

STOCK EXCHANGE PRACTICES

THURSDAY, JULY 6, 1933

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE
ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met, pursuant to adjournment on Friday, June 30, 1933, at 10 o'clock a.m., in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Barkley, Goldsborough, Townsend, and Steiwer.

Present also: Ferdinand Pecora, counsel to the committee; Frank J. Meehan, chief statistician to the committee.

The CHAIRMAN. The subcommittee will come to order. Mr. Pecora, you may proceed.

Mr. PECORA. Mr. Taplin.

The CHAIRMAN. Mr. Taplin will come forward to the committee table, stand, and hold up his right hand, to be sworn: You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. TAPLIN. I do.

TESTIMONY OF FRANK E. TAPLIN, PRESIDENT OF THE PITTSBURGH & WEST VIRGINIA RAILWAY CO., CLEVELAND, OHIO

Mr. PECORA. Mr. Taplin, will you kindly give your full name, business, and address to the committee reporter for the record?

Mr. TAPLIN. Frank E. Taplin, president of the Pittsburgh & West Virginia Railway Co.; residence, Cleveland, Ohio.

Mr. PECORA. What is the street number of your residence?

Mr. TAPLIN. 3090 Fairmont Boulevard.

Mr. PECORA. How long have you been president of the Pittsburgh & West Virginia Railway Co.?

Mr. TAPLIN. Since 1923.

Mr. PECORA. Prior to that time were you connected with that railroad corporation in any other capacity?

Mr. TAPLIN. No. I had nothing to do with it prior to 1923.

Mr. PECORA. When were you first served with a subpoena to appear before this committee?

Mr. TAPLIN. On Thursday morning of last week at 3 minutes after 11 in New York City, and it is so noted on the subpoena by my secretary.

Mr. PECORA. When did you first learn that a subpoena had been issued by this committee for your attendance?

Mr. TAPLIN. At that time. When I got it.

Mr. PECORA. Didn't you know before that?

Mr. TAPLIN. No, sir.

Mr. PECORA. On the evening before the service of that subpoena upon you were you in Washington, D.C.?

Mr. TAPLIN. I was in Washington on that day.

Mr. PECORA. Did you have any conversation on that day with Mr. Henry H. Lee?

Mr. TAPLIN. Yes, sir. I think about 10 o'clock in the evening. I did not know that he was in the city until I saw him get into a taxicab at the Carlton Hotel, and I stopped him and talked to him for about a minute. There was a very important matter to be taken care of the next day in New York, at a board meeting, which I spent most of the minute trying to discuss with him, as he was hurrying to the cab. Judge Heiserman was with him, and he said that he had been subpoenaed to appear down here before the Senate Banking and Currency Committee in regard to the Pittsburgh & West Virginia-Pennroad case. I said:

I heard this evening that somebody at Washington was trying to get hold of me today. I guess maybe they wanted to subpoena me before that committee.

At that he got into the cab, and that was the only conversation I had with him.

Mr. PECORA. Well, had you heard that someone had tried to subpoena you?

Mr. TAPLIN. No. I heard that someone that evening—well, my secretary told me that someone in Washington was trying to get hold of me. And I will say that when I got back to Cleveland then I found that the sheriff had delivered another subpoena—I mean another from the one I received in New York, at the residence. They told the office about it, and I learned when I got home that the office had told the party trying to serve it that I was in Washington and they could undoubtedly locate me either at the Mayflower, the Carlton, or the Washington Hotel. But I never heard of anybody that day when I was in Washington.

Mr. PECORA. After you were subpoenaed last Thursday morning what did you do in connection with the services of the subpoena upon you?

Mr. TAPLIN. Well, I was in the board meeting, Mr. Pecora, called for 11 o'clock, and the subpoena called on me to be in Washington at 10 o'clock. Of course, I could not be in Washington at 10 o'clock, so I wrote on the subpoena a memorandum that "this notice was served on me at New York at 11:03 p.m."—

Mr. PECORA (interposing). Did you say "p.m."?

Mr. TAPLIN. Or a.m., which is on here, and to which my secretary signed his name. I was in the board meeting, and I took the subpoena and put it over with some other papers. I was in that meeting until 1 o'clock as chairman of the board of the Pittsburgh & West Virginia Railway Co., and there were some very important matters that had to be taken care of that day. And I had another meeting at 1 o'clock, at 120 Broadway, in a different building, at the Eastern Railroad Presidents' Conference, and I was a little bit late. And I rushed up

to that meeting, and I was there until about 3 o'clock, and I made a couple of calls down town, and at one of them I was detained a little time waiting for a gentleman longer than I had expected, and when I got up to the hotel it was about 5 o'clock, and I took my papers out, and when I took them out I looked them over, and then I found this subpoena which had been handed me in the morning, and I asked my secretary to take a telegram, a copy of which I have here, and to send it to you, and to advise you that I received the subpoena too late, and would be glad to appear this week any day you wanted me.

Mr. PECORA. Couldn't you have appeared the following day, namely, on last Friday?

Mr. TAPLIN. Oh, yes. But, you see, I will have to plead a little bit of ignorance, and am sorry if I discommoded you, but when I got the subpoena for Thursday it never occurred to me that there was any reason to be here on Friday. I mean when I got the subpoena for Thursday. But I will tell you that if I had got this subpoena—and I guess you call it a subpoena duces tecum, for it was asking for a lot of papers—I could not possibly have had the papers, because the gentleman, Mr. Larson, who is here with me, is the only gentleman who is in possession of the papers in Cleveland, and he was in Boston. So I would have been here without any papers to support any evidence you wanted.

Mr. PECORA. Have you the documents and records the subpoena calls for?

Mr. TAPLIN. Yes, sir; all of them today. And I could just as well have had them with me on last Wednesday, when I was in Washington, if you had wired me, without subpoena. I did not need to have any subpoena. I was here then, and if I had known that I was wanted, without any subpoena, I could have had all the papers I have today, with everything complete, if I had known what you wanted.

Mr. PECORA. Testimony introduced before this committee, Mr. Taplin, is to the effect that when you met Mr. Lee last Wednesday night at the hotel in Washington you stated, in words or substance, that you knew the committee was seeking to serve a subpoena upon you.

Mr. TAPLIN. Well, Mr. Pecora, I will say—

Mr. PECORA (continuing). And that you went to New York the following morning, or rather that Wednesday night.

Mr. TAPLIN. Well, I don't know about that. I didn't testify to that.

Mr. PECORA. I know you did not; of course not—

Mr. TAPLIN (interposing). I did afterwards read that statement in a newspaper, and a couple of other statements that were not exactly accurate either, and so if a man could make a mistake in one case he could make a mistake in another. I have told you just what I said to Mr. Lee.

Mr. PECORA. Now, Mr. Taplin, are you familiar with the transaction whereby 222,930 shares of the capital stock of the Pittsburgh & West Virginia Railway Co. were sold to the Pennroad Corporation in 1929?

Mr. TAPLIN. Thoroughly. I sold it to them.

Mr. PECORA. When you say you sold it to the Pennroad Corporation, do you mean that it was your stock that you sold to that corporation?

Mr. TAPLIN. It was under my control. A part of it was mine and the rest of it was under my control by agreements.

Mr. PECORA. How much of it was yours?

Mr. TAPLIN. Well, I think about one-half of it. That is, when I say mine I will have to include the members of my family as mine, a small amount that was mine personally, and my wife had some of it, and my children had some of it, and a company had some of it, but I include that as mine because I spoke for it.

Mr. PECORA. And you said about one-half of it?

Mr. TAPLIN. About one-half.

Mr. PECORA. Was yours, meaning by that that it was more or less under your control, being owned by you or members of your family?

Mr. TAPLIN. Yes; and a company I controlled.

Mr. PECORA. How much of it was yours individually?

Mr. TAPLIN. Well, I have all the figures here, Mr. Pecora.

Mr. PECORA. Well, so long as you have all the figures, will you tell the committee who the owners were of the 222,930 shares immediately prior to the sale of that stock to the Pennroad Corporation?

Mr. TAPLIN. Do you mean, shall I read the names?

Mr. PECORA. Yes.

Mr. TAPLIN. All the names?

Mr. PECORA. And their holdings; yes.

Mr. TAPLIN. I will read them all to you.

Mr. PECORA. All right.

Mr. TAPLIN. They are as follows:

	<i>Shares</i>		<i>Shares</i>
William C. Atwater-----	13, 650	Charles D. Hebard-----	1, 100
R. B. Brown-----	549	Feran & Co-----	10, 370
E. W. Backus-----	4, 740	A. P. King-----	878
L. P. Crecilius-----	50	E. J. Kules-----	1, 097
T. B. Davis-----	3, 000	J. R. Kraus-----	4, 200
E. M. Ford-----	500	E. S. Kandrick-----	4, 100
A. H. Ferbert-----	219	E. P. Lenahan-----	3, 097
Adam Gross-----	549	Charles D. Little-----	164
F. H. Ginn-----	1, 097	O. J. Lange-----	219
C. P. Hutchins-----	5, 564	R. S. McVeigh-----	21, 085

Then the next is McDonnell & Co., in three separate lots, and I will bulk them together.

Mr. PECORA. What do they amount to?

Mr. TAPLIN. McDonnell & Co. amount to 9,350 shares.

Mr. PECORA. Is that the total of the three lots of the stock that they had?

Mr. TAPLIN. Yes.

Senator TOWNSEND. What company is that?

Mr. TAPLIN. Some stockbrokers in New York.

Mr. PECORA. All right, you may proceed.

Mr. TAPLIN (reading) :

	<i>Shares</i>		<i>Shares</i>
North American Coal Cor- poration.....	30,720	C. F. Taplin	5,090
R. H. Munan.....	2,000	F. E. Taplin.....	16,601
L. O. Percival.....	1,200	Clara Louise Taplin.....	14,516
Samuel Pursglove.....	1,694	F. E. Taplin, Jr.....	25,166
Thomas Pursglove.....	500	Thomas Ely Taplin.....	2,900
C. A. Paul.....	1,097	Edith S. Taplin.....	2,960
Joseph Pursglove.....	279	W. P. Todd.....	1,097
E. P. Peters.....	65	Isabel Thompson.....	4,266
F. W. Paine.....	2,194	A. B. Uhrig.....	14,000
George M. Rogers.....	1,097	Thomas Warfield.....	700
Arthur Rand.....	1,000	J. S. Wood.....	1,179
John L. Steinbugler.....	3,450	Thomas H. Wilson.....	1,000
F. B. Stearns.....	1,358	Charles E. Williams.....	124
A. E. R. Schneider.....	439	Total.....	222,930

The CHAIRMAN. What was the total issue of the railroad corporation?

Mr. TAPLIN. Approximately 302,000 shares.

Mr. PECORA. Who conducted the negotiations in behalf of the sellers of this stock to the Pennroad Corporation?

Mr. TAPLIN. I did.

Mr. PECORA. When were those negotiations commenced?

Mr. TAPLIN. Well, there had been discussions of the purchase of the stock I would say for a period of at least 2 and maybe 3 years prior to the time that this stock was actually sold.

Mr. PECORA. Well, with whom did you have those discussions for 2 or 3 years before the sale?

Mr. TAPLIN. Well, in the earlier part of that time, which would be, maybe, 1926 or 1927, I think I discussed the matter with General Atterbury and A. J. County.

Mr. PECORA. Was General Atterbury then the president of the Pennsylvania Railroad Co.?

Mr. TAPLIN. He was.

Mr. PECORA. Was Mr. County then the vice president of that railroad company?

Mr. TAPLIN. He was.

Mr. PECORA. Do they still hold those offices in that company?

Mr. TAPLIN. I think they do.

Mr. PECORA. Who took the initiative in 1926 in negotiating the proceedings that culminated in the sale of this stock? Was it you, or the sellers of the stock, or General Atterbury, or Mr. County?

Mr. TAPLIN. I do not believe I could answer that, because I saw them every month or so, and we were always discussing different railroad problems, and there was a great desire at that time on the part of two or three railroads, I believe, to own the Pittsburgh & West Virginia Railway Co. on account of the strategic position which it occupied in the city of Pittsburgh, which is a heavy-tonage district, and I cannot say just who initiated it because the talk was more or less continual.

Mr. PECORA. That is, beginning with some time in 1926, you had many conversations with General Atterbury and Mr. County with respect to the Pennsylvania Railroad Co.—

Mr. TAPLIN (interposing). Yes. The Pennroad Corporation at that time was not interested, you understand, and I do not believe it was even organized at that time.

Mr. PECORA. You want me to understand, then, to resume the question before you interrupted it, that some time in 1926 there were a series of conferences initiated between you and General Atterbury and Mr. County?

Mr. TAPLIN. I do not think I ever talked with them together. They were not conferences. The talk was with each one of them separately when I would see them.

Mr. PECORA. In those talks was the subject of the acquisition by the Pennsylvania Railroad Co. of a substantial stock interest in the Pittsburgh & West Virginia Railway Co. discussed?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. And you cannot tell who initiated those discussions?

Mr. TAPLIN. No; I cannot.

Mr. PECORA. Whether you or whether General Atterbury or Mr. County?

Mr. TAPLIN. I am inclined to think I probably did, but I wouldn't want to say who initiated them.

Mr. PECORA. At that time, Mr. Taplin, how many shares of stock of your company did you have either in your ownership or in the ownership of members of your family or under control?

Mr. TAPLIN. Well, I always had—at that time I had probably 200,000 shares.

Mr. PECORA. Did they represent the shares that were sold—

Mr. TAPLIN (interposing). Yes, sir.

Mr. PECORA (continuing). And which were owned and held by the persons whose names you have given us this morning?

Mr. TAPLIN. Yes, sir. I had an agreement that took in the most of these holders beginning with 1923, I believe.

Mr. PECORA. That is from the time you became the president of the road?

Mr. TAPLIN. Yes; from the time I bought the stock.

Mr. PECORA. What was the nature of these agreements you had with these stockholders of your company?

Mr. TAPLIN. Well, now, I had this in two ways, Mr. Pecora. Here is an agreement that is a syndicate agreement that a great many of these people put money into in which they did not have a specific number of shares, but they had a certificate of interest in the Pittsburgh & West Virginia Railway syndicate.

Mr. PECORA. Have you that syndicate agreement with you?

Mr. TAPLIN. Yes; I have.

Mr. PECORA. Will you produce it, please?

Mr. TAPLIN. Yes, sir. I think that is the Pittsburgh & West Virginia Railway syndicate agreement dated July 20, 1923 [handing same to Mr. Pecora].

Mr. PECORA. Is this a duplicate original of such agreement?

Mr. TAPLIN. I did not look at that when I handed it to you. That is an original copy. Here is another one though, Mr. Pecora [handing same to Mr. Pecora]. If you will look at this you will notice it was for a specific period of time, and then it was renewed, and it seems that the copy I handed you did not have all of the names of the syndicate on it, but this one seems to have all of them on it.

Mr. PECORA. Well, let me have the first one also. Now the one you first handed me is captioned "Pittsburgh & West Virginia

Railway Syndicate Agreement." It bears date July 20, 1923. That, you say, is a duplicate original?

Mr. TAPLIN. Well, it is signed by those people, so it must be an original. But it has not got all of the names of the syndicate members on it. I can see that by glancing at it, because they are all here in these copies.

Mr. PECORA. I offer it in evidence and ask that it be spread on the record.

The CHAIRMAN. It will be received in evidence and will be spread on the record. Have you got a copy of that, Mr. Taplin?

Mr. TAPLIN. I do not think I have any other copy of that, no; unless I have one at home.

The CHAIRMAN. You want that one returned to you, then?

Mr. TAPLIN. Pardon me. Mr. Larson explains to me, Mr. Pecora, why all of the names were not on that one. He says that there were three copies, and some were on one copy and some on another and some on a third, and therefore I think these three here ought to go together. I think those three are of the same syndicate—the original, you see—with all of the names on them.

The CHAIRMAN. The body of the agreement is the same?

Mr. TAPLIN. Yes; the body of the agreement is the same, only I used three copies to get all the signatures. Only some would have one copy, others would have another.

Mr. PECORA. Yes. I offer in evidence all three copies, and ask that they be spread on the record.

The CHAIRMAN. They will be admitted in evidence and spread on the record. You want these returned to you, do you, Mr. Taplin?

Mr. TAPLIN. I certainly do. They are the only ones I have, Senator.

The CHAIRMAN. Let the reporters know that you want the originals returned.

Mr. TAPLIN. Yes; I want them returned to me.

(Three copies of Pittsburgh & West Virginia Railway Syndicate Agreement dated July 20th, 1923, each copy containing different signatures and different amounts, were received in evidence, marked "Committee Exhibits 43, 44 and 45, of July 6, 1933", and are here printed in the record in full, as follows:)

COMMITTEE EXHIBIT 43

PITTSBURGH & WEST VIRGINIA RAILWAY SYNDICATE AGREEMENT, JULY 20, 1923— SYNDICATE AGREEMENT

This agreement made at Cleveland, Ohio, as of July 20, 1923, is to witness:

1. The subscribers hereto shall constitute a syndicate for the purpose of buying, selling, and trading in the securities of the Pittsburgh & West Virginia Railway Co. and/or any subsidiary or affiliated company and/or property of whatever nature which the syndicate managers deem appropriate in connection with the first stated purposes.

2. The subscribers hereto shall be participants in the syndicate in the amounts set opposite their respective signatures to this agreement, which amounts they agree to pay as hereinafter set forth. Participants shall elect at the time of signature to either pay their participation in full or to pay 50 percent thereof on the initial call and the balance on 30-day call or calls of the syndicate managers, and shall stand obligated according to such election either to pay the full participation on the initial call or to pay 50 percent on the initial call and 50 percent on such further 30-day call or calls by the syndicate managers.

Participants who do not pay in full on their initial call shall be from time to time charged with interest on their deferred payments from the date hereof at the rate of 6 percent per annum. All participations and calls are payable at the principal office of The Union Trust Co., Cleveland, Ohio, and/or at such other place or places as the syndicate managers shall designate.

3. The syndicate managers will issue to participants certificates of participation in the syndicate to the extent of their subscriptions and providing for endorsement of payments beyond 50 percent. Such certificates of participation shall be registered by The Union Trust Co., Cleveland, Ohio, which the syndicate managers have named as registrar of such certificates. Certificates of participation shall be in such form as the syndicate managers shall determine and shall be transferable only with the prior consent of the syndicate managers, unless fully paid, in which case they shall be freely transferable.

4. F. E. Taplin and J. R. Kraus are constituted "syndicate managers" under this agreement with the power to add one or more managers to their number at any time during the life of the syndicate. Upon resignation or death of a syndicate manager or managers, the successor or successors shall be named by the survivor or survivors of the syndicate managers. The syndicate managers assume no personal obligation or liability in the management of the syndicate and shall be liable only for willful bad faith in the conduct of the syndicate. If there shall at any time be more than two syndicate managers, the action of two shall control.

5. The syndicate managers are empowered with the entire and sole management and conduct of the syndicate and without limitation upon such general power, shall have the right to purchase, sell, repurchase and resell any securities and/or other property hereinbefore referred to; to borrow for the account of the syndicate at such interest rate or rates and upon such terms as they may determine; to pledge or otherwise charge, as security for such borrowings, the assets of the syndicate in whole or part and including obligations of the participants; to employ and pay such depositors, agents, counsel, and others in whatever capacity, as they may deem proper; all for the account of the syndicate and at its expense. The syndicate managers shall act without compensation.

6. This syndicate is organized for the term of 1 year from its date and shall expire at the close of business July 19, 1924; subject, however, to the right of the syndicate managers to extend the same for a further period of 1 year from that date by written notice to participants mailed on or before July 1, 1924. The syndicate managers may, however, terminate this syndicate at any time within the period or periods above specified.

7. On expiration or termination of the syndicate, any property then held shall be distributed to participants pro rata upon or after payment of syndicate obligations.

The syndicate managers may from time to time distribute any profits from the syndicate operations and the same shall be distributed pro rata to participants according to the full amount of their participation whether full or part paid.

8. The syndicate managers shall have the right to cancel and forfeit to the syndicate any participation on failure of the participant to make payment of all or part of his participation when called in accordance with this agreement. The failure of any participant to perform any part of his obligations hereunder shall not relieve any other participant.

9. From time to time during the life of the syndicate the syndicate managers in their discretion may accept further subscriptions to and participations in the syndicate, from then members or others, upon such terms as to participation in previous profits, losses, expenses, and otherwise as the syndicate managers may determine.

10. All calls and notices upon or to participants shall be made or given by the syndicate managers or their nominee or nominees and shall be sufficient if mailed registered to the participants at their addresses of record with the syndicate managers or the registrar of certificates.

11. This agreement shall bind the parties signing and their respective successors, assigns, and personal representatives. It may be made and signed in several counterparts but all such shall be taken as one original instrument.

In witness whereof the various parties hereto have subscribed their names and addresses and the amounts of their subscriptions as of the day and year first above written, and the syndicate managers have signed as such in acceptance of their obligations hereunder.

The Mid-Continent Securities Co.

Jno. Sherwin, vice president, Cleveland.....	\$300, 000
A. H. Scoville, Cleveland.....	25, 000
F. W. Lovell, 2041 East Ninety-third Street, Cleveland, Ohio.....	25, 000
W. M. Baldwin, Cleveland.....	5, 000
J. R. Kraus, Cleveland.....	50, 000
Frank H. Ginn, Williamson Building.....	50, 000
R. V. Mitchell, care United Security, Canton, Ohio.....	35, 000
E. J. Kulas, 1104 Union National Bank Building.....	50, 000
Thomas H. Wilson, 406 Caxton Building.....	30, 000
Chas. A. Paul, Norwalk, Ohio.....	50, 000

COMMITTEE EXHIBIT 44

PITTSBURGH & WEST VIRGINIA RAILWAY SYNDICATE AGREEMENT, JULY 20, 1923—
SYNDICATE AGREEMENT

This agreement made at Cleveland, Ohio, as of July 20, 1923, is to witness:

1. The subscribers hereto shall constitute a syndicate for the purpose of buying, selling, and trading in the securities of the Pittsburgh & West Virginia Railway Co. and/or any subsidiary or affiliated company and/or property of whatever nature which the syndicate managers deem appropriate in connection with the first-stated purposes.

2. The subscribers hereto shall be participants in the syndicate in the amounts set opposite their respective signatures to this agreement, which amounts they agree to pay as hereinafter set forth. Participants shall elect at the time of signature to either pay their participation in full or to pay 50 percent thereof on the initial call and the balance on 30-day call or calls of the syndicate managers, and shall stand obligated according to such election either to pay the full participation on the initial call or to pay 50 percent on the initial call and 50 percent on such further 30-day call or calls by the syndicate managers. Participants who do not pay in full on the initial call shall be from time to time charged with interest on their deferred payments from the date hereof at the rate of 6 percent per annum. All participations and calls are payable at the principal office of the Union Trust Co., Cleveland, Ohio, and/or at such other place or places as the syndicate managers shall designate.

3. The syndicate managers will issue to participants certificates of participation in the syndicate to the extent of their subscriptions and providing for endorsement of payments beyond 50 percent. Such certificates of participation shall be registered by the Union Trust Co., Cleveland, Ohio, which the syndicate managers have named as registrar of such certificates. Certificates of participation shall be in such form as the syndicate managers shall determine and shall be transferable only with the prior consent of the syndicate managers, unless fully paid, in which case they shall be freely transferable.

4. F. E. Taplin and J. R. Kraus are constituted "syndicate managers" under this agreement, with the power to add one or more managers to their number at any time during the life of the syndicate. Upon resignation or death of a syndicate manager or managers, the successor or successors shall be named by the survivor or survivors of the syndicate managers. The syndicate managers assume no personal obligation or liability in the management of the syndicate and shall be liable only for willful bad faith in the conduct of the syndicate. If there shall at any time be more than two syndicate managers, the action of two shall control.

5. The syndicate managers are empowered with the entire and sole management and conduct of the syndicate and, without limitation upon such general power, shall have the right to purchase, sell, repurchase, and resell any securities and/or other property hereinbefore referred to; to borrow for the account of the syndicate at such interest rate or rates and upon such terms as they may determine; to pledge or otherwise charge, as security for such borrowings, the assets of the syndicate in whole or part and including obligations of the participants; to employ and pay such depositories, agents, counsel, and others in whatever capacity as they may deem proper; all for the account of the syndicate and at its expense. The syndicate managers shall act without compensation.

6. This syndicate is organized for the term of 1 year from its date, and shall expire at the close of business July 19, 1924, subject, however, to the right of the syndicate managers to extend the same for a further period of 1 year from that date by written notice to participants mailed on or before July 1, 1924. The syndicate managers may, however, terminate this syndicate at any time within the period or periods above specified.

7. On expiration or termination of the syndicate any property then held shall be distributed to participants pro rata upon or after payment of syndicate obligations.

The syndicate managers may from time to time distribute any profits from the syndicate operations, and the same shall be distributed pro rata to participants according to the full amount of their participations, whether full or part paid.

8. The syndicate managers shall have the right to cancel and forfeit to the syndicate any participation on failure of the participant to make payment of all or part of his participation when called in accordance with this agreement. The failure of any participant to perform any part of his obligations hereunder shall not relieve any other participant.

9. From time to time during the life of the syndicate the syndicate managers, in their discretion, may accept further subscriptions to and participations in the syndicate from then members or others upon such terms as to participation in previous profits, losses, expenses, and otherwise as the syndicate managers may determine.

10. All calls and notices upon or to participants shall be made or given by the syndicate managers, or their nominee or nominees, and shall be sufficient if mailed registered to the participants at their addresses of record with the syndicate managers or the registrar of certificates.

11. This agreement shall bind the parties signing and their respective successors, assigns, and personal representatives. It may be made and signed in several counterparts, but all such shall be taken as one original instrument.

In witness whereof the various parties hereto have subscribed their names and addresses and the amounts of their subscriptions as of the day and year first above written, and the syndicate managers have signed as such in acceptance of their obligations hereunder.

William C. Atwater, 1 Broadway, New York-----	\$350, 000
Thomas H. Wilson-----	25, 000
Charles S. Hebard-----	50, 000
Thomas W. Pursglove-----	25, 000
J. S. Wood-----	13, 000
C. F. Taylor-----	10, 000
G. M. Jones-----	10, 000
Transferred to A. H. Ferbert.	
J. S. Wood, trustee-----	10, 000
R. C. Hyatt-----	20, 000
A. H. Ferbert-----	10, 000
The Mid-Continent Securities Co., John Sherwin, vice president----	50, 000

COMMITTEE EXHIBIT No. 45

PITTSBURGH & WEST VIRGINIA SYNDICATE AGREEMENT, JULY 20, 1923—SYNDICATE AGREEMENT

This agreement made at Cleveland, Ohio, as of July 20, 1923, is to witness:

1. The subscribers hereto shall constitute a syndicate for the purpose of buying, selling, and trading in the securities of the Pittsburgh & West Virginia Railway Co. and/or any subsidiary company and/or property of whatever nature which the syndicate managers deem appropriate in connection with the first-stated purposes.

2. The subscribers hereto shall be participants in the syndicate in the amounts set opposite their respective signatures to this agreement, which amounts they agree to pay as hereinafter set forth. Participants shall elect at the time of signature to either pay their participation in full or to pay 50 percent thereof on the initial call and the balance on 30-day call or calls of the syndicate managers, and shall stand obligated according to such election

either to pay the full participation on the initial call or to pay 50 percent on the initial call and 50 percent on such further 30-day call or calls by the syndicate managers. Participants who do not pay in full on the initial call shall be from time to time charged with interest on their deferred payments from the date hereof at the rate of 6 percent per annum. All participations and calls are payable at the principal office of the Union Trust Co., Cleveland, Ohio, and/or at such other place or places as the syndicate managers shall designate.

3. The syndicate managers will issue to participants certificates of participation in the syndicate to the extent of their subscriptions and providing for endorsement of payments beyond 50 percent. Such certificates of participation shall be registered by the Union Trust Co., Cleveland, Ohio, which the syndicate managers have named as registrar of such certificates. Certificates of participation shall be in such form as the syndicate managers shall determine and shall be transferable only with the prior consent of the syndicate managers, unless fully paid, in which case they shall be freely transferable.

4. F. E. Taplin and J. R. Kraus are constituted "syndicate managers" under this agreement with the power to add one or more managers to their number at any time during the life of the syndicate. Upon resignation or death of a syndicate manager or managers the successor or successors shall be named by the survivor or survivors of the syndicate managers. The syndicate managers assume no personal obligation or liability in the management of the syndicate, and shall be liable only for willful bad faith in the conduct of the syndicate. If there shall at any time be more than two syndicate managers, the action of two shall control.

5. The syndicate managers are empowered with the entire and sole management and conduct of the syndicate, and without limitation upon such general power shall have the right to purchase, sell, repurchase, and resell any securities and/or other property hereinbefore referred to; to borrow for the account of the syndicate at such interest rate or rates and upon such terms as they may determine; to pledge or otherwise charge, as security for such borrowings, the assets of the syndicate in whole or part and including organization of the participants; to employ and pay such depositories, agents, counsel, and others in whatever capacity, as they may deem proper; all for the account of the syndicate and at its expense. The syndicate managers shall act without compensation.

6. This syndicate is organized for the term of 1 year from its date and shall expire at the close of business July 19, 1924; subject, however, to the right of the syndicate managers to extend the same for a further period of 1 year from that date by written notice to participants mailed on or before July 1, 1924. The syndicate managers may, however, terminate this syndicate at any time within the period or periods above specified.

7. On expiration or termination of the syndicate any property then held shall be distributed to participants pro rata upon or after payment of syndicate obligations.

The syndicate managers may, from time to time, distribute any profits from the syndicate operations, and the same shall be distributed pro rata to participants according to the full amount of their participations, whether full or part paid.

8. The syndicate managers shall have the right to cancel and forfeit to the syndicate any participation on failure of the participant to make payment of all or part of his participation when called in accordance with this agreement. The failure of any participant to perform any part of his obligations hereunder shall not relieve any other participant.

9. From time to time during the life of the syndicate the syndicate managers in their discretion may accept further subscriptions to and participations in the syndicate from then members or others, upon such terms as to participation in previous profits, losses, expenses, and otherwise, as the syndicate managers may determine.

10. All calls and notices upon or to participants shall be made or given by the syndicate managers or their nominees, and shall be sufficient if mailed registered to the participants at their addresses of record with the syndicate managers or the registrar of certificates.

11. This agreement shall bind the parties signing and their respective successors, assigns, and personal representatives. It may be made and signed in several counterparts, but such shall be taken as one original instrument.

In witness whereof the various parties hereto have subscribed their names and addresses and the amounts of their subscriptions as of the day and year

first above written, and the syndicate managers have signed as such in acceptance of their obligations hereunder.

	Amount
The Cleveland & Western Coal Co., F. E. Taplin, president, Cleveland, Ohio	\$2,000,000
F. E. Taplin, trustee, Cleveland, Ohio	600,000
Ernest O. Lenihan, Cleveland, Ohio	50,000
Charles P. Hutchins, Boston	200,000
F. W. Paine, Boston	100,000
W. P. Todd, New York	50,000
Frank B. Stearns, Cleveland	30,000
Charles H. Little, Cleveland, nothing paid (?)	
Oscar J. Lange, Cleveland	10,000
A. W. Thompson, Cleveland	100,000
R. S. Wood, Cleveland	20,000
A. E. R. Schneider, Cleveland	20,000
Crecellius & Phillips, Cleveland	40,000
Do	30,000
Alex. B. Uhrig, Milwaukee	100,000
Samuel Pursglove, Cleveland	50,000
C. F. Taplin, Cleveland	100,000
George M. Rogers, Cleveland, Ohio	50,000
Joseph Pursglove, Cleveland, Ohio	25,000
R. H. Pigott, Cleveland, Ohio	10,000
A. P. King, Cleveland, Ohio	40,000
Adam Gross, Milwaukee	25,000
Thomas W. Pursglove, Cleveland, Ohio	25,000
H. W. Nethken, Pittsburgh	100,000
William C. Atwater, New York	350,000

F. E. TAPLIN,
J. R. KRAUS,
Syndicate Managers.

Mr. TAPLIN. These (indicating some other papers) are all extensions of the original agreement.

The CHAIRMAN. Is that syndicate any longer in existence now?

Mr. TAPLIN. Oh, no. That is closed out.

The CHAIRMAN. That is all closed out?

Mr. TAPLIN. Yes. That was all closed out when the stock was sold.

Mr. PECORA. Now the syndicate agreement bearing date July 20, 1923, describes the syndicate constituted by this agreement as being constituted for the purpose of buying, selling, and trading in the securities of the Pittsburgh & West Virginia Railway Co. and/or any subsidiary or affiliated company, and/or property of whatever nature which the syndicate managers deem appropriate in connection with the first stated purposes. Did all the subscribers to the three original syndicate agreements all bearing date July 20, 1923, fulfill their subscriptions?

Mr. TAPLIN. They all fulfilled their subscriptions, but some of them drew out of later renewals, Mr. Pecora. Now I gave you renewal I think of—

Mr. PECORA. I am coming to that.

Mr. TAPLIN. Yes; they all paid in and fulfilled their subscriptions.

Mr. PECORA. Who organized this syndicate back on July 20, 1923?

Mr. TAPLIN. I did.

Mr. PECORA. At that time did you have any stock interest in the Pittsburgh & West Virginia Railway Co.?

Mr. TAPLIN. Yes; I had bought some stock. I bought this stock on the market. I did not buy it from any individual.

[After reading this testimony I find I was in error when I testified that I bought all of this stock on the market and did not buy it from any individual. I overlooked the fact that I did purchase approximately 25,000 shares direct from the Metropolitan Life Insurance Co. I am very sorry that this did not occur to me at the time I testified.]

Mr. PECORA. What was your business at the time of the organization of this syndicate?

Mr. TAPLIN. I was in the coal business.

Mr. PECORA. In the coal business?

Mr. TAPLIN. Coal mining.

Mr. PECORA. You had no connection with the Pittsburgh & West Virginia Railway Co. until you became its president?

Mr. TAPLIN. Well, I was a stockholder before I became president.

Mr. PECORA. I mean you were not an officer or a director?

Mr. TAPLIN. No; I had nothing to do with it. I picked the stock up on the market with the money that I got from the people that I got to come into this syndicate.

Mr. PECORA. And was this syndicate organized for the purposes set forth in the first paragraph of the syndicate agreement dated July 20, 1923?

Mr. TAPLIN. The syndicate was organized to furnish money for the purposes of buying this stock.

Mr. PECORA. Well, what was it—a stock-trading syndicate?

Mr. TAPLIN. No; I would not say it was a stock-trading syndicate, because we wanted to get hold of the control of the railroad. We thought it was a valuable piece of railroad and we could sell it at a profit. At least we thought we could.

Mr. PECORA. Were any of the subscribers persons who were connected as directors or officers with any railroad company at that time?

Mr. TAPLIN. With any railroad company?

Mr. PECORA. Yes.

Mr. TAPLIN. Well, I will have to look over the list. I would say that Mr. Frank Ginn is a director, I know, in one railroad and an attorney for some railroad people.

Mr. PECORA. Is he a director in one of the Van Sweringen roads?

Mr. TAPLIN. Yes.

Mr. PECORA. And also an attorney for the Van Sweringen interests?

Mr. TAPLIN. Yes; and he is an attorney for them, yes. But he is a personal friend of mine. It had nothing to do with this other railroad connection with them. Now, I will have to look over the rest of the list, Mr. Pecora, if you will pardon me just a minute.

Mr. PECORA. Yes.

Mr. TAPLIN. There is not another man on there that has any connection that I know of with any railroad in the country.

The CHAIRMAN. What did the stock originally cost you, Mr. Taplin?

Mr. TAPLIN. Well, our books are here. I had them all brought down, Senator Fletcher. I could not say positively, but it is all in the syndicate books which our treasurer here brought with him. There is a complete record of every transaction. I would not want to guess at what it cost, Senator Fletcher.

Mr. PECORA. Now, this syndicate as originally organized was to expire at the close of business on July 19, 1924. In other words, the syndicate was organized to operate for 1 year?

Mr. TAPLIN. Yes.

Mr. PECORA. Upon the expiration of that year was the life of the syndicate extended by agreement among its various members?

Mr. TAPLIN. My recollection is that it was extended for 1 year without signing up a new agreement. Is there a provision in there about that? The reason I think—

Mr. PECORA. Yes; there is a provision. Paragraph no. 6 of the agreement in evidence reads as follows:

This syndicate is organized for the term of 1 year from its date and shall expire at the close of business July 19, 1924—

Mr. TAPLIN. Yes.

