



The Humane Society of the United States  
2100 L Street, NW  
Washington, DC 20037  
(202) 452-1100

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April 18, 1988

Ms. Gail Harmon  
Harmon & Weiss  
2001 S Street, N.W.  
Suite 430  
Washington, D.C. 20009-1125

Dear Mrs. Harmon,

Pursuant to your request, I am setting forth herein in a brief summary form, a description of my involvement, if any, as General Counsel of the HSUS, or otherwise, in each of the issues raised or allegations made by the Audit Committee. As requested, this is broken down into two sections-- first as to the questions of Self Dealing, and second as to questions pertaining to internal fiscal management methods and the absence of Board involvement in the Alice Morgan Wright-Edith Goode Trust grant allocation process.

### ALLEGATIONS OF SELF DEALING

(1) The purchase of Mr. Hoyt's home by the HSUS.

(1) I did not hear of this until after the transection was consumated, and was aware of no details until I first saw the Deferred Compensation Committee (DCC) minutes on or just prior to December 12, 1987.

(2) The transfer of ownership of life insurance policies to Mr. Hoyt and Mr. Irwin policies and HSUS agreement to pay future premiums thereon.

(3) The creation of a bank account for National Humane Education Center (NHEC), the transfer of HSUS and/or Mellon Bank Annuity Account funds into it and the subsequent payment of funds out of that account to Mr. Hoyt and Mr. Irwin.

(4) The Irwin "Brightwater" Maine property matter.

(5) Transfer of money from NAAHE account to Mr. Irwin.

(6) Allegations regarding the HSUS 990s, the W-2s, etc.

(2) I first heard of this from seeing the DCC minutes on or just prior to December 12 1987.

(3) I first learned of any any all of this from seeing the DCC minutes on or just prior to December 12, 1987.

(4) I first learned of the existence of this property from seeing the attachments to the DCC minutes on or just prior to December 12, 1987.

I just learned of and saw the proposed "partnership agreement" document yesterday in reviewing the Audit Committee Preliminary Report Materials which I received late last week.

(5) I first learned of this from seeing the DCC minutes on or just prior to December 12, 1988.

(6) I have had nothing to do the questions concerning officer Compensation as reported on the HSUS 990s and the employee W-2s, and was not aware of any of these facts until they were raised in the course of the work of the Audit Committee.

## OTHER MATTERS

1. THE ADMINISTRATION OF THE ALICE MORGAN WRIGHT - EDITH GOODE TRUST has been largely under my control since the fund was received many years ago. I had worked closely with Miss Wright in the drafting of her will which contained this trust. It is quite clear that the Trust Instrument states that the Board of Directors should select the beneficiaries and since Donald Dawson resigned from the Board until our most recent grant allocation meeting, where Board Chairman Wiseman participated, the Board has not been actively involved. This can be readily remedied.

2. BEQUESTS INCLUDING REAL ESTATE AND TANGIBLE PERSONAL PROPERTY have long formed a very important part of the income picture of the HSUS. As has been explained, as to the real estate, we invariably try to have the Executors probating the Estate in one or more of over the 50 different state jurisdictions, convert the bequest of realty to cash, by selling it during the Estate Administration, and this is done in most instances. There are however, exceptions to this. In some states, realty passes by will directly to the beneficiary (Ex Virginia) and therefore, we must see to the subsequent sale. But, by and large, the main reason that we find ourselves having to deal with these properties, is because we have received the property subject to some condition which postpones our being able to sell, or even have effective possession. For example, from the Evans Estate in Santa Barbara, California, there are two cats which are being cared for by a tenant and we cannot dispose of the property until they pass on. In Oklahoma, from the Teague Estate, we have title to a property, subject to a life interest in a woman in her fifties who was given the right to live there by the Testatrix in order to care for a dozen or more dogs. And in several other cases, we have been unable to sell the property, for example, a very unsaleable small villa in Lake Dot Villa, Florida, from the Nye Estate.


As to tangible personal property, my office would transfer it to the Treasurers office immediately upon receipt, we had no involvement in what happened after that, as to holding or sale, except that I personally, with Paul Irwin, saw to placing the Nye Estate coin collection in the Guardian Safety Deposit facility in Virginia, where it still exists intact.

As to why some of these assets were not shown on the books of HSUS, I do not know nor have I been involved in these decisions.

The files in my office contain hundreds and hundreds of estate files, almost all of them closed, some that included real estate either currently sold or since sold, and some which included tangible personal property either currently held or since sold. A number of examples of both real estate and tangible personal properties so received were pointed out to the Audit Committee Attorney and Auditors.

It is now clear that since the General Counsel's office is a part of the chain in these incoming realty and tangible personal property assets from bequests, it must maintain a clear, ongoing single ledger showing precisely what realty and tangible personal property has come in, from whence it came, and when it was transferred to the Treasurer's office.

I hereby CERTIFY that the foregoing is true and correct:



Murdaugh Stuart Madden  
General Counsel

MSM:cat

# HARMON & WEISS

2001 S STREET, N.W.

SUITE 430

WASHINGTON, D.C. 20009-1125

GAIL MCGREEVY HARMON  
ELLYN R. WEISS  
DIANE CURRAN  
DEAN R. TOUSLEY  
ANDREA C. FERSTER

TELEPHONE  
(202) 328-3500

April 4, 1988

Paul Irwin  
The Humane Society of the  
United States  
2100 L Street, N.W.  
Washington, D.C. 20036

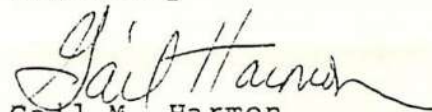
Dear Mr. Irwin:

In a letter dated March 29, 1988, Mr. Wiseman stated "HSUS received ... several federal and state tax audits which imposed no penalties." It is not clear exactly to what period he is referring, but I assume it is the last eight years.

Please provide me with documentation to support this assertion, particularly regarding the scope of the audits and the closing letters.

This information only came to my attention today but is presumably readily available to you. Please provide as much information as possible by the close of business tomorrow.

Sincerely

  
Gail M. Harmon

cc: audit committee  
Mr. Madden

# HARMON & WEISS

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April 4, 1988

PERSONAL AND CONFIDENTIAL

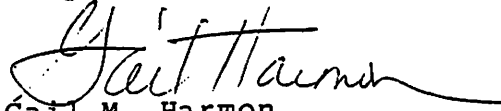
Messrs. Hoyt & Irwin  
The Humane Society of the  
United States  
2100 L Street, N.W.  
Washington, D.C. 20037

Dear Messrs. Hoyt & Irwin:

As I understand it, from time to time, over the last ten years, one or more of your children have worked for the HSUS. Please identify or ask Sam Trevino to identify the person, date of employment, rate of pay, total payments made for each such person, along with a description of the duties performed.

We would appreciate an immediate response to these inquiries and need a response by close of business April 6, 1988.

Very truly yours,

  
Gail M. Harmon

cc: Audit Committee  
Murdaugh S. Madden

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TELEPHONE  
(202) 328-3500

April 4, 1988

Messrs. Hoyt & Irwin  
The Humane Society of the  
United States  
2100 L Street, N.W.  
Washington, D.C. 20037

Dear Messrs. Hoyt & Irwin:

Please inform me whether or not Mr. Greg Hrones, or any of his affiliated or connected companies or sub-contractors have performed any work on the personal residences or grounds of Mr. Hoyt or Mr. Irwin, or on the Irene Evans house in Georgetown.

If so, could you please list the dates of such work, a description of the work accomplished, the charges made for the work, and the form of payment for such work.

Excluded from this request at this time will be records pertaining to work done by Mr. Hrones or any of his affiliates or sub-contractors on the HSUS headquarters building in Washington, D.C. or the new Bethesda facility.

I would appreciate an immediate response to this inquiry.

Very truly yours,

  
Gail M. Harmon

cc: Audit Committee  
Murdaugh S. Madden

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WASHINGTON, D.C. 20009-1125

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(202) 328-3500

April 4, 1988

Murdaugh S. Madden, Esq.  
Humane Society of the United States  
2100 L Street, NW  
Washington, D.C. 20036

Dear Mr. Madden:

Mr. Wiseman, the chairman of the Board of the HSUS, in a letter relating to the action of the Deferred Compensation Committee approving the transfer of certain life insurance policies to Messrs Hoyt and Irwin and the purchase of Mr. Hoyt's house stated "I am advised he (the general counsel) was informed of the proposed transaction prior to its consumation."

Please let me know if you knew of either of these two transactions prior to their consumation, whether your legal advice was ever sought on either of these matters, and when and how you learned about these transactions.

Because the Committee is trying to complete its work, I would appreciate your response by the close of business tomorrow.

Sincerely,



Gail M. Harmon

cc: audit committee



HARMON & WEISS

To: HSUS Audit Committee  
From: Gail M. Harmon  
Re: Meeting scheduled for April 7, 1988.

Enclosed you will find various documents for our meeting tomorrow.

In reviewing the information which we had and that which had not been provided, I became concerned about the ability of this Committee to draw meaningful conclusions. Accordingly, I felt that I had to list the major unanswered questions and ask you to consider whether or not the Committee should postpone its report and continue its work.

In addition you will find an Executive Summary, a revised Table of Contents for the notebook used at our last meeting and additional papers to insert in the notebook. I am providing a new notebook for Mr. Wiseman.

We will meet at 8:00 am at 2001 S. N.W. in Room 530.

I look forward to seeing you then.

HARMON & WEISS

To: HSUS Audit Committee  
From: Gail M. Harmon  
RE: Inability to complete our inquiries

In preparation for the Committee meeting to be held April 7, 1988, I have reviewed the large number of questions which had not been answered. On the basis of our failure to obtain important pieces of information, I believe the Committee should seriously consider postponing its report.

The following items of information are missing or incomplete:

1) An analysis of the checks over \$5,000 with particular attention to those payable to Mr. Hoyt and Mr. Irwin which were only recently identified by Deloitte, Haskins and Sells.

2) An examination of those bank statements which were not made available to DH&S.

3) The value of the various insurance policies for the benefit of Mr. Hoyt and Mr. Irwin (some owned by Mr. Hoyt and Mr. Irwin, others by HSUS) for which HSUS pays the premiums. This was asked in a letter to Mr. Irwin and Mr. Trevino on March 2 and again by DH&S but the information has never been provided.

4) An explanation of transfers of hundreds of thousands of dollars into and out of the Annuity account kept at the Mellon Bank.

5) More information on how Mr. Irwin was able to make withdrawals from the annuity account at Mellon bank in apparent violation of the terms of the trust agreement. In addition, we have never received an answer to the simple question whether or not he was ever elected by the Board of Directors to the Investment Committee.

6) We have never received a list of the real estate given to HSUS in the last ten years. We now know from DH&S that many pieces of property for which real estate taxes are paid by HSUS are not recorded in HSUS financial records. What we do not know is when they were given, what has happened to them, why they were never entered on the books of the corporation and why they were hidden from the auditors. How is the Committee to conclude whether this is grossly negligent record keeping or something more serious?

7) We have never received a list of the tangible personal property given to HSUS in the last ten years. We now know that it is not recorded in any systematic way on the financial records of the corporation, but as in the case of real estate, we do not know when it was given, whether it has been used by anyone, what has happened to it, why it was never recorded on the books of the corporation and why it was hidden from the auditors. Again, as in the case of the real estate, on what basis is the Committee to evaluate this failure to institute appropriate financial management procedures?

8) The Committee still does not know the date the \$100,000 note from Mrs. Evans was given to the HSUS and why there is so much controversy about it. The major reason for believing that it was in fact given in 1987 is the testimony of Mr. Irwin to

## HARMON & WEISS

that effect accompanied with the explanation that he backdated the receipt to 1986 at the request of Mrs. Evans' tax accountant; now an early 1987 memo (not prepared for purposes of the work of this Committee) from Roger Kindler of a conversation with the accountant throws this into question by stating that the accountant said that the timing of various other gifts was irrelevant because before her gift of the \$100,000 note Mrs. Evans had already exceeded the amount of gifts which she could deduct for federal income tax purposes in 1986

9) We have not received information on gifts by Regina Frankenberg in the last five years. The incomplete information we have on this matter directly calls into question the assertion by Mr. Hoyt in a letter to Mr. Wiseman which was provided to this committee that Ms. Frankenberg donated money to pay for Mrs. Hoyt's travel at HSUS expense. Complete information would help in evaluating Mr. Hoyt's response.

