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**Y 4 FINANCIAL OR BUSINESS INTERESTS OF OFFICERS
OR EMPLOYEES OF THE SENATE**

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GOVERNMENT
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HEARINGS
BEFORE THE
COMMITTEE ON
RULES AND ADMINISTRATION
UNITED STATES SENATE
EIGHTY-EIGHTH CONGRESS
FIRST AND SECOND SESSIONS

PURSUANT TO
S. Res. 212 and S. Res. 291

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

FEBRUARY 18 AND 19, 1964

PART 11

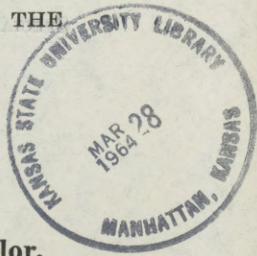
**Testimony of John Leland Atwood, Leland R. Taylor,
Kenneth L. Kellough, and Robert R. Miller**

Printed for the use of the
Committee on Rules and Administration



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FINANCIAL OR BUSINESS INTERESTS OF OFFICERS
OR EMPLOYEES OF THE SENATE

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UNITED STATES SENATE
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II

II THAT

Testimony of John Edward Leland Taylor,
Kenneth B. Robinson, and Robert M. Miller



CONTENTS

Opening statement by Senator B. Everett Jordan, chairman of the Committee on Rules and Administration	Page 1023, 1085
Testimony of John Leland Atwood, accompanied by Charles Pickett, counsel	1024
Testimony of Leland R. Taylor, accompanied by Charles Pickett, counsel ..	1046
Testimony of Kenneth L. Kellough, accompanied by Charles Pickett, counsel	1058
Testimony of Robert R. Miller	1086

EXHIBITS

Kellough exhibit 1. Letters of commendation regarding service of Automatic Vending Service, Inc	1064-1069
Kellough exhibit 2. Excerpts from minutes of meeting of board of directors of North American Aid, July 11, 1962	1069
Kellough exhibit 3. Excerpts from minutes of meeting of board of directors of North American Aid, August 5, 1963	1070
Kellough exhibit 4. Excerpts from minutes of meeting of board of directors of North American Aid, December 20, 1961	1071
Kellough exhibit 5. Excerpts from minutes of meeting of board of directors of North American Aid, January 30, 1962	1071
Kellough exhibit 6. Agreement, dated January 30, 1962, between North American Aid and Serv-U Corp	1072-1075
Kellough exhibit 7. Amendments to agreement between North American Aid and Serv-U Corp	1075-1077
Kellough exhibit 8. Letter, dated January 12, 1962, from Eugene A. Hancock to K. L. Kellough	1082

MEMORANDUM

TO : [Illegible]

FROM : [Illegible]

SUBJECT: [Illegible]

[Illegible text follows, consisting of several paragraphs of faint, mostly illegible text.]

FINANCIAL OR BUSINESS INTERESTS OF OFFICERS OR EMPLOYEES OF THE SENATE

TUESDAY, FEBRUARY 18, 1964

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

The committee met, pursuant to recess, at 10:25 a.m., in room 318, Old Senate Office Building, Senator B. Everett Jordan (chairman) presiding.

Present: Senators Jordan, Cannon, Pell, and Curtis.

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

The CHAIRMAN. We have a quorum present. The committee will come to order.

Call your witness, Mr. Counsel.

Mr. McLENDON. Mr. Atwood.

The CHAIRMAN. Mr. Atwood, have a seat, please, sir, with your counsel.

Mr. McLENDON. Are Mr. Taylor and Mr. Kellough here?

Just have a seat where you are for the moment.

The CHAIRMAN. I just wanted to alert you to listen to this statement which is necessary to be read.

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

The committee is acting by direction and under the authority of Senate Resolution 212, agreed to on October 10, 1963, and Senate Resolution 291, agreed to on February 10, 1964. Senate Resolution 212 authorizes and directs the Senate Committee on Rules and Administration—

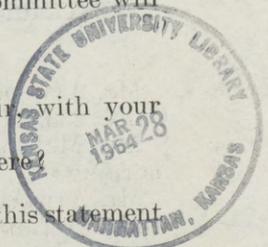
to make a study and investigation with respect to any financial or business interests or activities of any officer or employee or former officer or employee of the Senate for the purpose of ascertaining—

(1) Whether any such interests or activities have involved conflicts of interest or other improprieties; and

(2) Whether any additional laws, rules, or regulations are necessary or desirable for the purpose of prohibiting or restricting any such interests or activities.

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

The CHAIRMAN. 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 resolutions of direction and authorization, and which 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 question, the witness might ask for clarification. Counsel, however, shall not coach the witness nor answer for the witness.

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

Mr. Atwood, will you please rise and place your hand on the Bible and take the oath?

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

Mr. ATWOOD. I do.

The CHAIRMAN. Thank you, sir.

Have a seat.

Counsel, you may take over and proceed.

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

TESTIMONY OF JOHN LELAND ATWOOD, ACCOMPANIED BY CHARLES PICKETT, COUNSEL

Mr. ATWOOD. My name is John Leland Atwood. I live in Malibu, Calif., 23338 Pacific Coast Drive.

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

Mr. ATWOOD. I have with me Charles Pickett, who is a counsel.

Mr. McLENDON. Will you let him state his name and address to the reporter?

Mr. PICKETT. My name is Charles Pickett. My address is 25 Broadway, New York, N.Y.

Mr. McLENDON. Mr. Atwood, are you president of the North American Aviation Corp.?

Mr. ATWOOD. Yes, sir.

Mr. McLENDON. How long have you occupied that position?

Mr. ATWOOD. I have been president of North American Aviation since 1948, which is approximately 16 years.

Mr. McLENDON. What is the nature of the company's business?

Mr. ATWOOD. The nature of the company's business is aviation, related equipment, rocket engines, electronic guidance and apparatus, atomic devices, and similar apparatus and parts.

Mr. McLENDON. What part of the work of the company is done under Government contract?

Mr. ATWOOD. Direct Government contract must be in the neighborhood of 95 percent, and other derivative work may be the additional 5 percent. It is in that neighborhood, Mr. McLendon.

Mr. McLENDON. Do you do any subcontracting?

Mr. ATWOOD. We subcontract many elements of our work; yes, sir.

Mr. McLENDON. Is the Melpar Co. of Falls Church, Va., or Washington, D.C., one of your subcontractors?

Mr. ATWOOD. They are and have been one of our subcontractors; yes, sir.

Mr. McLENDON. Would you describe Melpar as a substantial subcontractor?

Mr. ATWOOD. I believe I would; yes, sir.

Mr. McLENDON. Has it had subcontracts for the past 3 to 4 years?

Mr. ATWOOD. I am sure it has; 3 or 4 years at least. Perhaps more.

Mr. McLENDON. How many plants does your company operate, and where are they located?

Mr. ATWOOD. The principal plants are in Los Angeles County, Calif.; Orange County, Calif.; and adjacent Ventura County.

Then in Columbus, Ohio, and in Tulsa, Okla., in Neosho, Mo., in McGregor, Tex., and in—near Reno, Nev.

I believe that covers the principal ones.

Mr. McLENDON. Am I correct that in California you have three plants?

Mr. ATWOOD. We have many, many buildings. We have more than three plants, Mr. McLENDON. We have a large complex there. It involves five different divisions of our company, and our general headquarters, some testing facilities. I believe some 80,000 people are employed in that general area.

Mr. McLENDON. In the California area?

Mr. ATWOOD. Yes, sir.

Mr. McLENDON. Mr. Atwood, does your company employ a man named Fred Black, Jr.?

Mr. ATWOOD. We have an arrangement with him as a consultant; yes, sir.

Mr. McLENDON. How long has he been employed in that capacity?

Mr. ATWOOD. About 7 years.

Mr. McLENDON. Where does he maintain his office?

Mr. ATWOOD. He has an office here in Washington, on K Street.

Mr. McLENDON. Does he have an office in California at all?

Mr. ATWOOD. I don't know of any office in California.

Mr. McLENDON. Does your company provide him with an office in California?

Mr. ATWOOD. Only as a visitor.

Mr. McLENDON. You mean that when he is there on business he does have an office that he can use? Is that what you mean?

Mr. ATWOOD. Not a special office set aside. But he has access to office facilities there.

Mr. McLENDON. Will you describe his duties and his functions, Mr. Atwood?

Mr. ATWOOD. He has been an adviser to us in the general area of his predictions and his observations on governmental activities, stemming largely from Washington. And he has from time to time and frequently advised us as to his opinion on what might develop in the way of congressional action, governmental action of various kinds. He, in my opinion, has been an astute and reliable observer.

Mr. McLENDON. I could not understand you, sir.

Mr. ATWOOD. An astute and reliable observer of the affairs that take place in Washington. He has, for instance, given us his judgment as to the nature of various general budgetary matters, of military increases or reductions. His predictions are not always right. But his views, his estimates as to future space programs, atomic energy programs—he advised us as to his opinion on the Renegotiation Act, which at one time not too long ago it appeared might be—not renewed. His opinion was, it would not be renewed.

He advises us as to the trends in civil rights legislation. While we have been a leader in antidiscrimination, we have been able to make additional steps in consonance with the general outlook for laws, and emphasis of various kinds. He observes and advises with respect to anything which the company might—deficiencies with respect to what he might hear about. He has, from time to time, given us suggestions, advice, objective criticism. And I might add that he is not a technical man, nor involved in our technical work.

Mr. McLENDON. He is not an engineer?

Mr. ATWOOD. He is not an engineer. And he does not maintain or has he requested a security clearance to do that kind of work. He is not a lobbyist for us. And he is not registered as a lobbyist. And I am sure he has not tried to influence legislation.

Further, I might say that he is not asked by us or expected by us to contact procurement agencies, Defense Department and so forth, nor to negotiate contracts, but primarily to give us the benefit of his experience and advice and observations in these general areas.

Mr. McLENDON. As president of your company, do you consider Mr. Black's services such as you have described necessary to the functioning of your company?

Mr. ATWOOD. I consider them desirable—when I feel the need for planning, for expansion or contraction of various aspects of our company, the nature and trends of the kind of thing we might be doing—I consider them helpful. I do not consider them completely and absolutely indispensable.

Mr. McLENDON. Would you say that Mr. Black occupied a position of trust and confidence with your company?

Mr. ATWOOD. Yes, sir; I have had great confidence in Mr. Black.

Mr. McLENDON. You did have confidence in him?

Mr. ATWOOD. I have had.

Mr. McLENDON. Now, Mr. Atwood, when did you first become acquainted with Robert G. Baker?

Mr. ATWOOD. I cannot remember exactly when, Mr. McLendon, but it was about 4 years ago; within that general area.

Mr. McLENDON. Do you recall where you first met him?

Mr. ATWOOD. I don't recall where, but I am sure it was with Mr. Black. I am sure it was as a friend of Mr. Black's that I met him.

Mr. McLENDON. You met him as a friend of Mr. Black's?

Mr. ATWOOD. Yes, sir.

Mr. McLENDON. Do you recall seeing him on more than on occasion?

Mr. ATWOOD. Yes, sir. I recall seeing him some dozen times, but approximately in the last 4 years, and perhaps it could be 10 or perhaps it could be 15.

Mr. McLENDON. Some of those occasions at Mr. Black's house?

Mr. ATWOOD. Yes, sir.

Mr. McLENDON. Social activities were going on?

Mr. ATWOOD. I have seen him there with his wife in the evenings for dinner. I was frequently invited to Mr. Black's home for dinner in the evening—on at least three or four occasions Mr. Baker and his wife have been there.

Mr. McLENDON. So that it is fair to say that you knew that Black and Baker were intimate friends?

Mr. ATWOOD. I knew they were well acquainted and friendly; yes, sir.

Mr. McLENDON. What vending company had contracts with your various plants in California in the year 1961?

Mr. ATWOOD. 1961—there were—the Automatic Canteen Co.

Mr. McLENDON. And had they had contracts with your companies for some time?

Mr. ATWOOD. Yes; they had had contracts for quite a long time.

Mr. McLENDON. Do you recall whether the contract with Automatic Vending Co. provided a method and way of termination?

Mr. ATWOOD. Automatic Canteen Co.? Oh, yes—our vending machine contracts have always been cancelable on 30 days' notice.

Mr. McLENDON. When did you first get information from Black that Baker was interested in the vending business of your company?

Mr. ATWOOD. A bit over 2 years ago.

Mr. McLENDON. That would be 1961, you think?

Mr. ATWOOD. Sometime in the fall of 1961—and from the records and my estimate of when I might have first heard about it, as far as my memory serves me, it would be sometime about October 1961, is my recollection.

Mr. McLENDON. Well, that is near enough. What did Black say to you at that time about Baker's interest in vending in North American?

Mr. ATWOOD. Mr. Black first mentioned to me, according to my recollection, that he had heard from Mr. Baker that a vending machine company, run by friends of Mr. Baker, was a very efficient and—

Mr. McLENDON. Was very what?

Mr. ATWOOD. Efficient and satisfactory.

Mr. McLENDON. Move the microphone a little away from your face.

Mr. ATWOOD. I am sorry.

Mr. McLENDON. That is all right.

Mr. ATWOOD. Was a very efficient and desirable organization. I do not recall at all—in fact, I cannot recall—any reference to ownership, stock or otherwise, in this—

Mr. McLENDON. Excuse me for interrupting you, but did you understand at that time that the company was already organized, or that it was being organized?

Mr. ATWOOD. I understood that it was in existence and had demonstrated great efficiency.

Mr. McLENDON. And did Black tell you that Baker had an interest in it?

Mr. ATWOOD. Mr. Black undoubtedly told me that Baker was interested in it. I cannot remember any disclosure that he made with respect to the financial aspect of the interest.

Mr. McLENDON. Did he say whether he was interested in it financially?

Mr. ATWOOD. He didn't say anything about that at all.

Mr. McLENDON. You are positive that Black did not disclose any interest that he might have had in the company?

Mr. ATWOOD. I certainly cannot recall it.

Mr. McLENDON. You are equally positive that he did say that Baker was interested in it?

Mr. ATWOOD. I remember this, as far as Baker is concerned, to that extent.

Mr. McLENDON. All right. Now, did you do anything immediately in consequence of this conversation with Mr. Black?

Mr. ATWOOD. No, Mr. McLendon. My interest in it was rather low. I had many things to think about. As far as I can recall, I did nothing.

Mr. McLENDON. Well, after some time had elapsed, do you remember that Black reminded you of his conversation, and renewed his request?

Mr. ATWOOD. Yes. After some time he mentioned again the fact that he thought we should look into the services of this company, that it would be desirable.

Mr. McLENDON. Did he tell you the name of it then?

Mr. ATWOOD. I don't recall the name of it at any time, sir. As far as I am concerned, up until a few weeks ago—it was the Serv-U Corp.

Mr. McLENDON. Well, these several conversations subsequent to the first one; did all of them occur in Washington, or did Black say something to you about it out in California?

Mr. ATWOOD. I cannot recall, Mr. McLendon. I seem to remember that the first one was in Washington.

Mr. McLENDON. All right. Did you finally take it up with Mr. Smithson, one of your vice presidents?

Mr. ATWOOD. I think it must have been about the third time this was mentioned by Mr. Black—it was mentioned in something like this sort of context. I can't remember the words, of course. But the implication was—well, why won't you let them talk to your people, this is a good arrangement, and I am sure they will find it a good deal.

Well, I had very little answer for that. I just said, "Well, all right, I will." I did take it up with Mr. Smithson.

Mr. McLENDON. What position did Mr. Smithson occupy with your company?

Mr. ATWOOD. Mr. Smithson is senior vice president for administration, and the personal matters of our company, among other things, come under him.

Mr. McLENDON. Would he have general supervision over vending operations?

Mr. ATWOOD. In a broad sense, yes. But I must explain about our vending operations, if I can take a moment to do so.

Mr. McLENDON. All right; go right ahead.

Mr. ATWOOD. The vending machines put into our plants dispense such things as coffee, cigarettes, candy bars, and related products for the convenience of and the benefit of our employees.

Now, the vending machines all operate with coins. Obviously, you cannot break a coin down conveniently, except into nickels and dimes as far as the vending machines are concerned. So there is a practice—

presumably one of the competitive factors in this business is that a commission is paid for—from the operator of the vending machines to the company that houses them.

Now, this money comes from our employees, and certainly our company did not want to take the money for its own benefit at any time, because the money—any commissions that would come from their expenditures should logically be used as directly as possible for their benefit. So in 1941, when the use of the vending machines became rather general, a nonprofit corporation was established, called North American Aid.

Mr. McLENDON. A-i-d?

Mr. ATWOOD. A-i-d. This corporation was empowered to operate or cause to be placed and operated these vending machines in various areas of our factories. Now, the receipts or the commissions from these machines went directly to this North American Aid, and they were trustee of the funds, and they have the right to dispense it in the benefit of the employees of North American Aviation.

Mr. McLENDON. Is that organized and does it function as a corporation?

Mr. ATWOOD. It functions as a nonprofit corporation.

Mr. McLENDON. With a board of directors and officers?

Mr. ATWOOD. It is governed by nine directors, consisting of nine senior employees of the company. And then the money is dispensed for welfare operations, particularly the benefit of unfortunate employees, or those with adversities of various kinds, and also for recreational facilities which are maintained by North American Aid, including baseball grounds, clubhouses, dressing rooms, picnic grounds, and the like.

If I can complete this—North American Aid is the operator and responsible party in connection with the operation of our vending machines.

Mr. McLENDON. But your company furnishes the management for the Aid?

Mr. ATWOOD. The company furnishes certain services for the Aid, and one of the company employees is now president of Aid. He is here today.

Mr. McLENDON. Is that Mr. Taylor?

Mr. ATWOOD. Kellough.

Mr. McLENDON. Now, I had gotten to the point of asking you whether you had taken up this request of Black with Mr. Smithson. What is your answer to that?

Mr. ATWOOD. I asked Mr. Smithson—I told him that I had received a strong recommendation that there was an excellent, well-managed company in the vending business that might represent some advantage to North American Aid. And he said, "Well, I don't know. We can look into it," he said. We had been thinking for some time that we should break up our vending business so that we would have two comparative organizations, because the number of buildings, and facilities and employees had gotten quite large since the original arrangement was made. So he said yes, he could look into it and take it up.

Mr. McLENDON. Do you recall having a conference with Mr. Smithson and Mr. Taylor in your office, when you told them that you wanted them to give consideration to a new vending company in which Robert Baker had an interest?

Mr. ATWOOD. I remember talking to both of them. I cannot recall whether they were together or not. I would assume they probably could have been.

Mr. McLENDON. Did you, in substance, tell them that you wanted them to give consideration to a new vending company in which Baker had an interest?

Mr. ATWOOD. I asked them to check it. I said it had been referred by Baker to Mr. Black—I think I said this—it is my recollection. And I suggested that if—that they examine its merits. They said yes, they could, but I should probably talk to Mr. Cann, too.

Mr. McLENDON. What position did he occupy?

Mr. ATWOOD. He is a vice president of the company, and he is secretary of the company, and, in addition to those functions, he is secretary of North American Aid.

Mr. McLENDON. And what position did Mr. Taylor have?

Mr. ATWOOD. Mr. Taylor is a vice president of the company, and he is in charge of—

Mr. McLENDON. Is he an executive vice president?

Mr. ATWOOD. No, sir; he is in charge of public relations.

Mr. McLENDON. In charge of public relations?

Mr. ATWOOD. Yes, primarily.

Mr. McLENDON. Now, after you made this suggestion to Mr. Smithson and Mr. Taylor, did you later learn that they had taken your suggestion and had pursued the matter with respect to this new vending company?

Mr. ATWOOD. I had suggested only that in response to my promise to Mr. Black, that I would ask somebody to look into it. I did not pursue it any further, myself. I told Mr. Black, yes, that they would entertain a visit from a representative of the vending company.

Mr. McLENDON. Did Mr. Black make that arrangement with you?

Mr. ATWOOD. I am sorry?

Mr. McLENDON. I say, did Mr. Black make the arrangement with you for a representative of the new vending company to visit your plant?

Mr. ATWOOD. No. I told him to make an arrangement with Mr. Smithson, and he would see that he contacted the proper people.

Mr. McLENDON. Did you later learn that a representative of the Serv-U Corp. did visit the plant and talk to Mr. Smithson?

Mr. ATWOOD. Yes, sir; I certainly did.

Mr. McLENDON. And who was the representative?

Mr. ATWOOD. I am advised a Mr. Hancock, the president of the company, came. Now, I must say, since you phrase the question the way you did, I have learned in recent weeks that Mr. Hancock was president of a company called Automatic Vending Co., which had been operating, according to representation and what we could find out, successfully and satisfactorily in Florida for some 5 years. At that time he represented that company, and I didn't know—we didn't know anything about Serv-U then.

Mr. McLENDON. You didn't know the name—Serv-U?

Mr. ATWOOD. I didn't know it. In fact, I didn't know the name at all.

Mr. McLENDON. Mr. Atwood, let me get this clear, now. Excuse me for interrupting you, but I am trying to shorten this. Are you

saying that when Mr. Hancock came to your plant and talked with your officials, that you did not know, or they did not know, whether he represented Automatic Vending Co. of Florida or whether he represented this new company? Is that what you are saying?

Mr. ATWOOD. He represented—now, let me start over. As far as our people were concerned, he represented a satisfactory going company called Automatic Vending.

Mr. McLENDON. In Florida?

Mr. ATWOOD. In Florida.

Mr. McLENDON. And you had no knowledge that he was representing Serv-U?

Mr. ATWOOD. No, sir. They didn't have any knowledge of it when he first came. This was in December of 1961, according to our records.

Mr. McLENDON. Do you know when they did find out that he was speaking for Serv-U?

Mr. ATWOOD. Our records show that the name Serv-U was not brought to our attention until after considerable examination of the automatic vending operation had been—

Mr. McLENDON. Will you look at the folder of documents which I gave you? There is—the first page—a letter dated January 15, 1962, addressed to North American Aid.

Mr. ATWOOD. Yes, sir.

Mr. McLENDON. Will you tell us when that letter first came to your attention?

Mr. ATWOOD. It didn't come to my attention actually until some time last fall.

Mr. McLENDON. Last fall?

Mr. ATWOOD. Yes, sir.

