

Allegations Against Ash Center on Bookkeeping

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LOS ANGELES, Jan. 27 — Charges of scandalous business conduct when he was building his fortune as a young man hang as a cloud over the reputation of Roy L. Ash as he assumes the important duties of director of the Office of Management and Budget in the Nixon Administration.

The accusations are a part of the record of two jury trials held here in the nineteen-sixties. One of these cases was settled last Monday with a payment of \$2.4-million, in part from Mr. Ash. The other case will be tried beginning April 24.

Considering the sensitive character of his new position, which does not require confirmation by the Senate, the most serious allegations against Mr. Ash are these:

¶ That as the chief financial officer of the Hughes Aircraft Company in 1949-53, he forced accountants to make bookkeeping entries that they testified were false. These false entries had the effect of causing the Air Force to be overbilled by \$43-million, which was repaid to the Government within four months after Mr. Ash left Hughes Aircraft.

¶ That as a founder of Litton Industries, Inc., he participated in a scheme with two other founders to deceive a fourth man and deprive him of millions of dollars worth of stock in the company. Mr. Ash left the presidency of Litton in December to take the high level Government job.

In a telephone interview this week, Mr. Ash said that while there were elements of fact in the allegations in the lawsuits, their ultimate thrust was wrong because he believed he had committed no acts that were illegal or improper.

Mr. Ash conceded that he had ordered accountants at Hughes Aircraft to make entries to which they objected, and that ultimately the accountants had resigned in protest. But he maintained that the disagreement arose not over the integrity of the figures, but over an attempt by the accountants to usurp authority.

Wrongdoing Denied

Mr. Ash also conceded that the Air Force was billed for \$43-million more than Hughes Aircraft was entitled to receive, but he asserted that doing so did not violate the contract terms under which the work was done.

He said that he had envi-

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for Hughes and Origin of Litton

Industries

sioned Hughes Aircraft returning the money when the unit price of work was redetermined, and he said that he had created a special fund from which this would be repaid.

Mr. Ash also denied that he had attempted to deceive and defraud a business associate in connection with the founding of Litton Industries.

Despite Mr. Ash's insistence on the propriety of his actions, the fundamental facts of the matters in controversy were twice spread before juries who heard Mr. Ash and others testify, and both juries returned verdicts against Mr. Ash's positions.

These events had their beginnings in the late nineteen-forties when Howard R. Hughes, even then showing tendencies toward the eccentricities that were to rule his life in later years, created havoc among the executives of the Hughes Aircraft Company with his unpredictable management decisions.

The company ostensibly was under the direction of Harold George, the general manager, and Ira C. Eaker, the liaison officer, both of whom were retired generals. These men, and other executives, reported to Noah Dietrich, then chief executive officer of the parent Hughes Tool Company. Or they reported to Mr. Hughes, if they could, to anyone they thought could convey messages to Mr. Hughes.

In 1948, Mr. Hughes hired Charles B. Thornton, who was then 35 years old. Mr. Thornton had been with the Ford Motor Company, and in 1948 he was inserted into Hughes Aircraft as assistant general manager. He actually ran things.

Mr. Ash had been in the Air Force. Although he had no college background, he went to Harvard Business School after his discharge, finished first in his class and received a master

of business administration degree.

He went back to the Bank of America, where he had worked before World War II, and in 1949 he was hired by Mr. Thornton as assistant controller of Hughes Aircraft. He was, in effect, Mr. Thornton's man among the accountants.

Mr. Dietrich said he dismissed Mr. Thornton and Mr. Ash from Hughes Aircraft in 1953 when he became dissatisfied with the performance. Mr. Ash said he resigned under pressure. He and Mr. Thornton then moved into the management of a new company that they called Litton Industries, Inc.

Its core was an electronics manufacturing company in San Carlos, Calif., that had been owned by Charles V. Litton. Mr. Thornton went to New York and raised \$1.5-million to buy out Mr. Litton.

In the new company, Mr. Thornton became the chief executive officer, Mr. Ash became the chief fiscal officer, and Hugh W. Jamieson, a former Hughes Aircraft engineer, became the engineering head.

The fourth man in the group was Emmett T. Steele, who had been a contact man with the Pentagon for Hughes Aircraft. With Litton, he was placed in charge of military relations—a position that was to become controversial.

In 1959, Mr. Steele sued the

three other men, alleging that they had deprived him of his rightful share of the Litton business through fraud and deceit. He regarded himself as a founder of Litton Industries and entitled to some of the stock at 10 cents a share (but worth hundreds of dollars) that went to Mr. Thornton, Mr. Ash and Mr. Jamieson.

By that time, Litton had become almost a mint for its owners. Mr. Thornton and Mr. Ash were multi-millionaires. Mr. Jamieson, who had realized more from the Litton venture than had Mr. Steele, nevertheless was dissatisfied with his share. In 1959, he sued Mr. Ash and Mr. Thornton, who settled

with him out of court for an undisclosed sum.

In the Steele case, each of the three others denied that Mr. Steele was a founder, or that he was entitled to a large block of stock at a low price. However, in the trial of the suit, Charles V. Litton testified and said that he had sold his company to four men — including Mr. Steele.

The trial opened in October, 1964, and the verdict in April, 1965, was for \$5.1-million, plus 7 per cent interest, for a total of \$7.6-million. Nine of the 12 jurors voted for the verdict — the minimum number permissible under California law. The judge ordered a new trial.

Agreement Reached

Mr. Steele died in his Beverly Hills swimming pool last September, two weeks before the retrial was to begin. His estate, represented by Harold Rhoden, a lawyer, pressed on with the claim.

On Nov. 28, President Nixon announced that he would make Mr. Ash the Director of the Office on Management and Budget.

