

# STOCK EXCHANGE PRACTICES

FRIDAY, JUNE 10, 1932

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met at 2.30 o'clock p. m., pursuant to call, in the hearing room of the Committee on Interstate Commerce, the Capitol, Senator Peter Norbeck presiding.

Present: Senators Norbeck (chairman), Brookhart, Townsend, Walcott, Blaine, Watson, Couzens, Fletcher, and Gore.

Present also: Hon. William J. Morgan, former attorney general of the State of Wisconsin.

The CHAIRMAN. The committee will come to order. This meeting was called to hear Mr. Ernest W. Stirn, of Chicago. He is unlike any other witness who has been here; he is not an unwilling witness. He is here to help the committee get started on what seems to be an important matter. He and his attorney have done a lot of work on this. This is one of the cases that come to us very complete without expense of investigation on the part of the committee. He is appearing with Mr. William J. Morgan, former attorney general of the State of Wisconsin, and I was thinking that, to expedite the matter, we might first have a statement by Mr. Morgan touching the high spots of the case as to what they expect to prove; and if there are no objections on the part of the committee, we will let Mr. Morgan take charge of the case, due to the fact that the committee has not its own counsel here, and subject, of course, to such limitations as the committee may from time to time impose. If there is no objection, we will proceed that way.

Senator TOWNSEND. With the thought, of course, of throwing some light on the matter?

The CHAIRMAN. Yes; it is a stock-market matter.

Senator BLAINE. From the standpoint of the man who got gypped.

The CHAIRMAN. From the standpoint of a man who took advice and lost money.

Senator FLETCHER. In other words, based on experience.

Senator BLAINE. Based on experience.

The CHAIRMAN. Mr. Morgan, will you open up with a brief statement of what you expect to prove?

## STATEMENT OF HON. WILLIAM J. MORGAN, FORMER ATTORNEY GENERAL OF THE STATE OF WISCONSIN

Mr. MORGAN. Mr. Chairman and gentlemen of the committee, I am not the man who got gypped and lost the money, as my father told me when I was a little boy never to play at the other fellow's game.

The case that Mr. Stirn, who is an analyst connected with the University of Chicago, graduate department, has made a special study of, is the short selling of Radio-Keith-Orpheum Corporation stock, coincident with a plan that had been devised in the minds of the officers and directors of that corporation to reorganize it, and the net result of which was that the Radio Corporation of America acquired the Radio-Keith-Orpheum Corporation for the sum of \$11,500,000, although the assets of Radio-Keith-Orpheum Corporation then, on their own statement, showed \$127,000,000, of which \$67,000,000 were clear assets above their liabilities. In other words, they got a right in the Radio-Keith-Orpheum Corporation worth \$67,000,000 for \$11,500,000.

Now, at the time that we are concerned with Radio-Keith-Orpheum was a Maryland corporation with an authorized capital of four and one-half million shares of stock, of which 4,000,000 were class A stock, and 500,000, held by the Radio Corporation of America, were class B shares, both nonpar value stock.

The dates are very significant. On the 22d of October, 1931, there was begun upon Radio-Keith-Orpheum stock a concerted, consistent short selling drive.

Senator COUZENS. By whom?

Mr. MORGAN. The specialist who handled that stock on the New York Stock Exchange was Mr. Meehan; Mr. Michael J. Meehan.

Senator TOWNSEND. Mr. Chairman, without any wrong implication, I wish to say that all our other witnesses have been put under oath.

The CHAIRMAN. We are going to put the witness under oath; and if the committee thinks proper I will put the attorney under oath. He is only telling what he expects to prove.

Senator TOWNSEND. I think anything that is put on the record should go on under oath.

Senator BLAINE. Mr. Morgan is not stating facts, but what he expects the witness to testify to.

Senator TOWNSEND. That is going on the record.

Senator BLAINE. Mr. Morgan will not object to being sworn.

Mr. MORGAN. As an attorney, you understand, I derived these facts and figures that I took from the papers of Mr. Hiram S. Brown, who is president of Radio-Keith-Orpheum Corporation.

Senator FLETCHER. It is unusual to put an attorney under oath who is making a statement of what he expects to prove.

Senator TOWNSEND. I do not press the matter.

Mr. MORGAN. I do not object to being sworn.

The CHAIRMAN. You may proceed, then. As I understand, then, you are willing to be sworn, although you consider it an unusual procedure?

Mr. MORGAN. Oh, certainly. I am not testifying. I am here to tell you what Mr. Stirn is going to testify to.

The CHAIRMAN. Just a bird's-eye view of the testimony?

Mr. MORGAN. Yes; just to give you an idea so that you can follow his testimony. I only want to be helpful to the committee.

On November 5, 1931, a meeting of the officers and directors of Radio-Keith-Orpheum Corporation was held. Now, at that time, under the laws of Maryland, and under the charter of this corpora-

tion, it had no specific power to decrease its capital stock. Nevertheless, at that meeting, according to a letter sent to its stockholders on November 10, 1931, by Hiram S. Brown, president of the Radio-Keith-Orpheum Corporation, he stated that Radio-Keith-Orpheum Corporation finds itself faced with an emergency which requires prompt action by stockholders if a receivership is to be avoided, and stated that the directors had approved and recommended to the stockholders an amendment of the charter in the following particulars:

1. The number of shares of class A stock outstanding will be reduced to one-fourth of the amount now outstanding, so that each stockholder will hold one-fourth of the number of shares now held, and there will be outstanding (excluding treasury shares) approximately 580,000 shares.

2. All stock, issued and unissued, will be reclassified into common stock, the class B stock being surrendered as hereinafter stated.

3. \$11,600,000, principal amount, of 10-year 6 per cent debentures, and 1,740,000 shares of common stock will be offered for subscription to stockholders at an aggregate price of \$11,600,000 plus accrued interest on the debentures. Each present holder of one share of class A stock will be entitled to purchase, for \$5 plus accrued interest on the debentures, \$5 principal and amount of debentures and three-fourths share of common stock.

Senator FLETCHER. You are going to put that into the record, I take it, that whole letter?

Mr. MORGAN. Yes. I am reading from the letter.

The CHAIRMAN. You may read the whole letter into the record, or just read part of it and have it all printed, if you like.

Mr. MORGAN. Shall I go back and give his reasons?

The CHAIRMAN. The whole point is, we are trying to determine whether this should go into the record, and whether you shall read it into the record, or offer it for the record. The usual practice is that you read a part of it, if you wish, and comment upon it, and then offer it after that.

Mr. MORGAN. I have read a part.

The CHAIRMAN. You may read it and comment on it and then offer it. It may go in.

(The letter of Nov. 10, 1931, is printed in the record in full as follows:)

RADIO-KEITH-ORPHEUM CORPORATION,  
New York, N. Y., November 10, 1931.

*To the Stockholders:*

Radio-Keith-Orpheum Corporation finds itself faced with an emergency which requires prompt action by stockholders if a receivership is to be avoided. This emergency results, in large measure, from the abnormal financial and credit situation, which prevents the raising of funds through usual means.

Last May it appeared that the corporation would require, in addition to available funds, \$6,000,000 to finance the 1931-32 production programs of its two picture producing subsidiaries. The management, with the assistance of members of the executive committee, endeavored to procure the money by bank loans, but only \$1,700,000 was obtained. The corporation was obliged, therefore, to raise additional funds otherwise and a loan netting the corporation \$5,870,000 (with the requirement that the above bank loans of \$1,700,000 be repaid immediately from the proceeds thereof) was effected as of July 1, 1931, through the sale of \$6,000,000 of secured gold notes of the corporation, payable \$3,000,000 during the first six months of 1932 and the remaining \$3,000,000 July 1, 1933. The corporation was required to pledge or hold avail-

able for pledge under the indenture securing such loan substantially all of its free assets and is therefore without property now available as collateral.

At the time the above loan was made a detailed budget of estimated income and disbursements of the corporation and its subsidiaries for the 12 months commencing May 1, 1931, was prepared. The estimate of receipts in this budget was considered by the management to be conservative. The budget indicated a surplus of receipts over disbursements to an extent sufficient to enable the corporation to meet the maturities under the above loan and have sufficient funds for carrying on operations. At the end of each month up to September 1, the cash balance on hand exceeded the estimated cash balance as set forth in the budget, but during the latter part of August and throughout September and October, there was an unexpected and unprecedented decline in gross receipts reflecting the effect of adverse developments in the financial and business situation. Estimates of income of the corporation, revised in view of the decline in receipts during recent weeks, indicated that the corporation must procure at least \$4,000,000 to meet requirements to and including January 1, 1932, \$1,000,000 of which was required early in November and must also provide additional funds to take care of certain estimated future requirements, including maturing debt.

During October the management was engaged in constant negotiations to procure the required amount, but due to the unfavorable financial situation the corporation was unable to raise funds for its requirements. It is clear that unless these funds can be provided, receivership is inevitable, with the consequent disorganization and injury to business of the corporation, which would be disastrous for stockholders. Accordingly, to cover the immediate requirements and the estimated future requirements above referred to, the following plan has been devised and is submitted to stockholders:

1. The number of shares of Class A stock outstanding, will be reduced to one-fourth of the amount now outstanding, so that each stockholder will hold one-fourth of the number of shares now held, and there will be outstanding (excluding treasury shares) approximately 580,000 shares.

2. All stock, issued and unissued, will be reclassified into common stock, the Class B stock being surrendered as hereinafter stated.

3. Eleven million six hundred thousand dollars, principal amount, of 10-year 6 per cent debentures and 1,740,000 shares of common stock will be offered for subscription to stockholders at an aggregate price of \$11,600,000 plus accrued interest on the debentures. Each present holder of one share of Class A stock will be entitled to purchase, for \$5 plus accrued interest on the debentures, \$5 principal amount of debentures and three-fourths share of common stock.

4. Of the purchase price of these securities, 50 per cent will be payable at the time of subscription, and the remainder (with interest at the rate of 6 per cent per annum) in one or more installments, when called, on 30 days' notice, or earlier at the option of the purchasers.

5. Purchasers will receive an appropriate transferable certificate entitling them (if full payment has been made) to receive, after three years, or earlier at the option of the corporation, debentures, and certificates for common stock. In the meantime, holders of certificates will be entitled to vote on the common stock represented by certificates, and to receive interest paid on the debentures and any dividends declared on the common stock.

If this plan is carried out, the result will be that a stockholder who exercises his subscription rights will own (for each share of Class A stock now owned) (a) one-quarter share of common stock and (b) a certificate representing \$5 principal amount of debentures and three-quarters of a share of common stock. A stockholder who transfers his subscription rights or fails to exercise them will own one-quarter share of common stock for each share of Class A stock now owned.

Radio Corporation of America, which owned or controls all outstanding Class B stock and a substantial amount of Class A stock, has agreed in order to assist the corporation, (a) to purchase, on the same terms, such of the debentures and common stock offered to stockholders as are not subscribed for by stockholders or their assignees, (b) to surrender for cancellation 500,000 shares of Class B stock (which is convertible into 500,000 shares of Class A stock when earnings per share have been certain specified amounts), and (c) to waive its rights (in respect of the Class B stock) to purchase any of the new securities. In addition, Radio Corporation of America has advanced to the corporation, at 6 per cent interest, \$1,000,000 to meet immediate requirements, and has agreed to

advance an additional \$1,000,000 if required before the plan can be carried out. No compensation is to be paid to Radio Corporation of America for its underwriting or for its advances except that 125,000 shares of common stock are to be delivered to Radio Corporation of America upon the surrender of the 500,000 shares of Class B stock. Radio Corporation of America is not underwriting the payment of deferred instalments of the purchase price by subscribing stockholders. The holders of the \$6,000,000 of Secured Gold Notes above mentioned have agreed, if the plan is carried out, to extend their notes so that \$100,000 will mature on the first of each month in 1932, \$200,000 on the first of each month in 1933, \$300,000 on the first of each month (to and including June) in 1934, and \$600,000 on July 1, 1934.

Substantial economies have been and are being effected, and the management believes that, unless gross receipts decline to a point below anything which even under present conditions can reasonably be anticipated, this financing should enable the corporation to go through the period of depression, and place it in a position to take advantage of better conditions.

The board of directors has approved the plan, subject to the necessary action of stockholders, and has called a meeting of stockholders for December 10, 1931. There are attached hereto (a) a formal notice of such meeting, (b) a more detailed statement of the offer to stockholders and of the terms of the new debentures, and (c) comparative consolidated balance sheets as of January 1, 1929, and September 30, 1931, and consolidated profit and loss statements for 1929, 1930, and the nine months ended September 30, 1931. A proxy to be executed by stockholders who do not expect to attend the meeting is inclosed.

A stockholder who votes in favor of the amendments does not obligate himself to exercise his subscription rights. Since the affirmative vote of holders of two-thirds of the Class A stock is required, and since the plan must be carried out before January 1, 1932, stockholders who do not expect to attend the meeting are urged, for the protection of their investment, to execute and mail proxies promptly, whether or not they desire to exercise their subscription rights.

By order of the board of directors,

HIRAM S. BROWN, *President.*

*Radio-Keith-Orpheum corporation and subsidiary companies—Comparative consolidated balance sheets as of September 30, 1931, and January 1, 1929 (the approximate date of organization of the corporation.)*

	Sept. 30, 1931	Jan. 1, 1929
ASSETS		
Cash.....	\$2,017,118.42	\$1,589,548.39
Notes and accounts receivable.....	1,707,277.60	974,635.87
Inventories and scenarios.....	14,051,783.92	2,918,884.04
Capital assets.....	93,682,352.82	56,035,481.61
Investments in and advances to affiliated and other companies.....	4,877,235.31	5,467,722.19
Other investments and deposits and other assets.....	3,938,818.87	2,376,935.15
Deferred charges.....	7,140,368.20	2,036,514.11
Total.....	127,414,981.14	71,397,699.36
LIABILITIES		
Notes and accounts payable, and debentures (current).....	10,632,069.64	5,153,061.33
Deposits payable.....	357,281.90	859,581.18
Notes payable and debentures (deferred).....	6,087,308.88	1,339,000.00
Funded debt.....	39,679,684.17	22,116,370.00
Reserves for rehabilitation of properties, taxes and contingencies.....	3,715,183.50	6,365,781.97
Interest of minority stockholders in subsidiary company.....	10,289,200.00	2,172.81
Preferred stocks of subsidiary companies.....	10,289,200.00	11,920,900.00
Capital stock.....	48,943,769.84	20,301,461.00
Initial surplus.....	4,654,670.26	3,339,368.27
Earned surplus.....	5,055,815.05	
Total.....	127,414,981.14	71,397,699.36

*Radio-Keith-Orpheum corporation and subsidiary companies consolidated statement of profit and loss for period January 1, 1929 to September 30, 1931*

	Year 1929	Year 1930	9 months ended Sept. 30, 1931	Total
Income.....	\$51,696,860.78	\$71,357,831.02	\$61,253,815.45	\$184,308,507.25
Less expenses.....	46,080,872.66	62,474,608.85	56,523,124.98	165,078,606.49
	5,615,988.12	8,883,227.17	4,730,690.47	19,229,905.76
Less:				
Depreciation of capital assets and amortization of leaseholds.....	2,438,683.81	3,343,069.21	2,938,537.13	8,720,290.15
Add other income.....	3,177,304.31	5,540,157.96	1,792,153.24	10,509,615.51
	1,564,858.72	1,618,433.36	1,037,811.93	4,221,104.01
	4,742,163.03	7,158,591.32	2,829,965.27	14,730,719.62
Less:				
Investments and advances written off, etc.....	66,106.23			66,106.23
Interest and discount.....	1,843,586.65	2,357,520.14	1,968,398.59	6,169,505.38
Sundry other deductions.....	58,900.56	52,861.02	316,471.04	428,241.62
	1,968,604.44	2,410,381.16	2,304,869.63	6,683,855.23
	2,773,558.59	4,748,210.16	525,095.64	8,046,864.39
Less:				
Provision for Federal income taxes.....	250,000.00	575,000.00	63,000.00	888,000.00
Net profit before dividends.....	2,523,558.59	4,173,210.16	463,095.64	7,159,864.39
Less:				
Dividends paid to public on preferred stocks of subsidiary companies.....	853,994.34	787,581.75	461,473.25	2,103,049.34
Net profits available for dividends on class A stock.....	1,669,564.25	3,385,628.41	622.39	5,055,815.05

Mr. MORGAN (continuing). Then follows this statement of President Brown, in this letter, of the agreement:

Radio Corporation of America, which owns or controls all outstanding class B stock and a substantial amount of class A stock, has agreed, in order to assist the corporation, (a) to purchase, on the same terms, such of the debentures and common stock offered to stockholders as are not subscribed for by stockholders or their assignees, (b) to surrender for cancellation 500,000 shares of class B stock (which is convertible into 500,000 shares of class A stock when earnings per share have been certain specified amounts), and (c) to waive its rights (in respect of class B stock) to purchase any of the new securities. In addition, Radio Corporation of America has advanced to the corporation, at 6 per cent interest, \$1,000,000 to meet immediate requirements, and has agreed to advance an additional \$1,000,000 if required before the plan can be carried out. No compensation is to be paid to Radio Corporation of America for its underwriting or for its advances except that 125,000 shares of common stock are to be delivered to Radio Corporation of America upon the surrender of the 500,000 shares of class B stock.

That was the plan agreed upon at that meeting of November 5, 1931. I suggest that no one could have had knowledge of what was intended, except the members of the corporation, prior to that meeting.

On November 10 this letter of President Brown's, from which I have been quoting, was sent to the stockholders, and a concerted short selling drive on the Radio-Keith-Orpheum stock was practically completed November 12.

Now that is the subject of our inquiry, of which Mr. Stirn will testify.

The CHAIRMAN. Do you understand from that that those people were selling to someone else, or selling to themselves in that sale?

Mr. MORGAN. The net result of this short selling campaign and these amendments to the charter which were adopted contrary to law, was that the Radio Corporation of America acquired the assets of Radio-Keith-Orpheum Corporation for \$11,500,000, the assets being worth \$67,000,000.

The CHAIRMAN. Were there people that were in both groups?

Mr. MORGAN. Oh, sure.

The CHAIRMAN. Did they sell to themselves, in other words?

Mr. MORGAN. The Radio Corporation of America held 500,000 shares, and they had directors in both corporations. I am not able to say how many of the directors served on both corporations. There may have been some that were not on both; they were the same interests.

Senator BLAINE. The Radio Corporation of America obtained this interest by paying the assessment of \$5?

Mr. MORGAN. Precisely so.

Senator BLAINE. They did not call it an assessment; they called it debentures.

Mr. MORGAN. All of the stockholders of whom I have personal knowledge—and there are many in Wisconsin—did not meet this assessment. Stripping it of technical language, the term here is that it amounted to an assessment of nonassessible stock of \$5 a share.

The CHAIRMAN. From the understanding we have, indirectly it was an assessment on the stock.

Mr. MORGAN. Yes; they tried to beat the devil around the bush and called it debentures. And those that did not pay the \$5 a share had three-fourths of their stock confiscated. That was purchased by the Radio Corporation of America.

The CHAIRMAN. Do you propose to prove now that this short selling was really by the people themselves that were in control of the property, and it was driven down for the purpose of selling to themselves?

Mr. MORGAN. Mr. Chairman, the drop in Radio-Keith-Orpheum stock is the greatest that occurred in any stock listed on the New York Stock Exchange that is not now in receivership. I know of none so great.

The CHAIRMAN. You speak of short selling or bear raiding. Was that at a time that would help to bring about these results that seemed to have been desired?