Mr. McLENDON. In other words, you did not know about this letter at the time the negotiations were going on; is that correct?

Mr. ATWOOD. No—I didn't know of this letter personally; no, sir.

Mr. McLENDON. Did you have anything to do with the details of negotiating the contract or contracts between North American and the Serv-U Corp.?

Mr. ATWOOD. No, sir; I did not.

Mr. McLENDON. You learned, did you not, that the first contract for the Los Angeles division was entered into about the 30th of January, 1962?

Mr. ATWOOD. Yes; I was told this verbally, I am sure.

Mr. McLENDON. Look in that same list of documents there, near the back of it, and see if you don't find a copy of the agreement dated the 30th day of January 1962 between North American and Serv-U Corp.

Mr. ATWOOD. Yes, sir.

Mr. McLENDON. Did you know about that at the time that contract was signed?

Mr. ATWOOD. I didn't know anything of the details. I had just heard satisfactory arrangements had been made.

Mr. McLENDON. You mean your subordinates reported to you that they had negotiated a contract with Serv-U?

Mr. ATWOOD. I heard this through some channel. I don't know which one.

Mr. McLENDON. And you think that is the first time Serv-U, as such, was identified to you?

Mr. ATWOOD. I don't even remember the name Serv-U then.

Mr. McLENDON. You do not?

Mr. ATWOOD. No, sir. I don't remember.

Mr. McLENDON. Well, as of this date, January 30, 1962, the date of this first contract, had you ascertained at that time that Mr. Black had a financial interest in Serv-U?

Mr. ATWOOD. No; I had not, Mr. McLendon.

Mr. McLENDON. You had reason to believe that Mr. Baker did?

Mr. ATWOOD. I could have—if I analyzed it, I could have guessed that he did, or didn't. It had never been disclosed to me that he had a specific financial interest.

Mr. McLENDON. Now, the letter that I directed your attention to, dated January 15, you will notice, is exactly 15 days prior to this contract.

Mr. ATWOOD. Yes, sir.

Mr. McLENDON. And it purports to list the names of the stockholders of Serv-U, does it not?

Mr. ATWOOD. Yes, sir.

Mr. McLENDON. But you cannot testify about that, because you say it was never brought to your attention; is that right?

Mr. ATWOOD. No, sir—well, not until last fall; that is right.

Mr. McLENDON. Now, after the first contract was entered into on January 30, 1962, did you have knowledge of the efforts of Black to assist Serv-U in getting an additional contract or contracts with other plants at North American?

Mr. ATWOOD. I heard something on this. I was advised—and I cannot remember the sequence or the time—that this company—whether I heard the name Serv-U or not I just cannot remember, but I knew the identity of the company, so it makes no difference. I was advised that they had offered somewhat more advantageous commissions to the company than the existing contracts, and that in view of their commission structure, it was a reasonable request that they approach more nearly a parity or equity in the total volume.

Mr. McLENDON. That is to divide the business somewhat equally between Serv-U and the other corporations?

Mr. ATWOOD. That was the general idea—and particularly in view of the advantageous commission rate which the North American Aid was enjoying.

Mr. McLENDON. Let me refresh your recollection. Do you not recall that Mr. Taylor, your vice president, and Fred Black, came to your office and discussed with you the extension of the Serv-U contract to other plants?

Mr. ATWOOD. I have some recollection of the fact that it was proposed that it be extended; yes, sir.

Mr. McLENDON. When that conversation took place, did Black disclose his financial interest in Serv-U?

Mr. ATWOOD. No; not to me.

Mr. McLENDON. Did you make any inquiry as to who the stockholders were?

Mr. ATWOOD. No; I did not.

Mr. McLENDON. And, again, did you leave the question of extending the contract to other plants to your subordinates?

Mr. ATWOOD. Yes, sir.

Mr. McLENDON. That would be Mr. Taylor and Mr. Kellough?

Mr. ATWOOD. Mr. Kellough and Mr. Cann might be more directly involved. Mr. Kellough, certainly.

Mr. McLENDON. Did you learn later that contracts had been signed with Serv-U Corp. for your plant in the Space and Information System Division?

Mr. ATWOOD. Yes. That was the extension discussed.

Mr. McLENDON. That was the second contract?

Mr. ATWOOD. Yes, sir.

Mr. McLENDON. And did you also learn that a third contract was entered into with the Rocketdyne Division?

Mr. ATWOOD. I had not known of that extension until very recently. I know about it now. My records disclose the extension. The fact that I didn't know about it was quite incidental, because normally I am not—

Mr. McLENDON. I understand. You had let your subordinates know, as far as you were concerned, it was all right to negotiate contracts in these additional plants if they found it all right?

Mr. ATWOOD. Yes, sir. The commission rates here for the North American Aid turned out to be, according to what I am advised now, 4 or 5 percent better in return than what they had been experiencing with the Automatic Canteen Co. And I imagine that the remuneration weighed somewhat in their decision.

Mr. McLENDON. And I assume that the service also was satisfactory, was it not?

Mr. ATWOOD. I had been advised that it is satisfactory and equal.

Mr. McLENDON. Now, Mr. Atwood, if I understand you, you are telling the committee that these three contracts were negotiated with Serv-U and executed by the proper officers of your company.

Mr. ATWOOD. Yes.

Mr. McLENDON. And at no time did you as president of North American know that Mr. Black had any interest in the company, the Serv-U Co.

Mr. ATWOOD. That is correct.

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

Mr. McLENDON. And all you knew about Baker was that he had some interest, but it was undisclosed. Is that a fair statement?

Mr. ATWOOD. Yes; undisclosed.

Mr. McLENDON. After this matter became the subject of discussion, did you then inquire as to who the stockholders of Serv-U were?

Mr. ATWOOD. This matter came to me. Of course we were immediately concerned in a variety of ways, of course. This letter that you referred to, disclosing the names of purported stockholders, was disclosed to me fairly early.

Mr. McLENDON. And will you refer to that letter and tell the committee what persons were said to be stockholders of Serv-U, according to the letter, which you say did not come to your attention at that time?

Mr. ATWOOD. Do you care for me to read the letter?

Mr. McLENDON. If you just read the names of the stockholders.

Mr. ATWOOD. The letter—it was from a certified public accountant firm of Weber, Thompson & Lefcourt, and the names as principal stockholders of the corporation, Eugene A. Hancock, and Jack B. Cooper, and Benjamin B. Sigelbaum, and Edward Levinson.

Mr. McLENDON. There is no mention in the letter of either Black or Baker?

Mr. ATWOOD. No, sir.

Mr. McLENDON. Mr. Atwood, if you had known that Mr. Black was a substantial stockholder in Serv-U Corp., and that he and Baker together owned 57 percent of the corporation before these contracts were signed, would that have affected your instructions to your subordinates with respect to negotiating these contracts?

Mr. ATWOOD. Well, to begin with, I never recommended this organization nor instructed them to negotiate the contract. I asked them to investigate.

Mr. McLENDON. You left it to their judgment, did you not?

Mr. ATWOOD. Yes, sir. Now, we have—we carefully examine any outside business interests of persons that work for our company, when we know about them, and we generally ascertain what they are through a questionnaire. And in this case, if I had known that Mr. Black owned the stock, I would have immediately required that before any negotiations take place—I would have required that the circumstances be ascertained.

Mr. McLENDON. And then your action would have been based on the information you would have gotten. Is that what you are saying?

Mr. ATWOOD. Yes; I would say so.

Mr. McLENDON. Now, one other question. Did you know what position Mr. Baker occupied at the time these contracts were being negotiated?

Mr. ATWOOD. I knew—yes; I knew his general title.

Mr. McLENDON. Did you consider him a man of influence?

Mr. ATWOOD. I never considered very much. He was a casual and occasional acquaintance of mine. I guess I never really thought seriously about him. I never made any attempt to contact him. I have never talked to him about business or made any—

Mr. McLENDON. May I interrupt you at that point? Do you recall that he ever visited you at your office in California?

Mr. ATWOOD. I cannot recall that he actually visited me. I have been advised he has been in our plant on one or two occasions. I cannot remember visiting him.

Mr. McLENDON. Were these visits to your plant before or after these contracts were negotiated?

Mr. ATWOOD. I cannot be sure of that. I don't know—because I would not remember that accurately if he had come to me, and he didn't come to me.

Mr. McLENDON. Do you recall, on any occasion when he was in California at your plants, that you attended a dinner which he attended?

Mr. ATWOOD. In California?

Mr. McLENDON. Yes, sir.

Mr. ATWOOD. I cannot recall.

Mr. McLENDON. You have no recollection of that?

Mr. ATWOOD. No, sir.

Mr. McLENDON. That is all, Mr. Chairman.

Senator CANNON. Mr. Atwood—

Mr. McLENDON. Excuse me, please; one question. I did intend to ask you this: Approximately how many employees are employed at the Los Angeles Division?

Mr. ATWOOD. The Los Angeles Division would have 15,000, in round figures.

Mr. McLENDON. And would they be covered by this vending machine contract with Serv-U?

Mr. ATWOOD. They would have access to these machines, generally speaking.

Mr. McLENDON. How many were at the Space and Information System Division?

Mr. ATWOOD. I am trying to just estimate now—at the time this was done, there must have been—let me see now—that would have been in 1962. I would guess 12,000 to 14,000.

Mr. McLENDON. And how many at the Rocketdyne Division?

Mr. ATWOOD. At the time, in 1963, I would guess 10,000 or 11,000.

Mr. McLENDON. All right.

That is all, Mr. Chairman.

Senator CANNON. Mr. Atwood, do I correctly understand now that at the time Mr. Black talked to you about the Serv-U Co., or a vending company, you understood that Mr. Baker was interested in it or that he had an interest in it—which? I am not sure.

Mr. ATWOOD. This I cannot remember, either, very well, Senator Cannon. The thing I do recall is that it was operated by friends of his, and they were supposed to be especially efficient. And I would have to say that either interpretation could have been properly deduced from what I heard Fred Black say at the time.

Senator CANNON. Now, do I also understand that you did not know until some time later that it was Serv-U Corp., by name?

Mr. ATWOOD. Frankly, I didn't. The name—neither name registered with me until this matter came up in the public notice.

Senator CANNON. But the letter that was addressed to North American Aid, dated January 12, 1962, from Serv-U Corp., explained the name and the relationship, did it not?

Mr. ATWOOD. Yes. This is the proposal letter which I have examined recently.

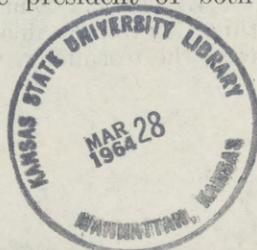
Senator CANNON. And was that letter received by North American Aid before entering into a contract or after?

Mr. ATWOOD. It was received before entering into a contract. It formed the basis of their proposal and offer for providing the service.

Senator CANNON. And the proposal spells out that Automatic Vending was, in effect, taking over under the name of Serv-U Corp., for the business in California; is that correct?

Mr. ATWOOD. Yes. You may get testimony from my associate, Mr. Kellough. But the fact that the name was being changed for operations in a different location did not seem unusual or strange. It was rather that management was the same. We tend to think in terms of management in our activities.

Senator CANNON. And the management—the president of both corporations was the same; is that correct?



Mr. ATWOOD. Yes. According to this, Mr. Hancock indicated he would be president of the Los Angeles operation, and Mr. Armstrong, his No. 2 man, would be general manager.

Senator CANNON. Now, you stated that you had had vending companies in your plants since 1941. How many different vending companies have you had over that period of time?

Mr. ATWOOD. We have had a large number in outlying areas. They generally have been negotiated; they have been looked over, called in. In the principal plants of the California area—of the Los Angeles area, the Automatic Canteen had essentially all the vending machines in that part of our business.

Senator CANNON. Is Automatic Canteen operating vending machines in some of your plants at the present time?

Mr. ATWOOD. Oh, yes.

Senator CANNON. What is the proportion of business between Automatic Canteen and Serv-U now?

Mr. ATWOOD. I have, of course, attempted to ascertain this in round figures. If we consider all North American plants operating Automatic Canteen—all North American plants operating Serv-U vending machines—and compare one against the other, neither one is, of course, 50 percent. But they are about equal now. And we are, of course, receiving a better return from Serv-U.

Senator CANNON. Then do I correctly understand that you say that Automatic Canteen and Serv-U have about equal proportions of North American's business today?

Mr. ATWOOD. Yes; total business.

Senator CANNON. But they do not have—neither company has 50 percent, because you have other vendors in some of your smaller operations?

Mr. ATWOOD. Yes; that would be my judgment.

Senator CANNON. And your testimony is that you received, or North American Aid receives, approximately 4 to 5 percent more in commissions from Serv-U than from Automatic Canteen?

Mr. ATWOOD. Yes; that is our estimate.

Senator CANNON. Would you say that the service is comparable?

Mr. ATWOOD. Yes; I am advised that it is completely comparable.

Senator CANNON. Can you give us a figure on the amount of sales per year of these two companies?

Mr. ATWOOD. I can give you something rough. I didn't bring the data with me. It is in the order of \$2½ million sales each year for each. And the commissions returned to North American Aid return in the neighborhood of \$600,000 each, or something over a million dollars, for the benefit of our employees. These are rough figures, and I will not guarantee them.

Senator CANNON. I understand. Now, you indicated that you did not know that Mr. Black had any interest in this company, and you would have examined it prior to entering into a contract had you known. Have you, since finding out that Mr. Black did have an interest—have you determined whether or not there is any conflict between his interest in Serv-U and the interest of your company?

Mr. ATWOOD. Senator, I have not had an opportunity to examine this. As you can imagine, we have been quite busy. I have only really read the testimony, which would lead me to have knowledge of his

interest, in the last week or so. So, no; I have not formulated any basis for determining whether or not there is a conflict in our company activity.

Senator CANNON. Has Mr. Black advised you in connection with vending machine operations or vending machine contracts in the past, other than to recommend that you consider a company?

Mr. ATWOOD. I cannot recall any such advice.

Senator CANNON. Now, have you at any time requested Mr. Baker to assist you in connection with any Government employee or any matter in Washington?

Mr. ATWOOD. I have never asked Mr. Baker for anything nor thought of even approaching him. As I said before, he is a casual acquaintance. And I have not asked him for anything at all.

Senator CANNON. Has Mr. Baker helped you, so far as you know?

Mr. ATWOOD. So far as I know, he has not done anything for me or for North American Aviation.

Senator CANNON. Have you requested other officers or employees of the U.S. Senate to help you in connection with any Government contracts or any other business of your company?

Mr. ATWOOD. No, Senator Cannon; I certainly have not.

Senator CANNON. And so far as you know, has any officer or employee of the Senate assisted you or your company in connection with any Government contract or any other business of the company?

Mr. ATWOOD. No, sir; I cannot recall any such action.

Senator CANNON. Senator Curtis?

Senator CURTIS. Mr. Atwood, your title is president of the North American Corp.?

Mr. ATWOOD. Yes, sir.

Senator CURTIS. And generally what is the scope of your main activities?

Mr. ATWOOD. Senator, I have general responsibility to my board of directors for the operation of the affairs of the company—the diligence of its officers and employees, its overall functioning. I believe you would say that the general results would be considered a responsibility, my responsibility—that I would be measured by my work, my intelligence in handling various things, and other factors that go into these things.

Senator CURTIS. I understand others from your company are going to testify that know more about these details than you do. That is the reason I asked this question.

Mr. ATWOOD. Yes.

Senator CURTIS. Would, in the main, your responsibilities be in the strictly business area of the company, or are you scientifically and engineeringly trained, and have that background?

Mr. ATWOOD. Senator Curtis, I would like to pass upon myself as an engineer. I am trained as an engineer. I am afraid my skills have become somewhat rusty. But for nearly 36 years I have been in the engineering profession. And I still consider myself to be in that category.

Senator CURTIS. And considerable of your responsibilities are at least in the business duties that relate to engineering and construction and science; is that correct?

Mr. ATWOOD. Design and technical analysis.

Senator CURTIS. Now, had you ever had an occasion—but you are the chief executive officer?

Mr. ATWOOD. Yes, sir.

Senator CURTIS. Had you ever had occasion to recommend any other vending machine company to your subordinates that they look into it?

Mr. ATWOOD. I have been reminded in recent weeks or months that I did on one occasion make such a referral some years ago.

Senator CURTIS. It was a referral?

Mr. ATWOOD. Yes; not a recommendation.

Senator CURTIS. Not a recommendation?

Mr. ATWOOD. No, sir.

Senator CURTIS. Was it in the nature of a request that they look into it, or—

Mr. ATWOOD. Yes, sir.

Senator CURTIS. Or just tell them where to go in the company?

Mr. ATWOOD. No; it was a suggestion. I don't know whether I made it to Mr. Smithson or whom. But a similar type of thing that I have done before. I might add that the proposal was not considered advantageous, and was not accepted.

Senator CURTIS. Well, now, how many times did Mr. Black bring up this vending machine business and make a suggestion or in any way refer to Baker being interested in one way or another?

Mr. ATWOOD. Well, Senator, I will have to make it clear that it was quite a while back. My memory is not what I would like it to be—particularly when my interest in these matters is relatively low. But I believe it is fair to say that my present remembrance of the occurrence is that it was about the third time he mentioned it to me with the sort of rhetorical question, "Well, why won't you let them come and make a proposal?" that I did respond by saying, "Well, I will see that they can make a proposal." I would say, then, the third time.

Senator CURTIS. Yes. You know it wasn't the first time?

Mr. ATWOOD. I am sure of that.

Senator CURTIS. And that Black presented it, and to your best recollection it was the third time?

Mr. ATWOOD. I say that. It could have been the second or the fourth. But I think it was the third time.

Senator CURTIS. Did Black give any particular reason why he wanted this company to have consideration?

Mr. ATWOOD. It was my memory—I knew Baker was a friend of his. His reasons were sort of vague in my recollection. He seemed to push the merits of the organization more than any reason other than that.

Senator CURTIS. Now, you say he pushed the merits of the organization. As a matter of fact, you know now that the Serv-U had no vending contracts with anybody at that time?

Mr. ATWOOD. Insofar as our subsequent information is concerned, this is quite true. There wasn't any Serv-U Corp. at the time, and the Automatic Vending Co. transition into Serv-U was done subsequent to any references Mr. Black made to me.

Senator CURTIS. Yes. I say you know it now—that Serv-U at that time, when Mr. Black was telling you what a fine record they had—they didn't have any record at all.

Mr. ATWOOD. There wasn't any Serv-U Corp. I presume that the consideration given to this organization was based on what Automatic Vending Co. showed in the way of management and recommendations and background.

Senator CURTIS. Now, there may be an ownership connection between Automatic Vending and Serv-U. It has not come to my attention yet. I understand that they hired Mr. Hancock, who had experience in vending.

Mr. ATWOOD. Serv-U hired Mr. Hancock.

Senator CURTIS. Yes.

Mr. ATWOOD. He was represented as the president of Serv-U, and our people thought he did have good capabilities in the vending business.

Senator CURTIS. Yes. It is my impression that he was the one individual who had had some experience in this field. Well, now, you say that the gross sales of Serv-U on a year's basis would be about \$2½ million?

Mr. ATWOOD. This is the best of my recollection. That would be the coins they dig out of the machine—they pay for the personnel, the service, the repair.

Senator CURTIS. And since they have been in there—and, again, it is a rough estimate, I understand—the amount of profit inuring to North American Aid, which is the entity for the benefit of the employees, would be close to a million dollars?

Mr. ATWOOD. From both the companies—wait a minute. Since they have been in there, just from Serv-U?

Senator CURTIS. Yes.

Mr. ATWOOD. This may well be a good figure. I am sorry—I cannot—

Senator CURTIS. Now, did Serv-U and North American Aid divide the profits 50-50?

Mr. ATWOOD. Oh, not profits. As I understand this now—and, believe me, I am no expert—it is not a matter of dividing the profits.

Senator CURTIS. It is a percentage on sales.

Mr. ATWOOD. Yes. The profits are not known to us for Canteen or Serv-U, either one.

Senator CURTIS. Yes. Well, now, Mr. Black, bringing this up the third time—then is when you told subordinates to look into it.

Mr. ATWOOD. Yes, sir.

Senator CURTIS. And you yourself gave it no detailed attention after that?

Mr. ATWOOD. No; I did not.

Senator CURTIS. Did you ever see this letter that says that the principal stockholders are Eugene Hancock, Jack B. Cooper, Benjamin Sigelbaum, and Edward Levinson?

Mr. ATWOOD. I haven't seen it until this fall, Senator Curtis.

Senator CURTIS. You have met Mr. Levinson at Mr. Black's home?

Mr. ATWOOD. Yes; I recall having had dinner with him there, with a group of other people.

Senator CURTIS. At Black's home here in Washington?

Mr. ATWOOD. Yes; at Mr. Black's home in Washington.

Senator CURTIS. Did you make inquiry what his business was?

Mr. ATWOOD. I did not, but of course, I had been told when we were going to pick him up or something—I can't recall that, either. But I had heard from Mr. Black that he owned, had part ownership at least in a hotel in Nevada.

Senator CURTIS. Well, I asked Mr. Black what Mr. Levinson's business was, and he said he was a gambler.

Mr. ATWOOD. He did say he owned an interest in a hotel.

Senator CURTIS. He subsequently said that. But in response to my question of what Levinson's business was he said he was a gambler. And did you ever make any inquiry with reference to Mr. Cooper or Mr. Sigelbaum?

Mr. ATWOOD. No, sir; I didn't even know they existed.

Senator CURTIS. Now, has Mr. Black had a position of influence with North American?

Mr. ATWOOD. I have had a great deal of confidence in him. I have found his judgment good, objective. I thought his observations and his analysis of the situations were of value. And as far as influence is concerned, I would say not in anything that I would do internally, but insofar as reasonable suggestions, and so far as making adjustments which might come from information that he would offer. These are deep, long-term type of things.

We cannot cut our plant capacity just because he might say, "Look, there isn't going to be any more business in this line of work." But at least a suggestion to look out for that sort of thing might have an effect on what we would decide to do.

Senator CURTIS. Has he in the past recommended persons for employment in North American?

Mr. ATWOOD. I can remember a couple of people he has recommended.

Senator CURTIS. Has he recommended anyone from the military for employment?

Mr. ATWOOD. Well—

Senator CURTIS. I am not asking for names. I just want to know if he did.

