

Suspicion of Estes

During the fall of 1961, Commercial Solvents officials were again showing signs of concern about Billie Sol Estes. In a letter to President Wheeler written on August 30, 1961, James McConnell commented:

After reading something in the bulletin by Billie Sol Estes concerning his business, I can see why you are a little bit worried about your customer. His basic philosophy certainly does not agree with yours or mine. I think Billie is inclined to formulate national goals in terms of his own business activities requirements.

In testimony at Dallas, William Leonhardt indicated, in effect, that he regarded a financial statement submitted by Estes in the fall of 1961 as being unreliable. Leonhardt's testimony follows:

A. Mr. Estes submitted a balance sheet to us, and to my best recollection, he showed a net worth of \$4½ to \$5 million.

Q. Did you bring that up to date from time to time?

A. Mr. Estes submitted another one to us in the fall of 1961. I believe those are the only two that we got from him, I'm not sure, but I know these two we did receive.

As I said, being an individual, we did not put much reliance on an unaudited balance sheet. We relied strictly on other types of securities to protect our exposure. But these two balance sheets I remember receiving from Estes.

Q. And what did that net worth show?

A. I am just going to take a guess now, but the figures are quite high. To give us a rough idea, someplace in the range of \$40 to \$50 million net worth since the original balance sheet he gave us.

Q. What period of time did that cover?

A. Three or four years, three years.

Q. Did it cause you to wonder about how a man under the income tax laws could run a net worth of 5 or 6 million up to 40 million in that period of time?

A. It was an indication to us that we could have no faith in any financial statement Mr. Estes submitted to us. In other words, we never did rely on it in any way.

Request for \$10 Million Credit

In late 1961, Billie Sol Estes made proposals to Commercial Solvents (and to some of Solvents competitors also) involving eventual transfer of an interest in his business in return for extension of millions of dollars in long-term credit. The proposal made to Commercial Solvents was described by the company as follows:

On August 31, 1961, Estes sent CSC an outline of a proposed new agreement between Estes and CSC under which (a) Estes would increase his total indebtedness to CSC to \$10 million by taking ammonia without payment during the next 18 months, (b) no principal payments would be made on the \$10 million debt for 5 years, but it would be paid off in the 5 years thereafter, (c) CSC's security would be revised to cover only a mortgage on the big South Plainview terminal, a junior pledge of 1,300,000 shares of Agriculture, Inc.,

stock and a mortgage on Estes' ammonia handling equipment, and (d) when the entire \$10 million debt was paid off, Estes would give CSC one-half his ammonia business.

Estes' request for additional credit was discussed by him with Wheeler, Jackson, and Leonhardt in New York on September 21 and 22, 1961, and with Leonhardt in New Orleans on November 10-12, 1961. In early December, Commercial Solvents sent James McConnell and Walter Berger to Texas. McConnell described the purpose of the trip in testimony before the subcommittee as follows:

Late in 1961, Mr. Estes was requesting an extension of additional credit. Mr. Wheeler felt that the account was of such size and of such importance that it would be well to make another on-the-ground appraisal of the operations, and he asked Mr. Walter Berger and me to go to Texas for this purpose.

We did go to Texas in December 1961 and were there for 2 or 3 days, again looking over the properties and giving Mr. Berger, who had not previously seen the Estes operations, an opportunity to meet some of the key personnel.

In response to a question, McConnell summarized the reason for his visit to Texas as follows:

Mr. FOUNTAIN. Did you reach any conclusion at that meeting as to whether or not you were going to extend him any further line of credit?

Mr. McCONNELL. No. It was really out of my province to get into that. What we had to do was to speak of whether the operations that we saw were soundly managed, and whether they consider them in good condition and so forth.

Mr. FOUNTAIN. You were asked to go down and form an opinion about his operations, whether or not it would advisable for Commercial Solvents to further extend him credit, were you not?

Mr. McCONNELL. Yes, we were. That was on the basis of what we would report, whether we would think there was basis for a further increase in credit.

Berger Meets With Moseley

After visiting the Plainview and Pecos areas from December 5 through 7, 1961, Walter Berger stopped in Dallas. While there, Berger met on two occasions with C. H. Moseley, manager of the Department of Agriculture's Dallas Commodity Office. The two meetings, which took place on December 7 and 8, 1961, were explained as follows by Maynard Wheeler in testimony before the subcommittee:

* * * Mr. Moseley and Mr. Berger are good personal friends. Mr. Moseley stopped by Mr. Berger's hotel both days on his way home from work. The only business discussed was Berger asking Moseley's opinion whether the manager of Estes' grain storage facilities was a capable man.

(In September 1961, Moseley had sent a memorandum to Washington describing allegations received from the trade that \$7.7 million in chattel mortgages were not fully reflected on Estes' financial statements, as well as other derogatory reports being circulated concerning Estes' operations. In October 1961, Moseley had raised questions

concerning Estes with the Internal Revenue Service. These matters are described in detail in other sections of this report.)

McConnell described the conclusion he reached as a result of the Texas trip in the following testimony:

We came away with the same impression which I had had before, which was that the physical properties were in excellent condition and were in the hands of persons who seemed entirely competent.

Mr. Berger and I were both fully aware of the fact that Mr. Estes was a very expansive person and that he was the type of person who might well extend himself further than his resources might justify. We both felt, therefore, that the account should be handled cautiously.

According to McConnell's testimony, Berger's attitude was even more cautious than his own. He described it as follows:

Mr. FOUNTAIN. Did you or Mr. Berger file a report of your visit?

Mr. McCONNELL. Mr. Berger reported to the board. That was one of the purposes of his going down there, because he was a board member, to get acquainted with it.

He made a report to the board.

Mr. FOUNTAIN. Are you familiar with the contents of the report he made?

Mr. McCONNELL. No. In a general way I know what he said.

Mr. FOUNTAIN. What did he say?

Mr. McCONNELL. He said in reporting on the operation, about as I have, that is, the type and what he thought of the men. I might say Mr. Berger was not quite as gullible as I was about it. He felt that they ought to be very careful about extending any more credit.

I believe that his report was a little more conservative than was I on the whole question.

Estes' Proposal Rejected

In his testimony at subcommittee hearings, Leonhardt gave the following account of Commercial Solvents' disposition of Estes' proposal for extended credit:

Our company studied this proposition for about I would say 6 months, and finally in December of 1961 our management told Mr. Estes that we would not go into this type of an arrangement with him; that we were completely satisfied with the present arrangements. The contract we had with anhydrous ammonia was satisfactory to us. The collateral we had with him was satisfactory, and we were going to stay with the arrangement that we had. We turned down Mr. Estes' request for greater credit.

In testimony at Dallas, Leonhardt stated that the following incident took place after Solvents' refusal to accept Estes' proposal:

Mr. Estes then said that in the event he needed some help, what would Commercial Solvents' attitude be? We said we were in business selling anhydrous ammonia, we had to protect ourselves all we could, "but any time you need some

type of financial assistance you might give us a call and we'll consider it." * * *

In testimony before the subcommittee presumably referring to the same incident, Leonhardt said that "* * * at the time we turned him down in December * * * our board of directors had expressed themselves that they thought we should help Mr. Estes out in times of stress * * *"

Language in a letter from Commercial Solvents to the subcommittee suggests that the decision not to accept Estes' proposal, but to consider helping him in the future, was made at a meeting of the board of directors on December 18, 1961. The letter states that financial data concerning Estes' operations and a summary comparing the existing and proposed arrangements with Estes were presented to the Board on December 18 with the following result:

* * * Messrs. Wheeler and Leonhardt recommended against any substantial change in CSC's arrangements with Estes, but suggested that CSC's position be flexible and that they would work out with him the best arrangements they could. No formal action was requested of or taken by the board. The consensus of the directors present at that meeting was that the recommendations of the officers be followed and that the officers should continue to try to reach a mutually satisfactory arrangement with Estes.

However minutes of the December 18 meeting supplied to the subcommittee by Commercial Solvents make no mention of any unfavorable recommendation by Wheeler and Leonhardt nor do they reflect any decision to turn down Estes' proposal for extended credit. Following in its entirety is the portion of the minutes relating to Estes:

There was submitted to the meeting a memorandum in regard to (1) sales of ammonia by the corporation to Mr. Billie Sol Estes from May 1958 through 1961, estimated gross profit to the corporation and interest paid by Mr. Estes; (2) estimated value of security given by Mr. Estes to the corporation; (3) balance sheet of Billie Sol Estes at July 31, 1961, submitted by him; and (4) summaries of present agreement between the corporation and Mr. Estes and of proposed new agreement submitted by him.

After full discussion it was the consensus of the board that the officers should continue to work with Mr. Estes regarding a mutually satisfactory arrangement and that the president keep the board informed in regard to the matter.

Messrs. Leonhardt and Taylor then left the meeting.

Lack of Documentation

The subcommittee asked Commercial Solvents to furnish it with any correspondence, documents, or memoranda relating to declination of Estes' request for long-term credit and any discussion of possible future assistance for Estes. Solvents replied as follows:

We have been able to find no documents relating to CSC's declination of Estes' 1961 request for long-term credit; this was handled orally with Estes. We have found no documents regarding the discussions of possible help to

Estes (or release of security furnished by Estes) in case he needed cash.

EVENTS PRECEDING ARREST OF ESTES

Loan of \$400,000

In early 1962, according to William Leonhardt, Billie Sol Estes asked Solvents for a cash loan but did not receive it. Leonhardt described the incident as follows in testimony at Dallas:

* * * In January, I believe it was, Mr. Estes said he was running short of cash and that he had payments coming up on his first mortgage on his grain elevators. I listened to the conversation and said I would discuss it with our management and at that point we decided not to do anything. * * *

On February 8 and 9, 1962, Estes called Leonhardt because, according to Leonhardt's testimony, "* * * he was short of cash, he had payments to make on his elevators, and would we help him out * * *." Leonhardt described his reaction to Estes' telephone request as follows:

* * * I definitely remember at this stage I stalled Mr. Estes. I don't recall whether I even discussed it with Mr. Wheeler at this time. We went to Europe. I can remember Mr. Estes saying, "I will probably have to get in touch with you in Europe in order to—in case I get strapped for cash."

Leonhardt indicated that on February 26 and 27, after he returned from Europe, he received two more calls from Estes requesting cash to meet payments due on his elevators on March 1. In response to these calls, Leonhardt testified:

I then discussed this with Mr. Wheeler. I told him the situation. I recommended to Mr. Wheeler that we do release these funds to Mr. Estes, that it was a good business judgment from my standpoint because it was going for payments on collateral that was ahead of ours, that it was actually to Commercial Solvents' benefit if it was paid and these payments were not missed.

Mr. Wheeler agreed with me and I called Mr. Estes back, or he called me on the next day.

The condition that I made with Mr. Estes was that this was going to be completed completely separate from our previous arrangements. This was the first time we had ever done it. I told him because he was short of cash that his cash flow would certainly be such in a week or two or 2 months that he could pay the money back.

Mr. Estes agreed that within 3 months he could pay it back and we agreed on a 90-day note. I told him that we definitely expected him to pay the cash back on this 90-day note.

It was a 5-percent note dated, I think, February 28, payable 90 days thereafter.

Unusual Circumstances

The circumstances under which Commercial Solvents made the \$400,000 loan to Estes in early 1962 were unusual in a number of significant respects, particularly by comparison with the careful con-

sideration given to the 1958 advance of \$225,000 by both management and the board of directors.

James McConnell, who had recommended that a cautious attitude be taken toward further credit for Estes after a trip to Texas in December 1961, was questioned as to why the \$400,000 loan was made. His testimony on the point follows:

Mr. NAUGHTON. Do you have any idea why, in view of this recommendation, Commercial Solvents proceeded to make a \$400,000 cash loan to Mr. Estes in February?

Mr. McCONNELL. No, I do not. Probably it was in the—maybe they could not help themselves.

Mr. NAUGHTON. Do you know why they apparently—when you say they could not help themselves—

Mr. McCONNELL. Shipments and stuff going in. He might not have paid his bills or something. I don't know. I have no idea why that happened.

The \$400,000 was sent to Estes by Solvents on February 28, 1962; on that same day Estes failed to pay a \$180,000 installment due on a note payable to Solvents. The \$400,000, according to Leonhardt, was to be used to make March 1 payments on grain storage facilities on which Solvents held junior liens. Leonhardt said that no inquiry was made to verify Estes' statement that the payments were due, although documents in the company's possession presumably would have shown the schedule of payments due on prior liens. The subcommittee's investigation disclosed that March 1 payments due totaled only around \$200,000 and that the money obtained from Commercial Solvents was not used to make them.

Leonhardt testified that Estes furnished collateral for the \$400,000 loan consisting of six parcels of land and an assignment of shares of stock in Agriculture, Inc. However, Leonhardt told the subcommittee that he had not checked the value of the collateral prior to giving Estes the \$400,000 and that the collateral was not actually received until late in March.

Lack of Documentation

Despite the size of the \$400,000 loan, the subcommittee found almost no documentation to support it. A check for \$400,000 payable to Estes was issued by Solvents on February 28, 1962, on the basis of a request from Leonhardt the same day which simply identified the payment as an "advance to Mr. Estes to meet current requirements" and instructed that it be charged to "notes receivable." The request was approved by Leonhardt. The printed form used had a notation on the bottom that it was "to be used for payments *not* supported by properly approved invoices or other documents." After issuance, the check was sent to Estes in an airmail, special delivery letter from Leonhardt dated February 28, 1962, which simply stated:

DEAR BILLIE SOL: In accordance with our telephone conversation, we are enclosing our check for \$400,000, together with 90-day note at 5 percent in this amount for your signature.

Sincerely,

s/—BILL
W. S. LEONHARDT.

The signed note was returned to Leonhardt by Estes with the following covering letter dated March 2, 1962:

DEAR BILL: Please find enclosed executed note in the amount of \$400,000.

Yours very truly,

s/BILLIE SOL ESTES.

The subcommittee specifically requested Commercial Solvents to provide it with copies of any documents or internal memorandums relating to the circumstances under which the \$400,000 payment was made. The material described above and a copy of the \$400,000 check itself were the only items furnished.

Lack of Board Knowledge or Approval

The subcommittee was advised by officers of Commercial Solvents that neither the board of directors nor the executive committee approved the \$400,000 loan to Estes before it was made. The subcommittee was also told that, despite the expression by Commercial Solvents' board of directors at its December 18, 1961, meeting that the president should keep the board informed about arrangements with Estes, neither the board nor the executive committee was told about the loan in advance.

In an affidavit submitted to the subcommittee, President Wheeler stated that:

Concerning the loan of \$400,000 made on February 28, 1962, by CSC to Billie Sol Estes, that he was consulted in advance by Mr. Leonhardt about the matter and approved the making of the loan; that Mr. Leonhardt told him that Estes said he needed the cash to make payments on various obligations including mortgage indebtedness which would fall due on March 1, 1962; and that he (Wheeler) did not consult with any member of the board of directors of CSC before authorizing the loan, it having been the consensus of the board at its December 1961 meeting that the officers should continue to try to reach a mutually satisfactory arrangement with Estes, and it being his judgment that the making of the loan fell within the area of discretion which the board expected the officers to exercise in working with Estes at that time.

William Leonhardt said in a sworn statement provided to the subcommittee that—

Concerning the loan of \$400,000 made on February 28, 1962, by CSC to Billie Sol Estes, that he did not consult with any member of the board of directors of CSC, other than Mr. Wheeler, before making the loan, it having been the consensus of the board at its December 1961 meeting (at which he was present for the discussion of the Estes account) that the officers should try to reach a mutually satisfactory arrangement with Estes, and it being his judgment and that of Mr. Wheeler that the making of the loan fell within the area of discretion which the board expected the officers to exercise in working with Estes at that time.

In a letter to the subcommittee, Edward M. Taylor, corporation counsel for Commercial Solvents expressed his belief that Solvents had legal authority to make the \$400,000 loan to Estes and that the president had authority to authorize such a loan without prior specific approval by the board of directors. After citing sections of the corporation law of Maryland and Solvents charter and bylaws, Taylor said:

The board of directors is, of course, the supreme governing authority in a corporation. However, it is not possible or practicable for the board of any large corporation to pass upon, or even to know about, all of the details of operation of the corporation's business. Hence, in practice, most actions are necessarily taken and most decisions are necessarily made by the officers of such corporations.

Exactly what matters are taken to the board for authorization becomes a matter of judgment and varies from corporation to corporation. In the case of CSC, commitments for the purchase of raw materials and supplies, and contracts or orders for the sale of products (including the determination of prices, extensions of credit, etc.), which involve millions of dollars per year, are customarily approved or acted upon by its officers without board authorization. Selection and compensation of executives, declarations of dividends, issuance of securities, acquisitions of companies, corporate borrowings, expenditures for capital improvements, and questions of general corporate and business policy are the type of matters that are customarily acted upon by the board of directors.

Excerpts of minutes of meetings of the board of directors and the executive committee provided to the subcommittee by Commercial Solvents contain no indication that either body was notified by management of the \$400,000 loan to Estes prior to his arrest.

Grain Storage Payments

During February 1962, Commercial Solvents made a special inquiry to ascertain the amount of storage payments accrued to Billie Sol Estes but not yet paid.

The following telegram was sent to Wayne Cooper, manager of United Elevators, on February 6, 1962, by F. J. Burg, assistant treasurer of Solvents:

Please forward airmail grain report for December.

Urgent we also have January report as soon as possible.

A carbon copy of the telegram to Cooper was sent by Burg to William Leonhardt. Cooper responded with airmail letters on February 6 and 16 giving the accrued receivables for December and January, respectively. (By the end of January, accrued receivables totaled nearly \$600,000; since CCC storage payments are made on a quarterly basis, these amounts—plus storage payments earned in February—would not be paid until around the middle of March.) When asked about the "urgent" request for information on accrued storage payments, Burg told subcommittee representatives that he wanted the information so he could fill out monthly reports to Leonhardt on the status of Estes' account. As part of these reports,

Burg stated, he regularly advised on what payments would be coming in from CCC based on grain storage during the preceding months. Burg said he had no recollection of sending the telegram as a result of any specific request from Leonhardt.

On March 14, 1962, 2 weeks after a \$400,000 check was sent to Estes, Commercial Solvents received CCC grain storage payments totaling \$818,052.37. During subcommittee hearings, Leonhardt was questioned as to whether the \$400,000 loan to Estes might have been made for the purpose of keeping Estes going long enough for Solvents to receive the storage payments due in March. The relevant testimony follows:

Mr. NAUGHTON. Has it occurred to you if Mr. Estes had not been able to make the payment with \$400,000 you gave him or loaned him on March 1, perhaps his house of cards might collapse sooner than it actually did?

Mr. LEONHARDT. In retrospect, we would not have loaned him the first \$900,000 in 1958.

Mr. NAUGHTON. Did the checks from the Commodity Credit Corporation come directly to Commercial Solvents as assignee for Billie Sol Estes, doing business as United Elevators?

Mr. LEONHARDT. That is correct.

Mr. NAUGHTON. What time did they normally arrive?

Mr. LEONHARDT. I would say they came about 15 days after the Commodity Credit quarter, which is a quarter that is different from a calendar quarter. The payment, for instance, for the quarter, December-February, would probably arrive March 15, 20, someplace in there.

Mr. NAUGHTON. You were expecting a rather substantial payment from the Commodity Credit Corporation later in March, were you not?

Mr. LEONHARDT. Yes, sir.

Mr. NAUGHTON. And I think there was something over \$800,000?

Mr. LEONHARDT. That is correct.

Mr. NAUGHTON. And that payment did come through?

Mr. LEONHARDT. Yes, sir; we were hoping the next one would come through, too.

Mr. NAUGHTON. What happened practically as soon as Mr. Estes was arrested? Did the Commodity Credit Corporation freeze all further payments to you?

Mr. LEONHARDT. They certainly did.

Mr. NAUGHTON. So that if—

Mr. LEONHARDT. And we disagree with what they have done, but I think they have tried to protect their own selves. We think we still ought to be paid in an assignment, though.

* * * * *

Mr. NAUGHTON. Did Mr. Estes in any of his conversations suggest to you that the whole house of cards might collapse, and if it did that you would not receive your payment?

Mr. LEONHARDT. I certainly hope he never did suggest that to me, or we would never have taken any step thereafter, I can tell you that.

Accelerated Fertilizer Shipments

In addition to providing Estes with \$400,000 in cash during early 1962, Commercial Solvents also shipped him a considerably larger amount of anhydrous ammonia than in any comparable period. During the first 3 months of 1962, shipments of Solvents ammonia to Estes were nearly double the amount shipped during the first 3 months of any previous year.

Shipments of ammonia to Estes in January 1962 totaled 1,300 tons—a relatively small increase over the approximately 1,200 tons shipped in January, 1961. The January shipments were 100 tons more than the amount forecast by Loy Everett in a memorandum sent to W. W. Jackson on January 22, 1962.

In his January 22 forecast, Everett estimated that shipments to Estes in February would be 1,850 tons and those in March 4,290 tons. Total shipments for the first 3 months of 1962 were forecast as 7,340 tons and the total for the entire year as 36,265 tons; both amounts were very close to actual shipments during 1961.

In a memorandum to Jackson on January 31, 1962, Everett stated that:

To date, we have shipped 50 cars for a total of 1,300 tons to Mr. Estes during the month of January. While discussing the forecast for 1962, Mr. Estes again stated that his requirements should be about 36,000 tons on about the same monthly take as was experienced last year.

Instead of the 1,850 tons of ammonia forecast by Everett for February, however, Solvents actually shipped Estes more than 6,200 tons. During March, Solvents shipped Estes more than 7,000 tons of ammonia instead of the less than 4,300 tons forecast. Total shipments during the first quarter of 1962 were 14,638 tons—approximately double the amount actually shipped in 1961 and the amount forecast for 1962.

Loy Everett, Solvents sales manager for agricultural chemicals, made the following statements concerning 1962 shipments of ammonia to Estes in an affidavit provided to the subcommittee:

That he had no special interest in the disposition of this ammonia by Estes and conducted no investigation into the disposition of ammonia sold to Estes; that his interest was in the nature of a normal interest of seasonal demand fluctuations as they related to other customers and the ability of Commercial Solvents Corp. to supply requirements to customers as and when needed; that he understands that shortly after Estes was arrested representatives of the controller's department of Commercial Solvents Corp. did make an attempt to determine inventories of ammonia on hand in Estes' organizations and did identify customers who owed money to Estes for ammonia previously shipped.

That he does not know what inventory of ammonia was found after Estes was arrested; that he did discuss this matter with representatives of the controller's department who checked the inventory of ammonia and has a recollection of their reporting that the inventory was in the neighborhood of 600 tons; that this is merely his recollection and that

considerable time has passed since this was discussed by him with other people.

That to his knowledge the only investigation made by Commercial Solvents Corp. to determine the disposition by Estes of ammonia delivered in the first quarter of 1962 was made by representatives of the Controller's Department of Commercial Solvents Corp. and that he does not have accurate knowledge of the results of this investigation.

William Leonhardt, in a sworn statement provided to the subcommittee, made the following comment concerning the 1962 shipments:

* * * that he is not aware that any investigation was made by CSC concerning Estes' disposition of such ammonia; and that, according to the best information obtained by CSC personnel in early April 1962, Estes' inventory of ammonia on or about April 1, 1962, was approximately 900 tons.

Maynard Wheeler was a guest at Estes' home in Pecos from March 16 to March 18, 1962. On his way back to New York from Pecos, Wheeler met in Atlanta with Wilbur Shelburne, chairman of the Armour Agricultural Chemical Co., the firm which was the principal supplier of fertilizer sold by Coleman McSpadden. These events are discussed in more detail later in the report.

INTEREST IN GOVERNMENT PROGRAMS

Importance of CCC Assignment

The subcommittee's investigation disclosed, as has been previously discussed, evidence that Commercial Solvents had ample reason to doubt Billie Sol Estes' financial responsibility. One reason for the company's willingness to allow Estes to build up such a huge indebtedness undoubtedly was its reliance on the assignment of Government grain storage revenues as a means of collecting from Estes. Because of its grain storage-fertilizer agreement with Estes, Commercial Solvents income was directly affected by the amount of CCC grain in Estes' warehouses and the rates paid for storing it there. In addition, the company had at least an indirect interest in price support policies which might affect the amount of surplus grain available for storage.

When the original agreement with Estes was signed in December 1958, Commercial Solvents had estimated the value of its assignment at \$480,000 annually. However, the agreement provided for the assignment to Commercial Solvents of revenues from any additional storage facilities acquired by Estes in Hale or Floyd Counties. Since Estes was expanding his storage facilities very rapidly—and the additional space was promptly being utilized for storage of CCC grain—storage payments under the assignment quickly exceeded the original estimate.

During 1959, Commercial Solvents received \$782,000 in Government grain storage payments under its assignment—more than 50 times the \$15,000 it succeeded in collecting directly from Estes. In 1960, the disparity became even greater; payments from CCC reached nearly \$2.5 million, while direct collections from Estes were only \$17,000. After 1960, CCC payments to Solvents continued to

increase as Estes expanded his storage facilities while direct collections stopped altogether.

The importance attached by Commercial Solvents to the assignment of grain storage revenues is clearly shown in a memorandum written by William Leonhardt to Maynard Wheeler on August 18, 1959. In the memorandum, Leonhardt said:

In my opinion, the assigned receivables from grain storage and handling receipts (principally Commodity Credit) will permit CSC a quick recovery of the indebtedness due from Mr. Estes in the event he is forced into financial difficulties. These receipts are now estimated at about \$1,700,000 annually, whereas our maximum exposure should not exceed \$1,900,000 (\$900,000 on 5-year term loan and \$1 million on open account credit). Of course, the continuance of this protection is strongly tied into the Government's surplus storage and crop support position. Mr. McConnell has advised that, in his opinion, no radical change can be foreseen in the near future and if such change were made, it would require several years before the actual effect would be felt by the grain elevators (Federal Licensed Terminals—Class 9).

After temporarily cutting off shipments of ammonia to Estes in late 1959, Commercial Solvents limited shipments during 1960 and 1961 to an amount approximately equal in value to the amount of grain storage revenues payable under the assignment.

McConnell Visit to USDA

Commercial Solvents' records indicate that its agricultural sales manager, Loy Everett, went to Pecos to meet with Billie Sol Estes on November 10, 1960, shortly after the presidential election. On November 22, 1960, Everett met in his office in New York with James McConnell. Everett's notes of the meeting indicate that he and McConnell discussed possible changes in agricultural policy.

On November 23, 1960, Everett wrote McConnell a letter in which Everett said:

It was a pleasure to have the opportunity today of hearing your views on agriculture's future under the new administration. Your offer to make an inquiry in Washington is appreciated * * *.

Everett then listed several questions which he considered "important to the future of my department," including the following:

Will controls on crops restrict acreage planted or restrict marketing of crops?

What will be the trend in the Commodity Credit Corporation on storage of grain and support of prices for surplus crops?

On November 29, 1960, McConnell advised Everett that "I am planning to be in Washington several days the week of December 12."

On December 30, 1960, McConnell replied to Everett's questions of November 23 as follows:

Your letter of November 23 posed some questions to which I have been trying to get some answers. I can't answer them definitely but I will make some assumptions which at

the moment seem to have the most reasons for believing they might be true.

No. 1. With reference to controls on acreage or on marketing, the best assumption I can make is that for some time at least they will continue on acreage. New legislation will be needed and there are a great many difficulties which the Department has always found when they moved in that direction.

No. 2. The assumption is that storage of grain and support of prices for surplus crops will continue about as is for at least 1961 and 1962.

Mr. McConnell concluded his letter to Everett by stating that:

The assumption would be that it is not a good time for fertilizer producers in general to expand production. Individual cases, such as Solvents with the plant in Texas, will be quite different, and should be approached from a different standpoint. It seems to me that if you can tie Billie Sol Estes to a permanent proposition you might well consider building.

Hiring of Berger and Sorkin

Walter Berger, who had been Executive Vice President of the Commodity Credit Corporation, left the Department of Agriculture in January 1961. Shortly thereafter, Berger became a consultant to Commercial Solvents Corp. The circumstances under which Berger became associated with Commercial Solvents were described by James McConnell as follows:

He is there because I recommended him—but not because of his having been an employee of the Government, but because of his knowledge of agricultural industries in which they are vitally interested.

Also because of the fact that Mr. Wheeler was looking for someone besides just financial men to go on his board. And I recommended that he look Berger over for that purpose, which he did. He made that decision to bring him on the board, not me.

McConnell testified that he had also recommended the hiring of Martin Sorkin, a former Department of Agriculture economist and market analyst:

* * * on the basis that I knew from personal experience that he was an excellent analyst on farm legislation and the effects of it, what proposed legislation might do.

In a letter written to Wheeler on March 4, 1961, Sorkin gave the following description of services he proposed to perform for Commercial Solvents:

DEAR MR. WHEELER: I am writing this letter to you, at the request of Mr. James A. McConnell, relative to specific information regarding the service which I propose to perform for Commercial Solvents Co.

First, I will keep a running analysis of proposed legislation to provide not only the details of the proposal, how they are

different from the current situation, but also the economic implications on the several segments of the Commercial Solvents Co. This is the type of work I have done for several years in my capacity of economic adviser to the Secretary of Agriculture.

Second, as the various Government reports are released, I will analyze them against a wide background of knowledge of the probable market effects.

Third, I will analyze various administrative actions as a guide to policy on other commodities affecting markets and prices.

Fourth, I will study and provide my own analysis on factors influencing international trade with special reference to the European Common Market, other dollar exports, and special export programs.

Fifth, in addition I will be available to reply quickly to specific telephone or written requests for information or opinion.

The annual rate for this service will be \$5,000, payable on a monthly basis.

It is my feeling that this service will be mutually advantageous.

Very truly yours,

MARTIN SORKIN.

In testimony before the subcommittee, Maynard Wheeler described Sorkin's duties, insofar as Commercial Solvents was concerned, as follows:

* * * as far as our company is concerned, we did not consider Mr. Sorkin in any other relationship than the same type of relationship we have with other consultants to develop information that would be helpful and independent information that would come to us to help us in running the company as effectively as we know how.

The subcommittee's investigation disclosed reports sent by Sorkin to Commercial Solvents which raised a question concerning the possibility that Sorkin may have been engaged in lobbying activities without registering as a lobbyist; this question is under study by the Department of Justice.

FINANCING OPERATIONS

FINANCING METHODS

Background

Although Billie Sol Estes is usually identified primarily with non-existent ammonia tanks, the tank transactions were only one of a number of financing methods used by Estes. Generally speaking, these operations did not directly involve Government funds or contacts with Government personnel. However, because of the close relationship between Estes' financing activities and his grain storage and ammonia sales operations, the subcommittee examined them in some detail.

Billie Sol Estes was arrested approximately 11 years after his arrival in Pecos. During this time, Estes engaged in more than 65 separate business enterprises; at least 25 of these businesses were active at the time of his arrest. Some of Estes' businesses operated under corporate names; others were ostensibly partnerships. However, Estes had little regard for such technicalities in the operation of his many businesses. Funds from separate enterprises were frequently intermingled. Proceeds of tank mortgages were used to build storage facilities. Storage revenues were assigned to pay for anhydrous ammonia. Money obtained from ammonia sales was used to pay storage operating expenses and to make payments on tank mortgages.

Because of their size and complexity, Billie Sol Estes' financing operations would have been difficult enough to understand under the best of circumstances. Estes deliberately made his operations even more confusing in order to help conceal his true financial condition. Estes' business relationships with others were frequently undisclosed or misrepresented. Estes consistently gave false or misleading accounts of his business operations, not only to the general public, but even to his associates.

To a considerable degree, Estes' financing operations reflected his personal characteristics. Although he obviously was lacking in such virtues as honesty and truthfulness, Estes had more than his share of energy, resourcefulness, and audacity. He was constantly promoting new ventures; no idea seemed too ambitious or unlikely for his consideration. Perhaps the only element common to almost all Estes' schemes was that they involved the use of someone else's money; he seemed willing to buy almost anything if he could do so on credit.

While Billie Sol Estes' business operations probably never were financially sound, some of his financing methods were basically legitimate; others ranged from unethical to illegal. The subcommittee's investigation did not clearly establish just when Estes first resorted to unlawful financing tactics. However, it appears likely that it happened long before he financed his first nonexistent tank.

Loans From Security State Bank

Billie Sol Estes moved from the Plains area of northwest Texas to Pecos in 1951. According to a banker there, "Estes came to Castro County in 1949 as a tenant farmer and left in 1951 with a rather poor credit rating." Another Plains area banker told a subcommittee investigator that Estes reportedly moved away "owing about everyone in that area from \$9.50 to \$750."

When he arrived in Pecos, Estes established banking connections at the Security State Bank. W. H. Holcombe, president of the Security State Bank, described his first contact with Estes as follows:

* * * he came in and showed me a letter from a bank in Abilene addressed to the other bank here in Pecos, but he told me he had changed his mind after getting here and wanted to do business with us because we were recommended to him by one of his fellow church members, W. W. Teague, of Pecos, Tex. * * *

* * *
At the time Mr. Estes started his account, both deposits and loans, he had just moved here, as I recall it, from Earth, Tex. He was putting in raw land and preparing it with irrigation wells and for planting. The first of these loans were made for this purpose, and as soon as he got the titles clear on his land, Anderson, Clayton & Co., home office in Houston, Tex., took over his farming financing.

Ledger sheets of the Security State Bank disclose that the bank's first loan to Estes was made on February 23, 1951. The loan was in the amount of \$1,146.48; it was secured by a chattel mortgage on a 1951 Chevrolet pickup truck and was to be repaid at the rate of \$95.54 per month. Additional loans to Estes, both secured and unsecured, brought Estes' total liability to nearly \$50,000 before the end of 1951. During the next few years, the amount of Estes' indebtedness to the Security State Bank ranged as high as \$100,000.

Backing From Dr. Harold Lindley

Estes also received financial backing during his early days in Pecos from Dr. Harold Lindley. In a 1961 letter, Lindley gave the following description of his dealings with Estes:

* * * I had had some experience in financing individuals who showed character and integrity, but whose assets did not quite justify a loan from the usual financing agencies such as banks or insurance companies.

Billie Sol impressed me as being a very unusual young man, with a tremendous ambition and drive, and with character to justify going along with him further than his assets would justify. On February 8, 1952, I loaned him \$50,000 to clear and improve 640 acres of raw land on which he had obtained clear title. I later loaned him further money to help him make his crop. My experience with him continued to be satisfactory and in the years 1953 and 1954 I loaned him other money for varied enterprises. I also went into partnership with him on some ventures. Since 1954 I have probably had from \$300,000 to \$450,000 either loaned to him or invested with him on some type of partnership basis.

Move to First National Bank

On May 15, 1955, Billie Sol Estes closed out his account at the Security State Bank. According to President Holcombe of the Security State Bank, this occurred because of a "complete misunderstanding" between Estes and Holcombe. In a letter to the subcommittee, Holcombe gave the following account of this incident:

* * * both W. W. Teague and I were associated with him in the purchase of some Government surplus houses for resale. I arranged for a loan at the Dallas National Bank of Dallas, Tex., for a loan of \$49,700, which was used for the purchase of these houses. I stayed pretty closely on top of this transaction until the loan was paid off and then I did neglect it, as a consequence I never received any settlement on the houses and I began trying to get a statement on how we stood and was finally furnished with a statement, which showed that I had something like \$18,000 coming, which I tried to collect for several months, finally I told Mr. Estes that it looked to me like he had stolen the money and consequently just to keep it, and I never did receive anything out of this transaction.

As a result of the matter, Holcombe told the subcommittee, he "demanded that [Estes'] unsecured loans be paid, which was done." The secured loans outstanding at the time were gradually paid off, according to Holcombe, and the bank made no further loans to Estes except for participation in two secured loans to Agriculture, Inc., sold to other banks in late 1958 and early 1959. A second result of the incident was that Estes thereafter centered his banking business at Pecos' other bank, the First National.

According to Ray McPherson, its executive vice president, the First National Bank of Pecos made loans to Billie Sol Estes only on a secured basis. McPherson described the reason for the bank's policy as follows:

The first loan made to Mr. Estes directly was made after I had told him that all loans that we made him would have to be secured and that we did not intend to make him any loans on an unsecured basis. (He had been borrowing money on an unsecured basis from the other bank in Pecos). I told him that the reason that we were going to insist on secured notes was not a reflection on his honesty, but because we thought that he was a very wild operator and in case he should get into financial trouble, we intend to be in the preferred spot of having all our indebtedness secured. He told me that the reason he wanted to move his banking business from the other bank was because he and the president of the other bank had had a partnership deal and he felt that the other banker had not lived up to his part of the bargain.

I was honest in telling Mr. Estes that the reason we were going to require collateral was not because we doubted his honesty, but simply because he had so many enterprises going all the time that he was liable to get into trouble. I did not doubt his honesty until after his arrest on the charge of fraudulent mortgages on tanks.

We treat any other borrower who is a wild operator in the same manner. The only people to whom we extend open loans are people who operate their business in a conservative and very businesslike manner. Estes was treated no better and no worse than any other person would be whose business activities were as jumbled as Estes were.

In addition to loans made with its own funds, the First National Bank also obtained loans for Estes from other banks; according to McPherson:

In placing loans for him with our correspondent banks, this was usually done by telephone and I think that in each instance I told the officer of the bank with whom I was talking that I thought that Estes was honest and reliable but that he was engaged in so many and varied business activities that we kept him on a secured basis and that I would recommend they keep him on a secured basis. None of his loans placed through us were made except on a secured basis and there was always enough collateral to liquidate and pay the note. No bank to my knowledge failed to collect every cent owed to them by Estes.

Many of the loans made by out-of-town banks to Estes through the First National Bank of Pecos were secured by warehouse receipts on inventories of fertilizer, insecticides and irrigation pumps and equipment supposedly owned by Estes.

Farm Land and Equipment Mortgages

According to an audit performed after his arrest by Ernst & Ernst, Billie Sol Estes had acquired around 13,000 acres of farmland in Reeves and Pecos Counties by the end of 1958. Most of the land was unimproved; the recorded acquisition cost was approximately \$472,000—an average of less than \$50 per acre. According to his records, Estes spent around \$737,000 for improvements to the land such as irrigation ditches and waterwells and pumps. The unpaid balance on real estate mortgages covering this land totaled about \$725,000 at the time Estes was arrested. In addition, Estes had obtained very substantial loans secured by chattel mortgages on pumps and equipment supposedly installed on his farmland.

Most of the farmland acquired by Estes before the end of 1958 was financed through the Great Southern Life Insurance Co. of Houston. From 1954 through 1958, Great Southern made 16 separate loans to Estes secured by first mortgages on real estate and chattel mortgages on irrigation equipment. Five similar loans were made by Great Southern in the name of Billie Sol Estes' brother, Bobby Frank, although it appears likely that Billie Sol was the interested party. After the arrest of Estes, Great Southern found that some of the equipment supposedly covered by its mortgages was not there. Additional details concerning fraudulent pump dealings by Billie Sol Estes appear later in this report.

After acquiring farmland, Estes obtained financing for crop production from Anderson, Clayton & Co. This firm has carried on substantial operations in the Pecos area since 1948, operating at first through its Western Cottonoil Division and later as the Paymaster Oil Co. Anderson-Clayton began making loans to Estes in amounts of less than \$100,000 annually in the early 1950's. By 1958, amounts

advanced to Estes exceeded \$1 million annually. To secure its loans, Anderson-Clayton obtained liens on Estes' cotton crops, which were ginned and marketed for Estes by the company. Anderson-Clayton also obtained mortgages on equipment and farmland as additional security. The security obtained by Anderson-Clayton was described as follows in a letter to the subcommittee from W. D. Watkins, general manager of Paymaster Oil Mills:

In addition to the crop and chattel mortgages covering the crops and farm equipment of Estes and related enterprises, which we took as security for our loan advances, Anderson, Clayton & Co. (as is our usual custom where loan carry-overs are involved) also took deeds of trust on lands owned by Billie Sol Estes and his brothers and Agriculture, Inc., as security. I am attaching hereto an exhibit describing the various tracts of land on which we took deeds of trust, showing the prior lien indebtednesses against such properties of which we have knowledge. In most instances, the liens which we took were second liens. So far as I am aware, none of this collateral was misrepresented to us or was nonexistent; and we were advised by Estes' representatives of the existence of the prior liens * * *.

CREDIT FROM SUPPLIERS

Extended Credit Terms

Credit obtained from suppliers was perhaps the most important method of financing utilized by Billie Sol Estes before he began making large-scale use of fraudulent tank and pump mortgages. Sometimes extended credit was voluntarily granted by the supplier; in other instances, Estes simply did not pay his bills.

Transactions involving Billie Sol Estes and Commercial Solvents, his most important supplier, have previously been discussed in detail; other incidents involving financing by suppliers will be described below.

Billie Sol Estes frequently asked suppliers to allow him to pay his account only once a year. An example of this practice is contained in a letter to the subcommittee from S. C. Hoot, president and general manager of the Wright Oil Co., of San Antonio, in which Hoot stated:

During the year 1957 we sold Mr. Estes our products for the first time consisting of lubricating oils and greases to be used on his farm.

* * * * *

The products they used were shipped on an open account and at the end of each year I personally presented Mr. Estes with a statement of his accounts to which we added 5-percent interest on the monthly balances. He then signed a note for 120 days and gave us postdated checks in four equal amounts, each dated March 1, April 1, May 1, and June 1 of the following year, plus interest for 4 months, payable in June or July.

The El Paso Natural Gas Products Co. received a similar credit proposal from Estes, but turned it down. The company described the incident as follows:

Late in July 1958, two representatives of our marketing department called on Mr. Estes, at his request, in Pecos,

Tex. He proposed to them that he become a jobber or distributor for all of our petroleum products (gasoline, diesel fuel, burner fuels, oils, butane, propane, etc.) covering a large area of west Texas in and around Pecos. This arrangement was supposed to bring us about \$1 million annual volume at wholesale. The most outstanding feature of the proposal was that all sales would be carried on credit by us with a settlement of accounts to be made at the end of February each year. Our representatives left Mr. Estes with little hope of our accepting the offer, which was made on an all-or-nothing, take-it-or-leave-it basis, because of the credit accommodation required. The proposal was reported to management early in August, and was immediately rejected because of the credit feature.

Another company which turned down a yearly payment proposal from Estes was the Champlin Oil & Refining Co. of Fort Worth. Champlin gave the subcommittee the following description of its experience with Estes:

In the fall of 1960, a representative or representatives of Champlin called on Mr. Billie Sol Estes, of Pecos, Tex., for the purpose of discussing a possible distributorship agreement with him covering Champlin lubricating oils and greases. Mr. Estes indicated that if he seriously entered the business of purchasing and reselling lubricating oils and greases, he could sell 500,000 gallons a year. He was called on again a couple of times in the spring of 1961. No agreement, however, resulted from these calls * * *. Mr. Estes stated that if he were to enter into a distributor agreement with Champlin he would want to pay only once each year for products purchased during the year. This method of payment was not acceptable to Champlin * * *.

Nonpayment of Bills

The International Minerals & Chemical Co., of Texarkana, Ark., was one of the many firms which had trouble collecting from Billie Sol Estes. This firm sold fertilizer to Estes beginning in 1957, with the amount of credit extended reaching \$149,969 at one time. International Minerals' business relationship with Estes was terminated in June 1959, but it took the company more than 2 years thereafter to finally collect on notes given the firm by Estes. In a letter to the subcommittee, W. Q. Burns, the company's area manager, described how payment was finally obtained:

The final date of settlement with us was on January 11, 1961, at which time he gave us a series of postdated checks which covered the balance due. A check was dated the 15th of each month, January through December of 1961, and the final check cleared when deposited on or about December 15, 1961.

Comparatively small accounts, as well as large ones, were difficult to collect from Estes. FMC Corp., which made a single \$4,179 sale of fertilizer to Estes in 1956, reported that it terminated business relationships with him when he took 8 months to pay.

In 1958, before he began doing business with Commercial Solvents, Estes apparently found it necessary to seek credit for the second time

from a firm with which he had previously done business. The Olin Mathieson Chemical Corp., which sold Estes \$95,000 worth of ammonia in 1957, terminated its business relationship with him when Estes did not pay his account. The company finally succeeded in collecting by legal means in March 1958. Thereafter, the company told the subcommittee:

* * * in the late spring or early summer of 1958, Mr. Estes again approached Olin with another proposal to purchase agricultural ammonia. At this time Mr. Estes offered a substantial cash payment in advance which he proposed that Olin accept with the understanding that when the advance cash was used up, a substantial line of credit in excess of any previous line be granted by Olin for Mr. Estes' use. This proposal was not accepted by Olin, because of its previous experience with Mr. Estes described above.

Transactions With Pennsalt Chemicals

While Billie Sol Estes was unable to persuade Olin Mathieson to give him another chance, he had better success with the Pennsalt Chemicals Corp., of Tacoma, Wash. Estes began purchasing insecticides from Pennsalt on a relatively small scale in 1956. Because of heavy purchases in 1958 and 1959, Estes' unpaid account reached \$431,706.27 on December 31, 1959. At that point, Pennsalt refused to give Estes any further credit until his account was paid. In June 1961, Estes completed payment of his 1959 account and asked for a substantial amount of additional credit, offering to provide security in the form of a chattel mortgage on 1,200 anhydrous ammonia tanks. Pennsalt accepted Estes' proposal, establishing a credit limit of \$600,000.

Howard Teer, an official of Pennsalt, was questioned about the company's acceptance of the tank mortgage as security at a bankruptcy proceeding in Houston. An excerpt from Teer's testimony follows:

Q. What check did you make to see whether or not those tanks were there?

A. Not any.

Q. Why not?

A. Well, because up until then as far as we were concerned he was a legitimate businessman, and I asked that same question later, but I assume that is what he told me there and we took his word for it.

Q. What made you think they were worth \$500 apiece if they had existed?

A. Because—well, I talked with Orr. They were the manufacturers of the tanks. And I went up there and talked to Harold Orr and he told me the tanks were worth about \$975 apiece.

And I said are they worth \$500 as a security and he said definitely. He says there is very little depreciation in a tank, and I recognized that.

Q. Did he represent to you other than the fact that they were in Pecos County as to where they were in Pecos County?

A. No.

Q. Did you ask him?

A. No.

By September 30, 1961, Estes owed Pennsalt \$548,500; approximately \$465,000 was still unpaid at the time of his arrest.

Financing techniques used by Billie Sol Estes in acquiring and constructing storage facilities have been previously described; Estes' fraudulent pump and tank mortgage transactions will be described in the sections immediately following.

FRAUDULENT PUMP TRANSACTIONS

Background

Irrigated cropland in the near-desert country around Pecos, Tex., costs several hundred dollars an acre. Unimproved land in the same area can be purchased for a fraction of that amount. The difference in value exists primarily because there is insufficient rainfall in the Pecos area for profitable production of cotton. Water must be obtained through drilling of deep irrigation wells and installation of expensive pumping equipment.

From 1951 through 1957, according to an examination of his records by Ernst & Ernst, Billie Sol Estes spent around \$375,000 for farmland improvements such as water wells, pumps, and irrigation ditches. During the same period, chattel mortgages covering irrigation pumps and equipment totaling nearly \$400,000 were recorded against Estes in Reeves County.

In 1958, Estes acquired three farm equipment distributing firms. They were Water Well Service & Supply and the Equipment Service Co., both located in Pecos, and the Fort Stockton Implement Co., located about 50 miles southeast of Pecos in Pecos County. (The town of Pecos is in Reeves County.) As usual, Estes paid only part of the purchase price in cash, giving notes for the remainder. The subcommittee's investigation disclosed some indications that Estes may have used funds realized from fraudulent pump mortgages in the acquisition of the three firms.

After acquiring the distributing firms, Estes obtained hundreds of thousands of dollars worth of irrigation pumps from suppliers on credit. The Worthington Corp., Harrison, N.J., sold Estes \$400,000 worth of pumps on an unsecured basis; at the time of his arrest, Estes still owed approximately \$100,000 on them. Waukesha Sales & Service, Inc., Houston, and West Texas Equipment Co., Fort Stockton, also made substantial pump sales to Estes on credit. In addition, Estes obtained pumps from Fiese & Firstenberger Manufacturing, Inc., Fresno, Calif.

Soon after acquiring Water Well Service & Supply, Billie Sol Estes entered into a field warehouse storage agreement with the Lawrence Warehouse Co., a nationwide field warehousing concern. In a letter to the subcommittee, the company gave the following explanation of its function:

* * * Lawrence Warehouse Co. operates field warehouses for industries of all kinds, for the purpose of obtaining working capital on inventories of either raw materials or finished products. We do not advance moneys or finance companies in any way, but issue our warehouse receipts as collateral. These warehouse receipts are then used by various lending institutions as security for loans.

After signing the agreement with Lawrence Warehouse, Estes used warehouse receipts on irrigation pumps and equipment as collateral for large bank loans obtained through the First National Bank of Pecos. Loans to Estes from the First National Bank of Abilene, obtained in this manner, totaled nearly \$200,000. The Midland National Bank made similar warehouse receipt loans to Estes through the First National Bank of Pecos.

Financing Through Associates Investment Co.

In July 1958, Billie Sol Estes began doing business with Associates Investment Co., a commercial financing firm with headquarters at South Bend, Ind. According to Associates, initial contact with the company was made by R. E. Clements, then owner of the Superior Manufacturing Co., an Amarillo, Tex., firm which manufactured ammonia tanks. Clements asked Associates whether it would be interested in financing sales of ammonia tanks to Estes by Superior. As a result, Associates made a credit investigation of Estes which it described as follows:

In July 1958, Mr. W. P. Wenning (commercial representative, Dallas regional office) and Mr. N. J. Wardlaw, Jr. (branch manager, Lubbock, Tex.), went to Pecos, Tex., where they were introduced to Mr. Estes by Mr. H. E. Orr, a salesman for Superior Manufacturing Co. In response to questions about his financial responsibility, Mr. Estes furnished Mr. Wenning and Mr. Wardlaw with a financial statement disclosing a net worth of a little over \$5 million. Mr. Estes also advised that he had had credit experience with the First National Bank of Pecos, Commercial Solvents Corp., Kansas City Life Insurance Co., Great Southern Life Insurance Co., and Anderson Clayton Co.

Mr. Estes exhibited to our representatives a recent telegram from Commercial Solvents Corp., which disclosed that he had an open line of credit with them of approximately \$90,000.

As a result of such conversation, Mr. Wenning and Mr. Wardlaw interviewed Mr. Ray McPherson of the First National Bank of Pecos. Mr. McPherson exhibited to them a financial statement which the bank possessed on Mr. Estes, which statement was identical to the one Mr. Estes exhibited to our representatives. Mr. McPherson advised that the First National Bank of Pecos had made loans to Mr. Estes on a secured basis up to amounts as high as \$500,000 and all their dealings with him were very satisfactory, and that he was very well thought of by the bank.

Mr. Wardlaw and Mr. Wenning then interviewed a Mr. Slack at the Anderson Clayton Co., who advised them that such company had a current crop loan of approximately \$900,000 to Mr. Estes. Mr. Slack advised that Anderson Clayton Co. had been dealing with Mr. Estes for several years and that their experience with him had been satisfactory and that Mr. Estes was considered one of the best farmers in the area.

In August 1958, Billie Sol Estes himself got in touch with Associates' Lubbock branch to ask whether Associates "would be interested in

purchasing from some of his various companies time sales contracts evidencing retail sales to third parties of the products of such companies." Associates told the subcommittee that, after further investigation of Estes' financial worth, "it was determined this company would purchase time sales contracts from Equipment Service Co."

From mid-August through December 1958, Associates purchased 61 time sales contracts secured by chattel mortgages on irrigation pumps and equipment from Equipment Service Co., paying nearly \$1.4 million for them. The time sales contracts had an aggregate face value of almost \$1.8 million. Six contracts, with a total face value of \$582,363 were signed by Billie Sol Estes. Another 14 contracts with a total face amount of \$123,582 were signed by his brother, Bobby Frank Estes. The remaining contracts were signed by other individuals, mostly from the Pecos area. Associates also purchased 29 time sales contracts secured by chattel mortgages on cottonpickers and other farm equipment; these contracts had a total face value of approximately \$725,000.

Associates Warned of Fraudulent Pump Deals

In January 1959, Artie Baker, owner of the Baker Pump Co. of Pecos, called Associates Investment Co. to report that he suspected irregularities in Billie Sol Estes' financing of irrigation pumps. In a statement to the subcommittee, Associates gave this account of Baker's call:

On or about January 12, 1959, one Mr. Artie Baker of Pecos, Tex., called Mr. W. P. Wenning at this company's Dallas regional office to advise that he was of the opinion that some of the property allegedly sold under contracts from Equipment Service Co. to third parties was not actually delivered.

Baker himself gave a somewhat more forceful version of the incident in the following statement to the subcommittee:

* * * The Retail Merchants Bulletins showed that the Associates Investment Co. of Dallas, Tex., Lubbock, Tex., and South Bend, Ind., had purchased approximately \$2 million worth of notes from the Equipment Service Co. of Pecos, Tex., which Billie Sol Estes owned. I telephoned the Associates Investment Co. and told them that it was my opinion that 75 percent of this \$2 million worth of notes were fraudulent transactions. Certainly a number of these transactions were affecting the farmers who had mortgaged their equipment to me which I had sold them and he had taken mortgages on the same stuff for something over \$100,000. All of which was 100 percent fraud * * *.

As a result of the Baker call, three representatives of Associates immediately went to West Texas. The men were W. L. Acker, then vice president in charge of the commercial loan division at Associates home office in South Bend, Ind., W. P. Wenning of the Dallas regional office, and N. J. Wardlaw, branch manager at Lubbock, Tex. The three men asked Baker to meet them at Odessa, Tex., some 75 miles from Pecos. Baker gave the following description of this meeting at Estes' trial in El Paso on Federal criminal charges:

Q. What transpired at that meeting?

A. Well, I just took these Retail Merchants' Bulletins over there that I had been getting for the year and set them down, I had everyone of these contracts that Associates Investment had bought, checked with a pencil, I said, "Here's the information I got, now, you just look them over, and that is the whole story to it, but I know these three here are a hundred percent fraud because them three farmers didn't buy no pumps and they didn't pay no 20 percent down, they haven't got a nickel in the world, and they are broke and couldn't pay a dime if they wanted to."

Associates Investment Co. did not mention the Odessa meeting with Baker in its statement to the subcommittee, but did give the following account of events following the Baker meeting:

* * * Mr. Wenning, Mr. Acker, and Mr. Wardlaw, went to Pecos, Tex., and interviewed a Mr. Ralph Weldon Winterrowd, one of the purchasers under such contracts. Mr. Winterrowd advised that the equipment described in the contract was not as yet delivered to him but that it was in a warehouse tagged with his name.

Mr. Willis Winters, another purchaser under said contracts, was interviewed and he stated the same thing.

Associates told the subcommittee:

* * * no further investigation was made beyond interviewing Willis Winters and Ralph Winterrowd, and they advised representatives of this company that whereas the collateral had not, as yet, been delivered to them, it was to be done so in the future. This being the case * * * there was no suspicion that the collateral in fact did not exist.

Associates Officials Meet With Estes

In its statement, Associates Investment gave the following account of what took place on January 13, 1959, the day after its interviews with Winterrowd and Winters:

* * * Mr. Wardlaw, Mr. Acker, and Mr. Wenning, contacted Mr. Estes regarding the above facts. Mr. Estes advised that if we would tell him with which contracts we were unhappy, he would pay them off. He was advised we wanted a payoff on all of our accounts with him. Mr. Estes was unable to do so * * *.

Associates told the subcommittee that, after the meeting with Estes, the company decided it would no longer do any business whatsoever with Estes or any companies with which he was connected. Associates denied that its action was based on knowledge or suspicion that its collateral did not exist and stated, in response to a direct question, that—

* * * the reason this company decided not to do business with Mr. Estes was that it was then learned that some of the collateral described under contracts sold to us by Equipment Service Co. was not actually delivered.

Associates told the subcommittee that collection efforts resorted to on the contracts purchased from Equipment Service Co. were:

* * * personal contact, telephone conversations, letters, and in some instances, repossession of the property.

In the event the collection efforts were not successful, we repossessed the equipment involved. This was done by peaceable repossession other than court action.

Since Mr. Estes was liable as a guarantor on each contract involved, after repossession where a deficiency resulted we requested that he pay off the account involved, and he did so. In those instances where an account was in default and the collateral was of a type that was not feasible for us to repossess, we notified Mr. Estes of the default and demanded payment in full from him. In most instances he advised he could not pay us off in full, but he did make payments from time to time thereon.

A list of contracts purchased from Equipment Service Co. furnished by Associates included 14 in the name of Bobby Frank Estes with a total face value of \$123,582.90, secured by chattel mortgages on 14 water well pumps; these contracts had been purchased by Associates in late 1958 for a total of \$96,040. The data furnished by Associates indicated that not 1 cent had been collected on any of these contracts.

Associates told the subcommittee that "No agreement was made not to collect all or any part of any amount due on any contract in default," and gave the following explanation of the situation:

There was no collection action taken on the 14 notes of Bobby Frank Estes other than at the time the first note became delinquent, he was contacted by our representative and he was advised by him that we should look to Billie Sol Estes for payments on these notes. Billie Sol Estes was contacted and he advised Bobby Frank Estes had no moneys to pay for same and any further collection action would be futile as against Bobby Frank Estes. Further investigation seemed to bear this out.

Data furnished by Associates indicated that six notes signed by Billie Sol Estes and secured by water well pumps had been purchased by Associates in August and September 1958. The amount paid by Associates for four of the notes was \$68,627.20 each; the other two notes were purchased for \$94,000 and \$95,000. Despite the fact that the notes were purchased at approximately the same time, the proportionate amounts collected on them varied substantially. On the two larger notes, Associates indicated it had collected more than the amount paid for the notes, although there was still a balance due. On three of the other four notes, Associates indicated it had collected \$68,627.20 each—precisely the amount paid; on the fourth note, for which Associates had paid exactly the same amount on the same day, Associates said it had collected only \$26,219.90. The difference in the amounts collected was explained by Associates as follows:

No collection activity was taken by Associates other than repeated contacts to Billie Sol Estes to make payments on such notes.

The reason for the difference in the amounts collected on notes of the same date for the same amount was that as payments were received by us they were applied on such notes until our net investment was paid and then applied to the next note since payments were received in gross amounts from Mr. Estes with no direction as to which note same should be applied on.

Lawsuit Confirms Nonexistence of Pumps

Included in the commercial paper purchased by Associates Investment Co. during 1958 from Estes' Equipment Service Co., were three notes with a total face value of \$388,355 signed by R. H. Tyler, then of Fort Stockton, Tex. Associates paid \$307,000 for the notes, which were dated December 15, 1958, and secured by chattel mortgages on water well pumps. As additional security for Tyler's indebtedness to it, Associates also had a lien on land supposedly owned by Tyler and on which the mortgaged pumps were supposedly located.

Testimony at the trial of Billie Sol Estes on Federal criminal charges brought out the fact that a foreclosure action involving the Tyler land was instituted in early 1960. According to statements made by Estes' defense attorneys, Charles Sherrill, a Fort Stockton attorney representing Associates in the foreclosure action, was advised in open court that the pumps purportedly covered by Associates' lien did not exist. An answer filed on behalf of Tyler in the 1960 foreclosure action, which was introduced in evidence at Estes' trial, contained the following statement:

That, in truth and in fact, none of said irrigation pumps are now, or have ever been, delivered nor placed on the property involved in this lawsuit, and, in fact, said pumps were never delivered to R. H. Tyler, or any of his agents or employees. Therefore, said lien above described is totally void * * *.

Charles Sherrill, the attorney who had represented Associates at the Tyler foreclosure action, gave the following testimony concerning the matter at Estes' trial:

Q. Did you learn facts, Mr. Sherrill, from this answer of Mr. Tyler's concerning the existence or nonexistence of the irrigation pumps?

A. It certainly put me on notice, yes.

Q. Notice of what?

A. That the pumps were not in existence.

* * * * *

Q. In other words, Mr. Tyler was supposed to have bought some pumps from Mr. Estes?

A. Yes.

Q. But the pumps weren't there, you couldn't find the pumps, is that it?

A. We could not locate them.

Q. Well, did you advise your client that you couldn't find these pumps?

A. I received notice of it. (To the court): I am a little bit hesitant, Your Honor, on how far I can testify on a privilege between my client and myself. * * *.

The COURT. It is up to the witness as to whether or not he is going to claim his privilege in advising his client that he found no pumps.

Q. Are you claiming your privilege?

A. I believe ethically I should; yes.

Although Sherrill did not testify concerning the nature of the information he gave to his client, Associates, he stated that after he reported to Associates he was instructed to withdraw from the lawsuit.

Denial of Knowledge by Associates Investment

Associates Investment Co. gave the following account of the Tyler matter in a statement to the subcommittee:

We do not have access to the transcript of an attorney named Sherrill in the trial of Billie Sol Estes. However, insofar as this company is concerned, he was engaged by us to defend our interests in a foreclosure suit instituted in Texas in which certain lands were involved on which we held a deed of trust from one R. H. Tyler and same were owned by us as additional collateral for the R. H. Tyler accounts. The matter involved was not in any way a foreclosure on irrigation pumps securing notes. This case was settled by our disclaiming certain portions of the lands under the deed of trust. There is no indication whatsoever in our files that Sherrill discovered any pumps not being in existence nor that he advised us to drop the suit.

R. H. Tyler, now a resident of San Antonio, Tex., told the subcommittee that:

I signed a number of documents in blank on or about November 1, 1958, in the office of Billie Sol Estes. At that time there was a difference in our accounts of \$25,000 in favor of Estes. From time to time prior thereto, I had done work for Estes and had purchased merchandise from him. The account between us was in the nature of a running account.

Estes asked that I sign notes in blank evidencing our difference and said he would fill them in later as memorandum of my obligation to him and keep same in his records.

According to Tyler, some of the documents he had signed in blank for Estes were filled out as notes and mortgages payable to Equipment Service Co. in the total amount of \$388,355; the notes and mortgages were dated December 15, 1958, and purported to be secured by water well irrigation pumps and accessories. Another instrument, Tyler said, was filled out to be a deed of trust on land he owned in Pecos County, securing one of the notes. Tyler stated that except for the land, "the collateral described in each of the notes did not exist."