Mr. MORGAN. That seems to be the plan, and we will be glad if you will subpoena those in control of this corporation so that we may have them testify to this committee; and we will be glad to follow it through the clearing house and the respective brokerage houses who sold the stock and who made the profits.

Senator FLETCHER. The result of this operation was to squeeze out all but a few stockholders?

Mr. MORGAN. Yes, sir.

Senator FLETCHER. And those stockholders were squeezed out?

Mr. MORGAN. It was the most drastic squeeze-out that I have ever investigated or made a study of.

The CHAIRMAN. The witness may be sworn.

## TESTIMONY OF ERNEST W. STIRN, MILWAUKEE, WIS.

The CHAIRMAN. You do solemnly swear that the evidence you are about to give on this matter will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. STIRN. I do.

The CHAIRMAN. Now, you have your testimony that you intend to give in writing, haven't you?

Mr. STIRN. Have it in writing; yes.

The CHAIRMAN. And you prefer to read it now, do you?

Mr. STIRN. Well, I would like to read a good deal of it and the rest put in the record.

The CHAIRMAN. Yes; all right. Just make it clear here so we will know which is which, so the reporter gets the divisions. Of course, Senators have a right to interrupt you, you understand, and ask questions; and I suggest that they do not interrupt until you get far enough along so we know what it is about.

Senator FLETCHER. Let us begin with your name and residence and occupation.

Mr. STIRN. To identify myself, my name is Mr. Ernest W. Stirn, research graduate student working for a doctorate in the history department, University of Chicago.

Mr. MORGAN. Mr. Stirn, have you had in mind in making this research a publication as a result?

Mr. STIRN. The University of Chicago may publish this later on, as I understand, or for that matter, some other publications, as they see fit.

Now, Radio-Keith-Orpheum Corporation is one of four corporations controlled by interlocking directorates; that is, directorates having blocks of shares in all four of these corporations. These four corporations are the Radio Corporation of America, General Electric Corporation, the Radio-Keith-Orpheum Corporation, and the Westinghouse Electric & Manufacturing Co.

I shall attempt to show the volume of sales in 1930 in this group of corporations compared in terms of ratio sales to the number of shares outstanding, to the total number of sales of all stocks, and to the number of shares listed on the New York Stock Exchange, in terms of per cent.

One, Radio Corporation: The number of shares outstanding in numbers of Radio Corporation in 1930 was, gentlemen, 13,130,000. The volume of sales in Radio Corporation in the year 1930 amounted to 37,038,190.

General Electric Corporation, with a number of 28,845,000 shares outstanding: Out of this number, 21,865,000 were actually sold; that is, actual certificates disposed of.

Radio-Keith-Orpheum Corporation, with a number of shares outstanding amounting to 2,377,315. Out of this number 18,397,908 were sold. In other words, nearly ten times as many; there were ten times as many sales as there were stocks existing.

Westinghouse Electric & Manufacturing Co., with 2,586,000 shares outstanding. Out of this number 10,592,975 were actually sold.

The total number of shares outstanding in this group were 46,939,566 shares.

The volume of sales of this group of four corporations amounted to 88,896,663 shares.

Now, the total number of sales in 1930 on the New York Stock Exchange amounted to 810,038,161. The number of listed shares on the New York Stock Exchange amounted to 1,296,794,480.

The ratio of the number of shares to total volume of all sales amounted to 191 per cent, which is a tremendous percentage. The ratio of volume of sales to total sales is 10 per cent. That is, this group of corporations contributed practically 10 per cent of all sales on the New York Stock Exchange, which is a colossal figure.

The ratio of volume of sales to the number of shares existing; that is, out of 1,296,000,000 shares this group of corporations contributed 0.07 per cent, which is also a figure incomparable in history.

Senator FLETCHER. That was during what time?

Mr. STERN. In the year 1930.

Now the next point, which was perhaps the most outstanding point in this investigation so far as my figures are concerned, is this, that the deflation of the price of Radio-Keith, that is, the drop from its high price to its low, is perhaps the worst case on record in history since the year 1630.

Two other companies, I may say in passing, who are now in receivership, have exceeded the depreciation in the price of Radio-Keith-Orpheum Corporation.

The CHAIRMAN. Let us have their names.

Mr. STERN. First is Insull Utilities Investment Corporation (Inc.), listed on the Chicago Stock Exchange. This corporation is under the investigation of the Swedish Government—

Senator BLAINE. No.

Mr. STERN. I beg your pardon. This corporation is under the investigation of the Wisconsin Public Utilities Commission at Madison, Wis., under the chairmanship of Theodore Kronshage. If we analyze this depreciation in terms of per cent, it is found the depreciation from the high of \$90 per share, that is without warrants, to a low of 12½ cents a share, amounted to 72,000 per cent.

Senator FLETCHER. What corporation is that now?

Mr. STERN. That is Insull Utilities Investment Corporation.

The CHAIRMAN. That is one. What is the other one?

Mr. STERN. The other one is Kreuger & Toll, which depreciated from a high of 46⅞ to a low of ¼ in April, 1932.

Mr. MORGAN. Also in receivership?

Mr. STERN. Also in receivership. This corporation is under investigation of the Swedish Government, and also I understand to be investigated by Samuel Untermeyer, of New York city.

Mr. MORGAN. There is no other corporation that is not in receivership that has had as great a drop as this?

Mr. STERN. Absolutely not, that I know of.

Mr. MORGAN. That is in all time, and not just for the recent period?

Mr. STERN. That is for all time. These are all-time figures since the beginning of the Amsterdam Stock Exchange in 1630.

The percentage of depreciation in Kreuger & Toll amounted to 18,400 per cent.

I have not investigated the short-selling campaign of either of these two issues, therefore I can make no comment upon them, but in the instance of Radio-Keith, with a high of 50 on April 24, 1930, and a low of  $\frac{3}{4}$ , or 75 cents a share, in December, 1931—

Senator BLAINE (interposing). What time in December?

Mr. STIRN. I can not say offhand. It is either December 28 or December 29. You have the figure there, I believe, of class A stock. That is before it was taken off the list of the New York Stock Exchange. Then it was quoted over the counter practically for nothing.

Senator BLAINE. Do you know what it was on November 5 when Mr. Brown, one of the directors, voted to reorganize?

Mr. STIRN. Yes.

Senator BLAINE. Are you coming to that?

Mr. STIRN. Yes; I will come to that, because the significant thing is to show historical events before November 5, because these previous events forecast what happened on the New York Stock Exchange.

Now, the depreciation, therefore, in the Radio-Keith-Orpheum class A stock amounts to 15,000 per cent. That is upon the basis of a June low 1932 of \$1.50 for the new common shares, which makes the old class A shares worth  $37\frac{1}{2}$  cents.

The CHAIRMAN. And they hit a high at what price?

Mr. STIRN. Of \$50, and I can show the invoices from brokers' accounts where many, many people have paid that and sold out after the short-selling campaign at 75 cents.

Senator FLETCHER. How had it been in 1929?

Mr. STIRN. The corporation, I may say, Senator, was organized in October, 1928, and just in a few weeks—it was organized first on a when-issued, W I basis, on the New York Curb, and then was put on the New York Stock Exchange, I believe, in December, 1928. I can show by these charts that immediately upon the inception of this company the same rigging operations began, in the number of total sales and the great swings in the price of the stock for the week.

Senator FLETCHER. It never has been higher than 50?

Mr. STIRN. Yes. In 1929 the stock rose to  $51\frac{1}{2}$  or  $51\frac{3}{4}$ .

Senator FLETCHER. Most of these stocks began to drop in October, 1929?

Mr. STIRN. Yes.

Senator FLETCHER. You do not know what their experience was then?

Mr. STIRN. Radio-Keith at that time went to \$12 a share, that is, from  $51\frac{3}{4}$  to \$12.

Senator FLETCHER. I see.

Mr. STIRN. And then it rose again from \$12 to \$50, which in point of appreciation in percentage has not been excelled on the New York Stock Exchange, and I am trying to show that it has been unexcelled in point of depreciation and appreciation, with a few exceptions.

Senator FLETCHER. In other words, it has been manipulated?

Mr. STIRN. If you want to call it such; yes.

The CHAIRMAN. Have you any other term for it?

Mr. STIRN. Rigging.

The CHAIRMAN. Proceed.

Mr. STIRN. As invented by John Law on the London Stock Exchange way back in 1734, which caused such a scandal at that time that the House of Commons inaugurated or passed a law prohibiting short selling from 1734 to 1868, nearly a hundred and fifty years, just on account of that one rigging operation John Law managed, just as M. J. Meehan managed Radio-Keith.

Senator WATSON. What happened?

Mr. STIRN. Pardon me?

Senator WATSON. What happened after they suspended it? I thought you said they passed a law compelling them to stop short selling. Then what happened to the stock exchange?

Mr. STIRN. Why, there could not be any short selling.

Senator WATSON. What happened to the stocks, the values?

Mr. STIRN. That was the famous South Sea Co.

Senator WATSON. I am not talking about that. What happened?

The CHAIRMAN. What was the effect of the cessation of short selling on the stock market on values of shares? That is what the Senator means, isn't it?

Senator WATSON. Why, certainly.

Mr. STIRN. I can answer that referring you to——

The CHAIRMAN. Briefly, Mr. Stirn, just answer the question.

Mr. STIRN. It stabilized prices, and they went upward.

The CHAIRMAN. That is right; it took a good while to get that simple answer. Go ahead.

Mr. STIRN. The conclusion is that any stock showing such intensive short sales, as I shall develop later, the inference is that short positions were maintained for a long period of time on the stock of the Radio-Keith-Orpheum Corporation. If the directors or officials of this company indulged in such a practice, a short position held since the spring of 1930 from the high of \$50 per share would yield the handsome profit of 15000 per cent.

Now, of course, you recall history in the Middle Ages or the so-called Dark Ages, a yield of 12½ per cent was penalized by the state by the loss of one hand, a yield of 25 per cent by the loss of two hands——

Senator BLAINE. You do not advocate that punishment now, though?

Mr. STIRN. Fifty per cent punishable by death. Going back farther in history——

Mr. MORGAN (interposing). So we are becoming more tolerant, Senator.

Mr. STIRN. To answer your question, Senator, under a constitutional monarchy as obtained in Great Britain—I, of course, refer to the Lord Kylsant case where a man who operated a stock rigging operation in a mercantile marine corporation now is sentenced to spend a year in a common ordinary jail in London.

The famous Stutz Motors case in 1920, where the stock fell from \$700 to \$20. And the Piggly Wiggly corner of 1923, where the stock fell from \$124 to \$82, which does not equal the price depreciation of Radio-Keith.

The Northern Pacific Railroad case, which stock on May 9, 1901, fell, after Harriman's open market operations, from \$1,000 a share to approximately \$167, a deflation not equalling that of Radio-Keith, and the depreciation of the Northern Pacific Railway at that time was one of the causes of the panic of 1901.

The Hudson Railroad case in 1866, which fell from 180 to 112 under the operation of Vanderbilt, does not in point of depreciation equal that of Radio-Keith.

The Praire du Chien corner, Senator, that is in 1865. In point of depreciation it does not equal that of Radio-Keith.

The Morris Canal corner of 1835 in point of depreciation does not equal that of Radio-Keith.

The South Sea Co. corner, managed by John Law, who invented rigging, on the London Stock Exchange, in 1734 fell from 5,000 pounds sterling to 1,200 pounds sterling, the effect of which was a ban on short selling on the statute books of Great Britain from 1734 to 1868, does not equal in point of depreciation that of Radio-Keith.

Senator COUZENS. I have not seen the short selling in this case. Are you coming to that?

Mr. STIRN. I am going to develop that later. What I am trying to point out, Senator, is the depreciation and comparisons.

Mr. MORGAN. And why he chose this to make a study of, Senator.

Senator COUZENS. I do not know what that has got to do with the operation in the Radio-Keith-Orpheum.

Mr. STIRN. Well, Radio-Keith-Orpheum—you may say, "Why pick on Radio-Keith-Orpheum?" The answer would be it is the most outstanding case in history.

Senator COUZENS. I am not asking you why you picked on that. I am asking you to show where the short selling occurred.

Mr. STIRN. I want to develop that later.

Senator COUZENS. I don't want to sit and listen to 30 or 40 years of history to find out how the short selling happened on the New York Stock Exchange in this case.

Mr. STIRN. I think the case I have developed is so important that you can not prove this except by such a broad analysis.

Mr. MORGAN. Proceed as rapidly as possible, Mr. Stirn, on the actual figures of short selling. You might refer back to some of this later. Accommodate your time to the Senators'.

Mr. STIRN. True enough. Before I develop that further, though, Mr. Morgan, I should like to point out the 1930 monthly high and low prices of the hundred most active stocks on the New York Stock Exchange, together with the volume of sales per month and per year, the average number of sales per year, the number of shares listed on the exchange, and the rate of commission on shares, illustrating the profits accruing from this source of income on the exchange.

Mr. MORGAN. Have you made a tabulation of that?

Mr. STIRN. I have made that, and if the chairman suggests, I shall incorporate that in the record and not proceed with that.

The CHAIRMAN. Without objection it is so ordered.

(The tabulation presented by Mr. Stirn is here printed in the record in full, facing this page.)

1930 monthly high and low prices of 100 most active New York Stock Exchange stocks together with volume of sales per month and per year, the average number of sales per year, the number of shares listed on the exchange or the number of shares outstanding or not pertaining to the number authorized, and the rate of commission on shares illustrating the profits accruing from this source of income on the exchange

Stock	Sales per year	Shares outstanding in 1930 common stock	1929 sales	Volume of sales per month—1930											
				January	February	March	April	May	June	July	August	September	October	November	December
<i>Radio Corporation</i> .....	37,058,890	13,150,690	36,661,200	2,368,000	3,103,100	3,609,200	5,913,600	4,644,500	3,713,500	2,726,100	2,458,400	2,488,900	2,119,000	1,584,050	1,123,820
<i>General Electric</i> .....	21,865,890	28,845,938	7,108,065	1,711,400	1,801,700	2,106,100	2,760,700	2,168,900	2,598,280	1,475,700	886,700	1,503,900	2,820,600	1,545,200	1,425,750
<i>United States Steel</i> .....	21,550,804	8,703,000	19,202,000	2,178,900	1,907,500	1,993,900	2,139,400	1,707,700	1,883,600	1,018,600	1,109,100	1,064,776	2,503,000	432,800	1,490,840
<i>United Corporation</i> .....	19,930,119		19,202,000	1,100,500	2,253,000	1,333,300	3,190,500	1,361,300	3,239,200	1,400,000	854,100	1,120,000	1,350,600	1,092,200	1,171,010
<i>General Motors</i> .....	20,416,488	12,332,515	14,259,070	1,117,900	816,100	2,256,200	2,302,900	1,829,300	1,656,200	1,489,300	1,100,200	1,703,500	1,791,300	1,295,200	1,230,120
<i>RKO, Class A</i> .....	18,365,812	43,500,000	30,443,100	1,395,000	839,000	1,254,800	3,001,200	2,009,200	1,541,200	1,353,300	1,166,100	1,329,100	1,671,900	1,024,900	596,708
<i>Warner Bros.</i> .....	18,397,908	3,769,025	6,574,000	1,366,100	3,216,800	2,108,500	1,320,000	1,579,600	1,971,200	1,100,600	1,830,600	1,337,700	1,117,100	739,700	836,530
<i>Vanadium</i> .....	16,182,408	3,769,025	4,189,200	1,366,100	3,216,800	2,108,500	1,320,000	1,579,600	1,971,200	1,100,600	1,830,600	1,337,700	1,117,100	739,700	836,530
<i>International Nickel</i> .....	16,835,730	3,769,025	4,189,200	1,366,100	3,216,800	2,108,500	1,320,000	1,579,600	1,971,200	1,100,600	1,830,600	1,337,700	1,117,100	739,700	836,530
<i>Standard Oil of New Jersey</i> .....	14,534,625	3,769,025	4,189,200	1,366,100	3,216,800	2,108,500	1,320,000	1,579,600	1,971,200	1,100,600	1,830,600	1,337,700	1,117,100	739,700	836,530
<i>Fox Film A</i> .....	14,459,125	3,769,025	4,189,200	1,366,100	3,216,800	2,108,500	1,320,000	1,579,600	1,971,200	1,100,600	1,830,600	1,337,700	1,117,100	739,700	836,530
<i>American Can</i> .....	13,806,093	14,584,025	14,366,600	951,800	625,700	1,495,300	1,051,200	830,800	1,364,600	525,100	890,000	1,742,200	1,709,618	1,135,200	1,011,560
<i>United Aircraft &amp; Transportation</i> .....	13,333,076	25,418,968	14,240,600	303,500	440,700	1,264,550	2,537,100	2,122,400	1,621,400	1,411,500	844,800	743,000	833,200	646,300	798,700
<i>Grigsby Grunow</i> .....	13,489,975	25,418,968	14,240,600	303,500	440,700	1,264,550	2,537,100	2,122,400	1,621,400	1,411,500	844,800	743,000	833,200	646,300	798,700
<i>New York curb</i> .....	13,568,150	2,425,660	14,240,600	303,500	440,700	1,264,550	2,537,100	2,122,400	1,621,400	1,411,500	844,800	743,000	833,200	646,300	798,700
<i>Chicago</i> .....	12,951,595	2,425,660	14,240,600	303,500	440,700	1,264,550	2,537,100	2,122,400	1,621,400	1,411,500	844,800	743,000	833,200	646,300	798,700
<i>American Telephone</i> .....	10,280,695	4,191,180	3,259,300	1,305,900	784,300	784,300	2,013,500	839,500	577,200	347,600	478,500	640,700	980,400	873,300	101,495
<i>Case, J. I.</i> .....	12,783,725	2,473,998	13,870,600	837,400	816,200	724,500	681,200	687,700	979,000	839,700	910,600	1,253,800	1,753,000	1,216,000	1,290,400
<i>Kreuger &amp; Toll</i> .....	12,089,500	2,082,190	13,870,600	837,400	816,200	724,500	681,200	687,700	979,000	839,700	910,600	1,253,800	1,753,000	1,216,000	1,290,400
<i>Chicago</i> .....	11,093,230	2,082,190	13,870,600	837,400	816,200	724,500	681,200	687,700	979,000	839,700	910,600	1,253,800	1,753,000	1,216,000	1,290,400
<i>Chicago</i> .....	11,015,038	2,082,190	13,870,600	837,400	816,200	724,500	681,200	687,700	979,000	839,700	910,600	1,253,800	1,753,000	1,216,000	1,290,400
<i>Chicago</i> .....	11,007,336	1,997,897	5,815,800	538,800	496,600	834,100	1,638,200	1,293,900	903,200	789,000	994,600	1,065,600	1,065,600	587,800	676,638
<i>Chicago</i> .....	4,888,955	1,997,897	5,815,800	538,800	496,600	834,100	1,638,200	1,293,900	903,200	789,000	994,600	1,065,600	1,065,600	587,800	676,638
<i>Chicago</i> .....	4,211,650	1,997,897	5,815,800	538,800	496,600	834,100	1,638,200	1,293,900	903,200	789,000	994,600	1,065,600	1,065,600	587,800	676,638
<i>Chicago</i> .....	10,719,125	1,876,838	6,200,000	454,800	447,700	1,221,300	1,682,500	1,449,600	1,521,400	862,200	471,300	857,100	1,501,800	89,300	109,846
<i>Chicago</i> .....	10,783,800	1,876,838	6,200,000	454,800	447,700	1,221,300	1,682,500	1,449,600	1,521,400	862,200	471,300	857,100	1,501,800	89,300	109,846
<i>Chicago</i> .....	10,592,975	2,586,515	6,200,000	454,800	447,700	1,221,300	1,682,500	1,449,600	1,521,400	862,200	471,300	857,100	1,501,800	89,300	109,846
<i>Chicago</i> .....	10,370,375	2,586,515	6,200,000	454,800	447,700	1,221,300	1,682,500	1,449,600	1,521,400	862,200	471,300	857,100	1,501,800	89,300	109,846
<i>Chicago</i> .....	8,473,326	6,642,232	6,782,200	531,900	723,800	775,300	810,600	797,600	816,700	626,700	513,100	876,300	1,854,300	1,079,925	974,150
<i>Chicago</i> .....	8,070,310	6,642,232	6,782,200	531,900	723,800	775,300	810,600	797,600	816,700	626,700	513,100	876,300	1,854,300	1,079,925	974,150
<i>Chicago</i> .....	7,940,930	6,642,232	6,782,200	531,900	723,800	775,300	810,600	797,600	816,700	626,700	513,100	876,300	1,854,300	1,079,925	974,150
<i>Chicago</i> .....	7,923,940	6,642,232	6,782,200	531,900	723,800	775,300	810,600	797,600	816,700	626,700	513,100	876,300	1,854,300	1,079,925	974,150
<i>Chicago</i> .....	5,923,524	17,973,023	18,092,900	749,900	889,400	892,400	2,032,600	738,600	763,500	317,500	269,200	361,200	327,700	262,600	319,340
<i>Chicago</i> .....	5,200,068	17,973,023	18,092,900	749,900	889,400	892,400	2,032,600	738,600	763,500	317,500	269,200	361,200	327,700	262,600	319,340
<i>Chicago</i> .....	4,063,125	194,471	3,000,600	116,100	63,000	186,200	225,200	384,900	256,100	327,300	536,000	427,100	545,000	343,300	607,075
<i>Chicago</i> .....	4,018,075	194,471	3,000,600	116,100	63,000	186,200	225,200	384,900	256,100	327,300	536,000	427,100	545,000	343,300	607,075
<i>Chicago</i> .....	2,458,700	6,958,333	6,335,460	442,900	289,000	430,200	1,014,000	416,800	387,800	104,800	120,100	319,400	273,500	260,200	445,300
<i>Chicago</i> .....	4,514,400	6,958,333	6,335,460	442,900	289,000	430,200	1,014,000	416,800	387,800	104,800	120,100	319,400	273,500	260,200	445,300
<i>Chicago</i> .....	1,512,800	184,492	283,800	37,100	68,700	89,700	63,400	78,600	88,200	129,800	88,200	187,000	132,000	154,600	432,600
<i>Chicago</i> .....	2,875,105	3,041,526	3,020,880	144,700	145,300	220,750	156,350	111,375	223,450	217,150	195,900	212,800	398,350	414,530	434,450
<i>Chicago</i> .....	957,395	3,041,526	3,020,880	144,700	145,300	220,750	156,350	111,375	223,450	217,150	195,900	212,800	398,350	414,530	434,450
<i>Chicago</i> .....	7,345,183	13,447,900	519,145	153,090	153,090	25,850	630,850	846,800	914,200	375,353	194,450	283,450	671,150	565,000	495,480
<i>Chicago</i> .....	153,090	13,447,900	519,145	153,090	153,090	25,850	630,850	846,800	914,200	375,353	194,450	283,450	671,150	565,000	495,480
<i>Chicago</i> .....	12,149,287	13,447,900	519,145	153,090	153,090	25,850	630,850	846,800	914,200	375,353	194,450	283,450	671,150	565,000	495,480
<i>Chicago</i> .....		13,447,900	519,145	153,090	153,090	25,850	630,850	846,800	914,200	375,353	194,450	283,450	671,150	565,000	495,480