Mr. ATWOOD. I don't remember anybody who was actually in the military.

Senator CURTIS. I mean retired.

Mr. ATWOOD. Ex-service people, I think he might have.

Senator CURTIS. Has he ever recommended anybody for employment that has been an employee of the U.S. Senate?

Mr. ATWOOD. No, sir; not as far as I know. I can't remember anyone.

Senator CURTIS. Or the Congress in any way?

Mr. ATWOOD. I cannot recall any such employment, either.

Senator CURTIS. Now, I do not want the figures, because I am not concerned about an exposure of that, but is Mr. Black one of the higher paid men at North American?

Mr. ATWOOD. As far as his compensation is concerned, of course we consider that part of what we pay him is for office and staff, and the rest for personal compensation.

Senator CURTIS. I cannot quite hear you.

Mr. ATWOOD. Part of what we pay him is for office and office staff, and the balance is for personal compensation and expenses, travel expenses, telephone, whatever expenses he cares to incur.

Senator CURTIS. Well, would you regard him as one of the higher paid men of North American?

Mr. ATWOOD. Yes. Of course our company employees have the benefit of offices, travel expenses reimbursed, telephone, secretarial, staff people, and their salary is their salary. With him—if he does incur expenses such as I have mentioned—I would say he is one of the higher paid people, as far as North American is concerned; yes, sir.

Senator CURTIS. And you are making that comparison with the executives in North American?

Mr. ATWOOD. Yes, sir.

Senator CURTIS. Not employees?

Mr. ATWOOD. Yes.

Senator CURTIS. Is North American a widely held corporation?

Mr. ATWOOD. Yes. We have a knowledge of some 40,000 stockholders. We don't have knowledge of any large single interest.

Senator CURTIS. Now, when you were interviewed by a couple of the investigators of this committee, they reported:

He did say that he considers Mr. Black a reliable and dependable man, and had been very helpful to North American, and that he had been in a position to supply the company with useful information.

Is that an accurate reporting?

Mr. ATWOOD. Yes; I am sure it is.

Senator CURTIS. And then they went on to report:

He—

meaning Mr. Atwood—

considered that Baker undoubtedly was one of Black's good sources, and he knew that Baker was a close friend of Black's.

Did Mr. Black ever report any information about defense trends or space trends as coming from Mr. Baker?

Mr. ATWOOD. No—he had not so reported, Senator Curtis. And I don't think he felt—I don't know—I just hadn't thought of Mr. Baker as being a source. It seems—well—I don't know about his influence, but he certainly seemed young and out of the stream of things to have a reliable opinion on these things. No; Mr. Black never gave me any idea that he got any particular solid bit of information from Mr. Baker.

Senator CURTIS. But as an important contact, somebody that knew what was going on?

Mr. ATWOOD. I don't know how long he had known him. But he certainly had known him quite a while.

Senator CURTIS. I say the information conveyed to you was that Baker was an important contact and knew what was going on?

Mr. ATWOOD. This I could only assume. I don't know whether Mr. Black associated with him for this reason, or whether he liked him personally, or what. I have no personal knowledge of exactly why.

Senator CURTIS. When you would be entertained at the Black home, would Baker be there quite frequently?

Mr. ATWOOD. I will say this: I have been at Mr. Black's home for dinner frequently. When I am in Washington, I am nearly always invited. I consider it a very pleasant and wholesome place to go. And almost invariably some friends come in for dinner. They are not what I would call business associates, but personal friends. And Mr. and Mrs. Baker have been there on, I guess, at least four occasions when I have been to such dinners. I think invariably Mrs. Baker and Mr. Baker have been together, because the Blacks invariably invite couples for the dinners.

Senator CURTIS. When did Mr. Black first talk to you about the vending business in relation to Mr. Baker?

Mr. ATWOOD. It was, as I said a little earlier—as nearly as I can recall, it would have been roughly in about October of 1961, if my memory of time sequences is any good.

Senator CURTIS. October of 1961?

Mr. ATWOOD. I am guessing that. I may be wrong. But I know it was well before the December period in which the referral was made.

Senator CURTIS. And, at that time, did you get the impression that it was a going vending company that they were talking about?

Mr. ATWOOD. Oh, yes. I got the impression that it was an exceedingly well managed and exceptionally good vending company.

Senator CURTIS. Did they ever say to you, "We are thinking about going into the vending business"——

Mr. ATWOOD. No, sir.

Senator CURTIS (continuing). "And we are making plans."

Mr. ATWOOD. No, Senator Curtis. The referral to me—my subsequent referral was to a good vending company, according to our appraisal.

Senator CURTIS. And you not handling the details, you never asked them in what companies they were operating?

Mr. ATWOOD. The names of neither company remain in my mind. As I said——

Senator CURTIS. But you never asked them, "What other factories do you have machines in?" Anything of that sort?

Mr. ATWOOD. I did not; no. It was asked.

Senator CURTIS. As a matter of fact, you let the matter remain dormant until Black brought it up at least a third time?

Mr. ATWOOD. Yes; that is my recollection.

Senator CURTIS. Did you know what Mr. Baker's position was in connection with the Senate at the time Mr. Black was connecting his name—Baker's name—with the vending business?

Mr. ATWOOD. Just by title—secretary for the majority of the Senate. I certainly knew that.

Senator CURTIS. But you knew that he was up here in the Capitol?

Mr. ATWOOD. Yes, sir.

Senator CURTIS. Well, then, when was it you really learned that Mr. Black, who represents North American in Washington, and Mr. Baker were the principal owners of Serv-U? Was it after this investigation started?

Mr. ATWOOD. Senator, if you will bear with me, I will try to recount my impressions.

I did not systematically dig into this at every turn. I noted this Capitol Vending suit, of course, when it came out and this, of course,

led to a lot of investigation that is going on now. I didn't know at that time that Mr. Black owned any stock in the company. I guess I could say that I shouldn't have been surprised to learn that Mr. Baker was a stockholder. The size of it, of course, I didn't know about at the time. It could have been nominal. I didn't know.

The first indication we have had of the fact that stockholdings were substantial, and apparently equally divided between Mr. Baker and Mr. Black, was after the testimony of, I believe, Mr. Tucker and Mr. Hancock. Now, I didn't read all their testimony, so I am not too sure. But some of it was published. So I would say it has been within the last 2 weeks that I have had a good idea of this.

Senator CURTIS. Well, in other words, it is accurate to state that until this investigation started, it was not revealed to you that either Black or Baker were interested—or owners of Serv-U; is that correct?

Mr. ATWOOD. No, sir; not in any definite way.

Senator CURTIS. Did you have any notion that they might be?

Mr. ATWOOD. It never occurred to me that Mr. Black would be a stockholder. I hadn't thought of whether Mr. Baker would be or not. In fact, the thing was so remote from my mind until it came up.

Senator CURTIS. In other words, you were more surprised to learn that the company's representative, Mr. Black, was an important stockholder than you were Mr. Baker?

Mr. ATWOOD. I would say that I was more surprised; yes, sir.

Senator CURTIS. I think that is all, Mr. Chairman.

Senator CANNON. Senator Pell?

Senator PELL. Mr. Atwood, to recapitulate, when was the first official relationship between North American and Mr. Black? Was it about 8 years back?

Mr. ATWOOD. I would say it is more nearly seven, Senator Pell.

Senator PELL. About 7 years?

Mr. ATWOOD. Yes.

Senator PELL. And throughout this 7 years—that would be from about 1957 or 1958—the relationship has been about the same?

Mr. ATWOOD. Yes; it has been about the same. I guess I feel that my confidence in him gradually increased as time has gone on. Yes.

Senator PELL. Do you happen to recall how you originally engaged Mr. Black's services, or were you president of the company at that time?

Mr. ATWOOD. I was president, but I did not personally engage him. Our late chairman, Mr. Kindelburger, did actually engage him in 1957. And, of course, I knew the circumstances. I was there; I generally knew pretty much about it.

Senator PELL. If you did not use Mr. Black to help in the negotiation of Government contracts and Government business, could you describe to the committee just briefly how the majority of these contracts were handled? Were they on a negotiated basis, the bids, or on a sealed bid basis?

Mr. ATWOOD. You mean Government contracts as opposed to the vending?

Senator PELL. Yes.

Mr. ATWOOD. The Government contracts are generally based on a competitive program which is ordinarily very deep and exhaustive. Designs are usually requested for anything new. These involve tech-

nical work of hundreds of people in some cases and dozens in the smaller cases. And as far as I know—you see, the method of award of contracts is not disclosed to us. This is a carefully held governmental prerogative and responsibility.

We are given requests for proposals, and we conform to them as best we can. We have cost estimating involved. But there is design work involved and so on. We submit these through technical channels, administrative and technical channels of the Government, to appropriate procuring agencies. And these channels are entirely different from the duties that I have described in relation to Mr. Black. He had nothing to do with this.

Senator PELL. Do you have a separate liaison division that does this, or department that does this?

Mr. ATWOOD. In Washington?

Senator PELL. In North American.

Mr. ATWOOD. Not a separate division. You see, the company is divided into six basic divisions handling different kinds of technical things. For instance, we have our Rocketdyne Division, which makes rocket engines. In fact, it has been a pioneer in rocket engines. I hope you will forgive me. There are many things about our company I would like to talk about much more than vending machines.

Senator PELL. Well, this is the opportunity.

Mr. ATWOOD. Then we have aircraft, of course, which we developed. And we have electronic and electromechanical apparatus in one division. We have atomic energy apparatus in another division. And while these divisions are not autonomous, they are semiautonomous. And in each case they have their own engineering, manufacturing, administration—all reporting to the general offices, and supervised by a central staff in certain key things. Otherwise, they are empowered and charged with pursuing their own field of business. And so they do.

They have their representatives who try to ascertain future requirements, technically speaking. They have representatives who follow up on service with respect to things that are in the field. They have people who attempt to determine what is the most advantageous way to design something, and then they design, and then try to get a contract in competition. So we don't have a central agency for this. Although we try to coordinate.

Senator PELL. In other words, each of your major divisions basically has direct relations with the Government?

Mr. ATWOOD. Oh, yes, sir.

Senator PELL. Do you have, to your knowledge, any former employees of the Senate in your employ?

Mr. ATWOOD. I don't recall it, Senator Pell.

Senator PELL. Or any former employees of the Congress as a whole?

Mr. ATWOOD. We have a former employee—I do know of one former employee of the Congress.

Senator PELL. What was his position in the Congress before he came to you?

Mr. ATWOOD. He was counsel for one of the committees. He retired. And we felt fortunate in engaging him.

Senator PELL. Was it a committee of the House or the Senate?

Mr. ATWOOD. The House.

Senator PELL. Which committee, sir?

Mr. ATWOOD. The Armed Forces Committee. It was Mr. Robert Smart, whom you may know. He has come with us as an assistant and adviser to me.

Senator PELL. Did you ever discuss with Mr. Baker—not asking for his help or anything of that sort—but did you ever discuss any general questions of your relationship with the Government at these social affairs at Mr. Black's house?

Mr. ATWOOD. No; never. I never considered talking to him about any business affairs, nor did I feel he had enough understanding of them to talk about them intelligently, as far as I would be concerned. We spoke socially. I am not saying I didn't have a lot of interesting—that he didn't say a lot of interesting things. He did. They were bright and social—perhaps reflected—I suppose in all propriety—people and things in Washington that seemed to be going on.

Senator PELL. But you never discussed any specific problems of specific moment to your firm with Mr. Baker?

Mr. ATWOOD. Not with Baker; no, sir.

Senator PELL. Did you ever discuss such problems with any other officers or employees of the Senate?

Mr. ATWOOD. Of the Senate? I have talked to Senators a number of times, of course. I don't think—make it a point to do this usually. Senators visit us quite frequently in groups, and individually, to examine things we are doing. I see them; I am glad to see them, show them what they come to see. It usually involves some major project that we are working on. So I would say yes, quite frequently Senators.

Senator PELL. And with employees of the Senate or former officers, or former employees of the Senate?

Mr. ATWOOD. Not individually. But Senators, and particularly groups of Senators are accompanied by staff personnel. Of course, we would see them.

Senator PELL. That is all. Thank you very much.

Senator CANNON. Counsel, do you have any more questions?

Mr. McLENDON. No, sir.

Senator CANNON. Senator Curtis?

Senator CURTIS. I don't know if it is necessary. I just might add that my purpose for inquiring about Mr. Black recommending people to the company was for the purpose of ascertaining Mr. Black's role and his activities, rather than implying anything derogatory concerning anyone you might have hired—because I have no such information. That is all.

Mr. ATWOOD. Thank you, Senator.

Senator CANNON. Thank you, Mr. Atwood; we appreciate your appearing here without subpoena and trying to help this committee in the task it has ahead of it. We appreciate it.

Mr. ATWOOD. Thank you.

Mr. McLENDON. Mr. Taylor?

Senator CANNON. Mr. Taylor, you heard the statement rendered at the commencement of the hearing?

Mr. TAYLOR. Yes, sir.

Senator CANNON. Do you solemnly swear that the testimony you shall give before this committee in the matter under investigation

shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. TAYLOR. I do.

Senator CANNON. Be seated, please.

Counsel, you may proceed.

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

TESTIMONY OF LELAND R. TAYLOR, ACCOMPANIED BY CHARLES PICKETT, COUNSEL

Mr. TAYLOR. Leland R. Taylor, 1726 San Vicente, Santa Monica, Calif.

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

Mr. TAYLOR. Mr. Pickett here.

Mr. McLENDON. Will you state your name, again, please?

Mr. PICKETT. Charles Pickett, 25 Broadway, New York, N.Y.

Mr. McLENDON. Mr. Taylor, are you a vice president and an assistant to the president of North American Aviation Co.?

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. How long have you held that position?

Mr. TAYLOR. I have been an assistant to the president since during World War II. I have been a vice president since about 1956, I believe.

Mr. McLENDON. Are you stationed at the main office in Los Angeles?

Mr. TAYLOR. General offices; yes, sir.

Mr. McLENDON. Do you recall that sometime between October and December 1961 you were called to President Atwood's office, and that he told you that Mr. Black—Fred Black—had inquired of him whether consideration could be given to a vending company in which Mr. Baker had an interest?

Mr. TAYLOR. Mr. Atwood called me into his office on some other matters. During the discussion he mentioned that Fred Black had spoken to him about a vending company, and that he had suggested that we give them an opportunity to make a proposal on some of the vending operations of the company.

Mr. McLENDON. Did Mr. Atwood at that time know the name of the company?

Mr. TAYLOR. Not to my knowledge. He didn't mention it.

Mr. McLENDON. Did he connect Baker with it? That Baker was interested in it?

Mr. TAYLOR. I don't recall that specifically. He may have.

Mr. McLENDON. Had you, prior to that time, met Mr. Baker?

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. Where had you met him?

Mr. TAYLOR. At Mr. Black's home.

Mr. McLENDON. How many times do you think you met him?

Mr. TAYLOR. I am not sure about that at that point in time. It may have been once; it may have been twice. I am sure the first time I met him I met Mr. Baker and Mrs. Baker when Mrs. Taylor and I were invited to Mr. Black's home here in Washington for a dinner.

Mr. McLENDON. On any of those occasions when you saw Baker in person, did he make any statement to you about a vending company in which he was interested?

Mr. TAYLOR. No, sir.

Mr. McLENDON. Made no statement at all?

Mr. TAYLOR. No, sir.

Mr. McLENDON. After you had this conversation with Mr. Atwood—President Atwood—did you discuss it with Mr. Smithson?

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. What was Mr. Smithson's position with the company?

Mr. TAYLOR. Mr. Smithson's reaction was, "Well, I don't know anything about this outfit. I think it might be a good idea for us to take a good look about getting some competition in here on our vending operations. We have had one company doing all of it for a long time. They are doing a good job, but maybe competition would be helpful."

Mr. McLENDON. Did you agree with that theory?

Mr. TAYLOR. I certainly did.

Mr. McLENDON. And after that discussion with Mr. Smithson, did you have a telephone call from Mr. Black asking you what persons at North American would be the proper people to contact by a representative of this new vending company?

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. Just exactly what did he say in this telephone conversation?

Mr. TAYLOR. I don't recall specifically.

Mr. McLENDON. As near as you can repeat it.

Mr. TAYLOR. To the best of my recollection, he said:

"These people that have this vending operation down there in Florida would like to come out and talk to the people at North American who handle this, find out what kind of service you now have, what the requirements are, and review it, and then discuss their opportunity, if they have one, for making a proposal.

Mr. McLENDON. Were you left under the impression by that telephone conversation that the person for whom Black was making an engagement or attempting to make an engagement, was speaking for the Automatic Vending Co. of Florida?

Mr. TAYLOR. Yes, sir. I don't recall the name of it. But a vending operation that was in existence in Florida.

Mr. McLENDON. Following—well, I suppose you told him—you gave him an answer, did you not, as to what persons he should see?

Mr. TAYLOR. Oh, yes, sir.

Mr. McLENDON. And what persons did you indicate that the representative should see?

Mr. TAYLOR. I told them they should see Mr. Smithson, and then following Mr. Smithson, they should talk with Mr. Cann and Mr. Kellough.

Mr. McLENDON. Do you know that shortly thereafter a man named Eugene Hancock appeared at the offices of the company in Los Angeles?

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. Was he accompanied by a man named Armstrong?

Mr. TAYLOR. I believe he was—to the best of my recollection.

Mr. McLENDON. Did they introduce themselves to you, or were you introduced to them by someone else?

Mr. TAYLOR. My recollection is that they introduced themselves. They came on an appointment. An appointment was made for them.

Mr. McLENDON. What did they say about themselves—what connections they had with any vending operations?

Mr. TAYLOR. Well, that they were operating this vending operation in Florida; they would like to see what our operations were like, and talk to our people, who handled our supervision of the vending operations in our organization.

Mr. McLENDON. Did they disclose in any manner that they were interested or actually engaged in the organization of a new company?

Mr. TAYLOR. No, sir.

Mr. McLENDON. And you didn't know at that time that a company by the name of Serv-U has been born or was about to be born?

Mr. TAYLOR. No, sir.

Mr. McLENDON. Following that introduction to Hancock and Armstrong, were they offered an opportunity to inspect the vending operations in the Los Angeles plant?

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. How about any other plants, or do you know?

Mr. TAYLOR. Mr. Hancock, I believe, went over to the Anaheim facilities, or at least my recollection is I was told he went to the Anaheim facilities, or was going to them, to see a new installation there called Counter-Vend. That was a new type of installation for the vending of foods, like an automat. And I have no details on that.

Mr. McLENDON. Well, after your introduction to Hancock and Armstrong, and before your affording them the opportunity to examine the vending operations, did you next have a visit from Hancock, Armstrong, and Levinson?

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. When did that occur?

Mr. TAYLOR. Oh, I would say this was several weeks later.

Mr. McLENDON. Where did they see you?

Mr. TAYLOR. They came to my office.

Mr. McLENDON. All three of them together?

Mr. TAYLOR. Yes; that is the best of my recollection.

Mr. McLENDON. What was the purpose of the visit, Mr. Taylor?

Mr. TAYLOR. The purpose of their visit was to discuss with our people who handled the contract on vending we then had, and the whole supervision of those functions, what kind of a proposal would be acceptable, the requirements that we had for service, and that sort of thing. And then I introduced them to our people who handled that.

Mr. McLENDON. That would be Mr. Smithson and Mr. Kellough?

Mr. TAYLOR. No; it was Mr. Cann.

Mr. McLENDON. Mr. Cann?

Mr. TAYLOR. Yes.

Mr. McLENDON. Now, did Hancock give you any detailed information about himself and his connection with the company for which he was speaking?

Mr. TAYLOR. Not that I recall; no, sir.

Mr. McLENDON. How about Mr. Armstrong?

Mr. TAYLOR. Only that he was Mr. Hancock's assistant. That is all I recall.

Mr. McLENDON. What about Mr. Levinson?

Mr. TAYLOR. He was just there. I didn't know what he was.

Mr. McLENDON. He didn't identify himself as far as he was associated with any vending company?

Mr. TAYLOR. He was introduced as Mr. Levinson, who was interested in their vending operation.

Mr. McLENDON. Interested in it?

Mr. TAYLOR. That is right.

Mr. McLENDON. Did you shortly thereafter advise Mr. Kellough, and direct him, to go to Florida, to inspect the operations that had been under the management of Mr. Hancock?

Mr. TAYLOR. No, sir; I did not. That would not come under my direct jurisdiction.

Mr. McLENDON. You knew that he went, did you not?

Mr. TAYLOR. I knew that he went.

Mr. McLENDON. Who sent him?

Mr. TAYLOR. It was either Mr. Cann or Mr. Smithson.

Mr. McLENDON. I notice in the file that you have several letters from people commending the operations of the vending company in Florida which had been headed by Mr. Hancock. Are you familiar with those?

Mr. TAYLOR. Only in general, from the conversations held at the time, on the results of Mr. Kellough's visit to Florida, that his report was a very satisfactory one on their services there, they seemed to know their business. And that is about that.

Mr. McLENDON. These letters of commendation were all concerning the Florida company, were they not, Mr. Taylor?

Mr. TAYLOR. I cannot say of my own knowledge. I don't recall these letters.

Mr. McLENDON. You didn't see the letters?

Mr. TAYLOR. I may have seen some of them, but I do not recall them.

Mr. McLENDON. Did you see the letter of January 15, 1962, addressed to North American Aid, which I have there, signed by George M. Simon?

Mr. TAYLOR. Yes, sir; I have seen that letter.

Mr. McLENDON. Did you see it at the time?

Mr. TAYLOR. Yes; I saw it at the time. Mr. Cann showed it to me.

Mr. McLENDON. You notice, Mr. Taylor, that that letter title subject is "In re Serv-U Corp."

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. Had you heard of Serv-U Corp. before you received this letter of January 15, 1962?

Mr. TAYLOR. I can't answer that with any accuracy. Somebody had mentioned to me that these people wanted to change the name of their company for their California operation. And I was asked if we had any objections to that, if I had any objections. I do not recall who asked me that. I said, "No; I don't think it makes any difference what they call it here, so long as they do their job properly."

Mr. McLENDON. Well, did you interpret the letter of January 15 as giving the information that the four people named were the principal stockholders of the corporation that was negotiating with your company?

Mr. TAYLOR. I am sorry; I didn't hear the last part of that.

