

Minutes for February 3, 1959

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u>M</u>	
Gov. Szymczak		x <u>MS</u>
Gov. Mills	x <u>[scribble]</u>	
Gov. Robertson	x <u>R</u>	
Gov. Balderston	x <u>CB</u>	
Gov. Shepardson	x <u>[scribble]</u>	

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, February 3, 1959. The Board met in the Board Room at 10:00 a.m. in executive session.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson

The Secretary was advised later by Governor Shepardson that during the meeting in executive session the Board took the following actions:

Visit by directors of International Monetary Fund and International Bank. After consideration of information contained in a memorandum from Mr. Sherman, Secretary of the Board, to Governor Shepardson dated February 3, 1959, the Board agreed to extend an invitation to the directors of the International Monetary Fund and the International Bank for Reconstruction and Development to visit the Board's offices for a visual-auditory economic presentation by the Board's staff on February 12, 1959, at 3:00 p.m.

Designation of psychiatrist. Pursuant to the recommendation contained in a memorandum from Mr. Johnson, Director, Division of Personnel Administration, dated January 30, 1959, the Board authorized the designation jointly by that Division and the Board's physician of a psychiatrist to whom Board employees would be referred by the physician when necessary. The approved procedure contemplated that an employee referred for psychiatric care would pay the cost involved, as part of

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the expense would be covered under the major medical insurance program of which the Board pays one-third of the cost. However, when the psychiatrist was consulted by the Board with regard to employee problems, the expense would be paid by the Board.

Referral of Wegematic matter (Item No. 1). On the basis of information contained in a memorandum dated January 22, 1959, from Mr. Hexter, Assistant General Counsel, to Governor Shepardson concerning a meeting on that date between members of the Board's staff and representatives of Wegematic Corporation (formerly called Alwac Corporation and Logistics Research, Inc.), the Board authorized referring to the Department of Justice, for such action as that Department might consider in the public interest, the Board's claim for damages against Wegematic arising out of abandonment by Alwac Corporation of the contract between the Board and Logistics Research, Inc., calling for the delivery and installment of a general-purpose electronic digital computer system. A copy of the letter sent to the Department of Justice pursuant to this action is attached as Item No. 1.

The meeting then adjourned.

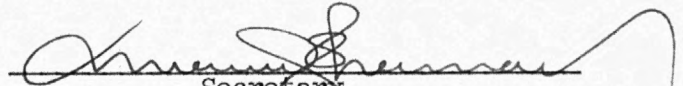
Secretary's Notes: Pursuant to the recommendation contained in a memorandum dated January 27, 1959, from Mr. Johnson, Director, Division of Personnel Administration, Governor Shepardson today approved on behalf of the Board the payment by the Board, in addition to expenses presently paid, of certain fees and costs incurred by employees attending the Graduate School of Banking at Rutgers University,

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including the diploma fee, the graduation-suit rental fee, and dining hall expense incurred by students required to report to the School one or two days in advance of the regular sessions. It was understood that this policy would become effective immediately and would be applicable to persons attending the 1959 session of the School.

Pursuant to the recommendation contained in a memorandum dated January 26, 1959, from Mr. Kelleher, Director, Division of Administrative Services, Governor Shepardson also approved today on behalf of the Board an increase in the basic annual salary of Barbara B. Reighter from \$3,255 to \$3,495, with a change in title from Operator Key Punch, Trainee to Operator, Key Punch, in that Division effective February 8, 1959.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
2/3/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 5, 1959

Mr. George Cochran Doub,
Assistant Attorney General,
Civil Division,
Department of Justice,
Washington 25, D. C.

Dear Mr. Doub:

The purpose of this letter is to refer to you for such action as you consider to be in the public interest a claim which the Board of Governors has against Wegematic Corporation, 205 East 42nd Street, New York, formerly named, successively, "Logistics Research, Inc.", and "Alwac Corporation". This claim arises out of the following circumstances.

Prior to June 1956 the Board of Governors had been actively considering the installation of a general-purpose electronic digital computer system at its offices in Washington, D. C. On June 22, 1956, it requested proposals from five companies, among which was Logistics Research, Inc. of Redondo Beach, California. The five companies submitted proposals, and after considering factors such as price, capacity to do the contemplated work, delivery date, etc., the Board of Governors notified Logistics of its acceptance of its proposal, subject to certain terms and conditions set out in the Board's letter dated September 28, 1956. By letter dated October 8, 1956, Logistics accepted the Board's terms and conditions.

The contract, F.R. No. 753, provided for delivery and installation of the computer system, known in the trade as Alwac 800, at the Board's offices in Washington, D. C. on or before June 30, 1957; the agreed price was \$231,000. The contract included a provision for liquidated damages at the rate of \$100 for each day in which delivery was delinquent, and another provision to the effect that in the event Logistics failed to comply with any provision of the contract, the Board could procure the services described in the contract from other sources and hold Logistics responsible for any

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excess cost occasioned thereby. The company failed to deliver the computer on or before June 30, 1957, and finally, early in October 1957, the Board was informed that the company had decided not to go forward with its manufacture.

