c. SEMI-ANNUAL REQUESTS FOR CONFIRMATIONS OF INVENTORIES

Semi-annually McKesson would prepare letters requesting statements of inventories not held by themselves or in their own warehouses. The letters did not describe the merchandise of which a confirmation was requested but merely requested "* * * a statement certifying to the amount of merchandise you hold in storage for our account * * *." [345] Although prepared by the Company, on the year-end the requests were mailed by Price, Waterhouse & Co., when the original confirmations were returned directly to them and carbon copies to McKesson. On June 30th, the request presumably was mailed by McKesson directly and the confirmation sent only to it.[346]

Among others, these requests went to the five pretended vendors who, as previously stated, were supposedly holding the foreign crude drugs after their purchase by the McKesson Companies until their sale under the contract with W. W. Smith & Company, Inc. The replies received from these assumed suppliers were all on different colored stationery and varied in language used but none stated the exact location of the goods or gave any markings which might identify particular stocks.[347] As at December 31, 1937, the combined inventories of the Connecticut Division and Canadian Company purportedly held by these five Canadian vendors and covered by these replies amounted to approximately $10,000,000.[348] The pretended confirmation of one of these vendors is reproduced on the preceding page and samples of the letterheads of the other four are reproduced on the second page preceding.[349]

Johnson, the office manager who handled all of these confirmations, did not remember any that did not balance with the inventory cards with which they were compared, although on one year end a request for confirmation came back because incorrectly addressed to 48 rather than to 45 Queen Street, Ottawa, Canada.[350]

Further, the surprising regularity of the foreign crude drug transactions as recorded on McKesson's books is illustrated by the data contained in the Price, Waterhouse & Co. year-end inventory price test schedules for 1934, 1935, 1936, and 1937 which were introduced in evidence at the hearings. While the goods were turned over on an average of less than twice a year [351] an examination of the schedules

[345] Ex. D.
[346] R. 1662-1663, 1659; Ex. 40 (1-3), 41 (D85-90), D.
[347] Ex. 40 (5, 16, 18, 20, 22, 23), 41 (D91-96), 53, 54. Cf. Ex. 49, 73, 78; R. 595.
[348] See page 43 *supra* and footnote 982 *infra*.
[349] Ex. 53.
[350] R. 1364-1366, 1433-1434.
[351] Ex. Q.

for the Connecticut Division indicates that none of the goods in question were ever held over from one year end to the next.[352] Also, while purchases of each commodity were supposedly made in comparatively large units, for example, aloin U. S. P. purchase 84,000 lbs., and sales in much smaller units, e. g., aloin U. S. P. 11,340, 12,460, 12,040, 12,880, 12,320, 11,060, and 11,900 lbs.,[353] it was only in rare instances that the inventory at the year end did not exactly equal in quantity a particular purchase or purchases.[354] Further, although the sales were made in smaller than purchase units, the total sales for January in any one product almost always exactly equalled a single purchase of that product.[355] Finally, only rarely were different purchases of the same goods carried in the closing inventory made at different prices.[356] The foregoing facts may be summarized in the following table:[357]

Connecticut Division

Foreign Crude Drug Inventory	No. of Items	No. of Items with Broken Purchase Quantities at Year End	No. of Items sold Following Jan.	No. of Items for which Jan. Sales did not Equal Purchase Quantity	Earliest purchase of goods in Inventory at Year End	No. of Items with Purchases at Varying Prices
Dec. 31, 1937	40	[a] 1	17	[a] 2	Mar. 22, 1937	0
Dec. 31, 1936	44	[a] 3	15	[a] 5	Apr. 29, 1936	0
Dec. 31, 1935	45	[a] 1	12	[a] 2	July 3, 1935	0
Dec. 31, 1934	50	0	9	1	Apr. 17, 1934	1

[a] 1 of the 2 items and 3 of the 5 items in which January sales did not equal a purchase quantity were the items with broken purchase quantities at end of year and the January sales exactly equalled such broken purchase quantity at the end of the year.

Concerning the foreign crude drug inventory as set forth on the price test schedules and as confirmed by the pretended Canadian vendors, Charles Hermann, an employee of McKesson for 36 years and their buyer of bulk drugs and chemicals at the Cliff Street, New York City office, testified that in practically all of the items the quantities expressed were greater than the amounts traded in the United States in those particular items during the course of a year either

[352] Ex. 38, 40, 41, 42.

[353] Ex. 40.

[354] Ex. 38, 40, 41, 42. See also Ex. 61.

[355] Ex. 38, 40, 41, 42, 84.

[356] Ex. 38, 40, 41, 42. See also Ex. 61 and memorandum on accounts of Canadian Company as at Dec. 31, 1937 (Ex. 26) "* * * the stock records of the company do not disclose any price changes in any of the commodities traded in since April 21, 1937" and memorandum on accounts of Connecticut Division as at Dec. 31, 1937 (Ex. 49) "* * * In most cases the purchase cost of these stocks has remained fairly constant notwithstanding the generally depressed commodity market * * *." But cf. Ex. 42 and Ex. 61. Eight items in the Canadian Company inventory on Dec. 31, 1934 were also in the Connecticut Company inventory on the same date. Uniform prices were paid by each Company for each commodity. On seven items, however, the purchase price paid by one Company differed from that paid by the other even though the purchases for identical commodities were sometimes made by one Company both before and after those of the other Company.

[357] Ex. 38, 40, 41, 42, 84.

domestically or for export [358] and continued to point out other impossibilities in the manner in which the business was supposedly conducted.

"Q. [By Mr. GALPEER.] Will you please look also, Mr. Hermann, at the description of the containers in which these goods were carried, and tell me in which cases, in which instances, to your experience and knowledge, the goods are not handled in the manner as stated on that exhibit.

* * * * * * *

A. Amidopyrine is in hundred pound drums, not fifties. Coumarin is in 25 pound tins and not hundreds. Thymol Iodide is in hundred pound barrels, not 75's. Salol is in hundred pound kegs, not in two hundred. Santonine crystals are in 25 one kilo cans, not in 17 pound cases. A kilo is 2.2 pounds. * * * oil of peppermint natural, * * * would be in drums, although it is ditto marked cases [on the exhibit]. Mexican Vanilla beans are not packed in two hundred pound bags; they must be packed in tins, usually four to a case. Bismuth subnitrate is packed in hundred pounds [not fifty]. That is all.

* * * * * * *

Q. Mr. Herman, why would Mexican vanilla beans be packed in tins rather than bags?

A. Due to the nature of the item. They are very perishable; loss of weight. The cost of the item itself.[359]

* * * * * * *

Q. * * * could any one purchase this crude iodine for re-shipment into another country other than Chile, and make a profit and meet the competition of the syndicate itself?

A. In my experience with the house, we have never been able to do it.

* * * * * * *

The EXAMINER. * * * if you were selling iodine to England, for example, would you be competing with the group, or the cartel?

The WITNESS. Yes, sir.

By Mr. GALPEER:

Q. Does that cartel condition exist in the case of any of the other products you have read off? Not the same cartel, but other cartels.

A. Quinine.

Q. How about gum camphor slabs from Japan?

A. There is none on that.

Q. Could anybody buy camphor in Japan?

A. Yes, sir.

Q. How is the world distribution of that carried out, by the Japanese interests?

A. By the Japanese interests.

Q. So would it be possible for any one to buy camphor themselves in Japan and compete with, or undersell, the Japanese interests in world distribution?

A. Not in my experience.

* * * * * * *

Q. Now, are there any other products on this exhibit which are subject to price regulation, either through cartel or some similar arrangement other than those you have already mentioned in this connection?

A. Well, Santonine is quite well controlled by the Russians. The others—most of the others look like domestic—some of these are domestic manufactured chemicals here.[360]

* * * * * * *

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[358] R. 2597, 2600. See also figures reported in "Trade of Canada" Ex. 191 discussed in pages 270-271 *infra*.

[359] R. 2598-2599.

[360] R. 2607-2609.

Q. [By Mr. STEWART.] How long would you say that it took you to acquire the detailed knowledge of the various products about which you have been testifying this morning, as to their sources and the markets and the extent to which they were traded and the extent of control over their prices and so on?

A. I don't know how long it took. I know I came there in 1902. What year I acquired to know it, I couldn't tell you. I have been handling them for 36 years.

Q. And your testimony this morning is based upon 36 years of training and experience in that field?

A. Yes sir." [361]

Finally, on this subject it was noted that although since 1934 the goods were supposed to have been stored in Canada at the suppliers, there were attached to copies of the Canadian Company's Connecticut State income tax return for the period ended Dec. 31, 1935 (taken from the files of the tax department of McKesson) confirmations from the five Canadian vendors (apparently additional to the regular semi-annual), stating that as at Dec. 31, 1935 the goods were all being held in the State of New Jersey.[362]

d. MONTHLY REPORTS TO MANAGEMENT

Each month the comptroller's office would issue financial statements addressed "To Messrs. F. Donald Coster, C. F. Michaels, W. J. Murray, Jr., J. F. Thompson, Divisional Vice Presidents and Assistants to Divisional Vice Presidents." [363] The report also went to directors not included in the above.[364]

The Connecticut Division statement of profit and loss was broken down into the following classifications: General Sales, Cosmetics, McKesson Products, Spanish American, Angostura Bitters, and Spice. The foreign crude drug business was not separately set forth but was combined with Hermann's domestic business in General Sales.[365]

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[361] R. 2614–2615.

[362] R. 518, 599, 939, 946, 4472–4475; Ex. 234. Ritts testified that Price, Waterhouse & Co. did not see such confirmations or have any knowledge of them prior to their introduction ot the hearings. R. 4473–4475.

