

CIA Supplier Buys a CIA Bargain

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The CIA sold one of its front companies for \$1.5 million less than its net worth, government documents show.

Air Asia Ltd., a CIA front based on Taiwan, was sold in 1975 for \$1.9 million when an audit showed it was worth \$3.4 million.

It was a good deal for the buyer, E-Systems, Inc., of Dallas, a large government contractor that provides highly sophisticated electronic equipment for such agencies as the Pentagon—and the CIA.

Air Asia was sold by Air America, the CIA-owned company that ran airlines in the Far East and Southeast Asia and provided transportation for various CIA projects.

Air Asia did about \$12 million in business in 1975, mainly at a huge aircraft base on Taiwan, where about 2,800 employees perform contract maintenance on military and commercial aircraft in the Far East.

The documents on the purchase by E-Systems were

released by Rep. Gerry Studds (D-Mass.), who had asked the CIA for information about the sale.

The audit Studds released was dated March 31, 1974, by Coopers and Lybrand, a large accounting firm, and was an appendix to a classified General Accounting Office report.

John Kumpf, an E-Systems spokesman, said the net worth—how much assets exceeded liabilities—shown by the audit was overstated somewhat. He cited a second Coopers and Lybrand audit of Air Asia, dated Jan. 31, 1975, showing its net worth at \$3.2 million. And he said even that figure was too high.

Nevertheless, Kumpf said, "We're not denying" that Air Asia was a good buy.

Not only was the purchase a good one for E-Systems in terms of assets, it was a good one in terms of profits. In the 10 months before the deal was consummated on Jan. 31, 1975, Air Asia earned \$1.35 million in profits, a CIA document revealed.

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CIA's Sale of 'Front' Firm Is Boon to a CIA Supplier

CIA, From A1

E-Systems has had a long, close relationship with the CIA.

The company is a major provider of secret electronic and radio equipment to the CIA and the Defense Department. One of its specialties is the so-called "electronic warfare" equipment that was used widely in the war in Southeast Asia.

And E-Systems runs the listening post in the Sinai Desert between the Egyptians and the Israelis, under contract to the U.S. government.

E-Systems has other connections with the CIA. A former director of the CIA, W.A. Raborn, who developed the Polaris submarine, is on E-Systems' board of directors. A former deputy CIA director, Lloyd K. Lauderdale, is a top vice president of E-Systems.

E-Systems has been under investigation by the Securities and Exchange

Commission for allegedly paying \$1.3 million to the Korean Research Institute, a Seoul-based marketing consultant firm, to obtain military contracts with South Korea. The money paid to KRI, according to sources familiar with the investigation, was transferred back to the United States, where it may have been used to make illegal payments to American officials.

E-Systems' 1975 purchase of Air Asia was a logical extension of its aircraft maintenance business in the United States, which totaled \$33 million in 1976.

E-Systems is also heavily involved in sales in the Far East, particularly to South Korea and Taiwan. One of the contracts held by Air Asia is with the Taiwan government for maintenance of F-4 fighters supplied by the United States.

E-Systems does not provide figures on any subsidiary's profits, and none on Air Asia since its acquisition.