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FINANCIAL OR BUSINESS INTERESTS OF OFFICERS OR EMPLOYEES OF THE SENATE

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HEARINGS BEFORE THE COMMITTEE ON RULES AND ADMINISTRATION UNITED STATES SENATE

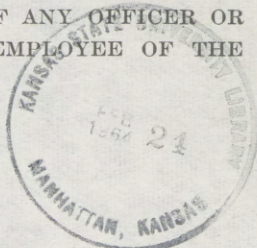
EIGHTY-EIGHTH CONGRESS
FIRST AND SECOND SESSIONS

PURSUANT TO

S. Res. 212 and S. Res. 221

RESOLUTIONS AUTHORIZING AN INVESTIGATION INTO THE
FINANCIAL OR BUSINESS INTERESTS OF ANY OFFICER OR
EMPLOYEE OR FORMER OFFICER OR EMPLOYEE OF THE
SENATE

DECEMBER 17, 1963



PART 4

Testimony of Mrs. Gertrude C. Novak

Printed for the use of the
Committee on Rules and Administration



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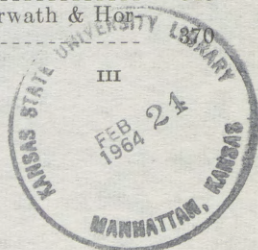
JAMES H. DUFFY, *Associate Counsel*

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FINANCIAL OR BUSINESS INTERESTS OF OFFICERS OR EMPLOYEES OF THE SENATE

TUESDAY, DECEMBER 17, 1963

U.S. SENATE,
COMMITTEE ON RULES AND ADMINISTRATION,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in the caucus room, Old Senate Office Building, Senator B. Everett Jordan (chairman) presiding.

Present: Senators Jordan (presiding), Cannon, Pell, Byrd of West Virginia, Curtis, and Cooper.

Also present: Gordon F. Harrison, staff director; Hugh Q. Alexander, chief counsel; and Lennox P. McLendon, general counsel; Burkett Van Kirk, associate counsel; James H. Duffy, associate counsel; William B. Whitley, staff assistant to Senator Jordan; Walter Mote, professional staff member; John P. Coder, printing and editorial assistant; W. Ellis Meehan, investigator; Samuel J. Scott, investigator; and Edward Hugler, accountant.

The CHAIRMAN. A quorum being present, the committee will please come to order.

The committee is acting by direction of and under the authority of Senate Resolution 212, agreed to October 10, 1963, and Senate Resolution 221, agreed to November 1, 1963.

Senate Resolution 212 authorizes and directs the Senate Committee on Rules and Administration—

to make a study and investigation with respect to any financial or business interests or activities of any officer or employee or former officer or employee of the Senate, for the purpose of ascertaining—

- (1) Whether any such interests or activities have involved conflicts of interest or other impropriety; and
- (2) Whether additional laws, rules, or regulations are necessary or desirable for the purpose of prohibiting or restricting any such interests or activities.

A broad inquiry is presently underway to carry out the terms of Senate Resolution 212; and much evidence, data, and testimony are already in the committee's possession.

Witnesses have been interviewed by the staff and heard in executive sessions. Evidence has been received on a voluntary basis, and the committee is gratified by the spirit of cooperation and the valuable assistance which have been accorded to date.

Mrs. Gertrude C. Novak appears before the committee today without a subpoena having been issued, and the committee appreciates her willingness to provide information and to testify not only in executive session but in open hearing.

Mrs. Novak, having previously testified before the committee in executive session, possesses information which the committee believes is material and pertinent to the provisions of the resolution of direction and authorization and will aid the committee in fulfilling its legislative function.

Mrs. Novak is expected to testify of her financial or business interests and contacts with Mr. Robert G. Baker, a former officer or employee of the U.S. Senate.

Her testimony will be helpful to the committee in determining whether conflicts of interest or other improprieties have been involved and whether additional laws, rules, or regulations are necessary or desirable for the purpose of prohibiting or restricting any such interests or activities.

The Chair advises the witness that she is entitled under the rules of procedure of the committee to retain and be accompanied by counsel. The counsel may advise the witness of her legal rights during the course of her testimony. Should the witness not fully understand any question, witness may ask for clarification. Counsel, however, shall not coach the witness or answer for the witness.

Mrs. Novak, the committee will now proceed to hear your testimony. Will you kindly rise to be sworn?

Mrs. Novak, there is a Bible there. Put your left hand on the Bible and raise your right hand, please.

Do you solemnly swear that the evidence you are about to give before the committee in the matter now under investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mrs. NOVAK. I do, sir.

The CHAIRMAN. Thank you, you may be seated.

I will now turn the questioning over to the general counsel, Mr. McLendon.

You may proceed with your questions, sir.

TESTIMONY OF MRS. GERTRUDE C. NOVAK; ACCOMPANIED BY KENNETH D. WOOD, COUNSEL

Mr. McLENDON. Would you please state your full name and your residence address?

Mrs. NOVAK. My name is Gertrude C. Novak. I live at 5502 Montgomery Street, Chevy Chase, Md.

Mr. McLENDON. How long have you lived at that address?

Mrs. NOVAK. Almost 12 years, sir.

Mr. McLENDON. Do you own your home?

Mrs. NOVAK. Yes, I do.

Mr. McLENDON. Is your personal attorney present with you this morning?

Mrs. NOVAK. Yes, he is, sir.

Mr. McLENDON. Will you, Mr. Counsel, stand up and give your full name and address to the reporter?

Mr. WOOD. My name is Kenneth D. Wood. I am a member of the District of Columbia bar. My office is located at 401 Third Street N.W., and I am counsel for Mrs. Novak.

Mr. McLENDON. You were present when she was examined in executive session, were you not?

Mr. WOOD. I was; yes, sir.

Mr. McLendon. All right; thank you, sir.

What was your husband's full name?

Mrs. Novak. My husband's name was Alfred S. Novak.

Mr. McLendon. Is he dead now?

Mrs. Novak. Yes, he is.

Mr. McLendon. When did he die?

Mrs. Novak. March 3, 1962.

Mr. McLendon. Will you state to the committee whether or not his death was attributable in any way to any of the transactions between you, your husband, and Robert Baker, about which you are going to testify?

Mrs. Novak. No—his death is not attributable, as far as the death certificate is concerned. He was, naturally, depressed to some extent. But it was definitely an accidental death. And I would like to have my counsel advise further, if it is necessary.

Mr. McLendon. Mr. Counsel, do you want to make any addition to that statement?

Mr. Wood. Mr. McLendon, I don't know that any addition to Mrs. Novak's statement is necessary, except to say that we do not concede for a moment that suicide was involved here, and that we expect at the proper time to contest that conclusion.

Mr. McLendon. I think that is sufficient.

What was your husband's brother's name, who was engaged in business with your husband?

Mrs. Novak. Donald J. Novak.

Mr. McLendon. What kind of business was your husband and his brother engaged in?

Mrs. Novak. In private construction; of private homes.

Mr. McLendon. They constructed dwelling houses as distinguished from commercial properties?

Mrs. Novak. That is right. They were private homes.

Mr. McLendon. Where are you now employed?

Mrs. Novak. I am now employed with the Senate Small Business Committee.

Mr. McLendon. How long have you been employed in that capacity?

Mrs. Novak. Twelve years and ten months.

Mr. McLendon. Will you tell the committee, Mrs. Novak, when your acquaintance with Robert G. Baker began?

Mrs. Novak. I don't know of the exact date, but it was in and about the time he became secretary to the majority.

Mr. McLendon. And from that initial acquaintance with him, have you maintained acquaintance with him up to the present time, or up until the time he resigned as secretary to the majority of the Senate?

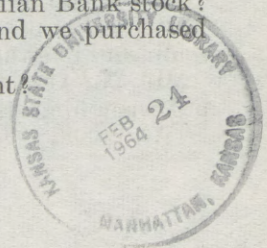
Mrs. Novak. Yes; we have.

Mr. McLendon. Now, I want to ask you about a number of transactions with Robert G. Baker—not necessarily in chronological order. But I will direct your attention to them one at a time, if I may, please.

Upon the advice and recommendation of Robert G. Baker, did you and your husband make an investment in Hawaiian Bank stock?

Mrs. Novak. Yes; he told us about that stock, and we purchased some.

Mr. McLendon. Do you recall how much you bought?



Mrs. NOVAK. I would have to go to my records. But it seems like it was 500 shares.

Mr. McLENDON. About \$4,000 or \$5,000?

Mrs. NOVAK. No, \$8,750.

Mr. McLENDON. Did you later sell that stock?

Mrs. NOVAK. Yes; we did.

Mr. McLENDON. Did you make a profit or a loss?

Mrs. NOVAK. We made a profit on that one.

Mr. McLENDON. Did Mr. Baker claim or demand any interest in the profits from that transaction?

Mrs. NOVAK. No, he did not.

Mr. McLENDON. About the same time or later, did you buy some electronics stock upon his advice?

Mrs. NOVAK. Sangamo Electronics.

Mr. McLENDON. S-a-n-g-a-m-o?

Mrs. NOVAK. S-a-n-g-a-m-o—right.

Mr. McLENDON. Do you recall how much money you invested in that?

Mrs. NOVAK. Well, we bought that at two different times. I don't know the exact amount of money, or the exact amount of shares. But it seems to me it was around \$9,225 worth, or thereabouts.

Mr. McLENDON. Have you sold that stock?

Mrs. NOVAK. Yes, I sold it the other day—just 2 or 3 days ago.

Mr. McLENDON. Did you get a profit or loss on that?

Mrs. NOVAK. Oh, a tremendous loss.

Mr. McLENDON. Tremendous loss?

In each of these instances, Mrs. Novak, did you seek his advice, or did he volunteer his advice to you and your husband?

Mrs. NOVAK. I don't understand.

Mr. McLENDON. I say in each of these instances, about which you have just testified, the purchase of stock, did you seek Baker's advice, or did Baker volunteer advice to you and your husband?

Mrs. NOVAK. We didn't seek—this was in the matter of conversation.

Mr. McLENDON. Will you explain that a little?

Mrs. NOVAK. Well, many times when we got together we were talking about stocks, business ventures, and many other things. And always something came up about where either stock would be mentioned or some other investments.

Mr. McLENDON. Now, did he have any financial interest in this electronic stock about which you have testified?

Mrs. NOVAK. Not to my knowledge.

Mr. McLENDON. When did you first hear, through Baker, of the Mortgage Guaranty Insurance Corp.?

Mrs. NOVAK. That was early in February of 1960.

Mr. McLENDON. Will you tell us the circumstances?

Mrs. NOVAK. Yes. It was at the time we visited Mrs. Baker at the hospital, when she gave birth to her little girl, in February of 1960. And he was there, then, too. We talked about many things, and the stock came up, and we talked about it at the time.

Mr. McLENDON. When you say you talked about many things, do you mean investments?

Mrs. NOVAK. No, no, this was just social things, about the baby, and everything else, and then the stock was brought up.

Mr. McLendon. What did he say about this Mortgage Guaranty Insurance Corp. on that occasion?

Mrs. Novak. That he knew of some stock being available that could be good, and then, of course, we never knew whether it was going to be good or bad. But he asked whether we had any money we could invest in some stock, and, as I recall, my husband said yes, he did have some, but he didn't know how much, and then they proceeded from there.

Mr. McLendon. Well, go ahead and tell what happened then.

Mrs. Novak. I don't know how much had happened that very evening. But then, after that, I know they had discussed it further—Mr. Baker at that time was so short of cash. And in talking he wanted to know if he got this stock and we paid for it, if we would share in the profits later, if there would be any profits.

Mr. McLendon. Do you mean that you and your husband were to put up all of the cash that was to be invested?

Mrs. Novak. That is right.

Mr. McLendon. In the amount of \$12,000?

Mrs. Novak. That is right, sir.

Mr. McLendon. And did you pay \$12,000 to Mr. Baker?

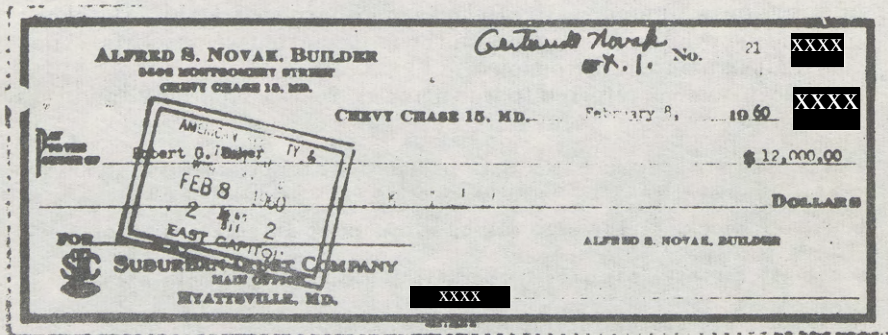
Mrs. Novak. Yes, we did.

Mr. McLendon. I show you a copy of a check dated February 8, 1960, in the amount of \$12,000. Can you identify that as a copy of the check that you delivered to Robert G. Baker, dated February 8, 1960, in the amount of \$12,000?

Mrs. Novak. That is our check; yes, sir.

(The check referred to was marked "Novak Exhibit 1" and is as follows:)

NOVAK EXHIBIT 1. CHECK DATED FEBRUARY 8, 1960, FOR \$12,000, ISSUED TO ROBERT G. BAKER BY ALFRED S. NOVAK



Mr. McLendon. And was this check delivered in compliance with the agreement that you had to invest that amount of money in the Mortgage Guaranty Insurance Co. stock?

Mrs. Novak. The gentlemen's agreement, yes.

Mr. McLendon. It was not in writing, I take it.

Mrs. Novak. No; it was not.

Mr. McLendon. And I notice the check bears a printed name at the bottom, "Alfred S. Novak." That was the usual check that you used on your husband's account?

Mrs. NOVAK. Yes.

Mr. McLENDON. Now, after you delivered this check to him, did you have any agreement with respect to what was to be done with this stock—that is, whether it was to be kept as an investment, or whether it was to be resold?

Mrs. NOVAK. Well, it was to be resold if there were any profits realized from it, of course. But we didn't know when.

Mr. McLENDON. Was there any understanding as to whose judgment was to be exercised as to when it would be sold?

Mrs. NOVAK. I think my husband relied on Mr. Baker informing him.

Mr. McLENDON. Were you consulted about when it was sold?

Mrs. NOVAK. Yes. We had consulted together, when we sold our first stock. I think it was 3,000 shares.

Mr. McLENDON. Now, did you receive from Mr. Baker later, when the stock was issued, several documents relating to the stock, and indicating the people from whom he had purchased it?

Mrs. NOVAK. Yes, sir, these papers were—along with the other papers and the stock certificates, or before the stock certificates—I don't remember. But, nonetheless, these papers were given to us.

Mr. McLENDON. You looked at the first one, which is a memorandum or a letter signed by Walter Adams. Do you have that?

Mrs. NOVAK. Yes, I do.

Mr. McLENDON. And the second one signed by Eddie Adams?

Mrs. NOVAK. That is right.

Mr. McLENDON. The first one, by Walter Adams, states that—

I, Walter Adams, hereby sell all my interest in three units of the Mortgage Guaranty Insurance Corp., 606 West Wisconsin Avenue, Milwaukee, Wis., for the sum of \$4,000. I hereby acknowledge receipt of a check for \$4,000 in full payment for the said stock aforementioned.

Do you know who delivered to Adams the check for \$4,000?

Mrs. NOVAK. I assume Mr. Baker would have written him the check, or someone would have given him the money after we gave Mr. Baker the \$12,000 to purchase this stock.

(The document referred to was marked "Novak Exhibit 2" and is as follows:)

NOVAK EXHIBIT 2. RECEIPT FOR SALE OF THREE UNITS OF MORTGAGE GUARANTY INSURANCE CORP. STOCK FOR \$4,000, SIGNED BY WALTER ADAMS

I, Walter Adams, hereby sell all of my interest in three units of Mortgage Guaranty Insurance Corporation, 606 West Wisconsin Avenue, Milwaukee, Wisconsin, for the sum of \$4,000.00.

I hereby acknowledge receipt of a check for \$4,000.00, in full payment for the said stock aforementioned.

Walter Adams (Signed)

Walter Adams (Witness)

Mr. McLendon. Now, the Eddie Adams memorandum, which is the second one, reads—

I, Eddie Adams, hereby sell all of my interest in three units of Mortgage Guaranty Insurance Corp., 606 West Wisconsin Avenue, Milwaukee, Wis., for the sum of \$8,000. I hereby acknowledge receipt of a check for \$8,000, in full payment for the said stock aforementioned.

Did you deliver that check to Mr. Adams, or was it delivered, do you think, by Baker?

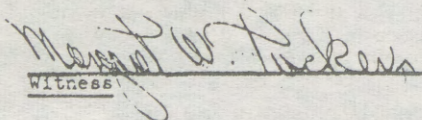
Mrs. Novak. Well, the \$8,000 and \$4,000 should have been paid out of the \$12,000. So I am sure Mr. Baker should have paid him.


(The document referred to was marked "Novak Exhibit 3" and is as follows:)

NOVAK EXHIBIT 3. RECEIPT FOR SALE OF THREE UNITS OF MORTGAGE GUARANTY INSURANCE CORP. STOCK FOR \$8,000, SIGNED BY EDDIE ADAMS

Eddie Adams, hereby sell all of my interest in three units of Mortgage Guaranty Insurance Corporation, 606 West Wisconsin Avenue, Milwaukee, Wisconsin, for the sum of \$8,000.00.

I hereby acknowledge receipt of a check for \$8,000.00, in full payment for the said stock aforementioned.


Witness


 (Signed)

Mr. McLendon. Did you know that these two Adams men were sellers of the stock that your husband and Baker bought, until you received these documents?

Mrs. Novak. No, not until we received these papers.

Senator Curtis. May I ask—when did you first see these two documents, the one signed by Walter Adams and the other by Eddie Adams? Not the exact date, but when in relation—

Mrs. Novak. When the stock certificates were delivered, or were given to us, and that must have been in March sometime.

Senator Curtis. What year?

Mrs. Novak. 1960.

Mr. McLendon. Will you refer to the next document in your file which appears to be dated February 10, 1960, handwritten letter, addressed to Mr. Baker, and signed "Walter Adams."

Did you see that letter also at the same time you received the stock certificates?

Mrs. Novak. Yes; I did, sir.

(The document referred to was marked "Novak Exhibit 4" and is as follows:)

NOVAK EXHIBIT 4. LETTER DATED FEBRUARY 10, 1960, FROM WALTER ADAMS TO ROBERT G. BAKER, REGARDING SALE OF THREE UNITS OF MGIC STOCK

MICHIGAN STATE UNIVERSITY EAST LANSING

COLLEGE OF BUSINESS AND PUBLIC SERVICE
DEPARTMENT OF ECONOMICS

TD
2/10/60

Dear Mr. Baker

Thank you so much
for the \$4,000 check in payment
of for 3 units of MGIC stock

I appreciate your
thoughtfulness in connection with
this investment opportunity

Sincerely,

Walter Adams

Regards to Maggie Tucker!

Mr. McLendon. That letter, written on the stationery of Michigan State University, College of Business and Public Service, Department of Economics, reads:

DEAR MR. BAKER: Thank you so much for the \$4,000 check in payment for three units of MGIC stock.

I appreciate your thoughtfulness in connection with this investment opportunity.

Sincerely,

Regards to Maggie Tucker.

WALTER ADAMS.

You did receive this letter I have just read at the same time that you received the other documents and the stock certificates?

Mrs. NOVAK. That is right.

Mr. McLENDON. Who is the Maggie Tucker referred to there?

Mrs. NOVAK. Maggie Tucker was then secretary—personal secretary—to Mr. Baker, the secretary to the majority.

Mr. McLENDON. Do you know her husband?

Mrs. NOVAK. Yes; I do.

Mr. McLENDON. What relation existed between her husband and Mr. Baker, if you know?

Mrs. NOVAK. They were friends, and I don't know whether they then were law partners. But they are today. And I imagine they were then.

Mr. McLENDON. Now, the next document I ask you to look at is dated February 8, 1960. It purports to be a letter from Robert G. Baker to Mr. Max H. Karl, on the stationery of the—well, it gives suite No. 605, Headquarters Building, Dupont Circle NW. And on the top of my copy is written in pen and ink, "Tucker and Baker."

Did you see this document at the time you received these others?

Mrs. NOVAK. Yes.

(The letter referred to was marked "Novak Exhibit 5" and is as follows:)

NOVAK EXHIBIT 5. LETTER DATED FEBRUARY 8, 1960, FROM ROBERT G. BAKER TO MAX H. KARL, PRESIDENT OF MGIC, REGARDING PURCHASE OF MGIC STOCK FROM EDDIE AND WALTER ADAMS

Robert G. Baker

SUITE 606 HEADQUARTERS BUILDING
2000 P STREET, N.W. AT DUPONT CIRCLE
WASHINGTON 6, D.C.

RO. 57 12345
EAST SOUTH ST. 3 A
TELEPHONE 5014

February 8, 1960

Mr. Max H. Karl
President
Mortgage Guaranty Insurance Corporation
606 West Wisconsin Avenue
Milwaukee 3, Wisconsin

Dear Max:

This morning, I purchased the 10 units of stock previously purchased by Eddie Adams and Walter Adams.

When the stock is finally approved for distribution by the S.E.C., would you list these 10 units in the name of Alfred S. Novak and Gertrude C. Novak.

A copy of your annual report was received this morning. It is most encouraging. Would you check with our banker and determine how much interest will be due around the first of March with the \$1,000.00?

Thank you for your many courtesies and with every good wish, I remain,

Very sincerely,

Robert G. Baker

Mr. McLendon. And that letter reads—addressed to Mr. Max Karl, president, Mortgage Guaranty Insurance Corp., 606 West Wisconsin Avenue, Milwaukee, Wis.:

DEAR MAX: This morning, I purchased the 10 units of stock previously purchased by Eddie Adams and Walter Adams.

When the stock is finally approved for distribution by the SEC, would you list these 10 units in the name of Alfred S. Novak and Gertrude C. Novak?

A copy of your annual report was received this morning. It is most encouraging. Would you check with our banker and determine how much interest will be due around the 1st of March with the \$1,000?

Thank you for your many courtesies and with every good wish, I remain,
Very sincerely,

ROBERT G. BAKER.

Did you know this man, Max H. Karl?

Mrs. NOVAK. No, we did not know him.

Mr. McLENDON. Did you know at the time that he had any association with the Mortgage Guaranty Insurance Corp.?

Mrs. NOVAK. No. We heard Mr. Baker, or I have heard, I should say, Mr. Baker talk about Mr. Karl, or Max Karl, as he affectionately called him. But I didn't know that he was associated then with Mortgage Guaranty, or what relationship he had.

Mr. McLENDON. Had Mr. Baker—pardon me. Did you finish?

Mrs. NOVAK. Yes, I did.

Mr. McLENDON. Had Mr. Baker ever said anything to you about the indebtedness of this company to which he refers in this letter?

Mrs. NOVAK. No.

Mr. McLENDON. You knew nothing about that?

Mrs. NOVAK. No.

Mr. McLENDON. Now, Mrs. Novak, will you refer to the next document in your file there, which is on the First Wisconsin Trust Co. stationery, stock transfer department, reading in part:

We have received for transfer 3,680 shares of Mortgage Guaranty Insurance Corp. capital stock, and bearing the name Alfred S. Novak and Gertrude S. Novak.

And giving your residence address.

Was that document also delivered to you by Baker?

Mrs. NOVAK. Yes; it was given to us.

(The document referred to was marked "Novak Exhibit 6" and is as follows:)

NOVAK EXHIBIT 6. NOTICE FROM FIRST WISCONSIN TRUST CO. REGARDING TRANSFER ON NOVEMBER 8, 1960, OF 3,680 SHARES OF MGIC STOCK TO ALFRED S. AND GERTRUDE C. NOVAK

FIRST WISCONSIN TRUST COMPANY
Stock Transfer Department

We have received for transfer 3680 shares of Mortgage Guaranty Insurance Corporation Capital Stock. To complete this transfer,

kindly furnish us with the following:

- Transfer tax in the amount of \$29.44.
- Complete address of the transferee
- Documents

Alfred S. Novak and
Gertrude C. Novak,
5502 Montgomery Street,
Chevy Chase 15, Maryland

Reference # 154328.
Trust # 9844
Date 11/8/60

3d # 29 44
11-14-60
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Mr. McLENDON. How many shares of stock had you purchased with the \$12,000 investment?

Mrs. NOVAK. My understanding was there were 3,600 shares, but whether it was all Mortgage Guaranty, or whether there was this other company involved, that I don't know. It seems there is some missing link somewhere along the line, because there was a stock split.

Mr. McLENDON. Let me put it this way, to refresh your recollection: Do you not recall that after you purchased the 3,600 shares, that there were stock dividends which finally totaled 3,714 shares?