[363] Ex. 185.

[364] R. 2223, 2272–2273, 2394, 2437.

[365] Ex. 185 (esp. Connecticut Division); R. 2440, 2491, 2553, 4265. For the Canadian Company only the figures for net sales and estimated net profits were given. Ex. 185 (Form 1002, p. 3). Although the reports like Ex. 185 came out over the name of J. H. McGloon, his discretion in matters of this kind may perhaps be illustrated by the following sentence from a memorandum dated June 7, 1938, addressed to "Dear Mr. McGloon," from F. D. Coster: "Remind me at the first opportunity to rearrange the names of the different accounts containing subscriptions and dues, to obtain a more accurate and intelligent distribution." Ex. 110. See also R. 1706–1707:

"Q. [By Mr. GALPEER.] Mr. McGloon, how would you describe briefly the influence, direction, policy making which Mr. Coster exerted over the general accounting and bookkeeping of McKesson & Robbins. Would you say that he took an interest in the detail and directed the detail at many points?

A. Yes, I would.

By Mr. STEWART:

Q. Did you regard that as creditable zeal on the part of the chief executive of the company prior to a few weeks ago?

A. No.

Q. How did you regard it, as a suspicious circumstance?

A. No, I didn't.

Q. Just the sort of thing you would expect.

A. No, I don't think it was the sort of thing that I would expect but Mr. Coster had his fingers on the pulse of the business; he knew what was going on in every department of the business.

Q. And you thought that that was just another phase of that?

A. Yes."

In any event the directors could not tell from these reports and did not have any idea of the amount of foreign crude drug business supposedly carried on through Smith and Manning.[366] And even the auditors could not tell at the hearings exactly how much of the sales and gross profits were attributable to the foreign crude drug business.[367]

7. The Manner in Which the Foreign Crude Drug Transactions Were Handled Prior to 1935

Prior to 1935 [368] the foreign crude drug inventories were supposedly kept at Bridgeport.[369] Robert Dietrich supervised the taking of the crude drug inventories.[370] Comparing the method of preparing the regular and foreign crude drug inventory count sheets at this time, John White, who for 11 years worked under Robert Dietrich,[371] testified:

"Q. [By Mr. GALPEER.] Now, Mr. White, I call your attention to Commission's exhibit No. 57 [inventory count sheets for 1934], and ask you to what goods the sheets composing this exhibit pertain? In other words, do they pertain to the regular crude or the foreign resale crude?

A. The regular crude, the sheets here.

Q. Do you know whether the merchandise covered by these sheets, part of exhibit No. 57, was actually counted?

A. Yes, sir.

Q. Was it counted under your supervision?

A. Yes, sir.

Q. Now, will you explain the system or significance of the various initials and names that appear on those count sheets?

* * * * * * *

A. Well, we were given four sheets of a set, four copies of a set, three of which were used by each of three men or one each by three men, or in cases where stock demanded the services of an adding machine, we had two men working to a sheet. The fourth copy was kept by myself or whoever might happen to be in charge of a crew of three, four or six, or whatever the number of men were as the case may be, as a control copy. Each man took a copy of the set, not the same set, a different set, so that no two men would be in the same part of the building counting the same stock at the same time, and when they had completed their count, they returned it to the man in charge of the crew who assembled them, and when the three counts agreed, it was attached to the control copy, which was his own copy, showing the names of the counters, and he either took them into the office or sent them into the office as they were completed.

Q. And by 'office,' you mean Mr. Robert Dietrich's office?

A. Yes.

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366 R. 2157–2158, 2223, 2274, 2317, 2423, 2440, 2491–2492, 2495–2496, 2518, 4265–4266.

367 Ex. 43; R. 527–528, 889, 1082. But cf. Ex. 120, 124, 267, N, Q.

368 While not as much is known of the manner in which the transactions were handled prior to the 1937 audit as at that time, certain important differentiations have been developed and will be pointed out in this and succeeding subsections. It is not to be assumed, however, that where no differentiation is noted the practice was necessarily the same as at the 1937 audit.

369 R. 420, 603, 1681. While all of the inventories in question were supposedly at Bridgeport on December 31, 1934 (R. 420) and 1933 (R. 1223), prior to that time some of the foreign crude drugs were purportedly stored in outside warehouses. Ex. 76, 83, 104.

370 R. 658, 1467.

371 R. 1471–1472.

Q. And then the pencil writing appearing on those count sheets, comprising part of exhibit 57, were put on by the men as they were counting the goods?

A. Yes, those pencil notations are [those of] the man that actually counted that merchandise.

Q. The signatures of the man appearing on each of the sheets were the men who actually counted the goods?

A. That is right.

Q. And the names of the men appearing on the fourth sheet were put in by the man who was in charge of that crew?

A. That is right, two, four, six, as the case may be.

Q. Now, I call your attention to Commission's exhibit No. 58 [inventory count sheets for 1934] and ask you whether the merchandise there set forth pertains to the foreign resale crude, or the general crude?

A. Well, it belongs to what we understood to be the export crude, or which would be foreign crude.

Q. Will you tell me, as far as you know, the manner in which those sheets were filled out?

A. These sheets were handed to me together with the record [inventory] cards——

* * * * * * *

And [I was] asked or directed to transfer the balances shown on those cards to these sheets and originally, probably the first time that he [Robert Dietrich] asked me to do this particular job, he explained about showing the number of containers by dividing the size of any individual container into the net weight shown on the card balances.

Q. In other words, this count sheet which was handed to you already had typed on it the item and the size——

A. That is right.

Q. And you copied, in pencil, the quantity from the inventory cards?

A. That is right.

Q. And then divided the size as shown into the quantity to fill in the other column entitled 'Number of barrels, drums, etc.'

A. That is right.

Q. The handwriting appearing on this first count sheet is your handwriting?

A. Yes, sir.

Q. The handwriting appearing on the second and third count sheets, which are carbon copies of this same merchandise appearing on the first one, is that your handwriting also?

A. No, sir.

Q. Do you know whose handwriting that is?

A. I don't.

Q. But the handwriting appearing on the original copy of page 2, is that your handwriting?

A. It is.

Q. And the handwriting appearing on the carbon copies on page 2, is that your handwriting?

A. No.

Q. Do you know whose handwriting it is?

A. No.

Q. Do you know whether the typing, 'Building No. 2, first floor,' appearing on the top of the page underneath crude drug inventory, and above item size, number of barrels, drums, et cetera, quantity, was on this sheet at the time you filled it in in pencil?

A. I don't recall having seen it there.

Mr. GALPEER. I would like to have the record show that from looking at the carbon copy, where 'Building No. 2, first floor' appears in original typing, although the rest of the typing on the page appears to be carbon copy, I would like to have the record show that fact in connection with Mr. White's testimony as to whether or not that appeared on these sheets at the time he filled it in in pencil?

The EXAMINER. Do I understand that Mr. White simply copied these from cards, that there was no actual count of this merchandise?

The WITNESS. That is right.

The EXAMINER. There was no such merchandise in building 2 on the first floor as of December 31, 1934?

The WITNESS. No, sir.[372]

* * * * * * *

Q. [By Mr. STEWART.] And would you say these sheets, like Exhibit 58, were made up in the same way every year from 1931 or 1932, when you started making them up?

A. I cannot say just when these sheets started, this particular set-up, I can't place for sure; it was probably around 1931 or 1932, though.

Q. Well, whenever it was the first time that you made them up, you made them up in exactly the same way in which you described as the way in which Exhibit 58 was made up?

A. Oh, yes, it has been the same operation from the time he first asked me to do this all along.

Q. It was always a case of copying quantities off the cards rather than a case of physical counting?

A. That is right." [373]

In accordance with this testimony it may be noted that the count sheets, Exhibit 58, covering the foreign crude drugs were not initialed and were more regular in writing than those of Exhibit 57 covering the regular goods which were actually taken around in the count.[374] Commenting further on the impossibility of the foreign crude inventory having been stored where indicated, John White testified:

"Q. [By Mr. GALPEER.] Let me ask you, Mr. White, in view of your familiarity with the plant at Bridgeport, with building No. 2 on the first floor and with your familiarity in handling such crude drugs that would come into Bridgeport, whether building No. 2 could have contained the quantities of merchandise as set forth on those count sheets?

A. No, sir, it would be impossible.[375]

* * * * * * *

Q. [By Mr. STEWART.] Let us see if we can start at the beginning now. Are you able to say, under oath right now, that the merchandise listed on these two sheets, Exhibit 58, was not in the warehouse at Bridgeport at the time these sheets were prepared?

A. Right, I did say they were not there.

Q. How do you know that?

A. Well, on this particular stock it had always been outlined to us that there was an outside warehouse and there had never been any stock in Bridgeport. It was always direct shipping, and therefore we would not have stock.

[372] R. 1475–1480.

[373] R. 1500–1501. White also filled out count sheets for the Canadian Company. R. 1532–1536.

[374] R. 1494. Similarly the count sheets of the Canadian Company. Ex. 60.

[375] R. 1480–1481.

Q. Are you sure that was always so, or only in the last three years?

A. Well, as far as I was concerned, it was always right from the beginning, from the first time he told me about this particular stock, that it was direct shipments from the warehouses. I always believed it to be the same.

Q. And the man who outlined that to you was Robert Dietrich?

A. Yes.[376]

* * * * * * *

Q. Now, let us come back to the question we were on a moment ago. If you did not know this merchandise when you saw it, how did you know it was not in that warehouse in 1934 and in prior years?

