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IDENTITY OF INFORMANTS

| <u>Identity of Source</u> | <u>Contacted By</u> |
|---------------------------|--|
| SD T-1 is NO 1283-C-TE | SA HAROLD V. HUGHES |
| SD T-2 is CSLA 4178-S | Identity of contacting Agent is unknown |
| SD T-3 is CSLA 6679-S | Identity of contacting Agent is unknown |
| SD T-4 is CSLA 4143-S | Identity of contacting Agent is unknown |
| SD T-5 | See Non-Symbol Source Administrative Page |
| SD T-6 | See Non-Symbol Source Administrative Page |

Toll information in San Diego was furnished by Mrs. CAROL MILLER, Clerk, Pacific Telephone Company, but should this information be made public, a subpoena duces tecum should be directed to Mr. V. G. CAVEY, Chief Special Agent, Pacific Telephone Company, or his representative.

Toll information in Cleveland was furnished by CSCD 2744-C. In the event it is necessary to publicly

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The identities of the sources utilized in this report are as follows:

SD T-1 is LA 4622-PC
Identity of contacting agent is unknown

SD T-2 is LA 6962-PC
Identity of contacting agent is unknown

SD T-3 is NO 1283-C-TE
Identity of contacting agent is
SA HAROLD V. HUGHES

SD T-4 is MICHAEL A. BERTZ,
Attorney, SEC, Los Angeles

SD T-5 is NO 1283-C-TE
Identity of contacting agent is
SA HAROLD V. HUGHES

SD T-6 is OC CS 999-C
Identity of contacting agent is unknown

SD T-7 is CS SF 50-X
Identity of contacting agent is unknown

SD T-8 is identified on the
Non-Symbol Source, Administrative Page

SD T-9 is SD 919-C
Identity of contacting agent is
SA LOUIS A. MUNOZ

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Information copies are being submitted to auxiliary offices who still have leads outstanding as set forth in San Diego letter to Los Angeles dated 9/11/73.

An information copy is also being furnished to New Orleans as the Strike Force Attorney in New Orleans is interested in SMITH's activities and SMITH still has close ties in that Division.

In addition, an information copy is being furnished to Indianapolis as LLOYD WILLIAM SAHLEY, whose telephone number was called from SMITH's home telephone, is the subject in a case entitled, "LINCOLN BAKING COMPANY, NBA, OO: Indianapolis". Ind

On 10/5/73, ROBERT THALLER, Strike Force Attorney, Department of Justice, Los Angeles, California, furnished the following confidential communication, directed to Mr. Featherstone from Fred T. Bennett, Special Attorney, New Orleans Strike Force, subject matter is Securities Investigation - Nationwide, dated 6/6/73:

The writer, along with an FBI agent, recently interviewed an informant, herein referred to as Source Number One on May 3 and 4, 1973, as to S-1's knowledge of organized crime involvement in illegal stock schemes throughout the United States. Prior to this interview, S-1 had been interviewed by the FBI concerning organized crime involvement in the stock schemes and the information supplied had been verified and corroborated and had proved highly reliable. All interviews were commenced with a reading of rights, S-1's indicating his indicating of such rights, and S-1 agreeing to have the interviews taped. As background, S-1 is an attorney in Louisiana and has practiced law for approximately 20 years. In about 1964, S-1 became involved with a number of individuals who were themselves involved in various stock schemes (individuals and related companies

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listed below). The information provided by S-1 has been recorded and is either first hand or hearsay (of which he indicates from whom he obtained the information).

The main premise of S-1's information is that Santo Trafficante of Miami, Florida, is involved in operation in which large amounts of stocks and securities are taken out of the United States to Europe and eventually the proceeds from these securities are used by Trafficante's organization to purchase narcotics in the United States. Trafficante has an individual by the name of James McConnell of St. Petersburg, Florida, directing this operation. McConnell has set up a type of organization with him at the head of it that has been involved in numerous stock schemes across the United States. Some of these stock schemes will be described below. The arrangement between Trafficante and McConnell as stated by S-1 is as follows: (S-1's information on the following comes from an individual by the name (C. W. Deaton)).

