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**FINANCIAL OR BUSINESS INTERESTS OF OFFICERS
OR EMPLOYEES OF THE SENATE**

**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

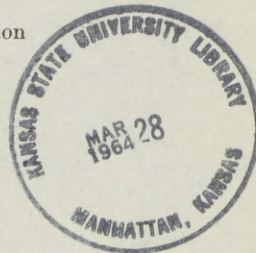
**RESOLUTIONS AUTHORIZING AN INVESTIGATION INTO THE
FINANCIAL OR BUSINESS INTERESTS OF ANY OFFICER OR
EMPLOYEE OR FORMER OFFICER OR EMPLOYEE OF THE
SENATE**

JANUARY 28, 1964

PART 10

**Testimony of Max H. Karl, Robert F. Thompson, George M.
Simon, and Gertrude C. Novak**

Printed for the use of the
Committee on Rules and Administration



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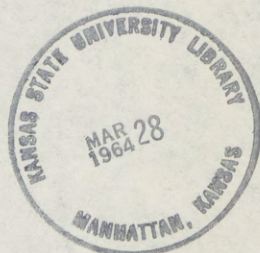
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FINANCIAL OR BUSINESS INTERESTS OF OFFICERS OR EMPLOYEES OF THE SENATE

TUESDAY, JANUARY 28, 1964

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

The committee met, pursuant to recess, at 10:15 a.m., in the caucus room, Old Senate Office Building, Senator Howard W. Cannon presiding.

Present: Senators Cannon, Hayden, Byrd of West Virginia, Clark, Curtis, and Cooper.

Also present: Gordon F. Harrison, staff director; Hugh Alexander, chief counsel; L. P. McLendon, general counsel; Burkett Van Kirk, associate counsel; James Duffy, associate counsel; William B. Whitely, staff assistant to Senator Jordan; Walter Mote, professional staff member; William Ellis Meehan, investigator; and Alice Clark, staff.

Senator CANNON. A quorum being present, the committee will please come to order.

Senator Jordan is unable to be here this morning because of a conflict in committee hearings, and has asked me to preside.

This committee is acting by direction and under the authority of the 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 employe or former officer or employee of the Senate for the purpose of ascertaining, first, whether any such interests or activities have involved conflicts of interest or other impropriety; and, two, whether additional laws, rules, or regulations are necessary or desirable for the purpose of prohibiting or restricting any such interests or activities.

Witnesses have been interviewed by the staff and heard both in executive and in public sessions. Considerable evidence has been obtained and testimony received to date.

Witnesses who have appeared previously or who will be called in the future possess information which the committee believes is material and pertinent to the provisions of the resolution of direction and authorization and which will aid the committee in fulfilling its legislative purpose.

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

The committee will now proceed to hear the testimony of Mr. Max Karl.

Mr. Karl, will you place your left hand on the Bible and raise your right hand, please?

Do you solemnly swear that the testimony you are about to give before this investigating committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KARL. I do.

Mr. Chairman, I have sitting alongside of me Mr. Marvin Klitsner, who is my counsel.

Mr. McLendon. His name will be inserted in the record.

Senator Cannon. Counsel for the committee will proceed.

Mr. McLendon. Mr. Chairman, and gentlemen of the committee, I would like to make this statement on the record before examination of Mr. Karl begins.

We have arranged to examine Mr. R. F. Thompson, of Dallas, Tex., prior to the examination of Mr. Karl this morning, because he is here voluntarily, as Mr. Karl is, without subpoena.

Yesterday, at noon, I was advised that he was ill and under the treatment of a physician. This morning his counsel called and said that he was sick this morning, and it was uncertain whether he would be here—when.

I am making this statement, Mr. Chairman, with the suggestion that if he does come in and is able to testify, we might, in order to accommodate him, even interrupt the examination of Mr. Karl for that purpose.

Senator Cannon. Very well, sir.

You may proceed.

Mr. McLendon. Will you state your full name and your residence address, Mr. Karl?

TESTIMONY OF MAX H. KARL, ACCOMPANIED BY MARVIN E. KLITSNER, COUNSEL

Mr. KARL. Max H. Karl, 6868 North Barnett Lane, Milwaukee, Wis.

Mr. McLendon. Are you accompanied by your personal counsel?

Mr. KARL. Yes; I am, sir.

Mr. McLendon. Will you have him state his name and his business address in the record?

Mr. Klitsner. Marvin Klitsner, 735 North Water Street, Milwaukee, Wis.

Mr. McLendon. You both heard the statement read by the chairman a moment ago, did you not?

Mr. KARL. Yes.

Mr. Klitsner. Yes, sir.

Mr. McLendon. Mr. Karl, what is your official position with the Mortgage Guaranty Insurance Corp.?

Mr. KARL. I am the president.

(At this point, Senator Curtis entered the hearing room.)

Mr. McLendon. How long have you been its president?

Mr. KARL. Since the end of 1957, or probably January of 1958 is more correct.

Mr. McLendon. When was the corporation organized?

Mr. KARL. It was organized in November of 1956.

Mr. McLendon. In what State?

Mr. KARL. The State of Wisconsin.

Mr. McLendon. Were you one of the incorporators?

Mr. KARL. Yes; I was, sir.

Mr. McLendon. Who were the others?

Mr. KARL. M. P. Frank, and Spiros W. Kallas, along with about 12 other individuals who were not active in promoting the organization.

Mr. McLendon. When did the corporation first begin business?

Mr. KARL. In March of 1957.

Mr. McLendon. And has it been in business continuously since that date?

Mr. KARL. Yes, sir.

Mr. McLendon. Will you describe very briefly the nature of the company's business?

Mr. KARL. The business is casualty insurance. It is classified under casualty insurance, under the Wisconsin insurance laws. The company is licensed by the Wisconsin Insurance Department. And the business is to guarantee against financial loss on mortgages.

Mr. McLendon. You guarantee the mortgages held by whom?

Mr. KARL. The mortgage that is held by the lending institution is guaranteed by us to some extent. It is really the upper—the top 20 percent of the mortgage that is guaranteed.

Mr. McLendon. Do you do business without regard to State lines all over the United States where you find business?

Mr. KARL. No. We are licensed in 40 States, plus the District of Columbia. We do business in two other States through surplus line brokers.

Mr. McLendon. Are you acquainted with a man named Leonard Burstein, or Bursten; I am not sure which.

Mr. KARL. I heard of him as being a former Milwaukee lawyer, but I don't recall ever meeting him.

Mr. McLendon. Has he ever attended any conference of the incorporators or promoters of the MGIC?

Mr. KARL. Never.

Mr. McLendon. Has he ever been an employee of the company?

Mr. KARL. He has never been an employee of the company; no.

Mr. McLendon. If not an employee, he certainly would not be an officer.

Mr. KARL. No; he was not an officer.

Mr. McLendon. Do you know of any capacity in which he has ever acted with respect to your corporation?

Mr. KARL. None whatsoever, sir.

Mr. McLendon. The committee has before it, Mr. Karl, evidence to the effect that Mr. Bursten, and a man named Webb, Thomas Webb, Jr., who lives in Washington, and a man named Reynolds met in Florida and had extensive discussions about this corporation, the one in which you testified you are president, and the means of promoting it. Do you have any knowledge whatever of any such conversations, and if they took place?

Mr. KARL. None whatsoever. I do know only one of the three names you mentioned, and that is Thomas Webb, and I met him very casually. But I know of no instance where I was told that there was such a meeting.

Mr. McLendon. How were you told?

Mr. KARL. I say I know of no instance where I was told that there was such a meeting.

Mr. McLendon. How did you happen to meet Mr. Webb?

Mr. KARL. I met Mr. Webb through Mr. Baker.

Mr. McLendon. Do you recall when?

Mr. KARL. Not exactly, sir; no.

Mr. McLendon. Would it be before or after Baker became a purchaser of MGIC stock?

Mr. KARL. I think it was after, sir.

Mr. McLendon. You think it was. There is also evidence that those three men whose names I gave you a moment ago visited a Congressman for the purpose of discussing the promotion of this company—Congressman Multer. Do you know anything about that?

Mr. KARL. Not a thing. The only thing I do know is that I read about it for the first time in the newspaper following Mr. Reynolds' testimony before this committee. And I was surprised to read the contents.

Mr. McLendon. There is also evidence that the same three people visited the Commissioner of Insurance of the District of Columbia, whose name, I believe, is Stout; is that correct?

Mr. KARL. I think Mr. Stout is the Deputy Commissioner.

Mr. McLendon. Do you know him?

Mr. KARL. I met Mr. Stout in the company of three or four—I think there were three savings and loan people from the District of Columbia, who had come to the office of Mr. Stout for the purpose of requesting that our company be admitted in the District. And they stated at that meeting that they were desirous of having our company offer service to the savings and loans, that they needed the service that we were rendering. And that is my only contact with Mr. Stout.

Mr. McLendon. Can you give the committee the approximate date of this interview you have just spoken about?

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

Mr. KARL. I think it was early in February or perhaps late in January of 1961.

Mr. McLendon. Do you have any objection to giving the committee the benefit of the names of these persons who were with you on that occasion?

Mr. KARL. Well, if you have to have the names, I think I can recall some of them.

Mr. McLendon. Well, give us those that you do remember.

Mr. KARL. There was Mr. Bruce Brien, who is executive head of the District of Columbia Savings & Loan League. And Mr. Richard Sinclair is another name that I remember. And I do not remember the other name, of the third person.

Mr. McLendon. How was this engagement arranged? Was it arranged by you or by one or more of the other gentlemen present?

Mr. KARL. It was arranged by the other gentlemen.

Mr. McLendon. How did you happen to be there?

Mr. KARL. Well, I was called.

Mr. McLendon. By whom?

Mr. KARL. By Mr. Brien.

Mr. McLENDON. You went in consequence of a call from Mr. Brien?
 Mr. KARL. Yes; Mr. Brien made the appointment, and I joined him in Washington here in Mr. Stout's office.

Mr. McLENDON. What was the result of this conference?

Mr. KARL. There was a favorable indication that we would be licensed. Mr. Stout asked me to file the necessary papers for admission, which I proceeded to do.

Mr. McLENDON. And was your company later licensed in the District of Columbia?

Mr. KARL. Yes; our company was licensed late in February of 1961.

Mr. McLENDON. What connection, if any, did Robert G. Baker have with this company?

Mr. KARL. None, to my knowledge, sir. I never requested any help from Mr. Baker or from anybody else. And the only discussions I had with regard to having our company admitted was with Mr. Brien, and some of the savings and loan members.

Senator CURTIS. May I ask one question?

This group that attended this meeting—how many did you say were there?

Mr. KARL. I think there were three others besides myself.

Senator CURTIS. And they were who?

Mr. KARL. They were Mr. Bruce Brien—

Senator CURTIS. Yes.

Mr. KARL. And I do remember Mr. Sinclair attending that meeting.

Senator CURTIS. Yes; and who else?

Mr. KARL. There was a third man whose name I cannot recall at the moment.

Senator CURTIS. Anybody else?

Mr. KARL. And myself.

Senator CURTIS. Do you know who arranged the meeting?

Mr. KARL. I think Mr. Brien arranged the meeting. But I might indicate I was told there was a discussion at the District of Columbia Savings & Loan League meeting about the need for our service. And that is how this was brought about.

Senator CURTIS. That is all for the moment.

Mr. McLENDON. The interest of Mr. Brien and Mr. Sinclair was what?

Mr. KARL. I think Mr. Sinclair was an officer of the District of Columbia Savings & Loan League at the time.

Mr. McLENDON. What was Mr. Brien's position, if you know?

Mr. KARL. Mr. Brien was executive secretary, or at least executive head of the District of Columbia Savings & Loan League.

Mr. McLENDON. Mr. Karl, there is evidence before the committee that a second corporation, which is usually referred to as the GIAI Corp., was affiliated with MGIC in some way. Will you first tell the committee what the GIAI Corp. was, and what it was organized for?

Mr. KARL. Yes; GIAI stands for Guaranty Insurance Agency, Inc. This was a companion corporation that was owned by substantially the same stockholders in substantially the same proportions as MGIC. The purpose of GIAI was to fund the payment of commissions which would have been an unusual drain on MGIC in its

early formative years. This was of financial benefit to the company. It was financed separately. It paid the full commissions to the agents—to the licensed agents who were selling the insurance for us. In return, MGIC was merely paying GIAI on an earned premium basis, which was substantially less in the early years than the full commission.

Mr. McLENDON. Was the interlocking of stockholders and directors, officers of the two corporations such that MGIC at all times controlled GIAI?

Mr. KARL. Yes; they were the same officers and directors, and the same stockholders.

Mr. McLENDON. And was the GIAI later merged into the MGIC?

Mr. KARL. Yes; it was.

Mr. McLENDON. Then if I understand you, the purpose of organizing this subsidiary was to set up an organization that would finance the solicitation of business for the parent corporation, that actually paid the commissions to the agents as they were earned.

Mr. KARL. Yes.

Mr. McLENDON. That would avoid the parent corporation showing that "drain," if that is not an improper word, or that expense; is that correct?

Mr. KARL. That was the principal function. There was another function which involved handling spotcheck appraisals. This was a system whereby we took sample appraisals and determined the validity or reasonableness of the appraisals of various lending institutions that we were doing business with.

Mr. McLENDON. What was the business reason for merging the two corporations?

Mr. KARL. Well, it got to be a little cumbersome to have two sets of stockholders. There was a great danger that some people might sell the GIAI stock and not sell the MGIC stock, and there would be some diversity which might eventually hurt the company. And we felt that it was more practical to merge agency into MGIC. But in addition, we felt that there was no longer a need for the agency—that MGIC could well fund the payment of commissions when we did merge.

Mr. McLENDON. To state it a little differently, would it be accurate to say that you had fear that something might happen to cause the MGIC to lose control of the other company?

Mr. KARL. Yes; that was a distinct possibility.

Mr. McLENDON. And to avoid that possibility, you merged them?

Mr. KARL. Yes, sir.

Mr. McLENDON. All right. When did you first become acquainted with Robert G. Baker?

Mr. KARL. I have no specific recollection of when I met him, under what circumstances.

Mr. McLENDON. Can you name the year?

Mr. KARL. I can give you a very broad time. I thought I met him at the end of 1958, but it may very well have been in 1959, for the first time, the first half of 1959.

Mr. McLENDON. Do you recall having heard him make a speech at the U.S. Savings & Loan League convention in San Francisco in 1958?

Mr. KARL. Yes. That was in November of 1958.

Mr. McLENDON. Did you meet him at that time?

Mr. KARL. I think I may have met him then. I am not quite sure.

Mr. McLENDON. But you became better acquainted with him later?

Mr. KARL. Yes.

Mr. McLENDON. Do you recall who introduced you to him?

Mr. KARL. No; I do not.

Mr. McLENDON. Was it Glenn Troop?

Mr. KARL. I am not sure. It may have been Glenn Troop. But I am really not sure about it.

Mr. McLENDON. You know who Glenn Troop is, do you not?

Mr. KARL. Yes; I do know.

Mr. McLENDON. He is the registered lobbyist for the savings and loan association, is he not?

Mr. KARL. Yes; I do know that.

Mr. McLENDON. And spends his time in Washington?

Mr. KARL. Yes; that is true.

Mr. McLENDON. You happen to know, do you not, that he and Baker were good friends?

Mr. KARL. Yes; I do.

Mr. McLENDON. And even intimate?

Mr. KARL. Well, I don't know. They may be intimate friends.

Mr. McLENDON. Well, after you became acquainted with him, probably about 1959, how intimate was your acquaintance?

Mr. KARL. With Mr. Baker?

Mr. McLENDON. Yes, sir.

Mr. KARL. Well, I would see him infrequently. I would make it a point to drop in to visit with him when I got to Washington. But this visitation took place after he was a stockholder.

Mr. McLENDON. Well, I was going to ask you—did you visit him at all before he became a stockholder?

Mr. KARL. I don't recall going to him and visiting with him; no.

Mr. McLENDON. Can you tell the committee whether you had any communication with him prior to the time that he purchased the first stock in your corporation concerning the corporation and its operations? You understand my question? Prior to the time that he became a purchaser of stock, did you have any communication with him about your company?

Mr. KARL. By communication, do you mean letters?

Mr. McLENDON. Letters or telephone calls.

Mr. KARL. I know I did not have any letters going between us. At least, my files do not indicate it. I know that I had a telephone conversation with him before he purchased the stock.

Mr. McLENDON. Tell us about that, please.

Mr. KARL. Well, he indicated an interest in our company. He said that he had heard that we were going places, that we were a good company.

Senator CLARK. May I interrupt, Major? Who initiated the telephone conversation?

Mr. KARL. Mr. Baker.

Senator CLARK. Thank you.

Mr. McLendon. Tell us as nearly as you can the conversation, Mr. Karl.

Mr. Karl. Well, he had heard about MGIC's progress, its growth, its potential. He wanted some confirmation from me that this growth would continue, and that our potential would be greater. He wanted to know something about the details, the going rate, the going price of the stock.

Mr. McLendon. What was the going price of the stock at that time?

Mr. Karl. It was—the stock was selling under a Wisconsin registration for \$125 a share.

Mr. McLendon. That is the MGIC stock?

Mr. Karl. That is the MGIC. And we were selling this in a package, in a unit—four MGIC shares at \$125 per share, and one GIAI share at \$75 per share. So that the total of four MGIC and GIAI was \$575.

Mr. McLendon. All right. Go ahead. Finish telling us about the conversation.

Senator Clark. May I ask a question before he goes ahead?

Was this conversation with Mr. Baker before you prepared your registration statement for the SEC?

Mr. Karl. Yes; it was.

Senator Clark. How long before?

Mr. Karl. It was in August of 1959.

Senator Clark. And the registration statement was not prepared until when?

Mr. Karl. I think it was in the fall of 1960—of 1959.

Senator Clark. And it was not filed or made effective until some time later; is that correct?

Mr. Karl. It was filed and made effective in February—it was effective in February of 1925.

Senator Clark. Not 1925.

Mr. Karl. February of 1960. February 25, 1960, is what I had in mind.

Senator Clark. Thank you.

Mr. Karl. Now, I do want to point out, Senator, that Mr. Baker's stock was not from that issue.

Senator Clark. Well, let's not anticipate ourselves. Perhaps you can go back now and answer the major's question.

Mr. McLendon. I want to be sure that you finished your conversation, your telephone conversation with Mr. Baker.

Mr. Karl. Well, I say I don't remember all the details of the conversation. It is too long ago. But I know that his interest was evidenced in purchasing stock. And he wanted to know if there was any stock that I could find for him. And I said that I did know of a situation where he could buy some stock.

Mr. McLendon. Did you explain it, or just left it with that statement, that you knew of a situation that would provide stock?

Mr. Karl. I told him that I knew of a situation right there; yes.

Mr. McLendon. You didn't name—

Mr. Karl (continuing). If he was interested.

Mr. McLendon. You did not name anyone in connection with that?

Mr. Karl. I did not.

Senator CURTIS. When was the date of this conversation?

Mr. KARL. This was in August of 1959.

Mr. McLENDON. Do you recall in that conversation if Mr. Baker gave you the names of any people with whom he had been talking about this corporation?

Mr. KARL. No; I don't recall that he mentioned any names to me.

Mr. McLENDON. What about Troop? Did he mention him?

Mr. KARL. I don't recall his mentioning Troop to me.

Mr. McLENDON. You don't recall?

Senator CLARK. Major, can I ask a question?

At the time Mr. Baker called you up, had you met him?

Mr. KARL. Well, I think I met him very casually—either in San Francisco in November of 1958 or some time after that.

Senator CLARK. But before the telephone conversation?

Mr. KARL. Yes.

Senator CLARK. Were you surprised that he should call you?

Mr. KARL. Rather.

Senator CLARK. What did you know about him at that time—what did you think his interest was based on? Did you know his job; did you know his financial situation?

Mr. KARL. I knew his job. I didn't know anything about his financial situation. I considered that he was asking me this question as an investor, as a potential investor.

Senator CLARK. You didn't think it peculiar that the secretary of the majority of the Senate should be interesting himself in investing in your stock as an investor?

Mr. KARL. No; I did not think it was peculiar.

Senator CLARK. Did you think at that time that Mr. Baker might be useful to you as a stockholder of your company?

Mr. KARL. I was impressed with the title that he bore. I felt that it was important that MGIC have well-known stockholders who might attract other stockholders, because it was important for a growing corporation to have a wide distribution of its stock, and to interest other people to invest.

Senator CLARK. And at that time it was your view that Mr. Baker was quite an important person in the world of Washington?

Mr. KARL. I thought that he knew a lot of people; yes.

Senator CLARK. And could be useful to your company?

Mr. KARL. Useful only to the extent that other investors might follow his lead.

Senator CLARK. Thank you.

Senator CANNON. You may proceed.

Mr. McLENDON. Mr. Karl, did you, subsequent to this telephone conversation, receive an order from Mr. Baker for the purchase of stock?

Mr. KARL. Yes. As a matter of fact, it was in the form of a check.

Mr. McLENDON. What was the amount of the check?

Mr. KARL. The check was \$28,750.

Mr. McLENDON. Did you issue to him a receipt for that check?

Mr. KARL. I just turned this check over to my secretary, who took care of it. But in checking the records, I find a receipt dated August 21, 1959.

Mr. McLendon. Do you have a copy of it there before you?

Mr. Karl. Yes; I do.

Mr. McLendon. Will you refer to it? I ask you if it is dated August 21, 1959?

Mr. Karl. Yes; it is.

Mr. McLendon. And it reads: "Received from Robert G. Baker \$28,750." And what is the next line? Read that, please.

Mr. Karl. The next line is "Pur."—I think that is an abbreviation for purchase—"Pur.—200 shares, \$25,000. Balance exchange." And up on top of the receipt there is a notation "Exchanged to GIAI \$3750, 50 shares."

Senator Cannon. Mr. Karl, at the time you had your discussion with Mr. Baker on the phone, did you discuss the number of shares that might be available through this source you mentioned?

Mr. Karl. I talked in terms of units, I believe. This was known as 50 units, and I told him what the price would be for it.

Senator Cannon. You told him the price for 50 units would be \$28,750?

Mr. Karl. Yes.

Senator Cannon. And that there was that number of shares available?

Mr. Karl. Yes; I knew the situation where he could buy the stock.

Senator Cannon. Thank you.

Proceed.

Mr. McLendon. Will you hand the reporter a copy of the receipt that you have just testified about?

Mark it, Mr. Reporter.

(The document referred to was marked "Karl Exhibit 1," and is as follows:)

Mr. Karl. I was impressed with the title that he bore, I think it was important that GIAI have well-known stockholders who might attract other stockholders because it was important for a growing corporation to have a wide distribution of the stock and to interest other people to invest.

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KARL EXHIBIT 1

Stock Receipt given No. **XXXXX** 50 sh. 8-21-1937

RECEIVED FROM Robert G. Baker

Wm. H. Howard & Sons, Broker, Fifty 100 DOLLARS

Per \$50.00 - 100 - Baker, E. C.

Account Total \$ 71.75 00

Amount Paid \$ 71.75 00

Balance Due \$ 00.00

"THE OFFICIALS' LINE"

R. B.

Mr. McLendon. Now, in connection with this purchase by Mr. Baker that you have just testified about, did he furnish you a list of the people to whom the stock was to be issued?

Mr. KARL. Well, I don't have a specific recollection on that, except I do know that he indicated that he was buying the stock for himself and others. I don't recall whether he gave me the names.

Mr. McLendon. Now, where was—

Mr. KARL. I am sure he didn't during the telephone conversation.

Mr. McLendon. Where was that much stock available—from what source was it obtainable?

Mr. KARL. Well, there was a stockholder who had asked to purchase this block of stock, and he was going to make arrangements for financing it with the bank. And there was some delay; he had some misgivings about going ahead with it. And he told me after a few days that if I knew of somebody else who wanted to buy the block, I should go ahead and sell it.

Mr. McLendon. Had it ever been issued—the person you are referring to was Dr. Friedman, wasn't it?

Mr. KARL. Yes, and it was issued to him.

Mr. McLendon. But had it been delivered?

Mr. KARL. No; the certificate had not been delivered. The intention was to deliver it to him when he paid the money, and he never paid the money.

Mr. McLendon. And because he didn't pay, the certificates were held by the company; is that correct?

Mr. KARL. That is correct.

Mr. McLendon. And then, instead of issuing those certificates, or delivering them, rather, to Dr. Friedman, the same amount of stock was issued on the instruction of Mr. Baker in exchange for the \$28,750?

Mr. KARL. Yes. As I remember it, it was endorsed over to Mr. Baker's group ultimately.

Senator CURTIS. How many shares?

Mr. KARL. This was 200 shares of MGIC, and 50 shares of GIAI.

Mr. McLendon. Now, your records seem to show, Mr. Karl—you correct me if I am wrong—that none of that stock for that amount of money was issued until March 1960, although the money had been received in August 1959; is that correct?

Mr. KARL. That is correct.

Mr. McLendon. What explanation do you make of that?

Mr. KARL. Well, as I understand it, it is my recollection that he was to furnish me with a list of names, people who were to participate in this purchase. And I just did not get the full information. So I wasn't in a position to effect the transfer.

Mr. McLendon. You were waiting, then, for instructions from him as to the names of the people in whose names the stock was to be issued; is that correct?

Mr. KARL. That is right.

Mr. McLendon. What kin was this man Friedman, if any, to you?

Mr. KARL. He is my brother-in-law.

Mr. McLendon. Did he make any money, profit, or lose any money, loss, as a result of this transaction with Baker?

Mr. KARL. No; none whatsoever. If he had gone ahead with the purchase he would have paid the same amount of money Mr. Baker paid.

Mr. McLendon. Now, in the meantime, your first registration was pending with the SEC?

Mr. KARL. No; it was not.

Mr. McLendon. It was not?

Mr. KARL. No.

Mr. McLendon. Wasn't the first registration approved and effective as of February 25, 1960?

Mr. KARL. That is correct.

Mr. McLendon. And didn't you just testify that the stock was issued upon Baker's instructions in March 1960?

Mr. KARL. The transfer was effected, but the original transaction with Mr. Baker was August 21, as I note from the receipt.

Senator CURTIS. What year?

Mr. KARL. 1959.

Mr. McLendon. I was just trying to make it clear, Mr. Karl, because the evidence in the record may be confusing on that point—that the purchase by Baker occurred in August 1959, but the stock he bought was not issued on the stock books of your company until March 1960; is that correct?

Mr. KARL. Well, we had considered that he owned the stock on August 21, 1959.

Mr. McLendon. I understand that.

Mr. KARL. And the details of transfer were delayed only because we didn't have full information from Mr. Baker.

Mr. McLendon. So that in the meantime, between August 21, 1959, and March 1960, your first registration with the SEC became effective, did it not?

Mr. KARL. That is correct.

Mr. McLendon. Do you attach any importance to that fact?

Mr. KARL. None whatsoever. We knew that Mr. Baker was not buying stock out of the next issue.

Mr. McLendon. I understand.

Mr. KARL. It hadn't even been filed with the SEC at that point.