10) In his letter of March 29, Mr. Wiseman pointed to successful IRS and state tax audits as evidence of adequate internal financial management practices at HSUS. In order to evaluate this I have requested more detailed information on these audits but only learned to date that they have not occurred within the last five years.

11) It would be helpful to have more information on restrictions on the gift from the Joyce Gilmore Mertz Foundation. It is carried as a restricted gift in the building fund; according to Mr. Voorhees this was at the request of HSUS, but during a discussion when it became clear that the gift had not been earmarked for building purposes, Mr. Irwin denied that HSUS had ever asked the auditors to put it in a restricted account. The significance of characterizing the gift as restricted is that it would enable the officers to circumvent any Board of Directors' review of its use.

12) Reports of success of various direct mail campaigns. This has been requested for months; the failure to provide it reinforces my concern that the direct mail consultant who is not paid a monthly or per job fee but is paid a few cents for every piece that is mailed, may be tempted to increase his fee by engaging in some mailings which are not very effective.

**DRAFT**

\* One Dollar Silver Certificates

Year	Quantity
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1957	11
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1935	6
------	---

\* Two Dollar Bills

Year	Quantity
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1976	51
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LAW OFFICES

STEIN, MITCHELL & MEZINES

1100 CONNECTICUT AVENUE, NORTHWEST  
WASHINGTON, D. C. 20036

BASIL J. MEZINES  
GLENN A. MITCHELL  
JACOB A. STEIN  
GERARD E. MITCHELL  
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TELEPHONE: (202) 737-7777  
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May 4, 1989

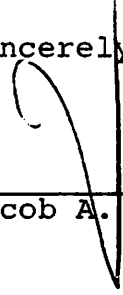
Mr. Robert B. Sorock  
Stone & Simons Advertising  
24245 Northwestern Highway  
Southfield, MI 48075

Dear Robert:

Here are redrafts. I have tried to clean up the verbiage. Under 4.2(a) the words "pensionable salary" are used. We should have a better definition.

Call me about any questions.

Sincerely,



---

Jacob A. Stein

Enclosures

HARMON, CURRAN & TOUSLEY

2001 S STREET, N.W.

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WASHINGTON, D.C. 20009-1125

GAIL MCGREEVY HARMON  
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TELEPHONE  
(202) 328-3500  
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(202) 328-6918

\*Not Admitted in D.C.

Dear Susan,

An anonymous source sent me a copy of your excellent memo to the Board.

The enclosed notice indicates further damage to HSUS from the questionable transactions authorized by the Deferred Compensation Committee. Many donors turn to the reports of NCIB as a tool to evaluate charities. If an organization does not meet its standards, that can cost the charity much in lost donations & prestige. If your audit idea is ever

accepted, it should include the costs of  
having a black mark from NEIB.

Keep up the good work. You are a  
courageous lady!

Best regards

Gail

JOHN W. METTLER III

950 THIRD AVENUE  
NEW YORK, N.Y. 10022

(212) 752-1855

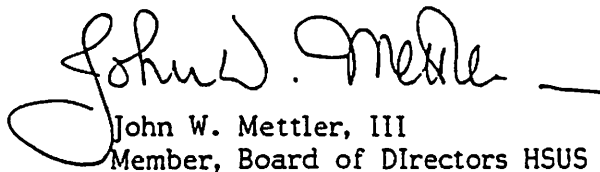
May 9, 1988

Mr. Jacob Stein, Esq.  
1800 M Street, NW  
Washington, DC 20036

CONFIDENTIAL

Dear Mr. Stein,

In accordance with Mr. Ramsey's April 29th request, enclosed is a partial list of the matters which I feel remain either unanswered or unresolved. Mr. Tirana, on behalf of Ms. Spiedel, Mr. Bowman and me, will be sending his own letter to Mr. Ramsey with a copy to you.

  
John W. Mettler, III  
Member, Board of Directors HSUS

encl.

cc: Members of Board of Directors, HSUS



CONFIDENTIAL

The question of the transfer of the Maine property from Paul Irwin to the HSUS for some \$85,000 raises the obvious questions of self dealing, private inurement, and propriety, as is true in any case where a senior official, here the top financial official of the organization, has dealings of a financial nature with the organization itself. It is here obviously compounded by the fact that a very minute segment of the Board, knowing that it was acting in secret with respect to the full board, approved this matter and authorized Mr. Irwin pay himself a substantial sum of money. That of course, raises the questions to which the answers to date of which I am aware, do not appear to give any acceptable explanation.

My understanding is that Mr. Irwin's explanation is that when you deal with potential future large donors you sometimes do unusual looking things, all for the ultimate sake of financial benefits to the organization which will fall into place at some future time. He therefore took title to this property in his own name.

The problem that I have with this explanation is really threefold. It appears from the explanatory documents that Mr. Irwin and Mr. Hoyt initially looked at this as a personal recreation or vacation spot and there is no indication, in the record to the contrary. Next, it is difficult to accept the view that Mr. Irwin would have advanced substantial personal funds of money over a significant period of time to the HSUS. There is no history of either Mr. Irwin or any of the other employees making significant financial advances to the organization, and there is surely no indication that the organization was short of funds and needed this kind of financial support from its employees. It is also difficult to understand the reason given that this transaction had to be kept from the Board members or other HSUS officials. While there could have been a reason not to be candid with the potential donor, surely this didn't apply to our organization itself and to our board members. In short the explanations, if I understand them clearly, do not seem to answer the serious questions raised. In fact this may be a rather simple case of self dealing where perhaps Mr. Irwin got himself into a personal venture either as a recreation spot or as a long term investment, and then he subsequently decided that it for one reason or another was a very bad financial deal for him. If at that time he decided to transfer the property the HSUS and be reimbursed for his outlay, then, whether we like it or not, that is the explanation. If hopefully, there is another explanation that will hold together, I want very much to hear it quickly. In any event the point is to get at the truth as soon as possible.

My next question has to do with the indication that additional sub rosa compensation was authorized by this Deferred Compensation Committee for Mr. Hoyt and Mr. Irwin by payments

through the National Humane Education Center (NHEC) and the National Association for the Advancement of Humane Education (NAAHE). Apparently the former organization, NHEC had been completely inactive for many years and that money was apparently transferred from the Mellon Annuity bank account in Pittsburgh into that organization so that payments could be made to Mr. Hoyt and Mr. Irwin. The only explanation given so far for this unusual way of paying our President and Treasurer was to keep "outsiders" from knowing how much money Messrs Irwin and Hoyt were making. However, this also kept the HSUS board members from knowing the facts, and it also kept these transactions from being recorded in the normal manner in the financial books and records of the organization. I would like to have further explanation as to why what appears on the surface to be a very devious way to go about giving compensation to the President and Treasurer, was utilized. I have seen no explanation whatsoever that seemed to adequately deal with the questions. Once again these are matters that appear to raise serious questions of self dealing. There is also some record of the creation of special bank account that was opened, a single check passed through it to Mr. Irwin, and immediately closed. These bizarre facts were apparently known only to the Deferred Compensation Committee members who actively withheld this data and other critical information from the rest of the Board of Directors. These questions are obviously relevant because once again, they have to do with dealings between the chief fiscal and chief executive officers of the organization, and the organization itself. Surely the mere fact that there is an apparent stamp of approval by this tiny basically secret Deferred Compensation Committee does not remove the questions raised of self dealing and private inurement.

Another question which apparently remains unanswered which needs to be answered adequately has to do with the transfer to Mr. Hoyt and Mr. Irwin of the ownership of certain life insurance policies, with the undertaking of the HSUS to pay future premiums. The details of this transaction, which obviously also raises questions of self dealing and private inurement, need to be set out thoroughly in order for everyone to fully understand the transaction. For example, was there a significant cash surrender value involved? What will be the annual undertaking of premium obligations on the part of the HSUS and who are the current beneficiaries of these policies?

And finally, in addition to the above, I strongly recommend that you make a careful review of the chart attached to tab #9 of the Harmon & Weiss report and proceed to assure yourself that either the questions asked were completely unrelated to anything that might be of concern or interest to the Board or the IRS or yourself in your current inquiry, or that you acquire the appropriate responses.

**JOHN W. METTLER III**

950 THIRD AVENUE  
NEW YORK, N.Y. 10022

(212) 752-1855

June 21, 1988

Mr. Jacob Stein, Esq.  
Stein, Mitchell & Mezines  
1800 M Street, NW  
Washington, DC 20036

Dear Mr. Stein:

I am writing this letter directly to you in the hope of clarifying several matters of great importance to me and to the HSUS itself. As to the forthcoming meeting scheduled in Kansas City, I would expect to have received by now the answers in writing to the questions that I specifically raised in my letter to you of May 9, 1988 (enclosed) in addition to the still unanswered questions raised by the Harmon and Weiss report as a prerequisite to any effective meeting that might take place on July 8th.

A few words about the "Select" committee: Joe Ramsey is fully in charge of this pro-management committee. Bill Wiseman, who incidentally selected the committee by himself so that it in no way represented an impartial committee of the Board of Directors, is an "ex-officio" member. Apparently John Hoyt is also now considered a member as a result of the reasoning that the President can attend meetings, even though many of the questions being raised directly concern his past conduct. What is most inconsistent is the inclusion of Mr. Hoyt and Mr. Wiseman, who are two of the primary people at whom the Harmon report points a finger for past activities.

I gather that what really is being "staged" is to have you, the well-known and reputable Jake Stein, pour oil on these troubled waters and put these matters to rest without really having to answer the allegations contained in the Harmon report.

All of the above, Mr. Stein, makes it necessary for me to review a few facts that may not be clear to you because you were not personally present at the Board meeting of April 20, 1988, and I will take a moment to set forth how your proposed role was described and sold to the Board members in attendance. William Wiseman, using the power of the chair, after soundly criticizing the "Harmon" report as unbalanced and unfair, announced that he had a plan. He then proceeded to state that "Jake Stein (his personal attorney) has an idea that will get everyone off the hook by starting a procedure that will resolve all of these matters." You were described as the "new Independent Counsel" and Mr. Wiseman repeated that this would get the Board "off the hook" and said, "we need outside independent counsel of unchallengeable prestige." I might point out that Ms. Harmon was also an "independent counsel" but since Mr. Wiseman and others were incriminated in her report, Mr. Wiseman preferred to ignore both the Audit Committee (appointed by the Board) and the Harmon report because there were too many questions raised in the Harmon report that made him, the Deferred Compensation Committee, and some of the executive staff all look bad. So using the chair to his advantage, Chairman Wiseman appointed a "select" committee, stacked heavily with his own sympathetic directors, to try and bury the Harmon report once and for all.

The script went somewhat like this: Mr. Sonde, who was apparently present as the personal counsel for John Hoyt and Paul Irwin, said that "both Stein's advice and mine is that the Board needs some advice from someone who has credentials." (Apparently Gail Harmon has none!) Mr. Irwin, in supporting the idea, repeated the thought that this would get the Board off the hook and, following another reference to you as "distinguished independent counsel," Mr. Sonde spoke in support of the plan of hiring Jake Stein as independent attorney for the organization (the HSUS) and "turning this all over to him." Joe Ramsey then said that he was "advised by counsel (I don't know what counsel) to proceed this way"-- to create a new Committee to supersede the Audit Committee and "turn it all over to Jake Stein."

The above reflects the atmosphere at the meeting where your retention was voted upon and this letter is simply to verify that your role will be as described, and that in essence this whole matter will be "turned over" to you and that you will exercise your "independent judgment" on all of these questions.

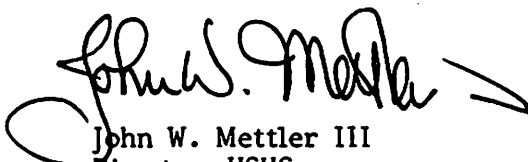
If, on the other hand, your role is that merely of counsel to this new "select" committee, that is an entirely different matter, and you could hardly be expected to, nor be in a position to exercise any "independent" judgment for the corporate charity itself.

As you should be well aware, the "Select" Committee was carefully designed by Chairman Wiseman to supersede, and in effect ignore the work done and report issued by the earlier Audit Committee and its attorney, Gail Harmon. (This committee incidentally was unanimously authorized by the Board of Directors in December, 1987). Is Chairman Wiseman, who is under such criticism for having aided and abetted the Hoyt-Irwin activities, really to be part of this "select" committee? Is John Hoyt to be part of it? Or are they simply included to be sure the Harmon report is effectively obliterated?