Tyler also told the subcommittee that—

I first learned of the existence of the notes when it was called to my attention by the bank in Fort Stockton that same had been filed of record in Pecos County, Tex. I knew then no such collateral existed.

* * * * *

As soon as I learned from the bank of the existence of such mortgages as above described, I went to Billie Sol Estes immediately and asked for an explanation thereof. He told me to keep still about it; that it was a matter between him and the finance companies; and that he would take care of everything and that the finance companies understood he would take care of same and not me.

An Agriculture Department investigation indicated that a 447-acre tract of land in Pecos County, which adjoins Reeves County (in which the town of Pecos is located), was conveyed to Bobby Frank Estes by warranty deed from Chester Parke et al. in February 1957. The investigation indicated Parke received \$45 per acre for the unimproved land—a downpayment of \$762 in cash and note from Bobby Frank Estes, endorsed by Billie Sol, calling for an additional \$17,044 plus interest to be paid over a 5-year period. By separate warranty deeds in April and September, 1957, the investigation indicated, Bobby Frank Estes conveyed first 320 acres and then the remaining 127 acres of the tract to J. D. O'Michael, who assumed the \$17,044 note to Parke. The investigation showed that a \$3,095 payment was made by O'Michael to Parke in December 1957; the next payment of \$3,917 was made in February 1959 by R. H. Tyler, and a final payment of \$12,806 was made by O'Michael in April 1960. According to Parke, the reason for this sequence was that O'Michael sold the land to Tyler, then repossessed it and made the final payment.

Alleged Knowledge of Associates' Employee

In testimony at Amarillo, Harold Orr stated that N. J. Wardlaw, of Associates, had informed him of Estes' pump deals in December 1958. Superior Manufacturing Co., for which Orr worked, was not involved in the pump transactions; however, Superior had sold Associates more than \$400,000 in tank paper from July through December 1958. According to Orr:

* * * I received a phone call from Mr. N. J. Wardlaw, who is a branch manager for Associates Investment Co., of Lubbock, Tex.

At this time, I was an employee of Superior Manufacturing Co.

And he stated that this company had found out that Mr. Estes had been selling them mortgages on pumps that he was supposedly manufacturing in the Equipment Service or Water Well Service, one of these companies in Pecos, and the pumps were not in existence and his company had approximately a million and a half of this pump paper; and Mr. Estes said not to divulge this information to Mr. Robert E. Clements, because he was an elderly man and he didn't want him to have a heart attack.

These were the exact words, basically the exact words, that Mr. Wardlaw told me.

Douglas Lewsader, a pilot for Billie Sol Estes at the time, testified at Amarillo concerning an incident he said happened in April 1960—around the time of the Tyler foreclosure action. According to Lewsader's testimony:

* * * Mr. Estes and I were off down in the country someplace, and he got a long distance telephone call, that

I took the call—and it was from the office in Pecos, and Mr. Foster had to talk to Mr. Estes just as quickly as I could find him.

I located him within a very short time, and Mr. Estes called back, and when he hung up, he told me we had to get right back to Pecos, didn't give me any reason for it.

We hadn't any more than got there, and I think we had checked into a hotel, and I don't recall where we were except that I recall the instance that this happened.

We went back out to the airport and put our luggage in the airplane and beat it back to Pecos from wherever we were.

After taking Estes back to the office, Lewsader testified:

Then, of course, I roamed around in the Estes office there, trying to find out what was going on.

The secretary at that time was a girl named Mel Sullivan, whose husband was the manager of the local Greyhound bus depot there—told me that the reason we flew back in such a huff was that Mr. Wardlaw from Associates Finance out of Lubbock was there and had made an extensive investigation and found out there were several thousand dollars, possibly into the millions of dollars of paper out on irrigation pumps that didn't exist, that they couldn't find the irrigation pumps, and that's why we came back so fast.

And so I said, "What's going to happen?" and she said, "Well, I don't know, but I think it is all going to be worked out. Mr. Wardlaw is here now in the office with Mr. Estes, and I think something will be worked out."

The following morning, according to further testimony by Lewsader:

* * * I went out to the airport. Mr. Estes met me out there, and we were about to climb in the airplane, and Mr. Wardlaw drove up.

Mr. Estes and Mr. Wardlaw had a little chat there in front of the airplane and I was introduced to Mr. Wardlaw at that time, as Mr. Wardlaw from Associates Investment, or whatever it was there in Lubbock.

And the only thing that I remember that was significant was that Mr. Estes said, well, he hoped nothing of this nature would come up in the future, and that he was satisfied they were going to get along just fine and dandy, etc., and so on.

Of course, then we departed, and I didn't hear anything further about that until I got back in the office, and I was very inquisitive and I asked Mel again what had happened to the irrigation pump deal, and she said well, evidently everything was solved between Mr. Estes and Mr. Wardlaw, because she hadn't heard anything more about it.

Nobody had heard anything more about it, so evidently what had happened, everything was satisfactory to all concerned. Nobody seemed to worry about it from then on.

AMMONIA TANK TRANSACTIONS

Original Tank Purchases

Although not the earliest, the best known and largest of Billie Sol Estes' financing schemes involved purported purchases of anhydrous ammonia tanks. Ammonia tanks are widely used in west Texas for transporting ammonia from distribution points to farms for application on cropland. Some farmers have their own tanks, but in many instances fertilizer distributors buy tanks for use by their ammonia customers. Under customary procedures, companies which manufacture ammonia tanks do not finance sales made on credit. Instead, the tank purchaser pays a cash downpayment and gives a note for the remaining balance; the note, along with a chattel mortgage on the tanks, is sold by the manufacturer to a bank or finance company at a discount. The tank purchaser generally makes payments on the notes directly to the bank or finance company, usually on a monthly basis over a 3- to 5-year period.

Billie Sol Estes' tank transactions began in the spring of 1957, when Estes started selling anhydrous ammonia and buying ammonia tanks. The tanks were manufactured by the Superior Manufacturing Co. of Amarillo, Tex., and used by Estes in his rapidly expanding ammonia business. Superior Manufacturing was owned in 1957 by Robert E. Clements, the company's founder. According to Harold Orr, then a salesman and later vice president of Superior, the firm produced—

all sizes of anhydrous ammonia tanks, which are code tanks designed for a 250-pound pressure; all sizes of LPG propane tanks; acid tanks, which are noncode tanks—they are non-pressure tanks; anhydrous ammonia applicators, and all types of refinery equipment, which are code tanks.

According to Orr, the company normally employed about 100 employees, and about 80 percent of its business consisted of production of ammonia tanks.

Billie Sol Estes' first business transaction with Superior, according to Harold Orr, occurred in 1954, when Estes placed an order for some gas tanks to be shipped to Pecos. The next transaction was in May 1957 when Estes ordered six ammonia tanks. What happened after that was described by Orr in the following testimony at Amarillo:

About 2 weeks later, he called me and asked me to be in Pecos and he would—he gave me an order. At that time, he asked me how quick I could deliver 300 1,000-gallon ammonia trailers.

I thought he was pulling my leg, because our total billing was approximately \$600,000 a year, and here a man was going to give us a quarter-million-dollar order to begin with.

But by the time I got back to Amarillo, he had called and placed the order.

Use of "Horses"

After placing his initial order in 1957, Estes continued to order ammonia tanks from Superior. Characteristically, his purchases were made on credit. As Harold Orr described it:

* * * Of course, all of these tanks were sold on a finance plan.

Q. No cash?

A. No cash, except on the first original transactions, and I believe that was approximately \$25,000.

In other words, as we shipped the tanks to him, we had to have our money, and Mr. Clements would arrange for the financing, so that we could meet the payroll, etc.

The rapid pace at which Estes was buying ammonia tanks soon caused credit difficulties. Orr described Superior's problems in obtaining financing for Estes' tank transactions in the following testimony at Amarillo:

* * * after we had used his credit up at LPG Credit Corp., we went to the bank, the First National Bank in Amarillo, and then we went to Southwestern Investment Co. in Amarillo. * * * Then we had no place to go, and he was still buying merchandise like mad.

As a result, Orr said:

Estes began using farmers' credit to finance through * * *. In other words, he would give them some kind of consideration for them to sign a contract, and he would make the payments."

The practice of inducing farmers to sign tank notes eventually became so commonplace that Estes and his coconspirators coined their own phrase "horses" to describe such individuals. Harold Orr, who told about use of the term in his Amarillo testimony, said he did not know who originated the term. Orr did not explain exactly why the terminology was selected, but he indicated that it was used in private discussions "for a couple of years."

Fictitious Ammonia Tanks

The subcommittee's investigation did not establish exactly when Billie Sol Estes began using nonexistent tanks as a device for obtaining funds. However, it appears likely that the first substantial use of this scheme occurred in 1958. During 1957, Estes' tank transactions apparently involved tanks which were actually manufactured and delivered. An examination of Estes' records made by Ernst & Ernst after his arrest indicated that he acquired fertilizer tanks and equipment costing approximately \$180,000 that year; according to records available to the subcommittee, tank mortgages signed by Estes during 1957 were less than the cost of equipment purchased. In 1958, according to Estes' records, tanks and equipment valued at \$275,000 were acquired. However, tank mortgages totaling more than \$900,000 were recorded in Estes' name that year in Reeves County alone.

During 1959, according to his records, Billie Sol Estes actually acquired ammonia tanks and equipment valued at nearly \$600,000 for use in expanding his operations to the Plains area. However, Estes apparently signed very little—if any—fraudulent tank paper himself in 1959, since the total amount of tank mortgages recorded against Estes or his companies was less than \$600,000. The total amount paid by lenders for fraudulent tank paper signed by "horses" in 1959 apparently was only around \$200,000, most of it in January and February.

According to his testimony at Amarillo, Harold Orr was not personally involved in fraudulent aspects of Estes' tank transactions until after April 1960. Before that time, Orr indicated, parties to the fraud were Estes and Robert Clements, then owner of Superior. However, even though Orr did not have direct knowledge of the fraudulent transactions, he suspected what was happening. One incident which aroused Orr's suspicion happened, according to his testimony, in the lobby of the Hilton Hotel in Plainview at a meeting between Estes, Orr, and Lloyd Stone. On that occasion, Orr testified:

Mr. Estes, Mr. Stone, and myself were in the lobby. This was the first part of 1959.

Mr. Estes made the statement that he had a bear by the tail, and if it ever got loose, it would eat him up—then he was quick to add the fact that he was in real good shape, as far as financing was concerned, his net worth—he said his net worth then was approximately \$5 or \$6 million.

He said, "You know, it's hard to tell my net worth, because I am scattered so, I don't know what the true value of my merchandise is."

And he said, "I'm going to need" or "I have needed continual financing, and I will continue to need financing until such a time as I can get enough grain storage runs to finish meeting my total outgo."

Orr said his suspicions were confirmed by another incident later in 1959, which he described as follows:

I was in Reeves County, at Pecos, Tex.—this was approximately April of 1959—Mr. Estes said, "I am fixing to fly to Amarillo. Would you like to go with me?" And I said, "No. I am down here on business," and he had Mrs. May Sullivan, who was his secretary at that time, typing a contract on the H. O. Thompson Farms at Pecos, Tex., and he said, "As soon as May signs the contract, I'm going to take it up to Mr. Clements."

I thought, Why is May signing the contract, and he said, "It's all right. There isn't anything wrong with it."

So she signed the contract, and he took the contract on the H. O. Thompson Farms, and Willis Winters and R. H. Tyler of Fort Stockton, Tex.—there were three contracts, and they were all made on the First National Bank's contract.

He flew those to Amarillo, and late that evening when I returned from Fort Stockton, I met Mr. Estes again, and he had a letter from Mr. Clements stating that I had returned three bills of sale to him, and Estes explained that he had waited in Mr. Clements' office while Mr. Clements went to the First National Bank to get the money for the contracts, then he, in turn, gave the money to Mr. Estes.

I knew something was awfully shady at that time.

Chandler-Estes Transactions

In his Amarillo testimony, Harold Orr described another transaction which Orr said took place in early 1960. The transaction, as Orr described it, differed from previous ones because the collateral supposedly consisted of reconditioned rather than new ammonia tanks,

and because the proceeds were shared by Estes with others. Orr gave the following account of his involvement in the incident:

* * * in January, approximately January 13, 1960, I was at the Statler-Hilton Hotel in Dallas, Tex., attending the Texas Anhydrous Ammonia Convention, and I had a call from Mr. Robert E. Clements, asking me to get a new approval letter, or a different approval letter from Mr. Jim Turiff of CIT Corp., covering approximately 300 1,000-gallon ammonia trailers, to get a new approval letter stating that these were reconditioned trailers and not new trailers.

There had already been an approval letter, in other words, issued for the new trailers, and the name of the account was Chandler Farms, Fred Chandler, Jr. and Fred Chandler, Sr. at Fort Stockton, Tex.

I did that. I asked Mr. Turiff, and he had a new approval letter typed out, and in the phone call, Mr. Clements had asked me to give this to Mr. Estes, who was at the convention.

I gave this approval letter to Mr. Estes, and he had his pilot, Mr. Lewsader, fly him to Amarillo, where, I understand—after I got back, they told me that Mr. Clements endorsed a contract on the Chandler Farms for the reconditioned tanks, and he gave Mr. Clements this letter from the CIT Corp. which said they were reconditioned tanks.

According to Orr, Clements received a substantial payment for his part in the transaction. Orr described this as follows:

The next day, Mr. Clements called me and asked that I make sure the check made to him for the brokerage fee be made in the form of a cashier's check, and to him, personally, rather than to the corporation.

The check was for approximately \$11,000. In fact, the exact amount was \$233,500. That is the principal amount. That was the amount of the check that was sent to Mr. Clements, and he, in turn, sent the check to Estes.

Q. What is this brokerage fee?

A. That's for him handling the contract.

Q. You've lost me there.

A. That is what he told me over the phone; 5 percent brokerage fee.

After testifying that he knew the ammonia tanks supposedly involved were never reconditioned at Superior Manufacturing Co., Orr gave the following explanation of the purpose of the transaction:

Q. State whether or not you know what happened to the \$233,500.

A. Yes, I do.

Q. What happened to that?

A. Fifty percent of it went to the Chandler Farms, and 50 percent went to Billie Sol Estes, because he told me later that that was what happened.

The reason this came up, Chandler Farms was paying this note to CIT, and they became delinquent, and made a call

to Chandler Farms, and they said they were waiting on Mr. Estes' half of the monthly payment before they made payment, and that is how I became acquainted with it.

And I asked Mr. Estes about it, and he said that that was a double loan.

Q. A double loan?

A. Yes, sir; that the Chandler Farms needed money and he needed money.

SUPERIOR MANUFACTURING CO.

Close Relationship With Estes

According to Dun & Bradstreet, the Superior Manufacturing Co. had been established in 1938 by Robert E. Clements. Clements, a former resident of Long Beach, Calif., had been associated with the Townsend old-age security plan before moving to Amarillo. By 1959, the corporation owned several acres of land and a plant with 20,000 square feet of floor space in Amarillo. Superior's net worth in 1959 was estimated by Dun & Bradstreet at about \$300,000 "with debt heavy * * * and slowness noted in retiring obligations."

Although a substantial amount of Billie Sol Estes' business with Superior Manufacturing Co. involved fraudulent paper, Estes' activities also created a considerable amount of legitimate business for the company. As Estes obtained new retail outlets for ammonia, Superior sold his dealers the necessary equipment for handling it. Other fertilizer distributors also bought more tanks in order to meet Estes' competition. According to Harold Orr, Superior found it necessary to add two more salesmen because:

The increase of our business with Mr. Estes seemed to have pumped up the whole organization, the other anhydrous ammonia dealers.

Everybody was buying * * *.

After additional salesmen were added, Harold Orr continued to handle the Estes account. Orr described the situation in these words:

A. I spent about 60 percent of my time with Estes.

Q. In other words, that was your personal account, then?

A. That is correct.

Q. Did any of these other salesmen have anything to do with the account?

A. No, sir.

Q. In other words, you personally handled it?

A. That is correct. I would be called off the territory at times, when I was in Nebraska or Kansas, I would be called off the territory and asked to go to Pecos immediately.

Orr also described his frequent contacts with Estes from 1957 through early 1960:

Q. Mr. Orr, during your association between January of 1957 and April 27, 1960, did you have occasion to meet Mr. Estes on many occasions?

A. Many occasions; yes, sir.

Q. Would you care to hazard a guess?

A. Probably 300 or 400 times.

Q. Did you ever meet with other friends and business associates of Estes?

A. Yes, sir.

The close working relationship existing between Superior Manufacturing Co. and Billie Sol Estes is further illustrated by Superior's use of a private plane owned by Estes. According to Harold Orr, Estes purchased a 310 Cessna around the middle of 1959. After that, Orr said, the plane was available to and used by Superior.

One factor in the close working relationship between Estes and Superior undoubtedly was the existence of negotiations between Estes and Clements concerning the sale of Superior to Estes. According to Harold Orr:

Mr. Estes, in 1959, had led Mr. Clements to believe that he was going to purchase Superior * * *

The sales negotiations fell through, as Orr described it:

* * * when Mr. Estes finally told Mr. Clements, in the fall of 1959, that he could not, under any circumstances, buy Superior Manufacturing Co., because Commercial Solvents would not allow it * * *.

The subcommittee did not find evidence to substantiate the truth of Estes' reported statement that Commercial Solvents would not allow him to buy Superior, although he may well have made the statement. It is quite possible that Solvents' refusal to ship more ammonia on credit in the fall of 1959 may have been a factor in Estes' decision; another factor may have been a decision by Estes that discovery of his pump deals made it undesirable for him to be owner of record of a company handling his fraudulent paper. Still another possibility, of course, is that Estes never intended to buy Superior and used the sales negotiations as a means of persuading Clements to help him with fictitious tank transactions.

Robert Clements Sells Superior

After Estes informed Clements he could not buy Superior, Orr stated:

* * * Mr. Clements then approached me and said he was getting up in his years and he had worked hard all of his life and he wanted out, and to see if I couldn't arrange to get 50 or 60 of my good dealers to go together to purchase the company, each put in a little money.

Orr's search for prospective purchasers was not overwhelmingly successful. He described the results as follows:

A. I only found three.

Q. Who were those three?

A. Mr. Coleman McSpadden of Hereford, Tex.; Mr. John W. Simmons, of Wildorado, Tex.; and Mr. R. W. Davis of Fowler, Colo.

Q. Did you really try to find anybody else?

A. Yes, sir. I contacted approximately 50 or 60 of our dealers.

Q. And they weren't interested?

A. No, sir, they were not interested.

The three prospective buyers whom Orr found did not object to Clements' asking price of more than \$450,000. However, there was another problem, as related by Orr:

* * * I went in to Mr. Clements, and I told him I only found three people interested, and he told me he knew all three people.

All three people had been very good customers of Superior, especially Mr. Simmons and Mr. McSpadden.

He asked that I check with these people again to see if they couldn't borrow the money to purchase Superior, which I did.

They were all hocked to the gills. They were worth a lot of money, both of them, but they were hocked.

At that point, according to Orr, Clements suggested the use of tank mortgages to finance the sale, saying, "Write to the finance companies, and see if you can get them lined up." Orr's reaction, in his own words, was, "He didn't have to draw me a picture. That is exactly what I did."

The subcommittee did not find evidence establishing that Estes participated in or inspired the acquisition of Superior by McSpadden and his associates through use of fraudulent tank paper, but it is worth noting that the method used was similar to procedures utilized by Estes in acquiring and establishing business enterprises.

Use of Tank Mortgages to Purchase Superior

According to Orr's testimony, the sales price for Superior was \$482,000; \$100,000 of this amount was in the form of two notes payable to Clements; \$300,000 in cash was obtained through notes signed by McSpadden, Simmons, and Davis. Notes signed by McSpadden were purchased by finance companies for \$202,000 and those of Simmons and Davis for approximately \$78,000 and \$20,000, respectively. Orr described the incident as follows:

A. I got * * * the \$202,000, and \$78,000, and \$20,000 approval letters from the finance companies.

These letters, incidentally, all lay on Mr. Clements' desk. He would have it no other way.

And he gave me these approval letters, and he said, "Write the contracts. Type them up."

We typed them up, and we got the serial numbers up here—right out of the clear blue.

Some of the contracts read, the ones on CIT, because it was a requirement—1,000-gallon ammonia trailers—of course, those trailer numbers were not Superior serial numbers.

We got the individuals to sign the contracts. The contracts were mailed to the finance firms, and the finance firms sent the money to Mr. Clements, and he, in turn, wrote separate checks to each of the individuals, and they, in turn, at the time the sale was consummated, wrote checks to Clements.

Records at Hereford (Deaf Smith County), Tex., indicate that four tank mortgages totaling \$262,800 were recorded for McSpadden on April 22, 25, and 26, 1960. Notes for this amount, at customary discount rates, would bring approximately \$202,000 from finance companies.

R. W. Davis, through his attorney, provided the subcommittee with the following description of his part in the purchase of Superior:

Mr. Davis states that the contract dated April 23, 1960, was signed by him at Amarillo at the time the Superior Manufacturing Co. was to change hands. He states that the circumstances surrounding the signing of this mortgage was that Harold Orr arranged for Mr. and Mrs. Davis to come to Amarillo by private plane and took Mr. Davis around in the company's premises and showed him the materials that were on hand to build the security listed on the mortgage and assured Mr. Davis that these tanks would be the first ones built. This money received from CIT Corp. on this contract was actually used in the purchase of the company and the money was apparently paid to Robert Clements, as Mr. Davis was given a check for deposit to his account and turned around and wrote a check back to Superior Tank Co. for \$21,443.60 on April 28, 1960 * * *.

The remaining \$82,000 was paid by Orr and Ruel Alexander, who had been bookkeeper at Superior for several years. Orr explained the source of this amount in the following testimony:

Q. Now, where did that money come from, Mr. Orr?

A. Mr. Estes had a credit balance on the books with Superior.

Q. A credit balance?

A. A credit balance, and—under the Lester-Stone Co., which was a company he actually owned, of \$36,900—approximately \$37,000.

Q. You mean Superior Manufacturing Co. owed Billie Sol Estes?

A. That is correct * * *.

During the time that Mr. Estes told Mr. Clements that he would consider buying Superior, they agreed that Mr. Clements would withhold a certain portion out of each of these contracts that were being handled for him—I mean out of every contract handled, to go against the eventual purchase.

So it took about 6 or 7 months there to build up the \$36,900 or \$37,000.

And that money was—Mr. Estes agreed to loan Mr. Alexander and myself that money.

We wrote the check—Mr. Clements wrote the check to Lester-Stone Co., and Mr. Lloyd Stone endorsed it on the back of the check, "Pay to the order of H. E. Orr and R. W. Alexander, jointly," and we deposited the money in the First National Bank of Amarillo in a joint checking account.

The balance of the money, Mr. Estes—we gave a note to Superior for \$43,100, approximately, and Mr. Estes assumed this note. We couldn't pay it, and he assumed this note for us. In other words, approximately \$80,000 was borrowed from Estes by Ruel and myself.

Q. Was there any money of your own at all, in that?

A. \$2,000 of my money, cash.

Q. Where did that come from?

A. That came out of my bank account.

LUBBOCK MACHINE & SUPPLY CO.

Initial Arrangements With Billie Sol Estes

The bulk of Billie Sol Estes' fraudulent tank mortgages were sold to finance companies through the Superior Manufacturing Co. of Amarillo. However, mortgages with a face value in excess of \$5 million were handled by the Lubbock Machine & Supply Co., Inc., of Lubbock. T. A. Rogers, president of Lubbock Machine & Supply, gave the subcommittee the following description of the first business proposal made by Estes to that company:

Early in July 1960, Billie Sol Estes came into our office (I had met him, casually, in 1959).

(1) He told us that he wanted to change his source of supply for tanks because Mr. Robert Clements had sold Superior Manufacturing Co., Amarillo, to several people, one of whom was a competitor in the ammonia business.

(2) Mr. Estes said that during the past several years Mr. Clements had built for him between \$3 and \$4 million worth of tanks.

(3) These tanks and other equipment had been financed by various finance companies; one he mentioned in particular, CIT.

(4) These tanks, he said, were not only paid for but, having been set up on an accelerated depreciation schedule, were now depreciated off his books. (He said he had in his files a ruling or acceptance of this fact from the Bureau of Internal Revenue.)

(5) He said he was selling these tanks to his ammonia customers and associates and was taking a long-term capital gain, all of which lowered his rate of income tax, which he said was a great problem because of his very high income from farms, grain storage, and ammonia sales.

(6) Mr. Estes told us he had the potential customers for the tanks, and several finance companies had agreed to finance these customers, provided their net worth warranted their purchases. However, the finance companies required a tank manufacturer to handle the account, because in case of default on payment and repossession, or the need for tank repair, they needed a manufacturer to do this work.

(7) He offered a brokerage fee of 10 percent for servicing accounts (5 percent if there was no recourse).

Later in July, Rogers said:

* * * there were several other visits by Mr. Estes and at least one by Mr. Bill King of CIT. We had known Mr. King and his company for some time, and he had previously talked at length about Mr. Estes' activities. He said that he knew these tanks (mostly 1,000-gallon anhydrous ammonia, mounted tanks) because Superior Manufacturing had built them, and CIT had done part of the original financing for them.

According to Rogers, he then conducted a credit investigation of Estes, receiving favorable reports concerning Estes from Estes' Pecos

bank and from Robert Clement, former owner of Superior Manufacturing Co. Thereafter, Rogers said:

Late in July or early in August Lubbock Machine & Supply agreed to handle the brokerage of these tanks up to \$1 million worth. * * * We asked for and received bills of sale from Mr. Estes, covering the tanks he was selling to his ammonia customers and associates.

Subsequent Transactions

Rogers told the subcommittee that Billie Sol Estes handled contacts with the purported tank customers. Rogers gave the following description of the manner in which the paperwork was handled:

At first he himself came in and brought the record of the sales or telephoned details of the sale and sent customer's financial statement. We sent the tank customers' balance sheets to the finance companies (CIT, FAC, Commercial Credit, etc.), so they could investigate the references, facts, etc. If and when the customer was approved by the finance company, we made up the contracts, notes, mortgages, and sent them to the Estes office in Pecos so the sale could be consummated, the tanks delivered, and the papers signed and returned to us for forwarding to the finance companies. The only customer we saw before early March 1962 (when signs of fraud were becoming obvious) was one of the first ones, Mr. Grady Acuff, Lamesa, Tex., who came into our office in August 1960, to re-sign his note and mortgage—we had made an error on the one we had previously mailed to him.

Although Lubbock Machine guaranteed the bulk of the mortgages which it handled for Estes, Rogers said approximately half a million dollars worth of tank mortgages were sold to the Dallas office of CIT without recourse through arrangements made by James Turriff, who was then in charge of CIT's Dallas office. CIT did not purchase any tank mortgages after May 1961; according to Rogers:

When CIT stopped their financing in 1961, they gave as the reason their desire to spread their product risks and said they were not in position to handle any more tank papers. Bill King said it was a rift between the New York and Dallas offices.

Rogers told the subcommittee that he had no suspicion of irregularities in Estes' operations until March 1962, stating that:

* * * until early 1962, I had never received any uncomplimentary information about Mr. Estes, except from several people who were his competitors in the ammonia business, and the substance of their remarks was that he was a hard competitor. We are accustomed to that in the steel construction business.

* * * * *

* * * Until after March 10, 1962, we thought Mr. Estes was being persecuted by his competitive and political enemies and his financial difficulty was the result of too-rapid extension of investment. We had not until then even begun to doubt his integrity.

The subcommittee's investigation indicated that Lubbock Machine received well over \$300,000 in brokerage fees for handling tank mortgages originated by Estes.

In addition to the tank transactions, Lubbock Machine also built storage facilities for Estes. Details of storage construction by Lubbock Machine were discussed on pages 49 and 50.

EXPANSION OF FRAUDULENT MORTGAGE OPERATIONS

Increased Volume of Transactions

By ordinary standards, Billie Sol Estes' fraudulent tank operations were already enormous by the time Harold Orr and his associates acquired Superior Manufacturing Co. in April 1960. Several banks and finance companies had paid a total of around \$2 million for notes secured by mortgages on anhydrous ammonia tanks. Although a substantial portion of the tanks actually did exist, the amount paid for fraudulent tank paper certainly totaled hundreds of thousands of dollars and may have been over a million. In March 1960, more than \$400,000 had been paid out on tank notes, and in two previous months the amount had exceeded \$200,000.

In his Amarillo testimony, Harold Orr told of a conversation at the Hilton Hotel in Plainview in which Estes predicted a substantial expansion of his tank operations. According to Orr:

A. Mr. Stone and myself and Mr. Estes were in the lobby of the hotel, and Mr. Estes was in one of his jovial moods, and he laughed and he said, "Before I am through, they will have to add an annex on the courthouse to hold all of my mortgages."

Although it did not actually become necessary to add an annex to the Hale County Courthouse, a fantastic amount of fraudulent paper was negotiated by Estes after Superior changed hands. Harold Orr estimated the amount in testimony at Amarillo, referring to fraudulent tank notes as "fiction":

Q. After you purchased the company, state whether or not there was any fiction went through this company.

A. After we purchased it?

Q. After April 27, 1960.

A. Definitely so.

Q. Do you know of your own knowledge the approximate amount?

A. From the time of the sale to the time of the ending?

Q. Yes, sir.

A. I would say approximately \$20 million.

The subcommittee's investigation indicated that Orr's estimate may have been somewhat high with respect to tank paper handled by Superior alone; however, if tank mortgages handled for Estes by the Lubbock Machine & Supply Co. are included, it is fairly accurate. Nearly \$700,000 was paid by finance companies for Estes' tank paper handled by Superior during the first month after it changed ownership; the average for the remainder of 1960 was more than half a million dollars a month. In 1961, the total amount of tank paper

handled by both Superior and Lubbock for Estes averaged more than a million dollars a month.

Before May 1960, most of the tank mortgages discounted by Estes had been in his own name; the relatively few other signers were generally close friends or associates of Estes in the Pecos area. After May 1960, a much larger number of "horses" signed notes for Estes; many of them lived in the Plains area or other parts of Texas which were a considerable distance from Pecos.

From 1957 through early 1960, the tank mortgages were purchased primarily by the First National Bank of Amarillo, CIT, Associates Investment Co., and Southwestern Investment Co. After the change in ownership of Superior, many more finance companies were involved.

Alleged Coercion of Superior

A close working relationship with Superior Manufacturing Co. was essential to Billie Sol Estes' tank mortgage scheme. Through Superior, Estes could obtain documents evidencing the existence of tanks which, in reality, had never been manufactured. Superior was also the conduit through which money from finance companies could be channeled to Estes. The relationship between Estes and Superior had been close before the change in ownership; after the change, Estes apparently exerted a considerable amount of influence over the actions of Harold Orr, Superior's vice president. According to testimony of Douglas Lewsader, one of Estes' pilots, "whenever Mr. Estes hollered 'Frog' Mr. Orr jumped as far as he could."

Harold Orr himself testified that the first fraudulent tank transactions proposed by Estes after the change in ownership came as a surprise to the new owners; according to Orr:

When we purchased the company on April 27, 1960, we had no earthly idea that Billie Sol Estes would ever have anything else financed through Superior.

We had our own ideas about what paper—we had our suspicions, but we also had every bit of faith in the world in Estes.

As a matter of fact, I personally checked his credit references with his banker, Mr. McPherson in Pecos, the Western Cotton Oil Co., and other sources, and they said he was worth a tremendous amount of money.

So, approximately about a month after we bought the company, Mr. Estes walked in on us at Superior Manufacturing Co.

Mr. Lewsader, naturally, flew him to Amarillo. Billie Sol said he needed a quarter of a million dollars—he didn't have no hanky-panky or nothing. He just stated it straight across the cuff that he wanted a quarter of a million dollars.

"I want a quarter of a million bucks. Here's five financial statements. You can get \$50,000 on each, or approximately \$50,000 on each, * * *."

At first, Orr said, he and his associates "objected strenuously" to handling more fraudulent paper. Orr described how Estes overcame their objections as follows:

A. He said, "You owe about a million or a million and a half bogus paper now that you have taken over from Robert

E. Clements." And he said, "I know how you purchased Superior, and, therefore, you fellows are in pretty bad shape."

In other words, he had a knife at our throat, and we would do what he said.

So we called in Mr. McSpadden, because he was the majority stockholder of Superior, and we saw that we had no alternative, especially since Billie Sol, at the same time, cushioned the blow * * * he told us many times that through Solvents' help, the grain storage would always remain full, and he would always have anhydrous ammonia, which he would use for money, and that he was worth a million dollars—we had all the faith in the world in Mr. Estes * * *.

Estes told Orr that the tank transactions were necessary because "he was buying grain elevators and he needed money for the down-payment." This statement was probably truthful. Estes was rapidly expanding his storage interests at this time and, because of restrictions placed on shipments of ammonia by Commercial Solvents, had to look for alternative sources of revenue. A detailed account of the financing and construction of Estes' grain storage facilities is given elsewhere in this report.

After the first fraudulent transactions Estes came back to Superior time after time, and each time, according to Harold Orr:

* * * we again financed—and every deal was the last deal, up until the end of 1961, when we were beginning to see something wrong.

But he would say, "This is the last transaction. I won't need any more money after this." But it seemed like he said that every week.

Involvement of Orr, Alexander, and McSpadden

The involvement of Harold Orr, Ruel Alexander, and Coleman McSpadden in fraudulent tank transactions was summarized as follows by Federal Judge R. E. Thomason when he sentenced the three men to prison terms. Judge Thomason's comments referred specifically to tank transactions originated by McSpadden, but are also applicable in large measure to the transactions originated by Estes:

Although each of these defendants now before the court for sentencing plead guilty to the same counts, the degree of their participation and profits varies. Defendant McSpadden personally contacted farmers and persuaded them to sign the fraudulent chattel mortgages. When discovery of this scheme was threatened by finance companies, he directed his employees to change serial number plates on existing tanks to correspond with those listed on the chattel mortgages.

Defendant Orr appeared with McSpadden in contacting several of the farmers, and he actually outlined the entire financing procedure in some cases. On other occasions he would represent that Superior would take the equipment back from the farmers in case McSpadden defaulted on payments. His very presence as a representative of Superior Manufacturing Co. exerted a persuasive influence on the farmers. He met with finance company personnel on various occasions to sell the fraudulent paper to them. He helped to prepare fictitious books at Superior Manufacturing Co. in order to deceive

the finance companies. He obtained and furnished to McSpadden fraudulent serial number plates for placing on existing tanks.

Defendant Alexander played a more passive role. At Superior, he assisted in the preparation of the false chattel mortgages and contracts which the farmers signed. He assisted in the transmission of these documents to the finance companies. He helped in the preparation of false books to deceive the finance companies. He attended various meetings with finance company personnel and others, and his primary job was to disperse funds which he knew had been fraudulently obtained from the finance companies to McSpadden.

Judge Thomason also described the benefits received by Orr and Alexander:

Defendant Orr received and profited by loans, gifts, commissions, and dividends in the amount of \$101,000, over and above his generous salary at Superior Manufacturing Co.

Defendant Alexander received and profited by loans, gifts, commissions, and dividends totaling \$64,300, over and above his salary.

DEALINGS WITH CIT

Huge Purchases of Tank Paper

Billie Sol Estes' relationship with Superior Manufacturing Co. provided a necessary tool for obtaining documentary evidence that his nonexistent tanks had been manufactured. However, the problem of finding lenders willing to advance extremely large sums of money on the fictitious tanks still remained. The subcommittee's investigation indicated that some finance company employees deliberately assisted Estes in solving this problem.

According to Harold Orr, Estes outlined a plan for disposing of tank paper not long after the change in ownership of Superior. Estes described the plan, Orr said, as follows:

He told me and Ruel then, in our office, "I am going to send most of these financial statements to CIT direct to J. A. Turriff," Jim Turriff, whom I knew real well, and he said, "Now Jim is going to tell me which ones are approved and which ones are not approved, and I am going to tell you which ones to send applications on."

Orr testified that Turriff, an official in CIT's Dallas office, had authority to approve purchases of tank sales contracts in the amount of \$75,000 or less, but that purchases in excess of \$75,000 had to be approved by the New York office. Orr stated that CIT paid approximately \$4 million for Estes' tank contracts purchased from Superior from December 1960 through April 1961; according to Orr, all the contracts during this period were for \$75,000 or less. The subcommittee's investigation indicated that from late November 1960 through early May 1961, CIT paid more than \$3.6 million for Estes-originated tank paper with face values totaling approximately \$4.7 million. A substantial number of the contracts involved—but not all of them—were for amounts slightly under \$75,000. During the same period,

all other finance companies involved paid a combined total of less than \$3 million for tank contracts originated by Estes.

Gifts to James Turriff

Among the many thousand canceled checks found in Estes' records was one payable to the Ben Griffin Auto Co. of Dallas in the amount of \$4,976.76; the check was dated November 18, 1960, and bore the signature of Billie Sol Estes.

The check was supported by an invoice in the above amount from the Ben Griffin Auto Co., dated January 4, 1961, and made out to the "Hereford Fertilizer Co." at Estes' mail address (Post Office Box 1052) in Pecos. The invoice covered a 1961 Ford Thunderbird. A handwritten note found with the invoice read as follows:

DEAR BILLIE SOL: Attached are invoices on the T-Bird which you probably need for your files. If you need the license receipt I can send that to you. I do think it wise to license it at Pecos, but you can let me know. Also check on the gas receipts and if needed I will send them to A.B. Too, have A.B. inform me about the insurance, forms to carry in car in case of accident, coverage, name of company, etc.

Thanks so very much.

JIM.

James Turriff, who left his position as Dallas division head and vice president of CIT in the summer of 1961, told Federal investigators after Estes' arrest that he had personally selected the Thunderbird but had only borrowed it from Estes.

In addition to the Thunderbird, the subcommittee found evidence of other substantial gifts, loans, and business transactions involving Turriff and Estes.

Payments to William King

During the period in which CIT was making its heaviest purchases of Estes' tank paper, one of its employees was receiving monthly payments directly from Superior Manufacturing Co. and indirectly from Billie Sol Estes. The CIT employee was William H. King of Amarillo, who was a field representative for CIT until July 1961.

In testimony at Lubbock, King said that in 1960 Estes had offered him a job at \$17,000 a year—

* * * to be a finance contact man for him, to visit banks and get acquainted with finance companies and to arrange equipment financing that his needs might require.

King said he turned down Estes' offer, even though his CIT salary at the time was only \$10,000—

* * * because I told him that I didn't think it would be possible to accomplish what he would have to have done because the financial information he had to furnish would not correlate, that the statements were not certified, and I felt that since my own firm would not finance him directly, why, certainly a bank or another finance company wouldn't.

After declining Estes' offer, King testified, he was offered a job with Superior Manufacturing Co. by Coleman McSpadden in November 1960. When he reported the offer to CIT, King said, he

was given a raise and asked to stay with CIT. Shortly thereafter, according to King's account:

* * * In the latter part of November, Mr. McSpadden called me from Lubbock, apologized for having not contacted me since his original offer was made, he'd been very busy, he said, at Hereford, and asked me what I had decided, and I told him that I had decided to remain with CIT Corp., and he asked if he might meet with me the next morning in Amarillo, and I said, "Certainly." I met with him at the Ramada Inn Motel, we went together to a room that he had rented, he told me that he, as president of Superior Manufacturing Co., but in an inactive status in that he was not able to be there, and not able to lend any management support to Mr. Orr, who he said was very young and also very talented, that someone with my experience would be invaluable to the corporation and would I consider—reconsider, first of all, going to work for Superior, and I told him that I had a good future with CIT and that I was happy where I was at and I had invested six and a half years with the company and I thought I would remain where I was, again. So he then asked me if I would consider working for both companies, in an advisory capacity to Mr. Orr in Mr. McSpadden's absence, ultimately offering me \$500 a month as a consultant and adviser to Mr. Orr.

King testified that he refused McSpadden's offer at first on the ground that "it might be a conflict of interest because CIT is buying the bulk of your installment paper." McSpadden responded, according to King, by saying:

"* * * That is not what I'm talking about. I'm not interested in that at all and no one is going to ask you to be concerned with anything like that." He said, "We need to be able to call you for advice on personnel and management problems." I said, "Mr. McSpadden, it's not necessary for anyone to pay me for that advice because I give it freely to my customers, anyway, as you well know." And he said, "Yes, but we're going to have to be more demanding on your time and call you all hours of the day and night," and so on, and he said, "I feel you should be compensated for it."

King stated that he then discussed the matter with his wife and—after getting assurances from him that he was not asking for special favors from CIT or anything, I accepted his offer. He got up to leave and gave me a Superior Manufacturing Co. check for \$500 for my first month's salary.

King continued to receive monthly Superior checks during the remainder of his employment with CIT. In testimony at Pecos after Estes' arrest, Estes' general manager, A. B. Foster, stated that an invoice for part of King's salary was received and paid each month by Estes.

Circumstances leading to Turriff and King leaving CIT and CIT refusing to purchase additional paper from Superior are discussed later in this report.

Spurious Financial Statements

Since Superior Manufacturing Co., under normal circumstances, guaranteed payment of tank sales contracts discounted to finance companies, the financial responsibility of Superior was a matter of possible concern to companies purchasing its sales contracts. In testimony at Amarillo, Harold Orr estimated that the realistic net worth of Superior Manufacturing Co. at the time it was sold by Robert Clements in April 1960, was around \$200,000. However, according to Orr, Superior financial statements during this period reflected a higher net worth because assets were listed at "selling value" rather than book value.

In February 1961, Orr testified, Estes told him that—

Mr. Turriff had to have an auditor's statement, or his firm [CIT] could not do the financing for us, would not take an unqualified statement.

Providing an auditor's statement presented a problem for Superior, according to Orr, because:

* * * bear in mind we could not get an auditor to come out to our place and check our books, because they could see how the company was purchased, and all the fictitious paper running through it.

Since they were concerned about having an auditor examine their books, Superior officials prepared their own financial statement for Estes, as of December 31, 1960. As Orr described it:

* * * Mr. Alexander took our statement actually off of the books the way it was, with the exception it did not show the money we were paying for the company—we were paying money to Mr. McSpadden and Mr. Davis for the payments on the company, but this did not reflect on the company books.

We went to Pecos and met with Mr. Estes and Mr. Foster in Mr. Foster's office, and our statement, the best I remember, our current ratio was almost even. And our net worth was approximately, as shown on the statement, \$400,000, approximately.

Although the financial statement prepared by Alexander reflected a net worth of \$400,000, Orr testified that Estes and Foster were dissatisfied because current liabilities almost equaled current assets. According to Orr:

Mr. Estes and Mr. Foster both said, "This will never go." Billie Sol threw the statement to A.B. and he said, "A.B., what has to be changed?"

And A.B., across the room, made what notation should be changed, not only on the financial statement but on the P. & L., you see, to make it coincide with the previous year's statement.

Orr subsequently informed Federal investigators that Foster had increased the amounts reflected for steel inventory and work in process and had decreased the liabilities to arrive at a net worth of \$560,932.24. After the changed financial statement had been re-typed in Estes' office, Orr said, Estes told them:

* * * to take our statement to Mr. Winn P. Jackson in Lubbock, Tex., and he would give us an audited statement.

He said, "I have already paid him, and I have already called him on this deal, and," he said, "go in and hand him this statement, and he will put it on his certification sheet and attach it to his binders."

CIT advised the subcommittee that it received a financial statement for Superior Manufacturing Co. in February 1961. The statement was accompanied by a covering certification dated February 9, 1961, on stationery of Jackson & Rodgers, and signed "Winn Jackson." The statement reflected a net worth of \$560,900 as of December 31, 1960, with current assets of \$710,791 and current liabilities of \$552,565. According to the statement, current assets exceeded current liabilities by approximately \$168,000; the net worth reflected by the statement exceeded the net worth which Harold Orr said was shown on the original one prepared by Alexander by about \$161,000.

Copies of the Winn Jackson statement showing a net worth of \$560,900 for Superior were also received by two other finance companies, Pacific Finance and James Talcott, Inc., in early 1961. Winn Jackson, it should be noted, was the same accountant who prepared the spurious certified audit submitted by Estes to the Department of Agriculture in February 1961, and received a \$6,000 payment from Estes at that time.

GRAHAM-HELLER TRANSACTIONS

Transactions Involving Robert Graham

In the late spring of 1961, for reasons which will be discussed later in this report, CIT terminated purchases of tank paper from Superior. Shortly thereafter, Superior began selling huge amounts of bogus tank paper originated by Estes and McSpadden to Walter Heller & Co.

From June 1961 through February 1962, Heller paid Superior approximately \$6.5 million for tank paper with a face value of about \$8.4 million. All the Heller purchases were made through Leasing, Inc., and General Leasing of Fort Wayne, Inc.; both these companies, according to Heller, were controlled by Robert K. Graham.

According to statements made to Federal investigators by a Heller employee, Graham walked in unannounced to the Heller offices in April 1961 with several proposals for financing substantial ammonia tank transactions in Texas. According to the Heller employee, Graham wanted to work out a program through which General Leasing would offer leasing and financing transactions to Heller. Heller would make a credit check on proposed transactions and, if they were considered eligible, assure credit approval in writing. After General Leasing had completed the necessary documentation, Heller would purchase the transaction and pay General Leasing a commission.

Walter Heller & Co. told the subcommittee that the company entered into agreements for the purchase of lease paper and other customer obligations with Leasing, Inc., on April 7, 1961, and a similar agreement with General Leasing of Fort Wayne, Inc., on June 22, 1961. According to information available to the subcommittee, Robert K. Graham, Leland Smith, and others, established Leasing, Inc., in Peoria, Ill., in 1959; General Leasing was founded by Graham and Smith in April 1961.

In May 1961, according to Heller, Sidney Bloom, vice president, and Hilbert Kreeger, Jr., assistant secretary, visited Superior Manufacturing Co. to make a credit check and also interviewed several of the obligors on transactions proposed for financing. In testimony at Amarillo, Harold Orr gave the following account of the incident:

In the first part of May 1961, two gentlemen came into our offices and they were Sid Bloom and Hill Kreeger, and introduced themselves as being from the Walter E. Heller Co., and Mr. Alexander and myself—neither one had ever heard of the Walter E. Heller Co.

We didn't know who they were or who sent them, but we were smart enough not to—we actually figured Billie Sol Estes had something to do with it, which he did.

They said they were interested in buying this type of tank paper and they just wanted to see if the tank company existed.

In late May 1961, according to Harold Orr, Robert Graham visited the Superior offices in Amarillo. At the request of Billie Sol Estes, Orr said, Graham was given a supply of blank Superior invoices and guarantee slips for lease contracts signed by Superior. Thereafter, according to Orr, Estes sent proposed tank lease contracts to Graham signed in blank; Orr stated:

They were hard to fill out. I'll be frank with you, I don't believe I could fill one of them out. He would send those to Graham signed strictly by the person like W. J. Worsham, nothing else on it, blank.

Graham filled in everything else, and Estes would have one of his secretaries write a letter to Graham and say, "Well, Bob, type on this one 201,000-gallon trailer, serial number so and so," and that's what Bob would do.

Well, Mr. Estes said, Now Bob is going to get a commission on this, and I'll tell you how much commission on every deal.

"As you get the checks, you pay him with your checks and just deduct what you pay him out of the money going to me."

During the following 8 months, according to Orr, around \$200,000 was paid to Graham on Superior Manufacturing Co.'s checks. Orr's account follows:

Q. You say that Mr. Graham got \$200,000. How do you know that?

A. Well, Ruel—the reason that I can remember the figure very well, Mr. Graham wrote Ruel and asked him to figure how much money had been sent him. He had lost track. * * *

Ruel sent it to the end of the year, and it was a hundred and thirty-six or a hundred and forty thousand and then we handled that Barnes money in January and some other stuff, so I know that it was close to \$200,000.

Graham's books and records indicated he received around \$170,000 in commission payments from Superior Manufacturing Co. In ad-

dition to the payments from Superior, Graham received approximately \$420,000 in payments from the Heller Co.

In a letter to the subcommittee, Robert K. Graham, president of General Leasing of Fort Wayne, Inc., described the participation of his firm in transactions involving Estes as follows:

* * * the relationship of General Leasing of Fort Wayne, Inc., and the Billie Sol Estes Enterprises, Pecos, Tex., was developed primarily from meetings set up by the Parkersburg Rig & Reel Co. or its agents. Mr. Wiand of the Parkersburg Rig & Reel Co., introduced me to their steel building representative in Altus, Okla., Mr. Coleman Wade, who in turn flew me to Pecos for proposals made by Mr. Estes to finance both grain storage and anhydrous ammonia tanks.

All lease proposals processed by this company were sent to the Walter E. Heller Co. for approval of credit and were sold to Heller without recourse, on an assignment basis whereby the lease would be returned to us after the contract for payment had been fulfilled.

Alleged Recommendation by Dun & Bradstreet

In his letter to the subcommittee, Graham said that Dun & Bradstreet had recommended he process the Estes paper; according to Graham:

Credit investigation was made of the Billie Sol Estes Enterprises by a special key report service by Dun & Bradstreet, arranged for by Mr. Charles Booth, Dun & Bradstreet, Chicago, Ill., and updated intermittently in which the service recommended that we go ahead processing \$2 million worth of paper.

However, a letter to the subcommittee from Dun & Bradstreet indicates that reports furnished Graham contained a number of reservations and qualifications. The letter gave the following description of Dun & Bradstreet's reports to Graham:

On March 10, 1961, Mr. Graham of Leasing, Inc., submitted an inquiry to Dun & Bradstreet, Inc., which requested a key account report on Billie Sol Estes of Pecos, Tex. The inquiry contained the following questions: "Is he good for a loan of \$1,250,000 to build additional grain storage elevators, payable over a period of 7 to 10 years."

In response to that inquiry, Dun & Bradstreet submitted a key account report March 23, 1961, which contained the following conclusion:

You should favorably consider this account for the credit involved but with some reservation and qualifications. The creditors experiences show paradoxes with a few reporting very satisfactory relations, some showing very unsatisfactory relations and several describing the account as good. In the past it has generally appeared that unsecured creditors may have been treated by the creditor less favorably but generally secured creditors have reported satisfactory relations. Since you will be a secured creditor you might expect satisfactory performance.

It would be of some help if the area in which the grain storage is to be built was identified and some appraisal made of existing facilities already available. I presume that the storage facilities will be used for surplus grains. Does the Commodity Credit Corporation usually grant some type of contract which would assure the debtor a stable income? Estes has handled financing about \$800,000 of a similar structure. You indicated that he is reported to receive about \$440,000 a month from the Commodity Credit Corporation for grain storage. One source was of the opinion that gross income for the storage facility would probably range about \$500,000 quarterly which would be somewhat less than \$440,000 per month. That income has been enough to perform satisfactorily on the debt outstanding.

Dun & Bradstreet stated that supplemental reports later furnished to Graham did not change the substance of the March 23, 1961, report.

Altered Financial Statements

In May 1961, according to testimony of Harold Orr, another incident involving a spurious financial statement for Superior Manufacturing Co. occurred. Orr gave the following account of what happened:

Coleman Wade, from Wade Construction Co. in Altus, Okla., flew in a statement from Lubbock on Winn P. Jackson's certified statement form for Superior Manufacturing Co., and the net worth showed \$2,457,000.

And Mr. Wade had a little hand-scratched memo from Billie Sol saying please sign the financial statement. Don't worry about it. It was going to be in the right hands; it never would get out other than to this one person, whoever it was going to.

And that just shook us up but good, because if that statement ever got out, our financing was gone.

So I had a talk with Mr. Estes and that is when he told me about Mr. Bob Graham, that he was going to handle the deals through Walter E. Heller, that the statement was going to Walter E. Heller, but don't worry about it.

In a subsequent statement to Federal investigators, Harold Orr indicated the net worth shown on the Superior statement allegedly flown in by Wade was \$2,560,932, rather than \$2,457,000.

Although placing the time as April, rather than May, Coleman Wade told Federal investigators that, at Estes' request, he picked up a Jackson and Rodgers envelope at the Braniff ticket counter at Lubbock Airport and delivered it to Superior in Amarillo.

The subcommittee has a copy of a financial statement presented to Walter Heller & Co. around June 1961, which purports to reflect the financial condition of Superior as of December 31, 1960. The statement bears an accompanying certification dated February 9, 1961 and signed "Jackson and Rodgers." The certification contains exactly the same language as the certification of the same date signed "Winn P. Jackson," except that it does not include a phrase indicating that accounting principles were "applied on a basis consistent with that of the preceding year"; however, the two statements do not

appear to have been prepared on the same typewriter. The financial statements attached to the two certifications contain essentially the same figures—except that the statement received by Walter Heller reflects a net worth of \$2,560,932.24 instead of \$560,932.24. The \$2 million inflation in the Heller statement was obtained by increasing the amount listed for inventories of warehouse steel from \$99,780.31 to \$1,099,780.31 and the land valuation from \$58,664.52 to \$1,058,664.52.

The Minneapolis office of James Talcott, Inc., received a Winn Jackson financial statement for Superior in February 1961 reflecting a net worth of \$560,932.24. A year later, another statement supposedly prepared by Jackson showing a net worth \$2 million higher as of the same date was received by another Talcott office. According to the Talcott Co.:

* * * In February 1962, a broker contacted the Atlanta, Ga., office of James Talcott, Inc., to arrange for the handling of lease transactions created by Superior Manufacturing Co. The Atlanta office received a copy of a December 31, 1960, financial statement of Superior Manufacturing Co. reflecting a net worth of \$2,560,932.24; this statement also appeared to be certified by Winn P. Jackson and Rodgers, Lubbock, Tex.

The financial statement submitted to Talcott's Atlanta office contains a certification dated February 9, 1961, and appears to be a duplicated copy of the certification accompanying the statement submitted to the Minneapolis office a year earlier; however, the statement itself shows a net worth exactly \$2 million higher than the one submitted to the Minneapolis office. The Talcott Co. identified the broker submitting the financial statement to its Atlanta office as General Leasing of Fort Wayne.

On March 21, 1962, A. B. Foster, Estes' general manager at Pecos, sent a note to Harold Orr concerning charges made to Estes' account by Superior from February 14 to February 20. A reply from Orr to Foster dated March 26, 1962, included the following comment:

You will note invoice No. 5255 for \$6,047. This is for Mr. Wynn P. Jackson on statement deal per Billie Sol.

INGENIOUS SWINDLING TECHNIQUE

Deception of Finance Companies

The finance companies which purchased Billie Sol Estes' fraudulent tank paper vigorously denied that they did so knowingly. Generally speaking, they also denied any knowledge before Estes' arrest that he was involved in tank paper which did not bear his signature. In testimony at Lubbock, Theo Cheaney, a partner in Humphries & Co., expressed this position as follows:

Q. Did you know that Estes had anything to do with these tanks?

A. No, sir; I didn't know I was in bed with Estes until I woke up with him.

There were a number of allegations—and some testimony—to the effect that finance companies knew there were no tanks, but bought sales contracts anyway in reliance on Estes' credit. However, while

employees of some finance companies may have knowingly participated in purchases of fraudulent paper, the subcommittee did not find evidence establishing that the top management officials of any company ever knowingly authorized such purchases. The subcommittee also has reason to doubt the credibility of some witnesses who testified that the finance companies were, in effect, knowing collaborators in Estes' tank scheme.

The subcommittee's investigation indicated that the finance charges made on transactions involving Estes were the same as those made by the same companies on transactions in which he was not involved; it is doubtful that this would have been the case if it was known that no collateral existed. Billie Sol Estes also engaged in a number of deceptive practices designed to hide his involvement in the tank transactions; this would hardly have been worth the effort if there was nothing for him to hide.

Perhaps the best evidence that the finance companies did not know they were buying sales contracts for nonexistent tanks is their reaction when they learned—or had reason to believe—that there were no tanks. The subcommittee found evidence that several finance companies either knew or strongly suspected there were no tanks long before Estes was arrested; the uniform reaction when this occurred was to cut off further purchases of tank paper involving Estes. Details of these incidents will be discussed later in the report.

Inducements Offered for Signatures

In less than 5 years, Billie Sol Estes was responsible for 378 fraudulent tank notes with a total face value of more than \$27 million purportedly signed by 87 firms, partnerships, or individuals. The vast majority of these notes were originated over a 22-month period from May 1960 through February 1962. Detailed information concerning these notes appears in the appendix on pages 432–434.

Billie Sol Estes located individuals whom he later induced to sign notes for him in a variety of ways. He met some through business activities, such as grain storage and ammonia distribution; others were friends or acquaintances in Pecos and other parts of west Texas. Estes appears to have been constantly on the lookout for additional prospects. Several persons who signed notes for him were fellow church members; Estes made his first contact with another man when both served as pallbearers at the funeral of a mutual friend. Some signers were located through agents employed by Estes; in other instances, persons who had heard about the notes requested an opportunity to sign them.

Locating potential signers, of course, was only the first step; Estes still had to induce them to sign notes for amounts which sometimes exceeded \$100,000. He did this, in most cases, by offering what appeared to be an attractive opportunity to earn substantial amounts of money with no work and almost no risk. Estes used a variety of techniques designed to convince individual prospects that the deal he was offering was too good to miss.

While at least one person who signed notes for Billie Sol Estes claimed he did it without payment "merely as an accommodation for a friend," most of the signers were paid substantial sums of money or given equivalent amounts of credit for purchase of fertilizer or other supplies. Estes usually agreed to pay note signers commissions at

the rate of 10 percent of the amount realized from the finance company; the total amount of such commissions amounted to more than \$1.5 million. At least a dozen individuals received aggregate amounts in excess of \$40,000 each; in some cases, the individual totals were more than \$75,000. The attractiveness of the proposition offered by Estes is shown clearly in a letter to the subcommittee from a west Texas man who quit farming in the Pecos area because of ill health in 1960 and later signed notes for Estes; in the letter, he stated:

* * * While there I bought substantial amounts of supplies from Estes Enterprises and I also knew of these tank contracts, but did not get on the gravy train because of my limited financial status which I felt was needed to finance my farming operation. Being a sick man and short on money I decided in August 1961 to check with Mr. Estes on the possibility of getting a small contract if and when he needed additional tanks. I reached his office just as he was leaving for an appointment, he said additional tanks were needed immediately and to see Mr. Joe Henderson who could take care of the matter. I entered Mr. Henderson's office in the hope of earning a \$2,000 commission and left within 20 minutes in the joyful anticipation of earning \$40,000 over a period of 18 to 24 months. * * *

While the work involved in signing Estes' tank notes was hardly burdensome, there was obviously a potential risk. To assuage apprehension on the part of the signer that he might be forced to pay off the note, Estes furnished a "hold harmless" agreement through which Estes guaranteed to make all payments on the note. In addition, Estes provided the signer with a guarantee from Superior Manufacturing Co. that the tanks would be taken back by that company at any time for the unpaid balance due on the note. Both guarantees were worthless, of course, since Estes was insolvent and Superior was either insolvent or close to it. However, Estes deliberately propagated a public image of wealth and success that made his guarantee seem worth while. Estes' palatial home, his fleet of cars and private plane were there for everyone to see and the magnitude of his business enterprises was common knowledge. For the benefit of persons outside Pecos who might not have heard or read about his success story, Estes had pamphlets printed telling how he became one of the Junior Chamber of Commerce's 10 outstanding young men.

Flexible Approach to Prospects

The particular techniques used by Billie Sol Estes to obtain note signers varied considerably depending on the prospect involved. Some of Estes' associates in storage ventures received a share in the proceeds of notes rather than being paid commissions. An Abilene man, in a newspaper interview shortly after Estes' arrest, gave his reason for signing as follows:

We all had other business dealings with Estes like our wellwork, pumps, motors, parts * * * like in any big business, there was lots of gratitude on both sides, and Estes had carried our credit. We felt like we owed him help because of the way he took care of farmers as a whole.

In addition to the warm feeling he must have experienced at being able to help a friend, the Abilene man received around \$50,000 in commissions.

A procedure used with considerable success by Estes was to first propose some legitimate business venture and then suggest the signing of tank notes while other negotiations were pending. A west Texas oilman provided the subcommittee with the following description of such an incident:

* * * Mr. Estes proposed that we go into business together. He said that he would furnish the money, and that I should get the oil deals. He said that he could get all the money we needed and said, "We'll be bigger than H. L. Hunt in a few years." As part of our proposed partnership, I furnished engineering reports on my property and also financial statements for his auditors to examine. In turn, Mr. Estes was also to furnish me with records of his operations, but he always kept delaying by saying that his auditors had his records and they would finish with them in a few days. I never did receive any records of Mr. Estes' operations.

Mr. Estes said that while we were waiting for his auditors he had a deal in which I would make some easy cash. Mr. Estes explained that he had a monopoly on the fertilizer industry, but that he had used up all his credit with CIT, and he needed some more tanks. Mr. Estes explained that CIT had a limit on the amount it can loan to one individual, but that he had arranged deals with two or three of his close friends whereby they signed the notes on his tanks. He paid 25 percent down on the tanks and then leased the tanks from the individuals thereby using their credit. Mr. Estes said he would pay me, in return, 10 percent of the net loan made by the finance company. I thought I was about to go into partnership with the biggest man in west Texas so I agreed to this * * *.

The persuasive technique used by Estes to obtain signatures on his fraudulent mortgages is shown clearly in the following excerpts from a statement given Federal investigators by a man who signed nine such mortgages with an aggregate face value of more than half a million dollars:

* * * my office received a telephone call from the Estes organization asking me to come by Estes' office to talk over a business deal. I stopped by to see Estes and he told me he wanted me to buy some tanks for him in my name. He told me that he had a tax problem; that he was in the 90-percent tax bracket and my buying the tanks and leasing them to him would give him the benefit of an expense chargeoff. He said he had arranged with several finance companies to handle the paper. He said that he was expanding his fertilizer business and had used up his credit, and that if I would buy the tanks in my name he would give me 10 percent of the purchase price less the downpayment. Estes was to make the downpayment. He would then lease the tanks from me for an amount equal to my monthly payments to the finance com-

panies and for the same period of time, after which he had the option to buy the tanks from me for \$1. I told Estes that I wasn't interested in the deal because I did not want to assume such a large obligation, but he assured me that there would be no obligation on my part; that the finance companies would look to him for payment.