Mr. McLENDON. Did you interpret the letter of January 15 as giving information that the four people named were the principal stockholders of the corporation which was trying to negotiate a contract with your company?

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. You did. Did you know any one of those four persons?

Mr. TAYLOR. Yes. At that time I had met Mr. Levinson.

Mr. McLENDON. You had met Mr. Hancock, I believe you testified.

Mr. TAYLOR. And Mr. Hancock, too.

Mr. McLENDON. Did you know Mr. Cooper?

Mr. TAYLOR. Mr. Cooper? No. Mr. Sigelbaum, no.

Mr. McLENDON. You didn't know any of the rest of them. Did you, at that time, know that Baker had an interest in this new company?

Mr. TAYLOR. I did not know that he had an interest.

Mr. McLENDON. How much information did you have with respect to any interest that he might have?

Mr. TAYLOR. I say I did not know that he had an interest. But I could have concluded that he had some kind of an interest, because they said he was interested in it.

Mr. McLENDON. That is the way they expressed it—that he was interested in it?

Mr. TAYLOR. Yes, sir.

Senator CURTIS. Who is "they"?

Mr. TAYLOR. Mr. Black.

Mr. McLENDON. Now, what information, if any, did you have that Black had interest in the company?

Mr. TAYLOR. None whatsoever.

Mr. McLENDON. Did any of these people, including Black himself, ever indicate to you that he had a financial interest in the Serv-U Corp.?

Mr. TAYLOR. No, sir.

Mr. McLENDON. And when did you first learn that?

Mr. TAYLOR. Since the Capitol Vending suit.

Mr. McLENDON. Since that suit was entered last September, I believe?

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. When Mr. Kellough came back from his trip to Florida, did you discuss his findings with him?

Mr. TAYLOR. Not that I recall; no. He did not report to me.

Mr. McLENDON. Do you recall having any conversation with him at all about what he found in Florida?

Mr. TAYLOR. No; I do not. Mine was second hand through Mr. Cann and, I believe, Mr. Smithson.

Mr. McLENDON. After the trip to Florida, the record shows that a proposal was made to your company. Will you look at the top sheet on the documents there before you. You notice that is dated January 12, 1962?

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. It is addressed to North American Aid, is it not?

Mr. TAYLOR. That it is.

Mr. McLENDON. And the letterhead says:

Serv-U Corporation, 252 Northwest 29th Street, Miami, Florida.

Mr. TAYLOR. Yes.

Mr. McLENDON. Did you understand at the time this proposal was made that the company had been converted into the Serv-U Corp.?

Mr. TAYLOR. I cannot say that I understood that the company had been converted into Serv-U Corp. It was my understanding, or my information, at that time that this Florida vending company was the company making the proposal. There had been a suggestion of change of name as I mentioned before. At this point, I don't particularly place any significance on Serv-U. To me, it has been Serv-U all along.

Mr. McLENDON. I see. I take it, then, that you had some information that satisfied you that the name Serv-U would be the name of the company that these gentlemen were negotiating for.

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. And you didn't inquire into any details about it?

Mr. TAYLOR. No, sir. To me, it was one company.

Mr. McLENDON. Now, after Mr. Kellough came back from Florida, did he handle the negotiations that finally led to the execution of a contract?

Mr. TAYLOR. I can't answer that question of my own knowledge. I imagine that he was in the negotiations—from the standpoint of all the things that were required in the contract for supervision, administration, and proper service. Whether he handled it alone or Mr. Cann handled it and Mr. Kellough assisted him, or our legal department, I do not know. I am sure it was cleared with our legal department.

Mr. McLENDON. All right. After the first contract was entered into on January 30, 1962, do you recall that Mr. Black himself visited you with Mr. Kellough and inquired whether the services of Serv-U were satisfactory?

Mr. TAYLOR. Yes, sir. As a matter of fact, for clarification on that, sir—

Mr. McLENDON. Sir?

Mr. TAYLOR. Clarification on that.

Mr. McLENDON. Yes; please go ahead.

Mr. TAYLOR. Mr. Black was in my office one day when he was on the coast. And he said he would like to speak to Mr. Kellough. He had heard there was some problem with coffee in the vending machines, and in addition to that he wanted to find out just for his own information what the general operation was like, how it was going, was it satisfactory. Mr. Kellough came up and answered his questions and went on his way.

Mr. McLENDON. Did Mr. Black at that time make a request that Serv-U be given consideration at the Rocketdyne Division of your company?

Mr. TAYLOR. Whether it was at that time or a separate time, I do not recall. But Mr. Black did at some point in time ask that we give consideration to extending the operations of Serv-U. He didn't specify where.

Mr. McLENDON. But it was extended to two additional plants, was it not?

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. One of them was Rocketdyne?

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. At or about that time, Mr. Taylor, do you recall a visit by Robert G. Baker, Levinson, and Baker's brother—I think his name is Charles—and Mr. Black?

Mr. TAYLOR. Yes; they were on the coast—the exact date I do not recall.

Mr. McLENDON. It was after this first contract was signed, was it not, or do you know?

Mr. TAYLOR. Yes, sir. Serv-U had been operating there for some time, sir.

Mr. McLENDON. What was the purpose of this visit of these gentlemen?

Mr. TAYLOR. The only purpose that I attached to it at all was, one, they wanted to say hello, and, two, introduce Mr. Baker's brother.

Mr. McLENDON. Introduce Mr. Baker's brother?

Mr. TAYLOR. That is right.

Mr. McLENDON. Was he a newcomer?

Mr. TAYLOR. Well, he was a newcomer to me.

Mr. McLENDON. And what position did he have?

Mr. TAYLOR. They explained that he was going to work for Serv-U.

Mr. McLENDON. I see. Now, at that time, when both Mr. Baker and Mr. Black were present, did either one of them disclose that they were stockholders in Serv-U?

Mr. TAYLOR. No, sir.

Mr. McLENDON. And there was no occasion for you asking about it?

Mr. TAYLOR. No, sir.

Mr. McLENDON. Did you know, then, that either one of them had any financial interest?

Mr. TAYLOR. No, sir.

Mr. McLENDON. I believe on that particular occasion that they invited you and some others of the company to go out to dinner with them that night; did they not?

Mr. TAYLOR. They invited me to dinner that evening and I accepted.

Mr. McLENDON. Did you go?

Mr. TAYLOR. Yes.

Mr. McLENDON. And had a good time?

Mr. TAYLOR. It was a very pleasant dinner.

Mr. McLENDON. And still didn't find out what their interest in Serv-U was?

Mr. TAYLOR. No, sir.

Mr. McLENDON. Do you recall an incident in which Black said in your presence that he did not own an interest in Serv-U?

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. When?

Mr. TAYLOR. That would be within the last 6 or 7 months.

Mr. McLENDON. Where were you, Mr. Taylor, when that was said?

Mr. TAYLOR. In my office in Los Angeles.

Mr. McLENDON. What were the circumstances?

Mr. TAYLOR. I asked him the direct question.

Mr. McLENDON. Will you tell us as nearly as you can his direct answer, the words he used?

Mr. TAYLOR. As I recall his response—I can't give you the exact words.

Mr. McLendon. As best you can.

Mr. Taylor. "No; of course I do not own any interest in Serv-U."

Mr. McLendon. Are you sure that he said he did not own any interest in Serv-U?

Mr. Taylor. That is correct.

Mr. McLendon. Is it not possible that he may have said that he was not a stockholder?

Mr. Taylor. It is possible, but that is not my recollection.

Mr. McLendon. That is not your recollection. You know now that he was a hidden stockholder; do you not?

Mr. Taylor. Well, I have read in the papers that that is the case.

Mr. McLendon. But he didn't disclose any detail or any further information, except that "I am not—of course I do not own any interest in Serv-U."

Mr. Taylor. That is correct.

Mr. McLendon. What prompted you to ask him that question?

Mr. Taylor. We had heard some rumors that that might be the case, and so I was curious, and asked him.

Mr. McLendon. Did he ever correct it later?

Mr. Taylor. Not to my knowledge; no.

Mr. McLendon. On that occasion, did you ask him whether Baker was a stockholder?

Mr. Taylor. Not to my recollection, sir.

Mr. McLendon. Did you volunteer any information as to whether Baker was a stockholder?

Mr. Taylor. No, sir.

Mr. McLendon. Mr. Taylor, the actual detail of negotiating the contract, I take it, was handled by some of the other people in the organization, like Mr. Kellough?

Mr. Taylor. Yes, sir. Mr. Cann and Mr. Kellough, I believe.

Mr. McLendon. What position does Mr. Cann hold?

Mr. Taylor. Mr. Cann is vice president and secretary of the corporation, and he is secretary of the Aid nonprofit corporation.

Mr. McLendon. That is the employees' organization?

Mr. Taylor. That is right. The Serv-U contract is not with North American Aviation directly. It is with North American Aid, which is a separate, nonprofit corporation.

Mr. McLendon. In your business and position that you occupy, did you frequently come in contact with Mr. Black?

Mr. Taylor. Yes, sir.

Mr. McLendon. Did you have to consult him?

Mr. Taylor. Yes.

Mr. McLendon. And did you call on him for advice concerning the company's business?

Mr. Taylor. Yes, sir.

Mr. McLendon. Did you rely upon him?

Mr. Taylor. Yes, sir.

Mr. McLendon. Did you consider that he occupied a position of importance in your company?

Mr. Taylor. Yes; I have always felt that Mr. Black's position was important, and one of responsibility. However, he was not an employee in the sense that the rest of us were. He was a consultant to us.

Mr. McLendon. He was a frequent visitor to the company's main office, was he not?

Mr. TAYLOR. Yes, sir.

Mr. McLENDON. And you frequently saw him in Washington?

Mr. TAYLOR. On occasion—every time I would come to Washington.

Mr. McLENDON. Would you describe Mr. Black's services as being essential or just desirable?

Mr. TAYLOR. I would say they are desirable.

Mr. McLENDON. Would they be essential?

Mr. TAYLOR. Essential?

Mr. McLENDON. Yes, sir—in the operations of your company, the overall management of your company.

Mr. TAYLOR. Well, sir, you could get along without anything if you had to. They are desirable.

Mr. McLENDON. That is all, Mr. Chairman.

Senator CANNON. Mr. Taylor, would it have made any difference in any action you took or did not take had you known of Mr. Baker or Mr. Black's interest in this vending company?

Mr. TAYLOR. Insofar as Mr. Baker's interest was concerned, I suppose that you could say that was partially implied, because he had an interest in it. Insofar as Mr. Black's having a direct interest or ownership or being a stockholder in Serv-U; yes, we would have taken a look at it, because of our own internal attitudes on our employees and consultants with regard to outside activities in companies that do business with us.

Senator CANNON. You would have reviewed it, but you don't know what your action might have been as a result of the review; is that it?

Mr. TAYLOR. That is correct.

Senator CANNON. Now, do I understand your testimony to be that as far as you were concerned, Serv-U and the Miami company known as Automatic Vending were one and the same?

Mr. TAYLOR. Yes, sir.

Senator CANNON. And you had—you got the same management through Serv-U that Automatic Vending was using, according to the presentation of January 12, 1962; is that correct?

Mr. TAYLOR. I don't know about the proposal of January 12. However, Mr. Hancock's assistant at that time, Mr. Armstrong, is the head of the operation in California, and is managing that.

Senator CANNON. I think if you will refer to your proposal of January 12, you will note that the paragraph under management reads:

Mr. Eugene A. Hancock, who is president of Automatic Vending Service since it was formed 5 years ago, and who is also president and stockholder of Serv-U Corp.

And going on from there. The next line —

Mr. W. R. Armstrong has for the last 2 years been general manager of Automatic Vending in Miami in charge of sales, service, purchasing and maintenance.

Now, were those the two principal management officers you were looking to?

Mr. TAYLOR. Yes, sir. And I understand that that is what has transpired.

Senator CANNON. And was this the proposal on which the contract was based? Did the contract embody most of the terms of this proposal?

Mr. TAYLOR. I cannot answer that from my own knowledge, sir.
 Senator CANNON. You didn't have the——

Mr. TAYLOR. I did not participate——

Senator CANNON. You did not have the responsibility to review the contract?

Mr. TAYLOR. No, sir.

Senator CANNON. Insofar as you are concerned, has Serv-U's contract with the company been a good contract or a bad contract?

Mr. TAYLOR. From what I am advised about their service, and the commission rates to the aid foundation, it is a very good contract.

Senator CANNON. Has the service been satisfactory as far as you know?

Mr. TAYLOR. I am advised that it is.

Senator CANNON. Senator Curtis?

Senator CURTIS. Do you know a Walter Kapp?

Mr. TAYLOR. Yes; I believe—I am pretty sure I know Walter Kapp. There are several Kapp boys employed at North American; been there for a number of years. I cannot immediately place Walter Kapp in my mind.

Senator CURTIS. Have you had any information about him in connection with the vending machine contracts?

Mr. TAYLOR. No, sir.

Senator CURTIS. What I am referring to—and I won't press you further, since you don't know about it—rather than leave a doubt on the record. Our staff records on Mr.—based upon information gathered concerning Hancock, says:

Hancock wrote a letter to Ed Levinson, Hotel Fremont, Las Vegas, Nev., April 22, 1962, referring to the fact that he was enclosing the weekly report on income and disbursements, and stated they seemed to be going along all right at North American, except for one fellow at North American by the name of Walter Kapp is giving us a hard time. Hancock stated he was going to fly out there and talk to that fellow.

You don't know anything about that?

Mr. TAYLOR. I have no recollection of that, sir.

Senator CURTIS. In answer to our counsel's question, you said that Mr. Hancock and Mr. Armstrong appeared at your office pursuant to an appointment. Who made the appointment?

Mr. TAYLOR. My recollection is that Mr. Black made it by telephone.

Senator CURTIS. Telephone from Washington?

Mr. TAYLOR. Right.

Senator CURTIS. And you may have been asked this, but I want to make sure I have the date right. According to your best recollections, when did you first meet Robert Baker?

Mr. TAYLOR. It must have been about 4 years ago, sir; 4 or 5 years ago.

Senator CURTIS. And about when did you first meet Mr. Levinson?

Mr. TAYLOR. My first recollection of meeting Mr. Levinson was the time that he came in my office with Mr. Armstrong and Mr. Hancock.

Senator CURTIS. Was he there more than once with them?

Mr. TAYLOR. No; he was only there once with them.

Senator CURTIS. But you knew him to be someone connected with the gambling interests in Las Vegas?

Mr. TAYLOR. I was told—well, as a matter of fact, I asked, “Who is Mr. Levinson?” And I was told that he had a hotel, hotel interests, and some gambling interests in Las Vegas.

Senator CURTIS. Now, you didn’t learn of Black’s ownership interest in Serv-U until this investigation started; is that correct?

Mr. TAYLOR. That is correct.

Senator CURTIS. And did you have any direct knowledge of Baker’s ownership interest prior to this investigation?

Mr. TAYLOR. No, sir.

Senator CURTIS. But you had some information that caused you to feel that he might have; is that correct?

Mr. TAYLOR. Yes, sir.

Senator CURTIS. Were you aware that Mr. Black had other interests with Mr. Levinson and Robert Baker, such as ownership in banks and the like?

Mr. TAYLOR. No, sir; I was not knowledgeable of that at all.

Senator CURTIS. Were competitive bids taken for the vending machine business when Serv-U came in there, or did you handle that directly?

Mr. TAYLOR. Competitive bids were not taken.

Senator CURTIS. Are they sometimes?

Mr. TAYLOR. I do not have a full knowledge of this. But it is my understanding it has been a rare occasion, if at all, that competitive bids have been taken on vending operations.

Senator CURTIS. Well, if it is not a competitive bid, do they get proposals from different companies, different vending companies, sometimes when they are making a selection?

Mr. TAYLOR. Not to my knowledge, sir. Mr. Kellough can probably advise you more fully on that. I just do not know.

Senator CURTIS. At this dinner that was referred to in response to a previous question, in October 1962, at Larue’s Restaurant, in Los Angeles, attended by Mr. Taylor, Mr. Black, Mr. Levinson, Mr. Robert Baker, and Mr. Charles Baker, his brother, was vending machine business discussed then?

Mr. TAYLOR. No, sir.

Senator CURTIS. Just a social occasion?

Mr. TAYLOR. That is correct.

Senator CURTIS. That is all.

Senator CANNON. Senator Pell?

Senator PELL. Mr. Taylor, with the exception of Serv-U business or social conversation, did you ever discuss with Mr. Baker any other topics of interest to the welfare of North American?

Mr. TAYLOR. No, sir.

Senator PELL. Did you ever discuss any topics of interest to the welfare of North American with any other Senate employees, or former Senate employees?

Mr. TAYLOR. Not that I have any direct recollection of. I have talked to a number of Senators, and a number of people on Senate staffs, and the same with the House. The conversation has been general—mainly what you would call courtesy calls here in Washington. Response to inquiries of their interest in what we are doing, how we are making out on certain programs. We have a number of visitors from the Senate and House committees to the west coast, both Men-

bers of the Congress and the congressional staff members, where they review our progress for their own information and for their own reporting. But in the context, as I understood your question; no, sir.

Senator PELL. That is all. Thank you very much.

Senator CANNON. Did you ever request Mr. Baker to do anything for North American Aviation?

Mr. TAYLOR. No, sir.

Senator CANNON. Did he ever do anything for you insofar as contracts or other matters of interest to North American are concerned?

Mr. TAYLOR. Not to my knowledge, sir. I doubt it.

Senator CANNON. Did you ever request assistance from any other Senate officer or employee insofar as any contractual matters or other matters of interest to North American are concerned?

Mr. TAYLOR. No, sir.

Senator CANNON. Counsel, have you anything further?

Mr. McLENDON. One further question.

Mr. Taylor, you told us of one occasion when you saw Robert G. Baker at your offices in California. Did you ever see him out there on any other occasion?

Mr. TAYLOR. Yes; I did. On another occasion there was a dinner at the Statler Hilton Hotel. I saw him there that evening.

Mr. McLENDON. How did you happen to be there? Were you a guest of his?

Mr. TAYLOR. It was a Democratic fundraising dinner, and we had a table.

Mr. McLENDON. I see. You invited him to attend; did you?

Mr. TAYLOR. No, sir. He had his own seats.

Mr. McLENDON. These are the only two occasions that you have seen him in California?

Mr. TAYLOR. No. I have seen him at least on two other occasions in California—the occasion when he was at the airport. He called and said, "I am here at the airport. Can I come over and say hello?" Which he did. Another occasion, I had lunch with him at the airport one day, on his way through.

Mr. McLENDON. Now, is it correct to say that in none of these various meetings with him did he ever disclose to you that he had any financial interests in the Serv-U Corp.?

Mr. TAYLOR. No, sir.

Mr. McLENDON. Or that Black had any?

Mr. TAYLOR. No, sir.

Mr. McLENDON. That is all, sir.

Senator CANNON. You may be excused, Mr. Taylor. Thanks very much for appearing here without subpoena.

Mr. Kellough?

Mr. Kellough, did you hear the statement read by the chairman at the commencement of the hearing this morning?

Mr. KELLOUGH. Yes, sir.

Senator CANNON. You understand it?

Mr. KELLOUGH. Yes, sir.

Senator CANNON. Do you solemnly swear that the testimony you are about to give before this committee in the matter under investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KELLOUGH. Yes, sir.

Senator CANNON. Be seated, please.

Counsel, you may proceed.

Mr. McLENDON. Will you state your full name and residence address, please, sir?

TESTIMONY OF KENNETH L. KELLOUGH, ACCOMPANIED BY
CHARLES PICKETT, COUNSEL

Mr. KELLOUGH. Kenneth L. Kellough, 851 Chautauqua Boulevard, Pacific Palisades, Calif.

Mr. McLENDON. You spell your name K-e-l-l-o-u-g-h?

Mr. KELLOUGH. That is correct.

Mr. McLENDON. Is your personal counsel present with you?

Mr. KELLOUGH. Mr. Pickett.

Mr. McLENDON. Will you state your name and address for the record?

Mr. PICKETT. Charles Pickett, 25 Broadway, New York, N.Y.

Mr. McLENDON. Mr. Kellough, who is Mr. Houston with your company?

Mr. KELLOUGH. Mr. Houston retired approximately last May, I believe.

Mr. McLENDON. What was his position in 1960 and 1961? In 1961 and 1962—I beg your pardon.

Mr. KELLOUGH. I believe at that time he was a staffman in the personnel section of the corporate offices.

Mr. McLENDON. Do you recall, Mr. Kellough, that you and Mr. Cann were called into the office of Mr. Houston to discuss the possibility of giving some vending business to another vending company?

Mr. KELLOUGH. I believe that Mr. Houston and I were called into Mr. Cann's office; yes.

Mr. McLENDON. Can you tell us about what date that was?

Mr. KELLOUGH. I would say some time possibly in the latter part of November, early December 1961.

Mr. McLENDON. Were you told that the proposed company was a new company being organized?

Mr. KELLOUGH. At that time, sir, there was no mention of any specific company.

Mr. McLENDON. Well, without mentioning the name, did you understand that they were talking about a company that was being organized?

Mr. KELLOUGH. The discussion that took place at that time was relative to that it might be advisable, with the magnitude of our vending within North American Aviation, at the present time, that we should give consideration to a secondary supplier. But at that time there was no discussion of any company or specifics.

Mr. McLENDON. If I understand you, then, this discussion had to do with the advisability or desirability of having more than one vending company in the plant.

Mr. KELLOUGH. Yes, sir; that is true.

Mr. McLENDON. And did you reach an agreement that it would be desirable?

Mr. KELLOUGH. It was generally agreed, I believe, among the three of us, that we—it had been mentioned in the past occasionally that possibly competition was good, and that as a result of our conversation at that time, I think we were in accord that it had a very practical aspect.

Mr. McLENDON. Now, following that meeting on January 4, 1962, were you called into the office of Mr. Taylor, assistant to the vice president, and introduced to Messrs. Eugene Hancock and Armstrong?

Mr. KELLOUGH. Eugene Hancock and William Armstrong; yes.

Mr. McLENDON. Had you ever known them before?

Mr. KELLOUGH. I had met Mr. Hancock before; yes, sir.

Mr. McLENDON. What did you know about his connection with the vending business at that time?