For purposes of clarification, certain corporate reorganizations involving Logistics will be described. Prior to its abandonment of the contract, Logistics' name was changed to Alwac Corporation, with offices in the Coliseum Office Building, 10 Columbus Circle, New York, and 13040 South Cerise Avenue, Hawthorne, California. Later, in March 1958, the Board received information that the assets of Alwac Corporation's Computer Division were transferred to El-Tronics, Inc., of Philadelphia, Pennsylvania and 13040 South Cerise Avenue, Hawthorne, California, in exchange for 300,000 shares of El-Tronics common stock plus \$600,000 par value of El-Tronics ten-year debentures. In this connection, however, the Board has been advised that El-Tronics, in November 1958, filed a debtor's petition under Chapter 10 of the Bankruptcy Act. Finally, some time in the latter half of 1958, Alwac's name was changed to Wegematic Corporation, with offices at 205 East 42nd Street, New York.

Following abandonment of the contract by Alwac, the Board entered into a contract dated May 1, 1958, with the International Business Machines Corporation for the rental, with a purchase option, of an electronic computer known as the IBM 650. The IBM 650 has been delivered to the Board, installed, and was officially accepted on October 6, 1958. The annual rental to be paid by the Board under this contract is \$102,000. The IBM 650 could have been purchased by the Board at the time of the rental contract for \$410,450 but after considering all factors, the Board determined that, for its purposes, a rental arrangement would be preferable.

The Board estimates that the damages which it has suffered by reason of the abandonment of the contract by Alwac are as follows, subject to correction:

(1) \$18,315 as special damages, representing actual expenditures incurred by the Board preparatory to the expected receipt of the Alwac 800.

(2) Liquidated damages at the stipulated rate of \$100 per day from July 1, 1957, to October 6, 1958, inclusive of Sundays and holidays. However, for approximately 90 days during this period the Board did not vigorously pursue the acquisition (including rental) of a substitute computer. Accordingly, in fairness, it is believed that liquidated damages should not include damages for this 90-day period. On this basis, liquidated damages, pursuant to the contract, would total \$34,200.

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(3) As indicated above, the Board could have purchased the IBM 650 for \$410,450, which is \$179,450 more than the contract price for the Alwac 800. Assuming that the IBM 650 and the Alwac 800 were comparable in all significant respects, particularly in ability to perform the work for which the Board uses such a computer, it is believed that the difference reasonably represents the general damages suffered by the Board because of Wegematic's total failure to deliver the computer and the Board's resulting necessity for obtaining one from another source. However, determination of the exact dollar amount of such damages is complicated by the fact that the two computers are not identical in performance. Generally speaking, each computer would have been of approximately the same value to the Board, although each might perform certain operations which the other could not and perhaps each could perform certain other operations more efficiently than the other. We believe, however, that had the Alwac 800 been delivered, it would have been superior in performance to the IBM 650 for the reason that it was engineered to produce more work more quickly.

On July 21, 1958, the Board advised Wegematic, by registered mail, that the failure to deliver the computer gave rise to a legal claim on the part of the Board of Governors for reimbursement to the extent of the damage suffered as a result of breach of contract including (1) the Board's actual out-of-pocket expenditures, (2) liquidated damages stipulated in the contract for delay in delivery after June 30, 1957, and (3) damages resulting from the complete failure to deliver. In the same letter the Board expressed a desire to effect a settlement of the matter as promptly as possible. Since then three meetings have been held with representatives of Wegematic, but no settlement has been agreed upon. The Board, therefore, is submitting the matter to your Department for such action as is deemed appropriate.

Copies of the following documents in triplicate are enclosed:

- (1) Board's letter of June 22, 1956, to Logistics requesting a proposal.
- (2) Logistic's letter of July 11, 1956, submitting a proposal.
- (3) Logistic's letter of August 17, 1956, amending previously submitted proposal.
- (4) Board's letter of September 28, 1956, accepting Logistic's amended proposal, subject to specified terms and conditions.

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(5) Logistic's letter of October 8, 1956, accepting the contract, including such terms and conditions.

(6) Logistic's letter of April 10, 1957, requesting an extension of time for delivery.

(7) Board's reply of April 29, 1957, to Logistic's April 10, 1957, letter.

(8) Alwac's letter of August 30, 1957, predicting a long delay in delivery.

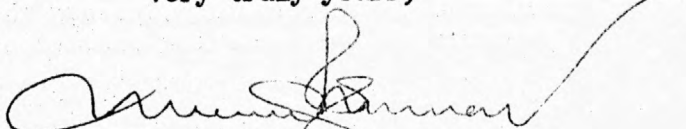
(9) Board's reply of September 12, 1957.

(10) Alwac's letter of October 16, 1957, requesting cancellation of contract.

(11) Board's letter of July 21, 1958, requesting meeting to effect a settlement.

If you desire further information after considering the above, you may contact Mr. Walter H. Young of the Board's Legal Division (code 147, ext. 236), who will assist in any way possible. Mr. Young has from time to time informally discussed this matter with Mr. Robert Mandell of your staff.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosures