interest.

4 General Rafaat, the same General Rafaat that we
 5 previously referred to as being General Khatami's representative
 6 on earlier occasions, was to be the front man or
 7 controlling man for this new Helicopter Services operation.

8 And he wanted to havethe Bell Helicopter franchise transferred
 9 to that organization.

10 Dr. Safavi strongly recommended that we try and arrive
 11 at some arrangement with Helicopter Services. We had a
 12 couple of meetings while I was there, Dr. Safavi and
 13 Genral Rafaat and me, where we tried to do that. They drafted
 14 up some kind of a contract, which I described in here, which
 15 would result in giving two-thrids of the net profits from
 16 any sales of helicopters to Helicopter Services, and one-third
 17 to STP.

18 And then I was also taken to a conference with the
 19 Managing Director of that company, a fellow named Mahvi,
 20 who was also described to me as the Managing Director of
 21 Pan American Iranian Oil Company. And he again tried to
 22 pressure me to get a copy of the franchise with Bell Helicopter.
 23 And I agreed to try to get one. I asked that I be sent
 24 one in this letter, in fact.

Merrick Reporting Company

25 Then I reported on a conference I had while in Iran

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1 with General Jablonsky, who I was told was the Commanding
2 General of all U.S. Armed Forces advisers in Iran. And I had
3 asked General Zablonsky about the proposed Iranian Army
4 Air Cavalry unit. He told me that this was just in the
5 planning stages, and they wouldn't be ready for helicopters
6 for a long time yet. But he said in the not too distant future
7 it would be necessary to commence preparation of proposals,
8 things like that, and that we should get things in order with
9 or Iranian Company to be ready to submit those proposals.

10 Q I think the document indicates that although it
11 was in the planning stages, that they foresaw it would take
12 about five years for that particular matter to come to fruition?

13 A That is right. It also indicates that at that point I
14 was very discouraged about the slowness of working with any
15 Persian committees.

16 Q Do you have any knowledge of whether or not,
17 in early 1970, Bell Helicopter did or did not in fact sell some
18 helicopters to the Air Cavalry unit in Iran?

19 A I have been told that they did, and it was my
20 understanding in fact that through their Aguste licensee,
21 they sold a large number of helicopters even prior to that.

22 Q To the Air Cav?

23 A I don't know what the ultimate destination was,
24 whether it was designated as Air Cavalry units.

Monick Reporting Company

25 Q Had you heard at that time that General Khatami

34 1 might play a role in the purchase of helicopters by
2 the Air Cavalry units in Iran?

3 A Nobody every said that in so many words, but I
4 certainly assumed it, because I assumed that General Khatami
5 controlled everything that moved in the air in Iran except
6 the birds.

7 Q So would it be fair to characterize this document
8 that has been marked as exhibit number 96 as your bringing
9 Mr. Jose up to date again of the problems that his agreement with
10 Mr. French was having in Iran with respect to Dr. Safavi
11 and General Rafaat, who were speaking on behalf of General
12 Khatami?

13 A Yes, it was my attempt to bring him up to date,
14 and to give them kind of a fresh look at all of the things
15 that Bill French had done, attempted to do, and go through
16 on behalf of Bell. Because sometime during our previous
17 telephone conversation he made a remark which made me think he
18 felt like BILL Fench had done nothing for Bell Helicopter
19 in Iran. I felt that was unfair and unreasonable of him,
20 and I wanted him to know some of the things that had been done.

21 Q After you wrote this letter to Mr. Jose, you mailed
22 it to him --

23 A I did.

24 Q What was Mr. Jose's response to this?

25 A I didn't receive one.

1 Q You did not receive one?

2 A No.

3 Q Did he call you on the telephone?

4 A I later called him. I don't recall him calling
5 me.

6 Q What transpired then?

7 A Well, at that time he apologized for not getting
8 an answer out to Bill French on some questions Bill had sent
9 him. He said he had been covered up with work. And I then
10 wrote a letter to Bill French, on July 11, describing that
11 conversation.

12 MR. MARINACCIO: I would like this document marked
13 as exhibit 97.

14 (The document was marked exhibit
15 97 for identification)

16 MR. MARINACCIO: Mr. Bell, we are going to break
17 now for lunch and return about 1:15.

18 (Thereupon, at 12:30 p.m. the questioning was
19 recessed, to reconvene at 1:15 p.m. the
20 same day.)
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AFTERNOON SESSION (1:30 p.m.)

BY MR. MARINACCIO:

Q Mr. Bell, may I remind you that you are still under oath.

A Thank you.

Q Before the luncheon break we were discussing a document which I had marked for the record as Exhibit No. 97. I will show you that document once again and ask you to identify it.

A That's a copy of my file copy of a letter I wrote to Bill French dated July 11, 1967.

Q Once again now what was your purpose in writing to Mr. French at that time?

A Well, it was to report on the developments that had occurred since my previous reports to French.

Q In this document you state, "I was not able to reach Duane Jose until yesterday and he apologized for getting no answer out to you, but he says he was covered up."

A What I said is "until today and he apologized," that's right.

Q Would you explain what the term "covered up" means?

A He just meant that he had a great amount of work to do, that apparently had a higher priority than talking to me on the telephone.

Q Now the next sentence says, "If there's no other way

1 to make the Saudi deal and they are unalterably opposed to
2 buying from an American company maybe you could give helicopter
3 service a small cut and sell to the Persian company."

4 Does that have any reference to Bell Helicopter?

5 A It does have reference to Bell Helicopter, but I
6 don't at this time recall whether that was my own idea or that
7 was a suggestion that Jose has made. I would suggest that it
8 might have been my own idea because it reveals a certain amount
9 of naivete in assuming that the Saudis would deal with the
10 Persians because I later found out that they didn't have any
11 use for each other.

12 Q And you continue in the next paragraph, "On my way
13 back I stopped in Washington and delivered our messages loud
14 and clear to the State Department." Would you explain that?

15 A The next sentence states what I told them. The
16 message was we have done everything they wanted us to do and
17 they have done nothing to help us.

18 Q Who did you talk to in the State Department at that
19 time?

20 A I think at that time I talked to a man named Bill
21 Hallman. He was a new, younger man on the Iran desk and
22 it was my understanding that he had taken the position pre-
23 viously held by Mulligan.

24 Q Did you fill in this new man with respect to the
25 total picture in Iran?

1 A Yes, I did.

2 Q On General Khatami, et al?

3 A We discussed it at great detail from the very
4 beginning.

5 Q Had he had any experience in Iran? Did he know any of
6 these matters firsthand?

7 A No, I don't believe he had.

8 Q Your next sentence says, "We are now in grave danger
9 of being terminated by Bell Helicopter and if we are that will
10 be the ballgame, so please use any influence they can to
11 keep Bell Helicopter with us and also on the other end to be
12 sure the Persians really cooperate and are not just blowing
13 smoke in our eyes." Would you explain that, please?

14 A Well, that's what I told the people at the State
15 Department, that we felt that we were in serious jeopardy of
16 being terminated by Bell Helicopter and we wanted anybody
17 in the State Department who had any such influence, if they
18 could, to use it to get Bell Helicopter not to terminate us.

19 Q This appears to be the first time in any documents
20 where you are discussing the possible termination by Bell
21 Helicopter of your agency in Iran or Mr. French's agency in
22 Iran. Had there been something transpiring within the time
23 previous to July 11 that was leading you to that conclusion?

24 A Not anything in particular, I don't believe. I think
25 you just have to take the general context that they had told us

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1 in January, that we were kind of on probation, they were
2 going to make a visit and assess the situation, they were
3 going to see how it worked, go ahead and operate in the
4 interim.

5 Well, in the interim it had not worked, and I had had
6 to go back to Iran, and I didn't hear anything that sounded
7 very impressive as a result of my second visit to Iran. And
8 we just felt that they were running out of time for us, because
9 they had known and we had known that the prospects of large
10 helicopter sales was not in the too distant future. And they
11 were becoming increasingly impatient with our apparent
12 inability to resolve the difficulties.

13 Q When you say that they knew in the not too distant
14 future there would be large helicopter sales, who in Bell
15 Helicopter would have told you that, or given you that impression?

16 A I imagine it was Jose, and perhaps by this
17 time, Kling. I don't think of anybody else that I had any
18 contact with, or that Bill had any contact with, that I know
19 of.

20 Q Could you give us some idea of the numbers
21 of helicopters that they were thinking about, and the specific
22 types of programs that they were thinking about?

23 A I never did know myself, and I don't know if Bill
24 French knew or not. I made no attempt to try and keep track
25 of things like that. All I knew was that they were just talking

40 1 about lots of helicopters.

2 Q After you wrote that letter to Mr. French, what
3 happened next in this situation?

4 A The next thing was I got a letter from Bill
5 French dated July 21, describing a report he had had from
6 John Bolton in which he had instructed Bolton to question
7 Safavi about what Mr. Arbabi, the Director of Civil Aviation
8 in Iran, and Mr. Zanghani, who was Managing Director of Air
9 Taxi and generally considered to be General Khatami's
10 representative in that company, were doing in Paris at
11 the air show, saying that General Khatami wanted the Bell
12 franchise back under Air Taxi.

13 MR. MARINACCIO: I would like to mark this document
14 as exhibit 98.

15 (The document was marked exhibit
16 98 for identification)

17 BY MR. MARINACCIO:

18 Q I show you a document and ask you to identify
19 this.

20 A Exhibit 98 is a copy of the letter that I received
21 from Bill French that I have just described.

22 Q Could you direct my attention to the portion of
23 this letter that states that Khatami wanted the Bell franchise
24 at that time?

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25 A The second paragraph says: "I also told him"--

41 1 referring to Bolton -- "to ask Safavi what in Hell Mr.
2 Arbabi and Zanghani from Air Taxi were doing in Paris,
3 saying General K"-- by whom he meant General Khatami-- "wanted
4 the Bell franchise back under Air Taxi."

5 The next paragraph then generally reports on what
6 John reported that Safavi said, which was: "I have been
7 ordered to stall."

8 Bill goes on in the rest of the letter to say that it
9 kind of makes sense that Khatami is telling Safavi to
10 stall us, so he could maneuver the Air Force into selling
11 Iranian Air Force spares so the Iranian Amery could get them
12 that way.

13 He goes on some about how he thinks the military is
14 trying to also go around the commercial end of the operation.

15 Q Is this the first occasion on which you were
16 apprized that Mr. Zanghani came into the picture with respect
17 to Air Taxi and General Khatami, in wanting the Bell
18 franchise?

19 A No.

20 Q You heard about that previously?

21 A I had heard about it back before I first went to
22 Iron. But after the agreement to form STP, this is the
23 first indication that I had received that anybody was saying
24 that Air Taxi wanted the franchise.

Manck Reprinting Company

25 Q When you heard about Air Taxi wanting the franchise

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1 on previous occasions, did you hear about that in
2 connection with the mention of the name Zanghani?

3 A I had always heard Zanghani's name mentioned with
4 it, because everybody said he was Khatami's nominee as a
5 shareholder and he was also the Managing Director of Air Taxi.

6 Q Who do you recall saying those specific things?

7 A I think Bev. French said it for one thing, on
8 my first trip into Iran. It also was incorporated in,
9 some of it anyway, was incorporated in the information in
10 Steinheil's aide memoire.

11 Q Relative to the ownership of Air Taxi?

12 A Yes. It is possible there were others, I don't
13 recall who they were.

14 Q Do you recall in any of your discussions with the
15 Bell Helicopter people previous to this, that is to say,
16 previous to 21 July, 1967, or even at any time thereafter,
17 whether or not you mentioned in connection with the ownership
18 of Air Taxi by General Khatami, whether you mentioned
19 specifically that Mr. Zanghani was acting on behalf of General
20 Khatami in those companies?

21 A No, I don't remember ever mentioning Zanghani
22 to anybody at Bell.

23 Q Now after you recieved this letter, what happened
24 next?

Monick Reporting Company

25 A Well, there was a substantial period without

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1 communication. Then on November 18 I received a call from
2 Bud Orpen of Bell Helicopter telling me that he and Dick
3 Pierrot were going to Tehran and stated that they planned
4 to stop in Beirut on the way back and contact Bill French.
5 Orpen said they were going to assess the situation in Theran
6 and Iran, for themselves, and also at the request of
7 General Jablonsky, who had personally visited Bell Helicopter
8 headquarters the week prior to that telephone conversation.

9 He told me taht General Jablonsky had told them that the
10 Gendarmerie situation was not very important, but that
11 the Air Cavalry situation with the designation of Roman
12 numeral IIAS was not working as now constituted. I mean AF,
13 thatis, not AS.

14 I then sent a cable to Bill with that information in
15 it, and it does have a typo in that last designation.

16 MR. MARINACCIO: I would like to have this
17 document marked exhibit 99.

18 (The document was marked exhibit
19 99 for identification.)

20 BY MR. MARINACCIO:

21 Q I show you a document that has been marked exhibit
22 99, and ask you to identify this document?

23 A This is a copy -- I said a cable, it is really
24 a Telex message, which I sent to Bill French on November 20.

Monick Reporting Company

25 Q This document says: "Received a call Saturday

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1 November 18 from Orpen at Bell Helicopter stating that
2 he and Pierrot are going to Tehran sometime this week.
3 They plan to stop at Beirut on their way back and contact
4 you. They are going to assess the situation for themselves
5 at the request of Jablonsky, who personally visited Bell
6 Helicopter last week. They were told the Gendarmerie
7 situation is not too important, and that the Air Cavalry
8 situation is not working as now constituted. I told them
9 contact Herb Ferguson and Joh Bolton and let me know
10 what happens."

11 Now is this the follow-up to the indication by
12 Orpen some months earlier that he would be making a trip to
13 Iran to take a look at the situation?

14 A Yes, this is the trip they had been referring to.

15 Q How much previously did they first refer to this
16 trip?

17 A Well, in January, I think, they referred to it,
18 although it is in one of the letters to us, where they initially
19 thought they might make this trip in the spring of 1967. They
20 only got around to it in the fall.

21 Q When Orpen called you, he in effect told you he
22 was going to be making this trip and you informed Bill French
23 of this?

24 A That's right.

25 Q Did he specifically say that it was for the purpose

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1 of assessing the STP situation and so on? Was that a
2 reference that was made in the conversation with Orpen?

3 A Yes, it was. I expanded a good deal on that in
4 my letter of November 20 to Bill French, a copy of which I
5 believe you also have.

6 MR. MARINACCIO: Can I mark this as exhibit 100?

7 (The document was marked exhibit
8 100 for identification.)

9 BY MR. MARINACCIO:

10 Q I show you that document and ask you to identify
11 it?

12 A Yes. That is a copy of my file copy of my letter
13 to Bill French of November 20, in which I deal with some other
14 matters, and also enclose the telex we have been discussing,
15 or a copy of it, and then expand on it a little bit.

16 Q Can you give us your testimony with respect to the
17 expansion that you refer to?

18 A Well, I told Bill that Jablonsky has been rousting
19 Bell Helicopter and they are very nervous about the Air Cavalry
20 program. That is my assessment of my words, the general
21 feeling that was conveyed to me by Orpen in the telephone
22 conversation.

23 I then relay to him that Jablonsky tells them that the
24 Air Force will not deal with STP, even though the Gendarmerie
25 wants to. I also tell him that Orpen said Bell is not too

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1 much interested in the Gendarmerie, but is quite concerned
2 with the Air Cavalry project.

3 I gave him my own reason for why I thought that might
4 be, just a guess on my own part.

5 Then I told him that Orpen and Pierrott will stop by
6 Beirut to see Bill, and suggested that he should be sure
7 and swab them out good as they are stopping on their way back.

8 What I meant by that was he should find out who all they
9 talked to, and exactly what was said as much as possible.

10 Then I told him that Orpen had promised to call me
11 when he got back and tell me what he thinks.

12 Q Did there come a time when you learned of the
13 results of Mr. Orpen's trip to Tehran?

14 A Yes. I learned of it only by receiving a copy
15 of a letter that he wrote to Bill French dated December 11,
16 1967. He never did call me as he had promised.

17 Q You didn't discuss this matter at all with any of
18 the Bell officials at that time?

19 A I did not, no.

20 MR. MARINACCIO: Would you mark this document as
21 exhibit 101?

(The document was marked exhibit
101 for identification.)

24 BY MR. MARINACCIO:

Monick Recording Company

25 Q I show you what has been marked as exhibit 101,

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1 and ask you to identify it?

2 A Yes, that is a copy of the copy of Orpen's letter
3 to French dated 11 December, which I received.

4 Q Did you ever subsequently discuss the contents of
5 this letter or these matters with any Bell officials?

6 A Only indirectly and in a very brief way in the
7 spring of 1968, when Mr. French and his Lebanese lawyer,
8 Mr. Said Nahkle, and I went to Forth Worth to request that Bell
9 Helicopter compensate Bill French in some way for commissions
10 which were going to be realized on helicopter sales that we had
11 hard by that time were being contracted for in Iran.

12 I think at that time we probably previously referred
13 to the fact of the termination of Bill as a representative for
14 Bell, but we didn't discuss it in any detail.

15 Q In your judgment, does this letter of December 11,
16 1967 effectively terminate Mr. French as Bell's representative
17 in Iran?

18 A Yes.

19 Q The letter indicates that Mr. Orpen said in the first
20 sentence of this letter: "This letter will outline generally
21 the findings of Dick Pierrot, George Kling and myself on
22 our recent trip to Iran during the week of 20 November, 1967."

23 On the second page it reads: "Our recent visit to Tehran
24 and discussions with Dr. Safavi, John Bolton, Lt. General
25 Khatami, ILAF, and Major General Jablonsky, Chief US ARMESH/MAAG,
produced no indication that your position has improved,

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1 either through intervention of the U.S. Government, or
2 other efforts of our own organization. On the contrary, it
3 appears that it will be several months before you could be
4 permitted to re-enter due to the actions still pending against
5 you. There is a serious question as to whether you would be
6 able to re-establish effective representation in government
7 service."

8 Have you ever discussed with any Bell official,
9 specifically Mr. Pierrot, George Kling, or Mr. Orpen, this visit
10 to Tehran at that time, and specifically any discussions
11 they might have had with General Khatami?

12 A I never discussed it with Kling or Orpen. There
13 is a possibility that some discussion of it occurred with Dick
14 Pierrot in the spring of 1968. I don't recall anything in
15 particular about those discussions. However, I do know that
16 prior to going to Forth Worth to make our request of them,
17 Mr. Nahkle, Mr. French and I were in Washington, D.C. and
18 we did see Mr. Pierrot, I believe, at that time. But it was
19 more in the nature of a social occasion with him than anything
20 else.

21 Q To your knowledge did Mr. French discuss the matter
22 of his termination with anybody at Bell Helicopter?

23 A Not that I know of.

24 Q So what effectively happened after Mr. French
25 received this letter from Mr. Orpen and you got a copy of this

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1 letter? Did you just realize that your contract had been
2 terminated, and that was the end of it, or what did you do?

3 A Well, I requested that Mr. French pull out copies
4 of his correspondence over the years with Bell Helicopter
5 and assemble it in some fashion to be able to show the nature
6 and extent and duration of his activities on behalf of Bell
7 in Iran and over a great many years, and bring them with him,
8 and he did, and we took them with us to Forth Worth and talked
9 to Mr. Jose and Mr. Kling and requested that some consideration
10 be given to paying him some kind of compensation or a portion
11 of a commission on some of the sales which we had received
12 information were going to be immediately forthcoming from the
13 Aguste Bell plant, and they declined to even seriously
14 consider the matter, and stated that there was clear language
15 in his franchise agreement that he was not entitled to
16 this kind of compensation and stated that anyway, these were
17 government-to-government sales, and no commissions would
18 be paid on them.

19 Q Did any Bell Helicopter official ever inform you
20 who the succeeding agent to Mr. French would be in Iran?

21 A No. I don't believe we even asked, I think we all
22 just assumed it would be Air Taxi.

23 Q What did you assume at that time happened?

24 A We assumed that Bell had decided the only way
25 they were going to sell helicopters in Iran was to have some
of the proceeds of the sale go to General Khatami in whatever

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1 fashion he wanted to have them, and that that would be
2 through the established mechanism of Air Taxi.

3 MR. MARINACCIO: I believe Mr. Collins has some
4 questions at this point.

5 BY MR. COLLINS:

6 Q Mr. Bell, in addition to Mr. French, did you ever
7 represent any other persons in Iran?

8 A Not that I can think of.

9 Q So your only dealing in Iran was representation of
10 Mr. French and his companies?

11 A That is right. And, you know, his family.

12 Q Were you ever aware that other foreign sales
13 agents in Iran had had problems similar to Mr. French's?

14 A Well, Mr. French had told me that other foreign
15 sales agents had had problems. I am not sure that it would
16 be right to characterize them as being similar to Mr. French's,
17 because his got to be quite exaggerated.

18 Q Did you ever hear of anyone being expelled from the
19 country?

20 A No, I didn't.

21 Q I believe you mentioned this morning that in your
22 discussions with the State Department personnel here in Washin-
23 ton, Mr. Mulligan, Mr. Elliott, that you told them that Mr.
24 French's business had been picking pu during the '60s to such an
25 extent that the iranian authorities wanted a cut of the business?

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1 A Yes, that is correct.

2 Q To what extent had it picked up? Do you have any
3 knowledge of the size of his business?

4 A No, I don't have any way of giving you any figures
5 on that. The thing I was referring to had more to do with
6 the operations end, actually operating aircraft in Iran,
7 than with sales.

8 Q Was he operating more aircraft?

9 A Yes.

10 Would you say when he came in it was with one aircraft
11 in 1963 and it was 10 in 1967?

12 A No, I don't think he ever had as many as 10. But
13 he had the Cessna 180 operating on some kind of a mapping
14 contract for a company called International Management and
15 Engineering Group out of London, IMAEG. I think they were the
16 contractors establishing the route of this big pipeline
17 for gas that now delivers gas to the Russians.

18 He also had I think a dehavilland beaver doing some
19 kind of support work for a contractor, and then he had been
20 attempting to have a Bell G-3 do some tower lifting
21 activities in connection with some kind of an electrical
22 tower installation.

23 Those are about the only three I know of. It seemd
24 to me the IMAEG contract, though, that really infuriated
25 General Khatami, because the IMAEG people got operating

52 1 permission for that aircraft from another General, and I
2 don't know which one.

3 Q What is IMAEG?

4 A International Management and Engineering Group
5 in London. They were mapping out the route for the gas pipeline
6 And General Khatami discovered that they had gone around
7 him with that, and that seemed to really infuriate him. That
8 is about all I know about the extent of his activities.

9 Q That was enough, though, to trigger their
10 interest in his company?

11 A It certainly seemed to be.

12 Q In your discussions with the State Department
13 people in Washington, I believe one of them recommended that
14 you go to Iran and speak with Iranian officials to try to
15 work out some type of arrangement that would be satisfactory
16 to them and to Mr. French?

17 A Well, he really recommended I go talk to General
18 Khatami. He didn't say Iranian officials.

19 Q But that had to do with the business of Mr. French,
20 not Mr. French's attempt to re-enter Iran?

21 A It was my understanding it would have to do with
22 both. I was trying to accomplish what I could in both areas,
23 although I was always told that it was less likely that
24 I would be able to secure Mr. French's personal return to
25 Iran than I would be able to accommodate some arrangement where

53 1 the businesses could proceed.

2 Q But you feel that the State Department officials
3 meant for you to talk business with General Khatami, not just
4 the re-entry of Mr. French?

5 A That is the way I understood it.

6 Q Did you ever question in your own mind, or in
7 conversations with others, whether it would be proper to
8 form a company with Iranian government officials as silent
9 partners?

10 A No.

11 Q Did you ever discuss the propriety of such company
12 with the State Department officials or with Bell Helicopter
13 employees?

14 A No, not with respect to propriety.

15 Q Did you feel it was an appropriate way for
16 Mr. French to act?

17 A Yes. I had a background as an undergraduate in
18 college as a sociologist. In that connection, I had studied
19 a great many different societies and cultures than our own,
20 so it made sense to me when Mr. Elliott said it was necessary
21 in operating in another man's culture to accommodate yourself
22 to that culture. And that didn't seem at all strange in that day
23 and age, before the concept of modern puriticism that
24 the Americans seem to want to impress on the rest of the
25 world.

Monet Reporting Company

Q When you went to Iran in 1966, I believe in October

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1 1966, you mentioned you stopped in London on the first
2 leg of the trip. Did you go to London to conduct any
3 business on behalf of Mr. French?

4 A Yes, I did.

5 Q With whom did you meet there, or what was that
6 business?

7 A I met with a gentleman whose name I don't recall
8 at the moment, who was a claims adjustor for Ibex House
9 of Lloyds of London, who was adjusting the claim for the G3B5
10 helicopter which had crashed about a month before I commenced
11 my trip.

12 Q So that was the only business you discussed with
13 him?

14 A Yes.

15 Q When you met with Dr. Safavi in Iran, you
16 indicated that Dr. Safavi told you that Mr. French had committed
17 crimes against certain of the aviation laws of Iran.

18 What was your opinion of those charges?

19 A My opinion was that they were false and trumped-up,
20 because they had been so long in being able to even come up
21 with those charges, from the time when they barred Mr. French
22 from the country until we were able to get them to state
23 anything. It is a little bit like the situation with a fresh
24 complaint in a rape case.

Monick Reporting Company

25 Q But when they did come up with the charges, had he

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1 in fact done certain things that they were charging him with?

2 A I subsequently found that he had not, on
3 my second trip to Tehran, when I secured release of the
4 Cessna 180 aircraft, which had been seized and held by Iranian
5 officials during this entire period of time. I obtained
6 possession of the log book to the aircraft and discovered
7 that the Iranians had been unable to properly read the log book,
8 and that the flights they were alleging to have been taken
9 by Mr. French were actually piloted by a pilot named Wilson,
10 and what they were reading was Mr. French's entry in the log
11 of such things as certification of proper inspection at 100
12 hours, things like that, that are required under the FAA
13 regulations.

14 Incidentally, in that connection, I might call your
15 attention to a statement in one of the last letters we ever
16 got from Bell Helicopter stating that charges were still
17 pending against Mr. French, which they might have been in
18 a technical sense, but at the time the aircraft and the log
19 were released to me, Dr. Safavi informed me that that
20 precluded the effective maintenance of prosecution of the
21 charges against Mr. French, since that was the only evidence
22 they had.

23 Q So Mr. French would be free to return to Iran today?

24 A No, I wouldn't say that. Because the problem of
25 Mr. French's return to Iran at that time had nothing to do

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1 with these trumped-up charges in reality. It had to do
2 with General Khatami's enmity. I don't know how many
3 close friends of General Khatami still survive in Iran, but
4 perhaps the enmity still does.

5 Q When you met with Mr. Feliton, Mr. Jose and
6 others in Forth Worth in November 1966, was it clear to you
7 that the dealership agreement between Bell Helicopter and
8 Mr. French was in any type of danger of being terminated?

9 A Yes, it was clear to me.

10 Q During that meeting?

11 A Well, it had been made clear to me prior to that
12 meeting, Bill French had told me that.

13 Q But during the meeting did you get any inclination
14 from Bell Helicopter that the agreement might be terminated?

15 A Yes, I did. That is kind of summarized, I think,
16 in my reports and comments on the meeting. They were sending
17 me a letter not long after that, in fact, objecting to
18 Bill French's being unable to personally go to Iran, saying
19 they did not find that satisfactor; however, they were allowing
20 us to continue on an interim basis until they could further
21 assess the situation.

22 Q You mentioned when you met with Mr. Ducayet that
23 you told him you had met with the State Department officials.
24 Did you discuss with him at that time what your conversations
25 were with the State Department officials?

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1 A Yes, I think I related pretty much the entire
2 circumstance of the conversation. I think I probably even
3 told him who I talked to.

4 Q And you were referring to which meeting with the
5 State Department officials?

6 A That was the meeting principally in the beginning
7 with Elliott, although I am sure I had subsequent conver-
8 sations with Thatcher, Ferguson and Harlan.

9 Q Do you recall what you did tell, the specifics
10 of what you told Mr. Ducayet?

11 A Well, my best recollection of it is what I recorded
12 later in my letter to Zuke. I think I told him all of those
13 specifics.

14 Q Concerning the meeting you had with State Department
15 officials?

16 A Yes.

17 Q Do you have that with you?

18 A Yes, I do. On the first page I mentioned
19 contacts with the State Department, more specifically Mr.
20 Elliott, who is in charge of the Iran Desk and his
21 assistant, Mr. Mulligan.

22 Q I believe that was the only reference in there
23 to these contacts?

24 A On page 3, I say "Throughout his stay in Iran, the
25 writer kept in touch with the U.S. Embassy, and the principal

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1 contacts were Harlan, Ferguson; thereafter I had contact
2 with Safavi. " I don't mention Thatcher.

3 Q But as to the content of the conversation you
4 had with the State Department officials, did you convey those
5 things to Mr. Ducayet?

6 A Only to the extent that I did in that letter
7 to Zuke, I am sure.

8 Q You had been in touch with these people and
9 maintained contact with them?

10 A The letter kind of speaks for itself, I think.
11 That is my best recollection of it.

12 Q Did you ever meet the Shah?

13 A No. I thought of trying to do so on one
14 occasion when he was to visit this country, but I was unable
15 to secure an appointment.

16 Q How did you go about trying to secure the appoint-
17 ment?

18 A I think I asked Mr. Hallman at the State Department
19 to see if he could arrange an appointment for me.

20 Q Did you ever meet Mr. Miller, the President of
21 Textron?

22 A No.

23 Q You have had no correspondence with him ?

24 A None.

25 Q When did you first hear about the \$2.9 million

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1 payment by Bell Helicopter to Air Taxi?

2 A It has been almost a month ago now, when I read
3 it in the Wall Street Journal, as a result of these hearings.

4 Q That was the first time?

5 A Yes.

6 Q What was your reaction at that time?

7 A I was surprised.

8 Q Would your reaction have been the same in
9 1973, when they did make the payment?

10 A I suppose it would have been. I would have been
11 surprised at the size of the payment.

12 Q Would anything else concerning the payment have
13 surprised you?

14 A No.

15 Q In addition to the size?

16 A No.

17 Q As to the Cessna dealership, do you know when
18 MM. French was terminated on that?

19 A I don't have an independent recollection of it,
20 but it was a few months, anyway, after the Bell representation
21 was terminated. I think it was more like the middle of '68,
22 or maybe even towards the end.

23 Q Did they get a new representative in Iran?

24 A I later understood that they did. I was told at
25 one point that they were going to try and have some newly

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1 formed company represent them in Iran. I received that
2 information very indirectly.

3 And then at a later date I was informed they had finally
4 given up and had appointed Air Taxi to be their representative
5 also.

6 Q I realize you have never talked with Mr. Miller,
7 but did you have any information that would indicate that
8 Mr. Miller knew of the connection between General Khatami and
9 Air Taxi?

10 A No, I don't have any information which would
11 indicate that.

12 Q When you visited and spoke with Bell Helicopter
13 employees, did they ever indicate that Mr. Miller would have
14 to approve any documents, or did they indicate that he would
15 have to at least have knowledge of what they were doing?

16 A I never heard his name or office mentioned.

17 Q In exhibit 96, the letter of July 7, 1967, to
18 Mr. Jose, on page 2 you indicate at the top of the page the
19 ownership interest in STP. You indicate that 51 percent
20 would be owned by members of the High Council of Civil Aviation.
21 On the bottom of that page you indicate that the 51 percent
22 was owned 26 percent by Safavi's father-in-law, and 25
23 percent by Mr. Emani, a cousin of General Khatami.

24 Were these people, Dr. Safavi's father-in-law and Mr.
25 Emani, were they members of the High Council of Civil Aviation?

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1 A Not to my knowledge.

2 Q What was their ownership interest in STP? Were
3 they in fact the true owners of the stock, do you believe?

4 A I didn't believe they were, I thought they were
5 nominees.

6 Q So you understood these people to be further nominees
7 down the line?

8 A Yes.

9 Q That is, Dr. Safavi was the nominee in the
10 beginning and then these people were standing back of him?

11 A That was my understanding of it.

12 Q Also that document, the July 7 letter, the name
13 Mr. Golshoyan is mentioned, the Managing Director of
14 STP. It is at the bottom of the page.

15 A Yes.

16 Q In exhibit 100, a letter from you to Mr. French
17 dated November 20, 1967, on the second page, the last
18 paragraph, you say: "A copy of Golshoyan's letter to
19 you" -- that is, from French-- "dated November 5, 1967, is
20 the first one I have seen. I do not plan to make any
21 response to their idiotic demand unless you want me to.
22 It looks to me like those crooks are trying to get their
23 hands on a little more cash before we pull the string on them.
24 Don't you agree?"

Monick Reporting Company

25 Would you indicate who Mr. Golshoyan was, and what you

1 were referring to in your November 20 letter to Mr. French?

2 A By that time we were pretty certain that all of this
3 had just been an excessively elaborate stalling operation,
4 on the part of Dr. Safavi, under instruction from General
5 Khatami. And we had been told, as I said in my earlier
6 letter, that Golshoyan was a former minister and a variety
7 of other things. We didn't necessarily believe all of that
8 by this time, we felt Dr. Safavi was being truthful with
9 us, more as an exception than as a rule, and we felt that
10 they were only out to extract as much additional money as they
11 could from Bill French before letting the whole house of
12 cards come crashing down.

13 Q What were the demands that you referred to in the
14 letter?

15 A I think they were demands for direct representaion,
16 and transfer of the franchises to STP, matters like that.
17 I think maybe they were also requesting some additional
18 operating funds be sent to them, because they had used up
19 supposedly the initial capitalization.

20 Q That is of STP?

21 A Yes.

22 Q They wanted Mr. French to come up with more money?

23 A Yes.

24 Q Do you know how much money?

25 A No, I don't remember how much they asked for.

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1 It is my recollection it was just something that struck us
2 as a ridiculous amount.

3 Q Exhibit 97, a letter dated July 11, 1967 from
4 you to Mr. French, refers to a Saudi deal. You touched on
5 that briefly earlier. Was Mr. French involved in sales
6 on behalf of the Bell Helicopter in Saudi Arabia?

7 A I think he had been told that he could attempt
8 to seal on a non-exclusive basis in Saudi Arabia. And he
9 had received intelligence indicating the possibility of a
10 helicopter sale and that is what we were talking about.

11 Q So you have no knowledge of any sales that he
12 made in Saudi Arabia?

13 A No. In fact, my general knowledge would indicate
14 to me that I don't think he did make any in Saudi Arabia.
15 I think he spent a lot of time chasing rumors like this to
16 no effect.

17 Q Exhibit 98 is a letter dated July 21, 1967, from
18 Mr. French to you. In the middle of the page, paragraph 5,
19 Mr. French refers to the fact that Dr. Safavi indicated that
20 General K -- I assume that is General Khatami -- doesn't really
21 want Air Taxi to have the Bell franchise, but Helicopter
22 Services.

23 A Yes.

24 Q Did you have any knowledge that General Khatami
25 wanted Helicopter Services to have the Bell franchise?

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1 A Not necessarily, though Safavi said it and
2 Rafaat said it while I was there. But that certainly didn't
3 make it so.

4 Q You never discussed Helicopter Services with
5 General Khatami?

6 A No, I never saw him again.

7 Q But Dr. Safavi and General Rafaat did mention
8 this to you?

9 A Yes, in June of 1967, when I was there on the
10 second trip.

11 Q Did the name Helicopter Services ever come up when
12 you were discussing these matters with Bell Helicopter
13 employees?

14 A Well, I think I included it in my report, after
15 my '67 trip, to Duanne Jose, in that long letter I think
16 I referred to.

17 Q Did he ever respond to you mentioning Helicopter
18 Services?

19 A Not that I recall.

20 Q Mr. Steinheil wrote a letter to General Pakravan,
21 and we discussed that this morning, indicating that Mr. French
22 had been given a bad deal in being expelled from the country.
23 Did General Pakravan ever correspond with you with respect
24 to the situation?

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25 A No, he didn't, and I think you ought to review

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1 the chronology of that, because that aide-memoire to
2 General Pakravan preceded Bill French's expulsion from the
3 country by slightly less than a month.

4 Q But it did mention that certain Iranian officials
5 were trying to gain an interest in his business?

6 A Oh, yes.

7 Q But General Pakravan never responded to you in
8 any way?

9 A No, he didn't respond to me at all; I never talked
10 to him.

11 Q You never heard whether he responded to Mr.
12 Steinheil?

13 A I was told he made some kind of response orally
14 to Mr. Steinheil, that there was nothing he could do about it.

15 Q What was his position in the government?

16 A I was told he was the Minister of Information and the
17 original founder of the Iranian secret police, but I
18 don't know if it is so.

19 MR. COLLINS: Thank you.

20 MR. MARINACCIO: Mr. Dougherty?

21 BY MR. DOUGHERTY:

22 Q Mr. Bell, could you give us a little more
23 information about your background, your legal education?

24 A I was born in Wichita, Kansas, educated in the
25 public schools, mostly in Hutchison, Kansas, attended

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1 Princeton University, received a AB in 1952 with a major
2 in sociology, attended Harvard Law School, got a LLB in
3 1955, which has since been magically converted retroactively
4 to JD.

5 I served in the Navy as a legal officer from 1955 through
6 1958. In between graduating from law school and serving in
7 the Navy, I practiced for a very very short while, a few
8 months, in Boston.

9 Upon being released from the Navy, I returned to
10 Wichita, Kansas and worked for the Garvey family enterprises
11 for approximately two years, then returned to the general
12 practice of law with the firm of Morris, Lang, Evans & Brock,
13 where I was for 14 years, and I left them in June of 1974,
14 and am now in the firm of Brick and Bell.

15 Q The activities, then, that you have described
16 here took place while you were with your former law firm?
17 Is that correct?

18 A Yes.

19 Q Could you describe to us, sir, the make-up of that
20 law firm and your position in that firm?

21 A It was about, by the time I left, it was about
22 an eight-man law firm. When I joined them I was number six,
23 and at the beginning of this period of time I was a junior partner
24 in the firm, very junior.

Mancini Reporting Company

25 Q What was your position there when you left?

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1 A Well, I hadn't moved ahead of the other partners.
2 The senior partner died, so there were fewer ahead of me,
3 and more behind me. It was about a eight-or-nine-man firm
4 by the time i left.

5 Q Were you a partner at that time?

6 A Yes, I was still a partner.

7 Q Since then you have opened your own firm, is that
8 right?

9 A That is correct, in partnership with Sidney Brick.
10 We employ one associate.

11 Q Could you describe for us, sir, any professional
12 memberships or professional accomplishments, specific
13 accomplishments, anything along this line?

14 A Well, I am a member of the Panel of Arbitrators
15 of the American Arbitration Association, and have been for
16 a number of years.

17 I am presently a member of the Wichita-Sedgewick
18 Area Planning Commission. I am a member of course of the
19 Sedgewick County Bar, the Kansas Bar, and the American Bar
20 Association.

21 I have continued to maintain my standing in good stead
22 as a member of the Bar of the Supreme Judicial Court of the
23 Commonwealth of Massachusetts.

Monic Reporting Company

24 I was one of the founding directors and continue and
25 am presently Chairman of the Board of Directors of Pre-Paid
Legal of Kansas, a Bar-sponsored organization.

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1 I am a member of a couple of boards of directors
2 of small corporations that I represent. That is about all
3 I can think of.

4 Q Mr. Bell, do you have any information that would
5 bear either favorably or unfavorably on the weight which
6 should be accorded the testimony that Mr. French has given
7 here?

8 A Well, I think it would be fair to say that Mr.
9 French and I have discussed the possibility that if
10 Textron ultimately produces sufficient information for this
11 or any other group which might be available to us, to indicate
12 that the statements of Mr. Miller, which I have read in the
13 transcript to the effect that the payment to Air Taxi in
14 1972 was a fair and normal and usual manner of proceeding
15 with their discharged representatives, we will be considering
16 the possibility of some kind of litigation against them,
17 although we certainly have not reached any conclusion with
18 respect thereto.

19 So in that sense, I would say that he is testifying
20 in the matter with a pretty neutral position.

21 Q The litigation would be based to some extent
22 on the prior services rendered by Mr. French to Bell Helicopter?

23 A That is right.

24 Q In addition to the charges that were brought
25 against Mr. French in Iran, are you aware of whether Mr. French

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1 has ever been the subject of any other law enforcement
2 proceedings, either civil or criminal or otherwise?

3 A No, I am aware of no others.

4 Q Did you inquire at all into that area in
5 connection with your representation of him?

6 A No, not at the beginning.

7 Q COuld we request of you, Mr. Bell, to ask Mr.
8 French whether he ever has been the subject of any law
9 enforcement proceedings, either civil or criminal, and to
10 report back to us by sometime tomorrow?

11 A Certainly, I would be glad to.

12 Q Thank you, we appreciate that.

13 Are you aware of any personal animosity, if any,
14 on the part of Mr. French toward Bell Helicopter or any Bell
15 officials?

16 A Q Well, I know he wasn't very happy with some
17 individuals back at the time he was going through all of these
18 problems. But I don't think it would rise to the dignity of
19 being called personal animosity. So I think it would be fair
20 to say that I am not aware of any.

21 Q Are you aware of any, in addition to what you
22 mentioned, any pending litigation or any contemplated litigation
23 between Mr. French and Bell Helicopter?

24 A No, I am not.

25 Q Have you, sir, ever been the subject of any law

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1 enforcement proceedings, either criminal or civil?

2 A No, I have not.

3 Q Or any proceeding by any professional society?

4 A No. I suppose the closest I ever came was
5 when I was in Voluntary Defenders at Harvard, and just after
6 I had had an interview with him, Elmer Trigger Burke had a
7 famous escape and they interviewed me in connection with it.
8 They were satisfied I had no part in it.

9 Q Do you have any additional information, Mr. Bell,
10 that you feel would shed any further light on this subject?

11 A Not that I can think of.

12 MR. MARINACCIO: Mr. Freed.

13 BY MR. FREED:

14 Q I just have a few questions. Mr. Bell, in the
15 July 11, 1967 letter that you sent to Mr. French, you mention
16 that "I was not able to reach Duanne Jose until today,
17 and he apologized forgetting no answer out to you, but says
18 he was covered up," referring to the amount of work he
19 had.

20 Was it at about that time that you began -- did you
21 find that at that time or any time around then you began
22 having difficulty getting in contact with Bell officials
23 about Mr. French's dealings with them?

24 A Well, I wouldn't say that that would really be
25 a fair characterization of it. I had difficulty getting
in touch with Bell officials throughout this whole affair.

7 1

1 They just seemed to always be difficult to get hold of.

2 Q Did you have the feeling through 1967 that they were
3 getting more difficult to get in touch with as they were
4 perhaps planning to drop Mr. French as their sales representative
5 in Iran, and switch to another concern?

6 A I don't recall ever having the impression that they
7 were more difficult to get hold of, no.

8 Q I want to ask you some questions about the
9 manufacturers' representative agreements that were signed,
10 entered into by International Helicopter Consultants, Mr.
11 French's firm, and Bell Helicopter.

12 Mr. French signed the first manufacturer's representative
13 agreement with Bell in 1964. Is that correct?

14 A He tells me that he signed the first one in 1969
15 but it was for countries other than Iran. I think it was
16 Kuwait, perhaps.

17 Q You said 1969. Do you mean 1959?

18 A No, I mean 1961. If I said something different,
19 he informed me that it was '61, I believe, when he signed
20 his first agreement with Bell. It was for a country other
21 than Iran. Everything I know of his agreements with Bell
22 Helicopter just comes from what he has told me and what I
23 recall from his files actually, other than that one agreement
24 I was finally given a copy of. All of that really preceded
25 my active involvement with this.

DB72

1 Q That agreement you were given a copy of was
2 the agreement signed between International Helicopter
3 Consultants and Bell in 1965?

4 A Yes.

5 Q Were any other manufacturers representative
6 agreements signed subsequently between International Helicopter
7 Consultants or Mr. French and Bell?

8 A Not that I know of.

9 Q In light of the creation of STP, to be the
10 intermediary by which Mr. French would do business in Iran,
11 were there any of these manufacturers representative agreements
12 changed or amended or revised?

13 A No more than the letter from Jose in January
14 of 1967 would indicate. That was very brief, you know, just
15 saying this is a temporary authorization to continue until
16 we can investigate this thing.

17 Q Did Bell Helicopter ever suggest any changes
18 to those?

19 A Not until December 11, 1967, when they
20 terminated his representation for Iran.

21 Q Now the 1965 representative agreement, Schedule A,
22 lists the commissions to be paid to International Helicopter
23 Consultants for the sale of helicopters and states, for
24 instance, that the International Helicopter Consultants is
25 to be paid either ten percent or \$7,000, depending upon the

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1 type of model. Then on the UH 1 series, and the
2 OH 13 series, the size of the commission was to be negotiated.
3 Did this commission arrangement change at all when STP
4 entered the picture as the intermediary for dealing in Iran?