Trafficante is involved in the business of financing and/or selling narcotics in the United States. Due to the problem inherent in the transfer of narcotics and the payment for these narcotics simultaneously, Trafficante and his associates have devised a scheme to finance these narcotics deals. The scheme involves the raising of capital by stock frauds throughout the United States. These frauds are supervised generally by McConnell (the fraud schemes will be set out in subsequent paragraphs). After the stock frauds are perpetrated McConnell will pick up the proceeds being in cash or securities. If the proceeds are in cash McConnell will convert this cash into good securities, and of course if the proceeds are in securities they are "good" securities. McConnell will then take the securities out of the country, usually going to Liechtenstein. (The reason that cash is not taken out of the country is due to allegedly a \$5,000 maximum limit of cash that can be taken legally out of the United States). McConnell will meet an attorney in Liechtenstein who will set up a trust account, either with the securities or arrange for the sale of the securities and set up a trust account with cash. After the trust account is set up the proceeds in the

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account are transferred to Swiss numbered bank accounts. Then narcotics deals are arranged in which narcotics are delivered to the United States and after the delivery of the narcotics to the United States arrangements were made for the transfer of these narcotics to or through Trafficante's organization. Payment for the narcotics and the delivery of the narcotics are made simultaneously by the placing of transatlantic telephone calls in which funds are exchanged between Swiss numbered bank accounts (transfers also have occurred in banks in Paris, France and Lebanon).

According to S-1 the above system affords Trafficante the opportunity to purchase large quantities of narcotics at wholesale prices within the United States for the sale at the retail level. According to the FBI, they have informant information of a meeting that took place in 1972, in which Trafficante and his associates were gathered and discussing the availability and use of securities to finance their operations. Although at this meeting there was no mention of the use of securities to purchase narcotics, there was reference to Trafficante's connections and interest in securities as a basis for raising capital.

The following is a general description of the type of security schemes and frauds which have been described by S-1 as being used by McConnell and his group throughout the United States. These schemes have occurred in many states throughout the United States, including Louisiana, Arizona, Texas, Utah, Indiana, etc. There are three general types of schemes, one involving the setting up of a shell corporation. The shell corporation is a legal and legitimate company which has very few assets. McConnell and his group will purchase this company or gain control of the company and through a systematic plan will begin to build up the corporation by increasing the balance sheet of the company. Usually the shell corporation will have stock and when the value of the corporation is increased the value of the stock will increase. McConnell and his group will stuff the corporation with some capital and also with worthless stock and then make a market for the shell corporation's stock. This market is

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made by culpable individuals who trade among themselves in order to increase the price of the stock. McConnell has a number of individuals who are brokers and who work for him in inflating the value of the stocks and making a market for the stocks. Examples of such companies in which this system was used are Arizona Bio-Chemical, Norda Micro-Wave Electronics, Computronix, Telstar and Hotei. Also during the time in which McConnell and his group are manipulating the stock of this company, spin-off companies from the original shell companies will be formed and the entire system will pyramid with the same goals of making a market for the stock of the spin-off corporations which market value of the stock is far inflated from the true value of the stock. Some of these companies have legitimate individuals on the board of directors, such as Telstar which had ex-astronaut Scott Carpenter and now deceased actor Audie Murphy. After the market value of the stocks has been inflated McConnell and his organization trade the stocks for other securities which are good or sell their stock and take cash. This cash for securities is turned over to McConnell finds its way into the Swiss numbered bank accounts. McConnell according to S-1, travels across the country and supervises many of these stock schemes. McConnell is known to travel with a suitcase full of money or stocks, collecting most of the proceeds from the stock schemes in which he and his confederates are involved. The second method in which the stock schemes are perpetrated is the taking over of wholly intrastate corporations by McConnell and his associates. After the corporations are taken over, "insiders stock" of the corporation is pledged for cash, with the cash eventually going to McConnell and his associates. Then the cash is converted into good securities, as described above, and taken out of the country. The third method used by McConnell and associates is a scheme involving investing of some worthless stock, as described in schemes one and two, in casualty insurance companies. By this method, McConnell and his associates through an intermediary pledge worthless stock for a loan from the casualty insurance company. Of course the stock which is being referred to as worthless is not known by the company to be worthless, and on paper the stock appears to be solid security. The cash that is obtained by the pledging of these securities goes to McConnell and then is converted and taken out of the country. The end

