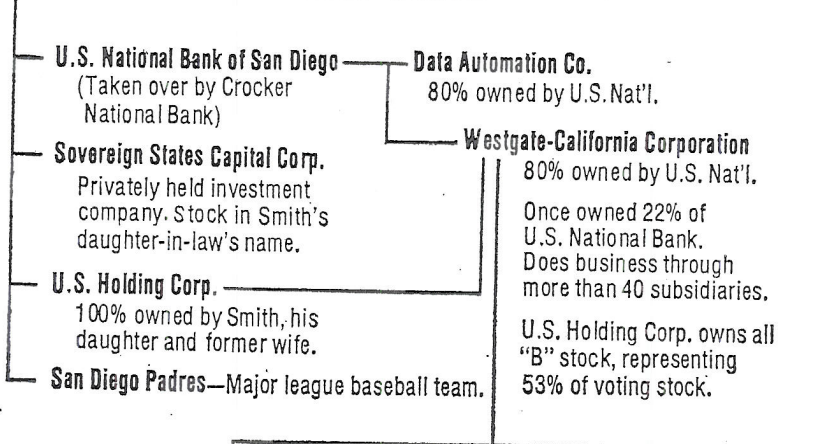


THE EMPIRE OF C. ARNHOLT SMITH



Lawsuits and Tax Liens Could Wipe Out Wealth of the Former Grocery Clerk

By EVERETT R. HOLLES
 Special to The New York Times

SAN DIEGO, Nov. 9—A large part of C. Arnholt Smith's multimillion-dollar fortune, from which he gave bountifully to send an obscure young Richard M. Nixon to Congress and later to the Presidency, may be wiped out by the recent collapse of his United States National Bank.

Primary responsibility for the largest bank failure in American history has been placed by Federal banking authorities on the 74-year-old San Diego financier himself.

When U.S. National was declared insolvent on Oct. 18 by the Controller of the Currency, Mr. Smith was disclosed to have depleted its cash reserves by the distribution — often

without knowledge of the directors, bank officials have said — of at least \$398.6-million in questionable loans to promote deals set up by him and close associates.

The bank's "good assets" and \$940-million in deposits were purchased by Crocker National Bank of San Francisco, which refused, however, to assume any outstanding loans linked to Mr. Smith, the maze of companies he controlled or any of his business partners.

An attorney of Mr. Smith's said the personal losses of the one-time grocery clerk and members of his family, resulting from the bank failure and

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MAJOR WESTGATE SUBSIDIARIES

- Air California** —Serves 8 cities, 81 per cent owned by Westgate.
- Yellow Cab Companies** —1,730 cabs in 13 Calif. cities.
- Airport Limousine & Trucking Services** —Virtual monopoly in ground transportation at major Calif. airports. Accounted for 32 percent of Westgate's 1972 income.
- Westgate California Foods Inc.** — Westgate's leading profit maker. 60.2 per cent revenues, income of \$60-million annually. Major tuna fishing and canning operations. Four subsidiaries deal in farming and purchasing fruits and vegetables.
- Kernville Brokerage, Inc.** —Agricultural and ranch land broker.
- Real Estate Subsidiaries** —Various San Diego Properties.
- Golconda Corporation** —Owns Hecla Mining, country's largest silver producer.
- Westgate Plaza Hotel** —San Diego—Two years old, has been losing money.
- Cuyamaca Club** —Oldest chartered private club in Calif.
- California Insurance Co.** —\$13-million casualty company. Assets placed in custodial account by State Insurance Commissioner.
- Westgate Life Insurance Co.** —Carrying \$230-million in life, accident and health policies. Assets in custodial accounts.

C. A. Smith: A Fortune at Stake in Bank Failure

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its repercussions on his Westgate-California Corporation, as well as other interests, probably would amount to at least \$50-million.

Another of the financier's lawyers estimated the Smith losses at "perhaps \$35-million to \$38-million" on the basis of a preliminary inventory by Government liquidators.

Neither estimate includes further heavy penalties that may be imposed on Mr. Smith as a result of an Internal Revenue Service action seeking \$22.8-million in 1969 personal income taxes and penalties, a criminal investigation underway before a Federal grand jury here at which Mr. Smith recently pleaded the Fifth Amendment, or a spate of stockholders, class-action lawsuits in which he is the principal defendant.

With lawsuits and liens, possible penalties for Mr. Smith have reached a staggering near-\$300-million.

The size of Mr. Smith's personal fortune, variously estimated in the past at anywhere from \$30-million to \$50-million, is difficult to determine because much of it is in the names of other members of his family or, according to Government prosecutors, is held by "straw men" set up to camouflage important holdings. Five Government agencies are engaged in a search here and abroad for the Smith assets — the Controller of the Currency, the Federal Deposit Insurance Corporation, the Jus-

tice Department, the Securities and Exchange Commission and the I.R.S.