5 A Not that I know of.

6 Q In other words, the commissions would remain the
7 same, and the amount of money received would be split with
8 STP?

9 A That was my understanding of the prospective
10 handling of it.

11 Q How much money did International Helicopter
12 Consultants receive from Bell Helicopter for its sale of
13 helicopters and spare parts in Iran at the time it was
14 Bell's agent there?

15 A I don't know exactly how much. It was such a
16 small amount that I would be inclined to say in legal
17 terminology we would call it de minimus.

18 Q Was any amount of money, any commissions outstanding
19 at the time that Mr. French's representation in Iran was
20 terminated by Bell?

21 A No, I don't think so.

22 Q Did Bell pay --

23 A Other than what we were asking that he be
24 compensated for, which we didn't regard as a commission
25 outstanding.

DB 74

1 Q What did you feel should be compensated?

2 A We just asked that he be compensated for all
3 of his years of activity of attempting to push Bell Helicopter's
4 products, many many varieties, in every area of Iranian
5 officialdom, be compensated in some way in view of termination
6 at a time when they anticipated substantial sales in the not
7 too distant future.

8 Q Did Bell reimburse Mr. French or International
9 Helicopter Consultants for expenses that they incurred
10 for trying to promote Bell's sales in Iran?

11 A No.

12 Q Did Bell Helicopter pay any money to Mr. French
13 or International Helicopter Consultants at the time of the
14 termination or as a result of the termination?

15 A No.

16 Q When you talked with Bell officials about trying
17 to receive some payment, what did they say to you?

18 A They said that no such payment would even be
19 seriously considered by them.

20 Q These discussions were in the spring of 1968?

21 A Yes.

22 Q Who did you speak to at that time?

23 A I spoke with Kling and Jose, I think. It could
24 have been Kling and Orpen. But I think it was -- well, I am
25 not sure which two to tell the truth. I think it was Kling

DB 75

1 and Jose.

2 Q What contribution, if any, do you think Mr.
3 French or his company made to promoting the sales of Bell
4 helicopters in Iran or in laying the groundwork for subsequent
5 sales after his sales representation was terminated?

6 A I think he made substantial contributions to the
7 ultimate sales of Bell helicopters by laying the general
8 foundation of knowledge of even what a helicopter is, and
9 directing attention to specific qualities of Bell's that
10 were superior to other types of helicopters, in the opinion
11 of Mr. French and Bell Helicopter, and in inculcating that
12 in the minds of substantially all of the leading generals
13 in the Army, the Air Force, the Gendarmerie, and in most
14 of their subordinates and in most of their U.S. Army
15 advisors.

16 Q Did Mr. French introduce Bell officials at all
17 to any of the key people in Iran, who would make the decisions
18 on purchasing certain helicopters?

19 A From time to time I am led to believe he did.
20 I can't give you specific instances of it, however.

21 Q I have one final question. Will you benefit
22 in any way from the testimony that you have given today
23 in respect to this matter?

24 A I can't see how.

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25 MR. MARINACCIO: Thank you very much for your

DB 76

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testimony, Mr. Bell.

(Thereupon, at 2:40 p.m. the questioning of Mr.
Bell was concluded.)

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UNITED STATES SENATE
STAFF OF
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

STAFF INVESTIGATION RELATING TO
THE NOMINATION OF
G. WILLIAM MILLER

VOLUME VIII
Washington, D.C.

Wednesday, February 15, 1978

Acq-Federal Reporters, Inc.
25

C O N T E N T S

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WITNESS:

Edwin J. Ducayet

EXAMINATION

1088

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P R O C E E D I N G S

1
2 MR. MC LEAN: Mr. Ducayet, thank you for appearing
3 before the staff of this inquiry. My name is Kenneth A. McLean.
4 I'm the Staff Director of the Senate Committee on Banking,
5 Housing and Urban Affairs, and as you know the staff is con-
6 ducting an inquiry into the circumstances surrounding a payment
7 of \$2.9 million by Bell Helicopter to the firm of Air Taxi in
8 1973.

9 This inquiry was directed by the Committee in the
10 course of its hearings on the nomination of Mr. G. William
11 Miller to be a member of the Board of Governors of the Federal
12 Reserve System.

13 With me today are Mr. Charles Marinaccio, special
14 counsel to the Committee, and he will lead the interrogation.
15 Also at the table is Mr. Bruce Freed, a professional staff
16 member; Mr. John Collins, counsel to the minority; and Mr.
17 David Doherty, who is a staff member of the Securities and
18 Exchange Commission but he's on special detail to the Committee
19 staff at the request of the chairman of our Committee, Senator
20 William Proxmire.

21 Mr. Marinaccio will swear you in, Mr. Ducayet, and
22 will advise you of your rights and will make certain other
23 disclosures prior to initiating the questions, and others of
24 us may ask questions from time to time.

25 MR. MARINACCIO: Mr. Ducayet, as Mr. McLean has

1 indicated, we have been authorized by the Senate Banking
2 Committee to place the witnesses under oath and we will be
3 placing you under oath very shortly and in that connection I
4 must tell you that any statements that you do make under oath
5 will be subject to all of the laws regarding U.S. Senate pro-
6 ceedings with respect to perjury or false statements of the
7 witnesses and the testimony that you give may subsequently be
8 used in an enforcement proceeding by an executive branch of
9 the U.S. Government.

10 In those respects you are certainly entitled to have
11 counsel present with you and you do have counsel, and I would
12 ask you to identify your counsel and have them identify them-
13 selves for the record at this point.

14 MR. SOUTTER: I am Thomas Soutter, vice president
15 and general counsel of Textron.

16 MR. GALERSTEIN: I am George Galerstein, legal
17 counsel for Bell Helicopter, Textron.

18 MR. MARINACCIO: Mr. Ducayet, will you rise and
19 raise your right hand. Do you solemnly swear that the testimony
20 you are about to give will be the truth, the whole truth, and
21 nothing but the truth, so help you God?

22 MR. DUCAYET: I do.

23 MR. MARINACCIO: Please be seated.

1 Whereupon,

2 EDWIN J. DUCAYET

3 was called as a witness and, having been first duly sworn, was
4 examined and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. MARINACCIO:

7 Q Would you state your full name for the record, please.

8 A Edwin J. Ducayet.

9 Q Mr. Ducayet, were you president of Bell Helicopter
10 during 1960 and up to 1972?

11 A Yes.

12 Q What positions have you occupied in Bell Helicopter
13 since 1972? .

14 A In 1972 I was the chairman, up from president to
15 chairman, for the last year. I retired after that. I've held
16 no positions since then.

17 Q When did you retire?

18 A May I add --

19 Q You may, sir.

20 A I did do some consulting work for them on one or two
21 occasions.

22 Q When did you retire from Bell Helicopter?

23 A December 31, 1972.

24 Q And you were chairman of Bell Helicopter during what
25 period of time?

1 A 1972, one year.

2 Q I see. When did you become president of Bell
3 Helicopter, what year, do you recall?

4 A 1960, when Textron bought us, July 1, 1960.

5 Q Were you the chief executive officer of Bell Helicopter
6 from 1960 and through 1972?

7 A Yes, sir.

8 Q And you were a board member, were you not, of Textron?

9 A Not during that period.

10 Q When did you first become a member of the board of
11 Textron?

12 A April '73.

13 Q And have you served continuously since April of 1973
14 as a board member of Textron?

15 A Yes, sir.

16 Q And you're still a board member of Textron?

17 A Yes, sir.

18 Q And Bell Helicopter is a subsidiary of Textron; it's
19 a division of Textron?

20 A Division of Textron, yes.

21 Q Who was responsible primarily for your becoming
22 employed by Bell Helicopter in 1960? Would that have been
23 G. William Miller? Did he refer you for that position?

24 A No. I worked for Bell Aircraft at the time when
25 Bell Helicopter was bought by Textron.

1 Q As chief executive officer of Bell Helicopter during
2 the 1960s, were you aware of and did you have responsibility
3 for the retention of manufacturer's representatives in foreign
4 countries?

5 A As the chief executive officer, I was responsible for
6 everything that went on I would say.

7 Q As chief executive officer of Bell Helicopter, were
8 you aware that Air Taxi was retained as your manufacturer's
9 representative from approximately the period 1959 until 1964?

10 A I remember that Air Taxi was our representative
11 during some period. I can't say exactly when.

12 Q During that approximate period of the early 1960s?

13 A I honestly don't know. I don't know when we started
14 with Air Taxi.

15 Q Do you have a recollection of Air Taxi being your
16 representative in Iran during the early 1960s, 1960, 1961, 1962,
17 1963?

18 A No.

19 Q You do not have any recollection of that?

20 A I just don't remember. I have no idea when we
21 started with Air Taxi.

22 Q Do you have any recollection of International
23 Helicopter Consultants, Mr. French, being your representative --
24 being Bell Helicopter's representative in Iran for approximately
25 the period 1964 to 1968?

1 A No, sir. I remember that there was -- that someone
2 represented us in Iran during I'll say that rough period, some
3 time during the '60s. The name of French I only remember
4 because it's been recently brought up. I couldn't have told
5 you the man's name and I don't remember the company at all.

6 Q Were you aware that Bell Helicopter retained Air
7 Taxi to represent it as its manufacturer's representative in
8 Iran from approximately 1968 on forward into 1972 when you left
9 as president of Bell Helicopter?

10 A Yes. I was aware that they were our representative
11 during the last few years I was there.

12 Q Were you familiar then with the circumstances
13 relating to the retention of Air Taxi in 1968 as your manu-
14 facturer's representative in Iran?

15 A No, I know of no particular circumstances of taking
16 them on.

17 Q During the course of your presidency, being chief
18 executive officer of Bell Helicopter during the 1960s, do you
19 have a recollection of meeting with Robert Bell who was the
20 attorney for Bell Helicopter's representative in Iran at that
21 time?

22 A I have no recollection of ever meeting with a Mr. Bell--
23 that Mr. Bell.

24 Q Specifically, do you recall meeting with Mr. Bell,
25 attorney for Mr. French and International Helicopter Consultants,

1 your manufacturer's representative in Iran, on May 2, 1966?

2 A I have no recollection of ever meeting the man. .

3 Q Excuse me. It wasn't May 2, 1966. It was November 2,
4 1966.

5 A I still have no recollection of ever meeting the man.

6 Q Do you recall that you did not meet with Mr. Bell on
7 that day?

8 A No. I have no recollection of the gentleman or ever
9 meeting with him or not meeting with him. He just means nothing
10 to me. The whole thing means -- I just have no recollection at
11 all of meeting with a lawyer or a Mr. Bell that represented
12 French. If you had asked me until very recently who the man
13 was in Iran that represented us, I couldn't have told you
14 French even. I knew there was somebody.

15 Q Who is Mr. Jose?

16 A Mr. Jose is an employee of Bell Helicopter. He
17 worked for us during that period. He was in charge of I guess
18 all marketing -- for part of that period he was in charge of
19 all marketing I guess.

20 Q And did Mr. Jose report directly to you?

21 A Mr. Jose probably reported through Mr. Atkins to me.
22 Mr. Atkins was executive vice president. This is hard to
23 remember because the organization has changed. I believe you
24 will find that's what it was.

25 Q In his responsibilities during that period of time,

1 was Mr. Jose responsible for marketing in Iran, marketing Bell
2 Helicopter products in Iran?

3 A What period are we talking about?

4 Q 1966, 1967, 1968.

5 A I believe he was, yes.

6 Q And who, to your best recollection, worked for or
7 under Mr. Jose at that time with respect to the marketing of
8 Bell Helicopter products in Iran? Do you have a recollection
9 of Mr. Orpen?

10 A Yes.

11 Q What was his position?

12 A I believe Mr. Orpen worked for Mr. Jose during that
13 period. I can't say exactly what his position was.

14 Q Do you recall Mr. Kling working for your organization
15 around that period of time?

16 A I have a vague recollection of a Mr. Kling, but that's
17 all. We have a lot of people working for us.

18 Q How about a Mr. Feliton?

19 A The name doesn't mean anything to me except what I
20 read in the newspapers.

21 Q What is your recollection with respect to on or about
22 November 2, 1966 Mr. Jose coming into your office at Bell
23 Helicopter in Texas bringing with him Mr. Robert Bell, attorney
24 for Mr. French and his companies in Iran, and telling you in
25 substance that he was bringing Mr. Bell in to talk to you

1 because he had something very interesting to tell you about in
2 Iran.

3 A I have no recollection of my ever meeting him.

4 Sir, may I elaborate a little bit?

5 Q You may indeed.

6 A When you're the head of a company like that and you
7 have a lot of representatives being brought in -- foreign
8 people, domestic people, military people -- they all want to
9 meet the president and it is not at all unusual for almost
10 anybody to be dragged in to say hello to the president. I can't
11 remember them all.

12 Q Do you have any recollection or what is your recollec-
13 tion with respect to on November 2, 1966 Mr. Jose coming in to
14 your office in Texas and bringing in Mr. Bell? Mr. Bell's
15 testimony was as follows relating to the introduction: "Jose
16 introduced me as a lawyer for Bill French from Wichita, Kansas
17 who had just been to Iran on behalf of Bill" -- Bill French --
18 "and he told Mr. Ducayet that I had an interesting story to
19 tell him and he said something like" -- you said -- "something
20 like, 'would you go ahead, please.' So I told him the story."

21 Do you have any recollection of that event occurring?

22 A I have no recollection of anything to do with it.

23 Q Would you have had a recollection of that conversation
24 if Mr. Bell had mentioned to you that General Khatami was
25 trying to muscle in on your Bell representation in Iran?

1 A I don't recollect the conversation. I don't
2 recollect the man coming in and I don't -- it's hard for me to
3 speculate on what I might have heard had I remembered what ever
4 went on or somebody claims went on in my office. I don't
5 remember anything about it.

6 Q Were you familiar with the name General Khatami at
7 that time?

8 A I seriously doubt it. I'm hardly -- I was hardly
9 ever familiar with it. I never met the man. I have never been
10 in Iran. Unless he came to the plant at some time and I didn't
11 know it, I never met him.

12 Q Now you said you seriously doubt it. What is your
13 best recollection as to whether or not you ever heard of
14 General Khatami at that time?

15 A I would say I did not know him, had not heard of him.

16 Q Had not heard of him?

17 A No.

18 Q Did you subsequent to that time ever hear of General
19 Khatami?

20 A Oh, I would say much later.

21 Q When did you first hear of General Khatami?

22 A That's hard to say, but he was the chief of the Air
23 Force I believe and we were having dealings in Iran and it
24 isn't unusual that I would have heard that he was in that
25 position, although we weren't dealing with him. We were dealing

1 with other people in Iran.

2 Q Who were you dealing with?

3 A The Army, not the Air Force. We were selling ships
4 to the Army.

5 Q Did you ever know or ever hear that General Khatami
6 had an ownership interest in Air Taxi?

7 A Never heard it.

8 Q Never heard it from any source whatsoever?

9 A No. Well, I've heard it from reading the Wall Street
10 Journal.

11 Q I mean aside from any events subsequent to the
12 nomination of G. William Miller.

13 A No, never.

14 Q To be a member of the Federal Reserve Board.

15 A No.

16 Q Never heard that from any member of your staff in
17 Bell Helicopter at that time?

18 A No.

19 Q Did you ever see a reference to the fact that -- or
20 the allegation that General Khatami had an ownership interest
21 in Air Taxi in any document that was ever in the Bell Helicopter
22 files?

23 A No. I don't remember ever seeing anything that had
24 to do with him.

25 Q Now before I get into the substance of the testimony

1 on the November 2nd -- or the testimony with respect to the
2 meeting which I understand that you say is your recollection
3 didn't take place on November 2nd, I'd like to get your comment
4 with respect to some other matters relating to that day Mr. Bell
5 testified to.

6 A This is still way back in --

7 Q This is still talking about November 2, 1966.

8 A Okay.

9 Q A meeting in your office at which the testimony before
10 this Committee was that you were present, Mr. Bell was present,
11 and Mr. Jose was present.

12 A Okay.

13 Q This is Mr. Bell's testimony: "Q. But Mr. Ducayet
14 according to your testimony did not indicate any dissatisfaction
15 with your making an arrangement to do business through General
16 Khatami or with General Khatami?" "A. He made no indication
17 one way or the other." "Q. Did anybody at Bell make any notes
18 of these meetings? Did you notice any one of the three taking
19 notes?" "A. During the meeting with Mr. Ducayet, I didn't
20 notice anybody taking any notes. During the earlier session
21 with Feliton and Jose I kind of vaguely recall somebody making
22 a few notes. I think it might have been Jose. Of course, at
23 one point I made a few notes because I wanted to be certain
24 that I had the requirements as I regarded them that Feliton
25 wanted to have in a letter from Dr. Safavi."

1 That's substantive and I'm going to get back to that
2 in a minute and I'm not asking for your comment on that right
3 now.

4 Talking about the testimony about the meeting in your
5 office: "Q. Were there any distractions? Did he ever leave
6 the room? Did he take a phone call? Was he listening or
7 paying attention?" This is referring to you now. "Could you
8 describe his demeanor? I believe you said it took -- that is
9 the meeting -- about 45 minutes." Mr. Bell's response was,
10 "That's right." "Q. Was he" -- referring to Mr. Ducayet --
11 "behind his desk?" "A. No. It is my recollection that we were
12 sitting at some kind of a sofa and chair arrangement in another
13 part of the room than where his desk was and he did not get up
14 to take a phone call or receive any kind of interruption at
15 all. When the meeting was concluded, when I finished talking,
16 he stood up and said something like 'Thank you very much for
17 telling me this very interesting story. It is nice to have met
18 you. We'll be in touch with you.'"

19 Does that description of the time period of the
20 meeting and the description of your office in any way refresh
21 your recollection as to whether or not you had this meeting
22 with Mr. Bell at which Mr. Jose was allegedly present?

23 A It in no way changes what I have already said. I
24 don't remember meeting the man. I don't remember ever seeing
25 him. The description of the office is correct. There is a

1 place where you can sit aside from the desk.

2 Q That's what I was going to ask you.

3 A There is such a place in the office. There was.

4 Q There was such a place in the office where you had a
5 sofa and chair arrangement in another part of the office
6 separate from the desk arrangement?

7 A Yes. Right.

8 Q Now I want to get your testimony with respect to
9 Mr. Bell's testimony on what transpired at the meeting. As I
10 go down this I'm going to ask you if each one of these items
11 does or does not refresh your recollection as to whether or not
12 any of these items was brought to your attention on that day.

13 "Q. Now we'll have to go over the details of what
14 you remember specifically telling Mr. Ducayet that day at that
15 meeting. Some of these things may have to be repeated in the
16 record according to your recollection or whatever, but I would
17 like to have your testimony in the record of what you recall
18 specifically telling Mr. Ducayet that day in the presence of
19 Mr. Jose." "A. Well, my recollection, of course, is in
20 generalities more than in specifics, but I'm certain I told
21 Mr. Ducayet everything that was in my letter of November 28 to
22 Jack Zuke of Cessna Aircraft."

23 And then Mr. Bell's testimony with respect to what
24 he told you: "I started off with the history of Mr. French in
25 Iran in the early days. I described my contacts with the State

1 Department prior to my trip to Iran on French's behalf. I
2 recited that aviation in Iran is and has been for some time
3 entirely controlled by General Khatami who is the commanding
4 general of the Imperial Iranian Air Force or rather the Chief
5 of Staff of the Imperial Iranian Air Force-- I wasn't quite
6 sure whether he was both -- that he was chairman of the board
7 of directors of National Iranian Airlines which I had been
8 informed; that he was the president of the High Council of
9 Civil Aviation in Iran and that in addition he's the brother-in-
10 law of the Shah and that it was my observation and confirmed
11 by others that all aviation in military, regardless of which
12 service, including the Air Force and the Army, the Gendarmerie,
13 or civilian, is controlled by the dictates of General Khatami."

14 Do you have any recollection of Mr. Bell relating
15 those facts to you on that day?

16 A I have no recollection of ever seeing him or hearing
17 anything from him.

18 Q To continue, Mr. Bell, "I then recited a contact by
19 a representative of General Khatami with Mr. French informing
20 him there were only two companies." "Q. Excuse me. I would
21 like you to mark -- you appear to be refreshing your recollection
22 of what you told Mr. Ducayet at that time referring to a
23 document." "A. I'm not exactly refreshing my recollection.
24 I'm just looking at this as kind of a check list to make sure
25 I don't omit any of the subjects." "Q. I see. You have an

1 independent recollection of what you told Mr. Ducayet at that
2 meeting?" "A. I have an independent recollection of everything
3 I subsequently put in my letter to Mr. Zuke and what I'm looking
4 at is the letter to Mr. Zuke." "Q. So you're looking at it
5 not to refresh your recollection but merely as an independent
6 check list. All right. Go ahead."

7 Then he continues with his story. Mr. Bell states:
8 "I then told him" -- meaning Mr. Ducayet -- "that a representa-
9 tive of General Khatami had contacted French and informed him
10 there were only two companies which would be authorized to
11 conduct civil aviation business in Iran; that these were Air
12 Taxi and Heli-Taxi.

13 Do you have any recollection of Mr. Bell telling you
14 that that day?

15 A No, no recollection.

16 Q Or at any other time?

17 A No.

18 Q Have you ever been told by anyone that there were
19 only two companies which would be authorized to conduct civil
20 aviation business in Iran -- Air Taxi and Heli-Taxi?

21 A No, never been told.

22 Q Mr. Bell continued with his testimony: "I then told
23 him, Mr. Ducayet, General Khatami and/or his representatives
24 held substantial amount of stock in each of those companies,
25 meaning Air Taxi and Heli-Taxi; that our information led us to

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1 believe that he held a larger amount of stock in Air Taxi than
2 in Heli-Taxi and that French had been informed that the only
3 way he could do business in Iran would be as a subcontractor of
4 those companies for which he would have to pay them ten percent
5 of the gross or else he would have to let them be a 51 percent
6 owner of his company."

7 Does that refresh your recollection of being told
8 that that day?

9 A Nothing.

10 Q Were you ever told by anyone, including any employee
11 of Bell Helicopter, that General Khatami may have had an
12 ownership interest in Air Taxi or Heli-Taxi?

13 A I was never told by anyone that he did.

14 Q Now you stated previously that you were familiar at
15 least to some extent with the retention of Air Taxi as Bell
16 Helicopter's manufacturer's representative in Iran during 1968?

17 A Yes.

18 Q Would you state for the record your recollection of
19 the circumstances of Air Taxi's retention at that time by Bell
20 Helicopter?

21 A I have no recollection of why Air Taxi was made our
22 sales representative. The job of making, selecting and
23 approving and putting in sales representatives all over the
24 world belonged to the marketing department. This was their
25 responsibility and they were supposed to do it. They were

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1 supposed to check out who they were dealing with and whether
2 they were being successful or unsuccessful or had been successful
3 or unsuccessful -- whether we could select them to be good
4 representatives.

5 Now why in a particular -- at a particular time Air
6 Taxi was selected, I can't tell you. I have no recollection of
7 it.

8 Q Your testimony is that you would not retain approval
9 authority over the retention of the manufacturer's representa-
10 tive?

11 A That's correct. I could disapprove them maybe or I
12 could question them if somebody brought one up to me that I
13 wanted to, but I'm sure many of the representatives were made
14 and were selected and done without my knowledge. This was a
15 marketing job. They were the representatives of the marketing
16 department.

17 Q What was the policy of your company at that time with
18 respect to the retention of manufacturer's representatives?
19 Did you require your marketing people to conduct an evaluation
20 of the ownership interest of your manufacturer's represen-
21 tatives and to make an analysis and a study of who you were
22 dealing with to be sure that before they were taken on that if
23 there were any problems as, for example, with an ownership
24 interest of a government official, that that would be brought
25 to your attention and you would have the management ability to

1 say yea or nay to that circumstance?

2 A I would say that the -- it was their responsibility to
3 try to find and select good representatives for us. They
4 checked them as well and as carefully as they could. It was our
5 policy to try to get reputable people to represent us, people
6 who would be effective to us. If there was ever any question
7 about some particular company, then I'm sure they would have
8 brought it to me or at least to higher up than them.

9 Q What kind of matters would they have brought to your
10 attention? Would they have brought to your attention a circum-
11 stance where a manufacturer's representative, a company who
12 was to be your manufacturer's representative in a country was
13 owned in substantial part by a government official of that
14 country with whom that manufacturer's representative would be
15 doing business? Was that the kind of circumstance that would
16 be brought to your attention?

17 A I would think that circumstance would have been
18 brought to my attention. I don't ever remember having one
19 being brought to my attention though.

20 Q And what would have been your policy or practice
21 with respect to had such a matter been brought to your attention
22 at that time?

23 A We would have seriously --

24 Q What would have been your decision? What would have
25 been your management responsibility under that circumstance?

1 A I think we would have seriously questioned taking on
2 a representative who would in effect receive a commission or a
3 share of a commission at least for having -- as an owner of the
4 company for when we were trying to deal with that country --
5 not civil--military.

6 Q Was that a written policy of your company or was
7 that a policy in practice that you followed?

8 A No, I don't believe it was a written policy.

9 Q Was that your policy as chief executive officer of
10 the division of Bell Helicopter at that time?

11 A Yes. We have always been very careful who we did
12 business with. We tried to make very sure that people we were
13 dealing with were open and above board and that there was no
14 dealing under the table, so to speak.

15 Q And what did you do as the chief executive officer
16 of Bell Helicopter at that time to ensure yourself of the
17 integrity of the policy or practices which you're testifying to
18 here today? Would you, for example, have the company's files
19 searched with respect to information having to do with the
20 manufacturer's representative that was about to be or being
21 considered for that spot in your company?

22 A No. I believe that I would have accepted whatever
23 was brought to me as the information regarding him. I wouldn't
24 disbelieve my own people. I would say, "If you believe this is
25 the right person, then I believe he's the right person."

1 Q Would you wait for your people to bring such a thing
2 to your attention or would you ask the question? In other words,
3 I'm trying to find out from you what oversight there was in Bell
4 Helicopter at that time to ensure that your policy was in fact
5 carried out.

6 A I would say there was no audit oversight as such.

7 Q Instead of the word "audit," then management over it?

8 A Management, if you would like to call it that. It
9 was the responsibility of the marketing department. We expected
10 them to bring to our attention any questions or any problems
11 that might arise in the course of trying to select a represen-
12 tative.

13 Q Now with respect to the policy that was in effect
14 at that time, you said it was not a written policy but it was
15 nevertheless your policy. Did you make that policy known to
16 your people, to your employees?

17 A I'm sure they were aware of it. I don't think I can
18 say that I sat them down in front of me and said, "This is what
19 you are or are not to do." We were a company and we had a very
20 good reputation and we had always been extremely careful who
21 we dealt with and how we dealt with people and we even before
22 Textron bought us had the same policies. There was never to be
23 any funny business going on.

24 Q And you made that clear to your employees, is your
25 testimony, by any number of methodologies?

1 A Just in the normal course of doing business, yes.

2 Q Normal course of doing business you get that word to
3 your people?

4 A Yes.

5 Q I'd like to clarify precisely what that policy was.
6 Was it not to retain -- did you have a clear policy that you
7 made known to your employees by various ways that was communi-
8 cated to them to make them understand that the policy was not
9 to retain a representative who was owned in whole or in part
10 by government officials?

11 A I would say that that -- repeat the question, please.

12 Q Sure. I'm trying to find out what your policy was.

13 A I know. I just want to be sure I answer you properly.

14 Q I want you to tell us what the policy was, but in
15 telling us what the policy was describe it in your own words.
16 I'm next going to ask you specifically whether your policy was
17 not to retain as a representative any person or entity that
18 was owned in whole or in part by a government official of the
19 country in which you were doing business.

20 A All right. To the best of my knowledge, the question
21 of a potential, I'll call it, representative having some
22 interest or someone having an interest in that company being a
23 member of the government in which we were trying to deal, the
24 country in which we were trying to deal, never came up. We
25 never were posed with that question and I can't say that as

1 such that that was the policy. It just never came up. Most
2 of the people we dealt with were people who had nothing to do
3 with the governments anyway. They were sales representatives.

4 Q But if it had come up and you had to make that
5 decision --

6 Q I think it --

7 Q Is it clear in your own mind that you would have said
8 no?

9 A I believe I would have said no, yes.

10 BY MR. MCLEAN:

11 Q Mr. Ducayet, I would like to ask one followup question
12 on your last response. You indicated that you did have a
13 policy with respect to the retention of sales representatives
14 and this policy was communicated by you informally in conversa-
15 tions with your subordinates.

16 Do I understand that your testimony is that you did
17 not have an explicit policy, however, with respect to the
18 retention of a sales representative in which a government
19 official in the country you were dealing with had an ownership
20 interest in that company, that this was not part of the policy
21 that you communicated informally to your subordinates?

22 A I would say that is correct, because the question
23 never came up.

24 MR. MC LEAN: Thank you.

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25

1 BY MR. MARINACCIO:

2 Q Mr. Ducayet, I'd like to show you two documents that
3 were marked for the record here yesterday, Exhibit No. 82 and
4 Exhibit No. 83. Exhibit No. 82 was identified by Mr. French
5 who was your manufacturer's representative in Iran at that
6 time as being a letter that he wrote to Mr. Feliton on
7 January 14, 1967. Exhibit No. 83 is a document that was
8 identified by Mr. French as being a letter that he received
9 from Mr. Kling, the export area manager of Bell Helicopter
10 Company, dated 30 January, 1967.

11 I'm going to give you ample opportunity to review
12 these documents and when you do I'm going to ask you some
13 questions about them and specifically I'm going to ask you
14 this -- I ask you whether or not document number 82, which
15 states in pertinent part, "John Bolton" -- who was Mr. French's
16 employee -- "just left Beirut last night after coming in to
17 tell me we had finally got the new company completed and
18 registered and with the new setup it should open many doors
19 now that we have General Khatami as partners silently along
20 with Dr. Safavi, the head of the legal department of Civil
21 Aviation and others. We own 49 percent of the new company and
22 it is 51 percent Iranian."

23 Mr. Kling's reply to Mr. French says: "Dear Bill" --
24 Mr. French -- "Jim Feliton is in the process of leaving Bell
25 Helicopter Company and I have been assigned as his replacement.

1 I look forward to working with you and suggest that your
2 communications be addressed to me as of now so that we will not
3 waste time. Jim has passed me your letter of January 14,"
4 which is Exhibit No. 82, the letter I just referred to -- and
5 in closing Mr. Kling says, "We hope your new association will
6 permit you to resume residence and business in Tehran and want
7 you to keep us advised."

8 Now I'll ask you two questions: one, whether
9 document no. 82 doesn't indicate that it was brought to Mr.
10 Feliton's attention that General Khatami was a silent partner
11 in a new company that was to aid in the sale of Bell helicopters
12 in Iran, and whether or not document no. 83 from Mr. Kling
13 doesn't indicate that at least Mr. Kling had no dissatisfaction
14 with this arrangement, and in that I want you to comment on
15 these two documents and ask you whether or not this matter was
16 ever brought to your attention.

17 A These are all commercials -- could I have that
18 question again?

19 (Whereupon, the preceding question was read by the
20 reporter.)

21 THE WITNESS: I'll do it in reverse. Neither of
22 these documents have I ever seen before nor have they been
23 brought to my attention.

24 Your first question -- this would obviously -- it
25 says it and it was written to a Bell Helicopter employee and it

1 says he was a silent partner, so it must have been called to
2 the attention of somebody. I would say that this document
3 tends to raise a little question.

4 BY MR. MARINACCIO:

5 Q No. 83?

6 A No. 83. It says, "We hope your new association will
7 permit you to resume residence and business in Tehran," which
8 would indicate that he hasn't been able to do business in
9 Tehran, and to me there's some question about what's going on.
10 I would get an implication out of this that Kling is new -- he's
11 just taken over apparently, and that he was beginning to wonder
12 what was going on.

13 Q Do you have any knowledge that in fact at this time
14 Mr. French was not able to be in Iran and was not able to do
15 business there? What do you know about Mr. French's ability
16 to get in and out of Iran?

17 A The only thing that I know is that I recollect that
18 at some time we had a representative who was persona non grata
19 not allowed in the country, and that's all I remember. I
20 couldn't previously have told you what his name was even or the
21 company or his company's name.

22 Q In other words, you had -- did you have knowledge at
23 that time that Mr. French was not being allowed into Iran?

24 A I would assume, because I remember what I just told
25 you. Yes, at that time I must have known it because that's
when it was.

1 Q Were the reasons for your manufacturer's representa-
2 tive's exclusion from Iran ever brought to your attention at
3 that time?

4 A No.

5 Q Did you not ask why your manufacturer's representative
6 in Iran was not being allowed to enter the country of Iran --
7 any employee of yours?

8 A No. I would say I did not question it. There may
9 have been other people in the company who questioned it though.
10 To me it would be a serious objection being raised to the
11 ability of a representative to do business if he couldn't even
12 get in the country.

13 Q What is your recollection, though, as to whether or
14 not it was brought to your attention?

15 A I have no recollection of it being brought to my
16 attention.

17 Q Whose attention would it have been brought to or
18 should it have been brought to in your organization at that
19 time?

20 A Well, I would say that it should have gone from
21 these people to Mr. Jose at least, who I assume these people
22 worked for at that time, and could have gone from him to
23 Mr. Atkins. It could have. I don't know.

24 Q Were you ever told that the reason why Mr. French
25 was being excluded from the country of Iran was because

1 General Khatami and Dr. Safavi and General Rafaat wanted to
2 take an ownership interest in his companies, Mr. French's
3 companies, who were your representatives in Iran at that time?

4 A I was never told that. I have no recollection of
5 ever hearing that.

6 Q From any source whatsoever?

7 A No.

8 Q Particularly any of your employees in Bell Helicopter
9 at that time?

10 A Yes. Not from my -- yes, not from my employees.

11 Q If that were in fact the case and that had been
12 brought to the attention of one of your employees in Bell
13 Helicopter, should that have been a matter that they should
14 have brought to your attention?

15 A You're asking me to speculate and you're asking me
16 to --

17 Q No, I'm not asking you to speculate. I'm asking you
18 about your management controls in your corporation at that
19 time and how you ran the company.

20 A Repeat the question, please.

21 (Whereupon, the question was read by the reporter.)

22 THE WITNESS: I would say not necessarily. They
23 could have taken action on their own. You're asking about the
24 fact that he couldn't get in the country?

1 BY MR. MARINACCIO:

2 Q No. I'm asking you about the fact that a General of
3 the Army and two of the General's associates were trying to
4 in effect muscle in on your agent's business in a country. Now
5 if that were brought to the attention of one of your management
6 employees, should they have brought that to your attention?

7 A They either should have done something about it or
8 brought it to my attention or maybe to Mr. Atkins'. Mr. Atkins
9 was my executive vice president. He had a lot of control of
10 what went on. He could do a great deal.

11 Q What was Mr. Atkins' responsibility with respect to
12 retention of manufacturer's representatives at that time?

13 A Well, if I remember correctly, the marketing
14 department I believe reported to him and he handled a big part
15 of what went on in marketing at that time with the vice
16 president, with somebody like Mr. Jose in charge, but they
17 reported to him. As such, he could do anything he liked to
18 do really. He had the responsibility. He knew what the
19 policies were. He and I were in complete agreement.

20 Q In the course of Mr. Atkins' responsibilities who
21 worked for you, should Mr. Atkins have been aware of the
22 circumstances relating to the retention of Air Taxi in the
23 early 1960s and then the retention of Mr. French and Inter-
24 national Helicopter in the middle '60s and then subsequently
25 the reretention of Air Taxi in 1968 as your manufacturer's
representative?

1 A We respected the ability of our marketing department
2 to select and handle their representation of various countries.
3 There were often circumstances and times when they released
4 people and changed representatives, not necessarily with our
5 agreement -- or I shouldn't say -- with our concurrence. It
6 wasn't that we would or wouldn't agree with them, but with our
7 concurrence. They didn't necessarily bring it to our attention.
8 They were capable people who were dealing all over the world.
9 We were all busy people. They were all busy people and this
10 was getting into the detail of the operation of the marketing
11 department to try to look at every circumstance that went on
12 with every representative.

13 Q How much, in your judgment, though, should Mr. Atkins
14 have known about the retention of Air Taxi in 1968 as your
15 manufacturer's representative in Iran?

16 A You're talking about 1968?

17 Q Yes.

18 A I would say he should have known as much as I would
19 have known. If they were going to change representatives, which
20 they apparently did if they reselected Air Taxi, then somebody
21 probably brought it to his attention that they were doing this.

22 Q Who should have brought it to his attention?

23 A Whoever was handling the representatives at that
24 time.

25 Q And who was that, do you know?

1 A I believe it was Jose probably, Mr. Jose. I'm in a
2 fuzzy area because in time I'm not sure when -- may I ask him
3 a question because they can probably tell me?

4 Q The problem I'm having is I really want your testi-
5 mony for the record.

6 A That's all right.

7 Q I don't mind your conferring with your attorneys, of
8 course.

9 A I only want to ask when somebody came and went.

10 Q You mean when an employee came or went?

11 A Yes.

12 Q Well, whatever your best recollection is.

13 A Okay. Jose. I would say it was Mr. Jose during
14 that period. That's what you want.

15 Q Mr. Soutter was indicating he wants to make a state-
16 ment for the record.

17 MR. SOUTTER: I wonder if it would be helpful to
18 discuss the business activities of Bell at this time just to
19 get a general feel as to where management attentions might have
20 been used in a general way and I will volunteer that that was
21 when Vietnam was going on in the mid-60s. What kind of volume
22 was in all of your international businesses opposed to U.S.
23 Government business?

24 THE WITNESS: It was almost nothing. We were in the
25 middle of trying to build the Hueys for Vietnam from '60 a month

1 to 160 a month in 18 months. That's a good chore. We had just
2 built Cobra and we were about to get into building Cobras. The
3 main business at that time was U.S. military business and the
4 biggest part of my problems were on U.S. military business and
5 getting the ships out because that's what our prime business
6 was and, second, to look at the products we were getting out to
7 make sure they were good products and what we were going to do
8 next. I put a great deal more attention to meeting the diffi-
9 cult production problems at that time and to meeting the
10 engineering problems of new products, new ships, brand new
11 products, some of them.

12 BY MR. MARINACCIO:

13 Q I appreciate your clarification.

14 Now I specifically want to know from you what degree
15 of attention should you or Mr. Atkins have given to a situation
16 where your manufacturer's representative in Iran was writing
17 to one of your employees and in effect telling you that they
18 had picked up a General of the Air Force as their silent partner.
19 Should that have been a matter that would have been brought to
20 the attention of Mr. Atkins? We are discussing Mr. Atkins and
21 you said that Mr. Atkins should have or probably had or might
22 have more knowledge than you would have in this area. I want
23 to know whether or not that's the kind of matter that should
24 have been brought to Mr. Atkins' attention.

25 A I would say that it probably should have been brought

1 to his attention unless the marketing department was taking
2 care of it themselves, and by taking care of it I mean getting
3 rid of Mr.French, if that's what his name was.

4 Q Now why should the marketing department have taken
5 care of Mr.French by getting rid of him?

6 A Well, if we were starting to deal -- one, if he
7 couldn't even get in the country and sell anything, he was an
8 ineffective representative and that's enough reason of its own
9 to get rid of him; and second, if he started to have other
10 partners and other things, then it's more reason to get rid
11 of him. It starts to look like questionable dealings to me.

12 Q In other words, if you would have known at that time
13 is what you're saying -- what I'm hearing from you -- that
14 Mr.French had taken on General Khatami as a silent partner,
15 you would have gotten rid of Mr. French because he took General
16 Khatami on as a silent partner. Am I hearing you correctly?

17 A I believe I would have, yes. That's correct.

18 MR. SOUTTER: Would this be an appropriate time to
19 take a minute or two?

20 MR. MARINACCIO: Let's take a two-minute break.

21 (Recess)

22 BY MR. MARINACCIO:

23 Q Mr. Ducayet, I'd like to show you Exhibit No. 93 which
24 was placed in the record yesterday. It's a document from
25 Mr. Orpen, the export sales manager, to Mr. Robert Bell, who is

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1 attorney for Mr. French, and Mr. Orpen says -- he's thanking
2 Mr. Bell for his letter to Mr. Feliton informing him of the
3 current status of your manufacturer's representative's agency
4 in Iran, informing Mr. Bell that Mr. Feliton is leaving and is
5 being replaced by Mr. Kling. Then he says that "It's our
6 feeling" -- Bell Helicopter's feeling -- "that the arrangements
7 for handling sales through the Persian Tayar company" -- known
8 as STP -- we have been referring to that company as STP --
9 "are not satisfactory to Bell as long as Bill French is unable
10 to personally follow through with Iranian contacts."

11 Were you familiar at all with the company STP and
12 its establishment?

13 A Never heard of them.

14 Q Never heard of them at that time?

15 A No.

16 Q When was the first time you ever heard of the
17 company STP, Persian Tayar Company?

18 A Recent newspapers.

19 Q I mean aside from the press reports subsequent to
20 G. William Miller's nomination.

21 A Never. I never heard of them.

22 Q Never heard of that company?

23 A No. I couldn't even tell you that company that --

2 Q The International Helicopter Consultants? I can tell
25 you for the record that was Mr. French's company.

1 A Okay. I'll say this for the record, my knowledge
2 until very recently, until all this started, of who our repre-
3 sentative was in Iran other than Air Taxi which I knew was our
4 representative at some time -- other than Air Taxi -- was that
5 we had a man -- I didn't know the name of his company or the
6 name of the man, but he couldn't get into Iran. He wasn't
7 allowed in the country. That's how much I knew about that
8 company.

9 Q But did you ever inquire of any of your employees why
10 your man couldn't get into the country?

11 A No. I had no real reason to do it. In the first
12 place, the international business we were trying to continue
13 to carry it on during a very difficult time from Bell's stand-
14 point in that most of our business was otherwise. It was U.S.
15 Government business. We were doing a lot of work. We were all
16 involved, deeply involved, in other big problems. The inter-
17 national business was a very small part of our business. We
18 admittedly were trying to carry it on, but -- and I think you
19 can see from the changes that were made in personnel during
20 these periods probably if you look carefully enough that we were
21 trying to build a department but weren't too happy with what
22 was going on as to performance of the people -- why is Kling
23 not there; why is Feliton not there -- you know, this kind of
24 thing was going on.

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25 Q Would you answer that for the record?

1 A I don't know.

2 Q What was happening in the department? Why all these
3 changes?

4 A I think they were trying --

5 Q Why the unhappiness?

6 A I think they were trying to build a department and
7 they were using people who probably were not fully qualified
8 to do the jobs that they were trying to get them to do in an
9 expanding situation.

10 Q Was Iran an expanding situation at that time or was
11 it thought to be?

12 A The whole world, anyplace -- anyplace in the world
13 was. I mean expanding situation, expanding international
14 business in general.

15 Specifically, you asked me --

16 Q Specifically, I'm going to go back to this document.
17 The last paragraph says, "However"-- after Mr. Orpen tells
18 Mr. Bell about the arrangements being unsatisfactory as long
19 as Bill French isn't able to get into the country, he says:
20 "However, a temporary authorization is herewith given for
21 continuing Bell's business interests in Iran as you have out-
22 lined in your letter of 5 January '67 until such time as we
23 have had an opportunity to personally assess the situation by a
24 visit to Iran. This will most likely take place some time this
25 spring. We will keep Bill" -- that is French -- "informed on
this."

1 Now if it is a fact, and there has been testimony that
2 this is a fact, that General Khatami's company, STP, or that
3 General Khatami had a silent interest or an ownership interest
4 in STP which was a company that General Khatami required to be
5 established in Iran for the purpose of taking the major part of
6 the commissions on Bell Helicopter sales out of International
7 Helicopter Consultants which was your agent in Iran -- if that
8 was the case and it had been brought to the attention of Mr.
9 Feliton and Mr. Orpen, as I think it has, according to the
10 documents that are in the record here, would it have been con-
11 sistent or inconsistent with your policy for Mr. Orpen to give
12 temporary authorization to the continuation of that situation
13 pending his visit later on to Iran?

14 A I would say that Mr. Orpen probably used very poor
15 judgment in giving any temporary permission to continue some-
16 thing that he felt was already unsatisfactory.

17 Q Should he have brought that matter to your attention?

18 A I would have to say he should have brought it to
19 someone's attention and he probably did.

20 Q What would you have done had that matter been brought
21 to your attention and the facts were as I outlined them to you
22 basically?

23 A I would say I would have only written this part
24 (indicating). I would say I wouldn't have written the last
25 paragraph and given them any temporary permission to do anything.

1 Q Would you have gone along with the statement, "It's
2 our feeling that the arrangements for handling sales through
3 STP are not satisfactory to Bell as long as Bill French is
4 unable to personally follow through with Iranian contacts"?