Mr. PECORA (continuing reading):

subject, however, to the right of the syndicate managers to extend the same for a further period of 1 year from that date by written notice to participants mailed on or before July 1, 1924.

Mr. TAPLIN. Now, that 1 year accounts for the reason that the next agreement you have is dated '25 and not '24.

Mr. PECORA. Well, was it extended by means of such written notice for a year?

Mr. TAPLIN. Yes.

Mr. PECORA. From July 20, 1924?

Mr. TAPLIN. It was.

Mr. PECORA. And then upon the expiration of that second year what happened?

Mr. TAPLIN. We had to write a new agreement up.

Mr. PECORA. Then it was extended by a written agreement for a further term of one year?

Mr. TAPLIN. I do not know what that one says, Mr. Pecora—how long a term. I think one year, is my recollection.

Mr. PECORA. Well, is this the extension agreement that was entered into in the year 1924, extending the life of the syndicate for one more year? [Handing paper to the witness.]

Mr. TAPLIN. It says here "That whereas under date of June 21, 1924, notice " to the subscribers was given as stated—then this was a new agreement, that it was to be extended until the 19th day of July, 1925. Signed by the syndicate managers.

Mr. PECORA. Is that the original extension agreement?

Mr. TAPLIN. Yes; that is the original extension agreement by the syndicate managers.

Mr. PECORA. I offer that in evidence.

Mr. TAPLIN. Now is this 1 of the 3 original copies, Mr. Pecora?

Mr. PECORA. Let me see that.

Mr. TAPLIN. I think it is 1 of the 3 that I had.

Mr. PECORA. Yes.

Mr. TAPLIN. You want that.

Mr. PECORA. I have one before me.

Mr. TAPLIN. No; there were three parts to that.

Mr. PECORA. I know, but they all contain the same thing.

Mr. TAPLIN. You want only one?

Mr. PECORA. No. All three of them are in evidence.

Mr. TAPLIN. Don't you want that with them, too? That is one of the three.

Mr. PECORA. They are all in evidence. They have all been marked, and here they are before me, exhibits 43, 44, and 45, with the respective exhibit numbers on them.

Mr. TAPLIN. This is the extension agreement [handing same to Mr. Pecora].

Mr. PECORA. All right. I offer that in evidence and ask to have it spread on the record.

The CHAIRMAN. Let it be admitted in evidence and entered on the record, and return the original thereof to the witness.

Mr. PECORA. This will also be returned to the witness.

(Original extension agreement of the Pittsburgh & West Virginia Syndicate was received in evidence, marked "Committee exhibit 46 of July 6, 1933", and is here printed in the record in full, as follows:)

COMMITTEE EXHIBIT No. 46

THE PITTSBURGH & WEST VIRGINIA SYNDICATE—EXTENSION AGREEMENT— JUNE —, 1925

Whereas under date of July 20, 1923, a certain syndicate agreement was executed by the undersigned for the purpose of buying, selling, and trading in the securities of the Pittsburgh & West Virginia Railway Co. and/or any subsidiary or affiliated company and/or property of whatever nature which the syndicate managers deem appropriate in connection with the first stated purposes; and

Whereas under date of June 21, 1924, notice to all of the subscribers to said syndicate was given by the syndicate managers that they had elected to extend said agreement for a further period of 1 year from and after the 19th day of July 1924; and

Whereas it now is apparent that it is not to the advantage of the subscribers to said syndicate that the syndicate be liquidated and closed on July 20, but, rather, that said syndicate agreement should be extended for a further period of 1 year from said date.

Now, therefore, it is agreed by the undersigned, being the subscribers to said syndicate agreement, that said agreement be extended in full operation for a period of 1 year from and after the 19th day of July 1925, and be in full force and of the same effect during said extended period as during the preceding period.

In witness whereof the various parties hereto have subscribed their names the day and year first above written, and the syndicate managers have signed as such in acceptance of their obligations hereunder.

(Signed) F. E. TAPLIN,

(Signed) J. R. KRAUS,

Syndicate Managers.

THE PITTSBURGH & WEST VIRGINIA SYNDICATE EXTENSION AGREEMENT

Whereas under date of July 20, 1923, a certain syndicate agreement was executed by the undersigned for the purpose of buying, selling, and trading in the securities of the Pittsburgh & West Virginia Railway Co. and/or any subsidiary or affiliated company and/or property of whatever nature which the syndicate managers deem appropriate in connection with the first-stated purposes; and

Whereas under date of June 21, 1924, notice to all of the subscribers to said syndicate was given by the syndicate managers that they had elected to extend said agreement for a further period of 1 year from and after the 19th day of July 1924; and

Whereas it is not apparent that it is not to the advantage of the subscribers to said syndicate that the syndicate be liquidated and closed on July 20, 1925, but rather that said syndicate agreement should be extended for a further period of 1 year from said date:

Now, therefore, it is agreed by the undersigned, being the subscribers to said syndicate agreement, that said agreement be extended in full operation for a period of 1 year from and after the 19th day of July 1925 and be in full force and of the same effect during said extended period as during the preceding period.

In witness whereof the various parties hereto have subscribed their names the day and year first above written, and the syndicate managers have signed as such in acceptance of their obligations hereunder,

(Signed) CHAS. D. HEBARD.

CHARLES P. HUTCHINS.

C. F. TAPLIN

F. E. TAPLIN, *Trustee for F. E. Taplin, Jr.*

F. E. TAPLIN, *Trustee for Clara L. Taplin*

SAMUEL PURSGLOVE

THOS. W. PURSGLOVE

A. E. R. SCHNEIDER

A. W. THOMSON

R. C. HYATT

J. C. KRAUS

CHAS. A. PAUL

JOSEPH PURSGLOVE

A. P. KING

J. S. WOOD

J. S. WOOD, *trustee*

R. H. PIGOTT

C. F. TAYLOR

A. H. FERBERT

GEO. M. JAMES

WM. C. ATWATER

T. H. WILSON

W. PARSONS TODD

FRANK H. SMITH

R. C. MITCHELL

W. M. BALDWIN

R. B. BROWN

ADAM GROSS

ALEX B. UHRIG

GEO. M. ROGERS

FRANK B. STEARNS

THE CLEVELAND & WESTERN COAL CO.,
by P. LARSEN, *Secretary*

E. J. KULAS

H. W. NETHKEN

F. W. LOVELL

CRECELIUS & PHILLIPS L.P.C.

E. P. LENIHAN

THE MID-CONTINENT SECURITIES CO.,
JOHN A. SHERWIN, Jr., *President*

A. H. SCOVILLE

O. J. LANGE (and syndicate managers)

CHAS. D. HEBARD

F. W. PAINE

Mr. PECORA. The exhibit last offered in evidence, number 46, is the written agreement whereby this syndicate was extended for 1 year from and after the 19th of July 1925?

Mr. TAPLIN. Yes.

Mr. PECORA. Upon the expiration of that year, namely, on or before July 19, 1926, was this syndicate account liquidated?

Mr. TAPLIN. No; it was continued year by year.

Mr. PECORA. By written agreement each time?

Mr. TAPLIN. By written agreements.

Mr. PECORA. Until when?

Mr. TAPLIN. Until the last written agreement is dated July 16, 1928, which I have here.

Mr. PECORA. Have you all the intermediate extension agreements between the one entered into in July 1925 and the last one, in 1928?

Mr. TAPLIN. I have one dated '28. I have one dated '27. I haven't any '26.

Mr. PECORA. Will you give me those that were entered into in 1927 and 1928, respectively?

Mr. TAPLIN. Yes. [Producing same.]

Mr. PECORA. I offer them in evidence and ask that they be spread on the record.

The CHAIRMAN. Let them be admitted in evidence and spread upon the record, and the originals returned to the witness.

(Extension and release agreement re Pittsburgh & West Virginia Railway Co., dated June 1, 1927, and extension agreement of same dated July 16, 1928, were received in evidence, marked, respectively, "Committee Exhibits 47 and 48 of July 6, 1933", and are here printed in the record in full as follows:)

COMMITTEE EXHIBIT No. 47

EXTENSION AND RELEASE AGREEMENT RE THE PITTSBURGH & WEST VIRGINIA RAILWAY COMPANY, JUNE 1, 1927—EXTENSION AND RELEASE AGREEMENT

Whereas under date of July 20, 1923, a certain syndicate agreement was executed by the undersigned for the purpose of buying, selling, and trading in the securities of the Pittsburgh & West Virginia Railway Co. and/or any subsidiary or affiliated company and/or property of whatever nature which the syndicate managers deem appropriate in connection with the first stated purposes; and

Whereas under date of July 21, 1924, notice to all of the subscribers to said syndicate was given by the syndicate managers that they had elected to extend said agreement for a further period of 1 year from and after the 19th day of July 1924; and

Whereas in July 1925, and again in July 1926, extension agreements were executed by the syndicate managers and by all the subscribers to said original syndicate agreement, thereby extending said syndicate agreement in full operation for further periods of 1 year, the latter extension being for the period of 1 year from and after the 19th of July 1926; and

Whereas certain subscribers to said syndicate agreement hereinafter referred to as group A, have indicated that they desire to retire from said syndicate on July 31, 1927, upon receiving their proportion of the securities held by said syndicate managers, and upon payment by each of his or its share of the indebtedness of the syndicate; and

Whereas the other subscribers to said syndicate agreement, hereinafter referred to as group B, desire that said syndicate agreement be extended for a further period of 1 year from and after July 31, 1927; and

Whereas J. R. Kraus desires to retire as one of the syndicate managers, and the consensus of opinion of the subscribers included in group B is that there should be selected two additional syndicate managers to act with F. E. Taplin, the remaining syndicate manager, the names of E. P. Lenihan and C. F. Taplin being suggested in this connection:

Now, therefore, it is agreed by all of the undersigned, both in group A and in group B, that said syndicate agreement as heretofore extended shall be further extended in full operation until July 31, 1927, on which date an account shall be taken of the total indebtedness of the syndicate, and each subscriber's proportion of said indebtedness (after reducing same by the amount of funds on hand) shall be ascertained, and, upon payment to the syndicate managers of said amount so determined by each of the subscribers included in group A hereof, there shall be delivered to each of said subscribers his or its proportion of all securities held in the syndicate. Thereupon each of the subscribers included in group A hereof shall cease to have any further interest in said syndicate and shall stand released of all obligations in respect thereof. Furthermore, all acts of J. R. Kraus and F. E. Taplin, as syndicate managers, are hereby ratified and approved and they are hereby acquitted of all responsibility for acts done, as syndicate managers, up to and including said July 31, 1927.

It is agreed by all of the undersigned in group B that said syndicate agreement as heretofore and hereby extended shall be further extended in full operation for a period of one year from and after the 31st day of July 1927, and that it be in full force and of the same effect during said extended period as during the preceding period; and, further, that in the place of J. R. Kraus, resigning, Messrs. E. P. Lenihan and C. F. Taplin be, and they are hereby, appointed to act with F. E. Taplin as syndicate managers, such appointment to be effective from and after said July 31, 1927.

In witness whereof the various parties hereto have subscribed their names as of the 1st day of June 1927, and the syndicate managers have signed as such in acceptance of their obligations hereunder.

Group A subscribers:

A. H. SCOVILLE
THE MID-CONTINENT SECURITIES Co., by
R. C. HYATT, *Secretary*
J. R. KRAUS
R. C. MITCHELL

W. W. BALDWIN
R. C. HYATT
E. J. KULAS
FRANK H. SMITH
CHAS. P. HUTCHINS

Group B subscribers:

A. W. THOMSON

J. S. WOOD

J. S. WOOD, *Trustee*

R. H. PIGOTT

F. W. LOVELL

CHAS. S. HEBARD

CHAS. A. PAUL

FRANK B. STEARNS

THOMAS H. WILSON.

Former syndicate manager:

J. R. KRAUSEL

New syndicate manager:

E. P. LENIHAN.

COMMITTEE EXHIBIT No. 48

EXTENSION AGREEMENT, PITTSBURGH & WEST VIRGINIA RAILWAY SYNDICATE, JULY 16, 1928—EXTENSION AGREEMENT

Whereas under date of July 20, 1923, a certain syndicate agreement was executed by the undersigned, and others, for the purpose of buying, selling, and trading in the securities of the Pittsburgh & West Virginia Railway Co., and/or any subsidiary or affiliated company, and/or property of whatever nature which the syndicate managers should deem appropriate in connection with the first stated purposes; and

Whereas, under date of June 21, 1924, notice to all of the subscribers to said syndicate was given by the syndicate managers that they had elected to extend said agreement for a further period of 1 year from and after the 19th day of July 1924; and

Whereas in July 1925 and July 1926 extension agreements were executed by the syndicate managers, and by all of the subscribers to said original syndicate agreement, thereby extending said agreement in full operation for further periods of 1 year, the latter extension being for the period of 1 year from and after the 19th day of July 1926; and

Whereas in June 1927 an extension and release agreement was executed by virtue of which certain subscribers to said syndicate agreed to and thereafter did, on July 31, 1927, retire from said syndicate, receiving their proportion of the securities held by said syndicate managers and paying their shares of the indebtedness to said syndicate, the remaining subscribers to said syndicate agreement agreeing to the extension of said agreement for a further period of 1 year from and after July 31, 1927:

Now, therefore, it is agreed by the undersigned, being the remaining subscribers to said syndicate agreement, that said agreement be extended in full operation for the period of 1 year from and after the 31st day of July 1928, and be in full force and of the same effect during said extended period as during the preceding period.

It witness whereof the various parties hereto have subscribed their names as of the 16th day of July 1928, and the syndicate managers have signed, as such, in acceptance of their obligations hereunder.

North American Coal Corporation, by F. E. Taplin, president; F. E. Taplin, trustee for F. E. Taplin, Jr.; Frank B. Stearns; F. E. Taplin, trustee for Clara Louise Taplin; R. B. Brown; Geo. M. Rogers; A. E. R. Schneider, trustee for Clara B. Schneider, Cletus P. Schneider, Esther B. Schneider, Clare A. Schneider, and Ruth L. Burke; Oscar J. Lange; A. P. King; W. Parsons Todd; J. S. Wood; J. S. Wood, trustee; A. H. Ferbert; R. H. Piggott; Crecelius & Phillips, by Victor B. Phillips; Samuel Pursglove; Thos. W. Pursglove; Chas. A. Paul; F. W. Paine; Wilclara Investment Co., J. W. Gross, treasurer; Alex. B. Uhrig; E. P. Lenihan; Thomas H. Wilson.

Mr. PECORA. What object did you have in organizing this syndicate in 1923?

Mr. TAPLIN. To make money on the purchase of the stock.

Mr. PECORA. Was it to make money by purchasing and reselling the stock in the market?

Mr. TAPLIN. No.

Mr. PECORA. Well, how did you expect to do it?

Mr. TAPLIN. I expected the railroad would be worth a lot more money and could be made to show lots bigger earnings than it had been showing. The stock was selling very cheap when we started to buy it. They hadn't been making much money.

Mr. PECORA. Was it your hope to hold the stock for an appreciation and then sell?

Mr. TAPLIN. It was.

Mr. PECORA. Now in 1926, during the life of this syndicate, you say you commenced having conferences with General Atterbury and Mr. County, both of the Pennsylvania Railroad Co., looking toward the acquisition by the Pennsylvania Railroad Co. of stock interest of the Pittsburgh & West Virginia Railway Co.?

Mr. TAPLIN. That is correct.

Mr. PECORA. And you are unable to tell us whether those conferences were initiated by you or whether they were had on the initiation of General Atterbury or Mr. County?

Mr. TAPLIN. No; I would not say which started the conversation, Mr. Pecora.

Mr. PECORA. What was the subject of the conversations?

Mr. TAPLIN. They wanted to buy the Pittsburgh & West Virginia Railway Co.—the control of the Pittsburgh & West Virginia Railway Co. I was willing to sell it. But apparently our minds did not meet as to the price. That seemed to be the only difficulty.

Mr. PECORA. Did those negotiations continue over a period of 3 years until the sale was consummated to the Pennroad Corporation?

Mr. TAPLIN. Off and on, but sometimes maybe it would not be discussed for 6 months.

Mr. PECORA. And each time you acted in behalf of the members of the syndicate whose names appear in these various agreements that have been offered in evidence?

Mr. TAPLIN. And others who had Pittsburgh & West Virginia Railway stock.

Mr. PECORA. Well, when did the others come in? Did they come in by virtue of any written agreement?

Mr. TAPLIN. Yes.

Mr. PECORA. Will you produce the written agreement in question?

Mr. TAPLIN. I had an agreement that if a man was not in the syndicate and he had stock, I permitted him to tie it up to me under an agreement—or a similar agreement which I will read to you.

Mr. PECORA. Just produce it and I will offer it.

Mr. TAPLIN. They are all alike, Mr. Pecora.

Mr. PECORA. Just produce one of them then and I will have it spread on the record.

Mr. TAPLIN. Yes. [Handing same to Mr. Pecora.]

Mr. PECORA. I offer in evidence a document produced by the witness consisting of a letter addressed to Mr. John J. Atwater, under date of June 9, 1927, and I ask that it be spread on the record.

The CHAIRMAN. Let it be admitted and placed in the record.

(Letter addressed to Mr. John J. Atwater, June 9, 1927, was received in evidence, marked "Committee exhibit no. 49 of July 6, 1933", and is here printed in the record in full, as follows:)

COMMITTEE EXHIBIT 49

FRANK E. TAPLIN,
Cleveland, Ohio, June 9, 1927.

MR. JOHN J. ATWATER,
New York City.

DEAR SIR: Confirming our talk, it is understood that if you will agree not to dispose of your holdings of stock in the Pittsburgh & West Virginia Railway Co. during the life of the syndicate, then such holdings of stock shall be treated the same as the stock in the syndicate; that is, upon any disposition of the stock held by the syndicate as a part of any transaction passing control of the Pittsburgh & West Virginia Railway Co. (a majority of the stock of said company being held by the syndicate and other parties with whom agreements similar to this are had), your stock shall be included in any such transaction, and you shall receive the same price for your stock as is received for the syndicate's holdings.

Will you kindly indicate your agreement with this method of holding and disposing of your stock in the Pittsburgh & West Virginia Railway Co., and oblige?

Yours very truly,

F. E. TAPLIN.

The above represents my understanding and I agree not to sell my holdings of stock in the Pittsburgh & West Virginia Railway Co. except in accordance therewith.

JOHN J. ATWATER.

(1,100 shares.)

MR. PECORA. Now, you sent letters similar in form to various other persons?

MR. TAPLIN. On this list of sellers.

MR. PECORA. On the list of sellers of this block of 222,930 shares?

MR. TAPLIN. Who were not in the syndicate.

MR. PECORA. Who were not members of the original syndicate?

MR. TAPLIN. Yes; that is right.

MR. PECORA. And all those letters were similar in form to this one that is marked "Exhibit No. 49"?

MR. TAPLIN. Absolutely. They are all here. A bunch of them.

MR. PECORA. For the benefit of the committee I will read Exhibit 49. Written on the letterhead of Frank E. Taplin, Cleveland, Ohio.
[Reading:]

JUNE 9, 1927.

MR. JOHN J. ATWATER,
New York City.

DEAR SIR: Confirming our talk, it is understood that if you will agree not to dispose of your holdings of stock in the Pittsburgh & West Virginia Railway Co. during the life of the syndicate, then such holdings of stock shall be treated the same as the stock in the syndicate; that is, upon any disposition of the stock held by the syndicate as a part of any transaction passing control of the Pittsburgh & West Virginia Railway Co. (a majority of the stock of said company being held by the syndicate and other parties with whom agreements similar to this are had), your stock shall be included in any such transaction, and you shall receive the same price for your stock as is received for the syndicate's holdings.

Will you kindly indicate your agreement with this method of holding and disposing of your stock in the Pittsburgh & West Virginia Railway Co., and oblige.

Yours very truly,

F. E. TAPLIN.

(Description at the bottom of the letter, Exhibit 49, reads as follows:)

The above represents my understanding and I agree not to sell my holdings of stock in the Pittsburgh & West Virginia Railway Co. except in accordance therewith.

JOHN J. ATWATER.

(1,100 shares.)

Mr. PECORA. Now were these letters sent out at about the time or date borne by Exhibit 49, namely, June 9, 1927?

Mr. TAPLIN. They are all here. June, '27. June, '27. December, '27. June, '27. June, '27. June 15, '27. Here is one that is dated June 29, but that is a transfer from the Willclare Investment Co. Here is one June, '27, signed by Mr. Hebard on stock which he had purchased and which was in the syndicate, and then he bought this afterwards. This was signed on January 14, 1929. And so it made no difference to me, Mr. Pecora, if they came in in June 1929 or May, or any month.

Mr. PECORA. No, I know that. I wanted to just get the history of the thing. Now, Mr. Taplin, the members of the syndicate as organized in 1923 acquired through the managers of the syndicate about what proportion of the total outstanding capital stock of the Pittsburgh & West Virginia Railway Co.?

Mr. TAPLIN. Now Mr. Larson can you tell me? [After conferring.] He said the books will show 109,000 shares, Mr. Pecora.

Mr. PECORA. Well, that was less than a majority, was it not?

Mr. TAPLIN. Yes.

Mr. PECORA. The total outstanding shares were a little over 300,000?

Mr. TAPLIN. Yes; but I had some that was not in the syndicate.

Mr. PECORA. At the time of the end of the first year of the life of this syndicate, namely, on July 19, 1924, after the syndicate had been in operation for 1 year, what proportion of the outstanding stock of the Pittsburgh & West Virginia Railway Co. was owned or had been acquired by the syndicate or its individual members?

Mr. TAPLIN. I think about one half, because I know from the very beginning I had control of half of the stock.

Mr. PECORA. That included the holdings of yourself and members of your family?

Mr. TAPLIN. And with the syndicate. It is stock that I had control of that nobody could get.

Mr. PECORA. Was it in 1927 that you commenced sending out letters similar to the one marked "Exhibit 49"?

Mr. TAPLIN. Well, that seems to be the earliest date on any of these agreements, Mr. Pecora.

Mr. PECORA. From that would you conclude that you did not do anything about tying up the stock of other holders who were not members of your syndicate or participants therein until on or about June 1927?

Mr. TAPLIN. I assume that is correct. I could not have had control of it unless I had the agreement signed.

Mr. PECORA. Yes. Now, as a result of entering into the agreements with these stockholders who were not members of the syndicate, which agreements are similar to Exhibit 49, what proportion of the

total outstanding capital stock of the Pittsburgh & West Virginia Railway Co. did you succeed in getting control of?

Mr. TAPLIN. Between 70 and 75 percent.

Mr. PECORA. According to Exhibit No. 49 it was intended by you as manager of this syndicate to acquire control of a majority of the stock of the Pittsburgh & West Virginia Railway Co. for the purpose of selling it to someone else who wanted to acquire control of that railway company?

Mr. TAPLIN. That is right.

Mr. PECORA. And that someone was the Pennsylvania Railroad Co.?

Mr. TAPLIN. Well, there were what we call four trunk lines in the country, in the eastern division, that is, the Pennsylvania, the New York Central, B. & O., and the Van Sweringen Co. And I think the property was—my idea was that the property was desirable to each one of those four systems.

Mr. PECORA. It would form a desirable part of any one of those four systems?

Mr. TAPLIN. Any one of the four.

Mr. PECORA. Which of those systems did you have any negotiations or conversations with at any time during the life of this syndicate?

Mr. TAPLIN. I had conversations with the New York Central.

Mr. PECORA. When?

Mr. TAPLIN. I cannot give you the date. I never made any—

Mr. PECORA. Was it before you commenced discussing the question with General Atterbury and Mr. County?

Mr. TAPLIN. I would not want to say whether it was before 1926 or about that time, but I know I had discussions with the New York Central. I have no record of the date.

Mr. PECORA. With what officer or officers of the New York Central Railroad Co. system did you have those conversations?

Mr. TAPLIN. With Mr. Crowley and Mr. Ingalls.

Mr. PECORA. Mr. Crowley was the president?

Mr. TAPLIN. Yes.

Mr. PECORA. Mr. Ingalls held one of them?

Mr. TAPLIN. He is vice president. The conversations with them, though, didn't amount to much. They were rather general in nature.

Mr. PECORA. Did they encourage you in the belief that you might eventually sell these holdings to that system?

Mr. TAPLIN. I would not say they ever encouraged me; no.

Mr. PECORA. With what other railroad officials did you discuss the matter of selling these holdings of your syndicate in the Pittsburgh & West Virginia Railway Co.?

Mr. TAPLIN. The Van Sweringen people had discussions with me at times.

Mr. PECORA. Were they of an encouraging nature to you?

Mr. TAPLIN. I would not say they were overly encouraging.

Mr. PECORA. In order to sell control of the railroad company it would only be necessary for you to sell 51 percent of its capital stock, wouldn't it?

Mr. TAPLIN. That is right.

Mr. PECORA. Well, why did you tie up stockholders in the form of agreements corresponding to Exhibit 49 to the extent of 75 percent of the total outstanding stock?

Mr. TAPLIN. To get as much stock as I could under control. The more I could get under control the better.

Mr. PECORA. The better for whom?

Mr. TAPLIN. Better for me.

Mr. PECORA. Why?

Mr. TAPLIN. There is less opportunity of anybody buying some of it on the market; less opportunity of those people throwing it around on the stock market. It is always bad for the stock.

Mr. PECORA. Then you wanted to buy the stock up so it would not be thrown on the market in a fashion that would depress the price of it?

Mr. TAPLIN. I think undoubtedly that had something to do with it.

Mr. PECORA. And you did succeed in tying up, not only through the holdings of your syndicate but through agreements in the form of Exhibit 49, something like three fourths of the outstanding stock?

Mr. TAPLIN. Almost three fourths.

The CHAIRMAN. How much did the members of the syndicate pay for the stock?

Mr. TAPLIN. How much did they pay, Senator Fletcher?

The CHAIRMAN. Yes.

Mr. TAPLIN. Mr. Pecora asked me, I think, or somebody, a few minutes ago, and I said I would not want to give the figures, because our treasurer has them all here in the books of the syndicate, all of the facts in regard to it, cost, and what became of it.

The CHAIRMAN. Did they pay different prices, or did they all pay the same price?

Mr. TAPLIN. He said the stock that the syndicate bought worked out about \$52.50 a share.

Mr. PECORA. That would be the average?

Mr. TAPLIN. That is the average.

Mr. PECORA. \$52.50 a share.

The CHAIRMAN. The syndicate members drew dividends on that stock, did they? Did it pay dividends?

Mr. TAPLIN. I think so. They didn't when we purchased it, Senator Fletcher. The road was not making any money when we purchased it in 1923, but we got it in shape where it was making good money and paying dividends.

[Addressing an associate:] What year did it commence to pay dividends? When? 1926, he says, we started to pay dividends, 6 percent dividends.

The CHAIRMAN. You were president of the road?

Mr. TAPLIN. In 1923. That was 3 years later. We started to pay dividends in 1926.

Mr. PECORA. Did you discuss terms back in 1926 with General Atterbury or Mr. County; that is, the terms on which your syndicate would sell its holdings of Pittsburgh & West Virginia Railway Co. stock?

Mr. TAPLIN. Yes; we were always discussing terms; and the people I talked with never talked high enough. They always thought I had too big ideas, and we never could quite get together.

Mr. PECORA. What prices did you discuss? At what price did you eventually offer the syndicate holdings to General Atterbury or Mr. County?

Mr. TAPLIN. The cheapest price I recollect that I ever talked about immediately preceding the time we made this deal was \$200 a share. That was the only price I ever talked prior to this time.

Mr. PECORA. You first mentioned that price at what time?

Mr. TAPLIN. Whenever I talked with anybody it was always \$200 a share or I was not interested.

Mr. PECORA. That is, beginning in 1926 you discussed and quoted a price of \$200 a share for the syndicate holdings. What was the price in the market in 1926?

Mr. TAPLIN. My recollection is that about the most it ever sold in the market was not much over \$170, Mr. Pecora.

Mr. PECORA. No; in 1926.

Mr. TAPLIN. Well, I think probably around \$170. That is my recollection now. I don't keep track of the stock market.

Senator TOWNSEND. It was listed on the stock exchange?

Mr. TAPLIN. It was listed on the market.

Mr. PECORA. Did the syndicate maintain a trading account in this stock during its lifetime?

Mr. TAPLIN. To a slight extent but not much; no.

Mr. PECORA. Who were the brokers that handled it?

Mr. TAPLIN. McDonnell & Co. bought stock for me, and in addition to McDonnell & Co., Hendrickson & Co. bought stock for me; and I think I probably did more trading personally than anybody else did.

Senator GOLDSBOROUGH. Wasn't McDonnell one of the syndicate?

Mr. TAPLIN. Yes. No; I beg your pardon, Senator Goldsborough; I don't think he was a member of the syndicate.

Mr. PECORA. You gave us the name of McDonnell & Co. as owners of 9,350 shares.

Mr. TAPLIN. I do not think he was a member of that syndicate.

Mr. PECORA. He came in on some kind of an agreement something like Exhibit 49?

Mr. TAPLIN. Yes; he came in by agreement.

Mr. PECORA. Have you records of the trading that was done in the stock of the Pittsburgh & West Virginia Railway Co. on behalf of the syndicate or its members?

Mr. TAPLIN. Oh, absolutely. It must be on their books.

Mr. PECORA. Will you produce it?

Mr. TAPLIN (addressing Mr. Larson). Doesn't this include the purchases of the 109,000 shares?

Mr. LARSON. Yes.

Mr. TAPLIN. These were not trading purchases. You understand, Mr. Pecora, this stock was all bought in the stock market; and, just as I thought, Mr. Larson has included that and mixed it up with what you call trading, buying, and selling for profit. These are the purchases of the stock for the syndicate account, and here are the two accounts he has. He has one with McDonnell & Co. and one with Paine-Weber & Co.

What is the date of this, Mr. Larson? It says November 29. What year? Here is 1924, 1923.

Mr. PECORA. 1923 goes right through 1924.

Senator TOWNSEND. Those were all purchases.

Mr. TAPLIN. 1924-1926. Now I think you will find, Mr. Pecora, that most all of these purchases were the original stock purchases and

not trading accounts, if you will check the dates. If they were trading accounts, there would have to be some sales slips there. Are they sales as well as purchase slips or are they all purchase slips?

Mr. PECORA. They are both purchases and sales. Both purchases and sales, according to the slips you have given me, Mr. Taplin.

Mr. TAPLIN. Are there any sales in all that big bulk of those entire transactions in 1923 or 1924, or are they all purchases?

Mr. PECORA. Let me see. Can't you tell us from your own memory as the syndicate manager?

Mr. TAPLIN. I could not say what we did. That is the reason I brought the books all here, so as to be sure.

Mr. PECORA. Can't you tell us whether or not this syndicate maintained more or less active trading account during its life?

Mr. TAPLIN. I think very little trading, Mr. Pecora. He said there was not any trading after 1926 at all in the account. Here are the Paine-Weber purchases [handing documents to Mr. Pecora].

Senator TOWNSEND. They were all purchases and no sales?

Mr. TAPLIN. It was not a trading account. It was a purchase made for the purpose of selling at a profit, not a trading account.

Senator GOLDSBOROUGH. You mean a purchase outright and then not a resale?

Mr. TAPLIN. No. It was not a trading account, buying and selling account, to make profit buying and selling stock. It was purchased with the idea of selling it at a profit all together in one lump, as was done.

The CHAIRMAN. Did you talk with the B. & O. people in connection with that?

Mr. TAPLIN. No; I never talked to the B. & O. people about it, Senator Fletcher.

Mr. PECORA. Did you talk with the Van Sweringens about it?

Mr. TAPLIN. Yes.

Mr. PECORA. About the same time that you were having the conversations with the Pennsylvania Railroad officers?

Mr. TAPLIN. Yes; off and on over 3 or 4 years.

Mr. PECORA. When for the first time did anyone connected with the Pennsylvania Railroad Co. tell you that his company was interested in buying these shares from you and your associates?

Mr. TAPLIN. Well, at least as far back as 1925 or 1926.

Mr. PECORA. What did they say to you?

Mr. TAPLIN. Said they ought to own that railroad.

Mr. PECORA. And they were willing to buy the majority of its outstanding stock from you and your associates?

Mr. TAPLIN. We never could agree on a price.

Mr. PECORA. What price was discussed by you and what price by them?

Mr. TAPLIN. They never discussed any price. I discussed \$200, and they always said it was too high.

Mr. PECORA. They never quoted any price to you, never made any offer?

Mr. TAPLIN. No.

Mr. PECORA. When for the first time was any offer made to you?

Mr. TAPLIN. I guess the first definite time we ever got together was 1929 when I sold it.

Mr. PECORA. When did you sell it in 1929; as of what date was the sale effected?

Mr. TAPLIN. Sometime in September. I don't know the exact date.

Mr. PECORA. September 1929?

Mr. TAPLIN. Yes.

Mr. PECORA. Did you have any written agreement?

Mr. TAPLIN. No.

Mr. PECORA. Covering that sale?

Mr. TAPLIN. No, sir.

Mr. PECORA. Who did you make the sale to?

Mr. TAPLIN. I talked to General Atterbury, and I believe Judge Heiserman, with Mr. Lee.

Mr. PECORA. Was General Atterbury at that time connected with the Pennroad Corporation?

Mr. TAPLIN. Oh, I was dealing with him as the trustee of the Pennroad Corporation, not as the president of the Pennsylvania Railroad.

Mr. PECORA. Mr. Lee was then the president of the Pennroad Corporation?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. And what relationship did Judge Heiserman bear to the Pennroad Corporation?

Mr. TAPLIN. He was their counsel, I understood.

Mr. PECORA. When did you first take up negotiations with those gentlemen representing the Pennroad Corporation to sell to that corporation this stock of the Pittsburgh & West Virginia?

Mr. TAPLIN. Late in the spring; I would guess about May, possibly.

Mr. PECORA. Have you any written matter of any kind consisting of letters or agreements or memoranda that would throw any light on the course of these negotiations with the Pennroad Corporation?

Mr. TAPLIN. Not at all. None whatever, Mr. Pecora.

Mr. PECORA. They were all conducted by word of mouth?

Mr. TAPLIN. All word of mouth.

Mr. PECORA. Who took the initiative in connection with the transaction with the Pennroad Corporation, you or the Pennroad Corporation?

Mr. TAPLIN. I think I did.

Mr. PECORA. Were you a stockholder of the Pennroad Corporation at any time?

Mr. TAPLIN. No.

Mr. PECORA. Were any of your associates in the syndicate stockholders of the Pennroad Corporation at any time prior to the making of this sale?

Mr. TAPLIN. Not that I ever heard of.

Mr. PECORA. What price did you discuss with these gentlemen representing the Pennroad Corporation at the inception of your dealings and negotiations with them?

Mr. TAPLIN. At the inception—do you mean in May 1929?

Mr. PECORA. In May 1929 if that was the date.

Mr. TAPLIN. That is, the negotiations that led up to the sale?

Mr. PECORA. Yes.

Mr. TAPLIN. What price did I—

Mr. PECORA. Yes.

Mr. TAPLIN. I think I conceded that if I could not get \$200 I might take a little less.

Mr. PECORA. How much less?

Mr. TAPLIN. I don't think I said how much less until September 1929.

Mr. PECORA. What price did they quote to you?

Mr. TAPLIN. I don't think they ever made me an offer. I am very sure they never did.

Mr. PECORA. When did you finally agree with them on the price at which the stock was sold to the Pennroad Corporation?

Mr. TAPLIN. Sometime in September 1929.

Mr. PECORA. Have you a memorandum of the date?

Mr. TAPLIN. No, sir.

Mr. PECORA. Have you any recollection of the date?

Mr. TAPLIN. No. It did not make any particular impression on me as to the date in September. I know it was in September.

Mr. PECORA. How do you know it was in September?

Mr. TAPLIN. Because it was about a month or so prior to the time that the stock was delivered. I facilitated the delivery just as much as I reasonably could after I made the deal.

Mr. PECORA. Did you understand at the time you commenced these negotiations with the Pennroad Corporation that that corporation represented Pennsylvania Railroad Co. interests?

Mr. TAPLIN. Oh, certainly.

Mr. PECORA. When did you first have any formal business transactions with the Pennroad Corporation of any kind whatsoever?

Mr. TAPLIN. I think about June 1929. I had better look that up. I believe in June 1929.