Joe Ramsey's May 28, 1988 letter to my attorney, Bardyl Tirana (copy enclosed) only acted to exacerbate these fears when he made it clear that he would decide what was "necessary" for you to see and be concerned with. This "screening" of information shows clearly that the Chairman and Vice-chairman are anxious to avoid disseminating any incriminating facts supporting the Harmon report. It is quite evident that this arrogance and insensitivity to obvious conflicts of interest and heavy handedness which contributed so much to the creation of these problems in the first place, continues on, unabated in any way.

Has this whole matter been put into your hands as independent counsel to the organization, or is your good name simply being used as "window dressing" in order to cover up the questions raised by the Harmon report?

I will appreciate hearing from you and most particularly would like to see these unanswered questions answered in writing before we are all called upon to attend any meeting of this new "committee." I am afraid that these questions must eventually be dealt with openly and above board. They will not simply disappear. Nor will the Harmon report.

  
John W. Mettler III  
Director, HSUS

cc: Members of The Select Committee  
Murdaugh Stuart Madden, Esq.  
Enclosures

**JOHN W. METTLER III**

950 THIRD AVENUE  
NEW YORK, N.Y. 10022

(212) 752-1855

July 6, 1988

Mr. Jacob Stein, Esq.  
c/o HSUS Select Committee  
Kansas City, Mo.

Dear Mr. Stein:

Since I will not be attending the meeting of the Select Committee to be held July 8th in Kansas City, for reasons outlined to you in my letter of June 21, I am providing you with my reactions to the materials provided to me as a member of the Select Committee at this stage of its work.

As you know, the Audit Committee identified several areas of major concern in the management of the HSUS. The assets of the HSUS may have been misused for the private benefit of its principal officers. The financial records of the organization were grossly inadequate: for example, neither the financial statements nor the tax returns contained records of substantial income and assets represented by real estate and tangible personal property. The Audit Committee was not able to determine to what extent these failures and other financial and reporting irregularities were due to incompetence, or to an attempt to mislead the public and the Board by understating the organization's assets and its fundraising and administrative expenses. The Board of the HSUS is relying on you to address these issues which are central to the health of the organization.

In order for you to do an effective job of representing the full Board of the HSUS, it is necessary that you have the benefit of all the information gathered by the Audit Committee. On the basis of the information which I have received as a member of the Select Committee, I believe that this additional information is necessary to be able to sort out the collection of inadequate responses which have been provided to you.

The June 8th letter (with appendices) from Paul Irwin (sent to me on June 20th) raises some meaningful questions:

Item 1 (Appendix A) -- It is stated that the unusual checks to John and Paul (other than the bonuses) were quarterly payments. They were made only once, not four times a year and do not equal one quarter of the salary of either John or Paul. Why were the checks written? Are the other payroll checks to John and Paul paid on regular dates in regular amounts?

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accountant from Deloitte, Haskins and Sells, indicated that if these policies were transferred to John and Paul, they would constitute compensation to them and therefore should have been shown on their W-2s and been included in the income which they reported to the State and Federal Government and on which they pay taxes. It seems that the W-2s provided by HSUS indicate that these transfers were not so reported; the information was not on the salary schedules provided to the HSUS Board in December, 1987 and not on the salary information provided to the Audit Committee in 1988.

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Items 6 and 7 -- certainly do not provide complete information on the HSUS assets or any indication why this information was not on the organization's financial records. D H and S quickly identified this problem because it discovered that HSUS was paying real estate taxes on property which was not otherwise listed as an asset so I would ask for an explanation as to why it was not identified by the regular auditors. Could it be that it was never even disclosed to the auditors by our Treasurer, Paul Irwin? At the moment we have no adequate explanations for these embarrassing discrepancies.

Item 10 -- Accepting this as true, perhaps you want to ask Mr. Wiseman why he cited recent successful audits as evidence of adequate internal management practices.

As member of the Audit Committee, I am appalled at the repeated attacks on our counsel, Gail Harmon. As demonstrated by the report and the additional information in this letter, she and the Audit Committee assembled a tremendous amount of valuable information. Although you may feel the tone of the Harmon Report was too strong, I think you will find that the facts presented will survive scrutiny, especially since all members of the Audit Committee agreed that the FACTS presented in the Harmon Report were accurate, to the best of their knowledge.

In closing, Mr. Stein, my strong view is that you have not yet received answers to many of the central questions which motivated this inquiry and the few answers received on ancillary points do not withstand scrutiny. While some Board members have indicated that they want to set these matters to rest in as quick and painless a manner as possible, I believe that they arrived at this goal because they were subjected to a vigorous lobbying campaign conducted by some of the officers and some of the Directors of HSUS. As the lawyer for the entire Board of the HSUS (and not just the chairmen who hired you), you have an obligation to evaluate the information presented to you and to advise all the members of the Board on the best way to exercise their fiduciary duties.

I look forward to meeting you on July 30th.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Mettler III", followed by a horizontal line.

John W. Mettler III  
Director, HSUS

cc: Members of The Select Committee  
Murdaugh Stuart Madden, Esq.

**JOHN W. METTLER III**

950 THIRD AVENUE  
NEW YORK, N.Y. 10022

(212) 752-1855

Mr. Jacob Stein, Esq.  
Stein, Mitchell & Mezines  
1800 M Street, Northwest  
Washington, D.C. 20036

July 18, 1988

Dear Mr. Stein:

I am writing this letter so that some thoughts of mine will be a matter of record in connection with our forthcoming meeting, and I would appreciate it if you would express my concerns in your report.

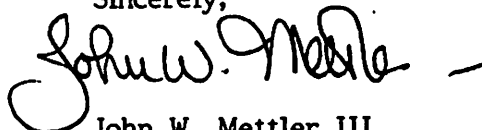
I have reviewed the draft minutes of the meeting in Kansas City which set forth your views and recommendations and I am puzzled to see that there is no indication that you have concluded that any of the past conduct of Mr. Hoyt or Mr. Irwin was inappropriate, improper, constituted self-inurement or conflict of interest, or was censurable in any way. Mr. Stein, these gentlemen have been questioned about possible wrongdoing by an independent counsel like yourself, and you were asked to look into the matter. Your report (to date) is completely silent as to these matters. In fact, it appears that far from discussing whether this past conduct is grounds for censure, at the very least, you are apparently recommending employment "contracts" for those two employees, which can only be perceived as a reward for good conduct.

A simple example is in item 8 of your report, where, in connection with Brightwater, you say that Mr. Irwin shouldn't have been able to write himself a check. The point is, Mr. Stein, that he did, and he cashed it, and he benefited from it. Obviously this was an inexcusable conflict of interest, and gross lack of sensitivity, to say the very least. The problem I see with not answering these questions and not seeing them for what they are, is that the next person who looks at it all might not be from our Board, whose membership wants to protect the HSUS, and might well be instead one who would view some of these facts as constituting misappropriation or misuse of charitable funds.

I have not overlooked the serious allegations against Mr. Wiseman and the alleged "Deferred Compensation Committee," but can assure you that their so-called actions do not in any way excuse Mr. Hoyt and Mr. Irwin, who obviously had this committee under their control and direction.

I am looking forward to our meeting tomorrow and would hope that you would re-read my earlier letters to you. Your July 8th report gives me the impression that you found no merit whatsoever in my view of the seriousness of some of the matters facing all of us, nor in some of the allegations contained in the Harmon Report, written by another "independent counsel who had been asked to look into all these matters, with the unanimous backing of the HSUS Board of Directors.

Sincerely,



John W. Mettler III  
Director, HSUS

cc: Select Committee  
Murdaugh Madden, Esq.



# checklist

- Chronicle
- bd.
- Audit Comm. mem., & Select
- Hoyt memo \$5000 series
- Freeman Lee chair - permitting
- NHEC - Mellon
- Spec. bd. mtg.
- Frankenburg location
- going after personally - wake up  
Brooks - personal liability

#### Grand Opening VIP Event

Including printing of invitations, refreshments, decorations, postage, long distance and incidentals. \$2,500

#### Charity Presentation Ceremony

Including "ribbon of dollars" preparation, photography, and postage 300

#### News Releases

Including prints, postage and other expenses for two grand opening releases. 150

Including photography, prints, postage and other expenses for personnel releases. 250

Note: The billable cost for public relations time to handle these projects is \$3,000.

#### PUBLICITY PROGRAM TO POTENTIAL FRANCHISEES

##### Objectives:

- Introduce the Car Pride concept through news releases to local business editors, national automotive trade publications and national business media.
- Work with interested editors from these publications to develop additional feature coverage.

##### Rationale:

Since simply announcing a new business would not generate extensive coverage, we will emphasize the uniqueness of the concept from several angles to create media interest.

Publicity is the preferred method for reaching potential franchisees because of the believability that can be achieved. Media coverage offers an implied third-party endorsement of the editors. For this reason, the communications industry standard is that publicity achieved is valued at five times what the cost of the space as paid advertising would have been.

JOHN W. METTLER III

950 THIRD AVENUE  
NEW YORK, N.Y. 10022

(212) 752-1855

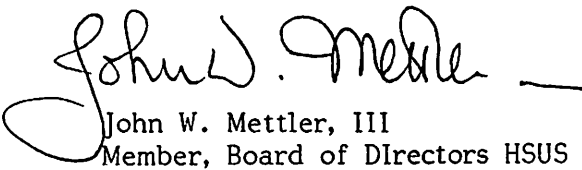
May 9, 1988

Mr. Jacob Stein, Esq.  
1800 M Street, NW  
Washington, DC 20036

CONFIDENTIAL

Dear Mr. Stein,

In accordance with Mr. Ramsey's April 29th request, enclosed is a partial list of the matters which I feel remain either unanswered or unresolved. Mr. Tirana, on behalf of Ms. Spiedel, Mr. Bowman and me, will be sending his own letter to Mr. Ramsey with a copy to you.

  
John W. Mettler, III  
Member, Board of Directors HSUS

encl.

cc: Members of Board of Directors, HSUS

CONFIDENTIAL

The question of the transfer of the Maine property from Paul Irwin to the HSUS for some \$85,000 raises the obvious questions of self dealing, private inurement, and propriety, as is true in any case where a senior official, here the top financial official of the organization, has dealings of a financial nature with the organization itself. It is here obviously compounded by the fact that a very minute segment of the Board, knowing that it was acting in secret with respect to the full board, approved this matter and authorized Mr. Irwin pay himself a substantial sum of money. That of course, raises the questions to which the answers to date of which I am aware, do not appear to give any acceptable explanation.

My understanding is that Mr. Irwin's explanation is that when you deal with potential future large donors you sometimes do unusual looking things, all for the ultimate sake of financial benefits to the organization which will fall into place at some future time. He therefore took title to this property in his own name.

The problem that I have with this explanation is really threefold. It appears from the explanatory documents that Mr. Irwin and Mr. Hoyt initially looked at this as a personal recreation or vacation spot and there is no indication, in the record to the contrary. Next, it is difficult to accept the view that Mr. Irwin would have advanced substantial personal funds of money over a significant period of time to the HSUS. There is no history of either Mr. Irwin or any of the other employees making significant financial advances to the organization, and there is surely no indication that the organization was short of funds and needed this kind of financial support from its employees. It is also difficult to understand the reason given that this transaction had to be kept from the Board members or other HSUS officials. While there could have been a reason not to be candid with the potential donor, surely this didn't apply to our organization itself and to our board members. In short the explanations, if I understand them clearly, do not seem to answer the serious questions raised. In fact this may be a rather simple case of self dealing where perhaps Mr. Irwin got himself into a personal venture either as a recreation spot or as a long term investment, and then he subsequently decided that it for one reason or another was a very bad financial deal for him. If at that time he decided to transfer the property the HSUS and be reimbursed for his outlay, then, whether we like it or not, that is the explanation. If hopefully, there is another explanation that will hold together, I want very much to hear it quickly. In any event the point is to get at the truth as soon as possible.