5 A No. I would have stopped way back here with "are
6 unsatisfactory."

7 Q In other words, if you had known that General Khatami
8 was in on this arrangement you would have cut it off?

9 A I would have cut it off.

10 MR. SOUTTER: Was Mr. Ducayet supposed to have seen
11 the second document, Mr. Marinaccio?

12 MR. MARINACCIO: I would be very happy to show it to
13 him. It's in the record. I was holding document number 91A in
14 my hand and there are some other documents, including 91A that
15 would establish the fact pattern that I discussed with you.
16 For the record I will read the pertinent part of Exhibit
17 No. 91A. This is a letter from Robert Bell, the attorney for
18 Mr. French, to James Feliton in which he says: "In connection
19 with the above referenced matter, I am now informed by
20 Dr. Safavi" -- now the testimony was that Dr. Safavi had
21 stated specifically that he was acting on behalf of General
22 Khatami and that that had been made known to the Bell officials
23 previous to January 5, 1967 -- "that our Persian corporation is
24 duly authorized to sell, service and maintain all types of
25 light aircraft, parts thereof, in Iran. I am also informed that

1 it's the only company authorized to do so apart from Khatami's
2 two corporations" -- which the testimony was were Air Taxi and
3 Heli-Taxi -- "which apparently intend to concentrate primarily
4 on the care and flying of the planes and leave the selling to
5 our company."

6 So the testimony around this document that Mr. Orpen is
7 responding to and sanctions the temporary arrangement is as I
8 have outlined, namely, General Khatami had an interest in STP
9 and STP was the only company other than the other companies
10 that were owned by General Khatami -- Air Taxi and Heli-Taxi
11 that were going to be allowed to operate in Iran.

12 THE WITNESS: I understand.

13 BY MR. MARINACCIO:

14 Q And your statement is if you had known that you would
15 have cut it off?

16 A Yes.

17 Q When you say "cut it off," you would have terminated
18 the arrangement or terminated the --

19 A Correct.

20 Q You would have terminated forthwith Mr. French's
21 agency representation in Iran?

22 A Correct.

23 Q Because of any alleged involvement of General Khatami?

24 A Yes. May I say something off the record?

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25 Q Please say it on the record. If it's a funny story --

1 A It's not a funny story, but it's just that I have been
2 retired five years and once you walk out of a company and leave
3 it alone and turn it over to somebody else, you have to turn the
4 wheels around completely and quit worrying about it, thinking
5 about it and doing anything about it, and it's hard to go back
6 not five years but ten years and try to remember some of the
7 things that went on. You just tend to, you know -- some of it
8 I don't know what went on in that company way back there. It's
9 hard to remember.

10 Q But we just want your best recollection of the
11 situation.

12 A I just wanted you to recognize that I have been out
13 of the mill for some time.

14 Q We do, but in that connection, though, I think we
15 should go into that a little bit. You're a member of the board
16 of directors of Textron?

17 A Correct.

18 Q And as a member of the board of directors of Textron,
19 this being a division of Textron, the board of directors has
20 overall responsibility for the operation of Bell Helicopter?

21 A That's right.

22 Q And the president of Bell Helicopter, the testimony
23 was, would report directly to G. William Miller?

24 A That's right.

25 Q And through G. William Miller, to the board of
directors of Textron?

1 A Yes.

2 Q So that --

3 A So I still am there.

4 Q So you still are there to some extent, although you
5 are not the chief executive officer of the company?

6 A That's correct.

7 Q And as I said at the outset, your best recollection
8 of the events is all that we can require of you of course.

9 A Right.

10 Q Now after you left Bell Helicopter as the chief
11 executive officer in 1972 Bell Helicopter made a very large
12 sale of helicopters to Iran, I believe \$500 million worth
13 approximately.

14 A Right.

15 Q Was that the largest single helicopter sale ever made
16 by Textron to anyone?

17 A In dollars probably, yes; in dollars.

18 Q In dollars, the largest single sale. You probably
19 would have sold more helicopters over the span of years to the
20 U.S. Government in Vietnam.

21 A Well, yes, but I say in dollars because the prices
22 are changing too. You're talking about a period of time later
23 during the '67-68 era. We were delivering 150 ships a month
24 to the U.S. Army and in number of ships it was a much larger
25 quantity, but the dollars were less. I can't remember the

1 exact quantity, but I don't think it was \$500 million. Inci-
2 dentally, that contract -- we had a letter of intent for that
3 contract the day I left. It was a nice present to leave the
4 company with.

5 Q That was the letter of intent from General Toufanian on
6 April 18, 1972?

7 A Well, our approval came almost the last of December.

8 MR. SOUTTER: You're talking about the Army's?

9 THE WITNESS: I'm talking about the Army's letter of
10 intent.

11 BY MR. MARINACCIO:

12 Q You're talking about the U. S. Army's?

13 A All the way through the circuit to us. The letter of
14 intent actually came just before I left the company.

15 Q I see. Were you familiar with the letter of intent
16 from General Toufanian?

17 A Probably, yes. I don't particularly remember it.

18 Q Do you have any particular recollection of that and
19 the significance of that letter of intent or was that Mr.
20 Atkins who was dealing with that?

21 A The significance of it was that it had a long ways to
22 go before it was real money, before it became a real contract.
23 He said he wanted to buy, but before you really had a contract
24 you had to go all the way through the FMS circuit. We had to
25 get a contract from the U.S. Government. That's what counts.

1 Q Well, what was the U.S. Government's role in this
2 and since Iran wanted to buy the helicopters or intended to buy
3 the helicopters, what convincing did you have to do to the
4 U.S. Government in order to ensure that that contract would take
5 place? Would you describe that?

6 A No, we don't have to do any convincing to the U.S.
7 Government. I think we have to negotiate with the U.S.
8 Government because they've got a country over here that has
9 said "We wish to buy but we wish you to handle it for us,"
10 which in effect is an FMS sale and it has to go through the
11 circuit of the U.S. Government procurement process.

12 Q Were there any particular matters of interest to the
13 U.S. Government -- for example, was the commission being paid
14 to Air Taxi a particular matter of concern to the U. S.
15 Government at that time to your knowledge?

16 A It probably was because, if I remember correctly, up
17 until that time and maybe still at that time -- as far as I
18 know, still at that time -- it was legitimate under a -- it was
19 policy under an FMS contract that you could pay a commission,
20 a legitimate commission, reasonable legitimate commission to an
21 agent, and, therefore, it probably was in the negotiations
22 someplace.

23 Q Were you personally involved in those dealings with
24 the government or had you turned over the responsibility by
25 then to Mr. Atkins?

1 A I had turned them over to Mr. Atkins.

2 Q So at that point in time -- but you were a member of
3 the board of directors of Textron at that time?

4 A Yes.

5 Q So with respect to the sale of the helicopters, the
6 \$500 million plus or minus a few million, how much attention
7 did that particular sale get at the board of directors' level
8 of Textron? Were the board of directors continuously kept
9 apprized that this sale might possibly be made? Did they
10 eventually have to approve the sale? Were there any meetings
11 or more than one meeting where a decision was made to enter
12 into the sale? How did the board of directors of Textron
13 interact with respect to that decision to make the sale?

14 A First, you must remember that the sale was made when
15 I was not on the board of directors, therefore I can't say how
16 much of it was brought to the attention of the board of
17 directors up until the sale actually had been accomplished. I
18 would say from events since then of a similar nature let's say,
19 large contracts or big events, that the board is generally kept
20 informed of such things going on. They are not asked to
21 approve it. There's no reason for it. There's a chief
22 executive officer and there's a chief operations officer and
23 there's a president of a division and they are the ones that
24 are supposed to keep their company working and selling and
25 doing what they are supposed to do. So it would be brought up

1 because it was an important event. \$500 million contracts
2 don't come every day, so probably the board was informed that it
3 was going on. It was brought up in the normal review of
4 operations that goes on in a normal board meeting.

5 Q And in the normal review of operations in a board
6 meeting like that, since it was such a large sale, would the
7 board have discussed, do you know, the agent representative in
8 Iran and what part they played in the sale?

9 A Probably not.

10 Q Probably not?

11 A I doubt it.

12 Q Now you became a board member at least by January 1,
13 1973?

14 A Yes, Textron.

15 MR. SOUTTER: April 1.

16 BY MR. MARINACCIO:

17 Q April 1973?

18 A Yes.

19 Q Now are you familiar with the fact that a \$2.9 million
20 payment was made by the Bell Helicopter to Air Taxi in 1973, 1974
21 and 1975?

22 A Yes, I was aware that it was made some time. I didn't
23 know when.

24 Q And on how many occasions did the board of directors
25 of Textron consider the matter of the \$2.9 million payment or

1 any payment of whatever nature to Air Taxi in connection with
2 this sale of \$500 million in helicopters?

3 A To the best of my knowledge, I never remember it
4 being brought up to the board, but remember I have a gap now
5 from January to April.

6 Q But I mean after April of 1973.

7 A I never remember it.

8 Q Our information is that the payments were made in the
9 summer of 1973 and then 1974 and 1975 in three installments.

10 A I never remember --

11 Q Do you have any knowledge of how the payments were
12 made and the fact that they were made in installments?

13 A No. I knew a payment -- the \$2.9 million was what
14 was going to be paid. That's all I knew.

15 Q How often does the board of directors of Textron
16 meet?

17 A Usually every other month. The executive committee
18 meets the in-between months. So somebody is always meeting.

19 Q How many members of the board of directors are there
20 of Textron?

21 A Thirteen.

22 Q Thirteen?

23 A Twelve or thirteen -- thirteen.

24 Q And the board of directors has an executive committee
25 of the board of directors?

1 A Yes.

2 Q And how many members of the executive committee of
3 the board of directors are there?

4 A Five.

5 Q So the executive committee of the board meets every
6 other month?

7 A On the alternate months.

8 Q And the board of directors meets on the other
9 alternate months. So once a month there's a meeting of --

10 A Of somebody.

11 Q -- of some portion of the board of directors of
12 Textron?

13 A That's right.

14 Q Now during that period of time, 1973, 1974 and 1975,
15 who were the members of the executive committee of the board of
16 directors? Was G. William Miller a member of that executive
17 committee?

18 A Yes.

19 Q Who else were the members of the executive committee?

20 A Gaylord, Gifford, Hayes -- no -- sorry -- that's not
21 right.

22 MR. SOUTTER: I can get that from our proxy statements.
23 The membership has changed a little bit on that.

24 BY MR. MARINACCIO:

25 Q Were you, Mr. Ducayet, on the executive committee of

1 the board of directors?

2 A No.

3 Q Do you have any knowledge of whether or not the
4 executive committee of the board of directors considered the
5 \$2.9 million payment to Air Taxi?

6 A I have no recollection. I have no knowledge. I
7 don't know.

8 Q And you have no recollection of the board of directors
9 of Textron ever meeting, discussing at any one of their meetings
10 the \$2.9 million payment?

11 A I never remember it, no, no recollection of it.

12 Q Do you know that they didn't?

13 A No.

14 Q You just have no recollection?

15 A I just have no recollection.

16 Q You were not there when any such discussion was held?

17 A Well, I was never absent from a board meeting
18 either, so I can't remember it really, when it came up or not.

19 Q Do you receive an agenda before every board meeting
20 of what's going to be considered?

21 A Usually, yes, but it wouldn't tell you that. It
22 wouldn't list it as such. It might list it as corporate
23 business or it might come up as a matter of going through the
24 operations report or -- it might come up anyplace. The agenda
25 is not indicative in enough detail to tell you that such an

1 item came up.

2 Q If such an item --

3 A The records would maybe, but not the agenda.

4 Q If that item did come up and it was discussed, would
5 it be reflected in the board's minutes?

6 A Not necessarily. It might not appear.

7 Q Now did you ever discuss the matter of the \$2.9
8 million payment by Textron to Air Taxi with G. William Miller?

9 A No, never.

10 Q No discussion whatsoever, not even the fact that the
11 payment was to be made or anything whatsoever about it?

12 A No.

13 Q How about the sale of \$500 million in helicopters;
14 did you ever discuss that with G. William Miller?

15 A Many times. It was a big sale.

16 Q Over what period of time?

17 A Oh, probably '71 and '72. I would say that was the
18 active period of getting the sale.

19 Q When did you leave the presidency?

20 A End of '72.

21 MR. SOUTTER: I don't know if we're being terribly
22 precise. I don't mean to be a nit-picker. You were president
23 until '71 and chairman all during '72.

24 THE WITNESS: That's right.

Monick Reporting Company

25 MR. MARINACCIO: That's fine. That's what my
question was.

1 BY MR. MARINACCIO:

2 Q I'm trying to get once again what the -- my under-
3 standing was that you were president until the first part of
4 '72, became chairman of the board throughout '72, Mr. Atkins
5 having replaced you as president?

6 A Yes.

7 Q And then you left in the first part of '73 and
8 became a member of the board of Textron in April?

9 A Yes. May I say the position of chairman is not
10 chairman of a board because there is no board.

11 Q Well, chairman --

12 A Chairman was a title.

13 Q Chairman of the division was the title?

14 A It was a means of allowing the organization under
15 us to function and still be able to sit there and be responsible
16 for it still.

17 Q You were still the chief operating officer?

18 A Yes.

19 Q I see.

20 A But it allowed the system to function as if I weren't
21 there, which was what was going to happen at the end of the
22 year.

23 Q So you were there as chief operating officer of the
24 Bell Division during the whole of 1972. Were you familiar with
25 the negotiations then that were taking place with Air Taxi

1 relative to the amount of the commission that would be paid to
2 Air Taxi on the sale of the helicopters?

3 A I knew there were negotiations going on with Air
4 Taxi to try to come to a satisfactory agreement with them.

5 Q Did you take any part in those negotiations?

6 A No, sir.

7 Q Who was handling the negotiations as far as you were
8 concerned?

9 A Mr. Atkins was handling them.

10 Q And was he reporting to you on a daily basis on
11 these negotiations?

12 A Not necessarily daily. He kept me informed of what
13 was going on in a general way.

14 Q Were you ever given any memoranda of analysis as
15 chief operating officer of Bell at that time as to the amount
16 of the payment, whether it was high or low, whether or not it
17 should be made lower or higher, whether it was fair or who you
18 were dealing with?

19 A I remember no written documents of any kind addressed
20 to me or given to me. I remember discussions with Mr. Atkins
21 that the question of payments had to be settled.

22 Q Did you in turn discuss the reports that you were
23 receiving from Mr. Atkins with G. William Miller who was then
24 in a supervisory capacity over --

Monick Reporting Company

25 A Not necessarily, no.

1 Q Not necessarily. What did you discuss with him and
2 what did you bring to his attention?

3 A To Mr. Miller?

4 Q Yes.

5 A Only that we had a -- we hoped to get a contract
6 keeping our fingers crossed and praying its way through the
7 U.S. Government procurement system.

8 Q In any conversation you ever had with Mr. Miller did
9 you ever discuss Air Taxi?

10 A I don't remember ever bringing it up with Mr. Miller.

11 Q Did you ever discuss with Mr. Miller General Khatami?

12 A Never.

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Monick Reporting Company

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1 Q Did he ever mention General Khatami to you?

2 A Never.

3 BY MR. MC LEPN:

4 Q Mr. Ducayet, you testified during the priod of
5 1972 you were the Chairman of Bell Helicopter and as such
6 you were generally aware of the negotiations with Air Taxi
7 relative to their commission payment on the pending sale to
8 the Government of Iran.

9 Could you state when you became generally aware
10 of the size and magnitude of the potential sale to the
11 Government of Iran?

12 For example, during the mid part of 1972, did you
13 ave a general idea of the size of the potential sale, and
14 if so, what was the amount of that potential sale?

15 A I only vaguely remember that the, call it dealings,
16 with Iran, had grown over the initial, some of the initial
17 sizes, or quantities considered. And if I recollect, I would
18 recollect that I probably knew it was around the \$500 million
19 area.

20 Q I see. Now are you generally familiar with the
21 terms of the contracts, the standard contracts that Bell
22 Helicopter made with its sales representatives abroad?

23 A In general terms, maybe I could recollect some
24 of it. I haven't seen one in a long time.

25 Q Let me direct your attention to a standard provision

DB2

1 in the contract that we noted from your submissions. That
2 is, that an agent would be entitled to a specified commission
3 on the sale of five or fewer helicopters, but if the sale
4 were to be more than five, the commission would be negotiated.
5 Is that in accord with your recollection?

6 A Yes, sir.

7 Q So in the case of your contract with Air Taxi,
8 the sale of 480-odd helicopters to the Government of Iran
9 was obviously more than the five, and therefore the commission
10 was subject to negotiation?

11 A That is correct.

12 Q Now it is also our information that the Bell
13 Helicopter Company entered into an amendment to the contract
14 with Air Taxi effective April 1, but actually signed sometime
15 in August of 1972, that established a commission, potential
16 commission, of two and one-half percent of the sales that
17 would eventually result to the Government of Iran. Is that
18 in accord with your recollection?

19 A I do not remember the specific figure. I do have a
20 recollection that we entered into some agreement with them
21 for a negotiated figure. I couldn't tell you, I don't honestly
22 remember the figure.

23 Q Let me just ask you some further questions,
24 stipulating for the record that according to the documents we
25 received, the first amendment to the contract was two and a

Manek Recording Company

DB3

1 half percent. According to my calculations, the potential
2 payment to Air Taxi, according to the first amendment, based
3 upon the potential sales known at that time, would have been
4 upwards of \$12 million a year.

5 According to a Dunn & Bradstreet report that Bell
6 Helicopter has obtained on the firm Air Taxi, their total
7 annual sales volume was approximately \$1.4 million a year
8 in U.S. dollars, and they had 120 employees.

9 MR. SOUTTER: For what year was that?

10 MR. MC LEAN: That was for 1970.

11 BY MR. MC LEAN:

12 Q So I would like to ask you, Mr. Ducayet, in your
13 judgement would a potential sales commission of \$12 million
14 to the firm of Air Taxi, given the size of the operation at
15 that time, be a reasonable and proper payment?

16 A I would say we probably would have considered it
17 an excessive payment and that is probably why we kept on
18 negotiating with them.

19 Q If it was an excessive payment, why then in your
20 judgement did Bell Helicopter enter into such an agreement
21 in August of '72, whereby they did agree to expose themselves
22 to a potential liability of two and a half percent under
23 the contract that would have resulted in, in your terms, an
24 excessive payment?

MARICK Reporting Company

25 A I am not sure that we recognized at the time that

DB4

1 the negotiation was made with Air Taxi, which would be back
2 in early April, whatever it was, how big the contract really
3 was.

4 I think the contract grew during that period. In fact,
5 I think they almost doubled the numbers.

6 Q It was your testimony that in the mid part of '72
7 you were generally aware that the potential sales resulting
8 from these negotiations was \$500 million?

9 A Well, this was at the end of the year I would say
10 that.

11 Q Oh, earlier I recalled you saying that in the mid
12 part of '72 you became generally aware that the potential
13 sales could be \$500 million a year?

14 A I am afraid I may have been incorrect. I am not sure
15 when I remember it. I remember that during the end of the
16 year, when I was about to leave, that I felt that I was going
17 to leave them with a good substantial order, and it was about
18 \$500 million.

19 Exactly when my recollection of that is, I am not sure.

20 Q Were you consulted on the first amendment to the
21 contract that provided for a commission payment of two and a
22 half percent? Do you recall any discussions with your
23 subordinates at that time about this matter?

24 A I don't recall any specific discussions at the
25 time, although I would seriously wonder if Mr. Atkins would

Monick Reporting Company

DB5

1 have done it without at least saying he was doing it.
2 So I would hesitate to say it wasn't brought to my attention.
3 But I do not really recollect it.

4 MR. MARINACCIO: Mr. Doherty.

5 BY MR. DOHERTY:

6 Q Mr. Ducayet, in the period 1966 through 1968,
7 what was the size of Bell's international sales relative to
8 their sales in total?

9 A I haven't the faintest idea, except I guess
10 it was five, maybe five percent, maybe, or less than five
11 percent.

12 Q Would it be correct to say it was not a major
13 part of Bell's business at that time? Is that correct?

14 A That is correct. We were having a hard time
15 keeping any sales going other than U.S. military sales,
16 because the U.S. military commitment was so large.

17 Q Now you mentioned that the Marketing Department
18 was directly responsible for the international sales area.
19 Is that correct?

20 A That is correct.

21 Q Did that Marketing Department have responsibility
22 for all sales?

23 A Yes.

Mariner Reporting Company

24 Q Was it broken down in any way in terms of its
25 responsibilities for domestic versus foreign sales?

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1 A I am sure it was broken somehow, but I can't
2 remember the exact breakdown at that time. There always has
3 been a semi-division between international and domestic.
4 The problems are very different.

5 Q Do you recall at that time whether Mr. Jose was
6 responsible over the entire Marketing Department, or was it
7 just the international aspects?

8 A No, I believe at that time he was responsible
9 for all marketing.

10 Q What was the overall size in terms of employees of
11 the Marketing Department?

12 A I couldn't even guess at that. Not very big,
13 though.

14 Q Do you recall whether it was three employees or
15 103?

16 A Oh, you are really asking me to guess.

17 Q Well, I don't want you to guess.

18 A I really have no recollection. I would say there
19 weren't, not counting the stenographic or clerical help,
20 I would say there probably weren't five people in the
21 international marketing.

22 Q That was in the international --

23 A I would say five to ten, in international marketing.

Manick Reporting Company

24 It was probably not more than ten at least. I really am
25 guessing though.

1 Q Was the international aspect of the Marketing
2 Department new and growing at that time, or was it a well-
3 seasoned group? What can you tell us about that?

4 A I would say it was new and growing, expanding.
5 I have to say that it had been our policy for sometime to try
6 to expand our business beyond the U.S. military. We
7 recognized that at some time we had to do it, and we always
8 had a policy of pushing and trying to continue the commercial,
9 which we classed really as domestic more than anything else,
10 commercial and international sales.

11 As such, we always had been working hard on it and,
12 as it happens, it paid off, it was a good policy.

13 Q Would it be correct to say that in the 1966, '67,
14 and '68 area, there was a new push, or a bigger push to expand
15 the international area?

16 A I would say that is correct, I would say the push
17 was not necessarily from the inside, it was also from the
18 outside, because there was an expanding interest in helicopters.

19 Q I don't want to be redundant here, but I would
20 like for you to tell us in your own words what the Bell
21 policy was at that time as conveyed to your international
22 marketing group, the small, relatively unseasoned group, as
23 to what guidelines, procedures, this group should follow in
24 attempting to expand the Bell international sales?

Market Reporting Company

25 A As I have said before, there were no written

8 1 guidelines given to them. They were charged with the
2 responsibility to try to expand their market. In so doing,
3 we felt in almost every case -- I won't say every, but I am
4 sure in almost every case, with sales representatives.

5 We tried to establish sales representatives, reputable,
6 good people --

7 Q By sales representatives, you mean foreign nationals?

8 A Foreign. We never used them domestically. Domestic
9 and Canada never had sales representatives. We tried to
10 get people who would be effective to us. Sometimes they were
11 individuals, sometimes they were companies. We often and
12 in fact I would guess one of the first places we usually
13 looked were who were the fixed wing operators or fixed wing
14 dealers, who was the Cessna or the Beech dealer, because
15 the chances are we might interest them in it.

16 The helicopter business, in the foreign markets, was
17 pretty slim in those days. It was hard to get a person
18 to take it on as a sole and only responsibility. They had to
19 have some other business, because the chances of being very
20 successful were a little on the slim side.

21 Q So you are testifying that Bell had a policy of
22 hiring effective sales representatives in foreign countries.
23 How do you define "effective"? People who made sales? Is
24 there anything else that would go into your definition of
25 effective sales representatives?

DB9 1 A Yes. We had a good reputation, we had always
2 had a good reputation. We tried to get people who would
3 represent us well and maintain our reputation. We placed
4 a great deal of importance on follow-up after sales, service,
5 spare parts. We tried to get representatives who would stock
6 spare parts, keep a supply in the country, if they sold
7 ships, because this backs up the sale afterwards.

8 We tried to get them to have some service knowledge,
9 some mechanical ability to handle the ships. If you sell a
10 guy a ship and you can't service it, what good is it to him?

11 Q Are there any other policies that you can tell us
12 about that were conveyed to your Marketing Department with
13 respect to their efforts to effect international sales?

14 A We usually checked into the person or the
15 company that we were looking to. We investigated a company
16 as best you could. Some of them were foreign companies,
17 some of them were independently owned, probably. Some of them
18 were just sales representative companies, really, there was
19 no entity to the company.

20 Q During the period of time we are discussing, '66
21 through '72, the period of time that you were with Bell
22 Helicopter, did Bell have any policy with respect to making
23 payments to foreign government officials in connection with
24 the procurement or maintenance of business by Bell?

Monck's Reporting Company

25 A It had always been our policy that we would not pay

10 1 anybody except a legitimate agent a fee, whatever was in
2 his contract, for the sale of helicopters. We never paid
3 anybody anything other than that.

4 Q And was this policy conveyed to your Marketing
5 Department?

6 A Yes, they were well aware of it. They were aware
7 of it when it was Bell Helicopter, not just when it was
8 Textron. It had always been our policy.

9 Q Now I believe your previous testimony was that --
10 and correct me if I am wrong -- that Bell did not have any
11 particular policy with respect to whether Bell could engage
12 a company as a foreign representative, which company was
13 owned or controlled by a foreign government official?
14 Is that correct?

15 A The question had never come up and as such, I
16 couldn't say that we had never told anybody they couldn't do
17 it.

18 Q I am not asking whether it ever came up. I am
19 asking you whether your Marketing Department was advised of such
20 a policy in connection with their efforts to secure foreign
21 sales?

22 A I can't say that they were advised of that.

23 Q Again, I just want to ask you some specifics to be
24 sure that certain of the policies have not been overlooked.

Manick Reporting Company

25 Did Bell have any policy with respect to using a foreign
representative, sales representative, in a foreign country,

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1 if a government official of that foreign country owned
2 or controlled a part of that sales representative, if the
3 government official's ownership was a secret ownership?

4 Was there any policy with respect to secret ownership by
5 foreign government officials?

6 A. Well, as I said before, the question never came
7 up, and to my knowledge it was never discussed. If it was
8 a secret ownership, I don't know how we would know it anyways.

9 Q. Did Bell have any policy with respect to such an
10 ownership interest, if that ownership interest were to be
11 contrary to the laws of the foreign country in which Bell
12 was attempting to do business?

13 A. Again, as I have said, the question never came
14 up, therefore there is nothing that says yes or no. But
15 if something were against the laws of a country we were
16 trying to deal with, we would never have gone into it. We
17 dealt strictly correctly, legally, and openly, in the
18 most honest and best way we could. We never tried to get
19 around countries or their laws or regulations or whatever.

20 Q. Well, I am asking at this time whether Bell had
21 a policy that was conveyed to its marketing people, or to
22 anyone else in its organization, that Bell efforts to procure
23 foreign business would be done in a manner consistent
24 with the laws in the foreign country in which they were attempting
25 to procure the business?

DB12 1 A I would say there was no such written policy any
2 place.

3 Q Was there any --

4 A Or verbal policy. To me it is the kind of thing
5 you don't even have to state to anybody. If you have honest
6 people working for you, you don't have to tell them don't
7 go out and break the laws of a foreign country, or any country.

8 Q I am just attempting to determine what the policies
9 were at the time that were conveyed to the employees of Bell.
10 You are indicating that there was no such policy conveyed
11 to those people, is that correct?

12 A That is correct.

13 Q Although you feel that they should have understood
14 that?

15 A They certainly should have understood.

16 Q There is one point I would like to clarify for
17 the record. It may be clear, but I would like to ask you
18 again.

19 You were asked a number of questions with respect to
20 a meeting that Mr. Bell, the attorney for Mr. French, stated
21 he had with you in 1966. And you were asked a number of
22 questions with respect to certain things that Mr. Bell had
23 testified he had stated to you.

24 Is it your testimony, sir, that you don't remember whether
25 you had a meeting with Mr. Bell, or whether you did not have
a meeting with Mr. Bell?

DB13

1 A That is correct.

2 Q Is it your testimony, then, that you don't
3 recall whether Mr. Bell told you the things that were read
4 to you, or whether he did not tell you those things?

5 A That is correct.

6 Q Just so it is clear in my mind, then, would it be
7 correct to say that you are not denying that he told you those
8 things, but that you are testifying that you simply don't
9 recall one way or the other whether you were told them?

10 A That is correct. I have no knowledge of the
11 meeting, and I remember nothing about it. Therefore, I
12 can't say he did or he didn't.

13 Q Do you, sir, keep a record, or does your secretary
14 keep a record of meetings that you might have had while
15 President of Bell Helicopter?

16 A No.

17 Q So you would have no independent way of determining
18 whether the meeting even took place with Mr. Bell?

19 A That is correct.

20 Q During the period of time that we are discussing
21 with respect to policies, 1966 to 1970 or 1972, were any
22 policies conveyed to you from Textron with respect to the
23 methods that should be followed by Bell in its international
24 marketing efforts, in addition to those that you have already
25 discussed?

Monick Recording Company

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1 A I would say no.

2 Q In the 1966-'67 time frame, do you have any
3 recollection as to how many manufacturers' representatives
4 Bell had at that time?

5 A I would guess about 30 to 50, in that area. It is
6 hard for me to place it in that time frame. We varied,
7 we probably had as low as 30, we have had as many as 50
8 countries.

9 Q Could you describe to me in as much detail as you
10 can the chain of responsibility, the procedures that were
11 applicable in the 1966, '67, '68 time period, with respect
12 to not only selecting manufacturer's representatives, but
13 fixing his compensation, anything you can tell us about that,
14 including who negotiated the contracts, who fixed the
15 commissions, who signed off on the contracts, whether there
16 were any procedures that would require higher level approval
17 if the contract were potentially over a minimum dollar amount?
18 Anything you can tell us about that.

19 A Well, if I remember correctly, we had a standard
20 sales representative contract. We also had a policy on the
21 commissions that were paid on those contracts, or policies,
22 I would say, because I think some representatives were
23 treated differently than others, in that some representatives
24 might be just a man, a single individual as a salesman,
25 others might be actually a company, I will say like Air Taxi,

Monick Reporting Company

15

1 if you like. They were treated differently, because their
2 commissions could be different. The spares commission to
3 just a sales representative might be different than to someone
4 who stocked spares and was therefore treated as a dealer.

5 These were standard things, they were negotiated, I
6 believe, by the Marketing Department. I won't say that
7 they were done by the top person, they probably were done by
8 someone one level below that.

9 Q When you say negotiated, you mean the negotiations
10 as to who would be the representative?

11 A Right. Those people, however, that negotiated them,
12 I think you will find they negotiated them probably,
13 because they were the ones who were going to the countries.
14 Our top people weren't always running all over the world
15 trying to negotiate an agreement.

16 Q This was a relatively --

17 A When I say negotiation, it usually was a negotiation,
18 because they always wanted more commission, no matter who
19 it was, standard practice. We didn't pay as much commission
20 as Cessna or Beech did, and we always were criticized for it,
21 but we didn't do it, we didn't have that much commission.

22 Q Is it your testimony that the Marketing Department
23 would negotiate both who the representative would be and what
24 the compensation would be?

25 A Yes, but within the standard terms set up by us,

16

1 by the policies of the company at the time. I believe they
2 could not approve those. The actual sales agreement had to
3 be signed by an officer of the company, or by someone delegated
4 to sign it. I am not sure how far that delegation went at
5 that time. I am not sure whether it had to come all of the way
6 up to, I will call it an officer of the company, a vice
7 president or a secretary-treasurer, or some officially
8 designated officer, or whether the Marketing Department could
9 actually sign them.

10 I don't think they could sign them. So it had to have
11 approval some place.

12 Q You did not have to approve it?

13 A Not necessarily. There were other people who could
14 sign them.

15 Q Do you know whether Mr. Atkins could?

16 A Yes, I am sure he could sign them.

17 Q Do you know whether it was necessary for him to
18 approve it?

19 A Not necessarily. I could sign it and he didn't
20 have to approve it.

21 Q But you believe it was necessary for someone over and
22 above the Marketing Department people to ultimately approve
23 these contracts?

24 Monick Reporting Company

25 A I am not sure whether the top of the Marketing

17 1 Department, whoever was in charge at that particular time,
2 could sign it or not.

3 Q Was that Mr. Jose?

4 A It was Mr. Jose, but I am not sure whether Mr.
5 Jose was a vice president. If he had been an officer, he might
6 have been allowed to sign them. I can't answer the question,
7 really. I am not sure.

8 I am sure they weren't brought up to any of us if
9 Mr. Jose hadn't seen them.

10 Q Were there any other applicable procedures that
11 you recall with respect to the letting of contracts to sales
12 representatives and the fixing of commissions on those contracts?

13 A When a commission had to be negotiated beyond the
14 standard commissions written in the contract, then I am sure
15 it took some higher approval some place to approve it.

16 Q How often did you meet, during the period of time
17 we are discussing, with the people in the Marketing Department?

18 A If I was in town, I doubt that a day would go by
19 that I wouldn't discuss something with them.

20 Q When you say if you were in town, that means
21 that if you were not travelling, is that correct?

22 A That's right.

23 Q Your offices were located in the same area?

24 A Same building.

25 Q As the Marketing Department?

18 1 A Yes, and the door was always open.

2 Q You say then that there was a fairly direct line
3 of communication between you and the Marketing Department
4 people?

5 A Any time they wanted.

6 Q And when we refer to the Marketing Department
7 people, does that include the foreign sales aspects?

8 A Yes. Pardon me, that includes our own foreign
9 sales people.

10 Q Yes.

11 A Yes, right.

12 Q Would your foreign sales people communicate with
13 you daily?

14 A If they wanted to, if they had something to talk
15 about.

16 Q As a matter of practice, did they?

17 A As a matter of practice, we had a lot of communi-
18 cation with them, really. There were usually one or two
19 or three, I will call them hot deals, going on some place.
20 They were trying to do something and they were pushing
21 and hoping and prodding at it. So they were often in and
22 out, or commercial sales, the same thing. They were all
23 confused together.

24 Q Mr. Atkins, during this period of time, was between
25 you and the Marketing Department, is that correct?

19

1 A Right, I believe he was.

2 Q Was it the practice of the Marketing Department
3 people to initially go to Mr. Atkins, or would they
4 often come directly to you?

5 A They didn't have to go to Mr. Atkins. Mr. Atkins
6 and I had an unwritten understanding that we could keep each
7 other informed and we got along very well, and understood
8 each other's policies.

9 It was often that they would come directly to me.

10 Q What kind of things would the international marketing
11 people come to you with?

12 A I am trying to think of what kind of problems.
13 I usually had so many problems, I don't know which ones. It
14 is hard to recollect exactly what. We were involved in a
15 national marketing, trying to sell military ships, foreign
16 military ships. They would require special proposals,
17 special considerations. The ships were not exactly the same,
18 the terms were different. They often required financing,
19 and this is one reason they usually were tied to Mr. Atkins
20 as much as anything, because he had been the financial person.

21 So any of these kinds of questions they would be apt
22 to come up to us to try to get an answer, because they were
23 different than just the setandard quota price type of thing.

Monick Reporting Company

24 Q Were there an- occasions in which your international
25 marketing people came to you and said anything to the effect that

20

1 we are trying to get an organization going, or some sales
2 going in a particular foreign country, and we have encountered
3 certain foreign officials who are insisting that we pay
4 them off or make some payments to them, and we think perhaps
5 you ought to know about it?

6 A I recall no such circumstances.

7 Q Do you recall, sir, whether in connection with
8 attempting to expand the Bell international sales, that the
9 subject of questionable or improper payments to foreign
10 officials was discussed in your organization, was recognized
11 as a possible matter of concern?

12 A I would say that it was recognized as more than
13 a matter of concern, it was recognized as a policy, that we
14 would not pay anyone beyond a legitimate agent his legitimate
15 commission.

16 Q Do you recall --

17 A We never tolerated it, we never stood for it.
18 We wouldn't even talk about it.

19 Q Do you recall that that policy was ever discussed
20 in the context of a particular factual situation that it
21 was being applied to?

22 A I am not sure I understand your question.

23 Q Do you recall having any discussions in which a
24 specific instance was brought to your attention that this
25 policy which you have just referred to would be applicable?

Monick Reporting Company

21 1 A I don't remember any such specific case, no.

2 Q Mr. Ducayet, could you explain to us the
3 factors that went into defining what kind of a payment would
4 or would not be questionable, or improper, and the kind of
5 payment that would be legitimate or reasonable insofar as it
6 was contained in the policy that you have just described to us?

7 A First, there wre positive figures established
8 for certain sales, a commission of a certain percent. We never
9 questioned these, they were established for a reason, the man
10 was supposed to make an effort and make the sale.

11 We included the provision which we have talked about here
12 in our sales representatives contracts that stated that
13 when a sale was over a certain number of ships, then it
14 was subject to some negotiation.

15 This was included for very obvious reason, that we knew
16 very well that in some areas the man might fall on a big
17 military sale, and we would have to, we felt we should use
18 some judgment in the amount of effort the man had put in,
19 what he had done for us, in relation to the size of the sale
20 and the gross commission, I will call it, as against just
21 a percentage.

22 I think these were the factors that we used, if there was
23 ever a negotiation for a sale. And there were such negotiations.
24 There were other cases where more than five ships were sold
25 to a government, and the commission was negotiated, and

22

1 established. But a lot of it depended on who the agent was,
2 how much he had done, how much good he had done for us, how
3 much good he was going to do for us.

4 Q I would like to ask you a question with respect
5 to the practice followed by you in the '66 to '72 period.

6 If a violation of the Bell policy with respect to foreign
7 sales were brought to your attention, what would be your
8 practice to do at that time?

9 A I am afraid it is a little difficult to answer that,
10 there are so many ways in which the policy might have been
11 deviated from, or the policy might have been deviated from.
12 You could have some minor nothing that you can slap the guy
13 on the wrist for and say you shouldn't do this, or you could
14 have something serious that you would have to --

15 Q If you had a deviation that you would consider
16 a significant deviation, that could adversely impact Bell
17 Helicopter?

18 A Then I would say that you should take such
19 corrective action as was indicated by whatever it was that
20 went on.

21 Q So you would make a directive to your --

22 A Do something about it.

23 Q (Continuing) -- to your people to resolve it,
24 is that correct?

Manick Reporting Company

25 A Yes, sir.

23

1 Q Would you have had a practice at that time
2 to report this to anyone else in the way of one of your
3 associates at approximately the same level, or to someone
4 that supervised you, or to the Board of Directors, or the
5 Audit Committee?

6 A If it was a serious deviation, I would say it
7 would have been my responsibility to report it to I will
8 say Textron.

9 Q Who would you report to in Textron?

10 A I would have reported to Mr. Miller.

11 Q During this period of time, '66 through '72,
12 was Mr. Miller your immediate supervisor?

13 A Yes.

14 Q What was the relationship between the two of you,
15 if you could describe it for us, your business relationship?

16 A Well, I would say that Textron bought Bell Helicopter
17 in 1960, and they never put anybody down there, they never
18 put anybody in the place, they never did anything to us,
19 they never questioned anything. They had complete faith in
20 what we did. We had good policies, we were running a good
21 company, we were always in the black.

22 Q Bell was the largest division of the Company?

23 A I am not sure we were at that time. We took Bell
24 from \$50 million to \$500 million in eight years.

25 Q Would you continue, please?

Monick Reporting Company

24

1 A Well, I would say that Mr. Miller and Textron
2 in general had faith in the company, and that it was being
3 run in a good orderly businesslike way, that we followed
4 the policies that they had given us, which were the same
5 policies we had been following, and we didn't have to change
6 anything.

7 Since we had been dealing with government contracts,
8 we already had better and more detailed financial information
9 than they needed.

10 Q During the period of '66 through '72, how often would
11 you have occasion to talk with Mr. Miller? Or communicate
12 with him in any way?

13 A Pardon?

14 Q I said or to communicate with him in any way?

15 A Well, we were required to send a monthly
16 report to him, financial statement, and usually a relatively
17 brief operating report of any significant things going on.

18 I would say how often that I communicated with him
19 depends to a large degree on how much was going on. There
20 were times when it was just going on and the wheels were
21 grinding it out, and there wasn't any particular significant
22 thing that had to be brought to his attention.

23 If there was, then I would call him on the phone, usually
24 and talk to him.

Monick Reporting Company

25 Q Could you describe what kind of things would be

25 1 brought to his attention in some way? What kinds of things
2 would you communicate to Mr. Miller?

3 A Oh, I would say large orders, which is obvious,
4 big pieces of business, either won or lost. The progress
5 being made on experimental ships, development ships, development
6 work. Approval to do maybe some development or experimental
7 work.

8 Q Were there areas in which you would seek guidance
9 from him, approval from him? Would you bring problems to
10 him? Are these the kinds of things that would cause
11 you to make a call to him?

12 A We usually didn't bring problems to him, we tried
13 to bring him an answer and ask him to agree with it. We ran
14 a good company that didn't give him much trouble.

15 Q Could you estimate to us how often you would
16 be in contact with him? I am just asking for your best
17 recollection. Would it be once a month, once a day, how
18 did it average out?

19 A Oh, I would guess once a week maybe. At the
20 most once a week. We could have periods where it was every
21 day, something is going on. But I would say there were
22 often times when it was not more than once a week.

23 Q What was Mr. Miller's position at that time?

24 A He was President and -later Chairman. He changed
25 during -- well, no, he changed after that. That is right.

26

1 He was president. Can I go off the record?

2 MR. MARINACCIO: You may confer with your
3 attorney off the record. You can just talk to him silently.

4 THE WITNESS: I just wanted to be sure I made a
5 correct statement. Was he President when they bought us?

6 MR. SOUTTER: I don't know. '74 I think is when
7 he became Chairman.

8 BY MR. DOHERTY:

9 Q Do you recall, Mr. Ducayet, whether you sent monthly
10 reports to Mr. Miller with respect to the contemplated sale
11 in Iran of what turned out to be approximately 500 helicopters?

12 A I don't specifically recall including it, but
13 I would guess it might have been, but only on a basis of
14 the sale was progressing well, or not well, or it had gotten
15 bigger, or something.

16 The monthly reports were pretty brief, really.

17 Q Did Bell Helicopter, to your knowledge, Mr. Ducayet,
18 ever make any payments to any Iranian government officials
19 in connection with the procurement or maintenance of the
20 contract in Iran in which Bell sold approximately 500 helicopters
21 to Iran?

22 A Bell never made any payment to anybody in Iran for
23 anything.

Monick Reporting Company

24 Q To your knowledge, sir, has Bell Helicopter --
25 when I say Bell, I include Textron as well -- maintained

27

1 any fund, corporate fund or other assets which were not
2 recorded on the corporation's books and records?

3 A To the best of my knowledge, there are no funds not
4 on Bell's corporate books, of any kind. And never have been.

5 Q Mr. Ducayet, I would like to show you a couple
6 of letters that were sent from Bell Helicopter and have
7 previously been marked exhibit numbers 83 and 93.

8 I notice at the tope of the letter that each of the
9 letters seems to carry a number that indicates in reply refer
10 to letter number such and such.

11 Do you recall what the practice was during this period
12 of time with respect to record keeping at Bell, with respect
13 to correspondence?

14 A No. I can say that many departments had their
15 own numbering systems, if they wanted to, if they found it
16 was necessary. We didn't require or maintain central files
17 as such. The 03, if I remember correctly, is the Marketing
18 Department. That is a Department number. The rest of this
19 is their business.

20 Q Do oyou recall whether, during the period of time
21 we are discussin, the Marketing Department maintained a
22 system of numbering all letters?

23 A I can't answer that. I don't know, really.

24 Q Did you maintain a system of numbering letters?

25 A Personally?

28 1 Q Yes.

2 A Yes, my secretary, but it was strictly my system,
3 my numers, and nothing else.

4 Q Do you have any knowledge, sir, as to why Mr.
5 Feliton and Mr. Kling left the employ of Bell Helicopter?

6 A No idea.

7 Q Do you have any knowledge as to why Mr. Orpen left?

8 A No idea. I should say I don't remember, really.
9 I haven't the faintest idea.

10 Q Do you have any knowledge as to where Mr. Orpen
11 or Mr. Kling went after they left Bell, or where they might
12 be now?

13 A No idea.

14 Q What is your age, sir?

15 A Sixty-nine.

16 MR. MARINACCIO: Mr. Collins has some questions
17 for you at this point.

18 BY MR. COLLINS:

19 Q Mr. Ducayet, did you ever meet with Mr. Zanganen
20 or Mr. Iranzad from Air Taxi?

21 A I don't place Iranzad. I think at some time I
22 met Zangenah, yes. He has been in the factory. I am sure
23 I met him sometime.