Mrs. NOVAK. Yes, I knew there were dividends involved.

Mr. McLENDON. So that you finally owned 3,714 shares?

Mrs. NOVAK. That is what we sold; yes, sir.

Mr. McLENDON. And this receipt here is for 3,680—this memorandum from Wisconsin Trust Co.?

Mrs. NOVAK. Yes, there was some dividend involved there.

Mr. McLENDON. Now, you sold this stock, did you not?

Mrs. NOVAK. Yes.

Mr. McLENDON. The whole 3,714 shares?

Mrs. NOVAK. Yes. It is all sold now.

Mr. McLENDON. Did you first sell 3,000 shares of it?

Mrs. NOVAK. Yes, we did.

Mr. McLENDON. Will you look at the memorandum in your file there, a copy of a handwritten memorandum, accounting for the sale of 3,000 shares, and giving the price at which it was sold.

Do you have that before you?

Mrs. NOVAK. Yes; I have it.

Mr. McLENDON. That, Mr. Reporter, is marked "Exhibit 7."

(The document referred to was marked "Novak Exhibit 7," and is as follows:)

NOVAK EXHIBIT 7. SCHEDULE SHOWING SALES OF 3,000 SHARES OF MGIC STOCK AND DISPOSITION OF PROCEEDS FROM SALE

	Paid \$	2-8-60	\$ 12,000.00	
	✓	11-14-60	29.44	Transfer fee
		Cost	<u>\$12,029.44</u>	or \$3.27 per share
Stock Issued MAR. 8, 1960				
Sold	Mortgage Guaranty Ins.			Net Amount
3-24-61	200	shares		4,431.20
3-24-61	200	✓		4,381.74
3-24-61	200	✓		4,332.24
3-24-61	500	✓		10,459.50
3-24-61	300	✓		6,424.15
3-24-61	<u>300</u>	✓		<u>6,424.15</u>
	1700			
3-27-61	100	✓		2,166.12
3-28-61	200	✓		4,381.74
4-4-61	<u>1000</u>	✓		<u>23,889.02</u>
	3,000 Shares - TOTAL Net Sales			<u>66,889.86</u>
			Less	<u>12,000.00</u>
			Split · 2	<u>54,889.86</u>
				27,444.93

Paid Robert G. Baker		
4-12-61	2691	\$ 5,000.00
4-17-61	6114	15,000.00
4-26-61	6137	<u>7,444.93</u>
		27,444.93

1500 shares @ \$3.27 ea = \$4,905.00
 Sale price on 1500 shares = 33,444.93
 Net profit on 1500 shares = 28,539.93

Mr. McLENDON. Looking at that, it indicates that 3,000 shares were sold at different times, and that the aggregate sales price was \$66,889.86. And from that was deducted the cost of \$12,000, which left a profit of \$54,889.86, is that correct?

Mrs. NOVAK. That is right.

Mr. McLENDON. And on the left-hand side of the same sheet are three entries of amounts paid to Robert G. Baker.

Will you explain that?

Mrs. NOVAK. There were three different checks issued to Mr. Baker accounting for the \$27,444.93—his half of the profit. One check was for \$5,000, then another check for \$15,000, and a third check for \$7,444.93.

Mr. McLENDON. Now, those payments were made by you and your husband to Baker, is that correct?

Mrs. NOVAK. That is correct.

Mr. McLENDON. And were intended to account for his one-half of the profit?

Mrs. NOVAK. One-half of the net profit.

Mr. McLENDON. All right.

Now, will you look at your file, again, and see if you have a letter dated May 15, 1961, on the stationery headed "U.S. Senate, Robert G. Baker, secretary for the majority," dated May 15, 1961.

Do you find that?

Mrs. NOVAK. I have it.

Mr. McLENDON. Did you receive that letter—did your husband receive it?

Mrs. NOVAK. Yes; we received it.

Mr. McLENDON. And it is addressed to your husband, is it not?

Mrs. NOVAK. Yes; it is.

(The letter referred to was marked "Novak Exhibit 8," and is as follows:)

NOVAK EXHIBIT 8. LETTER DATED MAY 15, 1961, FROM ROBERT G. BAKER TO ALFRED S. NOVAK, REGARDING PROCEEDS FROM SALE OF 3,000 SHARES OF MGIC STOCK

CAPITOL 4-3121
EXT. 3738

United States Senate

ROBERT G. BAKER I
SECRETARY FOR THE MAJORITY

May 15, 1961

Mr. Alfred S. Novak
5502 Montgomery Street
Chevy Chase, Maryland

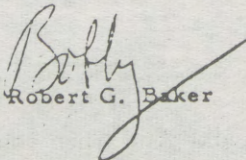
Dear Al:

This letter is to acknowledge receipt of \$27,444.93 which is my one-half of the receipts from the sale of 3,000 shares of Mortgage Guaranty Insurance Corporation stock which you purchased for yourself and myself March 8, 1960.

As you know, we received a total of \$66,889.86 from the sale of this stock. This stock cost us \$4,905.00 each. Our capital gains tax will be based upon a profit of \$28,539.93 each.

This letter should be kept as a part of your tax file since I will file my tax showing the gains as indicated in this letter.

Sincerely yours,


Robert G. Baker

RGB:t

Mr. McLendon. And it says:

DEAR AL: This letter is to acknowledge receipt of \$27,444.93—

which corresponds to the total of the figures you already testified you have paid him, is that correct?

Mrs. Novak. That is right.

Mr. McLendon (reading):

which is my one-half of the receipts from the sale of 3,000 shares of Mortgage Guaranty Insurance Corp. stock which you purchased for yourself and myself March 8, 1960.

As you know, we received a total of \$66,889.86 from the sale of this stock. This stock cost us \$4,905 each. Our capital gains tax will be based upon a profit of \$28,539.93 each.

This letter should be kept as a part of your tax file since I will file my tax showing the gains as indicated in this letter.

That document is marked "Exhibit 8."

Did you receive that, and your husband received it?

Mrs. Novak. Yes; he did.

Mr. McLendon. And after having sold the 3,000 shares and accounted for it, as you just testified, as shown by these documents, was the remaining stock sold?

Mrs. Novak. Yes; it was.

Mr. McLendon. Do you recall that 100 shares were sold by the Petersburg Mutual Savings & Loan Association?

Mrs. Novak. That is right.

Mr. McLendon. And do you have a copy of the invoice of that in your file?

Mrs. Novak. Yes, I have.

Mr. McLendon. What date does your copy bear, if you can read it?

Mrs. Novak. It is not listed on here, but it was in December of 1962.

Mr. McLendon. All right.

(The document referred to was marked "Novak Exhibit 9" and is as follows:)

NOVAK EXHIBIT 9. STATEMENT FROM PETERSBURG MUTUAL SAVINGS & LOAN ASSOCIATION SHOWING PROCEEDS FROM SALE OF 100 SHARES OF MGIC STOCK



PETERSBURG MUTUAL SAVINGS AND LOAN ASSOCIATION
PETERSBURG, VIRGINIA



ACCOUNT NO.	DESCRIPTION	NET AMOUNT
	Cash exchange check —William A. Patton	3,100.00
	purchase 100 shares stock	

deposited Carousel account

ATTACHED CHECK IS IN SETTLEMENT OF ACCOUNT AS STATED ABOVE. PLEASE DETACH BEFORE DEPOSITING

Mr. McLendon. And when you received that check what was done with it?

Mrs. Novak. Deposited in the Carousel account.

Mr. McLendon. The Carousel account?

Mrs. Novak. Right.

Mr. McLendon. We won't ask you to detail about the Carousel right now, but just for the purpose of identifying, is that the term that you use to describe a real estate investment that you and your husband and Baker were involved in?

Mrs. Novak. That is correct.

Mr. McLendon. And located in Ocean View, Md.?

Mrs. Novak. Ocean City, Md.

Mr. McLendon. So this \$3,100, then, was deposited in the Carousel account by agreement between you and Mr. Baker; is that correct?

Mrs. Novak. That is right.

Mr. McLendon. That is exhibit 9.

Now, on December 5, 1962, did you get an invoice for another hundred shares sold at the price of \$3,023.80 by the Kidder, Peabody & Co.?

Mrs. Novak. I recall; yes, sir.

Mr. McLendon. That is marked "Exhibit 10," Mr. Reporter.

(The document referred to was marked "Novak Exhibit 10" and is as follows:)

NOVAK EXHIBIT 10. STATEMENT DATED DECEMBER 5, 1962, FROM KIDDER, PEABODY & Co., SHOWING PROCEEDS FROM SALE OF 100 SHARES OF MGIC STOCK

Chicago 3, Illinois

Kidder, Peabody & Co.

8814 17 WALL STREET NEW YORK	78 FEDERAL STREET BOSTON	
122 SOUTH BROAD ST. PHILADELPHIA	22 SOUTH CLARK ST. CHICAGO	DATE <u>12/5/62</u>

Robert Baker
 c/o Mr. Paul Rogan
 Mortgage Guaranty Insurance Co.
 Marine Plaza
 Suite 600
 Milwaukee 2, Wisconsin

ACCT. NO. W50-0065

WE HAVE TODAY CHARGED YOUR ACCOUNT AS FOLLOWS:

Check to order: Payment 100 Mtg Gty Insurance Corp.	\$3023.80
sd 12/5 <i>Deposited Carousel Acct</i>	
COUNTERSIGNED <i>FMS</i>	Kidder, Peabody & Co.

Mr. McLendon. And it has handwriting notations on it, "Deposited to the Carousel Account."

Mrs. Novak. That is right. I deposited it to the Carousel account.

Mr. McLendon. Is that your handwriting?

Mrs. Novak. That is.

Mr. McLendon. Was that deposited in accord with an agreement between you and Baker, that it should be so handled?

Mrs. Novak. It was.

Mr. McLendon. All right.

Now, that would leave 514 shares of the 714.

310 FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES

Would you look at your file and see if you have an invoice from Doyle, O'Connor & Co., Inc., dated January 17, 1963, for the sale of 14 shares and 500 shares, making a total of 514, at the sales price of \$14,386.24.

Mrs. NOVAK. That is right.

(The document referred to was marked "Novak Exhibit 11" and is as follows:)

NOVAK EXHIBIT 11. STATEMENT DATED JANUARY 17, 1963, FROM DOYLE, O'CONNOR & CO., INC., SHOWING PROCEEDS FROM SALE OF 514 SHARES OF MGIC STOCK

Gertrude Novak
c/o Mr. Max Karl
Mortgage Guaranty Co.
600 Marine Plaza
Milwaukee 2, Wisconsin

DOYLE, O'CONNOR & CO., INC.

138 S. LA SALLE STREET
CHICAGO, 3

1/17/63

14 Shrs. 500 Shrs.	PURCHASED FROM YOU	<i>Reported Carousal</i>	
	MORTGAGE GUARANTEE	392 84	
	"	13,974 40	
	"	14,366 24	
	CHECK HEREWITH	27.98	
		514 14,386.24	
		1028	
		41 56	
		36 98	
		5 4 26	
		4 4 64	
		5741	14,386 24

Mr. McLENDON. What did you do with the check for that amount?

Mrs. NOVAK. That was also deposited in the Carousal account.

Mr. McLENDON. By agreement with Baker?

Mrs. NOVAK. That is right.

Mr. McLENDON. And that, I take it, completed the sale of all the stock that you had bought or acquired by stock dividends in the Mortgage Guaranty Co.?

Mrs. NOVAK. That is right.

Mr. McLENDON. Now, in connection with these transactions involving the Mortgage Guaranty Co. stock, your receipt of it, and the later sale of it, and your accounting for the proceeds, as you testified, did you see a document, a copy of which is in your file there before you, dated September 1960, purporting to be a list of names, with number of shares of Mortgage Guaranty Insurance Co. stock, certificate numbers, and the number of shares? Do you see that?

Mrs. NOVAK. Yes; I have it here before me.

(The document referred to was marked "Novak Exhibit 12," and is as follows:)

NOVAK EXHIBIT 12. LIST PURPORTING TO SHOW CERTAIN OWNERS OF MGIC STOCK
IN SEPTEMBER 1960

	M G I C		G I A I	
	Certifi- cates	Shares	Certifi- cates	Shares
Washington area:				
Robert G. Baker, room F-80, Senate Office Building	583	512	555	128
Maywood and Edith P. Boggs, room F-80, Senate Office Building	356	128	326	32
J. E. Lightlie, room F-80, Washington, D.C.	357	128	327	32
Alfred S. Novak, room F-80, Senate Office Building	354	224	324	56
Gertrude C. Novak, room F-80, Senate Office Building	355	96	375	24
James W. Wilson, room F-80, Senate Office Building	358	128	328	32
John W. and Barbara Byrnes, 1213 25th Street, Arlington, Va.	803	80	771	20
David Anderson, 614 North Greenwich Street, Falls Church, Va.	477	40	448	10
William K. Divers, 3142 Patterson Street, Washington, D.C.	528	200	490	50

Mr. McLENDON. Where did you get that document from, or a copy of it?

Mrs. NOVAK. This is one I did not have. I did see a copy of that, but I don't recall whether the Internal Revenue Service had shown it to me, or one of the FBI investigators. But I did see a copy of this.

Mr. McLENDON. But you did not have it in your custody?

Mrs. NOVAK. No.

Mr. McLENDON. Well, after you were shown a copy of it, could you recall having seen it?

Mrs. NOVAK. Not before.

Mr. McLENDON. Not before that time?

Mrs. NOVAK. No.

Mr. McLENDON. I notice the document lists in several instances the same Robert G. Baker, room F-80, Senate Office Building.

Do you know that was his address as secretary to the majority?

Mrs. NOVAK. Yes.

Mr. McLENDON. Can you make any explanation as to why this stock should be issued in this manner, addressed to Robert G. Baker at his official office?

Mrs. NOVAK. No, I have no way to explain that.

Mr. McLENDON. I would like to ask you about some of the names, in case you might know them. In addition to Robert G. Baker on the list is Maywood and Edith P. Boggs.

Did you know either of them?

Mrs. NOVAK. No.

Mr. McLENDON. Another name on the list is J. E. Lightlie. Did you know that person?

Mrs. NOVAK. No, I do not.

Mr. McLENDON. And then your husband's name, Alfred S. Novak, same address, room F-80, Senate Office Building. Then follows your name, same address.

The next name is James W. Wilson, the same office address.

Did you know him?

Mrs. NOVAK. No, I do not know him.

Mr. McLENDON. And the next one is John W. and Barbara Byrnes. Did you know either of them?

Mrs. NOVAK. No.

Mr. McLENDON. And the next one was David Anderson, whose address is given as Falls Church, Va. Did you know that person?

Mrs. NOVAK. No, I do not, sir.

Mr. McLENDON. And the last one is William K. Divers. Did you know that person?

Mrs. NOVAK. No.

Mr. McLENDON. Did you have any knowledge that any of these people whose names appear on this list were purchasers of Mortgage Guaranty Insurance Co. stock about the time that you and your husband bought it?

Mrs. NOVAK. No, I did not know anything about it.

Mr. McLENDON. Did Mr. Baker ever tell you anything about who the other stockholders were?

Mrs. NOVAK. No, not to my knowledge.

Mr. McLENDON. Did he tell you how much stock he owned, if any, in his own name?

Mrs. NOVAK. No, he did not ever tell us that. I was under the impression he didn't own any, because he said he didn't have any money to buy any himself at the time we purchased this. So I didn't know.

Mr. McLENDON. Did you learn later that he did own some stock in his own name?

Mrs. NOVAK. Only at a very late date, the last 2 or 3 months.

Mr. McLENDON. Have you told us, Mrs. Novak, all that Mr. Baker told you about why you should invest your money in this company?

Mrs. NOVAK. No.

Mr. McLENDON. I say have you told us everything that Baker said about why you should invest in this company?

Mrs. NOVAK. I misunderstood your question, I am sorry.

Mr. McLENDON. It is all right.

Mrs. NOVAK. As far as I know; yes.

Mr. McLENDON. Did he identify any person that was connected with it in conversations with you?

Mrs. NOVAK. No.

Mr. McLENDON. Did he ever say anything about the possibility of a favorable tax ruling that would make this company very profitable?

Mrs. NOVAK. I never did hear him discuss that; no.

Mr. McLENDON. Did you have any knowledge of the pendency of any such tax ruling?

Mrs. NOVAK. No.

Mr. McLENDON. I believe that is all I want to ask you about the so-called MGIC stock.

I will examine you about other matters later.

Senator CURTIS. Mr. Chairman.

The CHAIRMAN. Senator Curtis.

Senator CURTIS. Mrs. Novak, had you and your husband invested savings in stock before you made investments with Robert Baker?

Mrs. NOVAK. Before we made the investments, Senator?

Senator CURTIS. Yes.

Mrs. NOVAK. No.

Senator CURTIS. You had never purchased any stock?

Mrs. NOVAK. Well, I don't know the exact dates that we purchased the Hawaiian National stock, offhand. But there was no joint venture.

Senator CURTIS. Yes.

Well, when you purchased the Hawaiian stock, that came up in conversation?

Mrs. NOVAK. That is right.

Senator CURTIS. And he thought it was a good stock?

Mrs. NOVAK. Well, it was a new bank opening up.

Senator CURTIS. Where did you go to buy that stock, down at some stockbroker?

Mrs. NOVAK. I don't—I could not answer that one, Senator. I don't know how that was acquired.

Senator CURTIS. Well, why was there an agreement for Mr. Baker to share in the profits of the Mortgage Guaranty Insurance Corp. stock? That was a bit unusual, for an individual to put up no money, but share in profits up to some \$27,000 or \$28,000. What was your understanding as the reason for that?

Mrs. NOVAK. We were friends. We also could have expected a loss on this, which I am sure we then would have had to share in the loss. But it didn't turn out to be a loss, as you all know. But I don't know. There was no reason other than being in other joint ventures with him, as far as investments in properties were concerned. But this was just something he asked, and we just agreed on.

Senator CURTIS. And he told you at the time that he didn't have any money to put in?

Mrs. NOVAK. He didn't have any money to invest in the stock, that is right.

Senator CURTIS. But your best recollection as to the two stocks that you mentioned, the Hawaiian Bank and the Sangamo Electronics, you had no agreement for a joint venture with those?

Mrs. NOVAK. Oh, no, no.

Senator CURTIS. Well, what was said about sharing the loss on any of these stocks?

Mrs. NOVAK. Well, there wasn't much said. I was the one that presented my husband with the possible loss when I saw where a professor of a university sold the stock at what I assumed a profit to himself then, and we buying it, and I said, "Well, there goes our profit," so I expected a loss from that. But I didn't elaborate on that further.

Senator CURTIS. Well, now, was the loss discussed at the time that you made the original arrangement, or put up the \$12,000?

Mrs. NOVAK. No, there wasn't an awful lot mentioned. There was probably the word "loss" said.

Senator CURTIS. So there probably was not any real understanding if you had a loss that Mr. Baker would share part of it?

Mrs. NOVAK. No. But we had faith in him enough if there was loss—I am sure he would have shared that equally.

Senator CURTIS. But you wouldn't have paid an ordinary stockbroker a commission for his advice at such a figure, would you?

Mrs. NOVAK. No, we would have been broke long ago if we did that.

Senator CURTIS. Did you have an idea that you were getting some inside information about Mortgage Guaranty Insurance Corp.?

Mrs. NOVAK. I couldn't say that we did.

Senator CURTIS. But did you feel that Mr. Baker did have some information about it that would cause him to recommend it to you?

Mrs. NOVAK. I would only venture to say that I would assume he would, yes.

Senator CURTIS. And by that, you mean information other than someone might get by just following the market and reading the newspapers, or the financial journals?

Mrs. NOVAK. Yes.

Senator CURTIS. Well, now, how much was a unit of stock? I notice in the transfers by Walter Adams and Eddie Adams that Walter Adams sells all of his interest in three units for \$4,000, and Eddie Adams sells all her interest in three units for \$8,000. Was Walter and Eddie husband and wife?

Mrs. NOVAK. No.

Senator CURTIS. That is Eddie?

Mrs. NOVAK. That is Eddie. And I understand that is Dr. Walter Adams' father. I am not sure about that.

Senator CURTIS. Well, at any rate, it appears that they transferred three units for \$12,000.

Mrs. NOVAK. That is right.

Senator CURTIS. Do you know how much a unit was supposed to be, how many shares?

Mrs. NOVAK. No, I am lost on that part. I do not know.

Senator CURTIS. So you do not know, then, exactly how much stock Mr. Baker was referring to when he wrote his letter of February 8, 1960, to Mr. Max H. Karl that you have before you. The first paragraph says: "This morning I purchased 10 units of stock previously purchased by Eddie Adams and Walter Adams."

Can you reconcile the expression, "10 units" with the 3 units referred to in what appears to be the transfer?

Mrs. NOVAK. No, I cannot. There are three units from each of them that was purchased, or the acknowledged sale of three units. But the letter says 10 units.

No, I cannot.

(At this point, Senator Cooper withdrew from the hearing room.)

Senator CURTIS. Now, Mr. Baker did own some MGIC stock you have since learned in addition to that which was held in your name and your late husband's name?

Mrs. NOVAK. Yes, I understand.

Senator CURTIS. But you do not know the full amount of that, nor in whose name the certificates were issued?

Mrs. NOVAK. No, I have no knowledge.

Senator CURTIS. Referring to the exhibit mentioned by counsel, which says at the top, "SEC, around September 1960"—has that got a number?

Mr. McLENDON. Yes, sir; exhibit No. 12.

Senator CURTIS. Exhibit No. 12.

Now, that is a document you never have seen until this matter was inquired into recently, is that right?

Mrs. NOVAK. That is right.

Senator CURTIS. It would appear to be figures taken from a Security and Exchange Commission record, would it not?

Mrs. NOVAK. That is what I understand is where they obtained it, yes.

Senator CURTIS. And it has no date other than September 1960?
Mrs. NOVAK. That is right.

Senator CURTIS. And how much stock does it show in the name of you and your husband—how many shares?

Mrs. NOVAK. 709 shares—wait a minute.

Senator CURTIS. 224 shares?

Mrs. NOVAK. That is right; 224, 96.

Senator CURTIS. 224 in the name of Alfred S. Novak, and 96 shares in the name of Gertrude C. Novak?

Mrs. NOVAK. That is right.

Senator CURTIS. Now, that purchase price was supposed to be \$2.50 a share, is that right, or \$3?

Mrs. NOVAK. \$3, but then there was some additional charges, bringing it a little bit more.

Senator CURTIS. In other words, this exhibit 12 does not show all the stock that you believe was held in the name of Alfred S. Novak and Gertude C. Novak, is that correct?

Mrs. NOVAK. It is not all there, that is true.

Senator CURTIS. In other words, exhibit 12 is not complete?

Mrs. NOVAK. Not complete. But then here it goes on—this one is MGIC, the other is GIAI.

Senator CURTIS. That is the Florida corporation?

Mrs. NOVAK. I don't know enough about that, Senator. I could not tell you.

Senator CURTIS. Well, even if we include that, it shows that Alfred S. Novak owns 56 shares, and Gertrude C. Novak 24 shares. It would still be short of the number of shares that you thought you owned, and you thought you owned how many—3,600 or 3,700 shares?

Mrs. NOVAK. Well, together, after the dividends, 3,714 shares, yes.

Senator CURTIS. Well, the point is—this is not your problem, but it is a matter of the record—I do not know the origin of this exhibit 12, which has somebody's handwriting on there, "Securities and Exchange Commission, around September 1960." I don't know whether it represents specific items lifted out of a record, and, if so, by whom? But my point is, it is not complete, because in September 1960 you had not sold any stock, had you?

Mrs. NOVAK. No, we had not.

Senator CURTIS. Now, if you will refer to the exhibit that carries the mathematic computation for the sale of the stock—what is the number of that?

Mr. McLENDON. No. 7—the first one, 3,000 shares?

Senator CURTIS. No. 7, yes.

Near the top of the page it says, "Paid, 2-8-60," which is the same date as your check of \$12,000.

Mrs. NOVAK. That is right.

Senator CURTIS. And then below it is "11-14-60," which would be November 14, 1960.

To the best of your knowledge, was that about the time it was sold, this 3,000 shares?

Mrs. NOVAK. No, it was not sold in November of 1960.

Senator CURTIS. Well, does that date mean anything to you?

Mrs. NOVAK. That, I think, goes together with the day we received the 3,680 shares, there is this transfer. From the 3,600, it was then

made 3,680. It is in and about that date—I think there was a transfer of some sort that took place at that time. I don't know.

Senator CURTIS. Well, about when did you sell or was there sold for you the 3,000 shares, where the profits were divided as set forth in this page?

Mrs. NOVAK. In March and April of 1961.

Senator CURTIS. In 1961?

Mrs. NOVAK. Right.

Senator CURTIS. Do you recall in what bank you deposited the \$66,889.86, the gross return for that?

Mrs. NOVAK. We then had three checking accounts, in our construction business, and I don't know whether we deposited it all in one or divided that up. I will have to check on that, sir.

I don't think I have that before me right now. But I imagine probably the American National Bank or National Bank of Maryland.

Senator CURTIS. Would you supply that for our record later on?

Mrs. NOVAK. I would be glad to; yes, sir.

(Mrs. Novak subsequently advised the committee that the amount of \$63,124.86 of the \$66,889.86 was deposited on April 4, 1961, at the American National Bank in Silver Spring. The balance of the \$66,889.86 or \$3,765, was credited to the debit account at the stockbrokers for the Novaks.)

Senator CURTIS. I do not know that it will become important, but in case some of these facts are disputed, we want all of the supporting evidence we can get.

Now, referring to the name Walter Adams, who is Walter Adams?

Mrs. NOVAK. He is professor of economics at Michigan State University.

Senator CURTIS. And how did you happen to know him?

Mrs. NOVAK. He occasionally comes and works on special projects here on various committees in the Senate. He worked for the Senate Small Business Committee.

Senator CURTIS. As an economist?

Mrs. NOVAK. Not as an economist.

Senator CURTIS. Some business specialist of some kind?

Mrs. NOVAK. Yes; he came in as a specialist in the special field of transportation to us at one time.

Senator CURTIS. And you are referring to the committee upon which you work?

Mrs. NOVAK. That I presently am working for, the Senate Small Business Committee.

Senator CURTIS. About when did you first get acquainted with him?

Mrs. NOVAK. I think I have known Dr. Adams since 1952 or 1953—thereabouts.

Senator CURTIS. At that time he came to Washington on some assignment for that committee?

Mrs. NOVAK. That is right.

Senator CURTIS. Did he get acquainted with Robert Baker at that time?

Mrs. NOVAK. I don't know.

Senator CURTIS. Well, was there anyone else working in that office that knew Mr. Baker at that time?

Mrs. NOVAK. At that time, yes.

Margaret Tucker was then working for the Senate Small Business Committee.

Senator CURTIS. Was she Margaret Tucker at that time?

Mrs. NOVAK. Yes; she was.

Senator CURTIS. And by "Margaret Tucker" you refer to the wife of Ernest C. Tucker?

Mrs. NOVAK. That is right.

Senator CURTIS. Who somewhere along the line became Bobby Baker's law partner?

Mrs. NOVAK. That is right.

Senator CURTIS. And you do know that ultimately Walter Adams and Robert Baker became acquainted?

Mrs. NOVAK. They must have, yes. I don't know when or how. But I am sure they knew of each other.

Senator CURTIS. And the Margaret Tucker is no longer Mrs. Tucker?

Mrs. NOVAK. No; she is not.

Senator CURTIS. That marriage has been terminated, and she is married again?

Mrs. NOVAK. That is right, sir.

Senator CURTIS. Now, when did you first know that Walter Adams had anything to do with this MGIC stock?

Mrs. NOVAK. Not until I saw these documents, after we purchased the Mortgage Guaranty stock.

Senator CURTIS. Which was probably 3 or 4 months after you purchased it, would you say?

Mrs. NOVAK. In March or April of 1960, yes, when I saw the papers. I am sure it must have been March, when the certificates were issued.

Senator CURTIS. It is Walter Adams who was the consultant for the committee?

Mrs. NOVAK. That is right.

Senator CURTIS. And what connection is there between Walter Adams and Eddie Adams?

Mrs. NOVAK. I didn't know, except just very recently I learned that it was his father—they are father and son. But that I am not sure of. This is what I was told.

Senator CURTIS. Do you know Max H. Karl?

Mrs. NOVAK. No, I have never met Mr. Karl.

Senator CURTIS. Did you ever hear Mr. Baker speak of him?

Mrs. NOVAK. Yes, I have.

Senator CURTIS. Frequently?

Mrs. NOVAK. Occasionally. I cannot say too frequently.

Senator CURTIS. Had you heard him speak of him before you invested your money in the MGIC stock?

Mrs. NOVAK. I don't know if I could answer that yes or no. If he did—I could not say now.

Senator CURTIS. Did you ever see him?

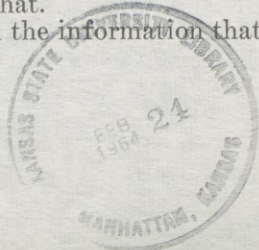
Mrs. NOVAK. No, I have never seen Mr. Karl.

Senator CURTIS. Did Mr. Baker ever tell you that he was the real owner of additional shares of Mortgage Guaranty Insurance stock that was held in the name of individuals other than you and your late husband?

Mrs. NOVAK. No, we had no knowledge of that.

Senator CURTIS. Did he ever convey to you the information that he held shares in his own name?

Mrs. NOVAK. Not that I know of.



Senator CURTIS. So as you entered into this arrangement, and up through and including the time that you got your accounting and saw your profit, you were under the impression that this was the only transaction involved, so far as you knew?

Mrs. NOVAK. As far as I knew, sir.

Senator CURTIS. And that you people furnished the money, Mr. Baker handled the transaction, and you divided the profits?

Mrs. NOVAK. That is right.

Senator CURTIS. And that particular arrangement was made because he didn't have any money to put into it?

Mrs. NOVAK. That was our understanding, yes.

Senator CURTIS. Did you have any discussions with Baker about this stock other than the one time in the hospital when the baby was born?

Mrs. NOVAK. You mean prior to that, Senator?

Senator CURTIS. Well, I understood that was the first discussion.

Mrs. NOVAK. That was the first discussion.

Senator CURTIS. After that.

Mrs. NOVAK. After that—yes, we checked with him, to find out how the stock was doing. We were very interested.

Senator CURTIS. Sometimes by telephone?

Mrs. NOVAK. Could have been.

Senator CURTIS. And if it was a personal conversation, where would it take place?

Mrs. NOVAK. It could have taken place at our house, or at Mr. Baker's house.

Senator CURTIS. And you would just make inquiry, "How is our stock coming along?"

Mrs. NOVAK. That is right.

Senator CURTIS. Now, tell the committee, as best you can, what report Mr. Baker would give you, or gave you about the stock.

Mrs. NOVAK. Well, he would report the price that it was then, and that it was going up. Of course we were elated. But there was nothing beyond just saying it is now such and such a price. And we were wanting to know when was the best time to sell. And that was about the extent of it that I know of.

Senator CURTIS. That is all with reference to the stock.

Mr. McLENDON. I notice the check from Kidder, Peabody & Co., for the proceeds from the sale of 100 shares of stock, is made payable to Robert Baker, whereas all the other checks are payable to you and your husband.

Mrs. NOVAK. That is right.

Mr. McLENDON. Can you explain that?

Mrs. NOVAK. There was one check made out to Mr. Baker. Of course he endorsed it and gave it to me.

Mr. McLENDON. Do you have any explanation for why it was payable to Baker?

Mrs. NOVAK. No. I assumed it was a mistake. I didn't make an issue out of it of any sort—as long as he endorsed it and gave it to me.

Mr. McLENDON. All right.

The CHAIRMAN. Senator Cannon, do you have any questions?

Senator CANNON. Thank you, Mr. Chairman.

First, I want to compliment the chairman on the high standards under which he has conducted this inquiry. I am particularly in agreement with the policy of opening this investigation to the public. On November 6 I made a motion in an executive session of this committee urging the release of some of the proceedings, which had been held up to that time. Since that time I moved to release additional testimony, including the testimony of this witness as taken by the committee, always with a view to the preservation of the rights of all citizens and the protection of innocent parties.

I have not changed my mind on the need for fullest disclosure, and I am happy we are now doing so.

I believe that the issues with which we are concerned today invite the widest misinterpretation and misunderstanding when sessions of this committee exclude the public.

I recognize that there is a need and a responsibility for the committee to examine many of the witnesses privately before their testimony is made public. The reason is to minimize hearsay, innuendo, and the threat of character assassination which stem from the repeating of unfounded rumors and reckless, unsubstantiated charges. So, I wish to compliment the chairman for keeping these important elements in mind, recognizing at the same time that this committee does have a proper obligation to inform and enlighten the American people in accordance with the Senate resolution which authorizes this investigation.

Mrs. Novak, I have a few brief questions for you.

First, I would like to ask, what is your present employment?

Mrs. NOVAK. Where is it?

Senator CANNON. Yes; where are you employed?

Mrs. NOVAK. Here in the Senate, for the Senate Small Business Committee.

Senator CANNON. And how long have you been employed on that committee?

Mrs. NOVAK. Almost 13 years. It will be 13 January 17th or 19th next month.

Senator CANNON. So that you were employed by that committee at the time these transactions took place, which you have related here this morning?

Mrs. NOVAK. Oh, yes.

Senator CANNON. Now, does the Senate Small Business Committee have jurisdiction in any way over the companies involved in any of the transactions to which you have testified this morning?

Mrs. NOVAK. Not to my knowledge.

Senator CANNON. In other words, this is an unrelated field from that within the jurisdiction of the Senate Small Business Committee?

Mrs. NOVAK. By all means. And, furthermore, they were my husband's dealings with Mr. Baker.

Senator CANNON. Did you have any other stock transactions with respect to which you relied on the advice of Mr. Baker, other than the three that you have testified to this morning?

Mrs. NOVAK. Oh, yes. We had been dealing in stock from way back, made on some, and lost on others, by the advice of a stockbroker, and then some on our own. Yes; we have dealt in other stocks.

Senator CANNON. Well, perhaps you misunderstood me. I am referring now to the transactions in which you relied on the advice of Mr. Baker. Were these the only three transactions in which you relied on his advice?

Mrs. NOVAK. Those are the only ones to my knowledge; yes, sir.

Senator CANNON. And on one of those you suffered a loss, and on the other two you realized a profit; is that correct?

Mrs. NOVAK. That is right.

Senator CANNON. Did you at any time contact either the SEC or the so-called MGIC Co. in connection with this transaction?

Mrs. NOVAK. Never.

Senator CANNON. Did you ever contact the Internal Revenue Service in connection with a ruling for the MGIC Co.?

Mrs. NOVAK. I didn't know there was such a thing even in the making.

Senator CANNON. Do you know whether or not Mr. Baker ever contacted the SEC or the Internal Revenue Service in connection with this company?

Mrs. NOVAK. No, I have no knowledge of that.

Senator CANNON. Did you ever hear any discussion relating to these matters between Mr. Baker and your husband in your presence?

Mrs. NOVAK. Not in my presence, no.

Senator CANNON. And this MGIC transaction is the only one in which you shared the profits with Mr. Baker. You did not share the profits of the Hawaiian Bank stock company?

Mrs. NOVAK. No, we did not. MGIC is the only one.

Senator CANNON. And you purchased the Hawaiian Bank stock on your own, is that it, on Mr. Baker's advice?

Mrs. NOVAK. I think Mr. Baker told us about it. We didn't take his advice—you know—definitely to buy it. We always were interested in new bank stocks.

Senator CANNON. Thank you very much, Mr. Chairman. That is all I have.

The CHAIRMAN. Senator Pell, do you have some questions?

Senator PELL. Thank you, Mr. Chairman.

I think we should all thank Mrs. Novak for her patience. She has been through this line of questioning—I guess this is the fourth time. First with the investigators, second with the counsel, third in private, fourth now. And it is for that reason that I would like to associate myself with a considerable portion of Senator Cannon's statement with regard to the releasing of testimony that has been already given in private.

I have only one question; and that is, as you know, the scope of this committee's investigation is the question of any improper behavior on the part of Senate employees, former employees, or conflicts of interest. And in that connection, in purchasing this stock, was any suggestion made to you that because of Mr. Baker's position as secretary of the majority, the purchases of this stock might especially prosper?

Mrs. NOVAK. At the time we purchased it I would have never thought anyone like Mr. Baker would have used any influence in any way.

Senator PELL. But is that a reason to think that any influence was used to make the stock prosper?

Mrs. NOVAK. I would like not to believe the stories in the newspapers. That is all I know.

Senator PELL. But you yourself have no knowledge?

Mrs. NOVAK. No.

Senator PELL. Thank you very much.

The CHAIRMAN. Senator Byrd, do you have some questions, sir?

Senator BYRD. Thank you, Mr. Chairman, yes.

Mrs. NOVAK, did Robert G. Baker pay interest to your husband for the money advanced on the MGIC stock?

Mrs. NOVAK. I have no record of it. I don't know.

Senator BYRD. You have no knowledge of Mr. Baker's paying interest to your husband?

Mrs. NOVAK. On the \$12,000?

Senator BYRD. On the \$6,000 which would be Mr. Baker's share.

Mrs. NOVAK. I have no record. I have no way of knowing offhand.

Senator BYRD. Do you feel that there was any agreement that he was to pay interest on his share of that money?

Mrs. NOVAK. I don't know if there was really an agreement made on that at all. I could not say.

Senator BYRD. You do not know as to whether or not Mr. Baker did pay interest for—

Mrs. NOVAK. On his \$6,000?

Senator BYRD. On his \$6,000.

Mrs. NOVAK. No, I don't know that he did.

Senator BYRD. If the stock had decreased in value, would Mr. Baker have been obligated to share the loss?

Mrs. NOVAK. I feel we could have trusted Mr. Baker to that extent, yes.

Senator BYRD. Do you feel that that was a part of the understanding, that he would share the loss, in the event the stock decreased in value?

Mrs. NOVAK. Not too much was said, but the stock never decreased, so we never made an issue of it.

Senator BYRD. Did Mr. Baker indicate his reasons for believing that the MGIC stock would be a profitable purchase?

Mrs. NOVAK. He may have indicated, but I don't think he made any big issue of it, to us, at least, that I remember.

Senator BYRD. Did he indicate the source of any information which he had, which might have led him to believe that it would be a profitable purchase?

Mrs. NOVAK. No, not to my knowledge.

Senator BYRD. And you do not recall your having asked him, or your husband having asked him as to why he felt that it would be a profitable purchase?

Mrs. NOVAK. I have no doubt but what my husband had asked him, but what had been said, this I don't know.

Senator BYRD. Did Mr. Baker indicate that he was sharing in the purchase of MGIC stock with anyone other than you and your late husband?

Mrs. NOVAK. No; we had no knowledge of him sharing with anyone else.

Senator BYRD. Did Mr. Baker indicate the number of shares of stock to be purchased by the \$12,000?

Mrs. NOVAK. Yes; it was 3,600.

Senator BYRD. Did he indicate that the 3,600 shares of stock were all that were available, or do you think he could have purchased more had you and your late husband advanced additional money?

Mrs. NOVAK. I think he told us that was all that was available. And, at that time, the \$12,000 seemed like about all we wanted to spend, too.

Senator BYRD. Did Mr. Baker indicate the source from which he would procure the stock?

Mrs. NOVAK. He could have indicated to my husband, but I didn't hear him say, myself.

Senator BYRD. You didn't hear Mr. Baker say?

Mrs. NOVAK. No.

Senator BYRD. Do you recall having heard your husband say to you in private conversation?

Mrs. NOVAK. He may have, but the name would have escaped me. The name Max Karl naturally had been brought about, but just how I don't know.

Senator BYRD. Were you familiar with the name of Walter Adams at that time?

Mrs. NOVAK. Yes; I was familiar with the name of Walter Adams at that time, but we were not aware that Mr. Baker was buying the stock from Walter Adams, or I would have suggested to my husband that we would not buy it, if he was selling it. But whether that would do any good, I don't know.

Senator BYRD. Why would you have so suggested?

Mrs. NOVAK. As I stated before, when a professor of economics sells stock, you just don't want to take any chances. At least I would not.

Senator BYRD. Did Mr. Baker indicate why the stock was available at that particular time?

Mrs. NOVAK. No; he did not.

Senator BYRD. Did Mr. Baker indicate that the stock was not yet available to the public?

Mrs. NOVAK. No; I could not say that I heard him say that.

Senator BYRD. Did you at the time know that the stock was not yet available to the public?

Mrs. NOVAK. Yes; we knew it was not available to the public. Or that you could not buy it through a regular stock exchange.

Senator BYRD. Yes.

But Mr. Baker made no reference to that fact?

Mrs. NOVAK. He may have. But, again, I could not say. We knew we had to buy it in Milwaukee, or through someone in Milwaukee.

Senator BYRD. You knew you had to buy it through someone in Milwaukee?

Mrs. NOVAK. That is right.

Senator BYRD. You did not know that you had to buy it through Mr. Walter Adams or Mr. Eddie Adams?

Mrs. NOVAK. No; we did not know that we were going to buy it from them.

Senator BYRD. That is all I have.

The CHAIRMAN. Thank you, Senator.

Senator CURTIS. Just one more question.

Was this probably your most profitable stock venture?

Mrs. NOVAK. Yes; that was our most profitable stock venture.

Senator CURTIS. Even counting the fact that you shared the profits with someone else?

Mrs. NOVAK. That is right, sir.

Senator CURTIS. Now, were there any other stock purchases made by you and your husband in which you put up all the money and shared the profits 50-50 with any other person, Mr. Baker or anybody else?

Mrs. NOVAK. Never.

Senator CURTIS. So the information you got in the original instance when you purchased it proved to be correct, as to its profitableness; is that right?

Mrs. NOVAK. That is right.

Senator CURTIS. That is all.

The CHAIRMAN. You may proceed with further questioning, Counsel.

Mr. McLENDON. Mrs. Novak, I want to address your attention now to certain real estate transactions that you had with Mr. Baker.

In 1959, did you and your husband participate with Robert G. Baker in purchasing real estate in Ocean City, Md.?

Mrs. NOVAK. Yes, we did, sir.

Mr. McLENDON. Was that property divided then into two blocks?

Mrs. NOVAK. They were some distance apart. One block was at 110th Street. The other block between 47th and 48th Streets in Ocean City.

Mr. McLENDON. Now, one of these blocks was used for the Carousel construction?

Mrs. NOVAK. Yes, sir; at 110th Street.

Mr. McLENDON. Now, what individuals were involved in the purchase of the block and the construction of the building that became known as the Carousel?

Mrs. NOVAK. There were three.

Mr. McLENDON. Name them, please.

Mrs. NOVAK. Robert G. Baker, Donald J. Novak, my husband's brother, and my husband, Alfred S. Novak.

Mr. McLENDON. And in what proportion did you own the property?

Mrs. NOVAK. We owned the property one-third each.

Mr. McLENDON. One-third each?

Mrs. NOVAK. Yes, sir.

Mr. McLENDON. Was there ever any change in that percentage of ownership?

Mrs. NOVAK. At the Carousel. Yes.

Mr. McLENDON. How was it changed later, if at all?

Mrs. NOVAK. Well, after the Carousel Motel was started, in the construction, it started either late in November or thereabouts, the original building was to have not cost us any more than \$350,000 to probably \$400,000. But more was being added on, like a restaurant, which was not contemplated at first.

Consequently, we, the Novaks jointly, could not afford to go into spending any more money. We knew we could go up so far, and that was all.

So Baker bought out enough so that he had one-half interest; the Novaks jointly the other half.

Mr. McLENDON. Now, at the time you went into this enterprise, was it contemplated that it would be incorporated as a corporation?

Mrs. NOVAK. There was a corporation set up for it, yes. However, it was not used. Mr. Baker wanted it to remain in partnership, to our tax advantage.

Mr. McLENDON. To what?

Mrs. NOVAK. For tax advantages.

Mr. McLENDON. In other words, he represented that it would be advantageous taxwise if you retained it as a partnership; is that correct?

Mrs. NOVAK. That is right.

Mr. McLENDON. Now, was any other individual involved in these negotiations which led to the beginning of the construction of the Carousel? Specifically, was Mr. Ernest C. Tucker involved?

Mrs. NOVAK. Not at the time we started out; no. There was just the three of us. That is, the two Novaks, and Mr. Baker.

I cannot—I don't understand. You mean as far as moneys involved are concerned?

Mr. McLENDON. No; as far as any connection with the corporation, contemplated corporation.

Mrs. NOVAK. Oh. Mr. Tucker set up the corporation; that is, to have the original corporation set up. But he was inactive. He had no part of the Carousel as far as moneys were concerned.

Mr. McLENDON. Under the original plan, was Baker to be the president?

Mrs. NOVAK. Mr. Baker was the president; yes.

Mr. McLENDON. And your husband was to be vice president?

Mrs. NOVAK. No. My brother-in-law was vice president.

Mr. McLENDON. Your brother-in-law?

Mrs. NOVAK. Yes.

Mr. McLENDON. And who was to be secretary?

Mrs. NOVAK. Secretary and chairman of the board was my husband.

Mr. McLENDON. Were you and Mrs. Baker designated as directors or otherwise?

Mrs. NOVAK. Yes; as directors—I have forgotten just how we were listed, but we were listed down at the bottom, which was all right.

Mr. McLENDON. At any rate, the corporation was not actually organized.

Mrs. NOVAK. No.

Mr. McLENDON. Who was designated as treasurer, do you recall?

Mrs. NOVAK. I think my husband was.

Mr. McLENDON. Now, did you have custody of any of the records concerning the Carousel?

Mrs. NOVAK. You mean in the construction of it?

Mr. McLENDON. Any of the records concerning the Carousel; that is, the construction contract, the financing agreements, and so on.

Mrs. NOVAK. My husband had all of those; yes, sir.

Mr. McLENDON. Did you have—did he have them in his possession or in your possession at the date of his death?

Mrs. NOVAK. Yes; he did.

Mr. McLENDON. What became of them?

Mrs. NOVAK. Well, after my husband had passed away, it was within a few days, probably the same week, Mr. Baker and Mr. Tucker were over at the house. Of course we were in the midst of building

the motel. What had happened at the same time—the tidal wave had hit Ocean City and all of the eastern seacoast, so there was great damage to the motel. We could not even get to it without wading with big boots, or boats. You could not drive a car, unless you had big wide tires.

So they came by the house, and they picked up all the records. Naturally, I was in no condition and was not in any position to keep records, keep contact with contractors. So Mr. Baker suggested Mr. Tucker take over that end of it, which he did. And they picked up all the papers, all the documents.

Mr. McLENDON. Do I understand you to say that all of the records in connection with the Carousel that you or your husband had had were on that date turned over to Mr. Tucker?

Mrs. NOVAK. Yes.

Mr. McLENDON. And you have not had them in your possession since?

Mrs. NOVAK. No; I have not.

Mr. McLENDON. And did you know at that time that Mr. Tucker was a partner in the law firm with Robert G. Baker?

Mrs. NOVAK. Yes; I did.

Mr. McLENDON. Now, you spoke of disaster that occurred on the coast, in which your property, the Carousel property, and much other property was damaged.

In consequence of that, did you and your associates in this venture, apply to the Small Business Administration for a disaster loan?

Mrs. NOVAK. Yes; we did.

Mr. McLENDON. And did you obtain it?

Mrs. NOVAK. Yes; we did.

Mr. McLENDON. Do you recall the amount?

Mrs. NOVAK. The exact amount, no. About \$53,000—\$53,000, \$54,000, I don't remember.

Mr. McLENDON. In obtaining that loan, do you know whether or not it was subordinated to prior mortgages?

Mrs. NOVAK. I don't know any of the details on that, Mr. McLendon. Mr. Tucker did all the paperwork on that.

Mr. McLENDON. Did you ever contact anyone at the Small Business Administration offices in connection with this loan?

Mrs. NOVAK. Only on one occasion—long after the application was filed. I called to find out the status—were we going to get it, were we not.

Mr. McLENDON. You called the office of the Small Business Administration?

Mrs. NOVAK. Yes; I did.

Mr. McLENDON. Do you recall the individual you spoke to?

Mrs. NOVAK. Mr. Horne. But he directed me to Mr. Maxwell, who was head of the Loan Division.

Mr. McLENDON. And your inquiry was whether or not the loan would be approved?

Mrs. NOVAK. Not so much whether it would be approved, but what was the status of it—would it be—and how much longer it would take before we could obtain any moneys.

Mr. McLENDON. Did Mr. Baker suggest to you that you make this telephone call?

Mrs. NOVAK. Well, we were talking about it, and I don't know whether I volunteered or—you know, because I was anxious to help

in any way I could—in telephone calls, or physical labor, I didn't care which way. And in discussion I don't recall whether I volunteered, and he agreed to, or he just said he will have to call, and who do we call.

Mr. McLENDON. Well, in any event, you would say that Baker knew you were making the call?

Mrs. NOVAK. Oh, yes.

Mr. McLENDON. And did you report to him the consequence or the result of the call?

Mrs. NOVAK. Yes; I did.

Mr. McLENDON. Were you assured in this telephone message that the loan would be made?

Mrs. NOVAK. No.

Mr. McLENDON. You were not?

Mrs. NOVAK. No.

Mr. McLENDON. Mrs. Novak, do you have any knowledge of a requirement in connection with that loan that the company's balance sheet should be improved by adding a hundred thousand dollars in cash to it?

Mrs. NOVAK. I remember something vaguely about it, but I did not know the details of it; no.