My next question has to do with the indication that additional sub rosa compensation was authorized by this Deferred Compensation Committee for Mr. Hoyt and Mr. Irwin by payments

through the National Humane Education Center (NHEC) and the National Association for the Advancement of Humane Education (NAAHE). Apparently the former organization, NHEC had been completely inactive for many years and that money was apparently transferred from the Mellon Annuity bank account in Pittsburgh into that organization so that payments could be made to Mr. Hoyt and Mr. Irwin. The only explanation given so far for this unusual way of paying our President and Treasurer was to keep "outsiders" from knowing how much money Messrs Irwin and Hoyt were making. However, this also kept the HSUS board members from knowing the facts, and it also kept these transactions from being recorded in the normal manner in the financial books and records of the organization. I would like to have further explanation as to why what appears on the surface to be a very devious way to go about giving compensation to the President and Treasurer, was utilized. I have seen no explanation whatsoever that seemed to adequately deal with the questions. Once again these are matters that appear to raise serious questions of self dealing. There is also some record of the creation of special bank account that was opened, a single check passed through it to Mr. Irwin, and immediately closed. These bizarre facts were apparently known only to the Deferred Compensation Committee members who actively withheld this data and other critical information from the rest of the Board of Directors. These questions are obviously relevant because once again, they have to do with dealings between the chief fiscal and chief executive officers of the organization, and the organization itself. Surely the mere fact that there is an apparent stamp of approval by this tiny basically secret Deferred Compensation Committee does not remove the questions raised of self dealing and private inurement.

Another question which apparently remains unanswered which needs to be answered adequately has to do with the transfer to Mr. Hoyt and Mr. Irwin of the ownership of certain life insurance policies, with the undertaking of the HSUS to pay future premiums. The details of this transaction, which obviously also raises questions of self dealing and private inurement, need to be set out thoroughly in order for everyone to fully understand the transaction. For example, was there a significant cash surrender value involved? What will be the annual undertaking of premium obligations on the part of the HSUS and who are the current beneficiaries of these policies?

And finally, in addition to the above, I strongly recommend that you make a careful review of the chart attached to tab #9 of the Harmon & Weiss report and proceed to assure yourself that either the questions asked were completely unrelated to anything that might be of concern or interest to the Board or the IRS or yourself in your current inquiry, or that you acquire the appropriate responses.



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JOHN W. METTLER III

950 THIRD AVENUE  
NEW YORK, N.Y. 10022

(212) 752-1855

July 6, 1988

Mr. Jacob Stein, Esq.  
c/o HSUS Select Committee  
Kansas City, Mo.

Dear Mr. Stein:

Since I will not be attending the meeting of the Select Committee to be held July 8th in Kansas City, for reasons outlined to you in my letter of June 21, I am providing you with my reactions to the materials provided to me as a member of the Select Committee at this stage of its work.

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I look forward to meeting you on July 30th.

Sincerely,

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John W. Mettler III  
Director, HSUS

cc: Members of The Select Committee  
Murdaugh Stuart Madden, Esq.



JOHN W. METTLER III

950 THIRD AVENUE  
NEW YORK, N.Y. 10022

(212) 752-1855

June 21, 1988

Mr. Jacob Stein, Esq.  
Stein, Mitchell & Mezines  
1800 M Street, NW  
Washington, DC 20036

Dear Mr. Stein:

I am writing this letter directly to you in the hope of clarifying several matters of great importance to me and to the HSUS itself. As to the forthcoming meeting scheduled in Kansas City, I would expect to have received by now the answers in writing to the questions that I specifically raised in my letter to you of May 9, 1988 (enclosed) in addition to the still unanswered questions raised by the Harmon and Weiss report as a prerequisite to any effective meeting that might take place on July 8th.

A few words about the "Select" committee: Joe Ramsey is fully in charge of this pro-management committee. Bill Wiseman, who incidentally selected the committee by himself so that it in no way represented an impartial committee of the Board of Directors, is an "ex-officio" member. Apparently John Hoyt is also now considered a member as a result of the reasoning that the President can attend meetings, even though many of the questions being raised directly concern his past conduct. What is most inconsistent is the inclusion of Mr. Hoyt and Mr. Wiseman, who are two of the primary people at whom the Harmon report points a finger for past activities.

I gather that what really is being "staged" is to have you, the well-known and reputable Jake Stein, pour oil on these troubled waters and put these matters to rest without really having to answer the allegations contained in the Harmon report.

All of the above, Mr. Stein, makes it necessary for me to review a few facts that may not be clear to you because you were not personally present at the Board meeting of April 20, 1988, and I will take a moment to set forth how your proposed role was described and sold to the Board members in attendance. William Wiseman, using the power of the chair, after soundly criticizing the "Harmon" report as unbalanced and unfair, announced that he had a plan. He then proceeded to state that "Jake Stein (his personal attorney) has an idea that will get everyone off the hook by starting a procedure that will resolve all of these matters." You were described as the "new Independent Counsel" and Mr. Wiseman repeated that this would get the Board "off the hook" and said, "we need outside independent counsel of unchallengeable prestige." I might point out that Ms. Harmon was also an "independent counsel" but since Mr. Wiseman and others were incriminated in her report, Mr. Wiseman preferred to ignore both the Audit Committee (appointed by the Board) and the Harmon report because there were too many questions raised in the Harmon report that made him, the Deferred Compensation Committee, and some of the executive staff all look bad. So using the chair to his advantage, Chairman Wiseman appointed a "select" committee, stacked heavily with his own sympathetic directors, to try and bury the Harmon report once and for all.



The script went somewhat like this: Mr. Sonde, who was apparently present as the personal counsel for John Hoyt and Paul Irwin, said that "both Stein's advice and mine is that the Board needs some advice from someone who has credentials." (Apparently Gail Harmon has none!) Mr. Irwin, in supporting the idea, repeated the thought that this would get the Board off the hook and, following another reference to you as "distinguished independent counsel," Mr. Sonde spoke in support of the plan of hiring Jake Stein as independent attorney for the organization (the HSUS) and "turning this all over to him." Joe Ramsey then said that he was "advised by counsel (I don't know what counsel) to proceed this way"-- to create a new Committee to supersede the Audit Committee and "turn it all over to Jake Stein."

The above reflects the atmosphere at the meeting where your retention was voted upon and this letter is simply to verify that your role will be as described, and that in essence this whole matter will be "turned over" to you and that you will exercise your "independent judgment" on all of these questions.


If, on the other hand, your role is that merely of counsel to this new "select" committee, that is an entirely different matter, and you could hardly be expected to, nor be in a position to exercise any "independent" judgment for the corporate charity itself.

As you should be well aware, the "Select" Committee was carefully designed by Chairman Wiseman to supersede, and in effect ignore the work done and report issued by the earlier Audit Committee and its attorney, Gail Harmon. (This committee incidentally was unanimously authorized by the Board of Directors in December, 1987). Is Chairman Wiseman, who is under such criticism for having aided and abetted the Hoyt-Irwin activities, really to be part of this "select" committee? Is John Hoyt to be part of it? Or are they simply included to be sure the Harmon report is effectively obliterated?

Joe Ramsey's May 28, 1988 letter to my attorney, Bardyl Tirana (copy enclosed) only acted to exacerbate these fears when he made it clear that he would decide what was "necessary" for you to see and be concerned with. This "screening" of information shows clearly that the Chairman and Vice-chairman are anxious to avoid disseminating any incriminating facts supporting the Harmon report. It is quite evident that this arrogance and insensitivity to obvious conflicts of interest and heavy handedness which contributed so much to the creation of these problems in the first place, continues on, unabated in any way.

Has this whole matter been put into your hands as independent counsel to the organization, or is your good name simply being used as "window dressing" in order to cover up the questions raised by the Harmon report?

I will appreciate hearing from you and most particularly would like to see these unanswered questions answered in writing before we are all called upon to attend any meeting of this new "committee." I am afraid that these questions must eventually be dealt with openly and above board. They will not simply disappear. Nor will the Harmon report.

  
John W. Mettler III  
Director, HSUS

cc: Members of The Select Committee  
Murdaugh Stuart Madden, Esq.  
Enclosures

# Ramsey, Morrison, Keddy & Wallis

## GENERAL LITIGATION

O J RAMSEY  
THEODORE H MORRISON  
MICHAEL F KEDDY  
DAVID A WALLIS  
MARC E ABRAMSON  
JODI CLARY  
BRIAN J. STONE

## PROFESSIONAL CORPORATION • ATTORNEYS AT LAW

10399 OLD PLACERVILLE ROAD  
SACRAMENTO, CALIFORNIA 95827

P.O. BOX 26124  
SACRAMENTO, CALIFORNIA 95826-0214  
TELEPHONE (916) 362-8800

## WORKER'S COMPENSATION

THEODORE H MORRISON

May 28, 1988

Bardyl R. Tirana  
SILVERSTEIN AND MULLENS  
1776 K Street, N.W.  
Washington, D.C. 20006

Re: Your May 11, 1988, Response to Select Committee

Dear Bardyl:

This will acknowledge receipt on May 16, 1988, of your letter of May 11, 1988, in response to my request of April 29, 1988, that you write on behalf of your clients, listing any special concerns they might still have and want the Select Committee to be sure to consider.

Thank you for listing those concerns. The committee did intend carefully to consider all of the questions you raise, but it is helpful to have your letter confirming such matters of special interest to your clients.

You are, of course, correct that your letter does not limit your clients to any additional concerns which may occur to them in the future. It is self-evident that no such limitation is possible, and I did not intend to indicate to the contrary in my April 29, 1988, letter to you. However, I am sure you understand the need to establish a reasonable time table for the Select Committee to complete its work. Will you please advise how much more time your clients may need to give us as comprehensive a list of concerns as reasonably possible.

Mr. Tirana  
Re: Select Committee

May 28, 1988  
Page -2-

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In your May 11, 1988, letter, you mention, among other things, the possibility that Brook Speidel and/or Sam Bowman may contact Jake Stein directly concerning matters that may still trouble them. I am puzzled about why they would not want to share those concerns with the Select Committee which was created by the Board for the very purpose of dealing with such concerns and keeping a record of them in minutes and correspondence. If the Select Committee is not included in the informational circuit, they will be unable to perform the function for which they were appointed. If your clients continue to have concerns which they have not yet voiced, I would urge that they be directed to me as chairman of the Select Committee. I can and do assure you that I will communicate any such concerns to the full Select Committee and, as necessary, to Jake Stein as outside counsel for the HSUS.

I found it surprising, disappointing, and, frankly, inappropriate that you chose to use my good-faith invitation to specialy treat your clients' concerns as a basis for volunteering their unsolicited views that "a majority of the Board" (including certain named individual directors) and the president and treasurer of HSUS have been derelict in their duties and to threaten the HSUS and certain of those directors and officers with a lawsuit.

Mr. Tirana  
Re: Select Committee

May 28, 1988  
Page -3-

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I do not intend to dignify these accusations and threats with any detailed response in this letter; however, I feel that some comment is necessary and appropriate.

Regarding your clients' criticisms of their fellow Board members, it is sufficient to state here "for the record" only that such accusations are considered by the Select Committee to be denied by those named. I do feel that, since you have threatened a lawsuit against such directors and officers, I must notify them of such threat and will do so by copy of your letter to me of May 11, 1988, and this response to you. However, I intend to encourage those you accuse to restrain themselves from responding directly to you or your clients, at least at this time. Otherwise, I am concerned that the function of the Select Committee to fully and fairly consider and hopefully resolve all problems which have been raised since last fall might be jeopardized.

Regarding your demand for immediate payment of attorney's fees and your threat to sue if you are not paid, I feel I have no choice but to ask Jake Stein to deal with that matter.

Finally, since I felt I should use HSUS letterhead for committee work, you properly responded with your May 11, 1988, letter to the HSUS headquarters in Washington, D.C. This resulted in delay in my getting your letter. In the future I

Mr. Tirana  
Re: Select Committee

May 28, 1988  
Page -4-

would appreciate it if you would send material having to do with the Select Committee to me directly to my office address, even though I will be using HSUS letter head. My office address is as follows:

Ramsey, Morrison, Keddy & Wallis  
10399 Old Placerville Road  
Sacramento, CA 95827

Very truly yours,

RAMSEY, MORRISON, KEDDY & WALLIS

  
O. J. Ramsey

OJR:jr



JOHN W. METTLER III

950 THIRD AVENUE  
NEW YORK, N.Y. 10022

(212) 752-1855

RECEIVED

JUL 21 1988

RMK & W

Mr. Jacob Stein, Esq.  
Stein, Mitchell & Mezines  
1800 M Street, Northwest  
Washington, D.C. 20036

July 18, 1988

Dear Mr. Stein:

I am writing this letter so that some thoughts of mine will be a matter of record in connection with our forthcoming meeting, and I would appreciate it if you would express my concerns in your report.

