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THE PECULIAR CASE OF USAMCO

The Role of U.S. Chemical Milling Corp.

BY ROBERT E. NICHOLS

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There are many aspects of what has come to be known as "the USAMCO affair."

One such facet involves the participation of another company: U.S. Chemical Milling Corp., of Manhattan Beach and some of its former officers.

Throughout the tangled history of USAMCO (United State Automatic Merchandising Co.) the names of Chemical Milling and some of its former officers appear repeatedly.

By way of identification, U.S. Chemical Milling Corp. was incorporated Feb. 3, 1955—according to Walker's Manual, as a "subcontractor to aircraft, missile and electronics industries." As of 1961, it operated plants in Manhattan Beach, Bellflower and El Segundo, and produced a line of products ranging from fiberglass structures to metal aircraft and missile parts, valves and electronic guidance systems. That same year, it reported 1,020,007 shares of stock outstanding, with a book value of \$2.50 a share (but showed a loss of \$2.44 a share on net sales of \$6,216,000).

This much is known about Chemical Milling in relation to USAMCO:

According to testimony of John B. Dunbar — the onetime director of USAMCO and West Coast senior partner of Shearson, Hamill & Co. — before the Securities and Exchange Commission hearing, the idea for creating USAMCO was first presented to him at his home in July, 1960, by three men who at one time or another were connected with Chemical Milling: Charles H. Lundquist, the then-president of Chemical Milling; Merrill L. Johnson, then a vice president and director, and Richard S. Stevens, man-

ager of marketing development of Chemical Milling's Automatic Vending Machine division — the same Richard Stevens who was to become USAMCO president, treasurer, director and co-organizer.

In Dunbar's words, this trio "presented to me a concept of an entirely new idea in the vending business." Dunbar thought it was "an excellent idea" and they discussed how to finance such an enterprise: "It was suggested that we raise \$700,000 in convertible debentures. I raised approximately \$300,000 with my clients, and Mr. Lundquist raised approximately \$400,000 through his

friends and associates.

Chemical Milling's role in the creation of USAMCO is also found in the Offering Circular of Nov. 8, 1960, prior to the sale of the 290,000 shares of common stock in USAMCO.

The Circular specifies that part of the money raised from the stock issue—at \$1 par a share on offering, a total of \$290,000—was to be used to buy vending machines from Chemical Milling.

Said the Circular: "The net proceeds from the sale of notes . . . will be combined with the net proceeds of the sale of the

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common stock offered hereby for the following purposes: (a) the purchase for cash of 650 automatic vending machines . . . at a cost of approximately \$590,000; (b) the purchase of food inventory requiring a cash outlay of approximately \$156,000, and (c) to supplement working capital . . . The vending machines will be purchased from U.S. Chemical Milling Corp."

The same document reported that the principal backers of USAMCO — through the \$700,000 in 4% convertible notes — were officers of Chemical Milling and relatives of its president, Charles Lundquist.

Through these notes, which were converted to common stock at \$1 a share in the fall of 1961, persons closely connected with Chemical Milling actually provided more than 53.7% of USAMCO's long-term financing.

According to the Circular, the noteholders included the wife, the brother, and an aunt and uncle of Charles Lundquist (who accounted for \$250,000); Chester C. Wilmet, a vice president and director of Chemical Milling (\$75,000), and Glenn R. Roland, secretary, treasurer and director of Chemical Milling (\$50,000).

A USAMCO "progress report" released for the period of Sept. 30, 1960, through March 31, 1961, lists among USAMCO's assets \$615,224 in automatic merchandising equipment "which consists of Dariomatic machines," the brand line of Chemical Milling.

In April, 1961, USAMCO and Chemical Milling announced through a public relations firm that USAMCO had agreed to acquire the entire Chemical Milling vending machine division,

in return for 75,000 shares of stock at \$10 a share. In July, the California Commissioner of Corporations held a public hearing on the acquisition and approved it on Aug. 21, 1961.

In the first annual report by USAMCO, covering the fiscal year ending Aug. 31, 1961, and dated Oct. 30, 1961, the Chemical Milling machines are mentioned again:

"USAMCO has since sold most of the machine tools (acquired from Chemical Milling) and some of the vending machines and parts.

It is in the process of liquidating all of the vending machines and parts received in the transaction."

By the end of November, 1961, USAMCO still had not completed the liquidation. At the annual stockholders meeting, E. F. Stanton, a vice president of USAMCO, advised shareowners that the company still had not found a buyer, even though the price on the machines had been substantially reduced.

Here, public information about the machines ends, along with more detailed information about the participation of some of Chemical Milling's former associates in USAMCO affairs.

On Dec. 15, 1961, the entire management of U.S. Chemical Milling Corp. was changed.

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