<sup>1</sup> When issued.

<sup>2</sup> New.

<sup>3</sup> Certificates.

January to July, 1930 monthly high and low prices of 24 most active stocks listed on the New York Stock Exchange; the monthly and total volume of sales in 1930; volume of sales in 1929; and the number of shares outstanding in 1930

[The corporations in italics indicate an interlocking directorate]

Stock	Sales in 1929	Sales in 1930	Number of shares outstanding in 1930	January	February	March	April	May	June	July	August	September	October	November	December
<i>Radio corporation</i> .....	36,661,200	37,058,890	13,150,690	2,368,000	3,103,100	3,609,200	5,913,600	4,644,500	3,713,500	2,726,100	2,458,400	2,488,900	2,119,000	1,584,050	1,123,820
<i>General Electric</i> .....	7,108,065	21,865,890	28,845,938	1,711,400	1,801,700	2,106,100	2,760,700	2,168,900	2,598,280	1,475,700	886,700	1,503,900	2,820,600	1,545,200	1,425,750
<i>United States Steel</i> .....	19,202,000	21,550,804	8,703,000	2,178,900	1,907,500	1,993,900	2,139,400	1,707,700	1,883,600	1,018,600	1,109,100	1,064,776	2,503,000	432,800	1,490,840
<i>United Corporation</i> .....	19,202,000	19,930,119		1,100,500	2,253,000	1,333,300	3,190,500	1,361,300	3,239,200	1,400,000	854,100	1,120,000	1,350,600	1,092,200	1,171,010
<i>General Motors</i> .....	30,443,100	20,416,488	12,332,515	1,117,900	816,100	2,256,200	2,302,900	1,829,300	1,656,200	1,489,300	1,100,200	1,703,500	1		

1930 monthly high and low prices of 24 most active stocks—N. Y. Stock Exchange

	January		February		March		April		May		June		July	
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
Radio.....	45¼	34	49¼	36¼	55	46	69	53¼	65	41¼	55¼	32½	46	33
General Electric.....	66½	60	78¾	70¾	86	74	96	83	88	73	84	62	74¼	64½
United States Steel.....	184	166	189¼	176	195	177¾	198¾	180¼	183¾	165¾	173¾	151	170	153¼
United Corporation.....	37	30	40	35	44	37¾	52	43	50	37	45¾	28	35	29
General Motors.....	43½	37	45	41	51	41¾	54¼	45	52	42½	52	38	41	38
Radio-Keith-Orpheum.....	30¾	19	32¼	27	38	30¾	50	35	47½	35½	43¼	27¼	35	26
Warner Bros.....	54	38	67½	53	80¼	66¼	80¼	67¼	74¼	58½	66	38½	46	35½
Vanadium.....	69¾	49	73	62	124½	89¼	143¼	103	133	87	124	66½	106	75
International Nickel.....	38	31	40½	36	43½	38	44	34	35¼	30¼	33	21	26	22¼
Standard Oil of New Jersey.....	66	62	65½	63	75	58	84	74	84	71	80	60	75	63
Fox Film.....	34	16	39½	26¼	36	26½	57	33	55¼	44¼	54	37½	49	38½
American Can.....	131	117¼	146	128	154	138	156½	142	148½	127	148	108¼	135	112½
United Air & Transportation.....	53	45½	62	44	89	60¾	99	79¼	88¼	57¾	78	43	63	48¼
Grigsby Grunow.....	22½	12½	18¼	14¼	19¾	15	27¼	17	26½	17¼	28	14½	16½	12½
Electric Power & Light.....	60	49¼	67¼	57	93	67	105½	87	97	71	95½	58½	76	63¼
Westinghouse Electric.....	163	140	188¼	160	195	181	201½	180¾	187	160	183½	124¼	162	127¼
International Telephone.....	75	62	73¾	64¼	70½	62½	77	67	75	58¼	64	40	49	42¼
Columbia Graphophone.....	31	24	31	27	31	26¼	57	28	34	23¼	28	16	20¼	15
American Telephone.....	226¼	216	241	224	266	235	274¼	246	251¾	224½	232½	200	221	203¼
Case, J. I.....	249	192¼	246¾	216¼	294¾	236	262¾	260¼	352½	276	283¼	156½	203½	160
Kreuger & Toll.....	28½	23¼	31	28	31¼	28½	56	31	33¼	30	32¼	25¼	29	24½
Auburn.....		175½					263¾							
Insull Utilities Investment (Inc.).....		53¾		70½										
Middle West Utilities.....		22					38¼							

<sup>1</sup> Among the stocks cited the precipitate rise of the Radio-Keith stock in the spring of 1930 was exceeded by one stock only, namely, Fox Film.

Mr. STIRN. I have prepared, also, statistics giving the date of the number of short sales, the daily number of short sales, the weekly number of all short and long sales, and the high and low prices for the day from September 18 to November 30, inclusive, 1931, and the weekly number of all sales and daily prices from November 30 to December 29, 1931, with reference to the Radio-Keith-Orpheum Corporation.

Senator GORE. Was that when this raid was on, Mr. Stirn?

Mr. STIRN. Yes, sir; when the public headlines of the press announced these bear raidings, without having any evidence to substantiate those headlines at that time.

Senator BLAINE. Is that Schedule D, page 4?

Mr. STIRN. Schedule E, page 11, and Schedule F, page 16, of that blue book, Senator.

Senator BLAINE. Go ahead.

Senator FLETCHER. Does that give the daily transactions in the stock?

Mr. STIRN. Yes. I am also showing terms of percentages as compared to all sales. The data from which I shall base my statement is that of the New York Stock Exchange statistics in regard to short selling, May 25 to November 30, 1931. It may perhaps be a strange coincidence of history that this report by President Whitney's stock exchange, which President Whitney says shows that short selling does not contribute to the depreciation of prices on the Exchange, says it was genuine liquidation, and I believe that he made that statement under oath.

Now, with particular reference to the case of Radio-Keith-Orpheum Corporation—

(Thereafter the witness submitted to the committee clerk, for the record, a telegram containing statistics from his memorandum used at the hearing as to the daily short position of Radio-Keith-Orpheum class A stock for a part of September and for October and November, 1931, as follows:)

MILWAUKEE, WIS., August 1, 1932.

JULIAN W. BLOUNT.

*Senate Committee on Banking and Currency:*

Figures given at hearing from my memorandum of New York Stock Exchange statistics in regard to short selling, May 25 to November 30, 1931, as follows:

*Total Radio-Keith-Orpheum Corporation class A*

Shares listed as of Oct. 28, 1931..... 2, 379, 725  
Total shares (same stock) listed as of Nov. 30, 1931..... 2, 380, 291

DAILY SHORT POSITION

Number of shares		Number of shares	
Sept. 21, 1931.....	10, 400	Oct. 7, 1931.....	8, 000
Sept. 22, 1931.....	5, 000	Oct. 8, 1931.....	8, 500
Sept. 23, 1931.....	4, 400	Oct. 9, 1931.....	6, 800
Sept. 24, 1931.....	4, 700	Oct. 13, 1931.....	5, 500
Sept. 25, 1931.....	4, 905	Oct. 14, 1931.....	6, 900
Sept. 28, 1931.....	3, 900	Oct. 15, 1931.....	11, 800
Sept. 29, 1931.....	8, 100	Oct. 16, 1931.....	11, 900
Sept. 30, 1931.....	6, 800	Oct. 19, 1931.....	13, 400
Oct. 1, 1931.....	7, 100	Oct. 20, 1931.....	12, 900
Oct. 2, 1931.....	5, 200	Oct. 21, 1931.....	6, 400
Oct. 5, 1931.....	6, 800	Oct. 22, 1931.....	13, 800
Oct. 6, 1931.....	11, 100	Oct. 23, 1931.....	13, 400

Total shares (same stock) listed as of Nov. 30, 1931..... 2, 380, 291

## DAILY SHORT POSITION—Continued

	Number of shares		Number of shares
Oct. 26, 1931.....	15, 000	Nov. 12, 1931.....	143, 683
Oct. 27, 1931.....	30, 300	Nov. 13, 1931.....	119, 669
Oct. 28, 1931.....	62, 300	Nov. 16, 1931.....	100, 691
Oct. 29, 1931.....	88, 126	Nov. 17, 1931.....	82, 679
Oct. 30, 1931.....	89, 891	Nov. 18, 1931.....	63, 827
Nov. 2, 1931.....	109, 436	Nov. 19, 1931.....	41, 586
Nov. 4, 1931.....	148, 661	Nov. 20, 1931.....	42, 005
Nov. 5, 1931.....	148, 852	Nov. 23, 1931.....	23, 942
Nov. 6, 1931.....	137, 226	Nov. 24, 1931.....	22, 285
Nov. 9, 1931.....	130, 456	Nov. 25, 1931.....	21, 840
Nov. 10, 1931.....	135, 001	Nov. 27, 1931.....	20, 560
Nov. 11, 1931.....	138, 436	Nov. 30, 1931.....	18, 885

The CHAIRMAN. You may proceed, Mr. Stirn.

Mr. STIRN. Now, as Mr. Morgan, former attorney general of the State of Wisconsin, has shown that on November 5 a directors' meeting was held by the Radio-Keith-Orpheum Corporation, and the developments at that meeting were outlined to you by Mr. Morgan. Therefore I shall not need to go further into that.

Mr. MORGAN. Do you like at this time to make President Brown's letter to the stockholders a part of your testimony?

Mr. STIRN. I would.

The CHAIRMAN. All right; if there is no objection, it is so ordered.

(The document here presented by the witness is printed in the record in full, as follows:)

## OFFERING OF DEBENTURES AND COMMON STOCK

NEW YORK, N. Y., November 10, 1931.

*To the Stockholders:*

The board of directors of the corporation has determined subject to the adoption by the stockholders of the proposed amendments to the certificate of incorporation of the corporation described in the accompanying letter, to issue \$11,600,000, principal amount of 10-year 6 per cent gold debentures of the corporation and 1,740,000 shares of the common stock of the corporation, and to offer to each holder of the present class A stock of the corporation, the right to subscribe, upon the terms and conditions hereinafter stated, before 3 p. m., eastern standard time, December 21, 1931, for \$5 principal amount of said debentures and three-fourths of a share of common stock for each share of class A stock registered in the name of such holder on the books of the corporation at 3 p. m., eastern standard time, November 23, 1931, at a price equal to the principal amount of the debentures subscribed for with accrued interest. Fifty per cent of said subscription price must be paid at the time of subscription, and the remainder will be payable on call, on 30 days' notice, but may be prepaid at the option of the subscriber.

The debentures will be dated December 1, 1931, will mature December 1, 1941, will bear interest from December 1, 1931, at the rate of 6 per cent per annum, payable semiannually on June 1 and December 1 of each year, and will be issued in coupon form in the denominations of \$100, \$500, and \$1,000, with privilege of registration as to principal. A sinking fund will be provided payable \$550,000 on December 1, 1934, \$550,000 on December 1, 1935, \$1,100,000 on December 1, 1936, \$1,650,000 on December 1, 1937, \$1,650,000 on December 1, 1938, \$2,000,000 on December 1, 1939, \$2,000,000 on December 1, 1940, and \$2,100,000 on December 1, 1941. Debentures purchased by the corporation may be credited at their principal amount against such sinking-fund requirements, and cash paid to the sinking fund is to be applied, at the option of the corporation, to the purchase of debentures in the market or by tender or

otherwise, or to the redemption of debentures. The debentures will be redeemable at the option of the corporation, on 60 days' notice, as a whole or in part, on any interest payment date, at their principal amount and accrued interest.

So long as any of the secured 6 per cent gold notes issued under the collateral note indenture, dated as of July 1, 1931, to Chemical Bank & Trust Co., as trustee, are outstanding, the debentures will be secured by a lien (subject to the lien of said secured gold notes), on all property now pledged or hereafter validly pledged under said collateral note indenture, and on such other property, if any, as may be specified in the indenture under which the debentures are to be issued, equally and ratably with such other outstanding unsecured indebtedness of the corporation maturing on or before January 1, 1933, not exceeding in the aggregate \$1,548,000, as may be given such lien in consideration of an extension of the maturity thereof, in whole or in part. Upon the payment of said secured 6 per cent gold notes, the lien securing the debentures will terminate, but the indenture under which the debentures will be issued will provide that, so long as any of the debentures shall be outstanding, the corporation will not create any lien on any of its property, whether now owned or hereafter acquired (other than liens on after acquired property, created in connection with the acquisition thereof, as will be provided in the indenture) unless effective provision be made that the debentures shall be secured by such lien ratably with any other indebtedness secured thereby.

The price of subscription is an amount equal to the principal amount of the debentures subscribed for, payable in New York funds together with accrued interest to December 21, 1931, on such debentures. At least 50 per cent of the subscription price, together with such accrued interest, must be paid at the time of the exercise of the warrants. The balance of the subscription price will be payable (with interest at the rate of 6 per cent per annum) on the call of the corporation in one or more installments, on 30 days' notice. Any subscriber may at any time make full payment of the subscription price. Against payment of 50 per cent of the subscription price, transferable certificates will be issued entitling the holder thereof to receive on December 1, 1934, or earlier at the option of the corporation, provided full payment has been made, the principal amount of debentures and the number of shares of common stock subscribed for by him. Such certificate will contain appropriate provisions for sale and/or forfeiture of any debentures and common stock in respect of which default is made in payment the balance of the subscription price. Debentures and stock certificates will not be delivered prior to full payment, or prior to December 1, 1934, unless the corporation elects to make delivery earlier.

As stated in the accompanying letter, Radio Corporation of America has agreed to purchase, on the same terms, such of the debentures and common stock offered to stockholders as are not subscribed for by stockholders or their assignees. Application will be made in due course to list on the New York Stock Exchange the debentures, the common stock, and the certificates to be delivered in the first instance.

Warrants will be issued to each holder of class A stock as soon as possible after November 23, 1931, specifying the amounts of debentures and common stock in respect of which each stockholder is entitled to a subscription privilege. Unless otherwise requested by the stockholder, warrants will be mailed to the address on file with the transfer agent of the corporation.

RADIO-KEITH-ORPHEUM CORPORATION,  
By HIRAM S. BROWN, *President*

**RADIO-KEITH-ORPHEUM CORPORATION—NOTICE OF EXTRAORDINARY MEETING OF STOCKHOLDERS TO BE HELD ON DECEMBER 10, 1931**

Notice is hereby given that an extraordinary meeting of the stockholders of Radio-Keith-Orpheum Corporation, a Maryland corporation, will be held at the principal office of the corporation, First National Bank Building, Baltimore, Md., on December 10, 1931, at 11 o'clock in the forenoon for the following purposes:

(1) To consider and take action upon the proposal to amend the certificate of incorporation of the corporation to accomplish the following objects:

(a) The reduction of the number of outstanding shares of class A stock of the corporation to one-fourth of the number of such shares outstanding prior to such reduction, so that each holder of one share of class A stock will hold one-fourth share of class A stock;

(b) The reduction of the number of outstanding shares of class B stock of the corporation from 500,000 to none;

(c) The reclassification of the authorized class A stock, issued and unissued, and the authorized class B stock of the corporation into common stock, so that the authorized stock, issued and unissued, of the corporation shall be 4,500,000 shares of common stock without nominal or par value; and

(d) The amendment of article 6 of the certificate of incorporation of the corporation, so that said article 6 shall be in substantially the form set out in Schedule A hereto.

(2) To approve all action taken or authorized by the board of directors or the executive committee of the board of directors of the corporation since the last meeting of the stockholders of the corporation; and

(3) To consider and take action upon all matters incidental to the foregoing purposes and upon such other business as may properly come before said meeting or any adjournment or adjournments thereof.

The proposed amendments of the certificate of incorporation of the corporation were declared advisable by the board of directors of the corporation by resolutions adopted at a meeting held November 5, 1931.

