

Phillips Petroleum Agrees To Change in Reply to Suit

Rearranges Board to Settle Stockholder Action on Gifts—Nixon's Personal Acceptance of \$50,000 Is Disclosed

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By HENRY WEINSTEIN FEB 19 1976

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LOS ANGELES, Feb. 18—The Phillips Petroleum Company, one of the first companies identified as having made illegal contributions to the 1972 re-election campaign of President Richard M. Nixon, agreed today to significant administrative changes in settling a class action stockholders' suit.

The suit stemmed from an illegal political slush fund maintained by Phillips from 1964 to 1972 and was filed in a Federal District Court here a year ago by a Los Angeles public-interest law firm.

The court papers filed in connection with today's Phillips settlement disclosed that Mr. Nixon "personally" accepted "at

his New York City apartment" in 1968 an illegal \$50,000 campaign contribution to his first successful Presidential bid. The money was turned over by William W. Keeler, then the company's president and chief executive officer, according to the documents. The contribution had previously been reported to the S.E.C. by Phillips.

Mr. Nixon has denied on many occasions that he ever personally received any contributions of this nature. A spokesman for Mr. Nixon at his home in San Clemente, Calif., when asked today about the disclosure in the court papers, said, "We have no comment."

The settlement includes changing the balance on the Phillips board of directors from an overwhelming majority of insiders to at least 60 percent of independent outsiders as future vacancies occur.

It also shifts control of the company's nominating and audit committee to independent outsiders and eliminates the participation of insiders in selection of the firm that will audit Phillips's books.

William F. Martin will stay on as chairman and chief executive officer of Phillips, despite his involvement with the



Associated Press
William W. Keeler

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company's political slush fund. His participation included transporting some of the money from Switzerland to the United States, according to a report filed by Phillips with the Securities and Exchange Commission.

The stockholder suit was the second involving major illegal corporate contributions to be settled by the Center for Law in the Public Interest, which is based in Los Angeles and is funded in part by the Ford Foundation. In November 1974 the firm reached a similar settlement with the Northrop Corporation, the Los Angeles aerospace company.

Business observers said that they felt that today's settlement could have a significant impact in terms of compelling companies to act in a more forthright manner about their political involvements. They said settlements of this kind were making companies realize that, if they did not change some of their methods of operation, it would bring more Government regulation.

Federal District Judge Jesse W. Curtis approved today's settlement pending a hearing on April 8 at which shareholders will be allowed to comment on the terms. He met in chambers with attorneys for Phillips and for the shareholder plaintiffs, A. Marvin Gilbar and Keeler Faus.

Phillips has 11 board members, eight of them insiders. The settlement provides that the board may expand up to 21 persons, 60 percent of whom must be independent outsiders—individuals who are not officers or employees of Phillips or who do not have a significant financial interest in the company.

The board will be expanded to 17 persons at the company's annual meeting on April 27. The new directors, on whom the plaintiffs' lawyers and Phillips representatives agreed after lengthy, but apparently amicable, negotiations are:

¶Melvin Laird of Washington, former Secretary of Defense and Republican Representative from Wisconsin. He is now a senior editor of Reader's Digest.

¶David Meeker of Troy, Ohio, chief executive officer of the Hobart Corporation, leading manufacturer of commercial food equipment. He is immediate past president of the National Association of Manufacturers.

¶Victor Palmieri of Los Angeles, chairman and chief executive officer of the Pennsylvania Company, New York. He is also president of his own Los Angeles firm, which specializes in managing other troubled companies.

¶Dolores Wharton of East

Lansing, Mich., a member of the National Council for the Arts and a director of the Michigan Bell Telephone Company and of the Michigan National Bank.

¶Francis M. Wheat, former member of the Securities and Exchange Commission, president of the Los Angeles County Bar Association and a partner in Gibson, Dunn & Crutcher, one of Los Angeles's largest law firms. He is also a trustee of the Center for Law.

¶Harold M. Williams of Los Angeles, dean of the Graduate School of Management, University of California at Los Angeles. He was energy coordinator for the City of Los Angeles from 1973 to 1975 and is a director of several companies including Norton Simon Inc. and the C.N.A. Financial Corporation.

Under the settlement, Phillips's nominating committee, consisting of at least three members, shall be composed entirely of independent outside directors. It will have the sole authority to recommend to the board new nominees for the board, the aim being that such an arrangement will insure that the committee is not beholden to the company's top executives.