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result of all the schemes explained above is that in one point in time the corporations fold and all the individuals who are in possession of the stock are losers. By this time McConnell and his associates have converted the proceeds from the stock deals and the money is gone. Eventually the insurance companies go under when the stock that is pledged to them turns out to be worthless and the individuals default in the payment of the loans. Insurance companies in which this particular scheme was used are Trans Plains, State Farm and Casualty of Florida, and American Casualty of Louisiana. After the companies or insurance companies fold an investigation usually turns up a few individuals and these individuals are prosecuted. In most cases these individuals are so called ten percenters and the investigation never leads to McConnell or any of his important lieutenants.

S-1 states that McConnell is one of the major individuals of a group of individuals who are involved in the stock schemes. McConnell is known as the Chairman of the Board and deals directly with Trafficante. Under McConnell and working for him are approximately two hundred individuals across the United States, among them are Buddy Reed, Clifford Noe, Paul Noe, Peter Crosby, Dick Kozak and an individual by the name of James Donadge (many of these individuals being so called ten percenters to have been indicted, and in some cases convicted for their stock schemes in the last three or four years). Besides these individuals, S-1 has provided information on a number of other individuals associated with McConnell and has described their association with McConnell and the different companies involved in their stock swindles. Among these individuals are Dalton Smith, Cy Yokum, Guthrie, Mort Zimmerman, Henry Dubbin, Ben Dobson, Emile Tucker, also known as Tommy the Twitch, C. W. Beaton, Raymond Starnes, Dominic del Grande, Wilber Stevens, Howard Davidson and Gene McPhereens (these individuals operate in most of the forty-eight states).

USA

USA

S-1 has provided the FBI with information about all of the above listed individuals plus numerous other individuals involved in this loosely knit organization which sets up specific securities transactions. S-1 has also provided the FBI with information about certain individuals who will talk to the government and provide information about the leaders,

including McConnell. While S-1 has no further information on the Trafficante link, S-1 believes that if the government was able to make a case against McConnell, that McConnell would implicate Trafficante. Furthermore, S-1 has supplied the FBI with information that an individual by the name of James J. Ryan is associated with the New York LCN in the same capacity that McConnell is associated with Trafficante.

S-1 has furnished the FBI a large amount of information concerning stock schemes throughout the United States and the individuals involved. One incident which he related to the FBI concerned the meeting he had in Chicago, Illinois, in September of 1968 or 1969, at the Palmer House. At the meeting was Dalton Smith (New Orleans Strike Force target), Frenchie Medlevine, Peter Milano, a man by the name of Distefano. S-1 related that Dalton Smith asked to use S-1's room for a meeting, at which initially S-1 was not present. S-1 was called up to the room at which time he saw numerous stock certificates on the bed, some of the names of the companies were Coca Cola Bottling Company of Los Angeles, Truckers Association, and California Truckers Association. All the stock certificates were in the name of an individual by the name of Fildes. When S-1 arrived he was asked numerous questions about the stock certificates and in particular questioned as to how to transfer stock certificates. S-1 has numerous other instances in which he was party to stock deals and has provided the FBI with this information. *Ill*

The information supplied by S-1 concerning the stock schemes has been in most cases corroborated by independent investigation of the FBI. Further cooperation is also provided by another individual who is talking to the FBI at the present time. This information concerns not the link with Trafficante, but the stock schemes by McConnell and his associates.