Estes called me in his office two or three more times before I finally consented to go in with him on the deals. I continued to object on the basis of not wanting to assume such a large obligation, but he kept telling me that the finance companies would look to him for payment. He said that the finance companies were all aware of what he was doing, and further, that the manufacturer would guarantee in writing to repossess the tanks for the amount owing at any time that Estes failed to make his monthly lease payments to me. On the day that I finally consented he called Superior Manufacturing Co. on the telephone. He handed the telephone to me and the party on the other end introduced himself as Harold Orr, president of Superior, and told me that Estes' deal was a good one; that once Estes made the 20-percent downpayment on the tanks Superior didn't care whether he ever made another payment because if the tanks had to be repossessed they would make more money on reselling them than they make on new tanks. After I talked with Orr, Estes showed me a financial statement on Superior and impressed me with the idea that such a big organization was certainly responsible in its business dealings. It was then that I decided to go along with Estes on these deals. It was not primarily the 10-percent commission that induced me, because I had money in the bank and I told Estes that I did. He was a good salesman, and he convinced me that he had a real need for my help.

Some "horses"—the term Estes and his associates used to identify signers of the fraudulent tank notes—were induced to sign notes by Estes' offer to cancel their indebtedness to him; in another instance, Estes reportedly requested that a note be signed by a man who wanted to lease land from Estes.

Estes gave various explanations of his need for the signatures of others on tank notes. He told one individual he needed tanks to expand his ammonia business to New Mexico and Arizona; in another case, he explained he was starting operations in Kansas. One man was told that Estes could get money from other sources, but that "he believed it would do the community more good to put the money back into the Pecos area." Others were told that tax advantages made it more profitable for Estes to borrow than to use his own funds.

Some individuals sought independent advice, consulting their bankers, lawyers and, in one case, even the Internal Revenue Service before signing. Several Midland, Tex., oilmen asked the First National Bank of Chicago to check on Estes before they signed notes totaling more than a million dollars in late 1961. According to a letter to the subcommittee from the Midland men, the Chicago bank advised that its information—

was very meager because Mr. Estes did his financing through the "finance companies" but that he seemed to be worth \$20 million.

Falsification of Documents

With the assistance of Superior Manufacturing Co., Billie Sol Estes represented that "purchasers" had made downpayments on ammonia tanks when no such payments had actually been made. A description of this practice is contained in a statement provided to the subcommittee by Pacific Finance Co. Pacific advised that, to the best of its knowledge:

* * * no contract obligor actually made a downpayment from his own funds for which he was not reimbursed either by Superior or Estes. Furthermore, it appears that each contract obligor knew at the time he signed the contract and "made" the down payment, that either his downpayment check would be returned to him or destroyed, or that he would be reimbursed by Estes or Superior.

Pacific stated that its investigation indicated that two different methods of creating evidence of downpayments were used. It described the first method as follows:

In the case of the four Barnes' contracts (Barnes, Sr., Barnes, Jr., Ramsland, and Wynn) a downpayment check was written by the obligors, payable to Superior, and given to Estes for delivery to Superior. Estes, in turn, gave the obligors a postdated check in the same amount. Superior, upon receiving the obligor's check, deposited the check in its bank account and then drew a check in the same amount, payable to Estes. This check was then forwarded to Estes. The obligors then cashed Estes' check and were thereby reimbursed for their downpayment * * *.

Pacific gave the following description of the second method:

The downpayment check was written by the obligor, payable to Superior, and was delivered to Estes or Superior. Estes or Superior then either (1) returned the check to the obligor without cashing it, or (2) destroyed the check and so notified the obligor. In either case, no actual downpayment was made. This method apparently was used in all cases except the Barnes' contracts described above. * * *

While some of the "horses" were individuals of very substantial means, many of them did not have sufficient net worth to qualify for transactions of the size involved in Estes' tank manipulations. In those cases, Estes used a number of devices to misrepresent the true net worth of the individuals concerned, frequently without their knowledge. George Krutilek, an accountant who had a substantial number of clients in the area west of Pecos, interested several of them in participating in Estes' tank deals. When the necessary forms were filled out for the tank transactions, Krutilek obtained signed blank pieces of paper to be filled in later with his client's financial statement and sent to the finance company. The statements, in a number of instances, were filled in to reflect an inflated net worth.

Estes also used his various business enterprises as a source of misleading credit reports to finance companies concerning "horses." In testimony at Pecos, Carol Wicker, a former receptionist for Estes, described how this was done:

Q. Now, was one of your duties writing credit letters—credit report letters on different farmers?

A. I did for a period of about a month and a half write them; yes.

* * * * *

Q. And were all of these credit reports written on the same typewriters?

A. No, sir. They weren't.

Q. Were they written on five different typewriters?

A. Yes, sir.

Q. On five different stationeries?

A. Yes, sir.

Q. With five different sets of secretary's initials?

A. Yes, sir.

Q. Would you name those companies that the stationery was used to make the credit report?

A. I had letterheads for Farmers Co. in Pecos; for Equipment Service in Pecos; for Water Well Service in Pecos; for Pecos Transit Mix; and for Fort Stockton Implement in Fort Stockton.

Q. Basically, what was the nature and content of each one of these different letters?

A. I wrote letters with the amount of credit that each farmer had been issued for somewhere in a period of 5 or 6 or 7 years, the amount of credit that had been issued them that year, and their standing on the books at the present time.

The subcommittee's investigation indicated that a substantial number of signatures on Estes' tank notes were forgeries; in some cases, there are indications that the individuals whose names were signed learned of this before Estes' arrest but took no action. In order to make payments on the forged notes, accounts were opened in the names of fictitious business firms in the City National Bank of Plainview and the First National Bank of Pecos. It was also reported to the subcommittee—but not confirmed—that a bank account in the name of a fictitious corporation was set up to make direct payments on behalf of one "horse" whose own checks bounced after he spent the money provided by Estes for making payments to the finance company.

Changing of Tank Numbers

In early March 1962, according to testimony by Frank Cain, Billie Sol Estes admitted that ammonia tanks he supposedly was leasing did not exist. Cain, an attorney for Pacific Finance Co., said the admission came after Pacific sent in over a dozen men to check on the existence of tanks purportedly securing mortgages it had purchased.

Although Estes was unable to cope with the simultaneous collateral check by so many men, he managed to confuse or deceive finance companies concerning the existence of the tanks on several previous occasions by changing serial numbers. Frank Cain, who talked with Estes

at some length prior to his arrest, gave the following testimony concerning what happened when finance companies sent men to the supposed purchasers to check the tanks:

He would say, "I don't have the tanks, I don't know where they are. I leased them to Mr. Estes."

This checker, these checkers would go to Mr. Estes' office, Mr. Estes would say to these checkers, "Now what tank do you want to see?" They would give him—these checkers would give him the serial numbers. Estes told me this exactly, and it has been confirmed over and over again. He would say, "Well, all right. I am going to have to check my traffic control on this. You come back in 2 or 3 hours."

He had a room right off of his—in his office building, and that room was filled with serial number tags. Every one of these tags showed who purchased that tank, and what finance company had the payment.

He would proceed back there, himself or send one of his people back there, and pick up the serial numbers, the serial tags that these fellows had inquired about. He would get those tags and put them on his airplane, one of his airplanes, and he would fly that thing just about as far from his office as he could, if he could find some tanks out there, and there were about 2,000 tanks out there. So that afternoon—they would fly out there, and by the time the checkers would drive 100 or so miles, he would have these serial numbers changed.

One of the amusing things that he was so amused about was the fact that he said, on one of the finance companies—and he always referred to them as "my finance companies"—he said:

"On one of my finance company's checkers out here I showed them the same tank three different times with three different serial numbers at three different locations."

You see these tanks are on trailers, rubber-tired trailers and they can be moved around. When they would get out here a hundred or so miles he would say, "When you get out there call me about the others and I will tell you where they are." Then he would name them and scoot them out about another couple of hundred miles or more, and he would have those checkers running all over that dusty flatland out there until they would get sick of checking.

According to Cain, Estes gave the following explanation of how he hit upon the idea of changing tank numbers:

* * * One time, when I was a younger man than I am now, I knew a fellow who borrowed a lot of money on cattle. And he said, that farmer, the bank would come down to check the cattle and he would just keep moving the same cows to different springs and they would keep counting the same cows over and over and over.

In testimony at Amarillo, Harold Orr gave the following description of the CIT collateral check in 1961:

When CIT hit Billie Sol, he told them that all of his tanks were out, being used, and scattered all over the Panhandle

of west Texas, and it would take a lot of time to check these.

So they left one man in Pecos and he worked with Mr. Wesson [sales manager for Estes' Farmers Co.], and they would take 300 tanks and they would work them over in the Verhalen area—that is shortly out of Pecos, and sent them over to the Coynosa area, which is near Fort Stockton, back to Fabens, Tex., over to Las Cruces.

In other words, it was a merry-go-round and the same tanks were being used, but the man was getting real tired and discouraged, and so was CIT's office. As a matter of fact, Mr. Wesson related to me later when I was in Pecos that the man became so tired and disgusted that he wouldn't even get out of his car to look at the plates.

He would let Chuck get out and look at them, so Chuck said, "We quit changing the serial number plates."

He said, "I would look at his list that he had in his hand and I would get a number and I would memorize it, then I would get out of the car and walk over and say it was number so and so. This fellow didn't even get out of the car."

Explanation to Signers

The explanation given by Estes to signers who wondered how their net worth would qualify them for huge amounts of credit was described as follows by E. A. Alfie in a bankruptcy hearing at Dallas:

In August 1961, when I discussed the possibility of—well, making some money that I needed, if he needed any more tanks, I was asked what my financial statement would show net worth. Well, I made the statement that I hadn't worked one up, but that it would be sixty or sixty-five thousand dollars. I was told, "Well, fine. Over a period of 18 to 24 months you stand to make \$40,000." For me to earn \$40,000 on a 10-percent basis, it would involve in principal and interest in excess of \$600,000 in contracts. The reason given me on my financial statement of sixty to sixty-five thousand, I could purchase six hundred or six hundred and fifty thousand dollars worth of tanks, was that there was an arrangement between Mr. Estes and the finance companies and that he had up to a \$20 million credit backing these contracts and that this amount of credit would not be given or extended to me, based on my financial statement, but based on primarily this \$20 million backing over several contracts.

Alfie also explained why he did not become suspicious when Estes told him to make payments on notes to finance companies with his own checks, rather than endorsing and forwarding checks sent to him by Estes:

Q. Now in this letter he urges you to make certain that you send the finance company your check and that you do not simply endorse his check and forward it to the finance company?

A. That's right.

Q. Now did it occur to you to wonder why he would give you such instructions, why it would make any difference to him how you paid it?

A. Well, the average man, his knowledge is limited to the maneuvering and functions of tax laws and that was the only thought that entered my mind, was that this leasing was deductible from income tax and had he purchased the tanks, he might get involved in some tax issues and I simply associated that letter that his thought was for tax purpose only; income tax, I am referring to.

Q. Didn't you, sir, in fact know that he was anxious that the finance company to whom you were making the payments should not know that he was making the monthly payments to you?

A. No. No. I felt that was common knowledge with all of the finance companies.

While the subcommittee's investigation indicated that most of the note signers probably did not know or even suspect at first that the tanks did not exist, some of them did have such knowledge. Those persons who shared in the entire proceeds of tank notes, instead of being paid a 10-percent commission, obviously had to know that there were no tanks; if there had been, the money they received would have had to go to Superior Manufacturing Co. to pay for the tanks.

During the course of Estes' operations, 12 finance companies paid more than \$22 million for tank notes and accompanying mortgages—mostly fraudulent—with a total face value of almost \$30 million. The notes bore the names of 76 different individuals, who lived in at least 20 different counties of west Texas and New Mexico. Tables giving details concerning the tank notes appear on pages 432-434 of the appendix.

SUSPICION OF ESTES BY BANKERS

Holcombe Suspects Insolvency

Billie Sol Estes' 1955 troubles with Walter Holcombe, president of the Security State Bank of Pecos, over an \$18,000 "misunderstanding" have been previously discussed on page 243.

As Estes' operations expanded, Holcombe became concerned about his financial condition. Holcombe told the subcommittee that "until about 1960 I wondered and debated in my own mind if he were not insolvent." Holcombe described his suspicions about Estes' tank operations in early 1960 as follows:

I never did know for certain that Mr. Estes did not have the fertilizer tanks on which so many people became involved, I doubted the same and was considerably concerned about the matter, more from the standpoint of what these liabilities were going to do to the farmers who were signing them, because in my opinion none of them were in financial condition to assume this extra liability without affecting their ability to borrow what money was needed for their own operations. Quite a few of them talked to me about the same and I advised all of them to stay out or get out of the deal if they were already in it. My suspicions about the matter were increased when Bill Smith, who is a vice president of a bank at Amarillo, called me about the Superior Tank Co. of Amarillo, he advised me that Estes was buying this company, and I felt then that it was worse than I had previously thought.

Despite his 1960 suspicions, Holcombe told the subcommittee he later changed his opinion of Estes' financial situation; according to Holcombe:

* * * by the first part of 1961 I became fairly certain that he must be on top financially, this was caused by several things, in the first place he never did need any amount of money, from \$300,000 or \$400,000, without he came up with it the next day. He made it a point to tell how much his income per minute was amounting to for grain storage, the largest amount, I believe, that he ever mentioned was, as I recall it, \$700 per minute. Also, the Retail Merchants Association here quit listing the tank mortgages in their report, and I supposed that there were not any more being made.

Holcombe said his suspicions were further quieted by conversations on two separate occasions with officials of CIT. The first conversation, Holcombe said, was with a "Mr. King from Lubbock or Amarillo" and occurred at a barbecue given by Billie Sol Estes in November 1960. Holcombe gave the following description of what King said:

* * * his conversation was about what a wonderful operation Mr. Estes had, the enormous income that he had, as well as his immense wealth, that an ordinary person could not pay what Mr. Estes was paying for his money and show a profit but that Mr. Estes had such a wonderful operation that he could afford it and in addition to that that Mr. Estes was in a 90-percent tax bracket and it was only costing him 10 cents on the dollar of what he spent anyway, that they wanted all of Mr. Estes' paper that they could possibly get, that they had a treaty with the New York banks with whom they did business providing that they would not lend any one individual but \$5 million, that they had the \$5 million paper from Mr. Estes and that the only way they had figured out to continue taking it was in using other people's names, that they would not even look to the farmers who signed these notes at all, but were looking solely to Mr. Estes for the repayment of their money, that the farmers had absolutely no liability in signing these things, and in addition to this guarantee that they had a repurchase agreement from the Superior Tank Co. agreeing to hold them harmless, and that this was a \$40 million concern.

Either shortly before or shortly after the incident at the barbecue, Holcombe said: " * * * Mr. Estes brought Mr. Turiff in and introduced him to me and said that he wanted to talk to me about a matter, and Estes excused himself and left. Mr. Turiff stated that he understood that I was advising my customers to stay out of the deal, which I confirmed, and he told me that I was standing in the way of my customers' prosperity, that they were absolutely not taking any possible liability on in signing these things, and repeated substantially the same talk exactly as the other man had, with the exception of the fact that his statement about the hold harmless agreement of the Superior Tank Co. in that they had increased to a \$60 million concern instead of the \$40

million. He even suggested to me that I should get on the bandwagon and sign some of these notes and get some of the easy money for myself."

According to Holcombe, while the visit from Turiff helped alleviate his concern about Estes' financial situation, it did not change his opinion about the desirability of signing tank paper and he continued to advise his customers against it. Holcombe was apparently somewhat less concerned about recommending transactions with Estes to persons who were not customers of his bank. Later in 1961, Billie Sol Estes was trying to obtain a multi-million-dollar loan from the Franklin Life Insurance Co. On July 13, 1961, Holcombe sent a letter to Franklin Life which included the following statements:

All of the loans we made to him were paid, and I consider him to be a most unusual young man, with far more vision and energy than anyone I ever knew. He is very energetic and has a smooth, well-functioning organization, both from administrative and production standpoint for his operations. I consider him to be honest and reliable, and believe that any statement he may make can be relied on. He has accomplished things that to me appeared impossible, and I consider him to be the smoothest operator that I have ever seen.

Any courtesies extended to Mr. Estes will be appreciated by me.

Concern About Warehouse Receipts

One of the out-of-town banks which made loans to Estes through the First National Bank of Pecos was the First National Bank of Abilene. In August 1958, the Abilene bank had loans outstanding to Estes totaling nearly \$200,000; most of the loans were secured by warehouse receipts on irrigation pumps and equipment. Around this time, the Abilene bank told the subcommittee:

* * * we advised Mr. Estes, through the First National Bank, Pecos, that if we were to continue to do financing for him, it would be necessary for us to be furnished a detailed, audited statement on his entire operations. We were not furnished with this type of statement and to the best of our knowledge, no further requests for credit were made.

In the spring of 1959, not long after Associates Investment Co. learned of irregularities in Estes' financing of irrigation pumps, a national bank examiner expressed concern about loans to Estes totaling more than \$200,000 secured by warehouse receipts on fertilizer and insecticides. Jack V. Standley, of Abilene, the bank examiner, commented in a letter to an official of the First National Bank of Pecos that—

As you are no doubt aware, the credits extended to Mr. Estes through the First National Bank, Pecos, Tex., and resultantly through its correspondent banks have and are causing me no small amount of concern.

The Midland National Bank, which had also loaned money on warehouse receipts to Estes through the First National Bank of Pecos advised the subcommittee that on April 14, 1959, "we notified the First National Bank of Pecos that we did not care to renew this

loan." The reason for its action, according to the Midland bank, was that—

We considered Mr. Estes too much of a promoter and were not entirely satisfied with the financial statement furnished us, as many of the values appeared to be inflated. * * * It appears that we had nothing unusual in the way of credit information on Mr. Estes at the time of our termination of the line, our decision being based largely on our feeling that his affairs were promotional and therefore not a good credit risk.

The First National Bank of Pecos, which had no unsecured loans to Estes, told the subcommittee that—

Estes did not ask us to loan him any money after April 16, 1959, and all of the loans shown after that date were either renewals or renewals with reduction of old notes.

Establishment of Dummy Accounts to Mask Transfers

Throughout his career, Billie Sol Estes encountered financial problems which might well have halted the operations of a man of lesser talent. In the early stages of Estes' career, his difficulties were usually caused by too little money; the problem was usually how to meet pressing obligations or where to obtain additional credit. Later in his career, as his operations expanded, Estes found himself in the rather surprising predicament of having both too little and too much money at the same time. He did not have enough money to meet his multimillion-dollar obligations; at the same time, the hundreds of thousands of dollars a month passing through his hands was enough to raise questions as to its origin in the mind of a reasonably suspicious banker.

Toward the end of 1960, as has been previously discussed, the volume of fraudulent tank paper being originated by Billie Sol Estes increased tremendously. Since the paper was being sold to CIT and other finance companies through Superior Manufacturing Co., the purported manufacturer of Estes' fictitious tanks, the huge sums paid for it went originally to Superior and then had to be transferred to Estes. Superior's main bank account at this time was at the First National Bank of Amarillo. In November 1960, at the beginning of the heaviest volume of paper sold to CIT, Superior opened additional accounts at Lubbock and Pecos to expedite transfers of funds to Estes. In testimony at Amarillo, Vice President Harold Orr, of Superior, gave the following description of the procedures followed in distributing funds from fraudulent tank paper:

If a million came in, we would either take it to—well, if a million came in at one time, we wouldn't take it to our bank in Amarillo, number one.

Now, I missed a bank awhile ago. I told you about the bank in Lubbock, and we also had a checking account at the First National Bank in Pecos, Tex., for the same reason, to keep diverting the eyes of our banker.

But if a million bucks came in, we would either go to Pecos, Tex., to deposit it, or to the Citizens National Bank in Lubbock.

According to testimony by Harold Orr at the trial of Billie Sol Estes on State criminal charges, by early 1961 Superior's Amarillo bank was becoming quite alarmed at the large amount of money coming to Superior from finance companies and then being paid out in checks to Estes and companies controlled by Estes. As a result, Orr testified, he recommended to A. B. Foster, Jr., Estes' general manager, that an account be set up in the name of a fictitious steel supply company, so that checks written to it by Superior would appear to be purchases of manufacturing materials.

On February 15, 1961, an account was opened at the First National Bank of Pecos in the name of the "Texas Steel Co." Persons authorized to sign checks on the account were Billie Sol Estes and A. B. Foster, Jr. The Texas Steel account was active for approximately 1 year. During that time, nearly \$7 million—an amount about equal to total deposits at the First National Bank of Pecos—was transferred to the account from Superior and immediately retransferred to other accounts controlled by Billie Sol Estes. Transfers through the account in a single day totaled as much as \$300,000.

On March 9, 1961, the main Superior Manufacturing Co. account was moved from the First National Bank of Amarillo to the American National Bank of Amarillo. W. B. Lawrence, vice president and cashier of the First National Bank told the subcommittee that:

It is my understanding that the account was moved from this bank to the other bank because the new owners had a belief that they were entitled to a larger extension of credit than our loan committee was willing to grant.

At about the same time Superior's account was moved, CIT made a bulk purchase from the First National Bank of a number of ammonia tank notes which had been originated by Estes in the names of others and sold to the bank by Superior.

Throughout Billie Sol Estes' operations, almost until he was arrested, the First National Bank of Pecos consistently sent out favorable replies to inquiries concerning Estes' financial condition. In a letter to the subcommittee, Ray McPherson, executive vice president of the First National Bank, stated:

No member of our staff and no member of the board of directors ever discussed any knowledge of Estes making loans on nonexistent collateral or that he was dishonest in any matter. We did not know that his financial statements were inaccurate. We knew that he had a fairly high price placed on his farmlands, but it was not a great deal out of line. I have been told that he did not furnish the same financial statement to some others that he had placed with us.

* * * * *

I did not know that Superior Manufacturing Co. had an account with this bank until after the arrest of Mr. Estes. The employees of the bank that did know that the account was here did not think it was anything of a nefarious nature and only thought that it was another of Mr. Estes' many holdings. Up until the time of Mr. Estes' arrest I think that all personnel connected with this bank thought him to be an honest, reliable, conscientious citizen and a customer that we were very proud to have.

* * * * *

I have no information other than asked for in your letter that I think will be useful to you and your committee. In all of his dealings with this bank and with our correspondent banks, Mr. Estes was as honest and open and above board as any customer we ever had. All of our officers and directors will tell you the same thing and all of the good references that we gave for Mr. Estes were given in all honesty and sincerity from the officers of the bank.

FINANCE COMPANIES DISCOVER IRREGULARITIES

Associates Investment Co. Denies Suspicion

From 1959 through 1961, Billie Sol Estes had a number of problems with finance companies which were purchasing his tank paper, usually involving irregularities in collateral. However, until a series of stories on Estes' tank transactions were published by the Pecos Independent in February 1962, Estes was consistently successful either in finding other purchasers for his tank paper or in persuading or tricking the company concerned into making additional purchases.

Probably the first finance company which had substantial reason to suspect Billie Sol Estes of fraudulent activities was Associates Investment Co., which was informed of serious irregularities in Estes' pump transactions in early 1959 (see p. 250). Although Associates also had purchased a substantial amount of ammonia tank paper involving Estes, the company told the subcommittee it did not suspect any wrongdoing in connection with the tank transactions. In a letter to the subcommittee, Associates stated:

No attempt was made in January of 1959 to investigate tank mortgage contracts. Mr. William L. Acker, then vice president of the commercial loan division of this company, did ask Mr. Estes if he had received all the equipment purchased from Superior Manufacturing Co. and Mr. Estes assured Mr. Acker that the collateral existed and he could check it if he so desired. Since this company had no reason whatsoever to suspect Superior Manufacturing Co. of being involved with Mr. Estes and had no reason to believe that the equipment was not delivered and in existence, no effort was made to physically inspect the collateral.

Although it disclaimed any suspicion of Estes' tank transactions at the time, Associates told the subcommittee it nevertheless decided

in January 1959 that it would not knowingly purchase any time sales contracts "in which it was known or believed that Billie Sol Estes had any interest whatsoever either as a buyer or seller." Associates advised the subcommittee that it did not purchase any tank paper signed by Billie Sol Estes after December 1958. However, the subcommittee's investigation indicated that Billie Sol Estes was successful in obtaining approximately half a million dollars from Associates for tank paper signed by others and sold to the company from 1959 through 1961. The subcommittee's investigation indicated that N. J. Wardlaw, Associates' branch manager at Lubbock, Tex., maintained a friendly relationship with Estes during this period, visited his office frequently and received a number of gifts from him.

A copy of a letter from Wardlaw to the Superior Manufacturing Co. bearing a November 1960 date was subsequently forwarded to Pacific Finance Corp. as a credit reference for Billie Sol Estes. The letter contained the following comment concerning Estes:

Our dealings have been satisfactory. Indications are that his business continues to grow, and that he is a good credit risk.

Southwestern Investment Terminates Purchases

Southwestern Investment Co. (SIC) decided not to accept further business involving Estes in the fall of 1960, a year and a half before his arrest. L. W. Thompson, Amarillo branch manager for SIC explained the reasons to the subcommittee as follows:

This company was relatively inexperienced in the handling of transactions such as those which had been purchased from Superior Manufacturing Co., particularly with respect to the type of collateral involved. Our experience with the Superior account had been good; however, the home office credit committee had decided that we had invested as much money in this type of receivable as we wanted to, particularly since it had all come from one source. The committee had told the writer that we were not to purchase any more of this type paper because of the foregoing reasons.

Thompson told the subcommittee that, as branch manager, he asked that the home office decision be reconsidered because of SIC's good experience with tank paper. According to Thompson, O. H. Zuber, vice president in charge of the Credit Division of SIC, then decided to visit one of the larger customers of Superior Manufacturing Co. to obtain additional information concerning the desirability of financing ammonia tank purchases. Zuber subsequently visited the Lester-Stone Co. at Plainview on October 10, 1960, where he talked with Glenn Lester and Lloyd Stone. Thompson described the results of Zuber's visit as follows:

Mr. Zuber developed information to the effect that the Lester-Stone Co. records were not being kept in an altogether businesslike fashion, to the extent that they did not appear to have adequate control of the tanks, which were the

collateral on the contracts. While the Lester-Stone officials could and did tell us where some of the tanks were, they stated that they did not know exactly where some others were, as they were in the hands of various crews in the Plainview area, while others were reported to have been shipped to a subdealer in the western part of the State. Some of the tanks involved in our contracts with Lester-Stone were actually physically inspected by our representative during the visit.

Because of the fact that it was deemed extremely difficult to maintain a normal collateral control on this type of receivable, the decision was reached that we would not reopen negotiations with Superior Manufacturing Co. to purchase further receivables involving the sale of ammonia tanks.

SIC did not purchase any further Estes' tank paper after Zuber's visit to Plainview.

FAC Discovers Superior Manufacturing Co. Irregularities

In June 1960, First Acceptance Corp. (FAC) turned down two tank transactions proposed by Superior for Estes, and told Superior that no more transactions would be accepted until the amount of paper outstanding had been reduced. A June 23 memorandum from D. E. Bates, assistant vice president of FAC, to Harold Orr of Superior contains the following explanation of the reason for this action:

This will confirm our telephone conversation of yesterday afternoon in which we advised you that First Acceptance Corp. has set a maximum of \$750,000 purchase lines with you. Unfortunately, at this moment we are already in excess of that figure (outstandings now are approximately \$815,000); therefore it will be necessary to hold up further purchases for the time being until normal liquidation can reduce the outstandings sufficient to reopen an available line for you.

This means we would have to bypass any consideration of purchasing the Grady Acuff, La Mesa, Tex., deal and also the F. F. Bozeman, Spring Lake, Tex., transaction.

James Talcott, Inc., of New York City, which acquired the assets of FAC on July 7, 1960, purchased one comparatively small tank mortgage from Superior in October 1960. However, in November 1960, Talcott declined to accept an additional transaction proposed by Superior. The reason for Talcott's action is apparent from a memorandum to the files dictated by J. R. Myhr, a Talcott account executive, on November 14. The Myhr memorandum stated:

Re Charles H. Washam, doing business as Washam Gas Co.,
Taos, N. Mex.

I telephoned Mr. Harry Washam on November 14, 1960, to verify the downpayment terms and delivery of the equipment represented on the conditional sales contract dated November 12, 1960, which was submitted to us for purchase.

My telephone conversation with Mr. Harry Washam was very enlightening. Mr. Washam did not know how many tanks he had purchased from Superior Manufacturing Co., nor did he know the sizes of these tanks. He said that he had received delivery of 20 tanks—although he was not sure of the sizes and he thought that the sizes of the tanks ranged between 1,000 and 5,000 gallons.

I then questioned him about his downpayment and he said he thought it was around \$5,000. A question was then directed to him as to how much the monthly installments were—he indicated he was not sure of the monthly installments and was supposed to be in contact with Superior Manufacturing Co. in this regard.

It was apparent from my conversation with Mr. Harry Washam that he had not purchased any 1,000-gallon propane tanks and was not aware of the equipment represented on this contract.

Later the same day, Myhr received a telephone call from Harold Orr. Myhr described the call in his November 14 office memorandum as follows:

Mr. Harold Orr of Superior Manufacturing Co., telephoned me later this day. He said that he had received a call from Mr. Harry Washam regarding my conversation with him. Mr. Orr said that Mr. Washam had been drinking and gave this as his reason for Mr. Washam being so vague.

Mr. Orr did say that Mr. Washam had not received all of the equipment represented on the contract (although I did specify in a recent conversation with him that all the equipment must be in the hands of the purchaser prior to our purchase of the document). Mr. Orr gave as his reason for the tanks not being delivered, the fact that the union was out on strike and his trucks were not running and the shop was shut down. He indicated that the tanks were located as follows:

On hand at Superior Manufacturing Co.....	41
In Albuquerque, N. Mex.....	21
In the town of Taos in the customer's hands.....	20

Orr's attempt to explain the Washam incident did not satisfy the Talcott Co. and the contract was not purchased.

Estes' Connection With Lubbock Machine Transactions Disclosed

Although FAC and its successor, James Talcott, purchased only one small Estes' tank note through Superior after June 1960, James Talcott acquired Estes' tank paper with a face value of more than \$900,000 in the latter part of 1960 from another tank manufacturing company, Lubbock Machine & Supply. The paper purchased from Lubbock Machine included transactions involving Grady Acuff and F. F. Bozeman; deals involving these same individuals had been turned down when proposed in June through Superior. According to a statement it gave the subcommittee, James Talcott had assumed until late January 1961, that the transactions purchased from Lubbock covered new ammonia equipment manufactured by Lubbock. The

manner in which Talcott learned the transactions supposedly involved used tanks is described as follows in a January 27, 1961, file memorandum by J. R. Myhr:

On January 26, 1961, I telephoned Lubbock Machine & Supply Co. and spoke with Mrs. Rogers, the secretary-treasurer, regarding obtaining a current financial statement with operating figures. In addition to discussing the aforementioned matter, I also discussed the pending transactions involving Nickels Ginning Co., L. G. Worsham, and W. J. Worsham.

Mrs. Rogers said that she had already mailed to us a November 30 financial statement including operating figures and complete comments which may be of help to us.

Then, in the course of our conversation regarding the above three transactions, I found that it was Lubbock Machine & Supply Co.'s intention to purchase equipment from Billie Sol Estes for resale to the above customers. This would mean that we would be financing used equipment rather than new equipment. Mrs. Rogers then turned me over to Mr. Rogers—who explained that they had been acting as a broker on the sale of many used tanks. Lubbock Machine & Supply Co. acts as a go-between and a broker for a commission fee and will locate a company or individual who wishes to sell tanks and in turn will purchase a large block of them and then sell them to another customer. Each time this occurs they make a substantial commission. * * * .

* * * *

Rogers was informed that we were not interested in used equipment transactions of the size represented on the above pending purchasers and that we would require in all cases that they advise us whether we are purchasing contracts on new or used equipment. * * * .

* * * *

Upon questioning, Rogers indicated that the majority of our outstandings represent used anhydrous ammonia tanks, which had been purchased by Lubbock for resale. * * * .

James Talcott purchased no additional transactions from Lubbock Machine & Supply after the January 1961 incident.

Pioneer Learns of Estes' Involvement

According to statements by Pioneer Finance Co. to the subcommittee, one of its fieldmen, Charles Lloyd, made checks of retail contracts in Texas during the latter part of March 1961. At this time, the company said, Lloyd—

contacted about six customers who acknowledged their indebtedness to our company and indicated that the collateral was leased to Billie Sol Estes and that Estes provided them with the funds to meet the payments.

On April 27, 1961, Lloyd and Richard Rumberger, Pioneer's sales manager, visited Estes' office in Pecos. According to Pioneer:

* * * the visit was made in order to find out how many of our purchasers were leasing their equipment to Billie Sol Estes (we had determined that on some of our contracts Estes was leasing the equipment we were financing) where the equipment was located if leased to Mr. Estes, and what possibilities there would be for our company to finance such equipment directly for Mr. Estes rather than through some third party purchaser.

Harold Orr of Superior Manufacturing Co. accompanied Lloyd and Rumberger to Pecos. In his testimony at Amarillo, Orr described advance preparations he made for the visit:

* * * The morning, or the evening before, I called Mr. A. B. Foster and told him I was bringing these two people * * * they wanted to talk to Billie Sol Estes with regard to some of these papers that were sold to the horses and they said the tanks were in Billie Sol Estes' possession, and we both agreed that the secretary shouldn't joke with me and treat me like an employee of Estes', rather than a business associate, so Mr. Foster informed the secretaries and personnel of Billie Sol Estes' office before we arrived, so we were treated in a very cool, businesslike manner when they escorted us into Mr. Estes' office.

Orr's account of this incident was corroborated by the following testimony at Pecos of Mrs. Carol Wicker, then receptionist for Estes:

Q. Now, was Mr. Orr generally a jovial fellow that joked and cutup when he came in?

A. Yes, sir.

Q. Were you ever on any occasion instructed to act like you didn't know Mr. Orr when he came in?

A. Yes, sir; I was.

Q. And who instructed you to act that way?

A. Mr. Foster, I believe, told me and I was instructed to tell the rest of the office personnel.

Q. And did he come in in the company of some other people?

A. Yes, he did.

Orr gave the following account of what happened in Estes' office:

Mr. Estes played a sermon for us that lasted about an hour.

Q. You mean on a tape recorder?

A. Yes, sir; on a tape recorder, of a sermon he had preached in a church, and when they went in, they were in a pretty disgruntled mood, and when they left, they were going to do all they could to try to finance much more paper for Billie Sol Estes direct. He was quite a salesman.

Pioneer described the effects of the meeting as follows:

As the result of the visit it was Mr. Rumberger's opinion at that time that our accounts were economically sound and that we would have no trouble in liquidating the accounts. In connection with the possibility of our direct financing for

Mr. Estes, he conveyed the idea to Mr. Rumberger that our company was not large enough for his needs.

During the remainder of 1961, according to data it furnished the subcommittee, Pioneer purchased approximately half a million dollars in additional tank paper.

Report to CIT's New York Office

CIT Corp., which had financed a considerable amount of pump paper for Billie Sol Estes in 1958, began exhibiting a cautious attitude toward Estes by early 1959. On March 24, 1959, a New York bank which had made a credit inquiry to CIT concerning Estes, prepared a report on its findings which included the following statement:

* * * we have been pleased to communicate with the CIT Corp., who tell us that it is true they have to a certain extent curtailed additional credit to Billie Sol Estes. The reason for this is that they feel they are at the present time heavily invested with him and feel that any further credit should be based upon a certified financial statement. They have not provided any credit to Mr. Estes, and by the same token he has not requested any, in well over a month. Their last transaction with him was on February 10, 1959, which was handled through a dealer and not directly with Mr. Estes. This particular transaction only amounted to \$3,000 or \$4,000.

Despite the cautious attitude expressed concerning Estes in 1959, CIT paid more than \$5 million in 1960 and early 1961 for fraudulent tank paper originated by Billie Sol Estes and purchased from Superior Manufacturing Co. through CIT's Dallas office. In May 1961 an incident occurred which resulted in the termination of further purchases, of tank paper by CIT from Superior. In testimony at Amarillo Harold Orr gave the following description of what happened:

Q. State the circumstances leading up to what caused CIT to stop writing those notes.

A. Mr. Estes, of course, was making most of the payments on the horses' contracts, via cashier's check at the First National Bank of Pecos.

They had a creditman in Dallas by the name of Bill Briner. In other words, when the deal came through his desk, he gave it the initial check, as far as how the fellow's credit was, and he would pass it on higher up for approval.

Mr. Briner became suspicious, and he called the First National Bank, and found out all of these deals were tied in with Billie Sol, so he told Mr. Bob Rousseau, who was credit manager for the branch in Dallas.

Bob told Jim Turiff, and Jim Turiff immediately went to Billie Sol, and Billie Sol told me—he called me—that was the chain of events, and he said, "Jim Turiff said to get Bill Briner on the payroll," because, he said, "I am scared of the boy. He might go over my head."

We called Mr. Bill Briner, through Mr. King's help, and had Mr. Briner fly to Amarillo.

We had a nice long conversation with him. We developed some of the stuff we knew of Jim Turiff to him, and tried to convince him to be on our side, and he did accept payment

from us, cash payment, of \$300 or \$400, and he was to get that payment every month.

He went back to Dallas, and evidently his conscience got him, because in about 2 weeks, the lid blew off everything.

We found out that when Turiff called Billie Sol, that Briner went to Bob Rousseau and told him the connection with Turiff, so Mr. Rousseau went direct to Mr. Lenahan, who was president of CIT in New York, and that started the chain of events on CIT.

In a statement to the subcommittee, CIT gave the following account of the Briner incident, indicating that its New York office had received a telephone call from Briner on May 22, 1961, in which:

* * * he related events which had occurred in Amarillo, Tex., on May 3, 1961, in the course of a meeting with Harold E. Orr and others, including Mr. King. The endeavor of Mr. Orr to put Mr. Briner surreptitiously in the employ of Superior, his attempt to make a gift of cash to Briner (subsequently rejected) and his indication of having made gifts of clothing and a gift certificate to others, his suggestion of some link between Turiff and Estes all at a meeting at which King was present, was deemed to require immediate investigation by the CIT home office. * * *

CIT Collateral Check

After the telephone call from Briner, Turiff and King were contacted and directed to meet with CIT executives in Dallas on May 23. Thereafter, according to CIT:

In late May 1961 approximately 90 percent of the purchasers * * * were contacted in person by office representatives, at which time the representatives verified with the purchasers the signatures on the obligations, the balance owing, and the other terms thereof. The representatives, also, upon such contacts with purchasers, endeavored to verify by inspection the existence and whereabouts of the equipment, but were informed by all purchasers that the equipment had been leased to Billie Sol Estes.

In June 1961 CIT arranged with Mr. Estes, after much discussion, to have one of its auditors make a field commodity check of the anhydrous ammonia tanks specified in the purchaser obligations. At that time CIT representatives checked some 700 tanks, of which approximately 450 were tanks having serial numbers identical to numbers shown in purchaser obligations held by CIT. No indications were found that any such obligations covered non-existent tanks.

In addition to contacting note signers and checking tank numbers. CIT also made a check of Superior records, which it described in the following statement to the subcommittee:

In June 1961, CIT procured permission from Superior Manufacturing Co. to audit the shipping delivery receipts and downpayments on all transactions purchased from January 1, 1961, to April 18, 1961. This was a limited audit,

but it was the best that circumstances permitted. Shipping receipts were produced on all deals checked and indicated that the tanks had been delivered to an Estes entity on Estes-owned trucks.

CIT explained that the audit covered only a limited period because:

The officers of Superior having vigorously resisted requests for a more extensive audit, the limitation of the record check to the period stated was a compromise representing the best that could be obtained from the officers and was based on the fact that the period in question embraced the major portion in terms of dollars of the transactions purchased from Superior.

Harold Orr, in his testimony at Amarillo, gave the following account of the check of Superior records:

* * * Billie Sol called me and he said that Lou Sherry (of CIT) told him that he was on the way to Amarillo with an auditor from New York, and they wanted to see the following: cur cashbook back to approximately October in 1960, bills of lading covering these shipments, copies of invoices.

This gave us time to get started and when Mr. Sherry and his auditor came into our office at approximately 4 or 5 in the evening, we told them that the next morning—that we would get all of this together that night and the next morning, if he would come out, we would fix him up.

That night, Ruel [Alexander] and I stayed up all night, making up a cashbook, and we walked on it, and threw it against the wall to make it look old. We had many, many bills of sale and invoices typed.

We had some of our employees sign—Adam Garcia and Pedro Garcia, that's the two men that usually accept all the deliveries from Billie Sol Estes at Pecos.

Their auditor came in and it checked perfectly. He wasn't in Ruel's office more than 45 minutes and they left. * * *

King and Turriff Leave CIT

As a result of the events in May and June, 1961, both Turriff and King left CIT. The company described the circumstances under which the two men left as follows:

* * * Messrs. Turriff and King were interrogated at length and were also afforded opportunity to make any statement they might wish to make.

* * * * *

Although both Turriff and King categorically denied any knowledge * * * [that ammonia tanks were supposedly leased to Estes] it was felt that employees occupying their respective positions should, in the proper discharge of their duties, have learned of the leasing disclosed by the interrogation of the obligors. This primary circumstance coupled with a feeling of the lack of a cooperative attitude emerging from a series of conferences and contacts between CIT executives and the two employees led to what was referred to as "an agreement to disagree" and an offer to allow the

employees to resign—an offer of which they availed themselves effective July 31, 1961.

King, in testimony at Lubbock, gave the following description of his departure from CIT:

* * * I flew to Dallas, when I got there there was a Mr. Sherry, who was the vice president in charge of all credit for CIT Corp. in that region, and the executive vice president for CIT. They told me that they felt that this equipment was being bought by others and leased to Estes, and did I have knowledge of the leasebacks, and I said, "I do not." And I further said that since they had no confidence in me * * * since they showed no faith in me, I couldn't show any in them, and when they had checked the collateral and were satisfied that it was there, they had my resignation. I was told they didn't come after my resignation, they came to get truth, and if I wasn't involved in any way, why, I had nothing to be concerned about, and I said, "Regardless of that, you never will trust me again, and I'm not going to devote 10 more years to a career hoping I'll get promoted when all the time you can't, in good faith, promote me."

King also said Turriff told him that—

* * * he walked in the office and Mr. Lenahan, the president of the corporation, and Mr. Sherry was there, and they told him that for the good of the corporation they felt they had to ask him for his resignation * * *. And he is supposed to have said, "If that's what you want, you have it," and that was it.

COMPETITORS SUSPECT MORTGAGES

Tank Deals Attract Attention

Billie Sol Estes' fraudulent pump dealings had been uncovered—although not publicly exposed—in early 1959 when a competitor in the pump business noted the existence of irregularities through data on chattel mortgages recorded in Reeves County in a twice monthly bulletin published by the Retail Merchants Association of Pecos. By late 1960, the large number of tank mortgages being recorded in Reeves County had attracted the attention of a competitor in the sale of agricultural chemicals. W. G. Nelson, general manager of Southwest Fertilizer & Chemical Co., El Paso, told the subcommittee that he first obtained what he considered "positive proof" of Estes' tank operations through—

* * * a listing of mortgages from the Reeves County courthouse which the branch manager of our Pecos operation sent me on November 9, 1960. Having been associated with the anhydrous ammonia business in Reeves County since 1953, I knew that the tanks covered by these mortgages did not exist in the county.

Another incident which helped to confirm Nelson's doubts about Estes' tank operations occurred in December 1960, when a check from Lubbock Machine & Supply to Valley Chemical of Pecos was delivered by mistake to his company's branch at Pecos. The check, for more than \$40,000, represented the proceeds of a December 12, 1960, note

for \$59,800.20 signed by L. G. Worsham and sold by Lubbock to the Kuykendall Investment Co.

After he became suspicious of Estes' activities, Nelson stated:

* * * I informed a number of our suppliers of the Estes type of operation, as he had made the chemical business extremely difficult by selling material below cost. I remember specifically in January of 1961 informing a Mr. Kinnard, Commercial Solvents' representative, of some of the phony tank mortgages being recorded in west Texas. I specifically cited a mortgage by C. E. Davis covering thirty 30,000-gallon, rubber-lined tanks. * * *

Nelson's account of his conversation with Kinnard is confirmed by a memorandum sent by Kinnard to Commercial Solvents' home office in New York on January 23, 1961. The memorandum, and denials by Solvents' officials to whom it was sent, that they took any action concerning it, are discussed elsewhere in this report.

Warning to CIT Subsidiary

In June 1961 Nelson also sent a specific warning concerning CIT financing of nonexistent tanks through Superior to Service Leasing Corp., a subsidiary of CIT. The letter follows:

JUNE 20, 1961.

SERVICE LEASING CORP.
1818 Fidelity Union Tower,
Dallas, Tex.

(Attention of Mr. Claude L. Horn).

DEAR MR. HORN: This is in reply to your letter of June 9 regarding your "Economy Lease Program."

All this is a pretty touchy subject, but being simple desert folks, we always take a good look at the alphabet companies such as your own before we do our business. Frankly, we are planning an expansion program and could use a financing plan such as yours. In fact, we have been approached by several concerns other than SLC.

In the course of our investigation we ran across an interesting item in Pecos County Court House File 10028, volume 17, page 63, which shows that C. E. Davis gave a note to Superior Tank Co. for \$322,000 and the note was in turn sold to CIT. The records further show that the original note was secured by thirty 30,000-gallon, rubber-lined tanks on skids. The construction of a tank such as this is possible, but it would be about the same thing as building a five-room brick house on a trailer to be dragged by an automobile. In other words, any high school boy would know there has never been such a tank constructed. I know there are none in west Texas. My point is that the fellow who gave this original mortgage is a crook and any person who later bought this note either had knowledge of the facts or was just plain stupid. I think you can see the difficulty of doing business with anyone who falls in either of these two classifications.

Although your firm was not involved in this particular deal, this situation has become so rank in west Texas that we feel someday the guilty, the stupid, and the innocent will

all be dragged through the mud, and we would rather not become involved at this time.

Yours very truly,

SOUTHWEST FERTILIZER &
CHEMICAL.
W. G. NELSON.

Nonpublication of Mortgage Data

Publication of the large volume of tank mortgages in Reeves County was, not surprisingly, a matter of concern to Billie Sol Estes. The Retail Merchants Association, which was publishing the mortgage data, was owned at the time by Dr. John Dunn and Dr. H. F. Avery; it was managed by Dr. Dunn's mother, Mrs. Ruth Dunn. After the published listings of chattel mortgages began attracting attention, according to Dr. Dunn:

* * * Mr. Estes called our manager at Retail Merchants Association and requested that any transactions involving himself and "his companies," Superior Manufacturing and Lubbock Machine & Supply, not be carried in the bulletin. He also requested that an additional subscription to our services be taken out in his name. He was already taking a subscription in the name of his company, Estes Enterprises. This was not an unusual request as it has long been the policy of the Retail Merchants Association not to publish information on individuals who specifically request or demand that their transactions not be carried. This is done with the knowledge of the members in that they are advised with each bulletin that the transactions therein listed do not necessarily represent a complete listing of all transactions.

Although the Retail Merchants Association no longer published lists of ammonia tank mortgages, it continued to compile such data for Dr. John Dunn. Dr. Dunn turned this data over to Federal, and State authorities and eventually stories based on it were published in the Pecos Independent.

Artie Baker, owner of the Baker Pump Co. of Pecos and the man who called attention to Estes' pump dealings in early 1959, took the position that nonpublication of Estes' tank mortgages made it possible for him to continue to expand his fraudulent transactions. Baker expressed his opinion to the subcommittee as follows:

* * * had the Retail Merchants Bulletins, which are put out two times each month, shown all the instruments recorded at the courthouse reflecting these tank transactions then I could have called the various finance companies who were buying these notes, especially the three companies in Lubbock and Amarillo whose owners I have known for 40 to 50 years. These men would have believed whatever I said and they would have stopped buying these tank notes from Mr. Estes. In my opinion, 90 percent of the tank notes would have never been sold and we would not have had a county full of broke farmers who executed these tank notes. * * *

ESTES ATTEMPTS TO SELL OUT

Negotiations With Phillips Petroleum Co.

Billies Sol Estes, as has been previously discussed, apparently used threats to sell his ammonia distribution as a device for exerting pressure on Commercial Solvents, which was heavily dependent on Estes in the marketing of its ammonia. In 1961 and early 1962, Estes made several apparently serious attempts to sell or mortgage substantial portions of his holdings in order to place the precarious financial structure of his empire on a sounder basis.

Until 1962, the Phillips Petroleum Co.'s anhydrous ammonia plant at Etter, Tex., was the one most favorably located for making sales in the Plains area. However, beginning in 1959, Phillips was forced to either sell for lower prices to meet Estes' competition in the Plains area or incur higher freight costs to ship ammonia to areas where Estes was not competing. In the summer of 1961, Estes informed Phillips that he wanted to get out of the fertilizer business in Texas because of the relatively high operating expenses and low profits it offered. Estes offered to transfer his ammonia distribution business to Phillips if Phillips would make or arrange a \$20-million loan to Estes. Estes represented that the loan was needed because he wished to expand his grain storage business.

On July 24, 1961, L. H. Wright, assistant sales manager of Phillips Petroleum Co., wrote an office memorandum describing details of Estes' proposal, as discussed at meetings with Estes on July 19 and 20. The memorandum follows:

On July 19 and 20, W. H. Swatzel and the writer visited with Billie Sol Estes, president, and A. B. Foster, treasurer, of the subject company for the purpose of discussing a proposal which Mr. Estes had recently made to us. The details are as follows:

PROPOSAL

A. Phillips loan to, or arranges a loan for, Estes Enterprises in the amount of \$20 million for 10 years, to be repaid at the rate of \$1 million annually, plus interest on the unpaid balance at an estimated rate of 5.375 percent. Security for the loan is to be:

1. Grain elevators valued at \$20 million;
2. All stock in Agriculture, Inc., which consists of farms and farming operations valued at \$7.5 million; and
3. Income from the mortgaged grain elevators, estimated to be \$5.2 million annually.

B. Estes transfers to Phillips his title to anhydrous ammonia bulk plants and distribution equipment valued at \$1.5 million.

REASONS

Estes has an offer from Commercial Solvents Corp., on which he must make an early decision, in which Commercial Solvents agrees to build an ammonia plant of 100 to 150 tons per day capacity, in Plainview, Tex.; and through a mutually owned third corporation, permit both to participate in the ownership of the ammonia plant and grain storage

operations. Estes purports to dispose of his ammonia distributing business because:

1. It has accomplished its purpose in assisting him in getting established in the grain storage business;

2. It, in itself, is unprofitable; and

3. It, proportionately, takes too much of his time.

Conversely, he does not wish to dispose of or share the grain business which he has built up and is continuing to expand.

ADVANTAGES TO PHILLIPS PETROLEUM CO.

A. We obtain valuable (\$1.5 million) ammonia distribution facilities which will augment our ammonia distribution in the High Plains.

B. We probably can eliminate the \$750,000 per year operating expense which we have incurred during the past 2 years in the High Plains retail ammonia distribution.

C. We gain 20,000 tons of ammonia business on which we should realize a profit of \$800,000 per year before taxes.

ALTERNATIVES

Our failure to make the deal with Estes will result in Estes either (1) proceeding with the Commercial Solvents ammonia plant, or (2) selling his ammonia distribution facilities to W. R. Grace Co., reliably reported to be much interested in obtaining them.

In either event, Phillips loses some, if not all, of the advantages listed above.

PRESENT STATUS

Estes and Foster indicated complete willingness to consummate the above-outlined transaction, and have promised to send Swatzel all of the information which he indicated would be needed for Phillips' careful appraisal of the loan proposal.

The Wright memorandum clearly indicated that, regardless of whether they were operating at a profit, Billie Sol Estes' ammonia sales operations had an extremely high nuisance value to Phillips. The alternatives which Estes apparently suggested would result if his proposal was not accepted are an example of the manner in which he used more or less subtle threats to further his objectives.

Estes Conceals Assignment

In a subsequent letter to L. H. Wright, Estes gave further details concerning his purported reason for wanting a \$20 million loan. Estes stated:

The \$20 million loan is to be used as follows:

Completion of 45,000,000 bushel grain storage facilities for which you are to have lien.....	\$10, 000, 000
Pay off indebtedness on present grain and NH ³ facilities on which you are to have lien.....	2, 000, 000
Pay off Commercial Solvents Corp.....	5, 000, 000
Operating capital.....	3, 000, 000
Total	20, 000, 000

To support his request for a loan, Estes sent Phillips grossly inflated appraisals of his properties. In addition, Estes promised to assign his grain storage revenues, stating in a letter to Wright:

As I told you earlier I would assign the proceeds for storage and handling to Phillips Petroleum Co. to cover the principal and interest payment. These would be paid quarterly direct to you by Commodity Credit Corp.

Estes did not disclose that his grain storage revenues were already assigned to Commercial Solvents. Phillips Petroleum advised the subcommittee that—

* * * Phillips had no knowledge of the assignment to Commercial Solvents. In fact, one of the conditions of the proposed loan was that an assignment of grain storage revenues be made to secure the loan. At the time the proposal was abandoned Phillips was still unaware of the assignment to Commercial Solvents.

Phillips Petroleum considered Billie Sol Estes' proposal for several weeks before finally turning it down. Memoranda in the company's files concerning the negotiations indicate that the proposal fell through primarily because of Phillips' inability to obtain detailed financial data it requested, and because the company's own estimate of the value of Estes' properties was substantially lower than the appraisals furnished by Estes.

Negotiations With Franklin Life Insurance Co.

During the course of its inquiries about Estes, Phillips learned that he had also approached the Franklin Life Insurance Co. with a proposition similar to the one being discussed with Phillips. On September 19, 1961, W. H. Swatzel of Phillips wrote a file memorandum concerning a trip to Houston to discuss possible participation in a loan to Estes with the Prudential Insurance Co. In a footnote to the memorandum, Swatzel made the following comment concerning a telephone conversation with George Kamataris, vice president of Franklin Life Insurance Co.:

After returning to Bartlesville, I contacted Mr. George Kamataris and also talked with a Mr. Barrett of Franklin Life Insurance Co., who acknowledged that they had been approached for a loan in the amount of \$20 million by Billie Sol Estes and attempted to find a lender. Their interest was life insurance in the amount of \$10 million. They have sold a policy in the amount of \$5 million covering the life of Billie Sol Estes and another policy in the amount of \$5 million insuring the life of his wife.

The subcommittee's investigation indicated that the original contact with Estes was made for Franklin Life by Lynn Perkins, then an agent for Franklin at Roswell, N. Mex. Perkins gave the subcommittee the following account of the circumstances:

* * * I met Mr. Estes in the summer of 1960. Mr. Lewis Allen of Roswell said I should see Mr. Estes on some life insurance, but stated he did not know Mr. Estes personally, but that he was a big operator. My first few trips to Pecos I was unable to see Mr. Estes. After I met Mr. Estes I was

told to get proposals and go over them with his business manager. I took several over a period of about a year. In the summer of 1961 Mr. Estes applied for \$10 million of increasing ordinary life, half on himself and half on his wife. Mr Estes said he would need this amount because of money he was borrowing.

Among the letters of recommendation received by Franklin Life Insurance Co. concerning Billie Sol Estes was one from Dr. Harold Lindley, of Pecos, dated July 14, 1961. In the letter, Dr. Lindley made the following comment concerning Estes:

He has a boundless confidence in himself. He has tremendous energy. He sees things which other men do not see. It is just not possible for him to "think little" or "plan little." In his operation he "scares the living daylight" out of the conservative, cautious type of man. If you have full information on his operation and his assets, you will agree that for a man who started in 1952, he has had more successes than failures.

The Franklin Life Insurance Co., according to statements attributed to Vice President Kamataris in a memorandum in Phillips' files, was unsuccessful in its efforts to assist Estes in obtaining a loan. However, a letter written to Estes by Charles E. Becker, president of Franklin Life, on October 11, 1961, indicates that Estes was still warmly regarded by Franklin after the loans were turned down. In the letter, which was addressed "Dear Sol," Becker said:

It is a keen disappointment to me that you were unable to come up for a visit with us but I think you should know that for the past 2 days, anxiously anticipating your arrival, I have had your photograph on my desk and also some very interesting booklets concerning your marvelous achievements.

As a boy, the Horatio Alger books were my prime favorites perhaps an inspiration to me as I traveled the rough roads through the early beginning of my career. And after perusing your biographical sketches and interest in many successful enterprises, I am inclined to believe that probably you indulged yourself with the same reading. In any event, I compliment and congratulate you on having attained so many notable honors and successes.

Life insurance policies totaling around \$5 million—rather than the \$10 million total originally applied for—were issued in the name of Billie Sol Estes and his wife by Franklin Life, but were canceled in December 1961 because Estes did not pay for them.

Among the institutions approached by the Franklin Life Insurance Co. in its attempts to help Estes obtain a loan was the First National Bank of Chicago. A memorandum in the files of Phillips Petroleum Co., written by W. F. Martin of Phillips in 1961, gives the following report on the negotiations between Franklin and the First National Bank of Chicago:

The following information was obtained from Mr. Leo Garman, assistant vice president of the First National Bank of Chicago, during a telephone conversation on September 28.

Estes came to FNBC a year or two ago as a result of a solicitation by the Franklin Life Insurance Co. He desired a loan of \$15 to \$20 million and offered security in the form of grain storage and fertilizer facilities. First, FNBC obtained financial information from an agency and determined that as of December 31, 1959, he had working capital of \$800,000 and a net worth of \$6,800,000. The loan was declined after a brief interview as FNBC determined Estes had neither the security nor the financial backing to support such a loan.

Several Midland, Tex., men reported to the subcommittee, as has been previously mentioned, that they signed tank notes for Billie Sol Estes in December 1961 and January 1962 after consulting the First National Bank of Chicago. According to their report, the bank advised that its information "was very meager because Estes did his financing through the 'finance companies' but that he seemed to be worth \$20 million."

Contacts With W. R. Grace & Co.

During and after his unsuccessful negotiations with Phillips Petroleum, Billie Sol Estes also discussed sale of his ammonia distributing business to W. R. Grace & Co. An affiliate of the Grace Co. had a large anhydrous ammonia plant under construction in west Texas in 1961, and Grace anticipated having large quantities of ammonia from this plant to distribute in 1962. W. R. Grace & Co. gave the subcommittee the following account of its contacts with Billie Sol Estes:

Between August 1961 and December of 1961, Mr. Harry Igo, a representative of W. R. Grace & Co. in the west Texas area, contacted Mr. Sol Estes on a number of occasions in connection with the possible sales of ammonia to Mr. Sol Estes. During some of these contacts Mr. Sol Estes indicated to Mr. Igo a desire to sell the anhydrous ammonia distribution business which Mr. Sol Estes was then conducting. This information was transmitted by Mr. Igo to Mr. William J. Haude and Mr. Frank J. Ronan, president and vice president, respectively, of the Nitrogen Products Division of W. R. Grace & Co. Thereafter, efforts were made to arrange a meeting among Messrs. Haude, Ronan, and Estes to discuss this matter. One or more telephone calls between Messrs. Ronan and Haude and Mr. Sol Estes may have occurred in this period relating to such a meeting. However, specific records as to the dates of these telephone calls cannot be found.

On December 19, 1961, Mr. Estes met in New York City at the offices of W. R. Grace & Co., Nitrogen Products Division, with Mr. Haude, Mr. Ronan, and Mr. Igo to discuss the possible sale of Mr. Sol Estes' anhydrous ammonia distributor business to W. R. Grace & Co.

Thereafter, during the months of January and February 1962 further telephone calls were made in an effort to arrange a further meeting between Grace representatives and Mr.

Sol Estes to discuss further the possible sale of his anhydrous ammonia business. As a result of these calls on February 7, 1962, a meeting was held in Pecos, Tex., at which this matter was further discussed. Mr. William J. Haude and Mr. Frank J. Ronan attended these meetings on behalf of W. R. Grace & Co.

Following the meeting in Pecos on February 7, 1962, Mr. Sol Estes mailed to Mr. Haude of W. R. Grace & Co. an undated and unsigned proposal in respect of the sale of his business to W. R. Grace & Co. This proposal was unacceptable to Mr. Haude and no further efforts were made to discuss the matter with Mr. Sol Estes.

Oscar Griffin, former editor of the Pecos Independent, advised the subcommittee that, prior to the arrest of Billie Sol Estes, he had discussed the tank mortgage situation—

with two men with W. R. Grace & Co. Grace was constructing an anhydrous ammonia fertilizer plant at Big Spring and were concerned because Estes was in competition with them and using money raised through the fraudulent mortgages.

According to testimony of Vice President W. W. Jackson of Commercial Solvents, W. J. Haude of Grace & Co. was the source of information given to him concerning a chattel mortgage filed by Billie Sol Estes in the name of a Swiss company. Jackson's testimony follows:

Mr. JACKSON. On March 7, I think it was, March 7, yes, I received a telephone call from a friend of mine asking me whether I had heard anything about a chattel mortgage involving a Swiss bank and 4.5, I think, million dollars. I told him I hadn't, what did he refer to. And he read me this item which one of his people had somehow picked up either in the papers or from some television source.

I wrote that up in a memorandum for him and transmitted it to Mr. Leonhardt. That was the source of that information.

* * * * *

Mr. FOUNTAIN. Mr. Jackson, who was the friend who called you?

Mr. JACKSON. Mr. William Haude.

Mr. FOUNTAIN. Is he in any way related to Commercial Solvents?

Mr. JACKSON. No. He is a personal friend of mine. He is also associated with the Grace Co., in New York City.

Mr. FOUNTAIN. Someone who had received the information?

Mr. JACKSON. He was seeking information, I think, for his own use and purposes, and had assumed that we had seen the article because of the fact that we were doing business in that area. We hadn't and we thanked him for it, and I passed it on to Mr. Leonhardt.

PUBLICATION OF TANK ARTICLES

Stories in Pecos Independent

By early 1962, Billie Sol Estes' operations had been the subject of numerous investigations and inquiries by his creditors and competitors for more than 10 years. During the same period, Estes' activities had also resulted in a large number of investigations by Government agencies, which will be discussed in detail later in this report. However, Estes was still in business.