Mr. PECORA. What was the nature of that transaction?

Mr. TAPLIN. I borrowed some money from them.

Mr. PECORA. Was that the first business transaction you ever had with them?

Mr. TAPLIN. First I ever had with them.

Mr. PECORA. How much did you borrow from them?

Mr. TAPLIN. I borrowed \$1,950,000.

Mr. PECORA. Did you negotiate that loan yourself?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. You used no broker or other intermediary?

Mr. TAPLIN. No. I got it direct.

Mr. PECORA. Whom did you negotiate that loan with?

Mr. TAPLIN. Mr. John County.

Mr. PECORA. He was then a director of the Pennroad Corporation?

Mr. TAPLIN. I think he was, as far as I know.

Mr. PECORA. And a friend of yours at that time?

Mr. TAPLIN. Yes.

Mr. PECORA. Had you previously discussed with Mr. County, who, I believe, you testified earlier was also vice president and a director of the Pennsylvania Railroad Co., the matter of the Pennsylvania Railroad Co. buying this control stock of the Pittsburgh & West Virginia Railway Co.?

Mr. TAPLIN. No; not in 1929, Mr. Pecora.

Mr. PECORA. Had you at any time prior to this loan transaction—

Mr. TAPLIN (interposing). Yes; I think—

Mr. PECORA (continuing). Had any such discussion with Mr. County?

Mr. TAPLIN. After the purchase of the Pittsburgh & West Virginia?

Mr. PECORA. Yes.

Mr. TAPLIN. I think I did in 1926 and 1927.

Mr. PECORA. 1926 and 1927. Did you understand that the Penn-road Corporation was a corporation engaged in the business, among other things, of lending money when you negotiated this loan in June 1929?

Mr. TAPLIN. They might if it was to their advantage to loan it for some purpose that was advantageous to them.

Mr. PECORA. How was this loan advantageous to them?

Mr. TAPLIN. That is quite a long story, Mr. Pecora; but I will endeavor to explain it.

Mr. PECORA. If you will, please.

Mr. TAPLIN. I also, in addition to the Pittsburgh & West Virginia, with some associates, owned a majority of the preferred and common stock of the Wheeling & Lake Erie Railroad.

Mr. PECORA. Were those associates the same individuals or were they represented among the individuals who constituted this syndicate?

Mr. TAPLIN. Yes; but to a much smaller extent.

Mr. PECORA. Have you their names?

Mr. TAPLIN. Oh, yes.

Mr. PECORA. Have you a list of them?

Mr. TAPLIN. No; I have no list of them, because it has nothing to do with this transaction. You did not ask me to bring anything except these papers. I am just trying to relate now how they were interested.

Mr. PECORA. Go ahead then.

Mr. TAPLIN. With a few other friends I owned a majority of the preferred and common stock of the Wheeling & Lake Erie Railroad, and there had been a big scrap on to get the control of that road. It was very vital to me to keep——

Mr. PECORA (interposing). Who were the participants in that scrap?

Mr. TAPLIN. The Van Sweringen interests and myself. They got the prior lien stock and I got the majority of the preferred and common stock. I did not want that majority of preferred and common broken.

When I was buying the Wheeling & Lake Erie stock a man came to see me by the name of Reynolds from Louisville, and he said that he had 32,500 shares of Wheeling & Lake Erie stock—I believe that was it; it was approximately that—which they owned, and they would like to make an agreement to tie their stock up with what I had and it would make a majority.

Mr. PECORA. How much of the stock did you and your associates have in Wheeling & Lake Erie then?

Mr. TAPLIN. Well, outside of this lot of 32,500 shares I had approximately 190 to 195 thousand shares.

Mr. PECORA. And that represented what proportion of the outstanding stock of that road?

Mr. TAPLIN. By adding these 32,500 it makes about 225,000 shares. There are 440,000 shares of common and preferred outstanding. So I figured it just gave me the edge by a few thousand shares by tying up his 32,500.

Mr. PECORA. That gave you control of more than 51 percent?

Mr. TAPLIN. Common and preferred stock only.

Mr. PECORA. Yes.

Mr. TAPLIN. I made an agreement with Reynolds. There were two brothers. I don't know whether I have all of the agreements here, but it seems to be the whole file. I made an agreement in which they tied their stock up with mine.

Mr. PECORA. What was the date of that agreement with the Reynolds Bros.?

Mr. TAPLIN. February 1, 1927.

Mr. PECORA. Now go ahead with your narration.

Mr. TAPLIN. Along about May or June, I don't know the exact date, Reynolds Bros. came to me and said this agreement was running out and they thought that they would sell their stock to the Van Sweringens.

Mr. PECORA. Along about May or June of what year?

Mr. TAPLIN. 1929. They thought they would sell this stock to the Van Sweringens, and I told them I thought they would not; that I had an agreement with them. They said the agreement had expired. Well, I—

Mr. PECORA (interposing). Will you produce the agreement you had with Reynolds Brothers?

Mr. TAPLIN. Yes. It is right here. Do you want that newspaper clipping that is attached to it [handing document to Mr. Pecora]?

Mr. PECORA. It is not part of the agreement, is it?

Mr. TAPLIN. No; it is not.

Mr. PECORA. We will see it, anyway.

Mr. TAPLIN. He does not want that. That is how they hooked me. I put that on for that reason. You don't want that clipping, Mr. Pecora.

(Mr. Pecora perused the document and handed the clipping back to Mr. Taplin.)

The CHAIRMAN. You were telling us they called on you and spoke about selling to the Van Sweringens, and you said you thought they would not. Now proceed with that.

Mr. TAPLIN. The result of it was that I had to buy their stock at their price to keep the control. Do you want me to continue, Mr. Pecora?

Mr. PECORA. I just want to read this for a moment. [After perusing document further.] Now, the agreement that you entered into with the Reynolds brothers is dated February 1, 1927. This is a copy of it?

Mr. TAPLIN. Yes, sir. Is it signed?

Mr. PECORA. Is this a true and correct copy? This is not signed at all. It is a blank copy.

Mr. TAPLIN. That is a true and correct copy or it would not be in my files.

Mr. PECORA. I offer it in evidence and ask that it be spread on the record.

The CHAIRMAN. Let it be admitted and entered in the record.

Mr. TAPLIN. It is the only one I have. So I guess it is a copy.

(The agreement, dated February 1, 1927, between Frank E. Taplin and Clarence Reynolds, was received in evidence, and appears in the record in full, as follows:)

COMMITTEE EXHIBIT 50

Agreement made February 1, 1927, between Frank E. Taplin, of Cleveland, Ohio, hereinafter called the "buyer", party of the first part, and Clarence Reynolds, of Louisville, Ky., on behalf of himself and his associates, hereinafter called the "seller", party of the second part, witnesseth:

Whereas the buyer now owns and controls large amount of the common and preferred stocks of the Wheeling & Lake Erie Railway Co.; and

Whereas the seller and his said associates now own and control upwards of 30,000 shares of common stock and upwards of 5,000 shares of preferred stock of said Wheeling & Lake Erie Railway Co.; and

Whereas the buyer wishes to associate the seller and the seller's associates with himself in all matters involving action on the part of the buyer as a stockholder in said Wheeling & Lake Erie Railway Co.: Now, therefore, this agreement witnesseth:

1. The seller, on behalf of himself and his associates agrees to cooperate with the buyer and to support the plans of the buyer with respect to voting stock of the said Wheeling & Lake Erie Railway Co. to the extent of not less than 30,000 shares of common, nor less than 5,000 shares of preferred stock. It being the purpose of this clause that the seller and his associates shall make available to the buyer said minimum number of shares for all intents and purposes as if the buyer had the actual voting rights of said stock for the period of this agreement.

2. In consideration of the performance by the seller of the foregoing agreement, the buyer agrees that he will at the option of the seller and his associates purchase 30,000 shares of said common stock and 5,000 shares of said preferred stock at the price of \$50 per share on the 1st day of February 1928, provided the seller shall give notice in writing to the buyer of its election to exercise this option 60 days prior to said date.

3. In consideration of the foregoing agreement on the part of the seller, the buyer further agrees that, if he shall during the period of this contract consummate any plan of sale or reorganization involving the buyer's shares of said Wheeling & Lake Erie Railway Co. stock, he will offer to the seller the opportunity to participate in such sale or reorganization on the same terms as the buyer.

4. This contract shall cover the period of 12 months beginning February 1, 1927.

In witness whereof the parties hereto have signed this agreement in four counterparts at New York City, N.Y., this 1st day of February 1927.

In presence of:

Mr. PECORA. You may continue now.

Mr. TAPLIN. To make a long story short, I had to buy their stock for \$3,900,000 or let it go the other way. So I agreed to buy it.

Mr. PECORA. And did you buy it?

Mr. TAPLIN. Oh, yes; I bought it.

Mr. PECORA. When?

Mr. TAPLIN. June 1929.

Mr. PECORA. That was the 30,000 shares?

Mr. TAPLIN. Thirty-two thousand five hundred.

Mr. PECORA. Of the common, and 5,000 shares of the preferred?

Mr. TAPLIN. I bought 32,500 shares.

Mr. PECORA. Of the common?

Mr. TAPLIN. No; some preferred and some common.

The CHAIRMAN. You bought it at how much a share?

Mr. TAPLIN. \$120 a share; 32,500 shares, \$3,900,000. I agreed to pay them, not having any money, one half cash and a note for the other half.

Mr. PECORA. When did you make that agreement with the Reynolds brothers to buy that stock?

Mr. TAPLIN. Here in an agreement signed by myself and Mr. Reynolds dated—no; that is an extension. June 20, is that correct? Nineteenth day of June 1929.

Mr. PECORA. Nineteenth day of June 1929. Have you got the agreement with you, or a copy of it?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. Will you produce it, please, for the record?

(Mr. Taplin produced the document as requested.)

Mr. PECORA. I offer the agreement produced by the witness in evidence and ask it be spread on the record.

The CHAIRMAN. Let it be admitted and entered in the record.

(The agreement dated June 19, 1929, between C. K. Reynolds and Frank E. Taplin, was received in evidence marked "Committee Exhibit No. 51", and is copied in the record in full as follows:)

COMMITTEE EXHIBIT 51

This agreement made this 19th day of June 1929, by and between C. K. Reynolds and Frank E. Taplin

Witnesseth: That for and in consideration of \$1, receipt of which is hereby acknowledged by each of the parties hereto, C. K. Reynolds hereby agrees to sell and Frank E. Taplin hereby agrees to purchase 11,550 shares, more or less, of 6 percent preferred stock of the Wheeling & Lake Erie Railway Co., and 20,950 shares, more or less, of common stock of the Wheeling & Lake Erie Railway, at the price of \$120 a share, payable as follows: One half of said amount to be paid in cash upon receipt of said stock and one half is to be evidenced by a negotiable promissory note of even date with this agreement made by Frank E. Taplin and guaranteed by the Pittsburgh & West Virginia Railway Co., payable to C. K. Reynolds 12 months after date, bearing interest at 6 percent, which said note is to be secured by the deposit by Frank E. Taplin with C. K. Reynolds of 20,000 shares of said stock sold to Frank E. Taplin under this agreement. It is understood that Frank E. Taplin may anticipate the payment of said note at any time and receive the stock held as collateral upon payment thereof.

Witness the following signatures and seals:

[SEAL]

(Signed) FRANK E. TAPLIN.

[SEAL]

(Signed) C. K. REYNOLDS.

Mr. PECORA. Now, with one hundred and ninety thousand and odd shares of the Wheeling & Lake Erie Railway Co. which you have referred to, owned at that time by you and the members of this syndicate—

Mr. TAPLIN (interposing.) No; owned by me and a few other individuals not in that syndicate.

Mr. PECORA. Were any of them in the syndicate?

Mr. TAPLIN. Well, you understand it had nothing to do with the Pittsburgh & West Virginia.

Mr. PECORA. It was a separate transaction?

Mr. TAPLIN. Oh, entirely separate. No connection. There may have been two or three that were syndicate members.

Mr. PECORA. Can you tell the committee the average cost to you and your associates of the acquisition of those one hundred and

ninety thousand and odd shares of Wheeling & Lake Erie Railway Co. stock?

Mr. TAPLIN. I could only guess at it.

Mr. PECORA. What is your best guess?

Mr. TAPLIN. \$65.

Mr. PECORA. Was it purchased in the open market from time to time?

Mr. TAPLIN. All of it.

Mr. PECORA. Through what brokers?

Mr. TAPLIN. Well, I guess McDonnell & Co. and Hendrickson & Co.

Mr. PECORA. All right. Now will you go ahead with your narrative?

Mr. TAPLIN. We made this agreement and I purchased their stock.

Mr. PECORA. Well.

Mr. TAPLIN. Agreeing to give them half in cash, half in a note for 1 year. I did not have any cash, so I had to borrow the cash.

Mr. PECORA. You borrowed it from the Pennroad Corporation?

Mr. TAPLIN. I knew the Pennsylvania and Pennroad people would not want the Van Sweringens to get the Wheeling & Lake Erie stock. I told them just what Reynolds was doing with me. It would be a big accommodation if they would loan me some money for a year, with which I would buy the stock.

Mr. PECORA. How was it going to be beneficial to the interests of the Pennroad Corporation to have you buy stock of the Wheeling & Lake Erie Railroad at the time this loan was made?

Mr. TAPLIN. I don't guess they wanted the Van Sweringen people to get control of the Wheeling—I imagine; I don't know. I would not, if I had been in their place.

Mr. PECORA. Up to that time, up to the time of the negotiation of this loan, you had not reached any agreement or understanding with the Pennroad Corporation that it would buy from you and your associates the stock that you owed in the Pittsburgh & West Virginia Railroad?

Mr. TAPLIN. Oh, no; it was an entirely separate deal; no connection between the two. That came later in the fall.

Mr. PECORA. I know that. Did you tell them, when you negotiated this loan of \$1,950,000, that you wanted the loan to enable you to buy these 30-odd thousand shares of Wheeling & Lake Erie stock from the Reynolds brothers?

Mr. TAPLIN. I told Mr. County all about what it was for, and he understood it explicitly.

Mr. PECORA. Did you have then any agreement, either expressed or implied, with the Pennroad Corporation that you and your associates who bought this Wheeling & Lake Erie Railroad Co. stock would turn it over to the Pennroad Corporation?

Mr. TAPLIN. No. I have it today. We never turned it over to the Pennroad. I own the stock. I paid this loan. I own the stock now.

[After reading this testimony, I want to straighten out what might leave an erroneous impression. When I paid the loan from the Pennroad Corporation, I did it as trustee for one of my children, which I considered the same thing on account of my power of attorney to act for them.]

Mr. PECORA. That was an interest-bearing loan, of course?

Mr. TAPLIN. Sure.

Mr. PECORA. Six percent per annum?

Mr. TAPLIN. Mr. County never loaned any money for less than 6 percent. I have a copy of the note here.

Mr. PECORA. Mr. Lee, may I ask you if you will let me have the file covering this transaction that you had here last Friday and which you showed me after the hearing?

Mr. TAPLIN. It is 6 percent.

Mr. PECORA. Payable quarterly?

Mr. TAPLIN. Quarterly.

The CHAIRMAN. You borrowed the money from the Pennroad Corporation and gave them a note and put up as collateral this stock?

Mr. TAPLIN. No; I only paid Mr. Reynolds for half of this money. I bought the 32,500 shares, and he insisted on keeping 20,000 shares—not half of the stock he sold me, but 20,000 as the security for the other half of the loan. So I only had 12,500 shares which I could put up, and Mr. County would not take that, and I had to dig up some more stock as collateral and give him in addition to the 12,500. A record of the whole transaction is here. In addition I gave the Pennroad Corporation 8,500 shares belonging to the syndicate and 7,000 shares of this 8,500 which had been taken down from the Chase Bank, and we took down 2,000 shares from the Union Trust Co.; and that evidently is 10,500 shares of the 12,500, and I assume that he must have gotten almost 33,000 shares of stock as collateral; 12,500 shares of Wheeling & Lake Erie and 8,500 shares of Pittsburgh & West Virginia Railway stock put up as collateral on my note to the Pennroad Corporation.

The CHAIRMAN. Then you gave the Reynolds brothers a note for the other half?

Mr. TAPLIN. Yes; I have a copy of the note here.

The CHAIRMAN. And as collateral to that went the 20,000 shares?

Mr. TAPLIN. Yes, sir. Here is a copy of the note I gave the Reynolds brothers [indicating].

Mr. PECORA. For 1 year?

Mr. TAPLIN. "One year after date, or before, I promise to pay"—here is a copy of it [handing a paper to the chairman].

Mr. PECORA. I offer this copy of the note produced by the witness in evidence and ask that it be spread on the record.

The CHAIRMAN. That may be done.

(Copy of note referred to and produced by the witness, dated New York, N.Y., June 20, 1929, was received in evidence, marked "Committee Exhibit No. 52", and is here printed in full as follows:)

COMMITTEE EXHIBIT No. 52

Copy.

\$1,950,000

NEW YORK, N.Y., June 20, 1929.

One year after date, or before, I promise to pay to the order of C. K. Reynolds one million nine hundred and fifty thousand dollars and interest at 6 per cent per annum from date hereof, payable semiannually at Bankers Trust Co., 16 Wall St., New York City, N. Y.

This note is secured by the deposit of 20,000 shares of value received preferred and common stock of the Wheeling & Lake Erie Railway Co.

No. _____ Due _____

F. E. TAPLIN.

Mr. PECORA. Have you a copy of the collateral note you gave to the Pennroad Corporation for the \$1,950,000 loan?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. Will you produce it, please?

Mr. TAPLIN. Here is a copy of the note I gave to the Pennroad [handing a paper to Mr. Pecora].

Mr. PECORA. I offer it in evidence and ask that it be spread on the record.

The CHAIRMAN. Let it be admitted.

(The note referred to, dated New York, June 25, 1929, was received in evidence, marked "Committee Exhibit No. 53", and is here printed in full, as follows:)

COMMITTEE EXHIBIT No. 53

Stock note 278, \$1,950,000

NEW YORK, June 25, 1929.

On or before June 25, 1930, which is 1 year after date, for value received I promise to pay to the order of the Pennroad Corporation, at Philadelphia, Pa., \$1,950,000 with interest at 6 percent per annum, payable quarterly, having deposited with the holder hereof as collateral security for payment of this or any other liability or liabilities of mine to said corporation, due or to become due, or that may be hereafter contracted, the following property, viz, 12,500 shares common stock and preferred stock, amount of each class not specified, of the Wheeling & Lake Erie Railway Co., 8,500 shares common stock of the Pittsburgh & West Virginia Railway Co. The market value of which is now \$——, with the right on the part of said corporation from time to time to demand such additional collateral security as herein provided should the market value thereof decline, and upon my failure to comply with any such demand, this obligation shall forthwith become due, with full power and authority to said corporation or its assigns in case of such default or of the nonpayment of any of the liabilities above mentioned at maturity, to sell, assign, and deliver the whole, or any part of such securities or any substitutes therefor or additions thereto at any broker's board or at public or private sale, at their option, at any time or times thereafter without advertisement or notice to me and with the right on its part to become purchasers thereof at such sale or sales, freed and discharged of any equity of redemption.

And after deducting all legal or other costs and expenses for collection, sale, and delivery, to apply the residue of the proceeds of such sale or sales, so made, to pay any, either, or all of said liabilities, as said corporation shall deem proper, returning the overplus to the undersigned; and I will still remain liable for any amount so unpaid. It being understood that the Wheeling & Lake Erie stock is to be valued at \$120 per share at all times and that a sufficient number of shares of Pittsburgh & West Virginia Railway Co. is to be kept in the hands of the corporation to maintain the total market value of the collateral at 85 percent in excess of the amount of the loan.

The CHAIRMAN. Are they both dated the same?

Mr. TAPLIN. The note to Reynolds is dated June 20 and the date of the Pennroad note is June 25.

Mr. PECORA. 1929?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. Did you pay the interest for the first quarter on this loan negotiated from the Pennroad Corporation?

Mr. TAPLIN. Absolutely. It says, "payable quarterly."

Mr. PECORA. Did you pay it when it fell due in September?

Mr. TAPLIN. I certainly did. I was afraid, if I didn't, they might call the note.

Mr. PECORA. Was there any understanding between you and the Pennroad Corporation with reference to the sale by you and your

syndicate of the stock of the Pittsburgh & West Virginia Railway Co. with respect to the Wheeling & Lake Erie Railroad?

Mr. TAPLIN. No; they had no connection.

Mr. PECORA. There was no connection at all between the two?

Mr. TAPLIN. No.

Mr. PECORA. Was there not some understanding at the time of the acquisition by the Pennroad Corporation of the syndicate shares of the Pittsburgh & West Virginia Railway Co. that there would be in the treasury of the latter company a certain amount of stock of the Wheeling & Lake Erie Railroad Co.?

Mr. TAPLIN. There was 75,000 shares of Wheeling & Lake Erie Railroad stock, and is today.

Mr. PECORA. Was there an understanding between you and the Pennroad Corporation to that effect?

Mr. TAPLIN. Oh, yes; because they paid extra for that Wheeling stock that was in the treasury. It had to be there, because they paid extra money for that.

Mr. PECORA. Was there that amount of stock of the Wheeling & Lake Erie Railroad Co. in the treasury of the Pittsburgh & West Virginia Railway Co.?

Mr. TAPLIN. Yes; 75,000 shares is my recollection. It had been there some time.

Maybe I have not clarified this. The one hundred and ninety and odd thousand shares of Wheeling & Lake Erie included the 75,000 which I controlled at that time. That was part of the one hundred and ninety and odd thousand shares.

Senator STEIWER. When you say they paid extra for it, do you mean over and above the price per share which they paid you?

Mr. TAPLIN. Oh, no. I mean, in figuring out the value of the stock I always contended that this ownership of 75,000 shares of Wheeling & Lake Erie Railroad stock, which was worth considerably over \$100 a share, should be given consideration at the rate of so much a share for Pittsburgh & West Virginia stock. For instance, 75,000 shares at \$100 would be \$7,500,000. Three hundred thousand shares of P. & W. V. stock outstanding would make that equivalent to about \$25 a share extra for the Pittsburgh & West Virginia stock.

Senator STEIWER. In calculating the value of the Pittsburgh & West Virginia you just took this into account as you would any other asset of the corporation; is not that true?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. The fact that the Pittsburgh & West Virginia Railway Co. had in its treasury 75,000 shares was reflected in the market value of the Pittsburgh & West Virginia Railway stock, was it not?

Mr. TAPLIN. I don't know that the people that traded in the market ever knew that they had it, so I have no way of knowing whether it was reflected or not. But I always in my mind figured it was worth that additional amount through the ownership of the Wheeling stock.

Mr. PECORA. In annual reports made to its stockholders by the Pittsburgh & West Virginia Railway Co., was mention made of the ownership of this stock of the Wheeling & Lake Erie Railroad Co.?

Mr. TAPLIN. Certainly. It had to be. But I don't think that the average trader ever looks at an annual report.

Mr. PECORA. You think he buys stock without seeking to acquaint himself with the condition of the company?

Mr. TAPLIN. Yes.

Mr. PECORA. In other words, he buys blindly?

Mr. TAPLIN. Yes; that is true.

Mr. PECORA. It is the first time, to my knowledge, that any witness has admitted that to this committee.

Mr. TAPLIN. That is my personal opinion.

Mr. PECORA. I think you are right.

What was the immediate occasion for you and your associates selling 222,930 shares to the Pennroad Corporation in the fall of 1929? What factor or situation then existed which prompted you to make that sale?

Mr. TAPLIN. The general economic condition of affairs, which was not very satisfactory to me.

Mr. PECORA. What do you mean by that?

Mr. TAPLIN. If you had fellows, certain bankers, and other people gunning for you for about 5 years and you saw dark clouds coming up, you would get your sail down and get under cover. That is what I did.

Mr. PECORA. In other words, you saw financial clouds lowering in the skies?

Mr. TAPLIN. I don't claim I was any prophet, but I just would rather be in snug shape than to be carrying so much stock in the fall of 1929.

Mr. PECORA. Was that the sentiment also of your various syndicate participants?

Mr. TAPLIN. I didn't ask them. I was syndicate manager and they had to take what I got for the stock.

Mr. PECORA. Did you have full authority to act for the syndicate without their advice or consent?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. You made no report to the syndicate from time to time in the course of your negotiations for the sale of that stock?

Mr. TAPLIN. No, sir. It was never mentioned. Nobody in the syndicate even had a breath of what I was doing—nobody. Well, I will take that back—my counsel.

Mr. PECORA. Who was that?

Mr. TAPLIN. Mr. C. F. Taplin.

Mr. PECORA. Your brother?

Mr. TAPLIN. Yes. When he came back from Europe in September; he was the first person I told.

Mr. PECORA. Is it a fact that only about in September of 1929 you became especially desirous of selling this Pittsburgh & West Virginia Railway Co. stock to the Pennroad Corporation because you saw an impending financial storm?

Mr. TAPLIN. I had a strong desire to want to sell it.

Mr. PECORA. For that reason?

Mr. TAPLIN. That had a lot to do with it.

Mr. PECORA. What else had anything to do with your decision?

Mr. TAPLIN. Getting the money, aside from the storm.

The CHAIRMAN. You had to get some money to take up this note?

Mr. TAPLIN. Pardon.

The CHAIRMAN. It was the necessity for getting money to take up that note?

Mr. TAPLIN. Oh, that note was not due for a year. It wasn't due until the following year. But I was looking ahead.

Mr. PECORA. What was the market price of the stock of the Pittsburgh & West Virginia Railway in September 1929? Give us the range.

Mr. TAPLIN. I never looked the range up. It was around \$140. I read that in the newspaper. That is all I know about it. I never took the trouble to look it up.

Mr. PECORA. That was the high?

Mr. TAPLIN. I think so—\$140.

Mr. PECORA. Was that discussed in any conversation you had with officials of the Pennroad Corporation?

Mr. TAPLIN. No.

Mr. PECORA. How much did the Pennroad Corporation actually pay you for this stock of the Pittsburgh & West Virginia Railway Co.?

Mr. TAPLIN. \$170 per share.

Mr. PECORA. With what officers did you have the final discussion at which that price was agreed upon?

Mr. TAPLIN. General Atterbury acted as trustee to the Pennroad.

Mr. PECORA. Anyone else?

Mr. TAPLIN. I don't think Judge Heiserman was there that day.

Mr. PECORA. Anyone else?

Mr. TAPLIN. No.

Mr. PECORA. Mr. Lee?

Mr. TAPLIN. Not that day. You asked me as to the final negotiation.

Mr. PECORA. Yes.

Mr. TAPLIN. He talked to Mr. Lee about it—I know that—that day.

Mr. PECORA. Was General Atterbury a director of the Pennroad Corporation at that time?

Mr. TAPLIN. Yes.

Mr. PECORA. Mr. Lee was president of it?

Mr. TAPLIN. Yes.

Mr. PECORA. Why did you have your conversations with General Atterbury instead of with Mr. Lee, the executive head of the corporation?

Mr. TAPLIN. Because at railroad meetings I would see General Atterbury all the time, and didn't have occasion to come in contact with Mr. Lee.

Mr. PECORA. You were seeking to sell it to the Pennroad Corporation.

Mr. TAPLIN. I was not seeking to run after them about it.

Mr. PECORA. You did run after them for a period of about 3 years before the sale was actually consummated.

Mr. TAPLIN. Oh, no.

Mr. PECORA. You went to see them for a period of 3 years.

Mr. TAPLIN. I saw them every month. I was always talking to General Atterbury, Mr. County, and all the officials of these roads, and this would come up. Sometimes it would and sometimes it would not.

Mr. PECORA. Did you ever tell General Atterbury or any other official of the Pennsylvania Railroad Co. that you also were seeking to dispose of the stock of the Pittsburgh & West Virginia Railway Co. to the other three trunk systems?

Mr. TAPLIN. He knew that. I suppose he did. He keeps pretty well posted.

Mr. PECORA. Did you ever tell him?

Mr. TAPLIN. No; I don't think so.

Mr. PECORA. Did he ever indicate to you that he knew it?

Mr. TAPLIN. No.

Mr. PECORA. Was anything said to you at the time of the negotiation in June 1929 for this loan of \$1,950,000 by the Pennroad Corporation about your eventually selling the Pittsburgh & West Virginia Railway Co. stock to the Pennroad Corporation?

Mr. TAPLIN. No, sir.

Mr. PECORA. At that time, for all that the Pennroad Corporation knew, you might have acquired this majority control of the Wheeling & Lake Erie Railroad with a view of selling it to some competitor of the Pennsylvania Railroad Co.?

Mr. TAPLIN. Well, I don't think I could have done that very ethically.

Mr. PECORA. What would have prevented you?

Mr. TAPLIN. I don't suppose anything would have prevented me, but I don't think I could have done that very ethically.

Mr. PECORA. You were willing to sell your Pittsburgh & West Virginia Railroad stock to any system other than the Pennsylvania Railroad Co. that would have paid you your price?

Mr. TAPLIN. No, sir; I didn't say that I was willing to. I was not.

Mr. PECORA. Why not?

Mr. TAPLIN. I say I could have gotten more money for the Pittsburgh & West Virginia than I did get from the Pennroad.

Mr. PECORA. Why were you not willing to sell to anyone but the Pennsylvania Railroad or interests favorable to it?

Mr. TAPLIN. It is pretty hard to tell sometime why you are willing to trade with some people and not with others.

Mr. PECORA. You had indicated a willingness to trade with the New York Central and the Baltimore & Ohio—

Mr. TAPLIN. I said, we discussed it.

Mr. PECORA. You discussed a possible sale to them of your stock?

Mr. TAPLIN. But we never made it.

Mr. PECORA. You didn't make any with the Pennroad Corporation until the fall of 1929, although your discussions commenced in 1926, with the Pennsylvania Railroad Co.

Mr. TAPLIN. Well, I will say to you frankly, when we got right down to getting control of the Pittsburgh & West Virginia Railroad I preferred to deal with the Pennsylvania Railroad.

Mr. PECORA. For what reasons?

Mr. TAPLIN. Personal reasons.

Mr. PECORA. What were they? You were not putting personal reasons ahead of the interests of your syndicate participants, were you?

Mr. TAPLIN. You can't help but let personal reasons control you to a certain extent.

Mr. PECORA. What were those personal reasons?

Mr. TAPLIN. Friendship with a great many officials of the Pennsylvania Railroad, of many years' standing.

Mr. PECORA. You were the manager of this syndicate which owned approximately two thirds or more of the total outstanding stock of the Pittsburgh & West Virginia Railway Co., were you not?

Mr. TAPLIN. Yes.

Mr. PECORA. You had full power to act?

Mr. TAPLIN. That is right.

Mr. PECORA. Without their consent, to sell the stock on any terms agreeable to you in their behalf?

Mr. TAPLIN. That is right.

Mr. PECORA. Didn't you consider you owed the participants in your syndicate the duty of making as favorable a deal for the sale of their stock as you possibly could?

Mr. TAPLIN. I think they all thought that I made a very favorable deal.

Mr. PECORA. Didn't you consider that you owed them the duty of making as favorable a deal as you possibly could in the sale of their stock?

Mr. TAPLIN. I don't think you can measure your entire duty in terms of cash.

Mr. PECORA. No; but I was asking you whether you owed any such duty to them.

Mr. TAPLIN. I always lean over backward to see that my participants in any syndicate get a square deal, and I always see that they do get a square deal, and I consider they did in this case. My judgment was controlling that, that was the best thing to do. I didn't intend to say that I had a definite offer of more money. I said I thought I had reason to believe I could get more.

Mr. PECORA. From whom?

Mr. TAPLIN. Maybe the Van Sweringens who wanted to get an entrance into Pittsburgh very badly, and didn't have one.

Mr. PECORA. One of the syndicate participants was an attorney for the Van Sweringens, I believe you said?

Mr. TAPLIN. That was a personal relationship between Mr. Ginn and myself. I don't believe they ever knew that he had any interest in that. I question it very much. It is a personal matter between him and me; nothing about the relationship as their counsel. You can very readily see that his stock didn't amount to anything one way or the other. He only had a thousand shares of stock, and it didn't make any difference whether he kept it or did not keep it.

The CHAIRMAN. Have you still any stock in the Pittsburgh & West Virginia Ry. Co.?

Mr. TAPLIN. No, sir; I sold my stock.

The CHAIRMAN. You were not influenced by any possible advantage to the Wheeling road by reason of its connection with the Pennsylvania over its connection with any other road? In other words, was there any advantage coming to your road by reason of the connection with the Pennsylvania Railroad instead of by reason of a connection with the other?

Mr. TAPLIN. No; I wouldn't say there was any advantage.

But Mr. Pecora asked me one question that I didn't really have time to answer—about the Wheeling & Lake Erie Railroad. I didn't

think it would be quite ethical to sell the Pittsburgh & West Virginia to one crowd and then turn around with the Wheeling, connected right up with it, and sell that to a different crowd. It wouldn't taste just right.

Mr. PECORA. Did you make that attitude known to the officials of the Pennroad Corporation?

Mr. TAPLIN. They didn't ask me to buy the Wheeling & Lake Erie Railroad.

Mr. PECORA. No; but did you make that attitude of yours known to the officials of the Pennroad Corporation?

Mr. TAPLIN. Which attitude?

Mr. PECORA. With regard to the Wheeling & Lake Erie—the one you have just expressed.

Mr. TAPLIN. I think they understood that.

Mr. PECORA. Did you make it known to them?

Mr. TAPLIN. I think so.

Mr. PECORA. What were the terms of payment for this block of two hundred and twenty-two thousand and odd shares?

Mr. TAPLIN. Cash.

Mr. PECORA. When was payment to be made—at the time the firm agreement to buy the stock was entered into?

Mr. TAPLIN. The exact date was not specific, but it was understood it was to be paid as promptly as the stock could be delivered, within a reasonable time. No specific date was set. I think it was paid for, a big part of it, the latter part of October.

Mr. PECORA. 1929?

Mr. TAPLIN. Yes; about 30 days.

The CHAIRMAN. That money all came from the public, rising from the sale of the shares or trust certificates of the Pennroad?

Mr. TAPLIN. When I made the sale to them I wasn't really concerned with where they got the money from.

The CHAIRMAN. I understand that.

Mr. TAPLIN. I had my suspicions afterward where the money came from, which I believe were not far from the facts, by selling Pennroad stock. But I had no knowledge at that time how they were going to pay for it or where the money was coming from.

Mr. PECORA. Why was it that there never was a written agreement of any kind between you as the syndicate manager and the Pennroad Corporation, covering the terms and provisions of this purchase by the latter corporation of two hundred and twenty-two thousand and odd shares?

Mr. TAPLIN. I am not surprised that you ask me that question, Mr. Pecora, because a great many other people have expressed surprise and amazement that I would make a deal to sell something for that amount of money and not have an agreement signed. The only answer I can give you is what I have given them. I would not have done it with everybody, but I had absolute confidence in the integrity of the man that I made the deal with.

Mr. PECORA. Who was that?

Mr. TAPLIN. Gen. W. W. Atterbury.

Mr. PECORA. Is that the only reason why no writing was resorted to evidencing this transaction?

Mr. TAPLIN. I think if it had been with anybody else I would have wanted it in writing.

Mr. PECORA. Did he offer to put it in writing?

Mr. TAPLIN. I didn't ask him.

Mr. PECORA. And he never offered to?

Mr. TAPLIN. No. He took my word that I would give him the stock, and I took his word that he would give me the money.

Mr. PECORA. When was the first payment made? Do you remember the date?

Mr. TAPLIN. It was the very last few days of October.

Mr. PECORA. Was it before or after the 24th day of October 1929?

Mr. TAPLIN. My impression is it was the 28th or 29th, Mr. Pecora. I have no record of it here. I didn't get a payment made direct in cash, you see. I elected Mr. James McDonnell as pay-off man for me. Do you see what I mean? I didn't handle any money.

Mr. PECORA. Why did you do that?

Mr. TAPLIN. Because it was necessary to get this stock accumulated from various people at various places.

Mr. PECORA. Had not that been done some time prior to September or October of 1929?

Mr. TAPLIN. No. These people had this stock. The syndicate had some and it owed a little money on it, and other people had some. You can very readily appreciate that somebody had to accumulate this stock in a package and deliver it for the money, and it took quite a bit of money, ten to twelve million dollars cash, to pay for that stock and hold it until the Pennroad people paid me for it. In the interim it might have been 2 weeks, or some of it 2 days. You understand how that would be.

Mr. PECORA. Was the stock under option to you in the syndicate?

