

Hughes Empire's Leaders Meet to Untangle Affairs

NYTimes By WALLACE TURNER AUG 4 1976
Special to The New York Times

SAN FRANCISCO, Aug. 3— Those who have taken control of Howard R. Hughes's fortune are meeting in Las Vegas this week to attempt to untangle the golden threads of his empire. The problems and the stakes are immense, with millions of dollars at issue.

The discussions are secret, but the problems that the participants in the meeting are expected to deal with include an indictment naming Mr. Hughes and a top officer as stock market manipulators in the purchase of Air West in 1968-69, the financial drain that some of Mr. Hughes's whims continue to

impose and the possibility that an inheritance tax bill could take three quarters of the value of the estate — as much as 750,000,000.

They also must deal with some subtle questions of who will run the show. As things now stand, it appears that William Rice Lummis, a Houston lawyer and a cousin of Mr. Hughes, may emerge as the top officer.

But there were vague reports that a plan was in the works that might attempt to produce and probate an unsigned carbon

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copy of a will that Mr. Hughes is known to have signed in 1938 and then lost.

This would give some of Mr. Hughes's longtime employees control of the fortune in their capacity as trustees of a foundation to which the billionaire reportedly planned to give his wealth.

It appears that the plan would be to have the foundation established as heir through the establishment of the unsigned will as Mr. Hughes's final expression of his wishes.

A spokesman for the assembled executives said that today's agenda concerned Air West matters.

Mr. Hughes and some of his employees were indicted by a Federal grand jury on stock market manipulation charges as a result of certain actions allegedly taken by them in arranging that sale.

Key Figures on Board

The indictment is pending and one of the defendants is Chester C. Davis, the New York lawyer who has been chief counsel for Summa for many years.

The affairs of Summa will be taken up today, Thursday and Friday, the corporation spokesman, Perry Lieber, said. Mr. Lieber said he did not know if the board of directors was to be reconstituted.

There were five directors of Summa when Mr. Hughes died on April 5. Three of those were

longtime important figures in management of his properties. These are Mr. Davis, 66, the executive vice president, F. R. Gay, 55, and the senior vice president, Nadine Henley, 69.

The other two directors came from the furtive world where Mr. Hughes lived the last 15 or 20 years of his life.

They are Lavar Mylar, 55, and John Holmes, 55, both members of the six-man staff of "executive assistants" who lived 24 hours a day with Mr. Hughes in the hotel suites to which he fled in Las Vegas; the Bahamas; Managua, Nicaragua; Vancouver, British Columbia, and London.

Mr. Hughes never filled the offices of board of chairman or president in his companies, but that made no difference, for he owned them completely and ran them himself, often by whim.

The Hughes organization has about 20,000 employees. They work in seven casinos and five hotels in Nevada: in Hughes Air West, a regional airline with routes between Mexico and the Pacific northwest; in the Hughes Helicopter division and in management of the many tracts of land that Mr. Hughes owned.

Many problems have been created by certain management practices and by the lack of a will that does what Mr. Hughes always said he wanted to do—give his wealth to further medical research and, in the giving, frustrate the Federal inheritance tax collectors.

"The Hughes empire is like a splendid swan carved of ice to decorate the banquet table,"

said one close observer of Summa's affairs. "Now the banquet is over and the diner has left the table and the swan is melting back into an ordinary pool of water."

The wills that purport to distribute the estate by myriad individuals and causes are likely to get short shift at the meetings, for the participants are convinced that those wills are not the work of Mr. Hughes and believe that they have the means to show this.

Expectation of Employees

For at least a decade, Hughes employees expected that Mr. Hughes could be persuaded to sign a will that was drawn up in the late 1950's.

That will put it all into the Hughes Medical Institute of Miami, a vehicle to which Mr. Hughes had given what is now Hughes Aircraft when the tax exempt foundation was created in 1954.

He never signed it.

In the absence of a will, the Los Angeles Public Administrator petitioned the court there to be appointed to run the Hughes estate. The managers quickly moved to counteract this.

Since Summa is a Delaware corporation, the managers went to chancery court in Wilmington and asked that a temporary Administrator be appointed to run the company. They suggested Mr. Lummis, and the court named him.

In spite of secrecy as thick as it was in Mr. Hughes's lifetime, there are indications that Mr. Lummis has been asserting himself.