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The New Orleans Strike Force's interest in the above is the relation to the stock schemes as perpetrated by McConnell and his group and their link with organized crime. If S-1's information concerning the Trafficante link is true the network for the Trafficante organization securities transaction crosses many state lines and would involve numerous strike force jurisdictions. It has been well documented in many newspaper articles, over the last three or four years as to the effect upon the public in general by the perpetration of the stock frauds. Furthermore, much of the worthless stocks initiated out of the particular stock schemes are pledged to banks in order to secure loans and generate "claim" money. The true loss to this country as perpetrated by these individuals has never been measured in that most of these schemes are uncovered many months after the individuals have bilked the public and the financial institutions of the country. If the Trafficante link is true, the amount of money that has been supplied to his organization through these financial schemes is immeasurable.

On 12/10/73, Mr. THALLER brought to the San Diego Office of the FBI copies of documents subpoenaed by the Securities Exchange Commission (SEC) in Los Angeles with the understanding that these documents would be reviewed for a violation of statutes within the investigative jurisdiction of the FBI. A separate case has been opened for the purpose of reviewing these documents under file number 29-1040.

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Telephone number (714) 459-4027 was subscribed to by Algernon, Inc., which was a front organization for DALTON SMITH who now does business under the front of PC.

Telephone number (714) 453-0794 is the non-published telephone number for DALTON SMITH, 8515 Cliffridge, La Jolla, California.

A query of the California Law Enforcement Telecommunications System (CLETS) reveals that California Driver's License Number W617929 is issued to WALTER HAROLD SHOLLIN, 1020 East Rustic, Escondido, California. He is described as follows:

| | |
|--------|------------|
| Sex | Male |
| Height | 5'9" |
| Weight | 160 pounds |
| Hair | Gray |
| Eyes | Blue |

On October 5, 1973, a meeting was held in San Diego, California, with representatives of the Los Angeles Strike Force as well as other local and Federal agencies which would have an investigative interest in DALTON SMITH. At this meeting it was decided that the most direct means to investigate SMITH was to pursue vigorously his purposed shipment of helicopter parts to El Salvadore which would be in violation of the Munitions Control Act. United States Customs as well as the San Diego Police Department had under physical surveillance helicopter parts physically stored in Whittier, California.

On October 25, 1973, Detective SHARON SULLIVAN, Investigative Support Unit, San Diego Police Department, advised that PC's helicopter parts had been moved from Whittier, California, to Wilmington Harbor, California, and that they were stored in the facilities of American Transport Systems.

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California Bank, Escondido Branch. DAVE DRINKWATER, the United California Bank loan officer who approved the loans, allowed all but three of the ten loans to be unsecured. DRINKWATER has since quit United California Bank and is the president of his own bank, Bank of Irvine, which is presently in the planning stage.

American State Bank of Orange, California, made a \$100,000 loan to Bob Hatch Crane and Rigging, but this loan has since been offset by the funds in the Hatch Crane operating account.

Patterson acquired the assets of International Supply, Inc. (military helicopter parts) through an exchange of Patterson stock. To date, no permit to allow the exportation of the parts to a foreign country has been secured. Nonetheless, the principals of Patterson Corporation have made the necessary negotiations with the government of El Salvadore for the five million dollar sale. It is anticipated that the deal will be finalized on October 15, 1973.

On November 22, 1973, another conference with individuals representing State and Federal agencies interested in the activities of DALTON SMITH was held. At this time Postal Inspector JAMES INGRHAM attached to the Los Angeles Strike Force advised that in their efforts to sell helicopter parts to El Salvadore, AL PADILLA and JOSEPH MEROLA and SMITH flew to El Salvadore. Finally a meeting was held with El Salvadore officials at the Beverly Hyatt House in Los Angeles, which was attended by J. EDGARD GUEVARA and GUILLERMO A. ROEDER, e GERENTE. At this meeting was former astronaut GORDON COOPER who was introduced as the Vice President in Charge of Sales for PC, MARK STEVEN MORRISON, Vice President in Charge of Finance and RICHARD BRADFORD ANDERSON, President of PC, along with DALTON SMITH who appeared to be running the show. The El Salvadorians were expecting to get helicopter parts owned by PC for \$1.25 million cash and were willing to put another \$3.75 million into the corporation

as they were to set up a factory in El Salvadore for the manufacturing of commercial helicopters and run the operation for the country.