Mr. TAPLIN. Stock under option?

Mr. PECORA. Yes.

Mr. TAPLIN. Why, we owned it.

Mr. PECORA. You owned it?

Mr. TAPLIN. Yes; except those shares which were under agreements.

Mr. PECORA. You said it took 10 to 12 million dollars to pay for the stock.

Mr. TAPLIN. All right. Say this fellow is delivering his stock, and he owed money on it, then he had to get money enough to pay what he owed on it.

Mr. PECORA. When you say "owned" you mean controlled?

Mr. TAPLIN. Oh, no.

Mr. PECORA. Owned but not fully paid for by the syndicate managers?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. Not fully paid for?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. There was still something like 10 to 12 million dollars unpaid?

Mr. TAPLIN. Yes, sir. What the syndicate paid to the different people, it took 10 to 12 million dollars to use on this stock, and I could not find a banker who would have thought of trusting me for 10 to 12 million dollars. He might think that I would walk out on

him and leave the stock on his hands. James McDonnell took it and paid the money on it. When he delivered the stock he got the money.

Mr. PECORA. Is that the McDonnell of the firm of McDonnell & Co., stock brokers, of New York City?

Mr. TAPLIN. Yes, sir; he is the head of the firm. He got the money from the bank that they specified when they got the stock. I gave him a list of the stock to be delivered, by different names, showing it would take that much money to give to those people \$170 a share for their stock.

Mr. PECORA. What bank was used by Mr. McDonnell?

Mr. TAPLIN. He didn't use any bank. He went to the bank specified by the Pennroad Corporation to get the money when he delivered the stock.

Mr. PECORA. What bank was it?

Mr. TAPLIN. Oh, I don't know. It was the Empire Trust Co. of New York, I think. You see, I kept in the background, so to speak.

Mr. PECORA. How much was paid on account of this purchase of two hundred and twenty-two thousand and odd shares of stock as an initial payment?

Mr. TAPLIN. On the initial payment?

Mr. PECORA. Yes.

Mr. TAPLIN. Oh, I cannot tell you how it was divided. First, he got one block in, and I think he must have got maybe 140,000 or 150,000 shares. Then in 2 or 3 or 4 weeks later, or maybe 2 or 3 weeks later, he got another 10,000 shares from the different people I specified. I think altogether there were four lots of stock that totaled this 222,980 shares.

Mr. PECORA. At any time in connection with this stock transaction did General Atterbury give you the reasons why he wanted the Pennroad Corporation, or why he was willing to have the Pennroad Corporation buy this large block of stock from you and your associates?

Mr. TAPLIN. No. I did not ask him why. He just said he would take it.

The CHAIRMAN. How much did you have to pay McDonnell for those services?

Mr. TAPLIN. I am happy to see that you asked me that question, because I did not pay him a nickel for all the risk he took, Senator Fletcher. He owned about 3,000 shares of the stock, on which he got the same profit, but he didn't charge me a 5-cent piece for putting all that money into it.

Mr. PECORA. Did this transaction involve any other consideration than the mere payment for the stock at \$170 a share by the Pennroad Corporation?

Mr. TAPLIN. Did it involve any other consideration?

Mr. PECORA. Yes; or conditions.

Mr. TAPLIN. On their part?

Mr. PECORA. Yes.

Mr. TAPLIN. Or on my part?

Mr. PECORA. Yes.

Mr. TAPLIN. Well, it was pretty distinctly understood that I agreed to continue to run the property. That was the only stipulation in it.

Mr. PECORA. That is, you agreed to continue to run the Pittsburgh & West Virginia Railway Co. as president?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. That was a specific understanding between you?

Mr. TAPLIN. Yes.

Mr. PECORA. Was there any other understanding involved in the transaction or included in it?

Mr. TAPLIN. Yes. I think there was another understanding.

Mr. PECORA. What was it?

Mr. TAPLIN. The understanding that I would not do anything with my Wheeling & Lake Erie stock individually outside of those 75,000 shares; or that the railway company could not do anything with theirs except by joint agreement.

Mr. PECORA. Except by joint agreement with whom?

Mr. TAPLIN. With each other.

Mr. PECORA. Who was the other party?

Mr. TAPLIN. The Pennroad.

Mr. PECORA. The Pennroad Corporation?

Mr. TAPLIN. Yes, sir; they owned it.

Mr. PECORA. That was all the understanding you had with General Atterbury acting for the Pennroad Corporation, was it?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. Now, when was delivery of those 222,930 shares of Pittsburgh & West Virginia Railway Co. stock completed to the Pennroad Corporation?

Mr. TAPLIN. I think about the 1st of January, or maybe the 2d of January of 1930. That is just a recollection, but I am not far wrong on it. It might have been the first week in January.

Mr. PECORA. And at that time final payment was made?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. The total purchase price amounted to over 37 million dollars, didn't it?

Mr. TAPLIN. It amounted to \$170 a share, which is about 38 million dollars, I believe.

Mr. PECORA. It amounted to around 38 million dollars?

Mr. TAPLIN. Yes, sir.

The CHAIRMAN. Was any agreement reached as to the salary or compensation that you would receive?

Mr. TAPLIN. None whatever.

Mr. PECORA. Did you continue to receive the salary as president of the Pittsburgh & West Virginia Railway Co. that you had received prior to the sale of this stock?

Mr. TAPLIN. No; because soon after I sold the stock business got bad and we cut everybody's salary 10 percent first, and then we cut 10 percent more, and so on. Nothing was said about salary at all.

The CHAIRMAN. How much salary do you get?

Mr. TAPLIN. Now?

The CHAIRMAN. Yes.

Mr. TAPLIN. I think——(and the witness confers with some associates).

Mr. PECORA. Don't you know what salary you get?

Mr. TAPLIN. No; I don't. I think it is \$17,000 now. I think it is.

Mr. PECORA. What was it just prior to the sale of the stock?

Mr. TAPLIN. It was \$30,000. I think it has been cut four times, 10 percent each time, which is cumulative, which would be about 35 percent off.

Mr. PECORA. Now, Mr. Taplin, in whose name did these 222,930 shares of Pittsburgh & West Virginia Railway Co. stock stand, or do they stand today, I mean?

Mr. TAPLIN. In my name?

Mr. PECORA. In your name?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. And they have stood in your name ever since the making of the sale of this stock to the Pennroad Corporation?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. What is the reason for that?

Mr. TAPLIN. Well, it has to stand in somebody's name.

Mr. PECORA. Why not in the name of the corporation which bought it and paid for it in full?

Mr. TAPLIN. I don't know.

Mr. PECORA. You say you don't know?

Mr. TAPLIN. Well, they stand in my name, and I don't know exactly that there was any good reason for it. They have to stand in somebody's name, and might as well stand in my name. It is immaterial in whose name they stand, because it is a matter of public knowledge that they belong to the Pennroad Corporation.

Mr. PECORA. How was that knowledge communicated?

Mr. TAPLIN. I think everybody in the railroad business understands it.

Mr. PECORA. The legal title of the stock is in you today?

Mr. TAPLIN. I do not know about the legal title.

Mr. PECORA. Well, it is registered in your name?

Mr. TAPLIN. Yes; it is registered in my name. But I don't own it.

Mr. PECORA. Was it a part of the understanding that you had with the Pennroad Corporation that the stock was to continue to stand in your name?

Mr. TAPLIN. No, sir.

Mr. PECORA. How do you account for that situation, that the stock is still in your own name?

Mr. TAPLIN. I don't know. I think that Mr. Lee will have to answer that question. I think he is the only one who really knows the truth of why he wants it in my name.

Mr. PECORA. Didn't he ever tell you why he wanted it in your name?

Mr. TAPLIN. No, sir.

Mr. PECORA. Didn't General Atterbury ever tell you why?

Mr. TAPLIN. No, sir. He never mentioned it?

Mr. PECORA. Did anyone ever tell you?

Mr. TAPLIN. No, sir; because it is immaterial whether the stock is in my name or in whose name it stands.

Mr. PECORA. Who receives the dividends on the stock?

Mr. TAPLIN. Well, nobody is receiving them now. They stopped.

Mr. PECORA. Who received the dividends, such dividends as were paid on and after the sale?

Mr. TAPLIN. The Pennroad Corporation.

Mr. PECORA. Did they?

Mr. TAPLIN. Yes, sir; by assignment to them.

Mr. PECORA. Was the dividend check made directly payable to the Pennroad Corporation?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. Do you know that to be a fact?

Mr. TAPLIN. Yes, sir. Or I know that I never got them.

Mr. PECORA. Now, this sale of 222,930 shares was an outright absolute sale, was it?

Mr. TAPLIN. Absolutely.

Mr. PECORA. With no strings of any kind tied to it?

Mr. TAPLIN. There was some talk at one time about my having the privilege of buying it back if I chose to when a fifth trunk-line system was recommended by the Interstate Commerce Commission. But that was afterward killed by the Commission.

Mr. PECORA. When did you have that talk with anybody?

Mr. TAPLIN. Oh, sometime after the purchase was made.

Mr. PECORA. About how long afterward?

Mr. TAPLIN. I could not tell you the exact time, but it was probably within a year. No; it was less than a year.

Mr. PECORA. At the time the sale was made it was made as an absolute, unqualified, unconditional sale, with no strings attached to it, was it?

Mr. TAPLIN. That is right.

Mr. PECORA. Is that right?

Mr. TAPLIN. Yes.

Mr. PECORA. Now, with whom did you have any discussion a year afterward, or thereabouts, concerning the possibility of your buying the stock back?

Mr. TAPLIN. I think that General Atterbury, Judge Heiserman, Mr. Lee, and I talked with regard to the inclusion of the Pittsburgh & West Virginia in a fifth trunk-line system, with the Wheeling & Lake Erie and the Western Maryland Railroads.

Mr. PECORA. Will you give us the substance of those conversations?

Mr. TAPLIN. It was a matter of general conversation.

Mr. PECORA. What was the substance of it or them?

Mr. TAPLIN. That if we could work out a plan to consolidate the Wabash Railroad, the Lehigh Valley, the Wheeling & Lake Erie, the Pittsburgh & West Virginia, and the Western Maryland Railroads, which plan was recommended about that time by the Interstate Commerce Commission, that if I could work out the financing of that plan it would be agreeable to let me buy back the Pittsburgh & West Virginia Railway Co.

The CHAIRMAN. What became of that?

Mr. TAPLIN. We didn't do anything about it, Senator Fletcher. Soon after that financial conditions became pretty much disturbed, and I do not or I did not want to assume such obligations. And then nobody did anything. And the Interstate Commerce Commission recalled their privilege of a fifth system and switched back to a fourth system. That was the end of that, because we could not do it today, for the reason that they withdrew their permission.

Mr. PECORA. Mr. Taplin, did you think in September of 1929, when you finally agreed upon the terms of this sale, that a financial storm was brewing which would depreciate the value of that Pittsburgh & West Virginia Railway Co. stock substantially?

Mr. TAPLIN. Well, I thought conditions were getting a little top-heavy, Mr. Pecora. And I was in two or three other deals, and I did the same thing with them that I did with the Pittsburgh & West

Virginia Railway Co. So I must have had some idea in mind that I wanted to unload and lighten up a little bit. I hadn't any assurance as to how long things might continue the way they were going.

Mr. PECORA. Mr. Taplin, you gave some testimony, didn't you, in a proceeding before the Interstate Commerce Commission during the year 1930 in relation to this transaction with the Pennroad Corporation?

Mr. TAPLIN. I recall, yes, that I did, or I am pretty sure that I did. I do not know what hearing that was—what case, I mean. If you have a reference to the docket number there, it might help.

Mr. PECORA. Yes. And I will give it to you in a moment. It is Finance Docket 6486, at the application of the Pittsburgh & West Virginia Railway Co. for the approval of acquisition and control by the Pittsburgh & West Virginia of the Wheeling & Lake Erie Railway Co. and its subsidiary the Lorain & West Virginia Railway Co.

Mr. TAPLIN. Yes; I was on the stand then.

Mr. PECORA. Do you recall having been asked in those proceedings the following question with regard to this transaction with the Pennroad Corporation and your making thereto the following answer? And I believe this question was put to you by your brother, who was counsel for you in that application:

Question. Considerable has been said of late regarding the purchase of the P. & W. V. by the Pennroad Corporation. What are the facts?

Answer. The facts in regard to that are: In the fall of 1929 I saw a financial storm coming; and knowing that certain interests were out gunning for me and my associates, and that some of the latter were, maybe, not in as strong financial condition as they should be, I decided that we should not take any chance of losing control of the Pittsburgh & West Virginia Railway. And therefore I went to the Pennroad Corporation, with which company I had had previous financial dealings, and upon whom I felt I could depend to protect me and the whole situation. As a result of this call upon the Pennroad Corporation I sold 222,930 shares of Pittsburgh & West Virginia Railway Co. stock to it. This sale of the stock was only a temporary one until such time as the financial skies cleared. At the time of the sale of the Pittsburgh & West Virginia stock it was absolutely agreed that the management and control were to remain with us, as at present, without interference of any kind in the absence of action on our part that would be detrimental to their investment in the company's stock.

Do you recall that?

Mr. TAPLIN. Yes. And I think that is substantially what I testified to here this morning.

Mr. PECORA. And were you in the same proceeding and at the same hearing asked the following questions, and did you make the following answers thereto:

Question. When you speak of the financial storm that you saw coming or thought you saw coming, was not that the storm which resulted in the stock-market break?

Answer. Yes,

Do you recall that testimony given by you in that proceeding?

Mr. TAPLIN. I recall it now that you read it.

Mr. PECORA. Well, that testimony was the truth, wasn't it?

Mr. TAPLIN. I think I was getting a little yellow and I ran a little.

Mr. PECORA. Was the testimony as given the truth at that time?

Mr. TAPLIN. Yes, sir; absolutely.

Mr. PECORA. Now, was this the fact, that one of the reasons why you and your associates sold this large block of Pittsburgh & West Virginia stock to the Pennroad Corporation was because you saw a financial storm coming and because some of your associates owning this stock were not in as strong a financial condition as they should be?

Mr. TAPLIN. I don't think that I am competent enough to say that I can see trouble coming any quicker than anybody else can, Mr. Pecora. But I have found from past experience, especially during the past 4 years, that whenever there are any financial difficulties you put in a big part of your time bailing out your friends. I did not want to be bailing out too many. I was a little worried about that situation. It isn't only taking care of your own troubles, but taking care of friends in deals with you. You cannot keep your own house in order very well under such circumstances.

Mr. PECORA. In this particular case were your friends not in as strong a position as they should be, so that they had to be bailed out by you, or by the Pennroad Corporation through the medium of this sale?

Mr. TAPLIN. No one was bailed out. They were not in any trouble.

Mr. PECORA. You have said they were not in as strong a financial position as they should be, and you stated that as one of the facts that entered into this transaction.

Mr. TAPLIN. Well, if the unexpected should happen, if things got bad, I did not want to be bailing them out. The Pennroad Corporation did not bail anyone out. There was no one in difficulties when that stock was sold. It was afterward that trouble developed, which I was not willing to—

Mr. PECORA (interposing). Now, you made that answer in June of 1930 in this proceeding before the Interstate Commerce Commission when you were asked the question by your counsel, your brother, which question was couched in these words:

Question. Considerable has been said of late regarding the purchase of the Pittsburgh & West Virginia by the Pennroad Corporation. What are the facts?

Then you went on to say that in the fall of 1929 you saw a financial storm coming, and that some of your associates were not in as strong a financial condition as they should be, and so you decided that you should take no chance of losing control of the Pittsburgh & West Virginia Railway Co.

Mr. TAPLIN. I do not see anything wrong with that testimony, or anything conflicting as between that and what I say here now, Mr. Pecora.

Mr. PECORA. I asked you if one of the motives that prompted you to make this sale for the syndicate at \$170 a share was because you saw a financial storm coming, and that your associates were not in a financial condition to stand it, or not as strong as they should be, and that you wanted to protect them against the storm that you saw coming.

Mr. TAPLIN. I just wanted to unload and get out at a price that was satisfactory to me. That was the long and the short of it.

Mr. PECORA. One of the reasons why you wanted to get out was because you saw a storm coming, and that some of your associates were in a weak position financially, wasn't it?

Mr. TAPLIN. I did not have any particular associate in mind.

Mr. PECORA. Well, Mr. Taplin, I am simply questioning you on the basis of the testimony that you gave back in June of 1930 about this very transaction.

Mr. TAPLIN. Now, let me—

Mr. PECORA (interposing). I am not conjuring up any elements that entered into that transaction. I am simply questioning you about what you said in June of 1930 were some of the elements existing.

Mr. TAPLIN. I said that because it is in the testimony, and I must have said that.

Mr. PECORA. And it was the truth, wasn't it?

Mr. TAPLIN. It must have been the truth or I wouldn't have said it.

Mr. PECORA. Now, who were the interests that were out gunning for you and your associates at the time you entered into this transaction with the Pennroad Corporation?

Mr. TAPLIN. I prefer not to mention any names.

Mr. PECORA. Why not?

Mr. TAPLIN. Well, of course, I cannot prove it about anybody else. I might make statements that I am not able to prove.

Mr. PECORA. You stated just a moment ago that this testimony you gave in June of 1930 was the truth or you wouldn't have said it. Now, tell us who it was you said that about.

Mr. TAPLIN. I didn't say who it was.

Mr. PECORA. Who were they?

Mr. TAPLIN. Different interests in railroad deals.

Mr. PECORA. What interests did they represent?

Mr. TAPLIN. We had a lot of legal difficulties, and we have been in a lot of court actions, had been for 3 or 4 years, over some of those acquisitions.

Mr. PECORA. Well, if you had had court actions with them, those actions were a matter of record.

Mr. TAPLIN. Yes.

Mr. PECORA. Then why don't you mention their names here?

Mr. TAPLIN. Because I cannot prove that they were out gunning for me. That was my idea. I know this, that one reason I went to the Pennroad Corporation—and I didn't hardly dare go to a bank to borrow money, because there was the possibility of the strings being pulled, because there is sometimes a connection with many New York and other bankers, and I did not want them to pull the strings on me.

Senator STEIWER. Do New York bankers do that?

Mr. TAPLIN. Well, they haven't done it to me.

Senator STEIWER. But you have just said that you did not want it done.

Mr. TAPLIN. I have heard it said that they do.

Senator STEIWER. Do you know what interests they were?

Mr. TAPLIN. No; but I know how they work.

Mr. PECORA. How do they work?

Mr. TAPLIN. They loan you money, and then when some good friends come along and pull the strings on you they always ask you to pay the money when you haven't got it. And I didn't want to take any chance.

Mr. PECORA. They have never done that to you, you say?

Mr. TAPLIN. I am pretty careful not to go to banks. One reason I would rather go to the Pennroad Corporation than to a bank to borrow \$1,950,000 was that.

Mr. PECORA. Now, you said in answer to your brother's question back in June of 1930 in testimony you gave before the Interstate Commerce Commission that because of these elements, namely, that you foresaw this financial storm coming and that some of your associates were in a weak financial condition, you did not want to take any chance of losing control of the Pittsburgh & West Virginia Railway Co., and therefore you went to the Pennroad Corporation, upon whom you thought you could depend, to protect you and the whole situation. Why did you have that feeling?

Mr. TAPLIN. I think I said before that my relations with the officials of the Pennsylvania Railroad for a great number of years had always been very friendly. That is, I do not know that they did me any favors, but I knew that they had always been fair and square and open and aboveboard with me. And that is more than you can say for some people.

Mr. PECORA. You thought the Pennroad Corporation would be fair and square with you in these dealings, did you?

Mr. TAPLIN. Absolutely.

Mr. PECORA. And was it for that reason that you sought to sell to the Pennroad Corporation, just before the financial storm broke, 222,930 shares of the stock of your railroad company, at \$170 a share, when the market at that time was a good deal less. You felt that it would be a good deal lower when the storm broke?

Mr. TAPLIN. I do not take any stock in the market for a few hundred shares. That does not mean anything to me, as to the value of one single block carrying control of 225,000 shares. And, as I have said as to that railroad, that market never did reflect, through lack of knowledge, the ownership of the Wheeling & Lake Erie stock in the Pittsburgh & West Virginia Railway treasury.

Mr. PECORA. That is an assumption on your part, isn't it?

Mr. TAPLIN. That is a pure assumption. So that I did not figure that the \$170 a share was a high price. In fact, I figured it was a cheap price, \$30 less than I had ever talked before, the price coming down \$30 over night.

Mr. PECORA. You didn't think the price you asked represented the actual value of the stock, did you?

Mr. TAPLIN. Well, it occupied a very strategic position in Pittsburgh, and it was worth a lot of money to some railroads.

Mr. PECORA. Didn't you think the \$200 a share was the hold-up value for control?

Mr. TAPLIN. No, sir. I thought it was worth it. And I thought inasmuch as we had just finished a new line, a connecting link between Pittsburgh and Connellsville, with the Western Maryland Railroad, after a fight in the courts and the Commission for about 3 or 4 years, which would add a great deal of value to the railroad, and which connecting link was only finished in 1931; and you see it never had had any earnings; and you must not overlook the fact either that in establishing that link, which I could have attached to and made this fifth trunk line system possible; and I had had a long fight in the courts against all of the trunk line systems, the Baltimore &

Ohio, Pennsylvania, New York Central, and Van Sweringens, and I was on the other end——

Mr. PECORA (interposing). As I recall the testimony given here last Friday by Mr. Lee, president of the Pennroad Corporation, he said, in substance, that the negotiations in behalf of the Pennroad Corporation for the purchase of this large block of stock from you and your associates, of the Pittsburgh & West Virginia Railway Co., were undertaken in behalf of the Pennroad Corporation by Mr. County, and that he knew nothing or practically little about them until his board of directors adopted a resolution some time in September of 1929.

Mr. TAPLIN. Well, Mr. Pecora, if you will recollect back at this morning's testimony, I think you will find that I stated that my negotiations early in 1926 or 1927 had been somewhat with Mr. A. J. County, and that my negotiations, I believe it states, at the time that this deal was consummated were not with Mr. County. And all I can say is I do not know whether Mr. Lee referred to the negotiations leading up to the sale of it those 2 or 3 years before. But if he thinks he was referring to the negotiations leading up to the 1929 deal, I don't believe I ever talked to Mr. John County about that.

Mr. PECORA. Did you ever talk to Mr. Lee about it?

Mr. TAPLIN. Certainly.

Mr. PECORA. Frequently?

Mr. TAPLIN. No.

Mr. PECORA. With whom did you conduct the most of the negotiations with the Pennroad Corporation, with what officer?

Mr. TAPLIN. I think with General Atterbury.

Mr. PECORA. Not with Mr. Lee?

Mr. TAPLIN. I discussed it with Mr. Lee, but I discussed the details more with General Atterbury. And I recollect distinctly that General Atterbury at a meeting one day with the Pennroad Corporation board of directors discussed the matter with him, or at least he told me he did.

Senator STEIWER. Do you know when the Pennroad Corporation was organized?

Mr. TAPLIN. I do not remember the date.

Senator STEIWER. I do not mean, do you know now, but did you know at the time. Were you close enough to the situation to know at the time of the organization of the Pennroad Corporation?

Mr. TAPLIN. I do not think I knew it before it was done. I mean I didn't know it until it was accomplished.

Senator STEIWER. Do you know whether you were advised about it after it had been accomplished?

Mr. TAPLIN. I do not recall much about it. I think I knew it as soon as it was organized.

Senator STEIWER. In dealing with the Pennsylvania Railroad did you know that you would not deal with the parent corporation but that you would deal with this other institution?

Mr. TAPLIN. I did not know that I could not deal with the Pennsylvania Railroad if they wanted to buy the Pittsburgh & West Virginia Railroad, but of course I had nothing to say as to who they designated, or whether it was the Pennsylvania Co. or the Pennroad. It was none of my concern.

Senator STEIWER. I do not suppose it was, but my question was: Did you know that you were to deal with this Pennroad Corporation rather than the parent company, the Pennsylvania Railroad?

Mr. TAPLIN. I knew it before the deal was consummated.

Senator STEIWER. Did you not know it long before the deal was consummated?

Mr. TAPLIN. I could not have known it very long. My recollection is pretty fairly clear that—this is just my recollection now—that General Atterbury went away that summer around the Fourth of July, and was gone until after Labor Day. Of course if he did not get back until after Labor Day I do not see how I could have known it very long before we made the deal in September. That is a very clear recollection that I have.

Senator STEIWER. Well, you borrowed the money in June, the \$1,900,000?

Mr. TAPLIN. You mean for the Wheeling & Lake Erie?

Senator STEIWER. Yes.

Mr. TAPLIN. Yes.

Senator STEIWER. But you had borrowed the money in June?

Mr. TAPLIN. Yes.

Senator STEIWER. And you borrowed it from the Pennroad Corporation, did you not?

Mr. TAPLIN. Yes.

Senator STEIWER. So you knew before June, or at that time, that the Pennroad Corporation was in existence?

Mr. TAPLIN. Oh, I knew it was in existence. I think it was organized before June some time.

Senator STEIWER. You knew it immediately, did you not?

Mr. TAPLIN. Yes, sir.

Senator STEIWER. After the organization?

Mr. TAPLIN. Yes, sir.

Senator STEIWER. You knew that it was controlled by the same people that controlled the Pennsylvania Railroad?

Mr. TAPLIN. I knew their stockholders controlled it. The stock was issued pro rata to their stockholders, I was told.

Senator STEIWER. I was interested in your statement that there was no agreement between you and General Atterbury with respect to the time of making payment for the stock of the Pittsburgh & West Virginia Railway Co. Was there not anything said about the subject?

Mr. TAPLIN. We would get the stock together and make prompt delivery.

Senator STEIWER. And then was it agreed that they would pay upon delivery?

Mr. TAPLIN. Yes.

Senator STEIWER. So payment depended upon your delivery, then?

Mr. TAPLIN. Yes.

Senator STEIWER. It did not depend upon the whim or caprice of General Atterbury or someone else?

Mr. TAPLIN. No.

Senator STEIWER. Well then, we possibly misunderstood your earlier testimony. It is not true then, that there was no understanding about the time of payment?

Mr. TAPLIN. I do not recollect that I said there was no understanding about it. There was an understanding that it was to be delivered and paid for promptly, or within a reasonable time. And you know there was not anything in writing about it. It was just word of mouth. If it had been in writing you could have put your finger on just what was said. There was none.

Senator STEIWER. But in the word-of-mouth arrangement made between you and General Atterbury there was some discussion about the time of payment?

Mr. TAPLIN. I do not think there was very much discussion about how long it would take to deliver the stock—how quick—I do not think there was very much time put on that part of it, because it was stated that the stock would be delivered with reasonable promptness and paid for. Now, that was about all the understanding. And I want to make—well, let that go. You did not ask me.

Senator STEIWER. I would be glad to have your explanation if you want to make a further explanation.

(There was no reply.)

Senator STEIWER. Well, was there any time limit put upon the period that you might require in order to assemble and deliver the stock?

Mr. TAPLIN. I do not think there was when we made the deal. There may have been after—discussing the delivery with Mr. Lee afterwards, that it would, maybe, take 1 month or 2 months or—the biggest part of it, though, was delivered reasonably promptly.

Senator STEIWER. Was it understood that you would have to assemble certain amounts of stock, pay off some liens, and clean up some loans and things of that kind?

Mr. TAPLIN. It was understood between me and Mr. Lee afterwards.

Senator STEIWER. Was it understood between you and General Atterbury?

Mr. TAPLIN. No; he was not interested in what the broker paid up. He was not interested in that.

Senator STEIWER. General Atterbury was not interested in the time of the delivery?

Mr. TAPLIN. I suppose he wanted it promptly.

Senator STEIWER. Did he indicate that he was not ready with the cash?

Mr. TAPLIN. No; he did not say anything about it. I did not ask him about the cash.

Senator STEIWER. Suppose you had been able to deliver the whole thing in a week, did you have any reason to believe that he would have the cash ready?

Mr. TAPLIN. I certainly would have thought that his company would not have bought something that they could not have paid for. I assumed that.

Senator STEIWER. You relied on your own assumption?

Mr. TAPLIN. Yes.

Senator STEIWER. When did you find out that the cash would not be ready until they sold the stock of the Pennroad Corporation to the public?

Mr. TAPLIN. When did I find it out?

Senator STEIWER. Yes.

Mr. TAPLIN. I do not know. I maybe found it out that they were going to sell stock—well, I am guessing at this—maybe a couple of weeks afterward, that they were going to sell——

Senator STEIWER. After what?

Mr. TAPLIN. After we made the deal; agreed to deliver the stock for \$170 a share.

Senator STEIWER. That is, then, about 2 weeks, according to your recollection——

Mr. TAPLIN (interposing). That is my recollection.

Senator STEIWER (continuing). Two weeks after you and General Atterbury agreed upon the sales price and you had started out to assemble the stock you learned that they were selling stock in the Pennroad Corporation for the purpose of raising money to complete the transaction?

Mr. TAPLIN. That—I think I did hear of that.

Senator STEIWER. Did you know anything about the pace with which they proceeded with the sale of the stock?

Mr. TAPLIN. Not a thing.

Senator STEIWER. Was the money always ready by the time you got your installment ready?

Mr. TAPLIN. Absolutely. They never delayed our delivery. When we had the stock we delivered it and got our money.

Senator STEIWER. What determined about the size of the blocks of stock in which you made the successive deliveries?

Mr. TAPLIN. Well, as I think I stated before, I think the first block was in the neighborhood—my recollection is—of 150,000 shares.

Senator STEIWER. Yes.

Mr. TAPLIN. And I am very sure there was another block of 10,000.

Senator STEIWER. Yes; you stated that, Mr. Taplin; but that does not answer my question.

Mr. TAPLIN. And maybe another.

Senator STEIWER. I ask you what determined the size of those blocks.

Mr. TAPLIN. Oh, just the convenience of getting them together.

Senator STEIWER. The determination of the size of the blocks was not fixed in any way by the sale of the stock of the Pennroad Corporation to the public?

Mr. TAPLIN. Oh, not at all. And, furthermore, if the delivery was delayed, it carried interest.

Senator STEIWER. And what provided that?

Mr. TAPLIN. It goes without saying that if on a given date I agree to sell you stock, and I can bring it in and do bring in a big block of it on October 29, and that was the first date, and I do not ask you to pay for all of it and deliver some of it 60 days later, I want interest for that 60 days.

Senator STEIWER. Had there been any discussion of the payment of interest between you and General Atterbury?

Mr. TAPLIN. No; there wasn't any discussion, because when by mutual agreement, if it is satisfactory to both parties to delay the delivery 60 days, it goes without saying, according to my way of doing business, that I want interest for that 60 days; and we got interest. There was never any question about paying the interest on the delayed time.

Senator STEIWER. Was interest paid on any of these obligations from the Pennroad Corporation to your syndicate?

Mr. TAPLIN. Do you mean these delayed deliveries?

Senator STEIWER. Yes.

Mr. TAPLIN. Certainly.

Senator STEIWER. Interest was paid?

Mr. TAPLIN. Certainly.

Senator STEIWER. Even though you had not been ready to deliver?

Mr. TAPLIN. Oh, I don't know—maybe we were not ready to deliver, and then again maybe for one reason or another I did not prefer to deliver the stock for 30 or 60 days. I can see what you are driving at, but there are some people that you have got in this list, if you delivered too quickly they would know too much and they would have talked too much. I let them wait a little bit. Less conversation around the country about what I had done.

Senator STEIWER. And you deliberately—that is, you willfully held up delivery of the stock in some cases?

Mr. TAPLIN. Some of it; yes.

Senator STEIWER. But nevertheless collected interest?

Mr. TAPLIN. But they got interest on it where they were delayed.

Senator STEIWER. Who got interest?

Mr. TAPLIN. I cannot tell you. Mr. McDonnell can tell you.

Senator STEIWER. I do not mean the names, but what I am trying to get at is, did the owner of the stock—

Mr. TAPLIN (interposing). Oh, yes; certainly, the owner of the stock.

Senator STEIWER (continuing). Get interest?

Mr. TAPLIN. Yes. Now this point ought to be made very clear if it is not. I do not know whether Mr. Pecora has brought this out, but you see here is a list of people that got \$170 a share for the Pittsburgh West Virginia Railway stock. Now in some cases where for some reason or another, regardless of what the reason is—maybe I was responsible—the delivery of their stock may have been held up 60 days; then they collected in addition to that, interest for the delayed time. Nothing was said to them at all. Now they got this money. Nobody else got any commissions or anything out of this price. There was no handout to anybody out of this \$170. And furthermore, I think Mr. Pecora will find if he will take this list and check it, that there is nobody in it that is any dummy for anybody, either. There is nothing in this that won't stand the closest scrutiny and inspection as far as anything wrong with it is concerned. There is nobody got a nickel.

Mr. PECORA. Is that the list that you read into the record in the early part of the hearing?

Mr. TAPLIN. Yes; that is the list that I read into the record. There are no dummies in that list. Everybody with that stock got the same price that I got. No commissions paid to anybody. No siphoning back or any pipe line to anybody else.

Senator STEIWER. There was not any intimation that there were any commissions paid or anything like that.

Mr. TAPLIN. I just wanted to make clear to Mr. Pecora that this was not any of those deals with a handout to somebody.

Mr. PECORA. What kind of deal do you refer to?

Mr. TAPLIN. I have seen a whole lot of deals—preferred lists and something of that kind. There was no preferred list.

Senator STEIWER. There was no preferred list?

Mr. TAPLIN. No; there was no preferred list. I was not on the preferred list of anybody else, either.

Senator STEIWER. You have not made it clear to me how it came you paid interest to some of these syndicate holders and not to others.

Mr. TAPLIN. Well, I thought I had made that clear. But suppose that we find the first date—and I am only a day or two off, if I am that—that the first date of delivering 150,000 shares of stock was October 29.

Senator STEIWER. We will assume that as the correct date for the purpose of this explanation.

Mr. TAPLIN. Yes. Now we got \$170. Suppose Mr. Bronson here had 2,000 shares of stock, and I did not tell him anything about this, and he could not get his stock on October 29, and he did not get it until December 5, then I tell Mr. Bronson some day to send his stock in to McDonnell & Co. and on December 5 he will get \$170 plus interest from October 29 to December 5. It was not his fault I held him up. He got the interest. He was entitled to it.

Senator STEIWER. Were any dividends declared during that period?

Mr. TAPLIN. Well, if they were they did not belong to me.

Senator STEIWER. Who did they belong to?

Mr. TAPLIN. They belonged to the owner of the stock.

Senator STEIWER. Did he get the dividends?

Mr. TAPLIN. Oh, no; if there were any dividends after October 29—but I doubt that there were any after that—they would have gone to the rightful owners of the stock. He would not have got them. They would have got the dividends.

Senator STEIWER. Who are "they"? The owners of the stock?

Mr. TAPLIN. The owners of the stock.

Senator STEIWER. In this particular case——

Mr. TAPLIN (interposing). After October 29, the Pennroad.

Senator STEIWER. Oh, the Pennroad would have gotten the dividends if there were any?

Mr. TAPLIN. Yes. Suppose his interest were only 60 cents and his dividend was \$1.50 a quarter, he would not have been entitled to keep the \$1.50 on top of his interest.

Senator STEIWER. Well, now, what justification was there for the Pennroad to pay you interest when it stood ready to buy, but you failed to make delivery?

Mr. TAPLIN. I do not know. We never had—I do not recollect any argument about it. I said, "For delayed deliveries there will be interest", and they must have said, "O.K.", because I am very sure interest was paid.

Senator STEIWER. I think it would have been easier to explain if there had been some argument about it. What I am trying to get at is why they were willing to pay, and without argument, interest upon these deferred deliveries when you failed to deliver the stock for reasons of your own?

Mr. TAPLIN. I cannot answer why. All I know is what I did. I do not know about why they did it.

Senator STEIWER. Now, let us see if I understand another feature. You said that you did not want to make delivery too soon with respect to some of that stock because——

Mr. TAPLIN (interposing). I said that might have been the reason.

Senator STEIWER (continuing). Because there are some of these holders that might have known too much, or words to that effect.

Mr. TAPLIN. That is about it; yes.

Senator STEIWER. I do not care about the identity of the holder.

Mr. TAPLIN. I was not going to tell you.

Senator STEIWER. Well, possibly I may ask you later.

Mr. TAPLIN. Well, I would not tell you who they were, because I do not know.

Senator STEIWER. But what I am interested in is what could they know that was hurtful? What could they have known about a transaction in which you agreed with General Atterbury to sell him the stock at \$170 a share?