On Dec. 5, Mr. Thornton and Mr. Ash agreed to settle the



Associated Press

Roy L. Ash at a White House news conference on Friday

Steele case for \$2.4-million. Mr. Jamieson also signed the agreement, but evidence in the trial showed that he was protected against any loss by the 1959 agreement that settled his own claims against the other two.

Ash Explains Settlement

In the telephone interview this week, Mr. Ash was asked why he and Mr. Thornton had put up such a large sum in settlement if, as Mr. Ash insisted, they had not wronged Mr. Steele.

He said he feared that a jury inflamed by passion and prejudice might return a verdict for even more.

"I think that when one comes up against a widow and orphan case, as this is, the defendants just have to look at the experiences others have had in similar circumstances," Mr. Ash said.

"This is quite a different issue than the merits or the justice of the case."

The \$2.4-million "to some people sounds like a lot of money," he said. "It is a lot of money, I agree. But the number of shares that he at that time claimed . . . this is a very small proportion of what that number of shares would be worth today."

But even the payment of \$2.4 million does not end the courtroom problems for Mr. Ash and Mr. Thornton. There remains a libel suit filed by Noah Dietrich in 1962 over a press release and an employees' circular issued by Litton Industries.

Mr. Dietrich that year was subpoenaed and examined under oath by Mr. Rhoden, Mr. Steele's lawyer, about Mr. Thornton's character.

Falsified Accounts Charged

Mr. Dietrich said that Mr. Thornton's reputation for truth, honesty and integrity was bad; he said that Ernest Breech, executive vice president of the Ford Motor Company, had described Mr. Thornton, once an employe, as overly ambitious and not trustworthy; and he said that Mr. Thornton had offered to pay Mr. Dietrich \$5-million if he could persuade Mr. Hughes to sell the aircraft company to Litton Industries, an offer that Mr. Dietrich described as improper.

Mr. Dietrich also disclosed for the first time the story that under Mr. Thornton's leadership, and with Mr. Ash's insistence, the accountants at Hughes Aircraft had falsified the records so that the Air Force was overcharged millions of dollars.

Mr. Thornton's press release and the company bulletin said that Mr. Dietrich's statements were "completely false and maliciously defamatory" and "irresponsible and malicious attacks" that were made because "Dietrich apparently resents Litton's and Mr. Thornton's business success."

Mr. Thornton also sued Mr.

Dietrich and Mr. Rhoden, the lawyer, for \$40-million. Those suits were dismissed by the courts, but Mr. Dietrich's countersuit against Mr. Thornton for libel damages stayed alive.

On March 11, 1968, a Los Angeles jury awarded Mr. Dietrich \$6,125,000 in the libel to be paid by Mr. Thornton, Litton Industries and George T. Scharffenberger, a former vice president of Litton who had a role in distributing the circular to employes. A punitive damage judgment of \$5-million was made against Mr. Thornton alone.

The trial judge ordered a new trial and tried to order a reversal of the verdict. The Court of Appeals allowed his order for a new trial to stand, but it refused to let him enter a verdict in favor of Mr. Thornton.

This new trial will begin April 24. While he is not a defendant in the Dietrich libel case, Mr. Ash will be—in the words of Mr. Rhoden, the lawyer—"a central figure just as he was the first time around." He is expected to be called to testify.

Mr. Rhoden said that he intended to rely heavily on the

testimony of James O. White, one of the accountants who revolted against Mr. Ash's orders in 1952 and left the Hughes Aircraft Company.

Mr. White explained in sworn testimony in the first trial that in the summer of 1951 he began to see accounting practices that disturbed him. The specific point was technical and not readily understood, but of shocking impact when explained.

Ash Confronted

What was done, he said, was that inventory accounts were "overcredited."

He explained that when a certain item used in manufacturing was stocked in inventory an account to keep track of this item was debited by the value of the stock. He said that as the item was used, the account was credited. Thus, as a parts bin was depleted, the account would gradually reach a zero balance, which meant the bin was empty. There would never be a credit balance on an inventory account under this system, Mr. White explained.

Yet, he said, he found several inventory accounts adding up to millions of dollars in

credit balances. He complained to Mr. Ash and was told to enter the figures as they were delivered to him.

In a telephone interview earlier this week, Mr. Ash explained that he felt that Mr. White was trying to expand his authority into areas where he should not meddle. Mr. Ash said that Mr. White was in general accounting, which was to produce periodic balance sheets for Hughes Tool Company. Mr. Ash quoted himself as explaining to Mr. White:

"Your job in general accounting is to receive and record the data that comes in from the cost accounting department — not second guess it, not to change it. They have their job, you have yours. Each of you are separately responsible to me for the effectiveness and quality of your work."

Reputations at Issue

Mr. Ash was asked if Mr. White was accurate when he testified that Mr. Ash had given him figures and ordered him to insert them into general accounting records.

"Sure," said Mr. Ash.

It was shown in the Dietrich libel trial that Hughes Aircraft was working on a contract that

gave it about 10 to 11 per cent plus costs.

Thus, overloading of inventories with paper balances would have increased the price far above cost — and would have brought in 10 per cent on top of that.

Mr. White testified that while the Thornton-Ash management of Hughes Aircraft made spurious accounting entries to increase income from Air Force payments, it also made exactly the reverse sort of entries to show untrue profits to the parent Hughes Tool Company.

Mr. White said, "I have heard Roy Ash say 'Make an entry debiting so and so and crediting so and so,' and half an hour or two hours later or so the entry was in my hands and they were just figures that were needed to balance a predetermined profit."

In the telephone interview this week, Mr. Ash — speaking from his office in the White House — was asked if indeed money had been paid back to the Air Force by Hughes Aircraft.

"I believe it is a fact that \$43-million was paid to the Air Force," he said. "If it wasn't, it should have been."