Mr. KELLOUGH. At the time that I met him in Mr. Taylor's office on that January 4 or thereabouts, I did not know that he was connected in any way with vending. I had met him earlier, possibly 30 days earlier, in Mr. Smithson's office, and Mr. Smithson had introduced me to Mr. Hancock and said that Mr. Hancock was interested in seeing a new concept installation of inplant feeding which we had just begun operating in our Anaheim plant.

Mr. McLENDON. Did you then invite Mr. Hancock to make a proposal to the company?

Mr. KELLOUGH. At that time?

Mr. McLENDON. Then, at that time, or shortly after.

Mr. KELLOUGH. In Mr. Smithson's office?

Mr. McLENDON. Yes.

Mr. KELLOUGH. No; there was no discussion of any proposal for vending at that time.

Mr. McLENDON. Well, after you left Mr. Taylor's office, what conversation did you have with Hancock with respect to a new company, a new vending company coming into North American?

Mr. KELLOUGH. None at all.

Mr. McLENDON. What was your next negotiations with Hancock?

Mr. KELLOUGH. When I met him in Mr. Taylor's office on the 4th or 5th of January.

Mr. McLENDON. What happened then?

Mr. KELLOUGH. Mr. Taylor introduced the two gentlemen as management, Mr. Armstrong as the president, I believe—or Mr. Hancock as the president and Mr. Armstrong as a vice president of Automatic Vending in Miami, and said that they were interested in looking at some of our vending installations, and wondered if I would take some time and take them down to the Los Angeles division for a tour of our vending installations.

Mr. McLENDON. And did you do that?

Mr. KELLOUGH. I did.

Mr. McLENDON. And following that inspection and visit in the plant, did Mr.—did you receive a proposal for a contract?

Mr. KELLOUGH. We received a proposal for vending in our Los Angeles division, excluding Palmdale; yes, sir.

Mr. McLENDON. Will you look at the documents there on the table and state whether or not the letter dated January 12, 1962, on the stationery of Serv-U Corp., is a copy of the first proposal you received?

Mr. KELLOUGH. I would say it is; yes, sir.

Mr. McLENDON. Was that signed by Eugene Hancock?

Mr. KELLOUGH. Yes, sir.

Mr. McLENDON. And did it discuss the organization of a new company to be known as the Serv-U Corp.?

Mr. KELLOUGH. Yes, sir.

Mr. McLENDON. Was that the first time you had heard of Serv-U?

Mr. KELLOUGH. Yes, sir.

Mr. McLENDON. Did that excite your curiosity, to make any inquiry about it?

Mr. KELLOUGH. I knew possibly that the name of the company to operate in California might be different. However, at that time, I assumed that generally it was the same organization that Mr. Hancock headed in Miami, Fla.

Mr. McLENDON. Shortly after this proposal of January 12, did you receive a letter dated January 15, addressed to North American Aid, signed by George Simon?

Mr. KELLOUGH. I believe that the letter dated January 15 was a part of the letter dated January 12, 1962, and arrived at the same time.

Mr. McLENDON. I see. And that letter disclosed the names of the principal stockholders, did it not?

Mr. KELLOUGH. Yes, sir.

Mr. McLENDON. Had you known anything about who the stockholders of Serv-U were or would be prior to the time you received this letter January 15?

Mr. KELLOUGH. I did not.

Mr. McLENDON. Did you know the four stockholders' names?

Mr. KELLOUGH. Mr. Hancock's; yes, sir.

Mr. McLENDON. You did not know Cooper?

Mr. KELLOUGH. No, sir.

Mr. McLENDON. Or Sigelbaum?

Mr. KELLOUGH. No.

Mr. McLENDON. Or Levinson?

Mr. KELLOUGH. No.

Mr. McLENDON. Was that letter accompanied, also, by a document entitled "Budget for Los Angeles Division," listing machines of different types, the cost of them?

Mr. KELLOUGH. Yes; it was, sir.

Mr. McLENDON. What was the purpose of that—to give you information as to the kind of equipment this new company would have?

Mr. KELLOUGH. During their visit at the Los Angeles division earlier in January, we had toured the facilities of the Los Angeles division, and observed the vending installations. They had a very good idea of the number of pieces of equipment that were being operated. And this, I believe, was submitted as a guide or a budget to what they expected that, if they were to enter into vending in the Los Angeles division, would be the approximate cost; yes, sir.

Mr. McLENDON. This document was not intended, then, to be a representation of what the company had, but only what equipment it would have if it entered into a contract; is that a correct statement?

Mr. KELLOUGH. Yes, sir; I believe that is right.

Mr. McLendon. Did you ask Mr. Hancock if he could furnish you or the other officers of North American with letters or recommendations of people who knew about his services in Florida?

Mr. KelloUGH. No, sir; that was a part of the letter and the proposal that had been received earlier.

Mr. McLendon. Were these letters of commendation then furnished without any solicitation from you?

Mr. KelloUGH. Yes, sir.

Mr. McLendon. And they were assembled by Mr. Hancock, were they?

Mr. KelloUGH. They were sent as a part of the proposal.

Mr. McLendon. As part of the letter proposal?

Mr. KelloUGH. Yes, sir.

Mr. McLendon. Did you, of your own accord, or at the suggestion of some of your superiors, decide to go to Florida to make a personal inspection of the operations there?

Mr. KelloUGH. In discussion with Mr. Cann, after we had received the proposal, and it seemed like a very favorable proposal, it was believed that we should know something about the ability of this organization to perform. And so it was decided that I should go to Florida to observe the operations of Automatic Vending first hand.

Mr. McLendon. And did you go?

Mr. KelloUGH. I did.

Mr. McLendon. How long did you stay down in Florida?

Mr. KelloUGH. I arrived in Miami, I believe, on Wednesday evening, and left the following Saturday morning.

Mr. McLendon. And did Mr. Hancock show you his operations in Florida, including his installation of machines?

Mr. KelloUGH. I observed vending operations in four of the accounts in the Miami area of Automatic Vending; yes.

Mr. McLendon. You spent about 2 days with him; did you not?

Mr. KelloUGH. That is correct.

Mr. McLendon. During that 2 days, in association with him, did he explain to you what the relation was between his Automatic Vending Co. in Florida and Serv-U Corp.?

Mr. KelloUGH. We did not discuss that.

Mr. McLendon. He didn't mention that to you at all?

Mr. KelloUGH. I don't recollect any direct conversation on it. It might possibly have been said that this organization was being set up by the management of Automatic Vending. I don't know. I think that is what I assumed.

Mr. McLendon. You assumed that?

Mr. KelloUGH. I believe so; yes.

Mr. McLendon. In other words, you were not informed at that time as to whether Mr. Hancock's operations in Florida were to be continued in connection with the operations that he might obtain with your company; is that right?

Mr. KelloUGH. I was not positive. As I said, Mr. Hancock had indicated that he would act as the president and manager, together with Mr. Armstrong, of the corporation, which would operate in the Los Angeles area. And I generally assumed that they were related organizations.

Mr. McLendon. I see. Now, when you came back from your trip to Florida, I assume that you were satisfied that Mr. Hancock was a competent operator, for vending operations?

Mr. KelloUGH. From what I observed in the Miami area operations, I thought they had a very efficient, capable organization, equipment-wise, staffwise, and they appeared to be doing an excellent job. And I had talked to a couple of representatives of the accounts which they were servicing, and had very excellent reports on them.

Mr. McLendon. Did you have authority from your superiors to go ahead, then, and negotiate a contract with the new crowd?

Mr. KelloUGH. I had the authority to discuss new contract terms with Mr. Hancock; yes.

Mr. McLendon. And did you finally reach agreement on terms that were satisfactory?

Mr. KelloUGH. I would say this—that when we received a proposal from Serv-U Corp. organization, Mr. Cann and I discussed it at length; I went over it at length, suggested some things that were probably not acceptable, maybe some changes that might be desirable to make. And after discussion with Mr. Cann, it was agreed that I probably might take a proposed form of contract to Miami, and that if what I observed down there was most satisfactory, and felt in my judgment that the organization would be able to do a satisfactory job, that I might at that time discuss the specifics and general terms which we always included in our vending contracts.

Mr. McLendon. And did you arrive at a satisfactory contract, written contract, dated the 30th day of January 1962? Look at the file there, if you want to refresh your recollection.

Mr. KelloUGH. I remember the contract dated January 30.

Mr. McLendon. It was executed on behalf of North American Aid by Mr. Houston, the president, was it not?

Mr. KelloUGH. That is correct.

Mr. McLendon. And by Mr. Hancock, for the Serv-U Corp.?

Mr. KelloUGH. That is correct.

Mr. McLendon. Now, when did you give notice of cancellation to the Automatic Canteen that was then operating in your plants?

Mr. KelloUGH. I am sure that very soon, probably within the next day, I discussed it orally with one of the regional directors of Canteen in the Los Angeles area. I believe formal notice of termination of certain facilities, mainly the Los Angeles division, was probably submitted possibly about the middle of February.

Mr. McLendon. According to the information you furnished members of the staff, it was February 16. Would that be about right?

Mr. KelloUGH. I believe that would be about right; yes.

Mr. McLendon. Did you give the notice yourself, or some other individual?

Mr. KelloUGH. I discussed it, as I said before, orally. The letter, I believe, would have been signed by one of the officers of North American Aid. I am not sure whether it was Mr. Houston or it could have been Mr. Young, the vice president.

Mr. McLendon. Now, up to the time this first contract of January 30, 1962, was signed, had you had any conversation with Fred Black about this business?

Mr. KelloUGH. Up until this January 30 date?

Mr. McLendon. Yes—prior to the signing of that contract, had you discussed it with Black?

Mr. KelloUGH. No, sir.

Mr. McLendon. Had you discussed it with Baker?

Mr. KelloUGH. No, sir.

Mr. McLendon. You knew Baker, did you?

Mr. KelloUGH. No, sir.

Mr. McLendon. Had you seen Black?

Mr. KelloUGH. No, sir.

Mr. McLendon. That interval?

Mr. KelloUGH. No.

Mr. McLendon. Had no conversation with him at all?

Mr. KelloUGH. No, sir.

Mr. McLendon. After this first contract of January 30 was signed, did you have a conversation with Black about how they were getting along?

Mr. KelloUGH. Yes, sir.

Mr. McLendon. When was that and where was it?

Mr. KelloUGH. Oh, possibly about a year ago, in Mr. Taylor's office.

Mr. McLendon. And did he at that time inquire whether the company would be willing to extend the contract to another or additional plants of North American?

Mr. KelloUGH. No, sir.

Mr. McLendon. Had you extended it prior to this conversation you are speaking of?

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

Mr. KelloUGH. I believe at that time, sir, that we had extended it to our facilities in Downey. I cannot be absolutely sure of the date that I met Mr. Black. But if it was a year ago, which would be the best of my recollection, we would have already extended it at that time to the Downey facilities.

Mr. McLendon. If you will refer to your documents there, you will notice the second contract is dated August 2, 1962. Does that help you any? That is with the Space and Information.

Mr. KelloUGH. I am sure this was prior to my seeing Mr. Black in Mr. Taylor's office.

Mr. McLendon. And then the third contract was made with the Rocketdyne Division, was it not?

Mr. KelloUGH. The amendment extending the contract; yes, sir.

Mr. McLendon. And that one was dated August 22, was it not? Will you refer to it there?

Mr. KelloUGH. Yes, sir.

Mr. McLendon. Did you have any conversation with Black before this last contract was executed?

Mr. KelloUGH. No, sir.

Mr. McLendon. So at the time all three of these contracts were signed, insofar as you are concerned, you had no knowledge that Black had any interest in this new company?

Mr. KelloUGH. No, sir.

Mr. McLendon. Did you have any knowledge that Baker had any interest in it?

Mr. KelloUGH. No, sir.

Mr. McLENDON. When did you discover that Black had an interest in it?

Mr. KELLOUGH. I still don't know that he has. I read something about it at the time, I believe, that the Capitol Vending suit was filed.

Mr. McLENDON. And you had no conversation with him at all since then?

Mr. KELLOUGH. I met Mr. Black possibly a month ago, I believe, in the hall at North American Aviation, and shook hands with him. And he asked me how the organization was doing, and I said they were doing a very excellent job.

Mr. McLENDON. Have you talked to Baker at all at any time?

Mr. KELLOUGH. No, sir.

Mr. McLENDON. Anywhere?

Mr. KELLOUGH. No, sir.

Mr. McLENDON. Do you recall seeing him out there in California?

Mr. KELLOUGH. No, sir.

Mr. McLENDON. So, if I understand you, you tell the committee that in none of these negotiations with Armstrong, with Hancock, or any others connected with the Serv-U Corp., were you ever informed that Mr. Black had any interest in it?

Mr. KELLOUGH. I was not.

Mr. McLENDON. Or that Mr. Baker had any interest in it?

Mr. KELLOUGH. No, sir.

Mr. McLENDON. Mr. Chairman, I would like for the reporter to mark these documents now identified by this witness.

Senator CANNON. The documents handed to the reporter and identified by the witness will be marked in sequence. Without objection, they will be received and made a part of the record.

(The documents referred to were marked "Kellough Exhibits 1 through 7," and are as follows:)

KELLOUGH EXHIBIT 1

SERV-U-CORP.,

252 N.W. 29th Street, Miami, Florida, January 12, 1962.

Proposal letter.

NORTH AMERICAN AID,
NORTH AMERICAN AVIATION, INC.,
General Offices,
International Airport,
Los Angeles 45, California.

GENTLEMEN: We of SERV-U-Corp., 252 N.W. 29th Street, Miami, Florida, would like to submit for your consideration the following proposal to operate the vending for your North American Aid, Los Angeles Division, exclusive of Palm-dale, for the following merchandise: coffee, hot chocolate, cold drinks, candy, nuts, gum, cigarettes, and cigars. We would like to break down our proposal into the following categories:

1. Management, experience.
2. Equipment.
3. Products.
4. Service.
5. Commission Structure.
6. Financial.

1. *Management.*—Mr. Eugene A. Hancock, who is President of Automatic Vending Service since it was formed five years ago, and who is also President and stockholder of SERV-U-CORP., which is a new company formed to do business in California and nine other states, will spend as much time in this area as necessary to direct top level management as well as policy.

Mr. W. R. Armstrong has for the last two years been General Manager of Automatic Vending in Miami, in charge of sales, service, purchasing, and main-

tenance. Mr. Armstrong joined us after 17 years in airline management, 15 of which were with National Airlines and 2 years with Northeast Airlines. Under his supervision as Superintendent of Stations for National Airlines, Mr. Armstrong directed in excess of 700 employees located in 31 cities in the Eastern part of the United States and Cuba. He will be established in Los Angeles as General Manager of SERV-U-Corporation. Under his supervision we would be transferring supervisory, as well as maintenance and service personnel to assist putting this company in operation.

We have surveyed the Los Angeles labor market and have found ample experienced personnel who are readily available and it will be our intention to hire and train as many local supervisory personnel as needed to operate this company.

Experience.—We, of Automatic Vending, have been in operation in Miami, Florida for the past five years. We started with five coffee machines; today we are operating over 900 vending machines with the following items: candy, coffee, cigarettes, cigars, cold beverages, hot soups, ice cream, milk, pastry, cold food, and sandwiches. At the present time we are servicing Eastern Airlines, Aerodex, Riddle Airlines, the Homestead Air Force SAC Base, Federal Aviation Authority, Northeast Airlines, Willard Aircraft Manufacturing Company, and, effective January 18, 1962, we will take over and operate all vending equipment in the new Miami International Airport Terminal, as well as a considerable number of other smaller accounts, too numerous to list.

In 1961 our gross revenue increased approximately \$360,000, which we feel is a tremendous achievement, particularly in an area that is not of an industrial nature. We know that most of our success and growth stems from the fact that we have in our opinion, the finest service offered for vending in this area.

Attached you will find letters which, I am sure, show the type of service we have established. In many of these instances it is necessary for us to furnish 24-hour, 7-day-a-week coverage which is the service rendered to all of our customers.

2. *Equipment.*—Under our proposal it is understood that all equipment installed would be new.

From our past experience we would like to recommend the following vending machines: Rowe coffee machine, dispensing hot, fresh-brewed coffee, whipped hot chocolate with fresh cream. We would recommend—and would prefer to install—all new Rowe cold drink machines that dispense ice with the beverage. Our recommendation for candy machines would be National and Stoner mechanical machines which would give large capacity as well as more selection to the machines now being used. This would also enable us to reduce the amount of floor space required for vending machines in these areas. Our selection for cigar and cigarette machines would be either National 22-column or Stoner 15-column mechanically operated machines. This, again, would give your employees a larger selection plus an increased supply.

3. *Products.*—All products would be superior or at least equal to those now being used and would be nationally advertised brands.

4. *Service.*—Service is listed here as Item No. 4, but in our opinion, in any good vending operation, service is always No. 1. Our service would include well-trained, courteous, uniformed, bonded employees, including the best trained supervisory personnel available, with our entire management team immediately available to observe their operation as well as to assist them in the performance of their duties. We will make available—wherever necessary—24-hour, 7-day-a-week personnel to handle all mechanical malfunction to assure that your employees receive the best possible service and products at all times. Let us say again, that our service is our most important product.

We understand and would expect that all products and prices would have to be acceptable to both North American Aid and ourselves. Should this proposal be accepted by North American Aid, for all or any part of the vending in these plants, we would suggest a 45-day notice in advance to assure that the changeover is done in as orderly a fashion as possible, preferably on the weekend, without loss of service or time to your employees. The actual number of days required to make this changeover would have to be worked out in cooperation with your present vendor, the North American Aid program, and SERV-U-Corporation, taking into consideration the number of locations and machines to be replaced.

5. *Commission Structure.*—We propose the following commissions:

Coffee: 26% of gross sales (less all sales tax).

Hot Chocolate: 26% of gross sales (less all sales tax).

Candy: 17% of gross sales (less any sales tax that may be applicable).

This is based on a commodity cost of not more than 57% to Serv-U-Corp.

Should the commodity cost exceed 57% this commission would be reduced by that additional cost. However, this additional reduction shall not exceed 5%.

Carbonated Beverages: 40% of gross sales (less all sales tax).

Cigarettes: 1½¢ per pack on all cigarettes sold for 28¢; 3½¢ per pack on all cigarettes sold for 30¢ (the sales price of cigarettes would be left up to the AID program).

Cigars: 6% of gross sales (less all sales tax).

It is felt that based upon the commissions set forth herein and the experience and services to be rendered by management and the company, that not only will North American AID benefit financially, but the employees will be assured of receiving the best merchandise and products available, serviced by the most modern means in existence.

6. *Financial.*—Our financial statement is attached—separately.

If we are successful in receiving the contract for serving you in your vending needs, we want to pledge to you our greatest efforts in serving you and we would like to thank you for giving us the opportunity of presenting our proposal.

Yours very truly,

SERV-U-CORP.,
EUGENE A. HANCOCK,
President.

WEBER, THOMPSON & LEFCOURT,
CERTIFIED PUBLIC ACCOUNTANTS,

1105 Southwest First Street, Miami 36, Florida, January 15, 1962.

In Re Serv-U-Corp.

NORTH AMERICAN AID,
Los Angeles, California.

GENTLEMEN: We have been authorized to advise you that the stockholders of the above-named corporation are at this time making arrangements to provide the company with more than the adequate finances necessary to complete a deluxe installation of vending machines and equipment in the Los Angeles plant.

For your information the principal stockholders of the corporation are:

Engene A. Hancock.
Jack B. Cooper.
Benjamin B. Sigelbaum.
Edward Levenson.

The above-named individuals have a combined net worth in excess of five million (\$5,000,000.00) dollars and will supply all funds necessary to satisfactorily complete any contractual obligations that Serv-U-Corp. enter into.

As of this date the company has been qualified to do business in the State of California, is in good standing, and has the right to negotiate contracts.

If there is any other information you may desire please do not hesitate to call or write me.

Very truly yours,

GEORGE M. SIMON.

SERV-U-CORP.,
252 N.W. 29 St., Miami, Florida.

BUDGET FOR THE LOS ANGELES DIVISION

84 Coffee Machines at \$1,300.....	\$109,200.00
65 Beverage Machines at \$1,700.....	110,500.00
165 Candy Machines at \$400.....	66,000.00
20 Cigar Machines at \$350.....	7,000.00
81 Cigarette Machines at \$400.....	32,400.00
Total Cost of Machines.....	325,100.00
Inventory in Machines.....	17,500.00
Inventory in Warehouse.....	17,200.00
Change Fund.....	1,245.00
Warehouse Set up.....	48,500.00
Trucks and Equipment, Installation of Machines, etc.....	10,000.00
Total.....	419,545.00

FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES 1067

HEADQUARTERS, 19TH COMBAT SUPPORT GROUP (SAC),
UNITED STATES AIR FORCE,
Homestead Air Force Base, Florida, December 15, 1961.

Reply to attn. of: BC.

Subject: Contract Performance.

To: Mr. Eugene Hancock, Automatic Vending Service, Inc., 252 NW 29th St.,
Miami, Fla.

DEAR MR. HANCOCK: Since the inception of our contract with your company we have viewed with a great deal of pleasure an outstanding operation and service performance. The transition from the "many operator" concept to your "single manager" type service was accomplished smoothly and swiftly. It was marked by no cessation of service but by an actual quickening of customer satisfaction.

The attitude of your employees in their daily servicing of the varied vending machines showed a completely cheerful attitude and prompt unobtrusive execution. In our day to day operation of the base this means a great deal to us.

In the eight months of your operation I cannot but highly praise your organization as it has completely solved all of our vending machine problems we were beset with in the past and has met all of our necessarily stringent requirements. Please keep up the good work.

Sincerely,

JOSEPH W. MARTORANA,
Lt. Colonel, USAF, Base Commander.

DOBBS HOUSES, INC.,
INTERNATIONAL AIRPORT BRANCH,
Miami 59, Florida, December 27, 1961.

Mr. W. R. ARMSTRONG,
AUTOMATIC VENDING SERVICE, INC.,
*252 N.W. 29th Street,
Miami 37, Florida.*

DEAR BILL: In regard to your proposal submitted to me on December 22d, concerning the vending machine operation here at the Airport, I have decided to accept your proposal and the commissions as outlined in your letter. The effective date of this agreement will be January 18, 1962.

