

Exhibit 1

Background of Stonehill Proceedings

Exhibit 1(a)

Memorandum dated January 10, 1962, from Robert Chandler, Revenue Service Representative in Manila to C. I. Fox, Director, IRS Office of International Operations.

Office of International Operations
Washington CP:IO:E

January 10, 1962

Revenue Service Representative
Manila CP:IO:Ma:RLC

Harry S. Stonehill

Yesterday I was visited by Howard L. Parsons, Economic Counselor for the Embassy, as a result of decisions reached in a preceding discussion he had with Minister Mein (there is no Ambassador in residence at the moment). Last week the FBI Agent arranged for the Stonehill informant to talk with Parsons and although Parsons stated that the information was generally known to them, the informant was able to supply details and put the entire picture into focus.

Parsons stated that in the opinion of the Embassy it is imperative for American interests in the Philippines that some way be found to get Stonehill out of the Philippines and break his stranglehold here. The reasons for their concern were known to me although I did not concern my December memorandum with details on areas not of direct interest to Internal Revenue; nor will I burden this memo with those details. In general however, Stonehill has had an evil and corrupt influence on the Philippine Government in the past and it is now indicated that he will manipulate the new Administration of the Philippines even more viciously. Whereas the American Government is vitally interested in developing and improving the democracy and the economy of the Philippines, it appears that Stonehill's individual influence may be sufficient to undermine the entire American effort and perhaps destroy democracy here at a cost to the United States which will be immeasurable and much beyond the hundreds of millions involved in aid programs and loans.

I told Parsons that we are interested in and will conduct an investigation of Stonehill; that I personally thought the case had an excellent potential but that it was extremely complex and beyond our immediate capacity and this office had recommended that agents be sent to Manila specifically to undertake this examination. I pointed out that it was not easy for you to comply with that recommendation since you confront varying degrees of priority for many pending matters as well as the problem of availability of agents qualified for this type of assignment.

I stated also that, having extracted all we could from the informant, there was nothing further this office could do at the moment and that if the Department of State had an interest in the case, they should arrange to discuss it with you in Washington. Parsons was further advised that I doubted whether even the maximum effort I.R.S. could utilize would accomplish what the Embassy wants, which is not only to get Stonehill out of the Philippines but to keep him out and thereby permanently eliminate his corruption of the local government.

The Department of State is undoubtedly receiving a number of reports and recommendations on Stonehill. As a matter of fact, the informant first contacted the

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Consul General here who took a statement from him and discussed it with the Minister before it was referred to FBI. Thus several elements in the Embassy are already thoroughly familiar with the informant's information and many of them are aware that the best, if not the only, attack which can be made on Stonehill is through I.R.S. It is therefore possible that State Department, or possibly Justice, may be seeking discussions with you on this case in the near future.

As you know, this office has long been of the opinion that voluntary compliance in the Far East is highly unsatisfactory and we badly need publicized case action to create an effective and necessary enforcement image. Cases which we have forwarded and suggested for this purpose in the past have not received this action and for one reason or another have not met requirements. Stonehill's case is another and possibly the best case for this purpose, too. However, if you are not in a position to assign highly qualified and fraud experienced agents to this exclusively, it would be better to take no action rather than any half-way measures. Although I am convinced the potential exists, the case is going to be really tough to work successfully.

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Exhibit 1(b)

2/19/62 Memorandum from J. Genau re Fraud Against the Government.

FD-204 (Rev. 3-3-59)

UNITED STATES DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION

Copy to: USA, Washington, D. C.
Attention: AUSA FREDERICK G. SMITHSON

Report of: JOSEPH A. GENAU (A)
Date: 2/19/62

Office: Washington, D. C.

Field Office File No.: 46-7400

Bureau File No.:

Title: REPUBLIC GLASS CORPORATION
MANILA, PHILIPPINES

Character: FRAUD AGAINST THE GOVERNMENT

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED

DATE 11-9-79 BY SP1 GSK/ck
3-1-95 SP12 BTJG/um

Synopsis:

Mr. MENHART SPIELMAN, former Executive Vice President and General Manager, United States Tobacco Corporation, a Philippine corporation, in sworn statement dated Manila, Philippines, 12/29/61, stated HARRY S. STONEHILL, Chairman of the Board of Directors of above corporation, holds 50% of stock and his associate, ROBERT P. BROOKS, President of above corporation, holds about 35% of stock; that both are American citizens and both have very wide interests in Philippines and elsewhere, among these interests is Republic Glass Corporation, Manila; that STONEHILL is President and Managing Director of Republic Glass Corporation and ROBERT P. BROOKS is a Director of latter corporation; that it was SPIELMAN's understanding that a substantial loan was obtained from International Cooperation Administration (ICA) to help finance Republic Glass Corporation; that the contract for machinery, installing and putting Republic Glass Corporation into operation was with a manufacturing expert from Philadelphia named SCHMIDT; that by his contacts with officers and Directors of Republic Glass Corporation they have doubts as to financial arrangements made by STONEHILL; and possibly 50% of cost of equipment was rebated to STONEHILL by SCHMIDT for the contract; that arrangements with SCHMIDT were through IRA BLAUSTEIN, General Manager of Universal New York; that STONEHILL continues control of Republic Glass Corporation through management contract with Industrial Business Management Corporation, another STONEHILL interest. In addition SPIELMAN stated he discovered that STONEHILL and BROOKS were running an illegal business operation costing Philippine Government millions of pesos in taxes due. The Internal Revenue Service, International Operations Division, has information