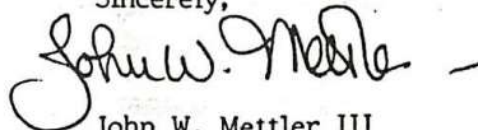
I have reviewed the draft minutes of the meeting in Kansas City which set forth your views and recommendations and I am puzzled to see that there is no indication that you have concluded that any of the past conduct of Mr. Hoyt or Mr. Irwin was inappropriate, improper, constituted self-inurement or conflict of interest, or was censurable in any way. Mr. Stein, these gentlemen have been questioned about possible wrongdoing by an independent counsel like yourself, and you were asked to look into the matter. Your report (to date) is completely silent as to these matters. In fact, it appears that far from discussing whether this past conduct is grounds for censure, at the very least, you are apparently recommending employment "contracts" for those two employees, which can only be perceived as a reward for good conduct.

A simple example is in item 8 of your report, where, in connection with Brightwater, you say that Mr. Irwin shouldn't have been able to write himself a check. The point is, Mr. Stein, that he did, and he cashed it, and he benefited from it. Obviously this was an inexcusable conflict of interest, and gross lack of sensitivity, to say the very least. The problem I see with not answering these questions and not seeing them for what they are, is that the next person who looks at it all might not be from our Board, whose membership wants to protect the HSUS, and might well be instead one who would view some of these facts as constituting misappropriation or misuse of charitable funds.

I have not overlooked the serious allegations against Mr. Wiseman and the alleged "Deferred Compensation Committee," but can assure you that their so-called actions do not in any way excuse Mr. Hoyt and Mr. Irwin, who obviously had this committee under their control and direction.

I am looking forward to our meeting tomorrow and would hope that you would re-read my earlier letters to you. Your July 8th report gives me the impression that you found no merit whatsoever in my view of the seriousness of some of the matters facing all of us, nor in some of the allegations contained in the Harmon Report, written by another "independent counsel who had been asked to look into all these matters, with the unanimous backing of the HSUS Board of Directors.

Sincerely,



John W. Mettler III  
Director, HSUS

cc: Select Committee  
Murdaugh Madden, Esq.

March 14, 1990

Mr. Fuller:

These are some additional very important papers, especially the **CRITICAL GUIDELINE**.

The letters from Mittler are also important because he was a Director and then was dropped off the Board because he raised these questions; and finally, there is a partial list of available documents with some notes as to their particular significance.



## CRITICAL GUIDELINES

I. It is of overriding importance to stick to the incidents presently in the Complaint. They are the incontrovertible ones and were carefully selected for that reason.

It would be wrong, for example, to add a count on "Excessive Compensation" because this could and would be debated forever.

For example, when speaking of when the secret committee granted pay raises, auto allowances, insurance policy ownership and other "goodies" to the President and the Treasurer, it would be a mistake to take the position in the pleadings that these things weren't deserved. What was wrong was that they were granted illegally by a secret committee that was manipulated by the two officers, and it was all hidden from the Board.

The design of this draft was to never get into areas that would permit a showing of how much the organization has grown and prospered under these two officers.

II. Suit must be filed without advance warning or discussion with the defendants because the key is to have these matters come to light in a proper forum. During the earlier "investigations" there was a great stonewalling and

cover-up and it would happen again unless these issues are moved into the public arena, i.e., the court.

III. As to the various counts, even if some could arguably be barred by a Statute of Limitations, they need to be included, for exposure to the light of day. (They probably aren't barred because they were covered up until December 1987, but in any event they should all be in the allegations of wrongdoing by the insiders of this public charity).

IV. No Golden Parachutes for the employees, no settlement compromises, and no honoring of the recent Employment Contracts.

V. No real deviation from the issues raised in the drafts without detailed consultation. They were carefully prepared by persons with long-standing intimate knowledge of this whole matter from beginning to end, including all of the players involved.

VI. Pepperdine is both a Director and an HSUS member and suit should be brought on her behalf in both roles because there are probably different rights for each. It should be framed in such a way as to make it crystal clear that the money is to be paid back to the charity.

JUL 12 10 15 AM '89 BUREAU ATTORNEY  
MICHAEL TRAYNOR  
THE ALCOA BUILDING, 20TH FLOOR  
1 MARITIME PLAZA  
SAN FRANCISCO, CALIFORNIA 94111

January 3, 1990

Mr. Samuel A. Bowman  
Tucker Anthony Incorporated  
535 Madison Avenue  
New York, New York 10022

Re: The Humane Society of the United States

Dear Sam:

I enclose a copy of a chapter that my partner Kenn Guernsey and I wrote, Nontax Considerations Before Incorporation, for the California Continuing Education of the Bar's book, Advising California Nonprofit Corporations (1984), together with the applicable pages from the June 1989 supplement. See section 1.15 for a brief discussion of the rules governing foreign nonprofit corporations that do business or hold property in California.

I also enclose a copy of the Uniform Supervision of Trustees for Charitable Purposes Act, as enacted in California, Cal. Gov. Code §§ 12580-12598. The California law explicitly applies to any nonprofit corporation organized under the laws of a jurisdiction other than California for charitable purposes if it is "doing business or holding property in this State for such purposes." Cal. Gov. Code § 12582.1.

If the Humane Society of the United States does business in or holds property in California it would be subject to supervision by the Attorney General of California. Although I have not researched the point, I would expect the phrase "doing business" to be construed broadly and, probably, to include solicitation of funds from residents of California. Certainly, the Attorney General should have an interest in protecting

Mr. Samuel A. Bowman  
January 3, 1990  
Page 2

California donors from misuse of funds solicited from them.

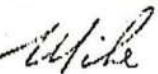
If you wish to pursue any inquires in California, you might consider beginning by telephoning or writing to the Attorney General of California, starting first with an informational inquiry to the Registry of Charitable Trusts along the lines of the enclosed draft letter. Depending on the information you get, you might pursue the inquiry and communicate directly, by letter or telephone, with Carole Ritts Kornblum, Assistant Attorney General or one of the attorneys in her office. Her address is:

Carole Ritts Kornblum  
Assistant Attorney General  
Charitable Trusts Enforcement Section,  
Public Rights Division  
Office of the Attorney General of California  
State Building  
350 McAllister St., Rm. 6000  
San Francisco, CA 94102  
Telephone: (415) 557-2645

Please let me know if you have any questions at any time. I will be glad to discuss them with you.

Sincerely,

COOLEY GODWARD CASTRO  
HUDDLESON & TATUM



Michael Traynor

MT/ca  
Encls.  
20154000

Sam: The Registry's telephone number is (916) 445-2021.  
You might telephone first to try to identify file,  
any reports, and costs and procedure for getting  
copies.  
MT  
Mike

[For Sam Bowman's Stationery]

January \_\_\_\_, 1990

The Honorable John K. Van de Kamp  
Attorney General of California  
Registry of Charitable Trusts  
1718 Third Street  
P.O. Box 903447  
Sacramento, California 94203-4470

Re: The Humane Society of the  
United States

Dear Mr. Attorney General:

I am [I was from \_\_\_\_\_ to \_\_\_\_\_] a director of  
The Humane Society of the United States. The Society  
solicits and obtains funds from residents in California and  
holds the following property in California [describe].

In addition to fundraising, it conducts the following  
business in California: [describe]. One of its directors  
is currently a resident of California.

I shall appreciate your sending to me copies of any filings  
by the Society with your office for the period commencing  
19\_\_ until the present. Please let me know also whether  
your office has conducted any investigation into the matters  
described in the enclosed Jack Anderson reports (Washington  
Post, Sept. 7 and 8 and Oct. 13, 1988). If so, please let  
me know the status or outcome of your investigation.

I enclose my check for \$\_\_\_\_\_ to cover copying and  
mailing costs. If I owe any difference, please bill me; if  
I have enclosed too much, please remit the difference.

The Honorable John Van DeKamp  
January 3, 1990  
Page 2

Thank you for whatever time you may take in responding to  
this letter.

Very truly yours,

Samuel A. Bowman

SAB/ca  
20154013  
Encl.



September 28, 1989

Dear Bill:

Thank you for your September 14 letter including the Memorandum of Law from our general counsel's office.

The memorandum indicates that on strictly legal terms the bylaws and the board's action authorize the Executive Committee to act on the legal contracts for the president and executive vice president. But it concludes by saying:

"However, delegation does not eliminate the ultimate responsibility of the Board of Directors to manage all of the affairs of the corporation, and does not exculpate it and its members from having the responsibility to continually supervise and oversee the activities of its committee, including the Executive Committee, and including, of course, this proposed action."

I am concerned that if these contracts are not considered by the full board, we will be violating the spirit and perhaps even the letter of our bylaws. The bylaws spell out two important board functions, each related to issues involving these contracts:

- Article VIII, Section 1, gives the board the power to remove any officer at any time.
- Article VIII, Section 5, gives the board the duty of determining the salary of the president.

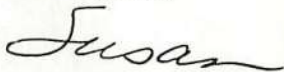
The Memorandum of Law did not specifically address these points, perhaps because the contracts "have not been seen or reviewed by the undersigned" (Mr. Madden and Mr. Kindler). They were therefore unaware of any tenure and salary issues involved.

My concern is not completely with legalities, however, but with the propriety and wisdom of not having the full board review these documents and vote on them. Surely none of us would want to be involved in anything suggesting that any provision of these contracts could not withstand the full board's scrutiny. (Or, in our role as guardians of money donated by the public, that these contracts could not withstand public scrutiny.)

In light of these concerns, I respectfully request that both contracts be circulated in their entirety to the full board well before the meeting in Houston. Having the matter brought up for consideration at the meeting would then give each member the opportunity to fulfill their responsibility of making an informed judgment on this vital question.

See you in Houston. (By the way, this will be my 17th conference in a row!)

Best regards,



Susan Pepperdine

SP:cp

cc: All Board Members



LAW OFFICES

STEIN, MITCHELL & MEZINES

1100 CONNECTICUT AVENUE, NORTHWEST  
WASHINGTON, D. C. 20036

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DAVID U. FIERST  
RICHARD A. BUSSEY  
PATRICK A. MALONE  
ROBERT L. BREDHOFF  
HELEN RANDOLPH

OF COUNSEL  
MILDRED M. EDWARDS

TELEPHONE: (202) 737-7777  
TELECOPIER: (202) 296-8312

February 13, 1989

Mr. Robert B. Sorock  
Stone & Simons Advertising  
24245 Northwestern Highway  
Southfield, MI 48075

Dear Mr. Sorock:


I am returning to you the draft of the employment contract.

I have reviewed it with the following assumptions in mind:

- Don't think  
any of the  
3 are  
true -*
- (1) It was negotiated as an arms length transaction.
  - (2) It was negotiated with a view to obtaining the best terms available to the Humane Society.
  - (3) When looked at by the membership it will be viewed as an economical arrangement given the objectives of the Society.

I submit the comments set forth in the enclosed memorandum. I will be happy to submit a clean copy setting forth an incorporation of what is agreed to by the parties.