The date fixed by the board of directors as the record date for the determination of the stockholders entitled to notice of, and to vote at, said meeting is November 23, 1931. Accordingly, only stockholders of record at the close of business on that date will be entitled to notice of, and to vote, at said meeting.

By order of the board of directors.

WM. MALLARD, *Secretary*.

Dated New York, N. Y., November 10, 1931.

NOTE.—If you do not expect to be present at the meeting, please date and sign the accompanying proxy and return it in the inclosed stamped envelope, addressed to the secretary of the corporation, No. 1564 Broadway, New York, N. Y.

#### SCHEDULE A

#### PROPOSED AMENDED ARTICLE 6 OF THE CERTIFICATE OF INCORPORATION OF THE CORPORATION

Sixth: The total amount of authorized capital stock of the corporation is 4,500,000 shares without nominal or par value, all of which are common stock.

Dividends upon the stock of the corporation shall be payable only out of surplus or net profits applicable to dividends as determined by the board of directors, and only as and when declared by the board of directors. The board of directors shall have power to fix, from time to time, the amount to be reserved out of surplus or net profits of the corporation as working capital, or for any other lawful purpose, and to determine whether any, and if any what part, of the surplus or net profits of the corporation shall be declared as dividends and paid to its stockholders; and all rights of holders of stock of the corporation in respect of dividends shall be subject to the power of the board of directors so to do.

At all elections of directors of the corporation, each holder of record of the common stock shall be entitled to as many votes, given in person or by proxy, as shall equal the number of his shares of stock multiplied by the number of directors to be elected and such stockholder may cast all such votes for a single director or may distribute them among the number to be voted for, or among any two or more of them, as he may see fit.

No holder of stock of the corporation shall, as such stockholder, have any right to purchase or subscribe for any shares of the capital stock of the corporation which it may issue or sell, whether out of the number of shares authorized by the certificate of incorporation of the corporation as originally filed or by any amendment thereof or out of shares of the capital stock of the corporation acquired by it after the issue thereof; nor shall any holder of stock of the corporation, as such stockholder, have any right to purchase or subscribe for any obligation which the corporation may issue or sell that shall be convertible into, or exchangeable for, any shares of the capital stock of the corporation, or to which shall be attached or appertain any warrant or warrants or other instrument or instruments that shall confer upon the holder or owner of such warrant the right to subscribe for, or purchase from the corporation, any shares of its capital stock.

At any time and from time to time any of the provisions of this certificate of incorporation may be amended, altered, or repealed and other provisions

authorized by the statutes of the State of Maryland at the time in force may be added or inserted in the manner at the time prescribed by said statutes, and all rights at any time conferred upon the stockholders of the corporation by its certificate of incorporation are granted subject to the provisions of this paragraph.

Senator FLETCHER. What year was that you have?

Mr. STIRN. This date is 1931. What I have been dealing with before is 1930. In other words, I am trying to make this analysis as all-embracing as possible.

Mr. MORGAN. Getting right down now to what the Senator asked for a moment ago?

Mr. STIRN. Precisely.

Now, it is an established fact that where boards of directors have in mind a conversion and a confiscation of stock as outlined to you by Mr. Morgan, the result of such a vote by the board of directors, when it becomes public, will create a panic and a fear in the minds of investors, encouraging them to sell their holdings at panic prices. There are many instances which can be established from the invoices of former investors, former class A stockholders, of the Radio-Keith-Orpheum Corporation, who bought that stock at \$50 a share on April 24, 1930, who by this intensive short-selling campaign, were so stricken by fear and panic that they disposed of these holdings at 75 cents a share.

Senator TOWNSEND. Who carried on this short selling? Was it at the direction of the company?

Mr. STIRN. I have not access to the books, as you well know. Only your accountants have that. But I know who the specialist is in that stock. That is J. M. Meehan & Co.

Senator BLAINE. M. J. Meehan.

Mr. STIRN. J. M. Meehan.

Senator BLAINE. Michael J. Meehan.

Mr. STIRN. He is the key witness.

Senator BLAINE. Yes.

Mr. STIRN. As I understand, he took the next ship to Europe, under plea of ill health.

Now, I have referred to this directors' meeting by which a conversion, a confiscation of stock, was authorized, by this meeting.

Senator BLAINE. That is where the directors decided to reorganize the corporation?

Mr. STIRN. Exactly. That is, if a stockholder who, say, had 100 shares of stock, and did not give to the company \$5 for every share owned and thereby obtain a debenture bond at par, at 100, if he did not give the company on the plea of impending insolvency and upon the plea of receivership, this \$5 per share, he lost three-fourths of his prior holdings.

In other words, if he could not subscribe—and this stock was timed at such a time when people could not afford to contribute this \$5 assessment to the corporation—he would lose three-fourths of his holdings. That is in November, 1930, when the panic on the exchange caused so much concern in Washington.

Now, it is an established fact that when such a vote is made and when the plea of insolvency is put before the press, then the inevitable result on the price of the stock will be downward. Anticipating this, perhaps, there was an intensive short-selling campaign

prior to the date of the publication of this vote made by the directors of the Radio-Keith-Orpheum Corporation, as announced by Hiram Brown's letter to stockholders on November 10. These dates are important to bear in mind: November 10, when this debenture—

Senator GORE. Is this 1930?

Mr. STERN. November 10, 1931. This debenture plan was made public by Hiram Brown's letter. On November 5 was held the directors' meeting. Two or three weeks prior to November 5 an intensive short-selling campaign was waged against this stock.

Senator FLETCHER. What was the price of the stock on November 5?

Mr. STERN. First I would like to show you the increase of the number of short sales and then I shall answer your question, if I may.

The CHAIRMAN. Mr. Stock would like to ask one question.

Mr. STERN. Gladly.

Mr. STOCK. Mr. Stirn, do you know whether or not a corporation or its directors have a right to assess the stockholders of a solvent corporation that is not in receivership against their will?

Mr. STERN. Not under the laws of Maryland.

Mr. MORGAN. No; if it is a nonassessable stock.

Mr. STOCK. Well, of course, a nonassessable stock may be assessable in time of receivership.

The CHAIRMAN. You are asking a legal question.

Mr. STOCK. I want the thing brought out so that it is on the record. This corporation was not in receivership?

Mr. STERN. It was not in receivership.

Mr. STOCK. And this in effect was an involuntary assessment?

Mr. STERN. Absolutely.

Senator GORE. Have you had the legal question investigated, Mr. Stirn?

Mr. STERN. I think Mr. Morgan can answer that better than I, as I am not in training.

The CHAIRMAN. I will say, Senator Gore, that before you came in when we started the hearing, Mr. Morgan, former attorney general of Wisconsin, came in here with Mr. Stirn as his attorney, and he made an opening statement of this case.

Senator GORE. I have wondered a good deal about that.

The CHAIRMAN. And I should feel that you are perfectly at liberty to ask Mr. Morgan any question you want to.

Mr. MORGAN. What was it, Senator?

Senator GORE. Did you put it in the record? I do not know much about this Radio-Keith reorganization except in a general way, but I have known about it to wonder a good deal whether it was a legal transaction or not, whether they had a right to do what they did.

Mr. MORGAN. Senator Gore, the corporation was organized under the laws of the State of Maryland, and therefore neither the statutes of Maryland nor the charter of the corporation permitted a decrease of the capital stock. It was a nonassessable stock and it could not legally be assessed.

Senator GORE. It looked like confiscation to me, what little I know about it.

Mr. MORGAN. It was a so-called reorganization for the purpose of assessing a nonassessable stock. It was absolutely illegal, and a gentleman named Cookman Boyd at Baltimore brought a suit to enjoin him, and that is a part of the record of the circuit court of Baltimore County, and I would now suggest that this committee subpoena Mr. J. Cookman Boyd, who can give you the inside of that deal and the legality or illegality of it.

Senator GORE. What became of the suit?

Mr. MORGAN. The suit was settled by the purchase of Cookman Boyd's stock.

Senator GORE. It looked like confiscation to me, what little I know of it.

Mr. MORGAN. It was, precisely, three-quarters of their holdings. It was the alternative of confiscation or pay on the assessment.

The CHAIRMAN. All right, the witness may proceed.

Mr. STIRN. Of course my investigation upon short selling on the New York Stock Exchange is limited to the report as published by the New York Stock Exchange. That is, the exchange authorities have seen fit only to allow to become public figures from May 25, 1931, to November 30, 1931.

In the beginning of this report, which I have here, the first figures from May 25 to September 18 are based on a weekly basis. In other words, not upon a daily basis. From September 18, 1931, to November 30, 1931, they come on a daily basis.

This stock exchange report, moreover, does not include sales against the box, which statisticians and economists of most universities will testify are actual short sales, because an actual covering movement has to be made before the close of the deal, but which President Whitney maintains is not an actual bona fide short sale.

In addition, this New York Stock Exchange report—

The CHAIRMAN (interposing). I think Mr. Whitney said that it was "not necessarily a short sale."

Mr. MORGAN. That is it.

The CHAIRMAN. I think that is his testimony.

Mr. STIRN. But he does not incorporate that in the figures.

The CHAIRMAN. And then he admits inferentially that under certain conditions it might be a short sale.

Mr. STIRN. Perhaps, but he does not include it in the figures. If he included the various types of short sales, these figures would become colossal, Mr. Chairman.

However, for the purpose of Radio-Keith-Orpheum which comes between these dates the incidence of this practically proves the fact that an intensive short-selling campaign was waged against the price of the stock of the Radio-Keith-Orpheum Corporation.

From May 25 to October 21 a normal average number of short sales against the stock of the Radio-Keith-Orpheum Corporation was between 6,300 shares short sales and 10,000 short sales.

Senator BLAINE. That is short position?

Mr. STIRN. Short position at the close of these days.

Senator BLAINE. According to the records of the stock exchange?

Mr. STIRN. Yes. Thank you for that correction, Senator. Perhaps I should say "short position" instead of "short sales."

The inference from these figures is, being a normal development, that this activity was maintained by professional traders on the New

York Stock Exchange and the various branches all over the country and by margin traders. But since October 21 to November 5, that is, approaching the date of this directors' meeting, astounding figures appear.

Senator FLETCHER. Now you are going back to '30.

Mr. STIRN. 1931. I don't know why I always should say 1930. 1931. Thank you for the correction.

On October 21, 1931, there were 6,400 short positions as shown by President Whitney's own report. On October 22, as this secret directors' meeting approaches, there being no public news of this directors' meeting held on November 5 until November 10, which is the date of Hiram Brown's letter to stockholders, we see a gradual increase in the number of short sales.

On October 22, 1931, the short position amounted to 13,800 shares, an increase of over a hundred per cent over night.

On October 23, the position was still maintained at 13,400 shares.

On October 26 the short position was 15,000 shares.

On October 27 it was 30,300 shares; on October 28, 62,300 shares. And, mind you, there was no public news of this.

Senator GORE. How many shares outstanding of this, Mr. Stirn?

Mr. STIRN. Two million three hundred and seventy-nine thousand. But these are short positions, so one really can not compare this position with the number of shares outstanding.

Mr. MORGAN. Two million three hundred and eighty-eight thousand two hundred and ninety-eight shares seems to be exact.

Mr. STIRN. Likewise, on October 28, there was a jump to 62,300 shares. On October 29 another increase to 88,126 shares. On October 30 the short position was 89,891 shares. On November 2 it was 109,436 shares.

Senator GORE. Could you give the prices of this?

Mr. STIRN. I shall; yes; and I shall show you that the chart shows just opposite Mr. Whitney's testimony, which tried to prove that short selling stabilized stock prices.

Mr. MORGAN. At the close of October 21 it was 9, and it has been brought down to November 4 to 6.

Mr. STIRN. The effect of this short-selling campaign was bringing down the stock. Offhand I think \$12 to 75 cents, which is a tremendous depreciation.

Senator GORE. What was the price on October 31?

Mr. STIRN. Permit me first, Senator, to complete this increase, and then I shall answer your question.

Senator GORE. All right.

Mr. STIRN. That meeting was November 4 or 5.

Mr. MORGAN. November 5.

Mr. STIRN. On November 2, three days before this meeting, the short position was increased to the great amount of 109,436 shares, which is a tremendous increase ratio to the number of shares outstanding, if you compare it to other stocks.

On November 4 the short position jumped from 109,436 shares to 148,681 shares.

On November 5, the date of the directors' meeting, the short position stood at 148,852 shares.

The history of the volume of short sales after this meeting shows a gradual tapering off, with the exception of November 11, one day

after Hiram Brown's letter became public. But, inasmuch as that letter was mailed, it could not become public until two or three days thereafter.

Senator BLAINE. Mr. Stirn, what was the total sales of stock of the R-K-O on November 4? Have you got that figure?

Mr. STIRN. Oh, yes. I can give you the figure for the week including November 4. Perhaps that is what you have reference to.

Senator BLAINE. Yes.

Senator GORE. Could you parallel these short sales over this period with the total sales?

Mr. STIRN. Precisely. I have those figures here, Senator.

Senator GORE. Paralleling the short with the long sales?

Mr. STIRN. Precisely. Because a short sale is also registered on the tape of the New York Stock Exchange.

To answer your question, Senator Fletcher, the figures show that there were 166,300 sales of all types, long and short sales, on November 6th. The short position on November 6, the same date, was 137,226, nearly a hundred per cent of total sales.

In other words, if a person were standing in the brokerage office of any broker's house in the country and watching the tape, practically every figure that came over that tape was a short sale.

Mr. MORGAN. Can you give us November 4, Mr. Stirn, the day before the directors' meeting?

Mr. STIRN. The total number of sales?

Mr. MORGAN. Yes.

Mr. STIRN. No, I can not, because these sales are only on a weekly basis, but the Financial Commercial Chronicle and the New York Times might give that data.

Mr. MORGAN. What is the preceding date if you can give it?

Senator BLAINE. Per week?

Mr. STIRN. All right; October 30, on which date I show that the short position amounted to 89,891 shares.

Senator BLAINE. And the total?

Mr. STIRN. The total number of shares on that date was 94,900 shares. In other words, the short position or number of sales contributed practically a hundred per cent.

Senator BLAINE. Less than 5,000 shares not short—"not necessarily short"?

Mr. STIRN. Taking out the long sales, practically all of it amounted to short sales. These figures, therefore, are not insignificant, as President Whitney of the New York Stock Exchange would have the country to believe.

After November 10, when the public became aware of this directors' meeting, the short position was gradually reduced. That is, a covering movement by those people on the inside, this inferentially being an inside rigging operation, it was purely manipulation, a covering movement ensued thereafter.

Senator BLAINE. Mr. Stirn, have you given the peak short position?

Mr. STIRN. Yes; the peak short position, strangely enough, coincides with the date of this directors' meeting, which is November 5, and the short position on that date was 148,852 shares, which is a great, colossal figure for a corporation having so few number of shares outstanding.

On November 11, one day after Hiram Brown's letter to stockholders, there were 138,486 shares sold. On November 12, before this letter could have reached the stockholders all over the country, having been mailed in the regular fashion, there were 143,693 shares. On November 13 a great tapering off in the number of short positions is noticed.

Mr. MORGAN. On November 13, when there was public knowledge of the proposed reorganization or proposed assessments, can you give the total sales? There is a discrepancy there I want you to bring out.

Mr. STIRN. Yes. November 13, the date which you have reference to, the short position was 119,669 shares. The total position of all sales was 150,400.

Mr. MORGAN. The general sales by the public, in other words?

Mr. STIRN. Probably; and you will see the ratio widening between the short position and the total position.

Mr. MORGAN. Yes. Liquidation increasing there?

Mr. STIRN. Precisely. That is a definite pointing to liquidation. On November 16 the short position stood at 100,691. On November 17 the short position—

Mr. MORGAN. Give Senator Gore the figure at which it was sold on November 16.

Mr. STIRN. On November 16 the stock, Senator Gore, sold at  $21\frac{1}{2}$ , the low there. When this operation for the short-selling campaign started the stock sold at eleven or twelve dollars a share, which I think, strangely enough, contradicts the statements by President Whitney, and his addresses as made in the country.

On November 18 the short position stood at 63,827 shares. On November 17 another decrease, the short position standing at 41,586 shares. On November 20 the short position stood at 42,003 shares.

Mr. MORGAN. And the total?

Mr. STIRN. The total number of shares on that date stood at 161,900 shares. Therefore showing an increase in liquidation, that the stock was selling, actual liquidation, and a covering movement maintained probably by insiders who had inside information of this directors' meeting in advance.

Senator GORE. The theory is that this conspiracy broke the price of the stock before they went to cover and they covered at a low price.

Mr. STIRN. That is the clear inference.

November 23 the short position showed another tremendous decrease to 23,943 shares. On November 24 the short position stood at 22,285 shares; on November 25 at 21,840 shares; on November 27 the short position stood at 20,560 shares; and on November 30, the date upon which President Whitney closes his report—

Mr. MORGAN (interposing). Pardon me—did the total sales exceed the short sales on November 12, sir?

Mr. STIRN. Yes; they did. On November 30, to repeat, the short position stood at 18,885 shares.

Senator FLETCHER. What was the price then?

Mr. STIRN. The price then was  $1\frac{5}{8}$ , Senator, a decrease, showing that short sales do contribute to a downward trend in prices.

Mr. STOCK. If you want the short positions after November 30, you have them right there.

Mr. STIRN. I am not acquainted with this.

Senator BLAINE. We have that in the record.

Mr. STIRN. I would ask the Chairman then to incorporate that in the record without remarks by myself.

Senator BLAINE. We might just have the expert state the short sales there, Mr. Chairman.

The CHAIRMAN. There being no objection, it is agreed that Mr. Stock, the expert for the committee, go ahead and finish his statement.

Mr. MORGAN. Mr. Stirn has this for once a week.

Senator BLAINE. Let the expert just state that. We will complete that here and save a lot of time.

Mr. STOCK. The short position on December 1 was 19,442; on December 8, 1931, was 17,592; on December 15, 8,682; on December 22, 9,036; on December 28, 8,356; on December 29, zero.

Senator GORE. Zero on the 29th?

Mr. MORGAN. What was it on December 28?

Mr. STOCK. On December 28, 8,356, and zero on December 29.

The CHAIRMAN. What year was that?

Mr. STOCK. 1931.

Senator FLETCHER. Then it was taken off the list?

Mr. STOCK. It dropped from the list on December 29, 1931.

Mr. STIRN. No longer quoted.

Senator BLAINE. Now, Mr. Stirn, before you go on to another subject there is one thing I do not believe has been made clear to the committee. R. C. A., that is the Radio Corporation of America, acquired the R. K. O., as I understand it. Is that correct?

Mr. STIRN. Yes.

Senator BLAINE. After all this wrecking, why, the R. C. A. became the owner of the assets of R.-K.-O.?

Mr. STIRN. Precisely.

Senator BLAINE. Can you state to the committee the amount that the R. C. A. paid for the control of the R.-K.-O.?

Mr. STIRN. By this plan voted on by the directors of the Radio-Keith-Orpheum Corporation on November 5, 1931, this refinancing plan, which assessed the stockholder \$5 per share, and which he could not produce, his producing power evidently having decreased by these operations of short selling, he could not therefore describe to these debentures which had been paid at par.

Senator BLAINE. Leave out all those explanations, because that is going to confuse us. Just go on with your \$5 assessment.

Mr. STIRN. Yes.

Senator BLAINE. Not as to its consequences; but I want to find out how much the R. C. A. paid.

Mr. STIRN. They paid the price of the debentures, \$11,500,000. In other words, they obtained this corporation for this price.

