

TRANSMITTED VIA E-SYSTEMS, ROSSLYN VIA TELECOPIER OCTOBER 23, 1975, AS ADVISED BY E-SYSTEMS ROSSLYN, 10/23/85, AT 12:50 P.M.

TO: MR. JAMES W. CROWLEY
VICE PRESIDENT & GENERAL COUNSEL
E-SYSTEMS, INC.

REF: (A) AGREEMENT FOR SALE OF SHARES DATED AUGUST 21, 1974
(B) E-SYSTEMS LETTER (9-18000A/5L-153) DATED SEPTEMBER 29, 1975,
AND ATTACHMENTS
(C) E-SYSTEMS LETTER (8-62000C/75L-052) DATED SEPTEMBER 29, 1975,
AND ATTACHMENTS

REFERENCE CORRESPONDENCE ITEMS, AND OUR RECENT TELEPHONE CONVERSATIONS WITH RESPECT THERETO, REFER. THE ATTACHMENTS TO REFERENCE LETTERS ARE IDENTIFIED AS SCHEDULES I, II, III AND IV AND REFERENCE HEREIN TO "SCHEDULE" REFERS TO THOSE SCHEDULES. COMMENTS HEREIN WITH RESPECT TO SPECIFIC FIGURES, DATA, INVOICES ETC. RELATE TO OUR PRESENT KNOWLEDGE THEREOF AS OF OCTOBER 22, 1975. THIS MESSAGE, AND THE RESTATEMENTS HEREIN, IS TENDERED IN SUMMARY FORM FOR YOUR CONSIDERATION IN DISCUSSIONS WITH ME TO HOPEFULLY RESOLVE THE DISPARITY OF OUR POSITIONS TO ENABLE AN EARLY AND PROMPT RESOLUTION AND SETTLEMENT OF THESE OUTSTANDING ITEMS BETWEEN OUR COMPANIES. VARIOUS DISCUSSIONS AND CORRESPONDENCE EXCHANGES HERETOFORE HAVE IN SOME MANNER OR SOME TABULATION PRESENTED OR EVIDENCED THE VARIOUS FIGURES HEREIN USED AND REFERRED TO BUT THE FORMAT WE UTILIZE HERE HOPEFULLY WILL BE SUFFICIENTLY CLEAR, AND SERVE AS A COMMON REFERENCE POINT.

1. OUTSTANDING ITEMS OF YOUR (AAEL/ESY) BILLINGS TO AIR AMERICA TOTAL \$612,513. OUR POSITION IS THAT AS OF THIS DATE YOU OWE US \$644,282. THE NET BETWEEN THOSE TWO FIGURES RESULTS IN A REFLECTED NET DUE TO AIR AMERICA OF \$31,769. THE FIGURES SUPPORTING THE ABOVE ARE:

APPROVED FOR RELEASE
DATE: 17-Nov-2009

DUE TO AIR AMERICA:

1 - PER SCHEDULE II	\$264,560	
2 - NET DOLLAR COLLECTIONS -- ON RECEIVABLES ASSIGNED TO AIR AMERICA PER VP-C TNN CABLE ADVICE TO AAM VP-T. COPIED TO ESY MR. LAWSON.	(45,866)	45,864 + 31,902
3 - MISCELLANEOUS CHARGES FOR MR. GRUNDY (SEE NOTE 8)		1,158
4 - NET OF EXCESS EQUITY PER CLOSING STATEMENT LESS TAIWAN TAXES PAID (SCHEDULE I) (\$391,412 less \$58,712)	332,700 311,582 644,282	332,700 \$644,282
DUE AIR AMERICA		

DUE TO E-SYSTEMS:

1 - INVOICES PER SCHEDULE III	\$303,177	- 9'69885
2 - AACL INVENTORY IN SOUTH VIETNAM/SCHEDULE I	97,874	
3 - DUE RE EX-SAIGON EMPLOYEES -- SCHEDULE I	149,222	
4 - RETURN OF CONTRACTS -1029 AND ICCS RECEIVABLES (SCHEDULE I)	16,188	** -
5 - OTHER UNCOLLECTED RECEIVABLES (SCHEDULE I)	1,988	- 19881
6 - FOR EX-SAIGON EMPLOYEES NOW WITH AACL - TAINAN (SCHEDULE I)	28,585	- 9528
7 - MISCELLANEOUS PAYMENTS FOR SERVICES (SCHEDULE IV)	11,368	- 224701
8 - TRAVEL TIME - SCHEDULE I	4,111	- 4111
DUE E-SYSTEMS		\$612,531
** This figure apparently should be \$16,244 - (ADD)		36
		\$612,549

