

# New Federal Probe Of Nixon's Friend

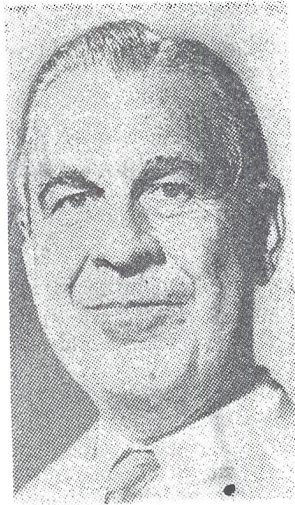
By Denny Walsh  
New York Times

Washington

C. Arnholt Smith, a California multi-millionaire and one of President Nixon's closest personal and political associates for more than a quarter of a century, is now the subject of an intense federal scrutiny into his dealings with organized crime figures.

Within the last year the San Diego entrepreneur's sprawling business empire has come under fire from the Securities and Exchange Commission, the Internal

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C. ARNHOLT SMITH  
Link to Mafia suspected

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Revenue Service, the FBI, and the comptroller of the currency.

Most recently, a federal grand jury has undertaken an inquiry related to Smith. The banker and industrialist made a ten-minute appearance under subpoena on August 20 before the grand jury in San Diego and, according to a source with knowledge of that session, invoked his Fifth Amendment right against self-incrimination.

## FOCUS

The focus of the grand jury's inquiry is not clear, but sources familiar with the range of the investigations of Smith's affairs said it is separate from those previously initiated.

In the midst of his mounting difficulties, Smith made a move that is generating even more heat on him and the Westgate-California Corp., the conglomerate he controls, whose interests include the third largest packer of tuna in the nation and taxi companies with monopoly or near-monopoly situations in every major California city and Phoenix.

On July 25 it was announced that a San Diego lawyer, John Andrew Donnelley, had been named to the Westgate board of directors. Donnelley is representing Westgate in a lawsuit

through his connections.

## LOANS

With the help of Lipton, according to the sources and records, a vending machine company owned by the Mafia established a line of credit some years ago at the bank and has been a beneficiary of hundreds of thousands of dollars in loans from U. S. National.

In the mid-1950s Lipton's brother, William R. Lipin, an accountant and U.S. National stockholder, co-signed three loans, totaling \$10,300, made by the bank to the late Frank Desimone, a Los Angeles lawyer who was the Mafia boss in Southern California at that time.

The third loan was for \$6300 and was made on May 8, 1957, six months before Desimone attended the now-famous meeting of Mafia hierarchy at Apalachin, N.Y.

## TYPICAL

The Southland Amusement Company, Inc., the vending machine concern that has had a successful business relationship with the U.S. National Bank, is typical of operations that attract the Mafia because of their large cash flow and potential for "skimming" profits before taxes.

Southland agrees to arrange for and guarantee loans from U.S. National to bar and restaurant owners in need of financial assistance, in return for the owners' allowing Southland to install its juke box, cigarette machines and pool tables. Southland then sees to it that the loans are repaid out of the owners' part of the proceeds from the machines.

Almost from its inception in the late 1940s, Southland has been controlled by the Mafia.

Through a spokesman, Smith told the Times he had never heard of Southland.

## EXAMPLE

Smith's long business and personal relationship with John S. Alessio has long been thought by federal agents to be the most obvious example of Smith's connections to organized crime.

Alessio's wealth was accumulated in large part from his horse and dog tracks on both sides of the Mexican border and a bookmaking operation in Mexico (where

such activity is legal), which accepts bets on races at U.S. tracks. It has been strongly felt among federal agents that Alessio's bookmaking operation would not have survived without the cooperation of the underworld in obtaining the "line," or odds, on races in this country.

Alessio, once a director as well as a stockholder of Westgate-California, was released earlier this year from federal prison, where he served two years of a three-year term for income tax evasion.

## WESTGATE

But it is the presence of Donnelley at Westgate that now intrigues government investigators.

Donnelley has been an attorney for and a sometime partner in a group headed by former Cleveland racketeer Morris B. Dalitz. The group owned the Desert Inn hotel and casino in Las Vegas for about 15 years until it sold its interest to billionaire Howard Hughes in 1967.

Donnelley was active in the casino's management during the 1960s when FBI listening devices disclosed that gambling profits were being skimmed and the money delivered to crime syndicate interests. The FBI has said that meetings concerning the skimming were held and that two of those involved were Dalitz and Donnelley.

In an effort to determine why Donnelley was placed on the Westgate board this year, SEC lawyers privately interrogated Donnelley under oath last Friday in San Diego.

## CONCERN

The sources said that commission lawyers were concerned not just about Donnelley's placement on the board, but about his selection as chairman of the corporation's audit committee, a body composed of three directors and two company officers.

The audit committee is charged with maintaining liaison between Westgate and an independent auditing concern hired by the committee to prepare financial statements for the company covering the years called into question by the securi-

filed against the conglomerate by the SEC. He is acting as co-counsel with Mudge Rose Guthrie & Alexander, the New York law firm of which Mr. Nixon was once a senior member.

Donnelley has been linked, both as a business associate and a legal representative, to organized crime figures for at least 25 years.

## DEALINGS

In addition, a number of highly reliable government investigative sources have told the New York Times that Smith and his enterprises have a long history of dealings with organized crime.

Records made available to the Times support the statements of these sources.

Information from the sources and the records show that a senior vice president of the Smith-controlled U.S. National Bank, Lewis Lipton, is well-connected in the Southern California underworld. U.S. National has resources well in excess of \$1 billion and operates 63 branches in California and one in the Bahamas.

Lipton, a former New Yorker who once used the name Felix Aguirre, was a restaurateur in San Diego until Smith brought him into the bank for the loans and accounts Lipton would hopefully be able to create

ties agencies suit.

SEC officials speculate, according to the sources, that Smith placed Donnelley on the Westgate board at the dictates of certain investors or potential investors in the corporation. Under this theory, Donnelley is "the man on the inside" for these investors in the event the SEC is successful in one of the avowed purposes of its suit to remove Smith from Westgate.

"There has to be an overriding reason why Donnelley is on that board," one federal investigator said. "Smith's got enough trouble, without inviting more by hooking up with a guy like that.

"Whoever it is that wants Donnelley inside Westgate had to do it while Smith was still in a position to railroad it."

#### TRIAL

The SEC suit, filed in May and scheduled to go to trial next month, charged Smith, Westgate, two other individuals and five other companies with the fraudulent use of millions of dollars in assets of Westgate and the U.S. National Bank.

Smith is chairman and controlling stockholder of Westgate, which has \$220 million in assets. Although he no longer holds any office at the bank, Smith remains its controlling stockholder. The bank and the corporation are traded publicly.

One condition of an order issued against U.S. National by the comptroller of the currency in the spring was Smith's resignation as chairman and a director of the bank.

It is known that the 74-year-old Smith feels strongly that most, if not all, of his troubles stem from a desire on the part of certain staff members of various federal agencies to demonstrate, in the atmosphere of Watergate, a capability to move against even friends of the President.