Among the persons who had been interested for some time in Estes' activities was Dr. John Dunn, a local surgeon and part owner of the Retail Merchants Association, a Pecos credit bureau. In July 1961, Dr. Dunn and a medical associate, Dr. Harlow Avery, purchased the local newspaper, the Pecos Independent.

On February 12, 1962, the Pecos Independent began publication of a series of articles which—while not naming Estes—were concerned with his tank transactions. The articles were written by Oscar Griffin, then editor of the Independent, who later was awarded the Pulitzer Prize for his work. Griffin gave the subcommittee the following description of the events leading up to the articles:

In August 1961, my publishers approached me about the possibility of doing stories for the paper on Estes' business ventures, specifically his purchases of phantom anhydrous ammonia fertilizer tanks.

We first found he had asked the Retail Merchants Association to stop running the court recordings on the tanks in the RMA newsletter to members. The RMA later obtained for the Independent all the fertilizer tank purchases recorded in Reeves County. The mother of Dr. John Dunn of Pecos went to other counties and obtained similar information.

While this information was being gathered and compiled, others on the paper and I were attempting to ascertain exactly how Estes' scheme worked. We talked to people who claimed to know how the operation worked. None of those who had actually signed for the tanks would talk.

In early February 1962 I contacted a farmer, L. B. Johnson of Pecos, who explained in detail exactly how the operation was handled by Estes. Johnson had intended to buy 96 of the tanks and lease them to Estes for a 10-percent bonus, but backed out at the last minute.

On February 12, 1962, the first article on the tanks appeared in the Independent. * * *

The February 12 article was followed by two more, one on February 19 and the other on March 1. The three articles follow:

[From the Pecos (Tex.) Independent, Feb. 12, 1962]

TANK TALLY SHOWS OVER 15,000 HERE

(EDITOR'S NOTE.—Following is the first in a series of articles concerning a particular type of financial transaction in Reeves County and throughout Texas, which in the judgment of the Independent and other informed, responsible Pecos citizens, should be brought to the attention of the general public.

These articles are published in the interest of and for the benefit and betterment of Pecos and its entire citizenry.

The statistics contained in these articles are available at the Reeves County Courthouse and other courthouses throughout Texas.)

Reeves County may well be the anhydrous ammonia tank capital of the world—on paper that is.

A recent tally of the number of tanks that exist on paper in this county totals over 15,000.

That appears to be a lot of tanks to use for agricultural purposes when you realize that the allotment for cotton is something less than 60,000 acres.

This means there's an ammonia tank available for every 4 acres of cotton. Of course the tanks also are used in the production of grain, but cotton is the big user of the tanks.

But if all these ammonia tanks were in Reeves County it would mean an ammonia tank for every 4 acres of cotton.

Put these 15,000 tanks, if they existed, end to end and they would stretch from Pecos to Balmorhea via Highways 17 and 290.

The location of the tanks is the big puzzler. The farmers who have signed chattel mortgages for the 500- and 1,000-gallon containers apparently do not have all of them on their property in Reeves County.

And one agreement states that the tanks "shall be located at Pecos, Tex., and shall not be removed therefrom * * *."

Fifteen thousand tanks are not to be seen in Pecos—or Reeves County for that matter.

But some farmers claim the tanks were never intended for use in Pecos or Reeves County. They further assert that this was understood when they signed for the tanks.

And the number of tanks some of the farmers have signed mortgages for borders on the fantastic. More fantastic, however, are the total liabilities assumed—some \$13 million recorded in Reeves County alone.

For example:

Why would a farmer who owns and has under lease approximately 850 acres of land want nearly 450 ammonia tanks, plus a large number of applicators?

His total indebtedness for the tanks and applicators is over \$400,000 with monthly payments of nearly \$7,000. This liability would be over and above any money borrowed to make his crop.

Another example:

Why would a farmer buy 272 ammonia tanks during the same month—bringing his total number of tanks owned to nearly 400—when the farmer has less than 250 acres of land under lease in Reeves County?

Then there's a third farmer whose total monthly payments on tanks amounts to over \$40,000 a month. Why would he go in debt for nearly \$2 million for nearly 2,500 tanks and applicators?

Also, there are a certain number of farmers who owe these debts but seemingly know nothing about it.

One farmer recently discovered that he owed over \$90,000 for more than 130 tanks, apparently purchased in his name without his admitted consent.

Another farmer discovered that he had bought many more tanks than he had bargained for, even though he thought a personal agreement had been understood by both parties.

One farmer was wondering how an instrument could be valid when the notary public who signed the papers had not actually acknowledged the farmer's signature.

And two persons whose signatures attest that they witnessed the farmer signing the papers were actually not in the room when he signed the papers.

While some have been pondering the plight of the farmers, other observers have been wondering about the finance companies which finance the ammonia tank transactions. There are others who ponder the possible aspect on the economy of Pecos.

Only a small percentage of the farmers in Reeves County are involved in the ammonia tank transactions. The actual number is less than 50.

There are many other counties in west Texas and the Panhandle where the transactions are comparable. For the most part only the names have been changed.

The remainder of the farmers, it appears, have shied away from something which one farmer said was described to him as a "sure-fire thing."

Some farmers are in much deeper financially than others. And there are some who haven't participated in the program in months.

What do the farmers receive for buying the tanks, besides a chattel mortgage recorded at the Reeves County clerk's office? What does anyone gain by such financial transactions?

These and other questions will be explored in the next article.

[From the Pecos (Tex.) Independent, Feb. 19, 1962]

TANKS BIG BUSINESS HERE AND ON PLAINS

(EDITOR'S NOTE.—Following is the second article concerning a particular type of financial transaction in Reeves County and throughout Texas, which, in the judgment of the Independent and other informed, responsible Pecos citizens, should be brought to the attention of the general public.

(These articles are published in the interest of and for the benefit and betterment of Pecos and its entire citizenry.

(The statistics contained in these articles are available at the Reeves County courthouse and other courthouses throughout Texas.)

Ammonia tanks in Reeves County are big business. An amount that almost staggers the imagination—\$13 million—is involved.

But the tanks also are big business on the south and High Plains, especially in Hale and Deaf Smith Counties where

there are approximately \$7 million in chattel mortgages for tanks.

It has been noted that there are supposedly 15,000 paper tanks in Reeves County.

Some of these tanks are owned by firms in the anhydrous ammonia business in Pecos and surrounding area.

But over 14,000 of these tanks are owned, for the most part, by individuals.

Why have the farmers here invested so much money in anhydrous ammonia tanks?

Perhaps they did not appreciate the scope or the possible consequences of these unusual transactions.

However, here's one farmer's story:

He states that he was approached by a businessman with a proposition. The proposition was that he was to buy a certain number of anhydrous ammonia tanks from a certain company, sign the chattel mortgage, and in turn lease the tanks to the businessman.

It was understood that the amount of the lease to the businessman would be the same as the total monthly payments on the tanks due the finance company.

For doing this he was to receive 10 percent of the total purchase price of the tanks in cash.

All he had to do was sign the chattel mortgage after agreeing to buy the tanks.

If, for instance, the tanks cost \$80,000, he was to receive \$8,000 from the businessman plus the cost of the monthly payments each month.

The company manufacturing the tanks agreed that if at any time during the 5-year period for which the monthly payments were due a default on his lease payment occurred, the manufacturing company would repossess the tanks as total payment.

It was further understood by the individual that his ammonia tanks were not for use in Reeves County.

Some of the Reeves County farmers say their tanks are in use on the plains, where there also is an abundance of ammonia tanks.

In Hale County, for instance, a man with nearly \$2 million worth of chattel mortgages for ammonia tanks registered in Reeves County has over \$1 million worth of chattel mortgages for tanks in Hale County.

And in Deaf Smith County, where Hereford is the county seat, an agricultural business has over \$700,000 worth of ammonia tanks, while three individuals have chattel mortgages registered covering \$2 million worth of tanks.

But there are more.

Over 700 tanks, valued at nearly \$600,000, are recorded in 1 person's name in Dawson County; another man has approximately 650 tanks, worth nearly half a million dollars, in Lamb County; a third man has over 550 tanks with a value of nearly \$700,000 registered in Lubbock County.

And 4 men have chattel mortgages recorded on the same

day for the same number of tanks, with the same mortgage value, in all 15 separate west Texas counties.

There are many unanswered questions concerning the ammonia tank transactions and how these financial operations could affect the economy of Reeves County.

More important, however, is the effect this sort of financial transaction might have in the future on the individuals concerned.

[From the Pecos (Tex.) Independent, Mar. 1, 1962]

TANK TRANSACTIONS SOAR TO \$34 MILLION

(EDITOR'S NOTE.—Following is the third article concerning a particular type of financial transaction in Reeves County and throughout Texas, which in the judgment of the Independent and other informed, responsible Pecos citizens, should be brought to the attention of the general public. These articles are published in the interest of and for the benefit and betterment of Pecos and its entire citizenry. The statistics contained in these articles are available at the Reeves County Courthouse and other courthouses throughout Texas.)

Look for an upsurge in the buying of anhydrous ammonia tanks in west Texas during March.

That would appear to be the indication if the transactions of 1962 live up to the volume of business done on ammonia tanks in 1961.

In March of 1961, for instance, nearly \$2 million worth of chattel mortgages were recorded for tanks in 11 counties of west Texas, including over \$1 million worth in mortgages for ammonia tanks and equipment in Reeves County.

Perhaps that sounds farfetched, but it held true for January and February of 1961 and 1962.

According to the mortgages filed in the offices of the county clerks in the 11 counties, slightly less than \$2 million worth of tanks were mortgaged in January and February 1961.

And through February 12, 1962, slightly over \$1.8 million in chattel mortgages for tanks and equipment were filed in the 11 counties.

The last chattel mortgage of which the Independent has record is in Hudspeth County, where 40 tanks were mortgaged for \$54,000.

(Undoubtedly there have been more, but because of the distance and time involved in verifying the recordings it is merely impossible to keep them exactly current.)

But the month of March is a piker if you compare figures. During June 1961, over \$3.5 million in mortgages for tanks were recorded in the 11 counties.

Since January 1959, approximately \$34.5 million worth of tanks have been mortgaged in those 11 west Texas counties, with Reeves leading the pack with nearly \$14.5 million in mortgages now filed.

Other counties and the total approximate tank mortgages include:

Hale, \$3.6 million; Hudspeth, \$3.3 million; Lubbock, \$2.7 million; Deaf Smith, \$2.5 million; Pecos, \$2.1 million; Lamb, \$1.9 million; Hockley, \$1.4 million; Culberson, \$1.4 million; Dawson, \$0.7 million; and Potter, \$0.3 million.

In the vast majority of counties, these mortgages are filed against individuals, not companies or corporations.

One of the individuals involved has over \$5,700,000 in chattel mortgages for tanks, plus nearly a million dollars more mortgages for land and improvements in four counties.

He has tanks mortgaged in Reeves (nearly \$2 million), Pecos (\$1.5 million), and Hale (\$2.3 million) counties.

The person resides in Pecos.

The Pecosite also has the earliest chattel mortgage recorded in 1959 for ammonia tanks. The mortgage was for \$84,609.

Another Pecosite close behind signed two chattel mortgages on January 21, 1959, totaling nearly \$150,000 for more than 220 tanks.

This person has not signed a chattel mortgage for tanks, however, since October 3, 1961, when the total had swelled to over 700 tanks valued at more than half a million dollars.

Just as the tanks in Reeves County are not to be seen, neither are the number of tanks registered in the 11 counties to be seen. And it would be difficult to miss more than 33,500 tanks in the 11 counties.

Here's the latest approximate number of tanks shown on the chattel mortgages in the 11 counties:

Reeves, 15,880; Hudspeth, 3,350; Lubbock, 2,510; Pecos, 2,280; Lamb, 2,010; Hale, 1,970; Hockley, 1,730; Culberson, 1,500; Deaf Smith, 1,080; Dawson, 820; and Potter, 350.

Why have the individuals bought the number of tanks? Apparently for lease purposes, plus a bonus of 10 percent of the total purchase price from the person leasing the tanks.

If all of the individuals received a 10-percent bonus—plus leasing the tanks for enough money to cover the monthly payments—there has been a considerable amount of money changing hands.

And it's all been for tanks most of the individuals have never seen.

Reaction to Tank Stories

Reaction to the first tank stories came swiftly from the finance companies involved. According to Oscar Griffin:

The next day, February 13, 1962, the Independent received a long-distance telephone call for a subscription to the paper. The call came from some northern State and the caller was later identified to me as a high official for the Walter Heller finance company.

Later we were to receive numerous long-distance calls for subscriptions, but this particular call amazed us. Our paper had not had time to travel to that distant point through the mails. It meant that someone had telephoned the man from Pecos or some nearby point.

Copies of the tank stories were mailed to other finance companies, some of whom then contacted Estes. Among the company officials traveling to Pecos to see him were R. W. Blake and Vernon Barron of the Caprock Investment Co. Caprock advised the subcommittee that—

* * * Mr. Blake and Mr. Barron had a brief interview with Mr. Estes which did not result in any enlightenment to them. He did state that when they knew him better they would love him—a prediction which has failed to materialize.

W. F. Dean of the D. & M. Investment Co., one of the smaller firms involved, also contacted Estes. Estes gave Dean temporary—but worthless—reassurance; according to Dean:

He assured me, in a telephone conversation, that while he had no sympathy for the large finance companies he was concerned about my situation. He assured me that he, personally, would see to it that I suffered no loss.

Russell Ramsland, a Midland man who had signed tank notes totaling more than half a million dollars in January 1962, drove to Pecos with his accountant, Steve Boone, to see Estes. In testimony at Estes' trial, Ramsland described what took place after he and Boone were admitted to Estes' office:

I asked Mr. Estes if we could see our tanks, our fertilizer tanks, we had taken with us all our serial numbers, and so forth, and Mr. Estes explained that the tanks were out on farms, that they were working, that he couldn't have all the people who might be interested in fertilizer tanks going to all these farms and bothering them, that he had contracts with the farmers to supply them anhydrous ammonia and that certainly they would be very antagonistic toward him if his operations or their operations were interrupted by people who demanded that they go out and check their tanks, and that he would not, did not want us to go out and bother the farmers. We explained that it was necessary for us to satisfy ourselves that these tanks existed, and that we had tanks, and he recommended that we sit tight and don't rock the boat, and that everything would be all right, and that everyone would be taken care of. * * *

He said that if people would leave him alone that he would get the thing worked out; if they did not, that he had enough set aside that he could take and he could go to Brazil. I believe on that note, we had lunch together at his house. After lunch, we asked him again if it was possible for us to see the tanks, that we needed to check them and he said no, we couldn't, and we left. That was the last contact I had with Mr. Estes.

After publication of the tank stories, the attitude of persons who had signed tank notes for him apparently varied considerably. One Pecos man who had signed tank mortgages totaling more than half a million dollars was interviewed by an Agriculture Department

investigator on March 28, 1962, the day before Estes' arrest. The investigator summarized what the interviewee told him as follows:

He has never seen the ammonia tanks which he mortgaged, and Estes assured him that the tanks were being used in other areas. He had trusted Estes until recent developments indicated that Estes was probably insolvent. He had been approached by a representative of a finance company who asked him to give the finance company a lien on his farm, since it was apparent that Estes was not going to complete the payments for the ammonia tanks. He declined to do so and was worried and very fearful that he would lose everything that he owned.

* * * * *

He owed approximately \$64,000 on his section of land. It appeared that the finance company could take his land and could probably get a judgment against him. He now understood from discussion with others that the ammonia tanks probably did not exist and that Estes had fooled the entire town, and especially his very best friends. He was sure that the finest people in Pecos, including the most prominent farmers, would be bankrupt. A few days ago Estes called several persons into his office and told them that he was temporarily in some financial difficulty but not to worry, and above all not to "panic" and start talking to anyone. He had determined that he was going to tell the truth about the entire matter to any Government agency entitled to the information. He could see that Estes had ruined him financially.

Another Pecos man, who had signed nearly \$200,000 in tank mortgages, was interviewed by the same investigator on the same day. The investigator's report on this interview follows:

* * * he was one of the first men to sign the chattel mortgages. Estes was a close personal friend and told him that he needed some temporary credit in order to make a large sum of money. Estes explained that he would give him 10 percent of the amount of the notes, either in fertilizer, equipment, or money. He received fertilizer, equipment and money but he did not recall the exact amount. He farmed about 480 acres of land and he had a large cotton acreage. Estes had kept his word to keep the payments on the tanks current until recently. He was still confident in his own mind that Estes was basically [sic] honest and that he was temporarily in trouble, but he was certain that Estes would be able to pay out and he did not think that he would lose a penny. He had heard numerous people state that Estes was financially insolvent but he did not believe it and he thought it was a hate campaign started by a Pecos newspaper and carried on by numerous people in Pecos who were jealous of Estes and his power and influence and position in the community.

INVESTIGATION BY PACIFIC FINANCE CO.

Collateral Check and Meeting in Amarillo

Perhaps the most vigorous reaction to publication of the tank stories came from Pacific Finance Co., which had paid more than \$3 million for tank mortgages. A Pacific representative in Texas sent a copy of the February 19 article in the Pecos Independent to the company's home office in Los Angeles. Thereafter, according to Pacific:

On February 22 and 23, 1962, following the receipt of a reprint of a newspaper article appearing in the Pecos (Tex.) Independent, Pacific made an extensive field investigation, designed to determine the location of the collateral covered by its contracts. Approximately 16 employees, teamed in pairs, were assigned certain purchasers who had no previous notification of the investigation, and were instructed to verify the purchaser's signature and the location of the anhydrous ammonia tanks covered by the contracts. Each of the customers contacted verified the signatures on the contracts and financial statements, but stated that the anhydrous ammonia tanks had been leased to Billie Sol Estes or to one of his companies. * * *

Pacific told the subcommittee that the suspicion of fraud raised by the newspaper story and the collateral investigation conducted on February 22 were confirmed at a meeting in the Superior Manufacturing Co. office in Amarillo on February 23. The meeting was attended, according to Superior—

* * * by Richard Crane, George Harkavey, Harry Johnson, and Roy Snodgrass (Amarillo attorney), representing Pacific, and Harold Orr, Ruel Alexander, Coleman McSpadden, Billie Sol Estes, and Bert Nelson and Nelson, Sr. (Amarillo attorneys), representing Superior and the principals involved. * * *

In testimony at Amarillo in July 1962, Harold Orr gave an account of the February 23 meeting and events preceding it. Orr said that on February 22:

I was in El Paso, Tex., and heading for Phoenix when I had a call from Mr. Alexander, and he said, "Harold, Pacific Finance Co. is out in full force, and the top is out; they know everything. The top moguls are all here." And he wanted me to get in quick.

Orr testified that he returned to Amarillo immediately and gave the following account of what happened when he got there:

* * * Mr. Richard Crane and Mr. Johnson, general counsel for the Pacific, were in my office with Ruel. I walked in the door and he said, "I want \$4,300,000."

Q. Who said that?

A. Mr. Crane.

Q. Of Pacific?

A. Yes. He said, "I want \$4,300,000." And I said, "How do you want it, cash or check?" He was very rude, very nasty, and he demanded an immediate meeting.

He had found out about all of the dealings with Billie Sol and he wanted a meeting the next morning with Estes and McSpadden and ourselves.

According to Orr, he then tried to reassure the Pacific representatives concerning the company's position. Orr's testimony on this point follows:

* * * I told Mr. Crane, I says, "Look, Billie Sol has got 30 million bushels of grain storage clear, they are clear storage and that's 12 million bucks." And they felt better, you know, about it, and so did we.

Q. Did you believe that, yourself?

A. I believed it sincerely. We had always been told by Billie Sol—I say always, from the first part of 1961 on, that he had 30 million bushels of grain storage that would always be debt free, and would remain debt free, and he explained why.

He thought about the first of 1961, about the possibility of the finance companies getting on him and how it would work out * * *.

However, according to Orr, he received a rude awakening when he talked to Estes the next day. Orr gave the following description of their conversation:

* * * When Estes came into our office that morning before they arrived there, I brought up the fact of these 30 million bushels, and Billie Sol just laughed and he said, "Man, I have got double and triple mortgages on everything I own." And at that time—that was the only time that I ever had a good idea what the man's net worth was.

At that time, I figured it was zero, that it was balanced. I found out later that it was way out of balance.

But he said, "I don't know why I am even up here. I don't want to talk to Pacific Finance Co." He said, "I am tired. Take me to jail."

Q. Take you where?

A. He said, "Take me to jail."

Q. To jail, j-a-i-l?

A. J-a-i-l, jail, and man, he scared all of us to death.

Payment of Spurious Contracts

Later that day, Orr said:

* * * in the meeting with Pacific Finance Co., they found out just about what he was worth, too. He leveled with them. So they agreed that, if we would pay off two mortgages they had that they didn't like, totaling \$100,000, and, if Estes would sign a personal guarantee agreement on all of the contracts held through Superior, that they would go away and let us alone.

So we did that, we gave them a check for \$50,000 that day, and a week later sent them another check. Now, that money had to come out of Superior, because Estes said he didn't even have any money in his bank account.

The two contracts referred to by Harold Orr in his testimony bore the name of E. H. Patterson. However, Orr admitted later that he had signed Patterson's name to the contracts at Estes' request. Pacific Finance gave the subcommittee the following account of the circumstances involved in collection of the Patterson contracts:

* * * Pacific's local branch manager of its Roswell, N. Mex., small loan office was asked to check the Patterson contracts with the local bank in Roswell. He did so, and in comparing the signatures with those on file at the bank, concluded that there was an obvious dissimilarity. He then passed on this information by telephone to Messrs. Crane and Johnson, who were then supervising the investigation from Amarillo. During the meeting with Orr, Alexander, McSpadden, Estes, and others at Superior's offices on February 23, 1962, Crane merely demanded that Superior repurchase the Patterson contracts in accordance with the warranties and repurchase provisions of the contract dated June 14, 1961. Superior agreed to do so, giving Pacific a cashier's check in the amount of \$50,000 on February 23, 1962, and the balance of \$51,767.04 by cashier's check enclosed in Superior's letter dated February 28, 1962.

The subcommittee's investigation also indicated that Humphries & Co., a Lubbock finance company, received a \$51,218.97 bank money order purchased with funds of Billie Sol Estes on March 20, 1962. The money order was for payment in full on a tank contract bearing the name of Troy Burson, which had actually been signed by Harold Orr.

Pacific Finance Calls in Frank Cain

According to his testimony at subcommittee hearings, Frank Cain, a Dallas attorney who specialized in representing finance companies, received a call from Pacific Finance Co. concerning the Estes matter on the day of the Amarillo meeting. Cain's testimony follows:

On the evening of February 23, 1962, Mr. Irion, my law partner, and I received a conference telephone call from Pacific Finance Corp. officials. During this conversation, they advised us that it appeared that their company had been defrauded in connection with mortgages on anhydrous ammonia tanks. They requested Mr. Irion and me to meet with them in Amarillo, Tex., as soon as possible.

* * * * *

Mr. NAUGHTON. Who was in on that telephone conference call?

Mr. CAIN. Besides Mr. Irion and myself?

There was Mr. M. L. Geoglein, senior vice president, and Mr. Don Terry, vice president in charge of commercial financing division.

Mr. NAUGHTON. Where were they calling from?

Mr. CAIN. Los Angeles.

Mr. NAUGHTON. What was said in that conversation?

Mr. CAIN. They just told us about these articles and that through information that they could get by way of telephone and everything, it appeared that there was a man by the

name of Billie Sol Estes that was behind a scheme with a manufacturing company out in Amarillo that we might—and it appeared that Pacific might have been defrauded in a sizable amount of money on the purchase of these anhydrous ammonia tanks.

Conferences in Amarillo

After receiving the telephone call, Cain said, he went to Amarillo for a series of conferences with Pacific Finance officials. Cain gave the following testimony concerning the conferences:

Mr. NAUGHTON. Who participated in those conferences?

Mr. CAIN. I can only name you the chief officials. There was Mr. M. L. Geoglein, senior vice president of Pacific Finance Corp., Mr. Don Terry, vice president in charge of commercial financing, Mr. Dick Crane, who was assistant to Mr. Terry in commercial financing, and Mr. Irion and myself. And then in and out of the room were some of these 18 investigators they had, staff people they had out there, none of whom I had ever met before.

Mr. NAUGHTON. Did any of them participate in these conferences, other than lawyers, officials, or investigators for Pacific?

Mr. CAIN. The conferences—the only people that participated in the conferences with Mr. Irion and myself at that time, prior to going to see Estes, were the officials I have just named, and there may have been one or two of the staff members coming in to relate something that I don't recall who they were.

Mr. NAUGHTON. Where were those conferences held?

Mr. CAIN. In a motel in Amarillo, Tex.

Mr. NAUGHTON. Why was Amarillo selected?

Mr. CAIN. That is where Superior was.

Meeting With Estes in Lubbock

Following the Amarillo conferences, Cain testified, he went to Lubbock on March 8, 1962, for a meeting with Estes in the office of Hobert and Burt Nelson. Cain gave the following description of the meeting, which he said was his first with Estes:

I confronted Mr.—first of all, I thought Mr. Estes would just talk to us, but he was reluctant to do that. He said, "You just ask the questions and I will answer them."

I said, "Well, I have just visited the Superior Manufacturing Co. plant in Amarillo, Tex., and I find that there are only 110 employees both in the factory and in offices, and that the president of that firm advised me that on a three-shift basis that they could produce 800 1,000-gallon tanks a month." That seemed logical to me because we represented a company that manufactured tanks and valves.

When I next met—when I was talking with Mr. Estes I told Mr. Estes that I had checked the record, analysis of the records of mortgages filed during January and the first few days in February 1962, and I said that company, taking into consideration its inventory on hand, and inventory in process, based upon a certified statement of Superior, that

the company during the month of January and the first few days of February would have had to produce something like 3,376 tanks of 1,000-gallon capacity, and I said to Mr. Estes, "You know that is absolutely absurd and impossible."

Mr. Estes to that very smilingly said, "There aren't any tanks."

Mr. Irion, my law partner, was absolutely shocked and said:

"Do you mean to tell me that there are no tanks behind these mortgages that you have sold Pacific Finance Corp.?"

He said: "No, sir; there are no tanks."

Then Mr. Irion said: "How many finance companies did you deal with besides Pacific?"

With this, Mr. Estes pulled from his pocket a letter-sized sheet of paper upon which he had broken down, and I believe there were 12 companies all together, 12 finance companies. The total owing at the time that he had made this up, which was a few days before—well, I believe it was the latter part of February or the first of March—the total owed was a little over \$22 million, and that the monthly payments which he broke down also for each company and totaled up better than \$500,000 per month. That was the lease rentals he was having to meet.

Then I asked Mr. Estes, I said: "Are there any tanks behind any of these mortgages that you have listed here with these finance companies?"

Mr. Estes said: "They are all of the same breed."

After admitting there were no tanks, Cain said, Estes suggested that he could "work this thing out." Cain's further testimony follows:

Mr. Estes further said that he could work this thing out if the finance companies would cooperate with him. Then a conversation ensued between Mr. Estes and my partner, Mr. Irion, and myself, concerning what he meant by cooperation.

It became quite obvious in the conversations with Mr. Estes that he either was putting on a very good act of not fearing the consequences of his criminal—of these acts that he was admitting, as he would say smilingly: "I can be happier in a jail than most people can on the outside of a jail."

And Mr. Irion, my partner, was very, very shocked, the attitude he was taking about it, and he and my partner didn't seem to hit off at all. I knew if we were going to get inside of this fellow and if we were ever going to find out anything, and with the \$22 million exposure there, that you would have to play ball with him. It didn't take me long to ascertain that the man had several characteristics about him such as he could be religious one moment, he could smile and be very happy, and very witty, very humorous, and he was, there, at that particular time.

When Irion asked Estes where he would get money to pay Pacific Finance several million dollars, Cain said, Estes answered:

Well, I don't have any money to pay anything like that that is owed to your client, but I still have \$2 million worth of mortgages that I can——

he didn't get more than that far before Mr. Irion said:

I don't want to know anything about your mortgages; don't tell me anything about them at all.
He was quite shocked.

Before the end of the Lubbock meeting, arrangements were made for Cain to meet with Estes in Pecos a few days later.

Cain Trip to Pecos

On the evening of March 13, Frank Cain testified, he arrived in Pecos with Gil McDermont, vice president and general credit manager of Pacific Finance. During the next 2 days, Cain said he conferred at length with Estes and Burt Nelson, Estes' attorney, while McDermont discussed Estes' financial condition with A. B. Foster, general manager of Estes Enterprises. According to Cain, Estes outlined a plan for paying the finance companies which held his tank mortgages through the use of grain storage revenues and by placing ammonia sales on a profitable basis instead of selling below cost. Estes gave assurances, Cain said, that he could secure the cooperation of Commercial Solvents in working out arrangements to pay the finance companies.

Cain told the subcommittee that Estes "spent several hours in trying to impress me on his influence and power that he had here in Washington, D.C., with the Agriculture Department." Cain described Estes as a namedropper who "would start with the President and come right on down the ladder" and said that "he was certainly giving me quite a 'snow job' as to how powerful he was and how many influential friends he had." Cain commented, however, that:

* * * I don't think he had any real power, when you get right down to it. That is my personal observation. He tried to make everybody believe he had all kinds of power.

In his testimony, Cain described statements made by Estes to the effect that he would need large sums of money for "payoffs" to unnamed public officials. Further testimony by Cain on this point follows:

Mr. NAUGHTON. Mr. Cain, do you have any evidence whatever, other than Billie Sol's unsupported statements, that payoffs were made or planned to any public officials, Republican or Democrat?

Mr. CAIN. None whatsoever.

Mr. NAUGHTON. Do you have any information to indicate that this might not have been the plan of Billie Sol Estes to get \$40,000 or \$100,000 or \$200,000 a year from the finance companies for his personal benefit?

Mr. CAIN. The way he was operating, like flying airplanes around like he was, and the way they told me his operations were, I think he probably spent \$200,000 a year

just—he was a pretty expansive sort of fellow from the standpoint of operations. I could see how he could probably do that without making very many big contributions.

* * * * *

Mr. NAUGHTON. Was the gist of Billie Sol's conversations with you that out of the amount that he would turn into the kitty to pay off these debts, he wanted to take out \$40,000 plus \$100,000 to \$200,000 a year, for which he was to make no accounting?

Mr. CAIN. That is right.

Mr. NAUGHTON. On the basis that he told you it was for payoffs?

Mr. CAIN. That is exactly right.

Mr. NAUGHTON. But you have no information to indicate whether it actually was for payoffs or whether it was to pay off Billie Sol himself?

Mr. CAIN. None whatsoever, outside of the fact of his own statement by Billie Sol.

Meeting in Los Angeles

After conferring with Estes in Pecos, Cain and his law partner, Monte Irion, went to Los Angeles on March 16, 1962, to report their findings to officials of Pacific Finance. Testimony on this meeting follows:

Mr. NAUGHTON. What was the reaction of the ranking officials of Pacific Finance to your report?

What did they say?

Mr. CAIN. They were shocked, amazed, and for the most part, just could not—could hardly believe the story. That is all there was to it.

They wanted to defer a decision on what was to be done, but they did make one very definite decision, that they would not, and told me, because I had been telling them about this plan, I mean of trying to work out a plan or something, they just gave me to understand right quick that under no circumstances, and not ever, would Pacific Finance Corp. have anything whatsoever to do by adoption or otherwise with Billie Sol Estes, and would under no circumstances get in bed with him or make any agreements with him at all of any kind.

Mr. NAUGHTON. Did they tell you to have nothing further to do with Mr. Estes?

Mr. CAIN. No; they did not do that. They said I could continue my little undercover investigation if I wanted to, and, well, that I should, and that that is when we decided to go further into the relationship, or I should try to go further into the relationship of Commercial Solvents as a secured creditor as opposed to us being obviously now an unsecured creditor.

According to Cain, he informed Pacific Finance officials during the March 16 meeting that Commercial Solvents held mortgages and assignments on practically all Estes' property of any value and told them

that Estes was expecting a visit from Maynard Wheeler over the forthcoming weekend. As a result, Cain testified:

We agreed it would be advisable for me to arrange a meeting with Mr. Wheeler to explore with him our relative interests as creditors of Billie Sol Estes. Accordingly, I telephoned Mr. Nelson, Mr. Estes' attorney, from Los Angeles and I was successful in arranging the meeting with Mr. Wheeler at the home of Mr. Estes on Sunday morning, March 18, 1962.

Cain Description of Meeting With Wheeler

In testimony at subcommittee hearings, Frank Cain gave the following summary of his meeting with Maynard Wheeler. Cain's testimony was substantially the same as previous testimony given by Cain at Dallas:

I flew to Midland, Tex., from Los Angeles and telephoned Mr. Estes advising him of my arrival. He sent his private plane which flew me to Pecos where I spent the night at the Brandon Hotel.

The following morning about 7 o'clock I was awakened by a telephone call from Mr. Estes who asked me if I could be ready to be picked up within 45 minutes. I met Mr. Henderson, Mr. Estes' chauffeur-pilot, in the lobby at 7:45 a.m. It took not more than 10 minutes to arrive at the home of Mr. Estes.

I went immediately into the dining room and was seated at the breakfast table with Mr. and Mrs. Estes and Mr. and Mrs. Wheeler and two daughters of the Estes family. All of them except the two daughters had finished their breakfast. I am not in the habit of eating much breakfast. I nibbled on a couple of hotcakes and drank a cup of coffee.

I was introduced by Mr. Estes as an attorney from Dallas, Tex. At the table I told Mr. Wheeler that my firm represented Pacific Finance Corp. and a number of other finance companies and also gave him some information regarding my personal background.

We were not at the table more than 15 minutes and the ladies excused themselves and Mr. Estes, Mr. Wheeler, and I retired to the living room.

Just as we were sitting down, Mr. Estes, in a joking manner, said, "They"—meaning Commercial Solvents—"want to put me in business in Brazil." There was no comment from Mr. Wheeler.

I explained to Mr. Wheeler that I had spent several days with Mr. Estes, attempting to gather facts and work out some feasible plan whereby he could pay the finance companies. I told Mr. Wheeler that Mr. Estes was heavily and deeply involved with the finance companies. In the conversations, I had explained to Mr. Wheeler that my law firm had been specializing in financing and consumer loan law for over the past 20 years.

Mr. Wheeler said Billie Sol had called him about an assignment which he had prepared and filed of record that

indicated Billie was transferring several millions of dollars to the Bank of Switzerland, and he—Wheeler—thought he had better come out and talk with Billie. Mr. Wheeler then said he had just returned from a 5-week trip to Europe where Commercial Solvents Corp. was establishing an operation in Italy. Mr. Wheeler said Commercial Solvents Corp. was going to do business with the Bank of Switzerland. Mr. Wheeler said that if matters got too bad for Billie Sol, that Solvents could use him as a consultant in Switzerland. Mr. Estes immediately said, "I think Brazil would be better."

Mr. Wheeler explained generally Commercial Solvents' operations, and said they were closely associated with many people in the U.S. Department of Agriculture, and there was no reason why they could not take over all of Mr. Estes' enterprises, and operate them as good as he could. Mr. Wheeler said Commercial Solvents had established through Mr. Estes a very favorable market in west Texas, and they—Solvents—intended to maintain their position in the market. Estes, on several occasions during the conference, said he was prepared to turn all his operations over to Commercial Solvents Corp. Mr. Estes remarked that Commercial Solvents had sent him \$400,000 in cash only a few days before. I could tell from the facial expressions of Mr. Wheeler that he did not like this remark.

The conference broke up around 9 o'clock, or a few minutes after. Mr. Wheeler drove off with Pilot Joe Henderson for the airstrip. The airstrip is not more than 10 minutes from the Estes home. The luggage had been put in the car when we emerged from the living room. Mr. Wheeler took two or three pictures of the Estes family with a tiny camera. Mr. Wheeler never appeared concerned about catching his flight in Midland for Dallas, and he need not have been. Flight time from Pecos to Midland is not more than 40 minutes, and if the information given my secretary by Continental Airlines is correct, the first flight scheduled to leave was not until 10:55 a.m., nonstop to Dallas.

According to the pilot's log, Mr. Wheeler and his wife took off from Pecos at 9:19 a.m., and arrived in Midland at 9:51 a.m.

Wheeler Account of Visit to Pecos

In testimony at subcommittee hearings, Maynard Wheeler gave the following account of his visit to Pecos in March 1962:

In the middle of March 1962, Mrs. Wheeler and I were paying Mr. and Mrs. Estes a short social visit. On our way over to Pecos, from Louisiana, I had several phone conversations with our people in the New York office. In the course of one of these conversations, I told Mr. Leonhardt—who is sitting here beside me—that Mrs. Wheeler and I were going to visit the Estes in Pecos. He told me that copies of some articles that had appeared in the Pecos Enterprise which dealt with alleged existence of numerous chattel mortgages on fictitious anhydrous ammonia tanks had been received at the New York office. The articles did not point to any

individual as being responsible for this condition. He also told me of information that the corporation had received regarding a document that had been filed in Texas by Mr. Estes concerning a loan of \$4.5 million from a Swiss bank. Leonhardt suggested that during the course of my visit I ask Estes about these two matters.

While most of our visit was taken up with sightseeing, I was able to speak to Mr. Estes about both these subjects. As to the articles about the chattel mortgages on fictitious tanks, he told me not to pay attention to them—that the Pecos Enterprise was run by a member of the John Birch Society who was trying to stir up trouble among the farmers. Concerning the editorial charging Estes with filing a document indicating a loan of \$4.5 million to him from a Swiss bank, he told me he had filed such document as a joke to give the Pecos Enterprise people something to investigate that they could spend 6 months on. He told me he had not borrowed money from Switzerland, and that the name of the bank that he had given on the document had been pulled out of the air.

Saturday night after dinner—that is, on March 17—Mr. Estes told me that a Mr. Frank Cain from Dallas was very anxious to meet me and suggested that he ask Cain to breakfast the following morning. I told Estes I had no objections, but reminded him that Mrs. Wheeler and I had to catch a 10 a.m. plane from Midland to Dallas, which would require our leaving Pecos no later than 9 a.m.

The next morning—Sunday—we arrived for breakfast at about 8 a.m. and sat down with the Estes and the Estes children. Cain did not arrive until about 8:30. He was a particularly talkative person. He immediately took over the conversation, gave us his life history, and told us how he had not gone beyond grade school and now was a successful lawyer in Texas.

At about 8:45 a.m., at Estes' request, Cain, Estes, and I went into the living room where we were alone for 5 or 10 minutes. Cain seemed to be interested in whether CSC would continue to supply ammonia to Estes, and I asked him what made him think we would not. He said that some of our competitors had stated that we would not continue to supply Estes. I replied that we had shipped ammonia to Estes under contract for several years, that he had lived up to the contract requirements, and that as long as he continued to do so, we would continue selling him ammonia. It is quite possible that to emphasize our intention of continuing our relationship with Estes, either Estes or I spoke of the \$400,000 that CSC had just advanced him. At this time neither I nor CSC had any knowledge that Estes was insolvent and was trying to work something out with the finance companies and his other creditors.

The above stands out in my mind as the principal subject discussed at this meeting. The rest was smalltalk. And while I do not recall everything that Cain and Estes said, or even everything that I said, I know what I did not say, and I also know what they did not say—at least in my hearing.

Conflicts in Testimony of Cain and Wheeler

In further testimony before the subcommittee, which follows, Wheeler vigorously denied that he had made statements attributed to him by Frank Cain in earlier testimony by Cain at Dallas:

Except as I shall presently relate, I deny emphatically that I ever made the statements attributed to me by Cain, and I also deny that there were made in my presence the statements attributed by Cain to himself and Estes. As part of the smalltalk, it is entirely possible that Estes again might have told of having filed the document concerning the Swiss bank to give the rival newspaper an opportunity to spend 6 months investigating. And I may have spoken of my recent trip to Italy—which incidentally lasted just 7 days—to complete the purchase of the majority interest of a pharmaceutical plant in Milan.

But I deny saying anything, or hearing anything said, concerning any numbers system in Switzerland, or using Estes as a consultant in Switzerland, or putting Estes into business in Brazil. Before I read Cain's testimony I had never heard of the numbers system.

CSC has never had, and does not have, any account in any Swiss bank. Moreover, none of the officers of CSC has had or now has any such account. And if Estes or any associate of Estes has or had any such account, we have no knowledge of it. This attempt by implication or innuendo to associate CSC and/or its officers with a Swiss bank account, or with a purpose of putting Estes into business in Brazil or of using him as a consultant in Switzerland, in furtherance of some criminal conspiracy, criminal intent, or other improper motive is a slander of the most vicious kind.

I deny making any statement concerning our desire, intention, or ability to "step in and take the place of Billie." Moreover, there was no mention in my presence of my having put Estes in the ammonia business, no mention of the grain storage facilities, "grain tanks," or keeping them filled; nor was there any mention of the Department of Agriculture. Except for Secretary Freeman, I did not know the name of any officer or employee of the Department of Agriculture, and I deny mentioning the name of any officer or employee of the Department, or of any individual who could bring influence to bear on the Department or any of other branch of Government. I did not and do not know of any such individual.

While some of the inconsistencies in testimony of Cain and Wheeler concerning their meeting might reasonably be attributed to honest misunderstanding, it appears obvious that all of the differences cannot be so explained. The testimony of Cain would, if believed, tend to establish that Commercial Solvents was a coconspirator in Billie Sol Estes' illegal activities—a circumstance which might impair or destroy that company's preferred claim to most of Estes' assets. The testimony of Wheeler, if accepted, would tend to establish that Commercial Solvents had no knowledge or suspicion whatsoever that Estes was in any trouble and that Wheeler's visit was primarily a

social call. The subcommittee finds it difficult to believe that the testimony of either Cain or Wheeler was accurate in all respects. However, the only witness to their meeting—Billie Sol Estes—was unwilling to testify concerning it; even if he had been willing, in view of Estes' past record for false statements, it is unlikely that anything he said would have helped establish the truth.

Hiring of District Attorney

Although officials of Pacific Finance knew of Estes' fraudulent activities for several weeks before his arrest, Frank Cain testified that no report was made to any law enforcement officer. Cain said that R. B. McGowan, district attorney for Reeves County, was contacted; however, Cain told the subcommittee that the purpose of this contact was to employ McGowan. Testimony relating to the hiring of McGowan by Pacific follows:

Mr. NAUGHTON. When did you appoint Mr. McGowan?

Mr. CAIN. We appointed Mr. McGowan just after—let me see. We employed Mr. McGowan between February 23 and March 8. He was to procure for me analysis of all these mortgages that were purportedly filed in Pecos and these surrounding countries, from Oscar Griffin, and to do such other legal work and things that we wanted him to do.

He came to Amarillo and he was in those discussions.

Mr. NAUGHTON. Mr. McGowan is now serving as the county attorney or district attorney of Pecos?

Mr. CAIN. Yes. He is probably at this moment prosecuting Mr. Estes.

Mr. FOUNTAIN. Do you mean he is engaged in the prosecution of a man charged with a crime while he is at the same time representing Pacific in a civil matter?

Mr. CAIN. Yes, sir. And that is perfectly—that is done at all times in the country towns. The district attorney and county attorney carry on private practices 100 percent.

Mr. NAUGHTON. You weren't reporting it to him. You were going to him for help?

Mr. CAIN. Employing him. We weren't reporting to him, as a complaint, no, sir. We did not do that.

Cain subsequently gave the subcommittee additional details concerning the hiring of McGowan. According to Cain, the first contact his law firm had with McGowan was in late 1961 when Cecil Magee, a member of the firm, met with McGowan on a matter involving a claim of the Golden Chevrolet Co., of Monohans, Tex., which "had nothing to do with tanks, Estes, or Superior Manufacturing Co." After being called by Pacific on the Estes matter, Cain said:

On Saturday, February 24, 1962, I called Mr. Magee at his home and told him of my telephone conversation with Pacific on Friday, February 23. I asked Mr. Magee if he knew an attorney in Pecos, Tex., who could possibly represent Pacific locally in the Estes matter. Mr. Magee stated that he knew a Mr. McGowan in Monahans which is only a few miles from Pecos, and I suggested that Mr. Magee go to

Monahans on Sunday, February 25, and see if he could not employ Mr. McGowan to represent Pacific locally, which he did. At the time of my conversation with Mr. Magee, neither he nor I knew that he was also district attorney of Reeves County. However, Mr. Magee did learn later that Mr. McGowan was district attorney of Reeves County at the time the actual employment was made. At this particular time, Mr. McGowan could see no conflict of interests as he was being employed primarily to perform such duties as gathering information locally and relaying the same to this firm.

Cain gave the following description of the work done by McGowan for Pacific:

The extent of the services rendered by Mr. McGowan was gathering information and joining in the preparation and filing of some legal pleadings in courts.

I recall only two personal conferences with Mr. McGowan which I have confirmed with him. The first conference with him was in Amarillo on February 27 or 28, 1962, at which time he brought with him a list of chattel mortgages filed in the various counties covering anhydrous ammonia tanks for the month of January 1962. He had obtained the list from the newspaper reporter in Pecos. The other conference was with me in my hotel in Pecos, Tex., on the evening of March 14, 1962. We more or less exchanged information we each had gathered up to that date.

Cain told the subcommittee that shortly after State indictments were returned against Estes:

* * * Mr. McGowan called my law partner and said he felt he should withdraw from representing any of the finance companies, including Pacific, in the Estes cases. He explained that, while he had the right to continue the representation, he felt it inadvisable to do so. He then withdrew his representation in all matters dealing with the Estes matter.

Cain said that McGowan was paid approximately \$500 in fees and \$150 in expenses for his services.

ARREST OF BILLIE SOL ESTES

In his testimony, Frank Cain gave the following description of events which took place after his meeting with Maynard Wheeler:

I returned to Dallas in the afternoon of March 18, 1962, and the next time I saw—well, I got a call from Pacific Finance Corp. instructing me to call a meeting of the finance companies involved in the matter for a factfinding proposition, seeing just what was the situation with these other companies as far as Billie Sol Estes was concerned.

I did that and set the meeting for the 27th day of March in the Mercantile Bank Building.

On the 26th of March 1962, I again for the next time saw Mr. Estes, and we discussed in rather detail the plan that he had been formulating for paying finance companies off over a period of 10 years, is what he had in mind. This once again was the time when I really asked him what it was actually going to take to keep the grain storage tanks or elevators full and also to get these other—to get this other income, and once again he reiterated, from \$100,000 to \$200,000.

At that meeting I told Estes that I had read in the morning paper that the FBI was investigating him. He could not believe it. I know that he actually in his own heart, I felt, I was convinced, he did not believe it, because he said:

"I was investigated by the FBI in 1961 and they gave me a clean bill of health."

I did not believe that. But it subsequently turned out it apparently was true.

I told him that anyway, the FBI was investigating this situation now apparently, and if they came into the picture that there would be no use trying to even think about a plan because the companies were not going to work with him under that kind of cloud, and I had been informed by Pacific Finance Co. officials that under no circumstances would they work a plan with him.

He said, "If they are really investigating me, I can stop it."

And later in the afternoon he called me, later that evening, and that was on the 26th. He said:

"Don't worry about the investigation; I got it stopped."

Despite Estes' reassuring phone call, Cain said: "In something like 48 hours he was in jail."

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PREARREST INVESTIGATIONS

DEPARTMENT OF AGRICULTURE

Farm Storage Facility Loans

After the arrest of Billie Sol Estes, considerable public attention was focused on a 1961 investigation by the Department of Agriculture of Estes' purchases of pooled cotton allotments. The subcommittee found that this was only one of a large number of investigations by the Department of Agriculture and other Federal agencies involving Estes. The Department of Agriculture began investigating Estes' activities at least as far back as 1953.

During 1953, the Compliance and Investigation Division of the Production and Marketing Administration (which at that time performed the functions later carried on successively by the Commodity Stabilization Service and the Agricultural Stabilization and Conservation Service) conducted an investigation "to determine whether the farm storage facility loan program was being misused in Reeves County, Tex." The investigation was ordered as a result of a February 26, 1953, report by the PMA's audit division which called attention to apparent irregularities noted in an inquiry concerning delinquencies in payments on such loans.

The farm storage facility loan program had been initiated in 1949 "in order to provide for increased farm-storage facilities for farm commodities." Under the program, Government loans were made to purchasers for the construction of facilities for storage of 1 or more of 16 eligible agricultural commodities. A substantial number of applications for loans were received in Reeves County. Most of the earlier applicants indicated that loans were needed to build grain storage facilities; later applicants showed the need to be for storage of cottonseed.

According to a report made on November 24, 1953, the investigation disclosed that most of the storage facilities built with Government loans were not being used for the purpose stated on the loan application. The most common ineligible purpose for which the buildings were being used was the housing of Mexican farmworkers (braceros). One building was being used by Billie Sol Estes as a fabricating plant for construction work; another was being used by Fred C. Chandler, Sr., and Fred C. Chandler, Jr., to house an airplane and insecticides used in crop dusting.

A number of the buildings involved, according to the report, had been built by Billie Sol Estes, doing business as the Pecos Steel Co. There were complaints concerning the poor quality of buildings constructed by Estes from at least one purchaser, from competitors, and from a former associate in the building construction work. It was alleged that buildings constructed by Estes, while supposedly for storage purposes, were unsuitable for such use because they were

lightly constructed throughout and the walls were on the outside of the frame. As a result, storage of grain more than a foot or two in depth would push the walls out.

One purchaser of an Estes-built structure told the investigator that Estes had suggested he build the facility with Government financing and had been told by Estes that it was permissible to use it to house braceros. A former associate of Estes stated that Estes had used bracero laborers, paid 50 cents an hour, to construct Government-financed buildings in violation of the immigration laws. It was also alleged that Estes had failed to collect downpayments from purchasers, as required by regulations, and had inflated represented prices so that the Federal Government—which supposedly was lending money to cover only part of the cost—was actually financing the entire purchase price.

A number of the farmers for whom Estes constructed facilities financed with Government loans were, or later became, business associates of Estes. Some of them subsequently signed tank notes for him. Others were associated with Western Cottonoil (Anderson-Clayton), which financed Estes' cotton production.

In addition to the building used as an airplane hangar, Fred Chandler, Sr., had several other buildings constructed by Estes with Government financing. At the time of the investigation, the other buildings were being used to house bracero labor. While the investigation was still in progress, Chandler was appointed a member of the Texas State PMA Committee.

After completion of the first investigation, a second investigation was conducted in early 1954 to determine whether Estes had acted in collusion with PMA officials in obtaining contracts to build barns under the storage facility loan program, whether he had received favoritism, and whether he had given gifts or gratuities to the county office manager in return for favors.

According to a report on May 12, 1954, the investigation did not disclose any evidence of payment to the county office manager, or of assistance being given Estes in obtaining contracts by PMA officials. The investigation did contain a report of an interview with a former associate of Billie Sol Estes who described Estes as "definitely an unprincipled crook." It also disclosed that Fred Chandler, Sr., by then a member of the State PMA committee, had been furnished a copy of the November 1953 investigation report, which involved facilities built by Estes for Chandler.

A check by the investigator with the Retail Merchants Association in Pecos indicated that Estes was, at that time, representing his net income as approximately \$100,000 annually and his net worth as about \$700,000. The investigator was advised that many merchants reported Estes to be "slow pay" but because of his multiple business affairs he was seldom refused credit by local merchants.

The November 1953 and May 1954 investigation reports were later referred by the Department of Agriculture to the Department of Justice for consideration of possible action under the False Claims Act. However, the file was closed without action on July 30, 1957.

Irregularities in Transfer of Cotton Allotments

The 1961 investigation of Estes' purchases of pooled cotton allotments was not the first one involving alleged purchases of cotton allotments in west Texas. It was actually only one of a whole series.

of complaints, inquiries, and investigations relating to transfers of cotton allotments. In some cases, Billie Sol Estes' name was specifically mentioned; in others, allegations were made concerning buying of cotton allotments or related irregularities by "big operators" in Reeves and Pecos Counties and in other irrigated farming areas in west Texas.

Complaints concerning alleged irregularities involving transfers of cotton allotments started coming in almost as soon as it became known that allotments would be in effect in 1954 for the first time in several years. Possession of a large cotton allotment was a particularly valuable privilege in the newly developed irrigated areas of Reeves and Pecos Counties in west Texas. In that area, undeveloped land was plentiful and cheap; irrigation water could be obtained by drilling deep wells. However, cotton was the only crop which could be sold for enough money to justify the expense of irrigation and cotton grown on land without an allotment could not be legally marketed without payment of an extremely heavy penalty.

Under regulations in effect during the 1950's, cotton allotments were based primarily on the amount of previous acreage planted to cotton, although certain adjustments were permitted to meet situations which might result in unusual hardship. The regulations required that allotments be established for farms, rather than for individuals, and prohibited transfer of allotments from one farm to another under normal circumstances. If a farm consisted of two separate tracts of land operated as one unit the regulations permitted the cotton allotment to be used on any part of the farm. However, an individual owning two separate farms was not permitted to transfer an allotment from one farm to the other. A farmer who, because of lack of water or some other reason, decided not to plant all his cotton allotment could voluntarily release the excess acreage for reallocation by the county agricultural stabilization and conservation committee to other farms in the county whose operators desired additional allotments, and receive acreage history credit as if the allotment had been planted. However, the individual releasing the allotment could not specify where it was to be reallocated and the farm receiving it would receive no acreage history credit.

Although USDA regulations did not permit transfer of cotton allotments between farms, an operator who owned two farms might ask for a "combination" of the two into one unit. If such a combination was approved by the county committee, the cotton allotment for one tract could be used on the other. Before 1956, the regulations made no reference to the relative productivity of the two tracts of land which were to be combined but simply prescribed that the tracts to be combined must be operated as a single farm; whether or not the proposed combination met this test was to be determined by the county committee.

Minutes of a meeting of the Reeves County ASC Committee on February 15, 1954, indicate that Billie Sol Estes had already started to make use of combinations; although his purpose in doing so is not clearly shown in the minutes, subsequent events clearly establish that the purpose of most—if not all—of Estes' combinations and subdivisions of farm units was to obtain additional cotton allotment acreage. Minutes of the February 15, 1954, meeting also disclose

that Fred Chandler, Sr., an associate of Estes who was then a member of the State ASC committee, was at that meeting and spoke in favor of permitting combinations. The relevant portion of the minutes follows:

The combination and subdivision of farm units was brought up for discussion as Miss Smart advised a number of requests had been filed by Reeves County producers.

Mr. Fred Chandler, Sr., member of the State ASC committee outlined the advantages and disadvantages of the combinations of farms as one unit. His talk was in favor of the combinations, but did call to the attention of the committee that they should satisfy themselves that the combination would meet the regulations for combinations of farm units, that all requirements be met. That it should be a legitimate deal.

The committee decided upon recommendations of the lawyers in town to not require the contract leases for 3 years to be put on record, as the attorneys advised that it would just clutter up the farmers abstract in the long run. Judge Russell styled an affidavit for consideration of the committee that would be just as binding, or more so, if signed by the affiant. The affidavit was approved and accepted by the committee, and they voted to have each person combining a farm with cash leases involved sign one before the combination was approved by the committee.

Billie Sol Estes was present and presented his request for combination of farm serial No. 4027-Armstrong Bros., No. 7014-S. E. Turnell, and No. 7004-Billie Sol Estes, as one farming unit.

After a lengthy heated discussion a vote was taken on the combination, which was approved by the committee.

R. A. Moore, Jr., vice chairman, stated that as long as the combination requests were legitimate and above board he would vote for them, but if not, and some deals under the table were not being brought out in the open, he was against them, and would not approve the combination request.

Complaints About Allotment Transfers

On January 25, 1955, R. T. Price, then State ASC administrative officer for Texas, wrote a memorandum concerning "troublesome" 1955 cotton reconstitutions (subdivisions of farms) in Reeves County to F. M. Rhodes, then Director of the CSS Cotton Division in Washington. The exact nature of the problem involved is not clear from the information obtained by the subcommittee from USCA files but Price commented in his memorandum that "it is obvious that present procedures are not sufficient for these cases, particularly for the subdivisions of farm No. 9036." On February 15, 1955, Price was advised by Wilson C. Tucker, Acting Deputy Director of the Cotton Division, that—

It appears that the trouble is due to a very liberal adjustment for abnormal conditions adversely affecting plantings. We do not believe it advisable to amend our instructions for reconstituting farms at this time. * * *

Minutes of a meeting of the Reeves County ASC Committee on February 28, 1955, reflect that parts of farm No. 9036 were combined with land owned by Billie Sol Estes, but do not give further details concerning the significance of this incident.

Minutes of a meeting of the Reeves County ASC Committee on March 21, 1955, reflect six separate reconstitutions involving the Chandler Co. and one involving Billie Sol Estes.

According to a communication sent to Secretary Benson, 200 farmers in the west Texas Plains area (Bailey County) held a meeting on March 3, 1955, to discuss problems arising because of transfer of cotton allotments from dryland to much more productive irrigated acreage. An excerpt from the report of this meeting sent to Secretary Benson follows:

On March 3, 1955, some 200 Bailey County farmers met to discuss some of the inequities arising from certain practices permitted under present national ASC regulations.

The meeting was sponsored by the Bailey County Farm Bureau.

The primary purpose of the meeting was to discuss the combining of two or more farms under one worksheet as permitted by ASC regulations. The discussion was devoted principally to the practice of combining dryland farms with irrigated farms. The discussion centered around the following points:

1. The intent of the regulation.
2. How the regulation was being used.
3. The effects of this use in the county.
4. The effect that this use had on the individual farmers' production.
5. The effect that such combinations were having on national production and national allotments.

First, it was pointed out at this meeting that the privilege of combining farms was put in the ASC regulations primarily to enable the farmers to make maximum use of good soil building and conservation practices. However, in the application of this regulation, it was almost impossible for an ASC committee to draw a line and say whether a certain combination was for soil conservation purposes or whether it merely enabled the farmer to move an allotment from a low-producing farm to a high-producing farm. Because of this the gate was left wide open for almost all combinations.

What were the results?

First: During 1954 and up to the present time in 1955, there have been 5,955 acres of dry land combined with irrigated farms in Bailey County and all the cotton allotment on the dryland acreage moved to irrigated acreage when possible.

Second: This practice of combining farms to get more cotton acreage under irrigation is having a serious effect on some communities in the county. Since Bailey County is composed of a dryland area and an irrigated area, the combining of a dryland with an irrigated farm often results in a dryland farmer

being displaced by an operator residing in an irrigated area. This is posing a serious threat to the schools, school bus, and mail routes in the dryland area.

Third: When a cotton allotment is moved from a dryland farm to an irrigated farm or from a low-producing farm to a high-producing farm, the amount of cotton that would have been produced on that allotment is greatly increased and the farmer who has that allotment reaps the benefit and produces more than his fair share of cotton.

Fourth: The increased production resulting from such combinations increases total national production and results in an acreage cut for all cotton farmers next year. The farmers present indicated by discussion and vote that they thought that this was an unfair situation and that an attempt should be made to correct it.

They also indicated that they thought that this was not just a local situation but was a local situation that multiplied itself hundreds of times throughout the cotton-producing areas. Not only does it apply in dryland and irrigated combinations, but also in poor farm and fertile farm combinations.

Files of the Department of Agriculture also contain a March 21, 1955, letter written by a farmer from Muleshoe, Tex., in the southern part of Bailey County, in which he stated:

I am deeply concerned about the irrigated farmers north of town buying this dry land and transferring the cotton acreage to their irrigated land. They also create a wind erosion problem out here because they don't farm it, all they bought it for was the cotton acreage.

The Bailey County complaints, as well as a number of others received during 1955, were answered by the Department of Agriculture with a standard reply which indicated, in effect, that it was up to the county committee to determine whether two tracts could be properly combined into a single farm, thereby allowing dryland cotton allotments to be shifted to irrigated land. In its replies, the Department of Agriculture usually included the phrase "we are fully aware of the problems of the nature which you have raised." In one letter written in 1955, James A. McConnell, then Assistant Secretary of Agriculture, also stated that—

* * * we will take the problem under advisement with a view to taking such corrective measures as appear proper and feasible.

Issuance of Directive Tightening Allotment Procedures

On January 1, 1956, Fred Chandler, Sr.'s, term as a member of the Texas ASC State Committee expired. On January 6, 1956, the State committee issued a directive tightening procedures with respect to combination of tracts of land. In a letter written later in 1956, the CSS Cotton Division described the action taken as follows:

* * * the Texas ASC State Committee recognized the problem about which your constituent wrote and issued a

directive to the county committees so that they could avoid insofar as practicable the obvious abuses of the program by combining of different tracts of land into one farm. The pertinent part of this directive is as follows:

1. Ownership tracts

If a combination of two or more tracts of land under the same ownership is considered, each of these requirements must be satisfied before county committee approval is given on form T-220:

A. The two or more tracts of land must be operated by one entity.

B. The two or more tracts of land must be adjacent or nearby to the extent that labor, equipment, and machinery are used interchangeably substantially throughout the growing season for crops.

C. The average productivity of the cropland in the several tracts must be substantially the same except where the tracts are all adjacent or contiguous, or it must be shown to the county committee that the combination is not requested for the express purpose of transferring crop allotments from poor land to highly productive land.

Notwithstanding the State committee directive, the Department of Agriculture continued to receive letters complaining of irregularities in the transferring of acreage allotments in Reeves and Pecos Counties. In October 1956, H. H. Marshall, an administrative officer with the Texas State committee, received a report alleging that—

some cotton farmers in Pecos and Reeves Counties have been "buying" cotton allotment acres from farmers in other counties, for which payments up to \$50 or more per acre are made.

One such sale was reported to have been made by a farmer in Hill County, Tex. In response, Marshall stated in a letter on October 18, 1956, that—

We do not permit the combination of two or more tracts of land for treatment as one farm unless the two or more tracts of land are adjacent or nearby to the extent that they can be farmed from one headquarters with the same labor and equipment. Therefore, a farm in Hill County, Tex., would never be combined with a farm in Pecos County, Tex., as was stated in your letter.