24 Q In Forth Worth?

25 A Yes, I am sure he has been in there sometime.

29

1 Q Do you remember when?

2 A No, no idea.

3 Q For what urpose would he have been at the factory?

4 A He was our representative.

5 Q And he would come to Fort Worth periodically?

6 A He might, yes.

7 Q Who would he meet with in Forth Worth?

8 A He probably would come to meet with whoever was
9 running marketing.

10 Q For what purpose would he meet with you?

11 A I said once before, everybody had to say hello
12 to the president when they came in, they didn't think
13 their visit had been successful if they hadn't, so they usually
14 had to be dragged through my office and I had to say hello
15 and be nice to them. Whether I had any business with them
16 or not, it didn't make any difference.

17 Q To the best of your recollection, you never
18 discussed business with Mr. Zanganen?

19 A As far as I know, no.

20 Q Did you ever participate directly in negotiations
21 with the government of Iran with regard to the possible contract
22 to purchase serveral hundred helicopters?

23 A I did not participate personally with any contracts
24 with Iran.

Monick Reporting Company

25 Q Did you ever have any meetings with Iranian government

30 1 officials?

2 A Again I would say that I probably have met,
3 or you would say I have met with General Toufanian, who has been
4 in the factory, was in the factory when I was still President,
5 I believe, and I probably met with him; in fact, I probably
6 had lunch with him.

7 Q Do you recall when that was?

8 A No, but I think he was there at least once
9 before I left. Mr. Atkins was handling all of the negotiations
10 and he was taking care of it completely. But I am sure
11 if he was there, I showed him the courtesy of having lunch
12 with him.

13 Q But you don't recall any discussions you had with
14 General Toufanian as to the possible purchase by Iran of
15 helicopters?

16 A No.

17 Q How long would these meetings that you have
18 described with sales representatives or government officials
19 take? Would they be five minutes long, 15 minutes long?

20 A It depends on who it was, really. How important
21 the person was. Some of them might be five minutes, some I might
22 take them to lunch, if you have to. They were always trying
23 to get you to do that, too.

24 Q If it was General Toufanian, we understand from
25 previous testimony he was the Deputy War Minister in

31 1 charge of procurement. What would you be apt to discuss
2 with him and how long would a meeting with him be? Would his
3 be a five-minute meeting?

4 A No, the chances are if he was there, he would be
5 important enough that we would have -- the chances are would
6 would go to lunch, really. I wouldn't see him until it was
7 lunch time and I would probably go to lunch with him.
8 Particularly in these circumstances where Mr. Atkins had him
9 in charge, he was the one who met him, he was the one doing
10 the dealings with him.

11 Q Would you be apt to discuss your sales agent
12 with persons such as General Toufanian, a government official?

13 A No.

14 Q Would you discuss your product line?

15 A We would be more apt to discuss the product line,
16 to discuss the particular ship we were talking about with
17 him. It would be more apt to be a technical discussion than--
18 I mean technical from the standpoint of what the ship was,
19 how good it was, what it would do, and so forth.

20 Q With respect to any meeting you might have had
21 with Mr. Zanganen from Air Taxi, what would the discussion
22 likely have included?

23 A Hello, nice to have seen your.

24 Q Nothing concerning the sales arrangement?

25 A I wouldn't get into it with him.

DB32 1 Q Did you have a policy about that?

2 A No.

3 Q Was it your operating procedure not to bother to
4 discuss sales agreements?

5 A No, not necessarily. If they wanted to discuss
6 that, somebody has to brief me on what the problem is, what
7 they are doing, why the man is there, what does he want,
8 and they are responsible for handling that.

9 I wouldn't get into it unless they had some real
10 problem that was coming up.

11 Q Previous witnesses have indicated there were
12 various air shows that took place, I believe some in Iran
13 and some in Paris, at which Bell Helicopter would have an
14 exhibit?

15 A Would have what?

16 Q An exhibit.

17 A Yes.

18 Q Would you have attended any of these-functions?

19 A Yes.

20 Q And would you have come in contact with any Iranian
21 government officials at those shows?

22 A I might have, if they came into our exhibit.

23 Q But you don't recall what specific show you may have
24 attended or --

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25 A Well, not specifically. I remember being at the

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1 Paris show, it was an important show, it was an opportunity
2 to see and meet many people from many countries that I
3 would never see otherwise, because they wouldn't come to
4 my country and I would not go to theirs.

5 So it was a good opportunity to meet them and see
6 them if you wanted to.

7 So the Paris air show was always an important sales tool,
8 I will call it, sales place.

9 Q But you don't recall meeting any Iranian government
10 officials at that air show?

11 A The people used to pour through that exhibit by
12 the hundreds. No.

13 Q With respect to sales by Bell Helicopter to a
14 foreign government, I believe you mentioned earlier that it
15 would be your policy not to deal with a sales agent that was
16 owned by any government official.

17 To your knowledge, has Bell Helicopter ever had a sales
18 agreement with a manufacturers representative for civilian
19 sales where the sales agent was owned by or controlled by
20 a government official?

21 A Not to my knowledge, no. I don't believe so.

22 Q If that were the case, what would be your
23 policy?

24 A I think we would havehesitated to do business with
25 someone who was involved with the government or owned by the

Monick Reporting Company

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1 government.

2 Q With respect to civilian sales?

3 A Well, yes. That was what I was hesitating on.

4 I am wondering what I would do with a civilian sale, which
5 is anybody's business, really. I think we would have
6 hesitated because we would have questioned the agent from the
7 standpoint that there was an interest of a government official
8 in the agency. Whether it was a commercial sale or otherwise,
9 I think we would have hesitated and thought twice about doing
10 that kind of an agent.

11 Q In a country --

12 A I don't think the question ever came up, really.
13 I don't ever remember it coming up.

14 Q In a country where a government would appear to
15 control civilian as well as military aviation, you would
16 look pretty carefully then at any involvement by a government
17 official as a sales agent?

18 A Yes.

19 Q Prior to your testimony today, have you ever been
20 questioned by anyone as to the propriety of Bell Helicopter's
21 \$2.9 million commission payment to Air Taxi?

22 What I mean by that is any questioning performed by
23 internal auditors in Bell Helicopter, Textron, questions from
24 the Audit Committee of Textron, or a government agency?

Monick Reporting Company

25 A May I ask you to repeat your question?

35

1 I am not quite sure what I am answering.

2 MR. COLLINS: Would you read it?

3 (Question read)

4 THE WITNESS: First, I would say that I have never
5 been questioned as to the issue. I would add that I am
6 sure that the payment was discussed at high levels in the
7 company, and no one saw any reason to go beyond that discussion.

8 BY MR. COLLINS:

9 Q Would the discussion have been the propriety of the
10 payment?

11 A No, the discussion was the payment. Well, call
12 it propriety; if you are discussing whether you should or
13 shouldn't make the payment, or it was a payment, or what
14 else you are discussing is propriety in a sense.

15 Q You mean the size of the payment?

16 A Size of the payment.

17 Q The size of the sale?

18 A Size of the sales, size of the payment, the person
19 you are making it to. I am sure the question was discussed.
20 Remember, you are getting into an area where I wasn't there
21 until now.

22 Q Well, you were on the Board of Directors of Textron?

23 A Yes.

24 Q Could you describe --

25 A I think I can add one thing. To my knowledge the

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1 question was never brought up, to my knowledge, it was
2 never discussed in the Audit Committee. There is an Audit
3 Committee on the Board. To my knowledge it was never
4 discussed in that Audit Committee.

5 I don't know, I couldn't remember offhand that the
6 question came up ever.

7 Q If you were ever advised by a subordinate at Bell
8 Helicopter about any serious breach of corporate policy
9 concerning foreign sales, would you report that to Mr.
10 Miller?

11 A I think if it was a serious breach I would have
12 reported it, yes.

13 Q Could you describe the present policy of Bell
14 Helicopter, including Textron, as to improper payments to
15 foreign officials or domestic officials?

16 A The policy is that there shall be no improper
17 payments to anyone, no matter who it is.

18 Q Is that a written policy?

19 A I believe it is a written policy, yes.

20 Q Was that ever discussed by the Board of Directors?

21 A I am sure it was brought up in a Board meeting,
22 and it probably was discussed from the standpoint that
23 possibly they said this is the policy, and we have issued
24 a directive, whatever it is, discussed from that standpoint.

Monick Reporting Company

25 It has always been a policy that you don't pay anybody

37

1 anything, so it didn't take much discussion to approve
2 a policy that says don't do it.

3 Q During your membership on the Board of Directors
4 of Textron, have you ever been aware that there have been
5 any improper payments by any of the Textron subsidiaries to
6 foreign government officials?

7 A I am aware of no improper payments by anyone.

8 Q In your discussions with subordinates, concerning
9 any sales to Iran and the relationship between Bell Helicopter
10 and Air Taxi, did you ever become aware of the ownership of
11 Air Taxi?

12 A I believe that the ownership of Air Taxi was
13 checked at some time. I can't be sure of that, though.

14 Q Would that have been something you would have been
15 concerned about?

16 A Oh, I think you would do it in the normal course
17 of checking out an agent, really. You try to find out everything
18 you can about them, who is it, what are they.

19 Q At the time you hire them, that is?

20 A You try to check people out and find out what you
21 can about them, really.

22 Q Does that include the ownership?

23 A Yes, to include anything. Is it a publically
24 held company, a privately held company, what is their
25 reputation with the banks, what is their credit rating, any

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1 of this kind of stuff I think we usually tried to check
2 them out.

3 Q Do you know when Bell Helicopter checked the
4 ownership of Air Taxi?

5 A No, no idea.

6 Q Or how that check would have been made?

7 A No, I don't, I don't really remember.

8 Q With respect to other foreign sales agents, do you
9 have any knowledge as to the procedures that would be
10 followed by your Marketing Department in order to check
11 out the ownership of a sales agent?

12 A Please read that for me.

13 (Question read)

14 THE WITNESS: No, not specifically, really. Other
15 than the kind of things I have just enumerated to you,
16 we normally check a person out, you get as much knowledge
17 as you can about them.

18 BY MR. COLLINS:

19 Q Did the name General Khatami ever come up in
20 your discussions with Mr. Miller or with your subordinates at
21 Bell Helicopter?

22 A I would say that the name of Khatami may have
23 come up in conversation because he was, I believe, the chief
24 of the Air Force, and as such, if you are talking about a
25 country, and you are talking about the person who is

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1 pertinent to aviation at the time, it might have come up in
2 a conversation.

3 Our dealings were with the Army, and I was only vaguely
4 aware of the fact that Khatami was the head of the Air
5 Force, or whatever he was. We weren't dealing with him,
6 we were dealing with General Toufanian, really.

7 Q Did you ever discuss with your subordinates at Bell
8 Helicopter who the decision-makers would be in the possible
9 sale of helicopters to Iran? That is, the decision-makers
10 in Iran?

11 A I would say that we probably discussed it because
12 it was quite obvious to us that the decision-makers
13 were two people, one was Toufanian, and the other was the
14 SHah. I don't think anybody else was going to make a
15 decision on helicopters.

16 Q So to your best recollection, what would have been
17 the involvement of General Khatami in any decision by Iran to
18 purchase helicopters?

19 A As far as I know, he had nothing to do with it.

20 MR. MARINACCIO: Mr. Freed has some questions.
21 Mr. Ducayet, it is now 12:30. Would you like to continue and
22 try to finish up, or do you need a break?

23 THE WITNESS: No, I just as soon continue and
24 try to finish up if we can.

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25 MR. MARINACCIO: Fine. Thank you.

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1 BY MR. FREED:

2 Q Mr. Ducayet, you told us earlier this morning that
3 at Bell Helicopter you tried to make sure that the people
4 you were doing business with were open and above board.

5 Now when Bell Helicopter rehired Air Taxi in 1968 to
6 be its sales agent in Iran, what type of investigation did
7 it do? What did you do to check out Air Taxi at that
8 point, to see what you knew about the firm?

9 A I can't tell you, I have no recollection of rehiring
10 or the circumstances of rehiring them actually.

11 Q Do you know whether --

12 A I don't know, really, whether they did or didn't
13 do anything, really.

14 Q You have no knowledge whether any of the Bell
15 officials went back and took a look at whatever previous
16 records Bell Helicopter had on Air Taxi?

17 A No.

18 Q Since Air Taxi was Bell's agent from 1959 through
19 1964.

20 A No, I have no recollection of whether they did or
21 not. I just don't remember anything about the circumstances of
22 rehiring Air Taxi.

23 Q And you don't recall hearing anything about
24 General Khatami's ownership interest that he might have had
25 in Air Taxi from 1959 to 1964?

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1 A No, I nwver heard anything about that. In fact,
2 I wasn't until very recently aware that we hadn't always had
3 Air Taxi. Then it became apparent that we had somebody in
4 between.

5 Q Now I notice in the documents that Bell provided
6 to us, or that Textron provided to the Committee today,
7 we have a trip report prepared by George Kling on a trip he
8 made to Iran in the spring of 1968 and in it it says: "Memo
9 to Mr. Orpen, with copies to J.F. Atkins and E.J. Ducayet."
10 Would you have received a trip report on Mr. Orpen's trip
11 to Iran in late '67? DO you recall receiving a trip report?

12 A I don't recall receiving a trip report.

13 Q Do you recall Mr. Orpen discussing with you at
14 any point what he learned on the trip?

15 A No.

16 Q Now as the President of Bell Helicopter at that
17 point, in lage '67 to '69, you would take an interest in
18 foreign sales by Bell, wouldn't you?

19 A Yes, I would.

20 Q You would take an interst in seeing what new
21 potential markets there were, always keeping an eye to the
22 future?

23 A Yes.

24 Q Now you would take an interest, also, in Iran as
25 a possible new market for Bell?

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1 A Yes.

2 Q Now in his letter of December 11, 1967,
3 this is a letter sent by Mr. Orpen to Bill French, I think
4 it was exhibit 101, Mr. Orpen writes about his visits to
5 Iran and says: "The purpose of our visit was twofold.
6 First, we have been aware for sometime of the potential
7 UH1D interest by the Iranian Army that has been brought to our
8 attention, mainly through U.S. military sources. In this
9 regard we were hearing rumors of an active interest by
10 competitive sources in promoting helicopters other than
11 Bell."

12 Would you following, at that point, Bell's activities,
13 or receive a report on what would be happening, what
14 the market would be for Bell helicopters in Iran, given this
15 interest, given these rumors?

16 A I would say that we might, I might have been
17 aware of it. I also must point out to you that at that
18 period we were just about to hit peak military production
19 for the U.S. Army. We also had a licensee in Italy who
20 had the rights, I believe, to that ship in Iran, and we might
21 not have wanted to interfere with them too much. I think
22 they were in there already, I am not sure when they started
23 to make sales, but I think they were working that whole
24 general area in the Middle East. It was close to them, and they
25 were working that area, probably. And I wouldn't be

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1 surprised if we said, well, maybe Aguste can make the sale,
2 we shouldn't worry too much about it, because we were having
3 trouble, believe me, trouble meeting production.

4 You know, we were just about pumping everything we could
5 out.

6 Q So at that point you would have been leaving Iran
7 more to Aguste?

8 A Just a minute. (Conferring with counsel)

9 This is my refresher, if you don't mind. You are talking
10 about '67?

11 Q '67, and '68.

12 A Okay. The red peak here-- this is what we
13 were trying to build up to at that point for the U.S. Army.
14 And we were having a hard time doing anything else.

15 So, sure, we were interested in any sales we could get
16 any place.

17 Q You would want to make sure that Bell's sales
18 representatives, sales operation, was looking for new markets,
19 looking for areas to expand into, since the Vietnam war would
20 be winding down at some point.

21 At that point you were beginning to get more pressure for
22 peace moves and you would be --

23 A Yes, we would normally have been looking in a
24 good business judgment sense in trying to expand our foreign
25 markets.

1 Q Let me ask you about the November 2, 1966 meeting
2 that you had with Mr. Bell in which Mr. Jose was present.

3 A That someone claims I had. I have no knowledge
4 of it, sir.

5 Q If you had had a meeting of that type, where a
6 lawyer for one of your sales agents comes in, he says I have
7 an interesting story to tell you, how my client, Bell's
8 sales agent, was bounced out of Iran, ran into problems with
9 General Khatami, wouldn't it have piqued your interest, when this
10 lawyer comes in to tell you this story, why your sales agent
11 was expelled from Iran? And wouldn't you recall a story
12 like that?

13 A I would think I would have, but I frankly don't.
14 And what I would be very apt to have done was to go
15 and ask whoever brought him in to me to come back and see me
16 alone later, and chew him out a little bit for dealing
17 with people like that.

18 Q Did you do that?

19 A No, I don't have any recollection of ever having
20 a meeting with the guy, even. But you are asking me
21 to speculate what I would have done if I remembered the
22 meeting, and I am telling you what I think I would have done
23 if I remembered it.

24 After all, this is a time, a period in which we got rid
25

1 of this guy. We got him out of there. We changed agents.

2 Q You didn't change -- you changed agents a year
3 later.

4 A I don't know exactly when. When did we change
5 agents?

6 Q You changed agents in early 1968.

7 A Okay. And this is late 1967. Things don't happen
8 overnight, you know.

9 Q But this is not a sales agent coming to town, whom
10 you have to sort of go out of your way with, be nice to.
11 This is a lawyer coming in and telling Mr. Feliton and
12 Mr. Jose first about the problems that he has had in Iran,
13 and about an arrangement that had been made to overcome
14 these problems, the creation of a new company in Iran with
15 59 percent Iranian ownership, a company in which the
16 General, the Commanding GEneral of the Air Force, has a
17 substantial interest in.

18 Now at that meeting Mr. Bell tells the story to Mr.
19 Feliton, and Mr. Jose and according to the testimony we had
20 yesterday by Mr. Bell, he said that Mr. Jose picks up the
21 phone, calls your office, speaks to you and says there is
22 a man here who has an interesting story to tell.

23 They then go down to your officel At that meeting --
24 the meeting was with you and Mr. Bell and Mr. Jose -- Mr.
25 Bell tells us that he had recounted to you the role, the

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1 influence that General Khatami had over the sale of
2 aircraft in Iran, including the sale of helicopters.

3 Now wouldn't it have piqued your interest to hear
4 this about an Iranian General who had a monopoly control over
5 the sales of aircraft in Iran?

6 A I frankly am amazed that I don't remember it,
7 if it is all that interesting, and all that something. The
8 fact that it was a lawyer doesn't mean anything, because to
9 me that just meant somebody represented him in this country and
10 he was coming in to talk to us, he was a representative of
11 French, or whoever it was.

12 Q But this lawyer was coming with specific problems,
13 problems that affected Bell's sales in Iran, and he was
14 coming to talk to Bell about ways of dealing with those
15 problems. It was not a fellow coming into town that
16 you have to be nice to.

17 A It still doesn't mean anything to me. I can't
18 remember the guy or anything about him.

19 Q Wouldn't you be interested in terms of how sales
20 are done in Iran, the fact that this General was in a
21 position to make or break Bell's sales efforts in a specific
22 country?

23 MR. GALERSTEIN: Mr. Freed, may I respectfully
24 interject at this point? You have suggested this three or
25 four times at least. He has told you that he does not remember

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1 at all any such meeting, any such conversations, and
2 you keep coming back as to whether some hypothetical conversation
3 would have piqued his interest.

4 MR. FREED: I am just asking this line of
5 questioning because Mr. Ducayet was saying that he would be
6 following foreign sales of Bell Helicopter and this is something
7 out of the ordinary.

8 MR. GALERSTEIN: In your questions you are
9 factualizing, insofar as Mr. Ducayet is concerned, a non-existent
10 conversation and meeting.

11 I do wish, I think it is proper for you to clearly
12 distinguish between some hypothetical meeting that someone
13 else alleges took place, and a meeting that Mr. Ducayet has
14 told you time and again he has no recollection of, and insofar
15 as he knows it did not take place.

16 Now I don't think it is proper to argue with the witness
17 on it, and I don't mean to, as you can tell from the way
18 we have conducted ourselves, or to interrupt any kind of cross-
19 examination. But I think it is fair.

20 MR. FREED: What I am trying to establish is
21 whether Mr. Ducayet would be interested in anything he would
22 be able to learn about how foreign sales were conducted in a
23 foreign country, a country that was later to become very
24 important to Bell and especially a situation in which you are
25 learning about the influence that a top military official has

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1 on these sales, and the ownership interest that this military
2 official has in companies with which Bell was doing business,
3 agreeing to do business, and would later do business.

4 THE WITNES: Sir, we were producing helicopters.
5 We had production problems. We had an Engineering Department
6 with a thousand engineers in it. We were building new
7 helicopters, we were having all kinds of problems with them,
8 and this was normal for any engineering outfit. We had a
9 Financial Department that was trying to keep track of the
10 costs of the place. We had a Quality Department watching
11 everything that went on on quality. Everything is going on.

12 Sure, I am interested in international marketing, but
13 the fact that I don't even remember it, I can't remember
14 everything that goes on. I have no recollection of ever
15 having a meeting with the guy.

16 MR. SOUTTER: Has there been any testimony as
17 to the sales business that Mr. French or his companies conducted
18 with Bell in the four years in which he was a representative
19 either in units or in dollars?

20 MR. MARINACCIO: I think Mr. Ducayet could well address
21 himself to that, if he wishes. Do you have any knowledge
22 of the question raised by your attorney?

23 THE WITNESS: I have no knowledge.

24 MR. SOUTTER: We do have some information that the
25 total commissions in the four years in which International

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1 Helicopter was the representative, totalled less than
2 \$8,000.

3 MR. GALERSTEIN: You have been so advised by
4 my letter to you this morning.

5 MR. MARINACCIO: I think the point of Mr. Freed's
6 question is not whether or not Mr. French was a large or small
7 representative. I think the point he is trying to make is
8 there has been testimony that General Khatami attempted to
9 muscle in on your agents in Iran. And that what Mr. Freed
10 is asking you is, one, if you have any recollection of
11 that conversation, and you say you do not.

12 THE WITNESS: I do not.

13 MR. MARINACCIO: Then I think he is trying to
14 ask you that if you knew about that situation, would you have
15 been interested in it, and what would you have done.

16 I think your answer to that is, yes, you would have
17 been interested in it, and you would have called your employee
18 in and chewed him out and you would have terminated the
19 contract.

20 I think that is what you said previously.

21 THE WITNESS: That is right. I am not sure that
22 that isn't what was going on, because, look, if these
23 circumstances occurred, which I don't know that they did,
24 but if they occurred, and I knew that this guy couldn't even
25 get into Iran, I wasn't going to pay much attention to some

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1 cock and bull story some lawyer from Kansas brings in.

2 BY MR. FREED:

3 Q I just want to go over one other detail with you
4 that involves Mr. Kling's trip report of April 9, 1968.
5 He states: "Zanganen of AIR Taxi wants to represent us and
6 he can keep his ear open about Aguste. I told him there would
7 probably be no commission if a government-to-government sale
8 is made. He has accepted that."

9 Yet in the manufacturer's representative agreement
10 that was dated April 1, 1968, between Bell and Air Taxi,
11 it states that Bell will pay commissions to be negotiated
12 for a listed product delivered by or by direction of the U.S.
13 Government or an agency or instrumentality thereof to a
14 national or local government.

15 A I don't think that is unusual. What somebody
16 says to try to get the agency and what they actually sign
17 for when they get the agency could be two different things. I
18 think when the time came to sign the agency agreement
19 with us, we probably questioned the fact he might be able to
20 do some good, he might be able to make a sale some place
21 that would be helpful to us and he did.

22 Q Was there a change in Bell's policy at this point
23 by paying commissions on government-to-government sales?

24 A No, if I remember correctly, government-to-government
25 sales still allowed a commission at that period.

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1 Q But in previous manufacturers agreements,
2 commissions were specifically excluded on government-to-
3 government sales. There was a change in 1968.

4 A Were they excluded?

5 Q In the agreements.

6 A I don't remember. I am not that familiar with
7 when they changed it. I know we paid commissions on government-
8 to-government sales and had them allowed under government
9 contracts.

10 MR. GALERSTEIN: I will say I think you are wrong,
11 commissions were paid on government-to-government sales.

12 BY MR. MARNIACCIO:

13 Q Mr. Ducayet, do you remember Mr. Pierrot?

14 A Dick Pierrott, sure.

15 Q Who was he?

16 A Dick Pierrot worked for Bell as an international
17 marketing representative. He worked, I believe, probably the
18 time phase you are talking about, he was in Washington, I
19 think. He had been a foreign representative, I mean he had
20 been a foreign marketing person for us for years.

21 Q He was located in your Washington office during
22 the period 1959 to 1965?

23 A I think so. I am not sure of the exact period,
24 but, yes.

25 Q Did you have occasion to have contact with Mr.
Pierrot?

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1 A Occasionally.

2 Q On a business basis about business in Iran?

3 A Not necessarily, I don't know. I could have.

4 Q Did Mr. Pierrot ever tell you during that early
5 period in the '60s that Air Taxi was in part owned by
6 General Khatami?

7 A No.

8 Q He did not?

9 A No one ever told me Khatami owned anything.

10 Q Do you know or have any knowledge that public
11 sources in Iran, the Registry of Corporations during that
12 period of time, the early 1960s, showed that General Khatami
13 had a substantial ownership interest in Air Taxi, who was
14 your representative at that time?

15 A I have no knowledge of that.

16 Q You never heard that?

17 A No.

18 Q Nobody ever discussed that with you?

19 A No, never.

20 MR. SOUTTER: Is that a fact? I am hearing it
21 for the first time.

22 MR. MARINACCIO: That was the testimony, there
23 has been testimony to that effect, yes.

24 MR. GALERSTEIN: By whom, may I ask?

25 MR. MARINACCIO: Well, the record has not been made

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1 public. When the record is made public, you will find out.

2 My question is based on some testimony that is already
3 in the record.

4 THE WITNESS: Okay. I said no.

5 MR. GALERSTEIN: May I ask you what years you are
6 talking about?

7 MR. MARNINACCIO: My specific reference was 1959
8 to about '63 or '64.

9 BY MR. MARINACCIO:

10 Q To your knowledge when Bell Helicopter retained
11 Air Taxi again in 1968, did Bell Helicopter review all of
12 its internal records relating to Mr. French's dealership in
13 Iran and any prior records that it had when Air Taxi was
14 still its representative in order to ascertain in 1968
15 what the background and present ownership of Air Taxi was?

16 A I think I have already testified that I am not
17 aware of the circumstances or how much was done to investigate
18 Air Taxi when they were re-established as our dealer.

19 Q Who, in your judgment as President of the Company
20 at that time, would have been the most knowledgeable person, or
21 who would have been the most knowledgeable two or three
22 people in Bell Helicopter with respect to the circumstances
23 of retaining Air Taxi again in 1968?

24 A George, when did Sylvester start?

25 MR. GALERSTEIN: 1969.

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1 THE WITNESS: I would say Jose or Mr. Atkins.

2 BY MR. MARINACCIO:

3 Q Mr. Jose or Mr. Atkins. Would Mr. Orpen or Mr.
4 Kling have had any responsibility for that?

5 A I am not sure they were even there. To me,
6 I am not sure they are there, even. But the responsibility
7 would probably have been, if they had anything to do with
8 it, it would have had to be approved by at least Mr. Jose
9 or Mr. Atkins, or both.

10 MR. MARINACCIO: Thank you very much for your
11 testimony.

12 Before you leave, would you wish to make any statement
13 at all for the record?

14 THE WITNESS: No.

15 MR. MARINACCIO: We would be happy to give you the
16 opportunity to say anything you wish.

17 THE WITNESS: No.

18 MR. MARINACCIO: Thank you very much.

19 (Thereupon, at 12:55 p.m. the taking of
20 testimony of Witness Ducayet was concluded.)

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UNITED STATES SENATE
STAFF OF
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

STAFF INVESTIGATION RELATING TO
THE NOMINATION OF
G. WILLIAM MILLER

VOLUME IX
Washington, D.C.
Friday, February 17, 1978

Minnick Reporting Company

1	<u>C O N T E N T S</u>	
2	<u>WITNESS:</u>	<u>EXAMINATION</u>
3	Dwayne K. Jose	1194
4	Thomas Soutter and	
5	George Galerstein	1290

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	<u>EXHIBITS</u>	
	<u>NUMBER</u>	<u>PAGE MARKED</u>
	Exhibit number 102	1289
	Exhibits numbers 103 and 104	1299

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1 AFTERNOON SESSION (1:35 p.m.)

2 MR. MC LEAN: Mr. Jose, thank you for appearing
3 before the staff in connection with this inquiry. My name is
4 Kenneth McLean. I am the Staff Director of the Senate
5 Committee on Banking, Housing and Urban Affairs.

6 As you may know, the staff is conducting an inquiry
7 into the circumstances surrounding a payment of \$2.9 million by
8 Bell Helicopter in 1973 to the firm of Air Taxi. This inquiry
9 was ordered by the Committee in connection with its nomination
10 hearing on Mr. G. William Miller to be a member of the Board
11 of Governors of the Federal Reserve System.

12 The interrogation this afternoon will be led by
13 Mr. Charles Marinaccio, the special counsel to the Committee,
14 and with him at the table are Mr. David Doherty, a staff member
15 of the Securities and Exchange Commission who is on detail to
16 the Committee staff to assist the staff in this inquiry. This
17 arrangement was worked out between the chairman of our
18 Committee, Senator Proxmire, and the chairman of the Securities
19 and Exchange Commission. Also, Mr. John Collins, counsel to
20 the minority and Mr. Bruce Freed, professional staff member.

21 Mr. Marinaccio will formally swear you in, advise
22 you of your rights, and make certain other disclosures about
23 the nature of these proceedings.

24 MR. MARINACCIO: Mr. Jose, as Mr. McLean has indi-
25 cated, your testimony will be under oath. We have been

1 authorized to place witnesses under oath by the Banking
2 Committee and since your testimony will be under oath I would
3 like to advise you that your testimony will be subject to all
4 of the laws of the United States with respect to Senate
5 proceedings that have to do with perjury or false testimony of
6 witnesses. I must also tell you that any testimony that you
7 give may subsequently be used in an enforcement proceeding by
8 an executive agency of the United States Government. Therefore,
9 you certainly are entitled to have counsel with you and you
10 do have counsel with you in the persons of Mr. Soutter and
11 Mr. Galerstein.

12 At this time if you will rise and take an oath. Raise
13 your right hand. Do you solemnly swear that the testimony you
14 are about to give will be the truth, the whole truth, and
15 nothing but the truth, so help you God?

16 MR. JOSE: I do.

17 Whereupon,

18 DWAYNE K. JOSE
19 was called as a witness and, having been first duly sworn, was
20 examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. MARINACCIO:

23 Q Would you state your full name for the record?

24 A Dwayne K. Jose.

25 Q And whom are you employed by?

1 A Bell Helicopter Textron.

2 Q How long have you been employed by Bell Helicopter
3 Textron?

4 A Since April of '60.

5 Q Would you tell us what positions you occupied during
6 the 1960 to 1965 period and then during the 1965 to 1970 period,
7 coming forward? Could you give us a short recap of what you
8 have been doing for Bell Helicopter?

9 A In 1960 I was appointed as the commercial marketing
10 manager and I had that position through 1965, in fact until
11 some time in '67-68, at which time I was appointed a vice
12 president of commercial marketing.

13 Q And have you been a vice president -- have you
14 retained that position since 1968?

15 A I have retained the title of vice president of
16 commercial marketing since '68.

17 Q And what were your responsibilities from 1960 to
18 1968 as commercial marketing manager? Did you have responsi-
19 bility for manufacturer's representatives in foreign
20 countries?

21 A I had a two-fold responsibility. One was to direct
22 the marketing efforts in the United States and Canada through
23 a factory direct field force, and I had responsibility for
24 marketing internationally through dealers and manufacturer's
25 representatives.

4

1 Q During that time did you as a part of your respon-
2 sibilities keep yourself apprized of the activities of various
3 manufacturer's representatives all over the world?

4 A Well, in the early part of that period I had several
5 international regional sales managers that reported directly
6 to me.

7 Q Who were they?

8 A There was Mr. Graham and Mr. Miller. This was in the
9 very early '60s.

10 Q Mr. Graham and Mr. Miller?

11 A Yes.

12 Q Which Mr. Miller is that?

13 A Harry Miller.

14 Q Identify him for the record. It's not G. William
15 Miller?

16 A It's not. It's Harry Miller.

17 Q Who was he?

18 A Mr. Harry Miller.

19 Q And who was subsequently under you?

20 A I can't recall the dates but Mr. G. H. Bud Orpen
21 became the international marketing manager and the regional
22 managers and administrators reported to him.

23 Q Who is Mr. Kling? Do you remember him?

24 A Mr. Kling was a regional manager who reported to
25 Mr. Orpen in the mid-60s time frame.

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- 5 1 Q And who was Mr. Feliton?
- 2 A He was another international regional sales manager
3 who reported to Mr. Orpen.
- 4 Q Now as commercial marketing manager during that
5 period of time, whom did you report to?
- 6 A I reported to the executive vice president, Mr. G. F.
7 Atkins.
- 8 Q What was your relationship with Mr. Ducayet? Did
9 you report to him occasionally during that period of time?
- 10 A On an organizational chart it was never shown that I
11 reported directly to him that I recall.
- 12 Q How about practically? How did you operate?
- 13 A From a practical standpoint, yes.
- 14 Q Now during this period of time, 1960 to 1968, did
15 you have occasion to become familiar with the fact that Air
16 Taxi represented Bell Helicopter as a manufacturer's represen-
17 tative from 1959 to about 1963 or 1964?
- 18 A I was familiar with that, yes.
- 19 Q Were you familiar with the fact that Mr. French was
20 your manufacturer's representative agent in Iran from about
21 1964 to 1968 through his company, International Helicopter
22 Consultants?
- 23 A International Helicopter Consultants or Helicopters
24 Consultants or both?
- 25 Q I believe it's International Helicopter Consultants.

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1 A I was familiar with Mr. French.

2 Q You were familiar with Mr. French. What is your best
3 recollection of the name of the company that he operated in Iran
4 at that time?

5 A My best recollection is that initially it was
6 Helicopter Consultants, Incorporated and then subsequently an
7 additional corporation was formed called International
8 Helicopter Consultants.

9 Q Do you recall when International Helicopter Consultants
10 was formed? Was that in about 1965?

11 A I think it was somewhat later.

12 Q And in that position that you occupied with Bell
13 Helicopter at that time were you also familiar with the fact
14 that Bell Helicopter retained Air Taxi again in 1968 as its
15 manufacturer's representative agent in Iran?

16 A Yes, I was familiar with that.

17 Q Now how well did you know Mr. French?

18 A I knew Mr. French not well. I probably met him, in
19 the four years, a total of three or four times that I remember.

20 Q Was that in Texas or in Iran or both?

21 A It would have been in Texas.

22 Q Did you ever have occasion during that period of
23 time to meet with Mr. Robert Bell, an attorney for Mr. French?

24 A Yes. I recall meeting with Mr. Bell but the dates --
25 I can't state the date on that.

1 Q On how many occasions do you recall meeting with
2 Mr. Bell? Was it just one occasion or more than one occasion?

3 A I can recall one.

4 Q Do you recall meeting with Mr. Bell, Mr. French's
5 attorney, on or about November 2, 1966?

6 A I cannot put that date on it. I recall that there
7 was a visit. My own notes don't show me a precise date.

8 Q Have you reviewed your notes?

9 A Excuse me. I said notes. My own calendar does not
10 reflect a visit from him on that date.

11 Q On November 2, 1966?

12 A Yes.

13 Q Did you check your calendar on that?

14 A Well, there were several calendars. My secretary
15 maintained a visit log. I generally had a travel calendar.
16 Sometimes visits would have been recorded on my travel
17 calendar, my planning calendar, but did not show that. I was
18 in town, however, the 2nd of November.

19 Q Do you recall meeting with Mr. Bell at or about that
20 time, November 1966?

21 A My memory is rather vague on it, but I do recall some
22 kind of a meeting with Mr. Bell.

23 Q Who initiated the meeting with Mr. Bell? Did Mr.

24 Bell call you on the telephone or were you apprized by somebody
25 else?

8

1 A I don't recall how it came about.

2 Q You don't recall how it came about?

3 A No.

4 Q Do you recall where you met with him? Was it in
5 your office in Texas?

6 A It could have been. I have very little recall of the
7 meeting.

8 Q Do you recall who was present at the meeting with
9 you and Mr. Bell?

10 A No, I can't recall.

11 Q Was Mr. Feliton present there?

12 A He could have been. I don't recall.

13 Q Do you have a recollection of whether or not you and
14 Mr. Feliton and Mr. Bell met in your offices in Texas on or
15 about November 2, 1966?

16 A It could have happened. I have a memory about some
17 sort of a meeting. The date I'm not sure of, and the people
18 who attended I'm not sure.

19 Q All right. Now tell us in your own words your
20 recollection of what transpired at that meeting, what Mr. Bell
21 said, what his purpose in coming there was, what you said and
22 what Mr. Feliton said.

23 A There had been some difficulty in Iran with Mr. French
24 and his work permit within the country. We were generally
25 aware that he had been having problems. I think he had

1 notified us. I don't know whether it was a phone call or how
2 I became aware of it. The purpose of it--again, I have only
3 the sketchiest memory of the situation -- was for him to
4 explain what his situation was in Iran. We had had questions
5 for the previous year about Mr. French's ability to represent
6 us properly in Iran and it had become more of a problem when
7 he was not allowed to return to the country when he had been
8 outside.

9 Q Did Mr. Bell at that time inform you of the reasons
10 why Mr. French was being kept out of Iran?

11 A I don't recall whether it was at that time or a
12 later time in a letter to me, he said that there was some
13 difficulty about people not wanting to allow him to continue
14 to work as an aircraft dealer in that area.

15 Q What was the difficulty in Iran that Mr. French had
16 been experiencing that you referred to a little while ago in
17 your testimony?

18 A Well, the difficulty he alluded to was that there
19 were charges which had been brought against him and I don't
20 recall the detail of it -- illegal exit from the country in
21 connection with his charter operations -- and that he had gone
22 abroad on a trip and was not allowed to return.

23 Q Did Mr. Bell at that meeting inform you and Mr.
24 Feliton that General Khatami was responsible for Mr. French's
25 trouble in Iran?

10

1 A It was either at that meeting or in a later letter
2 that the name of General Khatami came up and that was his
3 allegation, that there was trouble brought down from the civil
4 authorities.

5 Q What was the nature of the trouble that you refer
6 to that was brought to your attention?

7 A Well, as I say, the nature of the trouble was that
8 they did not wish an expatriate American to be in the fixed-wing
9 business in Iran.

10 Q Did he tell you that General Khatami wished to
11 control all the fixed-wing business in Iran?

12 A Either at that meeting or in a later letter that
13 statement was made, yes. I recall that that was his statement.

14 Q Do you recall, did Mr. Bell tell you on that
15 occasion whether or not a General Khatami and his representative,
16 Dr. Safavi, had told Mr. French that in order for him to
17 maintain his operations in Iran with respect to the sale of
18 Bell helicopters and other aircraft sales that Mr. French
19 would have to turn over the profits of his business, International
20 Helicopter Consultants, to a company controlled by General
21 Khatami through Dr. Safavi?

22 A There was -- I don't recall the names. At the time
23 there was a discussion that he was going to -- and again, I
24 can't put the time frame on it -- but there was a discussion
25 that came to our attention -- or he told us that he was going

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1 to reorganize his company and that he was proposing to deal
2 through some new organization that would be formed. He men-
3 tioned a number of names. The names meant nothing to me. I
4 had never been to Iran. I didn't know any of the people that
5 he referred to so my recall on it is very poor. It could well
6 have been -- I have since heard the name Dr. Safavi and so it
7 well could have been.

8 Q I'd like to read to you Mr. Bell's testimony about
9 that meeting with you and ask you whether or not you agree
10 with his recollection. He's talking about his meeting with
11 you and Mr. Feliton: "Q. Now please tell us what happened
12 when you went to Bell Helicopter that day." "A. Okay. I
13 started from the very beginning with a recitation of something
14 like, of course, they understood how Mr. French had originally
15 gone to Iran in the early '50s." "Q. Excuse me. This is a
16 conversation you are now sitting in a room with Mr.--" "A. Jose
17 and Feliton." "Q. And yourself?" "A. And me." "Q. Just the
18 three of you?" "A. Yes." "Q. Nobody else present?" "A. No."
19 "Q. Okay." "A. And I recited some of Bill's early attempts
20 and history and reasons for going to Iran and his belief that
21 it could be a very important country in terms of aircraft, both
22 fixed-wing and rotary aircraft, because it had no road or rail
23 network and that Bill had elected to try and make a life for
24 himself there and had initially secured the Cessna dealership
25 and, of course, he had subsequently gotten their dealership"--

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1 meaning Bell Helicopter's dealership -- "and that he had been
2 attempting to operate in the face of a great many hardships,
3 some of which were imposed because General Khatami held a
4 virtual monopoly of all aircraft sales and operations in the
5 country, partly through his post as chairman of the board of
6 Civil Aviation and Commanding General of the Imperial Air
7 Force and partly through his ownership and control of Air Taxi
8 and Heli-Taxi, and that he got lots of assistance from various
9 other Generals in frightening off anybody who wanted to employ
10 anybody else and that Mr. French nevertheless had been fairly
11 successful in conducting operations in Iran."

12 Do you recall whether or not Mr. Bell mentioned all
13 that to you at that meeting?

14 A Well, again, I repeat what I said, that I'm vague
15 as to the meeting and -- was Mr. French there? I don't know.

16 Q No. Mr. Bell testified that you, he, and Mr. Felton
17 were present at the meeting.

18 A Yes, he probably said those things.

19 Q Okay. And he continues, "In fact, his success had
20 become apparent" -- that's Mr. French's success -- "had
21 become apparent enough to the 'Great General'" -- do you
22 recall his mentioning the "Great General" to you?

23 A That term means nothing to me.

24 Q -- "to cause him to send someone to demand half of
25 Bill's business." Do you recall Mr. Bell mentioning to you

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1 that General Khatami had sent his representatives to see Mr.
2 French to demand half of Mr. French's business in Iran?

3 A I don't recall the meeting in detail and I have
4 already testified to that. He well could have said that. I
5 don't recall in detail what was said.

6 Q Well, there is testimony that a lot of things were
7 said at this meeting and I'm trying to bring as many as I can
8 to your attention to get your recollection about them.

9 A I'm doing the best I can.

10 Q With respect to that matter, you say he may well
11 have?

12 A Yes.

13 Q He's continuing -- that is to say, Mr. Bell
14 describing the meeting with you -- "I stated that French had
15 refused his proposition" -- meaning General Khatami's proposi-
16 tion -- "and had, as they knew" -- meaning you -- "been run out
17 of the country" -- of Iran -- "that I had gone to negotiate
18 on his behalf with General Khatami and his representatives and
19 we believed that we had the solution to the problem and I out-
20 lined the construction and proposed method of operation of STP
21 to them."

22 Do you recall Mr. Bell mentioning those particular
23 things to you at that time, at that meeting?

24 A He well could have.

25 Q Do you recall whether or not he mentioned the firm

1 STP to you at that time?

2 A The initials mean nothing to me. There was some
3 reference to some new arrangement that he was trying to
4 establish.

5 Q What is your recollection of the reference he was
6 making to the new arrangement he was trying to establish? I
7 wish you would tell us in your own words.

8 A He was making some sort of a statement about
9 reorganizing his own company in Delaware and he was going to
10 make some arrangements with a local firm, STP -- they were all
11 Persian names -- I didn't know what it meant -- I knew none of
12 the individuals involved.

13 Q Local Iranian company?

14 A What?

15 Q You say "local company." Was that local Iranian
16 company?

17 A Local in Iran, yes.

18 Q Do you recall him mentioning to you at that time
19 that General Khatami would have an interest in that company
20 through one or more nominees?

21 A It was either then or later that was what he was
22 suggesting. I don't recall that he or the General directly
23 would -- the whole story was so preposterous I didn't pay that
24 much attention to it.

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25 Q What was the story that was so preposterous? Can you

1 tell us for the record here in your own words? What was the
2 story he was telling?

3 A He was trying to convince us that having been
4 excluded from the country he could still well represent us.

5 Q And how did he go about trying to convince you of that
6 at that time?

7 A He was saying that he was going to -- the details of
8 it I don't recall about how he was going to do it. He was
9 going to work through some organization there.

10 Q Did he say he was going to work through some
11 organization?

12 A Yes.

13 Q He would have General Khatami's influence in this
14 organization?

15 A He mentioned the name General Khatami but it was a
16 rather confusing sort of a proposition because you had General
17 Khatami who was really in charge of civil aviation within the
18 country and it was difficult for me to really know what that
19 meant because I had never been there. I didn't know who
20 General Khatami was. It was just a name. It was confusing
21 with the idea that he was both the head of an Air Force and
22 head of civil aviation and it was some sort of a fairy tale
23 so far as I was concerned.

24 Q What was the precise part of the story that was the
25 fairy tale? Are you referring to Mr. Bell's statement that

1 General Khatami would have an interest in this new company that
2 he was organizing?

3 A Yes, that part of it. I found this very difficult to
4 believe.

5 Q And that General Khatami had an influence, high
6 influence in the government of Iran and was that what Mr. Bell
7 was telling you and you couldn't believe that?

8 A I could appreciate that there would be a General who
9 would have influence and I could appreciate the fact that a
10 General could be a General of the Air Force and also be chosen
11 by the head of the government to represent it in civil aviation
12 because that pattern existed in a number of countries around
13 the world. Some of the Latin American countries they were
14 civil aviation and the head of an air force. They sort of
15 lumped everything that flew together or everything that had
16 to do with flying together. So it wasn't that part of it. It
17 was not a difficult thing for me to comprehend or accept and
18 it was not particularly difficult for me to accept the idea
19 that in a developing nation they would not want to have too
20 many competitors splitting up a market. Now that's not an
21 unusual pattern. We have it in the United States where on
22 certain air fields they try to limit the number of people that
23 are struggling to make a business on an airport. That part,
24 you know--it was their government. It was their country. If
25 they decided they only wanted a dealer, that part was

1 understandable to me because it was a closed society. I didn't
2 find that part difficult.

3 The preposterous thing about it was that they would
4 come -- they, meaning Bell representing French -- would come
5 to Bell Helicopter and suggest that we would be interested in
6 some sort of a scheme that involved payoffs to officials
7 within the government. It was completely preposterous. That's
8 what I'm saying is the fairy tale.

9 Q In other words, Mr. Bell was, in your mind, outlining
10 an organizational structure that you believed at that time
11 would inevitably result in the payoff of an Iranian government
12 official?

13 A That was what he was proposing. I did not believe
14 that -- I felt it was a fairy tale. I just could not believe
15 that they would walk into my office and make that kind of a
16 presentation, whether it was then or later. Again, the time
17 frame was very vague. I'm trying to give you my reaction to
18 the whole idea and why I discounted it completely as being
19 anything that we would be interested in.

20 Q But he did mention General Khatami to you?

21 A He did mention General Khatami.

22 Q Did he also mention to you at that time that the
23 monopoly that you previously gave reference to was on the part
24 of Air Taxi and Heli-Taxi to control all fixed-wing and rotary
25 wing --

1 A These were things I didn't know much about.

2 Q Did he mention -- I'm sorry. Go ahead.

3 A I interrupted you. I'm sorry.

4 Q All right. You give your answer. Your testimony
5 is important.

6 A I didn't know about a Heli-Taxi. I didn't know,
7 generally speaking, about an Air Taxi. I did not know
8 generally about an SSTP or whatever. This was not within my
9 knowledge. I knew the word Heli-Taxi but -- not Heli-Taxi, but
10 Air Taxi. But Heli-Taxi and these other things that were
11 suddenly being discussed were -- I had no knowledge of those,
12 and I had no reason to believe -- I could believe that there
13 were some people that owned Air Taxi -- the existence of
14 Heli-Taxi -- I had never heard of Heli-Taxi. It didn't mean
15 anything to me.

16 Q What did you believe at that time with respect to
17 the ownership of Air Taxi?

18 A I believed that it was -- I didn't have direct
19 knowledge. I assumed it was owned by individuals in Iran and
20 I found it preposterous to hear the idea that there would be
21 such a thing as a General of the Air Force that would be
22 involved in this. I just rejected the idea.

23 Q Involved in the ownership of Air Taxi?

24 A In the ownership, right.

25 Q Did Mr. Bell then allege to you at that time that

1 General Khatami owned or controlled Air Taxi?

2 A He well could have because he did subsequently, and
3 so I had the impression -- yes, I have an impression that at
4 some time or another -- and it could have well been then that
5 he told me that because that's -- yes.

6 Q I'm going to continue with Mr. Bell's statement on
7 the meeting with you and continue to get your testimony:

8 "Q. So you are still discussing the matter with Mr. Feliton
9 and Mr. Jose and you're explaining to them all of this, giving
10 them all this information, and what is their reaction?"

11 "A." -- this is Mr. Bell speaking now concerning your reaction
12 and Mr. Feliton's reaction -- "Well, one of them -- and I'm not
13 at this point sure which one -- I think it might have been
14 Feliton -- told me that I should get Dr. Safavi to write to
15 Bill French describing STP and to show a strong and continuing
16 sales effort in Iran and to show that other responsible members
17 of the High Council of Civil Aviation looked with favor on the
18 company or that they didn't look with disfavor on it and to get
19 the strongest language possible in there, if possible to get
20 him to refer to General Khatami; also to touch on the point of
21 monopoly which this company would supposedly have in the sales
22 and servicing of aircraft in Iran, and for Bill" -- French --
23 "then to forward that letter to Bill French." That last didn't
24 quite pars. Well, the record does say for "Bill then to
25 forward that letter to Bill French." I had understood that the

1 letter was to be forwarded to Bell Helicopter, but the record
2 does say for "Bill to forward the letter to Bill French."

3 And continuing with his testimony: "He also wanted
4 me to make it very clear to Bill Bell Helicopter wanted a solid
5 everyday sales organization and wanted these people to be
6 native Iranians and I made notes."

7 What is your recollection as to whether or not Mr.
8 Feliton mentioned to Mr. Bell that he should get a favorable
9 response from Dr. Safavi relating to STP?

10 A I have no recollection of any such statement.

11 Q And, if possible, to get a favorable reference in
12 that letter relating to General Khatami."

13 A I have no recollection of that.

14 Q You have no recollection?

15 A No. I still don't remember Mr. Feliton even being
16 in the meeting.

17 Q Now subsequent to that meeting, after you finished
18 the meeting with Mr. Feliton and Mr. Bell, Mr. Bell testified
19 that a telephone call was placed to Mr. Ducayet and that you
20 and Mr. Bell then walked over to Mr. Ducayet's office and
21 discussed the very same matters that Mr. Bell had been dis-
22 cussing with you and Mr. Feliton.

23 Could you tell us your testimony with respect to
24 that matter?

25 A I don't recall that happening.

1 Q Do you recall a meeting at which you were present
2 on or about November 2, 1966 in which Mr. Ducayet was present
3 and Mr. Bell was present in the office of Bell Helicopter in
4 Texas?

5 A I do not recall the meeting.

6 Q Is it your testimony that there was no such meeting?

7 A No, that's not my testimony. My testimony is to
8 the best of my recollection I do not recall such a meeting
9 taking place.

10 Q If such a meeting had taken place, would you have
11 recalled it? Would you have remembered it?

12 A I might not have.

13 Q You might not have recalled?

14 A Recalled it, yes.

15 Q Now Mr. Bell testified that you and he went over to
16 talk to Mr. Ducayet and he, Mr. Bell, went through all of the
17 matters again fresh that he had just discussed with you and
18 Mr. Feliton and brought all those matters to the attention of
19 Mr. Ducayet specifically with respect to matters relating to
20 Mr. French's being kept out of the country of Iran and the
21 instance of General Khatami, who was attempting to derive for
22 himself through an ownership interest in STP corporation
23 proceeds of any commissions that might be gotten on the sale
24 of Bell helicopters in Iran in an effort for General Khatami
25 to continue the monopoly that he had under Air Taxi because he

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1 controlled Air Taxi and owned Air Taxi, to continue that
2 monopoly through STP another company which would get the pro-
3 ceeds of any commissions that would be gotten by International
4 Helicopter Consultants.

5 What is your recollection with respect to whether or
6 not Mr. Bell did or did not tell Mr. Ducayet that on that day?

7 A I do not recall if such a meeting took place. I do
8 not recall it.

9 Q Would that have been a very important matter in your
10 mind if a lawyer for one of your agents had been brought into
11 the president of the company, the president of the division,
12 and had told him of a General of the Army's interest in con-
13 trolling sales of all aircraft, rotary and fixed-wing aircraft,
14 in the country through various corporations?

15 A Normally, yes, it would, but I don't recall any such
16 meeting. It could have taken place but I don't recall it.

17 Q Did Mr. Ducayet and you ever discuss the ownership
18 of Air Taxi?

19 A I don't recall that we ever discussed the ownership
20 of Air Taxi.

21 Q Do you deny that you ever discussed the ownership of
22 Air Taxi with Mr. Ducayet?

23 A No, I don't deny it. I don't recall it.

24 Q How many times were you told and by whom that
25 General Khatami had an ownership interest in Air Taxi?

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1 A I was probably told twice by French or by his
2 attorney.

3 Q Mr. Bell?

4 A Yes.

5 Q Do you remember those two occasions?

6 A Well, there's a letter in a file of about July which--

7 Q 1967?

8 A 1967, in which that statement was made, yes.

9 Q What is the other occasion that you recall hearing
10 that General Khatami had an ownership interest in Air Taxi --
11 the company, Air Taxi? When I mention Air Taxi, I'm talking
12 about a company called Air Taxi.

13 A You're talking about Air Taxi, yes. All right.

14 Q You are familiar with the fact that there is a
15 company called Air Taxi?

16 A Yes, I am. Right. I'm trying to answer your
17 question.

18 Q Sure.

19 A I was told this by Mr. French also in Paris in 1967.

20 Q What was the occasion of that discussion with Mr.
21 French in 1967?

22 A That was during the Paris Air Show. He was visiting.

23 Q What did he tell you at that time?

24 A Pretty much the same as he had said later and Mr.
25 Bell wrote in the letter to me the same thing.

24

1 Q And now if we could count the November 2, 1966 meeting,
2 that would be three occasions?

3 A Yes.

4 Q Would you tell me in your own words for the record
5 what Mr. French said to you in Paris on the occasion of that
6 meeting with respect to the ownership of Air Taxi by General
7 Khatami?

8 A Well, pretty much of a repeat of the other thing,
9 that --

10 Q Could you tell us for the record in your own words
11 what he said?

12 A I don't recall the detail of how he said it. He
13 just alleged that General Khatami was involved in the ownership
14 of Air Taxi.

15 Q And in what context did he make that allegation in
16 Paris?

17 A Well, he made it in the context that he was continuing
18 to try to save his franchise and he made it in the context that
19 he would be useful to us. I think that -- because of that. Now
20 I repeat, I never believed it. I don't believe it to this day
21 and I rejected the whole idea of his representing us and I
22 resented the implication that we would be interested in it and
23 I had given instructions to my people to find a new dealer.

24 Q To find a new dealer; to find a new representative in
25 Iran?

25

1 A A new representative.

2 Q And whom did you give instructions to to find a new
3 dealer?

4 A It would have been the international marketing
5 manager, Mr. Orpen.

6 Q And did Mr. Orpen then go to Iran to make arrangements
7 to find a new agent in Iran?

8 A Mr. Kling and Mr. Pierrot went in the fall of 1967,
9 but I had given instructions a year before when Mr. French was
10 first out of the country that I felt that he was not useful to
11 us; we weren't interested in him or his propositions; that we
12 should find someone that was going to be in that area that were
13 nationals, not expatriates, and he was not the kind of an
14 individual that we wanted to deal with and that Mr. Orpen should
15 take steps to change that situation.

16 Q Now why did you feel that he was not the kind of a
17 person that you wanted to deal with? Because he was alleging
18 that General Khatami was involved in one of his --

19 A Yes. I felt if he was the kind of a dealer that
20 would even present that sort of thing to us he was not the kind
21 of person that we wanted. We had representatives in 45
22 countries. I had never had conversations presented to me the
23 way Mr. French or Mr. Bell had presented conversations about the
24 way they proposed to operate in my six to seven years of
25 dealing in the international market. I didn't like it and I

1 didn't want it and I was trying to get the international
2 marketing manager to make a change.

3 Q And the specific thing that you objected to, I think--
4 what's coming through to me in your testimony -- is that he was
5 including General Khatami in his operations which was -- he was
6 an official of the Iranian Air Force and you were taking
7 offense to that. Is that what you're saying in substance?

8 A That's what I'm saying. I took offense at it.

9 Q Then you mentioned that you wanted to make a change.
10 You asked some of your people, Mr. Orpen and Mr. Kling and
11 Mr. Pierrot, to go and conduct an investigation or an inquiry
12 leading to make a change, and did that lead to a change being
13 made?

14 A It did.

15 Q And when was the change made and who was the new
16 representative in Iran?

17 A The change was made some time early in 1968 and Air
18 Taxi was selected. We looked -- What process was gone through
19 on that, I don't know. May I give a little bit of background
20 here for a moment about how we were operating at the time? It
21 may be helpful.

22 Q Sure. Please do.

23 A Because I recognize that I sound a little vague on
24 some of this background and it's only been within the last --
25 since last Thursday that I have been trying to refresh myself

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1 on it. I haven't been involved with it for ten years and I was
2 only involved on several occasions even at that time.

3 In the early 1960s and the mid-60s, we had started
4 with a small marketing group at Bell, maybe less than 20 people,
5 and we were gradually increasing the size of it. We moved
6 Mr. Orpen down from a domestic marketing position to begin to
7 take some of the international responsibilities. The way we
8 divided the world, so to speak, was that I was taking care of
9 relationships with New Zealand, Australia, Thailand, Japan,
10 Formosa, India, Canada; Mr. Orpen, generally speaking, was
11 taking care of Europe, Africa, and the Middle East. It was a
12 way of dividing the responsibilities for coverage on inter-
13 national.

14 I did not maintain a constant watch on what was
15 happening in Europe, Africa and the Middle East because I was
16 involved with U.S. Government allies out in Southeast Asia. It
17 was during the time of Vietnam. We were working with the
18 Australians and New Zealanders and others on equipment programs.

19 Q So what you're saying is that Mr. Orpen had the
20 primary responsibility then for picking up Air Taxi as the
21 manufacturer's representative in that area in 1968?

22 A That's right.

23 Q Nevertheless, Mr. Orpen was reporting to you?

24 A He reported to me; right.

25 Q Would he also report to someone else since he was

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1 primarily dealing in that part of the world? Would he tell
2 Mr. Atkins about what he was doing with respect to manufacturer's
3 representatives? Would he talk to Mr. Ducayet?

4 A He might or might not, generally.

5 Q But he could, consistent with his responsibilities, I
6 take it, from what you're saying.

7 A Within our organization, yes.

8 Q Now, nevertheless, you became possessed of knowledge
9 at that time that Air Taxi was being picked up as your repre-
10 sentative in Iran?

11 A Yes.

12 Q In view of the fact that your testimony is that on at
13 least two occasions, and possibly three occasions if your
14 recollection is incorrect, that you were told that General
15 Khatami had an ownership interest in Air Taxi -- now in view
16 of that fact, did you wonder why Air Taxi was being retained
17 once again as your manufacturer's representative in the Middle
18 East in the light of the fact that you have said that one of
19 the reasons why you wanted to terminate French was that he had
20 come in with a scheme in which General Khatami was going to be
21 improperly influenced, or were you caused to wonder then about
22 the new association?

23 A Yes, indeed.

24 Q All right.

25 A And the instructions that were given to the group --

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1 and I don't have -- we didn't operate with written instructions;
2 they were verbal. We had an international consultant at the
3 time. His name was Dick Pierrot. Dick had been on retainer
4 for Bell since the early -- well, let's see -- the mid-50s, and
5 Dick's function was to -- when I first went with Bell his
6 function was to assist us on our international dealer arrange-
7 ments. Dick had been with the State Department a number of
8 times. Dick had good working relationships with U.S. Government
9 agencies particularly in Latin America and in Europe because
10 he had served in many of them. Dick had good access to commer-
11 cial attaches because Dick was one of the first commercial
12 attaches the U.S. Government ever appointed, so he well under-
13 stood that, and his responsibility was to go to Iran with
14 Mr. Orpen and Mr. Kling and was to check into the good name of
15 Air Taxi and to check into the good name of any other potential
16 organizations that could represent us.

17 Q Did they come back and report to you on their trip?

18 A I don't remember the specific discussion, but they
19 were there in the latter part of 1967 and their recommendation
20 was that they had investigated Air Taxi and that they felt it
21 would be in Air Taxi's interest and ours to appoint them as our
22 dealer.

23 Q And what did they say about the alleged General
24 Khatami ownership interest in Air Taxi?

25 A Well, I don't remember the specific of it, but -- I

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1 don't remember the precise conversation. This is just an
 2 impression --but that they did not report that we had -- that
 3 there was a conflict of interest.

4 MR. MARINACCIO: Would you read that back to me?

5 (Whereupon, the preceding answer was read by the
 6 reporter.)

7 BY MR. MARINACCIO:

8 Q Had you mentioned to them before they went over that
 9 you had received information two and possibly three times that
 10 General Khatami had an ownership interest in Air Taxi? Had
 11 you made that fact available to them?

12 A Yes. I can't cite you when, but it would have been
 13 my operating procedure to say we are not interested in dealing
 14 with someone that's going to cause a problem. Now may I
 15 amplify that for a moment?

16 Q Sure you may.

17 THE WITNESS: Do you have any objection to that?

18 (No response from witness' counsel)

19 THE WITNESS: The situation in the mid-60s was that
 20 most substantial foreign military sales between the United
 21 States -- let's say manufacturers in the United States and
 22 military forces of other countries were being handled by the
 23 Department of Defense through the MAGs and missions. Such was
 24 the case in Iran.

25 We were familiar with the fact that through the head
 of the MAG that there was a developing interest in the Army --

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1 not the Air Force but the Army -- in Iran in adopting what the
2 U. S. had come to call the Airmobile Doctrine for their armies.
3 In general, the thrust for the foreign military aid programs
4 and the foreign military sales programs were carried by Mr.
5 Henry Kuss and his people in the Department of Defense and in
6 the particular case of Iran we had been asked by the head of
7 the mission -- had been notified by the head of the mission
8 here that there was an interest in a small quantity initially
9 of Bell-type transports and Bell-type reconnaissance helicopters.

10 BY MR. MARINACCIO:

11 Q Who was the individual in the U. S. mission?

12 A Major General Jablonsky.

13 Q Please continue.

14 A And we were asked at that time to be supportive of
15 his effort. He exchanged correspondence with General Howze who
16 at that time was on our staff. General Howze had conducted
17 the Airmobile Doctrine studies for President Kennedy in the
18 earlier '60s. After he retired he was on our staff as an
19 adviser on Airmobile issues.

20 So that is how it came to our attention and this was
21 in May of 1967, almost ten months before our offer to Air Taxi
22 in 1968.

23 The ridiculous part of it is we have no need for,
24 and had no desire for and never wanted any kind of a special
25 dealer sort of arrangement of the kind that Mr. French suggested

1 to us. We were very successful throughout the world in selling
2 products that were standard within the U. S. Army at that time.
3 We had no need for that sort of thing.

4 Q Nevertheless, as I say, it had been brought to your
5 attention on two and possibly three occasions that General
6 Khatami had an ownership interest in Air Taxi?

7 A Yes.

8 Q You say it had. And you made this known to Mr.
9 Pierrot and Mr. Kling, and who was the third person?

10 A Mr. Orpen.

11 Q And Mr. Orpen, who went to Iran to reconnoiter the
12 situation?

13 A Yes.

14 Q And when they came back, what was their report to
15 you with respect to the matter of General Khatami's ownership
16 interest in Air Taxi?

17 A As I say, there's no suggestion of any conflict of
18 interest on it.

19 Q They said that to you?

20 A Yes.

21 Q Did they say how they had investigated his ownership
22 interest?

23 A I don't recall the details of it, but the standard
24 procedure for Mr. Pierrot would have been to check on the
25 reputation of him at the embassy.

33

1 Q Now who did you inform within Bell Helicopter that
2 on two, possibly three occasions you had been told that General
3 Khatami had an ownership interest in Air Taxi? Did you mention
4 this to Mr. Ducayet?

5 A I don't recall mentioning it to Mr. Ducayet.

6 Q Is it something that you would have in the ordinary
7 course of business reported to him?

8 A Not necessarily. I would have gone -- Mr. Orpen and
9 people within international marketing were aware of it. I
10 told them that we were not interested in it and I said, "Now
11 let's not participate in anything like that."

12 Q Now did you tell them that if they discovered that
13 General Khatami had an ownership interest in Air Taxi that Air
14 Taxi should not be retained? Did you tell them that positive
15 and that straightforward or what was your message to them?

16 A I don't recall how I gave the instructions. I
17 remember that my attitude at the time was that we had absolutely
18 no interest in any sort of an arrangement like Mr. French had
19 suggested and they were to find out if Mr. Zanghani and the
20 other people -- their instructions were to examine the potential
21 dealers and to see if they were as they said they were.

22 Q You mentioned that you did not recall reporting to
23 Mr. Ducayet this alleged interest that General Khatami had in
24 Air Taxi.

25 A I don't recall it.

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1 Q You don't deny that you may have told him?

2 A I don't deny that I may have.

3 Q But you were not reporting directly to Mr. Ducayet
4 at that time. You were reporting to Mr. Atkins; is that
5 correct?

6 A That's correct.

7 Q Is it more likely that you would have informed
8 Mr. Atkins of this allegation? Did you inform Mr. Atkins that
9 you had been told on two or three occasions?

10 A I don't recall, but I don't recall again that I
11 didn't. I just don't remember.

12 Q Would not the matter of the ownership of a General of
13 the Iranian Air Force in Air Taxi been a matter of such impor-
14 tance that you would have in the normal course of management
15 of your company reported that fact to your superior?

16 A Normally I would have, yes.

17 Q Normally you would have?

18 A Yes.

19 Q So it would have been --

20 A Yes, it was so unusual.

21 Q It was so unusual that in the normal course of your
22 business you would have reported it to Mr. Atkins?

23 A Yes, but I don't recall it.

24 Q Yes, it would have been normal, but you don't speci-
25 fically recall doing this; is that your answer?

Monick Reporting Company

1 A Yes.

2 Q Would it have been normal for you to report it to
3 Mr. Ducayet also?

4 A The two operated as a team, a very close working
5 team. I could have.

6 Q You could have?

7 A Yes.

8 Q Is it your testimony that you felt as far as the
9 management of the corporation was concerned that whatever you
10 reported to one, in effect, was a report to the other?

11 A Yes.

12 Q They would have normally talked about it one to the
13 other, Mr. Atkins and Mr. Ducayet?

14 A Yes.

15 Q Did you ever have any conversations with G. William
16 Miller about Air Taxi?

17 A I don't recall any conversations with Mr. Miller
18 about Air Taxi.

19 Q Did you ever have any conversations at all with
20 Mr. G. William Miller?

21 A I have had conversations with Mr. Miller.

22 Q About the Iranian program?

23 A Not about the Iranian program that I recall. It
24 would not have been a matter of interest to him when I was
25 responsible for international marketing. My responsibility

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1 ceased on that in about 1969 and I had no further knowledge of
 2 anything about it for the next nine years other than the fact
 3 that we were doing one. But any personal involvement or any
 4 discussions about Iran -- I had none with anyone.

5 MR. MARINACCIO: We want to continue this in about
 6 five minutes.

7 (Recess)

8 BY MR. MARINACCIO:

9 Q Mr. Jose, did you at any time tell Mr. Bell that
 10 what he was suggesting with respect to General Khatami was
 11 preposterous?

12 A Well, as I stated, I don't recall the meeting in any
 13 detail so I can't state categorically yes. I know my reaction
 14 to it. We were not interested in that.

15 MR. MC LEAN: Mr. Jose, for the record, let me
 16 identify Mr. Jerry Buckley who's just entered the room. He's
 17 the Minority Staff Director and will participate possibly in
 18 the interrogation.

19 BY MR. MARINACCIO:

20 Q You said you don't recall the meeting in any detail?

21 A That's correct.

22 Q Did you have a recollection, though, of the meeting
 23 in November?

24 A I remember --

25 Q A meeting?

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1 A A meeting at some time frame, right, and I remember
2 my reaction to it. It was that we were not interested in what
3 he was proposing and in the documents you have there is a reply
4 in February '67 to an inquiry from the Ministry of Agriculture
5 about some of our small aircraft and they were -- I remember
6 the exchange. They were asking if we were represented by anyone
7 other than International Helicopter Consultants and our state-
8 ment was that we were represented -- International Helicopter
9 Consultants I believe it was -- I don't know whether the name
10 had changed from Helicopter Consultants to International -- but
11 anyhow, there was one representative, a sole representative
12 for Bell in Iran.

13 Q And that was International Helicopter Consultants,
14 Mr. French's company?

15 A It was Mr. French's company, however it was styled
16 at the moment; right; and we had given a temporary extension
17 to Mr. French's company in order to conclude the delivery of
18 several aircraft that were not -- I don't think they were
19 government -- going to the Government of Iran -- but there were
20 several what we would call model 47s that were on order and I
21 believe supposed to be delivered. So we had given a temporary
22 extension to clean up that business, or to complete that business
23 I should say.

24 Q Did you at that time discuss with Mr. Ducayet as to
25 whether or not International Helicopter Consultants should be

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1 terminated because they had raised with you the possibility of
2 dealing through another company with General Khatami?

3 A I don't recall a discussion with Mr. Ducayet about
4 it. It could have happened. I do recall discussions with the
5 international marketing manager that he was to find a replace-
6 ment for that organization.

7 Q And as you stated, the international marketing
8 manager, Mr. Orpen, Mr. Pierrot and Mr. Kling subsequently
9 went to Iran?

10 A At some later date, yes.

11 Q And they did terminate them?

12 A Yes.

13 Q I'd like to go into that a little bit. I show you a
14 document that's been previously marked here as Exhibit No. 101,
15 a letter from Mr. Orpen to Mr. French dated 11 December 1967 in
16 which the first sentence says: "This letter will outline
17 generally the findings of Dick Pierrot, George Kling and myself
18 on our recent trip to Iran during the week of 20 November, 1967."

19 Was that, to the best of your recollection, the fact-
20 finding trip you referred to respecting the retention of Air
21 Taxi and the termination of Mr. French?

22 A That would have been the purpose of it.

23 Q Have you got a copy of this document from Mr. Orpen
24 or do you recall having signed off on this document at or about
25 the time it was written to Mr. Kling?

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1 A Well, I don't recall the document.

2 Q Now the document does have on the bottom --

3 A A copy to me.

4 Q It says: "Endorsed by" and then it has "Dwayne Jose,
5 Director of Commercial Sales."

6 A That could have been.

7 Q Is that signoff -- is that a usual signature box in
8 correspondence that takes place in your company?

9 A It's not a usual procedure. I may have signed off
10 on it. I just don't recall it. I can't explain it.

11 Q I believe your counsel is reviewing the document
12 now, so I will give him an opportunity to take a look at it.
13 I might ask you while he's reviewing the document if
14 the numbering key in the upper lefthand corner of the first
15 page doesn't indicate that the document came out of Bell
16 Helicopter?

17 A Yes, it would appear that it's by Mr. Orpan. It
18 would have been his correspondence.

19 Q Now this document was made available --

20 MR. SOUTTER: I have never seen it before.

21 MR. MARINACCIO: You have never seen the document,
22 Mr. Soutter?

23 MR. SOUTTER: I have never seen this document.

24 MR. MARINACCIO: This document was made available to
25 the Committee proceedings by Mr. French and his counsel and it

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1 does indicate that the document originated in the offices of
2 Bell Helicopter and it has the Bell Helicopter key to it on the
3 first page, and I don't recall that that document had been
4 submitted in response to the Committee's subpoena.

5 MR. GALERSTEIN: You're right; it was not submitted
6 because it's the first time I have ever seen it and it was not--
7 it's just not there in the files and all I can tell you, if it
8 had been there you would have had it from me, but, I mean, I'm
9 not that surprised.

10 MR. MARINACCIO: You're not that surprised at what?

11 MR. GALERSTEIN: That some documents are not there of
12 any kind. As I told you previously down in Fort Worth, these
13 files have been moved from place to place and it isn't the
14 most systematic system in the world of keeping files and
15 records and if it had been there you would have had it.

16 BY MR. MARINACCIO:

17 Q Well, let me ask the witness whether or not he can
18 authenticate this document.

19 A I believe it to be a Bell document, yes.

20 Q All right. I did not intend by showing the witness
21 this document to raise the question of the subpoena and so on.
22 We do want to go into that a little bit later, but I do want
23 to question the witness on the substance of this document at
24 this time.

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25 Now as you say, the reference in here to the Pierrot,

41 1 Kling and Orpan fact-finding trip is the one which you pre-
2 viously made reference to.

3 Now to specifically direct your attention to the
4 fourth paragraph on page two of this document where Mr. Orpen,
5 in reference to that fact-finding trip, says, "Our recent
6 visit to Tehran and discussions with Dr. Safavi, John Bolton,
7 Lieutenant General Khatami and Major General Jablonsky produced
8 no indication that your position has improved" -- that is to
9 say, Mr. French's position -- "either through intervention of
10 the U. S. Government, legal or other efforts of your own
11 organization. On the contrary, it appears that it will be
12 several months before you could be permitted to reenter due to
13 the actions still pending against you. Then there is a serious
14 question whether you would be able to reestablish effective
15 representation in government circles."

16 Were you made aware by Pierrot, Kling and Orpen that
17 on their fact-finding trip with respect to the retention of
18 Air Taxi and the termination of Mr. French that one of the
19 people that they went to discuss these matters with was General
20 Khatami?

21 A I don't recall it specifically but it's stated in
22 there that they did talk to him.

23 Q What is your best recollection of their report to you?
24 Did they when they reported to you when they came back tell you

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25 that they had met with General Khatami, as this document indicates?

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1 A I don't recall the name of General Khatami coming up.
2 It could well have.

3 Q Now you stated previously in your testimony that one
4 of the reasons these gentlemen were going to Iran was to see
5 whether or not -- or to check out the allegations that had
6 previously been made to you respecting General Khatami's
7 ownership interest in Air Taxi.

8 A Yes, that's correct.

9 Q To check out whether or not there was a conflict of
10 interest in that situation?

11 A Yes, sir.

12 Q Was it your understanding at the inception of the
13 trip that they were going to discuss this matter with General
14 Khatami?

15 A Well, I wouldn't be surprised if they would talk to
16 him because the allegations had been made that he was involved.
17 I don't recall the results of the discussion or the specifics
18 of any discussion they had with him, but --

19 Q Did they also report back to you, as the document
20 indicates, that as a result of their conversations with several
21 people, including General Khatami, that there was no change in
22 Mr. French's ability to come back into the country of Iran?

23 A They did report that, yes, as it states in there.

24 Q What was in your mind at that time? Mr. Bell had
25 already told you that -- I believe you indicated that he did --

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1 that General Khatami was keeping Mr. French out of the country,
2 out of Iran, because he wanted his companies to retain a
3 monopoly on fixed-wing and rotary air business in Iran,
4 including the sales of all such items, and that Mr. Bell had
5 told you that in order to satisfy General Khatami's personal
6 representative, Dr. Safavi, that he was setting up a separate
7 corporation and that in order to accomplish all of this General
8 Khatami was keeping Mr. French out of the country and that
9 further that General Khatami had ownership interest in Air
10 Taxi. Were you satisfied then, as the manager of Bell Textron
11 having responsibility over this matter, that General Khatami
12 was the proper person for your fact-finding team to be going to
13 talk to?

14 A Well, there were a number of people that were talked
15 to. I can't speak to the subject of the propriety of them
16 discussing it with him. They talk about discussing the
17 situation with a number of people. I don't think it's an all-
18 inclusive statement as to who they talked to. They talked to
19 people -- the other people within the, let's say, the U.S.
20 Embassy there. This is not an all-inclusive list.

21 Q Do you know who they talked to in the embassy?

22 A No, I do not.

23 Q Do you know whether or not they talked to the embassy
24 people in Tehran about the allegation that General Khatami had
25 an ownership interest in Air Taxi?

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1 A I do not know specifically on that. I would assume
2 that they asked the question, you know, who are the owners of
3 record here; what is the reputation of the organization; the
4 normal procedure that was provided for in our guidelines.

5 Q The normal procedure for checking out a manufacturer's
6 representative?

7 A Yes. They were to check their -- there was a pro-
8 cedure that was being written about that time that spelled out
9 what the responsibilities of the manager were.

10 Q Could you describe that procedure for us for the
11 record?

12 A It was to check the reputation of people.

13 Q Particularly with respect to Air Taxi, in following
14 the procedures, what should they have done with respect to
15 Air Taxi at that time?

16 A Well, it was to establish the business reputation of
17 the organization; that they were substantial; that they had a
18 good business reputation in the area; that they would be a
19 meaningful organization to represent us.

20 Q Did they check out the ownership interest in a
21 company to ensure that no government official had an ownership
22 interest in the company?

23 A That would have been --

24 Q Was that one of the guidelines?

25 A Yes, it would.

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1 Q Were these guidelines in writing?

2 A They were in the process of formulation at the time.

3 I don't know the date that we published the manual. I believe
4 that it was early in '68 that it finally was published, but we
5 had had people working on the guidelines for six months. They
6 would have been in discussion with Mr. Orpen about what they
7 were to contain so we had a team working on our internal
8 procedures manual for the latter part of 1967.

9 Q And when did you say the guidelines were finally
10 published?

11 A I think it was early in '68.

12 Q Early in 1968?

13 A Yes. I find nothing unusual about them talking to
14 the head of Civil Aviation who was bringing the case against
15 the organization to see whether it was still pending or not.

16 Q I'd like to show you a document which was made
17 available to us by Mr. French and Mr. Bell marked Exhibit 90,
18 and read to you a pertinent portion of this document and then
19 obtain your recollection as to the matters set forth therein
20 because they refer to you.

21 The document is dated November 3, 1966. It's from
22 Mr. Bell to Mr. French. It says: "Dear Bill" -- Mr. French --
23 "After my return I made arrangements to go to Fort Worth and
24 talk to the Bell Helicopter people. I spent the day down there
25 yesterday" -- November 2, 1966, which was the meeting that I

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1 previously discussed with you -- "and talked to Feliton and
2 Jose and to the president of the company. Feliton's position
3 was that what we were essentially asking Bell to do was to
4 allow STP to represent them in Iran and they would therefore
5 have to make the same kind of investigation they do with any
6 new dealer. I told him I appreciated the fact that they would
7 have to make some sort of an investigation, that they were now
8 in full possession of the information that we had, so they
9 should be cautious in the manner in which they proceeded and
10 he agreed that they would be."

11 Do you recall your conversation with Mr. Bell on
12 November 2, 1966 with particular respect to that matter and
13 what is your testimony on the subject?

14 A May I have a moment?

15 Q Yes, you may have a moment to review the document.

16 What is your recollection with respect to the meeting on
17 November 2, 1966 with particular reference to that matter
18 being discussed?

19 A Well, again, I'm just -- I repeat what I said before,
20 my recollection of it is hazy. I remember my reaction to it.
21 I don't recall any conversation with Feliton asking -- that I
22 was involved in -- with Feliton asking them to proceed in this
23 way because this was completely contrary to my own reaction to
24 it.

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25 Q Is it your testimony that your recollection is hazy

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1 or do you deny that that particular discussion took place in
2 your presence?

3 A I do not recall this kind of a conversation taking
4 place in my presence.

5 Q What is your recollection with respect to whether or
6 not in the retention of Air Taxi the procedures of Bell
7 Helicopter were followed or not?

8 A I don't have a written report to refer to.

9 Q Was there a written report?

10 A I don't recall a written report.

11 Q Was it not the usual procedure in Bell Helicopter to
12 write a written report with respect to the retention of --

13 A Not necessarily. Much of what we did was verbal.

14 Q It was verbal?

15 A Yes.

16 Q And in a matter of this importance where you pre-
17 viously indicated that you were upset in some respect with the
18 bringing in of General Khatami and in further light of the
19 allegation that General Khatami had an ownership interest in
20 Air Taxi, would it have been the usual procedure to require a
21 written report on the retention of the manufacturer's represen-
22 tative in that circumstance?

23 A Not necessarily.

24 Q Not necessarily?

25 A No.

Monick Reporting Company

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1 Q What circumstances would there need be to make it
2 usual to require writing a report?

3 A That's conjecture. That's a hard question to answer.

4 Q I know, but I don't want conjecture. I want -- you
5 are the manager of an important segment of a large business and
6 I'd like your testimony as to in your management capacity what
7 kind of a factor would cause you to necessitate the writing of
8 a report with respect to a matter like this.

9 A If we had been asked by anyone else for a report we
10 would have prepared a report. We were handling the matter
11 within the department. There was no need since we could pick
12 up a phone and talk to people or talk to them right there to
13 take the time to do written reports on it.

14 Q Who would have asked you to write such a report? Do
15 you mean Mr. Atkins or Mr. Ducayet?

16 A Well, if there had been a request like that it could
17 have come from them, yes, but that's --

18 Q Had you brought this matter to their attention and
19 asked them, either Mr. Atkins or Mr. Ducayet, the extent to
20 which the investigation ought to be conducted in Iran?

21 A I don't recall discussing Iran to that extent with
22 them. We were providing reports on a weekly basis of what the
23 progress was of the Iranian Government looking into the
24 requirements for helicopters. I recall no special request.
25 Iran was not high on our list of priorities at that time as I

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1 previously stated.

2 Q But nevertheless, General Jablonsky had indicated
3 to you the possibility of further sales?

4 A He had. That's correct.

5 Q And I believe even Mr. Bell had indicated to you,
6 lawyer Bell of Mr. French, had indicated to you in a communi-
7 cation that he had certain discussions with General Jablonsky
8 and Jablonsky had indicated to him that over a time span of
9 several years there would be increased sales opportunities,
10 particularly with respect to the Air Cavalry Unit in Iran; is
11 that not correct? Do you recall that?

12 A Communication from Mr. Bell -- I don't recall. I
13 don't know what you're referring to. It could have happened,
14 yes.

15 Q It could have happened?

16 A Yes.

17 Q That Mr. Bell would have informed you of the possi-
18 bility for increased sales in Iran, that it was consistent
19 with what your understanding of the situation was from your
20 discussions with General Jablonsky?

21 A Yes. I think we had a series of things from Mr.
22 French or Mr. Bolton or -- I don't recall the specifics of it.

23 Q So in the light of a discussion of the possibility of
24 increased sales in Iran, what then is your judgment about the
25 importance of Iran in the overall business of Bell Helicopter at
that time?

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1 A We were building -- this was a requirement that over
2 a period of five years would have meant something on the order
3 of 30 aircraft at the time and we were building 2500 aircraft
4 a year and so as a relative basis it was not that important.

5 Q How important did it turn out to be?

6 A Well, in what time span are you asking about?

7 Q Over a period of five years?

8 A It turned out to be very important.

9 Q From 1968 when you retained Air Taxi?

10 A Subsequent to the purchase by the Italian Government
11 of these equipments from Italy, there was a new program
12 initiated in the early '70s.

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1 Q Isn't it true that back as far as 1968 you
2 foresaw that the Iranian market was going to be a fairly
3 large market?

4 A Well, the discussion in 1967, which is the last
5 I recall of it specifically, there was the prospect of several
6 groups of 12.

7 Q Several groups of 12. How many helicopters?

8 A Initially there was something on the order of 17.
9 It later grew to 24.

10 Q This would be two groups of 12?

11 A As I recall, that is right. And later, about '68,
12 the discussion went to 36. If you want to dollarize that
13 on an FMS case, Bell was receiving about \$137,000 an airframe,
14 so if you took 36 of them -- who is fast with arithmetic?

15 Q How many helicopters was Aguste, your licensee,
16 selling to Iran at that time? In the 1967-'68 timeframe?

17 A About the end of '68, if I recall, there was a
18 purchase of about 50. But at the timeframe you are talking
19 about, you are questioning me on, in 1967, the discussion was
20 36.

21 Q The question is in the '67-'68 timeframe, with
22 respect to four or five years down the road, and how important
23 the Iranian market was going to be?

24 A The discussion was still on the area of 50 Hueys,
25 and maybe something on the order of 20 jet rangers, which

DB 2 1 would have been about \$4 million, what we would have received
2 for providing the airframes. So we were looking at a \$6
3 million program.

4 Q What about the discussions with General Jablonsky?
5 What did he indicate to you was the prospect for helicopters
6 being used in Iran in the course of the next four, five, or
7 six years?

8 A He was talking about -- I think we gave you something
9 this morning that showed that he was discussing something on
10 the order of 24 to 36, and later they added a small quantity
11 of 12 or 20 of the light trainers. It was in that magnitude.
12 The discussions of large fleets, larger than that, on the order
13 of maybe 100 transports, didn't occur until 1971-'72.

14 Q Do you recall Mr. Bell informing you that he had
15 inquired of General Jablonsky about the proposed Iranian
16 Army Air Cavalry units formation and Jablonsky having informed
17 him at that time that it was merely in the planning stage,
18 and would not be ready to commence negotiations for the
19 purchase of helicopters for a considerable amount of time,
20 perhaps as much as five years, and these proposals have to be
21 studied by the Iranian Army and Ministry of War? Do you
22 recall that?

23 A Can you put that in a time for me?

24 Q July 7, 1967.

25 A Yes, I recall that reference, yes.

DB3

1 Q Do you have any knowledge of subsequent sales
2 of Bell helicopters to the Air Cavalry units in Iran?

3 A I am aware they took place in the early '70s.
4 I was not a part of that effort.

5 Q Do you know how many helicopters were sold at that
6 time to the Air Cavalry units?

7 A Something on the order of -- well, there were
8 two programs, one for cobras and one for a different type
9 of transport than we discussed in 1967, the larger super trans-
10 port that was developed for them. And that was 202 and 287.

11 Q 202 and 287 helicopters?

12 A Yes.

13 Q For a total of 489 helicopters?

14 A Yes, sir. But there were no discussions of plans
15 that large that I was aware of in 1967 or 1968.

16 Q It was the sale of 489 helicopters to the govern-
17 ment of Iran in approximately the amount of \$500 million,
18 those were sold to the Air Cav units?

19 A I don't know how you describe the Air Cav units.
20 I am not familiar with-- they were sold for the use of the
21 Iranian Army.

22 Q Let me show you this document to get your testimony
23 with respect to this particular statement in this document,
24 and whether or not this discussion back in 1967 was the initial
25 discussion of what later came to be the sale of \$500 million

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DB4

1 of helicopters to Iran?

2 The document is exhibit number 96. It is a letter
3 to you from Robert Bell, attorney for Mr. French. And on page
4 he says: "While he was in Iran" -- that is to say, Mr.
5 French--"he conferred with General Jablonsky, and he inquired
6 about the proposed Iranian Army Air Cavalry units formation,
7 and Jablonsky informed him that it was merely in the planning
8 stage, and it wouldn't be ready for another five years, and that
9 these proposals had to be subsequently studied." and so on.

10 Was it your understanding that the 489 helicopters
11 went to the Iranian Army Air Cavalry units?

12 A Yes, it is my understanding they went to Iranian
13 Air Cavalry units.

14 Well, the Iranian Army Air Cavalry unit really is
15 kind of a --

16 Q It is in capital letters, though.

17 A It is kind of a generic term. The U.S. Air Mobile
18 Doctrine was being developed at that time and they developed
19 tables of organization and equipment for various divisions
20 and if they were primarily helicopter transportable, they
21 were to be called air cavalry units, as opposed to a standard
22 motorized or mechanized division. SO this term is not quite
23 descriptive of it.

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24 Q Nevertheless, you felt at that time there was a
25 potential for substantial sales in Iran, according to General

DB5

1 Jablonsky?

2 A Your first question was whether or not this was
3 the first reference that we had seen to the formation of
4 Air Cavalry units?

5 Q If not the first, one of the initial references?

6 A No, it was not the first reference we had seen.
7 We had been, as I mentioned before, we had had an input from
8 the MAAG directly to our company, and we were aware of what
9 the size of it was, and I have already stated that the size
10 was on the order of 12 to 17, and it later grew to 24, and
11 somewhat late., in 1967, it went to the 36 units.

12 Q And subsequently to 489?

13 A Not subsequently, no, sir. You are talking about
14 two different cases.

15 Q I am talking about the Air Cavalry units, the
16 Iranian Army Air Cavalry units, that is specifically
17 referenced in this letter.

18 A Yes.

19 Q How many helicopters were subsequently sold to the
20 Iranian Army Air Cav units? 489?

21 A No, sir. The first purchase by the Iranian Army --
22 and I am not for sure on this, but I think it was 50 Hueys
23 bought from the Italian government, and a small quantity
24 of light turbine trainers.

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25 The U.S. Government's recommendation to the Shah was
not adopted by the Shah. The U.S. Government's recommendation

1 to the Shah -- it is referred to in here, referred to
2 subsequently -- was to take a period of five years and move
3 very slowly into building an infrastructure to convert to an
4 Air Mobile Doctrine.

5 The U.S. Government Military Assistance and Advisory
6 Group was saying that it is a long-term program, and that
7 was the advice they were getting from their military advisors.

8 The Iranian government elected not to adopt that
9 posture. Instead they purchased 50 UH1s from the Italian govern-
10 ment, and, as I stated, a quantity, I don't recall how many,
11 light turbine helicopters -- I said the Italian Government;
12 from an Italian contractor -- they set up a training program,
13 and were going to immediately go into an Air Mobile Doctrine.

14 That program was not successful, they had spare
15 parts problems, they had training problems, and ultimately they
16 adopted a completely different approach to it than they adopted
17 at the end of 1968, and that is the program you are referring
18 to that occurred later.

19 Q In any event, I went into this line, because we
20 were talking about the kind of an investigation and report
21 that was done on Air Taxi.

22 Now in light of the nature of the program at that time
23 and for the next several years in Iran, what was envisaged
24 in 1968, would that not have been of sufficient importance
25 for Bell Helicopter to have followed its procedures precisely,

DB 7 1 and issued a written report relative to retention of
2 Air Taxi, and gone into the ownership of Air Taxi, in
3 light of the allegations that had been made to you concerning
4 General Khatami's interest in Air Taxi?

5 A Well, I don't necessarily see the connection.
6 The program that was discussed in Iran at that time was a
7 fairly modest-sized program. And that was the only input which
8 we had. It was no different, really, in size and scope than
9 similar programs which were being discussed with the Japanese
10 Government, were already in motion with the Japanese government,
11 they were going to build about 50. It is no different than
12 Australia, which at that time was involved in Vietnam with
13 us, and they had purchased about eight one year and eight
14 another year, and eight another year.

15 The New Zealand government had purchased something on
16 the order of eight to ten transports.

17 What I am tring to suggest is that these were modest
18 beginnings at that time, they were quite typical of what
19 we were experiencing in many other countries of the world,
20 and what later developed was not discussed or envisioned at the
21 time we are referring to in 1967 and '68.

22 Q Did there come a time when the program in Iran
23 became of a magnitude that it was of great importance, would
24 you say?

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25 A Yes, five years later.

DB8

1 Q Five years later?

2 A Yes.

3 Q What responsibility over the program did you have
4 at that time?

5 A I had none. I was not involved in it.

6 Q Who had taken over your responsibility at that time?

7 A Well, in 1969 we divided the commercial marketing
8 into two operations, one was in international marketing under
9 Mr. Frank Sylvester, and I retained commercial marketing
10 in the U.S. and Canada. That was '69 or early '70.

11 Q Do you know of your own knowledge or had you heard
12 within Bell Helicopter that subsequent to the retention of
13 Air Taxi in 1968, at a time when you are saying that the
14 program was not very large, that subsequent to that time, when
15 the program did become larger, that there was a further
16 investigation or inquiry into the background of Air Taxi
17 to determine whether or not General Khatami or any other
18 government official in Iran had an ownership in that company?

19 A I have had no contact with details like that until
20 this last week.

21 Q Who, specifically again, did you make known
22 within Bell Helicopter of the information that you possessed
23 that on two, and possibly three, occasions you were told
24 that General Khatami had an ownership interest in Air Taxi?
25 You told Mr. Orpen?

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1 A Yes.

2 Q You told Mr. Kling?

3 A Mr. Feliton left us about January of '67, which would
4 have been within a month or so.

5 Q So Mr. Feliton knew of those allegations?

6 A Yes.

7 Q Did Mr. Kling know?

8 A Mr. Kling, I am sure, was told. He did not report
9 directly to me. I don't know what Mr. Orpen told him.
10 I discussed it with Mr. Orpen.

11 Q Did you tell Mr. Sylvester?

12 A I never discussed the Iranian program, as I
13 was involved with it, with Mr. Sylvester when he came in.

14 Q You never filled him in on the program?

15 A I was never asked to give any briefings. He came
16 in and he took -- well, there was no reason to at the time,
17 because the decision had been taken by the Iranian government
18 that they were going to buy the aircraft, based on favorable
19 financing terms, from Italy. And so there was no active
20 program, no active solicitation in Iran at the time of the
21 restructuring of our Marketing Department in 1969. It was an
22 over and done with issue.

23 Q Do you eat lunch in the Executive Dining Room
24 at Bell Helicopter?

25 A I do.

DB10 1 Q Do you see on a daily basis Mr. Ducayet, Mr.
2 Atkins, Mr. Sylvester, and whoever else would eat there?

3 A I was never asked to brief anyone on what had
4 transpired, if that is the thrust of your question.

5 Q But you do eat there and see these people on a
6 daily basis?

7 A Yes, right.

8 Q There did come a time when you learned within the
9 Company that there was a very large sale in the offing?

10 A Yes, there is no question about that. It was
11 public knowledge at the time.

12 Q And you still knew Air Taxi was the agent?

13 A I did not know that Air Taxi was the agent.

14 Q You didn't know Air Taxi was the agent?

15 A I didn't know. I didn't know that Air Taxi was
16 the agent until I was asked or notified last Thursday --
17 well, I did not know that Air Taxi was involved. I did not know
18 anything about any payments to Air Taxi until it appeared
19 in the press. I was not involved in any of the negotiations
20 or any of the program of the early '70s.

21 Q Were you asked at any time, either by the Audit
22 Committee or any persons such as Mr. Soutter, who might be
23 conducting an internal inquiry into the \$2.9 million payment
24 to Air Taxi, of your knowledge with respect to any allegations
25 made about the ownership of Air Taxi?

DB11 1 A I have not been queried on it until I was told
2 this last week, that I would be asked to come and talk to
3 you folks.

4 Q You did not have a discussion with Mr. Soutter
5 about the \$2.9 million payment?

6 A No.

7 Q Sometime during the year 1975?

8 A No.

9 Q Or Mr. Ames?

10 A I don't recall anyone discussing anything that
11 had to do with it.

12 Q Or Mr. Atkins?

13 A Mr. Mr. Atkins, or Mr. Ducayet.

14 Q Or Mr. Farmer?

15 A Or Mr. Farmer.

16 Q If they had asked you, if any one of those
17 individuals had asked you whether or not you had any knowledge
18 of the ownership of Air Taxi by any government official in
19 Iran, including military officials, would you have brought
20 to their attention that on two and possibly three occasions
21 the allegation had been made to you that General Khatami had an
22 ownership interest in Air Taxi? If you had been asked?

23 A I would see no reason not to answer that.

24 Q And you would have told them, I take it from what
25 you are saying, that on two or three occasions it had been

12 1 alleged by Mr. Bell --

2 A There is one condition.

3 Q What is that condition?

4 A I was not aware that Air Taxi was still with us.

5 So your question didn't presuppose that I knew that Air Taxi
6 was still involved.

7 Q But in 1975 if someone had come to you and had said
8 we made a \$2.9 million payment to Air Taxi, do you have any
9 knowledge as to the ownership of Air Taxi, specifically
10 whether or not Air Taxi is or may be or could possibly be
11 or may have been alleged to have been owned by any government
12 official in Iran, would you have informed that inquirer
13 that on two, possibly three occasions, you had been told, or it
14 had been alleged to you that General Khatami had an ownership
15 interest?

16 A I would see no reason not to cover it.

17 Q In other words, you would have told the guy?

18 A Yes, because I was completely at ease, so far as
19 the question was concerned, based on the action we took at the
20 end of '68.

21 Q So you would have said it has been alleged to me on
22 two or three occasions that General Khatami has an ownership
23 interest in Air Taxi, if you had been asked?

24 A If I had been asked, yes.

25 Q I would like to continue with you discussing
this document, exhibit 96. This is the letter that you

DB13

1 referred to previously, I think, in your testimony.

2 A Yes, I have seen this, right.

3 Q Can you identify this document?

4 A Yes, I think it is a letter sent to me by Mr.
5 Bell in July, July 7, 1967.

6 Q And you recall receiving this document and reading
7 it? Do you recall receiving the document?

8 A I don't recall the specifics of it. I recall there
9 was such a document, yes. I looked at it.

10 Q Mr. Bell, in this letter, says: "As I reported
11 to you last November, I made a trip to Iran on behalf of
12 Mr. French and his company, and made arrangements at that time
13 with a representative of General Khatami, whose name is Dr.
14 Hassan Safavi, who is the vice president of the High Council
15 of Civil Aviation in Iran, for the formation of a Persian
16 corporation to act as the representative of International
17 Helicopter Consultants in Iran."

18 Do you recall that statement in that letter?

19 A Yes, I recall that.

20 Q When you read that sentence, did you recall that
21 you had met Mr. Bell the previous November?

22 A I recalled that there had been some meeting at a
23 prior time.

24 Q You did recall the meeting at the prior time?

25 A I assume I did. You are taking me back ten years

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DB14

1 now, but I would presume so, yes. I testified that I recall
2 a meeting but not the specifics of who was in it. You are
3 showing me some documents that I have not had about that
4 meeting, but, yes, I recalled that I had met with him.

5 Q You recall that you had met with him in November,
6 or at a previous time?

7 A At some time, right, after Mr. French was
8 thrown out of the country.

9 Q Shortly after that, within four or five months
10 after?

11 A Yes.

12 Q Now this letter goes on to say: "This company"--
13 that is to say STP--"was formed and its name is Sherkat Sahami
14 Tayar Pars, which roughly translates as Persian Flying
15 Society Anonymous. After my return and the notification that this
16 company was formed, we were disappointed to find that no
17 commercial activity was resulting from the formation of this
18 company. This especially disturbed Mr. French because
19 in addition to all of the money he has invested in Iran over
20 the past years, he has invested considerable sums in sending
21 me to negotiate for him and in connection with the formation
22 of STP he was required to put up all of the capital, which
23 was one million rials" -- were you aware of that, by the way?
24 Were you aware of the fact that Mr. French was required to
25 put up the entire capitalization of STP?

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DB15

1 A You mean prior to this letter?

2 Q Yes, prior to this letter.

3 A I wasn't aware of it. As I have already testified,
4 I wasn't interested in what they were doing, I didn't want
5 any part of it, and that was my position then, and it is still
6 my position now, and they were like flies that keep buzzing around
7 you, you can't make them go away.

8 Q Now this is eight months after the initial meetings,
9 and he was still your representative in July 1967, is that
10 not correct?

11 A Yes. Well, evidently --

12 Q Is it correct or isn't it?

13 A We had said we were giving a temporary extension.
14 In my mind we gave a temporary extension to let a couple
15 of deliveries commence. I was very upset with my International
16 Marketing Manager that this thing was going on, and I was
17 annoyed that I was still getting these foolish letters
18 from this foolish crowd.

19 And I remember saying to him when are we going to,
20 you know, spot this fly, because they are not our people,
21 we don't want them, why am I still getting letters? I did
22 not read that letter in detail, because to me it was a dead
23 issue that was hanging on far longer than it had any justifi-
24 cation for being around.

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25 Q You wanted to terminate the relationship with Mr.
French?

16

1 A I wanted them out, Mr. French, yes.

2 Q Because they had come in with this arrangement
3 with General Khatami?

4 A Preposterous arrangement, preposterous suggestion.

5 Q Were you ever reprimanded by Mr. Ducayet for
6 discussing this matter with Mr. Bell?

7 A I don't recall being reprimanded. I might have
8 been. I don't know. I recall I had considerable heat on the
9 issue, because I felt considerable heat about it, because
10 it was an annoyance and an unnecessary annoyance.

11 Q What was the particular heat? Did you get heat
12 from Mr. Atkins, or Mr. Ducayet?

13 A No, heat within myself, that we were tolerating
14 this condition to go on.

15 MR. GALERSTEIN: Excuse me. Can we take a break
16 when we get a chance?

17 MR. MARINACCIO: We can take a break right now.
18 Let's take five minutes.

19 (Short recess)

20 BY MR. MARINACCIO:

21 Q Before the break, Mr. Jose, you were stating
22 that you were feeling a considerable amount of heat about
23 Mr. Bell's discussion with you respecting retention of General
24 Khatami, in essence, who was a government official in Iran,
25 and you didn't like that, so as a result you really wanted to

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17 1 terminate Mr. French's relationship?

2 A Well, I think the thing, if I recall what I was
3 saying before, or what I meant to say, anyhow, it is I was
4 feeling heat, myself, because my own staff was not proceeding
5 to terminate the relationship with Mr. Bell and Mr. French.

6 Q In other words, you wanted the relationship
7 terminated fast, is that what you are saying?

8 A Yes. It had nothing to do with, you know, Mr.
9 Khatami. I had discounted the story about Mr. Khatami, or
10 General Khatami, when I first heard it. I was still discounting
11 it.

12 But I also stated I felt we ought to be getting through
13 with that situation and doing something else.

14 Q But you also testified that you were very unhappy
15 about the allegation or the inference that General Khatami
16 might be involved in French's program? Didn't you testify
17 to that?

18 A I testified I was very unhappy with the fact that
19 Mr. French, through Mr. Bell, would bring us that kind of
20 a proposition.

21 I felt that we had misjudged the kind of people we were
22 dealing with, and they certainly had misjudged us.

23 Q So if it were that bad with Mr. French, about
24 misjudging his character, in effect is what you are saying, by
25 his bringing General Khatami into the picture --

DB18

1 A Yes.

2 Q (Continuing) -- didn't you feel that in view of
3 the fact that an allegation was made to you that General
4 Khatami owned Air Taxi, that you should feel the same kind of
5 heat or dislike for that situation and would want to go
6 into it in great detail to assure yourself that General Khatami
7 did not have an ownership interest in Air Taxi, before they
8 were retained as the agent again in 1968?

9 A That would have been -- that is a true statement,
10 you know, it is a statement of my feelings on it, yes, we
11 would go into it. That is why we sent a three-man team out
12 there.

13 Q You sent the three-man team out there specifically
14 for the purpose of finding out, among other things, but one of
15 the most important things, I think what you are saying, is
16 to assure that General Khatami had no ownership interest in
17 Air Taxi?

18 A That is correct.

19 Q Well now, what did you require them to do? Did
20 they go to the embassy, for example?

21 A I don't think I -- I don't recall the specifics
22 of what I instructed them to do. I recall saying to them
23 "Now let's go out there and let's get the kind of agent
24 we have everywhere else, one that is reliable, trustworthy,
25 and so on, and you survey and see what it takes to do that

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19 1 and come back and report to me."

2 Q When they came back and reported to you, did you ask
3 them if they had discussed this matter with any embassy
4 personnel?

5 A I don't recall specifically doing that, but that
6 would have been a procedure normally that they would do, they
7 would check on the commercial reputation of an organization.

8 Q Did you ask them whether or not they checked the
9 public records of the Iranian Government having jurisdiction
10 over public corporations, to determine whether or not General
11 Khatami at any time in the history of Air Taxi had an
12 ownership interest in Air Taxi?

13 A I was not that specific on what they were to do.
14 I gave a general instruction and that should have been enough.

15 Q Did they report back to you of General Khatami's
16 reputation with respect to his ownership interest in Air
17 Taxi and Heli-Taxi, that they had derived from businessmen
18 in Iran?

19 A As I recall, I was told that there was no involvement.

20 Q You were told by these three gentlemen that there
21 was no involvement of General Khatami in Air Taxi?

22 A Yes.

23 Q And you were satisfied?

24 A I was satisfied.

25 Q And you went into no details?

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20

1 A Again, I don't recall.

2 Q What is your recollection of the details?

3 A I don't recall in any detail about it.

4 Q But in light of the fact that you were so upset
5 with Mr. Bell and Mr. French --

6 A Right.

7 Q And their raising of the General Khatami
8 connection in that context, I am trying to get your testimony
9 as to how consistent was your behavior when you turned around
10 and retain Air Taxi?

11 A Well, I think I was quite specific, that we did
12 not want to take any kind of action that was going to
13 compromise. We had no reason to. We didn't need that, we
14 didn't operate this way, we never had operated that way any-
15 where, we had no reason to do it now. It wasn't that big a
16 case.

17 Q The business in Iran wasn't that big a case?

18 A No. Well, even if it had been a big case, there
19 was no reason to do it. We never operated that way.

20 Q How many discussions inside Bell Helicopter did
21 you have with various people respecting the allegation of the
22 ownership interest in Air Taxi by General Khatami?

23 A I don't remember how many. It wasn't as though
24 we continued to discuss it. As I have already stated, I didn't
25 believe it at the time. I wasn't something that we kept pushing on.

21 1 Q That would be with individuals other than Orpen,
2 Kling and Feliton?

3 A Well, Mr. Feliton left us shortly --

4 Q And Pierrot?

5 A Yes. Feliton left us early in 1967. So he
6 wasn't there. Mr. Kling was -- well, I can't recall that date
7 specifically. Excuse me. Mr. Kling came early in '68,
8 if I recall, something like that.

9 Let's see. Mr. Kling went out in the fall with Perrott
10 and Orpen. SO he would have been in that chair at that time.

11 I don't recall how many discussions we had about it.
12 It was not--as I stated earlier, I was involved with the
13 government of Taiwan, I was involved with our licensee in
14 Japan, I was doing work with the Canadian government at the
15 time, who was looking into establishing Air Mobile concepts
16 in the Canadian defense forces.

17 And I really wasn't maintaining a watching brief on
18 what was going on in Iran.

19 I would, you know, every month or two there would be
20 a reference to the quantity of helicopters they were talking
21 about, to go from a 17 to a 24 to a 36, over a period of some
22 time. Iran was not high on my priority action list because
23 I was involved in other things.

24 Q What were the reactions of Mr. Orpen, Mr. Kling,
25 and Mr. Feliton, to Mr. Bell's proposals to you? Did you

22

1 make those proposals known to those three individuals?

2 Did you discuss that proposal with those three individuals?

3 A Well, I disagreed with Mr. Feliton on the
4 position he took on that.

5 Q What was Mr. Feliton's position on that?

6 A Well, where he said get the thing from Dr. Safavi.
7 I had no interest in it. I don't know what he was pursuing,
8 but he didn't stay with us much longer.

9 Q Did you tell him to start pursuing that line?

10 A Yes, and the action we took in February, where we
11 told the Minister of Agriculture that the sole representative
12 for us there was Helicopter Consultants. I didn't know, from
13 the nature of the wire that came in, and I don't recall, I
14 don't know why we can't find it, it is just not there, but it
15 seemed to indicate that there was a question in their mind
16 as to who was representing us.

17 Q Either General Khatami directly or through a
18 representative had told the Department of Agriculture that
19 they were representing you. So your response was --

20 A I have no knowledge of that.

21 Q You have no knowledge of that?

22 A No. I don't know who it would have been. There
23 was just a question, since we were operating on a temporary
24 basis with Helicopter Consultants.

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25 Q What was the purpose of your telling the Department

23 1 of Agriculture that International Helicopter Consultants
2 was representing you in Iran?

3 They were representing you?

4 A Yes. We had a query, who represents you, and
5 we said them.

6 Q It was just a simple query like that, "Who
7 represents you?"

8 A Yes, how do we go about getting a quotation on a
9 couple of \$50,000 helicopters to go spray bugs.

10 Q Now you seem to have a very good recollection of
11 that occurrence that took place a long time ago, which
12 seems to be a routine inconsequential matter. And your
13 recollection of something like whether or not there was a
14 meeting with Mr. Ducayet seems much hazier.

15 MR. GALERSTEIN: I don't think that is a fair
16 representation.

17 BY MR. MARINACCIO:

18 Q Can you discuss that?

19 A I am trying to answer your questions as you give
20 them to me.

21 Q I don't think I asked you the original question
22 about the Department of Agriculture. I think you raised
23 that yourself. Then you state that that was a routine request,
24 "Who represents you." Is that what your testimony was?

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25 A Well, yes. I am bringing that up because my mind

24

1 recalled that within the short timeframe after Mr. Bell
2 had been there, that I was making it very clear to our people
3 that we were not interested in the proposal. I didn't know
4 what I was going to have to do to get the International
5 people to change the relationship out there. I didn't know
6 how long it was going to take to get that done.

7 Q Are you saying that request, then, wasn't an
8 ordinary request, but it had something to do with the General
9 Khatami proposal, and that is why you are singling that out?

10 A No, it had nothing to do with that.

11 Q It was just an ordinary request by the Department
12 of wgriculture, as to who represents you in Iran?

13 A It is a reflection -- I recall the thing coming
14 to me, and I said, "Look, how clear can I make it, we are
15 not interested in that proposition, that preposterous proposition
16 that Mr. Bell brought us."

17 Q In light of your testimony that it was a perposterous
18 proposition, would you have remembered whether or not that
19 preposterous proposition was made in your presence to Mr.
20 Ducayet?

21 A I don't recall it being made.

22 Q You don't recall it being made. Do you deny it was
23 made?

24 A I don't deny it.

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25

DB 25

1 BY MR. MC LEAN:

2 Q Mr. Jose, I have just a few questions.

3 You characterized the arrangement proposed by Mr. Bell
4 whereby STP would become in effect the sales representative
5 for Bell in Iran, with a proportion of the commissions accruing
6 to General Khatami, you characterized that as preposterous.

7 Did you ever inform Mr. Bell directly that you regarded
8 that as a preposterous arrangement? Did you indicate it
9 was improper, that it was contrary to Bell's policy?

10 A I don't recall how I communicated that to him.
11 But that certainly was my feeling on it, that we were not
12 interested in it.

13 Q What is your best recollection of what you did
14 communicate to Mr. Bell when he made this proposal?

15 A I think I have given that.

16 Q Did you indicate in words to the effect you have
17 used here, that it was a preposterous arrangement, that was
18 highly improper, and would not be tolerated?

19 A I don't know that I used those words. But the gist
20 of what I am saying is that we were not interested in what
21 he was talking about.

22 Q You have indicated what your attitude was. What
23 I want now is specifically --

24 A I don't recall the language I used or how it was
25 done.

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26 1 Q Did you in any way indicate to Mr. Bell that you
2 regarded this as an improper arrangement?

3 A I think he should have gotten that message, yes.

4 Q How should he have gotten it? Can you be more
5 explicit? What words did you use that would have conveyed
6 that message?

7 A I don't recall the words that were used.

8 Q Did you ever tell Mr. French that you regarded
9 this arrangement as an improper type arrangement, and this was
10 a major factor in his being terminated as Bell's representative
11 in Iran?

12 A Mr. French talked to me at the Paris air show
13 in 1967 and started to bring up the same sort of discussion.
14 And I indicated to him I was not interested. And that we were
15 going through a termination procedure. And this was followed
16 rather shortly by a letter to me of the July 7 date, and on the
17 last page of that letter he indicates: "In our conversation
18 yesterday it is not fair for you to state that he is not
19 an adequate representative for you." But I had indicated
20 in '67, in May, and I had indicated again in July verbally
21 that we were going to make a change, we weren't interested.

22 Q But did you ever indicate to either Mr. Bell or
23 Mr. French that one of the major reasons that, as you have
24 testified today, you were not interested was that they had
25 proposed an arrangement involving General Khatami, which your

27

1 Company regarded as improper, or preposterous?

2 A I am sure I did.

3 MR. MARINACCIO: Mr. Collins has some questions.

4 BY MR. COLLINS:

5 Q Mr. Jose, we have gone through testimony on the
6 trip that the three Bell employees took to Iran in the fall
7 of '67 to find a new dealer or agent for Bell.

8 I would like to know if you had any knowledge of who
9 potential agents might have been at that time?

10 A I had no knowledge of who the people were in
11 aviation in that country at that time, to have any kind of
12 a working knowledge of who the potential people would be.

13 Q Before these three gentlemen went to Iran, did
14 you feel that Air Taxi would be the agent chosen?

15 A No, I was open-minded on it.

16 Q Did you discuss with them other agents? Did they
17 indicate to you that there were other agents?

18 A I don't know that Mr. Kling had been out there
19 before. Mr. Pierrot had been out there, I think, at sometime
20 earlier and I don't recall how far in advance of this it
21 had been, whether it was within the previous couple of years
22 or four years, or waht. But I believe he had been in Iran
23 before.

24 Q Before these three gentlemen went to Iran, had you
25 ever had a conversation with them, or with anyone else, in

28

1 which it was suggested that Air Taxi be chosen as Bell
2 Helicopter's agent in Iran?

3 A Well, I don't recall whether we had or not. This
4 is in 1967, is it not?

5 Q Yes, the fall of '67.

6 A Well, in discussing it, we were aware that Air
7 Taxi was in business as an operator, in the sales business.
8 I believe it was Aero Commander. Mr. French was representing
9 Cessna Aircraft and I don't recall whether Beech or Piper were
10 represented there or not.

11 Q Do you have any knowledge as to who recommended
12 Air Taxi as the prospective agent?

13 A As to which of the three?

14 Q Which of the three gentlemen from Bell Helicopter
15 and also who might have recommended them to any of those three?

16 A I don't have any specifics on it, no. I wasn't
17 there. I don't recall.

18 Q When they returned from Iran, did they indicate
19 to you who vouched for the representations of the principals
20 in Air Taxi, that is, Mr. Zanganen and Mr. Iranzad?

21 A Well, as I stated, I believe they went there, there
22 was some reference to going to the Commercial Attache in the
23 embassy. But I don't recall the detail of that.

24 Q Do you know if the written procedures for determining
25 who should be sales agents for Bell Helicopter, are they

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29 1 still in effect?

2 A I don't have any idea, because I have not been
3 responsible for that since 1969.

4 Q Did the procedures only pertain to foreign sales
5 agents?

6 A Well, this was an internal department procedures
7 manual that referred to how we would operate domestically, how
8 we would work internationally, and who was responsible for
9 what.

10 MR. SOUTTER: But you don't have any representatives
11 in this country?

12 THE WITNESS: In the United States, we don't have
13 any, right.

14 BY MR. COLLINS:

15 Q That was to be my next question. In your sales
16 program, you conduct all sales domestically from Bell Helicopter
17 directly?

18 A We do, right.

19 Q In dealing in other countries with respect to
20 foreign sales agents, has anyone ever suggested to you that
21 you make some type of payment, either direct or indirect, to
22 a foreign government official, in order to gain sales for
23 Bell Helicopter?

24 A In my nine years in the chair, never.

25 Q Was it ever discussed with other foreign sales

30 1 agents that government officials might have an investment
2 interest in the sales agency itself?

3 A In other countries you are talking about?

4 Q Yes.

5 A Not that I recall.

6 Q After 1969, when you became Commercial Sales
7 Manager for the U.S. and Canada, did you ever discuss the
8 ownership of Air Taxi with anyone in Bell Helicopter or
9 Textron?

10 A No.

11
12 Q Did you ever meet with Mr. Zanganen or any other
13 people associated with Air Taxi?

14 A Yes.

15 Q When were those meetings?

16 A I met with Mr. Zanganen in 1968.

17 Q And the subject of the meeting? What was discussed?

18 A I was in Iran and I was in Iran because we were
19 working with the MAAG at that time because they were processing
20 the study for the purchase of the 24 to 36 light helicopters,
21 or medium helicopters.

22 Q Did you discuss the ownership of Air Tzxi with
23 Mr. Zanganen at that time?

24 A We had no discussions about it, because we had
25 appointed them earlier that year. And there was no reason to

31 1 bring it up again.

2 Q Did you have any other meetings with Mr. Zanganen?

3 A I was there for about two days. Yes, we met on and
4 off. I don't recall how many times. We did meet, because
5 they were our representative at the time.

6 Q You mean he would come to Forth Worth and meet
7 with you?

8 A Oh, you mean at times other than this?

9 Q Yes.

10 A I don't think I met him other than that one time.

11 Q Because I was wondering whether you would ever
12 have met him at sales meetings that Bell Helicopter might
13 conduct, where they would bring in foreign sales agents and
14 discuss matters of common interest?

15 A I don't think there was a sales meeting that
16 involved -- after we divided the two departments, for the next
17 couple of years we ran our own sales meetings, and they were
18 not necessarily combined. They were combined with International
19 every several years, but I don't recall.

20 Q When you met with Mr. Bell in the fall of 1966,
21 did he indicate to you at that time that he had had earlier
22 meetings with State Department officials concerning Mr. French's
23 attempt to re-enter Iran and also Mr. French's allegations
24 about General Khatami trying to get a share of Mr. French's
25 business?

32

1 A Did he mention that?

2 Q Yes.

3 A Yes.

4 Q Could you describe what he mentioned?

5 A Well, as I say, my recall on this meeting is
6 rather vague. But he did mention that -- I think I had
7 seen Mr. French some other time. The reason I am hesitating
8 is that Mr. French had talked to me somewhere along the
9 line, I believe, about what happened. But I am not sure. Or
10 maybe it was subsequent to this he talked to me.

11 But I did talk to Mr. French about it, and I did talk
12 to Mr. Bell about it. And they were saying that a policy was
13 being established that there would be limited permits to operate
14 sales agencies there, within the country. And they made the
15 allegation that they had been, or that Mr. French had been put
16 out of the country on trumped-up charges.

17 Now those were his words that he gave to me. And I
18 don't recall whether they said -- I recall in subsequent
19 letters they said "We are trying to get the State Department
20 to get us back in." I thought that that -- I think that is
21 about what they covered.

22 and they also talked about, you know, what they were
23 going to try to do to operate in the interim, which was to
24 leave Mr. Bolton there. He had not had his permit lifted
25 to stay in the country. But Mr. Bolton was a pilot, not someone

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33 1 of a sales type person.

2 Q Did they indicate at all that the State Department
3 officials had told Mr. Bell to go to Iran and try to arrange
4 some type of accommodation with Iranian officials, so
5 that Mr. Bell could continue to conduct his business in that
6 country? Mr. French, I am sorry.

7 A I don't recall the detail of who suggested that they
8 operate that way. It could well have been. I just don't
9 recall.

10 Q You don't recall whether they said the State Depart-
11 ment officials suggested --

12 A I am sure that they would have tried, since they
13 were trying to retain a dealership, that they weren't really
14 postured to be effective in. They were trying to, you know,
15 drop every name that they could. If they say the State
16 Department told them to go in and try to do that, I am sure
17 they would have said that.

18 Q You used the word "preposterous" a few times, in
19 characterizing Mr. Bell's proposal?

20 A Yes.

21 Q Do you mean by that that it is unbelievable that
22 it can happen, or that it would be improper?

23 A Both. My grandfather was a Menonite minister,
24 on my mother's side. And my grandfather on my father's side
25 was a very strict Methodist. And I wasn't brought up that anyone

34 1 in the Jose family ever had to do anything underhanded
2 or under the table in order to make a living.

3 Q When Mr. Bell met with you, what was your opinion
4 of Mr. French as an agent? Did you have any earlier
5 dealings with him?

6 A I may have met him at the Paris show once or
7 twice since '65. I saw him in '65, I think he came through
8 Fort Worth in the early '60s. Mr. French had gone to the
9 Middle East because he was involved in agriculture, and Bell
10 Helicopter was working a program that I had started with the
11 Department of Agriculture, investigating the use of helicopters
12 in agriculture.

13 So he had a background in the use of helicopters, or
14 the use of aircraft in agriculture, was familiar with chemicals,
15 and that is what attracted us to him, you know, that expertise
16 was of interest to us in the very early '60s.

17 Our program was with the U.S. Government in '63 and '64,
18 in Mississippi, and a number of places around the world
19 we had done some test work and kind of revolutionized the
20 use of helicopters in agricultural work.

21 That is what probably attracted us to make the change,
22 because he had that background.

23 Q That was in 1963?

24 A Well, I don't recall when it was.

25 Q When you changed from Air Taxi to Mr. French?

35 1 A Yes, because we were doing work in Greece, we
2 were doing work in the Caribbean, in Ecquador, in various
3 test work all over the world, because, you know, the food
4 problem was a big problem worldwide, and there was a lot of
5 interest in the food problem.

6 We made trips to India, Greece, Turkey, North Africa,
7 with what amounted to a very revolutionary and different kind
8 of equipment and techniques to use helicopters in the production
9 of food and fibre.

10 Q Did you participate in negotiations with Mr. French
11 and Mr. Bell, or any other attorney for Mr. French, in hiring
12 him in 1963?

13 A I don't recall why or how. I might have been
14 involved, but I just don't recall. There is nothing in the
15 records that tells me why we made that change, that I can find.

16 Q With respect to the November '68 trip to Iran
17 by Messrs Orpen, Pierrot and Kling --

18 A Are you saying November '68 or '67?

19 Q '67, I am sorry. Was the purpose of the trip
20 to check out the truth of the Bell-French proposal, or
21 only to hire a new agent for Bell Helicopter?

22 A I had made up my mind very early in the year,
23 in fact, I had made up my mind after Mr. Bell was there, that
24 we were going to make a change. And I had asked Mr. Orpen
25 to make arrangements to make that change.

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36 1 Q Did the people who went to Iran ever discuss
2 with you the truth of the Bell-French proposal?

3 A The truth of it to what effect?

4 Q To the effect that this new agent that they were
5 proposing was owned in part by an Iranian official?

6 A We never confirmed that they were owned in part
7 by an Iranian official.

8 Q Sherkat Sahami Tayar Pars, I believe, is the name
9 of the organization.

10 A You are talking about something else. We were
11 not checking into STP. We had rejected that idea earlier in
12 the year, or I had rejected it.

13 Now Mr. Orpen referred to it in his letter at the end
14 of '67, but Mr. Orpen and I didn't necessarily see eye to eye
15 on it. In my mind it was a dead issue and had been all year.
16 Sometimes it was difficult to get his attention.

17 MR. COLLINS: Thank you.

18 MR. MARINACCIO: Mr. Freed has some questions.

19 BY MR. FREED:

20 Q Mr. Jose, did you keep in close touch with what
21 Mr. Feliton was doing in his position in the Sales Department
22 in Bell Helicopter?

23 A No, I did not.

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25 Q So would you have seen the correspondence between
Mr. Feliton and Mr. Bell, the correspondence in 1967 involving

37 1 the dealings with this STP, the Persian corporation?

2 A I might not have.

3 Q Was it common --

4 A I probably would have been copied on it, but
5 that doesn't necessarily mean I read it or saw it.

6 Q Was it common for Bell Helicopter sales officials
7 to act on their own, as Mr. Feliton apparently did, in asking
8 Mr. Bell in that November 1966 meeting for the letter from
9 Dr. Safavi, and to continue to have correspondence in '67 between
10 Mr. Feliton and Bell on getting letters and agreements requested
11 from STP in Persia?

12 A He reported to Mr. Orpen.

13 Q He would have reported to Mr. Orpen?

14 A Yes. I wouldn't necessarily have seen the
15 correspondence.

16 Q So they could have been acting on their own in
17 continuing these discussions?

18 A They could have been.

19 Q Now in the July 7, 1967 letter from Mr. Bell to
20 you, he says that he is closing an agreement between Inter-
21 national Helicopter Consulstants and STP, and the documents
22 provided to us today by Textron, that agreement is included
23 in there.

24 What did you do when you recieved a copy of that
25 agreement?

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1 A Well, I didn't really study it in detail, because
2 to me it was an effort on their part to pursue something that
3 I had already said we were not interested in.

4 Q If you rejected the idea, and you said you had
5 rejected it since the previous November --

6 A Yes.

7 Q Why didn't you write Bell or tell Bell and French
8 that the agreement was unacceptable to Bell and contrary
9 to Bell's policy?

10 Why is there no correspondence or communication from
11 you or any Bell officials at about this time, July, August,
12 September, to Bell and French telling them that you were not
13 going to go this route?

14 A Well, yes, that is a very good question. I asked
15 myself the same question.

16 If you had seen the travel schedules of Mr. Orpen and
17 myself during the first half of that year, it might be a little
18 easier for me to, you know, tell you what we were involved
19 with.

20 We were travelling very very heavily, Mr. Orpen in
21 Europe and myself in Canada, Japan, and a number of things
22 could have fallen through the cracks in that year, just because
23 it could be sometime before we would cross paths. I was away
24 fifty percent of the working days in 1967. In 1966 it was
25 about the same. almost half of the working days, and in 1968

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1 I was out of the city almost half of the working day.

2 Q But if the idea of Bell dealing with its Iranian
3 sales agent through this STP company was so preposterous,
4 why didn't you in November, at this meeting where Bell comes in
5 and Bell lays out the whole proposed arrangement to you,
6 why didn't you then and there say "nothing doing," you know,
7 "we won't have any further discussions on this," just cut it
8 off?

9 A Well, that was my feeling on it.

10 Q But then Felton --

11 A Mr. Felton left us before too long, because he
12 wasn't following my instructions.

13 Q Was Felton fired from Bell?

14 A Yes, he was fired from Bell.

15 Q On what grounds?

16 A Because he didn't have the sensitivity to be a
17 regional manager for us, and deal in the international scene.

18 Q Are there any termination papers for Mr. Felton
19 which explain the reasons for his being fired?

20 A No, I wouldn't think there would be. We just
21 came to a parting of the ways.

22 Q How did Orpen leave?

23 A Orpen left in 1969, after there was a division
24 of the Department and he was not appointed the International
25 Vice President.

40

1 Q Do you know where he went?

2 A Well, I have not had contact with Mr. Orpen in
3 about five years.

4 Q When did you have contact, when was the last
5 contact with him that you had?

6 A I saw him probably five years ago at a Helicopter
7 Association meeting on the West Coast.

8 Q Who was he working for then?

9 A He was somewhere in the Caribbean with a small
10 airline.

11 Q But you don't know the name of the airline?

12 A No, I don't.

13 Q Do you know where he has his residence?

14 A Somewhere in the Virgin Islands.

15 Q So you think he was living in the Virgin Islands
16 five years ago?

17 A Five years ago, I believe he was.

18 Q You said Mr. Felton was insensitive. What
19 do you mean by that?

20 A Well, again, I am just saying that I had taken
21 positions on things, and people weren't following through on
22 my wishes on it.

23 Q Are you referring to these letters that we have --

24 A Not confined to that, no.

25 Q But these are a part of the reason?

41

1 A Yes.

2 Q You have Mr. French writing to Mr. Feliton on
3 January 14, 1967, in which French writes: Dear Jim. John
4 Bolton just left Beirut last night after coming in to tell
5 me we had finally gotten the new company completed, STP, and
6 registered" --

7 A Are you sure that is STP or International Helicopter
8 Consulstants?

9 Q No, STP. "With the new set-up, it should open
10 many doors, we have General Khatami as partner silently along with
11 Dr. Safavi."

12 But this type of communication is going on through
13 July 1967, when Mr. French sends the letter.

14 A That is the reason for my heat that I alluded to
15 earlier.

16 Q Why, after this July 7, 1967 letter, in which
17 the contract is enclosed, why didn't you just dictate a
18 letter to your secretary then and there, telling French or
19 Bell to drop the whole thing, that Bell was going to have
20 nothing more to do with it?

21 A I asked Mr. Orpen to do that repeatedly.

22 Q If he didn't do it repeatedly, why didn't you?
23 Somebody would have to take the responsibility on an issue
24 which you say is of such concern and goes so contrary to
25 Company policy.

42

1 A Yes.

2 Q Is Mr. Orpen a pilot?

3 A Yes.

4 Q What was Feliton's, Kling's and Orpen's reaction
5 to Bell's proposal for working through the establishment
6 of STP and having Bell through International Helicopter
7 Consultants working through that company?

8 A The reaction should have been the same as mine,
9 which is we were not interested.

10 Q But was it?

11 A Obviously they weren't getting the message.

12 Q Did you tell them at any time, repeat to them
13 in 1967 or '68, what the Company policy was on dealing with
14 sales agents that had connections or that were owned by
15 foreign government officials?

16 A Of course I did.

17 Q Were there any procedures to make sure that they
18 followed these?

19 A Mr. Orpen was supposed to be in charge of seeing
20 that that got done.

21 Q Now in January 1967, a letter of January 17, 1967
22 from Mr. Orpen to Mr. Bell, Mr. Orpen says, in part: "It
23 is our feeling that the arrangements for handling sales through
24 Sherkat Sahami Tayar Pars are not satisfactory to Bell. "

25 A That is correct.

1 Q "As long as Bill French is unable to personally follow
2 through with Iranian contacts."

3 This appears to imply that they would have been satisfactory
4 to Bell if French would have been able to follow through
5 personally with Iranian contacts?

6 A Well, it could be read that way. I just think
7 it is an unfortunate way of writing it, because it was my
8 feeling that I communicated to Mr. Orpen that it is unsatisfactory
9 period. He had an unfortunate way of expressing it. If I
10 had been in town and consulted on the nature of the letter --
11 I was not there -- I would have had it written differently.

12 Q Now in that July 7, 1967 letter that lawyer Bell
13 wrote to you, he also states: "Safavi also informed me that the
14 Great General, by whom he means General Khatami, has decided
15 to handle transactions with STP in much the fashion he had
16 set up for Air Taxi and Heli-Taxi, that is, one company for
17 fixed wing and the other for helicopters."

18 Now when Orpen and Pierrot and King went to Iran in
19 late '67 to size up the situation, to see who the new sales
20 representative should be in Iran, and they came back with the
21 name Air Taxi, wouldn't you have recalled this letter, or at
22 least go back and check it out and say "Hey, look, we have
23 lawyer Bell telling us this"?

24 A I don't think we have to presume from that that
25 necessarily he was going to handle it, because the allegation

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1 that he was finally involved is necessarily an interpretation
2 put on it. He was the head of Civil Air, and spoke for the
3 government, and said just how many competing organization they
4 were going to allow. It was not uncommon for the government,
5 in a closed society, to say we are only going to have so many
6 people trying to make a living in this country, doing such and
7 such a thing.

8 So I don't think necessarily you need to put an improper
9 interpretation on it. I would take that that they were
10 going to have companies that specialized.

11 Q But in this letter to you, Mr. Bell is saying
12 that Safavi informed him that the Persian 51 percent of STP
13 was owned 26 percent by his own father-in-law, and 25 percent by
14 Mr. Raghi Emami, who is a counsin of General Khatami.

15 Again, there is a discussion of Khatami having an
16 interest or an indirect interest in it, and if Khatami is going
17 to have this interest in this company, then one would want --

18 A I don't think that says General Khatami had an
19 interest in it.

20 Q I said an indirect interest.

21 A An indirect interest, because he has a counsin in
22 it?

23 Q His counsin. But you also heard the allegation
24 that Khatami was going to have an interest in STP from the
25 previous letters?

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45

1 A Well, again, that is Mr. Bell talking.

2 Q Did Mr. Pierrot or Mr. Orpen or Mr. Kling or
3 any Bell official make any attempt -- on the top of that page
4 I was referring to, Mr. Bell does talk about General Khatami
5 specifically, and he talks about that part of STP stock would
6 be owned by other members of the High Council of Civil Aviation,
7 including General Khatami, although it would be held in the
8 name of other persons, and not directly in their names.

9 Let me ask you this: When Mr. Orpen and Mr. Kling and
10 Mr. Peirrot were in Iran in late '67, did they make any
11 attempt to check whether General Khatami would have had a
12 silent partnership, or would have had nominees holding an
13 interest in Air Taxi for him?

14 A They would have been under instructions to make sure
15 that there was no conflict of interest.

16 Q Would they have checked with the U.S. embassy
17 officials on that?

18 A That would have been a normal procedure. As I
19 recall it, they did.

20 Q Let me ask you this: You passed this letter on
21 to -- it says "info copies to Orpen and Miller." Who
22 is the Miller who would have been passed a copy?

23 A That would have been Harry Miller, who was the
24 Regional Sales Manager.

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25 Q And also Mr. Orpen, who went to Iran in late '67?

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1 A Yes.

2 Q And Mr. Orpen, I assume, then, would have been
3 aware of the information in this letter?

4 A He should have been, yes.

5 Q And should have --

6 A Pursued it to the point that the allegations
7 would be found to be unfounded.

8 Q Now when you passed this copy on to Mr. Orpen,
9 did you make any written direction at that time, or at any
10 subsequent time, to cut off the STP --

11 A He had already had that instruction since the
12 beginning of the year.

13 Q But even when you received this letter later
14 on.

15 A It was that fly that kept buzzing around, that
16 you couldn't hit it with a swatter.

17 Q If it was a fly, as you just characterized it,
18 why didn't you throw the letter away? Why did you send it
19 on to Orpen, if you say the letter was of no consequence?

20 A Well, I think what I would have said to Mr. Orpen,
21 and probably did, is, look, this thing is going on, we are
22 still getting more of this bologna, let's get that problem,
23 get it changed and settled, done.

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24 MR. FREED: I would like to introduce a letter
25 of July 7, 1967, from C. Robert Bell to Duanne Jose
of Bell Helicopter as exhibit 102 . For the record I would

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1 like to state that the exhibit enclosed is the same as
2 exhibit 96.

3 Exhibit 102 shows the distribution in Bell Helicopter
4 and it also includes as an enclosure the contract that
5 International Helicopter Consultants entered into with STP.
6 That was enclosed with the letter.

7 (The document was marked exhibit
8 102 for identification.)

9 BY MR. FREED:

10 Q Mr. Jose, would you please identify for the record
11 whether this is the Bell Helicopter copy of a letter received
12 from Mr. Bell, and whether that is the Bell Helicopter
13 distribution stamp?

14 A Yes, it is.

15 Q And this is the complete letter, including the
16 enclosure that you received?

17 A Yes.

18 Q And that was passed on to Mr. Orpen and to Mr. Harry
19 Miller?

20 A Mr. Harry Miller, right.

21 MR. MC LEAN: Thank you very much, Mr. Jose.

22 THE WITNESS: Thank you.

23 (Thereupon, at 5:10 p.m. the questioning of Mr.
24 Jose was completed.)
25

1 (Short recess)

2 MR. MARINACCIO: There are some matters we wish to
3 discuss with counsel for the record.

4 We have a letter here dated February 15, 1978, from
5 Mr. Galerstein to me transmitting to the Committee, pursuant
6 to the Committee's subpoena, certain additional documents
7 that were called for by the subpoena.

8 I would like to ask counsel for Textron to state for
9 the record why these documents were not made available originally
10 in the submission called for by the subpoena?

11 MR. SOUTTER: When you say counsel for Textron,
12 are you addressing me or George?

13 MR. MC LEAN: Mr. Marinaccio, are you going to
14 swear the witnesses? I think they should be sworn.

15 MR. MARINACCIO: Okay. Would you gentlemen mind
16 being sworn?

17 MR. SOUTTER: No.

18 Thereupon,

19 THOMAS SOUTTER AND GEORGE GALERSTEIN
20 were called as witnesses, and having been duly sworn, were
21 examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. MARINACCIO:

24 Q I believe the original subpoena was served on
25 you, Mr. Soutter, so I will ask you to respond and ask

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Mr. Galerstein to join in in the response. I think the record should be clear on this aspect, since the documents were made available today.

A (Witness Soutter) That is correct. And essentially in summary I think we went forward from 1968 on, when Air Taxi was re-established as the dealer, and eventually there was the history of the large sale of helicopters to the government of Iran, and the settlement of the obligations for Air Taxi.

It just never occurred to me to go back through what turned out to be the International Helicopter Consultants file. It wasn't responsive to the subpoena, and we didn't. When it was brought to our attention that there were some matters that we ought to go back, in fact you asked me specifically to be sure that we did look under Mr. French, under Helicopter Consultants, and under a third name --

Q I think probably Mr. McLean made that request of you.

A I am sorry. In any event --

Q Really meaning the Committee.

A Yes, I will take it in the broader sense.

I did pass that word to Mr. Galerstein, and we pulled the files and the files are available on this.

Q I must bring to your attention that the subpoena

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1 called for records referring to General Khatami, Air Taxi,
2 and there was no date 1968 on the subpoena.

3 A That is correct, but there was nothing in what
4 we did find that gave any indication of prior references.
5 I mean, we would have looked, had there been references
6 to earlier statements in the files that we were looking at.

7 Q Your testimony is you made every reasonable search
8 and you considered 1968 on to be a reasonable search?

9 A Yes, that is correct. And there were some
10 documents that preceded '68 that just happened to be in
11 the right file, so to speak. We did turn over the '59 agreement
12 with Air Taxi because it was in an existing file, and it
13 was turned over.

14 Q I must say that there is a statement in this
15 February 15 letter that I wanted to ask you about. It says:
16 "As you know, the previous search referred to in Mr. Soutter's
17 letter of January 27 was essentially from 1968 forward."

18 I did not make any agreement to limit the subpoena
19 from '68 forward, and I don't think I knew you were limiting
20 it to 1968 forward.

21 A (Witness Galerstein) I was not referring to any
22 agreement to limit the subpoena. It was my understanding,
23 when I wrote this, that you had been notified that the search
24 was from 1968 forward, not in the sense that the subpoena was
25 limited by agreement, but in the sense that you were

51 1 advised when you asked about the other documents that we
2 had a limited search.

3 Q I see what your explanation is. I believe you
4 were advised by who, Mr. Soutter?

5 A (Witness Soutter) Yes.

6 Q I probably got that in a discussion with Mr. McLean.

7 A Mr. McLean's office one afternoon -- I have now
8 lost track of the times I have been here -- but I believe it
9 was in the same conversation in which he asked specifically
10 would we take a look at the International Helicopter Consultants,
11 anything under William French, et cetera.

12 I believe it was at that meeting that I told him in
13 general terms that in fact we had simply taken Air Taxi
14 forward from the time we re-established the business connection,
15 which led to the helicopter sales and subsequent payment.

16 A (Witness Galerstein) Then Mr. Soutter told me and
17 I guess I assumed the conversation had been with you. It
18 was with reference to that conversation, which never did
19 take place, I see, that I am saying "as you know." You may
20 strike the "as you know" from the letter.

21 Q I wanted to make that clear, because that statement
22 is in the letter and I wanted to get it clear on the record
23 that I had not agreed to that personally.

24 A Let me add a second and agree with everything
25 Mr. Soutter has said. With reference to French, Helicopter

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1 Consultants, STP, or the otehr one, Aviation Development
2 Consultants, I never even heard of those names before, it
3 never occurred to me that anybody would be interested in
4 tose files. Of course, not having heard of those names, no
5 attempt was made to look in those files.

6 I will tell you, and I have noted this to you before,
7 the files are in disarray, some items in the early files
8 had later dates, and some items in the later files had earlier
9 dates. So a very strict examination may not be satisfactory
10 on the surface. But in substance what we did was go from
11 '68 forward, everything that we could find after much interro-
12 gation of many many people, everybody that we thought would
13 know anything about what files were available, and then, after
14 you asked for further files, I went back and said "I want
15 every file in existence relating to any of these matters, any
16 and all of these matters. I don't care what the date is,
17 I don't care how far back it goes, I want everything."

18 And from that everything, after -- I hate to say how
19 many hours of going through items -- I have come up with
20 these matters relating to the subpoena.

21 Q I must say to you for the record that after
22 you had submitted the documents in response to the subpoena,
23 we went on the record down in Texas about the search and
24 so on, that subsequent to that time we received a document
25 dated 14 January 1967, and other documents from other sources,

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1 but that particular document from Mr. French to Mr. Felton,
2 which you subsequently made available today, was the reason that
3 you were asked to make another search of your records,
4 and that subsequent search of your records and the documents
5 you showed us today indicate that there are several documents
6 that are dated after 1968 that were made available today.

7 A (Witness Galerstein) I appreciate that, and
8 they came from what were identified to me as early files. In
9 other words, when I asked for everything from '68 forward,
10 that is what I thought I was getting. And that is what the
11 people who provided it to me thought I was getting.

12 Obviously that was not the case, but we now have
13 searched every available file, regardless of date.

14 Q You have searched every file you know of that
15 relates to the subpoena in this matter, and have now tendered
16 everything that you could find in the search of those files?

17 A Yes, sir.

18 Q Mr. Soutter, can I ask you a question about another
19 letter you delivered to me today, this one is also addressed
20 to me dated February 15, in which you discuss the meetings
21 of the Board of Directors of Textron in relation to the sale
22 of helicopters and with respect to the payment settlement
23 of \$2.9 million.

24 Were you able to identify specifically the dates of the
25 Board meetings at which those matters were discussed?

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1 A (Witness Soutter) I am not able to identify
2 from the minutes meetings at which those matters were
3 discussed. I have had the Board minutes, and Mr. Ducayet
4 made reference to the Executive Committee, but I include
5 that within the Board.

6 We looked at the Board and the Executive Committee
7 minutes, and there are, I believe, some references just simply
8 to the Iranian business, but there is no minute or reflection
9 or euphenism for a noted discussion of Air Taxi and settlement
10 payment.

11 Q I raise that question because there is a sentence in
12 your letter which says: "It is my understanding that in the
13 course of these discussions the Board was made generally
14 aware of the 1973 settlement with Air Taxi."

15 I think it is important to the Committee to get
16 whatever information it can concerning the Board consideration
17 of that matter. And how do you suggest that we could go
18 about finding out who was present at those discussions, what
19 was discussed, and so on, in order that the record may be
20 complete in this matter?

21 A Well, perhaps there will be some reflection from
22 the Directors themselves in response to Mr. McLean's letter
23 and questionnaire.

24 I personally have not spoken with each Director to see if
25 we can pinpoint a specific meeting at which the matters were

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1 raised or discussed. But I am advised that people do
2 recall in a general way the settlement having come up in
3 a discussion of the overall Iranian business, or how it
4 was developing, or where we were going.

5 But, as I said in that letter, it apparently did not
6 come up as an approval item, and therefore there is no reflection
7 in the minutes of a resolution or formal action by the Board
8 on it.

9 Q Would you suggest, then, that the best method
10 of proceeding, in order that the record may be complete,
11 would be to wait and see what the affidavits of various
12 Board members say in respect to this matter, and then we can
13 further determine how far we want to go into this?

14 A Yes, I will say that.

15 BY MR. MC LEAN:

16 Q Let me just follow up on that. Mr. Soutter,
17 do you know approximately when this matter came up before
18 the Board of Directors, based upon your own inquiries into it?

19 A (Witness Soutter) I do not.

20 Q Was it sometime in 1973 when it came up, or was it
21 substantially after that time period, or do you know?

22 A I just plain do not know.

23 Q Your source of information is through conversations
24 with other members of the Board of Directors, who told you
25 that it came up for discussion in the manner in which you just
indicated?

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1 A That is correct.

2 Q Do you have any further information about the kind
3 of discussion, what was said, what was discussed about this
4 payment?

5 A I don't have any kind of first-hand knowledge,
6 nor has anybody been able to tell me of the specific kinds
7 of things. I am given to believe that it came up in a general
8 way in the sense that we are doing business in Iran, and --
9 I am creating now -- but in a general way, we no longer have
10 an agent or representative there, he or that company has
11 been settled with in connection with the hardware sales.

12 Q Could you identify the directors that you spoke
13 to and from whom you received this general indication that
14 it was discussed?

15 A Mr. Miller is of the impression that it was raised
16 at a Board meeting, sometime in a contemporaneous fashion.

17 Q Did any other Directors indicate to you that they
18 had the same impression as Mr. Miller?

19 A Mr. Collinson, I believe, was also under that
20 impression.

21 Q Any others?

22 A I have not talked with the balance of the Board;
23 they are officers and easily accessible to me.

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24 MR. MC LEAN: Thank you.

25 MR. MARINACCIO: I think for the purpose of

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1 clarification of the record, I will have the letters that
2 I have been referring to marked as exhibits. The letter
3 dated February 15 from Mr. Galerstein to me will be marked
4 as exhibit number 103, and a letter from Mr. Soutter to
5 me dated February 14 will be marked as exhibit 104.

6 (The documents were marked exhibits
7 103 and 104 for identification.)

8 BY MR. MARINACCIO:

9 Q Mr. Soutter, there was a reference by Mr. Jose
10 to a written internal procedure respecting the retention of
11 agents. Could you supply us with a copy of that, if one
12 exists?

13 A (Witness Soutter) The answer is I am sure we
14 will.

15 George, do you have any feelings as to whether it exists?
16 This would be a Bell procedure.

17 A (Witness Galerstein) The only feeling I have is
18 what Duanne said. But when I get back, I will look for it
19 and if we have it, you can have it.

20 Q Thank you very much. Mr. Soutter, we have discussed
21 previously on the record the document that you wrote, it
22 is a draft of a document, which you have never put in final
23 form, you said, of a memorandum to the files on commissions
24 or fees paid to foreign representatives.

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25 Would you have any objection to discussing that document

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1 A (Witness Soutter) No.

2 Q I think I would characterize this as your internal
3 investigation of the \$2.9 million payment. It indicates
4 that the purpose or the reasons why you conducted an internal
5 investigation, and I believe you stated those previously
6 for the record.

7 It indicates on page 2 that prior to undertaking this
8 internal investigation, you discussed this matter with G.
9 William Miller, Mr. Collinson, and Mr. Ames. Is that correct?

10 A I think that is probably correct.

11 Q Do you have a copy of that document there?

12 A I do not have one with me.

13 Q We will get another copy and give it to you.
14 I think you are entitled to have a copy of the document before
15 you if we are going to question you on it. It is exhibit
16 number 66.

17 On page 1 you state that it appears to be appropriate
18 for a number of reasons, including Senator Proxmire's letter
19 to the SEC respecting the top 25 defense contractors, of which
20 you were one, Textron was one, excuse me, to conduct this
21 investigation. And then you state this is to reduce to
22 writing the results of your investigation as to whether or not
23 there have been any illegal or improper payments made by
24 Textron to its overseas representatives.

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25 And, going over to page 2, it indicates that in a

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1 conversation you had with Mr. Miller and Mr. Collinson and
2 Mr. Ames, that you were advised they knew of no such illegal
3 and improper payments, and further down the page it indicates
4 that in discussions with Messrs. Miller and Ames, it appeared
5 that the only significant commission paid by Bell Helicopter
6 was to the representative in Iran, Air Taxi, the history of
7 which is detailed below.

8 So is it fair to conclude from that that it was
9 Messrs. Miller and Ames that brought this commission to your
10 attention as the only matter you should look into with respect
11 to the illegal or improper payment issue?

12 A (Witness Soutter) I think that is generally
13 correct, yes.

14 Q And then going down through the document, over to
15 page 3, it indicates that on June 18, you and Mr. Ames
16 met with Mr. Atkins, Mr. Farmer, and Mr. Rudning of Bell
17 Helicopter to discuss the payment of commissions by Bell
18 Helicopter in Iran.

19 Then, if I may skip over to page 8 of that document,
20 the last paragraph, it states: "None of the principals of
21 Air Taxi are known and believed to be Iranian government
22 officials. One was a member of the royal family, but he
23 has held no official government position."

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24 I take it there you are referring to Mr. Shaflik?

25 A I believe that is correct.

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1 Q But the previous sentence says: "None of the
2 principals in Air Taxi are known or believed to be Iranian
3 government officials."

4 That is one of the conclusions from the report. Now
5 going back to page 3, where you say you discussed the matter
6 with Atkins, Farmer and Rudning, did you discuss this matter,
7 or contact in any way with respect to Air Taxi and whether
8 or not there was any government official having an ownership
9 in that company since that was one of the conclusions that
10 you made, did you discuss Air Taxi and its ownership with
11 Mr. Orpen?

12 A No, I don't know Mr. Orpen.

13 Q Did you discuss that matter with Mr. Kling?

14 A No, I don't know Mr. Kling either.

15 Q Did you discuss that particular matter with Mr.
16 Feliton?

17 A No, I don't know Mr. Feliton either.

18 Q Did you discuss that matter with Mr. Jose?

19 A No, I did not.

20 Q Did you discuss the matter with Mr. Peierrot? Was
21 he alive at the time, or when did he die?

22 A This is the first time I have heard his name today.

23 A (Witness Galerstein) He has been dead for three
24 or four years, for sometime.

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25 Q Did you discuss the matter with Mr. French?

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1 A (Witness Soutter) No.

2 Q Did you discuss the matter with Mr. Bell, the
3 lawyer for Mr. French?

4 A No, I did not. I don't know either of those
5 gentlemen either, but I didn't.

6 Q Now on page four of that document it states, in the
7 first full paragraph: "Air Taxi Company was appointed Bell's
8 foreign representative under a standard Bell Manufacturers
9 Foreign Representative agreement in August 1959. The agreement
10 covers Bell's then product line and it was renewed annually
11 until 1964. For reasons no one could remember, International
12 Helicopter Consultants, Inc. was substituted as Bell's
13 representative for the Iranian territory in 1964. In 1968
14 Air Taxi was reappointed Bell's representative in Iran under
15 a standard form of Bell representative agreement."

16 Were you aware at that time that you wrote this that
17 Mr. French was the principal of International Helicopter
18 consultants?

19 A No, I was not.

20 Q Did you at that time, when you were doing this
21 internal investigation, in the discussions you had with Mr.
22 Farmer and Mr. Atkins and Mr. Rudning, in what kind of
23 detail did you go into the representation of Bell by Inter-
24 national Consultants during that period?

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25 A I did not go into it in any detail. I believe

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1 I can recall that I asked the question as to why the switch
2 in '64, which I believe probably gave rise to the reason
3 but no one could remember. That was the response of
4 the collective group, effectively, at that time, that no one
5 could remember. And we just kept going.

6 Q When you conducted this internal investigation,
7 was it solely an oral inquiry, in a conference with these
8 individuals, or did you require them or did they go into
9 getting some of the basic documentation and making it available
10 to you?

11 A It was essentially an oral narrative history that
12 was being given to me. And attached to this exhibit 66 are
13 a number of tabs and documents, most of which, if not all, were
14 produced in the course of the discussions of the matter.
15 The copy of the agreement with Air Taxi, the schedule, the
16 three amendments, the receipt for the payment, all of the
17 items that are in the tabs.

18 But essentially it was a verbal history to me, I was
19 keeping some notes, and I collected those documents.

20 Q Did you make a request to any of the individuals
21 that you talked to in connection with this internal
22 investigation that they should pull all of the documents
23 together that made any reference to Air Taxi and any ownership
24 interest that any government official might have in it?

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25 A No, I did not.

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MR. MARINACCIO: Thank you very much. Before we close down for the day, I will give you the same opportunity to make any statement at all for the record.

MR. SOUTTER: Thank you, no.

(Thereupon, at 5:50 p.m. the questioning of Messrs. Soutter and Galerstein was concluded.)

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UNITED STATES SENATE
STAFF OF
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

STAFF INVESTIGATION RELATING TO
THE NOMINATION OF
G. WILLIAM MILLER

VOLUME X
Washington, D.C.
Wednesday, February 15, 1978

Monick Reporting Company

1	<u>C O N T E N T S</u>				
2	<u>WITNESS:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>CROSS</u>
3	James August Feliton	1309	1362	1366	1371

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10	<u>EXHIBITS:</u>	<u>PAGE:</u>
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11	Exhibit No. 105	1336
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P R O C E E D I N G S

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2 MR. MC LEAN: Mr. Felton, thank you for appearing
3 before the staff this morning.

4 My name is Kenneth A. McLean. I am the Staff
5 Director of the Senate Committee on Banking, Housing and Urban
6 Affairs. As you may know, the staff has been conducting an
7 inquiry into the circumstances surrounding the payment of
8 \$2.9 million by Bell Helicopter to the firm of Air Taxi in
9 1973. This inquiry arose in connection with the Committee's
10 nomination hearing of Mr. G. William Miller to be a member of
11 the Board of Governors of the Federal Reserve System.

12 The interrogation this morning will be led by
13 Mr. Charles Marinaccio who is special counsel for the Committee.
14 Also at the table who will participate in the questioning from
15 time to time are Mr. Bruce Freed, a professional staff member;
16 Mr. John Collins at the far end, a counsel to the minority;
17 and Mr. David Doherty, who is a staff member of the Securities
18 and Exchange Commission but who has been detailed to the
19 Committee staff on a temporary intermittent basis to assist
20 the staff in this inquiry. This arrangement was pursuant to
21 a request of the chairman of our Committee, Senator William
22 Proxmire.

23 Mr. Marinaccio will formally swear you in and advise
24 you of your rights and make certain other disclosures and we
25 will then proceed with the questioning.

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1 MR. MARINACCIO: Mr. Felton, we have been authorized
2 to administer oaths by the Committee in this inquiry and I must
3 tell you that since you will be testifying under oath your
4 testimony will be subject to all of the laws of the United
5 States pertaining to Senate proceedings with respect to perjury
6 or false statements of witnesses and whatever testimony you
7 give may also subsequently be used in an enforcement proceeding
8 by an executive office of the United States Government.

9 In those respects you are entitled to be represented
10 by counsel and I wish you would identify the counsel that is
11 with you right now for the record.

12 MR. ELLIOTT: I'm Robert Raymond Elliott, Dechert,
13 Price & Rhoads. I'm here representing Mr. Felton this morning.

14 MR. MARINACCIO: Mr. Felton, would you stand and
15 raise your right hand, please. Do you solemnly swear that the
16 testimony you are about to give will be the truth, the whole
17 truth and nothing but the truth?

18 MR. FELTON: I do.
19 Whereupon,

20 JAMES AUGUST FELTON
21 was called as a witness and, having been first duly sworn, was
22 examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. MARINACCIO:

25 Q Would you state your full name for the record, please?

1 A James August Feliton.

2 Q Did there come a time in the 1960s when you became
3 employed by Bell Helicopter?

4 A Yes, in mid-1966.

5 Q And how long did you work for Bell Helicopter?

6 A My employment terminated at the end of January 1967.
7 I had approximately 30 days notice, so effectively from the
8 beginning of January I was checking out of the Bell Helicopter
9 Company.

10 Q And what were your responsibilities with Bell
11 Helicopter for that period of approximately a year and a half,
12 from mid-1966 to the end of 1967?

13 A For the full time that I was there I was an area
14 export manager for Europe, Africa and the Middle East. I
15 worked for Mr. J. H. Orpen who was export sales manager and
16 reported directly to him and he, in turn, worked for the
17 director of sales -- commercial and international sales,
18 Mr. Jose.

19 Q In that capacity of your employment at that time
20 were you familiar with the agent that operated on behalf of
21 Bell Helicopter in Iran, Mr. French, and his company, Inter-
22 national Helicopter Consultants?

23 A Yes.

24 Q Did you have occasion to contact them in your
25 business? Would you travel to Iran? Would you talk to him on

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1 the telephone? What was the nature of your contact with Mr.
2 French and his companies at that time?

3 A We communicated on business matters. I made a trip
4 to Iran during this period but I did not meet Mr. French, but I
5 met him a number of times, I don't recall exactly how many, at
6 Bell Helicopter and we also corresponded on business matters.
7 As I recall, he was also a client and bought helicopters as
8 well as being a sales representative.

9 Q Now When Mr. Jose testified I believe it was the day
10 before yesterday he testified in substance that your employment
11 was terminated by Bell Helicopter at their instance because
12 you were insensitive to certain international matters.

13 A I was what?

14 Q Insensitive to certain international matters,
15 including those -- I believe he had reference particularly to
16 the company that was set up, STP, in which General Khatami
17 allegedly had an interest and which was to receive the proceeds,
18 profits, commissions from any sale of Bell helicopters in Iran
19 made by Mr. French.

20 Let me read you Mr. Jose's testimony with respect
21 to that matter and then get your testimony with respect thereto.
22 Mr. Jose talking: "Mr. Feliton left us before too long because
23 he wasn't following my instructions." "Q. Was Feliton fired
24 from Bell?" "A. Yes, he was fired from Bell." "Q. On what
25 grounds?" "A. Because he didn't have the sensitivity to be

1 a regional manager for us in dealing in the international
2 scene."

3 Would you give us your testimony with respect to the
4 termination of your employment?

5 MR. ELLIOTT: Mr. Marinaccio, I think it would be
6 helpful for the record to clarify exactly what documents have
7 been provided to Mr. Feliton. They are as follows: Last
8 evening you were kind enough to supply four letters, all dated
9 in January 1967. One is a letter from an attorney, C. Robert
10 Bell, addressed to Mr. Feliton dated January 5, 1967. A second
11 letter is a letter from Bell Helicopter Company to Mr. C. Robert
12 Bell dated January 17, 1967. A third is a letter dated
13 January 14, 1967 addressed to Mr. Feliton from William H. French
14 and a fourth is a letter from Bell Helicopter to William H.
15 French dated January 30, 1967 signed by a Mr. Kling.

16 In addition, my client has been provided three
17 further documents this morning, all of which he has also read.
18 One is apparently a handwritten note. A second is a two-page
19 letter dated November 31, 1966 from Mr. C. Robert Bell to
20 Mr. William H. French, and the final one is a five-page letter
21 to the Cessna Aircraft Company by Mr. C. Robert Bell.

22 MR. MARINACCIO: That's correct, Mr. Elliott. We
23 did provide those materials to you for the purpose of your
24 representing your client with respect to testimony here this
25 morning, and I might add that all of those documents

1 that have been made available to you have been marked as
2 exhibits for the record and when I get to matters relating to
3 those specific documents I will show them to Mr. Feliton and
4 refer to the exhibit number of each of those documents in the
5 record, and I appreciate your bringing all of these
6 matters to our attention in the manner in which Mr. Feliton's
7 recollection has been refreshed by his counsel and I now would
8 ask Mr. Feliton for his testimony with respect to the termina-
9 tion of his employment by Bell Helicopter in 1967.

10 THE WITNESS: Mr. Orpen spoke to me about -- when I
11 was fired Mr. Orpen did it. He told me that he had been
12 directed to do it by Mr. Jose, that he was generally not in
13 accord with the way that I was performing my duties.

14 I would like to clarify that my duties were not
15 decision-making in any respect. As an area sales manager and
16 especially a new one in the business, I contacted customers,
17 answered correspondence; I contacted them both on the phone and
18 in person; I delivered proposals to them or prepared them
19 within the company for mailing out or personal delivery. Things
20 such as representation were sensitive, long-term company things.
21 Decision as to who would represent whom would be investigated
22 by myself and Mr. Orpen actually in the field was the most
23 normal way. Then this would be investigated financially and in
24 other areas. It was a thorough investigation. Hiring a repre-
25 sentative is not an easy thing -- some thing that's done quickly.

1 It's only after exhaustive investigation. This would normally
2 be approved by Mr. Jose but there would be other legal and
3 perhaps -- I don't know -- decision processes within the company
4 but within the sales department of which I'm aware I had no
5 decision authority at that time and I would venture to say
6 it's probably the same today as a normal way of working.

7 So in terms of why I was terminated and what he felt
8 was the reason, it would have nothing to do whatsoever with the
9 decision-making chain within the commercial and international
10 sales department of the Bell Helicopter Company at that time.

11 BY MR. MARINACCIO:

12 Q Were you told that you were being terminated because
13 of any discussion or letters you had received or written
14 relative to Iran, relative to General Khatami and the new firm
15 STP and your behavior with respect to Mr. French and his lawyer,
16 Mr. Bell?

17 A I don't remember all of the events at that time but
18 I'm certain in my own mind that that was not one of the things
19 that was recounted to me by Mr. Orpen. We did not go into
20 specifics of any operation other than one some eight months
21 before in Europe.

22 Q Would you tell us the specific matter you did discuss?
23 You say it's the only specific matter you discussed with
24 Mr. Orpen when he was in the process of terminating your
25 employment; is that right?

1 A Would you repeat that?

2 Q As I understand your testimony, you stated that the
3 only specific matter that Mr. Orpen discussed with you when he
4 was in the process of terminating your employment was a
5 situation that had taken place in Europe eight months pre-
6 viously. Is that correct?

7 A That is the only one that I recall. There were a
8 number of general things relative to Mr. Jose's view of the
9 way I performed my duties.

10 Q Could you tell us what those general things were
11 that Mr. Orpen conveyed to you that Mr. Jose was saying and
12 then tell us about the specific matter relating to Europe that
13 he brought up at that time? In other words, I want the record
14 to reflect your recollection of what you were told at that time
15 as to why you were being terminated.

16 A The specific problem that he referred to was a
17 matter in Greece where I had gone to Greece. We had sold a
18 helicopter there and while I was there it cracked up. As a
19 result of communications back and forth to the company I
20 stayed there for some number of weeks. Mr. Jose felt I should
21 have left. I felt that with the communications I had with the
22 company frequently that I was supposed to remain. I felt that
23 it was a lack of communications between myself and the company
24 that caused -- that brought this up. This is as related to
25 me--and I'm speaking from vague memory -- was what started this

1 thing off. Then, following that --

2 Q Was that mainly because they felt you had spent too
3 much time in Greece on that matter?

4 A No. As I recall, it was that I should have spent
5 that much time but I should have traveled elsewhere while I
6 was there.

7 Q Did a little more work; is that it?

8 A Traveled to other countries, yes.

9 Q I see. Now did that matter in Greece, the crash of
10 the helicopter -- did that have anything to do with the repre-
11 sentation of Bell Helicopter in Greece or elsewhere by any
12 manufacturer's representative or was it, as I think you're
13 indicating, just a matter of investigating the circumstances
14 related to the crash of the helicopter?

15 A The helicopter that crashed was one which belonged
16 to a customer. We had a representative in Greece but it had
17 nothing to do with this. It had nothing to do outside of the
18 company. This was just a specific item.

19 Q What were the other general matters that Mr. Orpen
20 brought to your attention?

21 A I don't really recall. They were general things
22 about being argumentative, about not following up precisely as
23 I had been directed but doing it another way, and I really
24 can't tell you what it was.

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25 Q But it is your testimony that you have no recollection

1 of his bringing up at that time any matter relating to General
2 Khatami or STP or Mr. French or lawyer Bell?

3 A No, I do not. I do not.

4 Q Now in the time you were employed by Bell Helicopter
5 were you ever told by anyone or did you come to know that
6 General Khatami had an ownership interest in Air Taxi?

7 A No, I did not, other than these letters and this
8 meeting with what was represented to me by Mr. French. You
9 asked me if I came to know --

10 Q Came to know or ever heard?

11 A I heard from Mr. French through the meetings and
12 what have you that this was the case and I have been refreshed
13 on that by these documents, but at no --

14 Q But other than any documents or conversations that
15 you may have had with either Mr. French or Mr. Bell, his
16 lawyer -- Mr. French's lawyer -- had you ever heard from any
17 other source at that time that General Khatami had an ownership
18 interest in Air Taxi?

19 A I say no on the basis that I can't recall any other
20 contacts we had with Iran other than International Helicopter
21 Consultants, Mr. French's organization.

22 Q Now not only with respect to your contacts in Iran
23 but with respect to your discussions in Bell Helicopter or with
24 anybody, including Mr. Orpen -- let me rephrase the question.

25 Do you recall ever having had discussions with Mr. Orpen during

1 any part of the conversation it was discussed an allegation that
2 General Khatami may or may not have had an ownership interest
3 in Air Taxi?

4 A I don't recall such a discussion.

5 Q Do you recall anybody in Bell Helicopter, including
6 Mr. Orpen, Mr. Kling, Mr. Jose, Mr. Ducayet, Mr. Atkins, ever
7 mentioning in your presence that General Khatami had an owner-
8 ship interest in Air Taxi or was alleged to have an ownership
9 interest in Air Taxi or they thought he might have had an
10 ownership interest in Air Taxi?

11 A I don't remember ever having heard such a thing. To
12 help you, as I interpret these documents, as they refresh me,
13 we were talking about a company which I refer to as STP and
14 there was no -- during the time I was there, there was no
15 investigation, no discussion that I can recall about Air Taxi
16 at all because they were not under consideration to be repre-
17 sentatives for Bell Helicopter while I was there.

18 Q What is your recollection with respect to when
19 General Khatami's name came up in relation to STP as to whether
20 or not mention was made also of Air Taxi Company?

21 MR. ELLIOTT: I'm not sure I followed that question,
22 Mr. Marinaccio.

23 MR. MARINACCIO: Would you read the question back?

24 (Whereupon, the preceding question was read by the
25 reporter.)

1 THE WITNESS: I have no recollection of it.

2 BY MR. MARINACCIO:

3 Q You have no recollection of Air Taxi ever coming up,
4 the name Air Taxi Company ever coming up in any discussion?

5 A As I say, I'm refreshed by the letter here which as I
6 recall doesn't mention Air Taxi by name, the one that I
7 received, but refers to companies there.

8 Q Yes, I realize that, but we are also trying to get
9 your recollection of certain other matters that are relevant
10 too and I'm trying to get what your present recollection is with
11 respect to any knowledge at all on the part of any Bell
12 Helicopter official that you came in contact with during that
13 period of time that would indicate by a remark, by a discussion,
14 by written communication, that any one of those employees of
15 Bell Helicopter ever knew or suspected that General Khatami
16 may or may not have an ownership interest in Air Taxi Company.

17 A I simply don't remember. I would like to say I'm not
18 trying to be evasive. This is a subject of a large investiga-
19 tion now. At that time it was a problem with a representative
20 in a country where we had not sold anything or very little-- as
21 I recall there was nothing other than to France. The man had
22 a problem. So when I took the problem I summarized it in my
23 mind -- I have recalled it since then, I have been refreshed --
24 but over the years the individual things that happened outside
25 of the fact that we had a representative who couldn't get into

1 company and was trying to maintain his relationship with Bell
2 through letters and meetings. That's all that I can recall.

3 MR. ELLIOTT: You mean "into the country."

4 THE WITNESS: He couldn't get into Iran. So we had a
5 problem in that respect and that was it, and then I left Bell
6 just as these letters indicate when management actions and
7 guidance were taken on this matter. They were taken by other
8 people than myself in January. So I would like to help you but
9 my memory hasn't clicked as to these. If I could, I would. I
10 remember the general problem.

11 BY MR. MARINACCIO:

12 Q We're asking you for your best recollection of those
13 events. We are trying to get your testimony.

14 A Yes.

15 Q Now did there come a time during that period when you
16 had occasion to discuss Mr. French with his attorney, Mr. Bell,
17 Mr. French and his problems -- representation in Iran -- with
18 his lawyer, Mr. Bell?

19 A These documents indicate that he came there. Vaguely
20 I remember such a meeting. So I do not recall it. I would say
21 the meeting happened. I wouldn't know Mr. Bell if he were
22 sitting at that table incognito.

23 Q Do you recall whether or not the meeting with Mr. Bell
24 occurred on or about November 2, 1966?

25 A No.

1 Q You have no independent recollection of that?

2 A No, and, unfortunately, I have no records.

3 Q When you reviewed the documents that were made
4 available to your counsel earlier this morning and last evening,
5 did you have occasion to refresh your recollection with respect
6 to whether or not such a meeting did occur with Mr. Bell on
7 November 2, 1966?

8 A I tried.

9 Q What is your best recollection as to whether or not --
10 bearing in mind that your memory was refreshed by your counsel
11 with the document that we provided -- what is your best
12 recollection with respect to whether or not such a meeting did
13 take place on November 2, 1966 with Mr. Bell?

14 A I do not recall that meeting.

15 Q Do you recall whether or not Mr. Bell met with you
16 and Mr. Jose in the offices of Bell Helicopter in Texas on
17 November 2, 1966?

18 A I want to say yes. There's something back there that
19 makes me want to say yes, but my answer is I don't recall.

20 Q What is back where that makes you want to say yes?

21 A The overall problem as I read it reflects many of the
22 things I read here, therefore I tend to want to believe that
23 these things happened.

24 Q Do you deny that you had such a meeting with lawyer
25 Bell at which Mr. Jose was present on November 2, 1966?

1 A No.

2 Q What is your recollection with respect to Mr. French's
3 being kept out of the country of Iran during 1966? Do you
4 recall that matter being brought to your attention by his
5 lawyer, Mr. Bell?

6 A The matter was brought to my attention, as I recall,
7 by Mr. French. That's what I remember. Earlier, Mr. French
8 said that he had left the country and tried to get back in and
9 he couldn't, that General Khatami --

10 Q General Khatami is K-h-a-t-a-m-i.

11 A -- who was the chief of the Air Force, was opposed to
12 his reentry, that he had instigated it. From my standpoint as
13 a working export area manager this presented a problem in that
14 Iran was a country which had potential for commercial and
15 military helicopter sales and our representative couldn't get
16 into the country to follow up day-to-day matters, keep us
17 informed of opportunities and deliver brochures and things to
18 the commercial and military customers there, and I was
19 interested from this viewpoint and I don't remember when but I
20 may -- I seem to remember telling Bill French personally that
21 this was a matter that we would have to look into seriously and
22 that if he couldn't continue to represent us in the country
23 that we would have to take action of some sort.

24 Q Did he tell you why General Khatami -- why he was
25 having difficulty with General Khatami?

1 A He told me why. I have read Mr. Bell's letter to
2 Mr. Zuke. The overall situation was similar -- the problem as
3 I have summarized it and remember this instance, this scenario
4 in time, is as I recall as it was listed there. I can't say
5 to you that he told me this precisely or when he told me, but
6 if you were to ask me to summarize it I think I would have
7 summarized it in the same way, in that his not being allowed
8 in the country was involved in some way with aircraft
9 operations.

10 Q So that the record accurately reflects your reference,
11 let me refer to a letter to Mr. Zuke. There's a letter which
12 has been marked as Exhibit No. 89 which is a letter from
13 Robert Bell, attorney for Mr. French, to Mr. Jack Zuke at the
14 Cessna Aircraft Company, dated November 28, 1966 and your
15 testimony, as I understand it, is that you have reviewed that
16 letter and that letter contains an accurate summary of the
17 problems that were being encountered by Mr. French with General
18 Khatami at that time.

19 MR. ELLIOTT: Mr. Marinaccio, I don't think that your
20 characterization of his testimony is exactly what he said. I
21 understood him to testify that, in general, the letter set
22 forth the same problem, perhaps not in the same detail, that
23 Mr. French had described to him. I don't think he testified
24 that this five-page letter from beginning to end is accurate.
25 But if you want to ask him further questions about it, I do

1 object to characterizing what he's already testified in that
2 fashion.

3 MR. MARINACCIO: That's fine. I was understanding
4 him to say that and I wanted the witness' testimony with respect
5 to that matter. Go ahead.

6 THE WITNESS: Would you repeat the question now?

7 BY MR. MARINACCIO:

8 Q The question is: What is your recollection as to the
9 problems that Mr. French was having with General Khatami?

10 A I answered that and then you asked me did I --

11 Q You made the initial reference to Mr. Zuke and I'm
12 trying to find out what your reference to Mr. Zuke's letter was.

13 A That Mr. French was not allowed back in the country,
14 that the reason for his not being allowed back in the country
15 was a problem involving civil aviation operations involving his
16 aircraft, that General Khatami was the man who was, in Mr.
17 French's opinion, the man who was not permitting him to get
18 back into the country.

19 Q Now did either Mr. French or Mr. Bell ever tell you
20 why they thought General Khatami was not allowing Mr. French
21 back into the country?

22 A I don't recall, but I'm sure in my mind, knowing Mr.
23 French, that they did.

24 Q You're sure that they did but you don't recall what
25 they told you?

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1 A As I tried -- I'm not trying to be evasive. My
2 memory has been refreshed by these documents. I simply don't
3 recall individual meetings and specific words used in those
4 meetings. Again, in frame of reference of the overall problem,
5 it seems to generally reflect what I understood to be the
6 problem.

7 Q Now what seems to generally reflect what you thought
8 to be the problem? Are you referring now to Exhibit 89?

9 A Part of it, the part which refers to General Khatami
10 being represented as the man who was preventing Mr. French from
11 reentering the country.

12 Q And what about the reasons for General Khatami's
13 objection to Mr. French entering the country?

14 A I don't recall specifically.

15 Q But your best recollection generally with respect to
16 that matter?

17 A My best recollection is it revolved around business
18 problems.

19 Q What kind of business problems?

20 A Civil aviation, general aviation, because that's what
21 Mr. French was involved in.

22 Q Were you ever told by Mr. French or Mr. Bell that
23 Mr. French was informed by a representative of General Khatami
24 that Mr. French could operate in Iran provided he did so as a
25 subcontractor of Air Taxi and Heli-Taxi?

1 A No.

2 Q Were you ever told by Mr. French or Mr. Bell that
3 Mr. French had turned General Khatami's proposal down which was
4 given to them through General Khatami's representative and that
5 Mr. French was then informed that General Khatami would run
6 Mr. French out of the country?

7 A That's two questions. The answer to the first one is
8 no, I don't recall. The answer to the second one, that General
9 Khatami was the man responsible -- represented as the man
10 responsible for keeping him out of the country I have already
11 answered.

12 Q Were you ever told in any manner that the reason why
13 General Khatami wanted Mr. French out of the country was
14 because General Khatami wanted to control civil aviation in the
15 country through Air Taxi and Heli-Taxi?

16 A I don't remember.

17 Q You don't remember?

18 A I don't recall anyone specifically saying that to me.
19 I remember we had a meeting on this subject. I'm not disputing
20 what they are saying. I don't recall this meeting or that
21 particular thing. I'm not saying it didn't happen.

22 Q Would you tell us what your recollection about that
23 meeting was? You're indicating -- I think it's fair to indicate
24 that you're indicating you have some recollection about the
25 meeting.

1 A Yes. My sole recollection of this is that a man --
2 that French's attorney came from Beirut or with information
3 from Beirut -- I believe he telephoned that he had come back
4 from Beirut, that he wanted to meet with me, with management
5 at Bell Helicopter Company. A time was set and I'm almost
6 certain that he came. The record indicates that he did, but I
7 don't remember the meeting. If I were talking -- well, never
8 mind. I don't. That's my answer.

9 Q You were beginning to indicate something. I just
10 want you to finish that trail-off statement.

11 Do you recall that on the occasion of the meeting with
12 Mr. Bell that Mr. Jose telephoned Mr. Ducayet in your presence
13 and that Mr. Bell and Mr. Jose left your presence for the
14 purpose of going over to see Mr. Ducayet about the matters
15 that were raised to you by lawyer Bell at that time?

16 A I read that. It was a normal process and could have
17 been expected to have happened precisely like that. I don't
18 recall it.

19 Q Where did you read that and feel that it was the
20 normal process for that to happen? Was that in Exhibit No. 90
21 which was made available for your inspection, a letter from
22 Mr. Robert Bell to Mr. French dated November 3, 1966?

23 A November 3 -- I don't have that letter, do I? Yes, I
24 do.

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25 MR. ELLIOTT: Here it is.

1 THE WITNESS: Okay.

2 MR. ELLIOTT: The second page, by the way, is dated
3 November 4, 1966.

4 MR. Marinaccio, I think I can clear something up
5 here.

6 MR. MARINACCIO: That's fine.

7 MR. ELLIOTT: The point about a call being made to
8 Mr. Ducayet I do not believe appears in any of these documents.
9 I explained that point to Mr. Feliton this morning because you
10 had mentioned it to me and I think what he's recalling is my
11 telling him this and asking him if he could remember it and
12 he's not recalling something he read in this document. I don't
13 believe it's in this document.

14 MR. MARINACCIO: Well, I'm not asking him to recall
15 what his counsel told him this morning.

16 MR. ELLIOTT: Right, but he testified he thought he
17 read it and I'm quite sure what he's referring to is my
18 discussion with him right after I left your office and not
19 something in these documents.

20 MR. MARINACCIO: Sure. That's fine. I think what he
21 said was a little more general than that. It was with respect
22 to after having met with himself and whoever else was there
23 with lawyer Bell the normal procedure, at least as I was hearing
24 him, would have been to go see Mr. Ducayet.

25 MR. ELLIOTT: Yes, he testified to that as well.

1 MR. MARINACCIO: That's what I'm asking him about.

2 THE WITNESS: Exactly. If I said "the," I mean "a."
3 I don't mean this would have happened with everyone.

4 BY MR. MARINACCIO:

5 Q Please state the full sentence.

6 A A normal procedure would be for them to visit in the
7 front office.

8 Q A normal procedure would have been for Mr. Bell, who
9 was raising this kind of an issue with people at Bell Helicopter,
10 to have been thereafter brought into the front office to meet
11 with Mr. Ducayet? Is that what your testimony is?

12 A No.

13 Q Please state your own testimony.

14 A A normal procedure when a representative visits a
15 company like Bell is for him to visit management who is there,
16 to make a courtesy call. It could also be extended to
17 personnel attached to or representing the representative we're
18 talking about or any other.

19 Q Do you have any recollection as to whether or not
20 Mr. Jose in your presence called Mr. Ducayet and arranged the
21 meeting between Mr. Ducayet and Mr. Jose and Mr. Bell?

22 A No.

23 Q Did you call Mr. Ducayet on the telephone and arrange
24 a meeting between Mr. Ducayet and Mr. Bell at which anybody
25 else would be present?

1 A I don't recall.

2 Q Would you deny that you had done that?

3 A No.

4 Q Were you in communication with Mr. Ducayet when you
5 were employed by Bell Helicopter?

6 A In communication in the sense that I would participate
7 with escorting visitors in briefings perhaps in a general
8 meeting, but in the sense that I was in communication with him
9 on decision matters, no. If there was a matter to be discussed
10 relative to representation, that would proceed through the man
11 I worked for up through each step. It would not be normal for
12 me to talk to Mr. Ducayet or Mr. Atkins on decision matters or
13 anyone in the type of job that I had.

14 Q Did Mr. Jose ever mention to you that he and lawyer
15 Bell had met with Mr. Ducayet?

16 A I don't remember. I would say no.

17 Q Did anybody else, any other Bell Helicopter employee,
18 aside from Mr. Jose, ever mention to you that Mr. Jose and
19 Mr. Bell had met with Mr. Ducayet?

20 A I don't remember.

21 BY MR. MCLEAN:

22 Q Mr. Felton, you have testified this morning that
23 after having an opportunity to refresh your memory through the
24 documents that we have provided that you have an independent
25 recollection that Mr. French had a problem in Iran, namely he

1 could not get back into the country, and that General Khatami
2 was the source of his problem. Is that a fair summary of your
3 statement?

