

# COAST FINANCIER ACCUSED BY S.E.C. OF MASSIVE FRAUD

## C. Arnholt Smith, Confidant of Nixon, Is Charged With Corporate Manipulation

By FELIX BELAIR JR.

Special to The New York Times

WASHINGTON, May 31—The Securities and Exchange Commission today charged C. Arnholt Smith, a California financier and long-time confidant of President Nixon, with a massive fraudulent manipulation designed to misappropriate the assets of a West Coast conglomerate he heads and a San Diego bank.

A complaint filed by the commission in the Federal District Court at San Diego asked that Mr. Smith, along with two associates, the Westgate California Corporation and four subsidiaries be enjoined from continuing the alleged schemes.

In addition to injunctive relief, the court was asked to appoint a receiver to take over Westgate, to make a full investigation and accounting into its financial affairs and to take any steps necessary to recover all assets of the conglomerate that were "wasted or misappropriated by defendants or others."

### 'At Bargain Prices'

The thrust of the S.E.C. allegations was that Mr. Smith, as chairman and chief executive officer of Westgate as well as of the United States National Bank, arranged the sale of the conglomerate's assets to various defendants or their nominees "at bargain prices." The purchases, the S.E.C. alleged, were made with loans from the bank that were approved by Mr. Smith, and the bank in turn accepted the purchased assets as collateral on the loans.

The commission asked that

Mr. Smith and Philip A. Toft, who succeeded him a year ago as president of Westgate, place under control of the court all their holdings of Westgate securities "and such other assets as may be necessary to satisfy any claims arising out of actions brought by the receiver."

S.E.C. officials said that, pending the investigations and accounting by a receiver, there was no way of knowing the amount of such claims or recoveries but suggested they might total more than \$100-million.

Mr. Smith, 74 years old, is a San Diego multimillionaire. He is the owner of the San Diego Padres major league baseball team, but has announced plans to sell the team for \$12-million. He has been close to President Nixon since the President's days in the House of Representatives and has been a major

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contributor to Nixon political campaigns over the years.

By coincidence, it was disclosed today that Mr. Nixon's election campaign organization returned to Mr. Smith last year a \$300,000 contribution. The revelation came in a deposition connected with one of the several Watergate proceedings.

The deposition was given May 23 by Eveline M. Hyde, who worked for Maurice H. Stans, finance chairman of the Committee to Re-elect the President. According to her lawyer, Leon T. Kauer, she said the contribution was returned because of "a problem in California."

The Westgate conglomerate embraces numerous enterprises, including an airline, taxicab operations in many Western cities, financial institutions and tuna-fishing and canning operations.

The S.E.C. suit was quickly followed by an announcement from the Controller of the Currency here that the San Diego bank and Mr. Smith had consented to a cease and desist order requiring "the orderly collection of the loans presently held by the bank."

The announcement described the bank loans as "a concentration of credits to Westgate California Corporation and other related companies." The order directed the bank "to limit any further loans to these

entities."

The Controller's announcement added: "Pursuant to the order Mr. Smith has agreed to indemnify the bank against losses in connection with such loans. To date, the bank has experienced no losses in connection with such loans."

Last Saturday, Mr. Smith resigned as chairman of the bank.

In addition to Mr. Smith and Mr. Toft, the complaint named as a third individual defendant, M. J. Coen, chairman, president and chief executive officer of the First California Company, also of San Diego—a registered broker-dealer also indirectly controlled by Mr. Smith through Westgate.

"To camouflage their fraudulent appropriation of Westgate and United States national bank assets," said the S.E.C. complaint, "the defendants created ostensible profits for these entities and published misleading statements concerning their activities."

"It appears that Westgate has included in its earnings statements manufactured earnings of over \$17.5-million from 1969 through 1972," it added.

In most cases, according to the complaint, the financing role of the bank was concealed from Westgate auditors and the investing public by channeling the borrowings through numerous corporate entities including the Sovereign States Capital Corporation and the United States Holding Company, both of San Diego.

The holding company was said by the S.E.C. to hold all the Class B common stock of Westgate, constituting about 53 per cent of the conglomerate's voting securities. All of the stock of the holding company was described in the complaint as "beneficially owned" by Mr. Smith, Lois S. Smith, his former wife, and Carol Smith Shannon, his daughter.

The agency said of Sovereign States that all of the stock evidencing ownership of the company was held in the name of the daughter-in-law of Mr. Smith. It added, however, that the activities of sovereign states were directed exclusively by Mr. Smith and Mr. Toft.

While the bank loans were channeled through numerous subsidiaries and "sales were carefully structured to appear as arms-length transactions," said the commission, Mr. Smith was "on all sides of the transaction."

The S.E.C. complaint elaborated:

"He directed the sale of Westgate assets in conjunction with Toft; he obtained corporations and other nominees to stand in

as purchasers in conjunction with Coen; he authorized loans from the United States National Bank; and he passed the proceeds of these loans to the purported purchasers through Sovereign States, the United States Holding Company and their subsidiaries, again in conjunction with Toft.

"Thus Westgatt assets were sold at prices arbitrarily set by the defendants. As a result, Westgate's earnings were manipulated."

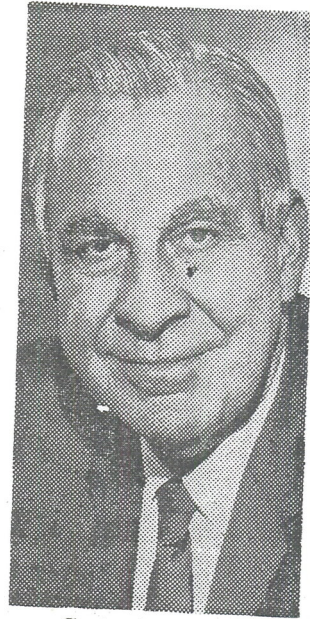
In some instances, according to the complaint, the defendants converted Westgate's assets to their own by providing them as interest-free "loans" to subsidiaries.

The subsidiary companies would then pledge these "loaned" assets as collateral for loans from the United States National Bank on the authorization of Mr. Smith, the complaint alleged. The funds generated by such loans were then used by Mr. Smith, Mr. Toft, Mr. Coen and various corporate defendants "for their own benefit and enrichment," according to the S.E.C.

"Such lent collateral aggregated at least \$15-million," the agency said.

On other occasions, the complaint added, "the defendants have been converting Westgate assets to their own use and benefit by selling assets to Westgate as grossly excessive prices and by purchasing such assets at bargain prices with funds provided by the United National bank."

Subsidiary companies used at various times for this purpose



C. Arnholt Smith

and named as defendants in the S.E.C. suit included the British Columbia Investment Company of Kansas City, Mo., and Elsinore owned by Mr. Coen although all his British Columbia stock is pledged with Sovereign States Capital as collateral for loans.

A separate count in the complaint alleged that First California, of which Mr. Coen is chairman and president, had been distributing unregistered Westgate stock that was owned by Sovereign States but "was passed through a number of entities including British Columbia to conceal its origin."