Mr. McLendon. But might it not be suggested that by registering—the first registration with SEC, and having it approved as of February, that that gave status and character to your company and its stock that it didn't theretofore have?

Mr. KARL. No. I think—this was not an underwritten issue, by the way—the one that was effective February 25, 1960. We were still having difficulty getting an underwriter to take on this issue, as a public offering. So our offering this stock direct by the company in February 1960 didn't give us any particular status that I can think of.

Mr. McLendon. Well, I am not talking about what you thought. I am talking about the man who is buying. Is it not reasonable to assume that Baker had more interest in the stock when he ascertained that it was going to be registered and a public offering made as early as February?

Mr. KARL. No. The interest that he evidenced was based upon what he had heard about the company, of the growth potential of the company.

Mr. McLendon. Well, he had heard also that you had filed an application for registration, had he not?

Mr. KARL. Not at that time.

Mr. McLendon. How do you know he hadn't heard?

Mr. KARL. He hadn't mentioned it to me, at least—I don't know.

Mr. McLendon. There are many ways he could have found that out without talking to you, are there not?

Mr. KARL. Yes; he could have found it out here in Washington.

Mr. McLendon. I am not suggesting he got any advantages in the purchase price. I am merely calling your attention to the fact that anyone purchasing this stock in August 1959 would have been influenced to some extent by the knowledge that the company was going to register an issue of stock as early as February; don't you think that is a reasonable conclusion to draw?

Mr. KARL. That may be a reasonable conclusion, although some people feel that knowledge of a public offering indicates dilution of the stock, and a depression in the price results.

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

Senator CURTIS. May I ask a question right there? You did sell stock beyond the boundaries of Wisconsin before you attempted a registration with the SEC?

Mr. KARL. That is true.

Senator CURTIS. Is that lawful?

Mr. KARL. Well, in some cases it is. A private offering is an exempt transaction. And the question is: Did these sales qualify as a private offering?

Senator CURTIS. Now, the fact that you could not get an underwriter—the underwriter would be liable for offering in interstate commerce an unregistered stock, would he not?

Mr. KARL. Yes—without blue-skying it, that is true—without SEC-ing it.

Senator CURTIS. Yes. So if a single share of stock—now, you are organized under the laws of Wisconsin?

Mr. KARL. Wisconsin laws.

Senator CURTIS. A single share of stock sold outside of Wisconsin prior to its registration in the SEC could create problems for the company and for all the holders of the issue; is that true?

Mr. KARL. No; the underwriters would not be liable for any previously sold stock—stock sold out of State before they undertook the issue. As a matter of fact, one of our prospectuses did recite that there were sales out of State that might be in violation. We were not admitting that they were. But we said they might be in violation. Nevertheless, there were underwriters that took on our issue at some later stage.

Senator CURTIS. Before registration?

Mr. KARL. No; not before. I mean we had two issues that were unwritten by firms later—one in 1961 and another in 1963.

Senator CURTIS. Before you registered, how much stock was sold outside the State of Wisconsin?

Mr. KARL. I don't have that figure.

Senator CURTIS. Well, what would you estimate? Ten shares; a hundred shares; a thousand shares?

Mr. KARL. Oh, no. I would say there might have been 700, 800 shares sold in that manner.

Senator CURTIS. Who handled the sale of that?

Mr. KARL. This was done by the company direct; by our company. There was no underwriter.

Senator CURTIS. Well, even though you didn't have a licensed broker, underwriter, who specifically handled the sales?

Mr. KARL. I did.

Senator CURTIS. You did?

Mr. KARL. Yes.

Senator CURTIS. Your attorneys advised you that was legal?

Mr. KARL. We had discussed this to some extent; yes. We thought we qualified in some of these shares. Now, I might say that the counsel I have sitting alongside of us now is a member of the firm of Foley, Sammond & Lardner, and this firm represented us from the time we submitted this first registration to the SEC, which was in the fall of 1959. Now, these shares that we are talking about, these sporadic sales outside of the State, were before that. They were before that. They occurred in 1957 and 1958.

Senator CURTIS. Your statement is, then, that you knew that some of the sales outside of the State, the legality was in doubt?

Mr. KARL. Well, we took the position that they were legal transactions. But there was some question about it.

Senator CURTIS. You knew at the time?

Mr. KARL. Not when we sold them; no.

Senator CURTIS. When did you discover it?

Mr. KARL. When counsel filed this registration in the fall of 1959.

Senator CURTIS. And then the SEC wanted to know if you had sold any in interstate commerce?

Mr. KARL. I think we made the statement in that prospectus, as I recall—I am not sure, but I think we did—that there were sales made, and that while the company feels that there is a basis for validity of the sales, there may be some question about them.

Senator CURTIS. Did the SEC object?

Mr. KARL. No; the SEC did not object.

Senator CURTIS. Who handled it at the SEC?

Mr. KARL. I think there was a Mr. Bernstein that we dealt with in 1959 and early 1960.

Senator CURTIS. I will turn the questions back to counsel.

Senator COOPER. May I ask a question here a minute?

Mr. KARL. At the time that Mr. Baker sent his check for \$28,750, which represented, I believe you said, payment for 200 shares of MGIC, and 5 shares of GIAI—

Mr. KARL. Fifty shares of GIAI.

Senator COOPER. Fifty shares—how much stock had then been issued by these two companies; do you know?

Mr. KARL. I think our capitalization at that point was about a million dollars. But I cannot give you the exact figure.

Senator COOPER. Had all of those shares been issued at the same price that Mr. Baker paid for the stock?

Mr. KARL. Yes.

Senator COOPER. Between that time and the time the stock was registered with the SEC, was the stock split in any way?

Mr. KARL. Yes; it was split in September of 1950—1959.

Senator COOPER. How long after Mr. Baker bought the stock?

Mr. KARL. Well, let me see. Let me go back a little bit, if I may. There was a resolution passed by our board. Actually, it was adopted by our stockholders—on July 31, 1959, splitting our stock 8 for 1.

Senator COOPER. How much?

Mr. KARL. Eight for one. The split was made effective through proper procedure, through amendments filed with the Insurance Department of Wisconsin, and the securities department. And so the effective date of the split was September 1, 1959. But the action was taken on July 31, 1959.

Senator COOPER. Splitting 8 to 1 or 10 to 1?

Mr. KARL. Eight to one.

Senator COOPER. Eight to one?

Mr. KARL. Eight to one; yes.

Senator COOPER. Was the other stock split at the same time?

Mr. KARL. Same time and same amount; 8 to 1.

Senator COOPER. That was how long after Mr. Baker bought the stock?

Mr. KARL. Well, that is before Mr. Baker bought the stock.

Senator COOPER. What?

Mr. KARL. That was before Mr. Baker bought the stock.

Senator COOPER. I thought you said it was split in September.

Mr. KARL. Well, the action take by the stockholders at a stockholders meeting was on July 31, 1959. Mr. Baker bought his stock on August 21, which is 3 weeks later.

Senator COOPER. Now, in your conversation with Mr. Baker, did you tell him it was going to be split?

Mr. KARL. I told him there was a split.

Senator COOPER. What?

Mr. KARL. I told him there was a split.

Senator COOPER. You told him there was a split?

Mr. KARL. Yes.

Senator COOPER. When the stock was split, what was the value per share?

Mr. KARL. The same thing. It was just dividing it—we had an \$80 par MGIC stock that was split to \$10 par. So that intrinsically it was the same value.

Senator CANNON. In other words, after the split, the packages of MGIC and GIAI stock were worth the same amount as they were before the split, only the number of shares were different; is that correct?

Mr. KARL. That is correct. As a matter of fact, the split then gave Mr. Baker's group 1,600 shares of MGIC and 400 shares of GIAI.

Senator COOPER. Between the date of Mr. Baker's purchase and the time the stock was finally registered, were there other sales of stock by the company?

Mr. KARL. There may have been some that took place in August, later than August 21, or September, I am not sure.

Senator COOPER. Were they sold at the same price?

Mr. KARL. They were sold at the same price; yes. The first time we sold at a different price was after the registration of the next issue.

Senator COOPER. At that time, after it was registered, then what was the sales price of the stock?

Mr. KARL. Well, then it was—it was four shares of MGIC at \$25 per share and one share of agency stock at \$15 per share. It was still sold as units.

Senator CURTIS. That was the price of the company issue?

Mr. KARL. Yes; that was the issue that was registered February 25—was effective February 25, 1960.

Senator CURTIS. That was the company's selling price—not an over-the-counter price?

Mr. KARL. No; that was the company's selling price.

Senator CURTIS. So \$10 became \$25 in company value?

Mr. KARL. No.

Senator CURTIS. You said previously it had a par of 80, and it now had a par of 10. Then it was—then new stock was issued after the registration at \$25, you said.

Mr. KARL. That is correct. But I don't think the relationship was 10 to 25. Ten was the par value.

Senator CURTIS. Beg pardon?

Mr. KARL. On the 8-for-1 split we have to divide \$125 by 8, to give us the true price.

Senator CURTIS. What would that be, for the record?

Mr. KARL. This is a little over \$15—\$15.62.

Senator CURTIS. So the holder of a \$15.62 stock had the same share in the company as the holder of a \$25 stock?

Mr. KARL. Yes—the one who bought following February 25, 1960, would pay \$25 for the same stock.

Senator COOPER. Now, after the stock had been registered, I assume that there began to be over-the-counter sales?

Mr. KARL. I think the over-the-counter market on our stock did not develop until much later in the year. And then there were sporadic sales.

Senator COOPER. Do you know when the first over-the-counter sales were made?

Mr. KARL. Well—

Senator COOPER. What was the going price of the stock at that time?

Mr. KARL. I know that the stock was not traded until the very end of 1960 by brokers. However, there were transactions that were handled by brokers prior to that, on a basis of financing a purchaser for an announced seller.

Senator COOPER. But when it was sold over the counter, and there was a market for it, what was the value of the stock?

Mr. KARL. Well—

Senator COOPER. Sales value.

Mr. KARL. Well, I am familiar with a quotation in December of 1960. The market then was in the neighborhood of \$22 per share.

Senator COOPER. As compared to the value of a share before it was split; what was it?

Mr. KARL. I have got to do this. I have got to remember that the stock was split in September—September 30, 1960, on a 10-for-1 basis.

Senator CURTIS. This was a second split?

Mr. KARL. This was a second split. This was a year after the first split.

Senator COOPER. Just to get down to simple terms, what was the value of a share of MGIC after it was split the second time, compared to the value of the original share at the time Mr. Baker bought it?

Mr. KARL. Following all the splits, the last one occurring September 30, 1960, the original shareholder who bought these original units had stock that cost him \$1.56.

Senator COOPER. How much?

Mr. KARL. \$1.56.

Senator COOPER. Well now, in terms of ratio, how many times greater was the value of the stock at that time than when Mr. Baker first bought?

Mr. KARL. Well, if you are comparing the original cost with the market in December of 1960, I would estimate that it is about 14 to 15 times greater.

Senator COOPER. Then a purchase of \$28,750 would be worth—

Mr. KARL. I would say roughly \$400,000.

Senator COOPER. Now, when you discussed with Mr. Baker the probable value of this stock, the situation of the company and all that, did you talk to him about the possibility of these stock splits?

Mr. KARL. No; I did not talk possible stock splits to him, because I didn't know. This was—when I discussed this purchase with him, the company had already announced an 8-for-1 split to its stockholders. So he was aware of that. The next split that occurred was 1 year later, September 30 of 1960.

Senator COOPER. Did Mr. Friedman know these same facts?

Mr. KARL. No; Mr. Friedman didn't know that there would be another 10-for-1 split a year later.

Senator COOPER. He knew about the first split?

Mr. KARL. He knew about the first split; yes. But this didn't change the price.

Senator COOPER. You say the stock had been issued to him?

Mr. KARL. Yes; the stock was in his name. And it was issued to him on July 31 of 1959.

Senator COOPER. He turned it back into the company?

Mr. KARL. He what?

Senator COOPER. He turned it back to the company?

Mr. KARL. No; he just didn't come in and make his payment.

Senator COOPER. How was it transferred to Mr. Baker, then?

Mr. KARL. As I recall, it was endorsed.

Senator COOPER. What?

Mr. KARL. As I recall, it was endorsed over to Mr. Baker.

Senator COOPER. By Mr. Friedman?

Mr. KARL. Yes.

Senator COOPER. That is all for the time being.

Mr. McLendon. Mr. Karl, Senator Curtis was asking you about the first registration at SEC. Do you have a copy of the registration papers?

Mr. KARL. Yes; I do have it. I don't have a copy of the registration statement, but the prospectus, which is the major portion of it.

Mr. McLendon. This is the one that you previously testified was effective as of February 25, 1960?

Mr. KARL. Right.

Mr. McLendon. I ask you to look at page 2 on the table of contents, and under the paragraph heading, "Introductory Statement and Speculative Aspects of Offering"—do you find that?

Mr. Karl. Yes.

(At this point, Senator Byrd entered the hearing room.)

Mr. McLendon. Will you read into the record the second paragraph, beginning with the words, "Certain of the presently outstanding shares," and so forth?

Mr. Karl (reading):

Certain of the presently outstanding shares of common stock of both MGIC and agency were inadvertently issued and sold in violation of the Securities Act of 1933, herein sometimes called the act, and certain State securities laws. None of the common stock of the two companies sold prior to the date of this prospectus was registered under the act. The aggregate consideration received by MGIC from persons other than its officers, directors, and promoters for common stock sold prior to the date of this prospectus was \$1,070,000. The aggregate consideration received by agency from persons other than its officers, directors, and promoters, for common stock sold prior to the date of this prospectus was \$117,000. In the opinion of counsel for the companies, the sale to officers, directors and promoters were exempt from registration under section 4(1) of the act as transactions not involving any public offering.

Mr. McLendon. That has reference to the matters that Senator Curtis was asking you about a few moments ago, and that is the official record insofar as your companies' application and prospectus is concerned?

Mr. Karl. Yes; that is true.

Mr. McLendon. Does it also set forth that persons who bought the stock issued and sold in violation of the act had a remedy to cover the purchase money, if they cared to do so?

Mr. Karl. I believe so. I believe that if this were to be construed as a violation, that they could offer the stock and ask for the money back.

Mr. McLendon. Did any of them demand repayment?

Mr. Karl. No.

Mr. McLendon. Now, returning to the purchase by Baker of stock in your company, with the \$28,750 check, do you have in your file a list of how that stock was issued, the names of the persons to whom it was issued?

Mr. Karl. Yes; I do.

Mr. McLendon. Will you refer to that, please?

Mr. Karl. Yes. Our records indicate a transfer from H. Friedman to Alfred S. Novak.

Mr. McLendon. What date?

Mr. Karl. March 9, 1960.

Mr. McLendon. And the issuance of certificates in that name, Alfred S. Novak?

Mr. Karl. Yes.

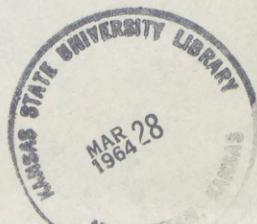
Mr. McLendon. MGIC, 224 shares and GIAI 56; is that correct?

Mr. Karl. That is correct.

Mr. McLendon. Go ahead and read the following names.

Mr. Karl. Gertrude C. Novak, 96 shares of MGIC, 24 shares of GIAI, same date.

Maywood Boggs and Edith P. Boggs, 128 shares of MGIC, 32 shares of GIAI, same date.



J. E. Lightle, 128 shares of MGIC, 32 shares of GIAI, the same date.

James W. Wilson, 128 shares of MGIC, 32 shares of GIAI, the same date.

Robert G. Baker, 896 shares of MGIC, 224 shares of GIAI, the same date.

Mr. McLendon. The total of the MGIC stocks add up to 1,600, as you have testified?

Mr. Karl. That is correct.

Mr. McLendon. And the total of the GIAI add up to 400, as you have testified?

Mr. Karl. That is correct.

Mr. McLendon. Now, on the same sheet do you have a record of the issuance of stock certificates to Robert G. Baker?

Mr. Karl. Yes; I do.

Mr. McLendon. Will you read those and give the dates?

Mr. Klitsner. From Robert Baker—is that your question?

Mr. McLendon. From Robert G. Baker to others. Yes—I beg your pardon. I stated the question incorrectly.

Mr. Karl. There are transfers shown from Robert G. Baker to Charles D. Ashley, 224 shares of MGIC, 56 shares of GIAI, dated June 10, 1960. And Robert G. Baker—now, this is the remaining shares after the sale to Ashley:

Robert G. Baker then has 672 shares left, of MGIC, and 168 of GIAI. Then there are some later transactions. This group, dated August 8, 1960, from Baker to S.P.K. Club, 32 Shares, MGIC, 8 shares of GIAI; Phillip Samosky, 8 shares MGIC, 2 shares GIAI; Albert Adelman, 72 shares MGIC, 18 shares GIAI. Now, that one is dated August 10, 1960.

Mr. McLendon. You missed one there to Marshall J. Palakow, didn't you?

Mr. Karl. I am sorry. Marshall J. Palakow, 48 shares of MGIC, 12 shares of GIAI. That one is dated August 8, 1960. Now, after those sales, Mr. Baker was left with 512 shares of MGIC and 128 shares of GIAI and certificates were issued to him on August 10, 1960, for those number of shares.

Mr. McLendon. Thank you. And all of these transactions shown on this particular sheet from which you have been reading have reference to the original purchase by him of 200 shares of MGIC and 50 shares of GIAI?

Mr. Karl. That is correct.

Mr. McLendon. Hand that to the reporter.

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

KARL EXHIBIT 2

SALE AND RE-ISSUE OF STOCK FROM DR. HARRY W. FRIEDMAN TO ROBERT G. BAKER, ET AL
 (200 Shares MGIC and 50 Shares GIAI Prior to & for 1 Split on 9/1/59)

<u>FROM</u>	<u>TO</u>	<u>MGIC</u> Cert. Shares	<u>GIAI</u> Cert. Shares	<u>Date</u>
H. Friedman	Alfred S. Novak	354	324	3/8/60
"	Gertrude C. Novak	355	325	"
"	Maywood Boggs & Edith P. Boggs	356	326	"
"	J. E. Lightle	357	327	"
"	James W. Wilson	358	328	"
"	Robert B. Baker	359	329	"
		896 1500	224 400	
Robert G. Baker	Charles D. Ashley	461	430	6/10/60
"	Robert G. Baker	462	431	"
"	S. P. K. Club	579	551	8/8/60
"	Phillip Samosky	580	552	"
"	Marshall J. Palakow	581	553	"
"	Albert B. Adelman	590	561	8/10/60
"	Robert G. Baker	583	555	"

Mr. McLendon. Mr. Karl, did you borrow some money for Mr. Baker at his request?

Mr. Karl. I arranged a loan to him at his request.

Mr. McLendon. When?

Mr. Karl. In November of 1959.

Mr. McLendon. From what bank did you borrow the money?

Mr. Karl. The North Shore State Bank.

Mr. McLendon. Will you tell the committee the circumstances under which that transaction was handled, and describe it, please?

Mr. Karl. Yes. Mr. Baker called me one day and wanted to know if I could arrange a loan for him with the stock as collateral. I asked him whether he could get one in Washington and he said it was quite difficult, because the bankers in Washington didn't know anything about MGIC. And he thought that I could do better because our stock was better known in Milwaukee.

I told him I thought I could do this. So I approached a banker friend of mine at the North Shore State Bank, who happened to be president of the bank, and told him that I would like to arrange such a loan. He told me then that he was relying on my credit rather than Mr. Baker's. He didn't know Mr. Baker. And I told him I had this stock. And he said, "Well, why don't you just hang onto the stock, and you just sign the note?" And I said, "Well, I will do that on a temporary basis, until we get Mr. Baker to sign a note." So I signed a note for \$16,000, which is the amount that Mr. Baker wanted. And I held the stock.

Just a few weeks later, I had the bank send Mr. Baker a note for him to sign. This was in December of 1959. I think it was December 4, as I recall the date, after having reviewed the facts. Mr. Baker signed the note, but nevertheless the bank wanted me to countersign. So I did.

Mr. McLendon. You mean you endorsed it?

Mr. Karl. I mean not countersign—I mean endorsed it. And so I did that. The proceeds from the December note were used to discharge the payment on the November note. So this is merely a substitution. Do you want me to continue on?

Mr. McLendon. Was the note finally paid?

Mr. Karl. There was a thousand dollars paid in March. This was for 90 days—this December note was for 90 days.

Mr. McLendon. By whom was that paid?

Mr. Karl. That was paid by Mr. Baker. He sent me a thousand dollars.

Mr. McLendon. How was the remainder of the note paid, if it was?

Mr. Karl. The remainder of \$15,000 was extended for another 90 days. And, to the best of my recollection, I kept Mr. Baker's stock in my possession. And the note was renewed March—March 9 may be the date; I am not quite sure—some time in March, at least, it was renewed for another 90 days. Now, then, in June this note became due again, the \$15,000. And at that time Mr. Baker suggested that I sell some of his stock in order to pay the note.

Mr. McLendon. Did you do that?

Mr. Karl. Yes; I did.

Mr. McLendon. To whom did you sell it?

Mr. KARL. Well, these people that have been mentioned here previously. It was the sale which is listed here as to Mr. Ashley—the proceeds from that sale were used to pay the note. Now, I recall getting \$15,600 on that transaction.

Mr. McLendon. Did you find the purchaser, or did Baker find him?

Mr. KARL. I found a purchaser. Actually, I didn't talk to Mr. Ashley. I talked to another man—Mr. Palakow, actually. And he said he knew of somebody that was interested in buying stock.

Mr. McLendon. Did you get enough out of that sale to liquidate the debt?

Mr. KARL. Yes. The proceeds were \$15,600. I paid the \$15,000. The other \$600 was used partially to pay the interest. And I remitted, as I recall, \$229.07 to Mr. Baker.

Mr. McLendon. Now, was that the only transaction in which you loaned your credit to Baker?

Mr. KARL. Yes; that is correct.

Mr. McLendon. And you tell the committee you were willing to do it in this instance merely upon his request?

Mr. KARL. Well, I felt rather secure; yes. He asked me to do it. I saw nothing wrong in it. I did it. I had enough collateral security in the stock, I felt, to warrant such a transaction on my part.

Mr. McLendon. Now, do you make a practice of doing that for other stockholders?

Mr. KARL. There were several other instances that I have done this for.

Mr. McLendon. You did?

Mr. KARL. Yes.

Mr. McLendon. You were quite generous, were you not?

Mr. KARL. Well, you try to be accommodating.

Senator CURTIS. May I ask a question? What was the original loan for? What did Mr. Baker use the money for?

Mr. KARL. He didn't tell me. He merely stated to me that he needed \$16,000.

Senator CURTIS. And why was his stock issued in the names of so many people?

Mr. KARL. Well, he never told me, and I never knew these people. I don't know the reason for his splitting it up. I just assumed—

Senator CURTIS. Did you have a company rule or any requirement as to how much stock an individual could buy at the original issue price?

Mr. KARL. No; we had no restriction as to amount.

Senator CURTIS. Did you recognize that they had—a number of them had the same address?

Mr. KARL. As I recall, I sent the certificates and any correspondence dealing with these shares—as I recall they were all addressed care of Mr. Baker—because I didn't know who these other people were, I had no information as to their addresses. So I just sent it to him as a representative for the entire group.

Senator CURTIS. Well, now, did your books show that they were sent to Baker as a representative, or did it show their address as Baker's office?

Mr. KARL. I recall asking him what address I should use for these people. He said, "Just send it care of me."

Senator CURTIS. What did the company books show as to their address? It does show the address of stockholders?

Mr. KARL. Yes; it does. It showed Mr. Baker's office as the address.

Senator CURTIS. As their address?

Mr. KARL. Yes.

Senator CURTIS. Not Mr. Baker as their agent?

Mr. KARL. Well, it was really this way. As an example, Maywood Boggs, care of Robert G. Baker, his office address, whatever it is.

Senator CURTIS. And that was the way it was on your company books?

Mr. KARL. Correct.

Senator CURTIS. That is all at this moment.

Mr. McLENDON. Mr. Karl, do you recall having some telephone conversations about the 1st of November 1961 with Baker from his office here in Washington, and with Mr. Thompson in Dallas, Tex., concerning the purchase of a large block of your company's stock?

Mr. KARL. Yes. Now, I recall a conversation with Mr. Thompson. I am not sure whether I talked to Mr. Baker also on that date, or shortly prior to it, or after.

Mr. McLENDON. Before asking you about the conversation, did you know Mr. Thompson prior to that time?

Mr. KARL. I had met Mr. Thompson once prior to that time.

Mr. McLENDON. Where?

Mr. KARL. In Washington.

Mr. McLENDON. What were the circumstances?

Mr. KARL. I may have met him in Mr. Baker's office. I don't recall specifically. But I do recall that when he called me on the telephone I had known him.

Mr. McLENDON. Did you know that he was associated with the Murchison interests in Texas?

Mr. KARL. Yes; I do.

Mr. McLENDON. Did you know that at the time he called you by phone in November 1961?

Mr. KARL. Yes; I did.

Mr. McLENDON. Now, tell the committee what he said to you on the telephone.

Mr. KARL. He asked me about the stock. He wanted to know whether the stock was a good buy, whether I thought there was some potential growth, whether I thought the price of our stock would improve. I told him I could not guarantee him the improvement of the price of the stock, but I felt reasonably certain that we could produce more volume with each passing month—in other words, that we would show increases over a period of months, or comparable months in previous years. And that is about all I could tell him.

Mr. McLENDON. Did he tell you how many shares he wanted to buy?

Mr. KARL. Yes. He said, "Could you buy me some stock?" He said, "If I send you a check for \$100,000," or \$110,000, I thought he said—"Can you buy some stock for me?" I said, "I will do my best to see if there are any stockholders that want to sell."

Mr. McLENDON. Let me interrupt you at this point. I think you and I have confused the date of this telephone conversation. I started out to ask you about the 9,000-share deal, and you have gotten off on the lesser number.

Mr. KARL. I am sorry: I thought—

Mr. McLENDON. No, no; that is all right. Go back and pick it up on the lesser number, which was 2,990 shares; was it not?

Mr. KARL. Yes.

Mr. McLENDON. And that occurred in 1960 instead of 1961?

Mr. KARL. Right. I think it was December of 1960.

Mr. McLENDON. All right. Now, then, with reference to that purchase, you said he asked you if he sent you \$110,000, could you buy 5,000 shares—was that the question he asked?

Mr. KARL. He asked me whether I could buy stock in the neighborhood of 21 or a little more. And I told him I would investigate and see if I could find some. In the meantime—and I thought I could. I wasn't quite sure. Shortly after the telephone conversation, he sent me a check for \$110,000 for that purpose.

Mr. McLENDON. How many shares did you buy for him?

Mr. KARL. I bought 2,990 shares.

Mr. McLENDON. Was the stock issued in Mr. Thompson's name?

Mr. KARL. It was transferred to Mr. Thompson from a stockholder.

Mr. McLENDON. To whom was it delivered?

Mr. KARL. It was delivered to Mr. Thompson.