Mr. McLENDON. Did you handle any of the details, such as the preparation of the application, or the filing of balance sheets, a financial statement?

Mrs. NOVAK. No, I did not.

Mr. McLENDON. Do you recall signing a financial statement of yourself and your husband in connection with this loan?

Mrs. NOVAK. With the Small Business Administration?

Mr. McLENDON. Yes.

Mrs. NOVAK. Yes, I signed many papers of all sorts.

Mr. McLENDON. But you do not have a copy of it?

Mrs. NOVAK. No, I do not.

Mr. McLENDON. Did you know that Baker himself was required to file a financial statement, also?

Mrs. NOVAK. I don't understand.

Mr. McLENDON. I said, Did you know that Baker, himself, had also filed a financial statement in connection with the loan?

Mrs. NOVAK. I would assume he would, yes.

Mr. McLENDON. Now, when this loan was obtained from the Small Business Administration, that added to the existing indebtedness, made an aggregate of about \$746,000, did it not?

Mrs. NOVAK. At that time, no. It wasn't that much.

Mr. McLENDON. Well, did you get additional loans from private banks?

Mrs. NOVAK. Yes, we got a loan from the American National Bank. We got the Small Business Administration loan. And then our big mortgage of \$350,000 or \$360,000, from Fraternity Federal, Baltimore, Md.

Mr. McLENDON. Baltimore, Md.?

Mrs. NOVAK. Right.

Mr. McLENDON. Am I correct, then, in saying that when all of this mortgage indebtedness was combined, the total was approximately \$746,000?

Mrs. NOVAK. No. The \$746,000 was the new mortgage from Fraternity Federal after we sold the Carousel, Mr. McLendon.

Mr. McLENDON. Well, I think we are both saying the same thing in a little different language.

Mrs. NOVAK. Oh, eventually, yes, it came up—

Mr. McLENDON. The final mortgage indebtedness was \$746,000 approximately, regardless of where it came from, was it not?

Mrs. NOVAK. There was so much money involved all the time that I am lost, I really cannot say.

The summer of 1962—no, at that point there was about \$500,000 to \$600,000 involved.

Mr. McLENDON. Was an arrangement finally worked out for the sale of the Carousel property?

Mrs. NOVAK. Yes.

Mr. McLENDON. Who became the purchaser?

Mrs. NOVAK. January and February of 1963.

Mr. McLENDON. Who became the purchaser?

Mrs. NOVAK. Serv-U Corp.

Mr. McLENDON. What did you know about the Serv-U Corp. at that time?

Mrs. NOVAK. I didn't know too much about the Serv-U Corp. other than knowing Mr. Baker had—was owner, or owned a certain portion of the company. He spoke of a company, but he didn't specifically say Serv-U. But I later learned it was Serv-U.

Mr. McLENDON. Did you know any of the officers and directors of the company?

Mrs. NOVAK. No. I never did meet any of them. That is, outside of Mr. Baker.

Mr. McLENDON. What interest did Mr. Baker tell you, if he did tell you, he had in the Serv-U Corp.? How much stock did he say he owned?

Mrs. NOVAK. He never said how much stock he owned—only in January of 1962 he at that time told me that he had a third interest in a company in California. But what happened to it since, I don't know.

Mr. McLENDON. Well, did you identify that statement as meaning that the Serv-U Corp. was the one he was referring to?

Mrs. NOVAK. It is the only one I knew of, yes.

Mr. McLENDON. In connection with the loans that you obtained on the Carousel, the mortgage loans on the Carousel, from the banks in Baltimore, and other places in Maryland, perhaps, did Mr. Baker make any statement to you as to how he was going to borrow the additional funds? Did he refer to any individuals that he was going to deal with?

Mrs. NOVAK. In Baltimore, with the Fraternity Federal, yes. He spoke of Mr. Rogers, Bill Rogers.

Mr. McLENDON. Bill Rogers?

Mrs. NOVAK. That is right. Senior and junior.

Mr. McLENDON. What did he say, if anything, about his ability to get additional mortgage funds from that bank?

Mrs. NOVAK. Well, that he knew them, and said that he has been good to them, and they were returning a favor.

Mr. McLENDON. And was the amount of the debt—amount of the mortgage that that bank held increased?

Mrs. NOVAK. From the original \$270,000 to \$350,000 or \$360,000, in 1962; yes, sir.

Mr. McLENDON. And did the Carousel also owe money to the American National Bank?

Mrs. NOVAK. Yes, we had commitment for a loan.

Mr. McLENDON. And what was that secured with?

Mrs. NOVAK. That was to be a chattel mortgage.

Mr. McLENDON. On the furniture and fixtures in the Carousel?

Mrs. NOVAK. That is right.

Mr. McLENDON. And what was the amount of that?

Mrs. NOVAK. \$110,000, or thereabouts.

Mr. McLENDON. Can you now tell us approximately the total indebtedness of Carousel before it was sold to Serv-U?

Mrs. NOVAK. No, I could not exactly. It would be the \$350,000 plus \$110,000. And I would imagine about \$600,000 or better—at the time it was sold.

Mr. McLENDON. Will you look at the documents in front of you there and see if you can find a copy of an agreement for purchase and sale to the Serv-U Corp., dated February 25, 1963, and signed by you and your husband?

Mrs. NOVAK. That was not by my husband, sir. That is my brother-in-law, his wife, and myself. That was February of 1963.

Mr. McLENDON. Is this document that you are looking at a copy of the contract for the sale of the Carousel to the Serv-U Corp.?

Mrs. NOVAK. That is right.

Mr. McLENDON. Mark that the appropriate exhibit number, Mr. Reporter.

(The document referred to was marked "Novak Exhibit No. 13," and is as follows:)

NOVAK EXHIBIT 13. AGREEMENT DATED FEBRUARY 25, 1963, FOR PURCHASE AND SALE OF CAROUSEL MOTEL

AGREEMENT FOR PURCHASE AND SALE

This agreement executed the date hereinafter on the signature page designated but effective the 1st day of January 1963, between Carousel Motel, a general partnership, and its partners, Robert G. Baker and Dorothy C. Baker, his wife, Donald J. Novak and Anita M. Novak, his wife, and Gertrude C. Novak, a widow, hereafter referred to collectively as "sellers"; and Serv-U Corp., a corporation, hereafter referred to as "buyer."

1. *Assets.*—Sellers agree to sell, and buyer agrees to purchase, as of January 1, 1963, for the considerations hereinafter recited, all of the assets of sellers generally known as the Carousel Motel, including the real property and improvements, tangible personal property, and intangible personal property, all more specifically described as follows:

(a) Real property:

(1) All that tract or parcel of land lying and being situated in Fenwick, in the 10th Election District of Worcester County, Md., on the easterly side of and binding upon Fenwick Avenue or Ocean Highway and being more particularly described as follows: Beginning at the intersection of the easterly side of said Fenwick Avenue or Ocean Highway with the southerly line of English Avenue as shown on a plat entitled "Revised and Reassembled Plat No. 2 of Fenwick, Md." dated April 15, 1963, and recorded among the land records of Worcester County, Md., in plat book O.D.C. No. 1, folio 22; and from said point of beginning running by and with the southerly line of English Avenue, south 33° 11' 42" east, for a distance of 499.9996 feet to a point at the northeasterly corner of lot No. 6 as shown on the plat hereinbefore mentioned; thence south 06° 48' 18" west, 344.38 feet to southern boundary, as shown on said plat; thence by and with said southern boundary, north 71° 49' 42" west, 510.003 feet to the easterly line of

Fenwick Avenue or Ocean Highway as aforesaid; thence by and with the easterly side of said avenue or highway, the two following courses: (1) north 06°48'18" east, 191.82 feet and (2) north 06°81'12.67" east, 52.04 feet to the place of beginning;

(2) All that lot or parcel of land lying and being situate in Fenwick, in the 10th Election District of Worcester County, State of Maryland, located on the westerly side of and binding upon Wight Street and on the northerly side of and binding upon English Avenue, having a frontage on said Wight Street of 50 feet and extending back therefrom in a westerly direction with a uniform width of 50 feet and along the northerly side of said English Avenue for a distance of 130 feet to a 20-foot alley, and being designated as lot No. 12, in block No. 102 on a plat known as "Revised and Reassembled Plat No. 2 of Fenwick, Md.," dated April 15, 1943, and recorded among the land records of Worcester County, Md. in plat book O.D.C. No. 1, folio 22:

Together with all the buildings and improvements thereon and the rights, roads, ways, waters, privileges, appurtenances, and advantages thereto belonging or in anywise appertaining.

(b) Tangible personal property: All of the furniture, furnishings, fixtures, equipment, signs, and kitchen equipment located upon the real property described in paragraph 1(a) above, together with all other tangible personal property owned by Carousel Motel, a general partnership.

(c) Intangible personal property: All guest and city ledger accounts, receivables from concessionaires, bank accounts, construction accounts, house funds, utility deposits, escrow and bond deposits, deferred interest and mortgage expenses, and all other types of intangible personal property owned as of January 1, 1963, by Carousel Motel, a general partnership.

(d) Interests of individual sellers: All partnership interests of the individual sellers, whether by way of loans, advances, investments, compensation, or otherwise, with respect to that certain property known as the Carousel Motel or the Carousel Motel, a general partnership.

2. Purchase price.—The purchase price for such property shall be the sum of \$1,016,566.23, which shall be paid as follows:

(a) Assumption by the buyer of \$618,589.54 of obligations and liabilities of the sellers as of January 1, 1963, as shown on the attached schedule A.....	\$618, 589. 54
1(b) Issuance by the buyer of its nonassignable, nonnegotiable, unsecured promissory notes in the total principal amount of \$397,976.69, as follows:	
(1) To Donald J. Novak and Anita M. Novak, his wife, a class A promissory note in the principal amount of \$53,789.62.....	43, 789. 62
(2) To Gertrude C. Novak, a widow, a class A promissory note in the principal amount of \$53,789.62.....	63, 789.62
(3) To Robert G. Baker and Dorothy C. Baker, his wife, a class A promissory note in the principal amount of \$107,579.24.....	107, 579. 24
(4) To Robert G. Baker and Dorothy C. Baker, his wife, a class B promissory note in the principal amount of \$182,818.21.....	182, 818. 21
Total, promissory notes.....	397, 976. 69
Grand total.....	1, 016, 566. 23

All of such promissory notes shall bear interest at the rate of 6 percent per annum, payable annually. Principal payments on all such notes shall be made only from net increase in property equity plus cash flow profits of Carousel Motel as hereinafter described. The class B promissory note payable to Robert G. Baker and Dorothy C. Baker, his wife, in the principal amount of \$182,818.21, shall be paid in full before any principal payments shall be made on the class A promissory notes. Thereafter payment on the class A promissory notes shall be made in the following proportion: 50 percent to Robert G. Baker and Dorothy C. Baker, his wife; 25 percent to Donald J. Novak and Anita M. Novak, his wife; and 25 percent to Gertrude C. Novak, a widow.

Both class A and class B promissory notes shall be paid by the buyer only out of the net increase in property equity plus cash flow profits of the Carousel

Motel effective after the date of acquisition, determined as follows: (1) increase in the equity for the assets as the result of principal payments, (2) minus straight-line depreciation on lives agreed to by the Internal Revenue Service, (3) plus or minus net cash flow from operations computed as follows: taxable income of the Carousel Motel per income tax return less Federal income tax paid plus depreciation allowed or allowable under the Federal income tax return, minus capital outlay or equity acquisition.

3. *Additional purchase price.*—In addition to the above recited purchase price, buyer shall reimburse Robert G. Baker and Dorothy C. Baker, his wife, in the amount of \$7,163.18 in cash upon the consummation of this transaction as the result of loans after the effective date of this agreement and prior to the signing of this sales agreement, as shown on the attached schedule A.

4. *Representations of sellers.*—(a) Sellers have good and marketable title to all property herein sold, and all of such property is free and clear of all liens and encumbrances except those specifically assumed by buyers and shown on the attached schedule A.

(b) Sellers represent and warrant that they will obtain a loan commitment of not less than \$300,000 for the purpose of causing to be erected upon the premises 36 additional units to the Carousel Motel. Notwithstanding anything to the contrary herein contained, in the event that Serv-U-Corp. shall be adjudged a bankrupt or becomes insolvent, the balance of the outstanding notes referred to in this agreement shall thereupon become automatically and immediately due and payable.

In witness whereof, the parties hereto have executed this agreement this 25th day of February 1963.

CAROUSEL MOTEL,
(a general partnership).
By ROBERT G. BAKER,
By DOROTHY C. BAKER,
By DONALD J. NOVAK,
By ANITA M. NOVAK,
By GERTRUDE C. NOVAK,
Sellers.

SERV-U-CORP.
(a corporation),
By _____
Chairman, Board of Directors.

SCHEDULE A.—*Contracts and notes payable*

Contracts:				
Pepsi-Cola				\$300.00
Coca-Cola				265.00
U.S. Leasing Corp.				22,311.71
Notes:				
Revere Furniture Co. (American Security & Trust) (includes interest)				61,717.50
Small Business Administration (includes interest)				53,040.00
Del Mar Co.				4,555.89
George B. Cropper (no interest)				7,500.00
R. M. & M. K. Kennan (excludes interest)				8,000.00
Fraternity Federal Savings & Loan (excludes interest)				349,893.14
American National Bank (excludes interest)				104,500.00
Subtotal				612,083.24
Bank overdraft				4,719.35
Taxes				1,786.95
				\$618,589.54
	Bakers	Novaks	G. Novak	
Partnership capital accounts:				
Notes arising from purchase	\$284,573.68	\$43,789.62	63,789.62	
Additional loans in January	12,986.95			
Less amount to be repaid currently by Serv-U-Corp.	-7,163.18			
Subtotal	290,397.45	43,789.62	63,789.62	397,976.69
Total				1,016,566.23

Mr. McLENDON. Looking at page 3, there is a total indebtedness—does the total indebtedness shown there amount to \$1,016,566.23?

Mrs. NOVAK. That is right. That includes the moneys that Mr. Baker and the Novaks jointly had in the motel.

Mr. McLENDON. It included all the indebtedness, plus the contributions that Baker had made, and the contribution made by you and your husband and your brother-in-law?

Mrs. NOVAK. That is right.

Mr. McLENDON. Now, who negotiated this contract?

Mrs. NOVAK. To the best of my knowledge, Mr. Tucker—Mr. Ernest Tucker, with other officers of Serv-U Corp.

Mr. McLENDON. Had you employed Mr. Tucker to act as counsel for you as administrator or executor of your husband's estate?

Mrs. NOVAK. Yes. Mr. Tucker still is administrator of my husband's estate.

Mr. McLENDON. How did it happen that you employed him?

Mrs. NOVAK. Mr. Baker advised that Mr. Tucker take care of the estate, said it would be less costly if I got him.

Secondly, he had the paperwork and all the documents from the Carousel—he was going to do both. And it would be more economical to have him. So that is how I got to have Mr. Tucker as administrator of the estate.

Mr. McLENDON. And when you found out that Mr. Tucker apparently had some interest in the Serv-U Corp., did it occur to you that you ought to employ other counsel?

Mrs. NOVAK. By all means.

Mr. McLENDON. And did you?

Mrs. NOVAK. Yes, I did.

Mr. McLENDON. And were you prompted in doing that by the conviction that you had that Mr. Tucker was trying to serve two masters?

Mrs. NOVAK. Yes. I was very unhappy about it, knowing that Mr. Tucker was here as chairman of the board of Serv-U Corp., administrator of my husband's will, and I was hoping to rely on him as an attorney, which I have in so many ways. But I thought there would definitely be conflict of interest, and had to retain another attorney.

Mr. McLENDON. Did you advise with Mr. Baker about the employment of additional counsel?

Mrs. NOVAK. Yes, I told him about it.

Mr. McLENDON. What did he say?

Mrs. NOVAK. He was very glad that I did. He thought that I should have.

Mr. McLENDON. And did your counsel participate in negotiating this contract for the sale to Serv-U?

Mrs. NOVAK. Yes, he did.

Mr. McLENDON. Now, with respect to the other block of property at Ocean City that you referred to earlier, do you remember what it cost?

Mrs. NOVAK. The second block at Ocean City—yes, it cost us \$80,000.

Mr. McLENDON. And did you have an agreement or contract for the purchase of that property which required payment spread over a number of years?

Mrs. NOVAK. Over a 5-year period; yes, sir.

Mr. McLENDON. Did you or your husband make any of the install-

ment payments, that came due—the annual installments, as they came due?

Mrs. NOVAK. We made our part of the payment; yes.

Mr. McLENDON. Did you at any time call Mr. Baker's attention to the fact that another installment would be due shortly, and that money was required to meet it?

Mrs. NOVAK. Yes, we kept Mr. Baker advised when, because we had the papers, and kept abreast as to when time was to make the next payment—interest, taxes, and payments. And we always kept him advised in advance.

Mr. McLENDON. On this particular occasion, what did he say to you about the availability of the money?

Mrs. NOVAK. Well, he always came up with all the moneys every year, the principal payments. But are you referring to a year ago's payments?

Mr. McLENDON. Yes. Specifically, I am referring to whether or not he told you to come to his office and get the money.

Mrs. NOVAK. That was a year ago.

Mr. McLENDON. Yes, a year ago.

Mrs. NOVAK. November 1962, you are making that reference.

Mr. McLENDON. He did?

Mrs. NOVAK. Yes, he did.

Mr. McLENDON. Did you go in compliance with his suggestion to come to his office?

Mrs. NOVAK. Yes; I did go to his office.

Mr. McLENDON. And what was the date, Mrs. Novak?

Mrs. NOVAK. November 19, 1962.

Mr. McLENDON. I furnished you with a list of deposit slips from the American National Bank. Do you have that there before you?

When you went to the office on November 19, 1962, what happened with respect to the payment or delivery to you of money?

Mrs. NOVAK. Well, on this specific date I received cash.

Mr. McLENDON. From whom?

Mrs. NOVAK. From Mr. Baker.

Mr. McLENDON. Tell the committee the circumstances, what occurred?

Mrs. NOVAK. Well, what happened there in this particular instance, this payment of nearly 13—well, a little over \$13,000, had to be made on this Ocean City block, between 47th and 48th Streets. And I wanted to sell this MGIC stock that we have talked about previously, to make this payment, because I had to see where these moneys were coming from, from time to time. But we did not get to sell that MGIC stock. So Mr. Baker told me not to worry about it, he would advance the money until the Mortgage Guaranty stock was sold, and then we would repay him from the proceeds of it.

So he gave me cash of \$13,300 this particular day, November 19, 1962, to deposit in our account.

Mr. McLENDON. The Carousel account?

Mrs. NOVAK. No, the Alfred S. Novak account. From which, then, I had drawn a check in the exact amount due to make payment for this other Ocean City block, to Mrs. Freed, in Reading, Pa.

Mr. McLENDON. Now, this entire amount of \$13,300 was in currency?

Mrs. NOVAK. That is right.

Mr. McLENDON. How did he give it to you—in a package, a bundle, or what?

Mrs. NOVAK. Well, I put it in a bundle later, but it was on his desk. We had to count it out.

Mr. McLENDON. Who is “we?”

Mrs. NOVAK. His secretary, Carole Tyler, and I counted it out.

Mr. McLENDON. Did Mr. Baker instruct you and Miss Tyler to count the money?

Mrs. NOVAK. Yes.

Mr. McLENDON. Did he make any statement about where he got the cash from?

Mrs. NOVAK. No. He just told us the money was there, to count it, for me to deposit that, and write this check out. He had to leave the office to go on the Senate floor, because they were going into session. And he did not tell me where he got the money.

Mr. McLENDON. Did you and Miss Tyler count it?

Mrs. NOVAK. Yes, we did.

Mr. McLENDON. What did you find?

Mrs. NOVAK. Well, we found a little bit more money there than what Mr. Baker had said there was. So we put that—she put that money back in the file cabinet.

Mr. McLENDON. And how much did you take away from Baker’s office on that occasion?

Mrs. NOVAK. \$13,300.

Mr. McLENDON. What did you do with it?

Mrs. NOVAK. I deposited it in the Alfred S. Novak account, drew a check the same day to Mrs. Freed, to pay for this Ocean City block.

Mr. McLENDON. Do you find a copy of a certificate of deposit there in the papers before you, dated November 19, 1962, for this exact amount, \$13,300?

Mrs. NOVAK. Yes, sir.

Mr. McLENDON. And is that a copy of the deposit slip that you used for the purpose of depositing this money?

Mrs. NOVAK. Yes, it is.

Mr. McLENDON. And it is deposited to the account of Alfred S. Novak, builder?

Mrs. NOVAK. B-l-d-r, abbreviated.

Mr. McLENDON. That is the way you carried—your husband carried his account?

Mrs. NOVAK. That is right.

(The document referred to was marked “Novak Exhibit 14,” and is as follows:)

NOVAK EXHIBIT 14. DEPOSIT SLIP DATED NOVEMBER 19, 1962, FOR \$13,300 CURRENCY
(AMERICAN NATIONAL BANK)

DATE 11 19 62 AMOUNT \$ 13,300.00

DEPOSITED WITH
American National Bank
OF SILVER SPRING
SILVER SPRING, MARYLAND

ACCOUNT NUMBER **XXXX**

FOR THE CREDIT OF Walter S. Novak, Cash

Nov. 19 1962

	DOLLARS	CENTS
CURRENCY	13	00
COIN		
PLEASE ENTER CHECKS SEPARATELY		
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
TOTAL	13	00

PLEASE SEE THAT ALL CHECKS AND DRAWS ARE ENDORSED
STATE BANK OF MARYLAND ON WHICH ITEMS ARE DEPOSITED

Mr. McLendon. Was this an unusual method of making payment by Mr. Baker?

Mrs. Novak. Well, that was not the first time I received cash to make deposits to the bank for him. So that was not unusual. However, it was the largest amount.

Mr. McLendon. Well, now, in 1962, did you receive cash from him in the amount of approximately \$7,000?

Mrs. NOVAK. When in 1962, Counsel?

Mr. McLENDON. Well, do you remember an item of approximately \$7,000?

Mrs. NOVAK. No, not exactly \$7,000. I could not say the exactness of any of them without looking at the deposit slips, and seeing where currency was deposited. There were various amounts deposited.

Mr. McLENDON. Well, suppose you go down the list and tell us the amounts of money—I am talking about cash now—that he delivered to you, as nearly as you can the dates, and where the delivery was made.

Mrs. NOVAK. In April of 1962 I got \$2,500 in cash.

Mr. McLENDON. Where was he when he delivered that to you?

Mrs. NOVAK. I don't remember offhand whether that was at his home or at his office. I could not recall that amount.

Mr. McLENDON. Did he call you to come to get the money?

Mrs. NOVAK. I would imagine he did. I just don't remember that particular circumstance.

Mr. McLENDON. And it is your recollection that he delivered it to you either at his home or at his office?

Mrs. NOVAK. Either I picked it up or he brought it over to my house, or I picked it up in his office. It could have been one of the three. I don't recall that one specifically.

Mr. McLENDON. Do you have a copy of the deposit slip for that amount of money dated April 11, 1962?

Mrs. NOVAK. Yes, I do, sir.

Mr. McLENDON. Mark that exhibit, Mr. Reporter.

(The document referred to was marked "Novak Exhibit 15," and is as follows:)



NOVAK EXHIBIT 15. DEPOSIT SLIP DATED APRIL 11, 1962, FOR \$2,500 CURRENCY
(AMERICAN NATIONAL BANK)

4/11/62

AMERICAN NATIONAL BANK

ACCOUNT OF [REDACTED] XXXX

Currency

April 11 1962

Sum of \$2500.00

2500.00

Mr. McLendon. All right.

What is the next one that you can tell us about?

Mrs. Novak. I have one here that is dated November 2. It is hard to tell—yes, November 2, 1962, for \$2,000.

(The document referred to was marked "Novak Exhibit 16," and is as follows:)

NOVAK EXHIBIT 16. DEPOSIT SLIP DATED NOVEMBER 2, 1962, FOR \$2,000 CURRENCY
(AMERICAN NATIONAL BANK)

11/2/62

DEPOSITED WITH
American National Bank
OF CINCINNATI
CINCINNATI, OHIO

ACCOUNT NUMBER **XXXX**

TO THE ORDER OF
Herzmann Hotel
(Cincinnati, Ohio)
Trustees

AMOUNT \$ **2000.00**

DATE	DESCRIPTION	AMOUNT
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		
29		
30		
TOTAL		2000.00

Mr. McLENDON. Do you recall where you got that money?

Mrs. NOVAK. I got that from Mr. Baker, but I do not remember the circumstances of that one—either at his home or at his office.

Mr. McLENDON. Was it paid to you in cash?

Mrs. NOVAK. Yes, it was.

Mr. McLENDON. And did you deposit it in the American National Bank?

Mrs. NOVAK. Yes, sir; I did.

Mr. McLENDON. Do you have a copy of the certificate there before you, dated November 2, 1962?