The following requirements must be met:

1. Your Company must be approved by the Dade County Port Authority.
2. New equipment must be used.
3. Meters must be installed on all equipment.
4. All equipment must be kept clean and in good working order.
5. Liability and property damage insurance must be carried by you.
6. All machines must be numbered.
7. A route card must be placed in all machines and submitted once a month with your commission payment.
8. A notice must be placed on all machines stating in case of malfunction, refunds will be made by any Dobbs House Cashier.

The following number of machines are authorized, subject to approval by the Dade County Port Authority:

- 8 cold drink machines
- 4 ice cream machines
- 5 milk and juice machines
- 20 candy machines
- 3 coffee machines

You are to submit a map showing the locations of all of those machines so that it can be submitted to the Port Authority. In the future if any other machines are placed or removed, it must be requested in writing for the approval of Dobbs Houses and the Port Authority.

As you know, the Dobbs House agreement includes all areas inside the red line. You, and your Company, will be expected to police all of these areas and report to me immediately if any vending machines, other than cigarette are placed by another company within this area. Our Company reserves the right to cancel this agreement upon a thirty (30) day notice.

I sincerely believe that since you are so familiar with the Airport, and since your Company already has many vending machines here at the Airport that you

are in a better position to give us the best service possible for the vending operation.

Looking forward to a very pleasant association, I remain

Very truly yours,

DOBBS HOUSES, INC.,
C. E. ROBERTS,
Regional Vice President.

CC: W. C. McGabe, M. J. O'Rourke.

MIAMI, FLA., *January 2, 1962.*

Mr. E. A. HANCOCK,
AUTOMATIC VENDING,
252 N.W. 29th Street,
Miami, Florida.

DEAR MR. HANCOCK: Thanks so much for the excellent door prizes your company furnished for the annual Aerodex Christmas parties.

They were very much appreciated and greatly contributed to the success of these annual events.

May I take this opportunity to also thank you for the excellent service Automatic Vending has given us since the very first day your equipment was installed in our facilities.

A problem-free vending service is a very welcome thing in a plant of 2,500 employees, and you have given us just that.

All the best in 1962.

Sincerely,

AERODEX, INC.,
R. S. SKIDMORE,
Director, Public Relations.

BUSH INTERNATIONAL,
DIVISION OF AC-AUTOMATIC SERVICES, INC.,
Miami, Fla., January 2, 1962.

Re: Automatic Vending Service, Inc., Miami, Fla.

To Whom It May Concern:

We have over the past several years continuously done business with Automatic Vending Service, Inc., and are pleased to advise that our relationship with them has always been completely satisfactory.

Being one of their principal suppliers and having had occasion to extend credit courtesies in large amounts, we have taken the necessary steps to observe their operation in detail and in our opinion it is one of the finest operations of its kind in the area. The service facilities are modern and complete and they are continually upgrading their equipment with the newest type of vendors available.

The Principals are well known to the writer and in my opinion they are of the highest character. The company has always met its obligations on time and in many cases ahead of the due date, therefore taking advantage of available discounts.

We feel that Automatic Vending Service merits our highest recommendation.

Sincerely,

BUSH INTERNATIONAL,
O. R. TRUPPMAN,
Divisional President.

MIAMI TOBACCO COMPANY OF DADE,
Miami 44, Florida, January 2, 1962.

To Whom It May Concern:

This is to advise that Automatic Vending Service, located at 252 NW. 29th Street, Miami, Florida, has been a very good customer of ours since February 1960.

The above-named Company is very prompt in keeping their account up to date.

Very truly yours,

MIAMI TOBACCO CO. OF DADE,
E. T. GRISWOLD,
President.

FOREMOST DAIRIES, INC.,
Miami 32, Florida, December 30, 1961.

AUTOMATIC VENDING SERVICE, INC.,
252 NW. 29th Street,
Miami, Florida.

To Whom It May Concern:

Foremost Dairies, Inc., of Miami, having served Dairy Products and Ice Cream to the Automatic Vending Service, Inc., of Miami, Florida, ever since they opened this Miami operation; have enjoyed most pleasant relationships with this account.

The Automatic Vending Service, Inc., give Foremost Dairies a nice volume of business and are on a thirty-day open account basis and always remain current.

We are Foremost consider it a privilege to be favored with the Automatic Service, Inc., business.

Very truly yours,

FOREMOST DAIRIES, INC.,
C. A. PARKER,
Sales Manager.

INTERNATIONAL AIRPORT BRANCH,
Miami 48, Florida, January 2, 1962.

AUTOMATIC VENDING SERVICE, INC.
252 North West 29 Street,
Miami 37, Florida.

(Attn: Mr. W. R. Armstrong, Jr.)

DEAR BILL: I believe it very fitting at the beginning of a new year to go on record notifying you of Riddle Airlines complete satisfaction for the services that your firm has rendered our employees during the previous year.

The dozen or so machines that you have installed in our maintenance hangar and air cargo center have been well received by our approximately four hundred (400) employees. The general comment from the majority of our people who have access to your vending machines has been that your firm has used the highest grade and quality merchandise and retained your prices at levels which they can afford.

In addition to the quality of goods served by you we have been extremely pleased with the prompt service of your servicemen, either when machines are sold out or occasionally encounter a minor mechanical malfunction.

I could go on Bill with flowery adjectives but I believe that enough is said with the fact that we at Riddle are simply delighted in obtaining your firms services and look forward to a continuation throughout the forthcoming years of your very efficient and capable services. On behalf of Riddle Airlines [illegible].

Very truly yours,

RIDDLE AIRLINES INC.,
JOHN D. MACDONALD,
Asst. to Senior Vice President.

KELLOUGH EXHIBIT 2

EXCERPTS FROM MINUTES OF MEETING OF BOARD OF DIRECTORS OF NORTH AMERICAN AID, JULY 11, 1962

VENDING OPERATIONS

Mr. Starkweather described the operations thus far of Serv-U Corp., which has been handling the vending at the Corporation's Los Angeles facilities pursuant to the contract authorized at the meeting of the Board of Directors held January 30, 1962. He pointed out a number of advantages obtainable by extension of the Serv-U Corp. operations to the facilities of the Space and Information Systems Division and the Autonetics Division.

After discussion and upon motion duly made and seconded, the resolutions were adopted:

Resolved, That the proper officers of the Corporation be, and they hereby are, authorized to enter into an amendment to the contract dated January 30, 1962, with Serv-U Corp., a California corporation, to provide for the vending by Serv-U Corp. of coffee, hot chocolate, tobacco products, candy, nuts, gum and soft

drinks at the facilities, described at this meeting, of the Space and Information Systems Division and the Autonetics Division of North American Aviation, Inc., located in the Imperial and Lakewood area, in addition to the facilities now serviced under the contract of January 30, 1962, provided that the commission schedule specified in said amendment for said operations shall be no less favorable to this Corporation than that specified in the said agreement of January 30, 1962; and further

Resolved, That the President or any Vice President of this Corporation be, and he hereby is, authorized to give written notice to Canteen Company of this Corporation's election to terminate the right of Canteen Company to install and operate vending machines in the facilities, described at this meeting, of the Space and Information Systems Division and the Autonetics Division of North American Aviation, Inc., in the Imperial and Lakewood area, at such time as to permit the smoothest practicable transition to the supply of vending services by Serv-U Corp., authorized at this meeting.

KELLOUGH EXHIBIT 3

EXCERPTS FROM MINUTES OF MEETING OF BOARD OF DIRECTORS OF NORTH AMERICAN AID, AUGUST 5, 1963

VENDING OPERATIONS

The President stated that a review of the operations of Serv-U Corp., which has been handling the vending at certain facilities of North American Aviation, Inc., as authorized by the Board at its meetings held January 30, 1962, and July 11, 1962, and the division of the total vending business between those now performing vending operations for the Corporation indicates the desirability of extending the Serv-U Corp. operations to certain facilities of the Rocketdyne Division of North American Aviation, Inc.

After discussion and upon motion duly made and seconded, the following resolutions were adopted:

Resolved, That the proper officers of the Corporation be, and they hereby are, authorized to enter into an amendment to the contract dated January 30, 1962, with Serv-U Corp., a California corporation, to provide for the vending by Serv-U Corp. of coffee, hot chocolate, tobacco products, candy, nuts, gum and soft drinks at the facilities of the Rocketdyne Division of North American Aviation, Inc., located in the Los Angeles area, except for those located at Santa Susana and in the Ramo Wooldridge facility on Fallbrook, in addition to facilities now serviced under said contract of January 30, 1962, as amended to date, provided that the commission schedule specified in said amendment for said operations shall be no less favorable to this Corporation than that specified in the said agreement of January 30, 1962; and further

Resolved, That the President or any Vice President of this Corporation be, and he hereby is, authorized to give written notice to Canteen Company of this Corporation's election to terminate the right of Canteen Company to install and operate vending machines in the facilities, described at this meeting, of the Rocketdyne Division of North American Aviation, Inc., located in the Los Angeles area, except for those located at Santa Susana and in the Ramo Wooldridge facility on Fallbrook, at such time as to permit the smoothest practicable transition to the supply of vending services by Serv-U-Corp. authorized at this meeting.

ADJOURNMENT

There being no further business to come before the meeting, it was, upon motion, adjourned.

_____, Secretary.

KELLOUGH EXHIBIT 4

EXCERPTS FROM MINUTES OF MEETING OF BOARD OF DIRECTORS OF NORTH AMERICAN AID, DECEMBER 20, 1961

VENDING OPERATIONS

Mr. Cann called attention to the fact that practically all of the Corporation's income is derived from the vending operations carried on by Canteen Company. He stated that, although the performance of the Canteen Company had been completely satisfactory, consideration should be given to the introduction of a competitive vending company in one of the facilities administered by the Corporation. He pointed out that, in view of the increasing magnitude of the Corporation's annual expenses, it did not appear wise to continue a situation where practically all of the Corporation's income is dependent on one source.

Mr. Cann further advised that the Corporation had recently been approached by Automatic Vending Co. which requested an opportunity to service one of the facilities administered by the Corporation on a competitive basis. He advised that initial information concerning Automatic Vending Co. indicated that it was a responsible organization. He recommended consideration of contracting with Automatic Vending Co., or any company formed for the purpose by the management of Automatic Vending Co., for vending operations at one plant or division of North American Aviation, Inc. He suggested that, if the Board should favorably view his recommendation, the determination of the facility or facilities to be covered by the new contract be postponed until further information as to the capabilities of Automatic Vending Co. is obtained.

During the discussion which followed the members of the Board concurred in the view that it would be desirable to introduce a competitive vending company in at least one of the facilities administered by the Corporation. They also considered the criteria which should be satisfied in connection with entering into a contract with a competitive vending company.

Upon motion duly made and seconded, the following resolutions were adopted:

Resolved, That the Board hereby adopts the principle of contracting with an additional company for a portion of its vending operations; and further

Resolved, That a proposal be requested from Automatic Vending Co. and, if such proposal is competitive with the Corporation's contracts with Canteen Company as to commission rates, equipment and service and, if such proposal is more favorable than proposals of other vending companies submitted to the Corporation in the past and compares favorably with existing vending arrangements in effect in other major companies in the Los Angeles areas, the Corporation enter into a contract with Automatic Vending Co., or any company formed for the purpose by the management of Automatic Vending Co., to cover vending operations at one of the plants or divisions of North American Aviation, Inc., the plant or division to be determined after study of the proposal.

KELLOUGH EXHIBIT 5

EXCERPT FROM MINUTES OF MEETING OF BOARD OF DIRECTORS OF NORTH AMERICAN AID, JANUARY 30, 1962

VENDING OPERATIONS

The President recalled the action taken at the meeting of the Board held December 20, 1961, regarding a change in vending arrangements.

At the request of the President, Mr. Kellough reviewed his discussions with representatives of Automatic Vending Co., and SERV-U-CORP., a California corporation formed recently by the principals of Automatic Vending Co. to conduct vending operations in California and elsewhere. He explained that he had reviewed with Mr. Hancock, President of Automatic Vending Co., and also Presi-

dent of SERV-U-CORP., the nature of the vending operations at the facilities of North American Aviation, Inc. In addition, he had conducted Mr. Hancock and Mr. Armstrong, who would head the SERV-U-CORP. operations in Los Angeles, through the facilities of the Los Angeles Division of North American Aviation, Inc., to show them the manner in which vending operations are presently conducted. He had also outlined, in general terms, the contract conditions desired by the Corporation to be applicable to the proposed vending operations.

Mr. Kellough stated that following receipt in mid-January of a formal proposal from SERV-U-CORP covering vending operations at the Los Angeles Division of North American Aviation, Inc., exclusive of the Palmdale facilities of that division, he had visited the headquarters of Automatic Vending Co. in Miami, Florida. During this visit he discussed with Mr. Hancock the details of the proposal of SERV-U-CORP and he also visited a number of the vending operations conducted under Mr. Hancock's direction in the Miami area. Mr. Kellough reported that he found vending operations in this area different from those in the Los Angeles area, primarily because of the absence of large industry in and around Miami. He reported that Mr. Hancock's headquarters operation appeared to be efficient and to utilize good equipment and capable personnel. The vending operations appeared well handled and the managements of the two customers contacted by Mr. Kellough reported that Mr. Hancock's vending service was completely satisfactory.

Mr. Kellough then submitted to the meeting a copy of the contract which he had negotiated with SERV-U-CORP covering vending operations at the facilities of the Los Angeles Division of North American Aviation, Inc., exclusive of the Palmdale facilities of that division. He pointed out that the terms of the proposed contract were essentially the same as this Corporation's contracts with Canteen Company except that the commissions to be paid to this Corporation under the proposed SERV-U-CORP agreement are slightly higher than those in the present Canteen Company agreements. He submitted a schedule showing the increased revenue that would accrue to the Corporation as a result of entering into the proposed agreement with SERV-U-CORP.

Copies of the SERV-U-CORP proposal and the proposed form of contract between this Corporation and SERV-U-CORP were ordered filed with the records of the meeting.

Upon the completion of Mr. Kellough's report, the directors discussed the competitive nature of the proposed contract, the financial position of SERV-U-CORP, the likelihood of a successful operation by a company not presently operating in Los Angeles and other matters related to the desirability of entering into the proposed agreement with SERV-U-CORP. In response to questions, Mr. Kellough outlined a suggested procedure for the change over from Canteen Company to SERV-U-CORP if the proposed agreement were approved.

After discussion and upon motion duly made and seconded, the following resolutions were adopted:

Resolved, That the proper officers of the Corporation be, and they hereby are, authorized to enter into a contract with SERV-U-CORP, a California corporation, covering the vending of coffee, hot chocolate, tobacco products, candy, nuts, gum, and soft drinks at the facilities of the Los Angeles Division of North American Aviation, Inc., exclusive of the Palmdale facilities of that division, in the form presented to this meeting; and further

Resolved, That the President or any Vice President of this Corporation be, and he hereby is, authorized to give written notice to Canteen Company of this Corporation's election to terminate the right of Canteen Company to install and operate vending machines in the facilities of the Los Angeles Division of North American Aviation, Inc., exclusive of the Palmdale facilities of that division, at such time as to permit the smoothest practicable transition to the supply of vending services by SERV-U-CORP, authorized at this meeting.

KELLOUGH EXHIBIT 6

THIS AGREEMENT, made this 30th day of January 1962, between NORTH AMERICAN AID, a California nonprofit corporation, and SERV-U-CORP., a Delaware corporation,

WITNESSETH:

WHEREAS, North American Aid represents that, under the terms of that Agreement with North American Aviation, Inc., dated April 2, 1956, it has the right to name Serv-U-Corp. its designee for the purpose of installing tobacco, candy,

beverage, coffee, and other vending machines in facilities of North American Aviation, Inc., situated in the State of California.

Now, THEREFORE, in consideration of the covenants and agreements herein contained, the parties mutually agree as follows:

1. Subject to the terms and conditions of this Agreement, North American Aid names Serv-U-Corp. its designee for the purpose of installing and operating vending machines in the Los Angeles Division, excluding Palmdale facilities of North American Aviation, Inc. (herein called the "facilities"). The vending machines shall be installed in such numbers and at such locations within the facilities as North American Aid shall designate. The vending machines shall vend brewed coffee, hot chocolate, soft drinks, cigarettes, cigars, candy, nuts, gum, crackers, and cookies. Serv-U-Corp. agrees to commence vending such products hereunder on a date to be fixed by both parties which date shall not be later than March 19, 1962.

2. Subject to any applicable security regulations of North American Aviation, Inc., agents or employees of Serv-U-Corp. shall be permitted to enter the facilities at convenient times for the purpose of installing, inspecting, repairing, or removing vending machines and for the purpose of making collections therefrom.

3. For the purposes of this Agreement, Serv-U-Corp. will account for sales made through vending machines during thirteen (13) four (4) week accounting periods in each year during the term of this Agreement. The first of such accounting periods shall commence on the date vending is commenced by Serv-U-Corp. under this Agreement.

Serv-U-Corp. agrees to pay North American Aid, within ten (10) days after the close of each such accounting period, commissions on sales made through vending machines as follows:

(a) *Brewed Coffee*.—A sum equal to 26% of the gross sales, less any sales tax which may apply.

(b) *Hot Chocolate*.—A sum equal to 26% of the gross sales, less any sales tax which may apply.

(c) *Soft Drinks*.—A sum equal to 40% of the gross sales, less any sales tax which may apply.

(d) *Cigarettes*.—A sum of 1½¢ per package on all cigarettes sold at a selling price of 28¢ per package. In the event cigarettes are sold at a price other than 28¢ per package, the sum payable to North American Aid shall be determined by the parties.

(e) *Cigars*.—A sum equal to 6% of the gross sales of cigars.

(f) *Candy, Nuts, Cookies, Crackers, and Gum*.—A sum equal to 17% of the gross sales, less any current cost to Serv-U-Corp. of the products itself in excess of 57% of such gross; provided, however, that such commissions shall, in no event, be less than 12% of such gross sales.

4. The prices at which the vended products are sold by Serv-U-Corp. shall be subject to the prior approval of North American Aid.

5. Coffee vending machines will be supplied regularly by Serv-U-Corp. with fresh liquid cream in sufficient quantity to correspond to the inventories of fresh ground coffee and cups within said machines. In its servicing procedure Serv-U-Corp. will exercise every known precaution in the interests of good sanitation with regard to the handling and servicing of such fresh liquid cream. The ground coffee to be dispensed in said vending machines will be purchased from established suppliers by Serv-U-Corp. on a fresh daily basis and, in turn, distributed to its service personnel on a fresh daily basis.

6. For the vending of coffee and hot chocolate, plastic cups with approximately 8¼ oz. capacity will be used and will vend 6 oz. servings. For the vending of soft drinks, cups with approximately 10 oz. capacity will be used and will vend 8 oz. servings.

7. All products vended by Serv-U-Corp. hereunder shall be of high quality and satisfactory to North American Aid.

8. Serv-U-Corp. hereby agrees to indemnify and save harmless North American Aid and North American Aviation, Inc., their officers, directors, employees, agents, successors, and assigns from (a) any and all liability for injuries to or deaths of any persons and for loss or destruction of or damage to any property occasioned all or in part, directly or indirectly, by any act or omission of Serv-U-Corp., its officers, agents or employees, or directly or indirectly caused by or resulting from any of the products sold in the vending machines or caused by or in any way resulting from the installation, maintenance, operation, presence, use, or removal of the vending machines in, upon,

about, or from the facilities; (b) any and all liability for injuries to or deaths of the officers, agents, and employees of Serv-U-Corp. and/or loss or destruction of and damage to property of or in the possession or custody of such officers, agents, or employees, howsoever caused or arising in, upon, or about any property or premises of North American Aviation, Inc., in connection with the installation, maintenance, presence, operations and/or removal of said vending machines, and whether due to an act or omission of North American Aid, North American Aviation, Inc., their officers, agents, or employees, or otherwise; and (c) any and all claims that may be made by any person, firm, or corporation by reason of the operations of Serv-U-Corp. under this Agreement, and Serv-U-Corp. shall defend at its own cost, any suit which may be brought by any person, firm, or corporation against North American Aviation, Inc., North American Aid, their successors, or assigns asserting any such liabilities or claims. Serv-U-Corp. agrees that it will carry at its own expense, protecting its liability under this paragraph 6, (i) public liability and property damage insurance, including products liability, to the extent of not less than \$100,000 for injury to or death of one person, \$500,000 for injury to or death of more than one person, and \$100,000 for damage to or destruction of property, and (ii) adequate workmen's compensation and employer's liability insurance. The insurance policy or policies evidencing such insurance shall be endorsed and provide that (1) such insurance may not be cancelled without ten (10) days' prior written notice to North American Aid and North American Aviation, Inc., of such cancellation and (2) the insurers waive any right of subrogation against North American Aviation, Inc. and North American Aid. Evidence of such insurance shall be furnished North American Aid and North American Aviation, Inc., forthwith upon the execution of this Agreement.

9. Serv-U-Corp. agrees that vending machines shall be installed, operated, and maintained at its sole expense and that such vending machines shall be of a type satisfactory to North American Aid, shall be supplied at all times with the necessary quantities of products for proper operation, located in only such places as North American Aid shall designate, and maintained in good order and in neat, sanitary, and safe condition. Serv-U-Corp. shall, promptly upon the request of North American Aid, change the location of or remove any designated vending machine or machines.

10. Serv-U-Corp. agrees to pay any and all personal property taxes and license fees levied or assessed on the vending machines, the contents thereof, and Serv-U-Corp.'s activities hereunder.

11. Neither North American Aid nor North American Aviation, Inc., shall be liable for any moneys deposited in the vending machines nor for any slugs or spurious coins that may be placed therein, and should said units be opened either by key or by force or otherwise by any unauthorized person or persons, and money or parts taken therefrom, neither North American Aid nor North American Aviation, Inc., shall be required or obligated to reimburse Serv-U-Corp. for any loss or damage it may incur as a result thereof nor shall North American Aid nor North American Aviation, Inc., be liable for any loss or destruction of or damage to the said vending machines or the contents thereof resulting from any cause whatsoever.

12. The revenue from the vending machines shall be collected at regular intervals by authorized agents of Serv-U-Corp. and adequate records thereof maintained. The books and records of Serv-U-Corp. relating to its operations hereunder shall be open to the inspection of the officers, employees, or duly authorized representatives of North American Aid at all reasonable times.