Mr. MORGAN. All except just small amounts that might have been retained by stockholders?

Mr. STIRN. Exactly. That I think will stand on the record.

Senator BLAINE. And the assets of the company—

Senator BROOKHART (interposing). What was the date this was acquired?

Mr. STIRN. Well, as Hiram Brown stated, there was to be a meeting of all stockholders December 10, if that is the correct date, Mr. Morgan?

Mr. MORGAN. It was adjourned.

Mr. STIRN. That was adjourned from time to time by lack of proxies. There was a minority committee organized in New York, I think, under the leadership of Mrs. Caroline Cole, an outstanding stockholder, who since this time has become a director, by what methods I do not know how, but she is now a director in the Radio-Keith-Orpheum Corporation.

Mr. MORGAN. The stockholders ratified that action on December 14, 1931.

Mr. STIRN. In other words, her tremendous resources having been dissipated, she having Class A stock, which strategically controlled the corporation in the matter of future dividends.

Senator GORE. Did Mr. Morgan explain that about your answer to Senator Blaine, that they acquired this through the acquisition of these debentures for \$11,000,000? I do not quite understand that.

Mr. MORGAN. The total clear assets were \$67,000,000.

Senator BLAINE. According to the letter that President Brown of the R.-K.-O. sent out on November 10, 1931, stating the assets and liabilities, the gross assets in round numbers were \$127,000,000. The net assets, the actual value of the company, was \$67,000,000 in round numbers.

Mr. STIRN. Yes.

Senator BLAINE. And that was acquired by the R. C. A. for \$11,500,000 in round numbers, less the few shares that outside parties—

Mr. STIRN. Contributed.

Senator BLAINE. Contributed.

Mr. STIRN. There are some instances where people subscribed to this plan; that is, buying these debentures at par, 100, a \$1,000 bond for \$1,000, which is now worth around 46 cents on the dollar. That would therefore make the price by which R. C. A. controlled this corporation less than \$11,500,000—cheaper perhaps; I don't know the figure; perhaps \$10,000,000.

Senator BLAINE. As it figures out after the wrecking began?

Mr. STIRN. Yes.

Senator BLAINE. The R. C. A. purchased whatever interest they have, which is largely the total interest, the assets of the company, for about one-sixth of what the actual assets were according to the statement of the president of the company on November 10.

Mr. MORGAN. You mean clear assets, Senator Blaine?

Senator BLAINE. Clear assets. Is that correct?

Mr. STIRN. Correct.

Senator FLETCHER. Do you know what the assets consisted of?

Mr. STIRN. Perhaps Mr. Morgan can answer that, Senator.

Mr. MORGAN. There was a financial statement here which was inclosed in Hiram Brown's letter.

Mr. STIRN. Perhaps I may say in passing that a similar operation was indulged in by people who are now interested in Radio City, N. Y. They indulged in a similar operation in the control of the Masabe Mines in northern Michigan, which they bought, I think,

for something like several millions of dollars and sold it to the United States Steel Corporation for about 10 times the amount.

Senator GORE. Sold to what corporation?

Mr. STIRN. The United States Steel Corporation.

Mr. MORGAN. Mr. Stirn, may I interrupt you to ask you if you have a copy—

Mr. STIRN (interposing). Then previous to that, according to Ida Tarbell's book, the control of the oil well interests in Oklahoma in the late 80's is also comparable to this rigging operation indulged in practically by the same parties. In other words, their history is practically the same for over 40 years.

Senator GORE. Was this an oil transaction, you say? You mentioned some oil transaction.

Mr. STIRN. Yes; and condemned by Ida Tarbell's book. That is, if I may mention names, the early Rockefellers, John D. and his brother William, came in control of the oil wells in Oklahoma and east Texas fields.

Mr. MORGAN. Mr. Stirn, have you in your files another copy of the financial statement that accompanies President Brown's letter? My copy seems to have disappeared.

Mr. STIRN. I think you have it, Mr. Morgan.

Mr. MORGAN. I had one.

Mr. STIRN. Perhaps it is here on the table somewhere.

Mr. MORGAN. We have been looking for it and unable to find it, and I wanted to know if you had another one in your files?

Mr. STIRN. No.

Senator FLETCHER. You don't know but what these might have been, as one witness testified about the assets of a corporation when I asked him what the assets were and he said, "Simply an idea"?

The CHAIRMAN. The Senator wants to know what the assets of the company consisted of. Were they theaters, property?

Mr. STIRN. Theaters, property; yes, sites, and also good will and controlling these motion-picture actresses.

Senator FLETCHER. Contracts?

Mr. STIRN. Their contracts, yes; which in the instance of Warner Bros., having reference to Constance Bennett, was worth around the figure of—what was the figure, Senator Blaine? \$25,000 a week salary? I don't know the figures. I stand corrected on that point.

Senator FLETCHER. I think that would be classed as a liability rather than an asset.

Mr. STIRN. Not if you see the profits made by reason of the pictures produced by these actresses. They actually produce dividends.

The CHAIRMAN. Do you care to tell something about your own experience, your ownership and your own profit or gain? You were interested in the company yourself, were you not, as a stockholder?

Mr. STIRN. Yes; I was.

The CHAIRMAN. You are one of the stockholders?

Mr. STIRN. Yes. Well, taking my own case, if you wish to know about it, and that has nothing to do with these figures, because these figures are history and my case therefore can not be put down as prejudiced, because no true story ever told was better than the figures and the records.

Having my case in mind, and others in my family, who, having held thousands of shares of this corporation, having bought most

of them in the peak of April, 1930, between \$46 and \$50 a share, which in the instance of my father-in-law, Doctor Collins, Rufus G. Collins, of Chicago, who, panic-struck by reason of this short selling campaign, sold his total amount, equalling several thousands of shares, at 75 cents on the dollars.

The CHAIRMAN. At 75 cents on the dollar, or 75 cents a share?

Mr. STIRN. 75 cents a share. That is concrete evidence which can be proved from invoices held by the brokers.

My experience is that I still hold the Class A shares, believing firmly as I do in their worth.

Senator BLAINE. And now, Mr. Stirn, with these short sales, of course I can clearly see how it would have been possible for a pool to have conducted the short selling and made enough out of the short selling to have been paid the \$5 assessment.

Mr. STIRN. Precisely. I think that answers the question.

Senator BLAINE. Now, of course, you know nothing about that—you could not?

Mr. STIRN. No, not having access to the brokers' accounts. That could only be determined, Senator, by subpoenaing Meehan, who knows the whole story.

Senator FLETCHER. How would you have stood if you had paid your \$5 per share?

Mr. STIRN. That would have meant in my instance an assessment of \$5 per share on the 1,234 shares which I owned at that time an assessment of \$6,000. That is, subscribing to these debentures at par. And then had I done that, that \$6,000 would have been worth probably less than \$3,000 now, because these debentures I believe are quoted around 46 cents a share.

Senator BLAINE. But that would not have preserved your stockholder's interest in the 1,200 shares?

Mr. STIRN. Precisely not, because I would be holding new common stock, which to my mind is worthless.

Senator FLETCHER. So you would have lost your stock and half of the assessment?

Mr. STIRN. On the bonds as well as on the depreciation on the business, which is good business.

Senator BLAINE. Which is good bad business, good poor business.

Mr. MORGAN. This seems to be one lamb who developed teeth, Senator Norbeck.

The CHAIRMAN. Yes; most of them hate to admit the facts. We get a great many anonymous letters.

Mr. STIRN. Irrespective of my interest in the company, having learned first of this company, that it was to be bulled to about \$150 to \$250 a share by the personal manipulation of Mr. Hiram Brown, since resigned. That was the source of my material.

Mr. STOCK. Mr. Stirn, you say the debentures are now selling at 40 cents on the dollar?

Mr. STIRN. To my best knowledge at this time.

Mr. STOCK. Do you know whether or not they are being depressed at the present time by the company so that the company may buy in cheap and get rid of them?

Mr. STIRN. That may be evidence from the price quoted.

The CHAIRMAN. Go ahead. Proceed with your statement.

Mr. STIRN. I have finished as far as the statistics on the short selling campaign are concerned. Any further questions I shall gladly welcome. I should like, however, to examine a method which President Whitney used in demonstrating, as he said, that short sales do not depress the market.

Senator FLETCHER. What I want to make clear is—

Mr. STIRN (interposing). By reference to a chart I have prepared.

Senator FLETCHER. What I want to make clear is that after this meeting of the directors and the course determined on as to what they were to do in order to save the company, ostensibly—

Mr. STIRN. That was the plea.

Senator FLETCHER. Yes. Then they devised this plan to assess the stock \$5 a share. The experience is, and the result has been, that those who put up the \$5 would simply have lost about one-half of it and not saved anything for it?

Mr. STIRN. Precisely.

Senator FLETCHER. So that that plan would not have worked if everybody had put up the \$5, would it?

Mr. STIRN. I think that is a good analysis of the whole situation, Senator, and I think the figures conclusively point to that analysis perhaps.

Senator BLAINE. Now, Mr. Stirn, this is just for my own personal information and may be of no value. The Radio-Keith-Orpheum was a company that had bought out the Keith Theaters and moving-picture houses.

Mr. STIRN. Keith-Albee and the Orpheum Circuit; yes.

Senator BLAINE. Those were scattered all over the country?

Mr. STIRN. Those were subsidiaries; yes.

Senator BLAINE. What other large moving-picture organization is there? What is the name?

Mr. STIRN. You mean some other motion-picture concerns, like Fox and Warner Bros. and Paramount?

Senator BLAINE. That owns the Fox theaters?

Mr. STIRN. You mean, who owns the Fox theaters?

Senator BLAINE. Yes. That is a separate company, is it?

Mr. STIRN. That is a separate company, has no relation to Radio-Keith. Your investigation respecting Warner Bros. has proven that insiders, who are Warner Bros. themselves, indulged in a campaign, leading the public to believe in the worth of this stock by sending out letters at that time interesting people in being stockholders, myself included, as I had Warner Bros. stock at 16, now worth about seven-eighths of a dollar.

The CHAIRMAN. How many cents, so we will know what it means?

Mr. STIRN. Seven-eighths is about 87½ cents, but I will not refer to that, as it has nothing to do with Radio-Keith-Orpheum.

Mr. MORGAN. Mr. Stirn, have you put into the record or testified to the bull movement in this stock earlier?

Mr. STIRN. No, sir. The bull movement in this stock, in raising it upwards, is just as outstanding, Mr. Chairman, as the depreciation which I have outlined to you, which was undertaken in the latter months of 1931.

Senator BROOKHART. Do you know if they had brokers buying and selling both at the same time?

Mr. STIRN. Probably, as a hedging operation; yes.  
Senator BLAINE. Do you have a graph of the Radio-Keith-Orpheum?

Mr. STIRN. Yes, sir; showing its entire stock history.

Senator BLAINE. Have you two of those?

Mr. STIRN. They are alike; yes.

Mr. MORGAN. Mr. Stirn, the reporter has marked your graph of the Radio-Keith-Orpheum Corporation class A stock "Committee Exhibit 1, June 10, 1932." Will you tell us briefly what that is?

Mr. STIRN. This Exhibit 1 shows the weekly volume of sales of Radio-Keith-Orpheum, that is, of the class A stock, and the weekly swings in prices from the time of the inception of the company, that is, on the New York Curb, the stock being at that time on a when-issued basis, from October 31, 1928, to December 29, 1931, at the time the stock was taken off the list of the New York Stock Exchange. In other words, the weekly price swings are noted here and also the volume of weekly sales.

Mr. MORGAN. Mr. Chairman, may the committee's Exhibit 1 now be received as a part of the witness's testimony?

The CHAIRMAN. If there are no objections, it will be received and printed in the record. It is so ordered.

(The chart marked "Committee Exhibit 1, 6-10-32 MDR," submitted by Mr. Stirn, is here printed in the record in full, facing this page.)

Senator GORE. Mr. Stirn, there have been other instances of rapid depreciation in stock prices. Have you indicated some of those?

Mr. STIRN. You mean if there were other cases in addition to those that I mentioned?

Senator GORE. Yes.

Mr. STIRN. I mentioned the most outstanding cases. In the last 300 years of financial history I believe I have enumerated the most outstanding seven or eight stock manipulations.

Senator GORE. They are on the record?

Mr. STIRN. They are in the record; yes, sir.

Senator GORE. Now, there is one little error, Mr. Stirn, I call your attention to. You referred to John Law as being connected with the South Sea bubble in England.

Mr. STIRN. Yes.

Senator GORE. He was connected with the Mississippi bubble or Mississippi scheme in France.

Mr. STIRN. Also the South Sea Co.

Senator GORE. Well, it occurred the same year, but one was in France and one in England. You check that.

Mr. STIRN. That was under Walpole's ministry.

Senator GORE. Yes. I am very familiar with it, very familiar with it.

Senator FLETCHER. Now, you are going on to give something about that bull campaign whereby they first built up the prices and made the market?

Mr. STIRN. Yes.

The CHAIRMAN. And then began to bear it.

Mr. STOCK. Mr. Stirn, did you have occasion in connection with your investigation to look into the question of publicity? Do you know whether or not during the time this stock was declining and

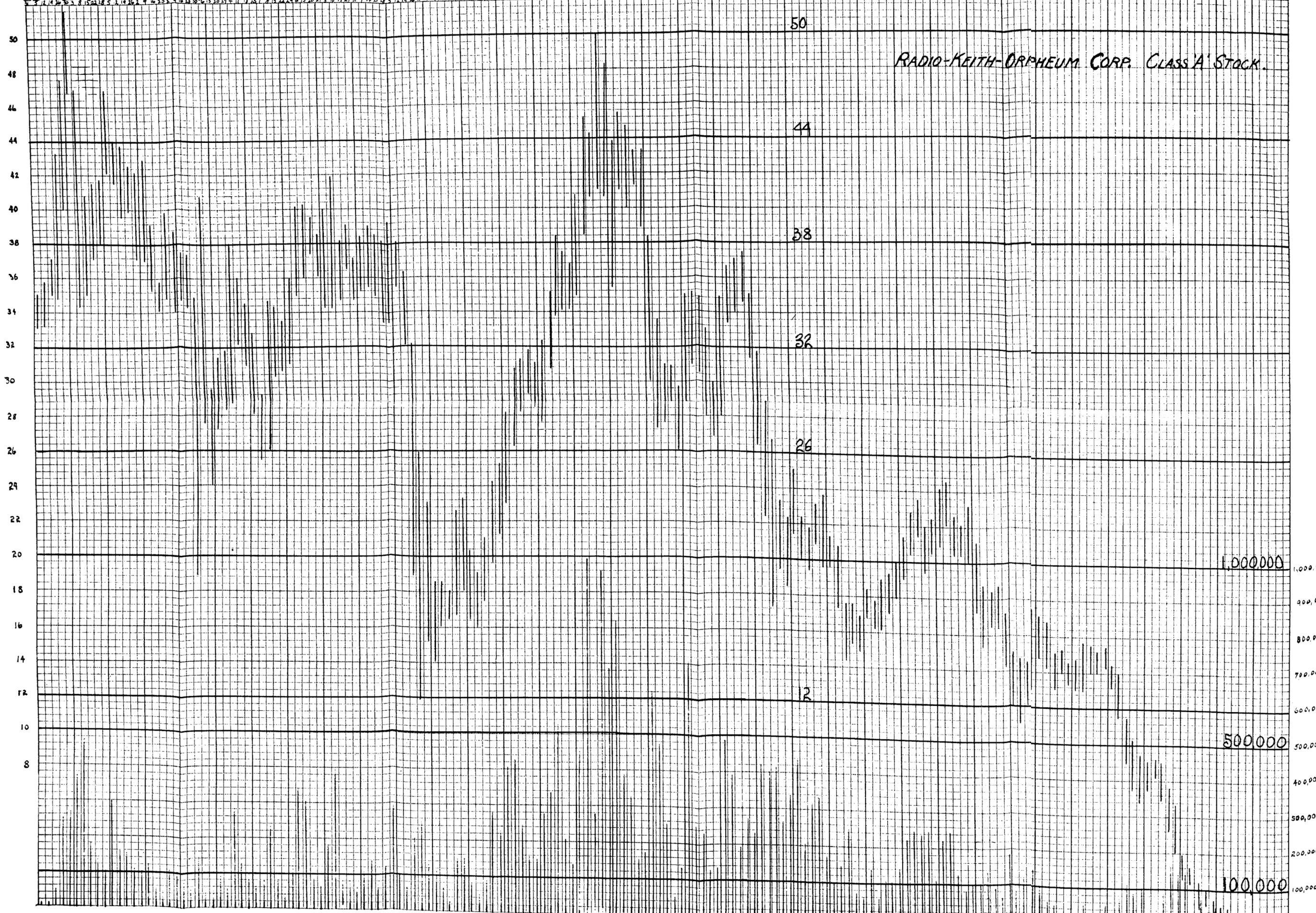
1928

1929

1930

1931

NY Curb & NY Stock Exchange



RADIO-KEITH-ORPHEUM CORP. CLASS A STOCK.

50

44

38

32

26

12

1,000,000

500,000

100,000

the short selling taking place there were statements given out by the company or on behalf of the company that would frighten stockholders?

Mr. STIRN. Well, on the bull side I could answer your question. The Wall Street Journal at this period, through one of the editors, as mentioned by Representative LaGuardia, made many statements on the worth of Radio-Keith.

Mr. STOCK. Was that in connection with Radio City?

Mr. STIRN. No, not with Radio City. And many statements appeared in the Financial and Commercial Chronicle at the time of its bull rise, and many other financial sheets.

Mr. STOCK. Do you know what the nature of the newspaper comment was while this stock was declining? Have you looked into that?

Mr. STIRN. Well, I remember a specific newspaper report, that of the Milwaukee Sentinel, I think of the date of just after the publication of this directors' meeting, November 5. I do not know the exact date.

Mr. MORGAN. Was there an absence of news appearing on the worth of this stock during the period of the intensive short drive from October 22 to November 10?

Mr. STIRN. There was no news.

Mr. MORGAN. There was no news?

Mr. STIRN. No news.

Mr. MORGAN. Not until President Brown's letter became public property?

Mr. STIRN. Not until President Brown's letter became public property.

Senator BLAINE. You were about to tell about the Milwaukee Sentinel.

Mr. STIRN. The Milwaukee Sentinel I think in the week beginning November 10 made a comment in its financial section—I stand corrected on that date, however—that Radio Corporation received through this stock rigging operation full control of Radio-Keith-Orpheum Corporation.

Senator BLAINE. Of course, that was not made for the purpose of depressing the price?

Mr. STIRN. No; it really amounted to a criticism.

Senator BLAINE. That was a legitimate article?

Mr. STIRN. That was a legitimate criticism, yes.

Senator BLAINE. Mr. Stock does not refer to that type of advertising.

Mr. MORGAN. He has answered the question, there was no news.

Mr. STIRN. No; there was no news. I think what affected the minds of stockholders was the seeing of the constant depreciation of the price of the stock.

The CHAIRMAN. In other words, boosting articles ceased to appear?

Mr. STIRN. That is it.

The CHAIRMAN. And how many days elapsed between this secret meeting of the directors and President Brown's letter?

Mr. STIRN. Five days, Senator.

The CHAIRMAN. After that the stock got nothing but market quotations and had a steady downward trend, is that it?

Mr. STIRN. Precisely; that is the answer.

Mr. MORGAN. It was five days between the date of the meeting and the date of President Brown's letter. We do not know what date that was mailed.

The CHAIRMAN. What happened in those intervening five days immediately following the secret meeting?

Mr. MORGAN. Very heavy sales.

Mr. STIRN. Heavy sales, genuine liquidation, and a short covering movement.

The CHAIRMAN. A genuine liquidation?

Mr. STIRN. Yes.

The CHAIRMAN. How do you know there was not bear raiding, or can you tell?

Mr. MORGAN. Very heavy sales during those days.

The CHAIRMAN. Don't use the term "genuine liquidation" when it was bear raiding.

Mr. STIRN. Yes; very heavy sales were made, and immediately after November 12 then you began to have a large proportion of total sales to short positions.

Senator BLAINE. Which probably was liquidation?

Mr. MORGAN. Probably liquidation, a result of the publication of President Brown's letter.

Senator BLAINE. Now you have indented the short sales graph. Have you got a long sales graph?

Mr. STIRN. You have a graph, by the way, which I would like to incorporate in the records, because that graph is as outstanding as this. That is Appendix D, or E.

The CHAIRMAN. You are referring to a graph that has already been shown to the committee previous to the hearing?

Mr. STIRN. Yes.

The CHAIRMAN. By whom, on what occasion?

Mr. STIRN. As I have outlined—

The CHAIRMAN. In connection with which stocks?

Mr. MORGAN. Who furnished that graph?

Mr. STIRN. That graph was made by myself.

The CHAIRMAN. Well, we want some man to identify it so that we can get it in the record here to tally with the description.

Mr. STIRN. You have the graph.

The CHAIRMAN. You say it is already in the record of the committee hearing?

Mr. STIRN. Yes.

The CHAIRMAN. How is it designated in the record?

Mr. STIRN. I believe by Appendix E or D.

Senator BLAINE. Of what?

Mr. STIRN. Which I previously sent to the committee.

The CHAIRMAN. In connection with what stock?

Mr. STIRN. With short-selling campaign waged against the Radio-Keith-Orpheum stock. There is only one graph in existence and that was sent to the committee.

Mr. MORGAN. Is this it?

Mr. STIRN. Yes; that is the graph.

Senator BLAINE. Identify that now.

Mr. STIRN. That is a very important graph which shows the relation of the volume of short sales to the price structure of the company.

Senator BLAINE. Yes. That is graph identified as Exhibit 2 now?

Mr. STIRN. Yes; Exhibit 2.

(Graph designated "Committee Exhibit 2 6-10-32 MDR," submitted by Mr. Stirn, is here printed in the record in full, facing this page.)

Senator BLAINE. Just describe it.

Mr. STIRN. Exhibit 2 in the form of a graph demonstrates an intensive short-selling campaign; that is, from the point of volume of short sales; that is, the number of the short positions in the period of September 20 to November 30, 1930, inclusive. It also shows a chart line demonstrating the fall of prices corresponding and being coincident to the great volume of short sales waged against the price of the stocks of this company. That, I believe, answers your question, Senator?

Senator BLAINE. Yes. Now, will you let us have that and we will have that introduced in evidence the same as the others?

Senator BROOKHART (presiding). Does that graph also show the full promotions?

Mr. STIRN. No; that is Exhibit 1, Senator Brookhart.

Mr. STOCK. Mr. Stirn, at the time that this short-selling activity began to increase—

Mr. STIRN. Yes.

Mr. STOCK. And the stock began to decline—

Mr. STIRN. Yes.

Mr. STOCK. Was there any news concerning the intrinsic position of the company, something that had not existed prior thereto, some new development that was unfavorable that might have accounted for this decline in the stock, other than the short selling that you know of?

Mr. STIRN. Well, the news was that of President Hiram Brown's letter.

Mr. STOCK. No; I mean before that. I mean when your stock was declining in October prior to the directors' meeting, when the short selling was increasing.

Mr. STIRN. I think President Brown was interviewed from time to time.

Mr. STOCK. What was the nature of the statements he made concerning the company?

Mr. STIRN. And the nature of his statements tended to throw an unfavorable light on the financial operations of the company.

Mr. STIRN. And the nature of his statements tended to throw an unfavorable light on the financial operations of the company.

Mr. STOCK. That is the thing I referred to before when I asked you if there was any publicity during this period of an unfavorable nature.

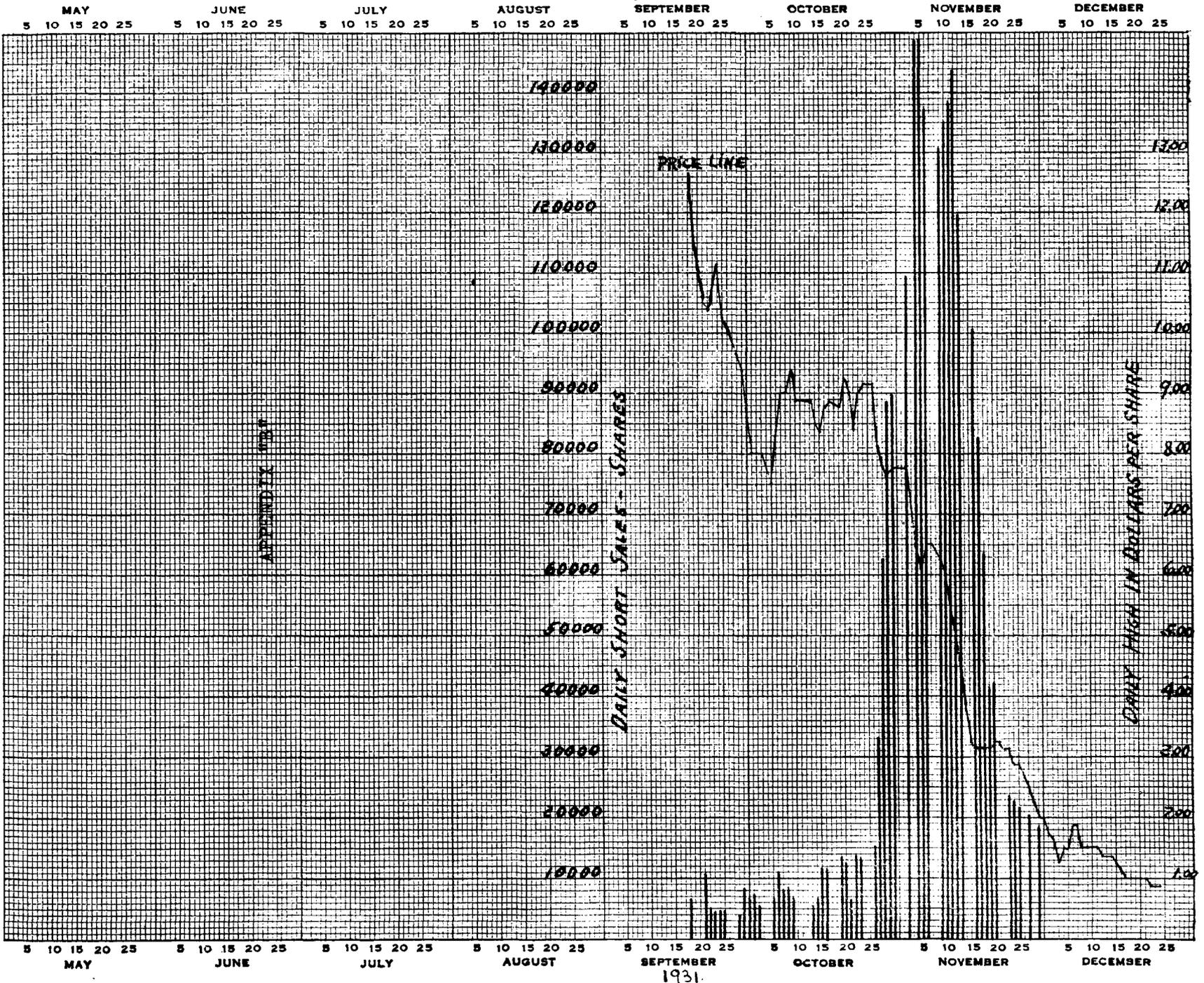
Mr. STIRN. Yes.

Mr. STOCK. That accompanied the decline of the stock.

Mr. STIRN. Perhaps I did not recognize the question or the thing you had in mind.

Mr. STOCK. Now, the statements made by President Brown at that time that he was interviewed, did they concern any new condition

DAILY RECORD SHEET



1931.

that had not existed prior thereto, or was it a statement that he made about something that always existed? Do you see what I am getting at?

**Mr. STIRN.** Yes. Specifically, I think Vice President Cahane's statement—I am not familiar with the date of that—he made a statement saying that since May, 1931, the company had difficulty in renewing its loans with the New York banks.

**Mr. MORGAN.** Was that statement made otherwise than in the directors' meeting?

**Mr. STIRN.** Yes; that was made otherwise than in a directors' meeting, but offhand I do not know the date of that statement. I have seen records of that statement in the news section of the Financial Commercial Chronicle, and the date of that can be verified by looking at the index of this journal.

**Mr. STOCK.** Do you know what banks held these loans of the R-K-O?

**Mr. STIRN.** Mr. Morgan can answer the question. He has that.

**Mr. MORGAN.** That is in that exhibit which the other official reporter has.

The **CHAIRMAN.** Let him go ahead and state the case here.

**Mr. MORGAN.** State the facts.

The **CHAIRMAN.** State it briefly what your trouble was. There is no need to make this long.

**Mr. MORGAN.** Don't go into detail on that. Just give the gist of it. Tell what your experience was, Mr. Stirn, on that, without putting the letters in in full. Use the letters to refresh your recollection of the dates.

**Mr. STIRN.** The National Bank of Commerce of Milwaukee, Wis.

The **CHAIRMAN.** Now, he is getting something in the record there that doesn't mean a thing.

**Mr. MORGAN.** Which held these shares of stock?

**Mr. STIRN.** Which held these shares of stock.

**Mr. MORGAN.** At least that loan that you had made.

**Mr. STIRN.** Yes. I had sent these stocks, 1,234 shares of them, to be transferred to my name.

**Mr. MORGAN.** At your request?

**Mr. STIRN.** At my request. These shares were sent to the Empire Trust Co., New York City. The bank specifically requested the transfer of these shares from the brokerage name to the name of Ernest W. Stirn. This request was not fulfilled. The Empire Trust Co., instead of acceding to the request of the National Bank of Commerce, sent these shares to the Commercial National Bank & Trust Co. of New York, who returned not the 1,234 shares in the name of Ernest W. Stirn, as requested by the National Bank of Commerce, but instead of that sent one-fourth of the amount. That is, around 300 shares, thereby recognizing this assessment and its confiscation of stock before it actually was voted upon by the stockholders of the company.

**Senator BLAINE.** What were those dates?

**Mr. STIRN.** These dates are significant. These stocks were not finally returned to the bank until January 6, 1931.

Mr. MORGAN. When did the bank send them in?

Mr. STIRN. The bank sent them in December 7, 1930.

The CHAIRMAN. The point is this, they did not return your old stocks?

Mr. STIRN. No.

The CHAIRMAN. But returned new certificates of one-fourth the amount?

Mr. STIRN. That is it precisely.

The CHAIRMAN. Notwithstanding your instructions?

Mr. STIRN. Precisely.

Mr. MORGAN. That is, new common stock?

Mr. STIRN. Yes; new common stock. The National Bank of Commerce demanded new certificates in my name or the return of the old class A stock.

Mr. MORGAN. Or the the return of the original certificates?

Mr. STIRN. And in its letter it even said, upon the advice of counsel, it demanded this action.

Mr. MORGAN. Just a minute, Mr. Stirn. Let me clarify that for you. Is it a fact that the National Bank of Commerce, having originally sent your certificates, which were Street certificates—

Mr. STIRN. Yes.

Mr. MORGAN. In to the transfer agent—

Mr. STIRN. Yes.

Mr. MORGAN. With a request that they issue new certificates in your name—

Mr. STIRN. Yes.

Mr. MORGAN. That being done on December 7—

Mr. STIRN. Yes.

Mr. MORGAN. Prior to the ratification of this plan of the stockholders—

Mr. STIRN. Yes.

Mr. MORGAN. Did the transfer agent then send back to the bank one-quarter of the number of shares in the form of new common stock, which the bank refused?

Mr. STIRN. It did.

Mr. MORGAN. And the bank then returned that new stock with a request either that they issue old class A stock in your name or that they return the original certificates?

Mr. STIRN. Precisely.

Mr. MORGAN. And when did the bank succeed in getting your certificates back?

Mr. STIRN. You mean you want the date on which the bank obtained the certificates finally?

Mr. MORGAN. Yes.

Mr. STIRN. That is, they obtained the old class A stock?

Mr. MORGAN. Yes.

Mr. STIRN. That I think will be obtained if this should be incorporated in the record. There are so many letters here and I can not verify them.

Mr. MORGAN. Look and see if you can find it.

Senator BLAINE. December 7, 1931, was before the stockholders had ratified this new reorganization?

Mr. STERN. Precisely.

Senator BLAINE. Now, let me inquire here: Those stockholders, I assume, were represented largely by proxies. I don't know as you know. Do you know whether they were proxies or actually voting and present?

Mr. STERN. Well, they sent their proxies; yes.

Senator BLAINE. You were not present, were you?

Mr. STERN. No; I was not. I did not send any in.

Senator BLAINE. You can not testify to that.

Mr. MORGAN. The bill of complaint of J. Cookman Boyd filed in the circuit court of Baltimore City, Md., against the Radio-Keith-Orpheum Corporation alleged under oath that [reading]:

At a meeting recessed from time to time but finally held on December 14, 1931, an overwhelming number of shares of stock were alleged to have been voted in favor of said amendment and the votes were cast through alleged proxies.

And further alleging [continuing reading]:

That proxies for a large amount of stock were illegally cast in favor of the proposed amendment; that proxies illegally in form cast many votes in favor of said amendment; that proxies given for the voting of stock against the said amendment were actually and fraudulently cast in favor of said amendment; that persons wrongfully held proxies and unlawfully voted same in favor of said amendments; that not all of the outstanding class A stock was voted in favor of said proposed amendments, as required by the law of this State, nor were all votes cast at said meeting in favor of said proposed amendments, but votes of stockholders were in fact cast against same.

That in consequence said amendment mentioned herein as Amendment 3 was not adopted, and the alleged action on Amendments 1 and 2 was likewise contrary to law and consequently null and void, but that notwithstanding, said amendments were thereupon arbitrarily declared to have been adopted by the said B. B. Kahane.

Were those allegations contained in Mr. Boyd's bill filed in the circuit court of Baltimore City?

Mr. STERN. To the best of my knowledge, yes, sir.

Mr. MORGAN. You have a copy of that bill?

Mr. STERN. Yes. Now in answer to the previous question as to the final date on which the Commercial National Bank & Trust Co. of New York sent back the original certificates of class A stock 1,234 shares, as demanded by the National Bank of Commerce upon the advice of counsel, that date was January 26, 1932, nearly two months after the original request, and it does not take two months to transfer certificates from a brokerage name to the name of the investor. In other words, they were fearful of people still owning the old class A stock, which, according to the charter and the law of Maryland, as I am legally advised by Mr. Morgan, these stocks have priority in matter of dividends whenever and wherever they should be declared.

Senator BLAINE. Mr. Chairman, I am going to suggest that the reporter identify the papers I have just handed him as Exhibit 3. If Attorney Morgan has no objection I would like to have the amended complaint offered in evidence and left with the committee. I am not asking that it be put in the reporter's record, but I would like to have it for the use of the committee and its experts.

The CHAIRMAN. If there are no objections, it will be so ordered.

(The document presented by Senator Blaine was designated "Committee Exhibit 3, 6-10-32, MDR," and the same is here printed in the record in full, as follows:)

In the circuit court of Baltimore City. *J. Cookman Boyd v. Radio-Keith-Orpheum Corporation*

AMENDED BILL OF COMPLAINT

To the honorable, THE JUDGE OF SAID COURT:

The amended bill of complaint of J. Cookman Boyd respectfully represents:

1. That the defendant, Radio-Keith-Orpheum Corporation, is a corporation duly organized under the laws of the State of Maryland.

2. That said corporation has an authorized capital stock of 4,500,000 shares without nominal or par value, divided into 4,000,000 shares of class A stock and 500,000 shares of class B stock, of which about 2,400,000 shares of class A stock and 500,000 shares of class B stock have been issued, and that said corporation is engaged in the business of owning, leasing, and managing theaters and other places of amusement, and in the manufacture, production, sale, buying, leasing, and showing of all kinds of still and motion pictures, as well as in broadcasting news, music, etc.

3. That under its charter said corporation is authorized to borrow or raise money for any of the purposes of the corporation without limit.

4. That your complainant is the owner of 300 shares of the class A stock for which he paid the sum of \$6,300.

5. That said stock is now selling for 75 cents per share.

6. That said corporation, through the gross mismanagement of its officers and directors, has expended and disposed of many millions of dollars of its assets in the purchase and acquisition of places of amusement, as well as the purchase of other motion-picture concerns for excessive and grossly fictitious financial considerations, when the acquisition of same were not only not necessary but palpably inadvisable, and some of these complainants are reliably informed, verily believe, and therefore charge and aver same was done through interlocking directorates, directors on both of the board of directors of vendor and vendee, and directors acting fraudulently and for their personal interest, and to the fraud of the rights of many of the stockholders of this defendant, as well as to the great financial loss and damage of said stockholders as a result thereof. That in consequence thereof, as well as for other acts of gross mismanagement and incompetence on the part of said officers and directors, and by reason of the payment of unwarrantedly large and grossly excessive salaries to its officers and employees, the defendant is unable to meet its obligations in due course as they mature, and said defendant is hopelessly insolvent.

7. That the officers and directors of said defendant, although claiming the net worth of defendant to be at least \$50,000,000, although complainants allege and charge said claim is erroneous, admit the inability of defendant to borrow money for its necessities in ordinary course, and, it was compelled and so agreed—complainants allege and charge that its necessities were a result of the defendant's mismanagement—to borrow the sum of \$6,000,000, which has already been expended for current expense, although it was authoritatively stated that same was for financing through the year 1932, and not only were compelled to pay the legal rate of interest thereon, but in addition, was further compelled to pay a bonus therefor of the sum of \$330,000, as well as to secure said loan by a first lien on practically the entire assets of said defendant. That the officers and directors of said defendant prepared reports of defendant's financial condition showing that as late as the latter part of August, 1931, the net profits available for dividends on class A stock of defendant were in excess of \$5,000,000. That there have been filed with the petition heretofore filed in this cause statements of said defendant marked "Complainant's Exhibits I and II" which same are prayed to be taken as a part of this bill of complaint.

8. That on or about November 5, 1931, at a meeting of the officers and directors of the defendant, it was resolved—and by a circular letter, dated November 10, 1931, signed by the president, Hiram S. Brown, and sent to the stockholders, notifying them of the action of said officers and directors—that certain amendments to the charter of defendant be approved and recommended

for the action of said stockholders thereon at a meeting called for December 10, 1931, at 11 o'clock a. m., and reciting in said circular letter that unless said proposed amendments were adopted a receivership for said defendant would be inevitable. That said proposed amendments were substantially as follows:

"I. By the reduction of the number of outstanding shares of the class A stock of the corporation from 2,380,291 shares to 595,072 $\frac{3}{4}$  shares, so that each holder of one share of class A stock will hold one-fourth share of class A stock.

"II. By the reduction of the number of outstanding shares of class B stock of the corporation from 500,000 shares to none.

"III. By the reclassification of the authorized class A stock, issued and unissued, and the authorized class B stock into common stock, so that the authorized capital stock, issued and unissued, of the corporation shall be 4,500,000 shares of common stock without nominal or par value."