An unsigned letter sent to Secretary Benson in November 1956, complained about "big promoters" breaking out new land and obtaining cotton allotments for it. The letter, which suggested an investigation of the situation in Reeves and Pecos Counties, enclosed a copy of a news article relating to discussion of cotton allotment transfers at the Texas Farm Bureau convention. The article follows:

FARM BUREAU IS OPPOSED TO ALLOTMENT TRANSFERS

The Texas Farm Bureau finished its 23d annual convention without going into the touchy subject of price supports.

It's one on which there is violent disagreement among Texas farmers.

But the farmers did pass, with some opposition, a resolution opposing the practice of transferring cotton allotments from one farm to another. This practice is widely used in irrigation areas, especially by the big growers.

Such transfers are OK under certain circumstances, but as they are most often used, they go against the interest of the small-acreage, old-line dryland cotton farmer, who sees his acreage allotments whittled a little more each year, while irrigation allotments continue to increase farther west.

The transfer of allotments from one farm to another is within the letter of the law but is often against the spirit of it.

Many big operators use it to transfer all their cotton acreage to one place on which the soil is best and the irrigation system best developed. Often they go through the motions of breaking out new land for no other purpose than to obtain a new allotment on it and transfer it to their better developed acreage.

Another common abuse, evidently legal, has been for such farmers to lease land on which wells have gone salty or dry, fertility has been lost, etc., just so long as the cotton allotment remains intact. Then this allotment is transferred to the man's own place. Often the lease on such land is very small because the only value is in the allotment itself.

The result is that the big operators' allotments grow bigger while the smaller operators' allotments grow smaller. The big irrigated farms grow far more cotton than comparable acreage on a dryland farm. They continue to add to the cotton surplus at the expense of the long-established dryland grower to whom cotton means livelihood, not just an investment or speculation.

On December 4, 1956, G. C. Carothers, Texas ASC State administrative officer, sent a memorandum to Mrs. Ruth Minear, county office manager in Pecos County, regarding the unsigned letter. After telling Mrs. Minear that—

"We do not plan to make any investigation in either Pecos or Reeves Counties of the matters complained about in the letter to the Secretary," Carothers stated: "Nevertheless, I will appreciate having a report of any information that is available to you or to members of your county committee on the subjects brought up in the letter. If it can be determined who wrote the letter to the Secretary, his or her name and address should be included in your report."

Documents in USDA files do not indicate that the Pecos County committee was able to ascertain the identity of the informant who had complained about its activities. An additional letter was written to Secretary Benson in early 1957 by a Hockley County man who said he had been refused permission to combine two farms 3 miles apart because one was irrigated and the other was not. The Hockley County man stated that he "knew for a fact" that farmers in Reeves

and Pecos Counties were buying allotments from farmers whose water supply had failed and moving them to irrigated areas. He alleged that the Reeves and Pecos Counties committees were approving such transfers without question, even though some of them involved tracts 60 to 70 miles apart. The Hockley County man received a letter in reply from the Texas State committee indicating that the definition of a farm was necessarily broad and that there had been problems connected with it. However, so far as the subcommittee was able to ascertain, no investigation of the situation was made at that time.

Investigation of Pecos County Allotment Irregularities

After additional complaints were received in early 1958, an investigation of allotment irregularities was finally conducted in Pecos County, but not in Reeves County. The investigation was made by the CSS Compliance and Investigation Division at the request of Clay H. Stackhouse, Assistant Deputy Administrator for Production Adjustment in the CSS Washington office. Its stated purpose was "to determine if, since 1954, cotton acreage allotments had been sold or illegally transferred through irregular combinations of farms or otherwise." At the suggestion of Stackhouse, the investigator began his inquiry with a visit to the offices of the Texas State committee. The investigator gave the following report on this visit:

In the absence of G. F. Osborn, administrative officer, Texas State ASC office, College Station, Tex., H. H. Marshall of the Programs Division of that office advised that the requested survey was not based on specific complaints, but that Pecos, Hudspeth, Martin, and Bailey Counties, Tex., were selected by Forrest Beall, southwest area director, CSS, for this spot check when he was in College Station near the first of 1958. Beall had told the State committee of disclosures of transfers of cotton allotments in Arizona, and for a spot check of west Texas he (Marshall) had recommended these four counties, and had recommended Pecos County because three or four recently developed areas irrigated from new wells had taken the water from two other areas previously irrigated by springs, leaving these areas with allotments but no water.

Marshall further advised that much of the unrest in west Texas was due to the misunderstanding or misapplication of the definition of a farm, and that the State committee felt that they had now stopped the combining of irrigated and dryland farms and other questionable combinations, and was opposed to this investigation. * * *

The investigator subsequently visited the Pecos County ASC office, where he talked with the office manager. The office manager, Mrs. Ruth D. Minear, advised that, after it was known that acreage allotments would be in effect in 1954, "numerous requests were received to allow combinations of farms, both intercounty and intracounty, for the purpose of transferring cotton allotments from areas having little irrigation water to areas where there was sufficient water to raise a cotton crop." Mrs. Minear also advised that from meetings

with program specialists and the district field officer, she and the county committee obtained the impression that the regulations "should be liberally interpreted."

According to the report, Mrs. Minear told the investigator that—

* * * many producers, since 1954, have received lease money based on their allotted cotton acres in amounts which total more than the value of the land leased * * *.

The investigator summarized further results of his investigation in Pecos County as follows:

A check of cotton allotments of 10 farms not involved in reconstitutions, 2 allotments in each of the years 1954 through 1958, failed to show any transfer of allotments or other irregularity.

During this 5-year period there were from 190 to 219 upland cotton farms in the county, and there were a total of 164 combinations and 94 subdivisions, or a total of 258 reconstitutions of such farms.

Failure of old established sources of surface irrigation water, such as Red Bluff Reservoir which served parts of Pecos and three other counties and Comanche Springs in Pecos County, resulted in requests for farm combinations up to distances of 50 miles, for the purpose of transferring cotton allotments from areas previously watered from such sources to newly established pump irrigated areas.

In making combinations of unowned tracts, the county ASC committee required 3-year written leases and certifications by the producers that the tracts were considered adjacent or nearby, that their productivity was substantially the same, that they were to be operated from one headquarters by one producer as a unit with respect to labor, equipment, and crop rotation, and that the purpose of the combination was not to transfer allotments.

Of 10 combinations selected for checking, 9 were based on leases and 1 on a deed which proved to be valid. In five of the lease combinations the consideration was based on the allotted cotton acres, in six of the combinations there was no use made by the lessee of the leased land, and in three combinations the leased land was occupied and used by the lessor under a separate agreement entered into by the parties to the lease. Six producers advised that four of the lease combinations amounted to a sale of the cotton allotment at prices to \$60 per allotted acre.

Involvement of Fred Chandler

Some allotments, according to the investigation report, had been transferred across county lines from an adjoining county. One of these cases involved Fred Chandler, Sr., a former member of the State committee. A man living near Barstow, Tex., in Ward County, gave the following account of the transaction involving Chandler:

In 1956 I had a cotton allotment of about 169 acres on my farm in Ward County, but due to lack of water from Red

Bluff Reservoir I was unable to plant this allotment on my farm which consisted of about 410 acres. I was in debt and sold my cotton allotment to Fred C. Chandler, Sr., for \$60 per acre because I had to either sell it or lose it. Chandler paid me \$10,152 in each of the years 1956, 1957, and 1958, and a lease for 3 years was drawn up as required by the ASC committees of both Ward and Pecos Counties, to which latter county Chandler transferred the allotment. * * *

Chandler has not done anything on my farm, and for his rental he received only my allotment of cotton. * * *

The report also described another incident in which Chandler had apparently intervened with Mrs. Minear to ask that an allotment transfer from Ward to Pecos County be made.

Investigation of Allotment Irregularities in Hudspeth County

Hudspeth County, which is located between Pecos and El Paso, was picked as the location for another Compliance and Investigation Division survey of allotment irregularities in 1958. As with the investigation in Pecos County, the investigation was made at the request of Stackhouse, and the Texas State committee was opposed to the investigation. The investigation was not based on specific complaints, but was in the nature of a survey "to determine if, since 1954, cotton acreage allotments had been sold or illegally transferred through irregular combinations of farms, or otherwise" in Hudspeth County.

According to a report filed on September 5, 1958, the investigation involved examination of 11 combinations of tracts of land, which had been accomplished under 17 separate leases. The investigator reported that none of the leased land was farmed or used in any way by the lessees. The report contained signed statements from several of the lessees declaring that the cotton allotments on the leased land were all they wanted and all they received. The lessees stated that they had paid from \$25 to \$55 per cotton allotment acre. Some of the tracts of land supposedly being operated as part of the same farm were as much as 140 miles apart. At least two of the lessees had never seen the land they were supposedly leasing and did not know where it was located.

According to his report, the investigator was told by a member and by a former chairman of the Hudspeth County committee in separate interviews that—

* * * they knew that they were liberally interpreting that instruction when they approved these combinations. However, they also knew that such farm combinations were being made, in other counties in west Texas and were being approved by the State committee.

The two men also advised the investigator, according to his report, that the Hudspeth County committee had been greatly influenced by an instance in 1954 involving Joe R. Hoover, who operated under the name H-H-H Farm. According to their story, Hoover wanted to transfer an allotment from a farm in Hudspeth County to cropland in El Paso County 40 miles away, but the El Paso County committee did not want to permit it. The two men said that Fred Chandler, Sr., then a member of the State committee, had instructed the El

Paso County committee to allow the transfer. An April 3, 1954, letter from Chandler to the El Paso County committee chairman was located by the investigator. The letter read as follows:

You need not hesitate to authorize this application to combine these farms. All the requirements are met in this application. There is no need to bother the State committee with this.

Any others who are similarly situated (as long as the county committees cooperate) should be permitted to combine these farm tracts into one farm * * *.

Lack of Prosecution

After completion, the report of the Pecos County allotment investigation was submitted to a CSS Review Committee in Washington. In a summary prepared on September 24, 1958, the Review Committee stated, concerning the report:

The Cotton Division advised that from the facts disclosed by the report it is evident that the Pecos ASC County Committee must have been aware that some of the farm combinations involved were not strictly in accordance with regulations, but that the county committee did not look behind the representations and certifications made by the growers. The county committee should have denied many of the combinations which were approved. The Cotton Division points out, however, that Fred Chandler, Sr., who was a member of the Texas ASC State Committee at the time the irregular combinations were made, advised the county committee that such combinations were acceptable. * * *

The Review Committee recommended that the Texas State office should review all combinations in Pecos County from 1954 through 1958 and correct all not properly constituted. The Review Committee also recommended that —

Due to the special circumstances which prevailed in this section, the State office should review all future constitutions more carefully in order to assure that they are strictly in accordance with regulations.

Later on September 24 the report was sent to the Office of the General Counsel—

* * * for review and any appropriate legal action based on possible false certifications made by the producers in this case. * * *

The subcommittee's investigation did not indicate that the Texas State committee reviewed Pecos County combinations as recommended by the Washington Review Committee. The Office of the General Counsel apparently decided around May 1959 not to send the report to the Justice Department for consideration of possible prosecution.

The report on allotment irregularities in Hudspeth County was sent to the Justice Department by the Department of Agriculture in February 1959. The case was closed without prosecution by the Criminal Division of the Justice Department on March 3, 1959.

Civil aspects of the case were closed without action by the Justice Department's Civil Division on July 10, 1959.

Complaint Involving Billie Sol Estes

Additional allegations were received by the Department of Agriculture in June 1960 which specifically involved Billie Sol Estes. A Pecos County farmer advised the Department of Agriculture that earlier that year—

* * * I was offered a 200-acre cotton allotment by Gene Cartledge of Alpine, Tex. Cartledge had sold some land to the National Park Service in Brewster County, Tex., and was allowed to move his cotton allotment anywhere in the United States by a special rule. I wanted to buy this allotment, but the county office told me that I could not move it to a farm which already had a cotton allotment. The result was that Cartledge finally sold the allotment to Fred Chandler of Fort Stockton, who already had several thousand acres of allotments. Chandler merely cleared up some more land and increased his total allotment still more.

The Pecos County man also complained that his allotments had dwindled year by year while those of Billie Sol Estes and other large operators had grown. As an example, he cited Agriculture, Inc. (owned by Estes), which "grew no cotton at all until 4 or 5 years ago, and now have about 900 acres." * * *

On July 5, 1960, the Compliance and Investigation Division asked CSS, Washington, whether an investigation should be made of the complaints of the Pecos County man.

On September 27, 1960, CSS, Washington, asked the chairman of the Texas ASC State Committee to—

Please have someone from the State office thoroughly investigate the allegations and correct the situation if true. If a formal investigation by the Compliance and Investigation Division is needed, you may request such an investigation.

The subcommittee's search of Department of Agriculture files did not disclose any reply to the request for an investigation, or any indication that an investigation was made.

Other Irregularities Involving Estes' Farming Operations

The subcommittee found evidence that other irregularities involving Estes' farming operations came to the attention of the Department of Agriculture long before his arrest, but that little or no action was taken concerning them.

In 1957, Bobby Frank Estes—undoubtedly acting on behalf of his brother—filed application for a "new grower" allotment, representing himself as part owner of approximately 7,200 acres of cropland in Pecos County. Under a formula then in effect, a "new grower" could obtain a cotton allotment based on a percentage of the amount of land he had available for crop production. Undeveloped land, which was not suitable for crop production, was not considered in determining the size of the new grower allotment. Bobby Frank Estes' application was approved for an allotment of 402 acres, based on cropland of around 7,200 acres.

According to an investigation made by the Department of Agriculture after Billie Sol Estes' arrest, no attempt was made by the Pecos County committee in 1957 to determine whether or not Bobby Frank Estes actually had nearly 7,200 acres of cropland. The explanation given for this failure by the county office manager, Mrs. Ruth Minear, was that—

there was neither money nor manpower available to make such an inspection. If one farm was inspected, we felt that all of the new grower farms should have been inspected. I made a request to the State ASCS office for funds to make an inspection of the farms, but I was informed by (I think) R. H. Nelson that no funds were available. While we felt that the Estes farm was probably out of line we also believed that it was quite possible that some of the other new growers were also out of line. We (the county committee and I) did not feel that we had any justification in singling out the Estes farm for inspection.

In 1958, the Pecos County committee did visit the land being farmed by Bobby Frank Estes and found that it had only 630 acres of cropland, rather than the nearly 7,200 claimed. However, the committee apparently took no action to request any further investigation for the purpose of determining whether Bobby Frank Estes should be prosecuted for filing a false application. Furthermore, the committee did not even take action to set aside the allotment acreage obtained by misrepresentation.

After obtaining the 402-acre allotment for 1957, Bobby Frank Estes actually planted 584.5 acres of cotton that year. According to reports from the Pecos County committee, he was notified of the excess acreage and plowed up the cotton on it.

In April 1957, the Department of Agriculture received a letter describing in some detail alleged irregularities in the soil bank program in Reeves County. The letter stated that cotton allotment acreage in Ward and Loving Counties (which were adjacent to Reeves County but had a much lower average cotton yield per acre) which would qualify in those counties for a soil bank payment of around \$45 per acre was being moved to Reeves County where it would qualify for payment of as much as \$150 per acre. This device, according to the letterwriter, was particularly useful for producers with a limited water supply, since the scheme could be carried out without depleting their water supplies. It was also alleged in the letter that a member of the county committee had obtained allotments from three different farms in the past 3 years. The subcommittee's investigation indicated that these allegations resulted in a small amount of correspondence, but no investigation.

The subcommittee's investigation did not cover matters relating solely to Billie Sol Estes' transfers of pooled cotton allotments in late 1960 and 1961, since this subject was being examined by the Senate Committee on Government Operations. An investigation of these transactions by the Department of Agriculture begun in 1961 had not been completed at the time Estes was arrested.

Investigation by AMS Internal Audit Division

In September 1961, as has been previously discussed in the section of this report dealing with Billie Sol Estes' storage operations, other

warehousemen in the west Texas area called attention to the fact that Dun & Bradstreet reports on Billie Sol Estes indicated that chattel mortgages totaling more than \$7 million were not fully shown on Estes' financial statement. As a result, Washington officials of the AMS Warehouse Act Branch discussed the allegation with Washington officials of the AMS Internal Audit Division and it was decided that an investigation of Billie Sol Estes' financial status would be made.

On October 11, 1961, a memorandum was sent from the Washington office of the AMS Internal Audit Division to C. C. Perry, auditor in charge of the Dallas suboffice. Perry assigned the case on October 16, 1961, to Richard E. Turner, who was an investigator rather than an auditor. In testimony at subcommittee hearings, Turner gave the following explanation of the reason he was selected for the assignment:

Mr. NAUGHTON. Mr. Turner, why was the Estes investigation assigned to you as an investigator, rather than to an auditor?

Mr. TURNER. I asked Mr. Perry that question after Mr. Estes' arrest. He indicated that no other auditors were available at that time. No auditors. That is all that I know.

Mr. NAUGHTON. This essentially—

Mr. TURNER. Normally I do not question—when investigations are assigned to me I don't question why.

Mr. NAUGHTON. Actually this investigation revolved primarily around an examination of financial statements, didn't it?

Mr. TURNER. As I understand the investigative assignment, Mr. Naughton, this—and I would not term, I would not even term it an investigation—as I understand the assignment this was to be a preliminary inquiry to attempt to resolve certain discrepancies with respect to notes payable shown on Dun & Bradstreet reports in the file, and the notes payable on the financial statement prepared by Mr. Jackson.

Of course, if we had received information from the CPA that would not enable us to resolve the discrepancy in the notes payable, no doubt there would have been a full-scale investigation into the financial structure.

But I felt when the case was assigned to me, competent to compare figures furnished by the CPA.

I knew that we have in the Dallas—we had in the Dallas office at that time five auditors and, should the need arise, I could always get their advice as to any questions concerning financial statements.

According to testimony at subcommittee hearings, cases which were to be given priority treatment receive this designation from the Washington office of the AMS Internal Audit Division. No priority was assigned to the Estes case.

Although C. H. Moseley, Director of the Dallas ASCS Commodity Office of the Department of Agriculture, had sent the information

resulting in the investigation to Washington, the information sent by AMS to its Dallas suboffice did not indicate this fact. Consequently, even though Moseley's office was nearby, Turner did not contact him.

Turner described his first steps in the investigation in the following testimony:

Mr. Perry gave me the file in the Estes matter on about October 16, 1962. I examined the file and noted that there were certain Dun & Bradstreet reports in the file along with the financial statement prepared by the CPA, Mr. Winn Jackson, dated December 30, 1960—December 31, I am sorry—and as I understood the investigative assignment, I was to make a preliminary inquiry into the notes payable shown on the financial statement prepared by Mr. Jackson.

The memorandum from Mr. Cleveland to Mr. Perry, dated October 11, 1961, indicated, and the files back that up, that the Dun & Bradstreet reports were of an older age than the financial statement, and I was to—it was suggested that I contact Mr. Estes and obtain permission from him to examine the working papers of the CPA to see if I could resolve the discrepancies in the amounts of the notes payable shown on the various Dun & Bradstreet reports, which were of an older date than the financial statement.

On October 24, I visited the office of Mr. Estes at Pecos and interviewed Mr. A. B. Foster, Jr., the office manager, who indicated that Mr. Estes was out of the city. Mr. Foster inquired my reason for business with Mr. Estes. I explained to him the problem and Mr. Foster told me if I would tell him what information I needed from Mr. Jackson, that he would obtain it for me and forward it to me in Dallas within a week or 10 days.

Before I left Mr. Estes' office I telephoned the Dallas suboffice and discussed my conversation with Mr. Foster with Mr. Perry, the auditor in charge, and indicated to him what I have just told you. He asked me to—I asked him if it would be all right to handle it that way and he said make sure that the information is furnished on the letterhead of the CPA. I asked Mr. Foster if he would furnish the information on the letterhead of the CPA, and he indicated that he would. I left his office.

Turner briefly mentioned what he had done in the Estes case, according to his testimony, in conversations concerning other matters with C. G. Cleveland, Chief Investigator in the audit unit's Washington office in November and early December. Turner took no further action until February 8, 1962, when he made a second visit to the Estes office while passing through Pecos on other business. Turner gave the following explanation of the reason for the long delay:

During the entire period, if I might point out, from October 24 until February 8, the dates between the two visits to the Estes office, all of the investigations that I was engaged in conducting were specifically given to me as priority investigations except for the 15 marketing order investigations that I indicated I was conducting in south Texas during the first week of February.

During this period, I might add, from October 24 until February 8, during the past few days I have examined my daily reports submitted to the Dallas office and the Atlanta area office and I find that during that 14-week period I worked, in addition to the regular working hours that I am responsible for, a total of 139½ hours overtime, uncompensated. I expected nothing for it; I volunteered it.

I mention that only to point out that I have quite a bit of interest in my work.

On February 22, 1962, Turner was requested to give high priority to an investigation involving a cotton warehouse. Since this case was not completed until May, he did nothing further on the Estes matter.

The subcommittee found no indication that any of his superiors ever made any special inquiry of Turner concerning the progress of his work or suggested that it should be given a higher priority. It should be noted that the chain of command then in effect was hardly one which could have been expected to bring the most expeditious and efficient handling of investigative work. Although Turner had been assigned the case by Perry, who headed the Dallas suboffice, in response to instructions from Washington that the investigation he conducted, Turner himself reported neither to Dallas nor to Washington but to Atlanta. Turner told the subcommittee that his report, if one had been completed, would have been sent to Atlanta without being reviewed by Perry. Further testimony on this point follows:

Mr. NAUGHTON. And the reason for this was because you were an investigator and he was an auditor?

Mr. TURNER. Yes, sir.

Mr. NAUGHTON. And the headquarters for the investigators, your supervisor, was in Atlanta?

Mr. TURNER. Yes.

Mr. NAUGHTON. And that was the man to whom you reported and not Mr. Perry, even though Mr. Perry was supposed to be in charge of the investigation?

Mr. TURNER. Yes, sir.

Mr. NAUGHTON. Has that been changed?

Mr. TURNER. Yes, sir.

Mr. NAUGHTON. Do you now report directly to Mr. Perry?

Mr. TURNER. Yes, I do.

Mr. NAUGHTON. In the contacts between the Dallas office and Washington, are they now routed through Atlanta or are they going to come directly to Washington?

Mr. TURNER. They will come directly to Washington.

Other Department of Agriculture Investigations

Several investigations were made by the Department of Agriculture of alleged shortages or deterioration of Government-owned grain at storage facilities owned by or related to Billie Sol Estes. A special warehouse examination was conducted at United Elevators Plainview warehouses in September 1961 after rumors of out-of-condition grain reached C. H. Moseley, head of the Dallas Commodity Office, through Estes' competitors. An investigation of shortages of CCC-owned grain sorghum at the Farm Grain & Warehouse Co. in 1960 was held in early 1961, with a supplemental investigation to obtain additional

information taking place thereafter. Estes was listed as a stockholder of Farm Grain at the time of the alleged shortage; the facility was placed on the CCC suspended list in late 1960, but was reinstated after a change in management under which Estes became president of the firm.

Billie Sol Estes publicly represented himself as part owner of Kermit Dyche Warehouse, Inc., Fort Stockton, Tex., although his exact interest in this firm is not clear. An original and supplemental investigation of a shortage of CCC-owned sorghum and barley were conducted in early 1959. During the investigation, Kermit Dyche, president of the firm, told USDA investigators that he had transferred half the capital stock to Estes in payment of a debt. A \$66,207.53 claim against Kermit Dyche Warehouse was referred to the Department of Justice in May 1959 and is believed to have subsequently been settled for \$54,500 by that Department.

Another investigation involving Estes and Kermit Dyche was also conducted by the Department of Agriculture in early 1959. According to a report filed on February 19, 1959, the investigation disclosed that 400 acres of cotton had been produced by Dyche's son-in-law in 1958 on land with an allotment of 2.1 acres. Of the 672 bales of cotton produced, 314 bales had been ginned in the name of Billie Sol Estes without the necessary penalty being paid.

Dyche alleged—and Estes denied—that Estes had promised to let him market the cotton in Estes' name as part of the consideration for transfer of an interest in the Kermit Dyche Warehouse to Estes. There were indications in the report that Dyche had expected to receive a new grower allotment of 200 acres or more when the cotton was planted. Although Dyche was liable for a penalty of many thousands of dollars for illegal marketing of cotton, the investigation report indicated that Dyche was hardly deeply concerned. The investigator quoted Dyche as saying:

He was not worried about the Government pushing him for the marketing penalty as they would proceed about as follows: The State committee, after receiving report, would write him demanding the penalty. He wouldn't answer the letter. Later they would refer his case to the legal section, and they would write a demand letter. He would ignore that letter. Later the legal section would refer his case to the U.S. district attorney, and a year or two later they would file civil suit. On trial date, he would then ask for a compromise settlement.

In February 1960 a penalty of approximately \$37,000 was collected from Dyche by withholding that amount from storage payments due Kermit Dyche Warehouse. Later in 1960, criminal aspects of the case were closed without prosecution. According to a report of an investigation conducted after Estes' arrest, the cotton marketing violation involving Dyche was discussed by the Texas State committee. Billie Sol Estes' name was brought up in relation to the matter, and the committee was advised by a member from west Texas that Estes had a poor reputation in Castro County because of dealings there before he moved to Pecos.

On February 23, 1962, the New Orleans ASCS Commodity Office was sent copies of the first two tank stories from the Pecos Independ-

ent by a man from the Pecos area. As a result, an investigation was requested by the New Orleans Commodity Office to determine whether the signing of tank mortgages by cotton producers might have any adverse effect in connection with cotton pledged by these producers to secure CCC loans. An investigation conducted by the Compliance and Investigation Division, ASCS, in the Pecos area disclosed considerable evidence of the true nature of Estes' tank dealings, but there was no indication that the signing of tank mortgages by producers affected the cotton pledged to CCC in any way. A report on the investigation was filed on April 2, 1962. Since Estes had been arrested by then, no action was taken concerning the report.

Investigations conducted after Estes' arrest raised questions concerning possible additional irregularities involving cotton marketing, the feed grain program, the soil bank program, and loans obtained from the Farmers Home Administration.

INTERNAL REVENUE SERVICE

Investigation of 1951-53 Tax Liability

The subcommittee's investigation disclosed that the Internal Revenue Service began taking official notice of Billie Sol Estes at least as early as 1955, when it conducted an investigation of his income-tax liabilities for the years 1951 through 1953. A summary of the findings of this investigation is contained in a letter from William T. Hughes, special agent, Intelligence Division, San Antonio, to the Chief of the Intelligence Division at Austin on February 3, 1956. In the letter, Hughes gave the following background information concerning Estes:

Mr. Estes was nationally proclaimed to be Pecos' first millionaire. This investigation was commenced as the result of a financial statement which he filed with the Security State Bank of Pecos on December 8, 1953, showing his net worth as of that date to be \$743,679.76. Mr. Estes explained to the special agents who conducted the preliminary inquiries in the case that his liabilities exceeded his assets in 1950. For the years under consideration, he reported a net loss.

Mr. Estes is 30 years old, married, and the father of four children. He was reared in Clyde, Tex., graduated from high school, and served in the merchant marine.

He moved to Pecos in January of 1951 and commenced irrigated farming operations on borrowed money. Since that time his shrewd promotional schemes and wild trading of diversified financial interests have made his career a fantastic story. Because of his numerous and widely publicized financial interests, as well as his religious and political affiliations, he was honored by the National Junior Chamber of Commerce as one of the 10 most outstanding young men in America for 1953. The fact that he is a most unusual young man may be further predicated upon the fact that he has been on the verge of bankruptcy since commencing operations in early 1951. He is reputed publicly to be Pecos' first millionaire and was recently characterized as

the "Powerhouse of Pecos" in an article by Author Karl Detzer published in the October 1955 issue of American Mercury magazine.

Hughes indicated, however, that the IRS investigation had disclosed a different picture of Billie Sol Estes. According to Hughes:

* * * our investigation, which was necessarily detailed due to the scope of his transactions, disclosed and Mr. Estes stated to us on several occasions that instead of being a millionaire he actually owed a million dollars or more. Mr. Estes explained to us that he purposely promoted his financial condition as being one of a liquid and profitable status in order that his lines of credit would not be curtailed. He said he could not have afforded for anyone except his legal counsel to know of his desperate financial straits; otherwise his creditors would have thrown him into bankruptcy.

Although Billie Sol Estes, according to Hughes' letter, told Internal Revenue agents that his liabilities exceeded his assets in 1950 and reported a net loss on tax returns for the years 1951 through 1953, a financial statement filed by Estes with the Security State Bank of Pecos on December 8, 1953, showed a net worth of \$743,679.76. Estes' explanation of this discrepancy was reported by Hughes as follows:

Mr. Estes and his accountant acknowledged that the asset valuations on the balance sheet were grossly inflated and that the statement was of no accounting value and had been submitted only for credit purposes. Estes said he submitted the inflated balance sheet only in an attempt to get more credit.

In his letter, Hughes listed 10 different business names under which Estes operated, either individually or in partnership with others. He then gave details of the manner in which Estes managed to deceive his creditors concerning his true net worth:

The transactions of all of these enterprises were grossly intermingled. Funds were transferred from one business to another or from one bank account to another almost continuously. Mr. Estes said these cash and loan maneuvers and manipulations were necessary in order to preclude his financiers or creditors from knowing he was bankrupt or on the verge thereof. He acknowledged during the last phases of this investigation that legal counsel had advised him to take bankruptcy in 1953 but that he had refused to do so. He and his accountant are still dubious over whether or not he will be able to salvage ownership of his numerous enterprises.

As a result of the investigation, Hughes concluded that criminal prosecution for tax fraud was not warranted. However, it was determined that Estes owed about \$8,000 in taxes for 1952 and 1953. Estes was also assessed around \$1,500 in negligence penalties.

Return for 1954 Examined

Later in 1956, Internal Revenue Agent Herman Barkley examined Estes' tax return for 1954. The examination showed that Estes had a net loss of approximately \$39,000 for that year. Part of this tax

loss was carried back to wipe out the \$8,000 tax liability assessed against Estes earlier in 1956 for the years 1952 and 1953. After completing his audit, which required some 72 hours of work, Agent Barkley filed a report on August 10, 1956. Barkley concluded the report by stating:

* * * I am unable to express an opinion as to the fairness of the accompanying financial statements. In order to express an opinion, it would have been necessary to spend a greater amount of time in making the audit. There is every possibility that the taxpayer has commitments and accounts payable that were not considered in making this report. However, every possible means was used to get the report as correct as possible with the use of the limited scope and time limit involved.

The accountants have been instructed to set up general ledger controls and proper records for the taxpayer. The income tax returns for the year 1955 have not been filed. The taxpayer has an extension on the year 1955 until October 15, 1956, for the filing of the year 1955. When the returns for the year 1955 have been filed they should be sent to the field for a complete examination.

After a further extension of time for filing, Estes' 1955 tax return was finally received by Internal Revenue Service. The return reported a net loss for the year 1955 of \$40,833. Despite the recommendation made by Agent Barkley, a complete field examination apparently was not made.

Subsequent Returns Not Examined

After filing his original tax return for 1955, Billie Sol Estes filed an amended return showing a loss of \$122,637 instead of the originally reported figure of \$40,883. For 1956, Estes filed a return showing taxable income of \$105,598.92; Estes offset this reported income with a net operating loss of that amount carried forward from 1955. For the years 1957 through 1960, Estes reported losses ranging from \$332,811 to \$1,189,770. Estes' tax return for 1961 had not been filed at the time of his arrest.

For the years 1957 through 1960, Billie Sol Estes reported net losses totaling more than \$3 million on his income tax returns. During the same period, Estes built millions of bushels of grain storage facilities and acquired at least a dozen new business enterprises. He also acquired a private plane, lived on an extremely lavish scale and printed pamphlets extolling his purported financial success. Despite these outward indications of wealth, no examination of Estes' tax returns for this period was made prior to his arrest. Some of Estes' returns were considered for examination but, according to an IRS agent stationed in Pecos at the time, in view of the large operating losses shown it was decided that "the returns were not worth an examination." The Austin District of IRS stated that:

In view of the fact that these returns showed substantial operating losses with no profit years to absorb the losses, these returns were surveyed before examination because of the lack of tax potential.

The subcommittee asked the Internal Revenue Service what procedures, if any, it had in effect to detect situations in which in-

dividuals who do not pay taxes live on a lavish scale. In response, IRS advised the subcommittee that:

The Internal Revenue Service has procedures for detecting situations of the type where the taxpayer lives in a grand manner while paying no taxes. The Austin District has a procedure calling for all field personnel to be on the lookout for, and to forward by use of Information Report Form 917, newspaper items and other news media information appearing in their locality indicating wealth or unusual financial transactions. This resulted in the initial investigation of Estes. They also have written procedures providing for the reporting of all information furnished any employee by informers and for the evaluation of this information.

Despite the existence of these procedures, however, IRS told the subcommittee that:

* * * The Austin District was not aware of any publicity in the Pecos area in recent years about Estes spending money lavishly, prior to the time the story broke nationally * * *.

(Tables showing financial data submitted by Billie Sol Estes to the Internal Revenue Service and to the Department of Agriculture appear on pages 430-431 of the appendix.)

Incidents in 1961 and 1962

In October 1961, an employee of the Dallas ASCS Commodity Office noted that financial statements submitted to that office by Billie Sol Estes indicated that Estes had increased his net worth from around \$6 million in June 1959 to more than \$15 million in June 1961. Since this achievement seemed unlikely under prevailing high income tax rates, the matter was reported to C. H. Moseley, director of the Dallas Commodity Office. On October 12, 1961, Moseley reported the matter to the Dallas office of the Internal Revenue Service.

According to IRS, the information provided its Dallas office by Moseley was "immediately reported * * * to Randal L. Winston, acting chief, intelligence division." Mr. Winston, according to IRS, "immediately caused an assignment to be made" to a special agent to make a preliminary investigation. A full-scale investigation was then initiated by the Dallas District, according to IRS, and the Austin District was informed of the Dallas action.

On January 3, 1962, George Stephen, intelligence chief of the Austin District, sent a memorandum to Dallas advising that an investigation of Estes' 1951-53 returns had been closed without prosecution in early 1956. Stephen also stated that:

In August 1961, we received information from ARC intelligence in Dallas alleging Estes connection with illegal activities in Pecos.

Will you please send me all information you have concerning Estes so that I can make an evaluation? Also, please send me the individual and partnership returns in your possession.

On January 16, 1962, information and returns relating to Estes were forwarded from Dallas to Austin.

Additional information concerning Estes had been received by still another office of IRS in the meantime. In December 1961, the Pecos

office of IRS was furnished with detailed information concerning Estes' tank operations, including lists of recorded chattel mortgages on tanks. The information was placed in the files with Estes' returns, to be used for an examination after April 15. A detailed account of the tank transactions and copies of Pecos Independent tank stories, were mailed by IRS personnel in Pecos to the IRS office in El Paso on March 5, 1962, according to IRS.

Although differences in the figures on Estes' tax returns and those on statements submitted to the Department of Agriculture made it obvious that Estes had either evaded payment of income taxes or filed false statements with USDA, the discrepancy was not called to the attention of Moseley or any other official of the Department of Agriculture by the Internal Revenue Service.

It should be noted that the Department of Agriculture, whose AMS Internal Audit Division made no noticeable progress over a 6-month period in attempting to ascertain Estes' financial condition through other methods, never formally requested access to Estes' tax returns although it could have done so under established procedures.

Nonreporting of Income

During its investigation, the subcommittee asked IRS how many of the individuals who received payments from Estes in connection with his tank transactions reported these payments on their tax returns. The subcommittee was advised that IRS had examined tax returns of 73 persons who apparently received commissions from Estes for signing tank notes. Of the 73, IRS told the subcommittee, only 28 reported their commission income on their tax returns at the proper time, while 45 did not do so.

DEPARTMENT OF JUSTICE

Memorandum Alleging Fraud Submitted to FBI

On March 27, 1961, Dan Smoot, a former FBI agent residing in Dallas, Tex., sent a letter to the special agent in charge, Federal Bureau of Investigation, El Paso, Tex. The letter was captioned "Re Billie Sol Estes, Pecos, Tex., National Bank Act."

In the letter, Smoot stated that he was enclosing an attached blind memorandum alleging activities which were probable violations of the National Bank Act. Smoot also indicated he was enclosing 14 pages of typed material copied from records at the Reeves County Courthouse, and that copies of the memorandum—but not the 14 pages of material—were being sent to the Dallas office and Washington headquarters of the FBI. Smoot stated that the source of the memorandum and typed material was known to him, but that he had promised not to disclose it without specific consent of the informant.

The memorandum—which consisted of five pages—began with the following paragraph:

The following is an incomplete compilation of facts, figures, estimates, guesses, and informed opinions submitted for the purpose of attempting to bring about the indictment and conviction of Billie Sol Estes, Pecos, Tex., on the grounds of fraud. This fraud involves inaccurate financial statements from numerous individuals used to purchase large volumes of tanks and chemicals (most of which is thought

to be nonexistent). These notes are then believed to be discounted at various banks and finance corporations for cash with which other business debts and business ventures are financed.

After listing a number of firms through which Billie Sol Estes did business, the memorandum stated that:

The bulk of the financial transactions involve three major companies. They are Superior Manufacturing Co., Amarillo; Commercial Solvents Corp., and Lubbock Machine & Supply Co., Inc.

The memorandum then listed 12 banks in west Texas and 1 in Oklahoma through which it was stated that "banking transactions are known to be conducted."

The memorandum also indicated that transactions were conducted with Commercial Credit Corp., CIT, and Pioneer Finance Co. It then stated that—

The sources of information for this report are comprised of information recorded at the county courthouse, Reeves County, Tex., under chattel mortgages; confidential information from employee in bank; confidential information from employee in Billie Sol Estes' office; reliable information from various farmers and businessmen in Reeves County, Tex.

It is my accusation that Mr. Estes is paying various farmers a cash "bonus" for them to sign chattel mortgages for ammonia tanks, most of which are thought not to exist. Financial statements of these individuals are drawn up in Mr. Estes' offices by his secretary. According to a secretary in his office, these financial statements are grossly inaccurate and exaggerated in order to obtain notes for a much greater amount than the individual involved is known to be worth. Most of these notes are handled through CIT, Commercial Credit Corp., Pioneer Finance, and the other listed banks. It is believed that these notes are then discounted at banks for cash and funneled back into Mr. Estes' bank accounts through various "paper corporations." For example, between February 15 and March 15, 1961, checks totaling \$900,013.79 were transferred from Superior Manufacturing Co. in Amarillo, to the Texas Steel Co. account at the First National Bank, Pecos, Tex., then automatically transferred to the Billie Sol Estes Enterprises account. * * *

After giving further details concerning Estes' alleged tank transactions, the memorandum gave the following description of the 14 pages of additional material furnished with it:

The following 14 pages are copied from the records at the courthouse, Reeves County, involving only a portion of the transactions mentioned above. It is reliably reported that a great many more such chattel mortgages have been filed in Pecos County, Loving County, Culberson County, El Paso County, Dawson County, Hale County, Andrews County, Lubbock County, and Hudspeth County. No effort was made by me to secure copies of the chattel mort-

gages recorded in these counties. A rough tabulation of the attached chattel mortgages indicate over \$9 million to Mr. Estes and almost \$4 million to other listed persons. I emphasize that these records are grossly incomplete for even Reeves County, but they do serve as a good indication of the volume of the transactions that are going on. I am informed by his office, that the volume of ammonia tank transactions has massively increased in the past 6 weeks.

The memorandum then named 15 individuals who had allegedly signed fraudulent tank mortgages. It also gave reasons why the individuals named would not need a fraction of the tanks for which they had signed, and questioned the existence in Reeves County of anything like the total number of tanks mortgaged there.

In addition to its discussion of the tank mortgage transactions, the memorandum named two bank officials and alleged that they were knowingly cooperating in Estes' transactions and that they were being warned a month in advance when the bank examiners were due to make an audit. The memorandum also stated that it was reliably reported Estes had received over \$4 million in 1960 for storage of Government grain, and suggested the possibility that one of the note signers was involved in possible irregularities in connection with the disaster loan program of the Department of Agriculture's Farmers Home Administration.

Handling of Dunn Allegations

Receipt of the memorandum and attached material sent by Smoot was acknowledged by the El Paso office of the Federal Bureau of Investigation on March 30, 1961. The subcommittee's investigation indicated that the memorandum and the attached material was presented to Lawrence Fuller, assistant U.S. attorney in the El Paso office on April 21, 1961, and was further discussed by the FBI with Fuller on May 2, 1961.

Thereafter, FBI agents contacted Smoot. Smoot identified the informant who had sent the memorandum as Dr. John Dunn of Pecos. On July 3, 1961, Dunn was interviewed by FBI agents in El Paso. After the Dunn interview, FBI agents again discussed the Estes matter with Fuller on July 14, 1961. On July 17, 1961, the following memorandum concerning the Estes matter was sent by the El Paso office of the FBI to the Washington office of the FBI:

DEPARTMENT OF JUSTICE,
FEDERAL BUREAU OF INVESTIGATION,
El Paso, Tex., July 17, 1961.

Re Billie Sol Estes, Pecos, Tex., possible Federal Reserve Act.

By letter dated March 27, 1961, Dan Smoot, author of the Dan Smoot Report, Post Office Box 9611, Dallas 14, Tex., forwarded to the El Paso office of the Federal Bureau of Investigation, a blind memorandum concerning activities of Billie Sol Estes, and also a 14-page recital of chattel mortgage and deed of trust which, he said, were items of record in Reeves County, Tex., regarding transactions entered into by Estes and various persons.

Mr. Smoot's letter explains that the material set forth in the blind memorandum was sent to him anonymously. However, he knows the identity of the sender as a prominent Texan who had requested his name be kept confidential.

The informant alleges that Estes has been able to obtain the cooperation of various cotton farmers in the Pecos area in furnishing Estes with financial statements which far exceed the farmers' net worth, and also signed notes for loans based on the purchase of ammonia tanks. In return, Estes gives the farmer a sum of cash for this favor. With these documents, Estes discounts the notes at various banks and other lending-type institutions.

The material received does not clearly indicate whether these notes are actually discounted or sold to a bank or perhaps placed as security for a loan to Estes. The material fails to specifically involve an officer or employee of any bank.

On May 2, 1961, the allegations contained in the material received were discussed with Assistant U.S. Attorney Lawrence L. Fuller at El Paso. Mr. Fuller stated that in his opinion the allegations constituted hearsay and were relatively nonspecific in nature. He said that based on a careful analysis of the statutes, he felt that if true, the allegations might constitute a violation of either section 1005 or 1014 of title 18, United States Code.

On May 11, 1961, agents of the Dallas Federal Bureau of Investigation office contacted Dan Smoot with reference to this matter, and were advised that the informant had no reluctance to reveal information on a strictly confidential basis, but prior to doing so, wanted to contact his attorney to ascertain the elements outlined in the Federal Reserve Act.

On July 3, 1961, the informant furnishing the material to Mr. Smoot personally appeared at the El Paso Federal Bureau of Investigation office for interview. This informant stated that to his knowledge, the First National Bank of Pecos, Tex., did not purchase any of the notes with the non-existent ammonia tanks listed as collateral but that Estes did do business with this bank in the form of purchasing bank money orders which were used to make payments on loans obtained from Commercial Investment Trust (CIT) or Pioneer Finance of Texas. He indicated that field agents of both CIT and Pioneer Finance had been checking in the Pecos area recently in an effort to identify the ammonia tanks listed as collateral in the many notes held by them.

The informant explained that all of the information that he possessed was hearsay and that no information in his possession indicated that false notes or false financing statements had been presented to or accepted by any Government agency or bank, or that officers or employees of such institutions had knowledge of Estes' activities in this regard.

On July 14, 1961, this matter was again discussed with Assistant U.S. Attorney Lawrence L. Fuller at El Paso. Mr. Fuller stated that in the absence of information indicating that an officer or employee of a bank had knowledge of the

apparent irregularities in the documents submitted, no violation of the Federal Reserve Act would exist.

It should be noted at this point that, because of a possible loophole in Federal law, the sale of fraudulent commercial paper to a national bank probably is not a violation of Federal law in the absence of use of the mail, interstate transportation, or knowledge or participation by an officer or employee of the bank.

Subsequent Events Involving Fuller

On August 10, 1961, Fuller submitted his resignation as assistant U.S. attorney, effective September 1, 1961. Thereafter, Fuller joined the Midland law firm of Turpin, Kerr, Smith & Dyer. The subcommittee's investigation indicated that Fuller, an appointee of the previous administration, expected that he would probably eventually be replaced because of the change in administrations.

While the subcommittee's investigation did not disclose evidence establishing that the firm of Turpin, Kerr, Smith & Dyer was representing Billie Sol Estes during the time his case was being considered in El Paso, it did indicate that the firm had represented Estes before that time. After Fuller joined the Midland firm, it again represented Estes.

The subcommittee's investigation indicated that Fuller went to Pecos in January 1962 to meet with John Dennison (one of Estes' attorneys) in connection with legal work involving Estes. Fuller did not mention the trip to Pecos to the subcommittee, but did give the following account of the general situation involved:

* * * After I had been with the firm several months, I was asked by one of its members to brief a legal question and that question was as to the right the Government had to cancel cotton acres, which I now think had been assigned to Mr. Estes. I was then told that our firm had been asked to represent Billie Sol Estes inasmuch as he might have to file a suit in the U.S. district court at Pecos, in the event certain of his cotton acreage allotments were changed or were canceled.

On January 4, 1962, after the meeting with Dennison, Fuller made a telephone call to the U.S. attorney's office at El Paso, where he had formerly worked. According to a statement made by Fuller, the reason he made the call was that Dennison had showed him a telegram from the Department of Agriculture relating to cancellation of Estes' pooled cotton allotment which "mentioned fraud and penalty." Fuller stated he assumed this meant a suit might be filed in the western district, which would be handled at El Paso, and called to see if such a case was pending.

After Billie Sol Estes was arrested, Fuller went to El Paso in connection with bond arrangements for Estes. Fuller's account of the circumstances follows:

* * * the morning after Mr. Estes was arrested in Pecos, I was in the office when a telephone call came thereto asking for Judge William L. Kerr. I reported that he was on his way to Woodville, Tex., where he was to appear in a ceremony honoring one of the judges of the Texas Supreme

Court. After I had so reported to the operator, the party talked to me and told me that he was trying to get in touch with Judge Kerr [Kerr, a former judge, was a member of the law firm of Turpin, Kerr, Smith & Dyer] so as to ask that he go to El Paso to see if the \$500,000 bond set by the U.S. commissioner for Mr. Estes might not be reduced. Since Judge Kerr was unavailable, I went to El Paso to see if there could be an agreement about the bond reduction. When I found that the authorities would not agree to the reduction of the bond, I so reported to my partner. Judge Kerr returned to his office from Woodville, made the trip to El Paso and, on the morning following, appeared for Mr. Estes in the hearing in the U.S. district court, which hearing brought reduction in the Estes bond and the approval of the solvency of the sureties who made the bond in the lowered amount. I had nothing to do with the agreements which were made between Judge Kerr and the lawyer who called him and which also resulted in his appearance for Estes at the bond hearing.

FBI Investigation in 1962

In March 1962, after publication of the Pecos Independent series of tank stories had begun, Dr. Dunn furnished additional information to the El Paso office of the FBI. While some new details were added to the information previously submitted, the subcommittee's investigation did not indicate that the new information added anything of great significance to that submitted in March 1961.

After a conference by FBI agents with the U.S. attorney's office in El Paso on March 8, 1962, the investigation which culminated in Estes' arrest was begun.

PRIVATE INVESTIGATIONS OF ESTES' ACTIVITIES

A number of investigations of various phases of Billie Sol Estes' activities were conducted by private firms or individuals. In almost every instance, those involved were—or were acting on behalf of—creditors of Estes or were suffering from his fierce competitive tactics. Much of the private investigative activity relating to Estes' operations is described in detail in earlier sections of this report.

Probably the most persistent and comprehensive investigation of Estes' activities was the one conducted by Dr. John Dunn; information collected in this investigation formed the basis for the series of stories published by the Pecos Independent.

The subcommittee's investigation indicated that the information provided by Dr. Dunn to the FBI, through Dan Smoot, in March 1961, was also provided to the Texas Department of Public Safety (Intelligence Division) in early 1961; to Senator John Tower, of Texas, in September 1961; to the Internal Revenue Service in December 1961; and to Federal bank examiners in 1962.

MISCELLANEOUS

INDIVIDUALS

James McConnell

James McConnell was Administrator of the Commodity Stabilization Service from February 1954 to December 1954. In this position, he had direct responsibility for administration of the Department of Agriculture price support and grain storage programs. From January 1955 to January 1956, McConnell served as Assistant Secretary of Agriculture with an area of responsibility which included the price support and grain storage programs. After leaving the Department of Agriculture, McConnell served as a member of the board of directors of Commercial Solvents Corp. from June 1957 to April 1959. Thereafter, McConnell served as a consultant to Commercial Solvents, with most of his activities on behalf of the corporation apparently involving matters related to Billie Sol Estes.

During his association with Commercial Solvents, McConnell was appointed and served as a consultant to Secretary of Agriculture Benson on matters including storage of Government grain. Because of Commercial Solvents' interest, as recipient of Billie Sol Estes' storage revenues, in the grain storage program McConnell's dual service placed him in the position of simultaneously representing conflicting interests. The subcommittee investigation did not disclose evidence establishing that McConnell took any action directly involving operations of Billie Sol Estes during his dual service. However, the subcommittee has repeatedly criticized this type of situation in the past and wishes to emphasize its disapproval at this time.

In late 1960, after his term of service as a USDA consultant had expired, McConnell visited the Department to obtain information concerning price support and grain storage matters on behalf of Commercial Solvents. The latter's interest in these matters was obviously related to its receipt of storage revenues from Billie Sol Estes' warehouses. Although McConnell's past relationship with the Department of Agriculture might have enabled him to obtain inside information if it were needed, the subcommittee found no evidence that McConnell actually obtained information of a confidential nature. McConnell did obtain the views of USDA officials concerning the prospect of changes in price support and grain storage policies. However, his reports to Commercial Solvents Corp. indicate he did not secure any information which would have been withheld from others who were interested.

Walter C. Berger

Walter C. Berger served as Associate Administrator of the Commodity Stabilization Service under James McConnell in 1954. He was appointed Administrator of Commodity Stabilization Service in

November 1956 and served in that position until January 1961. In that capacity, he had direct responsibility for administering the USDA price support and grain storage programs. After leaving the Department of Agriculture, Berger became a member of the board of directors of Commercial Solvents Corp. A large percentage of Berger's services to Commercial Solvents thereafter involved operations of Billie Sol Estes. The subcommittee's investigation indicated that Berger obtained his positions with both the Department of Agriculture and Commercial Solvents Corp. on the recommendation of James McConnell and that McConnell had frequent contacts with Berger during 1959 and 1960.

The subcommittee found no evidence establishing that Berger made or influenced any decisions directly involving storage operations of Billie Sol Estes during his service with the Department of Agriculture. No credible evidence was found to substantiate allegations that Berger had participated with Estes and representatives of Commercial Solvents in meetings in Texas before he left the Department of Agriculture. The subcommittee's investigation disclosed that Berger discussed Billie Sol Estes' storage operations in December 1961 during meetings with C. H. Moseley, Director of the Dallas ASCS Commodity Office. However, no evidence was found to indicate that these meetings influenced the manner in which Estes was treated by the Department of Agriculture.

The subcommittee investigation disclosed that Berger had substantial outside income during his service in the Department of Agriculture because of interests in fertilizer and chemical companies; however, no connection with Commercial Solvents Corp. or Billie Sol Estes was found. The subcommittee also found that Berger had a telephone conversation with Maynard Wheeler, president of Commercial Solvents Corp., in 1960 and contacted several employees of the Department of Agriculture on behalf of Commercial Solvents in 1961 and early 1962. However, Berger stated that these contacts related to sales of grain for production of alcohol and did not involve Billie Sol Estes. The subcommittee found no evidence establishing otherwise.

Martin Sorkin

Martin Sorkin served as an economic consultant to Secretary of Agriculture Benson until early 1961. After Sorkin left the Department, Commercial Solvents Corp., on the recommendation of James McConnell, hired him to serve as a consultant on agricultural matters. The subcommittee found that Sorkin admitted participating in meetings with Members of Congress relating to agricultural policies while serving as a consultant to Commercial Solvents. Reports of his activities sent by Sorkin to Commercial Solvents raise a question concerning the possibility that Sorkin may have engaged in lobbying activities without registering as a lobbyist; this question is under study by the Department of Justice. While Sorkin's activities—to the extent they were successful—might have affected Commercial Solvents income from Billie Sol Estes' warehouses, the subcommittee did not find evidence that they were directly related to Estes' storage operations.

James Ralph

James Ralph served as Assistant Secretary of Agriculture from January 26, 1961, to February 16, 1962. Although no longer Assistant Secretary after February 16, he remained with the Department of Agriculture until he was discharged on May 16, 1962. In this position, Ralph nominally had considerable responsibility with respect to price support and grain storage programs. In practice, however, Ralph devoted most of his time to marketing order programs. Personnel responsible for administration of price support and grain storage programs did not report directly to Ralph, and except for occasional referral of requests or complaints to personnel who administered the programs, Ralph apparently had little to do with them.

The subcommittee's investigation indicated that the events involving Ralph and Billie Sol Estes probably occurred mostly because of the close personal relationship between Estes and William Morris, Ralph's assistant. Ralph and Morris both testified that in September 1961, when both were in Dallas, they accompanied Estes to the Neiman-Marcus department store. Ralph testified that while there he tried on and was measured for expensive clothing at Estes' urging because he regarded Estes as an influential and important man, and did not want to offend him. Ralph denied that he intended to buy such clothing, or to permit Estes to buy it for him, and stated that he did not accept any clothing which Estes had purchased.

Ralph testified that around Christmas, 1961, he and Morris each received two \$100 money orders from Estes with no explanatory letter; Ralph stated—and the subcommittee's investigation confirmed—that the money orders made out to him were endorsed and sent to the Democratic National Committee and the California State Central Committee instead of being returned to Estes. Ralph also testified that he had unwittingly used Estes' telephone credit card, at the suggestion of Morris, to make three long distance calls after being informed in February 1962, that he was to be demoted. One of the calls was to Estes.

The subcommittee found no evidence that Ralph made, influenced or attempted to influence any decision of the Department of Agriculture relating to Estes' grain storage activities, nor did it find evidence to contradict his denial that he had accepted clothing from Estes. However, in the opinion of the subcommittee, Ralph allowed himself to be placed in a compromising position with respect to the Neiman-Marcus incident and the reason he gave for doing so reflects a completely inappropriate attitude for a responsible Government official. Ralph also displayed poor judgment, under the circumstances, in failing to return Estes' money orders.

William E. Morris

The subcommittee's investigation indicated that William E. Morris met Billie Sol Estes for the first time in March 1961, when Morris made a trip to west Texas on behalf of the Department of Agriculture. During the trip, Morris visited Pecos, rode in Estes' private plane, and was presented with a western style hat which he later learned cost \$100. From then until Estes was arrested, Morris maintained a close personal relationship with him. The relationship included numerous telephone calls, personal contacts, and exchanges of gifts.

Estes visited Morris' home for dinner on several occasions, according to Morris' testimony, and Morris was a houseguest at Estes' home in Pecos in September 1961 and March 1962. (During Morris' September visit, Estes apparently told others that Morris was the Under Secretary of Agriculture.)

During most of the period in which Morris had contacts with Estes, Morris was assistant to James Ralph, an Assistant Secretary of Agriculture. The subcommittee's investigation indicated that Morris was not only willing but eager to do personal favors for Estes, whom Morris obviously regarded as a wealthy and influential man. However, the subcommittee found no evidence to establish that Morris participated in or influenced the handling of actions relating to Estes' grain storage operations.

Morris also acted as a sort of "gift consultant" to Estes, suggesting that Estes pay for the cost of making reprints of a speech by Ralph which had been inserted in the Congressional Record through Morris' efforts, and that Estes make a \$200 campaign contribution (which was not accepted) to a Member of Congress for whom Morris' wife worked.

Morris also introduced Estes to then Congressman H. Carl Andersen, for whom Morris had formerly worked. In March 1962, Morris and Andersen made a trip to Pecos at Estes' request in connection with sale of stock in a business enterprise to Estes by Andersen. The subcommittee's investigation disclosed no evidence that Andersen ever exerted or attempted to exert influence on behalf of Estes.

Winn P. Jackson

The spurious financial statement submitted by Billie Sol Estes to the Department of Agriculture in February 1961, was prepared by Winn P. Jackson. Jackson was a certified public accountant who had opened his own practice in Lubbock in the spring of 1960 after a number of years of public accounting experience with other firms in Texas. According to his own account, Jackson met Estes around July or August 1960, through E. H. Patterson of Roswell, N. Mex. Jackson was doing accounting work for the South Plains Grain Co., owned by Patterson, when Estes proposed buying a half interest in the enterprise. Subsequently, Jackson said he was asked by Estes to do accounting work for Estes himself.

About a month after Estes' arrest, Jackson was interviewed by representatives of the Agricultural Marketing Service, U.S. Department of Agriculture, concerning the financial statement prepared for Estes in 1961. In a signed statement on April 30, 1962, Jackson contended that at least a limited amount of work had been done in preparing the Estes financial statement, declaring that "We did certain limited tests, with respect to many of the accounts." Jackson also alleged in his statement that—

I destroyed the working papers supporting the audit after a suggestion from an employee of Billie Sol Estes that such be done and knowing that Billie Sol Estes' storage operation was clean. This was done after Billie Sol Estes' arrest. The working papers were destroyed by me at my place of business, 1309 Avenue L, Lubbock, Tex. Normally such records or working papers are retained until deemed that they are no longer needed or useful. I destroyed the working papers because I did not want to become involved in any publicity.

Jackson testified before the subcommittee on May 28, 1962, during the early stages of its investigation. In his testimony, Jackson said he had first agreed to work for Estes in late January or early February 1961, when, in Jackson's words:

* * * he phoned and asked if—well, at first he said, "You know, I have a good many businesses and pretty large operations." He said, "I don't feel like that I need a complete overall certified audit. However, I do need help in one of my businesses at various times." He said, "I was wondering if you would be interested in doing whatever work I might need at these scattered places on the basis of \$500 a month retainer."

I said "Yes," because naturally I felt, well, I would never have a client like that, you know, probably again, and that my ship had really come in.

So I managed to squeak out a "yes". * * *

In further testimony, Jackson described subsequent events, beginning with a telephone call from Estes a few days later:

Mr. JACKSON. * * * He said, "I am going to send you, or I am sending you a financial statement and would you please put it on your stationery."

Mr. FOUNTAIN. In other words, he prepared this particular statement himself?

Mr. JACKSON. Right; and then it was mailed to me. I told Mr. Estes that I would have to check it out; I would have to do some checking. This was on the telephone * * * and he said, "Well, why?" He said, "It is all right, there is nothing wrong with it." He said, "You know, it's right to the penny." * * *

Mr. FOUNTAIN. Then what did you do?

Mr. JACKSON. So I prepared it on my own stationery. * * *

Jackson then admitted that, contrary to his previous statements to USDA investigators, he had made no audit whatever but had simply copied figures given him by Estes:

Mr. FOUNTAIN. Did you make any examination of books or records of any kind or nature or description before preparing that statement?

Mr. JACKSON. No, sir; I did not.

Mr. FOUNTAIN. You simply submitted the statement which he had prepared in the form in which he had prepared it and mailed it to him?

Mr. JACKSON. Right. * * *

In attempting to explain his action, Jackson told the subcommittee:

At the time I certainly didn't have any reason to doubt his net worth. * * * Everybody thought that he was such a Christian gentleman and, with his wide reputation, I made the mistake of believing him.

Within a week or two after sending Estes the financial statement, Jackson testified, he received a check for \$6,000. This amount, according to Jackson, was advance payment of a year's retainer at \$500 per month. However, Jackson testified that he performed no

further services for Estes and had no further contact with him except in connection with preparation of a list of respective contributions of Patterson and Estes to South Plains Grain around April or May of 1961.

In testimony before the subcommittee, Winn Jackson implied that the \$6,000 fee received from Billie Sol Estes was shared with his partner at that time, James E. Rodgers. Jackson made this claim more specifically in the following testimony at a hearing of the Texas State Board of Public Accountants in June 1962:

Question. What was the character of the profit arrangement between you and Mr. Rodgers?

Answer. We were sharing expenses and income on a 50-50 operation.

Question. Was the Billie Sol Estes \$6,000 retainer check deposited to the partnership?

Answer. Right.

Question. And Mr. Rodgers shared in it, as you would do on all fees?

Answer. Yes.

However, James E. Rodgers, Jackson's former partner, told the subcommittee that—

I was aware that Mr. Jackson received a check for \$6,000 from Mr. Estes, but I did not receive any of this amount because—

"1. Mr. Jackson stated the amount was for a retainer, a year in advance at \$500 per month.

"2. I had served notice on Mr. Jackson prior to that date that I was withdrawing from the firm when tax season was over."

Mr. Jackson did not want me to leave the partnership. When I joined the partnership, we had an oral agreement that I would pay Mr. Jackson a sum for the right to share in the profits from \$3,000 to \$5,000. This amount kept changing, our partnership agreement kept changing, and I found that I was more an employee than partner. I did not have direct contact with but a small number of our clients and my work was limited to simple routine tasks. At any rate, the \$6,000 was deposited in an account with the partnership name, and Mr. Jackson received a check that was my portion if I stayed with the firm. In other words, if I stayed I would participate, if I did not, the money was his.

When the partnership was dissolved in May 1961, I picked up my personal effects and left. There was no formal dissolution nor have I received any settlement from Mr. Jackson as a result of this dissolution.

Rodgers also told the subcommittee that during the period he was associated with Jackson (from November 1, 1960, until May 1961):

* * * Mr. Jackson stated to me that Mr. Estes had a myriad of interests and that he would be a good client for a large volume of work. As time went on, we seemed to be doing more work for Mr. Estes, but all the time and charges

were to be billed, as I understood, to South Plains Grain Co. I was never informed of any of the details or type of work performed.

In response to a question as to whether Rodgers had any dealings with Estes, Jackson stated:

He had no dealings with him at all. He never met him or even saw him. All Mr. Estes' dealings were with me.