NET DUE TO AIR AMERICA
PER ABOVE TABULATIONS \$ 31,733

2. NOTWITHSTANDING THE ABOVE IT IS AIR AMERICA'S POSITION THAT APPROPRIATE ADJUSTMENTS TO THE VARIOUS BILLINGS TO AIR AMERICA REFLECTS A NET AMOUNT DUE TO AIR AMERICA OF \$83,306. TO WIT:

ADJUSTMENTS TO E-SYSTEMS ITEMS NOTED ABOVE, SERIATIM:

1 - (SCHEDULE III):

Invoice 051 (Note 4)	\$ 591.10
055 (Note 4)	2,366.60
055 (Note 5)	96.00
057 (Note 4)	3,724.50
057 (Note 5)	598.00
059 (Note 4)	4,846.70
059 (Note 5)	1,488.00
062 (Note 4)	1,691.60
063 (Note 4)	3,421.50
063 (Note 5)	560.00
068 (Note 4)	943.70
068 (Note 6)	<u>909.00</u>

4 - 18 585.70
 5 - 2742 -
 6 - 1709.
 X

Less: \$ 21,236.70

2 - SOUTH VIETNAM INVENTORY (SCHEDULE I) (NOTE 7)	12,462.00	X
3 - - - - -	--	--
4 - - - - -	--	--
5 - OTHER RECEIVABLES (SCHEDULE I) (NOTE 2)	1,988.00	
6 - EX-SAIGON EMPLOYEES (SCHEDULE I) (NOTE 3)	9,528.00	OK
7 - MISCELLANEOUS PAYMENTS (SCHEDULE IV)		

Less:

(1) Voucher 75-6-313
 Air America cannot agree to accept a charge for depreciation of AACL assets which this apparently represents. \$ 6.91

(2) Voucher 75-G-350
 AAM did not charge ESY for use of vehicles prior to 1/31/75, and therefore feels that this charge is unconscionable 344.08

(3) MPC-33

a) We cannot agree to the cost of moving household effects for C.D. Yue who left Company in 1973 (NT\$6,000)

\$ 157.89 X

b) Overtime charge for driver to take one "Mr. Coolines" (?) to KHH. Person unknown to Air America.

2.63

(4) MPC-51

For shipment of insurance files to HongKong. Those files were sent prior to 1/31/75 and related charges would have been part of Closing Audit accruals.

207.15 X

(5) MB-25299

Uniforms in SVN were agreed to be written off at 7/31/75. Inventory at HongKong should be returned to the net purchased from AACL.

1,279.06

Phone. ... May 20, 1975

(6) DAC-75-118

This charge appears to be for air conditioner parts shipments for AACL VP-A Madison and not for "torque wrench" parts for AAM.

5.51

(7) DAC-75-118

GTD charges should be absorbed per item (2) above.

243.78

Less:

\$ 2,247.01

8 - TRAVEL TIME
(SCHEDULE I) (NOTE 1)

4,111.00 X

TOTAL OF ABOVE ADJUSTMENTS: LESS

\$ 51,572.71

23,999.85

DUE E-SYSTEMS, AS BILLED, PER ABOVE	\$612,549.00
LESS: ADJUSTMENTS NOTED ABOVE	<u>51,572.71</u>
ADJUSTED NET TO E-SYSTEMS	\$560,976.29
DUE AIR AMERICA, PER ABOVE TABULATION	<u>644,282.00</u>
COMPUTED NET TO AIR AMERICA	\$ 83,305.71

