

3 Hughes Associates Deny Guilt in Air West Case

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RENO, Nev., Jan. 14—Chester C. Davis, chief counsel of Summa Corporation, the late Howard R. Hughes's holding company, and two other men entered not guilty pleas to stock fraud charges in Federal District Court here today.

The charges, which have been dismissed twice on technical grounds, were first filed four years ago after the Securities and Exchange Commission investigated Hughes's 1968 purchase of Air West, a regional airline. Mr. Hughes was a codefendant in the original case, but the charges against him were dismissed after his death April 5.

Mr. Davis's trial on stock manipulation charges could have important consequences in the protracted litigation over distribution of the Hughes estate, observers believe.

Forced Sale Is Charged

The other two defendants are Robert A. Maheu, manager of the Hughes Nevada properties at the time of the airline purchase, and David B. Charnay, a longtime Hughes friend and an executive of Four Star International, a film producing concern. All three men were released on personal recognizance bonds of \$10,000 each. Trial was set for March 7.

The thrust of the indictment is that Mr. Hughes and his associates conspired to force the Air West directors to approve the sale of the airline to him. The indictment charges that the defendants sold stock short, forced down Air West stock prices and harassed recalcitrant directors until they agreed to the sale.

The charges have had an unusual legal

history. The first indictment was voted in December 1973 by a grand jury that had considered evidence gathered by the S.E.C. Federal District Judge Bruce A. Thompson, who still is presiding in the case, dismissed that indictment, asserting it did not state that any criminal act had taken place.

Substitute Indictment Urged

V. DeVoe Heaton, then the United States Attorney for Nevada, was urged by his superiors in the Department of Justice to submit a substitute indictment that did not name Mr. Hughes. He resisted, and the grand jury supported Mr. Heaton. His superiors then agreed that he could seek a new indictment of Mr. Hughes, and the grand jury handed one up in July 1974. In November 1974, Judge Thompson again dismissed the indictment, holding again that it did not state a crime.

Although by that time Mr. Heaton had resigned to accept employment in Saudi Arabia, the Government appealed Judge Thompson's order. Last May the United States Court of Appeals for the Ninth Circuit reversed Judge Thompson and ordered the indicted men brought to trial. The United States Supreme Court refused to review the case, allowing the appellate court decision to stand.

Complication for Estate

The charge against Mr. Davis may further entangle the knotty problem of distributing Mr. Hughes's estate. None of some two score alleged Hughes wills have been accepted for probate, and as things now stand, the estate probably will be distributed in one of two ways.

If a so-called "lost will" of 1938 turns up and a probate court accepts it as valid, and if it bequeathes, as suspected, the bulk of the estate to the Howard Hughes Medical Institute, Mr. Davis would be a major figure in the distribution of the estate's proceeds. He and F. W. Gay, president of Summa, constitute the board of directors of the medical institute.

But if no will is found, Mr. Hughes's estate will be divided among his cousins and his 87-year-old aunt. In that event, many of the holdings would have to be sold to pay the 77 percent inheritance tax. The size of the individual enterprises probably would dictate that this be done by creating a new company and offering stock to the public, sources familiar with Summa's problems have said.

If Mr. Davis is convicted of stock manipulation, his presence on the Summa board and as chief counsel of the company could hurt the sales of such a stock offering, in the view of many insiders at Summa.

Soon after Mr. Hughes died, William Rice Lummis, a cousin of Mr. Hughes and a lawyer in the Houston firm that represented Hughes interests there, was named by a Delaware chancery court to act as manager of Summa, which is incorporated in Delaware. Mr. Davis and other Summa executives were instrumental in setting up this plan.

Since then, Mr. Lummis has moved to Las Vegas, where Summa's headquarters are located, and has taken over direction of the company. He has full power to assess Mr. Davis's potential embarrassment to Summa to decide on a remedy for such a problem, subject only to objection by the Delaware court.