One of the Smith attorneys said there was "a very real danger" that the financier would be driven into bankruptcy by what he termed "a conspiracy by vicious and arrogant Washington bureaucrats to ruin this man" because of his long-time friendship and financial support of Mr. Nixon.

The specter of pauperism for the man once acclaimed as "Mr. San Diego of the Century," whose wealth and influence made him a dominant figure for years in California business and political affairs, was scoffed at by Government officials and most San Diego businessmen.

"There are substantial Smith holdings in other enterprises as well as assets that are so well concealed in the names of nominees they probably never will be brought to light," an S.E.C. official said, citing evidence of a recent shifting of Smith wealth.

Control Surrendered

On Oct. 31, Mr. Smith surrendered control of his \$190-million Westgate-California conglomerate and resigned from its board to avoid going to trial on S.E.C. civil charges that he engineered "massive frauds" with the help of several associates and bilked stockholders of both U.S. National Bank and Westgate of millions of dollars.

On May 30, the day before the S.E.C. filed its fraud suit seeking a receivership for Westgate-California, Mr. Smith was said to have withdrawn \$478,366 from his personal ac-

count at U.S. National according to evidence submitted to Federal District Judge Leland C. Nielsen by the S.E.C., the money was transferred to the United California Bank in a joint account with his daughter, Mrs. Carole Smith Shannon.

A member of Westgate-California's court-approved board of directors, Mrs. Shannon has been a partner in many of her father's business dealings. She too faces an I.R.S. lien, amounting to \$2.6-million, on 1969 income taxes.

On the morning of Aug. 3, the I.R.S. filed its \$22.8-million jeopardy assessment against Mr. Smith and proceeded to tie up the bulk of his known assets. That afternoon, the S.E.C. said, Mrs. Shannon withdrew the entire \$478,366 in the joint account in three certified checks. About \$300,000 of the withdrawn funds have not yet been traced.

Roughly two-thirds of U.S. National's portfolio of \$595-million in loans was to persons and properties deeply involved with Mr. Smith, including Philip A. Toft, forced to resign as Westgate-California president at the time of the court-ordered removal of Mr. Smith as chairman, as well as Michael J. Coen of Kansas City and Hollis B. Roberts of McFarland, Calif.

Mr. Coen and Mr. Roberts are long-time Smith associates and partners in a skein of complicated deals with him.

Justin Watson, Deputy Controller of the Currency, said \$45.5-million of U. S. National's loans, principally to interests

with which Mr. Smith is or was involved, already have been classified as "outright losses" and \$98-million more are probably worthless or near worthless.

Among these were loans that James Mulvaney, who succeeded Mr. Smith as the bank's president last December, said the financier issued, before his forced resignation in May, to his own enterprises or to associates without consulting other bank officials.

Richard Woltman, who said, the board of directors learned of and were asked to approve the high-risk loans only after they had been made.

Richard Wltman, who succeeded Mr. Smith as the bank's chairman, acknowledged that Mr. Smith on occasion compelled bank officials to conceal loans made to Westgate-California and its subsidiaries in order to mislead the corporation's auditors and produce what the S.E.C. termed "manufactured profits" for reports to stockholders.

Shares Worthless

Officials of Crocker National Bank and the F.D.I.C. have stated that "no equity capital exists" at U. S. National Bank, that 2,050,000 outstanding shares of stock held by 4,226 persons appear to be "a total or near total loss." In 1972, the stock's book value was listed at \$29-million.

Mr. Smith controls 54 per cent of the bank's stock, 36 per cent directly and 18 per cent through members of his family, including his wife, daughter and a brother, J. A. Smith. An additional 26 per cent is held by a small group of close Smith associates.

Mr. Smith last Dec. 5 purchased for \$6-million cash the bank's entire issue of subordinated capital notes and 58,474 additional shares of common stock, then at \$26 a share on the over-the-counter market, in order to improve the bank's cash position. This raised the Smith family holdings to more than \$37-million, based on the going price at that time.

Beyond this probable \$37-million loss, Mr. Smith's heavy holdings in Westgate-California admittedly are in jeopardy. The financier is Westgate's largest stockholder, with 53.1 per cent of its voting stock with a book value of about \$8-million. The holdings are in the name of U.S. Holding Company, wholly owned by Mr. Smith, his former wife Lois and their daughter, Mrs. Shannon.

Westgate and its subsidiaries directly owe U.S. National Bank \$104.7-million (out of a total bank indebtedness of some \$115-million) or about three times the corporation's capital equity.