13. North American Aid shall cause suitable warehousing facilities, for the storage of such quantities of the merchandise to be vended as are required for current stocking of the vending machines, to be made available to Serv-U-Corp. without charge therefore.

14. This Agreement may be terminated by either party by giving thirty (30) days written notice to the other party and, upon such termination, Serv-U-Corp. shall, at its sole expense, remove the vending machines from the facilities and restore the facilities to the same condition they were in at the time of the installation of the vending machines, reasonable allowance being made for fair wear and tear.

15. This Agreement shall inure to the benefit of the respective successors and assigns of the parties hereto; provided, however, that Serv-U-Corp. shall not assign this Agreement in whole or in part, or any payments due or to become due hereunder without prior written approval of North American Aid.

16. Any notices provided for herein shall be sufficient if sent by registered mail addressed as follows:

To North American Aid:
North American Aid,
1700 East Imperial Highway,
El Segundo, California

To Serv-U-Corp.:
Serv-U-Corp.,
C/O Bryant Burton,
611 Wilshire Blvd.,
Los Angeles, California

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

NORTH AMERICAN AID,
By N. S. HOUSTON,
President.

Attest:

W. H. CANN.
SERV-U-CORP.,
By EUGENE A. HANCOCK,
President.

Attest:

BRYANT H. BURTON.

KELLOUGH EXHIBIT 7

AMENDMENT NO. 1 TO THE AGREEMENT BETWEEN NORTH AMERICAN AID AND SERV-U-CORP.

This AMENDMENT, entered into this 2nd day of August 1962, to the Agreement dated January 30, 1962, between NORTH AMERICAN AID, a California nonprofit Corporation, and SERV-U-CORP., a Delaware Corporation.

WHEREAS North American Aid desires that Serv-U-Corp. provide vending services, in addition to those presently supplied at the Los Angeles Division of North American Aviation, Inc. pursuant to the said Agreement, at certain facilities of the Space and Information Systems Division and the Autonetics Division of North American Aviation, Inc., and Serv-U-Corp. is willing to provide such services;

Now, THEREFORE, in consideration of the covenants and agreements herein contained, the parties mutually agree as follows:

a. Section 1 of said Agreement dated January 30, 1962, between North American Aid and Serv-U-Corp. is hereby amended to read as follows:

"1. Subject to the terms and conditions of this Agreement, North American Aid names Serv-U-Corp. its designee for the purposes of installing and operating vending machines in the Los Angeles Division, excluding Palmdale facilities, of North American Aviation, Inc., and the facilities of the Space and Information Systems Division and the Autonetics Division of North American Aviation, Inc. specified on Exhibit A hereto (herein called the "facilities"). The vending machines shall be installed in such numbers and at such locations within the facilities as North American Aid shall designate. The vending machines shall vend brewed coffee, hot chocolate, soft drinks, cigarettes, cigars, candy, nuts, gum, crackers, and cookies. Serv-U-Corp. agrees to commence vending such products hereunder on a date to be fixed by both parties which date, for the facilities of the Los Angeles Division, excluding Palmdale facilities, of North American Aviation, Inc. shall not be later than March 19, 1962, and which date, for the facilities of the Space and Information Systems Division and the Autonetics Division, shall not be later than August 25, 1962."

b. Except as otherwise provided herein, the Agreement shall continue in full force and effect.

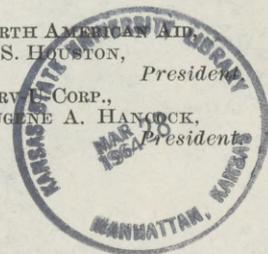
IN WITNESS WHEREOF, the parties hereto have executed this Amendment effective the date first written above.

Attest: W. H. CANN.

NORTH AMERICAN AID,
By N. S. HOUSTON,
President.

SERV-U-CORP.,
By EUGENE A. HANCOCK,
President.

Attest: T. W. ROBERTSON.



1076 FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES

EXHIBIT A OF AMENDMENT No. 1 TO THE AGREEMENT BETWEEN NORTH AMERICAN AID AND SERV-U-CORP.

Space and Information Systems Division Facilities:

Buildings 1, 3, 6, 9, 10, 19, 22, 29, 39, 41, 42, 135, 201, 230, 231, 232, 237, 246, and 272.

Paramount Facility—14409 Paramount Blvd., Paramount.

Ferguson Facility Building No. 1—5555 Ferguson Dr., Commerce.

Pico Rivera Facility—7777 Industry Ave., Pico Rivera.

Torrance Facility—3500 Torrance Blvd., Torrance.

Slauson Facility—6329 East Slauson Ave., Commerce.

Long Beach—2745 Wardlow Rd., Long Beach.

Autonetics Division Facilities, Downey, California:

Buildings 4, 5, 2, 18, and 100.

N. S. HOUSTON,
August 2, 1962.
EUGENE A. HANCOCK,
August 5, 1962.

AMENDMENT No. 2 TO THE AGREEMENT BETWEEN NORTH AMERICAN AID AND SERV-U-CORP.

THIS AMENDMENT, entered into this 22nd day of August 1963, to the Agreement dated January 30, 1962, between NORTH AMERICAN AID, a California nonprofit Corporation, and SERV-U-CORP., a Delaware Corporation.

WHEREAS, North American Aid desires that Serv-U-Corp. provide vending services, in addition to those presently supplied at the Los Angeles Division of North American Aviation, Inc., and the Space and Information Systems Division of North American Aviation, Inc., pursuant to the said Agreement, at certain facilities of the Rocketdyne Division of North American Aviation, Inc., in the Los Angeles area, and Serv-U-Corp. is willing to provide such services;

NOW, THEREFORE, in consideration of the covenants and agreements herein contained, the parties mutually agree as follows:

a. Section 1 of the said Agreement dated January 30, 1962, between North American Aid and Serv-U-Corp. and amended August 2, 1962, is hereby amended to read as follows:

"1. Subject to the terms and conditions of this Agreement, North American Aid names Serv-U-Corp. its designee for the purposes of installing and operating vending machines in the Los Angeles Division, excluding Palmdale facilities, of North American Aviation, Inc. and certain facilities of the Space and Information Systems Division of North American Aviation, Inc. as specified on Exhibit A hereto, and the facilities of the Rocketdyne Division of North American Aviation, Inc. in the Los Angeles area, excluding Santa Susana and Romo-Woolridge facilities, specified on Exhibit B hereto (all such facilities being herein called the "facilities"). The vending machines shall be installed in such numbers and at such locations within the facilities as North American Aid shall designate. The vending machines shall vend brewed coffee, hot chocolate, soft drinks, cigarettes, cigars, candy, nuts, gum, crackers, and cookies. Serv-U-Corp. agrees to commence vending such products hereunder on a date to be fixed by both parties which date, for the facilities of the Los Angeles Division, excluding Palmdale facilities, of North American Aviation, Inc. shall not be later than March 10, 1962, and which date, for the facilities of the Space and Information Systems Division shall not be later than August 25, 1962, and which date for the facilities of the Rocketdyne Division, excluding Santa Susana and Romo-Woolridge facilities, shall not be later than September 28, 1963."

b. Except as otherwise provided herein, the Agreement shall continue in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment effective the date first written above.

NORTH AMERICAN AID,
By K. L. KELLOUGH,
President.

W. H. CANN,

By WILLIAM R. ARMSTRONG,
President.

CHARLES N. BAKER.

Attest:

Attest:

EXHIBIT B OF AMENDMENT No. 2 TO THE AGREEMENT BETWEEN NORTH AMERICAN AID AND SERV-U-CORP.

Rocketdyne Division of North American Aviation, Inc. Facilities Canoga Park, Calif:

Buildings 001, 002, 004, 009, 037, 043 located on Canoga Avenue, Canoga, Park.

Buildings 038, 045 located on Vanowen Street, Canoga Park.

Building 041 located on Eton Street, Canoga Park.

Building 053 located on Nordoff Street, Canoga Park.

Buildings 054, 055, 056 located on Topham Street, Canoga Park.

Building 018 located on Raymer Street, Van Nuys.

Building 057 located on Orion Ave., Van Nuys.

K. L. KELLOUGH,

August 22, 1963.

WILLIAM R. ARMSTRONG,

August 22, 1963.

Senator CANNON. Counsel, do you have any other questions?

Mr. McLENDON. No, sir.

Senator CANNON. Mr. Kellough, would it have made any difference to you whether Mr. Baker or Mr. Black did have an interest in Serv-U; so far as your duties were concerned?

Mr. KELLOUGH. I would believe not; sir. My prime responsibility is seeing that a good vending program is conducted, and that is what we have always attempted and have, I think, conducted successfully at North American.

Senator CANNON. When Mr. Black met you in Mr. Taylor's office and asked how the vending service was doing—what was your answer, or your response to that?

Mr. KELLOUGH. I told him they were generally doing a very acceptable job. I told him that we had had a bit of a flareup relative to a blend of coffee which they were vending in their machines in the Los Angeles division a short time prior to that. In my discussions in Florida with Mr. Hancock, when we were discussing certain specifics relative to the vending within North American, I said that our experience with Farmer Bros. coffee had been most excellent, and that any vendor which we would have within our organization we would request Farmer Bros. coffee.

Apparently, the Serv-U was using Farmer Bros. coffee, but had changed the blend from No. 1 to 800, or something like that. And we had some complaints that the coffee might be of a weaker variety. And I was called into the Los Angeles division to discuss with Mr. Armstrong, a representative of Farmer Bros. coffee, and the personnel director of the Los Angeles division, and after a certain amount of discussion, it was learned that Farmer Bros. had indicated to Mr. Armstrong that they felt it was a very excellent blend of coffee and should make a very good cup of coffee. I had not tasted it; I didn't know. And I requested at that time they immediately go back to the former blend.

Senator CANNON. Did they do that?

Mr. KELLOUGH. Yes.

Senator CANNON. So that your testimony is, then, that generally they did an acceptable job as a vending company?

Mr. KELLOUGH. Very much so; yes.

Senator CANNON. Are you familiar with the commissions paid to the North American Aid?

Mr. KELLOUGH. Yes, sir.

Senator CANNON. You heard Mr. Atwood's testimony that the commissions ranged from 4 to 5 percent higher than that paid by their predecessor; is that correct?

Mr. KELLOUGH. I am not a mathematician. In figuring percentages, it is sometimes tricky to me.

Senator CANNON. Well, let me ask you this: Were the commissions paid by Serv-U to North American Aid higher commissions than those paid by their predecessors?

Mr. KELLOUGH. Yes, sir.

Senator CANNON. And was their service comparable?

Mr. KELLOUGH. I would say "Yes."

Senator CANNON. What is the approximate amount of commission paid by each of the two companies to North American Aid, if you know?

Mr. KELLOUGH. You mean in dollars?

Senator CANNON. Dollars.

Mr. KELLOUGH. Well, last year—and I cannot be sure of the breakdown on these figures, but I do believe that North American Aid received something like \$700,000 probably from Automatic Vending, or Canteen Co., and maybe somewhere in the neighborhood of \$600,000 from Serv-U. But those figures are just from memory. I cannot be absolutely sure.

Senator CANNON. And did Serv-U provide service for less employees than Automatic Vending—is that the reason for the difference?

Mr. KELLOUGH. In 1963; yes.

Senator CANNON. Senator Curtis?

Senator CURTIS. A stack of letters and other documents has been offered in evidence. I am not sure that our record shows what they are, or where they came from. One here, a letter addressed to Mr. Eugene Hancock, Automatic Vending Service Co., from Miami, from a colonel at Homestead Air Force Base. Another letter similarly addressed from Dobbs Houses.

Another letter similarly addressed from Aerodex.

One addressed "To whom it may concern," from Bush International—quite a few of them here.

One from Riddle Airlines. This says, "Box 38538, International Airport Branch, Miami 40, Fla., Automatic Vending."

How did those things come into your possession?

Mr. KELLOUGH. That package came as a part of the proposal submitted by Serv-U Corp., on its letter dated January 12, 1962.

Senator CURTIS. Did you consider that you were dealing with Automatic Vending?

Mr. KELLOUGH. At that time I believed that to be true; yes.

Senator CURTIS. And any reference to a new company would have been in the context of an organization set up to handle the California business?

Mr. KELLOUGH. To change State.

Senator CURTIS. Who made the decision—first let me ask this: Was there some vending company removed from North American to make room for Serv-U?

Mr. KELLOUGH. A portion of the Canteen Co. installations were canceled under this letter of termination; yes.

Senator CURTIS. Who made the decision to cancel part of Automatic Canteen business?

Mr. KELLOUGH. Well, the board of directors of North American Aid.

Senator CURTIS. And who recommended it to them?

Mr. KELLOUGH. Well, in the meeting of January—or December, I believe, 20th, there had been a discussion relative to the advisability of a secondary supplier. And after general discussion it was reported, I believe, by Mr. Cann that Automatic Vending had asked to make a proposal, and that that proposal had been made, and reviewed on my trip to Florida, what I had found out down there, and then after a considerable discussion at that time, the board of directors of North American Aid voted to award this portion of our vending to Serv-U Corp.

Senator CURTIS. Now, at that time did you have more than one vending machine company doing business at North American?

Mr. KELLOUGH. We have a canteen company primarily in the Los Angeles area, but we have others within other areas of North American; yes.

Senator CURTIS. Automatic Canteen is still doing business for you?

Mr. KELLOUGH. Yes, sir.

Senator CURTIS. They were satisfactory?

Mr. KELLOUGH. Yes; they have done a very excellent job for us.

Senator CURTIS. Were they happy about having part of their business canceled?

Mr. KELLOUGH. I am sure that they were not.

Senator CURTIS. Well, now, I realize that the board of directors made the decision. But I am not clear just who recommended it, that this 30-day notice be given to Automatic Canteen.

Mr. KELLOUGH. Well, that probably would be Automatic, if we awarded the contract to a portion of the vending within our plant which had been done by Canteen—to a new company. According to the terms of our agreement, we would, therefore, have to serve a 30-day notice of termination of that portion of it to Canteen Co.

Senator CURTIS. Oh, yes; I understand according to your contract you would have to give a 30-day notice. But somebody made a decision, or at least I would assume made a recommendation to the board of directors that part of Automatic Canteen's business be terminated. And if you know who it was—that is my question.

Mr. KELLOUGH. I cannot remember. It was board action. I would not know. I advised that I felt as though Automatic Vending could do a very capable job, from what I had been able to observe in the operation in Florida. And I advised that under this management that I had observed in Florida I thought that they could do an adequate job. However, at that time I was not a member of the board. Who might have made the motion, I don't know, sir.

Senator CURTIS. You were not present?

Mr. KELLOUGH. I was present; yes, sir.

Senator CURTIS. Well, did you recommend the cancellation of part of Automatic Canteen's business?

Mr. KELLOUGH. No, sir.

Senator CURTIS. Did anyone make that recommendation in your presence?

Mr. KELLOUGH. Well, board action had approved the awarding of a new contract to Serv-U Corp. And, therefore, as a result of that, a letter of termination would have to be submitted to Canteen Co. Who recommended or who suggested it, I cannot say, sir. It would have been action of the board.

Senator CURTIS. Well, did Serv-U bring in new machines, or did they buy the machines from Automatic Canteen?

Mr. KELLOUGH. Serv-U brought in new soft drink machines with icemakers in them. The rest of the equipment was purchased from Canteen Co., on location.

Senator CURTIS. Do you know anything about the purchase?

Mr. KELLOUGH. No, sir.

Senator CURTIS. Was the purchase made after the 30-day cancellation order was given?

Mr. KELLOUGH. I am not sure.

Senator CURTIS. It probably wasn't done before.

Mr. KELLOUGH. Probably not.

Senator CURTIS. Because had Automatic Canteen already sold their machines to Serv-U, they would not have probably expressed a displeasure that they lost the business, would they?

Mr. KELLOUGH. They had received oral notice only, and I am sure they would not have sold the equipment until they received formal notification.

Senator CURTIS. Were they happy about having to sell their machines to Serv-U?

Mr. KELLOUGH. I would say probably this may be true—and I cannot be sure—that with their operations being terminated within the Los Angeles division, and a certain amount of equipment to be taken out and be unproductive to them, that they might have been interested in selling equipment. I don't know. They did, however, sell a large portion of the equipment on site and on location to Serv-U Corp.

Senator CURTIS. Did Automatic Canteen protest what happened?

Mr. KELLOUGH. Well, let's say they made a trip out and said, "Gentlemen, we are awfully sorry to lose this portion of the business. Is there something wrong with our service? Are we doing something wrong? Is there anything we can do to improve our service?" And so on. I am sure they were very disturbed about losing a portion of their business.

Senator CURTIS. You say they came out. Where are their headquarters?

Mr. KELLOUGH. Chicago, I believe.

Senator CURTIS. Well, did North American have any reason for making this change other than what has been stated as a secondary—you wanted a secondary supplier?

Mr. KELLOUGH. That was the prime motive, I am sure.

Senator CURTIS. Was Automatic Canteen your primary supplier at that time?

Mr. KELLOUGH. Yes, sir.

Senator CURTIS. What had happened in the way of service, financial condition of the company, or otherwise, that made it desirable to have a secondary source?

Mr. KELLOUGH. Would you state that again, please, sir?

Senator CURTIS. What had happened in the way of service supplied by Automatic Canteen or financial misfortune or otherwise that made it advisable to have a secondary supplier to Automatic Canteen?

Mr. KELLOUGH. With the magnitude of the vending business as it had grown over the past few years, particularly since the introduction of coffee vending into our plants, and the extensive recreation and welfare program which we were conducting, it was believed generally that it was just advisable to have competition injected, and to have a secondary supplier.

Senator CURTIS. Now, would Automatic Canteen's contract run on indefinitely, or did it have a termination date as well as the provision for a 30-day cancellation?

Mr. KELLOUGH. I believe that it—I cannot state without looking at it for sure, but I would believe that it would continue until notice served, written notice served by either party, a period of 30-day notice.

Senator CURTIS. It had no other expiration date?

Mr. KELLOUGH. Without looking at the contract, I cannot be sure.

Senator CURTIS. Would you find that out and notify the committee—notify us at a later time, by mail or otherwise?

Mr. PICKETT. Yes; we will do that, sir.

Senator CURTIS. Did North American have any vending business with Davidson Bros.?

Mr. KELLOUGH. No, sir.

Senator CURTIS. Did Mr. Hancock ever indicate to you who did own Automatic Vending of Miami, Fla.?

Mr. KELLOUGH. As I remember, mention was made that a man by the name of Elliott was a partner of his in Automatic Vending.

Senator CURTIS. Did he mention anybody else?

Mr. KELLOUGH. I don't recall that anyone else was mentioned at all.

Senator CURTIS. I think that is all.

Senator CANNON. You may be excused, Mr. Kellough.

Mr. McLendon. Just a minute. Let him identify this.

You handed me a letter just before you came in here this morning that was not in the file. Will you look at it, please?

Mr. PICKETT. Mr. McLendon, I handed you the letter.

Mr. McLendon. Counsel handed me the letter. It is addressed to you, is it not?

Mr. KELLOUGH. Yes, sir.

Mr. McLendon. What is the date of it?

Mr. KELLOUGH. January 12.

Mr. McLendon. Is that a cover letter in which Mr. Hancock's proposal was enclosed, a proposal of January 12?

Mr. KELLOUGH. Yes, sir.

Mr. McLendon. And the proposal is already in evidence?

Mr. KELLOUGH. Yes. Dated January 12, also.

Mr. McLendon. Just hand that to the reporter and let him mark it was an exhibit.

Senator CANNON. It may be marked and submitted for the record.

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

KELLOUGH EXHIBIT 8

SERV-U-CORP.,
Miami, Florida, January 12, 1962.

Airmail—Registered.

Mr. K. L. KELLOUGH,
Recreation & Welfare Administrator,
North American Aid,
North American Aviation, Inc.,
International Airport,
Los Angeles 45, California.

DEAR MR. KELLOUGH: Enclosed you will find our proposal for the vending in the Los Angeles Division of North American Aviation, Inc., exclusive of Palmdale.

We believe that we have covered all phases in our proposal, but if there should be any questions that you would like to ask us, we will be available at any time.

I would like to take this opportunity to personally thank you for giving us so much of your time and in allowing us to take the complete survey that we did. I would also like to say to you that I learned a little bit more about vending through you.

If we should be fortunate enough in being awarded the contract for serving North American Aid, I would like to pledge to you and North American Aid, our greatest effort in serving you.

Very truly yours,

SERV-U-CORPORATION,
EUGENE A. HANCOCK,
President.

Senator CURTIS. Is Mr. Black a director?

Mr. KELLOUGH. You are asking me?

Senator CURTIS. Yes.

Mr. KELLOUGH. Sir, I don't know. Not that I know of.

Senator CURTIS. A director of North American?

Mr. KELLOUGH. I don't know, sir. I don't know. I can't answer.

Senator CURTIS. Did he ever attend directors' meetings?

Mr. KELLOUGH. Of North American Aviation?

Senator CURTIS. Yes.

Mr. KELLOUGH. I don't know.

Senator CURTIS. Was he present the day that this decision was made in regard to removing Automatic Canteen?

Mr. KELLOUGH. I am not sure——

Senator CANNON. If the Senator will yield, the decision was not made by North American, but by North American Aid.

Mr. KELLOUGH. That was why I asked you——

Senator CURTIS. I asked who made the decision, and he said the board of directors.

What board of directors are you talking about?

Mr. KELLOUGH. Board of directors of North American Aid, sir.

Senator CURTIS. All right. Was Mr. Black present?

Mr. KELLOUGH. No, sir.

Senator CURTIS. And, of course, he is not a director?

Mr. KELLOUGH. No, sir.

Senator CURTIS. I see. Well, I am glad you cleared that up. I had in mind the other board of directors.

Mr. KELLOUGH. I am sorry.

Senator CANNON. You may be excused, Mr. Kellough. Thanks very much for appearing here without subpoena for the benefit of this committee.

The committee will stand in recess subject to the call of the Chair.

(Whereupon, at 12:45 p.m., the committee recessed, subject to the call of the Chair.)

FINANCIAL OR BUSINESS INTERESTS OF OFFICERS OR EMPLOYEES OF THE SENATE

WEDNESDAY, FEBRUARY 19, 1964

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

The committee met, pursuant to recess, at 2 p.m., in room 318, Old Senate Office Building, Senator B. Everett Jordan (chairman) presiding.