That thereafter, at the meeting of said stockholders called for December 10, 1931, at 11 o'clock a. m., called to order by one B. B. Kahane, vice president and general counsel of the defendant, which said meeting, over the protest of the complainant, was unlawfully recessed from time to time until December 14, 1931, at 7.30 o'clock p. m., for the sole purpose at said alleged recessed meeting to endeavor to obtain proxies for sufficient votes to pass said amendments, at which alleged meeting an overwhelming number of shares of stock alleged to have been voted in favor of said amendment was cast through alleged proxies, and this plaintiff, as already appears in a petition heretofore filed in this cause, alleges that proxies for a large amount of stock were illegally cast in favor of the proposed amendment; that proxies illegal in form cast many votes in favor of said amendment; that proxies given for the voting of stock against said amendment were actually and fraudulently cast in favor of said amendment; that persons wrongfully held proxies and unlawfully voted same in favor of said amendments; that not all the outstanding class A stock voted in favor of said proposed amendments as required by the law of this State, nor were all votes cast at said meeting in favor of said proposed amendments, but votes of stockholders were in fact cast against same. That in consequence said amendment mentioned herein as "Amendment III" was not adopted, and the alleged action on "Amendments I and II" was likewise contrary to law and consequently null and void, but that notwithstanding, said amendments were thereupon arbitrarily declared to have been adopted by the said B. B. Kahane.

9. That notwithstanding the matters and facts set forth in paragraph 8 as herein stated, said defendant has unlawfully attempted to reclassify said stock, as well as to confiscate three-fourths of the stock of these complainants and other stockholders of said defendant, and has publicly announced that it has reclassified said stock and that it has reduced the holdings of stock of its shareholders proportionally from four shares to one share.

10. That no reduction of the capital stock of said defendant was made, nor attempted to be made, by said proposed amendments but merely an attempt to change the class A stock and the class B stock into common stock.

11. That although the shares of stock of defendant are fully paid and non-assessable, the defendant by a system or subterfuge of issuing, or attempting to issue, so-called debentures of \$5 each on each share of stock, and upon payment of same to return to said shareholders within three years thereafter three-fourths of a share of stock for each so-called debenture, has attempted to force the shareholders to pay an assessment of \$5 per share by calling same subscriptions to said debentures rather than an assessment on said stock, and in lieu of the payment for said debentures has threatened to confiscate three-fourths of the stock of each shareholder as herein previously stated.

12. That said defendant has entered into an illegal, unlawful, and unconscionable agreement with a corporation known as the Radio Corporation of America, whereby it is agreed that said Radio Corporation of America, which is likewise a large holder of defendant's stock, in consideration of subscribing for such of said so-called debentures as may not be subscribed for by other stockholders, to turn over to said Radio Corporation of America the stock attempted to be confiscated from such of the stockholders of defendant who fail or refuse to subscribe to said debentures. That the action of this defendant in entering into such agreement with the Radio Corporation of America for the refinancing of this defendant and the changing of this defendant's capital set-up was induced by the fact that the dominant directors in defendant cor-

poration were also directors in the Radio Corporation of America. That the action taken was that redounded entirely to the interest of the Radio Corporation of America but at the expense of the defendant's stockholders. That such action was conceived in fraud, was unconscionable and illegal, and should be fully reviewed by this honorable court and the same set aside.

13. That said defendant has likewise attempted to enter into an illegal, unlawful and unconscionable agreement with said Radio Corporation of America wherein, by said agreement, it is proposed to give the said Radio Corporation of America 125,000 shares of defendant's preferred or class A stock, but which in said agreement is erroneously and unlawfully designated as common stock, in exchange for 500,000 shares of defendant's class B stock standing in the name of the said Radio Corporation of America, thereby placing the said class B stock standing in the name of the Radio Corporation of America on an equality with defendant's class A stock, all of which would be to the benefit and advantage of the said Radio Corporation of America but would be to the great loss and irreparable injury of the stockholders holding class A stock of said defendant corporation.

14. That notwithstanding the nisi order of this honorable court passed upon the original bill of complaint, dated the 2d day of December, 1931, and notwithstanding the nisi order of this honorable court, dated December 14, 1931, and notwithstanding the notice and warning by these complainants to said officers, directors, and agents of the defendant against further waste and dissipation of defendant's assets and against any attempt to proceed in accordance with said proposed but illegal amendments, said defendant, its officers, directors, and agents have continued to waste and dissipate the assets of said defendant in the payment of unconscionable and grossly excessive salaries to said officers and employees and they have actually attempted and are now fraudulently proceeding to carry out the acts, matters, and things which were attempted to be provided for in said proposed amendments, notwithstanding it is well known by these officers, directors, and agents, and said defendant, that said actions on their part are illegal and therefore void, all of which is to the great loss, damage, and irreparable injury of these complainants and in contravention of the constitutional rights of these complainants.

15. That unless the defendant, its officers, directors, and agents be restrained by this honorable court from further disposing of defendant's assets, and from carrying out said agreements with said Radio Corporation of America, as well the confiscation of complainant's stock, and unless said alleged agreements with the Radio Corporation of America are set aside and voided, and the action of the directors and certain stockholders at the meeting or meetings called to act upon said proposed amendments be likewise set aside, and a receiver be appointed to take charge of and manage its affairs, the remaining assets of the defendant will be in and lasting danger of being dissipated and disposed of, all of which would be to the almost entire and irreparable loss of these complainants, and other stockholders, as well as the creditors of said defendant.

16. That it would be to the manifest benefit and advantage of the stockholders, as well as all others in interest, to have a receiver appointed by this honorable court to take charge of and manage its affairs and if necessary to wind up the same and make distribution of any of its remaining proceeds among those lawfully entitled thereto.

To the end, therefore—

(1). That the defendant corporations, its officers, agents, and employees, may be restrained from further disposing of any of the assets of said corporation, and of issuing said alleged debentures and of reclassifying said stock, or of exchanging any of its stock for the class B stock held by the Radio Corporation of America, and of carrying out its alleged agreements with said Radio Corporation of America, and of confiscating any of the stock of these complainants.

(2). That a receiver or receivers may be appointed to take control of and manage the assets and affairs of said defendant corporation and make such provisions for or distribution thereof as this honorable court by its order may decree to be right and proper in the premises.

(3). And for such other and further relief as the nature of this cause may require.

Wherefore this complaint prays that the writ of subpoena be issued, directed to the said defendant corporation having its offices in the city of Baltimore, commanding it to be and appear in this honorable court at some certain day

to be named therein and to answer the premises and abide by and perform such decree as may be passed therein.

And as in the duty, etc.

J. COOKMAN BOYD, Jr.,  
BOYD AND BOYD,  
HARRY E. KARI,

*Solicitors for Complainant.*

STATE OF MARYLAND, City of Baltimore, to wit:

This is to certify that on this 29th day of December, 1931, before me, the subscriber, a notary public of the State of Maryland, in and for the city of Baltimore aforesaid, personally appeared J. Cookman Boyd and made oath in due form of law that the matters and facts as set forth in the foregoing amended bill of complaint are true and correct as therein set forth to the best of his knowledge and belief.

As witness my hand and notarial seal.

[SEAL.]

RICHARD B. PUE, *Notary Public.*

Upon the foregoing amended bill of complaint and affidavit, it is ordered by the circuit court of Baltimore City, this 30th day of December, 1931, that the prayer of the complainant in the above cause be granted unless cause to the contrary be shown or before the 9th day of January, 1932, provided a copy of this amended bill of complaint be served on the defendant corporation on or before the 31st day of December, 1931.

Senator BLAINE. I am identifying Exhibit 3 as being a copy of a complaint of Boyd *v.* Radio-Keith-Orpheum Corporation in the circuit court of Baltimore city. Is that correct, Mr. Morgan?

Mr. MORGAN. Yes. I would like to have a copy of that complaint made.

Senator BROOKHART. What became of that complaint? Has it been decided?

Mr. MORGAN. That suit was dismissed, Boyd's stock having been purchased by the defendants.

The CHAIRMAN. Mr. Stock wants to ask you a question.

Mr. STOCK. Mr. Stirn, I understand—this is from my own experience—

Mr. STIRN. Yes.

Mr. STOCK. That a great many complaints came to the New York Stock Exchange authorities concerning the decline in the stock and apparently what looked at that time like a great deal of short selling.

Mr. STIRN. Yes.

Mr. STOCK. And many complaints came to the stock exchange during this so-called reorganization.

Mr. STIRN. Yes.

Mr. STOCK. And after this assessment.

Mr. STIRN. Yes.

Mr. STOCK. Do you know whether or not the New York Stock Exchange has taken any action of any kind?

Mr. STIRN. The only action it took was taking the stock off the list on December 29, 1931.

Mr. STOCK. Has the stock exchange ever made a public statement in reference to this matter as to what action, if any, it has taken?

Mr. STIRN. No public statement that I know of.

Mr. MORGAN. Mr. Stirn, you were going to give us the full movement in this stock at the earlier time.

Mr. STIRN. If you wish to incorporate that in the record that would be Exhibit 4.

The CHAIRMAN. Without objection that may be done.

(The chart presented by Mr. Stirn was designated "Committee Exhibit 4, 6-10-32, MDR," and is here printed in the record in full, facing this page.)

Senator BLAINE. Tell what Exhibit 4 is briefly. Is that a graph of long sales?

Mr. STIRN. Of all sales.

Senator BLAINE. Of all sales on the New York Stock Exchange?

Mr. STIRN. Yes; because short sales are also entered into it.

Senator BLAINE. Not all Radio-Keith-Orpheum?

Mr. STIRN. No. This is a graph of all sales according to the Dow Jones average on 30 industrials for the year 1930.

Mr. MORGAN. Mr. Stirn, that is not what I asked for. I asked for the bull movement in Radio-Keith-Orpheum.

Mr. STIRN. I am going to come to that later, because I can establish that better by referring to the two graphs superimposing one upon the other. I can establish that bull movement much more to your satisfaction in that way.

Senator BLAINE. Let us have this other identified.

Mr. STIRN. This has already been identified, Senator, as Exhibit 1.

Exhibit 4 is a graph showing the prices of the Dow Jones average for the 30 industrial stocks and shows the total volume for the spring of 1930 and gradual increase in the price structure.

Superimposing Exhibit 1 upon Exhibit 4, Exhibit 1 being—

Senator BLAINE (interposing). That is the graph giving the long sales of the Radio-Keith-Orpheum now, long and short?

Mr. STIRN. Absolutely. Exhibit 1 graphically describes the long and short sales in the Radio-Keith-Orpheum Corporation beginning from 1928 and ending in December, 1931.

Mr. MORGAN. Give us briefly the big bull movement in that stock.

Mr. STIRN. Showing the big bull movement in the spring of 1930 in Class A stock of the Radio-Keith-Orpheum Corporation.

Mr. MORGAN. As compared to what?

Mr. STIRN. If the investigator superimposes the graph known as Exhibit 1 upon the graph known as Exhibit 4, the contrast in the rise of the price structure of Radio-Keith-Orpheum Corporation as compared with the Dow Jones industrial average shows a tremendous comparison. In other words, the rise of the price of the stock of Radio-Keith-Orpheum Corporation for the spring of 1930 is most precipitous.

Mr. MORGAN. What was it? Give us the figures.

Mr. STIRN. It began from a low of 19 in January and ended in a high of 50 on April 24, 1930.

Senator BROOKHART. In 1929 it had been up high and then dropped down there?

Mr. STIRN. Which just shows that similar operations were engaged in by the company. In other words, they conform to record.

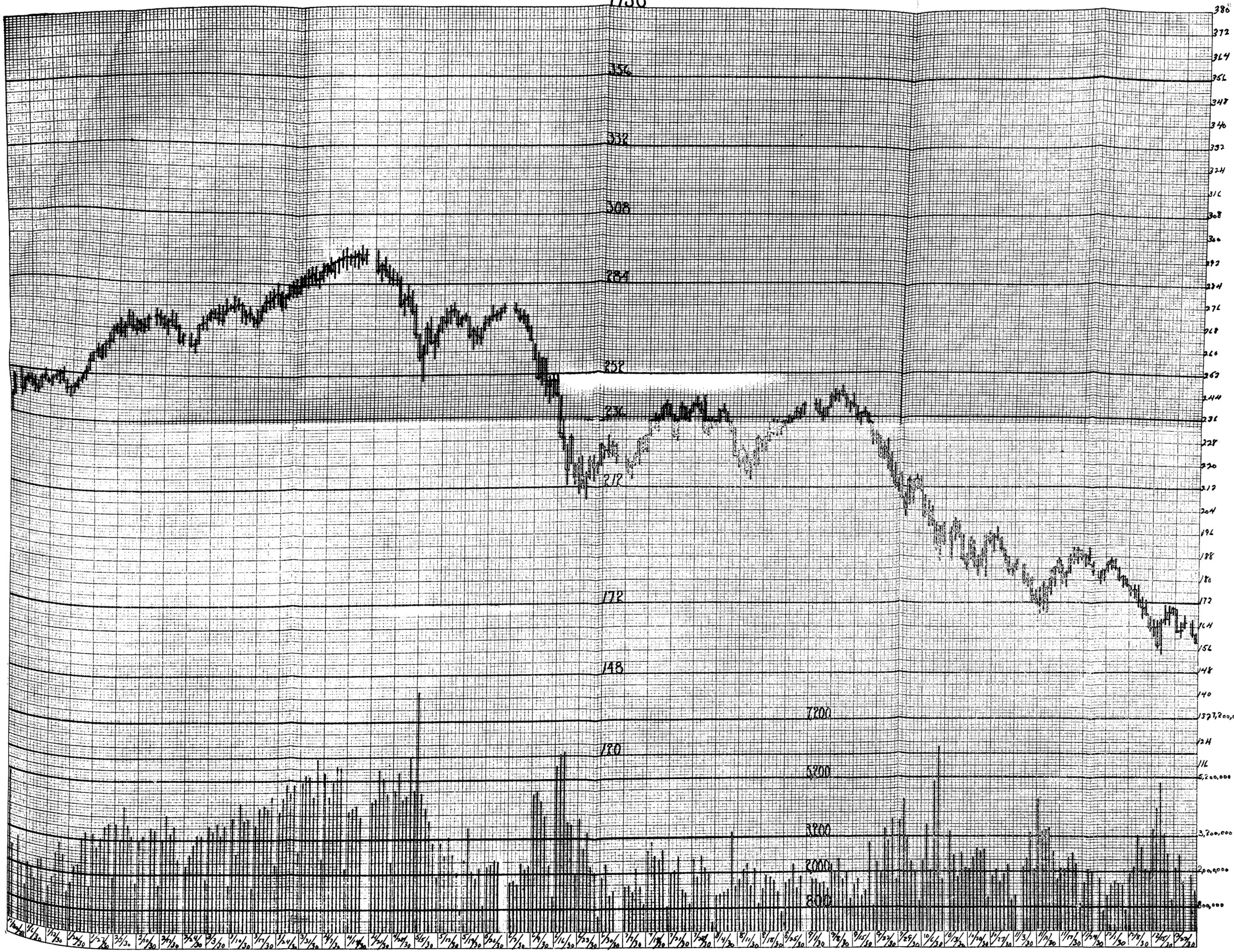
Senator BROOKHART. It is a repetition of some manipulations?

Mr. STIRN. There are about five or six big swings, Senator, which infer manipulation and rigging.

Senator BROOKHART. You think they were all manipulated like the ones you have just described?

Mr. STIRN. I think so; yes. M. J. Meehan & Co., being the floor specialist, have the records. I think the committee can not arrive

1930



at a satisfactory result in this matter without having Mr. Meehan on the stand.

**Mr. STOCK.** Mr. Stirn, you said that R-K-O rose in price in the spring of 1930 from about 12 to about 50; is that it?

**Mr. STERN.** Not 12; no. That was in December, 1929. That is the low in December, 1929.

**Mr. STOCK.** Well, it rose from that low point?

**Mr. STERN.** It practically rose; yes, sir; one could even make a larger figure. It rose practically from 12 to 50.

**Mr. STOCK.** Just to get it on the record, this was included in the Dow Jones averages in the rise showing that same comparison from what to what?

**Mr. STERN.** From an average of 212 to 250 approximately.

**Mr. STOCK.** So that the Dow Jones stocks rose about 25 per cent?

**Mr. STERN.** Yes.

**Mr. STOCK.** And R-K-O rose about 300 per cent?

**Mr. STERN.** Precisely.

**Mr. STOCK.** Or about twelve times as much?

**Mr. STERN.** Precisely. That is an interesting comparison, Mr. Stock.

**Senator BROOKHART.** Mr. Chairman, I would like to interrupt the proceedings just a minute. I want to go to the floor. I have noticed in the press reports that some kind of a pool or group or something has been organized for a bull movement up there now by the Morgan Co., and I would like to have Mr. Morgan brought down here and see if that is one of this kind of promotion schemes.

**Senator BLAINE** (presiding). Well, I am just acting chairman now.

**Senator BROOKHART.** I understand. I am stating it for the record for the attention of the steering committee.

**Mr. MORGAN.** Mr. Stirn, do you know it to be a fact whether a pool had been organized in this stock for the bull movement?

**Mr. STERN.** That can only be ascertained, Mr. Morgan, by subpoenaing Meehan & Co. Meehan having fled to Europe, perhaps will be unwilling to answer your question.

**Senator BLAINE.** Are there any other questions, Mr. Morgan?

**Mr. MORGAN.** I think there is an error in the statement of the percentage of the rise in industrials as shown in the Dow Jones group. Isn't that between 18 and 19 per cent that they rose from 212 to 252?

**Mr. STERN.** Ask Mr. Stock.

**Mr. MORGAN.** That would be an increase of 40. That shows a percentage increase of between 18 and 19 per cent.

**Mr. STOCK.** That is accurate, a greater rise proportionately for R-K-O than for the Dow Jones averages during that period.

**Mr. STERN.** Oh, yes.

**Mr. MORGAN.** Yes; I am figuring that now.

**Mr. STERN.** More figures on R-K-O definitely tend to the point of view that it is practically the most outstanding rigging operation in the history of the New York Stock Exchange.

**Mr. STOCK.** Have you ever had this matter up with the New York Stock Exchange, Mr. Stirn?

**Mr. STERN.** No, sir.

**Mr. STOCK.** Do you know anybody that has?

Mr. STIRN. No, sir.

Mr. STOCK. Is that because you have felt that you could not get any redress from the New York Stock Exchange?

Mr. STIRN. Yes, sir.

Mr. MORGAN. Mr. Stirn, are these figures not correct, that the percentage of increase in Radio-Keith-Orpheum showing that bull movement was in excess of 316 per cent, while the percentage of increase in the Dow Jones group was less than 19 per cent?

Mr. STIRN. I think the record shows that very clearly, Mr. Morgan.

Mr. MORGAN. The computation before was erroneous.

Senator BLAINE. Yes. Well, mathematical computation is always subject to revision.

Mr. STIRN. I think the committee might be interested, Senator Blaine, in the sources of the data which I have prepared. Naturally, to any research worker, the most significant thing is showing the sources of his data and where they may be found. That is to verify the statements made. Now I should like to include the sources of my data in the record.

Mr. MORGAN. You can make reference to it.

Senator BLAINE. Just by reference, the name of the publication.

Mr. STIRN. New York Stock Exchange Statistics in regard to short selling November 25 to November 30, 1931.

Senator BLAINE. Just give the list of publications.