A. If I didn't know the merchandise when I saw it?

Q. Yes.

A. You refer to what, please?

Q. Exhibit 58, the thing from which I read you several items a few moments ago which you said you would not know if you saw them.

A. Well, looking over this stock here, looking over this list here, there are certain items on here that I do know what they are and it would be impossible to get these other items in the space that we had in the particular building up there.

* * * * * * *

Q. All right. Which item are you talking about in your last answer?

A. Well, here, for instance, gum camphor slabs, 2,000 cases, with the space that we have in that particular building it would be almost an impossibility to get that one item in it.[377]

* * * * * * *

Q. [By Mr. GALPEER,] And from that indication showing that all the space was taken up by certain commodities [you knew were there], you were sure that there was no space left for the resale crude commodities as set forth on Commission's Exhibit 58?

A. That is right." [378]

Either the foreign crude drug count sheets as prepared by White or the new inventory cards made up from the count sheets, furnished the basis for the entries on the inventory book sheets.[379] Spaces on the book sheets [380] were provided for initialing to indicate who the inventory was "Counted by" (physically), "Recounted by" (physically), "Entered by" (on perpetual inventory cards), "Count checked by" (for accuracy of entering), "Priced by" (on basis of cost), "Extended by" (comptometer operator who checked clerical accuracy) and "Verified by" (second check of clerical accuracy).[381]

On none of the 1934 inventory book sheets for "Book No. 7" which included foreign crude drugs, do any initials appear over "Counted by" or "Recounted by." [382] On the 1931 inventory book sheets the initials of John White and Howard Cone appear over "Counted by" and "Recounted by," respectively.[383] Concerning the manner in

[376] R. 1522–1523.
[377] R. 1526–1527.
[378] R. 1545.
[379] R. 1515–1516.
[380] Ex. 59, E.
[381] R. 1678–1681.
[382] Ex. 59.
[383] Ex. E; R. 1678–1679.

which these initials were customarily inserted before the inventory books were sent to the accounting department, White testified:

"* * * I will tell you just how I used to initial these and in that way it is quite possible that there was something on there that we wouldn't see. When the inventory was completed, Robert Dietrich would call me and get somebody else.

" 'Here, I have got to rush these out to the main office as soon as I can. Initial these sheets,' he would say, and he would give us all these sheets. We used to take them down and line them up on the desk with just enough room for some one to initial them, to the next man who was initialing them. It saved time and we did it that way for that purpose." [384]

With such procedures, it is understandable that there never were any quantity adjustments between the purported physical inventory on foreign crude drugs and the book figures.[385]

Despite the fact that the goods were supposed to have been in Bridgeport at this time,[386] the Connecticut State income tax return filed by the Maryland Company for the calendar year 1934 on its face showed only $689,697.68 average monthly fair cash value of real estate and tangible personal property within Connecticut as against $10,302,-539.09 in "various locations throughout the United States and in foreign countries." [387] Attached to the copy of this return (in the files of McKesson's tax department) was a schedule signed by Robert J. Dietrich which stated "* * * we are holding in our New Jersey Warehouse the following merchandise as of December 31, 1934," following which was itemized the foreign crude drug inventory of the Connecticut Division in the amount of $6,389,125.00.[388]

Finally, in view of White's testimony as to the mechanical way in which he initialed receiving tickets [389] and inventory book sheets [390] and in which he prepared the inventory count sheets on foreign crude drugs,[391] and in view of the fact that Robert Dietrich's employees, to whom he was known as "the terror" [392] apparently did anything he asked them to,[393] there would not seem to have been any difficulty in securing initials for the receiving tickets which were issued prior to 1935 covering purported receipt of foreign crude drugs at Bridge-

[384] R. 1512.

[385] R. 650-652, 726-727, 1369, 1418-1421. Apparently after 1934 there were not even adjustments for market price.

"Q. [By Mr. GALPEER.] You mean, after 1934 whenever items cost more than what the market price appeared, that those items would be closed out before the end of the year?
A. [By JOHNSON.] That is what it appeared to be." R. 1370.

[386] R. 939.
[387] Ex. 235.
[388] Ex. 235; R. 4473.
[389] R. 1561 ff.
[390] R. 1512 ff.
[391] R. 1477 ff.
[392] R. 1490.
[393] R. 1541.

port [394] especially since, as evidenced by White's testimony, Robert Dietrich had told him in 1928 or 1929 that this kind of merchandise did not have to be handled "it was all direct shipping-export" [395] and since to White the significance of his initials on these transactions did not mean "* * * anything at all outside of the fact that it has always been driven into us that all transactions had to conform to the same procedure irrespective of whether it was direct shipping or not." [396]

8. The Manner in Which the Foreign Crude Drug Transactions Were Handled Prior to 1931

Miss Bakos, since 1929 cashier of the Connecticut Company (later Division), gave the following comparison of the manner of handling remittances on regular accounts with the manner of handling remittances on foreign crude drug accounts during the period prior to the adoption of Manning & Company as a purported bank [397] (to whom subsequently remittances on account of foreign crude drug sales were supposedly made):

"Q. [By Mr. GALPEER.] Now, did you ever make up cash tickets from any other source of information than the actual checks or credit advices from banks?

A. Yes, I did. I would get a copy of a number of credit advices from Mr. Dietrich and he would advise me which bank they were to be picked up in, and I would do as advised.

Q. What was the form of Mr. Dietrich's advice to you?

A. As I can remember, at that time there would be just a pencil notation listing the accounts to be credited * * * [and] the bank, in which they were credited.

Q. In those cases you saw no checks?

A. No.

Q. Nor did you see any credit advice?

A. No actual credit advices.

Q. Now, in other cases you stated that you would either actually see the check or see the credit advice itself?

A. Yes, from the bank.

Q. From the bank, but in these cases, where Mr. George Dietrich gave you this list, he would just tell you to make up the cash tickets and credit the accounts, and tell you against which bank the debit was to be made?

A. Yes, that is right.

* * * * * * *

Q. Now, Miss Bakos, from what notations on this exhibit No. 195 or from what other information can you tell that these particular cash tickets were prepared from lists submitted to you by Mr. George Dietrich as distinguished from actual bank checks or credit advices [received] directly from the bank?

* * * * * * *

A. Well, I really cannot say other than those large amounts always stayed in my memory as having come from him. They did not represent actual cash

[394] Ex. F; R. 4417.
[395] R. 1500.
[396] R. 1561.
[397] See footnote 368 *supra*.

[that I saw as cash] [398] and I would mark it in this manner to distinguish it from other larger checks had I had one at that date.

* * * * * * *

Q. In other words, you mean that this group of accounts which subsequently—which, in 1931 were handled through Manning & Company prior to that date, were distinguishable in your mind——

A. Yes.

Q. And in your records as having been handled in this manner from Mr. George Dietrich?

A. That is right.

Q. And this was a regular flow or manner in which those accounts were handled?

A. Yes, sir.

Q. Not merely on the dates on which these particular cash slips were made out but currently through the year at that time?

A. At that time, that is the way I distinguished them from the actual cash checks that we received.

* * * * * * *

Q. Now, I show you a photostatic copy of a bank deposit slip dated December 30, 1930, in the amount of $18,077.23. Would that bank deposit slip be prepared by you or under your direction?

A. This particular one was prepared under my direction.

Q. All right. And how was that bank deposit slip prepared? From what records?

A. They were prepared from the actual checks received that day.

* * * * * * *

Q. And you would send these checks, together with the bank deposit slip to the bank?

A. That is right.

* * * * * * *

Q. Now, you will notice that the net cash deposited on that day, December 30, in the Bridgeport Trust Company * * * was $52,301.23. Now, the deposit slip I have shown you only accounts for $18,077.23. How do you account for the difference?

A. Well, the difference would represent the items given me by Mr. Dietrich to be credited in the Bridgeport Trust Company.

Q. I see. And on that difference you did not handle the checks. As a matter of fact, did you have any knowledge as to how the credit was made in the Bridgeport Trust Company?

A. No.

Q. Exactly what did you know in reference to that part of the deposit?

A. I inferred—I would have been told by Mr. Dietrich that the credit was in the Trust Company, and that we were to pick those up and record it in the day's work.

Q. Now, I show you another deposit slip on the same bank, the Bridgeport Trust Company, dated the same day, December 30, 1930, [for $34,224.00—making up the difference] and ask you in whose handwriting the written part of that deposit appears?

A. That is Mr. Dietrich's handwriting.

[A statement was then made for the record by Mr. Galpeer that the photo-

[398] R. 2672.

static copies of the deposit slips shown the witness were obtained directly from The Bridgeport–City Trust Company.]

* * * * * * *

The EXAMINER. I believe the witness stated that it was not the custom of the company to keep the deposit slips.

Mr. GALPEER. That is correct.

The EXAMINER. Does that apply to all times, or just during this period?

Mr. GALPEER. Let us ask the witness.

The WITNESS. That applied at all times.

* * * * * * *

Q. [By Mr. GALPEER]. Now, this system of receiving the list from Mr. Dietrich was the system in vogue prior to the establishment of the Manning account [sometime in June 1931]?

A. That's right.

Q. Now, how far back did that go, to your knowledge? Was that system used as long as you were cashier?

A. As far back as I can remember, I would say, yes.

Q. So that you do not know—in fact, you never did know what funds were used to pay these accounts?

A. No, I never knew.

Q. Now, can you tell from examining Commission's exhibit 193, which is the cash record for December 30 [1930], Commission's exhibit 195, which contains two cash tickets for December 30 and Commission's exhibit 197, which is the deposit slip in the handwriting of Mr. George Dietrich for December 30, how many accounts receivable this one item of deposit, appearing on exhibit 197, being in the amount of $34,224.00 represents?