Sincerely,



---

Jacob A. Stein

Enclosure



THE HUMANE SOCIETY OF THE UNITED STATES BOARD OF DIRECTORS  
Confidential Information

Dr. Carol Browning  
6182 South 2855 East  
Ogden, UT 84403 *277/4040*  
801/479-3754

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Short Hills, NJ 07078  
201/379-4228

Mrs. Oliver M. Evans  
3045 P Street, NW  
Washington, DC 20007  
202/338-8037

Miss Regina Bauer Frankenberg  
31 East 72nd Street, Apt 9B  
New York, NY 10021  
212/288-4126

Mr. Harold H. Gardiner  
Gardiner - A Marketing Company  
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Salt Lake City, UT 84110  
801/364-5600

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805/489-5382

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The Jane Goodall Institute  
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Tucson, AZ 85726  
602/792-2075

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Birmingham, MI 48010  
313/647-0977 (o)

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Rocky Point-Stuart, FL 34997  
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Ramsey, Morrison, Keddy & Wallis  
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Sacramento, CA 95827  
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Mansfield, OH 44907  
419/756-7559

Mr Robert Sorock  
Staley International  
7071 Orchard Lake Road, Suite 300  
West Bloomfield, MI 48322  
313/932-0348 (o)

Mrs. Brook Speidel  
2531 Eye Street, NW  
Washington, DC 20037  
202/965-5646

Mr. John Taft  
2158 Baldwin Road  
Ojai, CA 93023  
805/649-3822

Mr. Carroll S. Thrift  
Corporate Travel Center  
P.O. Box 52693  
Knoxville, TN 37950-2693  
615/523-8989

Mrs. Viola Weber  
6251 Old Dominion Drive, #120  
McLean, VA 22101  
703/534-6889

Robert F. Welborn, Esq.  
P.O. Box 208  
Franktown, CO 80116  
303/861-8013 (o)

Ms. Marilyn E. Wilhelm  
The Wilhelm Schole  
4242 Richmond  
Houston, TX 77027  
713/626-2532

Mr. K. William Wiseman  
P.O. Box 120  
Woolwich, ME 04579  
207/443-3979





The Humane Society of the United States  
2100 L Street, NW  
Washington, DC 20037  
(202) 452-1100

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*Vice President/Wildlife &  
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Aida Flemming  
Virginia Milliken  
Andrew Wyeth

#### MEMORANDUM

TO: John Hoyt  
FROM: M. S. Madden  
DATE: December 8, 1988  
RE: My Memorandum Concerning Outside  
Legal Services and In Kind Benefits


John: Please find attached hereto my Memorandum in response to your two Memoranda, the first concerning "in kind" benefits to HSUS employees and the second dealing with your question concerning legal services which I have performed for Board members (I assume that you mean Bill Kerber).

Since so much of my response is devoted to my personal situation and arrangement with the HSUS, and since I surmise that none or few of the Board members that are to be concerned with matters of my compensation are fully aware of these arrangements, I will appreciate it if you will share this full Memorandum with them.

  
MSM

MEMORANDUM

TO: John A. Hoyt, Bill Wiseman, Joe Ramsey, Paul Irwin, Tom Hunt  
(For Compensation Committee et al)

FROM: Murdaugh Stuart Madden, HSUS General Counsel 

DATE: December 8, 1988

RE: (1) "In kind" Benefits to Certain HSUS Employees  
(2) Financial Transactions between Staff and  
Board Members

---

The facts are that the HSUS has from time to time provided certain employees with non-cash benefits or services, some directly related to the HSUS's primary animal-protection functions, and others less directly related. The specific so-called "in-kind" or "fringe" benefits to which this memorandum relates concern the fact that the undersigned, General Counsel Murdaugh Madden, has had the benefit of utilizing, without charge, some office space, some equipment, utilities, and secretarial services for the benefit of clients whose affairs had no relationship to the HSUS. In addition, Mr. Madden has from time to time performed legal services for HSUS Director Bill Kerber and handled the probate of Sally Kerber's Estate. The Compensation Committee has asked for further information and details concerning these arrangements. In addition, this memorandum touches upon the question of the utilization by John Hoyt of the Seneca Road residence which is now owned by the HSUS, and finally the utilization by Patrick Parkes of an automobile owned by the HSUS.

With respect to that portion of the inquiry concerning legal and other ramifications of the HSUS providing to me as its General Counsel the benefit of utilizing, without charge, office space, utilities, certain office equipment, and some secretarial services, a full understanding of the background is very important.\*/

I have been General Counsel of the HSUS since the late 1950's and for many years had acted in that capacity while maintaining a Senior Partnership in the Washington, D.C., law firm of Shaw, Pittman, Potts, Trowbridge and Madden, a firm that today has more than 200 lawyers. When the present arrangement with the HSUS commenced, as of January 1, 1975, it will be recalled that I at that time had a significant amount of outside private practice income, and, therefore, an agreement was reached that a remuneration from the HSUS of \$40,000 per year would be appropriate because that plus my outside income would provide me with a reasonable, overall compensation. My income had for several years prior to this move been in excess of \$100,000 per year, and when the HSUS moved from K Street in 1975 to its present Headquarters building, it was mutually agreed that since the HSUS couldn't possibly pay me what my private law practice income had been, and since the HSUS did not have the need for a

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\*/ At the outset it should be stated here that while for the first several years following the removal of my law office into the HSUS Headquarters building in 1975, I received significant outside income from that practice, it has steadily and markedly decreased over the years so that it is now minimal, i.e. \$35,000 in 1985, \$21,000 in 1986, \$4,600 in 1987 and less than \$2,000 so far this year (this latter being largely due to being co-trustee for the Rodenberg children).

full-time in-house General Counsel at this stage of its growth, I would "come on board" with a salary of \$40,000 and that I would supplement this HSUS income by continuing to perform outside legal services largely consisting of finishing up the work for a handful of private legal clients that I had had for many years, probably the most important one being a well-to-do family, the Rodenbergs.

There were also other ongoing activities emanating from my office which were partially legal, but more properly in the social or public arena, such as my activities as a Trustee of the Friends of India Committee, where I had as my Co-Trustees at this time, George Woods, Ambassador Ellsworth Bunker, John Sherman Cooper, Edgar Kaiser, D.S. Saund and Professor Norman Palmer. The work with this committee was basically put on hold during the 1970's when the political climate of U.S.-Indian relations cooled down so dramatically.

In any event over the past almost 15 years, the following has transpired. Both my outside income and non-HSUS activities have been reduced to almost zero because I have had neither the time nor the inclination to seek or perform other legal work since the phenomenal growth of the HSUS during this period had such a direct impact upon the legal department's responsibilities and activities -- in short, they have increased dramatically.

In this same time, my actual salary from HSUS rose from \$40,000 a year to \$65,000 a year, not because my value was not far in excess of this, but because of two quite separate but distinct factors. First, I had received several significant

outside legal fees, largely from the Rodenberg Estate, and had also received a modest bequest from my mother, the combination of which temporarily eliminated any financial pressures or concerns; and second, I had the definite understanding that all employees at the HSUS, from top to bottom, were under severe restraints on annual pay increases, which I seem to recollect were stated to be in the nature of "4% per year for everyone." Being a member of the team and assuming that it did apply to everyone and that everyone was living on short rations because they were working for a charity, I had no problem with this -- but the net result has been that for the past five years I have in effect subsidized this artificially low HSUS salary by utilizing personal savings at the rate of about \$20,000 each year so that my savings are now virtually exhausted.

It has been noted that this assumption as to the uniformity of this unreasonably low pay either never was, or in any event is no longer, correct and operative and it was a pleasure to hear Sonny Bloch state so affirmatively that our senior officials should receive compensation that has some relation to what is being received in the outside business world for executive officers. While Bloch didn't specifically mention the Treasurer and the General Counsel, I'm sure he didn't intend to exclude them from the necessity of appraising their value to the organization with an eye toward what similar Chief Legal and Chief Fiscal Officers are receiving in the outside business world. This concept was vigorously confirmed by Jack Lydman at the Board meeting on Sunday where he directly stated that it



seemed to him that the HSUS senior staff people were grossly undercompensated for the quantity and caliber of the work which they were performing.

These last two items are mentioned not that they are directly related to the general subject of this memorandum but to touch upon the reasons why an attorney of my stature, now spending practically full time on solely the affairs of the HSUS, seems to be receiving an income that would be more related to a completely inexperienced and unproven youngster just coming out of law school.

As to the approach to the question of the utilization of office space equipment, utilities and secretarial services for outside practice, at present the facts are as follows:

1. My outside legal activities so far for the year 1988 have largely arisen from being a co-trustee of the Rodenberg children's trust, part of a family whom I have represented for over 30 years, and the preparation of a will for one of my neighbors, plus functioning as co-executor of a modest Virginia estate.
2. In connection with those activities, any secretarial services are currently de minimus. As we know, I have always had a separate telephone bill, separate stationery, etc. etc., all of which I have always paid for completely.
3. The furniture and furnishings in the Legal Department offices belong, with several significant exceptions, entirely to me, having been moved from my law offices to

HSUS' new building in 1975. The exceptions are the Olivetti typewriter, the NBI system, and the oval table in my office, plus several file cabinets. As you will recall, all of the bookshelves, file cabinets, desks, study and work carrel, conference table and chairs, etc., were initially supplied by me, and with the exception of a handful of substitutions over the years, that inventory remains intact. There has never been any thought of my charging the HSUS for the use of any and all of this equipment, nor is there now.

I have, in recent years, even though my outside practice has been minimal, taken pains to continue and maintain my standing in various Bar Associations and in the Legal Registers such as Martindale-Hubbell because it is clear that my continued high standing and top reputation at the bar is of great importance and value to the HSUS. The HSUS has assiduously and carefully over the years, in all of the materials inviting requests for information concerning wills, taken great pains to stress the fact that those writing in were dealing IN CONFIDENCE with someone who would be in a position to treat their inquiries in a completely professional and confidential manner.

Clearly, the maintenance of some type of independence has been of great benefit to the HSUS and having an attorney of my standing and reputation appearing in Martindale-Hubbell and Who's Who, as an independent entity from the HSUS, is of inestimable

value to the organization. As is well known, it is the widespread custom of attorneys and accountants working with people's wills and trusts, both in drafting and in later administration, to "look up" and appraise the attorney on the other side -- in this case the attorney speaking for the HSUS in these very sensitive matters.

There are additional on-going values to the HSUS, for example, with relation to these subsidiary corporations that have been maintained over the years in a manner that would give them the appearance of independence. Many of the dealings that my office has had with the various state authorities have appeared to be from an independent lawyer and an independent law office. This is rather clearly exemplified by the value of having all of the correspondence with the IRS, with respect to the creation of and qualification of the related or subsidiary corporations such as NTAP, the National Trust for Animal Protection, and the Center for the Respect of Life and Environment, which need to appear as self-standing 501(c)(3) corporations. (The latter of these is still in the qualification process.) Conversely, there is a value to the HSUS in being insulated, to the extent possible, from dealings which these subsidiary corporations must have with the IRS and state governments.

The income which I now receive from the HSUS plus a very modest outside income, would not amount to 25% of the total income which attorneys of my age, experience, and caliber are receiving. This can be verified by asking persons like Jacob Stein or my former law partners at the Shaw, Pittman firm. They

are each making more than \$200,000 per year and I would assume that Mr. Stein is earning something in that neighborhood.

The memorandum requesting this information concerning my outside legal practice stated that it would provide useful information in reviewing the compensation adjustment for 1989. I assume that, since everyone is aware that my outside legal activities have come to almost a complete halt, due to the factors recited above, and the fact that the new approach in the organization is to give heavy weight to what those in similar positions in the outside business world are receiving in the way of compensation, that all of this information will be useful in approving a substantial increase in my compensation as General Counsel.

Reviewing the separate memorandum asking that I explain any financial relations which I have had with Board members, the Kerbers are the only ones, and I have never charged Bill Kerber anything since a 1983 fee of \$5,500 was paid for work performed in the probate of Sally Kerber's Estate. Nor have I charged Mr. Hoyt or Paul Irwin or anyone else on the staff for whom I have from time to time rendered legal services or advice, such as wills drafted, etc., and responded to innumerable personal questions. I think that this is absolutely appropriate and normal, and I think it would be quite wrong to suggest that I should not freely render modest advice and service to those with whom I am in daily contact, or that, if I do, I must charge them.

Finally the memorandum asked whether or not HSUS would be at risk legally for not having reflected the value of these services

in W-2 or 1099 forms for previous years for these "in kind" benefits. I feel that the answer to that question is "no" because insofar as at least the past three years years of my own situation here is concerned, when you consider the benefits to the HSUS of the arrangement which was initially worked out and the greatly reduced amount of my outside legal activities, the services that are provided by the HSUS to me are now largely unrelated to a direct benefit to me, but are rather for the purpose of facilitating an ongoing benefit to the HSUS, for the reasons set forth above and further detailed below.

In closing, as far as the Hoyt house on Seneca Road is concerned, the questions having to do with the 1099 and W-2 are those of valuation. I am attaching here pertinent selections from the CCH Federal Tax Guide Reports having to do with the Business Expense Deductions on a "Home-related" expense, and I have suggested that since Mr. Hoyt uses both the Seneca Road and the Lake Anna properties extensively for HSUS-related purposes, both of actually doing HSUS work there and also conducting extensive HSUS-related entertainment, this should, within the clear guidelines set forth in the Regulations, create a real opportunity to soften the impact of the imputed tax attributable to the Seneca Road property.