Mr. McLENDON. In Dallas?

Mr. KARL. Yes.

Mr. McLENDON. Delivered by mail?

Mr. KARL. I believe so; yes.

Mr. McLENDON. Did he disclose to you in that telephone conversation that he was buying it for himself and Robert G. Baker?

Mr. KARL. Well, I thought—I am trying to think back now. I thought he said that Mr. Baker had an interest in this, and I can't recall whether he said it or Mr. Baker said it. But there was an indication that Mr. Baker had an interest in this purchase.

Mr. McLENDON. Was this the first time that you had ever talked with Mr. Thompson about either buying or selling him MGIC stock?

Mr. KARL. Yes.

Mr. McLENDON. Did he inform you—

Mr. KARL. I say in this previous meeting I may or may not have spoken to him about it. I cannot recall exactly. But the only time we had a serious discussion about the purchase of stock was in this telephone conversation.

Mr. McLENDON. Did you talk to Baker about that particular transaction?

Mr. KARL. I think there was some reference made—in either a telephone call or a visit with Mr. Baker—I cannot recall exactly. But he knew about the transaction.

Mr. McLENDON. Do you know whether the telephone conversation with Mr. Thompson was held with him when he was in Washington?

Mr. KARL. No. I recall getting a telephone call from Dallas.

Mr. McLENDON. But you do not recall one from Washington?

Mr. KARL. I do not.

Mr. McLENDON. You do not. Now, I suppose the difference between \$110,000 and the price of 2,990 shares you returned to Thompson, did you not?

Mr. KARL. Yes. I recall that the purchase price for the 2,990 shares was \$63,000 or \$64,000—somewhere in that neighborhood.

Mr. McLendon. And the price that was being paid was \$21.50?

Mr. Karl. \$21.50; yes. And then I held the balance of the money, hoping that I could find some more at the price that he had in mind. And I wasn't able to find any more. So eventually I returned the difference, which may have been \$46,000 or \$47,000—I cannot recall.

Mr. McLendon. All right. Now, let's take up the second incident about which I started to ask you earlier, which occurred in November 1961, and involved 9,000 shares of stock; did it not?

Mr. Karl. Well, there was an interest shown by Mr. Thompson, Mr. Baker, and maybe a few others—I don't know—in buying stock out of this 1961 issue.

Mr. McLendon. That was the second registered issue?

Mr. Karl. That was the second—that was the second registered issue; that is right.

Mr. McLendon. And it was offered to the public at \$27.50 a share?

Mr. Karl. That is right.

Mr. McLendon. And they bought this number of shares at that price; did they not?

Mr. Karl. Well, now, I remember keeping a list in my office of names of people that wanted to buy out of this issue. And I recall that this list got up to 86,000 shares. And I know that Mr. Thompson's shares and Mr. Baker's shares, if they indicated this interest, and whoever else—those names were on that list.

Mr. McLendon. Will you tell the committee what conversations you had with either Baker or Thompson about this purchase? I am talking about what shows on your books as 7,000, but actually I think the evidence will show it was 9,000. You know what I am talking about?

Mr. Karl. Yes.

Mr. McLendon. Go ahead.

Mr. Karl. Well, this was in anticipation of the registration becoming effective. This was the registration that started on October 17, 1960, and it became effective October 17, 1961. Now, in the interim, Mr. Thompson and Mr. Baker indicated an interest in purchasing from that issue. Now, the names were turned over to the underwriter, and the underwriter then allocated this stock, or sold the stock pursuant to the registration in October of 1961. And I don't know the number of shares at this point. I don't have the list.

Mr. McLendon. You do have a copy of the stockholders ledger, do you not, that you brought at the request of one of the committee's investigators?

Mr. Karl. Yes; I do.

Mr. McLendon. And it is headed, "Robert F. Thompson," and in pen and ink "1000 Fidelity Union Tower, Dallas, Tex.," is it not?

Mr. Karl. Yes; that is right.

Mr. McLendon. And does it show the issuance of 2,990 shares to Mr. Thompson on the 20th day of November 1960?

Mr. Karl. I have 11-2 here, 1960, as what it shows on the ledger.

Mr. McLendon. Does it show the issuance to Mr. Thompson of 7,000 shares the following year, November 2, 1961?

Mr. Karl. Yes. Now, that was out of the second registered issue; yes. And that was \$27.50 a share that he paid for that.

Mr. McLendon. And does it show that as of September 1963 the books recorded that Thompson was the owner of 7,000 shares, and also 2,990 shares?

Mr. Karl. Well, I see a balance here on September 17—is that what you are referring to?

Mr. McLendon. Yes, sir.

Mr. Karl. September 17, 1963—I see a balance of 2,990 shares, which indicated that there was a transfer of the 7,000 shares.

Mr. McLendon. I see. Now, do you have any record of having issued stock to four other persons in connection with this purchase of 7,000 shares?

Mr. Karl. Well, I think our transfer agent has all the records following September 30, 1961—or 1960. On September 30, 1960, we engaged a transfer agent. And at that time all transfers went through the transfer agent. We didn't have any records in our own office on the transfers.

Mr. McLendon. Well, in connection with your interview, did you ascertain that at that time 500 shares were issued to a man named Law here in Washington?

Mr. Karl. I don't recall that.

Mr. McLendon. Another 500 shares to a man named Webb?

Mr. Karl. I do not recall that.

Mr. McLendon. If it should appear before this committee that out of this purchase of 9,000 shares, 2,000 shares were issued in blocks of 500 to 4 other persons, and that such distribution was made at your request, or upon your suggestion, that it was not good for the company for so much stock to be held in one name or to be located in one city, what comment would you have to make about that?

Mr. Karl. I would comment this is a misinterpretation of what I said.

Mr. McLendon. What did you say?

Mr. Karl. I did say this—that we were seeking to have a wide distribution of our stock all over the United States, that it was healthy for the company, rather than to have it all located and concentrated in one area. That is the extent of what I said—nothing more.

Mr. McLendon. Do you remember whether you said that to Baker?

Mr. Karl. I might have. I don't recall specifically saying that. But I may have said that.

Mr. McLendon. And if Baker repeated that to Thompson, that would be understandable, would it not?

Mr. Karl. Oh, yes. But I didn't have any objection to having the stock in one name.

Mr. McLendon. Would you hand the reporter this sheet from the stock register about which you just testified, in the name of Robert Thompson?

Mr. Karl. All right.

Mr. McLendon. Will you mark that, Mr. Reporter?

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

KARL EXHIBIT 3

Mr. McLENDON. Mr. Karl, in your files the committee has discovered a letter, two and a half pages in length, dated February 8, 1963, signed by you and addressed to: "Hon. Robert G. Baker, secretary of the majority, room F-80, Senate Office Building, Washington, D.C." Do you have that before you?

Mr. KARL. Yes, sir; I do.

Mr. McLENDON. Is that a copy of a letter which you wrote to Baker?

Mr. KARL. Yes.

Mr. McLENDON. Would you care to make any explanation of it to the committee?

Mr. KARL. Yes. I met with Baker shortly before I wrote this letter, and he, as on many other occasions, asked me where I thought the company was going, what I thought the potential for the company was, what kind of growth we might expect, and what was needed in order to effect greater acceptance or greater growth. And I recall his saying, "Why don't you write me a letter and tell me exactly how you feel about the future of the company?"

I don't know why he wanted me to write him specifically, but I did. This letter is the result. And I indicated in this letter that there was a certain kind of recognition that was necessary for the company to get full acceptance in the industry, and specifically I was referring to a recognition of the guarantee in the mortgage, that where we guarantee the top 20 percent of a loan, it should have some better weight and some better credence than a loan of—a similar loan-to-value ratio that was not guaranteed by our company.

Mr. McLENDON. And in the letter you discuss the possibilities of statutory amendments to the law regulating FHA?

Mr. KARL. I stated that in order to get this recognition of the guarantee, that ultimately there would have to be some legislative changes, in order to effect this kind of recognition, or, in the alternative, some amendment of the rules governing lending institutions.

Mr. McLENDON. Is it fair to say, then, that one of the purposes of this letter was to put in the possession of Mr. Baker, who occupied a position of great influence, as you have testified—put into his possession the argument and the facts as you saw them which could be used in the Congress, if necessary, to influence legislation?

Mr. KARL. No; that is not the fact.

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

Mr. KARL. As a matter of fact, I tried to keep Mr. Baker fully informed on this company, because he was a large stockholder. He had quite an interest in this company—besides—which had nothing to do with the number of shares necessarily. But he showed a keen interest.

I, myself, personally visited Senators—or one Senator, to inform him, to tell him what we were doing.

Mr. McLENDON. The letter refers to Senator Sparkman. Is that who you referred to?

Mr. KARL. Yes. I did not have Mr. Baker see Mr. Sparkman. I myself went to Senator Sparkman to tell him about our company, tell him what we were doing. And I told him what effect we had on the housing economy; that we were a stimulus to the housing economy.

Mr. McLENDON. And you also referred to the fact that he discussed it with Congressman Patman, did you not?

Mr. KARL. That is right.

Mr. McLENDON. So you had been bringing Baker up to date on what your lobbying activities had been?

Mr. KARL. It wasn't a lobbying, sir. I was just trying to inform these people what our company was doing.

Mr. McLENDON. What is "lobbying" in your vocabulary?

Mr. KARL. I wasn't a registered lobbyist.

Mr. McLENDON. You don't have to be registered to be a lobbyist—not for your own business, as the Senator reminds me.

Mr. KARL. That is right. I am not used to that term. I am sorry.

Mr. McLENDON. I am not suggesting that you were a lobbyist in the sense you were hired. But I am suggesting that you were lobbying in the interest of your company, were you not, in discussing these matters with Baker?

Mr. KARL. Yes.

Mr. McLENDON. And with a Senator and with a Congressman?

Mr. KARL. Yes. But I did not ask for any legislative changes, which is maybe germane to what we are talking about. I did not ask for any legislative changes.

Senator CURTIS. May I ask a question?

Now, you say you wrote this letter merely to bring him up to date as a stockholder. You discuss the changes that you would like to have. What did you intend to convey to Mr. Baker by this sentence: "I believe this could be accomplished by having Chairman Joe McMurray understand the merits of this proposal"?

Mr. KARL. Well, again, I was keeping him informed of the need for legislative changes and for changes in regulations. Now, I might follow up by saying that I saw—I called Chairman McMurray, and indicated to him that I would like to visit with him, and bring him up to date on the progress of our company, because so many savings and loan associations were using our program. And I felt that he ought to be a little closer to the facts. And I called him up—I wrote him first, told him I would like to visit with him on my next trip to Washington. I told him when I was coming.

When I came to Washington, I called him. And he said he regretted that he could not see me—he wanted to see me. He regretted that he could not see me, because he was going to testify on the Hill, and would I see him the next time I came to Washington. But my purpose was to visit with him personally. I did not have in mind having Mr. Baker assist me. All I was doing is trying to keep him informed.

Senator CURTIS. What is he chairman of?

Mr. KARL. He is Chairman of the Federal Home Loan Bank Board.

Senator CURTIS. That is the National Board here in Washington?

Mr. KARL. Yes.

Senator CURTIS. You knew him before?

Mr. KARL. I had met him.

Senator CURTIS. All in all, how many Government officials did you talk to, telling them what you were doing, and explaining this private capital approach to mortgage insurance?

Mr. KARL. Well, I recall talking to some staff members who were involved in housing work—like Congressman Rains Housing Committee. There were several others, I think. I mentioned Senator Sparkman. I have mentioned Congressman Patman. I don't recall.

Senator CURTIS. Did you have any telephone conversation with Robert Baker or any private talk with him about the same subject matter of this letter?

Mr. KARL. No. Frankly, I could never sit down and—with him and allow enough time to explain. The purpose of this letter was really to keep him informed on something that I could not talk to him about, because we never seemed to have any time.

Senator CURTIS. Well, now, will you explain this sentence: "You undoubtedly know many congressional leaders who share the same views." Now, in order to inform Robert Baker of the status of the company, why did you undertake to inform him who he knew?

Mr. KARL. Well, I was really commenting here on a philosophy that we have at MGIC, a concept of private enterprise doing a job that Government agencies are doing. And my point was that there ought to be greater emphasis on the private enterprise approach. I was merely trying to say there are probably a number of Congressmen who share my views in that respect.

Senator CURTIS. But you say that you, meaning Baker, know many of the leaders who share these views.

Mr. KARL. Yes; I was just expounding on a philosophy, and nothing more. And I said you probably know many people who share my views—I said many Congressmen, I think.

Senator CURTIS. "Many congressional leaders."

Mr. KARL. Congressional leaders. Yes; I was merely saying that there were a number of congressional leaders who probably thought the way I did about this whole subject.

Senator CURTIS. But you also knew that Robert Baker might be of assistance?

Mr. KARL. No; I never used Mr. Baker.

Senator CURTIS. I didn't ask you that. You knew that he might be of assistance?

Mr. KARL. Assistance is a word that would apply if there were something pending which required assistance. I don't know of anything that was pending that required assistance.

Senator CURTIS. Well, the matter of opening doors for discussions.

Mr. KARL. Well, when I went to see Senator Sparkman and Congressman Patman, Mr. Baker did not make the introduction.

Senator CURTIS. Did he have any conversation with them before?

Mr. KARL. Not that I know of. He never conveyed it to me.

Senator CURTIS. Did you get an answer to the letter?

Mr. KARL. No; I did not.

Senator CURTIS. Did you get an answer by telephone?

Mr. KARL. No; I did not.

Senator CURTIS. Never talked to him after he got it?

Mr. KARL. No; well, I have spoken to him on occasions since, I believe, but not with respect to this matter.

Senator CURTIS. All right.

Mr. McLendon. Give the reporter a copy of that letter, please.

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

KARL EXHIBIT 4

FEBRUARY 8, 1963.

HONORABLE ROBERT G. BAKER,
Secretary for the Majority,
Room F-80, Senate Office Building,
Washington, D.C.

DEAR BOBBY: I am having difficulty memorizing the words to "San Francisco." I guess atrophy is setting in. The time I spent with you in Washington was most enjoyable, and your hospitality is appreciated.

Since returning to my desk I have given considerable thought to MGIC's future possibilities. The company is now sitting on a billion dollars of insurance in force, half of which was written last year, but I am nevertheless a restless native. The one thing that bothers me is that an MGIC-insured loan does not get the special credit that it deserves. A loan without insurance has exactly the same standing in the eyes of the Federal Home Loan Bank Board. Certainly the fact that a loan is insured should give it a preferred position in the financial analysis of an S. & L. Laws and regulations affecting the savings and loans specifically exempt from the various limitations an FHA- or VA-insured loan. It is my feeling that MGIC has demonstrated that it deserves similar exclusive treatment in the law.

The Insurance Departments of 40 States plus District of Columbia have given us the green light because they are satisfied with our formula for developing reserves, and California specifically, after an exhaustive study, has spelled out the ratio of reserves for the amount of business that can be written. With all of this backing, the onus of determining the adequacy of reserves need not be on Congress or FHLB. The exception from limitations accorded FHA and VA could therefore be expanded to include "a loan insured by a company duly authorized to transact a mortgage guaranty business by a State authority and approved by the Federal Home Loan Bank Board."

I have suggested that in addition to merely having a license a company ought to have the blessings of FHLB, because I am mindful of unsavory promotional attempts to organize firms that will not be equipped to properly do this kind of business. It is my feeling that there ought to be a period of observation—perhaps 3 years—before an insurance firm would be given extra authority beyond the present statutory limits. This would be very much like the Treasury Department's approved list of bonding companies.

The hard cold fact is that the S. & L.'s are making less use of FHA and VA than ever before. When MGIC first started, the penetration by government agencies was 11 percent. Today it is less than 5 percent. The greater liberalization and romance has had the opposite effect on the S. & L.'s. It is time for the housing leaders to recognize the accomplished fact that no matter what is done, S. & L.'s prefer to do business through channels other than government agencies. That is why MGIC has enjoyed such remarkable success.

Now if the Congressional leaders and the Administration want to stimulate housing, they must encourage S. & L.'s to make higher ratio loans. They control 45 percent of the residential mortgage lending in the country and are responsible for \$20 billion of mortgage loans annually. The S. & L.'s hesitate to make a top loan without insurance protection. Savings are mounting rapidly so that their business is faced with considerable surplus of moneys, and it appears inevitable that they will have to be more venturesome in their lending.

While I have always opposed the FHA 97 percent loan, the record indicates a successful experience nevertheless. It is my feeling that MGIC could do well with a 95 percent loan, provided the present rate (which is only half of the FHA's) would be increased. It seems to me that a 50-percent increase over what we now charge would be ample to undertake the extra risk involved.

There is another change that I find necessary, should we fail to obtain the statutory amendment. FHLB regulations presently provide that an S. & L.

cannot make 90-percent loans (from 80 to 90) in excess of 20 percent of its assets. Excluding the MGIC loan from the computation would certainly help many associations that are approaching the maximum. I believe this could be accomplished by having Chairman Joe McMurray understand the merits of this proposal.

In my meeting with Senator Sparkman, he expressed a favorable interest in private capital's approach to insuring mortgages and thought there ought to be more of it. Congressman Patman showed similar enthusiasm. You undoubtedly know many congressional leaders who share the same views.

Here is an item of interest. We are rejecting more applications than ever because many S. & L.'s are reaching for substandard loans. There is a subconscious desire to put their money to work, and they are not too careful in drawing the line. It is my philosophy that it is better to make a 95-percent loan on a good house to a good borrower than to sacrifice quality at a lower ratio.

I will appreciate your comments.

Sincerely,

MAX H. KARL.

Mr. McLendon. Now, Mr. Karl, what can you tell the committee about the favorable ruling by the Bureau of Internal Revenue with respect to your company taxwise?

Mr. KARL. Well, this ruling gave us the opportunity of deferring taxes for a 15-year period.

Mr. McLendon. Taxes on what?

Mr. KARL. Taxes on the contribution to a contingency reserve. Now, this contingency reserve is very similar to the mutual reserve fund of the FHA. It is a fund that is to be used—our contingency reserve was to be used for the purpose of paying unusual losses during a depression. It was not available for corporate purposes until 15 years elapsed.

So that whatever we contributed in 1963 could not come out until early 1979. This put us in a very difficult position, because it was an allocation which might normally be taxed if this were not a mandatory contribution. If this were voluntarily done by the company, then it could be taxed. But because it was mandatory, and because we were prevented from having access to these funds for a 15-year period, it was most difficult for us to pay a tax on it.

Mr. McLendon. When you use the word "mandatory" you mean it was mandatory under the Wisconsin law?

Mr. KARL. Wisconsin insurance regulations; yes.

Mr. McLendon. All right. Go ahead.

Mr. KARL. For example, in the year 1963 we had earned premium dollars totaling \$4,800,000; \$2,400,000 of that \$4,800,000 had to go into this special contingency reserve, which could not be used for corporate purposes for 15 years, unless we hit a so-called depression, and we had to pay heavy losses. It would be most difficult to continue to operate, in the early years especially, if we did not have this opportunity to defer the payment of the tax. And so we had counsel represent us on this matter in Washington, and we had an unfavorable decision.

Mr. McLendon. Did you have local counsel in Washington, or did you use your own counsel?

Mr. KARL. No; we had Washington counsel on that. And the—at that point—and I don't know how soon after this decision—but in 1959, we visited with Congressman Byrnes.

Mr. McLendon. From your own State?

Mr. KARL. From our own State. And we knew that he was knowledgeable on tax matters. And we consulted him about this. We

thought that it was a most difficult position we found ourselves in. We thought that the ruling was unfair. And we wanted him to either give us some advice on it, or have somebody review it—we were just looking for help at this point, desperately.

Mr. McLendon. Let me interrupt you. You use the pronoun "we."

Mr. KARL. When I say "we" I mean Mr. Rogan and myself. And, by the way, Mr. Rogan was a close friend of Congressman Byrnes. Mr. Rogan is executive vice president of our company, and a former legislator in the State of Wisconsin.

Mr. McLendon. Did you and Mr. Rogan both appear before the Commissioner of Internal Revenue Service in connection with this matter?

Mr. KARL. No; we did not.

Mr. McLendon. You did not?

Mr. KARL. No.

Mr. McLendon. Did you ever personally talk to the Commissioner?

Mr. KARL. No.

Mr. McLendon. Anyone else on behalf of your company except your counsel?

Mr. KARL. Well, Mr. Byrnes, Congressman Byrnes, is the one who took the matter from there.

Mr. McLendon. Well, I interrupted you; go ahead and tell your story.

Mr. KARL. I am trying to get the chronology on this.

Mr. McLendon. You said you talked to Congressman Byrnes about it.

Mr. KARL. Yes; we talked to Congressman Byrnes late in 1959.

(At this point, Senator Clark entered the hearing room.)

Mr. KARL. And Congressman Byrnes, as I understand it, met with some of the people at the Internal Revenue staff, and there was, as I recall, a long memorandum written by a member of the Internal Revenue staff urging that this matter—that this ruling be granted in our favor. Before that time, there was a bill introduced by Congressman Byrnes to obtain the relief that we thought we needed. The favorable ruling from Internal Revenue came down May 25, 1960.

Mr. McLendon. May 25?

Mr. KARL. May 25, 1960. And the bill that had been introduced prior to that time was withdrawn, because it became a moot question at that point—the legislation was not needed.

Mr. McLendon. Did Robert G. Baker assist you in any way in these conferences with the Commissioner, or in the conferences with Congressman Byrnes or other Members of Congress whose names you have previously given us?

Mr. KARL. Not at all.

Mr. McLendon. Did he ever accompany you on any visit to any of them?

Mr. KARL. Never.

Senator CURTIS. May I ask something right there?

Now, I think our records show a little bit about this tax problem. In any insurance venture, the profit from the transaction isn't shown until the insurance has run its course, and you know whether you have a loss. Isn't that right?

Mr. KARL. Right. Usually, there are policyholder reserves that are set up.

Senator CURTIS. Now, are you familiar with the life insurance tax law?

Mr. KARL. Not too much; no.

Senator CURTIS. The Congress rewrote that within the last few years. The Senate Finance Committee at that time took care of the situation, where a company receives money, but they segregate it so that it can neither be paid out in dividends nor expenses for the company, but must remain there as money belonging to the insured, in the event they pay losses.

Then, if those unusual losses do not occur, and it goes back into a category where it is stockholders' money, and they can use it for expansion or paying dividends or whatnot; at that point it is taxed. Is it your understanding that, in general, is what appears in many instances in insurance taxation law?

Mr. KARL. Yes; yes, sir.

Senator CURTIS. And I sat in on that bill. I know that that applies to stock companies as well as mutuals. The purpose of delaying the tax is to ascertain whether these receipts actually become profit or income. And when they are eligible to be transferred from an insured, or policyholder's account to the other account, the tax then applies. Is that your understanding?

Mr. KARL. Yes. Our reserve is very similar. This is a——

Senator CURTIS. I have stated it in layman language rather crudely. But that was the position that you took?

Mr. KARL. Yes; that is right.

Senator CURTIS. And it was eventually ruled on favorably by the Internal Revenue?

Mr. KARL. That is right; yes, sir.

Senator CURTIS. And they could afford you the same—they could apply the same principle of taxing such funds to your insurance without the necessity of amending the statute?

Mr. KARL. Yes; that is true.

Senator CURTIS. When was the favorable decision announced?

Mr. KARL. That was May 25, 1960.

Senator CURTIS. May 25, 1960?

Mr. KARL. Yes.

Senator CURTIS. Has that ruling been changed?

Mr. KARL. No; it has not, to my knowledge.

Senator CURTIS. Now, you referred to a tax memorandum written by a staff. Was that a memorandum that analyzed the problem?

Mr. KARL. Yes. It analyzed the problem on the merits, and in the light of whatever laws and regulations there were on the subject. As a matter of fact, our reserve was likened to the title insurance company reserves, which were exempt from this taxation.

Senator CURTIS. Well, now—this memorandum analyzed the problem, your problem, in the light of existing law?

Mr. KARL. Yes.

Senator CURTIS. Have you ever seen the memorandum?

Mr. KARL. Yes; I did.

Senator CURTIS. Was it in the category of a brief or an analysis rather than a plea for relief?

Mr. KARL. It was a legal brief pretty much, in which cases were cited, regulations were analyzed, interpreted. It was an extensive memorandum.

Senator CURTIS. Yes.

That is all.

(The tax memorandum referred to is as follows:)

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION,
Washington, January 8, 1960.

Hon. JOHN W. BYRNES,
House of Representatives,
Washington, D.C.

DEAR MR. BYRNES: In connection with the material you submitted relative to the Mortgage Guarantee Insurance Corp., I have had the material looked into and am attaching hereto a memorandum dealing with this subject prepared by Mr. Russell Oram, of the staff.

If you desire us to prepare a bill for legislation, we will be glad to do so. In view of Mr. Oram's memorandum, it appears that such legislation will have to be very carefully drawn.

Sincerely yours,

COLIN F. STAM, *Chief of Staff.*

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION,
Washington.

Memorandum to: Mr. Colin F. Stam, Chief of Staff.

From: Russell M. Oram.

Subject: Proposed Amendment to Section 832.

Date: January 6, 1960.

Mortgage Guarantee Insurance Corporation requests, through Representative John W. Byrnes, an amendment to Section 832 which would permit a company writing mortgage insurance to deduct additions to a reserve for contingencies required by the state regulatory body. You asked me to analyze the factual situation and comment on the proposal.

THE FACTS

Mortgage Guarantee Insurance Corporation (subsequently referred to as MGIC) is engaged in the business of insuring mortgage lenders against loss for a premium of $\frac{1}{2}$ of one percent of the principal amount of the mortgage for the first year and $\frac{1}{4}$ of one percent for each subsequent year, where the mortgage is less than 80% of the appraised value of the property. (Higher premiums are charged when the mortgage is 80% or more of the value of the property.) A mortgage insurance company guarantees the mortgage lender against any loss by reason of nonpayment of the obligation by the borrower and concurrently guarantees the borrower against any personal liability for deficiency judgment in the event of foreclosure. MGIC was licensed by the State of Wisconsin to do business as a mortgage insurance company early in 1957. It is the only such company now operating. It operates in Wisconsin and is licensed to do business in 32 other states. It is subject to the statutes of Wisconsin and to the administrative regulations of the Wisconsin Insurance Commission. The Wisconsin laws and regulations control the operations of this company in the other 32 states in which it may do business.

The pertinent regulations, section 3.09 of the Wisconsin Administrative Code, provide that the company shall establish the usual unearned premium reserve based upon time; that is, if an annual premium is received on June 30, one-half of this premium will be unearned on December 31st. The regulations also require a mortgage insurance company to set aside as a "contingency reserve" 30% of its earned premiums with respect to mortgages where the mortgage was at its inception less than 80% of the appraised value of the property and 50% of the earned premium where the initial mortgage was for 80% or more of the appraised value of the property. Amounts so set aside must be retained in the reserve for a period of 180 months (15 years). During that

period they can be used only to cover extraordinary losses (in excess of the normal losses incorporated in the premium rate formula) which exceed ten percent of the earned premiums for that year.