Mr. TAPLIN. If I make a deal, say, to sell Wheeling & Lake Erie stock, would it do me any good to go out and tell everybody in the country about it?

Senator STEIWER. I do not know whether it would do you any good. I did not ask you that.

Mr. TAPLIN. Well, I just did not do it.

Senator STEIWER. I wondered if it would do any harm.

Mr. TAPLIN. I just let them find out when it comes around to it. I am not going to tell the world about it.

Senator STEIWER. You had control of the stock in the syndicate?

Mr. TAPLIN. Yes.

Senator STEIWER. You could deliver it?

Mr. TAPLIN. But maybe, you see, it is just an old custom of mine that I do not tell what I am doing.

Senator STEIWER. A Spanish custom? [Laughter.]

Mr. TAPLIN. A Spanish custom.

Senator STEIWER. That is all.

The CHAIRMAN. Did the Pittsburgh & West Virginia Railway Co. ever borrow from the Reconstruction Finance Corporation?

Mr. TAPLIN. They are borrowers now. They are right now, Senator Fletcher. I will tell you why they are borrowing now, too. They built this new line that cost 17 million dollars. We got our bonds authorized by the Interstate Commerce Commission to sell at 94½, but by the time we got around to it we could not get 94½ on the market. With the last 5 million dollars' worth of bonds there wasn't any market, and there has never been any since.

Senator TOWNSEND. They are not yet sold?

Mr. TAPLIN. They are not yet sold. We put them up as collateral with the banks, and when the R.F.C. loaned us the money we paid off one half of what the banks had loaned us with those \$5,000,000 of bonds as collateral.

Senator GOLDSBOROUGH. The R.F.C. now has them?

Mr. TAPLIN. Half of them. The banks have half and now the R.F.C. has half. We had to pay off 50 percent of the bank loans, and they had to carry the other 50 percent for 3 years.

The CHAIRMAN. How much?

Senator GOLDSBOROUGH. Fifty percent.

The CHAIRMAN. No; what is the total loan?

Mr. TAPLIN. Well, I think we owe the R.F.C. \$3,900,000. Am I right?

Mr. BRONSON. A little more than that. About \$4,000,000.

Mr. TAPLIN. About \$4,000,000 we owe them.

The CHAIRMAN. And the banks got about one half of that?

Mr. TAPLIN. I would have to figure up what we owe the banks. I could tell you. We owe the banks about \$3,000,000. Between 2½ and 3 million dollars. But it is all well collateraled.

The CHAIRMAN. All right.

Mr. PECORA. Mr. Taplin, with whom did you have the conversations specifically that led to the agreement between you in behalf of your associates, as well as yourself, and the Pennroad Corporation at which the price of \$170 a share for this stock was agreed upon?

Mr. TAPLIN. General Atterbury.

Mr. PECORA. Only General Atterbury?

Mr. TAPLIN. I think that this was after he conferred with his board at a meeting.

Mr. PECORA. Is it your recollection that you only discussed the price of \$170 a share, or reached an agreement at that figure—

Mr. TAPLIN (interposing). Reached the agreement with him.

Mr. PECORA (continuing). With General Atterbury, and no one else?

Mr. TAPLIN. I discussed it with others, but I reached the agreement with General Atterbury as trustee of the Pennroad Corporation.

Mr. PECORA. Now, when did you first take up any negotiations with General Atterbury in his capacity as a trustee of the Pennroad Corporation looking to the making of this—

Mr. TAPLIN (interposing). Mr. Pecora, I don't know when I discussed Pittsburgh & West Virginia Railway with General Atterbury in the early months of 1929 whether he was talking for the Pennroad or whether he was not talking for the Pennroad. You see I did not know then. But I do know that at this time Pennroad had been organized and the Pennroad was mentioned. But I cannot tell you the dividing point as to when he began to discuss with me or who he was representing, because I did not ask him.

Mr. PECORA. Well, you learned of the organization of the Pennroad Corporation at about the time of its incorporation, did you not?

Mr. TAPLIN. Yes; but I do not know when—my recollection is not clear when the Pennroad came into existence.

Mr. PECORA. Well, it came into existence on April 24, 1929, according to the records.

Mr. TAPLIN. That was not known to me.

Mr. PECORA. Now, was it after that date that you resumed your discussions with General Atterbury for the sale of the 222,930 shares of the Pittsburgh & West Virginia Railway stock?

Mr. TAPLIN. It was not after that date that I resumed with him. I had been continually with him, I think, off and on all the time, and I did discuss with him after April, and I know very distinctly I was discussing with him the question in the months of April or May, and it seems to me—my recollection is that it died out again. Nothing doing.

Mr. PECORA. Well, when you had these discussions with General Atterbury after April 24, 1929, that being the date of the incorpora-

tion of the Pennroad Corporation, did he indicate to you by anything he said that he was representing at that time in those discussions the Pennroad Corporation?

Mr. TAPLIN. Now, that is pretty hard for me to recollect whether he did or not, Mr. Pecora. I do not know, really.

Mr. PECORA. Did you have any conversations with any person connected with the Pennroad Corporation, other than General Atterbury, in respect of the price of \$170 a share which was agreed upon?

Mr. TAPLIN. I do not think so. I think with nobody else.

Mr. PECORA. Now according to the record of your testimony before the Interstate Commerce Commission in June 1930, when you were questioned about this transaction, the following questions were asked you, to which you made the following answers (the question was asked by a Mr. Martin):

Q. With whom did you negotiate as to the price? With Mr. Lee and Mr. Atterbury?

A. Yes, sir.

Q. Now, as to the agreement for the noninterference with the present management of the Pittsburg & West Virginia Railway, did you have that oral agreement with the same gentlemen?

A. Yes, sir.

Do you recall that testimony?

Mr. TAPLIN. Oh, I only recall it as you read it. It must be right, and I think that is a fact.

Mr. PECORA. Well, does it refresh your recollection that in addition to discussing the price of \$170 a share which you took from the Pennroad Corporation for the Pittsburgh & West Virginia Railway stock you also discussed that price with Mr. Lee?

Mr. TAPLIN. No; after I discussed it with the General. Afterwards. But the price—you asked me who I made the agreement with. The agreement was with the General. I discussed it afterwards with Mr. Lee. Maybe the next day, maybe the same day. But the agreement was not made with Mr. Lee. That is what I am trying to convey to you, Mr. Pecora. The agreement was made with General Atterbury.

Mr. PECORA. Let me see if this testimony given by you before the Interstate Commerce Commission in June 1930 serves to refresh your recollection about that. I am reading again from the record of your testimony in that proceeding before the Interstate Commerce Commission:

Q. When did you begin to negotiate for the disposition of the block of 222,930 shares?

A. I don't remember.

Q. Well, approximately?

A. Oh, 1929.

Q. The fall of 1929?

A. Well, sometime in 1929.

Q. With whom did you open these negotiations?

A. Why, I talked to two different people about them. I do not know which one of the two I opened up with. I could not say whether it was Mr. Lee, the president, or not.

Q. You mean Mr. Henry H. Lee?

A. Yes.

Q. President of the Pennroad Corporation?

A. Yes, sir.

Q. He was one of the persons. And who was the other?

A. At times I talked to Mr. Atterbury, one of the trustees.

Q. Mr. W. W. Atterbury, who is also president of the Pennsylvania Railroad Co.?

A. I believe so.

Q. And also the Pennsylvania Co.?

A. I believe he is.

Does that refresh your recollection, Mr. Taplin?

Mr. TAPLIN. Nothing in that is contradictory of what I said this morning.

Mr. PECORA. Except that in this testimony given in June 1930 you mentioned Mr. Lee first as being the person, or one of the two persons, with whom you opened and conducted the negotiations.

Mr. TAPLIN. Right. But I did not make the final agreement with Mr. Lee. I made it with General Atterbury. That is the one thing that is more distinct in my memory, as to who I made that deal with, you see, than the details who I talked with.

Mr. PECORA. Did you have a number of conversations with General Atterbury and Mr. Lee at different times?

Mr. TAPLIN. Yes.

Mr. PECORA. Before you reached your final agreement with General Atterbury?

Mr. TAPLIN. Yes.

Mr. PECORA. And when did you reach your final agreement with General Atterbury?

Mr. TAPLIN. Some time in September 1929. I do not remember the date.

Mr. PECORA. Did you ever discuss the price of \$170 a share with Mr. Lee before the final negotiations with General Atterbury?

Mr. TAPLIN. I do not believe I did. I do not think I had concluded to take \$170 before that final negotiation with General Atterbury.

Mr. PECORA. You understood at that time that the Pennroad Corporation was acting in the interests of the Pennsylvania Railroad Co., did you not?

Mr. TAPLIN. Well, I understood that the stockholders of the Pennsylvania Railroad Co. owned the stock of the Pennroad Corporation.

Mr. PECORA. Well, did you not from that circumstance understand that the Pennroad Corporation was acting in the interests of the Pennsylvania Railroad Co.?

Mr. TAPLIN. Well, I do not know what you mean by "interests", but I, of course, knew that they were closely affiliated and that General Atterbury was a trustee, and that the Pennsylvania Railroad people were interested in the Pennroad, and the Pennroad was working in the interest of the Pennsylvania Railroad.

Mr. PECORA. Can you give the committee the substance of the conversations you had with General Atterbury from time to time, beginning with May or June 1929 and ending with the agreement as to the purchase price of \$170 a share in September 1929?

Mr. TAPLIN. No; I would not want to attempt to repeat the conversation—

Mr. PECORA. Not to repeat the conversation, but to give us the substance of those conversations.

Mr. TAPLIN. I wanted to sell the stock, and they wanted to buy the stock, and we just couldn't agree on the price. And I was speaking about a couple of hundred dollars, and I came down, I guess, a little

bit. I finally made up my mind that I would take \$170, and when I said I would take \$170 he said he would let me know—hold a meeting—let me know immediately. That was the close, and that was all there was to it.

Mr. PECORA. Well, did you point out to the Pennroad Corporation or any officer or person representing it any advantages that might accrue to the Pennroad Corporation from its purchase of this stock?

Mr. TAPLIN. No. I did not need to point them out. They knew them.

Mr. PECORA. They knew?

Mr. TAPLIN. They knew them better than I did.

Mr. PECORA. What did they say to you that caused you to believe that they knew?

Mr. TAPLIN. Nothing. I knew that they know the railroad game better than I do. They know the advantages better than I know them.

Mr. PECORA. Well, didn't that have something to do with the fixation of the price—your asking price of \$200 a share—that is, the fact that you knew that they knew the advantages that would accrue to them from purchasing this stock?

Mr. TAPLIN. Well, I do not know how I arrived at the \$200, Mr. Pecora. I just got that idea in my mind and it stuck there, and I couldn't get away with it.

Mr. PECORA. Just an arbitrary figure on your part?

Mr. TAPLIN. That is what some people thought it was, pretty arbitrary, but I did not get it.

Mr. PECORA. Well, what did anybody representing the Pennroad Corporation ever say to you concerning it which indicated the advantages that they felt would accrue to them from their purchase of this stock from you and your associates at \$170 a share?

Mr. TAPLIN. They never told me anything about the advantages. They were not boasting about them, I guess.

Mr. PECORA. How many conversations did you have with General Atterbury and Mr. Lee combined?

Mr. TAPLIN. With the two of them?

Mr. PECORA. Yes.

Mr. TAPLIN. Combined?

Mr. PECORA. Yes.

Mr. TAPLIN. Oh, I would imagine—you say the Pennroad was formed in April 1929?

Mr. PECORA. April 24, 1929.

Mr. TAPLIN. April 24, 1929. I never discussed it with Mr. Lee prior to April 1929. And then the General was away two months that summer. I would think a mere guess would be about a half a dozen conversations, anyway, from April to September, inclusive.

Mr. PECORA. In the aggregate of a half a dozen conversations?

Mr. TAPLIN. I should think so.

Mr. PECORA. Three with each, would you say?

Mr. TAPLIN. No; I think maybe—I think I must have talked with the General more than I talked with Mr. Lee, but I think everything has to be a guess.

Mr. PECORA. But you did discuss price with Mr. Lee, did you not?

Mr. TAPLIN. Not before the \$170. Not before I agreed upon it. I discussed the price, but I had then agreed with General Atterbury. The first time I ever mentioned \$170 was to General Atterbury. And he accepted it that same day, so I could not have discussed it with Mr. Lee in the interim.

Mr. PECORA. Did you make any notes at all of that conversation?

Mr. TAPLIN. No.

Mr. PECORA. So as to have a memorandum of it?

Mr. TAPLIN. No; because the same day he accepted it.

Mr. PECORA. Were you advised when the matter was presented for the consideration of the board of directors of the Pennroad Corporation?

Mr. TAPLIN. Yes; that same day.

Mr. PECORA. The same day that you talked with General Atterbury the proposition was submitted to the board of directors of the Pennroad Corporation?

Mr. TAPLIN. I think so. I do not know who he talked to.

Mr. PECORA. Well, that date appears to have been on September 5, 1929.

Mr. TAPLIN. September 5?

Mr. PECORA. According to the record; yes.

Mr. TAPLIN. I do not know who he talked to, but he was going to talk to somebody. I thought it was his board. He did not tell me it was his board.

Mr. PECORA. When were you first advised that the board had approved the plan to buy the stock at \$170 a share?

Mr. TAPLIN. I do not know that I was ever advised specifically that the board had approved it, but I do know that the General talked to some people, whether at a board meeting or a special meeting called for the purpose I cannot say, Mr. Pecora, but he said that they had agreed to take the stock. He didn't say the board. It might have been a special meeting. I would have said it was later than September 5. That would have been my guess.

Mr. PECORA. And was there ever a discussion between you and General Atterbury or Mr. Lee concerning the fact that the stock was to remain registered in your name after the sale?

Mr. TAPLIN. Not at that time. That was not discussed.

Mr. PECORA. When was it discussed after the sale?

Mr. TAPLIN. Oh, it must have been some time after the stock was delivered and paid for, I guess, because I don't see that that was any pertinent part of the deal, as to what name the stock was in. It was not of any concern to me. I was more concerned in the money than I was in the name they carried the stock in.

Mr. PECORA. Was all of this stock at the time you turned it over to the Pennroad Corporation registered in your name?

Mr. TAPLIN. No.

Mr. PECORA. On the books of the transfer agent, or rather of the Pittsburgh & West Virginia Railway Co.?

Mr. TAPLIN. No. Not before I delivered it.

Mr. PECORA. Was it at the time you delivered it to the Pennroad Corporation all registered in your name?

Mr. TAPLIN. No; I think it was endorsed in blank and delivered in the name it was then standing in on the books. I think they took that delivery.

Mr. PECORA. Well, but in whose name?

Senator GOLDSBOROUGH. On the back of the certificate or by power of attorney?

Mr. TAPLIN. That I cannot tell you, Senator Goldsborough, because my attorney, Mr. C. F. Taplin, handled all of those details, and it is not very clear to me. I think it probably was delivered to them endorsed in blank, turned over to them, and afterward transferred to me.

The CHAIRMAN. Do you vote the stock now all the time, elect a board of directors and all?

Mr. TAPLIN. Absolutely.

Mr. PECORA. Do you vote it in the exercise of your own judgment?

Mr. TAPLIN. Yes, sir. I have never had anybody in the Pennroad Co. dictate to me how to run the railroad since I have been president.

Mr. PECORA. How do you account for the fact that the Pennroad Corporation owns these two hundred and twenty-two thousand and odd shares and permits you to vote that stock?

Mr. TAPLIN. I don't know. I give it up. I guess they must think I am running it in the best interests of the railroad. I don't know.

Mr. PECORA. Did it just happen that way without any prearrangement or agreement?

Mr. TAPLIN. No, Mr. Pecora. I think they believe I know how to run that railroad better than a lot of other people.

Mr. PECORA. Do you believe that they think you can run that road better than they could run it?

Mr. TAPLIN. I believe they think so, or they would not let me run it for a minute.

Mr. PECORA. Did they ever ask you to continue the running of the road?

Mr. TAPLIN. Absolutely.

Mr. PECORA. Was it part of that understanding that the stock was to remain in your name so that you could vote it?

Mr. TAPLIN. No. The understanding that I would run the railroad was part of the deal when I sold the stock, and I think I so testified earlier in the day.

The CHAIRMAN. They do not even suggest who the directors shall be?

Mr. TAPLIN. No. Never have suggested anything to me since I have run the road.

Mr. PECORA. The Pennsylvania Railroad lines were competitors of the Pittsburgh & West Virginia, weren't they?

Mr. TAPLIN. You bet they are. They were and are.

Mr. PECORA. They were and are?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. And is that why they continue to leave the management of this competing line in your hands?

Mr. TAPLIN. I don't know just what their reasons are, but they are certainly competitors, good ones.

Mr. PECORA. They must be if they let their competitor run their competing lines.

Mr. TAPLIN. Well, those are questions of fact, Mr. Pecora. They compete just about as hard against us as any other railroad there is,

and they do not give us a carload of business that we do not have to fight for.

Mr. PECORA. Are you a shareholder now of the Pittsburgh & West Virginia Railway Co.?

Mr. TAPLIN. No.

Mr. PECORA. Not at all?

Mr. TAPLIN. No.

The CHAIRMAN. Are you interested in the Pennsylvania Railroad Co.?

Mr. TAPLIN. No; not a share. I am only interested in making the best showing I can make for the Pittsburgh & West Virginia Railroad Co.

Mr. PECORA. Of course, the Pennsylvania Railroad Co. and the Pittsburgh & West Virginia Railway Co. are competing lines, and the Pennsylvania Railroad would not be permitted, under the rules of the Interstate Commerce Commission, to own the Pittsburgh & West Virginia Railway Co., would it?

Mr. TAPLIN. I do not believe they would, although I suppose the Pennsylvania Co. could own it, couldn't they?

Mr. PECORA. The Pennsylvania Co. is this subsidiary of the Pennsylvania Railroad Co. of which you have already spoken?

Mr. TAPLIN. Yes.

Pardon me, Mr. Pecora. Mr. Larsen brings up the point that I may not have made clear to you, that this stock that I sold in my name is not in my possession. You certainly know that it is in the possession of the Pennroad Corporation, endorsed by me in blank. I haven't the stock.

Mr. PECORA. Do you recall testifying before the Interstate Commerce Commission in June 1930 as follows, in relation to this sale of the Pittsburgh & West Virginia Railway Co. stock to the Pennroad Corporation:

This sale of the stock was, I hoped, only a temporary one, until such time as the financial skies cleared.

Mr. TAPLIN. Yes.

Mr. PECORA. Was it a temporary one at the time you made it?

Mr. TAPLIN. I tried to explain to you, Mr. Pecora, that at the time the sale was made in 1929 I had hopes of getting through this fifth system, which required this piece of railroad as a connecting link; and I had thought that if I could get this fifth system approved by the Commission I could then make arrangements to get this piece of road back again, because of my interest in the Wheeling & Lake Erie, which I already discussed this morning, and my ownership of a lot of Western Maryland stock. Those three together made one straight line from the Great Lakes to the Atlantic Ocean, to Baltimore.

Mr. PECORA. At what price did you expect to get it back from the Pennroad Corporation?

Mr. TAPLIN. Well, I will tell you frankly I knew that I would never get it back unless I paid them whatever they paid me for it.

Mr. PECORA. You mean \$170?

Mr. TAPLIN. Yes.

Mr. PECORA. Plus carrying charges?

Mr. TAPLIN. Yes. Well, I knew they would not lose any money on the deal.

Mr. PECORA. What discussion did you have with General Atterbury, Mr. Lee, or anyone else representing the Pennroad Corporation respecting that?

Mr. TAPLIN. I had enough of discussion about the fifth system that led me to believe that there would be no objection to doing that if we would get the matter approved by the Commission.

Mr. PECORA. Well, what conversation did you have with these other gentlemen on that phase of the question?

Mr. TAPLIN. Well, I had general conversation with Judge Heiserman and a general conversation with Mr. Lee to the effect that if I could get the fifth system approved I would like to take this road back, and I had reasons to believe from replies that they made that that could be arranged undoubtedly.

Mr. PECORA. Well now, you are stating a conclusion. Tell us what they said to you upon which you base that conclusion?

Mr. TAPLIN. They said it might be possible to do that.

Mr. PECORA. Who said that to you?

Mr. TAPLIN. Mr. Lee. I think possibly Judge Heiserman, possibly General Atterbury. They all said it to me.

Mr. PECORA. Was that a reason why the stock was permitted to remain in your name?

Mr. TAPLIN. No; no, that has nothing to do with it. That did not have anything to do with it. That matter did not come up for definite discussion.

Mr. PECORA. Have you ever taken up with any of those gentlemen or anyone else representing the Pennroad Corporation the matter of your reacquiring that stock?

Mr. TAPLIN. Well, as I stated previously, Mr. Pecora, the situation changed, and the Commission took that right away from me to put the fifth system through which I had and reverted again to the 4-system plan, which killed it, and I could not do it. I did not take advantage of it when I could on account of financial conditions and disturbances, and then afterward they removed my possibility of getting the fifth system through.

Senator STEIWER. Do I understand you refer to this proposal of consolidation as the fifth system?

Mr. TAPLIN. Yes. What we call—there were four systems.

Senator STEIWER. Yes.

Mr. TAPLIN. And I was trying to get this system from the Lakes to the Atlantic Ocean, comprising these three roads, and I got authority from the Commission to do that, contrary to the expectation of the four trunk lines. I did not take advantage of it. And afterward the Commission withdrew that authority to put through the fifth line, so that I could not do it today. There is no way I can do it. It is contrary to the orders of the Interstate Commerce Commission.

Senator STEIWER. In your conversation with General Atterbury and these other gentlemen in which you say that they indicated they might let you take back this stock, was it also agreed that the Pennsylvania or its subsidiary companies would acquire an interest in the whole fifth system in case that were done?

Mr. TAPLIN. No. Nothing was said about that.

Senator STEIWER. They were not interested in the acquisition of the other system?

Mr. TAPLIN. I don't know. They never said anything to me about taking any interest in it.

Senator STEIWER. It was not in the conversation?

Mr. TAPLIN. I don't think they would have permitted it. I am sure the Commission would never have permitted them to have participated in the fifth system. I would not think they would.

Senator STEIWER. Was the Pennsylvania one of the lines that did not want the fifth system?

Mr. TAPLIN. No. They counted it out entirely. None of them wanted it. Why do they want any more systems?

Senator STEIWER. Why did the Pennsylvania officials agree to trade you back this stock in order to facilitate the organization of the fifth system when they did not want it organized?

Mr. TAPLIN. Well, I presume that if they do not want a thing organized, after I get permission they might prefer that I would have it than to have some other people have it. I mean a man can want something after a thing is perfected that he does not want before. That is very easy to see.

Mr. PECORA. Mr. Taplin, I believe you said that the average price at which you and the members of your syndicate acquired these 222,930 shares was around 52½.

Mr. TAPLIN. No; I did not say that. Oh, no.

Mr. PECORA. Didn't you give that figure before?

Mr. TAPLIN. No; I said the stock, the price of 109,000 shares that the syndicate bought that is in this book here averaged 52½. Not the two hundred and twenty-two thousand-odd shares.

Mr. PECORA. Do you know the average price which the 222,930 shares cost the owners which they sold to the Pennroad?

Mr. TAPLIN. No; I do not know. I know I bought some of it as high as 160, \$165 a share, myself.

Mr. PECORA. In the open market?

Mr. TAPLIN. Yes.

Mr. PECORA. When?

Mr. TAPLIN. Oh, probably bought it in 1926, 1927. Just kept it. I have very distinct recollection of one deal where I got some stock at \$160 and odd a share.

Mr. PECORA. Have you any data here or any account on behalf of the syndicate showing the profit to the syndicate from this transaction?

Mr. TAPLIN. Oh, I think those books must show the profit, absolutely.

Mr. PECORA. Will you give the figure from the books?

Mr. TAPLIN. He has got the whole set there with all the figures in regard to it.

Mr. PECORA. Can you get that figure for us?

Mr. LARSEN. Each member in the syndicate withdrew his stock by paying in what he owed, and then the stock was returned to Mr. Taplin and turned in on this deal.

Mr. TAPLIN. Yes; but you know, if you have a certain number of shares of stock, they cost you so much money, and if you sell at 170, you know how much money you made. He asked you how much the

syndicate made, not the outside stock. You certainly could estimate pretty close to what the syndicate made.

Mr. LARSEN. You can estimate it, and it would be on that basis about \$118 a share.

Mr. PECORA. Well, the syndicate paid an average of \$52.50?

Mr. TAPLIN. And sold it at 170. The difference is profit.

Mr. PECORA. And that profit was obtained on 109,000 shares?

Mr. TAPLIN. Approximately; yes, sir. It could not be otherwise than that, Mr. Pecora.

The CHAIRMAN. We will have to recess now till 2:30.

Mr. TAPLIN. Do you need me back after recess?

Mr. PECORA. Yes.

The CHAIRMAN. It will be very brief.

(Thereupon, at 1:22 p.m., a recess was taken until 2:30 p.m. of the same day.)

AFTERNOON SESSION

The subcommittee resumed its session at the expiration of the recess.

The CHAIRMAN. The committee will come to order. Mr. Taplin will resume the stand.

TESTIMONY OF FRANK E. TAPLIN, PRESIDENT PITTSBURGH & WEST VIRGINIA RAILWAY CO., CLEVELAND, OHIO—Resumed

Mr. PECORA. Mr. Taplin, in the list that you read into the record this morning of the members of the syndicate and your other associates, in connection with this sale of stock of the Pittsburgh & West Virginia Railway to the Pennroad Corporation, you included the name of F. E. Taplin, Jr.?

Mr. TAPLIN. Yes.

Mr. PECORA. As the owner of 25,166 shares?

Mr. TAPLIN. Yes.

Mr. PECORA. Is he related to you?

Mr. TAPLIN. He is my son.

Mr. PECORA. Did he have title to that stock in his own individual name, or was it in a trust?

Mr. TAPLIN. No; a trust which I am trustee for and which he paid for with his own money.

Mr. PECORA. You are the trustee?

Mr. TAPLIN. Yes.

Mr. PECORA. When was that trust created?

Mr. TAPLIN. In 1918.

The CHAIRMAN. He is not a minor, is he?

Mr. TAPLIN. Oh, yes; he is a minor.

Mr. PECORA. He is still a minor?

Mr. TAPLIN. Yes.

Mr. PECORA. And you are the sole trustee?

Mr. TAPLIN. Yes.

Mr. PECORA. Who created the trust?

Mr. TAPLIN. I did.

Mr. PECORA. For his benefit?

Mr. TAPLIN. For his benefit; an irrevocable trust.

Mr. PECORA. The corpus of the trust originally consisted of 300 shares of the capital stock of the Yohogany, Ohio, Coal Co., did it?

Mr. TAPLIN. That is correct.

Mr. PECORA. And as trustee you were given power to invest and reinvest the moneys coming into that trust estate?

Mr. TAPLIN. Yes.

Mr. PECORA. In the exercise of your own judgment and discretion?

Mr. TAPLIN. Absolutely.

Mr. PECORA. Did you as such trustee acquire these 25,166 shares of the Pittsburgh & West Virginia Railway Co.?

Mr. TAPLIN. The Pittsburgh & West Virginia.

Mr. PECORA. As such trustee did you sell that stock at \$170 a share to the Pennroad Corporation?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. I presume that as trustee of that estate you filed an income-tax return in its behalf for the year 1929?

Mr. TAPLIN. I did.

Mr. PECORA. Did you in that return report profits accruing to the estate from the sale of those 25,166 shares?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. How much of a profit did you report?

Mr. TAPLIN. My treasurer keeps the books for each one of the children's trust accounts, and he will have to answer the question. I don't know the exact amount; but whatever the profit was, it was reported. He says he has not the books here.

Mr. PECORA. As I understand it, the profit reported in connection with that sale was one of \$2,559,132.72.

Mr. TAPLIN. How much?

Mr. PECORA. \$2,559,132.72; that the selling price in 1929 was \$4,278,220, and that the cost price to the estate was \$1,719,087.28, resulting in this profit of \$2,559,132.72. Do you recall when those 25,166 shares were acquired?

Mr. TAPLIN. No; I could not recall offhand.

Mr. PECORA. My information is that they were acquired in 1926. Would that be correct, do you think?

Mr. TAPLIN. I would not be surprised. Our treasurer says that some of that stock was acquired in 1923. He was a member of the syndicate, and some of the stock was acquired as a part of the Pittsburgh & West Virginia Railway syndicate.

Mr. PECORA. I presume an income tax was paid by the estate?

Mr. TAPLIN. Obviously; by the trust.

Mr. PECORA. And you, as trustee, paid it?

Mr. TAPLIN. Yes.

Mr. PECORA. For the year 1929?

Mr. TAPLIN. Yes.

Mr. PECORA. Do you remember how much it was?

Mr. TAPLIN. No.

Mr. PECORA. Did you as trustee for that trust estate qualify as a dealer in securities?

Mr. TAPLIN. I think so. I think my attorney brought that question up. I recall his mentioning the matter.

Mr. PECORA. When the return was made for the year 1929, was the tax which was levied one based upon the estate being a dealer in securities or being an investor?

Mr. TAPLIN. I could not answer that. Maybe our treasurer, who keeps their books, can answer. [Addressing Mr. Larson:] Do you know?

Mr. PECORA. See if you can find out, please.

Mr. TAPLIN. He says it was made on the basis of an ordinary individual that had that much profit.

Mr. PECORA. As an investor?

Mr. TAPLIN. I would think so.

Mr. PECORA. In previous years was the tax paid on the basis of the trust estate being a dealer in securities?

Mr. TAPLIN. I don't know that. He says not.

Mr. PECORA. How about the year 1926?

Mr. TAPLIN. I don't know.

Mr. PECORA. Do you recall having a controversy with the Internal Revenue Department in connection with the income-tax return filed by you for the year 1926 as trustee for that trust estate?

Mr. TAPLIN. I know there was a controversy when the Treasury Department, in 1923, tried to make out that those trusts for each member of my family, dated in 1918, were not bona fide trusts. That matter was taken right up through the Board of Review and Tax Appeals, and they, not having a leg to stand on, dropped the case. My treasurer thinks that you are referring to the 1926 return——

Mr. PECORA. I am referring to 1926.

Mr. TAPLIN. In which there was some question of some stock being sold, and they having taken the oldest stock—went back and corrected it in some way to the oldest stock prior to the stock that was reported.

Mr. PECORA. Was not the question really involved in connection with the 1926 return as to whether or not the taxpayer, who was yourself as trustee, was entitled to carry forward a loss as a dealer in securities?

Mr. TAPLIN. I don't know enough about the details, Mr. Pecora, to answer; but I know that my brother, who is my counsel, did mention to me at one time the question of the right to deal in securities.

Mr. PECORA. Yes. Did you qualify, as trustee for that trust estate, as a dealer in securities under the income tax law?

Mr. TAPLIN. Mr. Larsen here says that the account was all accepted and O.K.'d, and there was no controversy.

Mr. PECORA. I am asking you the question: Did you qualify as trustee for the estate of Frank E. Taplin, Jr., as a dealer in securities?

Mr. TAPLIN. That I don't know. I don't believe I understand the difference between an individual buying and selling stocks and qualifying as a dealer in securities. I don't appreciate what the difference is between them.

Mr. PECORA. You know that there are certain rights and privileges in the income tax law which are available only to a dealer in securities and not to an ordinary investor?

Mr. TAPLIN. No; I am not enough familiar with income-tax matters to know that, even. I don't know the distinction between the two.

Mr. PECORA. Do you recall the amount of tax paid by you as trustee for this trust estate for the year 1929, which was the year in which this profit of over two and a half million dollars was reported

in connection with the sale of the Pittsburgh & West Virginia stock to the Pennroad Corporation, amounting to about \$309,000 plus?

Mr. TAPLIN. No; I don't recall the amount of it.

Mr. PECORA. And that if that return had been made in behalf of the estate as a dealer in securities rather than as an investor, the tax would have been assessed at \$684,676.52?

Mr. TAPLIN. No; I don't know that.

Mr. PECORA. Didn't you take that question up with your attorney at all?

Mr. TAPLIN. No.

Mr. PECORA. At no time?

Mr. TAPLIN. No; because he tells me what the interpretation of the law is. I give him the profits in any transaction, and he and Mr. Larsen, the treasurer, figure out the return.

Mr. PECORA. Were you questioned in any way by the Internal Revenue Bureau about these returns?

Mr. TAPLIN. Not that I know of.

Mr. PECORA. Were you ever questioned by any representatives or officials of the Internal Revenue Bureau?

Mr. TAPLIN. About that return?

Mr. PECORA. About any of these returns.

Mr. TAPLIN. Not that I recall. They may have been, but I don't recall.

Mr. PECORA. When you say "they may have been", whom do you refer to?

Mr. TAPLIN. Mr. Larsen or my counsel, Mr. C. F. Taplin, who make up the returns.

Mr. PECORA. Will you ask them to inform you so that you may answer the question?

Mr. TAPLIN (addressing associates). Was there ever any controversy about the 1929 return that you know of?

He says not that he knows of.

Mr. PECORA. Can you not acquire the information from your counsel now to enable you to tell this committee whether or not this trust estate ever qualified as a dealer in securities for the purposes of the income-tax law?

Mr. TAPLIN. When I go to Cleveland I can get my counsel—

Mr. PECORA. Are they not present?

Mr. TAPLIN. No, sir.

Mr. PECORA. Are not the gentlemen who are associated with you here in position to give you that information?

Mr. TAPLIN. Mr. Larsen is the treasurer and makes up the report, but Mr. C. F. Taplin, my counsel, is not here.

Mr. PECORA. Does not Mr. Larsen know about that?

Mr. TAPLIN. He says he never heard of any. He says he doesn't think they are qualified as dealers in securities any more than I may be. Am I qualified as a dealer in securities?

Mr. PECORA. I don't know.

Mr. TAPLIN. I don't know that I am. I may be. I don't know that I am.

Mr. PECORA. Who made out your return—Mr. Larsen?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. Before you leave the stand, let me ask you, for the record, this question: Among the associates, so-called, whom you named this morning in connection with the sale to the Pennroad Corporation of these 222,930 shares, you named the North American Coal Corporation. Are you connected with that corporation?

Mr. TAPLIN. I am president of it.

Mr. PECORA. Are you its principal stockholder?

Mr. TAPLIN. Yes; I and my family.

Mr. PECORA. That is a close corporation, owned by your own family?

Mr. TAPLIN. Yes, sir.

Mr. PECORA. I will examine Mr. Larsen now, Mr. Chairman.

The CHAIRMAN (addressing Mr. Larsen). Do you solemnly swear that what you will testify in this hearing will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LARSEN. I do.

TESTIMONY OF OTTO C. LARSEN, SECRETARY-TREASURER NORTH AMERICAN COAL CORPORATION, CLEVELAND, OHIO

Mr. PECORA. What is your full name?

Mr. LARSEN. Otto C. Larsen.

Mr. PECORA. What is your business or occupation?

Mr. LARSEN. Secretary-treasurer North American Coal Corporation.

Mr. PECORA. Do you make up the income-tax returns filed by Mr. Frank E. Taplin as trustee for the estate of Frank E. Taplin, Jr.?

Mr. LARSEN. I do.

Mr. PECORA. For what period of years have you been doing that?

Mr. LARSEN. I believe since 1923.

Mr. PECORA. In any of the years since 1923 have the returns made out in behalf of that estate or taxpayer been made out as a dealer in securities?

Mr. LARSEN. I do not think so. I remember that question coming up in connection with the tax return for some particular year.

Mr. PECORA. Did it come up with respect to the return for 1926?

Mr. LARSEN. It seems to me that it was possibly the 1926 return.

Mr. PECORA. What disposition was made of that question?

Mr. LARSEN. I really don't know. That was handled by Mr. C. F. Taplin, and I was not advised of the ultimate outcome.

Mr. PECORA. Do you recall that in the return for that year you were permitted to carry forward certain losses that had accrued during that year, on the ground that the taxpayer was a dealer in securities?

Mr. LARSEN. I do not.

Mr. PECORA. Do you recall that that is not the fact?

Mr. LARSEN. I couldn't say whether it was or was not the fact.

Mr. PECORA. Did you make out a return for this estate in the year 1929?

Mr. LARSEN. I believe I did.

Mr. PECORA. Was it made out then as a dealer in securities or as an investor?

Mr. LARSEN. I think, as an investor.

Mr. PECORA. As an investor you were permitted to pay 12½ per-cent capital profits?

Mr. LARSEN. Yes, sir.

Mr. PECORA. And the tax apportioned or assessed for that year was on that basis?

Mr. LARSEN. Yes.

Mr. PECORA. Had it been on the basis of a dealer in securities, the tax would have been much heavier?

Mr. LARSEN. I suppose we took it on a capital-investment basis as an investor.

Mr. PECORA. You took it on that basis in order to save on the tax?

Mr. LARSEN. That is right.

Mr. PECORA. Do you know how much was saved thereby?

Mr. LARSEN. No; I do not.

Mr. PECORA. Was it the difference between \$684,676.52 and the sum of \$309,755.43, which I understand was the tax that was assessed and paid?

Mr. LARSEN. Possibly it might have been.

Mr. PECORA. From whom did you get your instructions as to the basis upon which you make out these returns, Mr. Larsen?

Mr. LARSEN. From Mr. C. F. Taplin.

Mr. PECORA. Is he an attorney?

Mr. LARSEN. Yes, sir.

Mr. PECORA. So that when it is profitable to make the return out as an investor, it is done in that way, and when it is profitable to make it out as a dealer in securities, it is done in that way?

Mr. LARSEN. I don't believe the returns have ever been made as a dealer in securities.

Mr. PECORA. You said you recalled the question having arisen one year.

Mr. LARSEN. Yes; it came up when there was some item at issue in connection with the audit of the tax return.

Mr. PECORA. What was the determination made when that question came up?

Mr. LARSEN. I don't recall the final determination.

Mr. PECORA. Was it not that the taxpayer, which was this estate, was a dealer in securities?

Mr. LARSEN. I would not be able to say.

The CHAIRMAN. A dealer in securities has to pay the normal tax and then a surtax, does he not, under the income-tax law, whereas the individual pays the regular tax?

Mr. LARSEN. The individual pays the normal tax and a surtax if his income is above a certain figure.

Mr. PECORA. But a dealer in securities is not entitled to the benefits of the capital loss and capital gain section of the law. You know that, don't you?

Mr. LARSEN. Is not anyone entitled to that privilege?

Mr. TAPLIN. What do you have to do to qualify?

Mr. PECORA. You have a brother who is an attorney and who can advise you. Suppose you ask him.

Mr. TAPLIN. I never discussed the question with him. Mr. Bronson, here, does not know anything about this case, but he has given me a little enlightenment. He says a dealer in securities buys securi-

ties for other people, and that an individual buys them for himself. Of course all I know is——

Mr. PECORA. No; that is not the law. Of course, one who buys for others may be also qualified as a dealer in securities; but in order to qualify as a dealer in securities one does not have to engage in the business of buying and selling for the account of others. He may confine his operations to his own account.

Mr. BRONSON. That is possible, of course. It is a distinction without a difference.

TESTIMONY OF FRANK E. TAPLIN, PRESIDENT OF THE PITTSBURGH & WEST VIRGINIA RAILWAY CO.—Resumed

Mr. PECORA. Now, Mr. Taplin, did you ever make any contention before the Internal Revenue Bureau that this trust estate was acting as a dealer in securities?

Mr. TAPLIN. Not to my knowledge.

Mr. PECORA. Do you recall anything at all about any controversy raised with respect to the income-tax return for 1926 in behalf of the trust estate?

Mr. TAPLIN. No; I don't remember anything coming up. My counsel may know all about it, C. F. Taplin, but I would not.

Mr. PECORA. Well, Mr. Chairman, from the information which I have it seems for the year 1926 a question was raised as to whether this trust estate was entitled to carry forward a loss it claimed to have sustained in the year 1925, to deduct that loss from its taxable income for the year 1926, on the ground that its business was that of buying and selling securities. In other words, was a dealer. And the ruling of the Department was to the effect that the taxpayer was entitled to carry that forward, to carry it forward against the taxable income for the year 1926 as a loss sustained for the year 1925. It also appears that in 1929 a return made in behalf of this estate and the tax levied against the estate was levied, not on the basis of the estate being a dealer but being an investor, which made a difference to the taxpayer's advantage of \$374,921.09. In view of the fact that the witness, Mr. Frank E. Taplin, is not familiar with that controversy or those issues or the proceedings had with respect thereto, and in view of the absence of Mr. C. F. Taplin, I cannot proceed with this line of inquiry any further at this time. At some future time I will bring to the attention of the committee such additional evidence as is procurable.

The CHAIRMAN. Mr. Taplin, you do not recall those facts and circumstances, you say?

Mr. TAPLIN. I do not know.

The CHAIRMAN. Have you any recollection of having changed your attitude with reference to that question?

Mr. TAPLIN. No. I have no recollection of ever having changed it at all. I did not know that I was a dealer in securities.

The CHAIRMAN. You did not change your business between 1926 and 1929 as the trustee of that estate?

Mr. TAPLIN. No.

The CHAIRMAN. You continued in the same business as before?

Mr. TAPLIN. The same as before.

Senator BARKLEY. Have you turned over your affairs to your counsel and your associates to such a degree that they would be justified in putting you down in an income-tax report as a dealer in securities without consulting you?

Mr. TAPLIN. I wouldn't think so. I do not know what these lawyers do sometimes when they are looking after your tax returns, but I wouldn't think they could do it without I qualified or signed something. I did not know that I was a dealer in securities.

Mr. PECORA. Now, Mr. Taplin, with regard to the interest for the first quarter that you testified this morning you paid to the Pennroad Corporation in connection with the loan of \$1,950,000 that you obtained from it, in June of 1929, do you recall who made that interest payment?

Mr. TAPLIN. No. The only reason I say that it was paid was because if I have a note from a man paying interest quarterly it must have been due in September, and I would say it must have been paid. But I cannot say how.

Mr. PECORA. Do you recall having paid it yourself?

Mr. TAPLIN. No; I cannot say that I recall it. I have no recollection of having signed a check.

Mr. PECORA. Did you deal with that loan as though it was your personal and individual obligation, or did you deal with it as yourself being the manager of this syndicate?

Mr. TAPLIN. Well, I do not know that I could answer that, Mr. Pecora, very clearly.

Mr. PECORA. Well, can you tell me who could?

Mr. TAPLIN. Well, it is possible that I made the loan for the account of the syndicate.

Mr. PECORA. Well, wasn't it important to you to know that you were dealing with that as a personal and individual obligation or as an obligation that you incurred in behalf of the syndicate?

Mr. TAPLIN. I cannot go back and recollect it now. But Mr. Larsen can tell you. If it was a syndicate loan, then the syndicate would have paid the interest on it.

Mr. PECORA. But I am trying to find out who paid the interest.

Mr. TAPLIN. He says it was not a syndicate obligation, and he is the one who ought to know, because he kept the books. He kept my accounts, and he says it was not a syndicate operation.

Mr. PECORA. Well, were you careful in making out your income-tax return to deduct from the amount of your income any interest items paid by you in the course of the tax year?

Mr. TAPLIN. Yes; if I pay any interest, it will show on my check book. Or if the company paid it for my account, they would tell me and charge it up to me.

Mr. PECORA. My information is that you claimed no deduction for payment of interest to the Pennroad Corporation whatsoever for the year 1929.

Mr. TAPLIN. Well, Mr. Larsen says he doesn't think it was the syndicate account. Someone must have deducted interest, if it was paid, whose ever account it was for. Are you talking about my personal return now?

Mr. PECORA. Yes; your personal return.

Mr. TAPLIN. I can go back and get that for you. Mr. Larsen says he thinks that was my daughter's return.

Mr. PECORA. Who borrowed the money, your daughter or you? According to the evidence of this morning your note was the one given for the \$1,950,000.

Mr. TAPLIN. But I cannot tell you whether I signed that note as trustee or as an individual.

Mr. PECORA. Look at the note itself.

Mr. TAPLIN. Where is the note?

Mr. PECORA. Mr. Lee, you have the original note, haven't you?

Mr. LEE. I think there is a copy in your files.

Mr. PECORA. A copy was put in the record this morning, and my recollection is that it is your personal note, Mr. Taplin.

Mr. TAPLIN. We have it here, I think.

Mr. PECORA. Well, look at it, please.

Mr. TAPLIN. Here it is. I show it to you.

Mr. PECORA. Now, this copy that you show me has no signature on it at all.

Mr. TAPLIN. Well, Mr. Larsen says I borrowed it for the account of Clara Louise Taplin, my daughter.

Mr. PECORA. Does he know more about it than you?

Mr. TAPLIN. Yes, sir. He keeps the books for every one of them.

Mr. PECORA. What is your present recollection? Did you borrow this money for yourself or for your daughter?

Mr. TAPLIN. If he says I borrowed it for my daughter's account, then that is what it was borrowed for, and he ought to know because he keeps the books. And she owns the stock.

Mr. PECORA. Well, who negotiated the loan, you or Mr. Larsen.

Mr. TAPLIN. I negotiated it.

Mr. PECORA. Did you negotiate it for yourself or for your daughter?

Mr. TAPLIN. I don't recall. Mr. Larsen says he thinks it was her note. It was her stock.

Mr. PECORA. Was your daughter a minor?

Mr. TAPLIN. Yes, sir. Mr. Larsen says it was her note and that she paid it. He ought to know as he has the keeping of her books.

Mr. PECORA. What was your daughter, who was a minor, borrowing nearly \$2,000,000 for?

Mr. TAPLIN. To buy this stock. I think you will find that if she borrowed it she paid it off. Is that correct, Mr. Larsen?

Mr. LARSEN. Yes.

Mr. TAPLIN. Mr. Pecora, Mr. Larsen says she paid it off.

Senator BARKLEY. Mr. Taplin, is a transaction of nearly \$2,000,000 so small a matter that it passes out of your mind?

Mr. TAPLIN. It is not a small matter, but there were a great many transactions at that time, and if it was for her account and she paid the interest, and if she owns the stock and she paid off the loan, I would say that is the best evidence that it was borrowed for her account.

Mr. PECORA. Did your daughter ask you to borrow \$2,000,000?

Mr. TAPLIN. No; she is a minor.

Mr. PECORA. How old was she in 1929?

Mr. TAPLIN. About 11 years old, I think. I think under the trust agreement I never asked them anything about what I did with their money. This is their own money. Mr. Pecora, you started out to

say the trust agreements were where the money started from, that 300 shares of stock was the beginning of her trust fund, and I sold that stock, I remember, because of some arbitration proceeding, for \$1,150 a share, from which she must have realized about \$450,000 in 1918. That was invested and reinvested to her account, and my money has never been—and Mr. Larsen will tell you—mixed up with theirs; my accounts have never in any way been mixed up with her money.

Mr. PECORA. Were those trusts created for your daughters' benefit for income-tax purposes?

Mr. TAPLIN. Well, I will tell you why they were created.

Mr. PECORA. If you please.

Mr. TAPLIN. In 1918 I owned a considerable amount of this stock in this coal company that you spoke of, and I was going to sell the stock, and an attorney of mine, not my brother but another attorney, called my attention at that time to the fact as to what the tax would be. But the stock could be given away, in 1918, if absolutely given away and irrevocably given away, which I did, and distributed the stock to my family. It was theirs, and the books were kept for every dollar accumulated since then, every payment made for their account was kept separately and never mixed up with my account in any way, shape, form, or manner. There are three trust agreements, for each one of my three children. I will be very glad to furnish you with the books from 1918 up to date, showing every transaction made for their account. Their income-tax returns are made separately. Everything that they have is theirs. And you can have those books.

Mr. PECORA. What is your answer to my question: Were those trust estates created for income-tax purposes?

Mr. TAPLIN. Well, I would say that I was advised as to the income tax, that if I sold the stock it would be one thing, but if I wanted to give it away irrevocably, it would be another thing. And that is what I did, to avoid the heavy tax, which was possible in 1918. But afterwards we were not able to do that, because they changed the law; that if you gave it and the person sold it, as I understand the law, the cost is based upon cost to the giver. The department threshed that all out for a long term of years, because the instruments which I just gave you a copy of were decided to be bona fide in every way.

Senator BARKLEY. Then the answer to Mr. Pecora's question is yes.

Mr. TAPLIN. Well, I explained to him that I did it because the tax on the sale of that stock would be different, it was less this way.

Senator BARKLEY. Then you did create these trusts for income-tax purposes?

Mr. TAPLIN. I would say that that is a correct statement.

Mr. PECORA. That is all I wanted on that.

The CHAIRMAN. If it passed as a gift there would be no income tax at all, is that it?

Mr. TAPLIN. I believe at that time the law was that the cost was based upon the value when you gave it away, but it was afterward changed.

The CHAIRMAN. Then in regard to this note, your daughter, 11 years old, did not sign the note, did she?

Mr. TAPLIN. No; I signed every note, or any note or paper or check, as trustee, for one of my children, for every one of the three.

The CHAIRMAN. The note was probably signed by you as trustee for your daughter?

Mr. TAPLIN. Well, I suppose I have signed it probably for her account, and on their books immediately it would be placed. I never took any money from their accounts and used it for myself. Sometimes, though, I have, vice versa, let them have the use of my own money.

Mr. PECORA. Mr. Taplin, when you negotiated this loan of \$1,950,000 with the Pennroad Corporation did you tell that corporation you were negotiating the loan as trustee for your 11-year-old daughter?

Mr. TAPLIN. Well, I wouldn't have told them that, because it would have been immaterial to them who I was negotiating it for so long as I gave them plenty of collateral on it. I do not think I would have told them. Even though I were giving it for my daughter I wouldn't have told them. I am very sure of that, that I wouldn't have told them.

Mr. PECORA. In whose name was the collateral registered at the time you turned it over to the Pennroad Corporation?

Mr. TAPLIN. I think I borrowed some of the collateral put up at that time.

Mr. PECORA. From whom?

Mr. TAPLIN. I wouldn't want to say, but that is just my faint recollection, that I borrowed some. It may be that Mr. Larsen can tell you.

The CHAIRMAN. All the collateral is not your daughter's collateral, nor was it held in her name.

Mr. TAPLIN. I have a recollection that I borrowed some of the collateral in order to keep control of that stock.

Senator BARKLEY. Did you borrow it from her trust?

Mr. TAPLIN. No. I borrowed stock that did not belong to her, borrowed it for her account and put it up as collateral until the note was paid.

Mr. PECORA. My last question was: From whom did you borrow it?

Mr. TAPLIN. I think Mr. Larsen ought to be able to tell you. He says he thinks I borrowed some of it from the Pittsburgh & West Virginia Railway stock.

Mr. PECORA. Was that the syndicate you were the manager of?

Mr. TAPLIN. Yes, sir; although I would have to have authority.

Mr. PECORA. That is the syndicate referred to in the syndicate agreements put in evidence this morning?

Mr. TAPLIN. Yes, sir. I believe that Mr. Kraus was the syndicate manager with me at the time.

Mr. PECORA. Originally?

Mr. TAPLIN. And Mr. Kraus knew what the deal was for, that it was to protect this stock, and he O.K.'d the borrowing of the collateral.

Mr. PECORA. Mr. Chairman, I think I will now resume the examination of Mr. Lee.

Mr. TAPLIN. Are you all through with me now, Mr. Pecora?

Mr. PECORA. Yes.

Mr. TAPLIN. I thank you very much.

(Thereupon Mr. Taplin was excused.)

The CHAIRMAN. All right, Mr. Lee, will you come forward and resume the stand?

TESTIMONY OF HENRY H. LEE, PRESIDENT OF THE PENNROAD CORPORATION—Resumed

Mr. PECORA. Mr. Lee, did you hear the testimony that Mr. Frank E. Taplin gave here today?

Mr. LEE. Yes, sir.

Mr. PECORA. Did it refresh your recollection in any way as to any participation you had in the year 1929 as president of the Pennroad Corporation in the transaction that resulted in the purchase by your corporation from Mr. Taplin and his associates of the 222,930 shares of the Pittsburgh & West Virginia Railway Co. stock?

Mr. LEE. Since my last appearance here I have refreshed my recollection somewhat from my own records and from talking to my associates.

Mr. PECORA. What associates did you talk to that served to refresh your recollection since last Friday?

Mr. LEE. My staff.

Mr. PECORA. Well, that is still very indefinite. Who are they?

Mr. LEE. Mr. Ogden here.

Mr. PECORA. Is Mr. Ogden an officer of the Pennroad Corporation?

Mr. LEE. Yes, sir.

Mr. PECORA. What office does he hold?

Mr. LEE. Vice president and treasurer.

Mr. PECORA. Who else?

Mr. LEE. Judge Heiserman.

Mr. PECORA. He is attorney for the corporation?

Mr. LEE. Yes, sir.

Mr. PECORA. Anyone else?

Mr. LEE. No.

Mr. PECORA. Do you now recall what part, if any, you had in the negotiations with Mr. Frank E. Taplin that led to the making of that sale?

Mr. LEE. This is my recollection, that my first knowledge of it, my first entrance into it, was in the fall of 1929.

Mr. PECORA. Give us, will you, your complete recollection of your part in the negotiations.

Mr. LEE. So far as I recall, Mr. Pecora, after the Pennroad Corporation board acted on September 5 of 1929, some time after that time was my first actual knowledge of the negotiations, the question of price, and so forth; that Judge Heiserman and I participated on the 26th of September, as I recall it, in a conference with Mr. C. F. Taplin, representing Mr. Frank E. Taplin, and his associates.

Mr. PECORA. Well, that was nearly 3 weeks after your board had adopted the resolution which was put in evidence last Friday. Do

you mean to say that that was the first time the thing was called to your attention?

Mr. LEE. Mr. Pecora, I wasn't at the board meeting on September 5. I was at the board meeting on September 11, when the minutes of the meeting of September 5 were, no doubt, read.

Mr. PECORA. Was that your first knowledge of the fact that any negotiations had been pending involving the purchase by your company of this large block of Pittsburgh & West Virginia Railway Co. stock?

Mr. LEE. To the best of my recollection, it was.

Mr. PECORA. It was?

Mr. LEE. Yes.

Mr. PECORA. And you were the executive head of the Pennroad Corporation?

Mr. LEE. That is correct.

Mr. PECORA. That was a deal that involved some 38 million dollars by your company, wasn't it?

Mr. LEE. That is correct.

Mr. PECORA. And the first knowledge you had of it was after the preliminary negotiations had been concluded and an agreement arrived at?

Mr. LEE. I do not know whether they had been concluded or not, but that was my first knowledge of the fact that negotiations for the acquisition of the Pittsburgh & West Virginia stock had approached a point of completion.

Mr. PECORA. When did you first learn that any such negotiations were under way?

Mr. LEE. As far as I can recall that was it.

Mr. PECORA. Late in September of 1929?

Mr. LEE. Yes, sir.

Mr. PECORA. And it was then brought to your attention, as you now recall it, through hearing read at the meeting of the board the minutes of the prior meeting, which was held on September 5, 1929?

Mr. LEE. That is the best of my recollection.

Mr. PECORA. The subject had never before been discussed at any meeting of your board?

Mr. LEE. I do not recall it, Mr. Pecora. I have no remembrance about it.

The CHAIRMAN. When was the first time you discussed it with Mr. Taplin, who has just left the stand?

Mr. LEE. I should say sometime between the 11th of September and the end of September or the first part of October. I haven't any definite recollection of that.

Mr. PECORA. Well, now, Mr. Taplin has testified that in June of 1930 he gave certain testimony with regard to this transaction when he appeared before the Interstate Commerce Commission, and that in the course of that testimony he stated that he had taken up the negotiations which culminated in this transaction with both you and General Atterbury. Have you any recollection of having any such negotiations with Mr. Taplin?

Mr. LEE. No, sir.

Mr. PECORA. Did General Atterbury ever report to you prior to September 11, 1929, that he was having any negotiations with Mr. Taplin covering that subject?

Mr. LEE. I do not recall.

Mr. PECORA. Were you the active executive head of the Pennroad Corporation in the year 1929?

Mr. LEE. Yes, sir.

Mr. PECORA. Will you explain how it was possible for a 38-million-dollar transaction to be undertaken in behalf of your corporation and you not know anything about it until the arrangements had been concluded, if you were the active head of the corporation?

Mr. LEE. Well, I can only account for it by venturing this guess: That it was no doubt an informal negotiation until the time that the Pennroad board acted. Now, during that period, Mr. Pecora and gentlemen of the committee, we had formed the corporation and issued 5,800,000 voting-trust certificates, and we had acquired a number of issues, and I was extremely busy.

Mr. PECORA. Wasn't it the largest single deal that your corporation negotiated in its whole history?

Mr. LEE. I think so. That is right.

The CHAIRMAN. When did you first learn of the price of \$170 a share being fixed?

Mr. LEE. Our directors on September 5 authorized the acquisition of 220,000 shares at not more than \$175 per share. My knowledge of the price of \$170 a share was a little later than that, I assume, Senator Fletcher.

Mr. PECORA. You were available for the purpose of taking part in those negotiations between the time of your election as president of the Pennroad Corporation in April of 1929 and September of 1929, were you not?

Mr. LEE. Yes, sir. Excuse me, except that I went on vacation prior to September 5.

Mr. PECORA. How long did that vacation last?

Mr. LEE. Well, it lasted until I was back for duty on the 11th of September.

Mr. PECORA. But how long did it last?

Mr. LEE. That would be from the 4th or probably the 3rd of September.

Mr. PECORA. For about a week?

Mr. LEE. A little more than a week.

Mr. PECORA. You were not so busy with other matters in behalf of the Pennroad Corporation that you could not take up this most important deal of all, were you?

Mr. LEE. No; not if I had been asked about it or advised of it.

Mr. PECORA. How do you account for the fact that you as president were not asked about it, or invited to take part in the negotiations that culminated in the transaction?

Mr. LEE. I do not account for it, except from the testimony here this morning that evidently Mr. Taplin negotiated with other people.

Mr. PECORA. Well, he also said that he negotiated it with you.

Mr. LEE. Well, I think that he was confused about that.

Mr. PECORA. It would not be an extraordinary thing for him to negotiate this deal with you as the head of the Pennroad Corporation, would it? Wouldn't it be rather the ordinary and logical thing for him to do?

Mr. LEE. I suppose it would be the thing under some circumstances. It is also not inconceivable that he would take it up with

a director of the Pennroad Corporation, whom he knew a great deal better than he knew me.

Mr. PECORA. Would a director of your corporation feel that he had authority to go ahead and enter into negotiations involving \$38,000,000 for your corporation without advising you about it?

Mr. LEE. He wouldn't have any authority. But he would have the right, I think, to engage in negotiations provided he made no commitments.

Mr. PECORA. How often did the board of directors of the Pennroad Corporation meet between April of 1929 and September of 1929?

Mr. LEE. A number of times; but irregularly.

Mr. PECORA. Well, at whose instance were those meetings called from time to time?

Mr. LEE. Well, I cannot recall that.

Mr. PECORA. Wasn't there any provision in the bylaws for such meetings of the board of directors at regular intervals?

Mr. LEE. I think on the order of the board. I do not recall whether in those early months, after the creation of the corporation, we had adopted any regular meeting day.

Mr. PECORA. Now, on last Friday your testimony, as I recall it was, in substance, to the effect that Mr. A. J. County, who was a director of the Pennroad Corporation, had conducted those negotiations with Mr. Taplin.

Mr. LEE. As I recollect, I said I had no part in the inception or continuance of the negotiations, and to the best of my remembrance, Mr. County was the person who did conduct them.

Mr. PECORA. Your recollection has been refreshed since last Friday, and you now say it was not Mr. County but General Atterbury.

Mr. LEE. My recollection on that subject was refreshed this morning.

Mr. PECORA. By whom?

Mr. LEE. By Mr. Taplin's testimony.

Mr. PECORA. But you disagree with Mr. Taplin's testimony of this morning insofar as he stated that he had conducted these negotiations with you as well as with General Atterbury.

Mr. LEE. No; I meant with regard to his negotiations with General Atterbury.

Mr. PECORA. You do disagree with Mr. Taplin's testimony of today with regard to his having negotiated this transaction with you?

Mr. LEE. Yes, sir.

Mr. PECORA. As well as with General Atterbury?

Mr. LEE. Yes, sir.

Mr. PECORA. Why did you say on last Friday that Mr. County, a director of the Pennroad Corporation, had undertaken these negotiations in the first instance in behalf of the Pennroad Corporation?

Mr. LEE. Because I believed that to be so. If you will recall, I also testified, or tried to illustrate, that my idea about the beginning of those negotiations, started with the loan of \$1,950,000 to Mr. Taplin, and it was quite reasonable in my own mind, with a recollection starting with myself, that if Mr. Taplin had taken up negotiations of the loan with Mr. County, that he had taken up

the question of the sale of his Pittsburgh & West Virginia interests with Mr. County.

Mr. PECORA. Did you recognize on last Friday that there was a direct connection between the making of that loan and the negotiations which resulted in the purchase of the Pittsburgh & West Virginia Railway Co. stock by your company?

Mr. LEE. No; I cannot say that I did. But the connection of the gentlemen and the property made me feel that some time between there and the fall Mr. County had been the negotiator.

Mr. PECORA. What advantages did you see accruing to the Pennroad Corporation from the purchase of this large block of stock of the Pittsburgh & West Virginia Railway Co. at \$170 a share?

Mr. LEE. Well, its strategic value both from a commercial standpoint and from its location.

Mr. PECORA. Strategic value to whom?

Mr. LEE. Strategic value in the way of traffic.

Mr. PECORA. To whom?

Mr. LEE. Or I should say commercial value.

Mr. PECORA. To whom?

Mr. LEE. To the Pittsburgh & West Virginia, and consequently to its owner in the way of return.

Mr. PECORA. Well, what was that strategic value?

Mr. LEE. Well, it sat in the middle of the steel and coal industries of Pennsylvania. And it was earning good money.

Mr. PECORA. How much was it earning?

Mr. LEE. Let me see——

Mr. PECORA. Or let me put it in this way: What was it earning on the basis of \$170 a share; what percentage?

Mr. LEE. It was paying 6-percent dividends, and earning somewhat more than that.

Mr. PECORA. Paying 6 percent on its par value?

Mr. LEE. On its par value.

Mr. PECORA. And the par value was what?

Mr. LEE. \$100, as I recall.

Mr. PECORA. So that on a valuation of \$170 a share it was paying——

Mr. LEE. Something over 3½ percent.

Mr. PECORA. Something less than 4 percent?

Mr. LEE. Yes.

Mr. PECORA. And you considered that a good investment for the Pennroad Corporation to make?

Mr. LEE. For that reason and for the possibilities of its future value in connection with the very evident desire of railroad companies to align themselves in one or more systems.

Mr. PECORA. Well, what systems did you have in mind at that time?

Mr. LEE. I cannot recall that I had any particular system in mind at that time, but perhaps some of this testimony refers to things I have learned—or I have thought of afterwards. One of the main things to my mind was the fact that Mr. Taplin wanted to include the Pittsburgh & West Virginia with the Wheeling & Lake Erie and Western Maryland in a small system running from Baltimore to the Great Lakes, and that seemed to me personally to be a very good

scheme, because it was a short route and ought to get a good deal of business.

Mr. PECORA. Was not the Pennsylvania Railroad Co. operating through this territory, too?

Mr. LEE. Well, its operation was farther north, as I recall it, from this little three party system that I am speaking of.

Mr. PECORA. Well, the stock of the Pennroad Corporation originally was offered to the stockholders of the Pennsylvania Railroad Co., was it not?

Mr. LEE. That is correct, sir.

Mr. PECORA. You were then the treasurer?

Mr. LEE. That is correct.

Mr. PECORA. The treasurer of the Pennsylvania Railroad Co.?

Mr. LEE. Yes, sir.

Mr. PECORA. And you resigned as such treasurer in order to become the president of the Pennroad Corporation on April 24, 1929?

Mr. LEE. Yes, sir.

Mr. PECORA. Who asked you to become the president of the Pennroad Corporation, Mr. Lee?

Mr. LEE. Mr. A. J. County.

Mr. PECORA. Was he then a vice president and director of the Pennsylvania Railroad Co.?

Mr. LEE. Yes, sir.

Mr. PECORA. Had you had any experience as an executive head of a holding company prior to that?

Mr. LEE. No, sir. I was a departmental officer of the Pennsylvania Railroad.

Mr. PECORA. Mr. Lee, what services were rendered by Kuhn, Loeb & Co. to the Pennroad Corporation in consideration for which the Pennroad Corporation gave to Kuhn, Loeb & Co. the options on several hundred thousand shares of its stock at \$15 a share?

Mr. LEE. I cannot answer that of my own knowledge, because I did not attend those conferences, but I should say that they were given those options for their advice as to of the type of corporation that might be formed.

Mr. PECORA. To whom did they give that advice?

Mr. LEE. To whoever consulted them on the subject.

Mr. PECORA. Don't you know who they were?

Mr. LEE. Well, I think they were Mr. County and Mr. Atterbury, and possibly Mr. Jay Cooke and Mr. E. B. Morris.

Mr. PECORA. Those gentlemen were all connected with the Pennsylvania Railroad Co. at that time?

Mr. LEE. Yes, sir; as directors or officers.

Mr. PECORA. They were the organizers, were they not, of the Pennroad Corporation? They took the leading part in the organization of the company?

Mr. LEE. That is correct.

Mr. PECORA. Well, what services did Kuhn, Loeb & Co. render the Pennroad Corporation subsequent to April 24, 1929, while you were its president?

Mr. LEE. They brought to our attention the Canton Co.

Mr. PECORA. Well, they received a commission of 2½ percent on the purchase by the Pennroad Corporation of the capital stock of the Canton Co., did they not?

Mr. LEE. Yes, sir.

Mr. PECORA. And that was a commission which resulted in a payment to them of over \$300,000, as I recall it?

Mr. LEE. That is correct, as far as my memory goes.

Mr. PECORA. What other services did they render the Pennroad Corporation since you have been the president?

Mr. LEE. We felt free to consult with them on any subject that might arise.

Mr. PECORA. Well, what subjects did you consult with them about? Did any arise from time to time?

Mr. LEE. I remember one particular one, which was probably in 1930, when I consulted Mr. Mortimer Schiff, now deceased, with reference to the investment of some money in a number of securities of different railroad companies in the country, and secured from him his recommendations as to what he considered we might buy.

Mr. PECORA. And what roads, or what securities, rather, did he advise you the Pennroad Corporation might buy at that time?

Mr. LEE. To my recollection they were The Chicago & North Western, Baltimore & Ohio stock, and some convertible bonds. The Delaware & Hudson Co. The Missouri, Kansas & Texas preferred stock and Southern Pacific, as I recall it.

Mr. PECORA. Do you know whether or not Kuhn, Loeb & Co. were bankers for any of these railroads at that time, or had done any financing for any of them?

Mr. LEE. I think for all of them, except I do not remember about the Missouri, Kansas & Texas—the Katy.

Mr. PECORA. Do you recall any other service Kuhn Loeb & Co. rendered to the Pennroad Corporation?

Mr. LEE. In the organization of it, as I said before—not from my own knowledge, but from facts developed later, they were of very great service in determining the type of corporation that ought to be formed. They also helped us, of course, in connection with the allotment. I realize they got a fee for that, but their advice was valuable. And I think, too, there is a good deal of value to be attached to the fact that I feel free to go to them, to their partners, from time to time and ask advice about any situation we might be in. It is pretty hard to pin down the exact thing we may desire to ask advice about.

Mr. PECORA. Did the Pennroad Corporation ever enter into any agreement with Kuhn, Loeb & Co. whereby it would seek their advice?

Mr. LEE. No, sir.

Mr. PECORA. Why did you go to them for advice from time to time?

Mr. LEE. They are a very well known and conservative banking house. I think a good many of us in the Pennroad directorate had known them for a great many years.

Mr. PECORA. Was it because they had been bankers for the Pennsylvania Railroad Co. that you went to them?

Mr. LEE. I think that is a very natural conclusion.

Mr. PECORA. Now, it appears from the testimony of Mr. Otto H. Kahn of that firm given before this committee last week that his firm realized a total of some \$5,840,000.

Mr. LEE. Yes, sir.

Mr. PECORA. From commissions paid to it by the Pennroad Corporation, fees paid to it, and profits they made from the sale of stock which they bought from the Pennroad Corporation under these option agreements you have referred to.

Mr. LEE. That is correct, sir.

Mr. PECORA. And that those profits and commissions were all realized within a period of a few months in the year 1929. Will you enumerate to this committee, if you can, the specific services they rendered for which they received nearly \$6,000,000 or were enabled to make nearly \$6,000,000?

Mr. LEE. I do not think I can, Mr. Pecora.

Mr. PECORA. Do you think anybody can?

Mr. LEE. I doubt it very much. On the other hand, it seems to me, too, that they took a certain amount of risk in what they undertook for us, and the tables might have been turned and they might have lost money or at least made very much less.

Mr. PECORA. Do you think they took a risk when they bought the stock from your company at a fixed price under options that they need not have exercised except at a time when the stock was selling in the open market for more than the option price; do you think they were taking a risk in that?

Mr. LEE. Mr. Pecora, I thought myself at the time that as the issue went to the stockholders of the Pennsylvania Railroad at 15, that if we could get options at 16, 17, 18, or 19 afterward, it was not such a bad thing for us.

Mr. PECORA. Do you realize that on April 25, 1929, the day after the incorporation of the Pennroad Corporation, its stock was selling at 25; not 15, 16, or 17 or 18, but at 25?

Mr. LEE. No one was more surprised than I was.

Mr. PECORA. But you know that is a fact?

Mr. LEE. That is true; yes. I have heard it testified to here.

Mr. PECORA. And in the light of that fact do you think they were taking any risk at all?

Mr. LEE. It would appear not. But, of course, later the price of the stock did recede considerably, even before it was actually issued.

Mr. PECORA. But it receded to a point where they were able to make only 5½ million dollars' profit on the stock they acquired under these options? That was quite a recession to them, was it not?

Mr. LEE. Not to them, but for the market.

Mr. PECORA. I am just asking you these questions, Mr. Lee, because you are the executive head of this big corporation that sold nearly \$140,000,000 worth of its securities to the investing public, to find out really what services are rendered by bankers for which they receive such compensation as has been testified to here in the present instance. And you cannot enlighten us any further than you have on that, can you?

Mr. LEE. I do not think I can do so well as Mr. Otto Kahn.

Mr. PECORA. Now, why was the stock purchased from Mr. Frank E. Taplin and his associates by your corporation permitted to remain in the name of Mr. Frank E. Taplin to this date?

Mr. LEE. Well, in the first place, our negotiation with him ended with the acquisition of the last block of stock he presented shortly

after the first of January 1930. We were preparing at once to have it transferred because the stock went of record for dividend on, I think, the 15th of January—that same month. We were not as yet desirous on our own part of making public our acquisition, and, to the best of my recollection, we put the stock in his name as the nominee for that purpose originally.

Mr. PECORA. Well, why has it continued to stand in his name for the last 3½ years?

Mr. LEE. I think it has continued to stand in his name, because we also had an understanding with him—arrived at after the settlement, as I recall it—that he could continue to operate and manage the property, provided he did so in a manner not adverse to our interests.

Mr. PECORA. Who was to determine whether or not his operation of that road was adverse to your interests?

Mr. LEE. That would be our organization, sir.

Mr. PECORA. By that do you mean the Pennroad Corporation or the Pennsylvania Railroad?

Mr. LEE. I mean the Pennroad Corporation.

Mr. PECORA. Well, what interests did the Pennroad Corporation have in the management of the Pittsburgh & West Virginia Railway Co. of any special character?

Mr. LEE. A great desire to see it make as much money as it could out of the transportation of traffic for the benefit of the stockholders.

Mr. PECORA. Well, was the Pittsburgh & West Virginia Railway Co. regarded as a line competing with the Pennsylvania Railroad Co.?

Mr. LEE. Yes; I should say it would around the Pittsburgh district.

Mr. PECORA. And the original voting trustees of the Pennroad Corporation, who had full power to vote the stock for a period of 10 years from its incorporation, were all officers and directors of the Pennsylvania Railroad Co., were they not?

Mr. LEE. That is correct.

Mr. PECORA. And you heard the testimony of Mr. Taplin to the effect that his negotiations with your company were conducted by him in behalf of himself and his associates with General Atterbury on behalf of the Pennroad Corporation?

Mr. LEE. Yes, sir.

Mr. PECORA. Is it fair to assume from that that the interest which General Atterbury had in the Pennroad Corporation was an interest that was reflected or absorbed by the interest he had in the Pennsylvania Railroad Co., of which he was president?