For example, in his lifetime, Mr. Hughes ordered that the headquarters of Summa be established in Nevada, a state with a tax climate favorable to him.

Executives In California

Space was taken, and a staff installed, and calls to the Summa offices were answered by the staffs of the executives to whom calls were directed.

But the callers were not told that the executives and the staffs were working in space rented in a savings and loan building on Ventura Boulevard in Encino, Calif. The calls went on leased lines from Las Vegas across into California.

The executives preferred life in the San Fernando Valley to life in Las Vegas. But Mr. Lummis and his advisers from the law firm of Andrews, Kurth, Campbell & Jones in Houston, where Mr. Lummis is a partner, appear to have ordered a shift.

State officials who control the licenses of Summa's casinos and real estate offices have said that the top Hughes executives are moving to Las Vegas. These include Miss Henley, Mr. Gay, James LaSage, a vice president for operations and management, and Steven Savoldelli, vice president for the recreation division, and their staffs.

Mr. Lummis has also been looking for a place to live in Las Vegas, these sources said.

One of the other partners in the Houston law firm, Milton H. West Jr., has been Summa's tax counsel. Since Mr. Lummis has taken a leading role in the company's affairs, Mr. West has also been drawn into top decision-making.

Role of Chief Counsel

One of the questions that may be taken up in this week's meetings is the role of Mr. Davis, the chief counsel. It is possible that Mr. Davis's role may be diminished, just as Mr. Gay's may be diminished.

Both men were powerful figures in the Hughes empire for the last six years because Mr. Hughes discarded so many of his other

Hughes, as he aged, had seemed associates, such as Robert A. Maheu, the Nevada operation's manager whom he dismissed in 1970.

It appeared to those on the outside that Mr. Davis generally got his way in legal matters, and that Mr. Gay was able to persuade Mr. Hughes to do things he did not want to do. It seemed they were the closest advisers Mr. Hughes had.

A measure of the unreal world of Mr. Hughes can be understood from the fact that, except on one occasion in 1973 when they escorted the Governor of Nevada, Mike O'Callaghan, into Mr. Hughes's London hotel suite, Mr. Davis never saw Mr. Hughes face to face, and Mr. Gay never saw him after about 1960.

These roles no longer are important. Other lawyers have major positions in Summa. Mr. Hughes, the hermit whose bizarre schemes and pointless whims had to be overcome by Mr. Gay's persuasion, no longer exists.

What Summa desperately needs now is a management that can crank out large sums of money to pay of the estate taxes.

Summa can get 10 years to pay this, and some of the empire can be liquidated profitably. But with a total tax bill of \$750 million or more coming due, plus interest on whatever balances to unpaid, the need to generate capital is immense.

Mr. Hughes left liquid capital of more than \$200 million, according to estimates by sources with access to such information. But some parts of his empire return little profit. Of his casinos, for example, Harold's Club in Reno is a big money maker, and the Sands Hotel and Casino in Las Vegas do well, but some barely break even, and some are big losers.

Big Salaries for Staff

There are many expensive nooks and crannies in the empire, too. The hiding places, and their staffs, that Mr. Hughes used, cost a lot of money, and although the rental for hotel suites is over now, qualified sources have estimated that the group that looked after Mr. Hughes's personal needs draw salaries of upward of \$500,000 a year.

Maintenance of the "Spruce Goose," the Hughes designed wooden airplane stored at Long Beach, Calif., came to more than \$500,000 a year. Sources familiar with the Empire have said that there are many such drains that produce a huge cash loss every year.

If Mr. Lummis does emerge as the top officer of Summa, the pressure will be on to produce cash to pay off the taxes.

In the short run, he will function by appointment of the Delaware court. In the long run—absent a will—he will function as the agent of his mother, the prime heir.

But is there really to be no will? Within days of Mr. Hughes's death, his managers found certain evidence that he had signed a will in 1938 in which he said he planned to give his wealth to medical research through a vehicle he would construct later.

In court papers the managers have disclosed that they found the carbon copy of a letter Mr. Hughes wrote to a Texas bank giving instructions for storing the will. It is known they found a key to safety deposit box and sent agents testing it in boxes around the country, so far without success.

They also found a carbon copy of the will, unsigned, and a letter from the bank that acknowledged receipt of it and acceptance of the orders for custody of the signed copy.