Section 832, as presently written, provided for the deduction (in effect) each year of the net addition to only two reserves; the reserve for unearned premiums and the reserve for unpaid losses. MGIC has contended that the additions to the required contingency reserves amounting to 30% or 50% of gross premiums earned are deductible as unearned premiums. The Internal Revenue Service has ruled that these contingency reserves are not reserves for unearned premiums and therefore additions to such reserves may not be deducted under Section 832. Therefore, MGIC now advocates an amendment to Section 832 which would include such contingency reserves as "unearned premiums" for a mortgage insurance company if they are required by state law or regulation.

DISCUSSION

Probably a legislative amendment for the benefit of one taxpayer would not be deemed necessary or desirable if that taxpayer could obtain the relief it seeks through litigation. The first question to be considered, therefore, is whether the Internal Revenue Service's ruling that the 30% and 50% portions of earned premiums required to be set aside in contingency reserves are not deductible would be upheld by the courts.

It does not seem possible to give a categorical answer to that question. On the surface, the ruling of the Internal Revenue Service appears to be correct. Certainly the 30% or 50% of premiums required to be set aside in a reserve for 15 years unless they are earlier used to cover extraordinary losses do not constitute "unearned premiums" within the ordinary meaning of those words. "Unearned premiums" is a phrase constantly used and well-known in all insurance business. As the Internal Revenue Service states in its ruling, Rev. Rul. 55-693 (CB. 1955-2, 284) an "unearned premium" is "that portion of the premium which the company has not yet had time to earn or, more precisely, that portion paid by the policyholder which must be returned on cancellation of the policy, and which is in direct proportion to the unexpired time which the policy is to run." Premiums received by MGIC are annual premiums, insuring the mortgagee against loss for one year thereafter, or 10-year premiums, insuring the mortgagee against loss for 10 years. The statutes and regulations of Wisconsin provide that MGIC can view 50% of the aggregate of annual premiums received in a year as unearned at the end of the year, or it may treat as unearned 9/12 of annual premiums written in September, 6/12 of annual premiums written in June, etc. Ninety percent of a 10-year premium is reported as unearned at the end of the year when the premium is received, and smaller specified percentages at the end of each subsequent year. The Internal Revenue Service concedes that these are "unearned premiums," and there is no dispute about that, but the question is are these the *only* "unearned premiums" within the meaning of Section 832, or may the 30% and 50% additional portions of the premiums which must be set aside for 15 years be also viewed as "unearned premiums" within the intent of Congress.

MGIC contends that the 30% or 50% segregation of premiums are "unearned premiums" within the meaning of Section 832, citing two circuit court decisions interpreting prior statutory language which is similar to that of Section 832.

One decision is that in *Early v. Lawyers Title Insurance Co.*, 132 F.2d 42. In that case the taxpayer issued policies of title insurance for a single premium, payment of which insured a mortgagee against loss by reason of a defective title or prior lien for the duration of the mortgage period, or a property owner against any such loss at any time. Applicable Virginia law required the taxpayer and similar companies to set aside 10% of each premium in a special reserve for the protection of policyholders. The company could gradually withdraw for its general purposes up to half of the amounts set aside during the first 5 years, and could so withdraw the other 5% at the expiration of the mortgage period if a mortgagee was insured, or at the end of 20 years if the property owner was insured. Amounts so set aside were to be treated in all respects as unearned premiums.

The Government contended that title insurance premiums were earned when received, citing *American Title Co. v. Comm.*, 76 F.2d 332, which so held. The court agreed that this was ordinarily so, but held that in this case the 10% items set aside constituted "unearned premiums" within the intent of Congress.

It said that the premium was earned in the sense that the insured could not demand return of any portion of it, but it pointed out that there was a time element to be considered, during which the company had a continuing liability. It said: "If the (Virginia) statute had provided that 10% of the premiums collected should be held for the benefit of policyholders for a fixed period and should belong to the company only after it had carried the liability for that period, it could hardly be contended that this portion of the premiums are earned within the meaning of the Revenue Act until the expiration of the period; but that is precisely the effect of the Virginia statute" (in treating these amounts "for all purposes" as unearned premiums). The Virginia statute gives to those portions of the premiums "all the attributes of unearned premiums; i.e., it withdraws them from the power of the company to use them for the general purposes * * * until the risk shall have been carried for the periods that the statute provides. Until this period has expired the company has no more control over them than * * * a fire insurance company has over the portion of its premiums applicable to an unexpired risk."

Several other court decisions, however, have held that portions of premiums for title insurance required by state laws to be set aside in reserves are not deductible for income tax purposes. In *City Title Ins. Co. v. Comm.* 152 F. 2d 859, for example, it was held that "the existence of a reserve, or the mere fact that it was required by a state statute, cannot justify the deduction taxpayer claims." In distinguishing *Early v. Lawyers Title Ins. Co.*, the court said: "Funds in that reserve were primarily to be held for a limited period, after which they were released and then became free assets, i.e. 'earned premiums' subject to the Federal tax. But no one can tell whether the funds in this reserve will ever be released and become free assets." And in *Title and Trust Co.* 15 TC 510, affd. per curiam 192 F. 2d 934, the Tax Court said: "Deductibility of the statutorily prescribed reserves out of title insurance premium income thus turns on whether the local statute calls for a mere insolvency reserve of indefinite duration or whether the required reserve is established by segregating a portion of the premium income for a specified period when the risk of loss is presumably greatest. In the latter instance, the reserve becomes taxable income to the company when it is released for general corporate purposes at the expiration of the prescribed period." These decisions indicate that, for a title insurance company at least, amounts required by state law to be set aside to meet risks covered by the insurance are deductible for income tax purposes if they are set aside for a specified period of time and then are released for the general purposes of the company; whereas they are not so deductible if the reserve continues indefinitely and there is no time period. In other words, such reserves can be viewed as "unearned premiums" only if they will be earned at the end of some specified period. The Internal Revenue Service contends, however, that this doctrine does not apply to a mortgage insurance company because, while the risk covered by a title insurance premium exists for a long time, a mortgage insurance company receives annual premiums to cover the risk for each year so that the ordinary reserve for unearned premiums completely covers the unexpired period of risk.

MGIC counters this argument by referring to the decision of the circuit court in *Massachusetts Protective Association v. U.S.* 114 F. 2d 304. There the court allowed deductions to a company writing noncancellable health and accident insurance even though the premiums were paid annually, as in the case of MGIC. The court said: "As long as these reserve funds must be held to provide for expected insurance liabilities in the future on these noncancellable health and accident insurance policies and are not to be used for the general purposes of the company, they are not 'earned premiums' within the meaning of Congress. * * * The test is not whether the part of the premium set aside in the reserve * * * belongs to the company in the event of cancellation or lapsing of the policies, but whether that amount is such part of the company's gross income as Congress considered should be treated as net income for the purposes of taxation." That decision was in 1940; subsequently Congress provided explicitly in the law for the deduction of additions to reserves for noncancellable policies where the premiums were the same year after year but the risk tended to increase with the age of the insured.

On the basis of these decisions it would appear that MGIC would have a reasonable chance of winning a favorable decision if the issue were taken to the courts. While it is true that the mere fact that the State law requires that 30 percent or 50 percent of earned premiums be set aside in a special reserve for a period of 15 years would not in itself make the additions to this reserve deductible

the reasoning in *Early v. Lawyers Title Insurance Corporation* indicates that these amounts would constitute unearned premiums, since they are set aside for a limited time and then become available (if not used to meet extraordinary losses) for the general purposes of the company. The fact that the company receives annual premiums and not a single premium is offset by the fact that the policies are noncancellable, so that provision must be made for an increased risk which might occur in the future at a time when, because of the noncancellable feature of the policies, larger premiums could not be charged to offset the larger risk.

Even though MGIC appears to have a fair chance for relief through litigation, the company says that "it is not practicable to litigate this issue; in the event the Internal Revenue Service is sustained, the taxpayer would be unable to meet the liability incurred during the pending of the litigation." In view of this very real difficulty, and because it can be argued that the viewpoint of the courts in the decisions in the *Early v. Lawyers Title Insurance Corporation* and *Massachusetts Protective Association* cases is an intrinsically correct and reasonable viewpoint, legislation such as MGIC requests might be desirable.

In weighing the desirability of such legislation, however, we are confronted with a dilemma. Essentially the reserves which MGIC is required to set up and maintain are pure contingency reserves. They do not represent any present risk nor do they, as in the case of reserves for noncancellable health and accident insurance, represent the setting aside of part of a higher than necessary present premium to meet a risk which on the basis of statistical analysis will very probably, not certainly, come into being in the future. Rather, these reserves are intended to cover the possibility, although not necessarily the probability, of a substantial economic depression similar to (although perhaps not quite so drastic) the depression of the 1930's, which could cause extraordinary failures by mortgagors to meet their obligations.

Historically, deductions have never been allowed for reserves for contingencies, whether these reserves are voluntarily set up by the taxpayer or whether they are required by State laws or regulations. Banks, for example, are required by law to maintain a certain portion of capital and surplus to growing deposits, yet they have never been allowed to deduct amounts set aside from earnings to provide this necessary surplus. Life insurance companies are required by law to set aside a small percentage of their investment income as a contingency reserve against possible market decline in the value of their securities, yet even in the recently enacted life insurance provisions they are not allowed to deduct additions to such a reserve. Philosophically, it seems wrong to allow deductions against current income to meet future obligations which may never occur. Many organizations have from time to time requested deductions to cover reserves for various possible, but not probable, contingencies. For example, casualty insurance companies have, on several occasions, asked for the deduction of additions to fairly substantial reserves to meet possible extraordinary losses which might result (but so far have not) from cyclones, catastrophic fires, etc. Our staff, the Treasury staff and the Congressional tax committees have, so far, not been willing to concede the desirability of present deductions to take care of hypothetical future losses of that type.

There is one exception to this rule. In the life insurance legislation of last year the life insurance companies are permitted to exclude from taxation 50 percent of their net underwriting income so long as this 50 percent is retained in the business for the protection of the policy holders, and taxes on this 50 percent will be imposed only if and when the companies pay out these funds in dividends or otherwise to their stockholders. It is true that in the life insurance field the 50 percent of untaxed underwriting income is 50 percent of a relatively small *net* income after the deduction of all expenses, whereas in the case of MGIC the reserves set aside are 30% to 50% of *gross* premium receipts. It is also true that life insurance is far more complex than mortgage insurance.

The chief argument against legislation of the type requested by MGIC would seem to be that it might open the door to a flood of requests from many types of taxpayers for the allowance in their cases of additions to reserves for various contingencies. Even though abandonment of a long-established rule of income taxation in a single case might be deemed necessary because of the peculiar circumstances in that case, it might be feared that in this area, as in other areas in the past, an isolated and reasonable deviation from accepted principles in one case would be followed by much less justifiable deviations in the same area with respect to other types of taxpayers.

On the other hand, "taxation is a practical matter." Here the inescapable fact seems to be, as MGIC has stated, that it is simply impossible for a mortgage insurance company to pay income taxes at the rate of 52 percent on money which is not available to pay such taxes or for any other purpose until 15 years have elapsed. Legislatively we are here "confronted with a condition, not a theory." The premium rate schedule provided by the Wisconsin regulations applicable to MGIC provides only a narrow margin of $2\frac{1}{2}$ percent of the premiums, exclusive of the 30 percent to 50 percent which must be retained for 15 years, as profit for the company. Clearly, the company could not pay a tax of one-half of the $2\frac{1}{2}$ percent plus a tax of one-half of 30 percent or 50 percent of gross premium receipts out of its free income. Nor, presumably, could it pay taxes representing so large a portion of gross receipts out of capital. Confronted with a somewhat similar situation in the past, Congress granted relief. Sellers of personal property on the installment plan would, under the generally required accrual method of accounting, have had to report as income gross profits based on sales, although they would not be collected under the installment plan until subsequent years. Congress provided that such dealers could defer the reporting of this income until the installments were received, thus postponing the tax until the money to pay the tax was received. What MGIC now asks is in some degree similar, since it asks that it be permitted to pay the tax when the money to pay it is released from the legal restrictions. Fifteen years is a long time for the Government to wait for its tax, but it would seem that if MGIC (and any other mortgage insurance company subjected to similar regulations) is to survive, legislation of the type requested would be necessary (assuming that litigation will not solve the problem).

Mr. McLENDON. Mr. Karl, what was the effect of this favorable ruling upon the prospects of your company and the actual result?

Mr. KARL. Well, the favorable ruling, of course, did not change our predictions for profit, because all of our projections in the office were based on that ruling.

Mr. McLENDON. You mean even before it was obtained?

Mr. KARL. Yes.

Mr. McLENDON. How could you do that?

Mr. KARL. Well, we just thought we were right about this thing.

Mr. McLENDON. You thought you were going to get it before you did get it?

Mr. KARL. We thought we were going to get it; yes.

Mr. McLENDON. All right. Go ahead.

Mr. KARL. So that in projecting our profits in the light of projected growth, we took into account that the money that we contributed to this mandatory reserve would not be taxed. And so the ruling did not change our projections.

Mr. McLENDON. But it did have a special effect upon the market value of your stock, did it not?

Mr. KARL. Well, no—actually our stockholders did not know our problems, because I wasn't about to announce defeat until I exhausted every remedy. And so our stockholders did not know that we were in jeopardy of losing this tax status.

Mr. McLENDON. Didn't you write letters to your stockholders and inform them about this?

Mr. KARL. Well, I informed them about getting a ruling later on, when I did get it.

Mr. McLENDON. And you boasted that it was highly favorable to the company and its prospects, did you not?

Mr. KARL. Well, I think—I don't remember, really. But let's say that I felt more secure with the ruling when it did come in.

Mr. McLendon. Well, all I am trying to get you to say is that it was helpful to your company.

Mr. KARL. It sure was.

Mr. McLendon. And to the market value of your stock.

Mr. KARL. Yes.

Senator CANNON. Mr. Karl, what was the date of the unfavorable tax ruling?

Mr. KARL. That was May of 1959.

Senator CANNON. So that actually it took a year from May of 1959 to May of 1960 to get the position reversed—

Mr. KARL. I am sorry. That was July of 1959. Early July 1959 is when we had the unfavorable ruling.

Senator CANNON. Now, from that period of July 1959 until the position was reversed on May 25, 1960, did you still make your projections for the company based on the position that the tax ruling would be favorable?

Mr. KARL. No; I was a little more cautious at that point. I would say that before we had the unfavorable tax ruling, which was a surprise to me, we had made some projections for growth, profits. I didn't make any in the interim that I can recall.

Senator CANNON. You didn't make any projection from the time of the unfavorable ruling until you got the favorable one, which was 10 months later?

Mr. KARL. Yes; that is correct.

Senator CURTIS. Does Wisconsin have a corporate income tax law?

Mr. KARL. Yes; we do.

Senator CURTIS. Did you get any treatment that was comparable to—in Wisconsin law that was comparable to the Federal law, or are they so different in that regard that they are not applicable?

Mr. KARL. We took a position that this was excluded from income taxes in the light of the regulation propounded by the Wisconsin Insurance Department, and it has never been challenged by the Wisconsin Department of Taxation.

Senator CURTIS. Now, you said that you felt before you exhausted all your remedies that you would prevail. What were your remedies if submitting an analysis and briefs and your own presentation to the Internal Revenue—did you have any remedy other than legislation?

Mr. KARL. Well, we had this bill, of course.

Senator CURTIS. I mean other than legislation.

Mr. KARL. Well, the courts were available to try this issue. And the memorandum which we have referred to here indicates that we would probably prevail in court.

Senator CURTIS. In other words, the memorandum that was made by an employee of the Congress took your problem and analyzed it in the light of existing cases?

Mr. KARL. Yes.

Senator CURTIS. That is all.

Senator CANNON. Did you file a tax return for your company between the time of the unfavorable ruling and the favorable ruling on May 25, 1960?

Mr. KARL. Yes; we did. And we took the same position we did in 1957, 1958—1957 and 1958—the position that it was not a taxable

reserve. And we had intended to challenge an assessment if one took place, in the courts.

Senator COOPER. You have spoken about a memorandum written by someone in the IRS, which you have described as an analysis of the problem or a brief. At the time your company made application for a change in the ruling, did your lawyers file an application and file a brief supporting the application?

Mr. KARL. I wonder if you would repeat that.

Senator COOPER. Well, I would assume that if a taxpayer makes application for a ruling, or for a change of ruling, he would file some kind of a document, either a letter or a brief, in which he would ask for a ruling, or ask for the change, and give reasons supporting it.

Mr. KARL. Yes. Prior to this—

Senator COOPER. You have referred to it as if someone over in the IRS independently recommended some ruling.

Mr. KARL. I think that Congressman Byrnes asked that this ruling be reviewed by a member of the legislative committee, I believe, on IRS. I am not absolutely sure what committee was involved. But it was Colin Stam's committee.

Senator COOPER. My question is: Did your company, or your attorneys, file an application and any kind of legal brief or reasons supporting your request for a change in the ruling?

Mr. KARL. Yes; our Washington counsel did.

Senator COOPER. What?

Mr. KARL. Our Washington counsel did file a request for a review. The first ruling came down in May of 1959. A review was requested by our Washington counsel.

Senator COOPER. Who is your Washington counsel?

Mr. KARL. Mr. Joseph O'Connell's office, and Mr. Arthur Mason, in that office, handled this matter. And the review was asked for; it was supported by a very able brief by counsel. And the adverse decision—the adverse opinion came down in July of 1959.

Senator COOPER. Then later, following that adverse decision, did you file an application for a review, for a change; did your counsel file a brief supporting that application?

Mr. KARL. No. Following that, we saw Congressman Byrnes, and he met with the committee, apparently.

Senator COOPER. What committee?

Mr. KARL. I think it was the legislative committee. I think his intention was to introduce a bill, but at the same time have this whole subject reviewed.

Senator COOPER. A committee in the IRS?

Mr. KARL. Well, I cannot remember what the committee is. But it is headed by Colin Stam. I remember the name.

Senator COOPER. Did your counsel again meet with anyone in the IRS to discuss the change in ruling you sought?

Mr. KARL. No.

Senator COOPER. They filed no brief to support your application?

Mr. KARL. As I recall, our counsel had furnished a very detailed brief prior to the last adverse ruling, and they did nothing further after that.

Senator COOPER. Who wrote the brief, the memorandum?

Mr. KARL. I think it was——

Senator COOPER. To which you are referring.

Mr. KARL. Mr. Oram did that.

Senator COOPER. Who?

Mr. KARL. O-r-a-m.

Senator COOPER. He is in the IRS?

Mr. KARL. He is——

Senator CURTIS. Mr. Oram is on the staff of the Joint Committee on Internal Revenue Taxation.

Mr. KARL. Yes; that is it.

Senator COOPER. Mr. Oram is on the staff of the Joint Committee on Internal Revenue Taxation, and he wrote the memorandum or brief addressed to the IRS?

Mr. KARL. It was addressed to Mr. Colin Stam, who was, apparently, his chief, as I recall.

Senator COOPER. How did it get to the IRS?

Mr. KARL. I don't know. I don't know the mechanics of how it went from the Joint Committee to IRS. I am not sure how this works. I didn't inquire.

Senator COOPER. Then finally there was a favorable ruling by IRS. Who was the Director of IRS at that time?

Mr. KARL. I do not have the correspondence on it. I am sorry.

Senator COOPER. A ruling was issued by the IRS.

Mr. KARL. The May 25——

Senator COOPER. What?

Mr. KARL. The May 25, 1960, ruling following the memorandum. But I don't know what period elapsed.

Senator COOPER. The ruling was mailed to your company?

Mr. KARL. Yes; it was.

Senator COOPER. From whom?

Mr. KARL. From Internal Revenue Service.

Senator COOPER. Then what you are saying is that, after you requested a review, a brief was prepared by staff members of the Joint Committee on Taxation.

Mr. KARL. I would say that the arguments for changing the decision were in the memorandum prepared by Mr. Oram of the Joint Committee.

Senator COOPER. Did you ever discuss this matter with anyone on that committee?

Mr. KARL. No.

Senator COOPER. Or with any staff members of the committee?

Mr. KARL. I never spoke to any of the staff members.

Senator CURTIS. Would you yield right there? Now——

Senator COOPER. I have to go in a moment.

Senator CURTIS. All right.

Senator COOPER. What did you know about this Joint Committee? Who told you about it?

Mr. KARL. Well, I was interested in knowing how this developed, and I cannot remember exactly how it came about that I finally found out these details. I can't remember whether Congressman Byrnes gave this information to Mr. Rogan, who then gave it to me—I think that is the way it happened.

Senator COOPER. Did Mr. Baker ever have anything to do with any of your discussions with the staff members?

Mr. KARL. Not a thing, sir.

Senator COOPER. What?

Mr. KARL. Not a thing.

Senator COOPER. What?

Mr. KARL. He had nothing to do with that.

Senator COOPER. I think I have already asked you this, but just to be certain I will state it again. Am I correct in saying that following the original ruling, which was adverse to your company, neither your counsel nor an officer of the company ever presented any briefs to the Internal Revenue Service asking for a change of the ruling citing precedents, giving reasons, and so forth, supporting such a change?

Mr. KARL. Well, they did make one attempt at review, and it was reviewed, unsuccessfully. And our counsel, our Washington counsel, participated in all of the presentations at that time. But following the unsuccessful review, they no longer had anything to do with the presentation of arguments for a change.

Senator CURTIS. Mr. Karl, having served 10 years on the Ways and Means Committee with Mr. Byrnes, and being now a member of the Finance Committee, I think I should state for the record the function of this staff.

It is a common staff used by both committees, so that there is somewhat of a continuity in filing a tax bill. It is the practice of members of both committees, and I think by other Congressmen, when constituents refer a set of facts, ask about either the existing law or the possibility of legislation, that Members of Congress, particularly members of the committee, I would say not once in a while, but usually refer it to the staff to analyze the problem.

Sometimes those staff memorandums or letters come back and very definitely give the impression that existing law is adequate. They might point out that legislation, to give the remedy desired, would be in accord with tax treatment in like situations, or their memorandum might lead to the conclusion that there should be legislation.

Now, Mr. Oram is a longtime member of that staff. Mr. Stam is the head of it, but, of course, he cannot personally handle all of these things. And I gather from what has been said here that Mr. Oram wrote the memorandum.

If the committee has no objection, I would like to have the memorandum made a part of the record. Is there objection?

Senator CANNON. Is the memorandum available here now?

Senator CURTIS. I will see if I can get a copy, and renew that later. (The memorandum referred to will be found on pp. 962-966.)

Senator CURTIS. Did Mr. Oram ever—was he ever associated with your company in any way?

Mr. KARL. No; not at all. I never met Mr. Oram.

Senator CANNON. For the record, I will state that the committee does not have permission to sit while the Senate is in session. Do you have any further questions, Senator Curtis or Senator Cooper, at the moment?

Senator CURTIS. Do you mean before a recess?

Senator CANNON. No, sir; before counsel resumes his questioning.

Senator CURTIS. No.

Senator CANNON. You may proceed, Major McLendon.

Mr. McLENDON. Mr. Karl, with reference to this tax matter and your appraisal of it, and your opinion about what it has done, it appears from the committee's files that on November 20, 1963, you addressed a short memorandum to all of the MGIC shareholders. To it was attached a longer letter dated November 20, 1963, same date, addressed "To our approved lenders". Do you have a copy of that in your files with you?

Mr. KARL. No; I don't, sir.

Mr. McLENDON. Would you be good enough to look at the copy I have here, and state whether or not that is a copy that you mailed to the shareholders and to the mortgage lenders?

Mr. KARL. Yes; it is, sir.

Mr. McLENDON. It seems to state your views at that time with respect to some of the matters Senator Curtis and Senator Cooper have been examining you about. And in fairness to you, if you would like that to be put in the record, I am sure the committee would be glad to have you do it.

Mr. KARL. Yes—I sent this letter of November 20, 1963, to our approved lenders.

Mr. McLENDON. Yes.

Mr. KARL. And a copy to all our shareholders.

Mr. McLENDON. That is right.

Mr. KARL. And in the letter I had stated our position with regard to the transactions with Mr. Robert G. Baker, and the transaction relating to Congressman Byrnes' handling of the tax matter.

Mr. McLENDON. And you also state something about the effect of the tax ruling upon the company's business.

Mr. KARL. Yes; I think I do, in this letter.

Senator CURTIS. May I see that letter?

Mr. McLENDON. I am sorry; we don't have other copies. I thought the witness had a copy.

Senator CURTIS. Now, the Congressman Byrnes you refer to is Congressman Byrnes of your own State of Wisconsin?

Mr. KARL. Yes.

Senator CURTIS. And did you talk to any other Congressmen about this?

Mr. KARL. No.

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

Senator CURTIS. Was any promise or commitment, any offer or any—directly or indirectly—made to Congressman Byrnes as to any recompense for carrying on his duties as a Congressman from Wisconsin?

Mr. KARL. None whatsoever, sir. There was absolutely no commitment to do anything or give anything to Congressman Byrnes.

Senator CURTIS. Was it discussed?

Mr. KARL. It was not discussed at all.

Senator CURTIS. Was ownership of stock discussed?

Mr. KARL. No; not at all.

Senator CURTIS. And who all talked to Congressman Byrnes from your company?

Mr. KARL. Mr. Rogan and myself.

Senator CURTIS. You were present at all times?

Mr. KARL. I was present at all of these conversations; yes.

Senator CURTIS. And nothing was said intimating or suggesting in any way that he ought to get on the bandwagon and buy stock?

Mr. KARL. Oh, no; none whatsoever. This subject of buying stock was introduced by Mr. Rogan for the first time much later, probably a half year later, or 3 or 4 months later.

Senator CURTIS. Well, the reason I am asking these questions is not to challenge your statement. I do know that individuals and business concerns usually turn to the Congressman from their own State when they have matters of this kind. And I also have a very high regard for Senator John Byrnes—or Congressman John Byrnes. And part of the purpose of this investigation is not only to find facts that may be derogatory to an individual, but also to pursue the full facts so that they can speak for themselves. That is all I have. I have no objection to the letter going in.

Mr. McLendon. Mr. Karl, you answered the Senator's question that no influence was brought to bear upon Congressman Byrnes. Would your answer be the same with respect to all Congressmen and Senators to whom you talked?

Mr. KARL. Certainly.

Mr. McLendon. Would it be the same with respect to the Commissioner of Revenue?

Mr. KARL. I never spoke to the Commissioner of Revenue.

Mr. McLendon. Or any other of these staff people whose names have been mentioned?

Mr. KARL. I never spoke to any of them.

Mr. McLendon. So you didn't mean by singling out Congressman Byrnes that he was the only one you dealt honestly with?

Mr. KARL. I dealt honestly with all the Senators and Congressmen and employees of the Senate.

Senator CANNON. Without objection, the letter will be made a part of the record.

(The document referred to was marked "Karl Exhibit 5" and is as follows:)

KARL EXHIBIT 5

From the Desk of Max H. Karl.

NOVEMBER 20, 1963.