Insofar as Mr. Parkes' use of the HSUS-owned automobile is concerned, the overriding benefit to the HSUS in this arrangement is quite clear. The question of how it may be handled is described in an Addendum on SPECIAL VALUATION RULES concerning Automobiles, along with a copy of the pertinent CCH Federal Tax

Guide Reports. Since factors such as the cost of the vehicle, the extent of actual personal use Mr. Parkes has made of the vehicle, and other financial computations are relevant to the final determination of how much should be reported as income, these factual questions should be sorted out between Mr. Parkes and the Comptroller's Office and a fair figure agreed upon.

Encl:

Addendum re Automobile Special Valuation Rules

CCH Excerpt re Automobile Use

CCH Excerpt re Home Related Expenses

Hoyt Memoranda to M.S. Madden

## ADDENDUM

### SPECIAL VALUATION RULES.

#### Automobiles.

Treasury Regulation §1.61-2T(d) provides special rules for certain fringe benefits. In general, if the employer provides an automobile for both the personal and business use of its employees, the employee must include the value of the personal use of the vehicle as a taxable fringe benefit. If the vehicle is used 100% for business purposes or the personal use is de minimus, i.e. the personal use is so small as to make accounting for it unreasonable the employee is not required to report the benefit as income. Personal use is "any use that is not in the trade or business of the employer." 22 Fed. Tax. Guide Repts., ¶15 (CCH March, 1988).

Generally, the value of the benefit is the fair market value of the availability of the employer-provided car to the employee, i.e. the cost to a hypothetical person to lease the same car from another hypothetical person.\* Under this section of the Code there are two other alternate methods of valuation.

The first alternate method of valuation is the Annual Lease Value method. Treas. Reg. 1.61-2T(d)(1). This section is generally applicable if the employer provides the employee with a vehicle for an entire calendar year. An employer may use this method only if it was elected at the first time the vehicle was

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\* A safe harbor rule is that the fair market value of the vehicle is the employer's cost in purchasing the vehicle, if the transaction was at arm's length. Treas. Reg. §1.61-2T(d)(5).



made available for use by the employee or by January 1, 1987 whichever is later. Once this method has been elected the employer must use this method in all subsequent periods.

Further, the employer cannot provide a substitute vehicle for the purposes of escaping the particular valuation method. The employee may adopt this method only if it has been adopted by the employer, and only if adopted when the car was first made available to the employee.

Under this method, first the vehicles fair market value is determined as of the first date the vehicle is available to any employee for personal use. If the vehicle was made available for personal use prior to the effective date of this section, January 1, 1985, then the fair market value of the vehicle shall be determined as of the effective date of the section. The determination of the vehicles fair market value is recalculated every four years. Once the value of the vehicle has been determined the taxpayer consults the table contained in §1.61-2T(d)(2)(iii) to find the annual lease value that corresponds to the fair market value of the vehicle. See, appendix A. Under this method the value of maintenance and insurance are included in the annual lease value. However, the value of fuel is not. If the employer provides fuel or reimburses the employee the fair market value is the actual cost, if at arm's length, to the employer.

If the vehicle has not been available for the full calendar year then this section provides that the annual lease value may be calculated on two different basis. First, if the vehicle is

available for a continuous period of greater than 30 days, then the annual lease value is pro-rated to the number of days the vehicle is used. Treas. Reg. §1.61-2T(d)(4)(i). If the vehicle is available for less than a continuous 30 day period then the value is "daily lease value" which is calculated by the formula: annual lease value x ( 365 ÷ [4 x days vehicle available]), or the employee may treat the period as a continuous 30 day period if it would result in a lower valuation. §1.61-2T(d)(4)(ii).

The second method of valuation is the Cents Per Mile method. Treas. Reg. §1.61-2T(e). In general, this method may be used only if the employer reasonably expects that the employer provided vehicle will regularly be used in the employer's trade or business throughout the calendar year or the vehicle is actually driven 10,000 miles within the calendar year primarily by the employees. The employer must adopt this method by the later of January 1, 1987 or the period in which the vehicle is first used by the employee. This method may be used only so long as the vehicle qualifies under this method.

The value of the benefit to the employee is the number of miles driven for personal purposes x the "cents per mile rate" provided by applicable Revenue Ruling or Procedure. In 1987 the rate was 22.5 cents per mile for the first 15,000 miles and 11 cents per mile thereafter.

Under this section if the the fair market value of the car exceeds the Maximum Recovery Deduction for luxury cars, provided in I.R.C. §280(F), then the cents per mile method is not permitted and the benefit must be calculated under the annual

lease value or the general fair market value. The current cut off value is at \$12,800.00. Under the cents per mile method the fair market value of fuel provided by the employer is included in the cents per mile figure. Further if the fuel is not provided by the employer then the employee may deduct up to 5.5 cents a mile, as provided by Revenue ruling or Procedure.

#### Commuting vehicles.

The value of vehicles provided by the employer to the employee for the purposes of commuting are valued at \$1.50 a trip. Treas. Reg. §1.61-2T(f). This section is applicable only if: (1) The vehicle is owned or leased by the employer and is provided to the employee(s) for use in the employer's trade or business. (2) There is a bona fide non-compensatory business reason for requiring the employee to commute in the vehicle. (3) The employer has established a written policy under which the employee may not use the vehicle for personal purposes, except for de minimus personal use, (i.e. stops for personal errands between a business related use and home). (4) Except for the de minimus use the employer does not use the vehicle for personal purposes. (5) The employee is not a "control employee" of the employer. A control employee is defined as a board or shareholder appointed or elected officer, a director, or a owner of 1% or greater of the equity, capital, or profits interest of the employer. Treas. Reg. 1.61-2T(f)(5).

#### Recordkeeping.

Generally, an employee, in order to exclude as a working condition fringe any part of the value of the availability of a

employer provided vehicle, must substantiate the exclusion. The employee must provide adequate records or other corroborating evidence to justify the exclusion. Treas. Reg. §1.274-5T. Adequate records include: account books, diaries, logs, other documentary evidence (such as, receipts, paid bills), trip sheets, expense reports, or written statements of witnesses. Treas. Reg. §1.274-5T(c)(2).

JOHN K. VAN DE KAMP  
Attorney General

State of California  
DEPARTMENT OF JUSTICE



455 GOLDEN GATE AVENUE, SUITE 6200  
SAN FRANCISCO 94102-3658  
(415) 557-2544

December 6, 1990

(415) 557-1732

Mr. K. William Wiseman  
The Humane Society of the United States  
2100 L Street, N.W.  
Washington, D.C. 20037

Dear Mr. Wiseman:

*In the Matter of the Proposed Investigation of the Humane Society of the United States  
Before the California Department of Justice; Office of the Attorney General*

The Office of the Attorney General is charged with the general supervision of all organizations and individuals who obtain, hold or control property in trust for charitable and eleemosynary purposes in this state and organizations who solicit funds in this state. The Attorney General is authorized to enforce, in the name of the People of the State of California, the provisions of the Uniform Act for the Supervision of Trustees for Charitable Purposes (*Govt Code §12580 et seq.*), the Nonprofit Corporation Law (*Corps. Code §5000 et seq.*), the consumer protection laws (*Bus. & Prof. Code §17200 et seq.*), the charitable solicitation laws of this state (*Bus. & Prof. Code, §§17510 to 17510.7 et seq.* and the California Penal Code in connection with false and misleading advertising involving the solicitation of funds from citizens of this state (*Penal Code, 532(d)*).

We are aware that your organization has been active in the solicitation of funds in California and that it has an affiliate organization situated in Sacramento which owns real estate in this state. Moreover, we are informed that your organization held its annual meeting in San Francisco in late October 1990 and that one of your directors, Mr. J. Ramsey, is a resident of this state. Accordingly, it is the view of this office that your organization, although organized under the laws of the State of Delaware and has its principal place of business in Washington, D.C., nevertheless is subject to the substantive charitable trust laws of this state (*see, Allstate Ins. Co. v. Hague* (1981) 449 U.S. 302, 312-313) as they pertain to the duties and obligations of directors who hold assets for charitable purposes, as your organization does.

Information obtained by this office reveals that certain principals of the organization have



Mr. K. William Wiseman  
December 6, 1990  
Page 2

engaged in a course of conduct that, in our opinion, is a violation of fiduciary duties owed to the charitable beneficiaries of the Humane Society of the United States (HSUS), among them citizens of this state.

Information in our possession indicates the following:

- The senior officers of HSUS, Messrs. Hoyt and Irwin, received significant sums of money in the form of compensation some of which was never authorized by the Board of Directors;
- In May, 1987, HSUS purchased Mr. Hoyt's home for \$310,000 and leased it back to him rent-free, declaring the foregone rent to be additional compensation; W-2s were issued to Mr. Hoyt which reported to IRS a rental value of \$600/month.
- The Deferred Compensation Committee, whose legitimacy is in question, acted in excess of its authority in transferring certain life insurance policies to senior management and approving reimbursement to Mr. Irwin of some \$85,000 for funds he expended in improving a piece of property in Maine.

Faced with these allegations of misfeasance and breaches of fiduciary duty, we are advised that HSUS retained special counsel to examine these charges and make recommendations to correct these alleged abuses. Among the recommendations made by special counsel were the following:

- The office of the treasurer's authority and role should be defined by the Board of Directors;
- The chief counsel of the organization should be advised of all business matters between senior staff and the organization and/or members of the board of directors. In this way self-dealing transactions may be red-flagged for legal analysis;
- Chief counsel prepare a code of conduct for the staff and the Board and that it be strictly followed.

These recommendations, we understand, supplement a list of recommendations already adopted by HSUS. They were:

1. The compensation of the president and senior officers should be reported to the board in executive session as one -line budget item.
2. Errors and omissions insurance be obtained for directors and officer.



3. A compensation Committee is to be formed to:

- a. Review the compensation of the president and recommend changes where appropriate;
- b. Annually review the salaries of senior staff who report to the president and advise the president concerning those salaries;
- c. Make salary recommendations to the president for all senior staff;
- d. Negotiate written employment contracts between HSUS and the president and executive vice president and review by legal counsel.

4. No financial transactions should be permitted between staff members and board members.

5. All self-dealing transactions should be reviewed and acted upon by the entire board of directors consistent with Delaware law.

6. HSUS to pay for reasonable travel expenses incurred by spouses of the president and senior staff members if their participation is useful and significant to the HSUS, provided advanced written approval is obtained from the chairman of the board of directors.

7. Create two new committees with reporting responsibility to the board of directors—the Audit Committee and the Compensation Committee with specific duties and responsibilities to be established by the board.

In accordance with *Government Code §12588* we request that you provide us with any and all minutes of meetings, memoranda of meetings or tape recordings of meetings of the board of directors of HSUS at which the above-referenced corrective actions were discussed and acted upon. In addition, we request copies of all financial records of HSUS which show any reimbursements made by Messrs. Irwin and Hoyt to HSUS for improper receipt of funds.

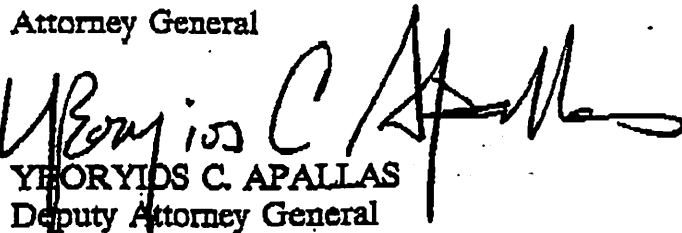
Mr. K. William Wiseman  
December 6, 1990  
Page 4

Please provide this information not later than December 20, 1990.

Thank you for your early attention to this request. If you have any questions regarding the contents of this letter please call me.