Although Jackson admitted in his subcommittee testimony that statements he previously made to Agriculture Department investigators were false, the subcommittee subsequently found evidence indicating he had not disclosed the full extent and nature of his activities involving Billie Sol Estes. Details concerning such activities have been previously discussed in this report.

ESTES' TRANSACTIONS WITH MURCHISON INTERESTS

On August 26, 1958, K. E. Phillips, a salesman for Commercial Solvents, made a visit to the offices of Billie Sol Estes' Enterprises in Pecos, Tex. Later that day, Phillips wrote a confidential report to Commercial Solvents concerning his visit which contained the following statement:

I learned today that this concern is financially sponsored by Clint Murchison, Texas oil millionaire. Mr. Murchison is silent, and Mr. Estes prefers it this way as he has sole responsibility. This is a very touchy and delicate subject and is not to be discussed—it is reported here only to inform our top management.

The subcommittee's investigation disclosed transactions involving Billie Sol Estes, Agriculture, Inc. (controlled by Estes), and Agricultural Chemicals, Inc. (controlled by the Murchison interests at the time), which will be described below. Henry Gilchrist, a member of a Dallas law firm representing the Murchison interests, informed the subcommittee, in response to a request for information concerning any other transactions involving Estes and the Murchison interests, that—

We do not know of any transactions involving Billie Sol Estes or his enterprises or any company controlled by the Murchison interests other than the transactions between Estes and Agriculture, Inc., and Agricultural Chemicals, Inc. It is possible that Estes proposed other transactions but we are unable to find any indication that any such proposals were seriously considered.

Gilchrist made the following additional comment concerning reports of alleged participation by the Murchison interests in Estes' business enterprises:

As far as I can determine there was never any discussion with Estes as to whether he would or would not disclose that a Murchison company had an interest in Agriculture, Inc. Apparently the matter was simply not discussed. Subsequent to March 1958, the Murchison office here in Dallas did receive rumors, reports, and inquiries indicating that Estes was tell-

ing people that the Murchisons were his partners or had invested in his operations. It appears that Estes may have been suggesting or hinting that the Murchisons were involved in his operations. After this came to light one of the Murchison executives in the Dallas office either called or wrote Estes and A. B. Foster and told them that we would not have stories of this type being circulated and that it must stop immediately. Mr. Behse (then president of Agricultural Chemicals, Inc.) may also have told Estes to stop circulating these stories. It has been reported that both Estes and A. B. Foster denied that such stories were being started by them. Persons who inquired of the Murchison organization of its relation with Estes were told that the participation in Agriculture, Inc., was in connection with satisfaction of a debt and nothing more.

Oscar Behse, former president of Agricultural Chemicals, Inc., described that company's dealings with Estes as follows:

Agricultural Chemicals, Inc., relationship with Estes began in about 1955. Agricultural Chemicals, Inc., had a manufacturing branch plant and office in Pecos, Tex., which needed additional volume, hence started to sell Estes, he being the largest buyer in the Pecos Valley, a normal procedure. Competition was very keen for his business.

This relationship ended about the time of his arrest.

Products sold were agricultural insecticides only and volume was over \$1 million.

Collections slow but profit margins large. Do not recall maximum credit extended, but it was in excess of \$650,000 in March 1958. Last year or two all sales were on a cash basis or short-term credit basis. At this time competitors were giving him long-term credits and we lost much business to them.

Further dealings involving Agricultural Chemicals, Inc., and Billie Sol Estes, according to information obtained from Gilchrist and Behse, are described below.

Because of difficulty in collecting amounts due from Estes, Agricultural Chemicals entered into an arrangement by which Estes, sole stockholder of Agriculture, Inc., pledged 51 percent of the stock of this company to secure his indebtedness to Agricultural Chemicals.

On March 1, 1958, Estes gave Agricultural Chemicals four notes for \$162,500 each—a total of \$650,000. Three of these notes were due on December 31, 1958, and were secured by a pledge of 663,000 (51 percent) of the 1,300,000 shares of stock of Agriculture, Inc. The fourth note was due on January 2, 1959. On March 1, 1958, O. C. Behse entered into an agreement with Estes whereby he agreed to purchase 162,500 shares of stock of Agriculture, Inc., at \$1 per share. This agreement, as amended with respect to date of purchase, provided for the purchase of 137,500 shares of stock on October 1, 1958, and 25,000 shares of stock on January 2, 1959. On March 1, 1958, Estes also granted to O. C. Behse options to purchase an additional 487,500 shares of Agriculture, Inc., at \$1 per share, to wit, an option to acquire 162,500 shares on March 1 of each of the years 1959, 1960, and 1961.

H. E. Parrish, Menard, Tex., an employee of Agricultural Chemicals, was made manager of Agriculture, Inc., and served in this capacity until 1961.

Agricultural Chemicals later transferred participations in the \$162,500 note of Estes, dated March 1, 1958, which was payable on or before January 2, 1959, to 15 employees (including Behse) in lieu of a cash bonus. Behse transferred to the same employees portions of his rights and obligation to purchase stock of Agriculture, Inc., from Estes, and these employees of Agricultural Chemicals, including Behse, on October 1, 1958, and on January 2, 1959, purchased from Estes 151,150 shares of Agriculture, Inc., at \$1 per share, by taking credits in an equal amount on their respective interest in Estes' note. Agricultural Chemicals still had an \$11,350 interest in such note and Behse assigned to that corporation the right and obligation to purchase 11,350 shares of Agriculture, Inc., and the corporation made such purchase by crediting the remainder of the note. Subsequently, Behse assigned to Agricultural Chemicals his option to purchase an additional 487,500 shares of Agriculture, Inc., and the corporation exercised such option, apparently in February 1959 and in March 1960, by crediting Estes' notes in the aggregate amount of \$487,500, thereby acquiring an additional 487,500 shares of Agriculture, Inc. After March 1960 and until April 1961, Agricultural Chemicals owned 498,850 shares of stock of Agriculture, Inc. (11,350 shares plus 487,500 shares) and Behse and other employees of Agricultural Chemicals owned 151,150 shares of Agriculture, Inc. This aggregated 650,000 shares of stock of Agriculture, Inc., and constituted one-half of the outstanding stock of that corporation.

On April 5, 1961, Agricultural Chemicals purchased Agriculture, Inc., stock owned by its employees for 40 cents per share. This stock, together with the stock owned by the company, was sold on the same day to Estes, with payment apparently consisting of a \$277,500 note from Estes secured by a pledge of all 1,300,000 shares of stock in Agriculture, Inc. This note and stock certificates were held by Agricultural Chemicals.

An existing open account indebtedness of Agriculture, Inc., to Agricultural Chemicals for chemicals, cash advances, and other items of debt, was converted into a \$172,500 note dated April 5, 1961. This note was endorsed by Estes and secured by a second lien covering approximately 10,000 acres of land in Pecos County which had been purchased by Estes from W. J. Fields and wife and later conveyed by Estes to Agriculture, Inc.

In August 1961, Agricultural Chemicals conveyed its agricultural chemical business to a new corporation. The old corporation changed its name to Agricultural Investments, Inc., and retained the \$277,500 note of Estes and the \$172,500 note of Agriculture, Inc. The newly formed corporation which acquired the chemical business subsequently sold its assets to Philips Electronics & Pharmaceutical Industries Corp. The name of Agricultural Investments, Inc., was subsequently changed to Agricultural Management, Inc., in February 1963.

Agricultural Chemicals, during its transactions with Estes, had been owned 15 percent by Behse and 85 percent by the Murchison interests. The Murchison ownership was exercised through the A. B. Frank Co., a holding company. Ownership in the A. B. Frank

Co. has been as follows: Virginia Murchison Trust, 85,000 shares: C. W. Murchison, Sr., 16,020 shares: Murchison Bros., 264,601: less than 300 shares were owned by other stockholders.

In 1957, Behse suggested that Estes accompany him on a business trip to El Salvador, and Estes obtained a passport for this purpose. According to Behse, Estes was to pay his own expenses and go along as a tourist. The subcommittee found no indication Estes actually made the trip.

ESTES' TRANSACTIONS WITH ANDERSON, CLAYTON & CO.

Anderson, Clayton & Co., through company divisions known first as Western Cottonoil and later as Paymaster Oil Co., financed development of irrigated cotton growing in Reeves and Pecos Counties beginning in 1948, when it bought out Texas Cotton Industries. In 1951, the company built a cotton oil mill in the Pecos area and it currently makes from \$15 to \$20 million in crop financing loans annually.

According to information obtained from W. D. Watkins, general manager of the Paymaster Division, Paymaster makes loans at 7-percent interest and relies primarily on a chattel mortgage on the financed crop for security. Funds are advanced during the course of the year as needed for production expenses, and loans are normally paid off when the crop is harvested and sold. Loans are sometimes carried over for an additional year in case bad weather or other factors make payment difficult, in which case Paymaster usually obtains additional security such as liens on farmland. Crop loans to producers are usually limited to a maximum figure based on the estimated productivity of the land and the size of the cotton allotment. Watkins said Paymaster also gives careful attention to the reputation of the operator as a farmer in passing on loan applications.

The subcommittee's investigation disclosed that crop production loans from Anderson, Clayton & Co. to Billie Sol Estes sometimes exceeded \$1 million in a single crop year. The highest balance owed Anderson, Clayton by Billie Sol Estes during 1961 was around \$1,300,000. Since the company ginned and marketed Estes' cotton crop and held a lien on the cotton, it was in a position to collect amounts due from Estes through sales of his cotton.

According to Watkins, Paymaster became concerned about the Estes situation after the newspaper stories about missing tanks were published, because Paymaster had been making very substantial crop production loans to Estes. Estes was asked to come in to the company offices in Abilene to meet with Watkins and Ben Barbee (Watkins' superior). Estes came in to the office about 2 or 3 weeks before his arrest, at a time when he was in the Abilene area to fill a preaching engagement. When asked about the allegations concerning missing tanks, Estes replied that there was nothing to worry about—the tanks were all there and it wouldn't make any difference even if they weren't. Records in Reeves County reflect the recording of chattel mortgages and deeds of trust from Estes to Anderson, Clayton & Co. in March 1962.

At least two employees of Billie Sol Estes were former employees of Anderson, Clayton & Co. A. B. Foster, Jr., Estes' general manager, was employed by Western Cottonoil at Abilene from July 1, 1948, to

October 16, 1952. After leaving Western Cottonoil, Foster engaged in the dairy business and worked for the Bureau of Internal Revenue before going to work for Estes in the mid-1950's. Chuck Wesson, who later managed Estes' fertilizer sales operations in the Pecos area, was employed by Western Cottonoil in the Pecos area from August 1948 until June 21, 1952. Wesson went to work for Estes in 1958.

The subcommittee asked whether any officials or employees of Anderson, Clayton & Co. or related firms had had private business dealings with Billie Sol Estes. In response, W. B. Watkins advised the subcommittee that he had made an inquiry concerning such private business dealings and the only instances of this nature appeared to be as follows:

"(a) For several years prior to 1957 my brother and I (personally) jointly owned two half sections of land in the Pecos area which we leased to Billie Sol Estes for farming purposes on a yearly basis for a cash rental. About 1957 I gave my children my interest in this land, it is my understanding that they and my brother continued to lease this land to Estes for farming purposes on a cash rental basis each year down through 1962 (although I understand that since Estes had been paying the cash rental at the end of each year, they never did receive any rent for the year 1962).

"(b) I understand that in the latter part of 1961 or early 1962 Billie Sol Estes made an agreement to buy a tract of land in the Pecos area owned by Mr. William R. Bickley, our Pecos mill manager, and advanced \$4,000 to Mr. Bickley against the purchase price of the land. Shortly thereafter, Estes informed Mr. Bickley that he would not be able to go through with the purchase, and it is my understanding that Mr. Bickley refunded the \$4,000 to Estes."

Although Watkins stated that the \$4,000 refund by Bickley to Estes occurred shortly after Estes originally advanced the money, the subcommittee's investigation disclosed that Bickley received the \$4,000 on April 28, 1961, and did not return it until nearly a year later, after Estes had been arrested.

The subcommittee's investigation disclosed reports that Anderson, Clayton & Co., had made advances to some of its customers for use in buying ammonia from Billie Sol Estes in early 1962. The ammonia was reportedly offered at very substantial discounts for payment in advance. Watkins made the following comment concerning this subject:

Our Pecos office informs me that in the early part of 1962 some of our regular crop finance customers came to them and stated that Billie Sol Estes had offered to enter into a written contract with the farmers to supply anhydrous ammonia fertilizer to such farmers for the forthcoming year at a price of 1 cent per pound if they would pay him in advance for the fertilizer. Since this price was considerably below the prevailing rate (which I believe was about 4 or 5 cents per pound), the farmers were anxious to make the deal with Estes. We try to avoid interfering with the decisions of our finance customers in matters of this type. Accordingly, without either recommending for or against the procedure, in the case of certain of our well-established

finance customers whose credit rating would justify an advance ahead of the normal schedule of our crop loan advances, it is my understanding that our Pecos office made an early advance to such finance customers against the amounts included in their crop loan budget for fertilizer expenses, which enabled them to pay Estes in advance under a contract to supply fertilizer later in the year. Since the "collapse" of the Estes enterprises occurred about the end of April 1962, when a considerable part of the anhydrous ammonia fertilizer has normally been delivered to the farms, it is my understanding that all our finance customers who had made contracts with Estes for delivery of anhydrous ammonia fertilizer in 1962 actually received delivery from Estes, prior to his arrest, of the fertilizer for which they paid. Since the loan advances made by us in situations of the type outlined above were simply charged to the customers' accounts as fertilizer advances in the loan ledgers and no particular emphasis was attached to the transactions, it is difficult to pinpoint the exact number of instances where this occurred, although I gather there were relatively few situations where advances of this nature were made to our finance customers.

ESTES' SURPLUS HOUSING OPERATIONS

The subcommittee reviewed records of the Public Housing Administration relating to purchases of surplus housing structures by or on behalf of Billie Sol Estes. These records indicated that Estes purchased, either directly or through representatives, 205 surplus temporary war housing structures containing about 700 dwelling units. The buildings were purchased during the years 1950 through 1957 at a total cost of approximately \$221,000. A detailed breakdown of these purchases, including the names of individuals acting for or in participation with Estes, appears below:

Purchaser	Date	Cost	Description	Location
Earl Turnell.....	Nov. 22, 1950	\$4,815.78	2 buildings (16 units)....	Belen, N. Mex.
S. J. Boseman.....	Nov. 27, 1950	2,842.60	2 buildings (12 units)....	Do.
J. O. Dickey.....	Nov. 20, 1950	2,786.00	2 buildings (12 units)....	Do.
Billie Sol Estes.....	Nov. 26, 1952	56,190.00	42 buildings (150 units)...	Port Neches, Tex.
Do.....	Apr. 22, 1953	2,500.00	19 buildings.....	Fort Bliss, Tex.
	June 5, 1953	4,218.30	27 buildings.....	Do.
Earl Turnell.....	July 27, 1953	33,922.00	44 buildings (211 units)...	Orange, Tex.
Estes Bros.....	Dec. 8, 1953	13,260.87	12 buildings (92 units)....	Do.
Billie Sol Estes.....	Mar. 10, 1954	32,366.89	11 buildings.....	Roswell, N. Mex.
United Construction Co. (Billie Sol Estes/Dr. Harold Lindley).	Oct. 4, 1954	10,000.00	13 buildings (90 units)....	Junction City, Kans.
United Construction Co.....	Oct. 25, 1954	15,160.00	12 buildings (50 units)....	Blythe, Calif.
Billie Sol Estes.....	Oct. 10, 1955	22,166.27	10 buildings (56 units)....	Clovis, N. Mex.
Word Estes.....	Nov. 20, 1957	5,753.00	2 family quarters.....	Pyote AFB, Tex.
Bobby Frank Estes.....	Nov. 20, 1957	15,503.00	7 family quarters.....	Do.

In addition to the structures purchased from the Government, the subcommittee's investigation indicated that Estes also acquired surplus housing units from other sources. In 1953, PHA transferred a number of housing units at Blytheville Air Force Base, Blytheville, Ark., to that city for continued local housing. The Delta Homes Investment Co., a partnership composed of Billie Sol Estes, Russell

Brothers, and Robert S. Clement, Dickson, Tenn., later acquired some of these units from the city at a cost of approximately \$36,000. The Federal Housing Administration advised the subcommittee that no FHA loans were made on these properties. Other investigative reports examined by the subcommittee indicated that Estes purchased the one-half interest of Charles E. Carlow, Taylor, Tex., in about 480 housing units located in Spokane, Wash., in 1955, giving a note for \$25,000 in exchange.

Testimony at a Texas court of inquiry in Amarillo indicated that Estes obtained a total of around \$200,000 from the Nashville Christian Institute in 1955, 1956, and 1958, transferring mortgages on converted surplus housing structures as a part of the transactions.

In 1954, PHA records indicated, Estes sold 41 surplus houses, previously purchased by him in Orange, Tex., to W. S. Lambert and Horace L. Jones, De Quincy, La. These houses were delivered by Estes to Lambert and Jones at De Quincy. The Federal Housing Administration later issued mortgage commitments on 32 of the houses, 18 of which were foreclosed by 1961. A subsequent investigation by the Housing and Home Finance Agency indicated the existence of irregularities on the part of Jones in connection with the mortgages. In January 1962, Jones was barred by FHA from further participation in FHA programs. Criminal prosecution of Jones was declined by the U.S. attorney, Shreveport, La., on the grounds that any alleged criminal actions were barred by the statute of limitations. The subcommittee's review of investigative records did not disclose any evidence establishing that Estes was involved with Jones in the alleged irregularities.

The subcommittee's examination of PHA records indicated that small monetary penalties were assessed against Estes on several occasions for failure to remove purchased structures from Federal property on schedule, but did not disclose evidence of significant irregularities.

OPERATIONS OF COLEMAN M'SPADDEN

Background

On a much smaller scale, Coleman McSpadden, of Lubbock, Tex., carried on grain storage, ammonia sales, and fraudulent financing operations which paralleled—and at times were intermingled with—those of Billie Sol Estes. During the period in which Estes' tank transactions were heaviest, McSpadden also owned the majority stock interest in Superior Manufacturing Co., the firm through which most of the transactions were handled.

According to a May 1960 Dun & Bradstreet report, McSpadden, then 42, had returned to Lubbock after World War II Navy service to work as a carpenter for his father. Before acquiring grain storage and anhydrous ammonia sales interests in the late 1950's, McSpadden engaged in the carpet business, oil ventures, and the motel business. The following testimony, from a deposition of J. O. Kuykendall, of Lubbock (McSpadden's hometown), indicates that McSpadden apparently had a somewhat mixed reputation as a promoter:

Q. You knew Coleman McSpadden to be—have a thoroughly unsavory reputation around town here, didn't you?

A. Yes. That is not a bad way to put it, that is not the words I would use but—

Q. All right.

A. He had been in and out of lots of little old things, and just barely squirmed out, you know.

Q. Well, kinda halfway shady transactions?

A. Yes.

Ammonia Sales Operations

According to his testimony at Amarillo, Coleman McSpadden entered the anhydrous ammonia business in October 1958. At that time, McSpadden acquired Associated Growers of Hereford, a firm dealing in onions, lettuce, potatoes, and fertilizer. Hereford, a town of about 7,500, is located in Deaf Smith County, Tex., some 65 miles northwest of Plainview.

In his testimony, McSpadden stated that he first met Billie Sol Estes in late 1958 or early 1959. McSpadden gave the following account of what Texas Attorney General Will Wilson later referred to as the "finger in the face meeting":

The first time I ever met Billie Sol Estes was when he and Mutt Wheeler and Mr. Stone, of Plainview, and one other gentleman—I don't recall his name at this time—came into my office at Hereford, Tex., and first approached me to buy anhydrous ammonia from them.

He was telling me how many trucks he had, and I told him I had trucks, and we got into a little debate there, and for some unknown reason, he jumped up and stuck his finger in my face, and said if it was the last thing he ever did, he was going to break me—and he did.

Under further questioning, McSpadden gave a possible explanation for Estes' show of temper:

A friend of mine was in the merchant marine with Billie Sol Estes, and before I ever met Billie Sol Estes, he asked me if I knew him, and I told him no, I didn't know him.

And he said, "Well, you'd better hope he never comes up in this country," that he was a good operator, very smart, and jokingly he told me about when they were aboard ship, that Billie Sol never did any of the work, all he ever did was play poker.

He said within 48 hours after every payday aboard ship, he would have all the money aboard ship.

So I told Billie Sol that, and he got mad.

Q. He got mad at what you told him?

A. I was just kidding him. I said, "Are you a pretty good poker player?" and I told him what this fellow had told me.

Q. And that is when he told you what?

A. He just jumped up and poked his finger in my face and said, "If it's the last thing I ever do, I am going to break you."

According to his testimony, McSpadden—who was then handling anhydrous ammonia produced by Phillips Petroleum—at first refused to be shaken by Estes' threat and told him he would stick with Phillips. McSpadden gave the following description of Estes' subsequent conduct:

* * * he proceeded to break the price of ammonia in the Panhandle, severely, and that caused a loss of customers and

business to our firm, and in fact, it got down to the point where I either had to close my doors, or knuckle down to him and buy ammonia from him, because that would be the only place where I could buy ammonia and still compete with him.

Around March 1959, according to McSpadden, there was another meeting with Estes in McSpadden's office. At this meeting, later identified by Attorney General Wilson as the "throw in the towel" meeting, McSpadden said:

* * * I told them I had had it, that I would just throw in the towel.

You have got me whipped, and I don't have any choice.

McSpadden testified that Maynard Wheeler, president of Commercial Solvents, Corp., attended the meeting in his office, but the subcommittee found no credible evidence to support this assertion. As a result of arrangements made at the meeting, McSpadden said he purchased Commercial Solvents ammonia through Estes. (McSpadden later switched to the Armour Chemical Co. as his major source of ammonia; his relationships with Armour will be described later.)

According to McSpadden, his business interests and those of Estes were separately owned and operated. However, the two men worked together and used similar business methods. McSpadden, as well as Estes, made sales of ammonia at retail for prices close to the wholesale level. McSpadden was also slow to pay his suppliers. An example of this is described in a letter to the subcommittee from the Hooker Chemical Corp., which sold McSpadden about \$140,000 worth of sodium chlorate (a chemical used in insecticides) from 1958 through 1961. According to Hooker:

* * * The terms of sale were on a basis of 30 days and while invoices were never paid on time, the final payment for the year's account was usually made by the end of the year during the years 1958, 1959, and 1960. With respect to the shipments made in 1961 in the amount of \$40,579.73, nothing was paid on this account until November, when the account was reduced to \$35,000. We then received from Associated Growers 10 promissory notes each in the amount of \$3,500. The January and February notes were paid. The March note was not paid and we filed suit for the balance of the amount of \$28,000.

Superior Manufacturing Co. Stock

Coleman McSpadden was one of several persons who acquired control of Superior Manufacturing Co. in April 1960. Superior, the Amarillo tank manufacturing firm which handled most of Billie Sol Estes' fraudulent tank mortgages, was purchased with funds raised through the use of fraudulent tank mortgages. Another member of the group which acquired Superior was John W. Simmons, one of Estes' fertilizer customers. Simmons, who then had a retail anhydrous ammonia business and grain storage facilities at Wildorado, Tex., signed tank mortgages for approximately \$78,000. (Circumstances involved in the acquisition of Superior are described in greater detail on pages 262-264.)

Not long after the change in ownership of Superior, payments on the tank notes signed by Simmons were taken over by other members

of the group. In testimony at Lubbock, Simmons claimed he had not been aware there were no tanks until the day Superior was acquired. Thereafter, Simmons said, he "got scared" and told the others he "wanted out" because "I didn't want to go to the penitentiary over it." In testimony at Amarillo, which follows, Coleman McSpadden gave a different version of the circumstances leading to Simmons' surrender of his Superior stock:

Q. Did he request to get out of the company, or did the company request him?

A. We made the initial request.

Q. For what reason?

A. We had heard that Mr. Simmons was having various financial difficulties, etc., with his business, and that the Government had found him short of grain in his warehouse, and that they were either threatening or had canceled his license.

And we decided that if something ever came of it, it might be bad for Superior.

According to USDA records, the John W. Simmons Grain Co., Wildorado, Tex., was approved for storage of Government grain on May 6, 1959. Simmons' storage facilities at Wildorado were suspended by the Dallas Commodity Office on March 16, 1960, after a routine warehouse examination showed a shortage of 30 cars of grain sorghum.

McSpadden and Harold Orr testified that Simmons had been promised an opportunity to get his Superior stock back if his troubles with the Department of Agriculture were cleared up satisfactorily. An agreement to this effect, signed by McSpadden, Orr, and Ruel Alexander and accepted by Simmons, was introduced as an exhibit during Orr's testimony at Amarillo. The agreement, which was dated May 15, 1960, read as follows:

In consideration of the transfer of stock in Superior Tank Co. to us, we the undersigned, do hereby agree to accept liability of payment of notes in connection with the purchase of said stock. We also agree to reissue said stock to John W. Simmons at such time as Mr. Simmons' personal affairs are in such order that they will not complicate the operation and reputation of Superior Manufacturing Co. In no case will this agreement to reissue this stock extend beyond November 21, 1960.

Acquisition of Simmons' Business Interests

Simmons' business difficulties apparently became worse instead of better. S. Tom Morris, a lawyer who had defended Simmons in a suit brought by Billie Sol Estes on a fertilizer account around March 1960, testified at an Amarillo hearing that Simmons came to see him later that year because of financial problems. Morris said that in July 1960, Simmons was looking for "some way to unravel his difficulties." According to Morris:

In looking at his indebtedness and assets, etc., his cash position was bad, and he could not meet his current bills.

I advised him, about that time, that it looked like his only salvation, in order to attempt to pay his creditors and to salvage anything at all, was to find a buyer for his assets.

Around the end of August, Simmons' business interests were transferred to McSpadden. Testimony concerning McSpadden's reason for entering into the transaction is conflicting. McSpadden testified that he had refused to buy Simmons' business interests after discovering "that Mr. Simmons owed considerably more than he had assets." The next day, McSpadden testified, he was asked by Harold Orr to come to Amarillo where he met with Orr and Simmons and Morris in Morris' office in the Amarillo Building. McSpadden testified that the following discussion then took place:

They wanted to know why I wouldn't buy, and I said, well, it didn't seem like a feasible deal, that he owed a lot more than he was worth, and that I had found out a lot of it was very pressing.

Some of the people were threatening foreclosure on some of their mortgages, and he said well, that Mr. Simmons had told him everything about how we bought Superior Manufacturing Co., and that he would do anything he could to protect his client, and he suggested that either McSpadden, myself, or Superior, or he didn't care who, buy Mr. Simmons out.

I told him it would just be too hard, I didn't see how we could handle it, and he said, "I am in the position that I will blow the whistle on you if you don't."

Q. Who said that?

A. Mr. Tom Morris.

Tom Morris, in testimony at Amarillo, vigorously denied that he had threatened McSpadden with exposure if he did not take over Simmons' business interests. Morris testified that, after a conference on August 26, 1960, concerning the possibility of selling out to McSpadden, Simmons had told him of the bogus tank paper used to buy Superior. According to Morris, Simmons also said that Harold Orr had asked him to sign repossession papers on the nonexistent tanks. The next day, Morris said, he met with Orr and Simmons in his office; Morris gave the following account of what happened:

I had never met Harold Orr, and he walked in my office, and one thing I remember distinctly, he had about a dozen cigars sticking out of his shirt pocket, and he had some papers in his hand.

John introduced him to me, and then Mr. Orr—I asked him to have a seat, and Mr. Orr turned to John and said, "John, I sent a truck out there yesterday and got the first bunch of those tanks, and I have sent a truck out there this morning to get the rest of them."

He said, "I need for you to sign these repossession documents" and I looked at Mr. Orr, just like I am looking at him right now, and I said, "Mr. Orr, who do you think you are trying to fool? John has told me about your crooked deal. The felony is already committed, and we are not going to join in further compounding of it."

"We are not going to sign any false repossession documents."

Mr. Orr sank down in this chair, and stumbled a bit, and said, "What do you want me to do?"

I said, "I don't want you to do a thing in the world.

"Mr. Simmons and Mr. McSpadden were discussing a business deal. If you want to get hold of Mr. McSpadden and you still want to talk some business, we will be happy to talk with you."

Later that day, Morris testified, he met with Coleman McSpadden and McSpadden's attorney. Morris described events at this meeting as follows:

That was the first time I had ever met Coleman McSpadden.

We exchanged the usual pleasantries, and Mr. McSpadden looked at me and said, "Now, Mr. Morris, I don't know what you have on your mind, but if you think you are going to scare me, you have just got another think coming," or words to that effect. That might not have been exact.

I said, "Mr. McSpadden, I haven't threatened you, and I'm not threatening you.

"We have one thing to discuss, as far as I am concerned, and that is a business transaction between you and Mr. Simmons, and that's all I'm interested in."

Mr. McSpadden then reached over and stuck out his hand and said: "You are not the kind of a man I have been led to believe you were."

From that point forward, we got down to discussing the contract which Mr. McSpadden and Mr. Simmons had been negotiating on for several days.

During the course of that afternoon, the substantial terms of their agreement were worked out.

Under the agreement, signed on August 30, 1960, Simmons apparently was to convey most of his property to McSpadden. McSpadden was to take title subject to debts against the property owed by Simmons to the extent of the reasonable market value of the property. Simmons testified that he retained a house, three tractors, and a pickup truck, but that McSpadden got "everything else out there, even the rusty nails." McSpadden said that, after taking over Simmons' property: "We paid out about \$435,000, either in cash or by swapout on Mr. Simmons' deals in about 3 weeks there, to keep everybody off." Simmons subsequently filed a lawsuit against McSpadden, alleging that McSpadden had refused to pay certain obligations against the properties. McSpadden contended that he was not liable because he had already paid or agreed to pay obligations in excess of the reasonable market value of the property.

McSpadden Tank Transactions

In less than 2 years, beginning in April 1960, Coleman McSpadden obtained more than \$2 million from mortgages on nonexistent ammonia tanks with a face value of close to \$3 million. Detailed information concerning the McSpadden tank notes appears in the appendix on page 435.

According to testimony of Orr and McSpadden at Amarillo, McSpadden turned to tank mortgages as a means of paying off obligations against the property conveyed to him by John Simmons. McSpadden testified that Orr called Estes to Amarillo for a meeting

when they were unable to raise funds needed to pay off these obligations. McSpadden gave the following account of the meeting, which he said took place around September 3, 1960:

Of course, Mr. Estes, when we told him about the Simmons deal, he said: "You all are crazy. I turned him down."

And we said: "Well, we don't want the whistle blown yet."

* * * * *

And Mr. Orr told Estes: "This is partly your fault in getting old John in on that anhydrous ammonia deal out there, and you are going to help us."

And so Mr. Orr threw out some blank chattel mortgages, and Mr. Estes signed a few of them, I don't know how many.

Both McSpadden and Orr claimed—and the subcommittee's investigation tended to confirm—that the McSpadden tank deals were separate from those of Estes, even though some of the same persons were involved and the same methods were used. McSpadden followed Estes' example in setting up a bank account in the name of a fictitious company for use in transferring tank mortgage proceeds. In McSpadden's case, the bank account was established in the name of the Caprock Steel Co. at the Citizens National Bank of Lubbock. Funds deposited to the account by Superior Manufacturing Co. were then transferred for use by McSpadden.

McSpadden also changed numbers on ammonia tanks in an effort to prevent finance companies from discovering that those he had supposedly financed did not exist. An incident of this kind occurred in early 1961, according to testimony at Lubbock by William King. King was a field representative for CIT at the time, although he later left CIT and became an officer of Superior Manufacturing Co. In his testimony, King described his efforts to locate collateral on a CIT transaction involving McSpadden:

In January or early February, CIT had arranged to finance 12 12,000-gallon storage tanks for Mr. McSpadden, and because he was an officer of Superior Manufacturing Co., that is something that a finance company does not like to do, is finance merchandise for an individual who is creating the installment paper, and it was customary in that case to conduct a commodity check. That was done without the knowledge of the dealer or without the knowledge of the customer. The 12 tanks were supposed to be located 3 miles north of Summerfield, Tex., which is just west of Friona. I drove over there without saying anything to anybody and went to the Summerfield area and there wasn't tank one.

King testified that, after being informed by a neighboring grain elevator operator that there were no such storage tanks in the area:

* * * I drove all over the country looking for the tanks, and still unable to find them, I went to a pay telephone in Friona, Tex., and I called Dallas and talked to Mr. A. R. Rousseau, who is the operating head of the CIT Corp. in charge of credit, and I reported to him that I could not find the 12 tanks. He sounded like he was about to get rattled

and I said: "Well, Bob, sometimes these tanks are located where soil conditions or moisture conditions are right for the use of ammonia." I said: "Before you do anything, let me check into it a little further and make sure they haven't just been relocated or perhaps documented for that location," and so on * * *.

King described what happened after he talked with Rousseau as follows:

* * * I drove back to Amarillo and got there about 4:30, went straight to Superior Manufacturing Co., asked the receptionist to talk to Mr. Orr, I was told Mr. Orr was in conference and I couldn't see him, so I asked her for a scratch pad and wrote him a note, saying, "Harold, I can't find those 12 tanks that belong to McSpadden, where the H are they?" I stapled the message together where no one would see it, so the girl couldn't read it, I asked her if she would give that to Mr. Orr when he came out of his inner sanctum. About 6:15 that afternoon Mr. Orr called me at my home, he apologized for not being brought into his office, asked me what was wrong, and laughed because I couldn't find the tanks, asked me to come back the next morning * * *.

King gave this description of events on the following day:

* * * I met with Mr. Quirk at 7 a.m. the next morning in his car at the plant and we drove 745 miles that day through about nine—well, it was actually nine counties. He took me to every one of the 12 tanks. I specifically designated exactly where they were located and how to get there, the farm roads, and et cetera, sent a complete report to CIT Corp. and they were satisfied with the collateral check.

According to King, Harold Orr confessed more than a year later that:

* * * What you didn't know, King, is those were actually Estes tanks and Jack [Quirk] went out the night before and changed serial numbers on all of them so he could take you around to them.

McSpadden Storage Operations

Coleman McSpadden, as has been indicated previously, entered the grain storage business in late August 1960, when he acquired facilities at Wildorado which had been owned by John Simmons.

The John W. Simmons Grain Co. had warehouses at two locations—Wildorado and Westway (7 miles west of Hereford)—with a total capacity of around 1.2 million bushels. The Simmons facilities, which had been approved for storage of Government grain on May 6, 1959, were suspended on March 16, 1960, after a routine examination showed a shortage of approximately 50,000 bushels of grain sorghum. Further investigation indicated that the shortage was due to conversion sales by Simmons, and the matter was referred to the U.S. attorney for possible criminal prosecution early in June 1960. Government grain in storage in Simmons facilities was loaded out and, because of the suspension in effect, Simmons was ineligible to receive

either Government-owned grain or producer grain on which Government loans were to be made.

The subcommittee's investigation indicated that Simmons made at least two trips to the Dallas commodity office in an attempt to have his facilities reinstated in time for the 1960 harvest; he was turned down because the pending case against him was considered "too flagrant." Criminal prosecution of Simmons was declined on August 3, 1960, but a civil claim for approximately \$18,000 was still pending. Simmons' facilities were transferred to McSpadden on August 30, 1960, and a uniform grain storage agreement with McSpadden was approved on October 4, 1960.

McSpadden also acquired grain storage facilities from W. H. Addington, of Wichita, Kans. A December 31, 1960, financial statement filed by McSpadden with the Department of Agriculture listed an equity of \$189,000 in Addington Grain, Inc., Amarillo, among McSpadden's assets. Addington Grain owned storage facilities at Zita Switch, near Amarillo. The Zita Switch facilities were leased to the Pullman Wheat Growers Cooperative, which had a UGSA for that location, and McSpadden apparently never took physical control of them. Around June 1961, McSpadden bought a 515,000-bushel warehouse at Tucumcari, N. Mex., from Addington. McSpadden obtained a UGSA at this location on July 28, 1961.

In addition to the warehouses acquired from Addington, McSpadden built facilities with a total capacity of nearly 3 million bushels near Lubbock. The first section of the Lubbock installation was approved for storage of Government grain on June 20, 1961, and a second section on October 18, 1961. A 487,000-bushel addition at Wildorado was approved on November 8, 1961. McSpadden also built receiving points near Hereford and Friona, Tex.

At the time of his arrest, McSpadden had a total of slightly more than 5 million bushels of space at three locations approved for storage of Government grain. An additional 2½ million bushels, according to McSpadden's testimony, was under construction. McSpadden built storage space on credit, as did Estes, utilizing some of the same firms that built facilities for Estes. Total payments made by CCC for storage of grain in facilities operated by McSpadden were around \$250,000; most of this amount was assigned by McSpadden to firms which built storage facilities for him.

McSpadden also submitted to the Department of Agriculture a financial statement prepared by Winn P. Jackson, the same accountant who had prepared a spurious statement for Estes. This financial statement, which was furnished to the Department of Agriculture on January 22, 1962, showed a net worth of nearly \$2 million for McSpadden as of December 31, 1961. The financial statement prepared by Jackson for McSpadden clearly indicated, in contrast to the one prepared for Estes, that it was not based on an audit.

McSpadden-Estes Relationship

In testimony at Amarillo, Coleman McSpadden said his operations were separate from those of Estes. According to McSpadden, "He didn't own any of my business, and I didn't own any of his business. No, sir, there is no connection."

Although the subcommittee's investigation tended to confirm McSpadden's testimony that his operations and those of Estes were

separately owned and controlled, there was unquestionably a close relationship between the two men. The existence of a working arrangement between the two was apparent to others as early as 1960. The Stauffer Chemical Co., which had been selling ammonia to Associated Growers of Hereford, terminated business dealings with Associated in September 1960 because of the company's concern that McSpadden might be "involved with Estes in some way—possibly sharing some mutual interest in grain or anhydrous ammonia companies." The Stauffer Co. advised the subcommittee that:

This concern that the two had become associated in some way arose from the many rumors that were "flying" around Texas in early 1960 concerning Estes' interests. One rumor which apparently concerned us most at the time was the possibility that a farm equipment company (Superior Tank Manufacturing Co.) in which McSpadden may have had a significant ownership interest may have played a part in obtaining equipment mortgage loans for local growers whom we believed purchased agricultural chemical products from Estes' interests. * * *

While their business operations were separate, McSpadden testified that he and Estes had a close personal relationship. McSpadden testified that Estes—who was a nondrinker—would frequently call him late at night just to talk. According to McSpadden:

* * * Mr. Estes would call me very often, most likely at night, and most of the time, late at night, even as late as 2 in the morning, just to talk.

I guess he had to talk to someone, and he talked to me, along, I am sure, with other people, and later I got to checking with Mr. Orr—I would call Harold and I would say, "Have you talked to Billie Sol?" And he would say, "I just now did." Or Harold would call me and say, "Have you talked to Billie Sol?" and I would say, "Yes."

So he would call both of us in the same night or the same day, and he would just unburden himself and tell all about his meetings, where he had been, and where he was going.

I don't know why.

During their conversations, McSpadden said, Estes often claimed or implied that he had influenced or bribed Government officials, usually without giving specific details. According to McSpadden, Estes claimed or implied—among other things—that he had stopped an FBI investigation in 1961, that he had exerted influence in Washington through Commercial Solvents Corp. but could do a better job himself, and that it was costing him \$100,000 per day "to maintain this situation in Washington." McSpadden testified that Estes furnished no proof of his allegations, and the subcommittee found no credible evidence to substantiate them.

On one occasion, Estes did give McSpadden some details concerning his alleged influence in Washington. The incident was described by McSpadden in the following testimony:

* * * in February 1962, he called me at Hereford, Tex., and told me that they were fixing to cancel my grain bond, and that this information had come across the desk of Mr.

Morris, and Mr. Morris had called him and asked him what to do about it.

And he told him to throw it in the trash.

And I said, "Well, did he?" and he said, "He threw it in the trash."

And I said, "What if anything else comes through?" and he said, "Don't worry. I told you not to worry."

And I said, "Well, how did he know my name?" and he said, "Oh, I told them all about you up there," and he said, "I told Mr. Morris especially to be the interceptor, and anything that came through on you, just to call me first, and we would take care of it."

And I sure was glad.

McSpadden's testimony indicated that he was not familiar with Department of Agriculture procedures; if he had been, he probably would have recognized a number of discrepancies in Estes' story. The Department of Agriculture would have had no reason—and probably no authority—to cancel McSpadden's grain bond, since that bond existed for the purpose of protecting the Department from possible loss. If the Department had been seriously concerned about McSpadden's storage operations—and the subcommittee found no indication that it was in February 1962—the appropriate action would have been to place his facilities under suspension and withhold storage payments pending completion of an investigation. Estes undoubtedly had a friendly relationship with William Morris, then assistant to Assistant Secretary James Ralph. However, Morris' duties did not include either responsibility or authority for making decisions concerning McSpadden's surety bond. In fact, no one in Washington had that responsibility; since McSpadden's warehouses were not federally licensed, his Government grain storage operations were handled by the Dallas commodity office.

The subcommittee's investigation indicated that Billie Sol Estes habitually told falsehoods not only to unsuspecting victims of his fraudulent activities, but to those associated with him in carrying them out. In this case, Estes' misrepresentations appear to have been designed to insure McSpadden's continued cooperation by convincing him that Estes had influence and that this influence was needed and being used to keep McSpadden out of trouble.

McSpadden-Armour Transactions

From September 1959 until the time of his arrest Coleman McSpadden's major source of anhydrous ammonia was the Armour Agricultural Chemical Co. During this period, McSpadden (through Associated Growers) purchased ammonia valued at \$2,233,558.17. McSpadden's purchases of other types of fertilizer from Armour amounted to around \$375,000 during the same period. At the time of his arrest McSpadden owed the Armour Co. well over \$1 million. The unpaid balance due for ammonia was \$913,500; an additional \$164,000 was owed for other types of fertilizer. The bulk of McSpadden's indebtedness had been incurred during the first 3 months of 1962 when ammonia purchases amounted to nearly three-quarters of a million dollars and purchases of other types of fertilizer exceeded \$100,000. McSpadden's tremendous indebtedness to the Armour Co. was incurred in spite of the fact that the company had established a credit limit of \$350,000 for ammonia sales to Associated Growers.

The Armour Co. advised the subcommittee that all transactions with McSpadden were handled through the company's Dallas office. When these transactions occurred, Armour stated, H. G. Wells was manager of the Dallas office and all other Dallas employees were responsible to him. According to Armour, Wells concealed significant information concerning the McSpadden account from his superiors in the company's home office at Atlanta.

The first important information concealed by Wells, Armour told the subcommittee, involved submission of bad checks by McSpadden in 1960. Armour described the incident as follows:

On July 8, 1960, two checks of Associated Growers in the sums of \$38,984.61 and \$18,804.30 were dishonored. They were recleared and again returned on July 17. They were replaced with two other checks which were dishonored and returned July 25. The latter were then made good with other checks which cleared.

There were standing instructions that immediate notice be given to the credit department by letter when any item received in payment failed to clear the bank. The practice at Dallas had been for Mr. O. L. McMillan to write these letters. When the first checks bounced, Mr. McMillan prepared the letter but was directed by Mr. Wells not to send it. Either at that time or subsequently Mr. Wells directed Mr. McMillan not to send any such letters in connection with the McSpadden accounts.

After the July 1960 incidents, according to Armour, there were no further bad checks until April 1961 "* * * when checks started bouncing in earnest." Records furnished by Armour indicated that more than 40 McSpadden checks with a total face value of approximately \$750,000 were returned between April 29, 1961, and March 31, 1962. The total probably contains some duplication since some checks were redeposited after being dishonored and were then dishonored for the second time.

In 1962, according to Armour, Wells concealed from his superiors the amount of ammonia sales to McSpadden. The company described what happened as follows:

Atlanta had established a credit line of \$350,000 for ammonia sales to Associated Growers (McSpadden). There is some flexibility possibly up to 20 percent, permitted the local credit man.

On March 8, 1962, the head credit man in Atlanta and his assistant made a trip to Dallas in connection with obtaining a mortgage in the sum of \$350,000 and conferred with Mr. Wells thereon. At the same time they saw the books as closed for the period ending March 3 and had a transcript sent them.

All the ammonia sold was outside purchases. Mr. Wells knew at all times the approximate credit exposure as he not only placed the orders but was advised by wire as cars were shipped by the suppliers. It was not customary to bill the ammonia to the customers until the bill from the supplier was received and thus there was some delay in recording the charge on the books. In February of 1962

Mr. Wells instructed Mr. Cecil Fulmer to delay billing after receipt of the supplier's bills * * *.

As of March 3 closing the books showed a balance owing of \$322,487.20 whereas Mr. Himmel [who investigated the matter for Armour] has computed that based on cars shipped the exposure was \$616,290.63, giving no effect to the fact that as shown in exhibit A over \$26,000 of the payments credited to the account on March 1 had bounced prior to the date of the visit. Mr. Wells did not call this situation to the attention of the credit men nor tell them that further substantial shipments had been made between the 3d and the 8th and that very substantial orders had been placed with suppliers for further shipments.

The subcommittee's investigation indicated that a 1960 Ford purchased by Coleman McSpadden on August 24, 1960, from the Shambeck Motor Co., Inc., Dimmitt, Tex., came into the possession of H. G. Wells shortly thereafter. Although the car was paid for by McSpadden, it was registered in Wells' name and remained in Wells' possession.

From July 1959 through July 1962, Armour Chemical Co. purchased a total of 100,122 tons of nitrogen products from Commercial Solvents. The Armour purchases included 27,664 tons of ammonium nitrate and 71,938 tons of nitrate solutions; the remaining 520 tons consisted of anhydrous ammonia. Information obtained from Commercial Solvents indicated that the 520 tons of anhydrous ammonia was shipped to McSpadden. Testimony by Gerron S. "Mutt" Wheeler, who operated the Wheeler Fertilizer Co. for Estes at Hereford, indicated that at least part of this ammonia was turned over to him by McSpadden under arrangements made by Estes. According to Wheeler, the ammonia was then sold for 3 to 4 cents per pound.

Events Preceding Arrest of McSpadden

Coleman McSpadden maintained several bank accounts at the Citizens National Bank of Lubbock, including an account in the name of a fictitious corporation (the Caprock Steel Co.) which was used to transfer funds derived from fraudulent tank mortgages. All the McSpadden accounts were closed out by the Citizens National Bank on March 12, 1962, nearly 3 weeks before Estes and McSpadden were arrested. The bank gave the following reasons for its action:

* * * At that time there were numerous rumors going around, especially in banking circles, originating through the reprinted articles in the Pecos newspaper. Coleman D. McSpadden's name had been connected with large numbers of ammonia tank mortgages, and he had come under suspicion from several sources. In addition, on January 1, 1962, the Citizens National Bank appointed a new president, one E. W. Williams, Jr., who had formerly been associated with another bank, and who had had an unpleasant experience with McSpadden, and he felt that it would be best for the bank that McSpadden become an ex-customer. All things considered, it was a group decision to terminate any account in which McSpadden seemed to have an interest.

In early March 1962, as has been indicated previously, Armour Chemical Co. took steps to obtain a \$350,000 mortgage on certain assets of Coleman McSpadden to secure his fertilizer account with Armour.

The subcommittee's investigation disclosed that Maynard Wheeler, president of Commercial Solvents Corp., met with Wilbur Shelburne, chairman of the Armour Agricultural Chemical Co., in Atlanta in March 1962. At the time, Wheeler was returning to New York after a 3-day visit with Billie Sol Estes in Pecos. At the subcommittee's request, personnel of the General Accounting Office interviewed Shelburne concerning the nature of his meeting with Wheeler. A report on this interview, which was provided to the subcommittee by the General Accounting Office, reads in part as follows:

Mr. Shelburne said that he has met Mr. Maynard Wheeler, president of Commercial Solvents Corp., on several occasions, but that he does not specifically remember a meeting in March 1962. Mr. Shelburne said that he met Mr. Wheeler once in the New York office of Commercial Solvents Corp., while Mr. Wheeler was still a vice president of that corporation, and that on other occasions Mr. Wheeler has stopped by the Armour office in Atlanta on his way to or from Florida. Mr. Shelburne said that in each of his meetings with Mr. Wheeler the only substantive matter discussed was Armour's purchases of nitrogen from Commercial Solvents. Mr. Shelburne said that all of his contacts with Mr. Wheeler have been strictly business, and that all of his meetings with Mr. Wheeler have been in the office. He said that he had read that Mr. Wheeler was a house guest of Estes over a weekend.

Specifically, Mr. Shelburne said that he and Mr. Wheeler never discussed McSpadden or Estes, or any of their activities—at least, not before the Estes affair became common knowledge; that Mr. Wheeler never indicated to him that he knew Estes was in trouble—because Estes was never a subject of their conversation; and that he and Mr. Wheeler had never had a discussion concerning mortgages on anhydrous ammonia tanks.

Mr. Shelburne said that Armour Agricultural Chemical Co. had not had any contact or correspondence with Commercial Solvents Corp. or with anyone else concerning the West Texas fertilizer situation as affected by Estes' operations. * * *

Commercial Solvents Corp. told the subcommittee that:

Wheeler met for several hours with Shelburne on March 19, 1962, discussing Armour's nitrogen requirements for the coming year. This was a normal call on a good customer, and had no connection with Estes.

USDA CHANGES SINCE ARREST OF ESTES

The following description of changes in Department of Agriculture organization, regulations, policies, or procedures was provided by the Department at the request of the subcommittee.

Agricultural Marketing Service

Warehouse Operations and Inspections

The level of net assets required to be maintained by grain warehousemen for payment of any indebtedness arising from the warehouse operation, and the amounts of bonds required of warehousemen were increased.

Adjustment procedures, dealing with variances between warehouse records and measured inventories of grain, were tightened up considerably. More detailed checking into the causes of such variances was instituted.

A more comprehensive program of records review was instituted as a part of the regular warehouse examination procedure.

Organizational Changes

All financial statements are now reviewed by a certified public accountant.

Agricultural Stabilization and Conservation Service

Warehouse Operations and Inspections

CCC has executed a 5-year blanket insurance policy furnishing greater financial protection to CCC at less cost to most warehousemen than they were paying for substantially less coverage in the form of individual bonds. The blanket insurance policy will substantially reduce the administrative workload.

Revised operating instructions were issued establishing strict new policies and procedures for classifying grain shortages and the action to be taken in cases of conversion and wrongdoing. A new warehouse examiners handbook was issued prescribing examinations of warehouses operating under the uniform grain storage agreement.

Review of Farmer Committee System

In June 1962, the Secretary appointed a committee of experts in agriculture and public administration from outside the Department to undertake a thorough review of the ASC farmer committee system which administers farm programs at State and county levels. The committee's report contained many useful recommendations that were acted upon and led to improvements in the policies and procedures of ASCS.

Reorganization of ASCS

The Agricultural Stabilization and Conservation Service was reorganized in November 1962, in order to eliminate duplication and diffusion of authority and responsibility at the Washington level, and to strengthen the lines of communication, authority, accountability, and responsibility between the Washington office and field offices.

Revision of Regulations and Improvements in Operating Procedures

Numerous specific steps were taken by ASCS to strengthen and improve the administration of the cotton acreage allotment and marketing quota programs, including a review by the Washington office of all cotton acreage allotment transfers under the eminent domain provisions of the law. In addition to these steps and the reorganization of ASCS, numerous steps were taken to improve procedures and operations. These steps included: (1) improvements

in communications and the flow of information throughout the ASCS organization; (2) simplification of program regulations and procedures; (3) establishment of a central file for official record copies of all correspondence; (4) a self-appraisal plan for county committeemen and county office managers; (5) a comprehensive program of training and management improvement in State and county offices; and (6) improvement of procedures for selection of farmer-elected county and community committeemen.

Office of the Inspector General

In 1962 the Secretary consolidated all audit and investigative functions of the Department into one office, headed by an Inspector General, reporting directly to the Secretary. This action was taken to increase and improve the scope, independence, and effectiveness of these activities to insure responsiveness not only to the needs of individual agencies, but also the Secretary in reviewing the operations of the Department.

Particular stress is being given by the Office of the Inspector General to (1) serve all levels of management within the Department; (2) provide effective coordination of audit and investigative activities in the Department; (3) attain maximum independence and objectivity in reviews and reporting; (4) achieve flexibility in the use of professional audit and investigative manpower; (5) assure comprehensive reviews of departmentwide activities, regardless of agency lines; (6) attract and retain auditors and investigators of the highest professional caliber; (7) provide timely information and advice to all responsible officials on serious matters; (8) maintain close working relationships with other Federal departments and agencies and the Congress on audit and investigative matters; and (9) monitoring a system for assuring timely consideration of and action on audit and investigative disclosures.

CRIMINAL PROSECUTIONS

The following pages describe significant developments in major criminal prosecutions and a related civil antitrust case involving operations of Billie Sol Estes from March 1962 through August 1964. This data was compiled primarily from information furnished by the Department of Justice; however, in some instances newspaper reports and other sources were used.

Federal Criminal Prosecutions

March 29, 1962: Billie Sol Estes, Coleman McSpadden, Harold Orr, and Ruel Alexander arrested by the FBI and charged with interstate transportation of "forged, altered, or falsely made" chattel mortgages. Estes' bond set at \$500,000.

March 30, 1962: McSpadden, Orr, and Alexander released on \$25,000 bond.

April 2, 1962: Billie Sol Estes released under reduced bond of \$100,000 after hearing in U.S. District Court, El Paso, Judge R. E. Thomason presiding.

April 5, 1962: Billie Sol Estes indicted by Federal grand jury, Western District, El Paso, Tex., and charged with eight counts of mail fraud and interstate transportation of stolen property.

June 21, 1962: Indictment expanded to 29 counts, consisting of 16 counts of mail fraud, 12 counts of interstate transportation of stolen property, and 1 count of conspiracy. Billie Sol Estes, Coleman McSpadden, Harold Orr, and Ruel Alexander and Superior Manufacturing Co. named as defendants.

July 13, 1962: Billie Sol Estes pleaded not guilty to the indictment in the U.S. District Court, El Paso, Judge Thomason presiding.

McSpadden, Orr, and Alexander pleaded guilty to two counts of mail fraud, two counts of interstate transportation of securities obtained by fraud, and one count of conspiracy.

August 10, 1962: Billie Sol Estes was indicted by a Federal grand jury, Northern District of Texas, at Dallas, on three counts charging him with filing false financial statements with the Commodity Credit Corporation.

Robert Earl Clements, former owner of Superior Manufacturing Co., indicted by same jury on five counts of interstate transportation of securities knowing the securities to have been taken by fraud.

September 20, 1962: Judge Thomason sentenced McSpadden and Orr to terms of imprisonment of 10 years on each of two counts of interstate transportation of securities obtained by fraud, 10 years on one count of conspiracy and 5 years on two counts of mail fraud; sentences to run concurrently: maximum 10 years. Alexander sentenced to three 5-year terms and two 6-year terms to run concurrently: maximum 6 years.

November 30, 1962: Billie Sol Estes pleaded not guilty in the U.S. District Court, Dallas, to the indictment charging him with filing false financial statements with the Commodity Credit Corporation.

December 10, 1962: Judge Thomason orders stay of execution of sentences imposed on McSpadden, Orr, and Alexander until September 1, 1963. Billie Sol Estes trial set for March 11, 1963.

March 11, 1963: Trial of Billie Sol Estes began in the U.S. District Court, El Paso, Tex., before Judge Thomason on a 16-count indictment with 13 other counts set aside for a later trial in Pecos, Tex. During trial the court granted a motion by the Government to dismiss two of the mail fraud counts.

March 28, 1963: After 50 hours of deliberation the jury found Estes guilty on four counts of mail fraud and one conspiracy count.

April 15, 1963: Judge Thomason sentenced Billie Sol Estes to a term of imprisonment totaling 15 years, determined as follows: 5 years on each of two counts of mail fraud to run consecutively with 5 years on each of two other counts of mail fraud plus 5 years on one count of conspiracy.

March 9, 1964: Scheduled trial of Robert Earl Clements removed from the docket and set for trial in fall term 1964.

June 5, 1964: Arguments were heard in the Fifth Circuit Court of Appeals, Houston, Tex., on Estes' appeal from conviction in U.S. District Court.

June 22, 1964: Trial of Estes on indictment charging filing of false financial statements set by Judge Hughes for November 9, 1964.

August 10, 1964: Conviction of Estes affirmed by Fifth Circuit Court of Appeals.

State Criminal Charges

April 25, 1962: A Reeves County Grand Jury, Pecos, Tex., returned an eight-count indictment charging Billie Sol Estes with felony theft of \$828,577, the sum of money involved in anhydrous ammonia tank transactions with six Reeves County farmers. Estes posted \$22,500 bond.

July 20, 1962: Felony theft indictment against Billie Sol Estes dismissed at the request of R. B. McGowan, district attorney. Reeves County Grand Jury returned four new indictments each containing four counts charging Estes with swindling, embezzlement, theft, and theft by bailee. Estes posts \$20,000 bond.

July 23, 1962: District Court Judge J. H. Starley, 143d Judicial District, on his own motion, ordered a change of venue in the Estes case from Pecos to the 7th Judicial District, Tyler, Tex. Judge Otis T. Dunagan presiding, on the grounds that in his opinion a fair and impartial trial could not be obtained in his or any of the adjoining districts.

September 24, 1962: Jury trial of Billie Sol Estes began before Judge Dunagan.

September 26, 1962: Judge Dunagan granted a continuance of the case on the grounds that 30 defense witnesses failed to appear.

October 22, 1962: Estes case resumed.

November 7, 1962: Billie Sol Estes convicted of swindling in that he induced T. J. Wilson to sign a \$94,500 chattel mortgage on nonexistent fertilizer tanks and assessed a term of 8 years imprisonment. Estes under \$5,000 bond pending motion for a new trial.

January 24, 1963: Judge Dunagan formally sentenced Estes to a prison term of 8 years after denying a motion for a new trial. Estes' attorneys served notice of an appeal. Estes released under \$5,000 bond.

January 15, 1964: Conviction affirmed by Texas State Court of Criminal Appeals (highest court in Texas for criminal cases).

March 12, 1964: Texas Court of Criminal Appeals denies motion for rehearing.

April 16, 1964: Motion for rehearing again denied.

April 17, 1964: Texas Court of Criminal Appeals grants 90-day stay of execution.

July 7, 1964: Petition for writ of certiorari filed in U.S. Supreme Court.

State Criminal Antitrust Actions

August 2, 1962: An indictment was returned by a Potter County grand jury at Amarillo, Tex., charging Billie Sol Estes and Maynard Wheeler with two counts of conspiracy against trade by fixing the price of anhydrous ammonia for the purpose of lessening and eliminating competition and two counts of restricting competition by fixing the price of anhydrous ammonia below Estes' cost for the purpose of driving competitors out of the anhydrous ammonia business.

November 20, 1963: A motion to dismiss the indictment, charging Maynard Wheeler and Billie Sol Estes, jointly, with conspiracy against trade and price fixing, was made by the district attorney, Potter County, in the district court, 47th Judicial District of Texas, for the reason that "since the State of Texas has exhausted all legal means of bringing Maynard Wheeler within the jurisdiction of the

State of Texas, in that the New York Courts have denied the extradition request of the State of Texas, it therefore becomes necessary for the State to request the Honorable Court to dismiss this joint indictment". The court granted the motion. (Gov. Nelson Rockefeller, of New York, had previously signed papers permitting extradition of Wheeler to Texas; however, this action was later nullified by a criminal court in New York when it dismissed a fugitive from justice charge filed against Wheeler.)

State Civil Antitrust Actions

May 15, 1962: The State of Texas filed a civil antitrust action in Amarillo, naming Billie Sol Estes, Commercial Solvents Corp., Superior Manufacturing Co., Coleman D. McSpadden, Harold E. Orr, and Ruel Alexander as defendants. It was charged that Commercial Solvents Corp. helped Estes recoup losses from below-cost sales of anhydrous ammonia by advancing him funds to buy storage facilities to house Government grain. Income from grain storage was assigned to Commercial Solvents Corp. to pay for ammonia purchased by Estes.

November 20, 1962: At the request of the attorney general of the State of Texas, District Court Judge Mary Lou Robinson, Potter County, Amarillo, signed an order dismissing Superior Manufacturing Co., Harold Orr, Ruel Alexander, and Coleman McSpadden from the civil antitrust suits filed in May 1962.

May 1964: The district court, Potter County, State of Texas, approved a consent judgment between the State of Texas and Commercial Solvents Corp. under which Commercial Solvents paid the State \$150,000 to dispose of the suit. The State sought recovery of \$1.5 million. Charges against Billie Sol Estes remain for separate trial and disposition.

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APPENDIXES

APPENDIX 1.—STATEMENT OF COMER HARVILL, SUPERVISORY ACCOUNTANT, CIVIL ACCOUNTING AND AUDITING DIVISION, GENERAL ACCOUNTING OFFICE

I am employed by the U.S. General Accounting Office as a supervisory accountant in the Civil Accounting and Auditing Division. However, this statement concerns work performed while I was temporarily assigned as a member of the staff of the Permanent Subcommittee on Investigations, Committee on Government Operations, U.S. Senate. Prior to my assignment to the Permanent Subcommittee on Investigations, I was assigned to the audit of the Department of Agriculture. My work on that audit included participation in inquiries into (1) grain price support activities; (2) the negotiation and administration of the uniform grain storage agreement; and (3) selected aspects of the storage and transportation of Commodity Credit Corporation (CCC)-owned grain.

My work for the Permanent Subcommittee on Investigations, performed during the months of May and June 1962, consisted of a review of the movements of CCC-owned grain through the Dallas commodity office area (Arkansas, Louisiana, New Mexico, Oklahoma, and Texas) during calendar year 1961. The purpose of the review was to inquire into the matter of whether warehouses owned and operated by Billie Sol Estes and his associates, in fact, had received preferential treatment in the movement and storage of CCC-owned grain. The review was made with the assistance of members of the staff of the Dallas, Kansas City, and Chicago regional offices, General Accounting Office, who were also temporarily assigned as members of the staff of the Permanent Subcommittee on Investigations. The supervisory staff members assigned from the regional offices had previously obtained considerable experience in grain storage and transportation matters by participation in (1) audits of the financial accounts of CCC at the Dallas, Kansas City, and Minneapolis commodity offices of ASCS; (2) cost studies of grain warehouses; and (3) inquiries into selected grain price support activities.