Mrs. NOVAK. Yes, I do, sir.

Mr. McLENDON. What is the next item you can identify?

Mrs. NOVAK. November 12, 1962—I have an amount of \$2,500, and \$9,500, making a total of \$12,000. Twelve thousand dollars was given to me to deposit in the Carousel account, but apparently we needed money in the operating account as well as the construction account. So \$2,500 was deposited in the construction account, and \$9,500 in the Carousel operating account.

Mr. McLENDON. Do you have copies of the deposit slips for both of those?

Mrs. NOVAK. Yes, I do.

Mr. McLENDON. Mark those, Mr. Reporter.

(The documents referred to were marked "Novak Exhibit 17" and "Novak Exhibit 18," respectively, and are as follows:)

NOVAK EXHIBIT 17. DEPOSIT SLIP DATED NOVEMBER 9, 1962, FOR \$2,500 CURRENCY
(AMERICAN NATIONAL BANK)

11/12/62

American National Bank

ACCOUNT NUMBER **XXXX**

FOR THE CREDIT OF
*Carroll Motel
 Ocean City Md.
 Nov 9 1962*

CURRENCY
 COIN

\$2,500.00

PLEASE PRINT NAME AND ADDRESS OF DEPOSITOR

AMOUNT IN WORDS

2,500 00

340 FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES

NOVAK EXHIBIT 18. DEPOSIT SLIP DATED NOVEMBER 9, 1962, FOR \$9,500 CURRENCY
(AMERICAN NATIONAL BANK)

11/9/62

DEPOSITED WITH
American National Bank
1000 BROADWAY
NEW YORK 17, N.Y.

ACCOUNT NUMBER **XXXX**

Personal check
from [unclear]
Nov 9, 1962

CURRENCY **9,500.00**

COIN

Please Print Name and Address

MEMO TO THE CASHIER: PLEASE DO NOT DEPOSIT THESE SLIPS
ASSIGNED TO THE CASHIER AND RETURN TO THE CASHIER

9,500.00

Mr. McLENDON. Now, that added to a total of \$12,000, did it?

Mrs. NOVAK. Yes, it did.

Mr. McLENDON. Do you recall that that money was handed to you or delivered to you by Baker's wife?

Mrs. NOVAK. Yes.

Mr. McLENDON. Where?

Mrs. NOVAK. That was picked up at her office. Mr. Baker, I think, was out of town that day, and he asked me to pick it up from Mrs. Baker.

Mr. McLENDON. And where was she when she delivered the \$12,000 to you?

Mrs. NOVAK. It was picked up from her office.

Mr. McLENDON. Where was her office?

Mrs. NOVAK. Her office is in the New Senate Office Building.

Mr. McLENDON. And—

Mrs. NOVAK. And she works for the Subcommittee on Internal Security.

Mr. McLENDON. Works for the Internal Security Committee?

Mrs. NOVAK. Yes—subcommittee.

Mr. McLENDON. Was anyone present to see the delivery of this money?

Mrs. NOVAK. I do not know who was in her office at the time. And secondly, what had happened, our messenger for the committee walks by her office when he goes to the chairman's office, to pick up the mail. I assumed it was going to be a check. So I asked our messenger if he would be kind enough just to step inside the door and pick up an envelope for me. And he said he would be glad to.

When he brought over the envelope, it was thick.

Mr. McLENDON. It was the money instead of a check.

Mrs. NOVAK. It was cash instead of a check. It scared me to death, because I didn't much want a messenger or anyone else carrying cash. I would have gone over there personally, or had her deliver it personally. But Mr. Baker asked for me to pick it up from Mrs. Baker. Rather than my going, since our messenger was going right by the office, I had him pick it up. And there inside the envelope was \$12,000 in cash.

Mr. McLENDON. Did you count it there?

Mrs. NOVAK. I counted it in the office, when I received it; yes, to be sure.

Mr. McLENDON. Did Mrs. Baker participate in counting it?

Mrs. NOVAK. No; I counted it by myself, and reported to her it was \$12,000 even, and did she know it, because Mr. Baker indicated to me he was giving me \$12,000-some-odd. And I was going to report to her that is was not the amount he said—only \$12,000 even. So that I was not going to get myself involved.

Mr. McLENDON. What was this money to be used for, the \$12,000?

Mrs. NOVAK. Apparently for bills on the Carousel, for the Carousel, somehow.

Mr. McLENDON. These two deposit slips you referred to, one of them was to the credit of Carousel Motel, and the other one the Carousel Motel operating account, is that right?

Mrs. NOVAK. Operating for the Carousel proper. The construction was outstanding bills yet in the construction.

Mr. McLENDON. All right.

Now, go ahead with the list, and see if you can identify any further cash payments that you received.

Mrs. NOVAK. There was one January 15, 1963, for \$3,000.

Mr. McLENDON. Where did you get that money?

Mrs. NOVAK. That specific amount I do not recall whether I got it from Mr. Baker's office or from his home.

Mr. McLENDON. Was that also for deposit in the Carousel account?

Mrs. NOVAK. That is right.

Mr. McLENDON. Do you have a certificate of deposit—I mean a deposit slip for that?

Mrs. NOVAK. Yes; I do.

Mr. McLENDON. What is the date of it?

Mrs. NOVAK. In the corner—apparently it was deposited on January 15, 1963.

(The document referred to was marked "Novak Exhibit 19," and is as follows:)

NOVAK EXHIBIT 19. DEPOSIT SLIP DATED JANUARY 15, 1963, FOR \$3,000 CURRENCY (AMERICAN NATIONAL BANK)

1/15/63

AMERICAN NATIONAL BANK

ACCOUNT NUMBER [XXXXXXXXXX]

FOR THE ACCOUNT OF

*Cargaret Hotel
(Operating Co.)*

	DOLLARS	CENTS
CURRENCY	3,000	00
COIN		
PLEASE PRINT CURRENCY AND COIN		

PLEASE PRINT ALL FIGURES AND CHECKS ARE DEPOSITED TO THE ORDER OF THE ACCOUNT NUMBER TO WHICH THIS SLIP IS ATTACHED

3000.00

Mr. McLendon. All right.

Now, can you identify any further amounts of cash you received from Mr. Baker or anyone on his behalf, and which were deposited by you in the bank?

Mrs. Novak. I would rather not make acknowledgment on the others. The handwriting does not seem like mine at all.

Mr. McLENDON. You refer to the handwriting of the deposit slips?

Mrs. NOVAK. That is right—two of them here. The other is type-written. The dates seem familiar, but I cannot say on that at all.

Mr. McLENDON. Now, in any of these instances when you received cash from Mr. Baker, either at his home or at his office—in one case you say at the office of his wife—did you notify Ernest Tucker that you had received the money?

Mrs. NOVAK. I told him that; yes, so much money was deposited in the Carousel account—whether it was operating or construction—because he was writing all the checks on the construction account. And so then he also kept a record of what the Novaks deposited, and what Mr. Baker deposited, and he kept the record of the moneys deposited in the Carousel accounts.

Mr. McLENDON. Is it correct, then, to say that at that time Tucker was keeping the records of the company and drawing checks against the company's bank account for payment of debts?

Mrs. NOVAK. That is right; yes.

Mr. McLENDON. And is that the reason you would inform him that these deposits would be made?

Mrs. NOVAK. That is right. So he would be making payments, too, in some instances.

Mr. McLENDON. Mrs. Novak, did Mr. Baker ever explain to you the reason for paying these rather large amounts of money to you in currency?

Mrs. NOVAK. No.

Mr. McLENDON. Was your curiosity excited?

Mrs. NOVAK. Yes; it was very much so.

Mr. McLENDON. You used the expression a while ago that you were frightened. What did you mean by that?

Mrs. NOVAK. I just am not used to carrying those large sums of money in cash. I am scared to go two blocks with a hundred dollars, let alone thousands.

Mr. McLENDON. Did he ever explain to you, give you any reasons for handling the money in that manner?

Mrs. NOVAK. No; he never did.

Mr. McLENDON. Did you ever ask him?

Mrs. NOVAK. No. Actually I did not have a chance.

Mr. McLENDON. Did you ever know where he got the money from, what sources he had the money from?

Mrs. NOVAK. No; I have no idea where he got the money.

Mr. McLENDON. Now, in addition to these cash payments that were made to you, some of which you identified, did he also deliver checks to you on some occasions?

Mrs. NOVAK. Yes; I also deposited checks for Mr. Baker.

Mr. McLENDON. And were the checks handled the same way that you handled the money, with respect to depositing it?

Mrs. NOVAK. Yes; I would deposit his check to the Carousel account, and inform Mr. Tucker that Mr. Baker deposited so much money.

Mr. McLENDON. Do you remember any particular check that he gave you for a substantially large amount that was drawn on the bank out of the District of Columbia, and not a bank in Maryland, where you ordinarily would be doing business?

Mrs. NOVAK. Only one.

Mr. McLENDON. What was that?

Mrs. NOVAK. And I do not know the exact bank name, although I do know it was in Oklahoma City.

Mr. McLENDON. Do you remember the amount of that check?

Mrs. NOVAK. No; I do not remember the amount of that check.

Mr. McLENDON. Do you remember in January 1963 that the \$3,000 item to which you referred was picked up by you at Mr. Baker's home?

Mrs. NOVAK. I did pick up money at his home, but I could not recall whether this was picked up at his home or not.

Mr. McLENDON. You cannot recall that particular item.

Mrs. NOVAK. No.

Mr. McLENDON. How about another item of \$2,000? Do you recall picking up that amount at his home?

Mrs. NOVAK. Again I would like to say I do not know offhand the exact amount I picked up at his home. But I do know that I picked up money at his home, possibly on two occasions.

Mr. McLENDON. Were you familiar with any of the individuals who worked in Baker's office?

Mrs. NOVAK. I knew them just casually. No, I did not know them well.

Mr. McLENDON. You knew Miss Tyler, his secretary?

Mrs. NOVAK. Yes, I knew Miss Tyler.

Mr. McLENDON. Was there any other occasion when she could have participated in counting the money or delivering the money to you—other than the one you already testified about?

Mrs. NOVAK. No; just that one occasion, if I remember—that I recall.

Mr. McLENDON. Did you ever talk to her about any of these business transactions that you were having with Baker?

Mrs. NOVAK. No.

Mr. McLENDON. Did you know a young man named Stewart who worked in Baker's office?

Mrs. NOVAK. Joe Stewart we called him. Yes, I knew Mr. Stewart, but not personally enough to talk business with him.

Mr. McLENDON. You mean by that that you never talked with him about any of these business affairs?

Mrs. NOVAK. No, not to any extent—only casually mentioning Carousel. That would be the extent of it.

Mr. McLENDON. Is there any other person that worked in Baker's office that you discussed these business affairs with?

Mrs. NOVAK. No.

Mr. McLENDON. None at all.

Did Mr. Baker on one occasion ask you if you would consider renting rooms in your home to Miss Tyler and another person?

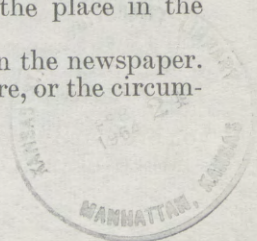
Mrs. NOVAK. Yes, he did.

Mr. McLENDON. What became of that?

Mrs. NOVAK. Well, Miss Tyler and her roommate decided they would not live with me, because they would each like to have had separate rooms, rather than the one I had to offer.

Mr. McLENDON. Did you know anything about the place in the city that Miss Tyler did finally move into?

Mrs. NOVAK. Yes; I learned of that after it was in the newspaper. I did know they had a house, but I did not know where, or the circumstances involved.



Mr. McLendon. Was this after—you are referring to now when you learned she lived in a house uptown—was this after the conversation with you about occupying a room in your home?

Mrs. Novak. Oh, yes.

Mr. McLendon. Did you have any conversation with her about the place that she finally moved into?

Mrs. Novak. No; other than she saying she was busy furnishing her house or an apartment. This I could not say. I just did not go into any lengths of talking with her.

Mr. McLendon. Did you know a man named Ralph Hill, who is connected with the Capitol Vending Co.?

Mrs. Novak. Yes, I know Ralph Hill.

Mr. McLendon. Did he ever ask for a conference with you and talk to you about his transactions with Baker?

Mrs. Novak. Yes, he did.

Mr. McLendon. Can you pinpoint approximately the time when those conversations took place?

Mrs. Novak. It started in March or April of 1963.

Mr. McLendon. Was it before the litigation was instituted by—

Mrs. Novak. Several months before.

Mr. McLendon. By Hill's company?

Mrs. Novak. Several months before; yes, sir.

Mr. McLendon. Tell the committee what Mr. Hill said to you about his transactions with Baker.

Mrs. Novak. He told me of Mr. Baker's transactions with him, about him paying him a certain amount of commissions as a result of having the Melpar contract, and that Mr. Baker wanted to buy out Capitol Vending. Mr. Hill did not want to sell the company. And that is when they became sort of not so much on the out, but not—I just don't know the exactness of it.

Mr. McLendon. Did he or did he not tell you that Baker had obtained the contract at Melpar for his company?

Mrs. Novak. He helped, but I did not know—didn't exactly say that he was totally responsible. There was a bidding process they went through. But if there was any influence used—no, I could not say that.

Mr. McLendon. Did he tell you that he was paying Baker or had been paying Baker for his services in that connection?

Mrs. Novak. Yes; he told me he was paying Mr. Baker.

Mr. McLendon. What amount of money did he tell you he had been paying Baker?

Mrs. Novak. He told me he was paying Mr. Baker \$250 a month, and later it was raised to \$650 a month.

Mr. McLendon. And what did he say those payments were for? Why did he pay them?

Mrs. Novak. Just commissions that were paid.

Mr. McLendon. Commissions?

Mrs. Novak. Well, not so much commissions. I do not know the exact word that he had used. But that he had paid him for services of some sort.

Mr. McLendon. Now, you had no business association with Mr. Hill or his company; did you?

Mrs. Novak. No.

Mr. McLendon. What is the explanation for his coming to you and talking to you in this matter?

Mrs. Novak. He heard from a mutual friend of ours of my association in the Carousel with Mr. Baker, and he learned that Mr. Baker—when we all sold the Carousel as such to the Serv-U Corp., which Mr. Hill knew of—and then knowing the kind of notes we had accepted, he wanted to hear firsthand what my feelings were and how this all came about.

Mr. McLendon. Do you know how he would have known about the sale of Carousel to the Serv-U?

Mrs. Novak. Many people knew of that.

Mr. McLendon. And you say he even knew the kind of notes that you had accepted in the sale?

Mrs. Novak. This mutual friend of ours had apparently told him, yes.

Mr. McLendon. Now, go ahead and complete your statement. I was asking you why he came to you.

(At this point, Senator Cooper returned to the hearing room.)

Mrs. Novak. The sole reason, I have a feeling, was to find out and to confirm his thinking on what Mr. Baker really was like—that he was talking the same kind of language to Mr. Hill as he was to us and how he was handling his influences, if any. And he just didn't know. He just knew that I felt that I was in somewhat of a jeopardy. And so before he got himself too involved and came to any conclusions with Mr. Baker, he thought he would like to talk to me.

Mr. McLendon. Would it be fair to summarize it by saying that he explained that he wanted to talk to you because he understood that you had had transactions with Baker, and he was having difficulty with him, and maybe you could give him information about what sort of man Baker was and his responsibility?

Mrs. Novak. He was trying to find out from others, too.

Mr. McLendon. All right. And I assume you told him all you knew?

Mrs. Novak. No, not at first, by no means. He learned this from many sources.

Mr. McLendon. Now, I want to ask you about a few individuals. Do you know a man named Don B. Reynolds?

Mrs. Novak. Yes, I do.

Mr. McLendon. Have you had any business transactions with him?

Mrs. Novak. Yes, we had insurance, construction insurance with him, and life insurance with him.

Mr. McLendon. Did Mr. Baker have anything to do with your business that you did with Reynolds?

Mrs. Novak. I would say "No."

Mr. McLendon. Did he mention Reynolds to you?

Mrs. Novak. Oh, we talked together—we were together many times; that is, Mr. Reynolds and Mr. Baker and the Novaks—we were together on many occasions.

Mr. McLendon. On many occasions?

Mrs. Novak. Oh, yes; we were mutual friends.

Mr. McLendon. What interest, if any, did Baker have in the Reynolds business?

Mrs. Novak. I understood from Mr. Reynolds he had no association with him.

Mr. McLENDON. You mean in business?

Mrs. NOVAK. In business—since 1960. Prior to that, yes, sir, he was an officer.

Mr. McLENDON. Prior to 1960, they had been in a sort of a partnership; is that your understanding?

Mrs. NOVAK. Some sort of partnership, yes.

Mr. McLENDON. Did you know any other persons interested in Serv-U Corp.—other than Baker?

Mrs. NOVAK. At the time we were making the transactions and selling the Carousel to the Serv-U Corp., I then knew, or I was told that Mr. Black was also one of the officers—but in what capacity, I do not know—of Serv-U Corp.

Mr. McLENDON. Did you ever talk to him in connection with the sale to Serv-U?

Mrs. NOVAK. No; I have never talked to Mr. Black. I met Mr. Black just within the last three or four—one time last summer at one of the restaurants nearby, and that was my first meeting with him. This was just an introduction—and I was glad to have met him.

Mr. McLENDON. In addition to these real estate transactions involving the two blocks of property over in Ocean City, did you and Baker also buy some property known as Snowdon Manor?

Mrs. NOVAK. Yes.

Mr. McLENDON. Where is that property located?

Mrs. NOVAK. That is located in nearby Maryland, out Colesville Road, in Silver Spring.

Mr. McLENDON. About when was that purchased?

Mrs. NOVAK. That was purchased in 1959, I think.

Mr. McLENDON. In what proportion was that property owned?

Mrs. NOVAK. Mr. Baker has half interest in it.

Mr. McLENDON. And you and your brother-in-law have the other half?

Mrs. NOVAK. Yes.

Mr. McLENDON. Is it developed property or vacant property?

Mrs. NOVAK. It is undeveloped right now.

Mr. McLENDON. Do you still own it?

Mrs. NOVAK. Yes; we do.

Mr. McLENDON. It has not been developed?

Mrs. NOVAK. No.

Mr. McLENDON. Do you remember the amount of the investment in that property, the total cost?

Mrs. NOVAK. The total cost was a little over \$50,000.

Mr. McLENDON. Has the purchase price been paid, or do you still owe some of it?

Mrs. NOVAK. No; we owe more than half of it yet.

Mr. McLENDON. More than half of it.

Now, is there any other real estate that you have acquired in association with Baker that I have not asked you about?

Mrs. NOVAK. No; those are the only three.

Mr. McLENDON. Any other investments of any kind I have not asked you about in which you and your husband or you and your brother-in-law were associated with Baker?

Mrs. NOVAK. No, not to my knowledge.

Mr. McLENDON. All right.

Senator CURTIS. Mrs. Novak, in your conversation with Mr. Hill, did he tell you that the sums he paid to Robert Baker monthly were in cash?

Mrs. NOVAK. No, he did not elaborate on that, and I did not ask him.

Senator CURTIS. But he did say he had given him money every month?

Mrs. NOVAK. That is right.

Senator CURTIS. And over how long a period of time did he indicate that he paid him?

Mrs. NOVAK. I could not say that exactly, either.

Senator CURTIS. Several months?

Mrs. NOVAK. Oh, yes, this was several months.

Senator CURTIS. Now, with reference to the bank deposits, when the Novaks, as partners, contributed money for operating or for construction, how did you make your contributions—by cash or checks?

Mrs. NOVAK. Always checks.

Senator CURTIS. Always by checks?

Mrs. NOVAK. I never would get cash. This was from sale of stock that I deposited in the account.

Senator CURTIS. And so far as your late husband was concerned, and you, and the Donald Novaks, you made your contributions in checks?

Mrs. NOVAK. Always, yes. We never carried that much money around.

Senator CURTIS. All right.

Now, who else made contributions besides the two Novak families and Baker?

Mrs. NOVAK. We are the only three that I know of.

Senator CURTIS. So it would be safe to assume that all of the deposits made in cash originated with Mr. Baker?

Mrs. NOVAK. Yes.

Senator CURTIS. All in all, how much in cash did Baker turn over to you, do you think, either at home of one or the other, at his office, your office, or by messenger or otherwise? You may consult any memoranda that you have there. But I would like to know.

Do you have an estimate of that?

Mrs. NOVAK. Yes; I have a list of it. Without seeing and confirming some of those, I would say there was \$31,000, \$32,000, that I can safely say.

Senator CURTIS. And it may run higher than that?

Mrs. NOVAK. Well, that is what I can now—

Senator CURTIS. This is what you are sure of?

Mrs. NOVAK. That is what I am sure of. And there was more, but I could not say.

Senator CURTIS. There was more than that. And if it did originate in cash, that did not originate with the Novaks.

Mrs. NOVAK. Yes.

Senator CURTIS. So that if it develops that the figure exceeds \$45,000, it came from Mr. Baker, but you are sure of the \$31,000 or so at this moment?

Mrs. NOVAK. Right at this moment, just seeing what deposit slips there are—I can recognize my writing, yes.

Senator CURTIS. But you are aware also that that is not complete?

Mrs. NOVAK. I am also aware that there are not all the deposit slips there, either.

Senator CURTIS. Now, about what was the period approximately that these cash payments were made—roughly, when did they begin and they extended to about when?

Mrs. NOVAK. Well, there was one made in April of 1962. Then there was none until November and December of 1962, and January of 1963.

Senator CURTIS. So from April 1962 until the first part of 1963 is the period?

Mrs. NOVAK. There is a long lapse.

Senator CURTIS. Yes, yes. It was not with any regularity. But that is the overall period when it took place.

Mrs. NOVAK. Yes.

Senator CURTIS. How many times would you guess that you picked up money in Mr. Baker's office—and by that I mean in sizable sums, say over a thousand dollars in bills.

Mrs. NOVAK. Other than that one big one, I know there were others, but what the exact amounts were I do not know—probably three or four times, three times.

Senator CURTIS. And was anyone else present at any time other than Miss Tyler?

Mrs. NOVAK. Not that I know of. There were, but whether they knew what I was coming for—

Senator CURTIS. Yes. Now, Mr. Tucker wrote the checks for the payment of the bills, did he not, in the Carousel activity?

Mrs. NOVAK. Yes, he did.

Senator CURTIS. Why did Baker give the cash to you instead of direct to Mr. Tucker?

Mrs. NOVAK. I don't know. But this has remained a mystery to me. Well, I was also writing checks out in the operating account. Mr. Tucker was writing them in the construction account. I was writing them out in November, December, January—November and December of 1962, and January of 1963. So I told him that we were running short.

Senator CURTIS. In other words, you would be concerned about the financial condition of the operation and the payments coming due.

Mrs. NOVAK. That's right.

Senator CURTIS. And so some of these payments were because you expressed concern that there was a payment due and not sufficient money in the bank.

Mrs. NOVAK. That's right.

Senator CURTIS. Was that true in a number of instances?

Mrs. NOVAK. Yes.

Senator CURTIS. And what would you say to Mr. Baker in regard to the need for money?

Mrs. NOVAK. Well, many times he asked me how were we doing in the checking account, and if the payments could be made, and I would then inform him we had so-and-so much money, and we needed so much for this payment, that in the other, because they spread throughout the month.

Senator CURTIS. And what would he say?

Mrs. NOVAK. Of course I was very concerned, too, about not being able to come up with my end of the money. But he kept telling me not to worry about it, that he could come up with the money, and he did not express any concern about not being able to come up with any money until January of 1963.

Senator CURTIS. Now, while sometimes he would speak to you and ask you how much money was in the bank account, and you would express a need for some, he would tell you not to worry, and he would come up with some money. Were there times when you were the one who mentioned the fact that a payment was due and you were concerned about it?

Mrs. NOVAK. Oh, yes.

Senator CURTIS. And he would give you a similar reply?

Mrs. NOVAK. More or less, yes.

Senator CURTIS. Were there any occasions where you asked Mr. Baker for funds to put into the bank account to meet obligations that he paid you in anything other than cash?

Mrs. NOVAK. Oh, yes.

Senator CURTIS. I mean when you picked up the money.

Mrs. NOVAK. Oh, yes; he gave me checks.

Senator CURTIS. He did.

Mrs. NOVAK. Oh, yes.

Senator CURTIS. And they would be his personal checks?

Mrs. NOVAK. Well, he would have signed them, yes.

Senator CURTIS. But would they be the checks of any company or business concern?

Mrs. NOVAK. No; they were bank checks.

Senator CURTIS. Individual checks.

Mrs. NOVAK. Yes.

Senator CURTIS. And on what banks?

Mrs. NOVAK. I could not recall that today, except for the one out in Oklahoma.

Senator CURTIS. What size bills would be used for these transactions that were conducted in cash—\$5 bills, \$10 bills, \$100's, \$50's, or what?

Mrs. NOVAK. Mostly \$100 bills.