A. I would say it represented two cash tickets, totaling that figure [indicating].

Q. In other words, this one item of deposit represented two accounts receivable?

A. That's right.

Q. And looking at exhibit 195, which two accounts receivable do you refer to?

A. I refer to R. Darne and Company, $17,732; and Cowe and Company, Limited for $16,492." [399]

Miss Bakos also identified a deposit slip of the Canadian Company for December 30, 1930 in which a single item of deposit in the sum of $33,279.75 covered two accounts receivable.[400] The deposit slip was also in the handwriting of George Dietrich.[401] At this time, all of the daily transactions in the books of the Canadian Company were entered by George Dietrich.[402]

Prior to the adoption of Manning & Company as a sort of fiscal agent which purportedly made payment for and effected collections on the foreign crude drug transactions, the Connecticut and Canadian Companies actually issued their checks in payment of fictitious purchases.[403] The checks could be signed by either Coster or George Dietrich without counter-signature.[404] As previously stated, most

[399] R. 2647–2656.

[400] Ex. 201; R. 2664, 2671.

[401] R. 2663.

[402] R. 2666–2668, 4408, 4414–4415, 4420.

[403] R. 4560. For a while after the adoption of Manning & Company as a purported bank both systems were used in establishing payment for fictitious purchases and sales of foreign crude drugs, i. e., Manning debit-credit advices and actual cash outgo and income. R. 4562 and page 47 *supra*.

[404] Ex. 17.

of the money paid out on such purchases actually came back to McKesson purportedly in payment for the fictitious sales.[405]

An illustration of the manner in which this was done, based upon the deposit slips previously identified by Miss Bakos, was supplied by the testimony of Arthur Seal, accountant in charge for S. D. Leidesdorf & Co., who conducted the fraud investigation for the Trustee.

Seal testified that on December 24 and 26, 1930, the Canadian Company drew two checks to the order of George Vernard for $64,300.50 each, on account of fictitious purchases of crude drugs. These checks were deposited in George Vernard's bank account with the Chase National Bank on December 26 and 27. On the same days the same amounts of money were drawn out from that account and deposited in the account of Woodtone Company, Inc., also at the Chase National Bank.

Then the Woodtone Company, Inc. drew one check on its account with the Chase National Bank to the order of the Canadian Company for $33,279.25. This was recorded on the Canadian Company's books in payment of the accounts of A. P. Miller & Company, whose address was given as 420 Liverpool Street, Tasmania, Australia, in the sum of $19,380.00, and James Dixon, Limited, 94 Oxford Street, Sydney, Australia, in the sum of $13,899.75. The check of the Woodtone Company, Inc. was deposited by the Canadian Company on December 30 (see Ex. 201 deposit slip in George Dietrich's handwriting identified by Miss Bakos) and was debited against Woodtone's Chase National Bank account on December 31.

At the same time as the Woodtone Company, Inc. drew the check for $33,279.25 to the order of the Canadian Company, it also drew a check to the order of the Connecticut Company for $34,224.00 which was recorded on the Connecticut Company's books in payment of the accounts of R. Darne & Co., whose address was given as Mauritius, Togoland, Africa, in the sum of $17,732.00, and F. Cowe & Co., Limited, whose address was also given as Mauritius, Togoland, Africa, in the sum of $16,492.00 covering purported shipments on August 7 and 8, 1930 of that amount of virgin mercury. The check of the Woodtone Company, Inc. was deposited by the Connecticut Company on December 30 (see Ex. 197 deposit slip in George Dietrich's handwriting identified by Miss Bakos) and was debited against Woodtone's Chase National Bank account on December 31.[406]

This transaction was an example. With one exception hereinafter noted, all of the actual cash received on account of foreign crude drug receivables came in a similar "ring-a-round" from payments made on

[405] See pages 46 ff. *supra.*

[406] Ex. 197, 201, 256; R. 4562-4565.

fictitious purchases.[407] The exception concerns a deposit of $397,410 on April 27, 1928 which came from sources other than those which directly received McKesson funds on account of fictitious purchases.[408] Three days later, April 30, 1928, was the date as of which the Connecticut Company was audited and on the basis of which it and the Group One wholesale houses were acquired by the Maryland Company.[409]

D. THE MANNER IN WHICH THE OUTSIDE DOCUMENTS ON THE FICTITIOUS TRANSACTIONS WERE PREPARED

As previously stated, Smith, Manning, and the five Canadian vendors would now appear to have been either entirely fictitious or to the extent that they had any reality, were mere blinds used by Coster for his fictitious transactions, and the documents purportedly emanating from these concerns were prepared under the direction of George Vernard, Coster's brother. Rose Otting, employed by George Vernard since August 1931, first at 189 Montague Street, then 185 Montague Street, Brooklyn, N. Y., and since April 1937 at Room 711, 300 Main Street, Stamford, Conn., testified at the hearings as to the manner in which she prepared the documents on George Vernard's instructions.[410]

Once a month she received a batch of McKesson & Robbins purchase orders [411] from which she typed corresponding purchase invoices on the billheads of the respective Canadian vendors [412] and Manning & Company advices of debit [413] covering each transaction. Once a month she also received a batch of McKesson & Robbins factory orders [414] from which she typed corresponding Smith purchase orders,[415] Smith notices of shipments,[416] and letters from McKesson to the customers [417] covering each transaction. The latter letters were in three different styles, all substantially the same, and were always typed on blank sheets of paper, originals without any carbon copies.

[407] Pages 46–48 *supra*. After the adoption of W. W. Smith & Company, Inc. as a purported sales agency and the adoption of Manning & Company as a purported bank in 1931, the actual cash outgo and income circle described above was not eliminated immediately but was superseded gradually by the system of Manning debit and credit advices. In addition to the payments which were continued to be made on fictitious purchases, there was then added to the actual cash outgo in connection with these operations, the payments made for guaranty and service charges under the Smith contracts. The money transferred by Manning & Company into McKesson New York and Bridgeport bank accounts (footnote 200 *supra*) had its source in and became part of this remaining actual cash outgo and income circle. R. 4581-4583 and pages 47–48 *supra*.

[408] R. 4574–4576.

[409] Ex. 1; R. 2175. Accounts receivable as of this date showed a decrease from the previous year end of $349,823.62. Ex. 147.

[410] R. 4484–4514.

[411] Similar to Ex. 12–B.

[412] Similar to Ex. 12–A.

[413] Similar to Ex. 33.

[414] Similar to Ex. 8–A, 11–A.

[415] Similar to Ex. 8–B, 11–C.

[416] Similar to Ex. 8–C, 11–B.

[417] Similar to Ex. 232, 233.

From copies of McKesson & Robbins sales invoices,[418] which she also received, Miss Otting typed Manning & Company advices of credit [419] corresponding with each sales invoice.

In dating the documents she prepared from the McKesson & Robbins purchase orders, Miss Otting would follow the notations on an attached slip of paper; on the documents prepared from the McKesson & Robbins factory orders she would follow a fixed schedule based upon the date of the factory order.

As Miss Otting typed the Manning & Company advices of debit and advices of credit she would list them in a black book and from the list she would prepare each month a Manning & Company statement of account.[420] Also each month she would type two Smith statements,[421] one for $750 and the other for a percentage of the sales as added from the factory orders received that month.

Twice a year, Miss Otting typed inventory confirmations [422] on the letterheads of the five Canadian vendors and she also typed the quotations [423] which purportedly emanated from those concerns.

All of the documents described above she typed in two groups, one for the Connecticut Company (later Division) and one for the Canadian Company.

Miss Otting had in her office five portable typewriters of different makes and two standard typewriters, one large carriage and one small. She testified that she consistently used specific machines for each of the five Canadian vendors, Smith, and Manning.

Miss Otting also testified that for a few months in 1935, she used to stamp the bill of lading forms with the Smith "RECEIVED" stamp [424] but that subsequently the stamp was taken up to Bridgeport. In the earlier years she had also worked on J. P. Meyer and Woodtone documents.

As to the manner of receiving and transmitting the documents she stated:

"Well, when I first started to work for Mr. Vernard, I received them by mail. They came by mail from McKesson & Robbins, and then, when I finished the typing, I would send them back to McKesson & Robbins in care of Mr. George Dietrich.

"Then, when I went up to Stamford, Mr. Robert Dietrich would bring them in, or else I would find it in the file. Who brought it in I wouldn't know then.

"Then, when I had finished it, Mr. Robert Dietrich would call for it, or else, during the night, somebody else would call for it." [425]

[418] Similar to Ex. 8-D, 11-D.
[419] Similar to Ex. 34.
[420] Similar to Ex. 30.
[421] Similar to Ex. 222, 224, 225.
[422] Similar to Ex. 53, 54.
[423] Similar to Ex. 238.
[424] Similar to stamp on Ex. 9.
[425] R. 4496.

E. CONTROL EXERCISED BY DIRECTORS OVER THE FOREIGN CRUDE DRUG BUSINESS

At the time the fraud was made public the Board of Directors of the Maryland Company was composed of the following:

J. L. Bedsole (1928),[426] divisional vice-president, formerly Bedsole-Colvin Drug Company, Inc. acquired by McKesson in 1928.

F. Donald Coster (1928), president.

W. L. Cummings (1936), Sullivan & Cromwell, counsel for McKesson.

George V. Doerr (1928), divisional vice-president, formerly Minneapolis Drug Company acquired by McKesson in 1928.

