

# C. Arnholt Smith Gets Details of Allegations On Misapplied Funds

10/21/74

Special to THE WALL STREET JOURNAL

SAN DIEGO—Chief Assistant U.S. attorney Warren P. Reese filed a bill of particulars in federal court showing an intricate plan allegedly used by San Diego financier C. Arnholt Smith to channel about \$70 million in loans and letters of credit from U.S. National Bank, which Mr. Smith once controlled, to his own companies and companies he controlled.

According to the filing, Mr. Smith was the recipient of the proceeds of several of the 56 loans listed.

The bill of particulars was sought by Mr. Smith's attorneys, who told the court they needed it in preparing a defense for both Mr. Smith and Philip A. Toft, who was president of Westgate-California Corp. when Mr. Smith was chairman. Both stepped down from their positions last year as part of a settlement of a Securities and Exchange Commission civil suit charging them and others with fraud.

Mr. Smith and Mr. Toft are scheduled for trial Jan. 13 before U.S. District Judge Robert Schnacke on a grand jury indictment charging 25 counts of fraud and misapplication of bank funds.

According to the filing, 25 companies allegedly received the proceeds from the loans from U.S. National Bank, which was declared insolvent Oct. 18, 1973. Mr. Smith at one time was chairman of the bank.

The filing indicated that on March 2, 1971, U.S. National Bank issued a \$333,953.22 letter of credit to an apparent borrower, National Marine Terminals. Three days later, according to a chart accompanying the filing, National Marine distributed \$207,000 to Sovereign State Capital Corp. and on the same day Sovereign state directed \$125,000 of the funds to Mr. Smith personally.

The text of the filing said that "in every instance where loan proceeds are shown to have been diverted to specified entities other than the defendants, the entity indicated was dominated and controlled by the defendants or utilized by them merely to facilitate the money."

In another case the charts showed U.S. National Bank issuing a \$2.5 million loan on March 25, 1971, to the apparent borrower, Westgate-California Products. The filing said the company then issued \$2,495,000 of those funds to Sovereign State Capital, controlled by Mr. Smith, which in turn gave \$120,000 to Mr. Smith that same day and \$75,000 to Mr. Smith on the following day.