Very truly yours,

JOHN K. VAN DE KAMP  
Attorney General

  
YFORYIOS C. APALLAS  
Deputy Attorney General

YCA:jb

U.S. DEPARTMENT OF JUSTICE  
FEDERAL BUREAU OF INVESTIGATION  
Washington, D.C. 20535

TO : DIRECTOR, FBI (100-443888) FROM : SAC, NEW YORK (100-100000)

SUBJECT: [REDACTED] (NY 100-100000) (P) (U) (C) (S) (M) (D) (I) (A) (E) (H) (F) (G) (J) (K) (L) (N) (O) (P) (Q) (R) (S) (T) (V) (W) (X) (Y) (Z) (AA) (AB) (AC) (AD) (AE) (AF) (AG) (AH) (AI) (AJ) (AK) (AL) (AM) (AN) (AO) (AP) (AQ) (AR) (AS) (AT) (AU) (AV) (AW) (AX) (AY) (AZ) (BA) (BB) (BC) (BD) (BE) (BF) (BG) (BH) (BI) (BJ) (BK) (BL) (BM) (BN) (BO) (BP) (BQ) (BR) (BS) (BT) (BU) (BV) (BW) (BX) (BY) (BZ) (CA) (CB) (CC) (CD) (CE) (CF) (CG) (CH) (CI) (CJ) (CK) (CL) (CM) (CN) (CO) (CP) (CQ) (CR) (CS) (CT) (CU) (CV) (CW) (CX) (CY) (CZ) (DA) (DB) (DC) (DD) (DE) (DF) (DG) (DH) (DI) (DJ) (DK) (DL) (DM) (DN) (DO) (DP) (DQ) (DR) (DS) (DT) (DU) (DV) (DW) (DX) (DY) (DZ) (EA) (EB) (EC) (ED) (EE) (EF) (EG) (EH) (EI) (EJ) (EK) (EL) (EM) (EN) (EO) (EP) (EQ) (ER) (ES) (ET) (EU) (EV) (EW) (EX) (EY) (EZ) (FA) (FB) (FC) (FD) (FE) (FF) (FG) (FH) (FI) (FJ) (FK) (FL) (FM) (FN) (FO) (FP) (FQ) (FR) (FS) (FT) (FU) (FV) (FW) (FX) (FY) (FZ) (GA) (GB) (GC) (GD) (GE) (GF) (GG) (GH) (GI) (GJ) (GK) (GL) (GM) (GN) (GO) (GP) (GQ) (GR) (GS) (GT) (GU) (GV) (GW) (GX) (GY) (GZ) (HA) (HB) (HC) (HD) (HE) (HF) (HG) (HH) (HI) (HJ) (HK) (HL) (HM) (HN) (HO) (HP) (HQ) (HR) (HS) (HT) (HU) (HV) (HW) (HX) (HY) (HZ) (IA) (IB) (IC) (ID) (IE) (IF) (IG) (IH) (II) (IJ) (IK) (IL) (IM) (IN) (IO) (IP) (IQ) (IR) (IS) (IT) (IU) (IV) (IW) (IX) (IY) (IZ) (JA) (JB) (JC) (JD) (JE) (JF) (JG) (JH) (JI) (JJ) (JK) (JL) (JM) (JN) (JO) (JP) (JQ) (JR) (JS) (JT) (JU) (JV) (JW) (JX) (JY) (JZ) (KA) (KB) (KC) (KD) (KE) (KF) (KG) (KH) (KI) (KJ) (KK) (KL) (KM) (KN) (KO) (KP) (KQ) (KR) (KS) (KT) (KU) (KV) (KW) (KX) (KY) (KZ) (LA) (LB) (LC) (LD) (LE) (LF) (LG) (LH) (LI) (LJ) (LK) (LL) (LM) (LN) (LO) (LP) (LQ) (LR) (LS) (LT) (LU) (LV) (LW) (LX) (LY) (LZ) (MA) (MB) (MC) (MD) (ME) (MF) (MG) (MH) (MI) (MJ) (MK) (ML) (MM) (MN) (MO) (MP) (MQ) (MR) (MS) (MT) (MU) (MV) (MW) (MX) (MY) (MZ) (NA) (NB) (NC) (ND) (NE) (NF) (NG) (NH) (NI) (NJ) (NK) (NL) (NM) (NN) (NO) (NP) (NQ) (NR) (NS) (NT) (NU) (NV) (NW) (NX) (NY) (NZ) (OA) (OB) (OC) (OD) (OE) (OF) (OG) (OH) (OI) (OJ) (OK) (OL) (OM) (ON) (OO) (OP) (OQ) (OR) (OS) (OT) (OU) (OV) (OW) (OX) (OY) (OZ) (PA) (PB) (PC) (PD) (PE) (PF) (PG) (PH) (PI) (PJ) (PK) (PL) (PM) (PN) (PO) (PP) (PQ) (PR) (PS) (PT) (PU) (PV) (PW) (PX) (PY) (PZ) (QA) (QB) (QC) (QD) (QE) (QF) (QG) (QH) (QI) (QJ) (QK) (QL) (QM) (QN) (QO) (QP) (QQ) (QR) (QS) (QT) (QU) (QV) (QW) (QX) (QY) (QZ) (RA) (RB) (RC) (RD) (RE) (RF) (RG) (RH) (RI) (RJ) (RK) (RL) (RM) (RN) (RO) (RP) (RQ) (RR) (RS) (RT) (RU) (RV) (RW) (RX) (RY) (RZ) (SA) (SB) (SC) (SD) (SE) (SF) (SG) (SH) (SI) (SJ) (SK) (SL) (SM) (SN) (SO) (SP) (SQ) (SR) (SS) (ST) (SU) (SV) (SW) (SX) (SY) (SZ) (TA) (TB) (TC) (TD) (TE) (TF) (TG) (TH) (TI) (TJ) (TK) (TL) (TM) (TN) (TO) (TP) (TQ) (TR) (TS) (TT) (TU) (TV) (TW) (TX) (TY) (TZ) (UA) (UB) (UC) (UD) (UE) (UF) (UG) (UH) (UI) (UJ) (UK) (UL) (UM) (UN) (UO) (UP) (UQ) (UR) (US) (UT) (UU) (UV) (UW) (UX) (UY) (UZ) (VA) (VB) (VC) (VD) (VE) (VF) (VG) (VH) (VI) (VJ) (VK) (VL) (VM) (VN) (VO) (VP) (VQ) (VR) (VS) (VT) (VU) (VV) (VW) (VX) (VY) (VZ) (WA) (WB) (WC) (WD) (WE) (WF) (WG) (WH) (WI) (WJ) (WK) (WL) (WM) (WN) (WO) (WP) (WQ) (WR) (WS) (WT) (WU) (WV) (WW) (WX) (WY) (WZ) (XA) (XB) (XC) (XD) (XE) (XF) (XG) (XH) (XI) (XJ) (XK) (XL) (XM) (XN) (XO) (XP) (XQ) (XR) (XS) (XT) (XU) (XV) (XW) (XX) (XY) (XZ) (YA) (YB) (YC) (YD) (YE) (YF) (YG) (YH) (YI) (YJ) (YK) (YL) (YM) (YN) (YO) (YP) (YQ) (YR) (YS) (YT) (YU) (YV) (YW) (YX) (YZ) (ZA) (ZB) (ZC) (ZD) (ZE) (ZF) (ZG) (ZH) (ZI) (ZJ) (ZK) (ZL) (ZM) (ZN) (ZO) (ZP) (ZQ) (ZR) (ZS) (ZT) (ZU) (ZV) (ZW) (ZX) (ZY) (ZZ)

ADMINISTRATIVE

THAT TO DAY, [REDACTED]  
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202 483 0046

415-243-8058  
512-8196

# HARMON & WEISS

2001 S STREET, N.W.

SUITE 430

WASHINGTON, D.C. 20009-1125

GAIL MCGREEVY HARMON  
ELLYN R. WEISS  
DIANE CURRAN  
DEAN R. TOUSLEY  
ANDREA C. FERSTER

TELEPHONE  
(202) 328-3500

April 12, 1988

Mrs. Susan Pepperdine  
5831 Sunrise Drive  
Fairway, Ks 66205

*As per the Committee  
decision, this is going only  
to Committee members.  
J*

Dear Susan,

Enclosed is the preliminary report prepared by Counsel on behalf of the Audit Committee which was appointed by the Board of Directors of HSUS in December, 1987. While the Committee authorized the issuance of this report, it should be clearly understood that the report, the gathering of facts in its support, the opinions and legal conclusions are those of counsel. In addition, you should be aware that because of restrictions on the scope of the Committee's inquiries, inability to obtain complete answers to questions asked, and severe time pressures, this report is only preliminary.

The report merits your close attention. It provides more detailed factual information on several of the matters discussed at the December meeting and concludes that as a director of the HSUS you face the prospect of personal liability for the possible misdeeds and/or gross negligence of HSUS officers and of a small group of HSUS directors.

The report is organized as an Executive Summary which refers to the additional materials which are tabbed for easier reference. After reading the Executive Summary, please read the materials, or at least the summary tabbed sheets.

Since the report describes possible violations of laws and discusses legal principles under which directors of non-profit corporations may be held personally liable, I suggest that you might wish to select an independent attorney to help you evaluate your responsibilities as a director. You need not worry that seeking legal advice will result in adverse publicity since the attorney will be ethically bound to keep the matter confidential.

If you wish to discuss the report with a member of the Audit

HARMON & WEISS

Mrs. Susan Pepperdine  
April 12, 1988  
Page 2

Committee, the members who were appointed by the HSUS Board are:

John W. Mettler, III  
(212) 752-1855  
Seminole Asset Management Inc.  
950 Third Avenue  
New York, NY 10022

Susan Pepperdine  
(913) 492-9494  
Marketing Resources, Inc.  
8310 Nieman Road  
Lenexa, KS 66214

Robert B. Sorock  
(313) 358-4800  
Stone & Simons Advertising, Inc.  
24245 Northwestern Highway  
Southfield, MI 48075

In addition, under the HSUS Bylaws, the chairman of the Board, K. William Wiseman, is an ex officio member of all committees, but he did not participate in any of the meetings of the Committee.

Finally, if you or your attorney would like to discuss any aspect of the report with me, do not hesitate to call or write.

Sincerely,



Gail Harmon



5831 Sunrise Drive  
Fairway, Kansas 66205  
September 10, 1990

Yeoryios Apallas, Esq.  
Deputy Attorney General  
Charitable Trusts  
455 Golden Gate Avenue, Room 6200  
San Francisco, California 94102

Dear Mr. Apallas:

This will confirm our recent conversation scheduling an appointment in your office at 10 a.m. Monday, October 1.

As Mr. Vincent Fuller of Williams and Connolly in Washington, D.C., explained to you, I am a member of the Board of Directors of The Humane Society of the United States. In trying to fulfill this role in a responsible way, I have become deeply concerned about a series of events in the past few years involving the organization's top management.

I understand Mr. Fuller has already sent you a copy of the Executive Summary, which outlines some of the issues. I will bring to our meeting my copy of the full, well-documented report of that same law firm, plus a later report from another lawyer, and copies of various minutes and other key documents. Many of these I received through my earlier roles on the Audit Committee, the Select Committee and the Compensation Committee--all of which were formed to deal with or examine the actions of the Deferred Compensation Committee.

In addition, I am enclosing my own recitation of the facts, which can be fully supported by the documents. I believe it fairly states the issues and raises serious questions.

My primary goal is to restore this organization to its former standing as a reputable, ethical leader in the animal protection movement, a cause to which I have devoted most of my adult life. I would therefore ask that you not simply prohibit the organization from doing business in California. I ask that your office consider setting forth a specific list of remedial actions which must be taken within a certain time in order for The Humane Society to resume operations in California. Seeking reimbursement from the directors who were intimately involved in making these deceptions possible is also crucial. I am certain that nothing short of that will wake them up to the duties and responsibilities of directors of an organization serving the public. Based on past experience, all they've done is hire more expensive layers of staff to give the appearance of improved controls. Since the new employees are under the direct control of the president and the treasurer, the additions are nothing more than "window dressing."

Humane Society  
Page Two

In the nearly three years since these matters surfaced, the Board has been systematically "cleansed" of any dissident or questioning members. As one of four being dropped this year, my term expires at the end of October when the annual conference is held. (Coincidentally, the conference will be in San Francisco, and all of the principal officers and board members will be in your city.)

Also enclosed is a list giving the full names, titles and addresses of the two principal officers and the three board members referred to in the various reports.

I greatly appreciate your willingness to meet with me and to look into this matter. I consider this to be the most important action I have taken in my effort to be a responsible director, not simply a "rubber stamp." I owe it not just to the animals, but to the people in California and other states who send in their \$10 donations believing the money will be properly spent.

Please call if you have questions. I look forward to our meeting.

Kind regards,

*Susan Pepperdine*  
Susan Pepperdine