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WFO 46-7400

Instant case was presented to Assistant United States Attorney FREDERICK G. SMITHSON at Washington, D. C., on February 9, 1962, and he rendered the following opinion:

"With reference to allegations of possible FAG violations against Republic Glass Corporation, Manila, Philippines, HARRY S. STONEHILL and ROBERT BROOKS, individual subjects, it is the view of AUSA SMITHSON that any possible violation of fraud against the Government is so attenuated as to not warrant prosecution for the following reasons:

"The allegations are that the individual subjects STONEHILL and BROOKS control a glass corporation which arranged through the Central Bank of the Philippines to obtain a loan to begin a glass manufacturing plant to be known as the Republic Glass Corporation in the Philippines from the Export-Import Bank of Washington. It is acknowledged that certain of the funds of the Export-Import Bank are supplied by the United States Government.

"Further allegation is made that utilizing a company by the name of Arthur W. Schmidt Co., which furnished the technical instruction and assistance for the operation of this plant, and utilizing a corporation known as Universal of New York, kick-backs on this contract were made from the Schmidt Co. to Universal and thence on to the subject STONEHILL, who controls the Universal Corporation. None of the records regarding these corporations are in the District of Columbia.

"It has been learned that the I.C.A. officials in the Philippines sit in with the Industrial Development Center, an organization which allocates the funds loaned to the Philippines under the Export-Import Bank and thus protects the interest of the United States in the disbursement of these funds. In essence, the contract for this glass corporation involves \$1,300,000 of approximately a ten-million-dollar loan made by the Export-Import Bank to the Central Bank of the Philippines. No direct negotiations between the Republic Glass Corporation or STONEHILL or BROOKS or Universal of New York or SCHMIDT of Pennsylvania were held with the Export-Import Bank. Thus, if any fraud were perpetrated on this contract, it would seem more appropriate such fraud to be false representations

WFO 46-7400

in the Philippines and should be considered there for any prosecutive action.

"It is noted that the subjects STONEHILL and BROOKS are both United States citizens and that the Internal Revenue Service in the Philippines is already interested in these individuals. Therefore, it is suggested that that service be advised of my opinion and that they consider an audit of the corporate records of Arthur W. Schmidt Co. of Pennsylvania and of the Universal Co. of New York to determine if in fact any funds were transferred to the Universal Co. of New York which can be traced in turn from that company to the subject STONEHILL and considered in the nature of a rebate. Should this be the case, the subject would at least be subject to possible civil tax penalties if not criminal evasion charges.

"It is not believed at this posture that the evidence discloses any violation of 18 U.S.C. 1001 for prosecution in this district."

Exhibit 1(c)

March 7, 1962 letter from R. Miller to A. Chayes

EJM:CJC:tms
46-16-704

March 7 1962

RECEIVED:
MAR 19 2 62

Mr. Abram Chayes
Legal Adviser
Department of State
Washington 25, D. C.

Re: Republic Glass Corporation
Manila, Philippines;
Harry S. Stonehill

Dear Mr. Chayes:

Reference is made to FBI report dated February 19, 1962, at Washington, D. C., referred to your Office of Security and copy of a telegram you referred to the Attorney General dated February 12, 1962 from Hong Kong, Control No. 6714, in connection with the captioned matter.

Although the United States Attorney's Office, Washington, D. C., has declined prosecution, we are requesting further investigation into certain aspects of the case. In this connection, it would be appreciated if, through appropriate channels, information developed through the Philippine Government's investigation of the subject's activities could be obtained.

Your assistance will be greatly appreciated.

Sincerely,

HERBERT J. MILLER, JR.
Assistant Attorney General
Criminal Division

By:
N. THOMAS E. KOSSACK
Chief, Fraud Section

RECORDS
CHRONO
MR. CARROLL

3/2/62
[Handwritten initials]

[Handwritten initials]

Exhibit 1(d)

5/12/67 Memo from SAC New York to FBI Director J. Edgar Hoover

FD-36 (Rev. 12-13-56)

FBI

Date: 5/12/67

Transmit the following in PLAIN TEXT

(Type in plain text or code)

AIRTEL

Via _____

(Priority or Method of Mailing)

TO : DIRECTOR, FBI (71-6033)

FROM : SAC, NEW YORK (71-860) P

SUBJECT: HARRY SOLOMON STONEHILL aka; ET AL
BLA
(OO:NY)

Re report of SAA ROY L. ARNOLD, JR., dated 4/28/67,
at NY.

USDJ

On 5/11/67, WALTER R. MANSFIELD, SDNY, advised
AUSA PETER E. FLEMING that he has returned a verdict of
acquittal as to IRA BLAUSTEIN, KAI HEKKER and Universal
New York, Inc.

Report follows.

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
DATE 12-27-79 BY sp1 GSK/eb

REC 10

71-6033-221

EX-114

MAY 15 1967

3 Bureau
1- New York

RLA:RAR
(5)

C. G. WICK

62 MAY 10 1967

Special Agent in Charge

Sent _____ M Per _____

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