Mr. STIRN. Also the issues of the Commercial and Financial Chronicle for the years 1928 to 1932, inclusive.

Also the Annalist, published by the New York Times for 1928, 1929, 1930, 1931, and 1932.

Standard Trade and Securities, volume 3, statistical section, published by the Standard Statistics Co. (Inc.).

Senator BLAINE. What year?

Mr. STIRN. November 11, 1931.

The New York Stock Exchange Bulletin, volume 3, No. 5, of May, 1932, the study of which will reveal the figures I have prepared earlier for this report upon the colossal commissions made during 1929 and 1930 period on the New York Stock Exchange.

Mr. MORGAN. Mr. Chairman, some Senator asked a question of the witness as to whether he had complained to the New York Stock Exchange. My information is that J. Cookman Boyd did write directly to the New York Stock Exchange, complaining that this plan was being put through in defiance of a suit in equity that he filed and in defiance of the rules of the exchange, and so forth, and he might enlighten us as to what relief he got from the New York Stock Exchange.

Mr. STIRN. Additional to the data I have cited, is the Bank and Quotation Record published by Dana & Co., and the Wall Street Journal for the years 1928 to 1932. That is all.

Senator BLAINE. Now, are there any other questions?

Mr. STIRN. I could say, in passing, that the statistics which I have presented upon short selling in the Radio-Keith-Orpheum stock definitely contradict the published statements on short selling by Richard Whitney, president of the New York Stock Exchange.

Mr. MORGAN. Mr. Stirn, will you be willing to assist the accountants and analysts of the committee in tracing these stock exchange

transactions through the New York Clearing House into the brokerage houses?

Mr. STIRN. Gladly.

Mr. MORGAN. To identify who made these sales through our friend, Mr. Meehan?

Mr. STIRN. Yes.

Senator BLAINE (presiding). Is there any other matter, Mr. Stirn?

Mr. STIRN. I think I have concluded the citation of my sources.

Senator BLAINE (presiding). Now, Mr. Stirn, I think I express the feeling of the committee that we appreciate your coming down here. As I suggested to the chairman, you were one witness who is not an adverse witness; I mean, a witness who is somewhat reluctant in disclosing all the facts. You have taken up a specific case, traced it through, and have shown the effect of the rigging of the market, not only as it relates to the stockholders but also as it relates to the wrecking of a company and the absorbing of that company by another organization. It has been very valuable.

Mr. STIRN. I think that is a true summary of the situation.

Senator BLAINE (presiding). If there is nothing further, the committee will stand adjourned.

(Whereupon, at 4.35 o'clock p. m., the committee adjourned, to meet at the call of the chairman.)

(Additional data submitted by Mr. Stirn is here printed in the record in full, as follows:)

*The high and the low prices of stocks—outstanding price depreciations—on the New York Stock Exchange, New York Curb, and the Chicago Stock Exchange*

Stock	High price	Date	Low price	Date
Anaconda:				
Old.....	140	Mar. 22, 1929.....	14½	Apr. 8, 1932
New.....	99	Mar. 20, 1929.....		
American Telephone.....	310¾	Sept. 19, 1929.....	827½	May —, 1932
American Can.....	184½	Aug. 24, 1929.....	34¾	May 16, 1932
Auburn.....	514	Sept. 18, 1929.....	28¾	Do.
Case, J. I.....	467	Sept. 16, 1929.....	17½	Do.
Kreuger & Toll.....	469½	Mar. 6, 1929.....	1¾	Apr. 11, 1932
Insulf Utilities.....	160	August, 1929, New York Curb.	1½	June 7, 1932
Investment Corporation (Inc.).....	149¾	August, 1929, Chicago.	1½	Do.
Without warrants.....	90	August, 1929.....		
Middle West Utilities.....	151¾	September, 1929.....	1½	Apr. —, 1932
New York Curb.....	565			
Chicago.....	570			
Warner Bros.....	80	April, 1930.....	¾	June —, 1932
Radio Corporation.....	114¾	Sept. 12, 1929.....	39½	Apr. —, 1932
Paramount Famous Lasky.....	69	April, 1930.....		
United States Steel.....	75½	Oct. 15, 1929.....	39½	Apr. 12, 1932
Borden.....	261¾	Sept. 3, 1929.....	25¼	June —, 1932
Swift & Co.....	100½	July 10, 1929.....	20¾	Do.
General Theaters Equipment.....	148½	July 10, 1929.....	7	Do.
Cities Service.....	66½	September, 1929.....	1¾	Apr. 5, 1932
Fox Film, class A.....	68½	do.....	33	May —, 1932
Curb, September, 1928.....	105½		2	Apr. 9, 1932
Goldman Sachs.....	119			
General Electric new.....	121¾	September, 1929.....	1½	May —, 1932
New.....	95	April, 1930.....	.10	June —, 1932
Westinghouse.....	61	Dec. 9, 1929.....		
Radio-Keith-Orpheum.....	201½	April, 1930.....	21¾	May 10, 1932
	67¾	Aug. 16, 1929.....		
	50	Apr. 24, 1930.....	¾	Dec. 28, 1931

<sup>1</sup> New.

<sup>2</sup> Low prices of corporations under receiverships.

<sup>3</sup> Old.

<sup>4</sup> Class A stricken off the list computed on present price of new stock, at low of 1½; the class A at one-fourth of new common would be about ¾ or 37½ cents.

NOTE.—No corporation not in actual receivership shows so sensational a depression of stock as that suffered by Radio-Keith-Orpheum under the influence of concerted and concentrated short selling.

*Volume of sales in 1930 of group of corporations compared in terms of ratio sales to the number of shares outstanding, to total number of sales of all stocks, and to the number of shares listed on the New York Stock Exchange in per cent*

Name of corporation	Number of shares outstanding	Volume of sales	Total sales	Number of shares listed
Radio Corporation.....	13, 130, 000	37, 038, 890	810, 038, 161	1, 296, 794, 480
General Electric.....	28, 845, 936	21, 865, 890	-----	-----
Radio-Keith-Orpheum, class "A".....	2, 377, 315	18, 398, 908	-----	-----
Westinghouse Electric & Manufacturing.....	2, 586, 315	10, 592, 975	-----	-----
Total.....	46, 049, 566	88, 896, 663	-----	-----
Ratio of volume of sales in per cent to.....per cent..	191	-----	10	0.069

## SUMMARY

Out of the entire number of sales on the New York Stock Exchange in 1930 the group of corporations contributed over 10 per cent of the operations, and this amount is out of 810,038,161 sales.

The volume of sales of this group compared to the number of shares outstanding or actually existing in printed certificates (gold) actually amounted to nearly twice this amount. No other group of stocks approach this figure according to the data. This is clear evidence of professional handling and manipulation, or rigging, if you please, and not honest investment or liquidation, which Mr. Whitney testified to be the fact, under oath, before the committee.

Compared to the total number of shares listed on the New York Stock Exchange the volume of sales in this group approach or approximate 0.07 out of over a billion shares.

*The price upswing of the stock of the Radio Corporation during the pool manipulation revealed by Counsel Gray's examination of witnesses before the Senate Committee on Banking and Currency held on May 19, 1932, quoted in the press of the country May 20, 1932*

First pool:	Price
Mar. 5, 1929.....	77%
Mar. 12, 1929.....	91%
Mar. 16, 1929.....	109%
Mar. 20, 1929.....	94
Second pool:	
Mar. 23, 1929.....	86% - 91%
Mar. 25, 1929.....	88 - 91½
Mar. 26, 1929.....	92 - 95
Mar. 27, 1929.....	89 - 100½
Mar. 28, 1929.....	100 - 109

Volume of sales in week, 1,863,200.

Profits accruing from operation of first pool, managed by J. M. Meehan, floor specialist, admitted by witnesses to Gray to amount to \$5,000,000. If I recall the figures brought out by Counsel Gray, this pool held 1,493,000 shares at a cost of \$141,000,000, which makes the average cost price to the pool at the figure \$94.44. This was not brought out in the testimony as I remember. Thus:

Top price reached during this pool operation.....	\$109.25
Average cost of stock of the pool.....	94.44

Price differential..... 13.81

This price differential of \$13.81 per share profit, with a play in 1,493,000 shares, results in a much larger profit than the \$5,000,000 profit announced in the headlines of the press. The profits, therefore, more closely approximated \$21,618,330 on the long side only. The short side also, in addition to the \$21,618,330, taking into account the drop from 109½ to 94, should have netted considerable profit.

The investigation of the second pool as quoted in the press seemingly never has materialized. From the point of view of price appreciation the second pool inferentially netted a larger and more handsome profit than the first pool, as managed by Meehan.

(NOTE 2.—The \$5,000,000 profits made by pool No. 1 in Radio, therefore, can take into consideration a rise in the price of the stock of 2½ points. On the long and short side there was a play of 26 points.)

*Inactivity of the Radio-Keith-Orpheum class A stock during the pool operations in Radio in March, 1929*

	Price
First RKO inactivity:	
Mar. 9, 1929.....	36-37½
Mar. 11, 1929.....	35-36½
Mar. 12, 1929.....	34½-35½
Mar. 13, 1929.....	34¾-35¾
Mar. 14, 1929.....	35½-36
Mar. 15, 1929.....	36¼-36¾
Mar. 16, 1929.....	36½-37
Mar. 18, 1929.....	35½-37½
Mar. 19, 1929.....	35¾-36½
Mar. 20, 1929.....	35½-36½
Mar. 21, 1929.....	35-35½
Mar. 22, 1929.....	34¼-35½
RKO activity on down side:	
Mar. 23, 1929.....	34¼-34¾
Mar. 25, 1929.....	34½-29¾
Mar. 26, 1929.....	30¾-19
Mar. 27, 1929.....	28¾-25½
Mar. 28, 1929.....	28¼-30

(NOTE.—On Mar. 28, when RKO dropped so precipitously from 30¾ to 19, the operation Radio on the same day was exactly opposite, the stock rising from 92 to 96. Therefore, Mr. Whitney's explanation that such drops are only caused by liquidation is not accurate and truthful.)

Volume of sales:

	Shares
Mar. 9-15, inclusive.....	71, 100
Mar. 16-22, inclusive.....	52, 500

Inasmuch as Meehan is floor specialist for both Radio and R-K-O stock presumably he was too preoccupied with the Radio pool, which netted such handsome profits, than to try for a play in R-K-O.

But during the operation of the second Radio pool which was supposed to come under investigation later by Counsel Gray a bear play was simultaneously waged in R-K-O while a bull play was going on in Radio, in the latter part of March, 1929.

*1929 profit on commission record for stocks and bonds listed on the New York Stock Exchange*

1. Total number of shares sold from January 1 to December 31, 1929, monthly average as of January, 1,124,991,490 (New York Stock Exchange Bulletin May, 1932, only gives bank and quotation record January 10, 1930, p. 28, vol. 3, No. 1); 1,124,990,980 (New York Times, the Annalist, January 17, 1930, p. 212, vol. 35, No. 887). Quotes in dollars, but this can not be true because stock price index and monthly averages of all listed shares January, 1929, 89; January, 1930, 57; New York Stock Exchange Bulletin May, 1932, page 4.

2. Rates of commission. Scale in effect since November 1, 1924, under constitution of New York Stock Exchange:

	Cents per share
On stocks selling below \$10 a share.....	7½
On stocks selling at \$10 and above but under \$25.....	12½
On stocks selling at \$25 and above but under \$50.....	15
On stocks selling at \$50 and above but under \$75.....	17½
On stocks selling at \$75 and above but under \$100.....	20
On stocks selling at \$100 and above but under \$200.....	25

On stocks selling at \$200 a share and over, 25 cents for the first \$200 in price and 5 cents a share additional for each \$50 increase in price or fraction thereof.

Members of the exchange executing orders for fellow members follow a scale of rates much lower than rates to nonmembers. (The Stock Market, Charles A. Dice, Chicago and New York Shaw & Co., 1927, p. 113.)

3. Total number of shares listed on the New York Stock Exchange, January 1, 1930: 1,127,682,468 (source of data: New York Stock Exchange Bulletin, May, 1932, p. 5, Vol. III, No. 5); 1,117,000,000 (Standard Trade and Securities, Vol. III, statistical section, Standard Statistics Co. (Inc.), New York statistical section 6, base book; vol. 63, No. 7, sec. 3, p. 134, January, 1932).

4. Ratio sales to listing in per cent, nearly 100 per cent note; not 14 per cent, given by New York Exchange Bulletin, May, 1932, page 11, first table.

5. Monthly volume of sales (unit, 1,000,000): 1929—January, 110.8; February, 77.97; March, 105.6; April, 82.60; May, 91.23; June, 69.55; July, 93.33; August, 95.70; September, 100.1; October, 141.7; November, 72.46; December, 83.86. (Source of data: Standard Trade and Securities Standard Statistical Bulletin, sec. 6, p. 156, vol. 3, January, 1932.)

6. Stock price index and monthly averages of all listed stocks: No. 1 flat price average is flat average price (the average of all prices) in dollars; No. 2 price index is price index (January 1, 1925, 100) based on the adjusted average price, which is the average price (No. 4) adjusted to split ups, stock dividends, etc.; No. 3 S. C. C. average price is Stock Clearing Corporation Monthly average price of settled shares in dollars; No. 4, unadjusted average price, unadjusted average price found by dividing the total market value by the total number of shares listed, in dollars. See New York Stock Exchange Bulletin, May, 1932, page 4.

*Stock price index and monthly averages off all listed shares*

	January, 1925	January, 1926	January, 1927	January, 1928	January, 1929	January, 1930	January, 1931
No. 1 flat average price.....	\$80.17	\$87.91	\$83.49	\$94.64	\$96.76	\$69.01	\$50.95
No. 2 price index.....	100.0	115.8	115.7	140.0	166.1	111.1	75.2
No. 3 S. C. C. average price.....	56.9	68.4	64.6	69.0	78.6	52.6	37.2
No. 4 unadjusted average price..	62.45	70.15	65.53	75.93	89.09	57.38	37.80
	May, 1931	June, 1931	July, 1931	August, 1931	September, 1931	October, 1931	November, 1931
No. 1 flat average price.....	\$50.09	\$46.20	\$48.54	\$47.05	\$46.40	\$37.11	\$36.85
No. 2 price index.....	74.0	64.8	72.3	67.8	67.3	48.7	51.6
No. 3 S. C. C. average price.....	39.4	36.3	37.3	35.5	31.1	27.8	28.8
No. 4 unadjusted average price..	37.23	32.58	36.38	34.09	33.93	24.55	25.97
	December, 1931	January, 1932	February, 1932	March, 1932	April, 1932	May, 1932	
No. 1 flat average price.....	\$34.24	\$29.37	\$29.66	\$29.89	\$28.50	\$24.26	
No. 2 price index.....	46.9	40.2	39.7	41.5	37.0	3.4	
No. 3 S. C. C. average price.....	24.2	25.8	26.8	22.5	21.6	-----	
No. 4 unadjusted average price..	23.59	20.24	19.99	20.90	18.64	15.34	

*New York Stock Exchange Bulletin, May, 1932. p. 4.*

7. All values expressed on the four charts below are unadjusted average prices in dollars, calculated similarly to No. 4 (above). (See New York Stock Bulletin, May, 1932, p. 4.)

8. Average of January, 1929, \$89.08, according to No. 4; average of January, 1930, \$57.38; adjusted average, \$73.26.

9. Therefore: Number of shares sold multiplied by 17½ cents; gross profit on commission figure 17½ arrived at by the mean 73.26; or gross income, \$191,248,553.30; expenses, -----?-----; net income, -----?-----; gross income to brokers on commissions, salaries to employes, rents, telephone

rates, Western Union rates on private wires, cost of seat on the New York Stock Exchange.

10. Total bond transactions on the New York Stock Exchange for year 1929, \$3,020,316,700.

Brokers rates of commissions, \$1,000, \$2.50; \$500, \$2; \$100, \$2.

11. Therefore, \$3,020,316.7 multiplied by \$2.50, gross profit on commissions per \$1,000 bond, or \$7,550,000.

Conclusion. Commissions on bonds insignificant as compared to broker's commissions on stocks.

12. Referring back to tables in column 2 obtaining figure 17½ by referring to column 6 under January 30 for figure 57.38 under No. 4 column, and then to monthly sales column for October, 1929, sales figure at 141, the commissions profited by brokers for Black October, 1929, are obtained by multiplying 141,000,000 by \$0.175 or \$24,675,000, commissions gross profits for that month. This figure does not apply to profits on short sales or on bear raids, or in bull pools.

13. In December, 1914, after the Exchange was closed for several months following the opening of the World War, the volume of sales were 1.91 (unit of 1,000,000), see previous chart or table for 1914. If this were to be repeated now with adjusted average May, 1932, at 15.34, which means \$0.125 per share commission. This means only \$246,250 commission.

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Average
1931	42.54	64.15	65.49	54.33	46.66	58.72	33.54	24.89	51.14	47.89	37.37	50.19	48.03
1932	34.34	31.72	33.06										
1930	62.31	68.72	96.55	111.00	78.04	76.59	47.45	39.87	53.55	65.50	51.95	58.76	67.55
1929	110.8	77.97	105.6	82.60	91.28	69.55	93.38	95.70	100.1	141.7	72.46	83.86	93.75
1928	56.96	47.17	84.99	80.57	82.16	63.71	39.00	67.70	90.91	99.08	115.4	92.84	76.71
				49.64									
1927	34.26	44.16	49.06	46.60	47.63	38.49		51.06	51.92	50.46	51.36	62.37	48.08
1926	39.09	35.46	52.04	30.22	23.19	37.99	36.73	44.19	36.90	40.21	31.18	41.89	37.42
1925	41.43	32.75	38.57	24.84	36.46	30.86	32.28	32.87	36.89	53.42	48.98	42.88	37.69
1924	26.73	20.64	18.21	17.70	14.99	16.80	24.23	22.43	18.15	17.83	41.37	42.88	23.50
1923	20.21	22.69	25.86	20.04	23.11	19.65	12.67	15.98	14.61	15.82	22.57	24.07	19.77
1922	15.39	16.19	22.73	30.47	28.91	24.04	15.15	17.85	21.78	25.68	22.88	19.69	21.73
1921	15.98	10.15	15.27	17.03	18.17	9.30	10.99	12.91	12.88	15.33	17.62	14.30	
1920	19.65	21.73	28.80	27.98	16.37	9.20	12.40	13.70	15.32	13.61	22.16	23.83	18.73
1919	11.63	12.05	21.17	27.66	34.24	32.83	34.17	24.14	23.88	36.89	29.97	24.26	26.07
1918	13.50	11.32	8.21	7.44	21.10	11.60	8.35	6.86	8.03	20.29	14.72	11.96	11.95
1917	16.42	13.63	18.42	14.28	19.54	18.99	12.79	11.51	13.70	17.43	14.71	12.78	15.35
1916	15.94	12.20	15.13	12.53	16.40	12.79	9.18	14.60	29.85	27.98	34.51	31.71	11.07
1915	5.08	4.38	7.88	21.05	12.67	11.21	14.33	20.42	18.50	26.64	17.56	13.68	14.85
1914	10.11	6.23	5.86	7.14	4.76	4.00	7.89	(1)	(1)	(1)	(1)	1.91	6.57
1913	8.73	6.64	7.18	8.46	5.46	9.59	5.12	6.08	7.68	7.41	3.77	7.15	6.54
1912	10.91	7.09	14.55	15.99	13.66	7.20	7.17	8.97	10.06	14.15	8.71	12.60	10.92
1911													10.54
1910													13.64

<sup>1</sup> Exchange closed.