To MGIC Shareholders:

The attached statement is today being sent to all MGIC Approved Lenders and is self-explanatory. I hope you, too, will take the time to read it carefully because I want the facts to be known. I have every confidence that both you and our customers will be influenced only by the facts—and not by sensational headlines.

MAX H. KARL.

MORTGAGE GUARANTY INSURANCE CORPORATION,
Milwaukee, Wis., November 20, 1963.

To Our Approved Lenders:

Recently, there has been much publicity from Washington concerning the affairs of Mr. Robert G. Baker, former Secretary to the Majority of the Senate, with particular emphasis on his holdings of MGIC shares. Additional publicity has spotlighted the activities of Wisconsin Congressman John W. Byrnes in connection with his effort to have an adverse tax ruling reversed and his ultimate purchase of MGIC shares. It is my purpose here to clarify both matters and put them into perspective rather than have you draw erroneous conclusions from the sensationalism displayed by some areas of the press. It is

coincidental that I want you to know more about the financial stability of MGIC and the soundness of its operation.

I want to point out that Mr. Baker purchased stock for a price which was equal to that fixed by the registration. He received no special price concession. Many other people purchased stock at that time for the same price. Neither at that time nor at any subsequent time was Mr. Baker asked to do the company a favor of any kind, and to the best of our knowledge he, in fact, did none.

In the case of Congressman Byrnes, who is on the House Ways and Means Committee and is most knowledgeable in tax matters, it was natural for MGIC officials to seek his assistance in obtaining relief from the very burdensome tax ruling. He not only urged reconsideration of the ruling but introduced a special bill in Congress to be pursued in case the review was not favorable. This was a normal request by MGIC and an effort on the part of a Congressman that was within the province of his duties. He purchased stock six months later for a price which was registered with the Securities and Exchange Commission. The stock could not be sold to him for any other price. His act in buying the stock was based on a conviction that it was a good investment and that after many years it would increase in value and serve him in good stead when his children would go to college. Never at any time while he represented us was the suggestion made that he purchase our stock. The tax matter was decided administratively in our favor in March of 1960, and in September of 1960 he purchased the stock as a long-term investment.

We see no conflict of interest in our dealings with either Mr. Baker or Congressman Byrnes. The spectacular increase in the market value of our stock was the result of the widespread acceptance of a new concept in mortgage lending, which demonstrated that private enterprise could perform a much needed service with more efficiency, greater speed and less cost than was to be found in the Government programs.

MGIC is in an extremely sound financial position. As of October 31 of this year its assets were \$27,509,621. Its exposure to liability (20 percent of insurance in force) on that date was \$28,142,451. This is almost a one to ten ratio. During the depression one out of eight homes went into foreclosure. This gives you some idea as to the strength of our total reserves.

Our latest figures indicate that 0.56 percent of our insurance in force is in default (more than four months delinquent or in foreclosure). This figure translated into a projected lifetime loss experience indicates that we may ultimately pay claims on 2.1 percent of the loans insured. A financial analysis of our company discloses that our break-even point is 8.5 percent, or about four times the current experience.

Of great significance is the buildup of the contingency reserve which is to be used for payment of losses during a severe foreclosure period. At the end of 1962 this reserve totaled \$2,812,267. Today it is \$4,751,935. Fifty percent of earned premiums must go into this reserve and must remain there for a period of 15 years, unless released earlier for the purpose of paying unusual losses. This is the fund which was the subject of review by the Internal Revenue Department. Had the unfavorable tax ruling been in effect, payment of taxes would have reduced this fund by one-half. Our objective, of course, is to build this reserve in the same fashion as the Mutual Reserve Fund of the FHA which provides a bulwark against a future depression undiminished by the prior payment of taxes. The ruling merely defers the tax liability, does not forgive it. The tax is due and payable 15 years later when the reserve is returned to the company's surplus.

In the case of most casualty companies, the combined expense ratio and loss ratio is about 100 percent of the premium as compared to MGIC's 59 percent. This low figure for our company is the result of conservative management and close scrutiny of applications for insurance. Management's conservatism can only be reflected in a continued build-up of its reserve position.

You have my assurance that the company's financial condition is completely sound and well able to withstand a loss ratio much greater than is being experienced today.

As to the possibility of a conflict of interest existing with customer-stockholders, I think each of you individually are in the best position to judge whether your actions have been in the best interest of your institution and your customers. MGIC has no qualms on the subject and will cooperate with regulatory officials by furnishing the facts which will speak for themselves.

The many expressions of confidence and support received from our savings and loan friends have been most heartening and gratifying. We recognize your goodwill as our most valuable asset, and when the dust has settled we believe MGIC's position will be fully vindicated and stronger than ever.

Very sincerely yours,

MAX H. KARL, *President.*

Senator CURTIS. One more thing. You were acquainted with Congressman Byrnes buying some stock later on?

Mr. KARL. Yes.

Senator CURTIS. He bought it in his own name?

Mr. KARL. He bought his in his own name.

Senator CURTIS. And his wife?

Mr. KARL. I don't recall.

Senator CURTIS. At any rate, his own name?

Mr. KARL. Yes.

Senator CURTIS. Gave his own address?

Mr. KARL. Yes.

Senator CURTIS. And he had the word "Congressman" on your records?

Mr. KARL. Yes. And he bought it for the registered price, which was the only price we could sell it for.

Senator CURTIS. All right.

Senator CANNON. What was the price at that time?

Mr. KARL. It was \$115 for four shares of MGIC and \$15 for one share of agency.

Senator CANNON. And this was before the split, then?

Mr. KARL. This was before the 10-for-1 split; yes, sir.

Senator CANNON. But after the initial split that took place in 1959?

Mr. KARL. Yes.

Senator CANNON. That was authorized?

Mr. KARL. This came out of a February 25, 1960, issue.

Mr. McLENDON. Mr. Karl, will you see if you have in your file there a copy of your letter of April 6, 1962, addressed to Baker? The first paragraph deals with getting his assistance in getting a man a job and the last paragraph says, "I undoubtedly will be talking to you on the telephone about MGIC, but I want to report that our first quarter has been exceptionally good and the rest of the year looks bright." Do you have that letter?

Mr. KARL. Yes; I do.

Mr. McLENDON. And that is a copy of a letter you wrote him?

Mr. KARL. Yes.

Mr. McLENDON. Hand that to the reporter to be marked.

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

KARL EXHIBIT 6

APRIL 6, 1962.

HON. ROBERT G. BAKER,
Secretary of the Majority,
Room F-80, Senate Office Building,
Washington, D.C.

DEAR BOBBY: John Grogan, who wrote the enclosed letter to me, is a good friend of mine who deserves an assist in getting appointed to the Advisory Council which is set up under the Bill referred to in his letter. I consider him highly qualified for a position of this caliber, and I will greatly appreciate anything you might do to help him gain his objectives.

Undoubtedly I will be talking to you on the telephone about MGIC, but I want to report that our first quarter has been exceptionally good and the rest of the year looks bright.

Best personal regards.

Sincerely,

MAX H. KARL, *President.*

Mr. McLendon. Just one other question, and I think I will be through.

At the request of one of the investigators of the committee, did you make a search of the records of your company to ascertain whether or not the name of Walter Adams or the name of Edward Adams appeared as stockholders at any time?

Mr. KARL. Yes; I made that search.

Mr. McLendon. Did you find they did not?

Mr. KARL. They do not appear and never did appear as stockholders of record.

Mr. McLendon. All right.

Mr. Chairman and gentlemen of the committee, I think the record with respect to the dealings between Baker and these two gentlemen is a bit incomplete. We have obtained from Walter Adams a copy of his check dated August 13, 1959, in the amount of \$2,000, and obtained from Eddie Adams' bank a letter saying that Eddie Adams' check in the amount of \$4,000 dated the same day was drawn by Eddie Adams on his account and paid by the bank. And to complete the record with respect to that—which is already in evidence, you will recall, through Mrs. Novak—I would like to offer these in evidence at this time.

Senator CURTIS. No objection.

Where does Mr. Adams live?

Mr. KARL. I do not know Mr. Adams. I had heard about his name through reporters—or the two names. I learned that one is a father—it is a father-son combination, the two Adams. I have never met them. I don't know them.

(The documents referred to were marked "Karl Exhibit 7" and are as follows:)

KARL EXHIBIT 7

MICHIGAN STATE UNIVERSITY EAST LANSING

DEPARTMENT OF ECONOMICS - MARSHALL HALL

1/22/63

Dear Mr. Hallford:

As per your instructions, I have asked my bank to examine its records for a \$2,000 check written by me during mid-August, 1959.

The enclosed photostat of my check for \$2,000 to Robert Baker indicates that I must have bought my interest in MGIC through him.

I trust this helps in rounding out the record on this transaction.

Sincerely,

Walter Adams

KARL EXHIBIT 7—Continued

EAST LANSING STATE BANK		XXXX
EAST LANSING, MICH. 13 August 1959 No. 2,000		
PAY TO THE ORDER OF	Robert [Signature]	
Two Thousand and 00/100		
(Signature of [Name])		
(Signature of [Name])		

Robert Adams Deposit to the account of Robert C. Adams	XXXX
---	-------------

KARL EXHIBIT 7—Continued

BROWNING 5-6800

Sterling National Bank & Trust Company

OF NEW YORK
93-38 QUEENS BOULEVARD NEAR 63RD DRIVE
REGO PARK, NEW YORK

STANLEY H. GRANT
VICE PRESIDENT

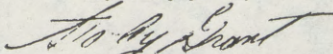
January 23, 1964

Mr. Edward Adams
65-61 Saunders Street
Rego Park, N. Y.

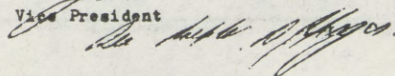
Dear Mr. Adams:

In accordance with your request, we are pleased to confirm to you that, under date of August 26, 1959, your check in the amount of \$4,000.00, drawn to the order of Robert Baker, was paid by us and charged to your account. This check was deposited in the City Bank of Washington, D. C. under date of August 24, 1959.

Very truly yours,



Vice President



SHG:am

KARL EXHIBIT 7—Continued

TELEPHONE
WASHINGTON 9-7003

ERNEST C. TUCKER
ROBERT G. BAKER

LAW OFFICES
TUCKER AND BAKER
SUITE 606 HEADQUARTERS BUILDING
2000 F STREET, N.W. AT DUFRONT CIRCLE
WASHINGTON 6, D. C.

SOUTH CAROLINA OFFICE
101 30 PENDLETON ST.
EASLEY, SOUTH CAROLINA
TELEPHONE 8098

September 1, 1960

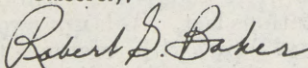
Mr. Edward Adams
65-61 Saunders Street
Forest Hills
Long Island, N. Y.

Dear Mr. Adams:

Attached hereto is my check for \$8,000 in full
payment for your stock in the Mortgage Guaranty Investment
Corporation.

As you know you originally paid \$4,000 for this stock
that was purchased in August 1959. Therefore, for tax purposes,
you will only pay the capital gain on \$4,000 profit.

Sincerely,



Robert G. Baker

RGB:t

Enclosure

Senator CANNON. Mr. Karl, in describing your sales of stock, your transfers of stock from Mr. Friedman, you indicated on the first two items "to Alfred S. Novak and Gertrude C. Novak," a total of 320 MGIC shares, and 80 GIAI shares. What was the cost of those shares at that time?

Mr. KARL. A unit cost \$575, and that was 80 units. I am sorry—this is after the split. We have to keep that in mind.

Senator CANNON. Those are the figures after your first split?

Mr. KARL. Oh, yes. That represented 10 units. In other words, it was 80 units after the split. So that 10 units cost \$5,750.

Senator CANNON. That was the cost of those units listed to Alfred S. Novak and Gertrude C. Novak?

Mr. KARL. Yes.

Senator CANNON. Do I correctly understand your testimony that if a person bought in the fall of 1959, prior to the first split, and held through the second stock split, he would then have a unit at the price of \$1.56. Is that correct?

Mr. KARL. Yes. It was \$1.56 per share after all of the splits. And the cost was further reduced by a stock dividend, which was paid in March of 1962. That was a 5-percent stock dividend. So that the base cost was reduced to \$1.49, after the dividend.

Senator CANNON. And that was per share that was then selling, after the splits and the dividends, at what price?

Mr. KARL. In March of 1962?

Senator CANNON. In March of 1962.

Mr. KARL. Well, the stock went up to \$53, I believe, on the bid side in January, and then it slipped down. In March it may have gone down to about \$40. I don't know.

Senator CANNON. And what—

Mr. KARL. The low 40's.

Senator CANNON. What is the price now?

Mr. KARL. The price today is—I think it was 23½ bid when I looked at the quotations last. A day or two ago.

Senator CANNON. Now, with reference to Bobby Baker, who is the principal subject in this inquiry, did you ever ask Mr. Baker at any time to use his influence in connection with your company?

Mr. KARL. None whatsoever. I definitely did not ask him to do anything. I never asked nor did I authorize him to do anything if he did.

Senator CANNON. And did he ever, as far as you know, attempt to promote the sale of your stock for the benefit of the company at any time?

Mr. KARL. No. I could hardly call it a promotion. I think that what he did was talk to some of his friends about the great possibility of this stock, and of the company. But other than talking to some friends, I don't think he ever took a step forward anywhere else.

Senator CANNON. Did he ever intercede in any manner with the Internal Revenue Service to assist you in obtaining a favorable tax ruling relative to your reserve funds?

Mr. KARL. No; not at all. Not that I know of.

Senator CANNON. Incidentally, is that reserve fund tax exempt insofar as savings and loans are concerned?

Mr. KARL. No. We are not governed by the savings and loan rules. Senator CANNON. I understand that.

Mr. KARL. But the insurance departments have required this reserve, and it is not available for corporate purposes, other than to pay unusual losses that might occur in the future. And so it is returned to surplus for the first time at the end of 15 years.

Senator CANNON. The savings and loans are required to set aside a reserve also.

Mr. KARL. They have a reserve, yes.

Senator CANNON. And my question is: Are they taxable on those reserves or are they permitted to defer payment of the tax, such as you are permitted?

Mr. KARL. Well, there has been some change, so that there is deferment, partial deferment based on a certain set of facts. I don't know the exact details.

Senator CANNON. Now, did you ever ask Mr. Baker to—or did Mr. Baker intercede on your behalf with the SEC at any time in reference to the registration of your stock issue?

Mr. KARL. Not to my knowledge. I don't know of any.

Senator CANNON. And I believe, if I understand your testimony correctly—you had two issues approved by the SEC, one of which had been approved prior to Mr. Baker's first purchase from you; is that correct?

Mr. KARL. No. The only registration we had prior to Mr. Baker's purchase was in the State of Wisconsin. It was a State registration. But after his purchase, there were three issues. One about a half a year after he bought his stock—that was the first one. Then there was another one October 17, 1961. And a third one on May 24, 1963.

Senator CANNON. I thought I understood your testimony to be that Mr. Baker called you and agreed to make a purchase in August of 1959?

Mr. KARL. Yes.

Senator CANNON. That your first registration with the SEC was prior to that time, but was made effective February 1960.

Mr. KARL. No. The filing of the first SEC registration was after Mr. Baker purchased his stock, in the fall of 1959.

Senator CANNON. I see. In the fall of 1959. And that was the registration that was made effective February 1960?

Mr. KARL. That is correct.

Senator CANNON. And your answer is that, so far as you know, Mr. Baker did not use his influence in connection with any of these matters about which I have asked you.

Mr. KARL. He certainly did not, to my knowledge.

Senator CANNON. And you did not request that he did so at any time?

Mr. KARL. I never requested him to do it.

Senator CANNON. Senator Curtis.

Senator CURTIS. Who is the largest beneficial owner of stock in your company?

Mr. KARL. I am, sir.

Senator CURTIS. And who are the other five or six largest stockholders?

Mr. KARL. Well, my former law partner is the second largest stockholder.

Senator CURTIS. Would you describe those people as the originators?

Mr. KARL. Yes.

Senator CURTIS. Are they residents of Wisconsin?

Mr. KARL. Yes; they are.

Senator CURTIS. Now, other than the originators, who is the largest beneficial owner of stock?

Mr. KARL. Well, I have some members of my family that rate pretty high among—

Senator CURTIS. Well, I am exempting the founders and their families, and your Wisconsin associates and their families that got this started. I am talking about the people that bought the stock.

Mr. KARL. Well, I probably could name four or five people that live in Milwaukee, who are not related to me, and who were not the founders, who are large stockholders.

Senator CURTIS. But they are Wisconsin people?

Mr. KARL. Yes.

Senator CURTIS. When you got away from home, selling stock, who are the largest stockholders?

Mr. KARL. Well, we have some directors who are sizable stockholders.

Senator CURTIS. Let me ask you this question: What is the greatest amount of stock Robert Baker ever held during all of this time, both in his own name, and that stock which you have since learned he was the beneficiary owner?

Mr. KARL. Well, I would say that the purchase—the block that was purchased in August of 1959, would today be 16,000 shares.

Senator CURTIS. That was Baker's?

Mr. KARL. Well, I am counting now Baker and Boggs and Lightle and Wilson and all these other names that were given to us.

Senator CURTIS. In other words, Baker and the names furnished by him constitute the largest investors in stock in this company, outside of Wisconsin people?

Mr. KARL. No, no. Our board chairman has more stock.

Senator CURTIS. I see. I will put my question this way. I just want to get a comparison. Baker and the people he might have purchased for, the largest owner of stock, to your knowledge, other than officers of the company, including directors and your Wisconsin people, where the company is.

Mr. KARL. There is an Illinois man who I am thinking of.

Senator CURTIS. Well, is he one of the largest ones?

Mr. KARL. Yes; he is one of the largest; yes. One of the largest outside of Wisconsin.

Senator CURTIS. One of the largest outside of Wisconsin.

Mr. KARL. Yes; that is true.

Senator CURTIS. Yes. And how much stock does Baker still have?

Mr. KARL. Well, our records show he has 9,200 shares.

Mr. McLendon. 9,274 to be exact.

Mr. KARL. Yes; I rounded it out.

Senator CURTIS. Is that in his own name at the present time?

Mr. KARL. Yes.

Senator CURTIS. What is the market value of that?

Mr. KARL. Well, 2 days ago the bid was 23½. This would—

Senator CURTIS. A couple of hundred thousand dollars?

Mr. KARL. Probably \$250,000.

Senator CURTIS. So he has really sold down from what he had at one time.

Mr. KARL. I would say \$200,000 is probably closer to accurate.

Senator CURTIS. He did have more than that at one time, did he?

Mr. KARL. Well—

Senator CURTIS. In dollar value?

Mr. KARL. There were some sales made from the original amount; yes.

Senator CURTIS. By Baker?

Mr. KARL. Yes.

Senator CURTIS. Do you have any idea what his net investment was in this?

Mr. KARL. No; I don't know. I say there was an interplay of names. But I don't know about the money that was involved—the investment by each individual—I don't know anything about that. I do know that he had a little more than half of this original block in his name. He had 896 shares of MGIC.

Senator CURTIS. And that was before the 10-for-1 split?

Mr. KARL. That was before the 10-for-1 split. So that he had 8,900 and some shares of MGIC. But there was agency stock in addition. I would guess that that 896 shares at that time now amounts to 10,000—a little better than 10,000 shares—taking into account the agency stock, which was exchanged for MGIC when there was a merger.

Senator CURTIS. And has this company merged with any other company?

Mr. KARL. No. You are talking about MGIC?

Senator CURTIS. Yes.

Mr. KARL. No; it has not merged with any other company.

Senator CURTIS. That is all.

Mr. McLendon. Mr. Karl, according to the records you gave us, Mr. Baker now appears as the stockholder on record with your company owning 9,274 shares; is that correct?

Mr. KARL. That is correct; yes, sir.

Mr. McLendon. You have no way of knowing how many other shares he may own but held in the names of other persons?

Mr. KARL. No; I would not know that.

Senator CURTIS. Well, now, the figure that you just gave us; does that include any interest that he might have in Murchison?

Mr. KARL. Gentlemen, I don't know anything about any interest he might have in Murchison's organization.

Senator CURTIS. Do you know anything about a Murchison employee and Robert Baker borrowing a quarter of a million dollars to buy your stock?

Mr. KARL. You probably are referring to Mr. Thompson. We mentioned Mr. Thompson earlier as being a Murchison employee.

Senator CURTIS. Yes! Whose stock is that stock?

Mr. KARL. Now, that stock is in Mr. Thompson's name. No—I think he had 7,000 shares, which were identified as having been pur-

chased in October or November of 1961, out of the registration, at \$27.50 for each share. That 7,000 shares was transferred to a broker. Now, whether it was for the purpose of having the stock in Street name, or whether it was actually purchased by the broker, I don't know. I don't have any information on it.

Senator CURTIS. Well, now, you don't know anything about a transaction of Thompson and Baker borrowing a quarter of a million dollars from a Dallas bank to buy the stock?

Mr. KARL. No.

Senator CURTIS. So in your statement as to how much Robert Baker owns now, you excluded—

Mr. KARL. That is correct.

Senator CURTIS. Any that he might own there, because it is not within your knowledge?

Mr. KARL. Yes. I refer only to what appears on our stock record list as being owned by Mr. Baker in his name.

Senator CURTIS. I see. And that figure of 9,000—

Mr. KARL. 9,274.

Senator CURTIS. That is the stock that on your corporate records is carried in the name of Robert Baker?

Mr. KARL. Right.

Senator CURTIS. So in response to the question of how much he owned, he based it upon that now held in his name?

Mr. KARL. Yes. This is the only information I have as to his ownership of stock. I don't know of any other. I have no other information as to ownership in other names.

Senator CURTIS. Did you ever talk to Baker about that?

Mr. KARL. No. Well, originally when Mr. Thompson purchased this stock, there was an indication that Mr. Baker had an interest. But to what extent, I don't know.

Senator CURTIS. I think a further witness will go into that. But I wanted, so that I would not be using the same figures twice, to make sure that your estimate of his holdings—and you could not give us an estimate of what Baker paid for the 9,274 shares of stock.

Mr. KARL. Well, I think we would have to multiply by \$1.56. I am assuming this is part of the original purchase, and if you multiply 9,274 by \$1.56, this would represent his original cost, which would be further reduced by the 5 percent—no, that includes the stock dividend. So I think we have to multiply that by \$1.49.

Senator CURTIS. But was all of his stock, now held by him personally, purchased prior to any split?

Mr. KARL. That is correct; yes, sir.

Senator CURTIS. So allowing for some adjustments in stock dividends and so on, someone who got in on the original deal before any splits, their stock cost them \$1.56?

Mr. KARL. Yes. I wanted to qualify one statement. There was an 8-for-1 split voted July 31, 1959. Mr. Baker bought his stock a few weeks after that. But the split that I referred to is the 10-for-1 split occurring September 30, 19—

Senator CURTIS. But he got the benefit of the 8-for-1 split.

Mr. KARL. Yes. In other words, he bought 6,400 of GIAI and 1,600 of MGIC.

Senator CURTIS. All right. Thank you.

Mr. KARL. His group did.

Senator CANNON. Thank you very much, Mr. Karl.

The hearing will stand in recess until 3 o'clock this afternoon.

Mr. KARL. Am I excused?

Senator CANNON. You are excused.

(Whereupon, at 12:45 p.m., the hearing recessed until 3 p.m. of the same day.)

AFTERNOON SESSION

(Present: Senators Jordan (chairman) and Curtis.)

The CHAIRMAN. The committee will come to order.

Mr. Thompson has been ill and he is still certainly a long way from feeling good at this time.

I am going to ask that the television lights be turned off at his request. I have also instructed Mr. Thompson if he becomes ill to let me know and he may be excused.

Mr. Thompson, it is necessary that I read in your presence the resolution authorizing this hearing. This committee is acting by direction and under the authority of Senate Resolution 212, agreed to October 10, 1963, and Senate Resolution 221, agreed to on 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 business interests or activities of any officer or employee or former officer or employee of the Senate for the purpose of ascertaining first whether any such interests or activities have involved conflicts of interest or other improprieties and, two, whether additional laws, rules, or regulations are necessary or desirable for the purpose of prohibiting or restricting such activities.

Witnesses have been interviewed by the staff both in executive and public sessions. Considerable evidence has been obtained and testimony received to date. Witnesses who have appeared previously or who will be called in the future possess information which the committee believes material and pertinent to the provisions of the resolution of direction and authorization and will aid the committee in fulfilling its legislative purpose.

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

Mr. Thompson, will you please rise, sir, and place your left hand on the Bible and raise your right hand and be sworn?

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

Mr. THOMPSON. I do.

The CHAIRMAN. Thank you.

Counsel may proceed with the investigation.

Mr. McLendon. Will you state your full name and your residence address, please?

TESTIMONY OF ROBERT F. THOMPSON, EXECUTIVE VICE PRESIDENT, TECON CORP., DALLAS, TEX.; ACCOMPANIED BY MARTIN J. McNAMARA, PERSONAL COUNSEL

Mr. THOMPSON. Robert F. Thompson, 10010 Straight Lane, Dallas, Tex.

Mr. McLENDON. Are you accompanied by your personal counsel?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. May I have your counsel state his name and office address?

Mr. McNAMARA. My name is Martin J. McNamara, 1317 F Street NW., Washington, D.C.

The CHAIRMAN. Mr. Thompson, are the lights still interfering?

Mr. THOMPSON. That one right there is right in my eyes, Senator.

The CHAIRMAN. Will you please cut this light? Is that all right?

Mr. THOMPSON. That is fine; yes, sir.

The CHAIRMAN. Go ahead.

Mr. McLENDON. Mr. Thompson, what is your principal business?

Mr. THOMPSON. Tecon Corp., which is a heavy construction company.

Mr. McLENDON. Is that spelled T-e-c-o-n?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. And where is the principal office of that company?

Mr. THOMPSON. 1000 Fidelity Union Tower Building, Dallas, Tex.

Mr. McLENDON. Can you give the committee some idea of the size and magnitude of the company's operations?

Mr. THOMPSON. Well, roughly, we do between \$75 and \$90 million worth of business a year.

Mr. McLENDON. And in what particular territory, if any, does the company work? I have reference to the United States. Do you do work all over the United States?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. How about in foreign countries?

Mr. THOMPSON. Yes, sir; we do.

Mr. McLENDON. Is the Tecon Corp. commonly known as one of the Murchison corporations?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. Who is the president of it?

Mr. THOMPSON. Clint Murchison, Jr.

Mr. McLENDON. And are members of the Murchison family stockholders?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. And do they own controlling interest?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. When did you first become acquainted with Robert G. Baker, Mr. Thompson?

Mr. THOMPSON. Oh, I would say 6 or 7 years ago.

Mr. McLENDON. Was your first acquaintance with him purely on a social basis or was it business?

Mr. THOMPSON. No, sir; it was on a social basis.

Mr. McLENDON. And prior to the year 1960, did you see him often?

Mr. THOMPSON. Yes, sir.

Mr. McLendon. Where did you see him; what different places did you see him?

Mr. Thompson. Oh, I saw him in Washington. I had him and his wife to my home as guests, and I would say on a social basis.

Mr. McLendon. You then became rather intimate with him, did you?

Mr. Thompson. Yes, sir.

Mr. McLendon. Did you become intimate enough with him to discuss his personal business affairs, his investments and matters of that kind?

Mr. Thompson. Well, I wouldn't put it quite that way. I knew him well enough to discuss certain things, but I wouldn't say his personal affairs. I did not.

Mr. McLendon. Did he seek your advice with respect to investments?

Mr. Thompson. No, sir.

Mr. McLendon. Did you have a conversation with him in 1960 about the purchase or his suggested purchase of some stock in the MGIC Corp.?

Mr. Thompson. Yes, sir.

Mr. McLendon. Tell the committee about that, please. Just tell what occurred.

Mr. Thompson. Bobby called me in Dallas and explained to me that he had what he thought was a good stock deal. I said, "What is it?" He said, "MGIC." I said, "Let me check the statement. I will be in Washington 3 or 4 days and then I will talk to you about it." I came to Washington. Bobby came down to the Hay-Adams Hotel. At that time we discussed the deal. I had already seen the statement and I was impressed with the company, and I said, "Why don't we buy some shares of MGIC?"

Mr. McLendon. Do you recall where you got the statement from that you saw?

Mr. Thompson. No, sir. The best I remember it was from the broker.

(At this point Senator Clark entered the hearing room.)

Mr. McLendon. And you and he, in consequence of your knowledge of the statement and what he told you, decided to buy how many shares if you could finance it?

Mr. Thompson. We originally started to buy 5,000 shares.

Mr. McLendon. How were you going to pay for it?

Mr. Thompson. We were going to borrow the money from the bank, First National Bank in Dallas.

Mr. McLendon. While you and Baker were together in Washington did you make any telephone calls to the bank to arrange a loan?

Mr. Thompson. Yes, sir.

Mr. McLendon. Tell us about that?

Mr. Thompson. I called Mr. Robert Stewart, who is the president of the First National Bank in Dallas. I said I wanted to buy 5,000 shares on a joint venture basis with Bobby Baker, and at that time I put Bobby Baker on the phone with Robert Stewart. He agreed to lend the money to us on a joint venture basis.

Mr. McLendon. So that both you and Baker talked to Mr. Stewart of the First National Bank of Dallas?

Mr. Thompson. Yes, sir.

Mr. McLendon. And you arranged over the telephone to borrow how much?

Mr. Thompson. Originally \$110,000.

Mr. McLendon. How was the loan finally handled, Mr. Thompson?

Mr. Thompson. Well, we couldn't get 5,000 shares. We could only get 2,990 shares, which amounted to roughly \$64,000. We refunded to the bank the difference between the \$110,000 and the \$64,000.

Mr. McLendon. How did you ascertain how much stock was available?

Mr. Thompson. I called Max Karl.

Mr. McLendon. Where was he when you called him?

Mr. Thompson. In Wisconsin; Milwaukee.

Mr. McLendon. You called him from Washington?

Mr. Thompson. No, sir.

Mr. McLendon. Or before you came up here?

Mr. Thompson. Called him from Dallas.

Mr. McLendon. Tell us about that conversation.

(At this point Senator Curtis left the hearing room.)

Mr. Thompson. I had originally said I wanted 5,000 shares and I called Max and he said, "I have only got 2,990. I can get one block for you." I said, "I'll take the block." Twenty-one and one-half was the amount of the shares.

Mr. McLendon. Later were certificates for the 2,990 shares delivered?

Mr. Thompson. Yes, sir.

Mr. McLendon. In whose name were they issued?

Mr. Thompson. I don't even remember the name they were in.

Mr. McLendon. Weren't they in your name?

Mr. Thompson. I am not sure, sir.

Mr. McLendon. You can't recall whether any part of that 2,990 shares was in Baker's name?

Mr. Thompson. No, sir. I don't think they were.

Mr. McLendon. Who executed the note to the bank?

Mr. Thompson. I did.

Mr. McLendon. Why didn't Baker sign it?

Mr. Thompson. It was a matter of convenience. I was in Dallas, Baker was here, and I just borrowed the money and had a gentleman's agreement with Bobby; that is the way we do business in Texas, that we have got a joint venture and that is the way we did it.

Mr. McLendon. So you had no formal agreement with Baker as to what his interest was in the 2,900 shares?

Mr. Thompson. Except he had half the losses and half the profits.

Mr. McLendon. But that was just a verbal arrangement between you?

Mr. Thompson. Yes, sir.

Mr. McLendon. You didn't attach enough importance to it to put it in writing?

Mr. Thompson. I didn't think it was necessary.

Mr. McLendon. You didn't think it was necessary?

Mr. Thompson. That is just the way I operate.

Mr. McLendon. And how long did the note stay in your name only?

Mr. Thompson. It is still in my name.

Mr. McLendon. Has Baker ever signed it?

Mr. Thompson. No, sir.

Mr. McLendon. Or ever endorsed it?

Mr. Thompson. No, sir. To the best of my knowledge, he hasn't.

Mr. McLendon. And since December 13, 1960, the loan has been in your name at the bank?

Mr. Thompson. Yes.

Mr. McLendon. And you are still not certain about how the stock was issued?

Mr. Thompson. No, sir; I am not.

Mr. McLendon. Has any part of that stock been sold, Mr. Thompson?

Mr. Thompson. No, sir.

Mr. McLendon. Later on the next year, in October 1961, did you and Baker buy some additional stock in MGIC?

Mr. Thompson. Yes, sir.

Mr. McLendon. Tell us how that transaction originated?

Mr. Thompson. We bought 9,000 shares of MGIC at \$27.50 a share. We borrowed \$250,000 from the First National Bank of Dallas; 7,000 shares of that stock were in my name; 2,000 shares were put in this respect: 500 shares in the name of Robert Comstock, 500 shares in the name of Francis Law, 500 shares in the name of Thomas Webb, and 500 shares in the name of Ken Curtis, which amounts to 9,000 shares.

Mr. McLendon. Will you explain to the committee how it happened that these 2,000 shares were put in the names of these 4 persons?

Mr. Thompson. Yes, sir. Bobby called me, said he had talked to Max Karl and that they did not want 9,000 shares going to 1 place at that time. They wanted to divvy it up. In other words, they wanted it spread around the country; would I use four nominees. I knew Webb, Law, and Curtis, whom I called and asked them if I could use them as nominees on these shares. I did not know Comstock but Bobby did.

Mr. McLendon. Do you know who Comstock is?

Mr. Thompson. No, sir.

Mr. McLendon. You do not know what relation, if any, he is to Baker?

Mr. Thompson. No, sir.

Mr. McLendon. Now, what arrangement did you make with Law, Webb, and Curtis other than to ask their permission to put the stock in their names?

Mr. Thompson. I just asked them if they would be my nominees, and when they got the stock to endorse it over to me, that I would pay for it; it was actually mine.

Mr. McLendon. Did they later return the stock to you endorsed?

Mr. Thompson. Yes, sir.

Mr. McLendon. Did you have any agreement with any one of those three, Law, Webb, or Curtis, that they would share in the profits if there were any?

Mr. Thompson. Well, the only deal I had with Webb and Law was not out of this original, this 500-share deal, but on half of my stock because they had been personal friends of mine, that I would see that they got some profits if the stock went up, or I would assume the losses, roughly 800 shares apiece.

Mr. McLendon. Let me be sure I understand that. Of the 7,000 shares that were in your name, you had an agreement with Webb and Law that they would share in the profits on that?

Mr. Thompson. No, sir.

Mr. McLendon. No?

Mr. Thompson. Of the 7,000 shares, I had half, Bobby Baker had half.

Mr. McLendon. Yes?

Mr. Thompson. Out of my half, let's say the 3,500, I had an agreement, a verbal agreement with Webb and Law, that if the stock went up, they are personal friends of mine, they have done a lot for me, I said you will get the profits. If there are any losses I will assume the loss.

Mr. McLendon. Was that a Texas agreement, too?

Mr. Thompson. Yes, sir.

Mr. McLendon. Not in writing?

Mr. Thompson. A Texas agreement.

Mr. McLendon. And you still have the stock in their names?

Mr. Thompson. I have got the stock in my name.

Mr. McLendon. You have got it in your name?

Mr. Thompson. It is still a Texas agreement.

Mr. McLendon. You mean that these four persons have since that time transferred the stock to you?

Mr. Thompson. Yes, sir. There are two things here I want to straighten out, Mr. McLendon. The nominees, there were 500 shares in each name.

Mr. McLendon. They still stand in those names?

Mr. Thompson. I am not sure of that. I am trying to make a separation.

Mr. McLendon. Go ahead.

Mr. Thompson. Of my deal with Webb and Law aside from what these 500 shares in each name.

Mr. McLendon. Yes; I understand that.

Mr. Thompson. All right, sir.

Mr. McLendon. I don't understand, though, whether the 500 shares in these 4 persons' names are still in their names or whether they have been transferred to you?

Mr. Thompson. They have been endorsed over to me.

Mr. McLendon. But not transferred on the books of the corporation?

Mr. Thompson. That I don't know, sir.

Mr. McLendon. The certificates you have are still issued to Robert Comstock, Francis Law, Webb, and Curtis, but endorsed over to you; is that correct?

Mr. Thompson. Yes, sir; that is the way I understand it.

Mr. McLendon. Now, the other 7,000 shares are certificates issued to you to begin with?

Mr. Thompson. Excuse me, sir.

Mr. McLendon. I say the other 7,000, the certificates are issued to you?

Mr. Thompson. Yes, sir.

Mr. McLendon. And I believe from the information you furnished to the committee it is in 100-share blocks, isn't it, certificates for 100

shares? That is not very important, if you don't remember. You need not answer the question.

Mr. THOMPSON. I think so. I don't know whether they are 100 shares or 50's.

Mr. McLENDON. Now, did you borrow the \$250,000 at the bank to buy these 9,000 shares?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. The same bank. And what sort of note did you give the bank for this purchase?

Mr. THOMPSON. This note was signed by Robert F. Thompson, Robert Baker, and Dorothy Baker.

Mr. McLENDON. Did the bank require any financial statement from Baker in connection with that loan?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. And was it supplied?

Mr. THOMPSON. Well, I guess so. I didn't see it, but I knew that they wanted it.

Mr. McLENDON. Out of these 7,000 shares that were issued in your name at that time, have you and Baker since that time sold any of them?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. How much?

Mr. THOMPSON. We sold 3,500 shares.

Mr. McLENDON. Do you remember the price at which you sold?

Mr. THOMPSON. \$33 a share.

Mr. McLENDON. And the total amount you received; do you have that figure before you?

Mr. THOMPSON. Yes, sir; \$116,326.48.

Mr. McLENDON. And those receipts, I take it, were credited on your note?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. And left the balance due on your note of how much?

Mr. THOMPSON. Of \$133,673.52.

Mr. McLENDON. And is that the amount of the debt to the bank now?

Mr. THOMPSON. On the one loan.

Mr. McLENDON. On that loan I am talking about.

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. Has Mr. Baker paid his part of the interest on that note?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. And you paid your part?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. Each of you paid 50 percent?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. How about the original note which was for \$110,000 and reduced by the unused funds to the amount of \$64,000. Has he paid interest on his half of that note?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. And you paid interest on your half?

Mr. THOMPSON. Yes, sir.



Mr. McLendon. Are all of these shares of stock in both cases, in both instances of these loans—are they deposited as collateral with the bank?

Mr. Thompson. Yes, sir.

(At this point, Senator Curtis entered the hearing room.)

Mr. McLendon. And what is the total number of shares that you and Baker own today?

(At this point, Senator Clark left the hearing room.)

Mr. Thompson. 8,565 shares.

Mr. McLendon. And the first block of 2,990 shares cost \$21.50 a share, did it not?

Mr. Thompson. Yes, sir.

Mr. McLendon. The last block of 9,000 shares cost \$27.50 per share?

Mr. Thompson. Yes, sir.

Mr. McLendon. And do you recall that that purchase was made after the second public offering made by MGIC?

Mr. Thompson. I don't—

Mr. McLendon. Let me reframe the question. Do you recall that there was a public offering by MGIC of its stock about the time of this last purchase of 9,000 shares?

Mr. Thompson. Yes, sir.

Mr. McLendon. And did you pay the public offering price?

Mr. Thompson. Yes, sir.

Mr. McLendon. You knew that it was going to be offered to the public and you made application for this many shares in advance of the public offering?

Mr. Thompson. No, sir; I can't actually say that.

Mr. McLendon. Well, to refresh your recollection, Mr. Karl testified this morning that you did notify him that you were in the market to purchase approximately 9,000 shares.

Mr. Thompson. That I did.

Mr. McLendon. Before the stock was actually offered to the public.

Mr. Thompson. That I did.

Mr. McLendon. A few weeks, a few days before.

Mr. Thompson. That I did.

Mr. McLendon. Does that refresh your recollection?

Mr. Thompson. Yes, sir.

Mr. McLendon. Now, Mr. Thompson, in addition to these two transactions involving MGIC stock, did you have one other stock transaction with Mr. Baker?

Mr. Thompson. Yes, sir.

Mr. McLendon. What was that?

Mr. Thompson. IDS, Investors Diversified Service.

Mr. McLendon. Did you and he jointly purchase some IDS stock?

Mr. Thompson. Yes, sir.

Mr. McLendon. 500 shares?

Mr. Thompson. Yes, sir.

Mr. McLendon. On the 19th day of April 1961?

Mr. Thompson. Yes, sir.

Mr. McLendon. And what was the purchase price?

Mr. Thompson. \$111,000.

Mr. McLendon. Where did you get that money from?

Mr. Thompson. We borrowed it from the First National Bank.

Mr. McLendon. How was the note executed?

Mr. THOMPSON. It was signed by me.

Mr. McLENDON. Not by Baker?

Mr. THOMPSON. No, sir.

Mr. McLENDON. Was the stock put up as collateral?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. Did this transaction with respect to the purchase of the IDS stock occur about the time or during the time that the Murchisons had gained control of IDS through the Alleghany Co.? Are you familiar with that?

Mr. THOMPSON. No, sir; this had nothing to do with whether the Murchisons had control or not at this point. I am not sure this was the time that they had got control, or after.

Mr. McLENDON. You are not sure about that?

Mr. THOMPSON. No, sir.

Mr. McLENDON. How long did you retain this 500 shares of IDS?

Mr. THOMPSON. Well, we sold it on the 16th of—

Mr. McLENDON. Of October; isn't it?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. The same year?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. And what did you receive for it?

Mr. THOMPSON. \$139,943.83.

Mr. McLENDON. And after paying the costs plus interest and after accounting for the dividends, how much profit did you and Baker have in that deal?

Mr. THOMPSON. Each one of us had \$13,082.44, to the best of my figures.

Mr. McLENDON. That is the figure you gave us. Was that amount paid to Baker?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. Paid in cash?

Mr. THOMPSON. It was paid by check by me.

Mr. McLENDON. Why didn't you credit it on the note that he owed down there in your bank?

Mr. THOMPSON. I don't know. At the time, this is a new deal; we just split the profits.

Mr. McLENDON. I suppose that is still part of the Texas agreement.

Mr. THOMPSON. Well—

Mr. McLENDON. Well anyway, you did pay him the money.

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. And he had the use of the money thereafter?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. I don't believe the statement you gave us shows the exact date you paid Baker, but it would have been shortly after the sale, would it not?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. The sale was on the 16th?

Mr. THOMPSON. The 16th.

Mr. McLENDON. Of October 1961.

Mr. THOMPSON. Right.

Mr. McLENDON. Mr. Thompson, has there been any other business or financial transactions between you and Baker?

Mr. THOMPSON. No, sir.

Mr. McLendon. You have referred to Mr. Webb—Thomas Webb, Jr.—as being one of the holders of a block of 500 shares of the MGIC stock. Is he employed by your company, the Tecon Corp.?

Mr. Thompson. Yes, sir.

Mr. McLendon. In what capacity?

Mr. Thompson. He is my Washington representative.

Mr. McLendon. I am not sure we understand what that term means.

Just what do you mean by his being your representative?

Mr. Thompson. That is what I was going to explain.

Mr. McLendon. Go ahead. Excuse me.

Mr. Thompson. Tom's job, to me, is more of a public relations man. He seeks out, tells me where jobs are going to be, in Panama, and so forth, and so on, alerts me and my company what is coming up in the construction field, more or less if you want to call it bird-dog on construction jobs. He alerts me and my company where they are coming. I, in turn, some of my engineers estimate them and bid them, and this is what Tom does for me.

Mr. McLendon. Does your company have many Government contracts?

Mr. Thompson. Yes, sir.

Mr. McLendon. Can you give the committee some idea of the quantity in terms of dollars at any one time?

Mr. Thompson. You mean the total amount?

Mr. McLendon. Yes.

Mr. Thompson. I just wouldn't have any idea, but it is a sizable amount; I will say that.

Mr. McLendon. What does Webb have to do with your obtaining Government contracts?

Mr. Thompson. Not a thing.

Mr. McLendon. Nothing at all?

Mr. Thompson. Except he just tells me where they are coming, but from there he has nothing more to do with it.

Mr. McLendon. Do you retain him on an annual salary basis?

Mr. Thompson. Yes, sir.

Mr. McLendon. You don't pay him by the job?

Mr. Thompson. Oh, no, sir.

Mr. McLendon. Did you employ him in this capacity because he was also employed by the Murchisons?

Mr. Thompson. Well, let me put it this way. Tom is paid by Tecon Corp.

Mr. McLendon. Yes.

Mr. Thompson. But he represents Tecon and the Murchisons.

Mr. McLendon. Let me see if I understand. In other words, for the salary that Tecon pays him, he renders services to Tecon and the Murchisons?

Mr. Thompson. Yes, sir.

Mr. McLendon. Do you have any connection with any of the other Murchison businesses?

Mr. Thompson. That is a hard question to answer directly or indirectly. I mean I do in a lot of instances. I just don't know how to answer that.

Mr. McLendon. Do you have any financial interests in any of them?

Mr. Thompson. No, sir.

Mr. McLendon. Stockholdings?

Mr. Thompson. No, sir. I would say it is Tecon.

Mr. McLendon. Would you then be familiar with the nature of the services Webb rendered to the other Murchison companies other than Tecon?

Mr. Thompson. Not necessarily; no, sir.

Mr. McLendon. Mr. Thompson, did Baker ever at any time discuss with you the property that is known as the Carousel at Ocean City in Maryland?

Mr. Thompson. Yes, sir.

Mr. McLendon. When did he first discuss that with you?

Mr. Thompson. As well as I remember, it was late August or early September of 1962.

Mr. McLendon. Can you tell the committee what he said to you about it?

Mr. Thompson. Yes, sir. We discussed the deal.

Mr. McLendon. You discussed what? I didn't get that.

Mr. Thompson. I said we discussed the deal—I am talking about the Carousel—on several occasions, and I was highly enthused. I looked at the deal and thought with proper management, which at that time I didn't think they had, improved management, with a hard-hitting advertising campaign and with the connections we had, that it would be a good proposition. In November I sent Bobby a letter to the extent that we would purchase the property for \$1,500,000.

Mr. McLendon. Do you have a copy of the letter with you there?

Senator CURTIS. May I just ask here—"We would purchase it at a million and a half dollars"—who is "we"?

Mr. Thompson. That is Tecon Corp., but I am speaking as executive officer for Tecon.

Mr. McLendon. Look at the document that has just been handed you and state whether or not that is a copy of your letter of November 15, 1962, on the stationery of Tecon Corp., addressed to Robert G. Baker?

Mr. Thompson. Yes, sir.

Mr. McLendon. Do you know as a result of your conversations with Baker who were the owners of the Carousel property?

Mr. Thompson. No, sir. I knew that Baker was the president of the company, but I didn't know who the owner or owners were.

Mr. McLendon. How did it happen that you addressed the letter to Robert G. Baker only?

Mr. Thompson. Well, he was president of the Carousel Motel.

Mr. McLendon. Weren't you interested in discovering from whom you were going to buy it, if you did buy it?

Mr. Thompson. In my opinion, Bobby was the president of the Carousel Motel and I addressed my letter to the president of the Carousel Motel that this offer was in force.

Mr. McLendon. You didn't know at that time that the property was owned by a partnership composed of Baker and the Novaks?

Mr. Thompson. No, sir.

Mr. McLendon. Your letter states, does it not:

DEAR BOBBY: Our appraisers have studied your financial report and after visiting the Carousel Motel we have agreed to submit a firm offer of \$1,500,000 for the motel, the restaurant, the nightclub, all fixtures, and all of the land

adjacent thereto, including the extra ocean front lot, which is owned by you and your partners. We will pay you \$250,000 down and assume the mortgage you presently have and repay you and your partners over a 10-year period.

I would appreciate hearing from you in the near future as we have other commitments and cannot hold this offer open any longer than February 1, 1963.

Did you ascertain how much the indebtedness, the mortgage indebtedness, was against the property at that time?

Mr. THOMPSON. No, sir. I don't remember now.

Mr. McLendon. You don't remember. Who were the appraisers that examined it?

Mr. THOMPSON. Well, I used the appraisers as an editorial "we." I was the appraiser.

Mr. McLendon. You personally appraised it?

Mr. THOMPSON. Yes, sir.

Mr. McLendon. This letter then was written based upon your own opinion of the value of the property?

Mr. THOMPSON. Yes, sir.

Mr. McLendon. Before this letter was written, did you submit it to the directors of your own company, Tecon?

Mr. THOMPSON. No, sir.

Mr. McLendon. Did they know that you were writing it?

Mr. THOMPSON. Well, my partner knew I wrote it.

Mr. McLendon. Who is your partner?

Mr. THOMPSON. Clint Murchison, Jr.

Mr. McLendon. You consulted him?

Mr. THOMPSON. I talked to him.

Mr. McLendon. And did he authorize you to write this letter for the company?

Mr. THOMPSON. Well, we don't—Major, I will try to explain. We don't quite do business this way. We don't have directors meetings and all this. I operate and sign letters and so does Clint. He does some that sometimes I don't know about and vice versa. We are both executive officers of this company.

Mr. McLendon. I was trying to find out if anybody other than yourself had come to the conclusion that this was a good buy for a million and a half dollars?

Mr. THOMPSON. That was my opinion. I signed the letter. I thought it was a good buy.

Mr. McLendon. Did Mr. Murchison think so?

Mr. THOMPSON. Well, now that; I don't know whether he did or didn't.

Mr. McLendon. Did you ever receive an answer to this letter?

Mr. THOMPSON. No, sir.

Mr. McLendon. Can you explain that?

Mr. THOMPSON. Well, the only thing I did between the time I wrote the letter until the shutoff date, as I call it, I asked Baker two or three times, "What about my offer?" and he kept saying, "Well, I'll let you know", and nothing ever happened, so when February 1 came, I just dropped the deal and went to other things.

Mr. McLendon. Mr. Thompson, do you know whether the other partners of Baker had any knowledge of the existence of this letter?

Mr. THOMPSON. No, sir; I don't.

Mr. McLendon. Did you learn later that this same property was sold to the Serv-U Corp., in which Baker together with Black owned controlling interest, for slightly over \$1 million?

Mr. Thompson. No, sir. I think I read something in the paper to that effect, but that doesn't make any difference to me—what went on later.

Mr. McLendon. Of course, it wouldn't make any difference to you if he rejected your offer.

Mr. Thompson. Sir?

Mr. McLendon. I say it didn't make any difference to you if he rejected your offer.

Mr. Thompson. Yes, sir. I forgot it and went on with other things. I don't know what it sold for and I didn't care. I mean it was a deal that I had gone after and couldn't get it and I forgot it.

Mr. McLendon. Mr. Thompson, I ask you if it isn't a fact that you wrote this letter at Bobby Baker's request so that he could use the prestige of your corporation's name in dealing with anybody that he might get in discussion with as some evidence that the property was worth approximately this amount of money?

Mr. Thompson. To the best of my knowledge, no, sir. I made a bona fide offer. It is written right here, and if he had accepted it I would have put the million five down and bought it, and I may want to reappraise the property before I leave here. This is the way I feel about the area.

Mr. McLendon. You can't explain why he didn't accept it, can you?

Mr. Thompson. No, sir. I don't know why he didn't accept it.

Mr. McLendon. If he had accepted it for the partnership according to the evidence before this committee, they would have been able to repay all of the money they had invested, all of the indebtedness would have been paid, and all of the partners would have had a substantial profit. In the light of that statement, can you explain why Baker, who seems to have been a man with a good deal of business experience, would turn down an offer like this?

Mr. Thompson. No, sir; I sure can't.

Mr. McLendon. That is all.

Senator CURTIS. Mr. Thompson—

Mr. Thompson. Yes, sir.

Senator CURTIS. I realize you are ill and I will try to be as concise as I can.

Mr. McLendon. Excuse me, Senator.

Mark that letter.

(The document referred to was marked "Thompson Exhibit 1," and is as follows:)

THOMPSON EXHIBIT 1

TECON CORP.,

Dallas, Tex., November 15, 1962.

MR. ROBERT G. BAKER,

President, Carousel Motel, 2000 P Street NW., Suite 605,
Washington, D.C.

DEAR BOBBY: Our appraisers have studied your financial report, and after visiting the Carousel Motel we have agreed to submit a firm offer of one million five hundred thousand dollars (\$1,500,000) for the motel, the restaurant, the night club, all fixtures, and all of the land adjacent thereto, including the extra ocean front lot, which is owned by you and your partners. We will pay you two hundred and fifty thousand dollars (\$250,000) down and assume the mortgage you presently have and repay you and your partners over a ten-year period.

I would appreciate hearing from you in the near future as we have other commitments and cannot hold this offer open any longer than February 1, 1963.

Sincerely,

ROBERT F. THOMPSON,
Executive Vice President.

Senator CURTIS. Was this letter written on or about the date that it bears?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. And after you wrote it and signed it, what did you do with it?

Mr. THOMPSON. What did I do with it, Senator?

Senator CURTIS. Yes, sir.

Mr. THOMPSON. I sent it to Bobby.

Senator CURTIS. In the mail?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. Do you know whether he got it?

Mr. THOMPSON. I don't know. I assume he did.

Senator CURTIS. Because the conversation later on would indicate that he did get it.

Mr. THOMPSON. Yes, sir. We talked after that about it.

Senator CURTIS. Now, in any of the conversations that you had, before or after writing the letter, with Mr. Baker, was there anything to indicate that he might have wanted that letter for the purpose of some financial statement?

Mr. THOMPSON. Not to my knowledge, Senator.

Senator CURTIS. So far as you were concerned, it was a bona fide offer to buy? And you would have been glad to buy?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. Now, without getting too much into people's net worth, and so on, I just want to know are you the principal stockholder of Tecon?

Mr. THOMPSON. No, sir.

Senator CURTIS. How many stockholders are there?

Mr. THOMPSON. Well, there is Murchison brothers originally and myself. Now their stock is in the Murchison Trust; I mean the children. They own approximately—I am using approximate figures now—84 percent. I own approximately 16 percent.