The review also included an examination by the General Accounting Office of rates relating to shipments of CCC-owned grain moved into Estes' and associates' warehouses to determine whether any excess transportation costs to the Government would result from those shipments.

I have compared the results of my review with the transcript of hearings before this subcommittee into Billie Sol Estes' activities. The results of my review confirm the explanations given by Department of Agriculture officials to this subcommittee during the hearings. However, the intent of this statement is to clarify the extent of investigations made into the relationship between Billie Sol Estes and the Department of Agriculture with respect to grain storage matters.

Background

A brief review of the role of grain warehousing and transportation in the grain marketing system and the price-support program may be beneficial in clarifying the circumstances under which Estes' and associates' warehouses acquired significant quantities of CCC-owned grain. The review also will provide clarification as to the approach of my inquiry into commodity office inventory management activities relative to Estes' and associates' (hereinafter referred to as Estes) warehouses acquiring such grain. The more important features of the role of grain warehousing and transportation in the marketing system and the price-support program include (1) the grain marketing channels; (2) certain aspects of the price-support program for grain; (3) the uniform grain storage agreement; (4) the warehouse receipt; (5) official weights and grades; (6) the transit privilege; and (7) reconcentrations of CCC-owned grain.

Grain Market Channels.

Understanding normal grain market channels is important in the *Estes* case because CCC, in accordance with the Commodity Credit Corporation Charter Act (15 U.S.C. 714), utilizes regular commercial storage and marketing facilities in its price support operations. The normal marketing channel for grain sold off the farm includes (1) country warehouses; (2) terminals; and (3) processors or exporters. In selling their grain off farm, producers usually deliver their harvested grain by truck to a country warehouse near their farm. Country warehouses may either store the grain for the producer (in which case they issue a warehouse receipt to the producer), or they buy the grain from the producer. The country warehouse subsequently may resell the grain in the area (primarily feed grains) or ship the grain to terminal market warehouses which in turn provide a grain exchange or other meeting place for sellers and buyers, such as processors and exporters. Historically, the movement of grain between the country warehouse and the terminals and between terminals and points of export has been by railroad. In the Kansas-Nebraska area the principal railroads run east-west into the Kansas City area, a terminal market for the wheat grown in the Great Plains. However, in the Dallas area the principal railroads run north-south from Kansas City to Galveston, Houston, New Orleans, and other major grain export points. Therefore, wheat grown in the Kansas-Nebraska area historically moved to Kansas City terminals for sale to processors or exporters, and from Kansas City to ports on the gulf coast for export.

The warehouses operated by Estes and associates occupied a dual position in the grain marketing system: (1) they were in a normal line of railroad movement for Kansas-Nebraska wheat moving from Kansas City terminals to gulf coast export (considering railroad tariffs which will be discussed later); and (2) they were within a major grain sorghum growing area of west Texas, thereby facilitating their operating in the country warehouse function of receiving grain from producers.

Price-Support Program for Grain

Under the price-support regulations for grain, CCC acting through the Agricultural Stabilization and Conservation Service, supports the

market price of harvested grain either through purchases or by making nonrecourse loans to producers. Under the loan procedure the producer, using harvested grain as collateral, may obtain a loan at applicable price-support rates. If the producer does not repay the loan before a prescribed, or "takeover", date as set forth in the regulations for each type of grain, CCC takes title to the grain used as collateral.

The price-support program for grain is administered within the normal marketing channels for grain. An important feature of the loan procedure is that grain used as collateral must be placed in storage approved by CCC during the loan period. Therefore, a producer wishing to store grain off the farm during the loan period usually places the grain in a CCC-approved country warehouse of his own choice in accordance with traditional marketing procedure, and obtains a warehouse receipt as evidence of his title to the grain. Warehouse receipts, along with certain supplemental documents, then become the documentary basis for a loan by CCC. The warehouse receipts, along with the loan documents, are retained by the banks or other appropriate financial agencies until the expiration of the loan. When CCC acquires title to the grain at the takeover date, the warehouse receipts are sent to the ASCS commodity offices as evidence of CCC's title to the grain.

CCC also moves grain into country warehouses by calling for grain used as loan collateral and originally stored by the producer in his own approved farm storage facilities, or by moving grain from Government-owned grain bins into the country warehouses. Each of these movements is also evidenced by the issuance of a warehouse receipt.

The Transit Privilege

Transit billing, the documentary evidence of a transit privilege, is important in the Estes case because of its influence on commodity office grain inventory management functions in general, and because it is a key factor in determining whether excess costs were incurred in shipping CCC-owned grain to Estes' and associates' warehouses. Transit billing has been defined as the evidence of a privilege granted by railroads which enables grain to be shipped from point A to point B, there to be stored, marketed, or processed, and later to be reshipped to point C by rail at a rate less than the combination of separate rates from point A to point B and point B to point C (*Independent Warehouses v. Scheele*, 331 U.S. 77).

Rail carriers serving grain terminal warehouses in such terminal markets as Kansas City, Topeka, and St. Joseph provide storage-in-transit privileges usually without additional cost to the shipper. Under this provision of their tariffs, grain may be moved from country point of rail origin into authorized transit points at Kansas City terminals for storage (which includes processing) and reshipped to gulf ports at the same rate as if the shipment had not been stopped for storage. The reduction of transportation cost gained by using transit billing is illustrated in the following example:

Rate to gulf coast, primarily Galveston, Tex.

[In cents per hundred pounds]

	Applying transit billing		Without transit billing
	West Texas	Dallas-Fort Worth	
Grain shipped from Pleasanton, Kans., the country point of origin, June 1959, located on the St. Louis & San Francisco R.R. (SF) to a terminal warehouse in Kansas City: Local rate paid in when shipped.....	24.0	24.0	24.0
Grain shipped from Kansas City through west Texas, April 1961, on the Atchison, Topeka, & Santa Fe R.R. (A.T. & S.F.) with the privilege of stopping again for storage, but destined for export, Galveston:.....			
Proportional rate.....	45.5	45.5	-----
Flat rate (without transit billing).....			65.5
Total cost, Pleasanton to Galveston.....	69.5	69.5	89.5

The above table illustrates several characteristics of transit billing; namely (1) the transit billing protected the through rate of 69.5 cents a hundred pounds for a period of about 2 years; (2) the transit protected the through rate in accordance with published tariffs even though a different carrier (A.T. & S.F.) moved the grain from Kansas City to the gulf, than the carrier (SF) that moved the grain from Pleasanton to Kansas City; (3) since the A.T. & S.F. railroad runs both through Fort Worth-Dallas, and through west Texas, the grain could have been sent over either route at the same cost, the distance from Kansas City to Galveston using the Fort Worth route is about 890 miles, while the distance using the west Texas route is about 1,240 miles; and (4) without the utilization of transit billing, under the same conditions of transporting and storing the grain, the shipments would have cost 20 cents a hundred pounds more in transportation costs than the through rate.

Although transit billing, as authorized by railroad tariffs, reduces transportation costs, it also has several restrictions which affect commodity office inventory management considerations. These limitations pertain to (1) the age of the transit billing; (2) the number of stops that can be made for storage in transit; and (3) routings that must be observed. Generally, transit billing will protect a through rate for a period of 3 years from the date of origin. Subsequent to that time, the billing deteriorates in value by incurring penalty charges to keep it in effect. The commodity offices, having large amounts of transit billing applicable to grain stored for more than 2 years, must be alert to apply old billing to outbound shipments before it loses value. In addition, tariffs governing transit billing generally permit three stops for storage in transit at no extra charge to the shipper. In the above-mentioned illustration, for example, if the grain were stopped between Pleasanton and Kansas City for grading purposes, and at Kansas City for storage, then at Plainview, Tex., all three free storage-in-transit stops permitted by the tariff would be utilized. This feature, although generally significant in inventory management decisions, was not material in the Estes case. Finally, the tariffs covering transit billing specify the route that must be taken in order to obtain its benefits. This places a degree of restriction as to shipping grain over the several railroads competing for grain shipments

between Kansas City and the gulf coast. Consequently, this restriction may affect the shipping of grain into the respective warehouses served by each of these railroads.

Warehousemen storing CCC-owned grain may, in accordance with their agreement with CCC (the uniform grain storage agreement), utilize transit billing applicable to CCC-owned grain for shipments of their own grain. However, the warehousemen must substitute equivalent billing, or pay the value of the CCC billing used when CCC directs them to apply that billing to CCC-owned grain shipments. This provision is designed to reduce the decrease in value of CCC-owned billing because of aging.

Official Weights and Grades

Official weights and grades, a feature of normal grain marketing channels, are important in the *Estes* case because *Estes*' and associates' principal warehouses operated utilizing such weights and grades; therefore, they were eligible to receive shipments of CCC-owned grain. The function of official weights and grades is also important in evaluating a number of allegations made concerning the operations of *Estes*' and associates' grain warehouses.

Official weights are weights recognized by common carrier (primarily railroads) for the purpose of establishing liability for losses in transit. Official weights are derived by weighing grain (in hopper scales acceptable to the carrier rather than in the railroad car) under the supervision of an authorized observer or weighmaster independent with respect to the warehouse shipping the grain. The independent weighmaster may be employed by a chamber of commerce, grain exchange, port district, or other recognized trade organization.

Official grades for grain are established in accordance with the United States Grain Standards Act (7 U.S.C. 71). The act is administered by the Agricultural Marketing Service, Department of Agriculture, primarily by (1) supervising licensed grain inspectors who act independently of warehouses and carriers and (2) by establishing official grain standards for use in the grain trade. Official grain standards usually (1) define the grain; (2) prescribe test weights; and (3) set forth other grading factors in terms of maximum allowable percentages of weight. The official grain standard for Nos. 1 and 2, Hard Red Winter wheat (as established in service and regulatory announcement AMS-177), for example, includes:

	Number		Unit
	1	2	
Minimum test weight per bushel.....	60.0	58.0	Pounds.
Maximum moisture content.....	15.5	15.5	Percent.
Maximum total damaged kernels.....	2.0	4.0	Do.
Maximum foreign material.....	.5	1.0	Do.
Maximum wheat of other classes.....	5.0	5.0	Do.

Official grain standards, however, do not include all factors which affect the value of grain, primarily the protein content of wheat. Protein content of wheat is associated with its baking quality.

The official grain inspectors operate in terminal markets rather than at specific warehouses. Grain inspectors are not employees of

the Department of Agriculture, but may be employed by grain exchanges, chambers of commerce, port districts, or other recognized trade organizations, or they may grade grain on a published fee basis. The Department of Agriculture maintains supervision over the grain inspectors through supervisory inspectors. The grain inspection supervisor has three principal methods of checking both the qualifications of the inspectors and the validity of their grading: (1) he may perform supervisory inspections, or testing of samples previously graded, at unannounced times; (2) if inspections at shipping points and subsequent receiving points differ, they must be retested, and reconciled, by the supervisor, who has his own laboratory; and (3) anyone may appeal a Federal inspection, which will cause resampling and retesting of a car by the supervisor. Official grades therefore are (1) derived independently of the warehouses; (2) accepted by the grain trade as an accurate basis for trading grain, but do not include all quality factors which affect the value of the grain.

In the price support program, CCC designates warehouses which issue warehouse receipts on the basis of official weights and grades as terminals. Otherwise, the warehouses are known as country warehouses. This terminology differs somewhat from the above-mentioned descriptions of country and terminal markets. Grades established for producers' grain delivered to a country warehouse are a matter for settlement between the producer and the warehouseman. However, country warehouses, delivering grain to terminals for CCC's account are liable for delivery on the basis of official weights and grades.

Estes and associates operated their principal warehouses as terminals. These warehouses acquired their terminal designation because they supplied official weights and were located near official grading points established prior to Estes and associates acquiring an interest in the grain warehouses (Plainview, 1941; Tulia and Hereford, 1954; and Lubbock, 1944).

The Warehouse Receipt

The warehouse receipt is the basic evidence of ownership of grain in normal grain market channels, as well as in the price support program. Generally, grain warehouses store like grains in a commingled mass, and the warehouse receipt is evidence of the holder's claim to a portion of the mass. In addition to describing the quantity and quality (in terms of official grain standards) of the grain which the warehouseman promises to deliver, warehouse receipts, by reference to the warehouseman's tariff, set forth any storage handling, or processing charges that may be a lien against the grain. In normal grain marketing channels, warehouses may issue negotiable warehouse receipts, which can be traded by endorsement. Warehouse receipts issued under the price support program, however, are not generally negotiated by CCC because (1) they refer to the provisions of the uniform grain storage agreement rather than the warehouseman's tariff; and (2) CCC requires that specific information such as details of each grading factor, the protein content of wheat, and the mode of transportation by which the grain was received, to be included on its warehouse receipts.

The requirement as to details of grading factors and protein content of wheat are important in the Estes case because these factors are

utilized extensively by CCC in decisions governing CCC-owned grain movements into and out of individual warehouses.

Warehousemen, particularly terminals, normally mix the various qualities of grain in the commingled masses under their control to arrive at optimum grades of grain for the existing markets. The normal mixing operation is known as blending. Deliberate mixing of very low, or offgrade, grain with good grain, however, is known as slugging. CCC follows a blending practice with its warehouse receipts which parallels the physical blending performed by the warehouseman. This operation, known as desk blending, has the objective of selecting a series of warehouse receipts (normally issued on railroad car lots of about 2,000 bushels each on grain moving into terminals) in such a way as to match the quality demanded by the market, particularly with respect to the protein quality of wheat. The desk blending in the Dallas Commodity Office in 1961 was carried out by mathematical formula, known as linear programming, by computer. The computer operation had two important effects on CCC grain inventory management decisions with respect to the Estes case: (1) computer blends were used to select warehouses to receive CCC-owned grain moved from the Kansas City area with a view toward meeting an expected gulf coast export market for both the grain already in the warehouse and the grain to be moved; and (2) in a number of cases, including Estes' and associates' warehouses, the computer blended the quality of the grain as recorded on the warehouse receipts more efficiently than the warehouseman could blend the grain; therefore, the warehousemen, in effect, purchased the higher quality grain from CCC at the prevailing market price.

The importance of the blending operation in evaluating the matter of whether any warehouse in the Dallas area, in fact, received preferential treatment in the shipment of CCC-owned grain from Kansas City, or in loading out, can be seen from the following illustration. If exporters on the gulf coast are consistently demanding grade 1, Hard Winter wheat of 12-percent protein, and a terminal in the Dallas area (1) is offering space for wheat; (2) is storing CCC-owned wheat which will blend to, say, 11-percent protein, then the Dallas commodity office would try to move wheat with, say, 13-percent protein into the warehouse with the expectation of blending the two qualities to 12-percent protein to meet the expected market. Conversely, if no CCC-owned grain were being moved into the Dallas area, warehouses storing CCC-owned grain blending to 12-percent protein would be loaded out to meet the export market, rather than warehouses storing wheat which blended to, say, 14-percent protein.

The Uniform Grain Storage Agreement

Each warehouseman desiring to participate in the grain price support program or to store CCC-owned grain must sign a uniform grain storage agreement (UGSA) and meet certain standards established under its terms by the commodity office administering the agreement. The agreement, a 17-page document with about 31 provisions, was established initially in 1940 (a comprehensive analysis of the history of UGSA terms and rates may be found in hearings on storage operations of CCC before the Subcommittee on Departmental Oversight and Consumer Relations, Committee on Agriculture, House of Representatives, 86th Cong., 1st sess., Mar. 24, 1959, serial N). In es-

sence, it replaces the warehouseman's tariff with respect to price-support operations and sets forth the responsibilities of the warehouseman, and the storage, handling, and other charges that will be paid by CCC when grain is stored in the warehouse under the price-support program. The more important sections of the agreement with respect to the Estes case govern (1) the warehouse facilities and services to be provided; (2) the warehouseman's responsibility for maintaining and delivering the quantity and quality of grain represented by warehouse receipts outstanding; (3) the administration of transportation documents—as mentioned above in connection with transit billing. Under the agreement, the warehouseman must provide adequate facilities and management to insure safekeeping of the grain, and a financial position to insure continuance of the warehouse and financial protection to the Government—this includes insuring the grain and supplying a bond. If a warehouse is licensed by the Department of Agriculture under the U.S. Warehouse Act, the commodity office will accept the license as evidence of meeting both physical and financial requirements. But if a warehouse is licensed by a State, the commodity office makes its own inspections to insure compliance with its established criteria of physical and financial protection. The inspection and approval of loading equipment, particularly as to capacity, is important in the Estes case because shipments to the warehouses must be related to the ability of the warehouses to receive the grain.

The agreement provides a higher degree of responsibility for quantity and quality for warehouses operating with official weights and grades (terminals, or code 9 warehouses) than for country warehouses (code 8). Therefore, under this and other considerations such as possible sales, CCC-owned grain is generally moved toward terminals. One of Estes' warehouses, United Elevators at Plainview, was a terminal. Estes' associates also operated Palo Duro Grain Co., Tulia; Allied Elevators, Hereford; and McSpadden Grain Co., Burris, as terminals.

Reconcentration of CCC-Owned Grain

The concept of reconcentration of CCC-owned grain is important in the Estes case because Estes' and associates' warehouses received significant quantities of CCC-owned grain as a result of CCC grain reconcentrations in 1961. Some of the most serious allegations regarding purported preferential treatment of Estes and his associates were raised in connection with these receipts.

CCC's policy, in supporting the price of grain within the normal market channels, is to encourage the movement of grain (particularly wheat) into trade from commercial rather than from CCC-owned stocks. In this connection, CCC retains its stocks of grain as close to the source of production as possible. Therefore, if the normal market channels could absorb the surplus of CCC-owned grain, it is apparent that all grain would be moved into processing and export by commercial warehousemen and other merchandisers, rather than CCC. Under its charter, however, CCC is directed, among its other duties, to facilitate the orderly distribution of agricultural commodities. Therefore, CCC does not permit CCC-owned grain to remain in warehouses to the extent that the stored grain interferes with the normal flow of producer's grain to market (or into price support) through

country warehouses and terminals. Moreover, CCC does not utilize railroad facilities in moving grain to the extent that CCC's movements interfere with the movement of grain in the normal market channels.

In recent years, because of heavy production and heavy carryover, CCC has had to move grain from country warehouses in the Kansas City area, utilizing normal facilities of trade, to export points. The specific purpose of these movements, known as reconcentrations, was to provide storage space for Kansas City area producers' grain moving off the farm, primarily into country warehouses. A large portion of this grain was moved through the Dallas area toward export points on the gulf coast. The extent of these reconcentrations is illustrated by statistics covering reconcentration loading orders issued by the Kansas City commodity office during the 4-year period from 1958 through 1961, as follows:

Reconcentration loading orders issued by the Kansas City commodity office

[In thousands of bushels]

Calendar year	Total	Through the Dallas area
1958	185, 713	111, 619
1959	61, 892	59, 054
1960	147, 894	125, 779
1961	102, 374	87, 725

Loading orders issued may not correspond exactly with the actual movements of grain, primarily because grain moved early in the year may be the result of loading orders issued at the end of the preceding year. This factor, however, is not material to the large quantities of grain that were reconcentrated into the Dallas area. In 1961, for example, 90.6 million bushels of grain was reconcentrated from the Kansas City area to the Dallas area. The difference between the 90.6 million bushels moved and the 87.7 million bushels loading orders issued was largely attributable to grain moving in 1961 as a result of loading orders issued in 1960.

An important aspect of grain reconcentrations through the Dallas area, with respect to the Estes case, is that gulf coast warehouses will not store grain if the storage interferes with ship movements. Therefore, in large CCC reconcentrations grain must be stopped, under transit privilege, at inland warehouses within the Dallas area. Considering railroad tariffs, Estes' and associates' warehouses, as well as many other warehouses within the area, were in a position to offer space for the grain which had to be stopped.

The reconcentration of such large quantities of grain from the Kansas City area, considering the complexities of the normal channels of trade, and the fact that grain must be reconcentrated within the Kansas City and Dallas areas at the same time that the grain is moved between areas, requires considerable advance planning. Recognition of the necessity for reconcentrating grain generally begins at the country warehouse before the harvest season, when the country warehousemen may request CCC to move CCC-owned grain to make room for anticipated producer deliveries. The Kansas City commodity office, after making an estimate of the total amount of grain that must be moved from country position, meets with terminal warehouse repre-

sentatives to determine whether the Kansas City area terminals can store the grain that is to be moved from the country warehouses. If there is not enough terminal storage capacity in the Kansas City area, grain is moved from the Kansas City terminals to other areas, primarily with the expectation of export. In recent years, the grain has been largely reconcentrated into the Dallas area in consideration of (1) favorable railroad tariffs; (2) availability of warehouse space in the area; and (3) large export outlets from the gulf coast. These movements were made within a time limitation which was designed to permit the railroads to return the railroad cars to the Kansas City area for the harvest season.

After the overall plan for the reconcentrations is established, and loading orders are being issued, the Kansas City commodity office determines whether Kansas City area terminals can accept CCC-owned grain largely by telephone contacts with terminal warehousemen and by letter surveys. Similarly, if grain must be moved out of the Kansas City area into the Dallas area because Kansas City area terminals cannot handle it, the Dallas commodity office utilizes letter surveys and telephone contacts to locate available terminal storage for the CCC-owned grain. The determining factor, therefore, as to the quantity of grain that each office's area can store is the amount of approved warehouse space which the warehousemen offer when the grain movement is made.

SCOPE OF REVIEW

The Problem

At the start of the inquiries into Mr. Estes' relationship with the Department of Agriculture, many questions concerning possible favoritism to Estes in allocating CCC-owned grain, in loading out his facilities, and concerning other storage matters were raised by Members of Congress, the press, and by people acquainted with Estes' warehouse operations. The more serious allegations concerning preferential treatment to Estes in obtaining this grain for storage includes statements that (1) CCC had incurred significantly excessive freight costs to send grain to Estes; (2) CCC had passed large amounts of available storage space in the Kansas City area in order to ship grain to Estes; (3) Estes received CCC-owned grain before his facilities were completed; and (4) Estes' warehouses were not loaded out as rapidly as other warehouses. The problem, therefore, was to inquire whether CCC, in moving about 90 million bushels of grain a year out of the Kansas City area and into gulf coast export had, in fact, shown preference to Estes in shipping CCC-owned grain to his warehouses, and in retaining CCC-owned grain in store in the warehouses.

Assumptions

Several assumptions had to be made, largely based on previous experience in inquiring into CCC storage and transportation matters, in considering any review of the above-mentioned problem, namely:

1. An attempt to make an independent review of each action involved in the movement of 90 million bushels of CCC grain each year would be prohibitively expensive, if not impossible.
2. The Corporation's accounting records were considered adequate for management purposes. With additional testing,

to assure the reliability of specific accounts, analyses prepared from the accounting records should be utilized wherever possible.

3. Certain information about the day-to-day transactions of the commodity offices and grain warehouses might not be available because the commodity offices, in accordance with usual customs of the grain trade, conduct these transactions by telephone.

4. Investigations of various aspects of Estes' activities were being made by other governmental agencies. The scope of the review, therefore, would be limited to avoid excessive travel costs and duplication of effort.

5. The review must be based on examination of the day-to-day decisions made at the time the grain was moved in order to provide a basis for an informed evaluation of the Dallas commodity office's procedures for finding available terminal space, and for utilizing the terminal space when it was located.

Review Approach

Since it was possible that the Senate subcommittee later might wish to hold hearings on grain storage matters, the objectives of the review were (1) to obtain reliable information regarding the allegations of preference to Estes' warehouses in connection with CCC-owned grain movements; (2) to furnish the subcommittee staff with a list of knowledgeable witnesses; and (3) to explore any other matters related to the storage of CCC-owned grain in Estes' warehouses which might appear to be significant during the course of the review.

An analysis of CCC accounting records disclosed that at March 31, 1962, about 33.7 million bushels of grain was stored in warehouses in which the UGSA was signed by Billie Sol Estes, and in Hale County Grain Co., Palo Duro Grain Co., and Allied Elevators. All of these warehouses were managed by Wayne Cooper, general manager of Estes' grain warehouses. The analysis follows:

Government-owned grain

	Million bushels	Percent
Grain in store in going warehouses at the time Estes acquired control.....	5.9	13
Grain placed in the warehouses by farmers and subsequently taken over by CCC.....	15.4	34
CCC-owned grain moved in from other warehouses (reconcentrated).....	16.5	37
Grain acquired by other warehousemen in store and exchanged with CCC for grain stored elsewhere (primarily because of transportation considerations).....	7.0	16
Total.....	44.8	100
Grain moved out prior to Mar. 31, 1962.....	11.1	
Total.....	33.7	

The analysis indicated that about 47 percent of CCC grain acquired by CCC in store in Estes' warehouses was placed there by farmers (15.4 million bushels); or was stored with a previous warehouse owner (5.9 million bushels); the commodity offices would have little control over this situation. The commodity offices were responsible for

moving 53 percent of the grain into the warehouse (16.5 million bushels), or acquiring it in store (7 million bushels), and this involved questions concerning inventory management and freight costs.

The analysis further showed that the 16.5 million bushels of CCC-owned grain moved from other warehouses was recorded in the accounts as follows:

Year and quarter ending—	Received (in millions of bushels)			Percent
	Wheat	Milo	Total	
1959.....	0.7	1.9	2.6	16
1960.....	.1	.8	.9	6
1961 Feb. 28.....		1.4	1.4	8
May 31.....	.3	.4	.7	4
Aug. 31.....	7.4	1.9	9.3	56
Nov. 30.....	.1	1.5	1.6	10
Subtotal.....	7.8	5.2	13.0	78
Total.....	8.6	7.9	16.5	100

Analysis of the allocation of CCC-owned grain to Estes' and associates' warehouses, as well as about 40 competitive warehouses, disclosed that the key decisions to move most of the 13 million bushels of grain in 1961 had been made during the quarter ended June 30.

The CCC-owned grain reconcentrations were most important not only in terms of the quantity of grain that Estes' warehouses received, but also in terms of allegations made concerning the conduct of the commodity offices. Therefore, decisions made during the quarter ended June 30, 1961, were analyzed and reviewed in further detail, particularly with respect to grain moved into United Elevators. The intention of the initial review program was to inquire whether (1) it was necessary to move the grain; (2) excess transportation costs were involved; and (3) other aspects of CCC-owned grain movements involved preference to Estes' warehouses. Since the above-mentioned questions are related, they were covered in a single program, along with a review of movements of grain out of Estes' and his competitors' warehouses. It was expected that such a program would provide an informed basis on which to evaluate all of the more serious allegations. Other programs were developed to cover collateral questions.

REVIEW PROCEDURES AND RESULTS

Excessive Freight Costs

On August 22, 1962, Mr. Orvel Tate, an employee of the Transportation Division, U.S. General Accounting Office, testified before this subcommittee on the results of a review by the General Accounting Office of transportation costs involved in shipping grain to Estes' warehouses. Mr. Tate's testimony established that in essence the cost of shipping grain to Estes' warehouses was not in excess of what it would have cost to ship to other warehouses over alternate routes, even though the grain would travel further to Estes' warehouses than to alternative warehouses.

At the start of the Senate inquiry it was realized that Estes' warehouses, located in west Texas, were off the direct route from Kansas

City to Galveston. Consequently, there was a possibility of substance in the allegations that CCC had incurred excess costs in sending grain to Estes' warehouses. The question of excessive freight costs, considered the most important part of the review, had to be answered before any further work was done. If excessive freight costs were incurred, then a review would be made to determine whether alternate space was available in order to evaluate whether Estes had received preference. If excess transportation costs were not involved, the review would proceed to other aspects of possible preference.

The Department of Agriculture furnished documents supporting substantially all shipments of CCC-owned grain into Estes' warehouses for the 3-year period from April 1, 1959, through March 31, 1962, including grain from Kansas and from Texas, for review. The review by the General Accounting Office covered about 17.6 million bushels of grain (exceeding the previously mentioned 16.5 million, because the review included grain shipped to McSpadden Grain Co.). About 8.5 million bushels of the grain was reconcentrated from the Kansas City commodity office, and about 9.1 million bushels was reconcentrated from the Dallas commodity office.

The results of the review, as set forth in a letter from the Comptroller General, dated June 29, 1962, disclosed excess costs of only about \$650 on the grain shipped from Kansas City. The \$650 was considered insignificant, and not attributable to shipping grain to Estes' warehouses rather than alternate warehouses.

A further review at the Dallas commodity office disclosed that warehouses in the Dallas area had either requested or agreed to move about 2.4 million bushels of CCC-owned grain to Estes' terminal warehouses at no transportation expense to CCC, at an estimated saving to CCC of about \$219,000. Moreover, all shipments (about 504,000 bushels) from one Estes' warehouse to another were made at no cost to CCC. The above shipments, made at no cost to CCC, were made under a nationwide policy established by CCC, prior to the above-mentioned movements, at the request of warehousemen other than Estes.

Necessity for Moving CCC-Owned Grain

On August 21, 1962, Donald Smith, director of the Kansas City commodity office, testified before this subcommittee concerning the necessity for moving grain out of the Kansas City area during 1961. Mr. Smith stated that (1) in recent years significant quantities of CCC-owned grain had to be reconcentrated annually; (2) it was very difficult for CCC to find space for its grain at the time shipments were made to Estes' warehouse; and (3) he had not knowingly disregarded any Kansas City area terminal space when he shipped grain into the Dallas area.

The inquiry for the Senate subcommittee included a review in Kansas City of the management considerations leading to the reconcentration of CCC-owned grain during the period from December 1960 through July 1961. The review confirmed Mr. Smith's testimony.

The records of the commodity office disclosed that the 1961 reconcentration, as in prior years, was based on moving grain from country warehouses in the Kansas City commodity office area to make room for the new crop of wheat. As a result of a letter survey of country

warehouses made in December 1960, the Kansas City commodity office determined that about 103 million bushels of grain would have to be moved from country warehouses. In January 1961, commodity office officials met with terminal warehousemen to determine whether the grain could be moved to Kansas City area terminals. The terminal warehousemen, through an independent survey, determined that they could accept only about 13 million bushels of grain. Therefore, the Kansas City commodity office ordered grain reconcentrated, as follows:

	Loading orders issued	
	Thousands of bushels	Percent
January to April.....	38,497	38
April to July.....	53,471	52
July to October.....	8,543	8
October to January.....	1,763	2
Total.....	102,274	100

In addition to reviewing the commodity office records in this matter, we interviewed the president of the Terminal Elevator Grain Merchants' Association in Kansas City. The association represents all of the major terminal merchandisers, comprising more than 1 billion bushels of capacity, of which about 321 million bushels are located within the Kansas City area. The president of the association confirmed the information contained in the commodity office records with respect to the tight storage situation, and the plans for reconcentrating grain out of the Kansas City area. He also informed us that he had received no complaints from the members of the association that space offered to CCC was not being utilized during the reconcentration.

We also reviewed the CCC occupancy of all Kansas City area terminals east of Salina, Kans. (107 terminals), and interviewed all warehousemen storing CCC-owned grain at an average of less than 60 percent of their capacity during the quarter ended June 30, 1961. The interviews, with warehousemen representing 37 terminals, included reviews of the warehouse records where necessary, and were oriented toward determining whether the Kansas City commodity office knowingly bypassed available terminal space in shipping grain into the Dallas area.

The review disclosed no indication that the Kansas City commodity office had bypassed eligible terminal elevators in the Kansas City area in order to send grain to Estes' warehouses.

In Dallas, we reviewed the reconcentration of CCC-owned grain within the Texas area into Estes' warehouses. The review disclosed that these movements were made from country warehouses to terminals in accordance with normal procedures. Specific allegations as to the shipment of grain from three country warehouses located within

the Plainview area into United Elevators, Plainview, were checked. Interviews with the warehousemen, and a review of the Dallas commodity office records, disclosed that two of the three warehousemen had requested that the CCC grain be moved, and the third movement was a normal reconcentration.

In addition, the review included inquiry into any other possible movements into the Dallas area from other commodity offices. No grain other than that mentioned above was received in the Dallas area in 1961 except from Minneapolis, which shipped about 4.3 million bushels of wheat and 2.2 million bushels of barley to the Dallas area in that year. The barley was shipped from Minneapolis by barge direct to export warehouses at New Orleans, La., and Mobile, Ala., for export. The wheat was shipped from terminals in Minneapolis and Sioux City by rail to provide additional storage space there; and stored in Dallas area warehouses located in Arkansas, Louisiana, Oklahoma, and Texas. The destinations were specified by the Dallas commodity office. The necessity for this movement was reviewed at the Minneapolis commodity office. Information available in the Minneapolis commodity office disclosed that the grain shipments from the Minneapolis area to the Dallas area were justified. Further review at the Dallas commodity office showed that Estes did not receive any of this grain.

Selection of Estes' Warehouses to Receive Reconcentrated CCC-Owned Grain

On May 28, 1962, Mr. C. H. Moseley, director of the Dallas commodity office, testified before this subcommittee concerning his policies and procedures for selecting warehouses in the Dallas area to receive reconcentrated CCC-owned grain. Mr. Moseley indicated that the selection of warehouses is quite complicated because the commodity office must weigh many factors to determine where grain can be stored best. After illustrating some of the major inventory management considerations involved in allocating CCC-owned grain to various warehouses, Mr. Moseley testified that CCC was utilizing substantially all of the terminal space available in the Dallas area during the 1961 reconcentration; moreover, the Dallas commodity office was required to store about 8.5 million bushels of reconcentrated CCC-owned grain in country warehouses during this period.

The inquiry for the Senate subcommittee included a review in the Dallas commodity office of the management considerations involved in allocating grain to Estes' warehouses during the 1961 reconcentrations. The review disclosed no preferential treatment in the allocation of this CCC-owned grain to Estes' warehouses.

From an inventory management point of view, CCC-owned grain reconcentrated from Kansas City should move directly to export elevators in order to reduce handling charges. However, as has previously been stated, gulf coast export elevators will not store grain if the storage interferes with ship movements. If the grain must be stopped in transit, it should be located as close to export ports as possible in order to facilitate prompt delivery to the ports when export outlets are found. In the review, therefore, we assumed that the

commodity office would attempt to reconcentrate grain into (1) export terminals on the gulf coast; (2) then to inland terminals immediately adjacent to the export terminals; and (3) finally to inland terminals located more remotely northward from the gulf coast.

Therefore, starting at the gulf coast and working north, we then reviewed the daily availability of terminal space offered to CCC in each of 50 competitive terminals located on railroad lines from Fort Worth to the gulf coast and in west Texas during the months of April, May, and June, 1961. Most of these terminals were not offering any space during this period, but a detailed review was made of any space that possibly could have been used as an alternative to shipping grain to Estes' warehouses. Satisfactory explanations were obtained in all situations where space was not used. The most important reasons why offered space could not be used included (1) the Kansas City commodity office was shipping wheat while many of the terminals were substantially filled with CCC-owned grain sorghums and were offering space only for grain sorghums; and (2) some terminals were storing qualities (particularly protein value) of wheat that could not be profitably blended with CCC-owned stocks that were being reconcentrated.

The utilization of terminals in Oklahoma and Arkansas was not reviewed in such detail, but a similar review prepared by the Dallas commodity office in connection with matters other than the *Estes'* case was accepted after checking its accuracy.

The review of the Dallas commodity office's allocation of CCC-owned grain to terminals primarily involved the use of information compiled by the Dallas Grain Allocation Committee, which maintains a card record of each terminal warehouse, known as a terminal participation record. Each warehouseman's offer of space to CCC is recorded on his card as the offer is made; adjustments are made as grain is shipped into the warehouse, and as the warehouseman changes his offer. These records, combined with tabulations of the type and quality of CCC grain already in store in the warehouse serve as a basis for selecting the warehouse to receive CCC grain. The records, therefore, are the logical basis for reviewing the selection of warehouses to receive grain, provided the records can be supported as to accuracy. The records were verified by (1) reference to a letter survey of terminal space available made by the Dallas commodity office on April 13, 1961; (2) records of telephone offers from the warehousemen; (3) interviews with grain terminal warehousemen in Fort Worth; and (4) reconciliation of information recorded on the terminal participation records with accounting data in selected instances.

In addition to the terminal participation records, we utilized (1) daily correspondence between the Kansas City and Dallas commodity offices covering the 1961 reconcentrations; (2) data processing listings, prepared from accounting records, showing the source and disposition of each loading order issued during the 1961 reconcentration; and (3) data processing listings, showing the source, and the disposition of

each loading order issued in connection with moving grain into or out of Estes' warehouses for the entire period that Estes was known to be associated with the warehouses. These records were supplemented by documents supporting the transactions between the Dallas commodity office and Estes' warehouses.

Delivery of Grain to Estes' Warehouses Before They Were Completed

The inquiry at the Dallas commodity office into the allegation that CCC-owned grain was shipped to Estes' warehouses consisted of a comparison of the inventory position of United Elevators with commodity office grain allocations on a day-to-day basis for a period from May 1960 through December 1961. The comparison, based on information obtained from sources other than the commodity office, as well as the commodity office records, disclosed that the commodity office did not allocate CCC-owned grain to United Elevators before the warehouse space was approved under the uniform grain storage agreement.

Comparative Loadout of Estes' and Competitors' Warehouses

Since all terminals considered competitive to Estes' warehouses were substantially filled by June 30, 1961, loadout was not significant in an evaluation of whether preference was being given to Estes' warehouse at that time. Our review of comparative loadout histories, made largely in conjunction with the review of reconcentration of CCC-owned grain into the Dallas warehouses, covered the period from November 1961 through March 1962. During the review, specific consideration was given to allegations that (1) Estes' warehouses were given preference by being loaded out at a slower rate than other terminals; and (2) warehousemen who complained against Estes were being loaded out at a greater rate than average.

The review consisted of summarizing pertinent information from the terminal participation record (confirmed as to accuracy as described above) of each terminal under Dallas commodity office jurisdiction, and comparing the loadout history of each terminal. The history of any warehouse showing a greater than average loadout was reviewed in detail. The review disclosed no preferences either to Estes' warehouses or to other warehouses.

Satisfactory explanation of higher than average rates of loadout, obtained in all cases examined, included (1) loading out warehouses storing wheat of specific protein content to meet export demands; and (2) movements to utilize old transit billing in meeting export demands.

Grain Acquired Through Exchange Contract

About 7 million bushels of grain acquired by CCC in Estes' warehouses was acquired by exchange contract. The exchange contract was developed by the Dallas commodity office to reduce the loss of value in transit billing as it ages. The contract permits CCC to exchange grain having transit billing with a grain merchandiser, who

will ship the grain immediately, for grain sold to the merchandiser in various warehouses without transit billing. Each exchange is initiated from the grain trade. Most of the requests come from exporters. The warehouseman actually storing the grain is usually not a party to the transaction; ownership of the grain in store has merely changed hands.

The inquiry for the Senate subcommittee disclosed that Cargill, Inc., a worldwide merchandiser, had owned most of the 7 million bushels of grain in Estes' warehouses prior to exchanging it with CCC for grain stored in other warehouses. The grain which Cargill received was, in most cases, delivered to Cargill's export warehouse at Port Arthur, Tex. Interviews with personnel of Cargill, and a review of the Dallas commodity office records disclosed that Cargill had also purchased substantial quantities of CCC-owned grain stored in Estes' warehouses. The review disclosed no irregularities.

Performance of Estes' Warehouses in Delivering CCC-Owned Grain

At the initiation of the investigation, a number of allegations were made to the effect that Estes' warehouses delivered poor quality grain for both CCC and private accounts. The inquiry for the Senate subcommittee included (1) a review of grain inspection activities under the U.S. Grain Standards Act; and (2) a review of the load-out history of Estes' warehouses.

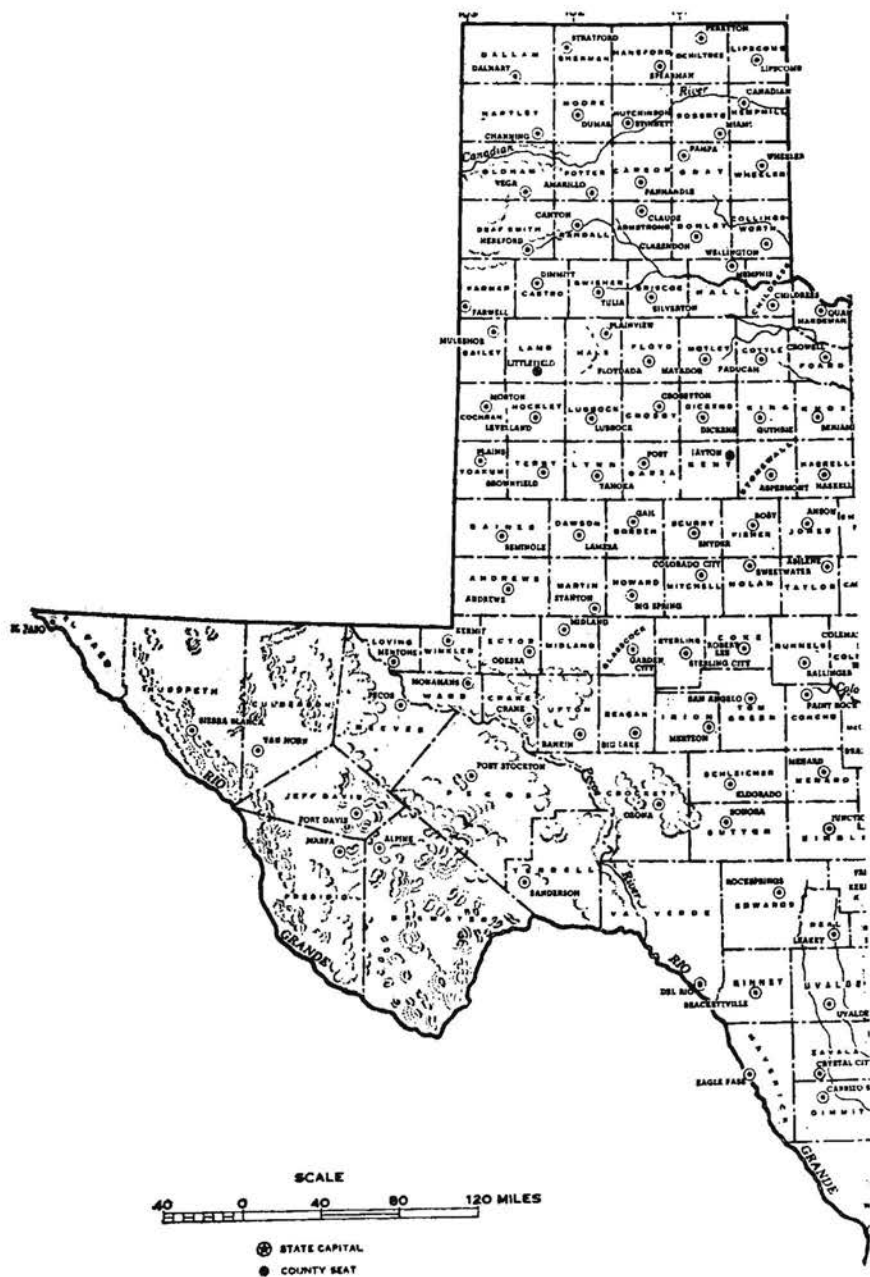
The review of grain inspection activities was considered important because of the possibility that Estes may have been able to influence the determination of official grades; thereby gaining a competitive advantage in delivering CCC-owned grain. An interview with the supervisor of grain inspectors at Fort Worth disclosed that the Department of Agriculture previously had investigated this possibility. The report on the results of this investigation, which showed no indication of collusion between Estes and the grain inspectors, was accepted after confirming the more important aspects of the report with the major buyers of CCC-owned grain.

The review of the load-out history of Estes' warehouses consisted of an examination of (1) all loading order settlements for Estes' terminal warehouses; (2) premium and discount accounts applicable to Estes' country warehouses; and (3) a sample of the loading order settlements for country warehouses to test the accounts. The review disclosed no evidence of significant quality discounts, or slugging of grain cars. In addition, the records were confirmed by interviews with the principal grain merchandisers in the area, who informed us that they had no evidence of adulteration. The merchandisers also pointed out that they purchased grain from Estes' warehouses on the basis of official weights and grades, determined at the time the grain was loaded out of Estes' warehouses, thereby precluding the possibility of adulteration.

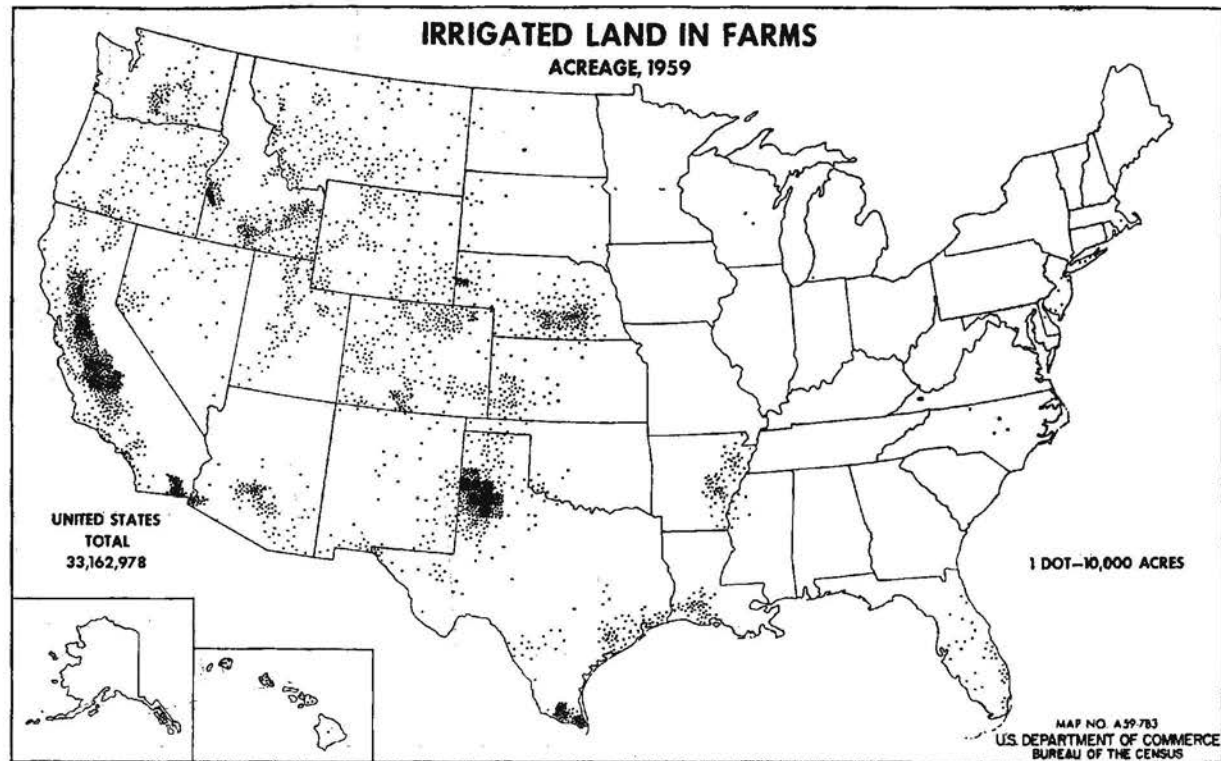
APPENDIX 2.—MAP, WEST TEXAS COUNTIES



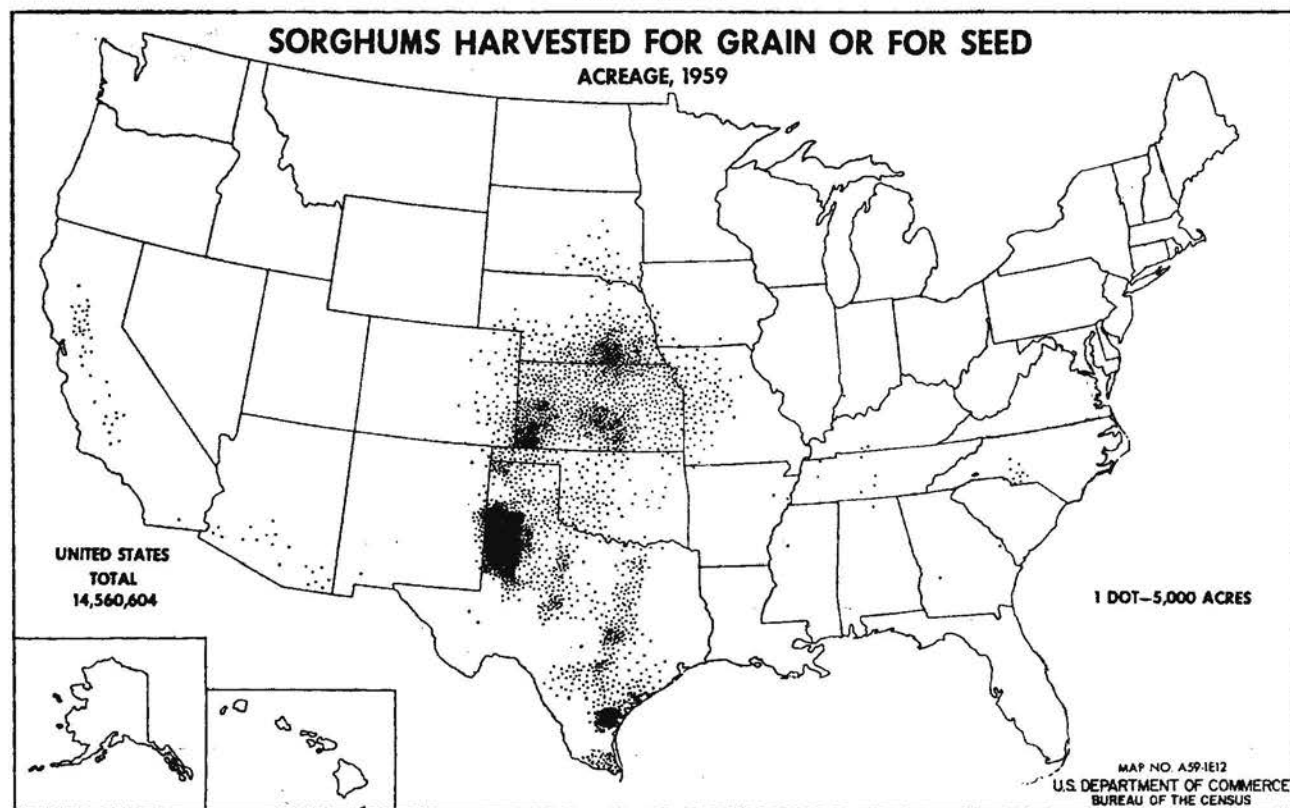
APPENDIX 3.—MAP, PRINCIPAL CITIES AND TOWNS IN WEST TEXAS



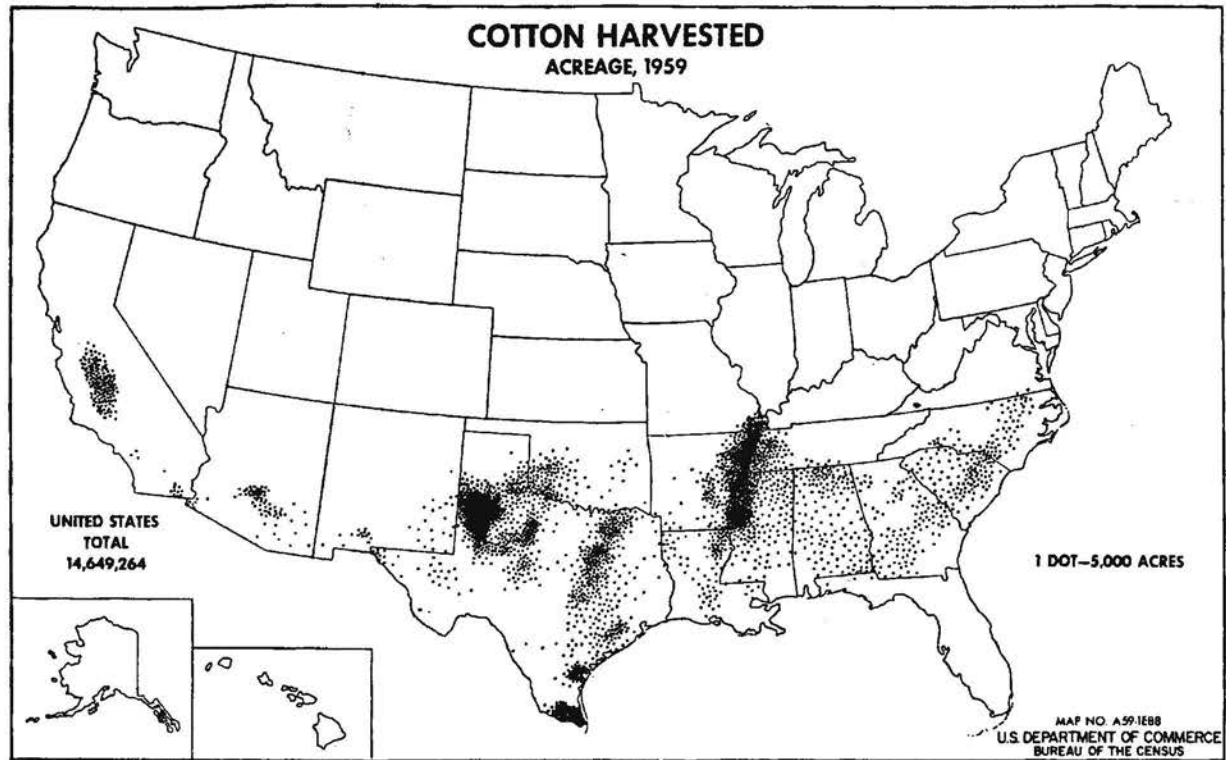
APPENDIX 4



APPENDIX 5



APPENDIX 6



APPENDIX 7.—COMPARATIVE AGRICULTURAL STATISTICS, VARIOUS STATES AND COUNTIES

	United States (except Alaska and Hawaii)	Georgia	Iowa	Rhode Island	Texas	Hale County, Tex.	Reeves County, Tex.	Pecos County, Tex.
Approximate land area (acres).....	1,901,758,160	37,295,360	35,860,480	677,120	168,217,600	626,580	1,664,000	3,031,040
Cropland harvested.....	311,285,249	4,917,975	22,873,407	33,512	22,236,473	481,354	68,672	27,671
Irrigated land in farms (acres).....	33,021,799	33,700	18,181	406	5,655,538	467,482	79,030	34,490
Number of farms.....	3,703,894	106,350	174,707	1,395	227,071	1,535	261	244
Average acreage per farm.....	302.4	184.8	193.6	98.9	630.7	400.4	5,545.7	10,486.7
Average value per farm.....	\$34,825	\$17,944	\$49,150	\$37,571	\$51,787	\$132,031	\$264,573	\$260,389
Average value per acre.....	\$115.15	\$97.08	\$253.82	\$379.98	\$82.11	\$333.33	\$50.75	\$20.16
Number of irrigated farms.....	306,532	2,194	313	34	27,884	1,459	218	111
Percent of all farms irrigated.....	8.3	2.1	0.2	2.4	12.3	95.0	83.5	45.5
Sorghum acreage harvested.....	14,560,604	23,317	60,829	-----	6,724,604	242,120	7,105	4,468
Sorghum production (bushels).....	508,149,209	570,620	3,276,056	-----	235,381,994	15,816,525	393,999	167,825
Cotton acreage.....	14,649,264	639,326	-----	-----	6,126,137	137,201	55,696	18,489
Cotton production (bales).....	13,913,505	521,374	-----	-----	4,155,986	162,295	100,773	34,303

Source: 1959 Agricultural Census. Figures are for year 1959.

APPENDIX 8—COMMERCIAL WAREHOUSE SPACE APPROVED FOR STORAGE OF GOVERNMENT GRAIN

[In thousands of bushels]

	United States	Dallas commodity office area	Texas	Owned or controlled by Billie Sol Estes
Date:				
1950.....	1,124,565	232,436	-----	0
1952.....	1,240,277	252,436	-----	0
1954.....	1,834,113	420,586	-----	0
1956.....	2,484,733	533,272	322,057	0
1958.....	3,488,240	813,058	529,432	0
1959.....	4,158,878	987,225	624,194	12,000
1960.....	4,433,739	1,093,677	721,982	33,054
1961.....	4,856,382	1,309,260	880,446	78,236
Mar. 31, 1962.....	4,879,639	1,325,007	896,799	87,087

Commercial warehouse space approved for storage of Government grain in Hale County, Tex.

[In thousands of bushels]

	Total	Owned or controlled by Billie Sol Estes	Owned or controlled by other warehouse operators
Date:			
1956.....	13,655	0	13,655
1958.....	26,764	0	26,764
1959.....	41,010	12,000	29,010
1960.....	57,405	18,793	38,612
1961.....	86,875	36,478	50,397
Mar. 31, 1962.....	95,953	45,329	50,624

Commercial warehouse space approved for storage of Government grain in Deaf Smith County, Tex.

[1,000 bushels]

	Total space approved	Owned or controlled by Billie Sol Estes	Owned or controlled by other warehouse operators
1956.....	7,318	0	7,318
1957.....	7,026	0	7,026
1958.....	9,119	0	9,119
1959.....	9,429	0	9,429
1960.....	9,698	0	9,698
1961.....	19,736	9,730	10,006
Mar. 31, 1962.....	19,102	9,730	9,372

Commercial warehouse space approved for storage of Government grain in Swisher County, Tex.

[1,000 bushels]

	Total space approved	Owned or controlled by Billie Sol Estes	Owned or controlled by other warehouse operators
1956.....	8,996	0	8,996
1957.....	11,215	0	11,215
1958.....	16,413	0	16,413
1959.....	19,923	0	19,923
1960.....	31,130	10,673	20,457
1961.....	51,772	24,311	27,461
Mar. 31, 1962.....	51,772	24,311	27,461

Commercial warehouse space approved for storage of Government grain in Briscoe, Dawson, Floyd, and Hockley Counties, Tex.

[1,000 bushels]

	Total space approved	Owned or controlled by Billie Sol Estes	Owned or controlled by other warehouse operators
1956.....	9,621	0	9,621
1957.....	10,336	0	10,336
1958.....	14,692	0	14,692
1959.....	19,951	0	19,951
1960.....	23,286	3,588	19,698
1961.....	30,575	7,717	22,858
Mar. 31, 1962.....	31,287	7,717	23,570

NOTE.—Figures given for the years 1954 through 1961 are as of December 31. No year-end statistics are available for 1950 and 1952; figures given for those years are as of August.

Location of storage facilities owned or controlled by Billie Sol Estes, by counties, was as follows:

Hale County (United Elevators and Hale County Grain Co.): Plainview, South Plainview Terminal, South Plainview Terminal Annex, and Providence. A 1.98-million-bushel facility at Olton, 25 miles west of Plainview, was actually located in Lamb County but was operated as part of the Plainview installation and is included in the Hale County total.

Swisher County (Palo Duro Grain Co. and United Elevators): Tulia, Kress, South Kress, Center Plains, and Claytonville.

Deaf Smith County (Allied Elevators): Hereford.

Briscoe County (United Elevators): Silverton and Dempsey.

Dawson County (United Elevators): Lamesa.

Floyd County (United Elevators): South Plains.

Hockley County (United Elevators and South Plains Grain Co.): Levelland, Tex.

APPENDIX 9.—ACQUISITION AND CONSTRUCTION OF STORAGE FACILITIES

Acquisition of storage facilities—United Elevators

Location	Capacity (1,000 bushels)	Date of acquisition	Previous owner	Price	Down- payment	Total amount paid in installments ¹
United Elevators:						
Plainview and Providence.....	2,960	Dec. 1, 1958.....	Smith-Bawden Grain Co.....*	\$850,000	\$250,000	\$305,417
Olton.....	1,985	Sept. 1, 1959.....	Ben F. Smith Estate.....	400,000	0	\$235,000
South Plainview Terminal Annex.....	1,370	do.....	Consolidated Gas & Equipment Co.....	375,000	0	150,000
Kress.....	1,223	Jan. 1, 1960.....	Kress Grain Co. (Wilson, Burson Eingham)....	\$1,000,000	0	\$497,457
Center Plains.....	498	Feb. 1, 1960.....	H. E. Wilson and Troy Burson.....	\$335,000	0	\$136,250
Claytonville.....	1,023	Mar. 1, 1960.....	H. E. Wilson.....	\$800,000	0	350,000
South Plains.....	915	1960.....	E. H. Patterson.....	(²)	0	0
Silverton.....	2,190	Aug. 9, 1960.....	F. F. Bozeman.....	50,000	0	6,000
Levelland.....	405	Sept. 6, 1960 ³	H. E. Wilson Troy Burson.....	\$510,000	0	96,757
Kress.....	300	Aug. 13, 1960 ¹⁰	H. E. Wilson.....	\$144,500	0	32,102
South Kress.....	1,977	Apr. 1, 1961.....	Farm Grain & Warehouse, Inc.....	99,900	0	0
Dempsey.....	483					
Lamesa.....	666					
Total.....	15,995			¹¹ 4,574,400	250,000	1,807,983

¹ Does not include interest in all cases.² \$225,000 paid with funds advanced by Commercial Solvents; \$25,000 by Estes.³ \$105,417 paid by Commercial Solvents; remainder by Estes.⁴ \$235,000 paid by Commercial Solvents.⁵ Approximate.⁶ \$200,000 paid by Commercial Solvents; remainder by Estes.⁷ \$52,539 paid by Commercial Solvents.⁸ Not available.⁹ Date of lease; purchased Apr. 1, 1961.¹⁰ Date of lease; purchase Apr. 10, 1961.¹¹ Does not include 405,000 bushel facility at Levelland.