T. O. Duff (1935), vice-president, formerly Duff Drug Company acquired by McKesson in 1929.

Henry D. Faxon (1928), secretary and divisional vice-president, formerly Faxon & Gallagher Drug Company acquired by McKesson in 1928.

B. B. Gilmer (1928), divisional vice-president, formerly Southern Drug Company acquired by McKesson in 1928.

L. A. Lanigan (1938), vice-president, formerly Fuller-Morrison Company acquired by McKesson in 1928.

Horace B. Merwin (1928), The Bridgeport-City Trust Company.

Charles F. Michaels (1928), executive vice-president, formerly Langley and Michaels Company acquired by McKesson in 1928.

William J. Murray, Jr. (1928), first vice-president, formerly The Murray Drug Company acquired by McKesson in 1928.

R. G. Pettingill (1937), Sullivan & Cromwell, counsel for McKesson.

Rowley W. Phillips (1928), The R. F. Griggs Company, Waterbury, Connecticut.

C. Barnum Seeley (1928), formerly The Bridgeport-City Trust Company.

Julian F. Thompson (1928), treasurer,[427] formerly Bond & Goodwin, Inc.

A. H. Van Gorder (1928), vice-president, formerly The Hall-Van Gorder Company acquired by McKesson in 1928.

McKay Van Vleet (1931), vice-president, formerly Van Vleet-Ellis Corporation acquired by McKesson in 1930.

Sidney J. Weinberg (1934), Goldman, Sachs & Co.

In the Canadian Company, the Board of Directors remained the same since its inception until the public disclosure of the fraud. It consisted of:

F. Donald Coster, president and treasurer.
George E. Dietrich, secretary and assistant treasurer.
Jonathan Grout, Boardman, Grout, Swain & McCarthy, attorneys.
Horace B. Merwin,
Rowley W. Phillips,
C. Barnum Seeley,
} See Maryland Company above.

The Board of Directors, president and treasurer, and secretary and assistant treasurer of the Connecticut Company from its inception until it ceased being an active operating subsidiary and its business was taken over directly by the Maryland Company in October 1934 were exactly the same as that of the Canadian Company listed above,

[426] Indicates year became Director.

[427] Prior to February 1930, Horace B. Merwin acted as treasurer.

except that Herbert D. Robbins and Saunders Norvell, who owned the old McKesson & Robbins, Incorporated (New York), were on the board of the Connecticut Company until the latter part of 1932 and the middle of 1928, respectively, and that Jonathan Grout did not come on the board of the Connecticut Company until Herbert D. Robbins left it.

The directors of the Maryland, Connecticut, and Canadian Companies, who testified in the present proceedings, knew little about the operations of the foreign crude drug business, except that it was under the direct supervision of Coster and that crude drug trading, as a whole, appeared to be showing consistent profits. As previously pointed out, however, the directors had no idea of the proportion attributable to Hermann's business at Cliff Street, as distinguished from the foreign business purportedly done through Smith.[428]

Charles F. Michaels, director of the Maryland Company, executive vice-president in charge of all wholesale operations, both drugs (other than crude drugs) and liquors, and a member of both the Management and Executive Committees, testified:

"Q. [By Mr. GALPEER.] * * * what was your understanding as to the nature of the business, the type of customers sold, how it was handled, who directed the business?

A. The business was supposed to come in from McKesson & Robbins of Connecticut, which was the prior organization, and Mr. Coster explained that the business was an export and import one and had to be handled differently from any other business, and subsequently a few years ago he claimed that it was being transferred to Canada largely for ease of operation, but like any new account, it was not my particular job, and when it showed profits I didn't ask him any questions about it.

Q. Did he elaborate at all, or did you ask any questions concerning the type of ease he had in mind in transferring it to Canada?

A. No, he only said it was, in doing this type of export service, it was more convenient to do it through Canada.

Q. What was your understanding, or knowledge, concerning McKesson & Robbins, Ltd.?

A. That company was part of the Connecticut Company before we came into it and I have always been told it was conducting a certain amount of business in Canada for ease in operation.

Q. Well, now, what was the difference, or your understanding of the difference between the Limited Company and the crude drug operations?

A. Well, not knowing the details of the operations of either, it would be pretty hard to answer that question.[429]

* * * * * * *

Q. * * * How would you compare the nature of the business done by the limited company with the nature of the export-import general crude business that was done by the Connecticut Division directly?

A. The information I had was very much the same type of business. I want to add to that and say that I never knew where the distinction came in between the two.

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[428] Footnote 366 *supra*.

[429] R. 4263-4264.

Q. Well, now, what determined the differentiation as to who did which if it was so similar?

A. I couldn't answer that. I haven't the slightest idea.[430]

* * * * * * *

Mr. REAVIS. And you wouldn't pretend to have any special knowledge at all about crude drugs, Mr. Michaels?

The WITNESS. No.

By Mr. GALPEER:

Q. In other words, you wouldn't deal in such things that have been mentioned here, for example, as oil of lavender, santonin crystals, or things of that sort?

A. Only minute quantities.

Mr. REAVIS. If at all, did you ever deal in those particular things at all?

The WITNESS. I couldn't say we did not, because I know we always have a few ounces of oil left in the house, small quantities of that kind.[431]

* * * * * * *

Q. [By Mr. GALPEER.] What did you understand was the source of supply on these crude drugs that were subsequently sold on orders received from W. W. Smith and Company?

A. I had no knowledge of that.[432]

* * * * * * *

Mr. GALPEER. Did you ever see a list of the inventory by items, with quantities, of what was supposed to make up this division?

The WITNESS. No, I never did." [433]

William J. Murray, Jr., director of the Maryland Company, first vice-president, assistant to Michaels in charge of wholesale operations,

[430] R. 4268–4269.

[431] R. 4277.

[432] R. 4278–4279.

[433] R. 4343. In explanation of this lack of familiarity with the activities of the foreign crude drug business, Michaels, on cross examination by his own counsel, testified:

"Q. [By Mr. REAVIS.] Now, on the question of the responsibility of Directors respecting the accounts of the company, you had quite a lot to do, did you not, in your running of the wholesale houses?

A. Yes, I had a great deal to do.

Q. How many branches has the company today of the wholesale houses?

A. Around 70.

Q. And you also operate a wholesale liquor division, do you not?

A. Yes, partly the same houses and partly independent houses.

Q. Well, bunching them together, how many branches have you?

A. At least 80.

Q. And you are, and have been for some years, generally chief responsible officer for the operation of that string of houses?

A. That's right.

Q. And that's a full time job, I take it?

A. I find it so.

* * * * * * *

Q. And daily you have had charge of and taken care of the many problems that arise in connection with the 80 branches that you now have?

A. Yes.

Q. And it is to that that your particular attention has been spent?

A. Correct.

Q. And it would be impossible, would it not, for any one man to have a detailed contact with or charge of all of the detailed operations of all of the different branches of the company's business?

A. It is a physical impossibility, yes.

Q. And you assumed those matters, of which you didn't have charge, were being taken care of by the people responsible for them?

A. Yes.

Mr. REAVIS. That is all." R. 4329–4331.

and a member of both the Management and Executive Committees, testified:

"Q. [By Mr. GALPEER.] Did you have any knowledge prior to December 6th of the way the foreign crude drug department operated, the one at Bridgeport?

A. Only a very general knowledge.

Q. Tell us what you understood.

A. I understood that there was a bank firm who had offices all over the world and who sold these goods on commission and guaranteed the receivables, that they were really our selling agents and that we carried these inventories in order to be able to supply promptly their sales.

Q. Had you any idea as to where the inventories were physically carried?

A. No, I didn't. I just understood that they were carried in warehouses. I understood that one was in Montreal and that they were in strategic shipping points around the world.

Q. Did you ever understand that the goods were supposed to be physically kept at Bridgeport at certain periods?

A. Early in the organization, in going up to Bridgeport, we passed additional buildings on the railroad. You could see them from the railroad there and they had our name McKesson & Robbins on them, and we were told that those warehouses had crude drugs in them.

Q. Had you ever heard of Manning & Company prior to December 6th?

A. Prior to December 6th I had never heard of it at all.

Q. Had you understood that the name of this international firm who were your selling agents was W. W. Smith?

A. It is rather hard to know now what I knew before then, but I know it now so well, but I will have to say of the crude department, and that whole Bridgeport affair, we were so busy with our wholesale drug business down here and it was under the direction and supervision of the president of the company. It was in there when we came. I knew very little about it and I was so darn busy with other things that I didn't give it a great deal of attention.[434]

* * * * * * *

Q. As a drug man, Mr. Murray, and not specifically of any knowledge gained of the situation in Bridgeport, are you generally familiar with crude drugs?

A. No, sir. I am a wholesale drug man entirely. Crude drugs were—you know that is a very large classification, * * * We had in the wholesale houses, not in the ones I worked in, but we had chemical departments in some of them that sold, what some people designate, as crude drugs. That is, fertilizer material and acids and those sort of things. But in the wholesale houses we sold packaged material practically entirely." [435]

Joseph L. Bedsole, director of the Maryland Company, divisional vice-president in charge of a group of wholesale houses, vice-president in charge of all trade investments, and a member of the Management Committee, testified:

"Q. [By Mr. GALPEER.] And you saw that the profits appeared high?

A. Yes, sir.

Q. But aside from that there was no consideration as to the manner in which the business was done, the type of markets, or anything of that sort?

A. No.[436]

* * * * * * *

[434] R. 2158–2160.

[435] R. 2174.

[436] R. 2480.

Q. Had you, prior to December 6, 1938, any idea as to how the crude drug division operated? That is, whether it sold goods through McKesson employees or through a selling agent?

A. No, I didn't know that.[437]

* * * * * * *

Q. Now, Mr. Coster was quite active in the wholesale divisions. In other words, he concerned himself with your problems with the things that were concerning you?

A. I'd say so.

Q. Did anybody aside from Mr. Coster, himself, concern themselves with the crude drug division? In other words, was that a sort of a sawed-off division there?

A. That was a model.[438]

* * * * * * *

Q. So that you would say that the reason the other directors didn't give consideration to that division was because it seemed to be going along all right?

A. Correct. And the regularity of it, too. I looked at the profits lots of times and they were splendid. In fact, looking back now I am sure that the regularity of the profits was the most satisfying thing we had all along." [439]

Henry D. Faxon, director and secretary of the Maryland Company, divisional vice-president, in charge of a group of wholesale houses, and a member of the Management Committee, testified:

"Q. [By Mr. GALPEER.] Now, Mr. Faxon, in any of the meetings that you attended, either the management committee or the Board of Directors, or as secretary or in any other way, did you consider the crude drug department?

A. That never came to our attention for consideration, no.

Q. Prior to December 5, 1938, what, if anything, did you understand concerning the method or manner in which this deprtment was operated?

A. Well, I understood nothing of it. I took the word it was a very profitable department and was the one successful feature of the company.[440]

* * * * * * *

Q. Have you ever heard of McKesson & Robbins, Ltd.?

A. Yes.

Q. What was your understanding concerning that corporation?

A. I was pretty misty about that." [441]

George V. Doerr, director of the Maryland Company, divisional vice-president, in charge of a group of wholesale houses, and member of the Management Committee, testified:

"Q. [By Mr. GALPEER.] Now, did you at any of these committees, either the management or the executive committee or the Board of Directors itself, did you ever have any occasion to go into the crude drug business?

A. No.

Q. Will you explain that?

A. Well, my first understanding of the crude drug department was at the time I went in the consolidation. I might say I was one of the first ones that went on the dotted line. When I went up to Bridgeport to look over Bridgeport to see what they had put in, I was shown invoices of trading internationally. camphor,

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[437] R. 2481.
[438] R. 2488A.
[439] R. 2489.
[440] R. 2524–2525.
[441] R. 2525–2525A.

china-wood oil and various other things. And also shown the balance sheet of '27; earning statements. I have always had an understanding that, from the inception, the industrial chemical division was profitable. One of my own friends used to tell me,'I am quite a good customer of yours, I buy china-wood oil [real domestic] in tank cars.' I said, 'Fine, that's where we are making some of our profits.'

So, I have always considered that that activity was profitable although I have never had anything to do with it; never had any occasion to have anything to do with it.

Q. Had you ever heard of W. W. Smith & Company before December 5th, 1938?

A. No; I hadn't.

Q. The same would be true as to Manning & Company?

A. Yes, sir.[442]

* * * * * * *

Q. Have you ever heard of McKesson & Robbins, Limited?

A. Yes.[443]

* * * * * * *

Q. And your impression, at least, prior to December 5, 1938, was that it was engaged in the sale of drugs of the type that you sell in your wholesale house?

A. That is right—well, no—to tell you the truth I didn't know much about it." [444]

Horace B. Merwin, of The Bridgeport-City Trust Company, who in addition to being a director of the Maryland Company, was also a director of the Canadian Company and of the Connecticut Company until its active business was taken over by the Maryland Company in October 1934, testified:

"Q. [By Mr. GALPEER.] Have you any idea as to this foreign crude drug business as to how much of it was put through the Limited Company and how much of it was retained by the Connecticut company?

A. No; I never did. I could tell by the reports of the Canadian Corporation what presumably went through it, but how—what remained for the other corporation, I do not know; no.[445]

* * * * * * *

* * * He [Coster] ran that department as far as I could see with the help of one or two of his close associates. It seemed to be his baby and his pet which nobody else paid much attention to." [446]

Rowley W. Phillips, then of The R. F. Griggs Company, Waterbury, Connecticut,[446a] a director of the Maryland and Canadian Companies, as well as of the Connecticut Company until its active business was taken over by the Maryland Company in October 1934, testified:

"Q. [By Mr. GALPEER.] * * * what, if anything did you know, prior to December 6, 1938 about this foreign crude drug business?

[442] R. 2551–2552.
[443] R. 2554.
[444] R. 2554.
[445] R. 2274–2275.
[446] R. 2276.
[446a] Until January 1, 1940.

A. I knew there was a crude drug department and I knew that it did a considerable amount of business. I didn't know how much business it did. The reason I knew there was a crude drug department was that I had on two or three occasions been in the crude drug department in Cliff Street and knew some of the men who were running that department. I did not ever have broken down figures of that thing because they were contained in reports of the Connecticut Division.[447]

* * * * * * *

Q. Prior to December 6, 1938, what was your understanding as to how this foreign crude drug business was handled?

A. By Coster and a few men under him such as Stebe and Herman.

Q. Had you heard of W. W. Smith & Company?

A. Not to my recollection and the first time that I remembered that I had heard of it was about a week ago when I saw a minute book of the Canadian Company—the minutes of some meeting in 1931. Those minutes [Ex. 179] took up three or four pages. They were—they contained a great many resolutions such as the appointment of a bank in Yokahama and another one in India and so on and so forth and at the very end there was a notation to the effect that the president had read a memorandum on the subject of the appointment of two agents and that he recommended that they be employed as agents.

Q. Who were the two agents, do you know?

A. And the two were Manning & Company and W. W. Smith, but I state this: That that is the only time I ever heard of them because I now understand there was a McKesson of Connecticut meeting held the same day and it was all passed at that time. [Ex. 180, 204]. Those names meant nothing to me and until last week I had absolutely no knowledge of them and I still do not remember anything about voting for their appointment. However, in voting to appoint them as agents and so forth, I undoubtedly would have done it on the recommendation of the president.

Q. Had you ever heard anything else of Manning & Company aside from the minutes of those meetings you referred to?

A. No; never a thing until I began to read mention of them in the papers.

Q. Did you understand before you read about it in the papers; that is, prior to December 6th, 1938, that Manning and Company was a bank?

A. No, I had no knowledge that they were a bank. I did not know what they were." [448]

Sidney J. Weinberg, of Goldman, Sachs & Co., director of the Maryland Company and a member of the Executive Committee, testified:

"Q. [By Mr. GALPEER.] Prior to December 5th, 1938, did you know how the sales and handling of the crude drugs were made, whether the goods were sold and purchased by McKesson's employees or by outsiders?

A. I did not, sir.

Q. Did you know whether they employed selling agents or made the sales through their own employees?

A. I did not, sir.

Q. Had you ever heard of W. W. Smith?

A. No, the name had never come up. Nor did I hear of it prior to December 5th.

Q. Now, how can you explain the fact, Mr. Weinberg, that in the last annual report filed with this Commission by McKesson & Robbins, that's for the year

[447] R. 2316-2317.

[448] R. 2329-2330.

ending December 31, 1937, in answer to item 11, which in effect requires a disclosure of all payments made to persons in excess of $20,000 under any sales or management contracts, I think the language is,—it is under contracts of a certain type, there are three firms listed, Sullivan & Cromwell, Price, Waterhouse & Company, and W. W. Smith. Don't you think, as a director, you would be interested in knowing who was receiving that money?

A. I never saw the report. I never saw the report that mentioned them.

Q. Had you ever heard of Manning & Company?

A. No, sir, I did not.

Q. Well, what did you know about Crude drugs?

A. All I knew is that they were in the import and export business.

Q. Well, does that mean that they didn't do any of it domestically?

A. I didn't know whether they did it domestically or foreign. It had never come up at any time that I was present. The only knowledge I had was that we were importing crude drugs and chemicals of all kinds." [449]

Wilbur L. Cummings, partner of Sullivan & Cromwell, director of the Maryland Company and a member of the Executive Committee, testified:

"Q. [By Mr. GALPEER.] Well, was it your impression that * * * what we have been calling crude drugs—was sold through your various branch houses?

A. No; I supposed they were sold out of Cliff Street and out of Connecticut.

Q. Now, did you know the manner in which they were sold?

A. I did not know the manner in which they were sold.

Q. Had you ever heard of W. W. Smith before?

A. I never heard of W. W. Smith before.

Q. And I presume you had not seen that registration statement, either?

A. I did not. It was supervised in our office, but I did not see it.

Q. Had you ever heard of Manning & Company prior to December 5th?

A. You say prior to December 5th. I heard of both Smith and Manning & Company a week or ten days before December 5th.[450] Until that time, I had never heard their names mentioned." [451]

Richard G. Pettingill, with Sullivan & Cromwell, director of the Maryland Company, testified:

"Q. [By Mr. GALPEER.] Mr. Pettingill, were there any discussions at any of these Board meetings concerning the operations of the foreign crude drug division?

A. Not of that particular division. I am speaking, of course, of only the period that I was on the Board.

Q. Did you know anything about this division during the period that you were a director?

A. I knew that the company had a foreign crude drug department. I knew it was operated in part from Bridgeport and in part from Cliff Street in New York City and I had been in the Cliff Street Office. I can't say, however, that I knew anything concerning the details of the operation of the department.[452]

* * * * * * *

Q. Had you ever heard of W. W. Smith & Company prior to December 5, 1938?

A. Yes, sir.

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[449] R. 2423-2425. Cf. Ex. 181. Letter from Weinberg to Coster, April 4, 1934, and attached memorandum with respect to the responsibility of directors.