Mr. LEE. I consider Mr. Atterbury a man of such character that if he is a trustee or a director of some other corporation, he is going to endeavor to give his trusteeship or directorship in behalf of the company whose interests are then being considered.

Mr. PECORA. Well, what was he doing then? Acting as trustee for the owners of 73 percent of the stock of the Pittsburgh & West Virginia Railway Co. and at the same time acting as president of a rival or competing line known as the "Pennsylvania Railroad Co."?

Mr. LEE. Well, the competition, if you do not mind, Mr. Pecora—the competition side of it rather makes me smile, because one is a great big corporation and the other one is a little one. They could only compete within a very limited territory.

Mr. PECORA. But within that limitation of territory they were strong competitors, were they not?

Mr. LEE. I assume that is so.

Mr. PECORA. Do you think General Atterbury when he acted for the Pennroad Corporation in these negotiations with Mr. Taplin was acting in the interests of the Pittsburgh & West Virginia Railway Co. or in the interests of the Pennsylvania Railroad Co. Which?

Mr. LEE. I should think he was acting and negotiating under the terms of his own statement with reference to the reason for the organization of the Pennroad, for the protection of the stockholders of the Pennsylvania Railroad Co., and to my mind also trying to find investments for the Pennroad Corporation.

Mr. PECORA. Well, were the investors in the Pennroad Corporation always the stockholders of the Pennsylvania Railroad Co.?

Mr. LEE. Do you mean the people who purchased—

Mr. PECORA. The people who purchased the voting trust certificates; yes.

Mr. LEE. They were, I think, very considerably, in the first place.

Mr. PECORA. In the first instance, but subsequently was not that stock dealt in by the general public?

Mr. LEE. Very decidedly.

Mr. PECORA. Very decidedly. Well, now, when the general public who were not stockholders of the Pennsylvania Railroad Co. became investors in the Pennroad Corporation, whose interests were the officers of the Pennroad Corporation seeking to serve, their own stockholders, or the stockholders of the Pennsylvania Railroad Co.?

Mr. LEE. I think the very fact that there must have been a substantial change in the ownership of voting-trust certificates from those first entitled to subscribe means just one thing—that the officers and directors of the Pennroad Corporation must consider whatever they do primarily from the standpoint of the investments of the Pennroad and the protection of the Pennroad's interest.

Mr. PECORA. Was it because they thought that in September 1929 it would be a good thing to buy 73 percent of the Pittsburgh & West Virginia Railway Co. at \$170 when the road was paying 6 percent dividends that they agreed to buy that stock at that figure and thereby return only $3\frac{1}{2}$ percent on their investment?

Mr. LEE. Well, by the way business looked at that time, Mr. Pecora, there appeared to be no limit to where it might go and where the market might go.

Mr. PECORA. Have you any notion why there was never any written agreement entered into between the Pennroad Corporation or any of its officers or representatives acting for it and Mr. Taplin and his associates in connection with this stock purchase?

Mr. LEE. Well, no doubt there was confidence in Mr. Taplin. I think there is something to the fact that a good many negotiations of that sort would be undertaken, at least prior to their completion, without evidence in the way of formal agreements. And, of course, we did not pay out any money in that connection until we received securities for it at the price we had agreed upon.

Mr. PECORA. Was it customary for your road to enter into such negotiations or transactions purely by word of mouth?

Mr. LEE. I think it depends a good deal on the transaction.

Mr. PECORA. What is that?

Mr. LEE. It would depend a good deal on the nature of the transaction or the person.

Mr. PECORA. Well, did it have any transaction comparable to it in size or magnitude on a word-of-mouth basis, purely on the oral basis?

Mr. LEE. The Detroit, Toledo & Ironton was one, as I recall it.

Mr. PECORA. Any other?

Mr. LEE. I believe not. No others of any consequence. Whether there were formal agreements executed or not I do not know. I do not recall at this time.

Mr. PECORA. With regard to this loan of \$1,950,000 that your company made in June 1929 to Mr. Taplin, was that loan made to Mr. Taplin individually or to himself as trustee for the estate of his infant daughter?

Mr. LEE. My understanding has always been that it was made to him individually.

Mr. PECORA. And he signed the collateral note, did he not, individually?

Mr. LEE. That is my recollection, Mr. Pecora. May I ask: In that file of mine which you have before you is there a copy of the signature on the note? The one with the blue backer.

Mr. PECORA. Here is your file. I guess you are more familiar with it [handing same to Mr. Lee].

Mr. LEE. Thank you, sir. Of course, this is a copy of the note, because necessarily when the note was paid Mr. Taplin got his original back. It is signed, that is, bears the typed signature of F. E. Taplin.

Mr. PECORA. Individually?

Mr. LEE. Individually.

Mr. PECORA. Do you know whether interest was paid on that note for the first quarter?

Mr. LEE. I do not recollect, Mr. Pecora. I always thought that interest was paid at the time of settlement for the first installment of Pittsburgh & West Virginia stock.

Mr. PECORA. That was some time in October 1929, was it not?

Mr. LEE. That was the 16th of October 1929.

Mr. PECORA. 1929. Now, the first quarter's interest became due in September 1929, according to the terms of the note?

Mr. LEE. It would be September 25; yes.

Mr. PECORA. Now, was the interest paid at that time?

Mr. LEE. Will you excuse me a moment?

Mr. PECORA. Surely.

Mr. LEE (after conferring with Mr. Ogden). No; it was not paid at that time. It was included in——

Mr. PECORA. Did your company seek to enforce the payment of that interest?

Mr. LEE. I have no recollection about it, Mr. Pecora. It was quite a surprise to me when the question was asked this morning.

Mr. PECORA. Well, whose duty was it to attend to that little detail for your company?

Mr. LEE. That would be the duty of our treasurer.

Mr. PECORA. Do you know any reason why the interest was not paid in September?

Mr. LEE. I cannot recall.

Mr. PECORA. Did you learn for the first time today that the interest had not been paid in September of 1929 on this note?

Mr. LEE. Yes. I had no idea about it. I rather thought—if I thought anything about it—that this was a note where interest was payable semiannually.

Mr. PECORA. Do you recall Mr. Taplin asking for any forbearance from your corporation in the matter of this interest in September 1929?

Mr. LEE. No; I recall nothing about it at this time, Mr. Pecora. It raised a new question in my mind.

Mr. PECORA. It seems that all these negotiations with Mr. Taplin, including this former one of this loan of \$1,950,000, were conducted on a rather informal basis and in a rather informal way.

Mr. LEE. It looks so.

Mr. PECORA. Am I correct in that assumption?

Mr. LEE. I think you are, sir.

Mr. PECORA. What was the reason for that?

Mr. LEE. In this particular case I cannot say. I have no recollection about it whatever. I do know that we received interest in full on the 16th of October, together with the principal of the note.

Mr. PECORA. Well, when you received it in October you received payment in full of the principal of the note and all accrued interest out of the sum of money that your company then paid to Mr. Taplin and his associates for a large block of the stock of the Pittsburgh & West Virginia road, did you not?

Mr. LEE. That is correct, sir. It was an off-set in the original transaction.

Mr. PECORA. Now Mr. Lee, last Friday you gave me a printed copy of the statement for the year ended December 31, 1932, sent to the stockholders of the Pennroad Corporation, which I now show you [handing same to Mr. Lee]. Is that a correct copy of that statement?

Mr. LEE. Yes, sir; that is correct. That is a printed copy.

Mr. PECORA. I offer it in evidence and ask that it be spread on the record.

The CHAIRMAN. Let it be admitted and placed in the record.

(The Pennroad Corporation statement for year ended December 31, 1932, was received in evidence, marked "Committee Exhibit 54 of July 6, 1933", and is here printed in the record in full, as follows:)

COMMITTEE EXHIBIT 54

THE PENNROAD CORPORATION—STATEMENT FOR YEAR ENDED DECEMBER 31, 1932

Directors: W. W. Atterbury, George W. Bovenizer, A. J. County, William M. Elkins, Rodman E. Griscom, R. B. Mellon, Effingham B. Morris, A. H. S. Post, Joseph Wayne, Jr., H. H. Lee, president.

Voting trustees under voting trust agreement of May 1, 1929: Effingham B. Morris, Joseph Wayne, Jr., William M. Potts.

Agent and depository of voting trustees: The Philadelphia National Bank.

Registrars of voting trust certificates: Chemical Bank & Trust Co., New York; Girard Trust Co., Philadelphia.

THE PENNROAD CORPORATION,
Philadelphia, Pa., March 14, 1933.

To the Stockholders of the Pennroad Corporation:

There is submitted herewith an income statement of the corporation for the calendar year 1932, together with statement of earned surplus and general balance sheet as of December 31, 1932.

There is also appended a list of the securities owned by the corporation with their cost and approximate market value as of December 31, 1932, where listed on stock exchanges and where the corporation owns less than a majority of such securities. In the case of stocks, bonds, notes, and advances having no stock exchange quotations or where this corporation owns at least a majority of such securities, no attempt is made to estimate their value or the value of the control represented thereby.

The net income for the year 1932 was \$793,897.65, a decrease of \$3,701,148.46 as compared with that for the year 1931. The decrease in net income is due primarily to reductions in dividends received. It indicates the greatly reduced gross and net earnings of enterprises in which this corporation is interested in a year of business curtailment. Any improvement in general business will be reflected in increased earnings of the companies in which this corporation has stock holdings, although the prospect of increased dividend receipts by reason thereof is not encouraging for the near future.

Notes payable were reduced by \$1,125,000 during the year to \$400,000.

There was no change in the stock of the corporation during the year 1932, voting trust certificates for which are in the hands of 156,418 holders.

During the year 1932 the corporation suffered a loss through the death of two members of the board of directors, James S. Alexander and Jay Cooke. George W. Bevenizer, of New York City, was elected to fill the vacancy in the board caused by the death of Mr. Alexander, and William M. Potts, of Philadelphia, succeeded him as a voting trustee.

By order of the board of directors.

HENRY H. LEE, *President.*

The Pennroad Corporation income statement for period Jan. 1 to Dec. 31, 1932

		Increase or decrease compared with 1931
Income:		
Dividends	\$226,438.80	—\$3,327,186.67
Interest from bonds.....	688,461.00	—391,261.66
Interest from other accounts..	93,342.22	—12,526.86
Total income.....	\$1,008,242.02	—3,730,975.19
Deductions:		
Interest paid.....	45,374.99	+12,595.75
Taxes.....	25,244.38	+20.66
General expenses.....	143,725.00	—42,443.14
Total deductions.....	214,344.37	—29,826.73
Net income credited to earned surplus..	793,897.65	—3,701,148.46

Statement of earned surplus

Credit balance, Dec. 31, 1931.....	8,266,213.59
Net income for 1932.....	793,897.65
Credit balance, Dec. 31, 1932.....	9,060,111.24

General balance sheet, Dec. 31, 1932

ASSETS

Cash	\$347, 755. 04
Investment securities at cost.....	145, 679, 920. 50
Accrued income.....	80, 426. 69
Other assets.....	40, 300. 10
Total assets.....	146, 148, 402. 33

LIABILITIES

Notes payable.....	400, 000. 00
Taxes accrued.....	545, 549. 11
Interest and accounts payable.....	916. 66
Capital stock (9,090,000 shares without par value).....	90, 900, 000. 00
Surplus:	
Capital surplus.....	45, 241, 825. 32
Earned surplus.....	9, 060, 111. 24
Total liabilities.....	146, 148, 402. 33

Pennroad Corporation—Securities owned Dec. 31, 1932

	Shares	Cost	Stock exchange price, Dec. 31, 1932
SECURITIES FOR WHICH STOCK EXCHANGE QUOTATIONS ARE AVAILABLE			
Atlantic Coast Line R.R. Co., common.....	8, 000	\$1, 480, 000. 00	\$142, 000
Baltimore & Ohio R.R. Co., common.....	500	59, 125. 00	4, 375
Boston & Maine R.R.:			
Prior preference 7 percent cumulative dividend.....	44, 304	5, 077, 871. 45	974, 688
First preferred A 5 percent cumulative dividend.....	50, 547	4, 575, 494. 69	404, 376
First preferred B 8 percent cumulative dividend.....	24, 979	3, 602, 038. 91	256, 034
First preferred C 7 percent cumulative dividend.....	24, 337	3, 064, 630. 87	237, 285
First preferred D 10 percent cumulative dividend.....	14, 668	2, 663, 104. 99	176, 016
First preferred E 4½ percent cumulative dividend.....	19	1, 629. 25	95
Preferred old 6 percent noncumulative dividend.....	14, 968	1, 704, 645. 82	104, 776
Common.....	27, 565	2, 948, 292. 40	172, 281
Chicago & North Western Ry. Co. common.....	1, 000	85, 175. 00	3, 750
Delaware & Hudson Co. common.....	2, 000	354, 400. 00	100, 000
Kansas City Southern Ry. Co. common.....	1, 000	80, 825. 00	7, 375
Lehigh Valley R.R. Co. common.....	10, 000	650, 000. 00	110, 000
Missouri-Kansas-Texas R.R. Co. 7 percent preferred.....	4, 500	484, 062. 50	51, 187
New York, New Haven & Hartford R.R. Co. common.....	148, 800	17, 301, 851. 25	2, 027, 400
New York, New Haven & Hartford R.R. Co. preferred.....	1, 200	149, 300. 00	30, 000
Pennroad corporation voting trust certificates.....	152, 284	969, 828. 60	209, 390
Seaboard Air Line Ry. Co. common.....	402, 119	4, 523, 838. 75	100, 529
Southern Pacific Co. common.....	500	60, 125. 00	8, 000
Southern Ry. Co. common.....	10, 000	1, 415, 244. 32	50, 000
Baltimore & Ohio R.R. Co. convertible 4½ percent bonds, 1960.....	<i>Par value</i> \$174, 000	180, 612. 00	50, 460
		51, 432, 095. 80	5, 220, 017
STOCKS HAVING NO STOCK-EXCHANGE QUOTATIONS OR WHERE CORPORATION OWNS AT LEAST A MAJORITY OF THE STOCK			
	<i>Shares</i>		
(Over 99 percent) Canton Company of Baltimore common.....	21, 975	13, 432, 817. 90	
(Over 99 percent) Detroit, Toledo & Ironton R.R. Co. common.....	245, 327	23, 917, 017. 74	
Detroit, Toledo & Ironton R.R. Co. scrip.....	\$53. 06	53. 06	
(100 percent) National Freight Co. common.....	120, 000	2, 400, 000. 00	
(74 percent) Pittsburgh & West Virginia Rwy. Co. common.....	223, 230	37, 910, 145. 00	
(100 percent) Springfield Suburban R.R. Co. common.....	5, 100	200, 500. 00	
		77, 860, 533. 70	

Pennroad Corporation—Securities owned Dec. 31, 1932—Continued

	Shares	Cost	Stock ex- change price, Dec. 31, 1932
BONDS, NOTES, AND ADVANCES HAVING NO STOCK-EXCHANGE QUOTATIONS			
	<i>Par value</i>		
Detroit, Toledo & Ironton R.R. Co. first mortgage 5 percent (total issue, \$4,329,000).....	\$2,918,000	\$2,693,171.00	-----
Detroit, Toledo & Ironton R.R. Co. first and refunding mortgage 5 percent (total issue).....	10,626,000	9,983,820.00	-----
Detroit, Toledo & Ironton R.R. Co. 6 percent equipment notes (total issue, \$168,900).....	56,400	56,400.00	-----
Notes secured by collateral.....	325,000	325,000.00	-----
Advances to subsidiary companies.....	3,328,900	3,328,900.00	-----
		16,387,291.00	-----

We report that on January 5, 1933, we examined, or received confirmations from the depositaries of, the securities owned by the Pennroad Corporation at December 31, 1932, as recited in the foregoing statement and have found them to be recorded on the books of the corporation.

LYBRAND, ROSS BROS. & MONTGOMERY
Accountants and Auditors, Philadelphia, Pa.

Mr. PECORA. Now, the purpose of sending out this annual statement to your stockholders is to inform them accurately of the financial condition of their company, is it not?

Mr. LEE. That is correct.

Mr. PECORA. Do you consider that this statement operates to do that?

Mr. LEE. I think so, sir.

Mr. PECORA. Do you think a person reading that, studying it, and giving effect to all of its contents would thereby gain a complete and accurate knowledge of the financial condition of your corporation as of December 31, 1932?

Mr. LEE. I think so. We could not publish every detail.

Mr. PECORA. Well, now, let us see. This statement, which has been marked "Exhibit 54", in the general balance sheet under the caption of "Assets" carries an item of "Investment securities at cost," amounting to \$145,679,920.50. And also set forth the total assets of the company to be \$146,148,402.33. So that that item of investment securities of \$145,679,920.50 virtually shows all the assets, or nearly all the assets of the company?

Mr. LEE. That is correct.

Mr. PECORA. Now, on December 31, 1932, were those securities worth \$145,679,920.50?

Mr. LEE. I think it would be pretty hard to tell what they were worth.

Mr. PECORA. Well, what were they worth at market prices on that date?

Mr. LEE. On the back sheet of the report we showed what we felt was the best thing we could do, and that is set forth the market prices as well as cost for the securities for which stock exchange quotations were available. Where the stocks had no stock exchange quotations, or at least where a majority of the stock is owned, we show the cost, because we ourselves, I think, are unable to say what they may be worth. To my mind, the control of the corporation is

of very great value from a bargaining standpoint when it comes to the time of the sale of our assets, and ours are for sale if we can get a price for them that we consider satisfactory.

Mr. PECORA. Now, on the back sheet or the last sheet of this printed financial statement there are various blocks of securities owned on December 31, 1932, by the Pennroad Corporation, which are itemized and to which a total cost price of \$51,432,095.80 is set forth.

Mr. LEE. That is right.

Mr. PECORA. And in an adjoining column those securities are shown at their market or public exchange price quotation as of December 31, 1932, to be worth \$5,220,017. Is that right?

Mr. LEE. That is right.

Mr. PECORA. That 51 million represents a little bit more than only one third of the total investment of securities which had been purchased for its portfolio by the Pennroad Corporation, doesn't it?

Mr. LEE. That is right.

Mr. PECORA. Why didn't you give the stock market or public quotation for those other securities as of December 31, 1932?

Mr. LEE. They either had none or the corporation owned at least a majority of the stock.

Mr. PECORA. Well now, the Pittsburgh & West Virginia Railway Co. stock had a public quotation; it was listed on the stock market, wasn't it?

Mr. LEE. We own more than a majority.

Mr. PECORA. Is that any reason for not giving your stockholders in your annual report to them the market value of the securities as of December 31, 1932?

Mr. LEE. Mr. Pecora, I thought I answered that question before by saying that neither I nor any member of my board felt that we could assign a value to control. And, further than that, I think if we had attempted to make any estimate of the value of those assets that we hold we would be putting ourselves in a bad position for future trading if anybody comes along who wants to buy them.

Mr. PECORA. Why couldn't they consult the public market quotations without coming to you if they wanted to find out what they were worth?

Mr. LEE. But I don't think the public market quotation reflects the value of Pittsburgh & West Virginia stock.

Mr. PECORA. It reflected the value of the stock as of that date, didn't it, in the estimation of the company?

Mr. LEE. It reflected what public was willing to pay for it, I suppose.

Mr. PECORA. You said that the purpose of issuing these annual reports was to correctly and fully inform the stockholders of the financial condition of the company, didn't you?

Mr. LEE. Yes, sir.

Mr. PECORA. Do you think it was fair to the stockholders to state that Pittsburgh & West Virginia Railway Co. common stock was worth \$37,910,145?

Mr. LEE. Mr. Pecora, we did not state that.

Mr. PECORA. Well, that is the only figure at which you carry that security.

Mr. LEE. That is correct.

Mr. PECORA. Among your assets.

Mr. LEE. And we state the reason why we are doing so.

Mr. PECORA. You do not state it here, do you, in this annual report?

Mr. LEE. That is the cost price. We head that particular portion of the report as stocks having no stock exchange quotations or where the corporation owns at least a majority of the stock.

I might say that that form and that method of set-up was adopted after a great deal of consideration by the directors of our corporation. Now, I call attention——

Mr. PECORA (interposing). You mean it was put out in this form advisedly and after considerable discussion by the board?

Mr. LEE. Considerable consideration. I would like to call your attention to the second paragraph of the first inner page of the report where we say that "There is also appended a list of the securities owned by the corporation with their cost and approximate market value as of December 28, 1932, where listed on stock exchanges and where the corporation owns less than a majority of such securities. In the cases of stocks, bonds, notes and advances having no stock-exchange quotations or where this corporation owns at least the majority of such securities, no attempt is made to estimate their value or the value of the control represented thereby."

I merely mention that, if you please, sir, to show that we were not trying to hide anything. We were merely stating to the public and to our voting trust-certificate holders the facts as we saw them.

Mr. PECORA. Do you recall that under date of April 21, 1933, a letter was sent by the Pennroad Corporation to Mr. Fred Horowitz of the Department of Justice in Washington, D.C.?

Mr. LEE. I don't remember the date, but I remember a letter being sent; yes, sir.

Mr. PECORA. What was the occasion of the sending of that letter?

Mr. LEE. Mr. Horowitz came to us and asked us to give him some information in connection with inquiries he said had been made of the department with reference to our investments.

Mr. PECORA. Do you recall that in the letter that was sent to Mr. Horowitz in response to his request for such information the following statement was made in connection with the purchase of the two hundred and twenty thousand and odd shares of the Pittsburgh & West Virginia Railway Co.:

Two hundred and twenty-two thousand nine hundred and thirty shares were purchased through Frank E. Taplin at \$170 per share, settlement being made for 166,480 shares on October 16, 1929; 10,000 shares on November 12, 1929; 22,035 shares on November 21, 1929; and 24,415 shares on January 7, 1930. Total cost of shares purchased through Frank E. Taplin, \$37,898,100.

Mr. LEE. If you are reading from a copy of the letter, I assume it is correct.

Mr. PECORA. Well, were these shares purchased by your company through Mr. Taplin, or were they purchased from Mr. Taplin and his associates?

Mr. LEE. Purchased from him and his associates.

Mr. PECORA. Why was the Department of Justice advised that the purchase was made by your corporation "through" Mr. Taplin instead of "from" him?

Mr. LEE. Mr. Pecora, as far as I can remember, I think that was just a mistake in the use of a word.

Mr. PECORA. Now, I want to ask you about a transaction through the medium of which your company acquired 402,119 shares of the common stock of the Seaboard Air Line Railway Co.

Mr. LEE. Yes, sir.

Mr. PECORA. For a total consideration of \$4,523,838.75. Are you familiar with that transaction?

Mr. LEE. Yes, sir.

Mr. PECORA. Did you take any part in the negotiations that terminated in that transaction?

Mr. LEE. Yes, sir.

Mr. PECORA. With whom did you have those negotiations?

Mr. LEE. With Mr. Bollard, of Dillon, Read & Co.

Mr. PECORA. Mr. Pollard?

Mr. LEE. Mr. Bollard—B-o-double-l-a-r-d.

Mr. PECORA. Bollard. When did they commence?

Mr. LEE. Some time after the Seaboard announced its plan relating to the 5-percent adjustment mortgage bonds, which plan was dated May 27, 1929, and contemplated certain rearrangements, which I think I referred to last Friday, of its capital structure, and which included the provision of additional cash to be realized from the issue and sale of new stock. They culminated—

Mr. PECORA. Well, now, you say some time after that. That does not give us the date of the commencement of these negotiations.

Mr. LEE. I don't think we are able to state when they did start.

Mr. PECORA. How long did the negotiations last before they terminated in a sale?

Mr. LEE. My records do not show that, Mr. Pecora, at this time. I have got a copy of the agreement here.

Mr. PECORA. Will you produce it, please?

Mr. LEE. Dated October 9, 1929, formal agreement by which we agreed to take that stock [handing document to Mr. Pecora].

Mr. PECORA. Thank you. Is this a correct and true copy of the agreement in question?

Mr. LEE. We believe it to be true.

Mr. PECORA. We offer it in evidence and ask it be spread on the record.

The CHAIRMAN. Let it be admitted and entered on the record.

(Agreement dated October 9, 1929, between the Pennroad Corporation and Dillon, Reed & Co. was designated "Committee Exhibit 55", and appears in full in the words and figures following:)

COMMITTEE EXHIBIT 55

OCTOBER 9, 1929.

Seaboard Air Line Railway Co. proposes to change the par value of its common stock from \$100 per share to no-par value, to authorize an additional amount of common stock, and to offer to the holders of its preferred and common stocks, including holders of common stock to be received by depositing adjustment bondholders, the right to subscribe to two new shares of the no-par value common stock for each share of preferred and common stock now held (including stock to be received by depositing adjustment bondholders in exchange for adjustment bonds deposited).

The amount of new stock to be offered as above will vary somewhat dependent on the amount of adjustment bonds deposited, but it is expected that the amount will approximate 1,900,000 shares. The present syndicate owning

Seaboard securities (herein called the Securities Syndicate) now owns approximately 105,000 shares of Seaboard preferred and common stock and will receive approximately 25,000 shares of additional common stock in exchange for deposited adjustment bonds owned by this syndicate. This syndicate will subscribe for the amount of additional stock offered to it under the terms of the above offer—approximately 260,000 shares.

Dillon, Read & Co. and associates propose to form a new underwriting syndicate to underwrite the above-described offering of new stock by Seaboard Air Line Railway Co. It is expected that the price at which the new stock is to be offered to stockholders will be in the neighborhood of \$12 per share, but it may be somewhat above or below that price, as agreed upon by the company, the underwriting syndicate, and the Interstate Commerce Commission.

If the proposed additional offer of new stock is made and underwritten as above outlined, the Pennroad Corporation agrees, at such time as the underwriting syndicate takes up and pays for any stock not subscribed and paid for by stockholders, to purchase from the Securities Syndicate or from sellers designated by the Securities Syndicate an amount of new stock equivalent to 25 percent of all stock so purchased by the underwriting syndicate from the Seaboard Air Line Railway Co. (Said purchase not to include any part of the 260,000 shares referred to above to be subscribed for by the present syndicate owning Seaboard securities.) Should 25 percent of the stock purchased by the underwriting syndicate not aggregate 125,000 shares the stock to be so purchased by the Pennroad Corporation is to be increased to a total of 125,000 shares—such aggregate amount not exceeding, however, the full amount of the stock received by the underwriting syndicate upon its underwriting. The price to be paid by the Pennroad Corporation is to be the price per share at which the stock is offered to the stockholders of the Seaboard Air Line Railway less the net amount per share received by the underwriting syndicate as compensation for the underwriting. (It is understood that said amount to be received by the underwriting syndicate may be less than the total amount per share to be paid by Seaboard Air Line Railway Co. as underwriting compensation as Dillon, Read & Co. and associates propose to retain not to exceed 25 cents per share from the amount to be paid by the company as compensation for their services in forming the underwriting syndicate.)

It is understood that it is intended to form the proposed underwriting syndicate and make the proposed offering of new stock promptly (subject to market conditions and the approval of the Interstate Commerce Commission). The obligation of the Pennroad Corporation to complete above described purchase of Seaboard Air Line Railway Co. common stock is to be of no effect unless the above described stock offering is made and underwritten as above outlined within a period not longer than 6 months from date.

THE PENNROAD CORPORATION
By H. H. LEE, *President*
"SECURITIES SYNDICATE"
By DILLON, READ & Co.
(Signature illegible.)
COVERDALE & COLPITTS

To the extent that the stock to be purchased by the Pennroad Corporation does not aggregate 125,000 shares, the Pennroad Corporation is to receive a cash payment equivalent to the net amount per share received by the underwriting syndicate as compensation for the underwriting, computed on the total number of shares by which the number of shares purchased by the Pennroad Corporation falls short of 125,000.

H. H. L.
D. R. & Co.

The CHAIRMAN. Did you buy the stock from Dillon, Read & Co.?

Mr. LEE. We bought it from a syndicate.

Mr. PECORA. Of which they were the managers?

Mr. LEE. Of which they were the managers, according to my recollection. Mr. Pecora, may I add that that transaction was approved by our board on October 9, 1929?

Mr. PECORA. Yes; but when were the negotiations commenced?

Mr. LEE. Well, the best I can tell you about that is from this memorandum I have before me, and you asked us to bring data down here, and we have tried our best, and some of this was written by others of my staff. The best I can say is it started sometime after that Seaboard plan was announced in 1929. The plan was dated May 1929, and I haven't any certain recollection of when the negotiations began. They certainly, of course, began some time prior to that agreement.

Mr. PECORA. Did you enter upon these negotiations in behalf of the Pennroad Corporation in pursuance of any direction of the board of directors of that corporation?

Mr. LEE. We entered upon those negotiations with Messrs. Dillon, Read & Co. after consideration of the subject of some investment in the Seaboard by our directors, which was, as far as I recall, entirely an informal matter.

Mr. PECORA. Are there any entries in the minute book of your board showing the consideration that was given to this subject by the board?

Mr. LEE. Not that I recall, except the action taken approving the agreement and approving the transaction.

Mr. PECORA. In other words, the only official action taken by the board was one ratifying and approving this agreement of October 9, 1929?

Mr. LEE. That is correct. [After conferring with associates:] Mr. Pecora, if I may, my assistants here tell me that our action was an action which authorized the proper officers to take steps to negotiate that agreement, and it was not a ratifying and confirming action. It was an authority to us to go and do it.

Mr. PECORA. At what meeting was that authority given to you?

Mr. LEE. The same day, sir.

Mr. PECORA. On October 9, 1929?

Mr. LEE. Yes.

Mr. PECORA. The first official action taken by the board was at the end of the negotiations?

Mr. LEE. Yes. Mr. Pecora, they tell me, too, that that agreement in memorandum form was submitted to the board, so evidently the negotiations with Dillon, Read & Co. had proceeded up to the point of framing an agreement which we were satisfied to go into, and then we took it to our board and had them approve and authorize its execution.

Mr. PECORA. What were the reasons that prompted you as the head of the Pennroad Corporation to enter into this transaction with Dillon, Read & Co.?

Mr. LEE. Well, the Seaboard had its new plan. It included a provision for cash to be realized from the sale of common stock which was under consideration by the Commission and later approved by them.

Mr. PECORA. That is, the Seaboard was selling additional stock?

Mr. LEE. Was selling additional stock.

Mr. PECORA. To the public. Did it have any earnings, any net earnings, in 1929? Or was it operating at a deficit that year?

Mr. LEE. The statistical data relating to the company, I am advised here, for May 1929, 5 months to May 1929, compared with the corresponding month of the previous year, showed a substantial in-

crease in net income. I assume, therefore, it had net income. In September 1929 the president of the company stated a substantial part of the increase of \$1,900,000 of gross income for 8 months over the previous year would be reflected in net income, notwithstanding considerable maintenance expenditures.

Mr. PECORA. What are you reading that from?

Mr. LEE. I am just reading that from a memorandum prepared by my staff.

Mr. PECORA. Well, prepared by whom?

Mr. LEE. By Mr. Hebden of my staff.

Mr. PECORA. By whom?

Mr. LEE. By Mr. Hebden of my staff.

Mr. PECORA. Mr. Hepburn?

Mr. LEE. Mr. Hebden—H-e-b-d-e-n.

Mr. PECORA. Mr. Hebden. Does he hold any office in the Pennroad Corporation?

Mr. LEE. Assistant secretary.

Mr. PECORA. Who conducted these negotiations in 1929—you or Mr. Hebden?

Mr. LEE. Oh, I did.

Mr. PECORA. Don't you recall the factors that entered into your decision it would be a good thing for your company to buy over 400,000 shares of the stock of the Seaboard Air Line?

Mr. LEE. I think I testified the other day, Mr. Pecora, we only wanted to buy 125,000.

Mr. PECORA. Yes. Well, what prompted you to buy 402,000 instead of 125,000?

Mr. LEE. We were under contract to take 25 percent, as I recall the figure, of the total amount of stock offered to the stockholders of the Seaboard which might have to be taken by an underwriting syndicate.

Mr. PECORA. You were in that contract because you willingly entered into that contract for your company?

Mr. LEE. That is true.

Mr. PECORA. What were the factors, the circumstances, that caused you to regard that contract as a good thing for the Pennroad Corporation to enter into?

Mr. LEE. Well, my remembrance of it is, in the first place, that Seaboard had begun apparently to pick up. It was about to adopt a financial plan which was believed would help its capital structure. At that time it appeared that the South was again coming forward in its business, and the price at which we were able to acquire the stock and proposed to acquire it was \$11.25 a share, and at the time of entering into that agreement it was selling from \$16.25 to \$17.25.

Mr. PECORA. Now, you are reading again from somebody else's prepared statement, aren't you?

Mr. LEE. I am reading this part only as to stock prices.

Mr. PECORA. I wish you would tell us from your own recollection, Mr. Lee. You were the gentleman who conducted these negotiations for your corporation?

Mr. LEE. I was one of them.

Mr. PECORA. Who were the others?

Mr. LEE. Mr. County was the other.

Mr. PECORA. Now, can you tell us from memory the reasons that prompted you, as the president of the Pennroad Corporation, to conclude it would be a good thing for the Pennroad Corporation to buy 402,000 shares of the Seaboard Air Line Co. stock?

Mr. LEE. Because we believed that there was a possibility that that particular railroad was becoming one which we could properly have an investment in and in time, if we chose to sell, make some money in, or, if we held, we might derive some benefit from. We had in mind and did desire to make investments in the three southern carriers; that is, the principal ones—Atlantic Coast Line, the Southern Railway, and the Seaboard Air Line—and we proposed to invest something over a million dollars in each of them.

Mr. PECORA. Now, you actually invested over 4½ million dollars in the Seaboard Air Line?

Mr. LEE. Unfortunately, sir.

Mr. PECORA. Why was that unfortunate?

Mr. LEE. Because I think that was entirely too much money for us to put into the Seaboard Air Line or any other such company.

Mr. PECORA. But why did you do it?

Mr. LEE. Because we could not help ourselves under the contract we had agreed to.

Mr. PECORA. But you made a contract voluntarily?

Mr. LEE. Yes; we did.

Mr. PECORA. And in the free exercise of your own judgment?

Mr. LEE. For 125,000.

Mr. PECORA. For 125,000 shares?

Mr. LEE. Which would have cost us about a little over a million and a quarter dollars.

Mr. PECORA. Why didn't you stick to that purpose instead of going far beyond it and buying four hundred and odd thousand shares?

Mr. LEE. We did not expect we would be called upon for more than the purchase of the 125,000 shares.

Mr. PECORA. Why didn't you make a contract in such terms that you could not be called upon to purchase more than that?

Mr. LEE. We thought we did, I believe.

Mr. PECORA. Who prepared this contract marked Exhibit No. 55?

Mr. LEE. As I recall it, that was a joint preparation between our side and Mr. Bollard of Dillon, Read & Co. What I mean is this, Mr. Pecora—125,000 shares we thought—we knew was the amount we wanted. We felt that we would not get any more because of the market condition, because of the fact that the stockholders would undoubtedly take a very fair percentage, and the best way of making investment in Seaboard was through the particular syndicate that we afterward made the arrangement with. It was unfortunate for us that the contract was signed and in effect, and that the financial plan approved by the Commission for the issue of stock was not promulgated until after the first market break, and as a consequence of that market break the stockholders of the Seaboard Air Line took a very small proportion, an insignificant proportion, of the stock that was offered to them, and the syndicate had to take practically all of it.

The CHAIRMAN. How much did you pay?

Mr. LEE. \$11.25 per share, Senator.

Senator GOLDSBOROUGH. What was the market at the time?

Mr. LEE. At the time of entering into that agreement the market was—I am now reading, Mr. Pecora— $16\frac{1}{4}$ to $17\frac{1}{4}$.

Mr. PECORA. Where is the provision in this contract of October 9, 1929, that obligated your company to buy four hundred and two thousand and odd shares?

Mr. LEE. May I read it? [Reading:]

If the proposed additional offer of new stock is made and underwritten as above outlined, the Pennroad Corporation agrees, at such time as the underwriting syndicate takes up and pays for any stock not subscribed and paid for by stockholders, to purchase from the Securities Syndicate or from sellers designated by the Securities Syndicate an amount of new stock equivalent to 25 percent of all stock so purchased by the underwriting syndicate from the Seaboard Air Line Railway Company.

Mr. PECORA. When was that issue made to the public or offered to the public?

Mr. LEE. As I recall it—may I refer to this memorandum? [After consulting memorandum:] The order of the Commission approving the issue was not issued until November 12, 1929.