John R. Phillips and Brent N. Rushforth were the Center for Law attorneys who worked on the suit. Mr. Phillips said in an interview, "We believe this case to be the most positive resolution of any of the corporations that have been involved with either illegal campaign contributions or questionable overseas payments." The lawyers attributed this to the positive "attitude and approach" taken in the case by Phillips management and Board.

The Phillips company and Mr. Keeler, who retired as chairman in April 1973, pleaded guilty in December 1973 to violating the Federal Corrupt Practices Act (now the Federal Election Campaign Act) for making an illegal \$100,000 contribution to the 1972 Nixon Presidential campaign, and were fined \$5,000 and \$1,000 respectively. The Committee to Re-elect the President had returned the contribution in August 1973.

In August 1974, Phillips announced that Mr. Keeler had reimbursed the company \$82,182.82 for the fine, legal expenses and loss of interest incurred by the company as a result of the illegal contribution.

At the same time, Phillips also announced that it had made approximately \$485,000 in political contributions (in addition to the Nixon payment) over a 10-year period.

These contributions came from a "secret cash fund" that was originally generated

through two secret overseas agreements negotiated in 1963 and 1964. Swiss bank accounts were utilized for moving the money.

During the years of its utilization, the "overseeing of the Swiss fund" was handled by several Phillips executives, including Mr. Martin.

Last March the S.E.C. entered into a consent decree with Phillips enjoining the company from further violations of the commission's reporting provisions. It had sued the company for channeling more than \$2.8 million of corporate money into the secret fund.

Also entering into the consent decree were Mr. Martin, Mr. Keeler, John M. Houchin, a former chairman, and Carstens Slack, a Phillips vice president based in Washington.

Phillips filed a special report with the S.E.C. last September in which it said that, of the \$2.8 million channeled to the secret fund, \$1.5 million had been spent legitimately on foreign operations, \$585,000 had been disbursed for political contributions and \$765,000 was on hand in the secret fund when the illegal activity ceased and was transferred into a normal corporate account.

The company told the S.E.C. that an investigation by a special committee of its outside directors disclosed that no money had gone for foreign bribes.

In all, the company has recovered \$334,000 from various Phillips officials and former officials who were involved in the illegal political contributions, including a \$150,000 settlement of potential claims against Mr. Martin, Mr. Houchin, Mr. Keeler, K. S. Adams, the chairman of the company when the fund was created in 1964, and Stanley Learned, another former company official. Of the 585,000 spent on political contributions, \$175,000 went to Presidential campaigns in 1964, 1968 and 1972; \$125,000 for Congressional campaigns; \$70,000 for political dinners, and \$215,000 for state elections.

On the retention of Mr. Martin as chairman and chief executive officer, the attorneys for the Center for Law said his involvement had not been nearly so direct as many of the others who have stepped down in other companies, such as Thomas V. Jones of Northrop or Bob R. Dorsey of the Gulf Oil Corporation.

Mr. Phillips, one of the center's attorneys, added that Mr. Martin's conduct "was certainly wrong and cannot be lightly excused, but given his cooperative attitude and the confidence that the board has in him in terms of his performance in guiding the company, we believe that shareholder interests would not be best served by

asking Mr. Martin to step down.

At the time of the Northrop settlement, Mr. Jones held the titles of chairman, chief executive officer and president. The settlement required that he relinquish the position of president within 18 months. Subsequently, he was further reprimanded by his board and the position of chairman was also taken from him. Yesterday he gave up the presidency but was restored as chairman. He remains Northrop's chief executive officer.

Mr. Dorsey resigned as chairman of Gulf after a scandal involving a number of foreign payoffs.

The disclosure about Mr. Nixon's personal acceptance of the 1968 contribution from Phillips came in the shareholders' lawyers' statement of facts attached to settlement of the case.

It was illegal for Phillips to give the money under the Federal Corrupt Practices Act and illegal for a political candidate to accept the money if he knew it was a corporate contribution.

The typical way a class action lawsuit works is that an individual who has a grievance in common with other individuals sue and he represents their interests as well as his own. In addition to that, this case was also filed as a derivative action—brought on behalf of the corporation itself as well as its shareholders.

The settlement of today's suit also include several changes in Phillips's by-laws. One provides that any officer or employee of the company who fails to comply with law regarding corporate political contributions will be subject to appropriate disciplinary action, which may include discharge.