(At this point Senator Cannon entered the hearing room.)

Senator CURTIS. You own about 16 percent of the company and the Murchisons own 84?

Mr. THOMPSON. Yes, sir; roughly.

Senator CURTIS. And is it fair to interpret from your conversations that, while no formal action was taken within the corporation concerning this offer of a million and a half dollars, one of the Murchisons did know about it?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. And did he know the amount of the loan?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. Had he ever seen the property?

Mr. THOMPSON. No, sir; I don't think he had.

Senator CURTIS. When did you first see it?

Mr. THOMPSON. Oh, we came up here to see the Redskins. I forget the date, but I went out there in early September of 1962.

Senator CURTIS. That was sort of the end of the season?

Mr. THOMPSON. No, sir; that was the first part of the season. Are you talking about football now?

Senator CURTIS. No.

Mr. THOMPSON. You have got me confused.

Senator CURTIS. The oceanside season.

Mr. THOMPSON. Yes, sir.

Senator CURTIS. But it was still operating?

Mr. THOMPSON. Yes, sir. It was raining. I'll never forget the day.

Senator CURTIS. Who was with you?

Mr. THOMPSON. Just myself.

Senator CURTIS. Just yourself. How did you happen to go over and look at it?

Mr. THOMPSON. I decided I had better go take a look. I had been talking to Baker and I wanted to go appraise the property.

Senator CURTIS. So you had had some conversation about buying it, then, before then?

Mr. THOMPSON. Yes. I had talked to Baker, as I said, in early August, and so on. We talked about it.

Senator CURTIS. Who brought up the idea of the Carousel Motel, that it might be for sale?

Mr. THOMPSON. As well as I remember I guess it was Bobby.

Senator CURTIS. And your acquaintance with Robert Baker began about when?

Mr. THOMPSON. Oh, I'd say from now, 6 or 7 years ago.

Senator CURTIS. Six or seven years ago. Do you remember where you met him first?

Mr. THOMPSON. I am not quite positive on that, Senator. The best I remember, I thought it was in the office of Lyndon Johnson.

Senator CURTIS. You thought what?

Mr. THOMPSON. In the office of Lyndon Johnson, but I can't pinpoint that.

Senator CURTIS. After you got acquainted, you did keep in touch with him quite a little?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. You were social friends?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. Where would those social gatherings take place?

Mr. THOMPSON. Well, I had Bobby and his wife in my home in Dallas and I had my wife up here with Bobby and his wife and—

Senator CURTIS. Was that at the Baker home?

Mr. THOMPSON. No, sir. We were, I think, at one time over at Webb's one time.

Senator CURTIS. Tom Webb?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. Occasionally you would meet him in the hotels?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. Did you meet him at some social gatherings at the hotels?

Mr. THOMPSON. Well, yes. I am sure we did; yes.

Senator CURTIS. Who was the host on such occasions? Were you the host, or Robert Baker, or somebody else?

Mr. THOMPSON. I don't believe you would call it host. He came down.

Senator CURTIS. I mean who picks up the check?

Mr. THOMPSON. I did part of the time and sometimes Bobby did.

Senator CURTIS. I see.

Mr. THOMPSON. I picked up most of them.

Senator CURTIS. Did you know any of the other associates of Robert Baker?

Mr. THOMPSON. Well, which associates, Senator?

Senator CURTIS. Well, did you know Fred Black?

Mr. THOMPSON. I met him one time.

Senator CURTIS. Where did you meet him?

Mr. THOMPSON. Met him in the Carlton Hotel.

Senator CURTIS. What was that occasion?

Mr. THOMPSON. Just had a cocktail.

Senator CURTIS. Who else was present?

Mr. THOMPSON. Oh, I don't remember. This has been so long ago. I do remember meeting Fred, but I just don't remember who was there.

Senator CURTIS. Was it a big crowd?

Mr. THOMPSON. Oh, no, sir. It was just four or five of us, as I remember.

Senator CURTIS. Four or five?

Mr. THOMPSON. Yes.

Senator CURTIS. Was Bobby Baker there?

Mr. THOMPSON. I think he was.

Senator CURTIS. And who else?

Mr. THOMPSON. Myself. I don't remember. I think Jim Lee was there.

Senator CURTIS. Who is Jim Lee?

Mr. THOMPSON. He is just a personal friend of mine.

Senator CURTIS. Were any ladies present?

Mr. THOMPSON. No, sir.

Senator CURTIS. None present. How come you and Robert Baker bought IDS stock?

(At this point Senator Jordan left the hearing room.)

Mr. THOMPSON. That was my idea.

Senator CURTIS. Was that before or after the Murchisons had purchased it?

Mr. THOMPSON. Well, I don't know the date that Murchison got in the deal right now compared to when we bought the stock. My guess would be it was afterward.

Senator CURTIS. But you were aware that they either had control or were about to get control of it?

Mr. THOMPSON. Oh, I'd say yes; sure.

Senator CURTIS. What was the investment of the two of you in IDS stock?

Mr. THOMPSON. \$111,000.

Senator CURTIS. And that money was secured by borrowing from the bank?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. And what bank was that?

Mr. THOMPSON. First National Bank in Dallas.

Senator CURTIS. Upon whose credit was the loan made?

Mr. THOMPSON. Well, if I can explain this, Senator, on the first MGIC loan when Bobby and I called Bobby Stewart, president of the First National Bank.

Senator CURTIS. Yes.

Mr. THOMPSON. I think at some place in here that the president of the bank wanted Bobby Baker's financial statement. On this basis, this was the second, you might say, joint venture between Bobby Baker and me; I would say I can't answer how the bank—whether they were operating on my statement or Baker's, but I would think it would be on both.

Senator CURTIS. Is that a Murchison bank?

Mr. THOMPSON. No, sir. I wish it was.

Senator CURTIS. Did Mr. Baker know the bank, the officials there, the first time he made the loan?

Mr. THOMPSON. He had met the president of the bank over the phone, as I said, on the first MGIC loan. Whether Bobby knew the president of the bank, I don't know.

Senator CURTIS. You say he met him on the phone?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. Where was that phone call made from?

Mr. THOMPSON. From the Hay-Adams Hotel.

Senator CURTIS. You were present?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. You put in the call?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. Whom did you call?

Mr. THOMPSON. Robert Stewart, president of the First National Bank.

Senator CURTIS. And this was prior to extending credit for \$110,000?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. What did you tell Mr. Stewart that you were calling about?

Mr. THOMPSON. I told him I was calling to buy MGIC stock; that I thought it was a good investment, and I wanted to borrow \$110,000 to buy 5,000 shares on a joint venture basis with Baker.

Senator CURTIS. Then did you put Baker on the phone?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. And to your knowledge did Baker ever meet with Mr. Stewart after that?

Mr. THOMPSON. I don't know, sir.

Senator CURTIS. What did you say to Mr. Stewart in presenting Mr. Baker?

Mr. THOMPSON. I said "I want you to meet a friend of mine, Bobby Baker."

Senator CURTIS. And you heard what Bobby said. What did he say? Did he say anything about his net worth, his assets or anything?

Mr. THOMPSON. I just don't know at that time.

Senator CURTIS. When were you informed that the loan would be granted? Did they tell you right over the phone?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. It was arranged by telephone. Had you made other loans from them of that size previous to this?

Mr. THOMPSON. You are talking about me?

Senator CURTIS. Yes.

Mr. THOMPSON. Yes, sir.

Senator CURTIS. And the note was signed by the two of you?

Mr. THOMPSON. No, sir. This note was signed by me.

Senator CURTIS. Just by you?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. So it really wasn't an extension of credit for Baker?

Mr. THOMPSON. Well, in this respect—

Senator CURTIS. What I mean, the bank loan. Here is what I mean. I was under the impression that Bobby Baker was put on the phone, and as a result of the conversation, he was extended credit by this bank. But the loan was actually made to you so far as the note is concerned?

Mr. THOMPSON. No, sir. I don't think so, Senator.

Senator CURTIS. Well, you explain it in your way because I certainly do not want to put words in your mouth.

Mr. THOMPSON. The note was signed by me.

Senator CURTIS. Yes.

Mr. THOMPSON. But it was very obvious on this phone conversation that this was a joint venture between Bobby Baker and me; I mean with Robert Stewart at the bank. I don't think there was any question about it. I think from there on, as I call it, the proof of the pudding, the interest payments were made jointly, the profits were split jointly, which we didn't have any, but I mean it was this kind of a deal. Senator, may I say something else?

Senator CURTIS. Surely. Go ahead.

Mr. THOMPSON. What I wanted to put on the record here, these figures are subject to check, but to the best of my addition, if you take the two MGIC loans, and the IDS loan, to date we have got a net loss of \$3,000 to \$4,000.

Senator CURTIS. On the present-day market?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. But that is based upon selling now.

Mr. THOMPSON. If we sold today; yes, sir.

Senator CURTIS. That would wipe out the profit you have already distributed?

Mr. THOMPSON. That is taking the profit that we have already got, taking the interest payments, just adding the whole ball of wax up.

Senator CURTIS. Yes. Well, how much profit have you already distributed?

Mr. THOMPSON. On which loan now?

Senator CURTIS. On the whole transactions, the joint venture with Robert Baker.

Mr. THOMPSON. Well, we sold the 3,500 shares; we paid that back on the big loan, but then you go from there and take your interest payments. You have got to sort of put the three deals separately to get to it.

Senator CURTIS. All right.

Mr. THOMPSON. On the IDS thing we split \$13,000, roughly.

Senator CURTIS. Yes.

Mr. THOMPSON. On the first MGIC loan, we still got, and the second MGIC loan, if you add those up plus interest, you have got roughly a \$40,000 loss now.

Senator CURTIS. Because the MGIC stock is down?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. But all the MGIC stock that you have sold has been at a profit.

Mr. THOMPSON. Yes, sir; so far.

Senator CURTIS. How much profit have you made on that which you did sell?

Mr. THOMPSON. Well, we applied the profit we made——

Senator CURTIS. I don't mean how you distributed it, but how much did you make?

Mr. THOMPSON. I will have to figure that out. It is 3,500 shares at \$5.50 a share, whatever that adds up to. So, the best I can figure it would be roughly \$18,000.

Senator CURTIS. \$18,000, and then \$13,000 on the other?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. Would the \$18,000 be half of it?

Mr. THOMPSON. That is the total.

Senator CURTIS. The total. So it would really be \$9,000 and \$13,000, wouldn't it?

Mr. THOMPSON. Yes, sir.

Senator CURTIS. So on the basis of stock sold, Robert Baker has had a profit or has had the benefit of a profit of around \$21,000.

Mr. THOMPSON. Roughly; yes.

Senator CURTIS. And how much cash has he had invested?

Mr. THOMPSON. Nothing, so far.

Senator CURTIS. Now, do you know a Mr. Bernstein?

Mr. THOMPSON. No, sir.

Senator CURTIS. Never had any conversation, telephone conversation?

Mr. THOMPSON. No, sir.

Senator CURTIS. Never met him or anything of that sort. Were you at a party at the Fountainebleau Hotel which Mr. Hancock attended and others, at which Mr. Bernstein was?

Mr. THOMPSON. No, sir.

Senator CURTIS. You remember no such occasion?

Mr. THOMPSON. No, sir.

Senator CURTIS. Did you ever entertain Mr. Black?

Mr. THOMPSON. No, sir.

Senator CURTIS. But, of course, Mr. Webb is your Washington representative, and you have been with him many, many times.

Mr. THOMPSON. With Mr. Webb; yes.

Senator CURTIS. Yes. Now, coming back to this Carousel Motel thing, this letter which you wrote to Robert Baker dated November 15, 1962, in which you offered him \$1.5 million for the motel; how did you offer to pay for that, what terms?

Mr. THOMPSON. Senator, the letter speaks for itself. To me this was a letter of intent.

Senator CURTIS. Yes.

Mr. THOMPSON. If we had gotten down, if he had said yes, then I think we would have had a real letter, a sale contract.

Senator CURTIS. A contract, yes. I am quoting from the letter:

We will pay you \$250,000 down and assume the mortgage you presently have and repay you and your partners over a 10-year period.

And the details of how you paid that out over 10 years was to be worked out.

Mr. THOMPSON. At least this is the way I planned to do it.

Senator CURTIS. Did you have in mind that it would be a non-interest-bearing or non-negotiable note to the partners?

Mr. THOMPSON. I don't know. I would certainly expect the partners would want interest.

Senator CURTIS. Yes; and want some paper they could dispose of, if they had an opportunity.

Mr. THOMPSON. Sir?

Senator CURTIS. They would want some paper that was negotiable in case they found it necessary to use it, would they not, sir?

Mr. THOMPSON. You are talking about if we had—

Senator CURTIS. Yes.

Mr. THOMPSON. Yes.

Senator CURTIS. About how many times did you speak to Mr. Baker concerning this offer after you wrote him the letter?

Mr. THOMPSON. Oh, I would just guess—I would say three or four times, Senator.

Senator CURTIS. And did he give any reason for putting you off?

Mr. THOMPSON. No, sir. I would say, "What about my offer?" And he would say, "I will let you know."

Senator CURTIS. Did you ever ask him if he conveyed the offer to the other partners?

Mr. THOMPSON. No, sir.

Senator CURTIS. Did he ever state that he was going to buy out the other partners before he sold?

Mr. THOMPSON. No, sir.

Senator CURTIS. Were you aware that you were offering them a profit over what he had in it?

Mr. THOMPSON. No, sir; but I assume I was.

Senator CURTIS. Yes; in the course of visiting you had a general idea of what he had in it?

Mr. THOMPSON. No, sir; I did not.

Senator CURTIS. You did not?

Mr. THOMPSON. No, sir. I didn't know what he had in it, and I didn't care less. I was interested in buying it at \$1.5 million.

Senator CURTIS. Would you say that it was worth that when you offered it and worth it throughout the period of your offer, sir?

Mr. THOMPSON. I would say that at that time it was worth \$1.5 million, and I wish I had it right now, because I think in 5 years it is going to be worth a whole lot more.

Senator CURTIS. In other words, you think it is still worth \$1.5 million?

Mr. THOMPSON. I certainly do. I would kind of like to have it myself.

Senator CURTIS. I think Mrs. Novak would, too.

Mr. THOMPSON. Well, I don't know about Mrs. Novak.

Senator CURTIS. That is all.

Mr. McLendon. Mr. Thompson, I forgot to ask you who is Ken Curtis, who had 500 shares?

Senator CURTIS. I was going to ask you that. Who is that, sir?

Mr. THOMPSON. Do you ever watch "Ripcord" on television?

Senator CURTIS. No.

Mr. THOMPSON. Well, do you ever watch the "Sky Divers"?

Senator CURTIS. Once in a while; yes.

Mr. THOMPSON. Ken Curtis is the costar of "Ripcord." He is a personal friend of mine, who is a movie actor. He is now Festus on "Gun-smoke" instead of, what is the old, crippled boy on there—Chester. He took Chester's place.

Senator CURTIS. I want to cast no reflection on the man for having purchased this stock, but our family of Curtises aren't that brave.

Senator CANNON. Mr. Thompson?

Mr. THOMPSON. Yes, sir.

Senator CANNON. When Senator Curtis asked you about the profit of Baker, you indicated that the \$18,000 profit would have to be divided by two, or \$9,000. Now what about the \$13,000 profit that you referred to on IDS? Was that the total profit, sir?

Mr. THOMPSON. No, sir. The total profit was \$26,000.

Senator CANNON. I see.

Mr. THOMPSON. Half of that.

Senator CANNON. So that his share was the \$13,000.

Mr. THOMPSON. Yes.

Senator CANNON. \$9,000 on the other; on the stock?

Mr. THOMPSON. That is right.

Senator CANNON. Your testimony is that if you sold the rest of the so-called MGIC stock today, that you would have a net loss on the two operations?

Mr. THOMPSON. Boy, I will tell you we would be bankrupt as far as I am concerned.

Senator CANNON. Thank you very much.

Senator CURTIS, do you have any other questions?

Senator CURTIS. No.

Mr. McLENDON. Mr. Thompson, if this committee should have occasion to refer to these bank records, copies of which you kindly furnished to the committee, would you take the folder there and identify them so that we can put them in evidence? The first one is entitled "Robert F. Thompson Loan and Collateral Summary, January 8, 1964," and shows the original note of \$110,000. Do you have that one?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. And on the same page is a \$250,000 loan about which you testified?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. And on the right-hand side it shows the collateral that was held for both of those loans, does it not, sir?

Mr. THOMPSON. Yes, sir.

Mr. McLENDON. The second sheet is entitled "Robert F. Thompson, Loan and Collateral Summary, November 20, 1963." Will you look at that and state whether or not that is a copy of the bank record?

Mr. McNAMARA. Major, will you grant me just a moment, please?

Mr. McLENDON. Yes; of course.

Mr. THOMPSON. Major, may I ask you a question? Is this the same thing we submitted to you?

Mr. McLENDON. Yes. These are copies of the documents you gave us.

Mr. THOMPSON. Yes.

Mr. McLendon. I just wanted you to identify them.

Mr. Thompson. Yes, sir.

Mr. McLendon. These documents were furnished by the bank, you understand, Mr. Thompson.

Mr. Thompson. Yes; I said these were not the documents that I furnished.

Mr. McLendon. No, no; these came from the bank.

Mr. Thompson. Yes, sir.

Mr. McLendon. If you have any reluctance about identifying them, why just say so.

Senator Cannon. Counsel, perhaps these could be identified by a staff member, if they are needed. As long as Mr. Thompson did not furnish them—

Mr. McLendon. That will be all right. We will do it that way.

Senator Curtis. I would like to ask you another question or so. How much of contract with the Tecon Corp. is with the U.S. Government or agencies thereof?

Mr. Thompson. The percentage I don't know, Senator, but I would say most of it.

Senator Curtis. Most of it?

Mr. Thompson. Most of it is with the Corps of Engineers.

Senator Curtis. The Corps of Army Engineers.

Mr. Thompson. Yes. That is all bid work.

Senator Curtis. Any other agencies?

Mr. Thompson. I just don't know.

Senator Curtis. Do you do some foreign business for the Government?

Mr. Thompson. Which government?

Senator Curtis. For the U.S. Government?

Mr. Thompson. I can't think of a contract right offhand that we have.

Senator Curtis. Do you do business in foreign countries?

Mr. Thompson. Yes, sir.

Senator Curtis. What countries?

Mr. Thompson. I did a great job in Cuba. I wish I could blow up that tunnel. That is one of them.

Senator Curtis. Yes?

Mr. Thompson. But I have done work in Panama. I did part of the reconstruction on the Panama Canal, some 9 or 10 years ago.

Senator Curtis. Have you done any work in foreign countries, for those foreign countries, that the cost has been borne directly or indirectly by the U.S. Government?

Mr. Thompson. Not that I can think of. I can't put my finger on one.

Senator Curtis. Do you have any interest in the Serv-U Corp.?

Mr. Thompson. No, sir.

Senator Curtis. Have you ever discussed it with Mr. Baker, sir?

Mr. Thompson. No, sir.

Senator Curtis. Have you ever taken any trips outside the United States with Mr. Baker?

Mr. Thompson. Yes, sir.

Senator Curtis. Where to?

Mr. Thompson. Down to the Bahamas.

- Senator CURTIS. When was that?
- Mr. THOMPSON. Oh, I would say 4 or 5 years ago.
- Senator CURTIS. Who went along?
- Mr. THOMPSON. It was Mr. Baker, Mr. Tucker and wives, Mr. Webb.
- Senator CURTIS. Mrs. Tucker and Mrs. Baker?
- Mr. THOMPSON. Baker, George Dixon and his wife, little Tommy Baker—I mean Tommy Webb—and my father. That was it.
- Senator CURTIS. How long were you down there?
- Mr. THOMPSON. Oh, I think 3 or 4 days.
- Senator CURTIS. Who paid the expenses?
- Mr. THOMPSON. We did. We were host.
- Senator CURTIS. Whereabouts did you stay in the Bahamas, sir?
- Mr. THOMPSON. Stayed down on an island.
- Senator CURTIS. What was the name of the island?
- Mr. THOMPSON. Spanish Key.
- Senator CURTIS. Spanish Key?
- Mr. THOMPSON. Yes, sir.
- Senator CURTIS. The Murchisons own that, do they not?
- Mr. THOMPSON. Well, at that time it was owned by the Murchisons and myself.
- Senator CURTIS. Do you still own part of it?
- Mr. THOMPSON. No, sir. I couldn't stand the gaff. I sold out.
- Senator CURTIS. It is quite an elaborate setup, isn't it, sir?
- Mr. THOMPSON. Yes, sir; it is.
- Senator CURTIS. About 120 miles east of Jacksonville?
- Mr. THOMPSON. 148 due east of West Palm Beach.
- Senator CURTIS. How big an island is it?
- Mr. THOMPSON. About 3 miles long, about a quarter of a mile wide.
- Senator CURTIS. The Murchisons own the entire island?
- Mr. THOMPSON. They do now.
- Senator CURTIS. They do now. It is under the British flag?
- Mr. THOMPSON. I don't know what it is under.
- Senator CURTIS. It is not part of the United States, is it, sir?
- Mr. THOMPSON. No, sir.
- Senator CURTIS. And do they have an airstrip down there?
- Mr. THOMPSON. Yes, sir.
- Senator CURTIS. They have fishing boats?
- Mr. THOMPSON. Yes, sir.
- Senator CURTIS. Who owns those?
- Mr. THOMPSON. They are all part of the island.
- Senator CURTIS. Part of the Murchisons?
- Mr. THOMPSON. We call it one facility. We can't separate a bicycle from a——
- Senator CURTIS. And you were only down there once with Mr. Baker?
- Mr. THOMPSON. Yes, sir.
- Senator CURTIS. Have you ever been down there with anybody else whose names have been involved in this investigation, such as Mr. Fred Black?
- Mr. THOMPSON. No, sir.
- Senator CURTIS. Has Baker been down there when you were not, sir?
- Mr. THOMPSON. I don't know whether he has or hasn't. I can only talk about the time I was personally.

Senator CURTIS. Has he been down there at any time to your arrangement or to your knowledge when you were not there?

Mr. THOMPSON. No, sir; I wouldn't say that.

Senator CURTIS. That is all.

Senator CANNON. These contracts that you referred to; are those fixed-bid contracts that you have with the Corps of Engineers, sir?

Mr. THOMPSON. Yes, sir; they are all bid.

Senator CANNON. You may be excused, Mr. Thompson. Thank you very much for appearing here before the committee.

Mr. THOMPSON. Thank you.

Mr. McLENDON. Mr. Simon?

Senator CANNON. Is Mr. Simon here?

Would you come up front, please?

Mr. Simon, will you stand and put your left hand on the Bible and raise your right hand?

Do you solemnly swear that the testimony you are about to give before this investigating committee will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. SIMON. I do.

Senator CANNON. You may be seated, please.

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

TESTIMONY OF GEORGE M. SIMON

Mr. SIMON. My name is George M. Simon. I live at 4250 Nautilus Drive, Miami Beach, Fla.

Mr. McLENDON. You were in the audience when the chairman read the statement when the committee met at 3 o'clock, were you not?

Mr. SIMON. Not at that moment.

Mr. McLENDON. Do you understand that you have a right to have counsel here with you to advise you?

Mr. SIMON. Yes, sir.

Mr. McLENDON. If you want to.

Mr. SIMON. Yes, sir.

Mr. McLENDON. You are here without counsel, sir?

Mr. SIMON. Yes, sir.

Mr. McLENDON. You have been interviewed by members of the staff?

Mr. SIMON. Yes.

Mr. McLENDON. And also by me, earlier?

Mr. SIMON. Yes, sir.

Mr. McLENDON. Mr. Simon, what is your business?

Mr. SIMON. Well, I am by profession a certified public accountant, and presently in the hotel business.

Mr. McLENDON. Will you explain what the nature of your hotel business is?

Mr. SIMON. Yes. We build and operate hotels at airports throughout the country.

Mr. McLENDON. Did you become associated with others who organized the Serv-U Corp. in 1961?

Mr. SIMON. Yes, sir.

Mr. McLENDON. By whom were you first approached?

Mr. SIMON. I was not approached directly. A man that I represented for a number of years as an accountant was approached by Mr. Edward Levinson.

Mr. McLendon. Who is the man that Mr. Levinson approached, sir?

Mr. Simon. Mr. Jack Cooper.

Mr. McLendon. Where does he live?

Mr. Simon. Miami Beach, Fla.

Mr. McLendon. What is his business?

Mr. Simon. He is an investor.

Mr. McLendon. And then Mr. Cooper got in touch with you?

Mr. Simon. That is correct.

Mr. McLendon. What did he tell you about the Serv-U Corp.?

Mr. Simon. He told me that these gentlemen brought up the idea of going into the vending machine business, which at that time was, you could say, a very successful operation. There were quite a number of companies going public in it, and doing quite well.

Mr. McLendon. You referred to these gentlemen. Will you tell the committee what individuals you refer to?

Mr. Simon. At this time I am referring to Mr. Tucker and Mr. Levinson.

Mr. McLendon. Did you talk to Tucker at that time?

Mr. Simon. At that time I did not.

Mr. McLendon. Did you and Mr. Cooper decide to become stockholders?

Mr. Simon. That is correct.

Mr. McLendon. And did you shortly thereafter acquire stock, sir?

Mr. Simon. Well, let me say this. We made an investment. We never acquired the stock. It was never issued to us.

Mr. McLendon. All right. Describe what you did do.

Mr. Simon. There were moneys put up, and we invested approximately \$91,000.

Mr. McLendon. You mean you and Cooper jointly?

Mr. Simon. Me and Cooper and a few others; some of my partners in my accounting practice, and a couple of friends of ours.

Mr. McLendon. Your name appears as a stockholder on the records of the Serv-U Corp. But Mr. Cooper's does not.

Mr. Simon. I represented his interest and all the others, sir.

Mr. McLendon. You represented his interest and also these other individuals that you speak of?

Mr. Simon. That is correct.

Mr. McLendon. And the records show that you were the owner of a 27-percent interest in the stock; 2,700 shares.

Mr. Simon. That is correct.

Mr. McLendon. Was any certificate ever issued to you for that stock?

Mr. Simon. None whatsoever.

Mr. McLendon. What were you to pay for it; do you remember?

Mr. Simon. I know what we invested in it; approximately \$91,000-odd. The exact breakdown of that I can't give you.

Mr. McLendon. \$91,000 wasn't all for stock. Part of it was loans, was it not?

Mr. Simon. It was a combination of loans and stock.

Mr. McLendon. A combination of loans and stock?

Mr. Simon. That is correct.

Mr. McLendon. So you say that you and Cooper put in a total of about \$91,000?

Mr. Simon. Right.

Mr. McLendon. Before you invested any of this money, paid any of it to the company, did you have a meeting with any of the officers or directors of the company?

Mr. Simon. No. At that point I had met with Mr. Cooper; Mr. Levinson and I had met Mr. Black right about that same time. Whether it was immediately before or after the investment I couldn't specifically place the time.

Mr. McLendon. Where did this meeting occur; in Miami or in Washington?