- NOTE 1: THIS COMPUTATION REPUTEDLY REFLECTS A CONSTRUCTED VALUE OF TRAVEL TIME CLAIMED (TO BE CLAIMED) BY AMERICAN PERSONNEL RETAINED BY AACL WITH RESPECT TO HOME LEAVE TRAVEL IF/WHEN TAKEN. AS A MATTER OF POLICY AND ACCOUNTING PRACTICE AIR AMERICA NEVER ACCORDED PAYMENT FOR SUCH TRAVEL TIME TO ANY EMPLOYEE AND THROUGHOUT THE AAM--ESY/AACL NEGOTIATIONS THIS POINT WAS MADE CLEAR TO ESY EXECUTIVES AS WELL AS TO THOSE AACL AMERICAN PERSONNEL CONCERNED TO THE EFFECT THAT AIR AMERICA WOULD NOT ACCORD ANY SUCH PAYMENT HERE.
- NOTE 2: OUR ANALYSIS OF THE CLOSING AUDIT STATEMENT LISTING CERTAIN NON-U.S. GOVERNMENT RECEIVABLES, IN LIGHT OF THE PRINCIPLES OF THE AGREEMENT TO APPLY ALL COLLECTIONS FIRST AGAINST THE OLDEST INVOICES, FAILS TO EVIDENCE THAT THIS IS A VALID CHARGE TO AIR AMERICA.
- NOTE 3: THE AGREEMENT FOR SALE PROVIDES THAT AT THE TIME OF THE RETURN TO AACL OF THE CHINESE IN SEA, AIR AMERICA WOULD TRANSFER THE APPROPRIATE RESERVES ON ITS BOOKS TO AACL. THE AMOUNT ON AAM'S BOOKS FOR ALL CHINESE STILL IN SOUTH VIETNAM AT 29 APRIL 1975 WAS \$102,420. THAT SUM REPRESENTED A RATIO OF 55 PERCENT OF THE FULL SEPARATION COSTS OF ALL OF THE CHINESE IN SOUTH VIETNAM (PER CABLE FROM AACL VP-C TO ESY/AAM); IN FACT, AIR AMERICA FEELS ITS RESERVE FOR RETIREMENT SEPARATION WAS GENERALLY EXPECTED TO BE APPROXIMATELY 2/3 OF THE FULL SEPARATION BENEFITS OF ANY INDIVIDUAL; THEREFORE, THE FACTOR FOR THIS CHARGE SHOULD RANGE BETWEEN 55% AND 66%. FOR PURPOSES HERE, AIR AMERICA WILL ACCEPT 66% OF THE INDICATED FULL AMOUNT OF THIS ITEM WHICH THUS REQUIRES A REDUCTION IN THE AMOUNT SHOWN.

NOTE 4: AACL HAS CHARGED AAM \$5.05 PER HOUR FOR SKILLED LABOR HOUR CHARGES ON WORK ESTIMATES AGREED TO BY AAM PRIOR TO 30 JUNE 1975 THE DATE OF THE AGREED CHANGE IN THE SKILLED HOUR LABOR RATE FROM \$4.05 TO \$5.05. AAM FEELS IT CAN ACCEPT A CHARGE OF ONLY \$4.05 FOR ALL WORK AGREED TO BE INPUT PRIOR TO 30 JUNE 1975.

NOTE 5: THERE ARE NO PROVISIONS FOR A CHARGE FOR UNSKILLED HOURS. HISTORICALLY ALL COSTS FOR UNSKILLED LABORERS ARE INCLUDED IN THE COST BUILDUP FOR THE SKILLED HOURLY RATE. THEREFORE, AAM HAS ALREADY PAID ITS SHARE OF UNSKILLED LABOR COSTS IN ITS PAYMENTS FOR SKILLED HOURS.

*Waterford
D. L. ...*

NOTE 6: AACL HAS CHARGED AAM FOR 180 HOURS OF SERVICES IN CONNECTION WITH SUPPLY SERVICES AND SCRAP SALES. AAM FEELS THESE COSTS WERE INCLUDED IN THE FIXED MONTHLY CHARGE BILLED TO IT UNDER THE MAINTENANCE AND SUPPORT AGREEMENT.