Senator CURTIS. Mostly \$100 bills.

The day that Miss Tyler assisted in counting the money, that was the transaction on or near November 19, 1962, was it not?

Mrs. NOVAK. That's right.

Senator CURTIS. Where did you first see Mr. Baker that day, in the outer office or in the inner office?

Mrs. NOVAK. In his private office.

Senator CURTIS. That is in the Capitol?

Mrs. NOVAK. Yes, sir.

Senator CURTIS. Was anyone in there with him when you first started to talk to him?

Mrs. NOVAK. Yes—Miss Tyler was.

Senator CURTIS. Relate the conversation as best you can.

Mrs. NOVAK. Well, as I was walking in, he had to leave, more or less, so it was all in passing. He said that the money was there, it was lying out in various packages on his desk, and he said, "Please count it out again, you both count it out and check it out, to be sure

that there is the exact amount in there which you want to deposit"—which was \$13,300.

Senator CURTIS. Was it on his desk?

Mrs. NOVAK. Yes, it was on his desk.

Senator CURTIS. And it was out on top of the desk when you came in.

Mrs. NOVAK. That's right.

Senator CURTIS. And Miss Tyler accompanied you in, or was she already in there?

Mrs. NOVAK. She was already in there.

Senator CURTIS. Who ushered you into the office, if anyone, from the outer office?

Mrs. NOVAK. I don't remember the page or the boy that was in the office at that time. But he announced to Mr. Baker that I was here, and he told him to have me come in.

Senator CURTIS. Did he announce it over the telephone?

Mrs. NOVAK. Yes, he announced it over the telephone.

Senator CURTIS. But Mr. Baker had anticipated that you would get there about that time.

Mrs. NOVAK. Oh, well, I called previous to my going there, or he called me and said he had the money, or I called him to ask him whether he had it, one or the other. We communicated on the telephone.

Senator CURTIS. And this was the largest amount you picked up, and was the one that gave you some concern, about carrying that amount of money.

Mrs. NOVAK. That and the \$12,000 amount; yes.

Senator CURTIS. You and Miss Tyler proceeded to count it.

Mrs. NOVAK. Yes, we did.

Senator CURTIS. And there was more than he thought there was, or he had stated.

Mrs. NOVAK. Well, we counted and it seemed like there was some mixup there; yes. That is the reason I think he asked us to count it over again. He probably counted it hurriedly.

Senator CURTIS. And what did she say?

Mrs. NOVAK. Well, she counted it twice and I counted it twice. And we each came up with the exactness of overage.

Senator CURTIS. What did she say about the overage?

Mrs. NOVAK. That they miscounted it.

Senator CURTIS. What did she do with it?

Mrs. NOVAK. Pardon?

Senator CURTIS. What did she do with the overage?

Mrs. NOVAK. Put it back in the filing drawer.

Senator CURTIS. In the filing drawer. Was that a locked drawer?

Mrs. NOVAK. Yes.

Senator CURTIS. She had the key?

Mrs. NOVAK. It locked automatically. Whether it was locked before, I don't know. But after she put the money back, she pushed the plunger.

Senator CURTIS. Was it dropped just loose in the drawer, or did she put it in a folder or envelope of some kind?

Mrs. NOVAK. I did not follow her that closely to know. All I know is she put it in a drawer.

Senator CURTIS. On other occasions when you received cash from Mr. Baker from the same office in the Capitol Building, would the money be laying out on the table?

Mrs. NOVAK. No.

Senator CURTIS. Where would it come from?

Mrs. NOVAK. Where did Mr. Baker get it, you mean?

Senator CURTIS. Where would he get it—out of his pocket?

Mrs. NOVAK. No, he would have it in a folder, either in his desk or holding it in his hand.

Senator CURTIS. I see.

Would you count the money out at that time?

Mrs. NOVAK. No, he said there was so-and-so much. I do not remember whether I would count the smaller amounts in front of him right then and there—I know I did, because I never wanted to make that trip out to Silver Spring without counting it. And secondly, I always wanted him to know that this was so much money that he was giving me, and that I knew that so much cash was there.

Senator CURTIS. Then would he give it to you in an envelope, or just hand you the money?

Mrs. NOVAK. No. It was always in an envelope, as I recall.

Senator CURTIS. What kind of an envelope?

Mrs. NOVAK. A brown envelope of some sort.

Senator CURTIS. Would it be an official envelope?

Mrs. NOVAK. That, Senator, I wish I could tell you. I do not know offhand.

Senator CURTIS. Now, what kind of bills were in the package that the messenger picked up?

Mrs. NOVAK. Those were \$100 bills for the most part.

Senator CURTIS. But it created quite a package.

Mrs. NOVAK. Yes. I would have never had him carrying it. And he doesn't know today he carried cash, because I didn't tell him. I know he would be scared.

Senator CURTIS. In reference to the fact that Mr. Tucker became the administrator of your husband's estate—is that correct?

Mrs. NOVAK. Yes.

Senator CURTIS. Your husband left a will.

Mrs. NOVAK. Yes, he did.

Senator CURTIS. There was no executor named in there?

Mrs. NOVAK. Yes, I was named the executrix.

Senator CURTIS. Who suggested that you not serve and that Mr. Tucker be made administrator of the will? Was it your idea?

Mrs. NOVAK. No, no. I was advised by Mr. Baker that Mr. Tucker should handle—could handle the estate, that it would be less costly to me and save me a lot of work, he knowing the ins and outs, and had known them for some time. Consequently he advised that I have Mr. Tucker. Then the next thing I knew Mr. Tucker was the administrator of the estate.

Senator CURTIS. In other words, it was Baker's idea, not yours.

Mrs. NOVAK. Originally—oh, yes, it wasn't mine.

Senator CURTIS. And it was not Tucker's?

Mrs. NOVAK. I could not say.

Senator CURTIS. Well, I mean so far as approaching you was concerned.

Mrs. NOVAK. No; that's right.

Senator CURTIS. Well, now, did anyone else get into it besides Baker and Tucker? Was there anyone else who told you to do that?

Mrs. NOVAK. No; no one else told me to do it. I had other people that had called me and wanted to be sure that I was satisfied.

Senator CURTIS. Who called you?

Mrs. NOVAK. Mutual friends.

Senator CURTIS. I see. Just to see how you were getting along.

Mrs. NOVAK. Whether I was satisfied, and was sure that I wanted Mr. Tucker to be the administrator.

Senator CURTIS. How would they find out about it? Was a legal notice published?

Mrs. NOVAK. No; this was just talking. Many friends asked me who is handling the estate.

Senator CURTIS. Now, you had to sign a paper declining your right to serve as executrix, did you not?

Mrs. NOVAK. That is right.

Senator CURTIS. And you signed the paper nominating Mr. Tucker.

Mrs. NOVAK. Yes; but I did not realize what I had done at that time. I really didn't.

Senator CURTIS. Did you also sign a power of attorney?

Mrs. NOVAK. I don't know. I must have.

Senator CURTIS. You must have.

Mrs. NOVAK. But I do not remember my doing so.

Senator CURTIS. Because the Tucker office proceeded to handle everything.

Mrs. NOVAK. That's right.

Senator CURTIS. After you signed whatever papers you did in the first instance, nominating Mr. Tucker, and renouncing your own right, and if you signed a power of attorney—after that have you been called upon to sign papers in the estate?

Mrs. NOVAK. No.

Senator CURTIS. It has been entirely handled by that office.

Mrs. NOVAK. That's right.

Senator CURTIS. Now, I want to get a few facts straight about the origin of the Carousel project.

Did the Novak builders do the construction?

Mrs. NOVAK. No; not in its entirety. The Carousel is mostly made out of stone and masonry, so there was a masonry contractor who was a bonded contractor. We have, so to speak, subbed from Mr. Cropper, who was the masonry contractor. In other words, we were going to do the carpentry end of it. We also watched over many of the sub-contracts.

Senator CURTIS. So you handled part of it and in a sense acted as the general contractor in practice.

Mrs. NOVAK. More or less; yes.

Senator CURTIS. Had any construction started when you purchased the land?

Mrs. NOVAK. No.

Senator CURTIS. It was bare land.

Mrs. NOVAK. It was bare land; yes, sir.

Senator CURTIS. And how many parcels were purchased—how many separate parcels of land?

Mrs. NOVAK. Just the two blocks—not the same month—they were purchased several months apart.

Senator CURTIS. Are they contiguous—the two blocks—is there any land in between them other than the street?

Mrs. NOVAK. Oh, yes.

Senator CURTIS. They are two locations.

Mrs. NOVAK. Two different locations, both on the ocean, both on the same highway.

Senator CURTIS. But you purchased the one where you started to build first.

Mrs. NOVAK. Yes; we did.

Senator CURTIS. Have you built anything on the second parcel?

Mrs. NOVAK. No; we have not.

Senator CURTIS. Who located the real estate? Who informed you it was available?

Mrs. NOVAK. Well, we ourselves looked up and down the coast. By we, I mean Mr. Baker, my husband, and I.

Senator CURTIS. Well, whose idea was it to go into the motel business?

Mrs. NOVAK. I don't know if it was the three of us at the same time, or just how it came about. We originally went to purchase a house, or a lot, to build a summerhouse, to be a small, little thing, maybe even a little apartment where various of us friends could be together.

Senator CURTIS. But that was not a commercial idea like a motel?

Mrs. NOVAK. No; it didn't start out as such. Then the next thing we knew we had the two blocks of land. Well, when you have a whole block you are not going to build little houses. You are going to build a motel. So it started with a small motel, but it ended up being over \$1 million.

Senator CURTIS. How much did the first block of land cost?

Mrs. NOVAK. The first block of land cost us \$75,000.

Senator CURTIS. \$75,000 total price. That included everything? You did not assume any mortgages or anything?

Mrs. NOVAK. No; this was \$75,000 for that one block of land that the Carousel Motel is on.

Senator CURTIS. And what did the other block cost?

Mrs. NOVAK. The other block cost \$80,000.

Senator CURTIS. And that was the one you paid out in payments?

Mrs. NOVAK. Well, we were making payments on this other one, too. But it had to be paid out in full before we could start construction of the motel.

Senator CURTIS. Now, when you were planning a motel, what was the anticipated cost that would be invested in it? Just in round figures? Were you talking about a \$500,000 property, or \$1 million?

Mrs. NOVAK. No; eventually, maybe 5 years from the time we would have started the motel, we thought maybe it would be up around \$1 million or thereabouts. And then I think the thought would have scared us to death. But originally, when we actually started the motel, the plans were for x number of units, and a little coffee shop and a little bar. The total cost was not to go over \$350,000 to \$400,000. That was the most we knew we could spend the first year.

Senator CURTIS. In other words, when you launched on the project, you were anticipating something that would not exceed \$400,000.

Mrs. NOVAK. That is exactly the way my husband had felt.

Senator CURTIS. How much money did the Novaks, the two families, have to put in, just in round figures, on the basis you were going to carry out a \$400,000 operation?

Mrs. NOVAK. Well, we knew we had to pay for that land, which was \$75,000, or \$50,000 had to be put out for land on behalf of the Novaks, plus interest. So there was already—each one was paying one-third, or \$25,000 each. So the Novaks jointly have \$50,000. Well, we worked on the joint Novak thing, my brother-in-law and my husband did. We thought probably \$75,000 or \$80,000 in toto would have been an awful lot.

Senator CURTIS. And Mr. Baker put in a similar amount?

Mrs. NOVAK. No; he would have—of course this would be based on two-thirds, and Mr. Baker then would have between \$40,000 and \$50,000.

Senator CURTIS. And it was anticipated that it would be financed by borrowing money?

Mrs. NOVAK. That's right.

Senator CURTIS. Was it suggested in the beginning that some of that borrowing be from the Small Business Administration?

Mrs. NOVAK. Not in the beginning; no.

Senator CURTIS. Did Baker come up with any suggestions in the beginning about the ability to borrow money?

Mrs. NOVAK. Yes; that was his worry of it. He was to get the financing. We were to get the plans and contracts.

Senator CURTIS. Now, did he suggest any place that he might be trying to get money to finance this?

Mrs. NOVAK. Yes; he tried various places.

Senator CURTIS. I mean as you were making the plans originally, did he suggest any sources that he might get money from?

Mrs. NOVAK. I do not recall him saying any specific ones. I do know he had mentioned names. But which ones, I could not say.

Senator CURTIS. Well, later on he discussed plans for getting finances; did he?

Mrs. NOVAK. That's right.

Senator CURTIS. And where did he get the finances?

Mrs. NOVAK. He got it from the Fraternity Federal in Baltimore.

Senator CURTIS. From the what?

Mrs. NOVAK. From Fraternity Federal.

Senator CURTIS. That is a savings and loan association?

Mrs. NOVAK. Savings and loan association in Baltimore, Md.

Senator CURTIS. Did he know some of the executives there?

Mrs. NOVAK. I do not know what capacity. I imagine pretty high up there—the two Rogers—Bill Rogers, Sr., Bill Rogers, Jr. He knew them personally.

Senator CURTIS. And they were personal acquaintances of his?

Mrs. NOVAK. Yes.

Senator CURTIS. Did they loan sizable sums?

Mrs. NOVAK. They loaned sizable sums. They originally approved our loan for \$270,000, yes. That was the initial loan. Then it was increased to \$350,000 or \$360,000 when Mr. Baker wanted the restaurant in.

Senator CURTIS. Now, were there any other sources of funds located by Mr. Baker?

Mrs. NOVAK. I would not know of any. I mean I do not know where he got moneys.

Senator CURTIS. Well, the total financing of the Carousel—does it come from the Baltimore savings and loan association and the Small Business Administration?

Mrs. NOVAK. No, the American National Bank in Silver Spring.

Senator CURTIS. Approximately how much money did they put in?

Mrs. NOVAK. They put in \$108,000 or \$110,000, which was to be a chattel mortgage.

Senator CURTIS. On the personal property?

Mrs. NOVAK. At the Carousel, yes.

Senator CURTIS. And it was about \$350,000, and reached almost \$400,000 from Baltimore.

Mrs. NOVAK. \$350,000 or \$360,000. I don't know what the additional amount—whether it was \$70,000 or \$80,000 that was granted in addition.

Senator CURTIS. Who arranged the credit at the American National?

Mrs. NOVAK. My husband did.

Senator CURTIS. And that was for the primary purpose of getting the equipment?

Mrs. NOVAK. That's right.

Senator CURTIS. Now, how much money did the Small Business Administration loan?

Mrs. NOVAK. Around \$53,000 or \$54,000. I don't recall offhand.

Senator CURTIS. And was that in two transactions?

Mrs. NOVAK. No; one that I know of.

Senator CURTIS. Then was there any kind of disaster loan made?

Mrs. NOVAK. No, this is the disaster loan. This is the only loan.

Senator CURTIS. Did that about equal the damage?

Mrs. NOVAK. Oh, no.

Senator CURTIS. The damage was greater?

Mrs. NOVAK. It exceeded it beyond, way beyond—almost double. But that was all we could account for on paper, because there was so much water damage and beach removed which could not be accounted for.

Senator CURTIS. Was any money ever borrowed from the Greater Miami Savings & Loan Association?

Mrs. NOVAK. Not to my knowledge.

Senator CURTIS. And do you know whether any money was borrowed from any Miami banks?

Mrs. NOVAK. Not that I had to sign for; no.

Senator CURTIS. So far as the transactions that went through your hands, relating to the Carousel, no money came from savings and loans or banks or individuals in Florida.

Mrs. NOVAK. No.

Senator CURTIS. Now, let me get this straight.

You knew that Mr. Baker was interested as an owner in some sort of vending concern, food-vending concern?

Mrs. NOVAK. Yes.

Senator CURTIS. About when did you know that?

Mrs. NOVAK. January—December and January—December of 1961 or January of 1962. I don't remember.

Senator CURTIS. Did Baker himself tell you that?

Mrs. NOVAK. Yes. He told me that when I went to talk to him privately in regard to my husband being concerned about the additions to the motel, which were creating havoc as far as construction was concerned; and that we would not be able to keep up with our end of the payments—that he was very much concerned about moneys. So he then told me that he was a one-third owner of a wonderful company out on the west coast.

Senator CURTIS. Did he identify the company by name?

Mrs. NOVAK. No, he did not. But he said—

Senator CURTIS. Did he refer to it as a gold mine?

Mrs. NOVAK. I was going to say a gold mine. I did not much want to say it here before everybody. It would have sounded funny.

Senator CURTIS. So when you and your husband were concerned financially, he said he owned a third interest in a concern out in California.

Mrs. NOVAK. He told me then that he owned one-third interest in it; yes.

Senator CURTIS. And your best recollection is he did not identify it as the Serv-U Corp.?

Mrs. NOVAK. No; he did not.

Senator CURTIS. But he referred to it as his?

Mrs. NOVAK. Yes; and he said, "If I should go broke, many people will go broke." That there was just no way of losing money there.

Senator CURTIS. Did he say where they had contracts for vending food?

Mrs. NOVAK. No; I didn't even know it was a vending machine contract—I mean vending machine company. I did not know.

Senator CURTIS. Did he say anything about the value?

Mrs. NOVAK. No; not at that time.

Senator CURTIS. Did he say who the other owners were?

Mrs. NOVAK. No.

Senator CURTIS. Now, when you sold the Carousel, did you recognize the purchaser of the Carousel as the company about which Mr. Baker had told you that he owned a third?

Mrs. NOVAK. Yes; I got enough information during that year that it became his company—his brother went out to work for his company, and then I later learned after he went out there that it was the Serv-U Corp., so then I knew that that was the same company. I had no doubts that that was the one and only.

Senator CURTIS. When did you come to that conclusion, or when did that knowledge come to you?

Mrs. NOVAK. September of 1962, when his brother went out to California, because he was a manager for a while at the Carousel, the summer of 1962.

Senator CURTIS. So then it was disclosed to you before you sold your interest in the Carousel that Mr. Baker was interested both as a seller and a purchaser?

Mrs. NOVAK. Yes.

Senator CURTIS. Did Mr. Donald Novak and his wife have that information?

Mrs. NOVAK. They were out of town. They went to Michigan in September and didn't return until February, when I asked them to return because the sale of the Carousel—for them to come and sign

papers. Mr. Tucker had talked to my brother-in-law on several occasions that I know of. If he told them what the company was, I do not know.

Senator CURTIS. Did you arrive at this information that he was interested as a purchaser as well as a seller by your own conclusions from facts that you had, or did they directly tell you that?

Mrs. NOVAK. From facts that I had—not that they directly told me.

Senator CURTIS. In other words, Mr. Baker did not disclose directly that it was his company that was buying the Carousel, then?

Mrs. NOVAK. No; but I did talk to him on one occasion. I asked him, "Why, instead of my having to accept the note for \$63,789, why couldn't I have stock in lieu of it in the company?" I said, "It is easier for you to accept notes from your company, but how do I know I will feel all right about accepting any kind of a note?"

Senator CURTIS. What did he say?

Mrs. NOVAK. He at that time indicated, well, he would have to talk, you know, and find out more about it. But he himself didn't know any reason why not. But then that never came to being, anything like that.

Senator CURTIS. When was it first talked of, selling the Carousel?

Mrs. NOVAK. Mid-January of 1963, or maybe a little earlier.

Senator CURTIS. Were you inclined to want to sell before that?

Mrs. NOVAK. Oh, I would have sold anytime. I was not interested in a motel after my husband passed away—I mean other than trying to get more people in on it, and I had people with \$50,000, \$200,000 that wanted to become partners with us. Mr. Baker, of course, said not to worry about it.

Senator CURTIS. Were you satisfied with the price?

Mrs. NOVAK. You mean for the Carousel Motel?

Senator CURTIS. Yes.

Mrs. NOVAK. I was glad to get my money out of it. I was not making anything.

Senator CURTIS. You were glad to get out of the transaction.

Mrs. NOVAK. That's right.

Senator CURTIS. But did you make a profit?

Mrs. NOVAK. No.

Senator CURTIS. Did you ever get all your money back?

Mrs. NOVAK. I didn't get a penny back to date.

Senator CURTIS. Well, then, as it stands now, how much money did you put into the Carousel which you have not gotten back?

Mrs. NOVAK. \$63,789 and some-odd cents.

Senator CURTIS. Have you gotten any money on it?

Mrs. NOVAK. No money.

The CHAIRMAN. Will the Senator pardon me just a minute?

I want to announce for the record that we do have permission to sit. And I would like to say to the witness—do you feel like you want to go on through without a recess?

Mrs. NOVAK. I would be glad to get it over with any way, Senator, you suggest.

The CHAIRMAN. For your comfort, we can take a small recess, if you like.

We will proceed.

Senator CURTIS. You feel like you did about the Carousel.

You wanted to get out of the motel business?

Mrs. NOVAK. Yes; I was not interested in being in the motel business of any sort without my husband.

Senator CURTIS. So you are some \$63,000—have that much less money than when you went into it?

Mrs. NOVAK. That is right.

Senator CURTIS. In addition to the time and effort put in by your late husband?

Mrs. NOVAK. My late husband and myself. I had taken a month's leave of absence to work at the motel. I worked there every weekend and used up some of my vacation time to go down there and work. I didn't get any money out in compensation. Neither did my brother-in-law.

Senator CURTIS. Not even what?

Mrs. NOVAK. Neither did my brother-in-law. He was on the payroll. Mr. Baker refused to pay the moneys that was due him by having that money as interest for the moneys that he put in over and above ours.

Senator CURTIS. Now, explain that just a little bit.

Mrs. NOVAK. Well, my brother-in-law was on the payroll. There was an agreement where my husband and brother-in-law—

Senator CURTIS. Was on the payroll as an officer of the corporation, or work performed?

Mrs. NOVAK. Work performed—they put him on the payroll, to receive a thousand dollars a month. But, actually, \$500 of it was Mr. Baker's participation in the salary. The same thing with my husband.

My husband had actually \$3,000 coming from the corporation, but \$1,500 of it was Mr. Baker's end of it. My brother-in-law \$7,000, or \$3,500. So my brother-in-law was to get \$3,500, on which he paid income tax, or income tax was deducted.

Senator CURTIS. Where did your brother-in-law work—over at the Carousel?

Mrs. NOVAK. Yes; this was moneys working at the Carousel as carpenter, foreman, whatever else.

Senator CURTIS. In other words, what he got out of it was compensation for labor performed?

Mrs. NOVAK. That is right.

Senator CURTIS. Now, did your husband get anything out of the Carousel?

Mrs. NOVAK. No; he did not.

Senator CURTIS. Did he ever draw anything as salary as an officer?

Mrs. NOVAK. No; he did not.

Senator CURTIS. In the construction work, in that part of it carried on by the Novaks, was there a profit added to the charges you would make against the Carousel company, or was that performed more or less on a net cost basis?

Mrs. NOVAK. This was to be part of the cost. However, that would mean we would have to come up with so and so much money.

Senator CURTIS. Well, the fact that you were doing some of the construction, you didn't get any profit out of that?

Mrs. NOVAK. No; we didn't get compensated in any way.

Senator CURTIS. You performed that at the net cost to you?

Mrs. NOVAK. That is right.

Senator CURTIS. Over how long a period of time did your husband give attention to the Carousel?

Mrs. NOVAK. For many, many months. But as of December of 1961, Mr. Baker, my husband, and my brother-in-law had an agreement that my brother-in-law and my husband were to get a thousand dollars a month from the company, or the corporation, or partnership, so to speak, as some compensation for their time spent at the Carousel in building.

Mr. Baker was here, working on his job; he couldn't do it. And we, as builders, could do it.

Senator CURTIS. Was that ever paid?

Mrs. NOVAK. None of that was paid. Mr. Baker refused to pay or give us credit for it at the time we made the transaction with Serv-U, selling it to Serv-U, and said that this money was going to be interest on moneys that he had to get and borrow in excess of the Novaks' amount.

Senator CURTIS. So the Novaks received neither profit on the transaction nor compensation for services?

Mrs. NOVAK. That is right.

Senator CURTIS. Other than some compensation for labor actually performed by your brother, Donald?

Mrs. NOVAK. He didn't get his, either.

Senator CURTIS. He didn't get any wages?

Mrs. NOVAK. No.

Senator CURTIS. There was just an agreement to pay him?

Mrs. NOVAK. He was on the payroll, but let it stay there, because he knew other bills had to be paid.

Senator CURTIS. I see.

Now, was all of that waived in the sale?

Mrs. NOVAK. That was to be waived. Mr. Baker waived that—said he was not going to pay us under any circumstances; this was interest due him for the reasons that he had to borrow in excess of what we had put in.

Senator CURTIS. You took 1 month off from work, and you worked weekends. And in addition to that, you did work on the side for how long a period—approximately 3 months?

Mrs. NOVAK. Well, I was doing the bookkeeping—well, writing of the checks and watched over the payroll end of it, from November through January—3- or 4-month period there I did.

Senator CURTIS. Who has the registration cards for the Carousel Motel?