Present: Senators Jordan, Hayden, Cannon, and Scott.

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

The CHAIRMAN. The committee will please come to order.

Would you call the witness?

Mr. McLENDON. Mr. Robert Miller.

The CHAIRMAN. Mr. Miller, it is necessary that I read an opening statement here in order that you understand under what procedure we are operating, and why you are expected to be here.

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

The committee is acting by direction and under the authority of Senate Resolution 212, agreed to October 10, 1963, and Senate Resolution 291, agreed to February 10, 1964.

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

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

- (1) Whether any such interests or activities have involved conflicts of interest or other improprieties; and
- (2) Whether any 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 resolutions of direction and authorization, and which 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 question, the witness might 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. Robert Miller.

Mr. Miller, if you will please rise, and put your left hand on the Bible and raise your right hand.

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. MILLER. I do.

The CHAIRMAN. Thank you, sir.

Have a seat.

Mr. Counsel, before you start questioning the witness, I would like to include in the record that we do have permission to sit at the noon session.

Senator SCOTT. The Senate is in adjournment.

The CHAIRMAN. Yes. Well, we had permission, should it not.

I have got to go to another meeting, in Agriculture. Senator Cannon will preside while I am gone.

Senator Cannon, if you will take over, I would appreciate it.

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

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

TESTIMONY OF ROBERT R. MILLER

Mr. MILLER. Robert R. Miller, 163 Acari Drive, Los Angeles, Calif.

Mr. McLENDON. You do not have counsel with you today?

Mr. MILLER. I do not.

Mr. McLENDON. You understand that you have a right to have counsel, do you not?

Mr. MILLER. I understand.

Mr. McLENDON. And you have been fully advised of your rights?

Mr. MILLER. I have.

Mr. McLENDON. I believe you voluntarily agreed to be interviewed by members of the staff.

Mr. MILLER. I did.

Mr. McLENDON. And volunteered to appear here and testify today?

Mr. MILLER. I did.

Mr. McLENDON. Mr. Miller, what position do you hold with the Northrop Corp.?

Mr. MILLER. I am a senior vice president of the Northrop Corp.

Mr. McLENDON. How long have you held that position?

Mr. MILLER. About 6 years.

Mr. McLENDON. Will you tell the committee something about the business that Northrop Corp. engages in?

Mr. MILLER. Yes. The business of the Northrop Corp. is about 90 percent with the U.S. Government. We build airplanes; we build missiles, guidance systems, electronics, this type of thing.

Mr. McLENDON. How many plants does your company operate; locations of plants?

Mr. MILLER. We have about six.

Mr. McLENDON. Where are they?

Mr. MILLER. They are in Conejo, Calif.; Palo Verdes, Calif.; Anaheim, Calif.; Hawthorne, Calif.; Boston, Mass.

Mr. McLENDON. Mr. Miller, do you know Fred Black, Jr.?

Mr. MILLER. Yes; I do.

Mr. McLENDON. How long have you known him?

Mr. MILLER. I have known Fred Black, I would say, 2½ to 3 years.

Mr. McLENDON. During that time, did you know that he was a consultant for North American Aviation?

Mr. MILLER. I did.

Mr. McLENDON. Is North American Aviation a subcontractor with your company—or the reverse—are you a subcontractor of it?

Mr. MILLER. I think we do subcontract work for North American.

Mr. McLENDON. Do they do any for you?

Mr. MILLER. I don't believe so.

Mr. McLENDON. Did you ever have any contacts with Fred Black in connection with those subcontracts?

Mr. MILLER. I did not.

Mr. McLENDON. You say you did know that he was a consultant?

Mr. MILLER. I knew he was a consultant.

Mr. McLENDON. For North American?

Mr. MILLER. That is right.

Mr. McLENDON. Did you know whether he was a consultant for Melpar?

Mr. MILLER. I did not.

Mr. McLENDON. Is Melpar a subcontractor of your company?

Mr. MILLER. No; not to my knowledge.

Mr. McLENDON. Have you ever subcontracted any work with Melpar?

Mr. MILLER. Not to my knowledge.

Mr. McLENDON. Mr. Miller, do you recall a visit to you by Fred Black sometime early in 1962, in which he discussed with you the vending machine operations of your company?

Mr. MILLER. I do.

Mr. McLENDON. Do you have any way to fix a date?

Mr. MILLER. I do not.

Mr. McLENDON. Can you approximate it?

Mr. MILLER. I would think it would be the latter part of 1961. He called on Mr. Jones, who is the president of the company, and myself, at that time.

Mr. McLENDON. Did he have an engagement, or did he come without an engagement?

Mr. MILLER. He called up and asked for an appointment.

Mr. McLENDON. Did he tell you what he wanted the appointment about?

Mr. MILLER. No; he did not.

Mr. McLENDON. After he got there, will you tell the committee what he said?

Mr. MILLER. Yes. He said if the Northrop Co. at any time are interested in doing vending machine business other than with the people we are now doing it with, he would like to recommend the Serv-U Co.

Mr. McLENDON. What company were you then doing business with, Mr. Miller?

Mr. MILLER. We were doing business with the Davidson Bros., which, as I understand it, is a subsidiary of the Automatic Retailers Corp. I may have the name wrong. But I think I am right.

Mr. McLENDON. And his statement or request was that he would like for your company to do business with Serv-U Corp. in the event you changed?

Mr. MILLER. That is right.

Mr. McLENDON. Did he explain what the Serv-U Corp. was?

Mr. MILLER. Yes. He said it was a new corporation, and that they were doing business with the North American Aviation Co., and if I needed any recommendations to call whomever I knew at the North American Co., and inquire.

Mr. McLENDON. Did he identify any of the managers of the Serv-U Corp.?

Mr. MILLER. No. He told me that a Mr. Hancock, who was then president of Serv-U, would be out on the coast and would stop in and see me.

Mr. McLENDON. Did he tell you anything about who the stockholders were?

Mr. MILLER. He did not.

Mr. McLENDON. Did he explain his interest in Serv-U?

Mr. MILLER. He did not.

Mr. McLENDON. Did you get the impression that he was representing Serv-U as an attorney?

Mr. MILLER. I gathered that impression; yes.

Mr. McLENDON. Or if not an attorney, as an agent?

Mr. MILLER. Well, more as an attorney, I would believe.

Mr. McLENDON. But you didn't question him about it?

Mr. MILLER. No; I did not.

Mr. McLENDON. He did not disclose to you that he was a stockholder himself?

Mr. MILLER. He did not.

Mr. McLENDON. After that—well, did you tell him that you would give consideration to his request?

Mr. MILLER. I told him we would give consideration.

Mr. McLENDON. Did you go into any detail with him?

Mr. MILLER. No, sir.

Mr. McLENDON. After that, did Mr. Hancock call as Mr. Black indicated he would?

Mr. MILLER. Yes. About a month or two later Mr. Hancock called, and at that time I looked at our present contract with the Davidson Bros., and there was a clause in there that it could not be canceled for 1 year. So we didn't do anything for 1 year.

Mr. McLENDON. Did Mr. Hancock introduce himself to you?

Mr. MILLER. Yes.

Mr. McLENDON. Did he identify himself as president of Serv-U?

Mr. MILLER. He did.

Mr. McLENDON. Did he identify any of the other stockholders, officers or directors of Serv-U?

Mr. MILLER. He did not.

Mr. McLENDON. Did you ask him anything about what Black's connection with it was?

Mr. MILLER. No.

Mr. McLENDON. You talked to Mr. Hancock on that occasion and told him that under the terms of your contract with Davidson, you were not in a position to cancel the Davidson contract at that time? Is that the substance of it?

Mr. MILLER. That is right.

Mr. McLENDON. Thereafter, did you get in touch with Mr. Hancock again?

Mr. MILLER. Yes—when the contract—when we could—were in a position to cancel the contract and go out and see if we could get a better contract somewhere else, then I contacted Mr. Hancock, along with Automatic Canteen and a couple of other companies.

Mr. McLENDON. Between the time of Hancock's visit and the time that you wrote him, signifying your interest in the Serv-U Corp., had you seen Black again?

Mr. MILLER. I probably had. I don't recall exactly.

Mr. McLENDON. If you did, do you recall his referring to this subject at all?

Mr. MILLER. No.

Mr. McLENDON. You do not?

Mr. MILLER. No; I do not.

Mr. McLENDON. Did you, after contacting Hancock, furnish him with information about the vending operations in your company?

Mr. MILLER. We did.

Mr. McLENDON. And you made available to him any information that he needed in order to make a proposal, did you?

Mr. MILLER. That is right—as well as other companies.

Mr. McLENDON. Together with other companies?

Mr. MILLER. He wasn't treated any differently than anybody else.

Mr. McLENDON. All right. Now, do you recall when you made the first contract with Serv-U? To refresh your recollection, I think you told the investigators it was in November 1962.

Mr. MILLER. I think—

Mr. McLENDON. Is that about right?

Mr. MILLER. Yes.

Mr. McLENDON. And that covered the Ventura plant, did it not?

Mr. MILLER. That is right.

Mr. McLENDON. Where was the Ventura plant located?

Mr. MILLER. The Ventura plant is about 25, 30 miles northwest of Los Angeles, just on the edge of Ventura County.

Mr. McLENDON. The Ventura plant is located where?

Mr. MILLER. It is about 25 miles northwest of Los Angeles.

Mr. McLENDON. About how many employees do you have at that plant?

Mr. MILLER. About 1,500, 1,600.

Mr. McLENDON. Did you negotiate the terms of the contract between Serv-U and your company for the Ventura plant?

Mr. MILLER. Did I, personally?

Mr. McLENDON. Did you personally do it?

Mr. MILLER. No; I did not.

Mr. McLENDON. Which one of your officials did?

Mr. MILLER. Well, it was done between the industrial relations director at Ventura and a man who was a legal counsel in our office by the name of Workman.

Mr. McLENDON. Did you have any discussions with Black concerning the terms of the contract?

Mr. MILLER. No.

Mr. McLENDON. And after the first contract with the Ventura plant was executed, did you make a second contract in April 1963 for another unit of the company?

Mr. MILLER. We did.

Mr. McLENDON. And where was that located?

Mr. MILLER. That was located at Anaheim.

Mr. McLENDON. A-n-a-h-e-i-m?

Mr. MILLER. A-n-a-h-e-i-m; that is right.

Mr. McLENDON. How many employees do you have at that plant?

Mr. MILLER. At that time I think there were 2,600, 2,700, maybe 3,000 people.

Mr. McLENDON. And that contract, I assume, was handled by your subordinates in the same way as the first one.

Mr. MILLER. That is right.

Mr. McLENDON. Now, you said when you were first approached about this matter that the reference was to a corporation being organized, or to be organized.

Mr. MILLER. I didn't understand the question.

Mr. McLENDON. I said when you were first approached about this matter by Mr. Black, he referred to the Serv-U Corp. as one that was to be organized or was being organized.

Mr. MILLER. That is right. I got the impression that it was young in the business. Whether it was organized or not, I didn't know.

Mr. McLENDON. When did you find out and from whom did you find out that it had been organized?

Mr. MILLER. Well, I found out from the North American Co.

Mr. McLENDON. What individual at North American did you contact?

Mr. MILLER. I talked to Mr. Lee Taylor.

Mr. McLENDON. The president?

Mr. MILLER. No. He is a vice president of the company. Lee Atwood is the president.

Mr. McLENDON. Did you require Mr. Hancock to give you any information concerning the financial responsibility—

Mr. MILLER. I asked him if they were financially responsible, and he said, "Yes." I then asked the North American Co., who were already doing business with the company, if they were satisfied with their financial background, and they told me they were.

Mr. McLENDON. You didn't actually get a balance sheet, financial statement?

Mr. MILLER. I did not.

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

Mr. McLENDON. Mr. Miller, did you know Robert G. Baker in 1961, when Black first spoke to you about this?

Mr. MILLER. I did not.

Mr. McLENDON. When did you meet him?

Mr. MILLER. I met him the latter part of 1962.

Mr. McLENDON. Where did you meet him?

Mr. MILLER. I met him in his office.

Mr. McLENDON. Here in the Capitol?

Mr. MILLER. Yes.

Mr. McLENDON. Do you remember how you happened to meet him?

Mr. MILLER. Yes; I do.

Mr. McLENDON. What was that?

Mr. MILLER. We have a consultant here in Washington by the name of Stanley Sommer. Stanley Sommer said, "I would like to have you meet a friend of mine by the name of Mr. Baker," and he took me out and introduced me to him.

Mr. McLENDON. How long has Mr. Stanley Sommer been acting for your company as consultant?

Mr. MILLER. Oh, he has probably been there 5 years.

Mr. McLENDON. Can you give us some idea of what his duties were?

Mr. MILLER. His duties were to keep us apprised of what was going on in Washington, from a contractual point of view, and legislative point of view, and defense point of view.

Mr. McLENDON. Did he represent to you that Mr. Baker was an important man to know?

Mr. MILLER. He thought he was an important man to know; yes.

Mr. McLENDON. And part of his duties, I assume, are to introduce you to people of importance; is that true?

Mr. MILLER. That is true.

Mr. McLENDON. So you didn't think there was anything unusual for him to say he wanted you to meet Mr. Baker, a man of importance?

Mr. MILLER. No; I did not.

Mr. McLENDON. Did you make any inquiries as to what Mr. Baker's influence was?

Mr. MILLER. I don't—no; I didn't make any inquiries. I took his word for it.

Mr. McLENDON. You knew the position that he held?

Mr. MILLER. I certainly did.

Mr. McLENDON. Did you mention to him or did he mention to you the Serv-U business being done for your company?

Mr. MILLER. He did not.

Mr. McLENDON. And you didn't refer to it at all?

Mr. MILLER. No. I had no reason to. I didn't know.

Mr. McLENDON. You had no reason to know at that time that he was a stockholder in Serv-U?

Mr. MILLER. I did not know.

Mr. McLENDON. After that, did you see him again?

Mr. MILLER. As I told your investigators, I saw him socially one evening, and that is the only time.

Mr. McLENDON. Was that at Mr. Black's house?

Mr. MILLER. It was not. It was at Dr. Walsh's house.

Mr. McLENDON. Did you know that Dr. Walsh was a director of Serv-U?

Mr. MILLER. I did not.

Mr. McLENDON. Was Black at that social—

Mr. MILLER. He was at that party. There were about 200 people there.

Mr. McLENDON. But you remember seeing both Black and Baker at that particular party?

Mr. MILLER. That is right.

Mr. McLENDON. Did you call on Mr. Baker on another occasion to ask him for information about antitrust operations?

Mr. MILLER. I did.

Mr. McLENDON. When was that?

Mr. MILLER. That was maybe 6 months or a year later.

Mr. McLENDON. Did you visit his office in the Capitol?

Mr. MILLER. I did.

Mr. McLENDON. Can you tell the committee why you went to see him about this subject?

Mr. MILLER. Well, we had a suit or preparation for a suit to be filed against us, and I believe it was. And I was just desirous of knowing who was knowledgeable about these things. And I went to him and asked him who in his opinion was the most capable law firm that we could talk to that would know about this. Ultimately nothing happened, because I didn't go to anybody, and nothing has ever come of this. So the net result was nil.

Mr. McLENDON. Did you have reason to believe that Mr. Black might have some influence in connection with antitrust litigation?

Mr. MILLER. Mr. Black?

Mr. McLENDON. I beg your pardon—Mr. Baker.

Mr. MILLER. No; I did not. I was merely looking for somebody that might be helpful to us—not influential.

Mr. McLENDON. When did you first discover, Mr. Miller, if you have discovered, that both Black and Baker were stockholders in Serv-U, and that they had a controlling interest in it?

Mr. MILLER. I read it in the Los Angeles Times.

Mr. McLENDON. Within the past few weeks?

Mr. MILLER. That is right.

Mr. McLENDON. How often did you see Black after he first approached you and solicited your business?

Mr. MILLER. I probably saw him three or four times a year. He came to the coast. I would see him socially occasionally. That was all.

Mr. McLENDON. Did you ever see Baker on the coast?

Mr. MILLER. I never did.

Mr. McLENDON. In these various meetings, when you did see Mr. Black, did he ever disclose to you that he was a stockholder in Serv-U?

Mr. MILLER. He never did.

Mr. McLENDON. And you had no knowledge of that fact until you read it in the public press?

Mr. MILLER. That is true.

Mr. McLENDON. That is all, Mr. Chairman.

Senator CANNON. Mr. Miller, would it have made any difference to you if you had known that Mr. Black and Mr. Baker had an interest in the Serv-U Corp.?

Mr. MILLER. Mr. Senator, I think we would have looked into it a little more than we did. I don't know whether it would have changed the decision or not, because the decision we made was—turned out to be a very good one.

Senator CANNON. What do you mean it turned out to be a good one? Did you get a better deal from Serv-U?

Mr. MILLER. We got a better contract all the way around. And I would be glad to quote some figures.

Senator CANNON. Will you quote the figures, please?

Mr. MILLER. I can, offhandedly—in 1962, under the contract we had with the Davidson Bros., I think we received at the Ventura plant something like \$454 in the month of February. A year after that, under Serv-U, we received some \$1,500, on the same contract. Now, as you understand, Senator, this money does not go to the company. It goes to the employees for their recreational fund. And we were concerned about getting as much into their fund as we could.

Senator CANNON. In other words, the company simply supervises it, but the employees get the benefit of the commissions paid by the operators; is that correct?

Mr. MILLER. That is right.

Senator CANNON. And you are saying, then, that under Serv-U you got almost four times as much in a comparable month of February than you were getting under the previous company?

Mr. MILLER. This is true. I may quote another figure, Mr. Senator, and that is—and I think it is the most reliable one—and that is the per capita income. In 1961—no—in 1962, the per capita income was 23 cents in that month, per employee. And a year later it was 80 cents.

Senator CANNON. And would that 1-month comparison that you made reasonably apply to other months?

Mr. MILLER. It is comparable all the way through.

Senator CANNON. Did it make any difference to you who the stockholders were in these respective companies? How many companies did you consider at the time you considered bringing Serv-U into your company?

Mr. MILLER. I think there were five companies.

Senator CANNON. And was Serv-U's offer the best proposal made by any of those five companies?

Mr. MILLER. In our opinion it was; yes, sir.

Senator CANNON. Did Robert Baker ever assist you in any way in connection with any Government contracts or any other business of the company?

Mr. MILLER. No, sir.

Senator CANNON. Did you ever request him to assist you in any way with any Government contracts or any other business of the company?

Mr. MILLER. No, sir.

Senator CANNON. Did you ever request any Senate officer or employee to assist you in any way in connection with Government contracts or other business of the company?

Mr. MILLER. No, sir.

Senator CANNON. So far as you know, did any Senate officer or employee assist you or your company in any way in connection with any Government contracts or any other business?

Mr. MILLER. Not to my knowledge.

Senator CANNON. Is your contract with Serv-U still in effect at the present time?

Mr. MILLER. It is.

Senator CANNON. Has it been satisfactory as far as your company and the employees of your company are concerned?

Mr. MILLER. Very much so.

Senator CANNON. Senator Scott?

Senator SCOTT. Just one question.

Did you know Mr. Armstrong?

Mr. MILLER. Yes; I have met Mr. Armstrong.

Senator SCOTT. What is his position?

Mr. MILLER. His position when I first met him was as an employee of Serv-U Co.

Senator SCOTT. Had you, before letting the contract, checked on the ability of either Mr. Armstrong or Mr. Hancock to perform the contract?

Mr. MILLER. I did, through the North American Co.

Senator SCOTT. With whom did you check in the North American Co.?

Mr. MILLER. I talked with Mr. Lee Taylor.

Senator SCOTT. And what information did you learn from Mr. Taylor?

Mr. MILLER. That they had done a very—they were doing a very, very fine job, and that the income into the employees' fund had increased materially. I don't remember the exact percentage.

Senator SCOTT. Did Mr. Taylor or anyone else at North American tell you who was interested in Serv-U as stockholders or officers?

Mr. MILLER. He did not.

Senator SCOTT. How long have you known Mr. Black?

Mr. MILLER. I think I made that comment before. I think it is about 2½ years.

Senator SCOTT. My notes say that, in the course of discussing this with our investigators, you said that you called on Baker to learn who to see in antitrust matters. Would that be correct?

Mr. MILLER. That is correct, sir.

Senator SCOTT. Were you surprised to find Black and Baker were stockholders in Serv-U? Did that surprise you?

Mr. MILLER. It was. I do draw a conclusion that they might have had some interest. But I had no knowledge of it.

Senator SCOTT. Did you have any concern about giving vending business of Northrop to a young, newly formed company without any record of performance?

Mr. MILLER. Well, first of all, your question is not correct, because they did have performance. They were performing for North American Co. And they had been performing for about a year and a half before they came in our plant.

Senator SCOTT. Who is Mr. Stanley Sommer again?

Mr. MILLER. He is a consultant of ours.

Senator SCOTT. Do you know whether Mr. Stanley Sommer kept a full-time suite at the Carousel?

Mr. MILLER. I do not.

Senator SCOTT. You do not know that?

Mr. MILLER. I don't know.

Senator SCOTT. Did you ever know that a Mr. Edward Levinson had an interest in Serv-U?

Mr. MILLER. I did not.

Senator SCOTT. And did you have any knowledge that any Las Vegas gambling interests had any interest in Serv-U?

Mr. MILLER. No.

Senator SCOTT. Did you ever ask Mr. Hancock who were the men behind Serv-U or the principal stockholders?

Mr. MILLER. No; I did not.

Senator SCOTT. That is all I have.

Senator CANNON. Counsel, do you have any questions?

Mr. McLENDON. Nothing else.

Senator CANNON. Thank you very much, Mr. Miller, for appearing here without subpoena in an attempt to help this committee.

Counsel, do we have any other witnesses to appear?

Mr. McLENDON. Mr. Chairman, we were notified this room would be occupied by another organization earlier this afternoon, and I was afraid to schedule another witness.

Senator CANNON. The committee will stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 2:30 p.m., the committee recessed, to reconvene at 10 a.m., Thursday, February 20, 1964.)



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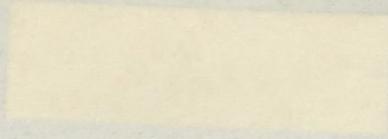
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