The background of the PC officials was furnished confidentially by the United States Commerce Department to the El Salvadorian representatives but they seemd not to be dissuaded in their pursuits of PC because they felt with GORDON COOPER it could not be shady.

At this meeting INGRHAM stated that PC on May 31, 1973, had an inhouse balance sheet prepared by Baranov and Baranov, Certified Public Accountants, Cosgrove Building, San Diego, California, and this balance sheet reflected assets over \$22.5 million consisting principally of helicopter parts. INGRHAM stated that the SEC in Los Angeles has subpoenaed most of the stockholders of record of PC as of October 29, 1973, and have also subpoenaed BARANOV to appear before the Commission in Los Angeles, California. He furnished the photocopy of the shareholders of record of PC as reflected in the record of the transfer agent in Las Vegas, Nevada, on October 29, 1973.

| <u>Names</u> | <u>Number of Shares</u> |
|---------------------------|-------------------------|
| Amcourt Systems, Inc. | 115,000 |
| Bache & Co., Inc. | 200 |
| Banister, James M. | 20,000 |
| Banister, John R. | 10,000 |
| Brady, D. A. | 10,000 |
| Burns, Rex | 40,000 |
| Burstein, Mrs. Margery G. | 1,000 |

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| <u>Names</u> | <u>Number of Shares</u> |
|-----------------------------|-------------------------|
| Byrd, John P. | 10,000 |
| Carr, Larry A. | 128,000 |
| Cary, Elgin | 400 |
| Daniel, Lewis | 8,000 |
| Degn, Dwayne - Trustee | 50,000 |
| Du Pont Glore Forgan, Inc. | 1,500 |
| Feichtinger, Sylvester | 10,000 |
| Gavrel, Louis John | 50,000 |
| Gotthelf, Col. Edward | 10,000 |
| Graure, Nellie | 85,000 |
| Higson, Michele | 40,000 |
| Hy-- Wallace J. & Marion A. | 2,000 |
| Jones, Keith T. | 10,000 |
| Jordan, Joed H. Jr. | 7,650 |
| Jordan Investment Company | 7,650 |
| Kalish, Marc | 500 |
| Kamrar, Cynthia | 10,000 |

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| <u>Names</u> | <u>Number of Shares</u> |
|-----------------------------|-------------------------|
| Kowalewski, Mary H. | 6,500 |
| Linza, Charles D. | 85,000 |
| Lockhart, Frank | 5,000 |
| Lunco | 61,800 |
| Maher, John R. | 3,300 |
| Marty, Frederick S. | 500 |
| Mason, Lorraine | 10,000 |
| Merola, Joseph R. | 32,000 |
| Morrison, Mark | 20,000 |
| Oliver, Robert M. III | 1,700 |
| O'Shaughnessy, James P. | 500 |
| Pitler, Robert L. - Trustee | 50,000 |
| Poretto, Mario | 25,000 |
| Rodda, William E. | 10,000 |
| Schwenn, Mary K. | 10,000 |
| Slutsky, Martin H. | 100 |
| Wall, Leo T. | 8,400 |
| Wiles, Gary | 50,000 |
| Dean Witter & Co. Inc. | 300 |
| Young, Lois H. | 517 |
| Total | 1,007,517 |

It was the consensus of investigators attending this meeting that the helicopter parts stored in Wilmington, California, would probably never be shipped to El Salvadore and it was noted by United States Customs Agent STEVE HOOPER that the containers were too large to be placed aboard a vessel for El Salvadore unless they were repacked into something else. HOOPER also stated that HENRY FRANK MEIERHOFFER, white male American, born April 8, 1924, who gave the last appraisal of the helicopter parts which are currently warehoused at Wilmington, is suspected by United States Customs of smuggling activities.

Postal Inspector INGRHAM advised that all known bank records pertaining to the activities of SMITH's associates and the records of PC have been subpoenaed by the SEC in Los Angeles. This includes the records located in Atlanta, Georgia, since RICHARD ANDERSON was deposed as PC President after he testified before the SEC on October 9, 1973. LARRY A. CARR, 37 Arpege Way was made President of PC. INGRHAM stated that the subpoenaed records would be made available to any interested agency for their review and discovery of any violation within their jurisdiction.