Mrs. NOVAK. Mr. Tucker must have them.

Senator CURTIS. He does have them, as far as you know?

Mrs. NOVAK. I would imagine so.

Senator CURTIS. Do you know the name of the manager there?

Mrs. NOVAK. Now?

Senator CURTIS. No; during the time you were part of it.

Mrs. NOVAK. Mr. Nelson Santman was the last manager.

Senator CURTIS. Who was prior to him?

Mrs. NOVAK. Prior to that we had Mr. Robert Hoheisel, and for a 2-week period someone else. We had so many managers, I could hardly keep up with them. There were three or four managers there.

Senator CURTIS. Were your books ever worked on by any accountant?

Mrs. NOVAK. Yes.

Senator CURTIS. And what was his name?

Mrs. NOVAK. Horwath & Horwath, Washington, D.C.

Senator CURTIS. By whom were they employed?

Mrs. NOVAK. They were employed by Mr. Nelson Santman, also in agreement with Mr. Baker and Mr. Tucker.

Senator CURTIS. Do you know anything about the operation of the motel?

Mrs. NOVAK. No.

Senator CURTIS. Were you over there on occasion after it was running?

Mrs. NOVAK. Oh, yes. I was there on occasions.

Senator CURTIS. Were some of the rooms rented for a complete season?

Mrs. NOVAK. Yes; there were two rooms rented for the complete season.

Senator CURTIS. What would they be rented for—how much money?

Mrs. NOVAK. \$3,000 for the season.

Senator CURTIS. Were there any rooms rented to people who did not occupy them?

Mrs. NOVAK. I could not answer that one, Senator. I mean if people would rent a room and not stay in it themselves, you mean?

Senator CURTIS. Yes.

Mrs. NOVAK. It is possible. I wouldn't know.

Senator CURTIS. Did you have any conventions over there you know of?

Mrs. NOVAK. Yes; we had small conventions there.

Senator CURTIS. Now, the records for all of this—none of them are in your hands?

Mrs. NOVAK. No, they are not.

Senator CURTIS. To the best of your knowledge, they are in Mr. Tucker's hands?

Mrs. NOVAK. That is right.

Senator CURTIS. Referring to this financial statement that is attached to the sales agreement dated February 25, 1963, who made that up?

Mrs. NOVAK. I don't know. I would imagine Mr. Tucker did, because he had all the records.

Senator CURTIS. Now—

Mrs. NOVAK. It could have been Horwath & Horwath, who were our accountants.

Senator CURTIS. Now, were Horwath & Horwath accountants for the operation of the motel only, or were they employed in reference to the construction development as well?

Mrs. NOVAK. Originally they were for the operation. Whether Mr. Tucker later employed them for the whole bit, I don't know.

Senator CURTIS. And somebody prepared this. And was it attached to the agreement when you signed it, to the best of your recollection?

(At this point, Senator Pell withdrew from the hearing room.)

Senator CURTIS. Did you check any part of it to see whether it was accurate?

Mrs. NOVAK. Senator, I disputed several of these figures, because they seemed so way out of bounds. But then so much of it has been out of bounds with me, that I had no way of really——

Senator CURTIS. Well, what figure, for instance, did you have some doubt about?

Mrs. NOVAK. Well, not specifically this. There were others, in other statements that we had. These they have lumped in sums, now. And I could not say exactly. There is probably—well, for instance, the one is bank overdraft, \$4,700. Well, I am not that much of an accountant. But what happened there—and it looks terrible over here—checks were apparently written by someone, but never mailed, so they should have been canceled and crossed out and never made an accounting as such.

But I imagine——

Senator CURTIS. In other words, they were probably bills payable rather than bank overdrafts?

Mrs. NOVAK. Yes, that is right. But they show as such.

This was my understanding of it at the time. And I just——

Senator CURTIS. Who drew the contract?

Mrs. NOVAK. For the sale of the Serv-U?

Senator CURTIS. Yes.

Mrs. NOVAK. I do not know. I assume, and from what I could gather from Mr. Baker, Mr. Tucker, someone out on the west coast.

Senator CURTIS. Now, you said you were anxious to sell the Carousel. By the time it was talked of selling, that was after you had some questions in your own mind concerning the handling of your husband's estate.

Mrs. NOVAK. Oh, yes.

Senator CURTIS. Now, who first mentioned selling the Carousel?

Mrs. NOVAK. Mr. Baker did on this particular venture. We were talking of selling before, but nothing concrete. If we could find a buyer.

Senator CURTIS. It had come up just in general conversation before?

Mr. NOVAK. That is right.

Senator CURTIS. And over that period of time, you expressed your desire to sell and get out?

Mrs. NOVAK. Yes—for no more but the money I had in it. Mr. Baker expressed his desire to sell with as much as a \$50,000 loss, just so he could get out of it, too.

Senator CURTIS. When did you first get word, then, that a definite sale was in prospect?

Mrs. NOVAK. Mr. Baker informed me.

Senator CURTIS. About when?

Mrs. NOVAK. It must have been mid-January.

Senator CURTIS. Did he talk to you personally, or was that a telephone conversation?

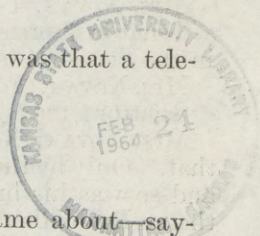
Mrs. NOVAK. Originally telephone conversation.

Senator CURTIS. He called you?

Mrs. NOVAK. Yes.

Senator CURTIS. What did he say?

Mrs. NOVAK. I just don't know offhand how it came about—saying that—this is how it was. He said he could not put any more money in it, and that we definitely had to sell. And all of a sudden



his tone of voice changed—I mean it was always don't worry, don't worry, and then all of a sudden the bottom had fallen out of something. And we definitely had to sell.

Senator CURTIS. This was the first time he expressed a keen desire of selling?

Mrs. NOVAK. That is right.

Senator CURTIS. Or any necessity of selling?

Mrs. NOVAK. This was a necessity to sell.

Senator CURTIS. Yes. And this was on the telephone?

Mrs. NOVAK. Yes, but I talked to him personally, too, and I know we had pursued it personally.

Senator CURTIS. Did he say that they had a prospect?

Mrs. NOVAK. Oh, yes.

Senator CURTIS. And what did he say?

Mrs. NOVAK. He indicated it was this company out in California.

Senator CURTIS. His company?

Mrs. NOVAK. "This company". He didn't say Serv-U. He said I think his company, if I recall. That he had an interest in it—or "my company" he could have said. I don't want to be quoted.

Senator CURTIS. Did you recognize it as a company in which he claimed to have a third interest?

Mrs. NOVAK. Yes, indeed, because at that time I felt that—it was easier for him to make a transaction of any sort, even non-interest-bearing notes, than for me.

(At this point, Senator Pell entered the hearing room.)

Senator CURTIS. Does your note bear interest?

Mrs. NOVAK. Six percent, yes.

Senator CURTIS. Is it secured by any real estate mortgages?

Mrs. NOVAK. No.

Senator CURTIS. Or any stock interest?

Mrs. NOVAK. No.

Senator CURTIS. Who is it signed by?

Mrs. NOVAK. Ernest C. Tucker.

Senator CURTIS. In his individual capacity or as—

Mrs. NOVAK. Chairman of the board, Serv-U Corp.

Senator CURTIS. Well, at what point in the proceedings did he say he would like to sell, even if he took a \$50,000 loss?

Mrs. NOVAK. This was before this company came—I mean his company, or as he said, "my company"—that he just wanted to get out of this motel business, too, because he said it was way out of bounds, and things just didn't go right.

Senator CURTIS. But he is not out of it, is he?

Mrs. NOVAK. I guess not.

Senator CURTIS. Does anyone else own as much as a third interest in the Serv-U Corp.?

Mrs. NOVAK. I don't know who all the officers are in that now.

Senator CURTIS. Do you know who the stockholders are?

Mrs. NOVAK. No. Offhand, I do not. They have had a change in that. Only by the papers that I read, where Mrs. Baker was an officer, and so was his brother. But who the outside individuals are other than a Dr. Walsh here in Washington, Fred Black—I don't know.

I was told, yes, but I cannot say. And Mr. Hancock was at one time.

Senator CURTIS. Is Jack Levinson an owner?

Mrs. NOVAK. That name was presented to me, but I never did hear directly from anyone that he was.

Senator CURTIS. Who arranged for the opening activities of the Carousel?

Mrs. NOVAK. Mr. Baker.

Senator CURTIS. Did the company make any money on that?

Mrs. NOVAK. Did the Carousel make any money on the grand opening?

Senator CURTIS. Yes.

Mrs. NOVAK. Senator, no.

Senator CURTIS. That was a promotion, I take it?

Mrs. NOVAK. That was a promotion, and it was a costly one.

Senator CURTIS. Was it more costly than you thought it should have been?

Mrs. NOVAK. Yes.

Senator CURTIS. Did you voice any protest?

Mrs. NOVAK. I didn't voice any protest, because there wasn't too much I could do about it. I didn't realize that it was really going to be a costly thing. I was led to believe that so much of this was going to be given to us.

Senator CURTIS. By whom?

Mrs. NOVAK. By various people.

Senator CURTIS. Did you believe that the bus transportation would be free?

Mrs. NOVAK. I was left with that impression, yes.

Senator CURTIS. What bus company was going to do that?

Mrs. NOVAK. Capital Transit, from Washington.

Senator CURTIS. Did they do it free?

Mrs. NOVAK. No; they did not.

Senator CURTIS. How much did that cost?

Mrs. NOVAK. I don't recall what the bill was, but it was over a thousand dollars.

Senator CURTIS. Where did you get the idea that it would be free?

Mrs. NOVAK. Mr. Baker led me to think so. He said "It won't cost us much at all to have this grand opening."

Senator CURTIS. What else was going to be furnished free?

Mrs. NOVAK. Anything that went along with it. I don't know about the champagne—I was completely unaware there was going to be a champagne party on the buses going out. The liquor served at the Carousel—I don't know who paid for that. And I didn't see a bill on that, so that I don't know.

Senator CURTIS. Was liquor specifically mentioned when Mr. Baker told you that most of the cost would be assumed by others?

Mrs. NOVAK. Not specifically, no.

Senator CURTIS. But you were led to believe that the greater share of the promotion costs would come from other sources?

Mrs. NOVAK. That is right.

Senator CURTIS. And you got that information from Baker himself?

Mrs. NOVAK. Directly, right. I should say so. Advertising was another thing that was real costly, and I was quite alarmed—I mean to have a grand opening costing \$5,000 or \$6,000.

Senator CURTIS. It did cost that much?

Mrs. NOVAK. Probably, considering all the promotional advertising, some of it may have been discounted, I don't know. But it was a pretty costly thing if we were to have paid for it.

Senator CURTIS. Well, how did it happen it wasn't provided free, as he anticipated?

Mrs. NOVAK. I don't know. I don't know. Because the bills started coming in.

Senator CURTIS. Who paid the bills for this opening? Did it go through your regular Carousel account?

Mrs. NOVAK. Yes; the bills were sent to the Carousel, but they were not paid. And they were not paid at the time we sold the motel. I know the Capital Transit bill was not paid for then.

Senator CURTIS. What other bills were left unpaid?

Mrs. NOVAK. A lot of advertising bills. I could not exactly say.

Senator CURTIS. Did any bills ever come in for liquor?

Mrs. NOVAK. I don't recall.

Senator CURTIS. But, so far as you know, none of them were paid?

Mrs. NOVAK. The bills—

Senator CURTIS. In connection with the opening?

Mrs. NOVAK. With the opening—except for some advertising, possibly, and I know definitely the Transit bill was not paid for at the time we sold the Carousel.

Senator CURTIS. Did any of these people who provided goods or services for the opening ever make real firm or hard demands for payment, to your knowledge?

Mrs. NOVAK. No, because when they sent a bill in, I would give the bills to Mr. Baker, immediately, and I said, "Here is a bill for so-and-so much money on behalf of the grand opening."

He said, "They should have never sent that bill."

Senator CURTIS. He still contended, then, that they should never have sent the bill?

Mrs. NOVAK. That is right. And so he was going to dispute it with them individually.

Senator CURTIS. And, in other words, he expressed to you an intention not to pay it?

Mrs. NOVAK. That is right.

Senator CURTIS. Mr. Baker did have an interest in the Reynolds Insurance Agency at one time, did he not?

Mrs. NOVAK. Yes, according to Mr. Reynolds; yes.

Senator CURTIS. What is the full title of that business concern?

Mrs. NOVAK. Don B. Reynolds Insurance Agency, I think. Don B. Reynolds Insurance Agency.

Senator CURTIS. And over what period of time did Mr. Baker have an interest in it?

Mrs. NOVAK. I don't know when they originally started, but according to Mr. Reynolds, the last was 1960. I know 2 years, 3 years. I don't know for sure. I would rather not answer that specifically.

Senator CURTIS. Did you get the idea that Mr. Baker was a silent or undisclosed partner in the Reynolds operation, or was he publicly regarded as a partner?

Mrs. NOVAK. Well, my personal conclusion was that he had to be a silent partner, because I could not imagine anyone working here in

the Senate—knowing my experience working with the Senate Small Business Committee. We don't accept any gifts of any size. And knowing that if there was any conflict of interest in anything, we were just very, very careful there.

Mr. Baker, in his position here, had to be very careful how he worked his outside interests.

Senator CURTIS. So the information conveyed to you was, in effect, that his interest there was a silent partner interest?

Mrs. NOVAK. Yes. No one said too much about it.

Senator CURTIS. Did Mr. Reynolds say that Mr. Baker had shared in profits or commissions of the agency at times?

Mrs. NOVAK. No; he never told me that.

Senator CURTIS. Well, what sort of a silent partner was he?

Mrs. NOVAK. I just don't know. I mean you hear them talking about it, but then the next thing—you are lost in something like that.

Senator CURTIS. You would hear the two of them?

Mrs. NOVAK. Well, the two of them, or with my husband at that time.

Senator CURTIS. To your knowledge, did the accounting firm that you mentioned or any other accounting firm make a complete audit of the Carousel project—and I use the word "project" to include land purchases and construction costs and operating costs and promotion costs, in order that you might have a financial statement?

Mrs. NOVAK. You are speaking of the first year's operation?

Senator CURTIS. No; I am talking about at the time you sold.

Mrs. NOVAK. At the time I sold. Yes, I have a financial statement from Horwath & Horwath.

Senator CURTIS. You do have? What is the date of that?

Due to the lateness of the hour, do you think it could be something that would be better supplied?

Mrs. NOVAK. I can supply that statement, or financial statement, as of February 25, 1962-63.

(The audit of the Carousel Motel by Horwath & Horwath, subsequently supplied by Mrs. Novak, may be found as Novak exhibit 20, at p. 370.)

Senator CURTIS. And that was prepared by the accountants?

Mrs. NOVAK. By the accountants; yes, sir.

Senator CURTIS. Do you know whether it conformed in general to this sheet of paper attached to the sale agreement that we have talked about?

Mrs. NOVAK. I would imagine it tied in there with it; yes. At least I am hoping so. I don't remember.

Senator CURTIS. But, of course, the matter of the notes that you would take in return for the sale, that was something arrived at independently of the audit, of course?

Mrs. NOVAK. Oh, yes.

Senator CURTIS. I think, Mr. Chairman, that is all.

I thank you, Mrs. Novak. I am sorry we have gone over the lunch hour.

The CHAIRMAN. Senator Cannon?

Senator CANNON. Thank you, Mr. Chairman.

Mrs. NOVAK, did you ever make any effort to influence the decision of the Small Business Administration in the granting of the disaster loan to the Carousel?

Mrs. NOVAK. Will you repeat that again, Senator?

Senator CANNON. Did you ever make any effort to influence the decision of the SBA in the granting of the disaster loan to the Carousel?

Mrs. NOVAK. Oh, no. I only called to find out the status. I definitely didn't want to use any influence.

Senator CANNON. To your knowledge did Mr. Baker attempt to influence the SBA in its decision to award a disaster loan to the Carousel?

Mrs. NOVAK. I don't know if he did. I hope not.

Senator CANNON. Do you believe that your position on the staff of the Committee on Small Business of the U.S. Senate may have influenced the decision of the SBA in any manner to award a disaster loan to the Carousel?

Mrs. NOVAK. I hope it didn't.

Senator CANNON. My question was: Do you believe that your position on the staff did?

Mrs. NOVAK. I would say not, because I just called to find out the status. I didn't mean to imply anything further.

Senator CANNON. Did I understand your testimony to be that you knew at the time the Carousel was sold to Serv-U that Mr. Baker did have an interest in the Serv-U Corp.?

Mrs. NOVAK. Yes.

Senator CANNON. You understood it was being sold to his company?

Mrs. NOVAK. That is right.

Senator CANNON. Was any undue influence or pressure exerted on you to sell your interest, or were you just simply attempting to get out of the business?

Mrs. NOVAK. Well, I was attempting—I wanted to get out of it. But I did not want to accept notes in any way—I mean where they were nonassignable nonnegotiable as such. Mr. Baker did say that if we didn't sign this agreement to accept the notes as such, that he was going to have to sue us for the difference somewhere along the line. I mean it really wasn't scaring, and yet at the same time he did show enough force that we had better go along with this.

After all, time was of essence. He wanted to build on the other 36 units. He had to get moneys approved by Fraternity to continue building. And to make the motel the success it was, it was of the utmost importance we sign and not negotiate further.

Senator CANNON. Well, now, was this because you may not have supplied your share of the contributions as the cost rose as it went along?

Mrs. NOVAK. That is right. But we could not come up with moneys when we originally could only spend so much money, and Mr. Baker, wanting a nightclub in addition to the restaurant—this was something I just didn't care if I had 10 or 5 percent of the motel—I could only come up with so much money.

Senator CANNON. Now, this agreement, as I understand it here, gives Mr. Baker a preference with his class B promissory note for the

sum of \$182,818.21. Is that the preferential position he was placed in because you were unable to come up with your respective share?

Mrs. NOVAK. He wanted it as such, and we agreed that that would be all right; yes.

Senator CANNON. Do you know if he has been paid any part of that obligation?

Mrs. NOVAK. No; I did not get any report of any sort on the Carousel operations for 1963.

Senator CANNON. When is your note made payable, your note for \$63,789.62?

Mrs. NOVAK. Only from cash flow of the motel.

Senator CANNON. I see. So actually it is not delinquent then at the present time?

Mrs. NOVAK. No, it is not delinquent, and it won't be delinquent for the next 20 years, because it is written as such that it won't be.

Senator CANNON. I see.

Did you or your husband have any business connections with Mr. Reynolds, to whom you referred, other than the insurance transaction that you mentioned?

Mrs. NOVAK. No; we had no joint ventures.

Senator CANNON. You have had no financial dealings with him at all, other than insurance?

Mrs. NOVAK. Just the insurance.

Senator CANNON. Did Mr. Baker draw any salary, compensation, or other remuneration from the Carousel operation during the time that you were operating it or before it was sold?

Mrs. NOVAK. Not to my knowledge; no.

Senator CANNON. And did he receive the proportionate share of the profits on the books as is reflected here—in other words, he with a 50-percent interest and yourself and your brother-in-law the other 50?

Mrs. NOVAK. I don't think I understand that one all the way.

Senator CANNON. Did he receive a 50-percent profit, if any profit was realized, on the books, reflecting the interest that appears in this agreement—that is, that he had a 50-percent interest and you and your brother-in-law together had a 50-percent interest?

Mrs. NOVAK. No, Senator; there were no profits. We had a \$90,000 loss. We shared in that.

Senator CANNON. All right. Then did he get the advantage of that loss in that same proportion?

Mrs. NOVAK. Yes. For that year, 1962, he gave us half—we shared in the loss 50-50.

Senator CANNON. Now do I understand that you do have the accounting of the Carousel as of the time of sale, which you are submitting for the record here?

Mrs. NOVAK. I will submit it. I don't think I have it with me at this moment. I cannot find it.

(The audit of the Carousel Motel for fiscal year ended December 31, 1962, prepared by Horwath & Horwath, and subsequently submitted by Mrs. Novak, is identified as Novak exhibit 20 and is as follows:)

NOVAK EXHIBIT 20. AUDIT OF CAROUSEL MOTEL FOR 1962 BY HORWATH & HORWATH

HORWATH & HORWATH,
ACCOUNTANTS AND AUDITORS,
Washington, D.C., January 31, 1963.

CAROUSEL MOTEL,
Ocean City, Md.

GENTLEMEN: In accordance with the terms of our engagement, we submit a report on our examination of the books and records of Carousel Motel for the year ended December 31, 1962.

The accompanying balance sheet and statement of income and expenses are presented without opinion since we did not verify by direct correspondence the various bank balances and balances of notes, loans, contracts, and mortgage payable. In addition, we were unable to locate certain supporting records relating to income and expenses and therefore could not verify the balances of the accounts affected.

Very truly yours,

HORWATH & HORWATH.

CAROUSEL MOTEL, OCEAN CITY, MD.

EXHIBIT A.—Balance sheet as at Dec. 31, 1962 (subject to comments in letter of transmittal)

ASSETS			
Current assets:			
Cash:			
Calvin B. Taylor Banking Co.			\$846.93
American National Bank, construction account			110.80
House funds			2,000.00
			\$2,957.73
Accounts receivable:			
Guest and city ledger			5,913.81
Overpayment of Federal payroll taxes			744.74
Concessionaire			2,452.74
			9,111.29
Prepaid insurance			5,429.93
			17,498.95
Total, current assets			
Deposits:			
Utilities			1,600.00
Fraternity Federal Savings & Loan Association, escrow account			3,899.70
Cash bond re Hawkins			3,000.00
			8,499.70
Fixed assets:			
	Cost	Reserve for depreciation	Net book value
Land	\$101,534.55		\$101,534.55
Building	610,331.75	\$20,324.04	590,007.71
Furniture and equipment	186,817.20	19,225.37	167,591.83
Signs	2,443.01	477.20	1,965.81
Paving	3,222.45	374.61	2,847.84
	904,348.96	40,401.22	863,947.74
China, glassware, silver, and linen			10,625.53
			874,573.27
Deferred expenses:			
Interest			15,274.29
Mortgage expense			1,778.40
			17,052.69
Total assets			
			917,624.61
LIABILITIES LESS DEFICIENCY OF PARTNER'S CAPITAL			
Current liabilities:			
Bank overdraft, American National Bank, operating account			\$4,719.35
Accounts payable:			
Trade		26,394.26	
Construction (open)		7,503.92	
			33,898.18
Due bills payable			680.24
Contracts payable:			
Pepsi-Cola		300.00	
Coca-Cola		265.00	
Construction contracts		4,140.23	
Kitchen contract, Capital Equipment Co.		12,051.28	
			16,756.51

FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES 371

Current liabilities—Continued

Taxes collected and accrued:		
Federal withholding	195.17	
Federal retirement	201.20	
Federal unemployment	507.53	
State withholding	70.39	
State unemployment	306.55	
State sales	506.11	
		1,786.95
Total, current liabilities		57,841.23
Long-term liabilities:		
Contract payable, U.S. Leasing Corp.		22,311.71
Notes payable:		
Revere Furniture Co.	61,717.50	
Small Business Administration	53,040.00	
Delmar Co.	4,555.89	
George B. Cropper	7,500.00	
R. M. and M. K. Kennan	8,000.00	
		134,813.39
Loans payable to partners:		
R. Baker	240,873.80	
G. and D. Novak	113,250.00	
		354,123.80
Mortgage payable, Fraternity Federal Savings & Loan Association		349,893.14
Total liabilities		918,983.27
Deficiency of partners' capital:		
K. Baker	\$45,179.95	
G. and D. Novak	45,179.95	
		90,359.90
Less loss for year ended Dec. 31, 1962		91,718.56
		(1,358.66)
Total, liabilities and deficiency of partners' capital		917,624.61

NOTE.—Not included in current liabilities are the current portion of long-term notes, contracts, loans, and mortgage payable. The full amount is shown under long-term liabilities.

EXHIBIT B.—Statement of income and expenses, year ended Dec. 31, 1962¹
(subject to comments in letter of transmittal)

	Net sales	Cost of sales	Payroll	Other expenses	Profit or (loss)
Operated departments:					
Rooms	\$66,034.20		\$10,738.47	\$7,215.09	\$48,080.64
Food	56,866.15	\$30,927.87	30,028.37	37,612.63	(2,797.88)
Beverage	56,341.50	17,436.66			
Total	179,241.85	48,364.53	40,766.84	44,827.72	45,282.76
Other income	2,237.15				2,237.15
Gross operating income					47,519.91
Undistributed operating expenses:					
Administrative and general			5,117.58	26,222.43	
Payroll taxes and employee benefits				4,667.26	
Advertising and sales promotion				17,525.89	
Heat, light, and power				8,651.02	
Repairs and maintenance			65.88	6,604.50	
Total			5,183.46	63,671.10	68,854.56
Total house revenue, expense, and profit or (loss)	181,479.00	48,364.53	45,950.30	108,498.82	(21,334.65)
Municipal taxes and insurance					5,013.65
Loss, before interest and depreciation					(26,348.30)
Interest					24,874.14
Profit before depreciation					(51,222.44)
Depreciation and expense amortization					40,496.12
Net operating (loss)					(91,718.56)

¹ The motel opened for business on June 19, 1962.