Mr. Simon. In Miami. That meeting occurred in Miami, the first time I met Mr. Black.

Mr. McLendon. Was Baker present?

Mr. Simon. No; he was not.

Mr. McLendon. Did you attend a meeting later at which Baker was present?

Mr. Simon. Yes, sir.

Mr. McLendon. Where?

Mr. Simon. In Washington.

Mr. McLendon. Tell us about that meeting.

Mr. Simon. That was a meeting that we were called up by—it was either Mr. Levinson or Mr. Tucker, and asked to meet them in Washington, which we did at Mr. Tucker's office.

Mr. McLendon. You mean by "we" you and Cooper?

Mr. Simon. Mr. Cooper and myself.

Mr. McLendon. You met in Tucker's office?

Mr. Simon. That is correct.

Mr. McLendon. And who was present?

Mr. Simon. Mr. Tucker, Mr. Cooper, Mr. Levinson, Mr. Black, Mr. Baker, and possibly a gentleman by the name of Mr. Sigelbaum, an associate of Mr. Levinson's.

Mr. McLendon. How about Torres? Was he present?

Mr. Simon. No; he was not.

Mr. McLendon. You are sure you, Cooper, Levinson, Black, and Sigelbaum were there?

Mr. Simon. I am not sure about Sigelbaum. I can't quite recollect whether he was there or not.

Mr. McLendon. Was he an associate of Levinson's?

Mr. Simon. That is correct.

Mr. McLendon. And in what way were they associated?

Mr. Simon. They had been partners for a number of years in various ventures.

Mr. McLendon. In various ventures?

Mr. Simon. Yes, sir.

Mr. McLendon. Had you known them before this Serv-U matter came up?

Mr. Simon. Yes; I had known Mr. Sigelbaum before, and I have known Mr. Levinson before.

Mr. McLendon. Had you ever been in business with them before, sir?

Mr. Simon. Yes. They had made an investment in our hotel corporation when it was first started.

Mr. McLendon. The same one that you are in now?

Mr. Simon. The same one that I am in now.

Mr. McLendon. Was that at a time when your hotel corporation was—

Mr. SIMON. Organized.

Mr. McLendon (continuing). Was organized and was closely owned, closely held?

Mr. SIMON. That is correct.

Mr. McLendon. Since that time has it become publicly owned, sir?

Mr. SIMON. Yes; it has.

Mr. McLendon. Did Levinson and Sigelbaum remain as stockholders and officers when it became public?

Mr. SIMON. No; they haven't. They have divested themselves of their stocks.

Mr. McLendon. Was it necessary that they be divested of their stock ownership and official connection with the company, in order to make the stock public?

Mr. SIMON. That is correct.

Mr. McLendon. Was that required by the underwriters?

Mr. SIMON. That is true.

Mr. McLendon. What explanation have you got for that?

Mr. SIMON. Well, the underwriters did not feel that they wanted the association with the Las Vegas gambling interests involved in a publicly held corporation that they would be associated with.

Mr. McLendon. Do you tell the committee then that Levinson and Sigelbaum were known at that time to be associated with the gambling interests in Las Vegas?

Mr. SIMON. Mr. Levinson was. Mr. Sigelbaum to my knowledge does not have any Las Vegas holdings.

Mr. McLendon. Why was it necessary for him to step out?

Mr. SIMON. I think he was a bankrupt some 30-odd years ago. They found that out.

Mr. McLendon. But you knew they were good friends, did you not?

Mr. SIMON. Yes.

Mr. McLendon. And did you know that they were associated in other business ventures?

Mr. SIMON. That is true.

Mr. McLendon. Did you know whether they were associated in gambling ventures?

Mr. SIMON. I know Mr. Levinson was one of the owners of the Fremont Hotel in Las Vegas. I don't know of any other gambling interests that they might be associated with.

Mr. McLendon. Is Sigelbaum associated with him in the ownership of that hotel?

Mr. SIMON. That I don't know. I have never seen anything to the effect that he is a stockholder of that company.

Mr. McLendon. Now you and Cooper acquired this stock ownership in Serv-U in 1961, shortly after it was organized. How long did you retain it?

Mr. SIMON. About 3 months.

Mr. McLendon. What did you do then?

Mr. SIMON. That was that meeting when we were asked to come to Washington, and at that time they said that they would like to buy us out.

Mr. McLendon. Was that suggestion made by you?

Mr. Simon. No.

Mr. McLendon. Or did it originate with the other group?

Mr. Simon. It came from either Mr. Tucker or Mr. Levinson. I am not sure which one actually stated it and made the proposition.

Mr. McLendon. The proposal was then to buy out the stock ownership that was in the name of you and Cooper?

Mr. Simon. It was, I believe, at that time strictly in my name.

Mr. McLendon. In your name. Did you pay the debt that the corporation owed, you and Cooper?

Mr. Simon. That is correct.

Mr. McLendon. What sort of deal did you make?

Mr. Simon. They paid us \$100,000 for our \$91,000 investment; sir.

Mr. McLendon. You say Baker was in that meeting?

Mr. Simon. Yes, sir.

Mr. McLendon. What did he have to say about it?

Mr. Simon. He didn't say a word.

Mr. McLendon. You mean he sat through all this discussion without saying anything?

Mr. Simon. Yes, sir.

Mr. McLendon. Did you know at that time that he and Black owned 57 percent of the Serv-U Corp.?

Mr. Simon. At that time I did not know that.

Mr. McLendon. You learned that later, did you?

Mr. Simon. I learned it later.

Mr. McLendon. If you had known that, would that have affected your deal or your willingness to sell?

Mr. Simon. No. It wouldn't have affected us whatsoever. If they asked us to buy us out, that was an indication, since the business had not formally started at that point, that they no longer desired us to be in the business with them, we were just as willing to step out than be associated with somebody that didn't care to have us in the business.

Mr. McLendon. Did Levinson stay in when you sold out?

Mr. Simon. As far as I know he is in it.

Mr. McLendon. Did Sigelbaum?

Mr. Simon. As far as I know he is in it.

Mr. McLendon. And who bought your stock and paid your debt?

Mr. Simon. I believe the checks issued to us were from Serv-U Co., itself. I couldn't swear that that is exactly correct, but we did receive the checks, and to the best of my recollection they were Serv-U checks.

Mr. McLendon. Were you paid any sort of bonus for the money that you loaned, or was all the profit attributed to the stock that you owned?

Mr. Simon. We in fact attributed it to the stock. We got a total of \$9,000 that was distributed pro rata amongst all of our group that made the investment, and we were finished with it.

Mr. McLendon. Am I correct that the certificates for the 2,700 shares of stock were never actually issued to you?

Mr. Simon. If they were issued, I have never seen them.

Mr. McLendon. You were just a subscriber?

Mr. Simon. That is correct.

Mr. McLendon. Do you know to whom the stock was issued that you were supposed to have acquired?

Mr. Simon. Eventually; no.

Mr. McLendon. You do not?

Mr. Simon. I have no idea.

Mr. McLendon. It wasn't disclosed to you then that Black was buying that for himself and Baker?

Mr. Simon. No, sir.

Mr. McLendon. So the profit that you made out of this transaction then was approximately \$9,000?

Mr. Simon. That is correct.

Mr. McLendon. And that was divided between you and Cooper and your other associates?

Mr. Simon. All the other associates.

Mr. McLendon. Mr. Simon, at the time you were approached and asked to participate in this corporation as a stockholder, what were you told with respect to what it was going to do in business?

Mr. Simon. At that time they anticipated trying to get a number of vending accounts of large companies.

Mr. McLendon. Where?

Mr. Simon. To start with, in California.

Mr. McLendon. Were you told what companies in California, sir?

Mr. Simon. The only one whose name was mentioned at the time was North American Aviation.

Mr. McLendon. What were you told with respect to the availability of those contracts in California?

Mr. Simon. There was a good chance to get the North American Aviation contract.

Mr. McLendon. Was any explanation given to you why there was a good chance?

Mr. Simon. The only explanation given to me was that Mr. Black had some connections with North American.

Mr. McLendon. Were you told that Mr. Black was regularly retained by North American as a Washington representative?

Mr. Simon. That was my understanding.

Mr. McLendon. Were you told that he was in position to help Serv-U obtain the vending machine contract out there?

Mr. Simon. It was indicated that that was the situation.

Mr. McLendon. Now, Eugene Hancock was also one of the original organizers. What do you know about him.

Mr. Simon. I know Eugene Hancock is a vending machine operator in the Miami area.

Mr. McLendon. Did you know him before the Serv-U Corp. was organized?

Mr. Simon. I have met him occasionally. I don't know him businesswise or socially, but I have made—

Mr. McLendon. Have you had any business dealings with him?

Mr. Simon. None whatever.

Mr. McLendon. Were you told that he was brought into the company because he was a practical vending machine operator?

Mr. Simon. That is correct.

Mr. McLendon. What do you know about his negotiating the contracts on the west coast with North American and other companies having Government contracts?

Mr. Simon. I know he appeared before—went to North American, looked over their plant, their setup. He met with some representatives of North American. Exactly whom, I do not know. And there was

a statement forwarded to North American—I believe I wrote the letter—that we had financial resources to carry out the contract, if it was awarded to us.

Mr. McLendon. If it were awarded?

Mr. Simon. Right.

Mr. McLendon. How do you know these things you have just been testifying about? How did you know that Hancock went out there?

Mr. Simon. Strictly by conversation.

Mr. McLendon. With him?

Mr. Simon. With Mr. Cooper, Mr. Hancock, Mr. Levinson.

Mr. McLendon. How about Black?

Mr. Simon. Black, I had not seen. I have only met Mr. Black somewhere between three and five times.

Mr. McLendon. Did Mr. Hancock report to you and others, other stockholders, the degree of success that he had had in California after he came back from that trip?

Mr. Simon. He had reported to Mr. Levinson and Mr. Cooper on that. A good portion of my early participation, outside of being an investor, was more or less that of an accountant. At that time I was active in my accounting practice.

Mr. McLendon. You are a professional accountant?

Mr. Simon. That is correct.

Mr. McLendon. Why did you decide to get out of this apparently promising organization?

Mr. Simon. Well, there were two reasons. One I think I have stated, that if they offered to buy us out, there must have been a reason for it, and preferably that they must decide they would rather go it by themselves. The other reason was that we have other business investments, and it was just as well; at that time we were negotiating another property, a hotel property in Los Angeles, with which we are involved today, and we could use the money any other place, and it wasn't necessary to stay with these people.

Mr. McLendon. You say "we." You mean you, Cooper, and the other associates?

Mr. Simon. The other associates didn't participate in the hotel deal.

Mr. McLendon. You and Cooper?

Mr. Simon. That is correct.

Mr. McLendon. Did you know anything about the visitation of officers of North American to Miami to inspect Mr. Hancock's operations down there?

Mr. Simon. No; I did not.

Mr. McLendon. You didn't know about that?

Mr. Simon. No, sir.

Mr. McLendon. At the time you sold out, did you know the extent of the vending machine contracts that the Serv-U Corp. had obtained up to that time?

Mr. Simon. At that time when we sold out, the only one that I know of that they have obtained was North American's contract.

Mr. McLendon. You did not know about any of the others?

Mr. Simon. Not one other one.

Mr. McLendon. Mr. Simon, in any of these conferences that you attended with the men you have mentioned, Tucker, Hancock, or any others, was there any explanation made to you as to how the stock

owned by Black and Baker was issued, or in whose name it was issued or to be issued?

Mr. SIMON. No. The only one that I ever knew to be a specific stockholder was Mr. Tucker, that was in any way associated with the Baker-Black people. The stock was, to my knowledge, to be issued to Mr. Tucker, and at one time could I specifically say that I, from my personal knowledge, that I would know whether Baker would participate or Black would participate, or in what amounts they would, if they did.

Mr. McLENDON. What explanation was made to you for the fact that Tucker was taking title to this stock; the books show it was issued in his name, when in reality it was owned by others?

Mr. SIMON. I didn't know whether it was owned by others or not.

Mr. McLENDON. You mean you thought it might be owned by Tucker?

Mr. SIMON. That is correct. My check, the check of the funds that I got, came from Mr. Tucker.

Mr. McLENDON. But did you make any inquiry as to Tucker's financial wealth?

Mr. SIMON. No.

Mr. McLENDON. You didn't know whether he was financially able to buy stock of this magnitude?

Mr. SIMON. No.

Mr. McLENDON. This amount of money?

Mr. SIMON. He didn't have to put in that much money. The investment by Hancock and Tucker was limited to the stock purchases, I believe.

Mr. McLENDON. Yes.

Mr. SIMON. And the other group, Sigelbaum, Levinson, and Cooper group, had to put up the loans.

Mr. McLENDON. And what about Torres?

Mr. SIMON. Well, when I say that I am sorry; that he would be considered part of Levinson and Sigelbaum.

Mr. McLENDON. Did you know him before?

Mr. SIMON. I had met him once or twice before.

Mr. McLENDON. What business was he in?

Mr. SIMON. He is in business with Mr. Levinson in Las Vegas, sir.

Mr. McLENDON. Did Levinson bring him into this picture?

Mr. SIMON. I have never met him specifically for this business, the Serv-U business.

Mr. McLENDON. Before you sold out, was there any discussion in the group about the purchase of Torres' 400 shares?

Mr. SIMON. No, sir.

Mr. McLENDON. Did that occur after you sold out, if it did?

Mr. SIMON. I wouldn't even know whether it did before or after. If the check would have come from the company, I would have known; let me say that.

Mr. McLENDON. Yes.

Mr. SIMON. However, it did not come from the company while I had control of the money.

Mr. McLENDON. So if the company bought his stock, including some amount, repaid him some amount of money that he had loaned for \$75,000, you had no knowledge of that?

Mr. SIMON. Absolutely none. I read it in the paper about a week ago.

Mr. McLendon. And you wouldn't have any knowledge of the loans that were made by the company to Hancock either, would you? That occurred after you got out.

Mr. SIMON. It didn't take place while I was with the company.

Mr. McLendon. I believe that is all, Mr. Chairman.

Senator CANNON. Senator Curtis?

Senator CURTIS. Who did you say first approached you about the vending machine business or more particularly—

Mr. SIMON. Mr. Levinson first approached Mr. Cooper.

Senator CURTIS. Mr. Levinson?

Mr. SIMON. First approached Mr. Cooper.

Senator CURTIS. That is the Mr. Levinson that you have identified as being of Las Vegas?

Mr. SIMON. That is correct.

Senator CURTIS. The hotel and gambling operation?

Mr. SIMON. Yes.

Senator CURTIS. And who is the other man out there associated with him that you mentioned, Sigel—?

Mr. SIMON. There is a Mr. Sigelbaum who lives in Miami that is a business associate of his.

Senator CURTIS. And they first approached Mr. Cooper?

Mr. SIMON. That is correct.

Senator CURTIS. And then Cooper talked to you about it?

Mr. SIMON. That is correct.

Senator CURTIS. How long have you known Cooper?

Mr. SIMON. Fifteen years—maybe longer.

Senator CURTIS. Did Mr. Cooper have some business in the Dominican Republic?

Mr. SIMON. Years ago he did. He had a hotel down there.

Senator CURTIS. Did he have any other business?

Mr. SIMON. Not that I know of. Oh, yes; he did. He bought planes and equipment for the Dominican Government.

Senator CURTIS. He purchased planes and equipment for them?

Mr. SIMON. Right.

Senator CURTIS. Did he have any gambling concessions?

Mr. SIMON. Not to my knowledge.

Senator CURTIS. Has he had an income tax case arising over his business transactions in the Dominican Republic going back to the time of the late Trujillo?

Mr. SIMON. That is correct.

Senator CURTIS. And that is pending now?

Mr. SIMON. There is an appeal pending now.

Senator CURTIS. So this Las Vegas crowd in promoting Serv-U contacted Cooper?

Mr. SIMON. That is correct.

Senator CURTIS. Do you know anything about the trip made to the Dominican Republic in April 1963 by Levinson, Jack Cooper, and Robert Baker?

Mr. SIMON. I know there was a trip made.

Senator CURTIS. Do you know what it was for?

Mr. SIMON. They were looking over some hotel properties down there.

Senator CURTIS. Now, tell me a little bit more about the purchase of planes. That was for the Trujillo government?

Mr. SIMON. That is correct.

Senator CURTIS. Where would they purchase those planes?

Mr. SIMON. They purchased them in Sweden.

Senator CURTIS. Sweden. Swedish manufacture?

Mr. SIMON. No; I believe they were American manufacture, sir.

Senator CURTIS. They were fighter planes?

Mr. SIMON. That is correct.

Senator CURTIS. And our Government is forbidden to sell fighter planes.

Mr. SIMON. I can't answer that.

Senator CURTIS. Well, I know that is true. Some farmers out in my State seed the clouds to prevent hail, and the only plane that can get up there is a fighter plane, and they can't buy them because they do not want to get them into the hands of people who can sell them to foreign countries. And these planes were in Sweden?

Mr. SIMON. That is correct.

Senator CURTIS. And this crowd that negotiated the sale with Trujillo?

Mr. SIMON. That is correct. There was a gentleman, I believe he is from Sweden, and some people from the United States, and not necessarily people that are involved in this Serv-U thing. The only one involved in the Serv-U thing that would be associated with that was Mr. Cooper.

Senator CURTIS. Was Mr. Cooper?

Mr. SIMON. Yes.

Senator CURTIS. Mr. Levinson went down there with him?

Mr. SIMON. This took place around 1950 or 1951.

Senator CURTIS. I see; the sale of the planes?

Mr. SIMON. The planes.

Senator CURTIS. Oh, yes. So Cooper has been having business down there for some time.

Mr. SIMON. That is correct. He used to be in the banana business down there.

Senator CURTIS. Do you know how big a deal this plane deal was?

Mr. SIMON. It was, I would guesstimate, around \$3 or \$4 million.

Senator CURTIS. Now, what was their business at the time that Levinson and Robert Baker went with Jack Cooper down there?

Mr. SIMON. I believe they went to look at some hotel properties in the Dominican Republic.

Senator CURTIS. My information is they went down to close the deal.

Mr. SIMON. They apparently didn't.

Senator CURTIS. They apparently did?

Mr. SIMON. Not to my knowledge.

Senator CURTIS. Did they buy an airline down there?

Mr. SIMON. No, sir; not to my knowledge.

Senator CURTIS. Have any interest in one?

Mr. SIMON. Not to my knowledge.

Senator CURTIS. Do you know from the conversations whether they had legalized gambling down there at any time during this period?

Mr. SIMON. Did they?

Senator CURTIS. Anybody.

Mr. SIMON. There is legalized gambling in the Dominican Republic. Senator CURTIS. That is carried on in the hotels?

Mr. SIMON. That is correct.

Senator CURTIS. Cooper had an interest in a hotel. Did Levinson, too?

Mr. SIMON. No.

Senator CURTIS. Who was associated with Cooper?

Mr. SIMON. There was the Miami hotel chain that operates about six or seven hotels in the Miami Beach area that were the operators of that hotel.

Senator CURTIS. They were the operators, but who were the owners?

Mr. SIMON. The Dominican Government.

Senator CURTIS. The Dominican Government. Where did Cooper fit in?

Mr. SIMON. Cooper took them down there to negotiate for the hotel, and the principal purpose was to set his brother up in business, which these people, when they took over the hotel and made a deal with the Dominican Government—this was in the midfifties—I believe, took his brother for an interest in the business.

Senator CURTIS. Cooper's brother?

Mr. SIMON. That is correct.

Senator CURTIS. Is he still down there?

Mr. SIMON. No. He lives in California.

Senator CURTIS. What is his first name?

Mr. SIMON. Ben—Ben Cooper.

Senator CURTIS. Do you know what the deal was when Baker and Cooper and Levinson went to the Dominican Republic in April of this year?

Mr. SIMON. To the best of my knowledge they went to look at one of the hotels down there, to lease it from the Government.

Senator CURTIS. What hotel?

Mr. SIMON. I don't know. There are only two hotels that I know of in the Dominican Republic, and there may be more that are owned by the Government. That is the Juaraga and the Ambassador. I don't know which of the two. I was not in any way, shape, or form interested in the deal, so I can't give you an answer for it.

Senator CURTIS. Would they be on the Intercontinental Hotel chain?

Mr. SIMON. No—

Senator CURTIS. Are they a part of the Intercontinental Hotel chain?

Mr. SIMON. No; they are not.

Senator CURTIS. Had Baker been to the Dominican Republic before; do you know?

Mr. SIMON. I could not answer that question. I don't know Mr. Baker that well. I have met him either once or twice. I may have met him twice, I am not sure, but I do not know the man that well.

Senator CURTIS. Was Baker interested in Cooper's business transactions in the Dominican Republic, to your knowledge?

Mr. SIMON. Not to my knowledge.

Senator CURTIS. Do you know of anybody else that was interested?

Mr. SIMON. In which, specifically?

Senator CURTIS. In the Dominican Republic enterprises of Cooper.

Mr. SIMON. This hotel, this group, this Juaraga Hotel.

Senator CURTIS. Any other individuals?

Mr. SIMON. Before my time with any association with Mr. Cooper, I know he brought bananas from the Latin American countries, and who was associated with him at the time I don't know, but I am certain that the people are in the banana business, and not any of the persons that are presently under discussion.

Senator CURTIS. Is the banana company the West Indies Trading Co.?

Mr. SIMON. No. There is a West Indies Trading Co., and many years ago this was owned by a person that since passed away, and the assets of West Indies was purchased by another company, and they are presently in the banana business.

Senator CURTIS. Is Jack Cooper in that?

Mr. SIMON. No, sir.

Senator CURTIS. Has he ever been in the West Indies Trading Co.?

Mr. SIMON. If he was, it was before I had anything to do with Mr. Cooper's personal finances.

Senator CURTIS. Did you ever do any accounting work for Serv-U?

Mr. SIMON. Did I? They were never active up to the time that we got out. My only participation was getting the money in and seeing how it was disbursed up until the time we got out of the business.

Senator CURTIS. Did you ever have anything to do with the Automatic Vending Machine Co.?

Mr. SIMON. No, sir.

Senator CURTIS. The Seminole Boats?

Mr. SIMON. No, sir.

Senator CURTIS. That is all.

Mr. McLendon. Were you custodian of the Serv-U funds up to the time you got out?

Mr. SIMON. It was either up to the time I got out or within a couple of weeks prior to the time I got out. I cannot remember exactly when I sent the checkbooks out to Mr. Hancock.

Mr. McLendon. As long as you were in there none of the money could have been spent except by you.

Mr. SIMON. That is correct.

Senator CANNON. What was the date again when you got out of Serv-U?

Mr. SIMON. I believe the meeting here took place sometime in March, and we received our first check in April, and the second check either in the latter part of April or the first part of May.

Senator CANNON. That was in 1962?

Mr. SIMON. That was in 1962.

Senator CANNON. Is this Mr. Cooper that you have been testifying about, is he a partner of yours?

Mr. SIMON. We have made many investments together.

Senator CANNON. And are you an investor with him in this international airport hotel system?

Mr. SIMON. That is correct.

Senator CANNON. Is that the system that is building a big hotel on the Los Angeles International Airport?

Mr. SIMON. That is correct. It will open next month.

Senator CANNON. What is this West Flagler Kennel Club?

Mr. SIMON. That is a dog race track in Miami, Fla.

Senator CANNON. And Mr. Cooper owns that?

Mr. SIMON. He is one of the associates. He has some stockholdings in that.

Senator CANNON. Do you own part of that?

Mr. SIMON. No, sir.

Senator CANNON. You mentioned Mr.—is it Sigel or is it Sigelbaum?

Mr. SIMON. Sigelbaum.

Senator CANNON. Does he live in Florida?

Mr. SIMON. He lives in Florida.

Senator CANNON. Or in Las Vegas?

Mr. SIMON. He lives in Florida.

Senator CANNON. In business there?

Mr. SIMON. Yes. Well, he is what I would say semiretired now. He invests in land investments and so forth.

Senator CANNON. You may be excused, Mr. Simon. Thank you.

Mr. SIMON. Thank you.

Senator CANNON. Thank you very much.

Mr. McLENDON. I see Mrs. Novak back in the audience. If I may, I would like to call her and ask her two or three questions.

Senator CANNON. You have been sworn, Mrs. Novak.

TESTIMONY OF GERTRUDE C. NOVAK—Recalled

Mrs. NOVAK. Yes; I have.

Mr. McLENDON. Mrs. Novak, I would like you to look at a letter written on the letterhead of Tecon Corp. dated November 15, 1962, and ask you to read it yourself—not to the committee—and then, after you have read it, I want to ask you a question or two. Have you ever seen that letter or a copy of it before this afternoon?

Mrs. NOVAK. No; I have not.

Mr. McLENDON. Did Mr. Baker ever tell you that he had an offer to purchase the Carousel property for \$1.5 million, before you signed the contract for sale?

Mrs. NOVAK. No; he has not.

Mr. McLENDON. Do you have any information that there was any other purchaser available?

Mrs. NOVAK. No.

Mr. McLENDON. I beg your pardon?

Mrs. NOVAK. To me this is just shocking news because I just never heard of any such proposition even offered. We were looking for buyers. I was very disturbed all along not knowing whether I will have the roof over my head from day to day. This is—I am not even sure that I am myself, knowing about this letter now.

Mr. McLENDON. Just one other question. At the time you signed the contract for the sale of Serv-U, did you know of any other purchaser or prospective purchaser?

Mrs. NOVAK. No.

Mr. McLENDON. You did not.

Mrs. NOVAK. No; I did not.

Mr. McLENDON. That is all, Mr. Chairman.

Senator CANNON. Mrs. Novak, didn't you testify before, before this committee, that you had heard that several people were interested in the property?

Mrs. NOVAK. These are individuals who would be willing to go in as partners.

Senator CANNON. I see, but not to purchase?

Mrs. NOVAK. Not to purchase; no.

Senator CANNON. Senator Curtis?

Senator CURTIS. Has Mr. Baker ever said anything to you that indicated that this property did have a value of \$1.5 million?

Mrs. NOVAK. Yes; I imagine he did. We knew it was of some value because of the Carousel built on it.

Senator CURTIS. But I mean in the nature of realizing now at the time you wanted to sell?

Mrs. NOVAK. No. He himself wanted to get out of it dollar for dollar, let alone this \$1.5 million contract proposition.

Senator CURTIS. In other words, as you neared the time of selling, he conveyed to you the idea that he would like to get out of it dollar for dollar?

Mrs. NOVAK. That is right, and that is why we accepted the kind of notes we did, he accepting also the same kind of notes we did.

Senator CURTIS. You would have been interested in Mr. Thompson's offer?

Mrs. NOVAK. This is just really something.

Senator CURTIS. That is all.

Mr. McLENDON. That is all.

Senator CANNON. Thank you, sir.

Mrs. NOVAK. Thank you, sir.

Senator CANNON. You may be excused.

The hearings will stand in recess subject to the call of the Chair.
Thank you.

(Whereupon, at 4:50 p.m., the subcommittee was in recess, to reconvene subject to the call of the Chair.)

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