On December 17, 1973, INGRHAM telephonically advised that when shareholder of record GARY WILES, an attorney who was subpoenaed before the SEC in Los Angeles, he claimed that until November 7, 1973, he was unaware that he was a stockholder in PC. JOHN BURTON of North American Oil Company came to him to pick up his stock powers for PC and the powers of DWAYNE DEGN. At this time WILES drafted an acquisition letter to PC stating he was signing the stock powers at the direction of DALTON SMITH.

Certified Public Accountant EDWARD BARANOV, when subpoenaed by the SEC, stated that at the request of RICHARD ANDERSON and in the offices of PC in La Jolla, California, he drafted a letter on August 17, 1973, certifying a financial statement. He subsequently returned to his own office and dictated a rescission letter and went to PC headquarters asking for his original. He was advised that the original letter had already been sent to El Salvadore by RICHARD ANDERSON.

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On September 21, 1973, BARANOV received a call from Mr. VIE with Old Reliable Fire Insurance Company of St. Louis, Missouri, who indicated PC owed his company money and wanted to know if the corporation had the means to pay their debt. INGRHAM noted that Midland Service Agency of Atlanta, Georgia, wrote business casualty insurance on PC but could not understand where Old Reliable Fire Insurance Company of St. Louis would be involved.

DONNA and JERRY JEWITT, former stockholders of record of PC have been called for subpoena before the SEC. They are brother and sister. DONNA is approximately 20 years of age and is a friend of WILLIAM CAMPBELL. She worked as a secretary at United California Bank in Escondido and is well acquainted with DAVID DRINKWATER. CAMPBELL came to the bank and asked her and her brother to sign stock powers. CAMPBELL put the JEWITT names on some shares of stocks and also the names of other individuals.

ARMOND MINGIONE, also of Escondido, California, telephonically advised that he was a friend of CAMPBELL and did not know much about PC but had received stock through CAMPBELL.

NELLIE GRAUERE owner of record of 85,000 shares of PC was subpoenaed before the SEC and advised that she received her stock through CHARLES LINZA. She acknowledged that she was the wife of EDWARD ZUBER, who accompanied her to SEC offices and that her married name is Mrs. ANN ZUBER. She claimed she signed papers in Las Vegas giving her ownership of the stock and that her husband desired her to have the stock in her name as he was in bad health at the time. ZUBER was also placed under oath and gave his residence address as 3073 Yukon, Costa Mesa, California, and claimed to have lived there for six to seven years. ZUBER claimed that he was more or less victimized and that he knew that LINZA had been trying to sell his helicopter company for two or three years and that he only acted as a middle-man placing International Supply Systems together with PC and was given 85,000 shares for his efforts. LINZA turned over books and records showing liens and other

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indebtedness against International Supply Company and he was guaranteed by PC that the shares of stock that he took back in payment would be worth \$10 per share in two years or PC would pay that amount to LINZA. ZUBER claimed that he was dealing with RICHARD ANDERSON as President or soon to be President of PC.

Off the record, ZUBER then stated that DALTON SMITH was behind the corporation and that he had personally seen five different financial statements for PC and that he stated that he would be willing to speak to the SEC again after he consulted with his attorney. The SEC also subpoenaed R. M. SCOTT, who wrote an appraisal inventory on the helicopter parts owned by PC. He brought no work papers with him and stated that the as is value of the helicopter parts would be about \$2 million, but if the parts were brought up to FAA standards and the obsolete parts up-graded in a control liquidation properly advertized, the parts could bring \$22 million in the open market. SCOTT acknowledged that he only looked at helicopter parts that were in opened containers.

INGRHAM stated that trading was suspended in the shares of PC on October 29, 1973, for a period of ten days and this ten day suspension has been renewed as needed.

Set forth are the subscribers to telephone numbers called from the two resident telephones of DALTON SMITH during the months of April, May and June 1973.

AT ATLANTA, GEORGIA