372 FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES

SCHEDULE B-1.—Departmental profit and loss statement, rooms, year ended Dec. 31, 1962

	Amounts	Percentages
Guest room sales.....	\$66,034.20	100.00
Departmental expenses:		
Payroll.....	10,738.47	16.26
Employees' meals.....	1,109.31	1.68
Uniforms.....	70.04	.11
Laundry.....	2,785.14	4.22
Linen.....	990.51	1.50
Cleaning supplies.....	1,642.87	2.49
Guest supplies.....	364.48	.55
Printing and stationery.....	20.90	.03
Rental commissions.....	225.66	.34
Miscellaneous.....	6.18	.01
Total expenses.....	17,953.56	27.19
Departmental profit.....	48,080.64	72.81

SCHEDULE B-2.—Departmental profit and loss statement, food and beverages, year ended Dec. 31, 1962

	Amounts			Percentages		
	Total	Food	Beverages	Total	Food	Beverages
Total sales.....	\$113,207.65	\$56,866.15	\$56,341.50	100.00	100.00	100.00
Cost of sales:						
Cost of merchandise consumed.....	52,738.95	35,302.29	17,436.66	46.59	62.08	30.95
Less cost of employees' meals.....	4,374.42	4,374.42	-----	3.87	7.69	-----
Cost of sales.....	48,364.53	30,927.87	17,436.66	42.72	54.39	30.95
Gross profit on sales.....	64,843.12	25,938.28	38,904.84	57.28	45.61	69.05
Departmental expenses:						
Payroll.....	30,028.37	-----	-----	26.53	-----	-----
Employees' meals.....	3,026.08	-----	-----	2.67	-----	-----
Uniforms.....	714.77	-----	-----	.63	-----	-----
Music and entertainment.....	15,931.65	-----	-----	14.07	-----	-----
Laundry.....	850.96	-----	-----	.75	-----	-----
Kitchen fuel.....	4.21	-----	-----	-----	-----	-----
Linen.....	426.50	-----	-----	.38	-----	-----
China, glassware, and silver.....	2,266.77	-----	-----	2.00	-----	-----
Tensils.....	3,956.04	-----	-----	3.50	-----	-----
Cleaning supplies.....	1,892.44	-----	-----	1.67	-----	-----
Contract cleaning.....	300.00	-----	-----	.26	-----	-----
Paper supplies and menus.....	2,046.79	-----	-----	1.81	-----	-----
Printing and stationery.....	6.15	-----	-----	.01	-----	-----
Amusement taxes.....	3,774.60	-----	-----	3.33	-----	-----
Licenses.....	1,238.50	-----	-----	1.10	-----	-----
Decorations.....	371.65	-----	-----	.33	-----	-----
Ice.....	302.31	-----	-----	.27	-----	-----
Miscellaneous.....	503.21	-----	-----	.44	-----	-----
Total expenses.....	67,641.00	-----	-----	59.75	-----	-----
Departmental (loss).....	(2,797.88)	-----	-----	(2.47)	-----	-----

SCHEDULES B-3, B-4.—*Administrative and general expenses, year ended Dec. 31, 1962*

Payroll.....	\$5,117.58
Employees' meals.....	239.03
Printing and stationery.....	3,283.96
Management fees.....	2,595.00
Managers' expenses.....	558.72
House phone.....	674.56
Guests' telephone.....	2,280.81
Trade association dues.....	79.00
Postage and telegrams.....	84.18
Traveling expenses.....	1,064.20
Insurance, general.....	395.60
Commissions on credit card charges, net.....	1,286.97
Accountants' fees.....	2,836.37
Consultants' fees.....	500.00
Legal expenses.....	6,019.00
Loss and damage.....	20.20
Bad debts.....	722.03
Cash over.....	(231.93)
Licenses.....	136.25
Miscellaneous.....	3,678.48
Total administrative and general expenses.....	<u>31,340.01</u>
Ratios to room sales (percent):	
Payroll.....	7.75
Bad debts.....	1.09
Total administrative and general expenses.....	47.46

SCHEDULE B-4.—*Payroll taxes and employee benefits, year ended Dec. 31, 1962*

Payroll taxes:	
Federal retirement.....	\$1,300.56
Federal unemployment.....	296.63
State unemployment.....	1,701.34
Social insurance: Workmen's compensation insurance.....	1,368.63
Total, payroll taxes and employee benefits.....	<u>4,667.16</u>

SCHEDULE B-5.—*Advertising and sales promotion, year ended Dec. 31, 1962*

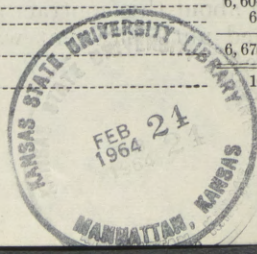
Advertising:	
Printing and stationery.....	\$137.87
Literature.....	172.35
Directory.....	198.00
Newspapers and magazines.....	7,576.02
Radio and television.....	2,495.03
Outdoor.....	1,828.42
Airplane.....	785.00
Open house.....	3,691.60
Miscellaneous.....	641.60
Total advertising.....	<u>17,525.89</u>
Ratio to room sales, total advertising and promotion (percent).....	26.54

SCHEDULE B-6.—*Heat, light, and power, year ended Dec. 31, 1962*

Engineering supplies.....	\$110.95
Electric current.....	5,259.70
Electric bulbs.....	15.39
Fuel gas.....	3,092.04
Gas for refrigeration.....	172.94
Total cost.....	<u>8,651.02</u>
Ratio to room sales, total cost of heat, light, and power (percent).....	13.10

SCHEDULE B-7.—*Repairs and maintenance, year ended Dec. 31, 1962*

Furniture.....	\$108.15
Curtains, draperies, and scarfs.....	12.00
Painting and decorating.....	1,608.70
Building.....	84.80
Electrical equipment.....	696.49
Plumbing and heating.....	542.07
Swimming pool.....	726.99
Jeep.....	745.94
Supplies.....	548.01
Grounds and landscaping.....	1,531.35
Total supplies and contracts.....	6,604.50
Payroll.....	65.88
Total cost.....	<u>6,670.38</u>
Statistics, ratios to room sales (percent).....	10.10



SCHEDULE B-8.—*Taxes, insurance, interest, and depreciation, year ended
Dec. 31, 1962*

Municipal taxes and insurance:	
Municipal taxes, real estate	\$4,169.65
Insurance	844.00
Total, municipal taxes and insurance	5,013.65
Interest:	
1st mortgage	19,303.06
Small Business Administration	812.60
Revere note	804.32
Bank note	208.33
Partners' loans	3,745.83
Total, interest	24,874.14
Depreciation and amortization:	
Depreciation:	
Building	20,324.04
Furniture and equipment	20,077.18
Amortization, 1st mortgage expense	94.90
Total, depreciation and amortization	40,496.12

Senator CANNON. Mrs. Novak, did you have any other offers on the Carousel at the time this sale was pending, for the complete sale?

Mrs. NOVAK. No. There were no definite offers. We did talk to—or I talked to many people, I had my attorney talking to other people. Of course, it was in the time of year and the kind of first year's operation, short as it was—it wasn't very presentable, very appetizing to many people. But there were many people interested in joining us as partners, or have a number of shares the first year of its operation.

Senator CANNON. Was there anything in connection with the sale which caused you to believe that you were being treated unfairly in this transaction?

Mrs. NOVAK. No; other than I felt only one thing: That I should be having a different kind of a note. I didn't think a nonnegotiable, nonassignable-type note was the kind that I could rely and not get any moneys. I had other obligations to meet. And this would mean I would have to sell other properties. And right now I am in a bind as far as liabilities at the bank are concerned, by not having the estate settled, and cannot buy property. I have one transaction going, and it is pretty messy. So I would like to have had some money deposited, so I could keep another year or two in making payments on these other holdings until the estate would be settled.

And, actually, the estate should have been settled. Why it is not, is beyond me.

Senator CANNON. In other words, you wanted a more certain assurance that you would get the money that was due to you.

Mrs. NOVAK. That is right, because, as it is now, 20 years from now it could be the same thing.

Senator CANNON. I believe that is all, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Cooper?

Senator COOPER. With respect to the issuance of the notes—your notes at the time of the sale, and the note to Donald Novak—providing that they should be postponed until the payment of this class A note to Robert G. Baker and Dorothy C. Baker in the amount of \$182,818.21: Was there any reason discussed during your conversation about this contract as why payment on your note should be postponed until payment was made on this note of Mr. Baker and his wife?

Mrs. NOVAK. There was the class B note, Senator. And that is because he put that money—that much more money in than the Novaks have, being 50-50 in this partnership. We didn't dispute that. We felt badly we could not come up with our share. But by the same token we also knew that we——

Senator COOPER. You agreed, then, that it was fair that he should be paid this sum in advance of your note?

Mrs. NOVAK. That is right. I mean that part was all right.

Senator COOPER. In the discussion of this contract, was any disclosure made to you of the officers or owners of Serv-U?

Mrs. NOVAK. No; not at the time of the signing. Mr. Tucker I knew then was chairman of the board, so that was one. I knew Mr. Baker had an interest in it, but in what capacity and how much he owned of it—because I knew there were more people in on it than when he originally told me about the company back in January of 1962, or even December of 1961.

Senator COOPER. Were statements made to you about the financial worth of Serv-U or its capacity to pay these notes?

Mrs. NOVAK. Mr. Baker made this comment that the company had a hundred thousand dollars in the bank, profits.

Senator COOPER. To return for a moment to the purchase of the MGIC stock: You testified that your share of the proceeds in the stock, yours and your husband's, were credited to the account of the Carousel. Is that correct?

Mrs. NOVAK. That is the 714 shares did; but the original 3,000; no. That was sold in March and April of 1961. That was not put in the Carousel. However, it did help to pay for that block of land.

Senator COOPER. Do you know whether Mr. Baker's share was also credited to the account of the Carousel?

Mrs. NOVAK. The 714 shares; yes.

Senator COOPER. When you were discussing the sale of this stock, was there any agreement that the proceeds of the stock, when sold, should be credited to the account of the Carousel?

Mrs. NOVAK. Well, yes; we discussed that jointly. But Mr. Baker was credited with just about all of the Mortgage Guaranty stock at the Carousel account. That was a repayment of that \$13,300 they had given us in cash in advance to pay for this one block of land. So, in other words, Mr. Baker got paid from our share of the sale of the MGIC stock, which was deposited in the Carousel account.

Senator COOPER. Were there any conversations, discussions, or facts presented at the time that you and your husband agreed to advance \$12,000 for the purchase of this stock, which would lead you to believe, at least have the reasonable expectation, that there would be a profit from the sale of this stock?

Mrs. NOVAK. I could not say. Apparently there must have been some feeling that there would be some profit. But when, we didn't know. Or at least I didn't. But I don't think my husband did, either.

Senator COOPER. Was there any discussion of what circumstances would occur in the future?

Mrs. NOVAK. No. If he did and told my husband——

Senator COOPER. Which would guarantee a profit from the sale of this stock?

Mrs. NOVAK. I did not know of any guarantee of profits.

Senator COOPER. Well, not necessarily a guarantee. But some assumption that there would be a profit.

Mrs. NOVAK. No; I don't think I could make that statement.

Senator COOPER. You learned later about the circumstances which did occur, which made this stock profitable?

Mrs. NOVAK. Oh, within a month or two; yes.

Senator COOPER. Before the time you purchased the stock, did you have any knowledge as to whether these events would occur?

Mrs. NOVAK. No.

Senator COOPER. I think you stated at some point that you were very much concerned or frightened because of the transfer to you of these cash payments from Mr. Robert Baker, is that correct?

Mrs. NOVAK. Yes; cash frightens me—I mean if you gave me a big check I would get scared, too.

Senator COOPER. Were there any circumstances about the transaction, such as any statements made or any knowledge you may have of the source of these funds, which led you to have this concern?

Mrs. NOVAK. Oh, you mean that kind of concern.

No. And yet I could not understand—and this is where I lost some faith in Mr. Baker—is that he was handling that much cold cash. But yet I did not feel I should have asked him. I just didn't feel right about it. I wanted to, but I did not. And this was the frightening part about it—my feeling about Mr. Baker.

Senator COOPER. During the course of these transactions, did you ever acquire any information about the source of these funds?

Mrs. NOVAK. No.

Senator COOPER. Did you ever discuss this problem of your concern with Mr. Baker?

Mrs. NOVAK. No. I just kept that pretty much to myself.

Senator COOPER. That is all, Mr. Chairman.

The CHAIRMAN. Senator Pell, I believe you have a question.

Senator PELL. Thank you.

Mrs. NOVAK, on balance, would you say that you had financially suffered or benefited as a result of your relationship with Mr. Baker?

Mrs. NOVAK. Suffered tremendously.

Senator PELL. Thank you.

Could you give us your definition of the term "conflict of interest"? What does that phrase mean to you?

Mrs. NOVAK. That phrase means to me that someone doesn't have all my personal concern and feeling for me and me alone, and when it comes to this Serv-U Corp., the kind of transaction that we were involved in, he also being a law partner of Mr. Baker's, Mr. Baker owning the company—I didn't know Mr. Tucker was chairman of the board. But why would all my hard-earned time, hard-earned money, someone administer the estate, is all of a sudden taking it out and putting in their own company. And so that was definitely conflict of interest to me.

Senator PELL. In other words, there was a conflict of interest between one business responsibility and another business responsibility?

Mrs. NOVAK. That is right.

Senator PELL. Was there, in your view, a conflict of interest between his responsibility as secretary of the majority, and his access to sources of power, and the way he handled your affairs?

Mrs. NOVAK. No; not as secretary to the majority.

Senator PELL. Thank you very much.

The CHAIRMAN. Well, as you all know, that is a vote on the Senate floor.

Senator Byrd, how long would you take, sir? We are not rushing you by any means.

Senator BYRD. Less than 5 minutes.

The CHAIRMAN. Are there any other questions?

Senator CURTIS. No. If there is a desire to finish there won't be any. If we have time I have just two. But I won't press them.

The CHAIRMAN. If we can finish in 5 minutes, I think it would be desirable to finish before we go to vote, and then not have to come back.

Senator Byrd, you may proceed, and we will try to finish up.

Senator BYRD. Mrs. Novak, whom did you call to inquire of the status of the loan application in the Small Business Administration?

Mrs. NOVAK. I didn't know who to contact. I immediately thought of Mr. Horne, whom I have known for many years as administrative assistant to Senator Sparkman. He then was Administrator. So I called him as a friend. I asked him who and where. I knew there was a branch office set up, there was also a regional office—could I find out if it was still in the regional office or the branch office, whom do I contact?

I did that on a personal basis with Mr. Horne. And he directed me to Mr. Maxwell. Bob Maxwell called me and he said we would find out where it was. And he called me and told me that it was about to go from the branch to the region. I have forgotten exactly how he said it. But he did tell me where it was.

Senator BYRD. Mr. Maxwell?

Mrs. NOVAK. Yes.

Senator BYRD. How many times did you call Mr. Maxwell?

Mrs. NOVAK. I did not call Mr. Maxwell any time further on behalf of that alone. I have when he would come to the committee on numerous occasions—to the Senate Small Business Committee—and I would see him. But I don't think that I made any special effort to find out the status.

Senator BYRD. Did you make further inquiries of Mr. Maxwell during his visitations to the Small Business Committee?

Mrs. NOVAK. Not specifically, no. Either he would volunteer, or ask whether I had heard anything further from the branch. But that was the extent of our conversation, just that.

Senator BYRD. He knew that you were involved as an applicant, and he also knew of your position on the Small Business Committee?

Mrs. NOVAK. Yes; he knew where I worked.

Senator BYRD. Do you know of Mr. Baker's having called the SBA to inquire about this application?

Mrs. NOVAK. I do not know whether he had called. But I would imagine he knows many of the liaison people here to the Hill from the Small Business Administration.

Senator BYRD. But you do not know that he made any inquiries concerning the application?

Mrs. NOVAK. No, not to my knowledge.

Senator BYRD. What was the percent of ownership by Mr. Baker in the Carousel?

Mrs. NOVAK. Fifty percent.

Senator BYRD. And what percent was owned by Alfred Novak?

Mrs. NOVAK. Twenty-five percent.

Senator BYRD. And what percent by Donald Novak?

Mrs. NOVAK. Twenty-five.

Senator BYRD. And was this the original agreement with Mr. Baker?

Mrs. NOVAK. No; the original agreement we had, we were one-third owners, each one.

Senator BYRD. The original agreement was that Alfred and Donald were each to have one-third, and Mr. Baker was to have one-third?

Mrs. NOVAK. That is right.

Senator BYRD. And as it later developed, Mr. Baker had 50-percent ownership, and the Novaks had 50?

Mrs. NOVAK. That is right.

Senator BYRD. Why did this development take place?

Mrs. NOVAK. My husband's concern, knowing we could not come up with more money—we wanted to sell part of our interest out to other people. Of course, we asked Mr. Baker first. But we knew we could not hold onto that much after the restaurant was going to be built, and many other little changes came about.

In addition, to that, the nightclub was coming into being, which was not for a year or two. And that was a very costly item of a hundred thousand dollars. So he said, no, he would buy our interest out. So he did.

Senator BYRD. How much money was actually invested in the Carousel by Alfred Novak, roughly?

Mrs. NOVAK. At the time he passed away?

Senator BYRD. In the overall amount—yes.

Mrs. NOVAK. At the time he passed away, or until we sold the motel—I don't understand.

Senator BYRD. Yes; until you sold the motel.

Mrs. NOVAK. Until we sold, \$63,789.

Senator BYRD. How much invested by Donald Novak?

Mrs. NOVAK. \$43,789.

Senator BYRD. How much by Mr. Baker?

Mrs. NOVAK. About \$290,000.

Senator BYRD. So he had more than 50 percent of the total investment?

Mrs. NOVAK. Well, he has two-thirds.

Senator BYRD. He has two-thirds?

Mrs. NOVAK. About.

Senator BYRD. Does he possess any promissory notes from the Novaks with reference to the Carousel?

Mrs. NOVAK. I don't understand.

Senator BYRD. Well, he had far more than 50 percent of the total investment.

Mrs. NOVAK. Yes.

Senator BYRD. And was there any understanding that the Novaks were to repay him up to 50 percent of the investment?

Mrs. NOVAK. Yes.

(At this point, Senator Curtis withdrew from the hearing room.)
 Mrs. NOVAK. We were to do that—or take less percentage in the motel, which we asked him about.

Senator BYRD. He did not hold any promissory notes?

Mrs. NOVAK. No.

(At this point, Senator Pell withdrew from the hearing room.)
 Senator BYRD. You spoke of Mr. Ralph Hill. I believe that you said the Novaks had had no business relationship with Mr. Hill.

Mrs. NOVAK. No; we did not.

Senator BYRD. Have you ever loaned money to Mr. Hill?

Mrs. NOVAK. No.

Senator BYRD. Do you have any financial interest in the Capitol Vending Co.?

Mrs. NOVAK. No; I do not.

Senator BYRD. You have never made any investments in the Capitol Vending Co.?

Mrs. NOVAK. No; I have not.

Senator BYRD. You indicated that Mr. Hill had had a conversation with you in March or April of 1963, that your conversations with him began at that time.

Mrs. NOVAK. Yes; they did.

Senator BYRD. Do you recall as to whether or not you have had many subsequent conversations?

Mrs. NOVAK. Oh, yes.

Senator BYRD. Have you collaborated with Mr. Hill, or has he collaborated with you in connection with these hearings?

Mrs. NOVAK. No.

Senator BYRD. Does Mr. Don Reynolds have any investment in the Capitol Vending Co.?

Mrs. NOVAK. I would not know.

Senator BYRD. You indicated that Mr. Reynolds, Mr. Baker, and the Novaks have been together many times.

Mrs. NOVAK. Yes; we have.

Senator BYRD. Was Mr. Reynolds married?

Mrs. NOVAK. Yes; he is married.

Senator BYRD. Was his wife present upon those occasions?

Mrs. NOVAK. Yes. We would be at dinners together.

Senator BYRD. Is he presently married?

Mrs. NOVAK. Yes; he is.

Senator BYRD. To the same Mrs. Reynolds?

Mrs. NOVAK. Yes.

Senator BYRD. Where does Mr. Reynolds live?

Mrs. NOVAK. He lives out in Silver Spring, Venetian Road.

Senator BYRD. Does he have an apartment where he entertains clients?

Mrs. NOVAK. I don't know of any.

Senator BYRD. You do not know?

Mrs. NOVAK. No; I just don't know anything about that.

Senator BYRD. Have you had any business dealings, or did Mr. Alfred Novak or Mr. Donald Novak have any business dealings with Mr. Reynolds, other than the purchase of insurance?

Mrs. NOVAK. No. I must elaborate. I forgot. Not that I mean to forget it in its entirety. We purchased some land up in Garrett

County. But that was through Mr. Reynolds' efforts that we were able to get this property out there. But we paid him off on that through the bank and I still owe on it.

Senator BYRD. Did you or your husband or your brother-in-law ever purchase anything other than land from Mr. Reynolds?

Mrs. NOVAK. No; we did some renovating of his home.

Senator BYRD. Did you ever purchase a boat from him?

Mrs. NOVAK. No. The boat was not purchased from him. He gave us that as payment for working on his house.

Senator BYRD. What type of boat was it?

Mrs. NOVAK. It is a Swedish-made boat, about 18½—17 feet long.

Senator BYRD. Does he have any other boats?

Mrs. NOVAK. Not at the present. He did have another boat—in fact, he had two boats. That is the reason he gave us this one. But he has since sold the other.

Senator BYRD. What type of boat was the other boat?

Mrs. NOVAK. Oh, a something—I don't know too much about boats. I was out on it two or three times. It was a beautiful boat. He sold it.

Senator BYRD. When were you out on the boat with Mr. Reynolds?

Mrs. NOVAK. The summer of 1961.

Senator BYRD. Were you on the boat with Mr. Reynolds subsequent to the publicity concerning the suit against Mr. Baker?

Mrs. NOVAK. No; he did not have a boat at that time.

Senator BYRD. He had sold the boat prior to that time?

Mrs. NOVAK. He sold it either late in 1961 or early 1962.

Senator BYRD. Did Mr. Reynolds entertain clients on the boat?

Mrs. NOVAK. I never was on the boat when he entertained clients. If he did, I don't know.

Senator BYRD. What is your salary, Mrs. Novak?

Mrs. NOVAK. My salary is \$7,385.

Senator BYRD. Thank you, Mr. Chairman.

Thank you, Mrs. Novak.

The CHAIRMAN. Counsel has one question.

(At this point, Senators Cannon, Byrd, and Cooper withdrew from the hearing room.)

Mr. McLENDON. Did Robert C. Baker send any guests to the Carousel as free guests, who did not pay anything because they were his guests?

Mrs. NOVAK. Yes; but I could not give you any specific names or any times. He just said—we just could not charge such.

Mr. McLENDON. Were there many such people?

Mrs. NOVAK. I don't know if there were many.

Mr. McLENDON. Is there any way you could find out who they were?

Mrs. NOVAK. The manager—no, I could not. The manager at that time would be able to tell you. I would not know.

Mr. McLENDON. He is no longer with the company?

Mrs. NOVAK. No; he is no longer there.

Mr. McLENDON. Just one other question.

At one place in your testimony you said that Baker said to you in describing his company, which you later learned to be Serv-U, that there was no way of losing money on the California business.

Do you recall that?

Mrs. NOVAK. Well, that it was a profitable company; if that company lost money, then any other company would be losing it, too. He just said it was a profitable company.

Mr. McLENDON. Did he say anything about the company having contracts with large corporations that in turn had contracts with the Government?

Mrs. NOVAK. No.

Mr. McLENDON. He did not?

Mrs. NOVAK. No.

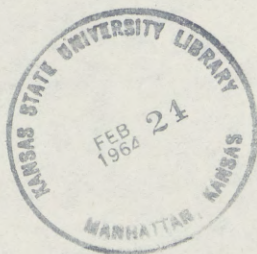
Mr. McLENDON. Thank you.

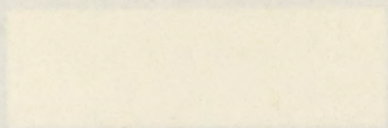
The CHAIRMAN. Mrs. Novak, we appreciate very much your cooperation this morning. You have made a fine witness. And I hope we have not kept you too long, and made you too uncomfortable.

This completes the hearing. It is adjourned.

(Whereupon, at 1:30 p.m., the committee recessed, subject to the call of the Chair.)

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