[450] See pages 131 ff. *infra.*

[451] R. 2441-2442.

[452] R. 2222-2223.

Q. Will you tell us when you heard about it, in what connection, and what you understood its connection was with McKesson?

A. The first time I came across the name of the company was in December of 1934; in October of that year McKesson had liquidated practically all of its operating subsidiaries, a task that I had been engaged upon in part and local counsel had been employed by McKesson to complete the transfer of specific assets in all of the states in which former subsidiaries had been located.

Among those states was Connecticut and a law firm of that state had been retained to handle the specific assignments of the Connecticut Company to the Maryland Company; in December of 1934 that counsel wrote to me [Ex. 173] and advised me that they had completed the transfer entrusted to them and that among other things they had assigned a contract made by W. W. Smith & Co. to the Maryland Company which had previously been with the Connecticut Company.[453]

* * * * * * *

Q. When is the next you heard of W. W. Smith as well as you can remember?

A. April 12, 1938. At that time I received a letter from Mr. McGloon [Ex. 171] dealing with the form of the annual 10–K report of McKesson that was required to be filed under the Securities Exchange Act of 1934.

In this letter he refers to a contract with W. W. Smith & Company and asked whether the remuneration paid to W. W. Smith & Company under that contract was required to be reported on the 10–K report.

* * * * * * *

Q. And you advised that the amount paid should be reported under this item that you referred to?

A. I did [Ex. 172].

Q. Is that the last contact you have had with the question of W. W. Smith prior to December 5, 1938?

A. It was." [454]

Julian F. Thompson, director and treasurer of the Maryland Company, testified:

"Q. [By Mr. GALPEER.] Wnen is the first time that Manning & Company came to your attention?

A. I can't tell you. I really don't know. I knew that Manning & Company were involved in the transaction but I can't tell you when I first heard about it.

Q. In what capacity were they involved when you first found out?

A. Of course, I know now, but I don't think I had a clear picture in my own mind as to how they were involved at the time.[455]

* * * * * * *

Q. On the question of insurance, Mr. Thompson, the insurance department, whatever it was, was that nominally under your direction as treasurer?

A. Yes, it was.

* * * * * * *

* * * Mr. Robinson, * * * handles the entire details and I was simply a superior officer to him * * *.

Q. Did you or he ever consider the question of whether the total assets of the corporation were covered by insurance?

A. Not until April of 1938.

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[453] R. 2223–2224.

[454] R. 2225, 2226.

[455] R. 2068.

Q. And at that time, are you referring to your own check or his, or both?

A. I am referring to our conversation together, which developed the knowledge to me for the first time that the two items didn't balance and that I had not known that he had previously been instructed that he need not insure that particular inventory that was in Canada.

Q. Who had instructed him?

A. Mr. Dietrich, so he tells me. That is hearsay.

Q. And that was the first that you knew about it, was this conversation in April?

A. Yes, and at that time I happened to compare the balance sheet inventory with his total inventory fire schedule.

* * * * * * *

* * * I asked him what the discrepancy was and he, at first, couldn't remember. He was really surprised to see the discrepancy as I showed to him. Then he went back to check up and came back and said I remember I have checked it and I have found out why there is that discrepancy between those two figures. Naturally, he didn't handle balance sheets very much and didn't have it in his routine very much, and he apparently didn't have that type of comparison." [456]

The crude drug operations as such were never discussed at any meeting of the Board of Directors or Executive or Management Committees.[457] However, as a result of growing bank debt, the decision was reached in April 1937 to reduce inventories by $4,000,000 in the subsequent 4 months; $1,000,000 of this was to come out of the Connecticut Division, $2,000,000 out of the liquor inventory, and $1,000,000 out of the wholesale drug inventory.[458] It was following up on this decision that finally made Thompson suspicious. He testified: [459]

"Q. [By Mr. GALPEER.] Now, with those few remarks do you want to pick up the story where you left it in April, '37, at this meeting of the operating committee which resolved to try to reduce inventories $4,000,000 in four months?

A. Yes, we undertook that plan and we had had as one of our control schedules a monthly inventory report and so that I was watching that with interest in connection with this program. As the months passed, I observed that the crude drug department was going up steadily in inventory instead of coming down. There was a reduction made in other departments.

I don't think we quite accomplished the $4,000,000, it was something like two and a half—three million.

I called it to Mr. Coster's attention after the four months were over, or five months, somewhere along there, and he said that he would get it down, that it hadn't been done, but it would come down. I think I must have called it to his attention in November or December with the same comment.

Q. That was in 1937?

A. '37. And it was in our conversation after the year '37 had been completed, which was either January or February when I again showed him that the entire year was—the trend was in the wrong way.

Q. January and February, 1938?

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[456] R. 2096–2098.

[457] R. 2155, 2222–2223, 2479, 2524, 2551, 4259.

[458] R. 2067, 2156, 2396, 2479, 4259.

[459] See also Ex. 221 (Time Schedule of Julian F. Thompson's Activities in Investigating Foreign Crude Drug Department).

A. 1938, yes. That he told me that he had depended, or rather he said that Herman and Stebe had over-bought and were not selling and were not keeping the thing in control, that he would give them hell and get after them. That, I knew was a lie because I knew they did not have anything to do with that department.[460]

* * * * * * *

* * * I decided after he had—after I was sure that he lied to me that something must be seriously wrong or he wouldn't have lied, and I thought to myself that I better not ask him any more questions about that because unless I had some idea that I know the answer and that the only way to really know the answer was to know something about the details of the way the accounting and records were kept.[461]

* * * * * * *

* * * So I asked for information from Mr. McGloon, asked him to bring me some of the details so I could look at it, study the machinery. I took down the names of the warehouses in Canada, their addresses. I again looked at the Smith contract. I made careful notes that the contract was really with W. W. Smith & Company, a New York corporation, guaranteed by the Liverpool firm, and I think the first thing I did was to go to Grand Central and get a telephone book of Montreal and look for W. W. Smith & Company, look for these warehouses in these Canadian telephone books. I found them there. Although, what I found was W. W. Smith and Company, Limited, I think, in Canada, which was not the company that was tied in with the contract.

Mr. REAVIS. You mean not the company that made the contract?

The WITNESS. Neither of the companies that made the contract. So then I went to this old friend of mine whom I had roomed with in college, and who was a lawyer and who was president of a varnish company over in Long Island City, Edward Smith & Company, I asked him to get me Dun reports. I didn't want to ask for them through our company. He got Dun reports on Smith and on these warehouses.

The EXAMINER. When was that?

The WITNESS. The Dun report on Smith is dated, I think, the 28th of February, 1938, and the—some of the others are about that time or March and then others came in in April. They indicated, of course, that there apparently was no business done at those addresses that amounted to anything.[462]

* * * * * * *

* * * Mr. Prentice [partner of Thompson's attorney] also made an investigation on the New York corporation of W. W. Smith and found that it had been dissolved, I think in 1936, although our contract was a five-year contract dated 1935.

So far as I could tell at that stage of the investigation there was no office of W. W. Smith in the United States.[463]

* * * * * * *

* * * I tried—my attorneys tried to get further information on the business over there. There was correspondence back and forth with England which resulted in very little. We couldn't get anything very positive. A lot of time went by with this correspondence and with discussing what to do.

Sometime during the summer Mr. Prentice, very properly, said to me, 'Now,

[460] R. 2069-2070.
[461] R. 2071.
[462] R. 2072-2073.
[463] R. 2074.

you got to do something about this, you are trying to think of things to do and you are trying to think of ways. You got to make a decision as to what to do.' He said, 'I think the thing to do is to take it up with Mr. Michaels and tell him the story and proceed from there.'

Mr. Michaels was on the Pacific Coast, as he normally was in the summer. I said, 'So much time has gone on now, I think we ought to wait until he gets back.'

In the meantime we tried other things, various types, and didn't get any really important information one way or the other.

When Mr. Michaels came back in the Fall, or shortly before he came back, Prentice discovered that W. W. Smith were in the Brooklyn telephone book. I don't know how he happened to run on that; we didn't know that before that time. He then sent someone over there to check it and discovered the office of Vernard and then discovered that some of these other companies [Canadian vendors] on the bulletin board at the same place were tied in there with this Vernard name. We had found before he was in the real estate business. I then asked for, on one of my trips to Bridgeport, asked for all the documents again and——

* * * * * * *

* * * Yes, I think it was McGloon. And I went over them again. This time there was brought to me what I hadn't seen before, the voucher showing the commission check that was paid W. W. Smith & Company.

I don't know why I hadn't thought of that before but I suppose it just occurred to me that it was paid off the same account.

Q. [By Mr. GALPEER.] That is the Manning account?

A. That it was paid out of the Smith-Manning account in some way and I discovered then that it was paid off the manufacturing company funds and here was a possibility of looking up the check that was issued to find out what bank it went into. I found out that the cancelled checks of that division were all kept in Mr. George Dietrich's office so I didn't want to go and ask for them to arouse suspicion, so I went to Guaranty Trust and asked them to permit me to see the cancelled checks before they were sent to Bridgeport, which they did semi-monthly.[464]

* * * * * * *

* * * Well, I got the cancelled checks but there was no check to W. W. Smith, on my first two visits I think to the Guaranty Trust, which were two weeks apart. In the meantime Mr. Michaels returned and I told him the story.

Q. That would be about what date, sir?

A. I think it was about the 16th of October.

Mr. REAVIS. Do you mind if I ask a question?