Construction of storage facilities—United Elevators

Location	Capacity (1,000 bushels)	Date of construction contracts	Contractor	Repre- sented price	Actual price	Cash down- payment	Amount financed	Finance company	Total amount paid ¹
South Plainview Ter- minal.....	5,685	Dec. 22, 1958; Jan. 17, 1959.	Plaintex Steel Struc- tures Co.	-----	\$1,247,000	\$9,800	\$997,200	Commercial Credit Corp.	\$815,892
Do.....	7,500	Aug. 13, 1960; Sept. 13, 1960.	Atlas Tank & Steel Co.	-----	726,250	0	-----	(?)	726,250
Do.....	7,500	November 1960.....	Lubbock Machine & Supply Co.	-----	744,067	0	-----	(?)	* 698,873
Levelland.....	2,057	Late 1960.....	Wade Contracting Co.	-----	(4)	0	320,000	CIT Corp.	82,108
Silverton.....	1,000	Mar. 31, 1961.....	Superior Manufacturing Co.	-----	110,000	0	-----	-----	* 110,000
Claytonville.....	500	June 1961.....	Lubbock Machine & Supply Co.	-----	67,500	0	-----	-----	(?)
South Plainview Termi- nal.....	795	do.....	Wade Contracting Co.	\$269,367	* 193,512	0	216,567	Walter E. Heller.....	28,512
Do.....	1,194	do.....	do.....	384,784	* 232,958	0	267,584	do.....	18,144
Do.....	3,000	do.....	do.....	-----	* 963,000	0	1,050,000	Midland National Bank.....	135,000
Do.....	851	do.....	do.....	274,399	* 180,620	0	205,299	Walter E. Heller.....	0
South Plainview Termi- nal Annex.....	4,000	Late 1961.....	Lubbock Machine & Supply Co.	-----	552,000	0	-----	-----	(?)
Do.....	4,000	Dec. 14, 1961.....	Superior Manufactur- ing Co.	-----	464,657	0	-----	-----	* 464,657
Total.....	38,082	-----	-----	-----	* 5,481,564	9,800	3,056,650	-----	3,079,436

¹ Includes all payments to both contractor and finance company.² Payments made to Atlas Tank & Steel Co. as the facilities were completed.³ Lubbock Machine & Supply built storage facilities at South Plainview, South Plainview Terminal Annex, and Claytonville. Total price of facilities at the 3 locations was \$1,363,567; total payments were \$698,873; total balance due is \$664,694. An allocation of payments by location is not available.⁴ Not available.⁵ Construction costs of facilities deducted by Superior Manufacturing Co. from funds paid to Superior by finance companies on NH₃ tank paper.⁶ Actual price not available. The figure represents the amount financed less a \$170,000 kickback from Coleman Wade to Billie Sol Estes in 1961; the kickback is apportioned for each facility at the rate of 2.9 cents per bushel.⁷ Actual amount financed not available. Mortgage note was \$1,350,000.⁸ Price does not include cost of 2,057,000-bushel facility constructed at Levelland by Coleman Wade.

Hale County Grain Co., Plainview, Tex.

Capacity (1,000 bushels)	Date of construction contract	Contractor	Represented price	Actual price	Down- payment	Amount financed	Finance company	Total amount paid ¹
1,760	Apr. 12, 1960	Plain-Tex Steel Structures, Inc. (J. J. Kimble).	\$375,000	\$375,000	\$37,500	\$300,000	Commercial Credit Corp.	\$182,506
734	June 19, 1961	do	136,000	136,000	27,200	108,800	do	40,965
1,994	July 25, 1961	Wade Contracting Co.	580,000	393,000	0	464,000	Walter E. Heller & Co.	31,320
4,488			1,091,000	904,000	64,700	872,800		234,821

¹ Includes cash downpayments and time payments to finance company.*Allied Elevators, Hereford, Tex.*

Capacity (1,000 bushels)	Date of con- struction contract	Contractor	Actual price	Downpay- ment	Amount financed	Finance company	Total amount paid ¹
3,456	Dec. 14, 1960	Pre-Fab Steel Structures Inc., (J. J. Kimble).	\$750,000	\$30,000	\$600,000	Commercial Credit Corp.	\$132,248
2,274	Feb. 23, 1961	do	500,000	25,000	400,000	do	60,003
4,000	July 1961 ²	Superior Manufacturing Co.	\$464,657	0	(⁴)		464,657
9,730			1,714,657	55,000	1,000,000		656,908

¹ Includes cash downpayments and time payments to finance company.² Estimate.³ Actual price not known; however, this figure is cost of similar construction by Superior Manufacturing Co. at South Plainview Terminal Annex.⁴ Construction costs of facility deducted by Superior Manufacturing Co. from funds paid to Superior by finance companies on tank paper.

Palo Duro Grain Co., Tulia, Tex.

Capacity (1,000 bushels)	Date of construction contract	Contractor	Actual price	Cash down- payment	Amount financed	Finance company	Total amount paid ¹
2, 170	Feb. 25, 1960...	Plain-Tex Steel Structures, Inc. (J. J. Kimble).	\$636, 500	\$118, 250	\$400, 000	Commerical Credit Corp.....	\$302, 502
2, 186	do.	do.....	525, 000	11, 500	400, 000	do.....	145, 186
2, 064	Feb. 17, 1961	do.....	540, 000	55, 000	430, 000	do.....	120, 974
2, 350	July 1960 ²	do.....	503, 000	0	400, 000	do.....	101, 664
4, 014	February 1961..	Panhandle Steel Bldgs.	644, 192	162, 500	481, 692	Butler Finance Co.....	162, 500
2, 514	June 12, 1961..	Plain-Tex Steel Structures, Inc. (J. J. Kimble).	550, 000	150, 000	400, 000	First Investment Corp. (J. J. Kimble).	176, 000
3, 512	September 1961 ³	Wade Contracting Co.....	(⁴)	0	446, 442	Walter E. Heller & Co.....	30, 240
18, 790			⁴ 3, 399, 692	497, 250	2, 958, 134		1, 039, 046

¹ Includes cash downpayments and time payments to finance companies.² Estimate.³ Actual price not available; price represented to W. E. Heller as \$578,422.⁴ Does not include 3,512,000-bushel facility constructed by Coleman Wade.

Total storage space constructed by various contractors for Billie Sol Estes

[In thousands of bushels]		
Contractor		Total space constructed
Plain-Tex Steel Structures, Inc., Plainview, Tex.:		
United Elevators, South Plainview Terminal	-----	5,685
Hale County Grain Co., Plainview	-----	2,494
Allied Elevators, ¹ Hereford	-----	5,730
Palo Duro Grain Co., Tulia	-----	11,264
Total	-----	25,173
Wade Contracting Co., Altus, Okla.:		
United Elevators:		
Levelland	-----	2,057
South Plainview Terminal	-----	5,840
Hale County Grain Co.	-----	1,994
Palo Duro Grain Co.	-----	3,512
Total	-----	13,403
Lubbock Machine & Supply Co., Lubbock, Tex.: United Elevators:		
South Plainview Terminal	-----	7,500
Claytonville	-----	500
South Plainview Terminal Annex	-----	4,000
Total	-----	12,000
Superior Manufacturing Co., Amarillo, Tex.:		
United Elevators:		
Silverton	-----	1,000
South Plainview Terminal Annex	-----	4,000
Allied Elevators	-----	4,000
Total	-----	9,000
Atlas Tank & Steel Co., Inc.: United Elevators: South Plainview		
Terminal	-----	7,500
Panhandle Steel Buildings, Amarillo, Tex.: Palo Duro Grain Co.	-----	4,014
Total	-----	71,090

¹ These facilities at Allied were actually constructed by Pre-Fab Steel Structures, Inc., Amarillo, another company operated by J. J. Kimble, president of Plain-Tex Steel.

APPENDIX 10.—CHRONOLOGICAL SUMMARY OF EVENTS RELATING TO FEDERAL LICENSING AND SUPERVISION OF UNITED ELEVATORS

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Date	License No. and action	Capacity increase	Licensed capacities (bushels)					Net worth required under regulations	Net worth per financial statement	Bond furnished
			3-4458, Plainview	3-4596, Kress	3-4597, South Plains	3-4601, Silverton	Accumulative capacities			
Oct. 31, 1958	3-4458: Date of financial statement.								\$5,042,244.34	
Nov. 20, 1958	3-4458: Application submitted.									
Dec. 4, 1958	3-4458: Original examination made.									
Dec. 18, 1958	3-4458: Date of financial statement.								6,456,941.42	
Feb. 24, 1959	3-4458: Original license issued.		2,960,000				2,960,000	\$224,960		\$200,000
May 11, 1959	3-4458: Amendment No. 1 issued.	3,420,000	6,380,000				6,380,000	484,880		200,000
June 30, 1959	3-4458: Date of financial statement.								6,652,539.51	
July 24, 1959	3-4458: Amendment No. 2 issued.	2,265,000	8,645,000				8,645,000	657,020		200,000
Sept. 16, 1959	3-4458: Amendment No. 3 issued.	1,985,000	10,630,000				10,630,000	807,880		200,000
Nov. 30, 1959	3-4458: Subsequent examination made.									
Dec. 1, 1959	3-4458: Amendment No. 4 issued.	1,370,000	12,000,000				12,000,000	912,000		200,000
Dec. 31, 1959	3-4458: Date of financial statement.								6,730,934.29	
Jan. 13, 1960	3-4596: Original examination made.									
Jan. 18, 1960	3-4597: Original examination made.									
Feb. 19, 1960	3-4596: Original license issued.			2,744,000			14,744,000	1,120,544		200,000
Do	3-4597: Original license issued.				915,000		15,659,000	1,190,084		200,000
Feb. 23, 1960	3-4458 et al.: Renewal bond furnished, effective Feb. 24, 1960.		12,000,000	2,744,000	915,000		15,659,000	1,190,084		200,000
Feb. 26, 1960	3-4601: Original examination made.									
May 6, 1960	3-4601: Original license issued.					2,190,000	17,849,000	1,356,524		200,000
June 30, 1960	3-4458 et al.: Date of financial statement.								7,667,006.18	
July 19, 1960	3-4458: Subsequent examination made.									
Aug. 24, 1960	3-4596: Subsequent examination made.									
Aug. 29, 1960	3-4597: Subsequent examination made.									
Sept. 30, 1960	3-4596: Amendment No. 1 issued.	300,000		3,044,000			18,149,000	1,379,324		279,000
Do	3-4601: Amendment No. 1 issued.	483,000				2,673,000	18,632,000	1,416,032		279,000
Oct. 17, 1960	3-4458: Amendment No. 5 issued.	1,006,000	13,006,000				19,638,000	1,492,488		280,000
Nov. 1, 1960	3-4596: Amendment No. 2 issued.	1,977,000		5,021,000			21,615,000	1,642,740		578,000
Dec. 13, 1960	3-4458: Amendment No. 6 issued.	4,027,000	17,033,000				25,642,000	1,948,792		700,000
Dec. 28, 1960	3-4458: Amendment No. 7 issued.	1,000,000	18,033,000				26,642,000	2,024,792		700,000
Dec. 31, 1960	3-4458 et al.: Date of financial statement.								13,734,954.75	
Feb. 20, 1961	3-4458: Amendment No. 8 issued.	2,967,000	21,000,000				29,609,000	2,250,284		700,000
Feb. 21, 1961	3-4458 et al.: Renewal bond furnished effective Feb. 24, 1961.		21,000,000	5,021,000	915,000	2,673,000	29,609,000	2,250,284		700,000
Mar. 11, 1961	3-4458: Subsequent examination made.									
Mar. 20, 1961	3-4597: Subsequent examination made.									
Mar. 22, 1961	3-4596: Subsequent examination made.									
Mar. 24, 1961	3-4601: Subsequent examination made.									

OPERATIONS OF BILLIE SOL ESTES

Apr. 26, 1961	3-4458: Amendment No. 9 issued	2,000,000	23,000,000				31,609,000	2,402,284		700,000
May 26, 1961	3-4458: Amendment No. 10 issued	1,000,000	24,000,000				32,609,000	2,478,284		700,000
Do	3-4601: Amendment No. 2 issued	1,000,000				3,673,000	33,609,000	2,554,284		700,000
June 30, 1961	3-4458 et al.: Date of financial statement								15,394,110.10	
Aug. 3, 1961	3-4458: Amendment No. 11 issued	1,000,000	25,000,000				34,609,000	2,630,284		700,000
Do	3-4596: Amendment No. 3 issued	500,000		5,521,000			35,109,000	2,668,284		700,000
Aug. 20, 1961	3-4601: Subsequent examination made									
Sept. 5, 1961	3-4458: Subsequent examination made									
Oct. 17, 1961	3-4458: Amendment No. 12 issued	3,989,000	28,989,000				39,098,000	2,971,448		700,000
Nov. 13, 1961	3-4458: Amendment No. 13 issued	3,000,000	31,989,000				42,098,000	3,199,448		700,000
Jan. 5, 1962	3-4458: Subsequent examination made									
Jan. 17, 1962	3-4596: Subsequent examination made									
Do	3-4601: Subsequent examination made									
Jan. 19, 1962	3-4597: Subsequent examination made									
Feb. 14, 1962	3-4458: Amendment No. 14 issued	8,851,000	40,840,000				50,949,000	3,872,124		700,000
Feb. 16, 1962	3-4458 et al.: Renewal bond furnished effective Feb. 24, 1962		40,840,000	5,521,000	915,000	3,673,000	50,949,000	3,872,124		700,000
Apr. 3, 1962	3-4458: Subsequent examination made									
Do	3-4596: Subsequent examination made									
Do	3-4597: Subsequent examination made									
Do	3-4601: Subsequent examination made									
Apr. 6, 1962	3-4458, 3-4596, 3-4597, 3-4601: suspended									

APPENDIX 11.—APPROVAL OF STORAGE CONTRACTS—UNITED ELEVATORS

Code No.	Name and location	Contract No.	Date contract or additional storage approved for CCC	Approved by (name of contracting officer)	Capacity approved (bushels)	Total capacity approved—cumulative (bushels)
9-7663	Billie Sol Estes doing business as United Elevators, Plainview, Tex.	A74-6-CCC-1761A	Mar. 9, 1959	Albert I. Eads	2,960,000	2,960,000
	Additional storage		May 15, 1959	Lee R. Wanner	3,420,000	6,380,000
	do		July 30, 1959	do	2,265,000	8,645,000
	do		Sept. 23, 1959	Albert I. Eads	1,985,000	10,630,000
	do		Dec. 8, 1959	Lee R. Wanner	1,370,000	12,000,000
	Revised contract	A74-6-CCC-1761C	June 30, 1960	do		12,000,000
	Additional storage		Oct. 20, 1960	do	1,006,000	13,006,000
	do		Dec. 30, 1960	do	4,027,000	17,033,000
	do		Jan. 9, 1961	do	1,000,000	18,033,000
	do		Mar. 1, 1961	do	2,967,000	21,000,000
	do		May 24, 1961	do	2,000,000	23,000,000
	do		June 9, 1961	do	1,000,000	24,000,000
	do		Aug. 11, 1961	do	1,000,000	25,000,000
	do		Oct. 27, 1961	Albert I. Eads	3,989,000	28,989,000
	do		Nov. 20, 1961	Lee R. Wanner	3,000,000	31,989,000
	do		Feb. 23, 1962	D. D. Kolp	8,851,000	40,840,000
8-7858	United Elevators, Kress, Tex.	A74-6-CCC-1761A	Mar. 4, 1960	Albert I. Eads	2,744,000	2,744,000
	Additional storage					2,744,000
	Revised contract	A74-6-CCC-1761	Oct. 4, 1960	Lee R. Wanner	300,000	3,044,000
	Additional storage		Oct. 20, 1960	do	1,970,000	5,014,000
	do		Nov. 16, 1960	do	7,000	5,021,000
	do		Aug. 11, 1961	do	500,000	5,521,000
8-7883	United Elevators, Silvertown, Tex.	A74-6-CCC-1761A	May 25, 1960	Lee R. Wanner	2,190,000	2,190,000
	Additional storage					2,190,000
	Revised contract	A74-6-CCC-1761C	Oct. 4, 1960	Lee R. Wanner	483,000	2,673,000
	Additional storage		June 9, 1961	do	1,000,000	3,673,000
8-8021	United Elevators, South Plains, Tex.	A74-6-CCC-1761A	Feb. 25, 1960	Lee R. Wanner	915,000	915,000
	Additional storage					915,000
	Revised contract	A74-6-CCC-1761C				
8-8048	United Elevators, Lamesa, Tex.	A74-6-CCC-1761C				
	Additional storage		Apr. 26, 1961	Lee R. Wanner	666,279	666,279
8-7425	South Plains Grain, Inc., Levelland, Tex.	A74-6-CCC-1770C	Sept. 1, 1961	do	2,463,225	2,463,225

APPENDIX 12A.—GOVERNMENT-OWNED GRAIN STORED IN COMMERCIAL WAREHOUSES

[In thousands of bushels]

	Wheat			Grain sorghum		
	United States	Texas	Warehouses owned or controlled by Billie Sol Estes	United States	Texas	Warehouses owned or controlled by Billie Sol Estes
1955.....	826,080	104,392	-----	41,969	24,384	-----
1956.....	765,931	83,849	-----	58,805	61,196	-----
1957.....	699,008	74,839	-----	66,827	58,658	-----
1958.....	714,497	71,307	10	254,620	176,440	10
1959.....	1,046,480	114,288	798	475,591	280,352	5,904
1960.....	1,009,173	115,501	518	540,576	338,170	16,140
1961.....	1,028,509	115,319*	6,866	589,439	368,221	31,451

* A comparatively small amount of Government-owned wheat and grain sorghum was in storage on Nov. 30, 1958, in warehouses later acquired by Billie Sol Estes; however, the warehouses were not owned or controlled by Estes at this time.

NOTE.—Figures for United States and Texas show total amount of Government-owned wheat and grain sorghum stored in commercial warehouses as of Dec. 31. Figures for warehouses owned or controlled by Billie Sol Estes show inventories of wheat and grain sorghum as of Nov. 30. Dec. 31 figures for Estes' warehouses are not readily available, but would not be materially different from Nov. 30 figures. Wheat and grain sorghum were the only kinds of Government-owned grain stored in Estes' warehouses in significant amounts.

APPENDIX 12B.—GOVERNMENT-OWNED GRAIN STORED IN FACILITIES OWNED OR CONTROLLED BY BILLIE SOL ESTES

[In thousands of bushels]

	Capacity	Inventory, Mar. 31, 1962	Shipped out prior to Mar. 31, 1962	Loan grain takeover, Apr. 1, 1962	Total grain handled
United Elevators:					
Plainview.....	40,840	17,096	6,667	6,024	29,787
Kress.....	5,521	4,194	59	608	4,861
Silverton.....	3,673	2,155	168	860	3,183
South Plains.....	915	757	100	73	930
Lamesa.....	666	433	99	102	634
South Plains Grain Co.: Levelland.....	2,463	863	75	740	1,178
Allied Elevators: Hereford.....	9,730	404	778	1,197	2,379
Hale County Grain Co.: Plainview.....	4,489	1,729	-----	1,534	3,263
Palo Duro Grain Co.: Tulla.....	18,790	6,516	3,199	1,148	10,863
Total.....	87,087	33,647	11,145	12,288	57,078

APPENDIX 12C.—SOURCES OF GOVERNMENT-OWNED GRAIN STORED BY BILLIE SOL ESTES

Source:

Grain brought to Estes' warehouses by producers which was taken over under the price support program:	Number of bushels
Prior to Apr. 1, 1962.....	15, 399, 801
On Apr. 1, 1962.....	12, 286, 037
Total acquired from producers.....	27, 685, 838
Grain already in storage when Estes acquired warehouses.....	5, 887, 013
Grain acquired through exchange transactions involving other warehousemen.....	6, 978, 676
Grain shipped to Estes' warehouses by Department of Agriculture.....	16, 526, 292
Total.....	57, 077, 819

APPENDIX 13A.—GRAIN SHIPMENTS BY DEPARTMENT OF AGRICULTURE TO AND FROM STORAGE FACILITIES OWNED OR CONTROLLED BY BILLIE SOL ESTES

[In thousands of bushels]

	Wheat		Grain sorghum		Total	
	In	Out	In	Out	In	Out
1959.....	708, 850	120, 087	1, 031, 637	281, 129	2, 640, 487	401, 216
1960.....	141, 985	437, 301	803, 388	24, 245	945, 373	461, 548
1961.....	7, 769, 209	3, 408, 614	5, 171, 223	1, 501, 526	12, 940, 432	4, 910, 140
1962 (January-March).....	0	2, 977, 743	0	2, 394, 729	0	5, 372, 472
Total.....	8, 620, 044	6, 943, 745	7, 906, 248	4, 201, 629	16, 526, 292	11, 145, 374

APPENDIX 13B.—LOAD OUT OF CCC INVENTORIES

	Total grain handled ¹	Inventory, Apr. 1, 1962	Shipped	Undershipments	
				Bushels	Percent of total handled
United Elevators ²	43, 760	32, 302, 508	31, 116, 289	1, 186, 219	2.71
South Plains Grain Co., Levelland.....	1, 830	1, 102, 016	1, 038, 952	63, 064	3.44
Hale County Grain Co.....	3, 263	3, 263, 125	3, 198, 148	64, 977	1.99
Allied Elevators.....	2, 997	1, 001, 644	1, 572, 020	29, 624	.98
Palo Duro Grain Co.....	11, 227	7, 664, 489	7, 541, 550	122, 939	1.09
Total.....	63, 077	45, 933, 785	44, 466, 961	1, 466, 824	2.32

¹ Total grain handled exceeds similarly titled column in 12B because it includes privately owned grain as well as Government-owned grain.

² Includes facilities at Kress, Silverton, Plainview, South Plains, and Lamesa, Tex.

APPENDIX 14A.—CCC STORAGE PAYMENTS

	Storage facilities owned or controlled by Billie Sol Estes				Total
	United Elevators	Allied Elevators	Hale County Grain Co.	Palo Duro Grain Co.	
1959.....	\$776,801.63				\$776,801.63
1960.....	2,423,929.17			\$19,194.79	2,443,123.96
1961.....	3,506,564.95	\$46,200.75	\$224,442.39	997,754.58	4,774,962.67
1962.....	895,991.10	29,233.83	57,568.87	262,819.92	1,245,613.72
Total.....	\$7,603,287.15	\$75,434.28	\$282,011.26	\$1,279,769.29	9,240,501.98

¹ Approximately \$7,600,000 paid to Commercial Solvents Corp.

² Partially assigned to Commercial Credit Corp.

³ Assigned to Commercial Credit Corp.

APPENDIX 14B.—10 LARGEST RECIPIENTS OF CCC GRAIN STORAGE PAYMENTS, 1959-61

Name and location	1959		1960		1961	
	Amount	Rank	Amount	Rank	Amount	Rank
C-G-F Grain Co., Wichita, Kans. ¹	\$23,470,634	1	\$28,313,848	1	\$24,925,192	1
Cargill, Inc., Minneapolis, Minn.	12,103,615	2	9,808,744	2	9,474,404	2
Continental Grain Co., New York, N.Y.	6,835,190	3	7,198,886	3	9,190,879	3
Union Equity Cooperative Exchange, Enid, Okla.	6,717,599	4	4,304,656	6	3,266,063	12
Archer-Daniels-Midland Co., Minneapolis, Minn.	6,076,898	5	5,919,132	4	5,134,987	4
Harvest Queen Mill & Elevator Co., Plainview, Tex.	5,884,495	6	5,204,045	5	4,856,361	5
Farmers Union Grain Terminal Association, St. Paul, Minn.	4,781,426	7	4,089,596	8	3,945,877	7
Farmers Cooperative Commission Co., Hutchinson, Kans.	4,102,697	8	4,100,897	7	3,648,093	8
Goodpasture Grain & Milling Co., Brownfield, Tex.	3,824,297	9	3,438,872	9	3,443,859	10
Morrison Quirk Grain Co., Hastings, Nebr.	2,929,588	10	3,095,454	10	2,837,713	13
F. H. Peavy Co., Minneapolis, Minn.	2,806,431	12	2,731,907	12	4,169,304	6
United Elevators, Plainview, Tex.	776,675	49	\$2,422,372	18	\$3,491,713	9

¹ Includes subsidiaries.

² Does not include payment of \$19,194 to Palo Duro Grain Co.

³ Does not include payments of \$262,819 to Palo Duro Grain Co., \$46,200 to Allied Elevators, and \$224,442 to Hale County Grain Co.

APPENDIX 15.—STATUS OF BILLIE SOL ESTES' ACCOUNT WITH COMMERCIAL SOLVENTS CORPORATION

Charges to Estes' account

Year	Fertilizer shipments (tons)		Price (including freight)	Interest	Cash advanced or payments made for Estes	Total charged to Estes' account
	Anhydrous ammonia	Other				
1958.....	5,728	1,215	\$807,928	\$8,237	\$225,051	\$840,316
1959.....	34,549	4,469	3,405,264	59,433	150,418	3,615,115
1960.....	25,885	1,516	2,418,167	209,955	878,362	3,008,494
1961.....	36,016	2,231	3,564,196	243,842	70,576	3,869,614
1962 (January-March).....	14,639	200	1,446,363	101,563	434,312	1,982,238
Total.....	116,817	9,631	11,431,018	622,730	1,259,019	13,312,767

Payments and balance due on Estes' account

	Payments on Estes' account			Charges to Estes' account	Net increase in Estes' account from previous year	Balance due at end of period
	CCC storage payments received under assignment from Estes	Other	Total			
1958.....	0	\$10,000	\$10,000	\$840,316	\$830,316	\$830,316
1959.....	\$782,049	15,085	797,134	3,615,115	2,817,981	3,648,297
1960.....	2,418,261	17,298	2,435,559	3,008,848	572,925	4,221,222
1961.....	3,507,011	0	3,507,011	3,868,614	361,603	4,582,825
1962 (January-March).....	896,054	0	896,054	1,982,238	1,086,184	5,669,009
Total.....	7,601,375	42,383	7,643,758	13,312,767		

APPENDIX 16A.—NET WORTH REFLECTED ON FINANCIAL STATEMENTS SUBMITTED TO DEPARTMENT OF AGRICULTURE BY BILLIE SOL ESTES

Date of statement	Total assets	Total liabilities	Net worth
Oct. 31, 1958.....	\$7,020,443.37	\$1,978,199.03	\$5,042,244.34
Dec. 18, 1958.....	10,678,299.87	4,221,358.45	6,456,941.42
June 30, 1959.....	10,104,409.08	3,451,869.57	6,652,539.51
Dec. 31, 1959.....	10,709,020.83	3,978,086.54	6,730,934.29
June 30, 1960.....	13,784,834.51	6,117,828.33	7,667,006.18
Dec. 31, 1960.....	20,087,416.38	6,352,461.63	13,734,954.75
June 30, 1961.....	23,310,850.20	7,916,740.01	15,394,110.19
Nov. 30, 1961.....	25,220,523.20	8,852,430.72	16,368,092.48

APPENDIX 16B.—INCOME REPORTED ON FINANCIAL STATEMENTS
SUBMITTED BY BILLIE SOL ESTES TO THE DEPARTMENT OF AGRICULTURE

	Gross income	Expenses	Net income
1957.....	\$851,724.06	\$271,504.65	\$380,219.41
1958 ¹	6,676,899.63	6,148,216.42	528,683.21
1959 ²	(³)	(³)	618,724.62
1960 ²	(³)	(³)	900,441.28
1961 ⁴	8,562,183.16	7,879,203.42	682,979.74

¹ July 1, 1958, to June 30, 1959.

² July 1, 1959, to June 30, 1960.

³ July 1, 1960, to June 30, 1961.

⁴ Jan. 1, 1961, to Nov. 30, 1961.

⁵ Not given in financial statement.

APPENDIX 16C.—INCOME REPORTED ON FEDERAL INCOME TAX
RETURNS OF BILLIE SOL ESTES

	Net income or (loss) reported	Adjustments (50 percent of long-term capital gain)	Adjusted income or (loss) subject to tax
1952.....	\$3,908.22		¹ \$19,590.39
1953.....	(17,152.73)		¹ 17,093.52
1954.....	1,578.96		¹ (43,990.31)
1955.....	* (134,518.40)	\$11,278.72	(122,637.68)
1956.....	38,557.31	67,041.61	105,598.92
1957.....	(476,766.61)	142,955.32	(332,811.29)
1958.....	(1,257,796.48)	68,025.18	(1,189,770.30)
1959.....	(892,661.36)	58,506.82	(534,154.54)
1960.....	(1,098,241.79)	26,040.02	(1,072,201.77)
1961 ²	(2,712,220.74)	(136,709.26)	(2,848,929.99)

¹ Income reported by Billie Sol Estes for 1952 and 1953 was adjusted by Internal Revenue Service on the basis of an examination of Estes' books and records. Taxes totaling approximately \$8,000 were assessed against Estes as a result of these adjustments. However, the tax was not paid because of an offsetting tax loss carryback resulting from adjustments for 1954.

² Amended return; original return reported net loss of \$40,883.

³ 1961 return for Billie Sol Estes had not been filed at the time of his arrest. Figures shown are from a 1961 income statement of Estes Bros. prepared for tax purposes. The Estes Bros.' statement covers substantially all Billie Sol Estes' business operations.

APPENDIX 16D.—COMPARISON OF DATA ON FINANCIAL STATEMENTS
AND FEDERAL INCOME TAX RETURNS OF BILLIE SOL ESTES

Year	Net income re- ported to De- partment of Agriculture	Net adjusted (loss) reported to Internal Revenue service
1957.....	\$380,219.41	(\$332,811.29)
1958.....	¹ 528,683.21	(1,189,770.30)
1959.....	² 618,724.62	(534,154.54)
1960.....	³ 900,441.28	(1,072,201.77)
1961.....	⁴ 682,979.74	⁵ (2,848,929.99)

¹ July 1, 1958, to June 30, 1959.

² July 1, 1959, to June 30, 1960.

³ July 1, 1960, to June 30, 1961.

⁴ Jan. 1, 1961, to Nov. 30, 1961.

⁵ Estes brothers.

APPENDIX 17.—DETAILS OF TANK NOTE TRANSACTIONS

The following tables were prepared from information obtained from the finance companies, Internal Revenue Service, a report of special examination of Estes Bros., provided by Ernst & Ernst, as well as information from the makers of the various obligations. This data was sometimes incomplete, inadequate, or contained minor discrepancies; however, it is believed that significant differences have been resolved and that the tables present a substantially complete and accurate record.

The total face amount of notes included in the following tables is about \$5 million less than the figure used in stories published by the Pecos Independent. One reason for this difference is that the list of chattel mortgages on which the Pecos Independent articles were based contains a substantial number of duplications; these occurred because some mortgages were recorded in several different counties. The Pecos Independent total also includes some McSpadden tank mortgages and three tank mortgages totalling \$2,400,000 given by Estes to Commercial Solvents and Pennsalt Chemicals as security for indebtedness.

Estes' tank notes purchased by finance companies

Finance company	Face amount of notes purchased	Amount paid for notes	Amount repaid on notes	Balance due March 1962
Associates Investment Co.....	\$1,270,263	\$1,004,554	\$638,532	\$631,732
Caprock Investment Co.....	330,866	254,512	11,648	319,217
CIT Corp.....	¹ 8,348,462	6,317,972	2,816,802	5,531,660
Commercial Credit Corp.....	1,772,610	1,397,641	231,711	1,540,899
D & M Investments.....	² 311,332	254,600	66,864	244,468
Walter E. Heller & Co.....	7,084,273	5,496,042	773,773	6,310,500
Humphries & Co.....	287,871	246,500	198,489	89,381
Kuykendall Investment Co.....	2,049,634	1,608,654	285,317	1,764,317
Pacific Finance Corp.....	4,530,867	3,302,691	772,181	3,758,685
Pioneer Finance Co.....	1,127,801	938,364	265,419	980,037
Southwestern Investment Co.....	770,897	627,857	456,711	314,186
James Talcott, Inc.....	1,601,157	1,257,808	657,212	943,944
Total.....	29,486,023	22,707,255	7,174,659	22,429,016

¹ Includes 13 notes, bearing various dates from Mar. 19, 1959, to July 12, 1960, purchased by CIT from the First National Bank of Amarillo. The original face value at the time they were acquired by the First National Bank was \$245,037. The notes were reduced by payments of \$83,360 and had a face value of \$161,677 at the time CIT obtained them in early 1961 for \$146,378. The CIT total includes the face value of the notes at the time of acquisition rather than the original face value.

² Includes 3 notes with a face value of \$152,504, subsequently sold by D & M to the First National Bank at Lubbock. This bank paid \$125,417 for these notes and the unpaid balance as of Apr. 7, 1962, was \$397,697.

Signers of Estes' tank notes

Name	Address	County	Number of notes	Face amount
Acuff, Grady	Lamesa	Dawson	8	\$542,737.44
Alexander, Glenn	Abilene	Taylor	14	608,173.84
Alfie, E. A.	Clifton	Bosque	3	117,887.60
Associated Growers of Hereford	Hereford	Deaf Smith	1	26,156.40
Atwood, G. M.	Pecos	Reeves	8	452,885.04
Barnes, J. C., Jr.	Midland	Midland	3	867,572.72
Barnes, J. C., Sr.	do	do	3	664,669.80
Bell, Thomas H.	Pecos	Reeves	12	757,974.00
Bozeman, Frank F.	Springlake	Lamb	16	731,218.32
Bradley, Jack, Joe, and Robert D.	Pecos	Reeves	1	182,280.00
Bradley, Jack	do	do	2	125,618.40
Bradley, Joe S.	do	do	4	187,249.20
Bradley, Robert D.	do	do	3	191,875.20
Burson, Troy	Silverton	Briscoe	7	554,775.24
Carpenter, E. J.	Pecos	Reeves	15	656,415.36
Chandler Co.	Fort Stockton	Pecos	4	434,541.00
Cramer, B. D.	Pecos	Reeves	2	130,060.20
Davis, C. E.	Coyanosa	do	2	397,935.00
Dingler, Marcus	Pecos	do	1	94,500.00
Elam, H. W.	do	do	2	125,963.32
Estes, Glenn E.	do	do	4	215,046.00
Evans, Ralph	do	do	2	145,638.90
Farmers Co.	do	do	2	11,428.81
Freeman, L. M.	Imperial	Pecos	1	75,600.00
Gallagher, J. P.	Hereford	Deaf Smith	4	206,145.60
Gillette, E. C.	McCombey	Upton	1	84,892.50
Gillette Pipe & Supply Co. (E. C. Gillette and Jesse Russell).	do	do	10	420,507.31
Greeson, J. D.	Hereford	Deaf Smith	8	278,906.12
Guest Aerial Service	Pecos	Reeves	1	41,850.00
Hall, S. E.	Lubbock	Lubbock	2	164,168.52
Hill, Allen	Dell City	Hudspeth	1	58,177.20
Hill, H. R.	do	do	3	201,119.88
Hill, J. W.	do	do	4	145,032.88
Hill, W. W.	Pecos	Reeves	8	448,567.62
Hoefs, A. C.	Verhalen	do	4	445,440.00
Hoefs, Charles R.	Pecos	do	1	41,040.00
Howell, C. R.	do	do	3	155,923.20
Hunt, R. L.	Loop	Gaines	4	203,921.40
Hunt, S. B.	Pecos	Reeves	1	37,824.00
Johnson, Glenn	Levelland	Hockley	2	135,496.00
Johnson, T. E.	do	do	1	88,320.00
Keller, C. M.	Pecos	Reeves	2	109,031.40
Latch, Leonard	Lubbock	Lubbock	2	137,580.00
Lattner, W. T.	Pecos	Reeves	2	135,343.80
Lester-Stone Co.	Plainview	Hale	20	900,717.11
Lindemann, Ted	Pecos	Reeves	18	1,083,396.40
Lutich, George	do	do	1	131,340.00
Lutrick, Gene	Dell City	Hudspeth	3	223,569.00
Magee, S. W.	do	do	2	192,280.80
Mattox, Ellis V.	Pecos	Reeves	1	94,500.00
McClure, H. P.	Midland	Midland	4	192,405.20
McCormac, Jim	El Paso	El Paso	9	857,523.72
Mills, O. E.	Pecos	Reeves	3	149,900.40
Minnix, James W.	Dell City	Hudspeth	6	499,159.80
Moore, L. C.	Saragosa	Reeves	3	193,662.24
Murphy, W. L.	do	do	2	111,540.00
Nickels Ginning Co.	Sudan	Lamb	5	1,395,811.23
Nickels, Guy	do	do	1	58,500.00
Patterson, E. H.	Roswell, N. Mex.	Chaves	2	230,040.00
Ramsland, R. J.	Midland	Midland	3	665,675.52
Reetex Farms (Jack Browder)	Pecos	Reeves	2	137,006.40
Rigsby, Jesse Claude	Tornillo	El Paso	3	186,928.00
Russell, Jesse	McCombey	Upton	1	55,900.20
Sargent, John T.	Pecos	Reeves	7	209,379.48
Shaw, B. V.	do	do	3	198,778.65
Sikes, L. B.	Bangs	Brown	4	356,906.60
Sparks Bros.	do	do	5	543,555.60
Speights, James R.	Dell City	Hudspeth	3	233,354.52
Taber, J. J.	Van Horn	Culberson	6	288,476.20
Thomas, L. S.	Pecos	Reeves	1	94,500.00
H. O. Thompson Farms	Fort Stockton	Pecos	2	20,461.38
Travis, R. J., Sr.	Dell City	Hudspeth	1	40,898.16
Tyler, R. H.	Fort Stockton	Pecos	1	6,273.56
Weaver, W. H.	Pecos	Reeves	1	56,700.00
Wells, Gene	Sierra Blanca	Hudspeth	3	404,070.40
Wheeler Fertilizer Co.	Hereford	Deaf Smith	16	491,908.11

OPERATIONS OF BILLIE SOL ESTES

Signers of Estes' tank notes—Continued

Name	Address	County	Number of notes	Face amount
Wheeler, Geron S.....	Hereford.....	Deaf Smith.....	6	\$302, 478. 20
Williamson, J. C.....	Midland.....	Midland.....	4	1, 128, 805. 25
Wilson, H. E.....	Electra.....	Wichita.....	6	820, 958. 80
Wilson, T. J.....	Pecos.....	Reeves.....	1	94, 500. 00
Winters, Willis.....	do.....	do.....	10	427, 622. 27
Wofford, J. S.....	Saragosa.....	do.....	7	369, 370. 80
Worsham, L. G.....	Pecos.....	do.....	5	497, 220. 20
Worsham, W. J.....	do.....	do.....	6	504, 140. 00
Worsham, W. J. and L. G.....	do.....	do.....	4	248, 400. 00
W. J. Worsham Enterprises.....	do.....	do.....	4	351, 732. 60
Wynn, W. F.....	Midland.....	Midland.....	3	666, 135. 48

NOTE.—The preceding table does not include approximately \$2,300,000 in notes signed by Billie Sol Estes, but does include those notes signed in the name of his various business enterprises. It should be noted that some individuals whose names are listed did not actually sign some or all of the notes bearing their names.

Geographical distribution of Estes' tank notes

County	Number of notes	Number of signers	Face amount of notes
Bosque.....	8	1	\$117, 867. 60
Brown.....	4	1	356, 908. 60
Briscoe.....	7	1	654, 775. 20
Chaves (New Mexico).....	2	1	230, 040. 04
Culberson.....	5	1	288, 476. 20
Dawson.....	8	1	542, 737. 44
Deaf Smith.....	32	8	1, 305, 592. 43
El Paso.....	12	2	1, 044, 451. 72
Gaines.....	4	1	203, 921. 40
Hale.....	20	1	900, 717. 11
Hockley.....	2	1	135, 495. 00
Hudspeth.....	26	9	1, 997, 662. 64
Lamb.....	22	3	2, 185, 529. 55
Lubbock.....	4	2	301, 748. 52
Midland.....	20	6	8, 983, 263. 97
Pecos.....	8	4	536, 875. 94
Reeves.....	158	38	9, 800, 695. 79
Taylor.....	14	1	605, 173. 84
Upton.....	12	3	561, 300. 01
Wichita.....	6	1	820, 958. 80
Undetermined.....	9	4	574, 755. 60

NOTE.—The preceding table does not include approximately \$2,300,000 in notes signed by Billie Sol Estes.

McSpadden tank notes

Name	Address	County	Number of notes	Face amount
Acuff, G.....	Lamesa.....	Dawson.....	1	\$76,275.36
Crutchfield, Roy.....	3	107,022.00
Edwards, F. A.....	Hereford.....	Deaf Smith.....	5	489,700.44
Gallagher, J. P.....	do.....	do.....	3	326,850.00
Gillette Pipe & Supply Co.....	McCarney.....	Upton.....	1	43,258.80
Greeson, J. D.....	Hereford.....	Deaf Smith.....	5	381,010.68
McSpadden, Coleman D.....	Lubbock.....	Lubbock.....	9	718,117.86
Pendley, Carroll A.....	do.....	do.....	6	420,285.68
Thornton, S. T.....	Friona.....	Parmer.....	4	83,854.80
Willis, S. V.....	Deming, N. Mex.....	Luna.....	4	143,894.28
Worsham, W. J.....	Pecos.....	Reeves.....	1	76,464.00
			42	2,867,433.40

NOTE.—The subcommittee's investigation indicated that not all of the individuals whose names were signed to McSpadden tank notes actually signed them.

Geographical distribution of McSpadden tank notes

County	Number of notes	Number of signers	Face amount of notes
Dawson.....	1	1	\$76,275.36
Deaf Smith.....	13	3	1,197,561.12
Lubbock.....	15	2	1,139,103.04
Luna, N. Mex.....	4	1	143,894.28
Parmer.....	4	1	83,854.80
Reeves.....	1	1	76,464.00
Upton.....	1	1	43,258.80
Undetermined.....	3	1	107,022.00
Total.....	42	-----	2,867,433.40

APPENDIX 18.—BUSINESS ENTERPRISES OWNED OR CONTROLLED
BY BILLIE SOL ESTES

Name	Location	Nature of business
Agriculture, Inc.	Girvin, Tex.	Dairy and farming.
Allied Elevators	Hereford, Tex.	Grain storage.
Balson Courts	Weatherford, Okla.	Apartment house.
Bastrop Salvage Project	Louisiana	Surplus housing.
Batavia Corp.	Nashville, Tenn.	Do.
Bennett & Estes	Hobbs, N. Mex.	Do.
Bennett, Estes & Bozeman	Clovis, N. Mex.	Do.
Colonial Funeral Home	Pecos, Tex.	Funeral home.
Columbia Basin Homes Co.	Spokane, Wash.	Surplus housing.
Crestwood Apartments	Midland, Tex.	Apartments.
Del Norte Courts	Pecos, Tex.	Motel.
Delta Homes Investment Co.	Blytheville, Ark.	Surplus housing.
Kermit Dyche Warehouse, Inc.	Fort Stockton, Tex.	Grain and cotton storage.
Equipment Service Co.	Pecos, Tex.	Farm equipment.
Estes Bros.	do.	Surplus housing.
Estes Building Co. of America	do.	Construction.
Estes & Fry	do.	Surplus housing.
Estes & Peery	Blytheville, Ark.	Do.
Estes Steel Building Co.	Pecos, Tex.	Construction.
Estes & Teague	do.	Surplus housing.
Estes Steel Buildings of America	do.	Construction.
Farmers Butane Co.	do.	Butane and butane equipment.
Farmers Butane Gas Co.	Hamilton, Tex.	Butane gas.
Farmers Co.	Pecos, Tex.	Fertilizer sales.
Farmers Co-Op	do.	Fertilizer and insecticides.
Farmers Ditch Lining Service	do.	Concrete ditches.
Farmers Storage Co.	Sudan, Tex.	Cotton storage.
Farmers Water Well Drilling	Pecos, Tex.	Well drilling.
Farm Grain & Warehouse Co.	Lamesa, Tex.	Grain storage.
Fort Stockton Implement Co.	Fort Stockton, Tex.	Farm equipment.
Foster's Dairies No. 1	Girvin, Tex.	Dairy operation.
Foster's Dairies No. 2	do.	Do.
Gillette Pipe & Supply	McCombs, Tex.	Oilfield equipment.
GLEM Oil Co.	do.	Oil leases.
Greenwood Apartments	Midland, Tex.	Apartments.
Hale County Grain Co.	Plainview, Tex.	Grain storage.
Lester-Stone Co.	do.	Fertilizer sales.
Roy Lindsay Construction Co.	Pecos, Tex.	Dirt contracting.
Midland Concrete Co.	Midland, Tex.	Ready-mix concrete.
O'Michael Building	Odessa, Tex.	Office building.
Palo Duro Grain Co., Inc.	Tulla, Tex.	Grain storage.
Pecos Daily News	Pecos, Tex.	Newspaper.
Pecos Printing Corp.	do.	Commercial printing.
Pecos River Land & Gravel Co.	do.	Gravel.
Pecos Steel Building Co.	do.	Construction.
Pecos Tire Service	do.	Automobile tire sales.
Pecos Transit Mix	do.	Ready-mix concrete.
Sabine Surplus Co.	Orange, Tex.	Surplus housing.
Scott, Ivey, McKenney & Estes	Pecos, Tex.	Do.
South Plains Grain Co.	Levelland, Tex.	Grain storage.
Spokane Basin Homes	Spokane, Wash.	Surplus housing.
Stockton Farms	Pecos County, Tex.	Farming.
Sudan Storage Co.	Sudan, Tex.	Cotton storage.
United Construction Co.	Pecos, Tex.	Surplus housing.
United Elevators	Plainview, Tex.	Grain storage.
United Farms	Pecos, Tex.	Farming.
United Fertilizer & Chemical Co.	Fort Stockton, Tex.	Farm chemicals.
United Grain Co.	Plainview and Providence, Tex.	Grain storage.
United Salvage Co.	Pecos, Tex.	Surplus housing.
United Wrecking Co.	Weatherford, Okla. and Brownwood, Tex.	Do.
Verhalen Credit, Ltd.	Verhalen, Tex.	Money orders.
Verhalen Mercantile Co., Inc.	Pecos, Tex.	General store.
Washington Project	Spokane, Wash.	Surplus housing.
Waterwell Service & Supply Co.	Pecos, Tex.	Irrigation equipment.
Western Flying Service	do.	Crop dusting.
Wheeler Fertilizer Co.	Hereford, Tex.	Fertilizer sales.
Woodcrest Apartments	Port Neches, Tex.	Apartments.

NOTE.—Most of the business enterprises listed above were proprietorships wholly owned and controlled by Billie Sol Estes. However, in some cases, the firms were partnerships or corporations in which other individuals also held ownership interests of 50 percent or less. In a very few instances, Estes owned a minority interest.

Some of the companies listed had become inactive by the time Estes was arrested. Further details concerning Estes' more significant business enterprises appear on p. 7 of the introduction and in the body of the report.

SUPPLEMENTAL VIEWS OF HON. FLORENCE P. DWYER

As the only minority member of the subcommittee who has served throughout the 2½-year period of the investigation of the activities of Billie Sol Estes as they related to the Department of Agriculture, and as one who originally urged upon the subcommittee the importance of conducting this investigation, I believe it is appropriate for me to comment personally on our inquiry and on this report.

Although the subcommittee's main investigative objective was the nature of Estes' Government grain storage activities, the complex and interlocking character of his operations generated a continual expansion of the areas which were examined by the subcommittee. As a result, this investigation ultimately covered all of Estes' known business-Government operations except his pooled cotton allotment transactions, which a Senate subcommittee investigated.

Nevertheless, I regret that the subcommittee did not accept the recommendations of my colleague, Representative Odin Langen, and I that our investigation should also cover Estes' pooled cotton allotment transactions which were clearly within the scope of the subcommittee's jurisdiction. Inclusion of this additional area would have given a more comprehensive and integrated picture of Estes' complicated activities within one document.

It should be emphasized that no investigation can find every shred of significant evidence concerning the subject under examination. Moreover, many witnesses had their own interests to protect in the present case so that, as the report points out, the reliability and completeness of the information they provided may be questionable. The fact is that probably only Estes himself can tell the full story of his activities, and since he has thus far relied on the fifth amendment to avoid testifying, the likelihood is that the whole truth will never be known.

While the report itself contains the relevant findings of the subcommittee, the voluminous character and narrative nature of the document, in addition to the great complexity of Estes' operations, make it desirable in my judgment to emphasize certain elements which I believe are especially important from the subcommittee's standpoint in view of our assigned responsibility for the efficiency and economy of Government operations.

1. The evidence clearly demonstrates that Estes deliberately created the appearance of having substantial financial, business, and political influence, and that he unhesitatingly and habitually used both unethical and illegal methods in his dealings with private industry and Government.

2. The record documents a dismal story of Government inefficiency, lack of communication and coordination between and within Government agencies, especially the Department of Agriculture, inadequate procedures, inept personnel and similar deficiencies—all of which con-

tributed, in some instances decisively, to Estes' success prior to his downfall.

3. The evidence illustrates the fact that management control and efficiency within Government agencies, of which the highest operational standards must be demanded, tend to deteriorate in direct relation to the expansion of these agencies. However, the Estes case also demonstrates that, as Government does in fact grow, public officials, including those at the highest level, must be held responsible for the highest standards of integrity, judgment, and efficiency on the part of all employees under their supervision.

4. It is almost inconceivable that none of the many investigations into Estes' operations resulted in exposing the real nature of his activities. The Appropriations Committees of the Congress would do well to evaluate the integrity and efficiency of the investigative, auditing, and other activities of the responsible agencies when their budget requests are considered in the next session.

5. The Department of Agriculture's handling of Estes' Federal grain storage licenses and storage contracts decisively enabled him to expand his grain storage operation in Texas more rapidly than any other warehouseman in that State, and thus allowed him to become one of the largest grain storage operators in the country during his last years in business and provided the financial basis for many of his other nefarious activities. Incompetence, lack of imagination and initiative, complacency, and poor judgment on the part of Department personnel responsible for supervising Estes' grain storage activities contributed directly to Estes' ability to stay in business.

6. The existence of a "dual warehouse examination system" in the Department of Agriculture actually dissipates responsibility and leaves much to be desired from the standpoint of efficiency of operation. Nevertheless, officials of the Department and its Commodity Credit Corporation, responsible for supervising Estes' grain storage operations had continuing opportunities to discover that Estes was not qualified to participate in the Government grain storage programs which they administered. They consistently failed to develop these opportunities.

7. While many, if not all, of the private companies which were involved with Estes appear to have been capable of exercising greater caution in their relationships with him, the inescapable conclusion is that the Agriculture Department possessed the clearest opportunities and gravest responsibilities for exposing and halting his illegitimate activities. The Department's failure to do so not only permitted Estes' continued and extended grain storage operation but also provided the foundation for his fraudulent fertilizer tank mortgage financing scheme.

8. Even when the information which could expose and stop Estes and his activities was furnished to Government agencies and officials, they failed to act effectively for over a year. They were finally led to act only when the private citizens who accumulated the information about Estes' illicit activities published the information in the public press.

In addition to the subcommittee's recommendations included in the report, the narrative sections of the report identify a number of other relatively minor, but still important, areas in which the responsible

Government agencies should take corrective action. I am confident the subcommittee will continue to scrutinize the agencies' subsequent activities in order to assure that such corrective action is taken.

In view of the nature and significance of this report, and the investment in it of the subcommittee's time and resources, I must regret that the full Committee on Government Operations did not review and act on it in accordance with its customary procedure. This report should have received the full committee's approval and members of the committee should have been accorded an opportunity to submit individual comments.



THE WHITE HOUSE

Letter put
Please place
in

~~Larry O'Brien~~

Personal

Billie Sol
Hostes

Mr. Walter Jenkins

THE WHITE HOUSE OFFICE

ROUTE SLIP

(To Remain With Correspondence)

TO Mr. Walter Jenkins

**PROMPT HANDLING IS ESSENTIAL.
WHEN DRAFT REPLY IS REQUESTED
THE BASIC CORRESPONDENCE MUST
BE RETURNED. IF ANY DELAY IN
SUBMISSION OF DRAFT REPLY IS
ENCOUNTERED, PLEASE TELEPHONE
OFFICE OF THE SPECIAL ASSISTANT.**

Date October 10, 1964

FROM THE SPECIAL ASSISTANT

Rep. L. H. Fountain

ACTION: Comment _____
Draft reply _____
For direct reply _____
For your information _____
For necessary action _____
For appropriate handling XXXX _____
See below _____

Remarks: _____

By direction of the President:

Lawrence F. O'Brien
Special Assistant
to the President

October 10, 1964

Dear Congressman:

For the President, may I thank you for your letter of October 9 enclosing two copies of the report of the Intergovernmental Relations Subcommittee of the Committee on Government Operations entitled, "Operations of Billie Sol Estes."

Your Subcommittee's report will be called to the attention of the President at the earliest possible time.

Sincerely yours,

Lawrence F. O'Brien
Special Assistant
to the President

Honorable L. H. Fountain
House of Representatives
Washington, D. C.

L. H. FOUNTAIN, N.C., CHAIRMAN
JOHN A. BLATNIK, MINN.
TORBERT H. MACDONALD, MASS
J. EDWARD ROUSH, IND.
JOHN E. MOSS, CALIF.

EIGHTY-EIGHTH CONGRESS

Congress of the United States
House of Representatives

INTERGOVERNMENTAL RELATIONS SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OFFICE BUILDING
ROOM 101, GEORGE WASHINGTON INN
WASHINGTON 25, D.C.

FLORENCE P. DWYER, N.J.
RICHARD S. SCHWEIKER, PA.
BILL STINSON, WASH.

CAPITOL 4-3121
EXTENSION 2548

OCT 10 1964

CARDE

October 9, 1964

The Honorable Lyndon B. Johnson
The President
The White House
Washington 25, D. C.

Dear Mr. President:

I am enclosing herewith two copies of a report prepared by the Intergovernmental Relations Subcommittee concerning Operations of Billie Sol Estes. The report has been unanimously approved by all members of the Subcommittee and will be presented to the Committee on Government Operations for action at its next meeting. It will be publicly released as of Monday morning, October 12.

In the opinion of the Subcommittee, its investigation disclosed a serious lack of effective coordination and communication among Federal units engaged in auditing and investigative activities. Consequently, the Subcommittee recommended that a review of such activities be made with a view to securing improved coordination and communication both among and within Federal Departments and agencies conducting them.

It is my expectation that the Subcommittee's report will be approved by the full Committee on Government Operations and submitted to you formally in the near future. However, I thought it desirable to send the report to you immediately.

We will be pleased to make available additional copies of the report, as well as any further information your office may desire concerning the matters discussed in it.

Sincerely,

L. H. Fountain

L. H. Fountain, Chairman
Intergovernmental Relations Subcommittee

LHF:a
Enclosures

Background Information

Report on Operations of Billie Sol Estes

Prepared by the Intergovernmental Relations Subcommittee

House Committee on Government Operations

N O T E:

The Report on Operations of Billie Sol Estes prepared by the Intergovernmental Relations Subcommittee of the House Committee on Government Operations has been unanimously approved by all seven members of the Subcommittee, and will be presented to the Committee on Government Operations at its next meeting. It is being released as of Monday A.M., October 12, by the Subcommittee Chairman, Rep. L. H. Fountain, with the approval of the Subcommittee and the concurrence of the Chairman of the full Committee, Rep. William L. Dawson.

The following material has been prepared for press use in analyzing the report. It is intended for background use rather than direct quotation, except for those portions of the material which are quoted directly from the report. Please note that the release date for the report is Monday A.M., October 12.

The material below briefly describes or contains excerpts from the various sections of the report. Page references are given in parentheses.

Introduction - Pages 1-10

Description of Subcommittee's investigation gives details concerning the Subcommittee's lengthy inquiry into the Estes matter. (p. 1-6) Describes difficulties involved in examining Estes' complex and voluminous operations and gives examples of work done by Subcommittee. (p. 1-2) Lists large number of Federal, State and local government units which have investigated various aspects of Estes' activities and cites the "almost incredible amount of testimony and investigative data" produced by these investigations. (p. 2-3)

Subcommittee believes its investigation, which covered "all known activities of Billie Sol Estes in recent years which appeared to have any significant relationship to Federal Government operations, programs or personnel" except the cotton allotment transfers being investigated by a Senate committee, probably was the broadest in scope of the many which were conducted. (p. 3)

Total amount of effort devoted to the Estes matter far exceeded that expended by it on any previous single inquiry and the number of staff members assigned -- although it never exceeded 7 persons -- was more than double the number assigned to any previous investigation. Most of the additional staff members were experienced investigative personnel of the General Accounting Office on assignment to the Subcommittee and a minority counsel participated in all phases of the investigation. (p. 3-4) Cooperation received from Federal agencies in some respects -- such as availability of FBI reports for examination by the Subcommittee -- was better than in any previous investigation. (p. 4) The "availability on a previously unprecedented scale of investigative work done by others", the Subcommittee said, made it possible for its relatively small staff "to explore many facets of Estes' operations to a degree that otherwise would have been impossible or prohibitively expensive". (p. 4)

The Subcommittee notes that it's report contains many direct quotations from testimony or statements of Estes and other witnesses and cautions that their inclusion "does not necessarily mean the Subcommittee believes they are entirely or even substantially accurate". (p. 5)

Other sections of the introduction acknowledge assistance provided to the Subcommittee in its investigation and identify firms and individuals mentioned frequently in the report. (p. 5-8)

Background section provides information concerning the two areas of Texas in which Estes' operations were concentrated, pointing out significant differences in agricultural operations in the two regions and how the entire area differs from most other parts of the United States. (p. 9-10)

Summary - Pages 11-18

Provides a brief chronological account of significant operations of Billie Sol Estes from the time he arrived in Pecos, Texas in 1951 until he was arrested in March, 1962. Also contains summary data concerning the many instances in which Estes' fraudulent or unethical activities were investigated or discovered by government agencies or private firms and individuals during these years.

General Findings & Conclusions - Pages 19-26

Summary description of investigation. (p. 19)

Estes' ammonia tank transactions were "only one of many unethical or fraudulent devices by which Estes obtained money or credit for more than 10 years" and states that Estes, in all probability, "was insolvent from the day he arrived in Pecos in 1951 until the day he was arrested in 1962". (p. 20)

States that Estes "obviously had sufficient natural talent and persuasive ability to become a successful swindler almost anywhere" but West Texas provided a favorable location for his operations. Ascribes Estes' success to "successfully deceiving those who dealt with him" and states that elements contributing to construction of his empire included assistance from employees, consistently favorable recommendations from local bankers, poor procedures and poor judgment involving government agencies and private firms. (p. 20-21)

Points out that "an almost unbelievable number of inquiries and investigations into various phases of Estes' activities were conducted before his arrest by agencies of the Federal Government, beginning at least as early as 1953". (p. 21) (Details of these investigations appear on pages 333-360)

Creditors of Billie Sol Estes who knew or had reason to believe he was engaging in fraudulent operations kept silent and continued to receive payments on his indebtedness. (p. 21)

Most of the many Federal investigations of Estes' activities were conducted "with an almost total lack of effective coordination or communication between or within the departments, agencies, and subunits involved". (p. 22) (Pre-arrest investigations of Estes are described in detail on pages 333-360)

The Department of Agriculture has made changes which "should result in a very substantial improvement" in the coordination of its audit and investigative activities, but the Subcommittee has no reason to believe the situation in other departments and agencies is materially different than it was before Estes' arrest. (p. 22)

Effective work in exposing Billie Sol Estes was done almost entirely by persons who were being injured financially by his ruthless competitive tactics. Publication of stories about his tank transactions triggered the final series of events which led to his arrest. (p. 22)

The Subcommittee's investigation "did not disclose evidence to substantiate allegations that Billie Sol Estes received deliberate preferential treatment" in his 1958-62 storage operations "because of bribery, political influence or pressure, or for any other reason involving corruption of government officials or employees". The Subcommittee found that Estes obtained warehouse licenses and grain storage contracts by submitting false financial statements and that his misrepresentations succeeded "primarily because of shortcomings in the performance of the Department of Agriculture" such as inadequate regulations and procedures and a number of instances of lack of alertness or poor judgment. (p. 22-23) (Detailed findings and conclusions concerning Estes' grain storage operations appear on pages 29-37.)

Although officials of Commercial Solvents contended they had no knowledge or suspicion of Estes' fraudulent activities prior to his arrest, the Subcommittee found that a field representative of the company sent information to the New York office concerning Estes' nonexistent ammonia tanks more than a year before Estes was arrested. (p. 24)

Maynard Wheeler, President of Commercial Solvents, and Frank Cain, an attorney for Pacific Finance Company, gave directly contradictory testimony at Subcommittee hearings. The Subcommittee found it difficult to believe that the testimony of either man was completely accurate. (p. 24-25)

The Subcommittee investigation did not cover Estes' pooled cotton allotment transactions, and it did not express definitive conclusions concerning the relationship between Estes and Government employees residing in Reeves and Pecos Counties, Texas. With those exceptions, the Subcommittee reached the following conclusions: (p. 25-26)

"no credible evidence that bribes had been offered or paid to any elected or appointed Federal officials or employees".

"Estes customarily sent unsolicited gifts of nominal value ...to business acquaintances and prominent political figures" and "frequently told exaggerated stories concerning the extent of his gifts". No significant information concerning gifts not previously made public was found.

"... no credible evidence whatever" was found to support allegations that prominent political figures or members of their families secretly owned interests in Estes' grain storage facilities.

"no evidence that any elected Federal official exerted or attempted to exert influence to assist Billie Sol Estes in his operations involving the Federal Government".

the activities of five persons who were formerly USDA officials were "clearly inappropriate at best", but the Subcommittee "did not find evidence establishing improper conduct which directly affected Estes' operations. (Detailed comments concerning activities of these persons appear on pages 361-364.)

Recommendations - Pages 27-28

The Subcommittee made seven recommendations, devoting primary attention to recommending that "the President authorize and direct a comprehensive review of Federal audit and investigative activities with a view to securing improved coordination and communication both among and within Federal departments and agencies". The Subcommittee set forth a number of suggested specific objectives for such a review.

Grain Storage Operations - Pages 29-164

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Provides a brief chronological account of significant operations of Billie Sol Estes from the time he arrived in Pecos, Texas in 1951 until he was arrested in March, 1962. Also contains summary data concerning the many instances in which Estes' fraudulent or unethical activities were investigated or discovered by government agencies or private firms and individuals during these years.

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Estes' ammonia tank transactions were "only one of many unethical or fraudulent devices by which Estes obtained money or credit for more than 10 years" and states that Estes, in all probability, "was insolvent from the day he arrived in Pecos in 1951 until the day he was arrested in 1962". (p. 20)

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Points out that "an almost unbelievable number of inquiries and investigations into various phases of Estes' activities were conducted before his arrest by agencies of the Federal Government, beginning at least as early as 1953". (p. 21) (Details of these investigations appear on pages 333-360)

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