NOTE 7: AIR AMERICA ACCEPTED BILLING FOR EXPENDABLE PARTS FROM AIR ASIA AT THEIR AVERAGE COST PLUS LANDING COSTS. AIR AMERICA IN TURN HAD BILLED AIR ASIA FOR PURCHASES OF EXPENDABLES ON THE SAME BASIS. AACL'S VP-C HAD WITHHELD PAYMENT TO AAM OF SOME \$23,346 BECAUSE HE FELT THE RESERVE FOR EXCESS STOCK (APPROXIMATELY 30% OF ACCOUNT 1330 AND 25% OF ACCOUNT 1310) SHOULD HAVE ALSO BEEN TAKEN INTO ACCOUNT IN ARRIVING AT THE PRICE BILLED. THIS TREATMENT EQUALLY APPLIED TO THE SOUTH VIETNAM (SVN) INVENTORY PRODUCES A CREDIT ADJUSTMENT TO AIR AMERICA:

THE DETAILS GATHERED DURING THE CLOSING AUDIT LISTED AACL

STOCKS IN SVN AS:

ACCOUNT NO. 1310	\$18,393 at 25%	\$ 4,598
ACCOUNT NO. 1330	\$88,690 at 30%	26,607
LANDING COST ON ABOVE	\$18,413 at 25%	<u>4,603</u>
= RESERVES FOR EXCESS STOCK		\$35,808
\$35,808 LESS \$23,346 =		\$12,462

AIR AMERICA THUS CLAIMS CREDIT FOR THE NET DIFFERENCES IN THE EXCESS STOCK RESERVE OF \$12,462.

NOTE 8: A REVIEW OF AACL CHARGES TO AAM IN MARCH 1975 REFLECTS THE FOLLOWING EXPENSES PAID FOR MR. GRUNDY DURING HIS TIME IN TAINAN DURING MR. WUESTE'S ILLNESS WHICH AIR AMERICA CONSIDERS NOT APPROPRIATELY FOR AAM'S ACCOUNT.

PER SJV-C-75-M303 (BILLING PREPARED BY AACL):

1 - CHARGE FOR MR. GRUNDY'S OVERSEAS TELEPHONE CALLS TO AIR FAST	\$ 90.71
2 - TELEX/COMMERCIAL CABLE CHARGES FOR FEBRUARY 1975 (APPARENTLY RELATED TO ITEM 1. ABOVE)	305.24
3 - DRIVER K. P. CHEN'S MEAL ALLOWANCE FOR KHH - IN CONNECTION WITH PICKING UP MR. GRUNDY	6.32
4 - TELEPHONE CHARGES FOR FEBRUARY 1975 FOR MR. GRUNDY	67.21
5 - TELEPHONE CHARGES FOR FEBRUARY 1975 FOR MR. DORE	247.84
6 - MR. W. M. LEE TO KHH TO PICK UP MR. GRUNDY	3.16
MR. W. M. LEE TO KHH TO TAKE MR. GRUNDY	2.63
7 - MR. GRUNDY'S BILLET AT TAINAN 1-28 FEBRUARY 1975	432.77
8 - MEAL ALLOWANCE K. P. PAN -- TO SEND MR. GRUNDY TO KHH	<u>2.63</u>
	\$1,158.51

OUR TREASURER/CONTROLLER ADVISES THAT THE ADJUSTMENTS TABULATED ABOVE (\$51,572.71) RELATE ONLY TO UNSETTLED INVOICES IN HIS OFFICE AT THIS TIME AND THAT A REVIEW OF ALL INVOICES FROM AIR ASIA HERETOFORE SETTLED WOULD PROBABLY REFLECT THAT SIMILAR ADJUSTMENTS TO THOSE PRIOR INVOICES WOULD ALSO BE WARRANTED.

WE APOLOGIZE THAT THE PRESENTATION OF THE ABOVE IS SOMEWHAT MORE THAN
ONE DAY LATER THAN ANTICIPATED AND, IN VIEW OF WHICH, THE SUGGESTED MEETING
IN DALLAS TOMORROW TO DISCUSS WOULD NOW SEEM UNTIMELY. WE THEREFORE WILL
AWAIT CONTACT FROM YOU AFTER YOU HAVE RECEIVED AND REVIEWED THIS TRANSMISSION.

REGARDS,

CLYDE S. CARTER
SENIOR VICE PRESIDENT
AIR AMERICA, INC.

OCTOBER 23, 1975