Mr. Thompson, that was the first time you had spoken of this to anybody in the company excepting your talk with Mr. McGloon?

The WITNESS. That's right. I want to amend that to say that I had inquired about this W. W. Smith account casually in attempting not to arouse any suspicion with various other people during my investigation. I asked Herman, for example, whether he did any business with Smith at one time. I asked Stebe what he knew. Just threw it out casually to see if they knew anything about it. I was using every method of inquiring through various people in the organization whether they had any relationship with the various departments.

By Mr. GALPEER:

Q. What information did you get?

A. They didn't know anything about it.

[464] R. 2077–2079.

Mr. REAVIS. I might ask my question a little more intelligently. October 16 is the first time you stated to anybody in the company anything concerning your suspicions or the facts you had found?

The WITNESS. That's correct.

Mr. REAVIS. Other than the talk you had with Mr. McGloon getting information from him?

The WITNESS. That's correct.

Mr. STEWART. Perhaps that would be a good point to ask one other question along the same line. I take it you had not, up to that time, spoken with anybody connected with Price, Waterhouse & Company about your suspicions?

The WITNESS. No, not at all. I left out completely the forged Dun reports which I also got hold of early in the Spring from our files so that I knew about them.

* * * * * * *

Mr. REAVIS. I don't think—you said forged. Did you know they were forged then? You knew they disagreed.

The WITNESS. I suspected they were forged. Mr. Michaels concurred in the feeling that I had that the important thing was to get something tangible, that this was all negative information and not positive, and that we didn't know where these assets were and that we ought to find out something definitely about that. I was absolutely convinced that there were assets somewhere that he had set up a screen to hide and that he was doing some other sort of business. I didn't know what.

Mr. REAVIS. You mean Coster?

The WITNESS. I just couldn't believe that there weren't assets based on my knowledge of the man's ability and efficiency and intelligence. And I knew I was going to have to put this thing up to him and I wanted just as much knowledge as I could have before I did it.

By Mr. GALPEER:

Q. That is, put it up to Coster?

A. Yes, and I told Mr. Michaels that I was working on trying to find this check and he said that is one of the things that certainly should be done and it would be very helpful and he had to go right back to the Coast and he told me to keep right on working on that and see if I could get any additional information on that, and he would be prepared to come back at any time when I got something tangible.

Mr. REAVIS. Did you talk to him about employment of counsel at that time?

A. Yes, he suggested at that time that he would like to engage Mr. Downey, who is Mr. Reavis' partner, to advise him in the matter, as Mr. Downey had been formerly with Sullivan & Cromwell and was familiar with the personalities involved. Mr. Downey was in Bermuda and I wasn't able to engage him in Mr. Michaels' behalf until after he had gone back to the Coast.[465]

* * * * * * *

[465] "Q. [By Mr. REAVIS.] Did you talk about who would pay the counsel fees?

A. [By THOMPSON.] I believe that was discussed.

Q. My point is, did Mr. Michaels make any statement about that?

A. Yes, he said he would pay for Mr. Downey.

Q. He was independently going to bear the cost of an independent investigation?

A. Yes." R. 2084.

But cf.

"Q. [By Mr. GALPEER.] And you said you would assume the expense. You meant that you would see that the corporation bore the expense, or that you would pay it personally?

A. [By MICHAELS.] I would pay it personally. If the thing did not pan out as we suspected it might, I would.

Q. In other words, you would underwrite the expense?

A. That is correct." R. 4299.

* * * Mr. Downey, on his return, reviewed the whole subject with me and recommended right away, I think, that we should talk to Mr. Cummings, of Sullivan & Cromwell.

By Mr. GALPEER:

Q. About what day did Mr. Downey get back, about a week or ten days after Mr. Michaels left?

A. I should think about November 1st.

Q. And Mr. Michaels left about the 16th or 17th of October?

A. Yes, and some time about that time I succeeded in seeing a check drawn to W. W. Smith & Co., Ltd. for something over $10,000, and another for, I think, $750, and the large one had been deposited in the Hamilton Trust branch of the Chase National Bank in Brooklyn and the smaller one had been deposited in the Greene Avenue branch of the Royal Bank of Canada in Montreal.

Q. You saw these at the Guaranty Trust Company in New York?

A. Yes, so I immediately checked with the Chase Bank and found that they did have such an account and on a mere chance I asked them whether they also had the account of Manning & Co., and they told me they did, and that both accounts were in the Hamilton Trust branch of the Chase.

I checked those accounts, hoping that I would find that Manning & Co. had large funds flowing in from foreign creditors, but there were about 16 checks went through in the entire month as against one and a half million dollar sales that was being done by the department monthly, and that was the first tangible piece of evidence that I had which appeared to indicate clearly that something very wrong was going on in that account.

Q. What was the date that you saw this Manning account, as well as you can remember?

A. I don't recall. I guess that is pretty well recorded in some other spot.

Q. It was some time during the month of November, at any rate, of 1938?

A. Yes, and that gave me information that I felt I would have to go on rapidly, and there was also developing another situation which made it equally necessary to move rapidly in that we were negotiating for the sale of three million dollars additional authorized, but unissued bonds which involved a listing application and various other certifications of figures.

I went to Mr. Cummings before Mr. Michaels got back from the Coast.

Q. This trip that Mr. Michaels made to the Coast, had he planned to make that trip—it was one of the regular business trips?

A. Yes, it was a regular business trip and, as a matter of fact, he would not normally have come back at that time. I would say the date on seeing Mr. Cummings would be about the middle of November. He felt that there was nothing to do but immediately take it up with Mr. Coster, and after some discussion and seeking of proper opportunity, etc., I finally did that on November 27th, which was before Mr. Michaels got back.

Q. Had you been in touch with Mr. Michaels at all during this period?

A. Yes, I got in touch with him and told him of Mr. Cummings' reaction and belief that it should be taken up right away with Mr. Coster, and he said that he was planning to come back and would be back within a few days, would start back.

Q. This was a telephone call?

A. Yes.[466]

Q. You spoke to Mr. Coster on the 27th; when did Mr. Michaels get back?

A. I think the 27th was a Sunday and I think he got back the following Tuesday, the 29th.

Q. Briefly, what was the outcome of your discussions with Mr. Coster during this week?

A. He at no time admitted anything being wrong with the account. He said that he would supply me with warehouse receipts. He said that another question that I had asked was as to the insurance and he stated that it was insured with Lloyds, and that he would give me evidence of insurance.

Q. Did he give you to believe that McKesson were doing the insuring or that somebody else was?

A. That the bankers who were handling and supervising the inventory for him were handling the insurance.

Q. Meaning Manning & Co., or wasn't he specific?

A. He wasn't specific. He told me that the Smith statements of sales were being mailed from Liverpool.

Q. Which statements of sales are those?

A. Where they reported their sales.

Q. You mean the purchase orders or notices of shipment?

A. No, first came the notice that they had made the sale. He, of course, was very bitter with me, accused me of not being frank with him or telling him what I was doing and accused me of disloyalty and we had a very difficult time.

Q. Was there any final ultimatum or final show-down?

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[466] According to Michaels' testimony, while on the Coast he received two telephone calls from Thompson, one on October 29th, the other shortly before Thanksgiving. R. 4301–4302. In the first call, on October 29th, Thompson reported "* * * that the investigation was proceeding and that they apparently were developing quite a lot of material and it looked very bad." R. 4301. On November 2nd, Michaels entered an order to sell on the New York Stock Exchange, at market, but gradually, approximately 15,000 shares of McKesson common stock, his entire common holdings. R. 4305. Sales by Michaels for his own account were as follows: November 2, 300 shares; November 4, 2,500 shares; November 5, 200 shares; November 7, 1,000 shares; November 9, 3,000 shares; November 10, 2,200 shares; November 12, 4,561 shares; total 13,761 shares (Securities and Exchange Commission official summary of securities transactions and holdings, Vol. 4, No. 23, p. 33). In this connection, Michaels testified:

(*a*) While he and his family sold common stock which included his entire common holdings, for the sum of approximately $100,000, he and his family owned at the time over 35,000 shares of the preferred stock having a market value of over $1,268,000, none of which was sold;

(*b*) The common stock owned by him and his family had been received by them as a dividend on the preferred stock, and his policy had been to hold preferred but not common stock of McKesson & Robbins; and

(*c*) He would have sold his common stock prior to 1938 excepting for the large tax which would have resulted because of a capital gain. Because of a change in the 1937 tax law, his income tax advisers told him as early as February, 1938, that he could sell his common stock without suffering a large tax, made out schedules for him respecting the tax which would result, and he then made up his mind to sell all of this common stock during the year 1938. In addition, he had a large debt of approximately $265,000 to a California bank secured by, among other securities, his common stock (approximately 14,000 shares), which debt he wanted to liquidate. He returned to California from New York, arriving in California about October 23, 1938, and immediately upon his arrival his tax advisers came to see him and urged him to sell the stock promptly because, they said, as the year-end approached the market would soften because of year-end selling. He thereupon instructed his brokers to sell his common stock, but told them there was no rush about it. At the same time he instructed them to sell other securities. The first sale was made on November 2, nine days after his arrival in California and four days after Thompson's telephone call referred to above. R. 4306–4307, 4311–4317

A. Yes, I finally told him on either Friday or Saturday of that same week that if he didn't give me the information by Monday—I don't know but what it was the following Monday that I gave him the ultimatum, that if he didn't give me the information the following day, that I would report it to the Executive Committee.

Q. Was it that evening that the announcement of the receivership became public?

A. Yes." [467]

[467] R. 2080-2088.