4 A Yes.

5 Q You also have an independent recollection that Mr.
6 French and possibly his attorney, Mr. Bell, proposed a remedy
7 to that problem, namely the establishment of a company called
8 STP in which General Khatami would have a silent interest and
9 that the formation of this company was for the express purpose
10 of resolving General Khatami's opposition to Mr. French?

11 A Yes.

12 Q Could you tell us what went on in your mind when this
13 general arrangement was made known to you? Do you recall
14 stating anything to either Mr. French or Mr. Bell about the
15 propriety of this relationship, whether you thought it was a
16 good idea, whether you thought it was a bad idea? What is
17 your best recollection?

18 A Mr. French was Bell's representative when I joined
19 the company. He was the company's representative after I left
20 the company. The problem as I identified today is that he was
21 the representative and could not come back into the country.
22 He proposed a remedy. He proposed that a -- this company
23 would be owned by himself and Iranians, that influential
24 Iranians would be on it, and that this was his solution to the
25 problem. Bearing in mind that employing a representative is a

1 difficult matter, once one is employed you rarely let them go,
2 or if you do, it's for good reason and it takes time. When an
3 established representative who is also a customer comes in with
4 a solution to something which is going to happen in the future
5 which would involve influential customers, you study the matter,
6 why. If you said yes, you don't know whether or not this
7 would come to pass. If you said no, we will not participate
8 in a company wherein there are Iranian owners, you could upset
9 your Iranian influential Iranian people. So when something
10 like this happens, you don't jump to any conclusions. You tell
11 people to proceed, that it will be reviewed by your superiors
12 in the company, when all the facts are in you will make your
13 own recommendations, and that's the way you would normally
14 treat it. You wouldn't be hasty.

15 Q And to the best of your recollection, is that the
16 way you treated it when this became known to you?

17 A Yes.

18 Q Do you recall having discussed this STP arrangement
19 with other officials of the Bell Helicopter Company? When I
20 say "STP arrangement," I'm going back to your recollection of
21 what was involved; that is, Mr. French would own part of the
22 firm and other high officials of the Iranian Government would
23 own part of the firm.

24 A No, I don't.

25 Q You don't recall discussing it with other company
officials?

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1 A No, I don't.

2 Q You don't deny having discussed it?

3 A As I told you, I did not make decisions on these
4 people. There would have been no way for me to have indepen-
5 dently decided what to do and then to have letters at the time
6 I was departing --

7 Q That was not my question. I was not asking what you
8 decided. I was asking you what discussions you may have had
9 about this STP matter with other officials within Bell.

10 A My answer was, no, I don't recall it, but at the
11 same time, I did not make independent decisions. So if a
12 decision was made, I would have had to have discussed it at
13 least with the man I worked for.

14 Q So your testimony is you do not recall having had
15 further discussions on the STP matter, but you are not denying
16 that you may have had such discussions. Is that a fair
17 summary?

18 A Yes.

19 Q What is your best understanding of the policies of
20 the Bell Helicopter Company at the time this STP arrangement
21 was proposed? Was there in your mind an understanding that
22 this was contrary to the policies of the Bell Company?

23 MR. ELLIOTT: "This" being?

24 MR. MC LEAN: "This" being the STP arrangement
25 whereby a portion of the commissions would flow to STP in the

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1 event of any sales and a portion of those commissions would
2 accrue to the benefit of officials of the Iranian Government.

3 THE WITNESS: I don't recall the Bell policy as it
4 was written in the policy manuals.

5 BY MR. MC LEAN:

6 Q Well, do you recall any informal policy?

7 MR. ELLIOTT: I think, Mr. Felton, had you finished
8 your answer?

9 THE WITNESS: Yes.

10 BY MR. MC LEAN:

11 Q Do you recall any informal Bell policies that may
12 have been communicated by officials of the company one way or
13 the other on this matter that would have had a bearing on
14 whether it was a proper arrangement or an improper arrangement?

15 A No.

16 Q Do you recall any conversations with Mr. Jose in
17 which he described this arrangement as preposterous or words
18 to that effect?

19 A No.

20 MR. MC LEAN: Thank you.

21 MR. MARINACCIO: Mr. Freed has some questions.

22 BY MR. FREED:

23 Q Mr. Felton, do you recall Mr. Jose ever giving you
24 instructions not to pursue the proposed arrangement through STP
25 that had been proposed by lawyer Bell?

1 A No.

2 Q Now in working on lawyer Bell's solution through STP,
3 did you act contrary to any Bell policies about this on a
4 matter like this?

5 A No, none of which I was aware.

6 Q So again, you received no instructions, no guidance,
7 no communications from Mr. Jose or Mr. Orpen or any other Bell
8 official that would indicate to you that you should not go
9 ahead in pursuing the STP solution?

10 A I received nothing like that.

11 Q Now, Mr. Felton, you received letters from Mr. Bell,
12 a letter on January 5 -- written January 5, 1967. I think it's
13 Exhibit 91A, and you received a letter written January 14, 1967
14 from Mr. French?

15 A Yes.

16 Q Do you recall who received -- would these letters
17 be distributed to other officials in the company after you
18 received them? I ask that because on the January 14 letter
19 from Mr. French to you there is what appears to be a distribu-
20 tion stamp at the top of the letter.

21 MR. ELLIOTT: Could you show us your copy, Mr. Freed?
22 We don't have a stamp at the top of the one we have here.

23 MR. FREED: Yes.

24 MR. ELLIOTT: I'd like to state for the record that
25 the copy which the Committee has of the January 14, 1967 letter

1 from Mr. French addressed to Mr. Feliton appears to be a photo-
2 copy of the original copy of the letter. Now the copy that
3 had been furnished to me and which Mr. Feliton has seen
4 apparently is an unsigned carbon copy of the same letter and
5 apparently the Committee would have obtained that from a
6 different source. The original copy has a stamp at the upper
7 righthand corner which shows "Action Kling" and it shows
8 "Info copies to" and then it lists about 8 or 9 names. Also,
9 the original copy is signed "Bill" and there's a "P.S." at the
10 bottom which I cannot read and some other notations and some
11 portions of it are underlined.

12 I think it might be worthwhile, Mr. Freed, if we
13 showed this to Mr. Feliton.

14 MR. FREED: Yes, I will. I'm going to introduce
15 this into the record.

16 MR. MARINACCIO: It would also clarify the record to
17 say that the document Mr. Freed is referring to was furnished
18 by Bell Helicopter from its files and that would explain why
19 there's a distribution stamp in the upper righthand corner to
20 various Bell Helicopter officials.

21 MR. ELLIOTT: That would be apparent. I don't know
22 where this other copy would have come from.

23 MR. MARINACCIO: Undoubtedly from Mr. Bell or Mr.
24 French.

25 MR. FREED: I want to introduce this letter into the
record as Exhibit 105.

1 BY MR. FREED:

2 Q Could you take a look at that and verify whether that
3 was the letter you received and there is a distribution stamp
4 that would be put on letters received at Bell Helicopter?

5 A This is the distribution stamp that was put on at
6 Bell Helicopter which would have normally been put on it and
7 this letter is addressed to me, yes.

8 Q Could you read the names on the distribution stamp
9 who would have received distribution copies?

10 A Jose, Orpen, Feliton, Spirta, Baden, Shields and
11 another name I can't read, and Pierrot.

12 Q Who are these individuals who received copies? What
13 were their positions with the company?

14 A Mr. Kling was the man who would assume responsibilities
15 that I had for Europe, Africa and the Middle East. Mr. Jose
16 was the director of commercial and international sales --
17 director of the sales department. Mr. Orpen was the export
18 sales manager. I don't know Spirta or don't recall Spirta,
19 Baden, Shields, no. Pierrot was the Washington-based represen-
20 tative or consultant or employee -- I don't remember -- of the
21 Bell Helicopter Company.

22 MR. ELLIOTT: Do you want me to ask a question that
23 will help?

24 MR. FREED: Yes.

25 MR. ELLIOTT: Does this stamp, Mr. Feliton, indicate

1 where the original letter would have gone when it came into
2 Bell?

3 THE WITNESS: Yes. The man on the top received it
4 for action. The other people received it for information.

5 BY MR. FREED:

6 Q And Mr. Kling received this letter at that time
7 because he was to be replacing you?

8 A Yes.

9 Q Do you recall whether you or Mr. Kling received any
10 instructions from Mr. Jose on how to respond to this letter?
11 Do you remember George Kling talking to you about this at all?

12 A No.

13 Q Do you remember any instructions?

14 A No.

15 Q Now by receiving no instructions, would it be your
16 understanding that there would be no objections by your
17 superiors to pursuing this course of action of working through
18 STP?

19 A Yes.

20 Q And that was the case then from November 2, 1966 when
21 lawyer Bell came in, according to lawyer Bell, and outlined
22 the proposed solution of working through STP, and then through
23 these letters that you received from either Mr. French or Mr.
24 Bell through January of 1967, that since no objections were
25 raised by any company officials that it was your understanding

1 that this course of action should be pursued?

2 A I don't remember any action at all. The action at
3 this time during the end of the year would have been between
4 International Helicopter Consultants, the principal, and the
5 legal counsel for the firm. It would have been work done in
6 Iran and information provided to Bell. In the absence of any
7 such letters, I'm just assuming -- or I have to assume that
8 nothing was done and that the followup correspondence to the
9 November meeting were these letters which we have copies of.

10 Q Is there any correspondence that you can recall
11 going from you or other Bell Helicopter officials to Mr. French
12 or Mr. Bell after that November meeting through the end of
13 January when you were at Bell dealing with this STP matter and
14 Mr. French's problem?

15 A I don't know of any other correspondence.

16 Q Any phone conversations?

17 A I don't recall any.

18 Q Mr. Felton, on January 17, 1967 Mr. Orpen wrote
19 Mr. Bell in which Mr. Orpen says, "It is our feeling that the
20 arrangements for handling sales through Persian Tayar Company
21 are not satisfactory to Bell as long as Bill French is unable
22 to personally follow through with Iranian contacts." Now does
23 that mean that the arrangements for handling sales through
24 Persian Tayar Company would have been satisfactory to Bell if
25 Bill French had been able to personally follow through with

1 Iranian contacts?

2 A I don't know. I only know what the words say. I
3 only know what the words say.

4 MR. ELLIOTT: Maybe you could clarify more specifi-
5 cally what your question is. Are you asking him what someone
6 else's letter means or are you asking him --

7 BY MR. FREED:

8 Q I'm asking him what the meaning is of this statement
9 in the letter, Bud Orpen's letter, in the January 17, 1967
10 letter in the second paragraph.

11 MR. ELLIOTT: I have no objection to his telling you.
12 I think I could tell you or Mr. McLean could tell you just as
13 well as Mr. Feliton what this paragraph appears to mean.

14 MR. FREED: I'm asking Mr. Feliton because he was at
15 Bell Helicopter at that time.

16 MR. ELLIOTT: Go ahead.

17 THE WITNESS: Now repeat the question.

18 BY MR. FREED:

19 Q The question was, would the arrangements for handling
20 sales through Persian Tayar be satisfactory to Bell if Bill
21 French had been personally able to follow through with Iranian
22 contacts?

23 A I interpret that paragraph as saying that it would
24 be satisfactory.

25 Q So, in other words, it would have been satisfactory

1 for Bell Helicopter to accept the arrangement with Persian
2 Tayar of working through STP which was controlled or had a
3 major ownership interest by General Khatami if given these
4 conditions?

5 A Yes, and I'm further led to believe that by the
6 following paragraph which authorizes him to continue business
7 and a previous letter which provides him with proposals to be
8 sent to Iran.

9 Q Did Mr. Orpen discuss with you his reply to Mr. Bell
10 to this January 17, 1967 letter, do you recall?

11 A I do not recall and I would say no.

12 Q Did he discuss it with Kling, to the best of your
13 recollection?

14 A I'm not involved. I don't know. You're asking me
15 if I would like to make an aside for comments on matters for
16 which I had no responsibility.

17 MR. ELLIOTT: Mr. Freed, for the record -- and I
18 think from your point of view it's important to point out that
19 the letter itself apparently authorized pursuing the arrangement
20 which Mr. French had proposed or his attorney had proposed. It
21 says a temporary authorization is hereby given for continuing
22 Bell's business operations in Iran and then it says "as you
23 have outlined in your letter of January 5, 1967."

24 MR. FREED: I understand that. I was asking him
25 because of testimony we have received previously on this matter.

1 MR. MARINACCIO: Mr. Collins has some questions.
2 BY MR. COLLINS:
3 Q Mr. Feliton, who were you employed by prior to going
4 to Bell Helicopter late in 1966?
5 A I worked with my brother in central New York in a
6 private business matter distributing chemicals.
7 Q Did you have any prior export experience?
8 A None.
9 Q Any aviation experience?
10 A Yes.
11 Q Could you describe that to us?
12 A For 20-odd years I was a Marine officer and a Naval
13 aviator.
14 Q So did you retire from the Marine Corps?
15 A Yes.
16 Q In what year was that?
17 A 1963.
18 Q Where did you go after you left Bell Helicopter
19 in early 1967?
20 A To work for the Boeing Vertol Company.
21 Q And what were your duties there?
22 A In Europe, Africa and the Middle East, and the title
23 was as a sales representative.
24 Q How long did you work in that capacity?
25 A About two and a half years.

1 Q Did you sell Boeing products in Iran?

2 A No.

3 Q Did you have any involvement with Iran?

4 A I made several trips to Iran on market exploration
5 business. Then in 1969, as I recall, the Boeing Company signed
6 a license agreement -- the Boeing Vertol Company signed a
7 license agreement with the Aguste Company who manufactured
8 the Chinook helicopter and they acquired exclusive sales
9 rights to Iran and sales of the helicopter we manufacture in
10 Iran were made by Aguste. None were made by Boeing Vertol.

11 Q In your market exploration trips to Iran with whom
12 did you meet?

13 A Air Force, Army, civilian officials, airline
14 officials.

15 Q Did you discuss the possibility of hiring a sales
16 agent in Iran?

17 A We did not have -- I'm afraid I don't understand
18 you. I didn't say we had a sales agent in Iran.

19 Q I realize that and you have indicated that after a
20 period of time Boeing Vertol gave an exclusive license to
21 Aguste.

22 A Which they still have.

23 Q When you were going to Iran exploring the market
24 possibility of selling Boeing products there, did you also
25 consider at any time hiring an Iranian sales agent?

1 A Yes.

2 Q Was that Air Taxi?

3 A No.

4 Q Could you provide us with the name?

5 A No.

6 Q What is the reason why you wouldn't provide us with
7 a name?

8 A Because there wouldn't be a name. It would be
9 names. It was not a government official particularly that we
10 were looking at. The people we were talking to were civilian,
11 distinguished businessmen, whom no business was done with --
12 with whom no business was done.

13 Q During your service with Boeing did you ever hear
14 that General Khatami or other Iranian officials had any
15 interest in sales agents in Iran?

16 A For what?

17 Q Sales agents acting on behalf of United States
18 manufacturers.

19 A No.

20 Q When did you leave Boeing Vertol?

21 A I still work there.

22 Q You're still there. What are your duties now?

23 A I'm the director of sales for Europe, Africa and
24 the Middle East.

25 Q Did you ever meet with General Khatami?

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1 A Yes.

2 Q When was that? Could you describe to the best of
3 your recollection what was discussed at the meeting?

4 A Yes. In 1969 -- 1968 or 1969, one year or the
5 other, I gave him a brief on the United States Army medium-
6 lift helicopter, the Chinook helicopter, which is what we make
7 and attempt to sell. We discussed the possible requirements
8 for this machine which were developing at that time and as I
9 remember they needed heavier lift but in small quantities.

10 Q Which branch of the Iranian armed services would have
11 used this aircraft?

12 A We were referring only to the Air Force.

13 Q So that it would have been General Khatami's
14 decision as to what machine the Iranian Government would
15 purchase?

16 A Yes.

17 Q Would anyone else be involved in the government's
18 decision, the Government of Iran?

19 A As it worked out, the requirement was reviewed and
20 we, Boeing Vertol, worked with the Air Force staff in docu-
21 menting the requirement that they had by providing them with
22 information. As far as I know, once the Air Force had made a
23 decision or a recommendation, it would be presented to the
24 chief of the Air Force for the Air Force, not other services,
25 and he would make the decision. Whether or not other approvals

1 were required, I don't know.

2 Q In your discussions with General Khatami, did he ever
3 suggest that payments would have to be made to government
4 officials in order for Boeing to get any contract or did he
5 ever suggest that Boeing should hire a particular Iranian sales
6 agent?

7 A No. Also, Boeing policy was very clear on that
8 matter.

9 Q Did Boeing have a written policy?

10 A Yes.

11 Q And did Boeing's written policy say you shall not
12 make improper payments to government officials or deal with
13 sales agents owned in any part by government officials?

14 A I don't remember the policy word for word, but
15 certainly you have just described the thrust of it.

16 Q And could you compare your recollection of the
17 Boeing policy in these matters to what you recall Bell
18 Helicopter policy to be?

19 MR. ELLIOTT: Mr. Collins, I specifically asked
20 Mr. Marinaccio earlier in the week what the scope of this
21 inquiry was and I was told that it related to the employment
22 of Mr. Feliton at Bell up until 1967, I'm not going to object
23 to questions beyond that, but I must say that it was not my
24 understanding from the Committee that the questions were going
25 to go to another company's policies and his current employment.

1 I have not had an opportunity to discuss these
2 matters with him and I think really to compare his current
3 employer's policies with somebody else's policies some time
4 back would really be beyond the realm of what ought to be
5 inquired into.

6 He testified earlier this morning as to the Bell
7 policies specifically, what his recollection was as he stated,
8 and you might want to pursue that. But I would request, in
9 light of my conversation earlier in the week with the Committee,
10 that we stay within the general realm of the testimony that I
11 understood was going to be requested.

12 MR. MARINACCIO: I think Mr. Elliott is correct. I
13 did mention to him that the Committee was interested in
14 obtaining Mr. Feliton's testimony with respect to the matters
15 involving Bell Helicopter. I didn't specifically state to you
16 that the Committee's inquiry involved the \$2.9 million payment
17 by Textron Bell to Air Taxi, but I hope that was implicit in
18 what I was saying; and because that's what this inquiry is all
19 about and I have been sitting here listening to this and I
20 really think what Mr. Collins is trying to elicit from the
21 witness is his judgment as a man who's been involved in
22 helicopter sales over many years as to whether or not the
23 practices and procedures followed by Bell Helicopter when he
24 was there come up to the standards that are generally held in
25 the industry; if they do not come up to that standard, how they

1 would have fallen short; and if you can compare the standards
2 of Bell Helicopter as you understood them at that time with
3 your knowledge of the standard in the industry I think it would
4 be helpful to the record.

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1 THE WITNESS: I have always and still do consider
2 Bell to be a reputable and honest company, honest in their
3 dealings and in their policies, one of the leaders in our
4 industry. I do not know of any instance where I was involved
5 where decisions were made which were contrary to this policy.

6 I will admit that as I see letters and actions taken,
7 subsequent to my departure or my authority there, that there
8 may be a problem in this particular instance. I don't know
9 the background, or how this came about in January. I was not
10 consulted. At the point in time we are discussing, it had
11 started, questions were asked, investigations were underway,
12 information was requested and I leave it to Bell Helicopter
13 and to this Committee to decide what happened there.

14 BY MR. MARINACCIO:

15 Q Can you tell us a little bit about that? When
16 you say questions were asked, investigations were initiated and
17 so on, I take it you are referring to the STP-General Khatami
18 connection?

19 A Yes.

20 Q Can you tell us what was being done in the way of
21 investigation with respect to that matter and Bell Helicopter
22 at that time, and who was doing it?

23 A I have reviewed with you the general problem as
24 I recall it. I have now read requests from the lawyer, lawyer
25 Bell, attorney Bell, to Mr. French, relative to Bell

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DB2

1 Helicopter's inquiries about this company in the country,
2 about his status there, about the possible formation of a new
3 company, and matters of this sort in general, for which
4 information was to be provided.

5 That is the status to which I am referring.

6 Q When you were there, at that time, in Bell Helicopter,
7 and the matter of Khatami and STP was raised, is it your
8 judgment that the company felt that the idea of STP and
9 Khatami was so perposterous that it had to be stopped forthwith,
10 or was it your impression, contrary-wise, that the management
11 of Bell Helicopter would have sanctioned such an arrangement?

12 A I explained to your earlier that I did not exercise
13 decision authority, so I would not have normally made --
14 I won't say normally -- I would not have made a decision
15 in this matter.

16 The matter was under investigation. At that time I had
17 been in the aerospace helicopter industry some 14 or 15
18 months, of which a good part of that was indoctrination. And
19 this is not an apology. And I simply don't recall if I had any
20 thoughts on that subject at all at the time of the initial
21 investigation of what was going on and what was proposed.

22 Q Who was investigating? You have mentioned that
23 several times.

24 A Mr. French came and told us why he had not re-entered
25 Iran. He told us of a proposed new business arrangement, as I

DB3 1 review these letters, the thrust of our problem was that he could
2 not get back into the country, that he was our representative,
3 therefore, there are a number of things that could happen,
4 such as he could be terminated, he could satisfactorily resolve
5 this.

6 So he told us what was happening in his words, and we
7 told him, or he was told by Bell to document what he was
8 saying and come in with a solution for their review.

9 BY MR. COLLINS:

10 Q Mr. Feliton, you mentioned several times that
11 you made no decisions with respect to Mr. French's proposals.

12 Did you ever make any recommendations to your superiors
13 at Bell Helicopter about these proposals?

14 A I don't recall.

15 Q You don't recall any such recommendations?

16 A No, but it is fair to assume that I would have
17 made some.

18 Q Did you ever meet with Mr. Zanganen and Mr. Iranzad,
19 who were managers of Air Taxi?

20 A The names I didn't undersatnd. Would you repeat
21 them?

22 Q Zanganen and --

23 A Could you spell it?

24 Q Z-a-n-g-a-n-e-n and I-r-a-n-z-a-d, who were
25 managers of Air Taxi?

DB 4

1 A No.

2 Q The names mean nothing to you?

3 A The names mean nothing to me.

4 Q Did you ever meet with any State Department
5 officials in Iran or in the United States concerning Bell
6 Helicopter business in Iran?

7 A I visited Iran, I know I went to the Embassy,
8 therefore, the answer is yes. We had a Washington representative
9 who would normally touch base here in town, and on occasion
10 people involved in export sales, such as myself, would come
11 here to make the rounds on whatever current proposals or
12 areas were of interest, to solicit information.

13 Q When you went to the Embassy in Iran, do you
14 recall discussing Mr. French's proposal, if that was after
15 he had proposed the STP solution to his problems, with any
16 State Department officials?

17 A The answer to that is no, and while I don't have
18 the timing, which you can probably check, I believe the visit
19 I made to Iran was before that matter arose.

20 Q For what purpose would you have gone to the U.S.
21 Embassy in Iran?

22 A To get the political situation, the military status,
23 what is overall developing, the state of finances there,
24 what programs were they aware of. You do this in a variety
25 of offices, to seek out possible business interests.

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1 Q Do you recall the specifics of any of your
2 discussions with State Department employees in Iran?

3 A No.

4 Q Did you ever meet Mr. Miller, President of Textron?

5 A No.

6 Q Before Mr. French was denied entry into Iran,
7 what was your opinion of his sales efforts on behalf of Bell
8 Helicopter?

9 A I distinctly recall Mr. French as being an American
10 entrepreneur in general aviation, and working in a very
11 difficult environment, for an American at least. I recall that
12 he was also a customer of ours, so not only was he a sales
13 representative, but he bought on occasion a helicopter and
14 again here I am speaking from pure memory.

15 I believe that I felt, it is fair to summarize what I
16 felt, that he was working the problem.

17 Q Working what?

18 A Working the sales problem.

19 Q You mentioned a difficulty environment. What were
20 the difficulties?

21 A Different customs, different languages, different
22 ways of approaching things, lack of knowledge of general
23 aviation at that time, that sort of thing.

24 When you can't talk to a customer, when you don't know
25 what he needs, or what his financial situation is, it is

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DB6

1 difficult to do business.

2 Q So was Mr. French not providing you with what you
3 considered to be adequate information about possible sales
4 or general information about aviation in Iran?

5 A I don't remember any problems relative to Mr.
6 French's distributorship or representation in specifically
7 Iran, prior to this one which we are discussing today.

8 Q Do you have any recollection of who other sales
9 agents were in Iran at the time Mr. French was Bell Helicopter's?

10 A I have just run through the list of other helicopter
11 companies, and the answer is no.

12 Q During your employment at Bell Helicopter, did you
13 ever hear or have knowledge of any improper payments
14 made by Bell Helicopter to foreign government officials, either
15 directly or indirectly?

16 A Never.

17 MR. COLLINS: Thank you.

18 BY MR. DOHERTY:

19 Q In addition to what has been discussed here, do
20 you have any knowledge whatsoever as to the ownership of Air
21 Taxi?

22 A None.

23 Q I believe you said you have never had any discussions
24 with William G. Miller, is that correct?

25 A Yes.

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1 Q Do you have any information whatsoever with respect
2 to whether any discussions were had with William G. Miller
3 with respect to the ownership of Air Taxi?

4 A None.

5 Q It was not clear to me what the dates of your
6 employment with Bell were. Would you please repeat that?

7 A July, the date I don't know, possibly the end
8 of June, 1966, through, officially through 31 January, or 30
9 January, -- I am sorry. June-July 1965 to January 1967.

10 MR. MARINACCIO: '65 did you say? Because
11 earlier this morning you mentioned '66.

12 THE WITNESS: I meant '65, because I was employed
13 there for about 18 months.

14 MR. ELLIOTT: There are a few things like that,
15 Mr. Marinaccio, that I have on a list here that I would like
16 to clear up at the conclusion of his testimony.

17 MR. MARINACCIO: We would appreciate that for the
18 record.

19 BY MR. DOHERTY:

20 Q Do you recall precisely when you received notice
21 that you would be terminated?

22 A No, but I received notice either four weeks or
23 one month prior, so I would say it was either at the end
24 of December of the first of January, because I did receive a
25 month's notice, or four weeks.

DB 8

1 Q During the period of time you were at Bell,
2 describe to us the access that you had to Mr. Ducayet, how
3 often you met with him, if at all?

4 A Perhaps monthly, in matters like with visitors,
5 at a meeting, at a briefing.

6 Q Would there be any particular occasions, in addition
7 to what you described, that you might initiate a meeting with
8 Mr. Ducayet?

9 A I don't ever recall initiating a meeting with Mr.
10 Ducayet, other than for something like to greet a visitor.

11 Q How about Mr. Atkins?

12 A The same.

13 Q On what occasions would you meet with him?

14 A About the same frequency and for the same reasons.

15 Q Were there times when both Mr. Atkins and Mr.
16 Ducayet would attend the same meeting?

17 A Yes.

18 Q Now we have discussed a January 14, 1967 letter that
19 was sent to you from Mr. French.

20 A I am sorry, I don't hear you well.

21 Q We have discussed a January 14, 1967, letter that
22 was sent to you from Mr. French.

23 Do you recall having received that letter, sir?

24 MR. ELLIOTT: Would you show him the original copy?

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25 MR. DOHERTY: The original copy has been marked as

DB8

1 exhibit 105. I will show it to you.

2 THE WITNESS: The answer is no. As you see here,
3 obviously I did not receive the letter for action.

4 BY MR. DOHERTY:

5 Q But the distribution stamp would indicate that
6 it was copied to you for your information, is that correct?

7 A Yes.

8 Q Do you have any reason to believe that you did not
9 receive it?

10 A No.

11 Q Now the distribution stamp would indicate that a
12 copy of the letter was sent to seven or eight people within
13 Bell Helicopter. Is that correct?

14 A YES.

15 Q Do you know generally who these people are? The
16 stamp indicates Commercial Sales Department. Would that be
17 consistent with your understanding?

18 A I think I have already identified these. The
19 Director of the Sales Department --

20 Q I understand. I don't wish to go over that again.
21 There were a few people you didn't seem to know. I am asking
22 you to look at the title on the stamp.

23 A The title means it was recieved by the Commercial
24 Sales Department, but routing could be to other departments.

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25 Q Now this letter, to be sure the record is clear,

DB9

1 refers to the possible STP arrangement and General Khatami
2 being a silent partner.

3 Can you recall what, if any, reaction there was in
4 Bell Helicopter to that letter?

5 A No.

6 Q Let me ask it this way: Can you recall, since
7 it appears as though it was fairly widely distributed, whether
8 there was a reaction that was positive to the letter, or one
9 which was negative to what was proposed in the letter?

10 Do you have any recollection at all?

11 A No, but to be helpful, I would like to point out
12 that I was not involved at all in this process. I believe I
13 left the following week, and was not actually present at
14 Bell Helicopter for the final week, and possibly a little
15 longer, of January.

16 So I can not even say to you that I received this letter.
17 I can verify by looking at this that it was sent to me.
18 Whether or not I read it, I don't know.

19 Q It would appear, however, from certain of the
20 other exhibits and documents that you have been shown, that Mr.
21 French's problem and his possible solution to it was discussed
22 at Bell Helicopter prior to this letter. Is that correct?

23 A Would you read the question back?

24 (Question read.)

25 THE WITNESS: Yes.

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BY MR. DOHERTY:

Q And by "his solution to it," I am referring to the fact that he was considering entering into some sort of arrangement with an Iranian government official, as a business partner, in connection with the sales in Iran. Is that your understanding of one of the solutions that Mr. French was proposing to his problem?

A Yes.

Q Now do you have any recollection whatsoever as to what reaction there was within Bell Helicopter to that proposal? Whether it was neutral, negative, or positive?

A Specifically, I can't answer that, except that from the actions I took at that time it was not negative. I would hesitate to say it was positive. And during November and December, when information was coming in from Mr. French and his attorney and others, I would say that there was essentially a neutral position, as I might have been aware of it in my capacity.

Q If Mr. French's and Mr. Bell's proposal to Bell had been met by a strong negative reaction, would you recall that?

A Yes.

Q If Mr. Jose had conveyed to you either directly or through Mr. Orpen or in any other fashion that he considered Mr. French's proposal to be preposterous, both in terms of the

DB11 1 impropriety of it, or in terms of the unbelievability of
2 it, is that something that you would have remembered?

3 A I believe I would have remembered that.

4 Q You have no recollection whatsoever of any
5 communication of that sort being given to you?

6 A I repeat, I only have an overall recollection of
7 this problem as I identified it, plus the way, how it was
8 pursued, and of course now how it was subsequently resolved
9 by Bell Helicopter during 1967.

10 Q I am just asking for your best recollection, and
11 asking you whether you believe you would recall if certain
12 things were told to you.

13 My last question was whether you felt you would have
14 recalled if Mr. Jose had in some way communicated to you
15 that the proposal being made by Mr. French was a preposterous
16 one?

17 A I would have recalled that in the sense that it
18 would have been part of the problem and the way it was worked
19 by me. Because I could not have pursued this in the way that
20 I did, nor do I think it could have been resolved in this way,
21 if such guidance were passed on.

22 Q And you are concluding from the actions which you
23 did take that no such message was conveyed to you, is that
24 correct?

25 A I don't remember any such message being conveyed to
me.

12

1 Q If Mr. Jose, through Mr. Orpen or anyone else,
2 had conveyed to you that the French proposal was preposterous,
3 and in that connection Mr. French should be terminated, that
4 that agency agreement should be terminated, would you have
5 recalled that?

6 A I believe that I would. I would have received,
7 I would remember that guidance.

8 Q Is it your testimony that you do not recall having
9 been so instructed?

10 A Yes.

11 MR. MARINACCIO: We have concluded the questioning,
12 Mr. Feliton. Would you like to make any statement for the
13 record?

14 I am asking the witness now, do you have anything
15 further to say that you think would be helpful to the
16 Committee on the matters about which you have been questioned?

17 THE WITNESS: No.

18 MR. MARINACCIO: Mr. Elliott, I believe you stated
19 at the outset that you would like to make some clarifying
20 remarks for the record. We would be happy to receive those now.

21 MR. ELLIOTT: Yes. I think there are couple of
22 points that perhaps bear on all of this questioning, that
23 weren't quite elicited and that might help put this testimony
24 in context and make it better understood by the Committee.
25

13

1 CROSS-EXAMINATION

2 BY MR. ELLIOTT:

3 Q There have been a series of questions with
4 respect to whether someone in the Bell Company might have
5 considered the proposal by Mr. French, that is reflected in
6 some of these letters, to have been preposterous.

7 Mr. Felton, could you describe where copies of outgoing
8 letters went within the Bell Company?

9 A When a letter was answered, copies of the letters I
10 wrote went to a number of people, including Mr. Jose and
11 Mr. Orpen. So, as I recall the policy of the organization,
12 every letter written in Mr. Orpen's organization went to
13 him, a copy, and every letter written in the Commercial Sales
14 Department, a copy went -- communications with customers,
15 sales representatives, what-not -- went to Mr. Jose.

16 Q Would it follow that the letter of January 17 from
17 Mr. Orpen to Mr. C. Robert Bell, would have been distributed
18 to Mr. Jose?

19 A Normally, yes.

20 Q And would it also follow that the letter from Mr.
21 Kling, your successor, when you were departing from the
22 Company, dated January 30, 1967, to Mr. French, that that
23 letter would have gone to Mr. Orpen and to Mr. Jose?

24 A Yes.

25 Q And if a lower level employee sent a letter in the

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1 Bell Company with which Mr. Jose disagreed, was there some
2 practice followed by Bell under which Mr. Jose would do
3 something about the letter that had already gone out?

4 A I don't recall a specific instance where a policy
5 matter was involved. But certainly there was a procedure
6 for incorrect information being sent out, where by it was
7 corrected in subsequent letters or telexes, or by another letter
8 or telex.

9 Q In other words, if Mr. Jose had disagreed with the
10 letter of January 17, 1967 to Mr. Bell, or with the letter of
11 January 30 to Mr. French, he could have sent a further letter
12 taking a different position, or required his subordinates
13 to do so?

14 A I believe not only that he could have, I believe
15 he would have.

16 Q During the period of your employment with Bell,
17 did Bell ever sell anything in Iran?

18 A Not that I am aware of.

19 Q There were a number of questions, Mr. Felton,
20 regarding the business standards at Bell and in particular
21 you were asked at one point whether you ever heard of any
22 improper payments to foreign officials by Bell.

23 That is not the precise wording of the question, but it
24 was to that effect.

25 Did you ever hear rumors that commissions paid to agents

DB15 1 might have found their way into the hands of foreign
2 officials?

3 A Not in the Bell business environment. There are
4 speculations, and discussions, and so on --

5 Q On your trips abroad, would you hear speculations
6 or indirect information that perhaps some funds might have
7 found their way into the hands of some foreign officials
8 somewhere?

9 A Not for specific instances. There are always
10 discussions of this going on or that, but never that I can
11 recall where someone said this amount was given to this
12 fellow or this.

13 Q Now as to the standards that were in effect --
14 several questions were asked you about this -- at the Bell
15 corporation, you mentioned some manuals.

16 Apart from that, did you have a general understanding that
17 Bell was not to be directly involved in any arrangement where
18 it was directly made known to Bell that payments were to be
19 passed along in some fashion to a government official?

20 A Would you read the question back?

21 (Question read)

22 THE WITNESS: I don't know, recall, or have ever
23 heard of anyone at Bell discussing that business should be
24 done, and if there was anything inappropriate, or there was
25 an impropriety, that it was to be hidden.

DB 16

BY MR. ELLIOT:

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2 Q Did the general standards that you have describe in
3 Bell Helicopter Company as ethical, did that include in
4 general guidance to you and to others in foreign sales that
5 the arrangements with foreign sales representatives were
6 supposed to be what would be considered to be payments for
7 services rendered?

8 Let me ask you a more general question, Mr. Felton.
9 Apart from anything in the manuals, was there any general
10 understanding among you-- and I believe there were two other
11 foreign export managers for specific areas of the world -- was
12 there a general understanding regarding the extent to which
13 Bell would oversee the internal operations of the foreign
14 sales representatives?

15 A If you are asking me if the people working for Bell
16 had any understanding other than business operations conducted
17 were to be ethically done and in a mannner in which full
18 disclosure would normally be appropriate, the answer would
19 be never do I recall any such contrary guidance or discussion
20 or feeling.

21 I admit that there are questions here and I can't answer
22 them, because I was not present when the decisions were made.

23 Q One other thing you might clarify, Mr. Felton.
24 You mentioned discussing directly with Mr. French. Did he
25 come to Texas to discuss his exclusion from Iran?

17 1 A I seem to recall discussing with Bill French his
2 exclusion from Iran. But I can't pinpoint it.

3 Q Regarding your communications with the President
4 of Bell, was your position such that you could pick up the
5 telephone and call him?

6 A On limited matters, yes, such as a distinguished
7 guest arriving. That sort of thing. Or on instructions
8 from the people that I worked for.

9 Q On substantive matters, they would generally go
10 through your two levels of superiors and then above?

11 A Always, yes.

12 MR. ELLIOTT: That is all I have, Mr. Marinaccio.

13 MR. MARINACCIO: One question arises from the
14 questions that you have raised, Mr. Elliott.

15 REDIRECT EXAMINATION

16 BY MR. MARINACCIO:

17 Q Mr. FELITON, you spoke of possibly hearing
18 rumors when you were abroad about commissions that might be
19 passed on to foreign government officials.

20 Have you ever heard a rumor that General Khatami has
21 received a commission from the sale of any items to the govern-
22 ment of Iran, civilian or military?

23 A I will answer that in two parts. One, had I heard
24 such a discouraging rumor, I would not repeat it, because
25 Khatami was a very distinguished man. But the answer is no.

18

1 Q The answer is no, you did not hear it? Would you
2 speak up a little bit?

3 A No, I did not hear it.

4 Q But you are under oath here. You say you could
5 not repeat it. You would have to repeat it here if you
6 heard it.

7 A All right, okay. Let's say I would prefer not
8 to speculate about something which I don't know, pure rumor.

9 Q I am asking you, if you had heard?

10 A No. This is the exception, of course. (Indicating)

11 MR. ELLIOTT: Mr. Marinaccio, I think it would
12 be helpful if I made a brief statement on this point of
13 standards, because I discussed it in considerable detail
14 with Mr. Felton, and my understanding-- I think I would have
15 to read the transcript to see exactly how this came out --
16 I feel that the questions and answers generally touched on this
17 subject of standards at Bell, but the basic point that I
18 understood in my own discussions with Mr. Felton was that
19 Bell's general policy was not to engage in an arrangement
20 where it was represented to Bell that payments would be paid
21 directly to or passed on through to a government official.

22 That, however, in travelling abroad, in talking to people
23 at hotels, that sort of thing, that one often heard rumors,
24 innuendos, suggestions, as to where money really was flowing
25 within many foreign countries.

19

1 Therefore in my questions I wanted to make it
2 clear that while Mr. Feliton testifies flat out no, that he
3 does not know of any payments to foreign officials from Bell,
4 that first of all, the policies were as I just described them,
5 and, second, yes, in his foreign travels he did hear rumors,
6 speculations, and innuendos as to where money was flowing in
7 foreign countries.

8 MR. MARINACCIO: My own question was a clarifying
9 one. If he ever heard any rumors or even innuendose, did they
10 ever relate to General Khatami.

11 MR. ELLIOTT: I believe he answered that question.

12 MR. MARINACCIO: I believe he is thinking about
13 giving an answer now.

14 THE WITNESS: No. The answer is still no.

15 BY MR. MC LEAN:

16 Q I have a further clarifying question. I am a little
17 confused by your testimony, Mr. Feliton, about the extent
18 of your knowledge or awareness of what the general policy was on
19 the part of BELL with respect to commission arrangements where
20 it was evident that a portion of the commission would flow
21 to a government official.

22 I am specifically referring to the proposed STP arrange-
23 ment, where such was the case.

24 I earlier recollect, when you testified of this, that you
25 were not aware that there was a Bell policy that such arrangements

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1 would be contrary to Bell's policies, it would be improper.
 2 Could you refresh my memory on that point, as to what your
 3 recollection of the Bell policy was during that period of time?

4 MR. ELLIOTT: Mr. McLean, I think I better clarify
 5 your recitation of his testimony, when you say he testified
 6 he was not aware that the, let's call it the proposal
 7 of Mr. French, was contrary to Bell policy.

8 I do not believe that was his testimony. What he
 9 testified to was his understanding that he was not receiving
 10 instructions from his superiors to reject such a proposal.
 11 It is my understanding that in fact the kind of arrangements
 12 reflected in these documents was not in conformity with the
 13 general Bell policy.

14 MR. MC LEAN: Why don't we let the witness respond
 15 to that specific question.

16 THE WITNESS: I believe I answered that in this
 17 particular case, while I was there, this was under investi-
 18 gation. No decision had been made on this STP matter or
 19 the overall Helicopter Consultants, Inc. matter.

20 Now with reference to normal Bell policy and activities,
 21 standard commissions were paid for sales. There was no room
 22 in the Bell policy for payments to foreign officials. I believe
 23 that would have been completely contrary to their policy.

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24 BY MR. MC LEAN:

25 Q Let me rephrase the question. When you first became

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1 aware of the STP arrangement, what did you think in your mind
2 about that arrangement, and whether or not it was in keeping
3 with Bell's policy?

4 A I don't recall, but I would say I felt that I
5 should get the ingredients together, so that a decision could
6 be made by the people I worked for.

7 Sometimes all is not what it seems it is. So I wanted
8 to get information and pass it on for a decision. I don't
9 believe I actually had enough information to make a formal
10 conclusion in my own mind, or to arrive at a formal conclusion
11 in my own mind.

12 Q As to whether it was in keeping with the policy,
13 or contrary to the policy?

14 A As to whether or not things were going to happen
15 the way Mr. French outlined them. As to whether or not
16 they had happened, whether or not the people in Iran viewed
17 it as he viewed it.

18 Q Well, that is another set of questions. But my
19 question goes to the arrangement on its face, regardless of
20 whether Mr. French or Mr. Bell was telling the truth or not,
21 or whether they were able to deliver under the STP arrangement,
22 or whether General Khatami was in fact the silent partner.

23 But taking the arrangement as proposed on its face,
24 that is, STP would be created, that officials of the Iranian
25 government would be silent partners, and that commissions on

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1 Bell sales would flow in part to those officials, was that
2 arrangement on its face contrary to Bell policy as you
3 understood Bell policy to be during that period of time?

4 A Yes.

5 Q It was your understanding it was contrary to
6 Bell's policy?

7 MR. ELLIOTT: I am sorry, what is your second question?

8 MR. MC LEAN: Was it his understanding that such
9 an arrangement on its face was contrary to Bell's policy.

10 MR. ELLIOTT: On its face.

11 THE WITNESS: Such as you related, yes.

12 MR. ELLIOTT: Let me ask a further question.

13 RE-CROSS EXAMINATION

14 BY MR. ELLIOTT:

15 Q Mr. Felton, as I understand the situation, you
16 had a man who was excluded from Iran, and then according to
17 these documents was coming back to the Company proposing to
18 essentially become a partner of the General who wouldn't let
19 him in the country.

20 Was there some skepticism within Bell as to whether
21 what was being related to them by Mr. French was within the
22 realm of possibility?

23 A I don't remember. I had some personal skepticism
24 as I assessed this, as I remember my assessment of the problem.

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1 MR. MARINACCIO: We are through with the questions,
2 but I must say I am still unable to understand your testimony
3 in this respect.

4 You say that the arrangement with STP, because in
5 effect General Khatami was going to be involved in it, and he
6 is a government official, was contrary to Bell policy. And
7 yet on January 30, 1967, we see a sanction of that, at least
8 in a temporary arrangement.

9 Was that sanction of the temporary arrangement contrary
10 to Bell's policy as you understood it?

11 THE WITNESS: Yes, it was contrary, as I understood
12 it.

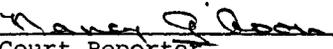
13 MR. MARINACCIO: I have no further questions.
14 Thank you very much for your testimony this morning. We
15 appreciate it.

16 (Thereupon, at 11:55 a.m. the questioning of
17 Mr. Felton was concluded.)
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CERTIFICATE OF COURT REPORTER

I, Nancy Gibson, Court Reporter, do hereby certify that the testimony contained herein is a true record of the testimony given by said witness, and I further certify that I am neither attorney nor counsel for, related to or employed by any of the parties to the action in which this statement is taken; and, further, that I am not a relative or an employee of any attorney or counsel employed by the parties hereto, or financially interested in the action.


Court Reporter

CERTIFICATE OF COURT REPORTER

I, Dora Barther, Court Reporter, do hereby certify that the testimony contained herein is a true record of the testimony given by said witness, and I further certify that I am neither attorney nor counsel for, related to or employed by any of the parties to the action in which this statement is taken; and, further, that I am not a relative or an employee of any attorney or counsel employed by the parties hereto, or financially interested in the action.

Dora Barther
Court Reporter