Mr. PECORA. When was the offering made to the public of that new stock?

Mr. LEE. I assume it was made immediately, Mr. Pecora. I don't find anything—wait a minute; here it is. I beg your pardon. The offering of new stock was announced to the Seaboard security holders on November 26, 1929.

The CHAIRMAN. What is that stock worth now, Mr. Lee?

Mr. LEE. Well, the quotation for it is practically nominal. It has been down to a half, and I think it is a little over a dollar now, Senator.

The CHAIRMAN. The road is in receivership?

Mr. LEE. The road is in receivership.

Mr. PECORA. How long after January 1930, did the road go into receivership?

Mr. LEE. The receiver was appointed December 23, 1930.

Mr. PECORA. Was it considered by you that the agreement or rather the acquisition of these 400,000 and odd shares of the Seaboard Air Line would be beneficial to the stockholders of the Pennroad Corporation?

Mr. LEE. It was considered by me that the acquisition of 125,000 would be beneficial to the stockholders of the Pennroad Corporation. I am very sorry personally we got the 400,000, but, as I say, we were under contract, as I see it, to have to take it.

Mr. PECORA. Wasn't it a simple thing to have the contract limit you to the obligation to buy only 125,000 shares if in your judgment that is all that your company should have bought?

Mr. LEE. I didn't understand that question, Mr. Pecora.

Mr. PECORA. Wouldn't it have been a simple thing to have had the contract into which you entered in behalf of your corporation so worded that your obligation or the obligation of your company would be limited to the purchase of 125,000 shares of stock, if that number of shares was all that you thought your company should buy?

Mr. LEE. But as I tried to explain, we thought that we were limiting it, because we felt that 125,000 shares was even more than we

might get because of the incidence of this allotment; that is, the fact that the allotment was coming forward.

Mr. PECORA. Where is the original of that contract?

Mr. LEE. On our files, sir.

Mr. PECORA. What is that?

Mr. LEE. On our files.

Mr. PECORA. I would like to see the original, Mr. Lee.

Mr. LEE. I am sorry to say I haven't the file here. I will send you the original. That is the best I can do.

Mr. PECORA. Was it entered into upon the date borne by that copy, namely, October 9, 1929?

Mr. LEE. Yes, sir; that is correct.

Mr. PECORA. Let me see the entry in the minute book of your company with regard to this transaction, will you?

(An associate of Mr. Lee handed the minute book to Mr. Pecora.)

Mr. PECORA. Now, the entry, in part, which has been handed me reads as follows, and I am reading from minute book of the Pennroad Corporation:

Resolved, That the proper officers of this Corporation are hereby authorized to take any and all action and to execute any and all papers and instruments deemed by them proper to carry fully into effect arrangements with Messrs. Dillon, Read & Co. and associates, upon the general terms of a memorandum submitted to this meeting with respect to new stock proposed to be issued by the Seaboard Air Line Railway Company.

And that resolution appears to have been adopted at meeting of the board held on October 9, 1929, which is attended by you as president, Messrs. Atterbury, Morris, Ingersoll, Mellon, County, and Rue as directors.

Where is there anything in that resolution which indicates the number of shares of the Seaboard Air Line Railway Co. that you were authorized to contract to purchase in its behalf?

Mr. LEE. Well, I assume that the memorandum of agreement referred to—my recollection is that the memorandum of agreement referred to, is this memorandum the original of which is on our files, which probably was in final form. I believe it was, to the best of my recollection.

Mr. PECORA. Did you have it passed upon by attorneys for your company?

Mr. LEE. Oh, yes.

Mr. PECORA. Did they know that the purpose of your company was to acquire only 125,000 shares of this stock?

Mr. LEE. I should think so, sir.

Mr. PECORA. At this meeting of October 9, 1929, was that agreement that is in evidence here presented to the board for its consideration?

Mr. LEE. I am unable to testify whether it was this or a draft of agreement, as is frequently presented to board meetings, which resulted in the agreement being executed which is on our file and of which this is a true copy. In other words, Mr. Pecora, I think the agreement as we executed it was substantially in the form presented to the meeting.

Mr. PECORA. Did you present that agreement to the meeting on October 9, 1929?

Mr. LEE. I assume I did. I don't recollect particularly whether I actually presented it, but I believe I did.

Mr. PECORA. Well, did you explain to the board that it was the purpose of your company to acquire only 125,000 shares?

Mr. LEE. I am quite sure I did, sir, because that is all that is mentioned in this agreement.

The CHAIRMAN. Do you think the memorandum referred to in these minutes was substantially what is set out in this agreement?

Mr. LEE. I think so, Senator.

The CHAIRMAN. How long after that was the stock acquired, the transaction consummated?

Mr. LEE. January 14, 1930.

Mr. PECORA. At that time what was the market price of the stock?

Mr. LEE. January 14, 1930?

Mr. PECORA. Yes.

Mr. LEE. $9\frac{3}{4}$.

Mr. PECORA. And your company bought it at $11\frac{1}{2}$.

Mr. LEE. Eleven and one fourth.

The CHAIRMAN. That is all, Mr. Lee.

Mr. LEE. Senator Fletcher, excuse me, sir. You asked me a question the other day when I was here about my personal holdings of Pennroad. I desire to answer it, sir. I held 548 shares at the beginning of the corporation. I now hold 810.

The CHAIRMAN. Thank you.

Mr. LEE. Am I excused?

The CHAIRMAN. That is all; yes.

Mr. LEE. Thank you very much, gentlemen.

Mr. PECORA. Mr. Chairman, in reliance upon the statement or testimony of Mr. Lee last Friday that the gentleman who conducted the negotiations in behalf of the Pennroad Corporation with Mr. Taplin was Mr. County, I asked that a subpoena be issued for Mr. County, who is in attendance here today. Mr. County is here now. But, in view of the testimony that has been given here today both by Mr. Taplin and Mr. Lee, I see no occasion to examine Mr. County, unless Mr. County has any statement to make which he desires to lay before the committee.

Mr. COUNTY. I am here at the service of the committee.

Mr. PECORA. Is there any information concerning the Pittsburgh & West Virginia Railway transaction that you want to lay before the committee?

Mr. COUNTY. Nothing special. It is a very old story with me, but I think there is no use going into that unless the committee sees fit to do so.

Mr. PECORA. Well, is there any information you could add to that which has been given to the committee by Mr. Taplin and Mr. Lee?

Mr. COUNTY. I don't think so. Every one of these investments were very carefully inquired into and decided to be for the benefit, sole benefit, of the stockholders of the Pennroad Corporation, of which I am one.

Mr. PECORA. I suggest—there are a few questions I want to ask Mr. County, if he will be sworn.

**TESTIMONY OF A. J. COUNTY, VICE PRESIDENT AND DIRECTOR
PENNSYLVANIA RAILROAD CO., PHILADELPHIA, PA.**

The CHAIRMAN. You will be sworn, Mr. County. Do you solemnly swear the evidence you will give in this hearing will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. COUNTY. I do.

Mr. PECORA. Mr. County, you just stated informally and before you were under oath that all of these investments that have been made by the Pennroad Corporation were made in the interests of the stockholders of the Pennroad Corporation.

Mr. COUNTY. Absolutely, sir.

Mr. PECORA. That is a correct statement, is it?

Mr. COUNTY. Absolutely.

Mr. PECORA. Now, in addition to being a director of the Pennroad Corporation you are an officer and director of the Pennsylvania Railroad Co.?

Mr. COUNTY. I am, sir.

Mr. PECORA. How long have you been an officer and director of the Pennsylvania Railroad Co.?

Mr. COUNTY. Well, for quite a number of years. I have been vice president of the Pennsylvania Railroad Co. for about 13 years, and I suppose I have been a director for maybe half that time.

Mr. PECORA. And you have been a director of the Pennroad Corporation from its inception in April 1929?

Mr. COUNTY. Yes, sir.

Mr. PECORA. Up to the present time?

Mr. COUNTY. Yes.

Mr. PECORA. Were you one of the organizers of the Pennroad Corporation, Mr. County?

Mr. COUNTY. Yes, sir.

Mr. PECORA. Who were the other organizers of it?

Mr. COUNTY. Well, the organizers mentioned are the directors at that time, like Mr. Atterbury and Mr. Morris, Mr. Cooke, several other members of the board of the Pennsylvania Railroad Co., as set forth in the announcement concerning the Pennroad Corporation.

Mr. PECORA. Well, as that announcement has been read into the record here it would appear that the Pennroad Corporation was organized originally to serve the interests of the stockholders of the Pennsylvania Railroad Co. Is that a correct assumption?

Mr. COUNTY. I don't think that you have carefully or fully read that statement. I say that with some diffidence.

Mr. PECORA. Well, Mr. County, will you tell us then what the purposes were of the organization of the new corporation, the Pennroad Corporation?

Mr. COUNTY. The purpose of incorporating this investment corporation was to protect the interests of the stockholders of the Pennsylvania Railroad Co., and in addition to make such other investments as from time to time are deemed essential.

Mr. PECORA. Deemed essential to whose interests?

Mr. COUNTY. To the interests of the Pennroad stockholders.

Mr. PECORA. Well, as distinguished from the interests of the Pennsylvania Railroad Co. stockholders?

Mr. COUNTY. Absolutely, because you will notice that in the first six lines submitting this proposition to the public as well as to the stockholders of the Pennsylvania Railroad Co., it is designated an independent instrumentality. I didn't hear that mentioned today, and that is the reason I am mentioning it now.

Mr. PECORA. Well, whether so designated or not, do you conceive that there was a point where the interests of the Pennsylvania Railroad Co. might clash, or, rather, where the interests of the stockholders of the Pennsylvania Railroad Co. might clash, with the interests of the stockholders of the Pennroad Corporation who were not also stockholders of the Pennsylvania Railroad Co.?

Mr. COUNTY. Yes; in the long future, with the broad powers of an investment corporation, that might arise.

Mr. PECORA. You as a director of the Pennsylvania Railroad Co., as well as vice president of it, owed a duty to protect the interests of the Pennsylvania Railroad Co., didn't you, at all times?

Mr. COUNTY. Yes; to the extent where they are affected.

Mr. PECORA. Yes. And as a director of the Pennroad Corporation you owed a duty to the stockholders of the Pennroad Corporation at all times to protect their interests?

Mr. COUNTY. Yes, sir; wherein they were affected.

Mr. PECORA. If conceivable, the interests of the stockholders of the Pennsylvania Railroad Co. might clash with the interests of the stockholders of the Pennroad Corporation, whose interests would you serve as a director in the one instance of the Pennsylvania Railroad Co. and the other instance and at the same time of the Pennroad Corporation?

Mr. COUNTY. I would serve the interests of the company on whose board I sat and upon whose board I acted, because in this case there can be no apparent clash between them. This corporation, the Pennroad Corporation, made separate and independent investments of its own.

Mr. PECORA. Who determined the investments that were made by the Pennroad Corporation?

Mr. COUNTY. The directors of the Pennroad Corporation and its executive committee.

Mr. PECORA. Who composed the executive committee in the year 1929?

Mr. COUNTY. The executive committee in 1929—I was a member myself, and I think that Mr. Cooke and Mr. Morris and Mr. Lee ex officio, the president of the company.

Mr. PECORA. Well, was Mr. Cooke a director at the same time of the Pennsylvania Railroad Co.?

Mr. COUNTY. He was, sir.

Mr. PECORA. Was Mr. Morris?

Mr. COUNTY. Yes, sir.

Mr. PECORA. And you were, of course?

Mr. COUNTY. Yes, sir.

Mr. PECORA. So that the executive committee of the Pennroad Corporation in the year 1929 was composed of three gentlemen who were also directors of the Pennsylvania Railroad Co.?

Mr. COUNTY. Absolutely; and so set forth to the public before any investment was made in this stock or any stock was offered.

Mr. PECORA. Now, did you seek, as a director and a member of the executive committee of the Pennroad Corporation, in making investments of its funds, to serve the interests of the Pennroad Corporation as distinguished from the interests of the Pennsylvania Railroad Co. or its stockholders?

Mr. COUNTY. As a director of the Pennroad Corporation, I sought primarily to protect its interests first of all, but in nothing that was done did I see any occasion to clash with the interests of the Pennsylvania Railroad Co.

Mr. PECORA. Did those interests ever clash?

Mr. COUNTY. Not so far, but we are not at the end of them yet at all.

Mr. PECORA. I mean up to the present time.

Mr. COUNTY. Up to the present time.

Mr. PECORA. The interests have been harmonious?

Mr. COUNTY. Absolutely, so far.

Mr. PECORA. Now, in connection with the purchase of the 222,930 shares of the Pittsburgh & West Virginia Railway Co. stock by the Pennroad Corporation, did you have anything to do with the negotiations that led to that sale?

Mr. COUNTY. Yes, sir. I did, sir.

Mr. PECORA. What part did you have in that transaction?

Mr. COUNTY. It is a long story with me, this Pittsburgh & West Virginia. I think as far back as 1923 in my capacity as an officer of the Pennsylvania Railroad Co., and especially one that deals with the corporate relations, that stock was offered to me. I think at that time it was offered through somebody connected with Sutro Bros. of New York. The answer I made after consulting our own people was, We are not interested.

Mr. PECORA. When you say "after consulting our own people"—

Mr. COUNTY. Yes.

Mr. PECORA. What people do you mean?

Mr. COUNTY. I went back and consulted the officers of the Pennsylvania Railroad Co. and that would also reach the finance committee and be generally discussed.

Again, I think in about another year, it was offered to me through a man I think called Barker, who is a banker in the city of Philadelphia.

Mr. PECORA. When was that?

Mr. COUNTY. I think about 1923. And from time to time we had heard—it was common knowledge—that Pittsburgh & West Virginia stock was for sale.

Mr. PECORA. But the Pennsylvania Railroad Co. was not interested?

Mr. COUNTY. Not interested at the time, sir.

Mr. PECORA. When did it first become interested in the purchase?

Mr. COUNTY. Well, I think after that, because of the fact that the Pittsburgh & West Virginia—I assume Frank Taplin got into it, but I am not sure of that, and his associates, began to improve and extend the property. As a link of itself, from my conception of it, it ought to have been much farther or much longer to make it of essential interest to the Pennsylvania Railroad Co. There also may have been the question of the extraordinary value that these people attached to their stock at the time. They asked all kinds of ridiculous prices, and I never—

Mr. PECORA (interposing). What prices were asked for it when the matter was first brought to your notice by Sutro Bros.?

Mr. COUNTY. I think between \$400 or \$500 a share or something like that. It was perfectly ridiculous.

Mr. PECORA. And what price was mentioned by Barker?

Mr. COUNTY. Oh, we never got far enough, because a great many people and a great many properties of that kind were hawked around and we cannot pay attention to them. In my position as a financial officer loads of things are offered to me, from anything you can think of in the country, any kind of a corporate enterprise.

Mr. PECORA. Well, when for the first time did the Pennsylvania Railroad Co. become interested in the acquisition of large blocks of stock in the Pittsburgh & West Virginia?

Mr. COUNTY. I should think about 1926 it began to have some interest to us, because it had shown some real resources. It is a very valuable property. If my recollection is right, there are about a hundred million tons of unmined coal on that property. Now, Frank Taplin mentioned to me, or I mentioned to him several times when I met him, but Frank's figures were always too high, and as a financial officer I always let him do as much of the talking as he wants. I did not open it up, you know and say, "Well now, have you got that West Virginia stock for sale?" Because then I would be putting myself into a position of being a petitioner for the stock, and I didn't wish to be. A buyer usually never likes to get into that position.

Furthermore, we may not have had too much money at the time. Furthermore, the plans of the Pittsburgh & West Virginia Railway looked to extensions that would connect it with other railroads at the time so that we would get a longer haul of its traffic. And all through this were the friendly relations with Frank Taplin, which were very friendly. It was a railroad from which we got a great deal of traffic on the Pennsylvania Railroad, and so long as it was in his hands I think it was pretty safe, and—

Mr. PECORA (interposing). You thought that while in his hands it was very friendly to the Pennsylvania Railroad?

Mr. COUNTY. Yes, sir; I did. I thought that his company, and its development, and the relations with him, as a valuable business man, and as a valuable man who knew really what he was doing, because he is a very well-informed man, and a very level-headed business man, I thought they were very desirable relations for us to cultivate, and while we did not buy the property or make an offer for the property, I did my best to keep those relations just as friendly as I could.

Mr. PECORA. Well, then, in April of 1929 the Pennroad Corporation was organized, and ultimately that corporation bought this Taplin stock.

Mr. COUNTY. Yes, sir.

Mr. PECORA. Now, what part did you take, if any, in those immediate negotiations?

Mr. COUNTY. Well, in those immediate negotiations I met Frank Taplin, and he discussed the proposition of getting a loan in connection with these properties. I must say that I had been treating the matter as a nonchalant and safe matter about the Pittsburgh & West

Virginia. Frank mentioned, when I asked what would be the security for such a loan, the Wheeling & Lake Erie stock. Now, about that time was announced the purchase, or at least we got information of—

Mr. PECORA (interposing). What did Taplin tell you about the purpose for which he was seeking the loan?

Mr. COUNTY. He was seeking a loan to get additional capital.

Mr. PECORA. To do what?

Mr. COUNTY. To hold onto his Pittsburgh & West Virginia Railway shares and also to purchase Wheeling & Lake Erie shares.

Mr. PECORA. And also to prevent shares of the Wheeling & Lake Erie from falling into the hands of railroad interests hostile to the Pennsylvania Railroad Co.

Mr. COUNTY. I don't think we reached that stage. He probably left that to my intuition, because I had knowledge at that time that there had been extensive purchases by the New York Central, Baltimore & Ohio, and Van Sweringen interests of a number of lines, and either then or shortly thereafter we had acknowledgement that they had purchased the equivalent of or almost 50 or 51 percent of the Wheeling & Lake Erie. I therefore was interested, and I thought a loan to Frank Taplin would be all right, and that I would see that he got it if it was possible and his security was adequate.

Mr. PECORA. You were interested in what?

Mr. COUNTY. The Pennroad Corporation.

Mr. PECORA. What interest did the Pennroad Corporation have at that time in either of those two railroad properties, either the Wheeling & Lake Erie or the Pittsburgh & West Virginia?

Mr. COUNTY. It was a splendid investment is point no. 1, and—

Mr. PECORA (interposing). But it had not made any investment in either one of those railroads at that time.

Mr. COUNTY. No; but this was a valuable investment, is point no. 1, and then—

Mr. PECORA (interposing). Do you mean the loan was a valuable investment?

Mr. COUNTY. Yes, sir; because I was offered ample collateral. And in addition to that—

Mr. PECORA (interposing). How many times did you ask that that collateral be increased?

Mr. COUNTY. I think probably twice, and—

Mr. PECORA (interposing). So the original collateral was not adequate?

Mr. COUNTY. Well, not from my standpoint. You see, I was the person who was going to recommend that loan, and I wanted to be sure it was safe. Indeed, for an Irishman, I asked him a third time to increase that collateral. We attribute these attributes to Scotchmen, but I am an Irishman and I wanted that loan adequately secured, because a part of my money as well as the money of the stockholders of the Pennroad Corporation that I represented was going to be invested in that loan, and—

Mr. PECORA (interposing). All right. Now, that loan was made for the purpose of yielding a 6 percent return during the period of the loan to the Pennroad Corporation and not for the purpose of enabling Taplin to acquire stock of the Wheeling & Lake Erie Railroad.

Mr. COUNTY. Oh, yes. That was Mr. Taplin's end of it. In other words, I had an excellent loan to recommend to the Pennroad Corporation with collateral we would be very happy to have in the Pennroad Corporation treasury if anything should occur to Frank Taplin.

Mr. PECORA. That is, if the loan were not paid?

Mr. COUNTY. Absolutely.

Mr. PECORA. As a matter of fact, when September of 1929 came around the first quarter's interest installment on that loan fell due, and it now appears from the testimony of this afternoon given by Mr. Lee that that interest was not then paid.

Mr. COUNTY. I do not think that was quite the testimony. I think the testimony also went on to show that negotiations were pending for the purchase of a big lot of Pittsburgh & West Virginia Railway stock and that the settlement was to be concluded just as soon thereafter as possible, and that was when the interest was paid.

Mr. PECORA. Well, the interest was paid in October of 1929.

Mr. COUNTY. That is right.

Mr. PECORA. When the Pennroad Corporation made the first payment upon its purchases of common stock in the Pittsburgh & West Virginia Railroad to Taplin.

Mr. COUNTY. That is my recollection.

Mr. PECORA. Well, now, in buying those 222,930 shares of that stock from Taplin and his associates, you realized, didn't you, that you were buying an amount equivalent to about 73 percent of the total outstanding stock of the Pittsburgh & West Virginia Railway Co.?

Mr. COUNTY. I did.

Mr. PECORA. And Mr. Taplin was permitted to retain the presidency of the railroad?

Mr. COUNTY. Yes, sir.

Mr. PECORA. And has continued in that office ever since?

Mr. COUNTY. Yes.

Mr. PECORA. And he is operating a railroad company that is a competitor of the Pennsylvania Railroad?

Mr. COUNTY. Yes; in part.

Mr. PECORA. And do you mean in part otherwise?

Mr. COUNTY. When I say in part I mean in that particular mileage that corresponds to the Pennsylvania railroad mileage in that territory. But you must remember that when the traffic leaves the Pittsburgh & West Virginia tracks it comes, a great deal of it, to the Pennsylvania Railroad.

Mr. PECORA. Then to a certain extent it was favorable to the interests of the Pennsylvania Railroad to have Mr. Taplin operate the Pittsburgh & West Virginia?

Mr. COUNTY. It was fortunate, I think, for both, but I do not think that is quite the way it was left. The way it was left was this: Mr. Taplin has a great deal of pride in his work. He has a great deal of pride in the Pittsburgh & West Virginia. He has pretty headstrong qualities, but if you get to know him you find he has also very lovable qualities, and he asked that until the Pennroad Corporation had somebody to take charge of that property that he be permitted to continue there, and that the results would be all that we could ask for it. And

he has operated that property I think with marvelous skill, and we have the greatest faith in him. But I might say that we have not trusted solely to him, much as we like him, for we have monthly reports and from time to time reports of what is going on in the Pittsburgh & West Virginia.

Mr. PECORA. Who has them?

Mr. COUNTY. The Pennroad Corporation. And the Pennsylvania Railroad watches that matter, too. That is where we get some of our business. In addition to that, Mr. Lee, the president of the Pennroad Corporation, is a director of the Pittsburgh & West Virginia Railway Co., and he has been over that property and personally inspected it and reported to the board, and the board of the Pennroad Corporation keeps in touch with what is going on every month, and also between times if they ask about it.

Mr. PECORA. Well, you feel that Mr. Taplin is operating the Pittsburgh & West Virginia Railway for the benefit of the stockholders of that railway company, do you?

Mr. COUNTY. Absolutely.

Mr. PECORA. And that railroad is a competitor within the limits of its mileage of the Pennsylvania Railroad?

Mr. COUNTY. Yes, sir.

Mr. PECORA. And a strong competitor?

Mr. COUNTY. Yes, sir. And if he can make it any stronger he makes it stronger. He makes it as strong as he can. And on our part we make it as strong as we can.

Mr. PECORA. Do you consider, as a director of the Pennsylvania Railroad Co., that you are serving the interests of the stockholders of the Pennsylvania Railroad Co. by permitting the operation of this competing line called the Pittsburgh & West Virginia Railway Co. to remain in the control and management of as strong a competitor as Mr. Taplin?

Mr. COUNTY. Absolutely. The more coal he produces the more we are going to get, a part of it anyway. If he would get it entirely, we would get a part of the whole haul, but we will get our share anyway.

Mr. PECORA. Is there a community of interest?

Mr. COUNTY. I wouldn't say that. But there is no clash of interests. That is, within his limits, of the Pittsburgh & West Virginia Railway Co., he is absolutely in control, and he works for the benefit of its property, just as in the case of our property we are working for our interest.

Mr. PECORA. Were all those elements in your mind when you, as a director of the Pennroad Corporation, advocated the purchase of those railroad shares?

Mr. COUNTY. Yes, sir; because we had not developed on the Pennroad an operating staff that we could put in charge of a railroad of that size. In addition to that, and I think it ought to go in as a part of the history here in justice to Frank Taplin, that Frank Taplin had the understanding, the clear understanding, although it is not a written understanding that I know of, that he was engaged in trying to form an independent system. That is, that he would take the Pittsburgh & West Virginia, and he would take the Wheeling & Lake Erie and the Western Maryland and have a line that reached

the big cities of Cleveland and Toledo, on the one hand, and the lower part of the coal fields in Ohio and Pennsylvania, on the other hand, and go right to the Baltimore harbor. And our understanding with him was this: That he would struggle to the best of his endeavors to get the Interstate Commerce Commission to approve of that. And if it approved of it he could have that stock back again at a price to be fixed at that time.

Mr. PECORA. Well, he said here today that he expected, under those circumstances, to be able to buy it back at the price at which he sold it.

Mr. COUNTY. I think he is mistaken. He will buy it back at the price that the Pennroad Corporation directors may determine, and for nothing less.

The CHAIRMAN. The Pennroad Corporation never intended or contemplated doing any operating business, did it—the ownership and operation of railroads, did it?

Mr. COUNTY. No. We did not expect to operate railroads, but we expected to have experts that would be put on railroads, and get representation on boards of directors to protect our interests fully.

The CHAIRMAN. Your purpose was not to acquire railroads so much as it was to make valuable investments?

Mr. COUNTY. Exactly, Senator Fletcher. Nevertheless, nobody makes a big investment so far as I know of, of anything like this size here, who does not expect to have an expert in and near the property, whether on the board or off the board, to see what is going on.

Mr. PECORA. Who is the expert that your people had on it?

Mr. COUNTY. On what?

Mr. PECORA. On the Pittsburgh & West Virginia Railway?

Mr. COUNTY. Mr. Lee is one of our experts, but we have our own officers in the Pittsburgh region, who are right over that property all the time and know its operations from day to day.

The CHAIRMAN. Did the Pennsylvania Railroad name Mr. Lee as a director of the Pittsburgh & West Virginia Railway?

Mr. COUNTY. No, sir. The Pennroad Corporation arranged that.

The CHAIRMAN. The Pennroad Corporation did that?

Mr. COUNTY. Yes, sir.

The CHAIRMAN. So that the directors there are not altogether named by Mr. Taplin?

Mr. COUNTY. Not at all. Mr. Taplin is in a delightful relation of being given charge of his property and keeping on operating it, but the moment that Mr. Taplin is not satisfactory to us, the stock, although registered in his name, belongs to the Pennroad Corporation and out he goes.

Mr. PECORA. Who asked Mr. Lee to become the president of the Pennroad Corporation?

Mr. COUNTY. I did. I selected him.

Mr. PECORA. Why?

Mr. COUNTY. I selected him because he had been the treasurer of the Pennsylvania Railroad for a long time. And prior to that he had been the assistant treasurer of the railroad company, and he had been connected with financial matters, under suitable direction, for probably 30 years.

Mr. PECORA. You are connected with another company, called the Pennsylvania Co., are you not?

Mr. COUNTY. Yes, sir. I am a vice president of that corporation.

Mr. PECORA. And also a director of it?

Mr. COUNTY. Yes, sir.

Mr. PECORA. That corporation is a wholly owned subsidiary of the Pennsylvania Railroad Co., isn't it?

Mr. COUNTY. Exactly.

Mr. PECORA. And is a holding company?

Mr. COUNTY. Yes. I might explain that it is the chief instrument by which the Pennsylvania Railroad Co. gathered together its ownership of the lines west of Pittsburgh. Originally under the charter granted by the State of Pennsylvania the Pennsylvania Railroad had authority to build a line from Harrisburg to Pittsburgh, and there it stopped. Our predecessors very quickly realized, and so did the State of Pennsylvania very quickly realize, that without a longer haul that would take us to the Mississippi River and the Great Lakes the Pennsylvania Railroad itself would have a doubtful living. Accordingly the State of Pennsylvania gave it a broad charter, the broadest kind of a charter in those days, not only to construct and own railroads in the State of Pennsylvania but elsewhere; to buy other railroads, to guarantee railroads, and it began the buying of a series of weak railroads, financing and guaranteeing their obligations, purchasing more stocks, consolidating them, until it has this admirable system that reaches the Great Lakes and St. Louis and Cincinnati, and so forth. As the holder of those stocks and for a long time the operator, up until 1918, it was the supervisor of operations of all those western lines, but the financing was kept entirely separate from the Pennsylvania Railroad, and—

Mr. PECORA (interposing). The Pennsylvania Co. as such could have bought the various holdings of these other railroad company stocks that were purchased by the Pennroad Corporation, couldn't it?

Mr. COUNTY. It could.

Mr. PECORA. It had ample power under its charter to do it?

Mr. COUNTY. Absolutely.

Mr. PECORA. It appears from the record before this committee practically beyond all controversy that the organizers of the Pennroad Corporation were all directors of the Pennsylvania Railroad Co., like yourself.

Mr. COUNTY. Yes, sir; and so announced.

Mr. PECORA. Now, why wasn't the Pennsylvania Co. used in the purchase of those holdings of the Pittsburgh & West Virginia Railway Co., the Seaboard Air Line Railway Co., and other railway company stocks purchased by the Pennroad Corporation?

Mr. COUNTY. At the inception of the Pennroad Corporation, or at least when it was being thought out, you must remember that the Pennsylvania Co. had been restricted to, or had grown up entirely upon, the ownership of stocks connected with the Pennsylvania Railroad system. Therefore the Pennsylvania Railroad Co., because of its owning all the stock of the Pennsylvania Co., would have had to raise all the new capital for a company of its purpose, like the Pennroad, and that it was deemed inadvisable to do.

Mr. PECORA. Why?

Mr. COUNTY. Because it would have scattered the ownership in order to get the money from the public, the only source of reliance we have. The stock of the Pennsylvania Co. would have had to be sold or distributed to the public so as to use it as a means of getting more capital, and—

Mr. PECORA (interposing). Could not the Pennsylvania Co. have authorized an increase of its capital stock, and could not that stock have been purchased by the Pennsylvania Railroad?

Mr. COUNTY. No, sir. Because the Pennsylvania Railroad Co. had not the funds for that purpose, had not enough funds to meet all of its own necessities at that time, and for this purpose also.

Mr. PECORA. Could not it have sold additional securities for the purpose of raising such funds?

Mr. COUNTY. No. It had its own hands full to try to get over the period which so closely followed governmental control, and the bad years of 1921, 1922, and a part of 1923.

Mr. PECORA. But this was in 1929.

Mr. COUNTY. We had all we could do to look after the affairs of the Pennsylvania Railroad.

Mr. PECORA. But at the time when the Pennroad Corporation was organized its stock was offered entirely to the stockholders of the Pennsylvania Railroad Co.?

Mr. COUNTY. Exactly. But that was a new corporation, and into what fields it would go nobody knew. Whether it would hold the stocks it purchased nobody knew. What its plan would be in the field of railroads nobody knew. Therefore instead of taking the experiment and trying to enlarge the Pennsylvania Railroad, which had a lot of mortgages on it in addition to stock; or taking the Pennsylvania Co., which had no property to mortgage except its own securities, a new and independent company was tried, which was launched by an appeal to Pennsylvania Railroad stockholders: "Here is an opportunity. If you wish to take your share of it you can. If not the Pennroad Corporation reserves the right to sell its stock to others." That was a purely voluntary matter.

The CHAIRMAN. The Pennsylvania Co. could have done that, couldn't it?

Mr. COUNTY. No, sir. Not without giving other people an ownership in the underlying stocks of the Pennsylvania Railroad System, which we hold together in the Pennsylvania Co. so that we could carry out the plan of consolidation by which some day, if we all live, and the restrictions of the various States are removed, we will have a united Pennsylvania Railroad system from the Atlantic to the Mississippi River, and from the Great Lakes to the Potomac River. Until that occurs we cannot afford to scatter the stock of the Pennsylvania Co. about, or give anybody else an ownership in it.

The CHAIRMAN. Then the stock of the Pennsylvania Co. is owned by the Pennsylvania Railroad?

Mr. COUNTY. That is right.

The CHAIRMAN. And the stockholders of the Pennsylvania Railroad Co. were to own the Pennroad Corporation. So you had the same stockholders in either case.

Mr. COUNTY. We did not know whether that would eventuate or not. But it did eventuate in the first blush to a large extent in the

case of the Pennroad Corporation stock, but after that there was a great change in the ownership of the stock all over the country.

Mr. PECORA. That was when the Pennroad Corporation increased its issue of capital stock.

Mr. COUNTY. Before that. There was quite a large distribution of the stock.

Mr. PECORA. Why was the voting-trust agreement entered into at the outset of the Pennroad Corporation?

Mr. COUNTY. Not knowing what the future held in store the best thing to do was to keep the property all together.

Mr. PECORA. What property do you mean?

Mr. COUNTY. The Pennroad property, so that there might be a uniform policy carried out by experienced people.

Mr. PECORA. A uniform policy of what kind?

Mr. COUNTY. To serve the investment policy.

Mr. PECORA. The investment in railroad property?

Mr. COUNTY. Anything. Railroad properties and others.

Mr. PECORA. Well, the three voting trustees that were chosen were all officers and directors of the Pennsylvania Railroad Co.

Mr. COUNTY. They were directors of the Pennsylvania Railroad but not officers.

Mr. PECORA. General Atterbury is one of the trustees and he was the president of the Pennsylvania Railroad Co., wasn't he?

Mr. COUNTY. He was at that time, but I think he only occupied that position for a very short time, as trustee, I mean.

Mr. PECORA. He occupied it for a long time, didn't he?

Mr. COUNTY. I don't know. I don't recall. According to this memorandum I am handed here he held it from the formation of the Pennroad Corporation in April of 1929 to the 10th of April 1930.

Mr. PECORA. Well, he held it for nearly a year?

Mr. COUNTY. Nearly a year; yes.

Mr. PECORA. Couldn't the Pennsylvania Co. have issued securities, and couldn't they by a voting trust agreement too——

Mr. COUNTY (interposing.) No.

Mr. PECORA (continuing.) Have secured this unity?

Mr. COUNTY. We did not believe that to be a wise step, because, as I say——

Mr. PECORA (interposing.) Well, if it is considered to be wise to do it in the case of the Pennroad Corporation——

Mr. COUNTY (interposing.) That was an open field, with an independent instrumentality.

Mr. PECORA (continuing.) How independent was it when the common stock was put into a voting trust for 10 years, which robbed the investor during that period of 10 years' time of a voice in the management of the Pennroad Corporation?

Mr. COUNTY. I do not think you can say it robbed them of that. That was exactly how the company was to be held, according to announcements made. And the inherent strength of that policy was the cause of the stock being subscribed for. I venture to say if there had been no voting trust it is very questionable if we would have had the success in forming it.

Mr. PECORA. Do you think that the people who bought the stock of the Pennroad Corporation at the outset did so because they knew

that the three voting trustees were directors of the Pennsylvania Railroad Co., and they had confidence in their management?

Mr. COUNTY. Not only that but the other factors.

Mr. PECORA. That was one of the factors?

Mr. COUNTY. Yes.

Mr. PECORA. And you disagree with Mr. Taplin's observation that people who buy stock do so blindly?

Mr. COUNTY. I certainly do. I think he made that statement in connection with annual reports. I will agree that there are plenty of stockholders who do not read annual reports.

Mr. PECORA. No. He made that statement specifically in answer to a question as to whether they make their investments blindly.

Mr. COUNTY. I think I would not subscribe to that at all. We make our investments, those connected with the Pennsylvania Railroad, for instance, because it has had a dividend rate for 70 years in every calendar year, because it has continuity of management and strength in serving the country.

The CHAIRMAN. The Pennroad Corporation was to be of benefit to the Pennsylvania Railroad Co. What benefit has the Pennsylvania Railroad Co. been to the Pennroad Corporation?

Mr. COUNTY. Well, I think probably through its managers is one thing, the advice that they gave. I am one of them myself and I have to speak for them with that feeling. I think my experience there of 43 years in the company, in all phases of railroad financing, is of inestimable benefit to the Pennroad Corporation. I am only speaking for myself. And here is Mr. Morris, one of our directors, and he is chairman and was for many years president and director of one of the strongest trust companies in Philadelphia. Here is Mr. Mellon, of Pittsburgh, a distinguished banker. And if you go down the list you will find they are men of broad experience and men of distinguished position in business and affairs, the kind of men you would choose to let hold every penny you have in the world.

Mr. PECORA. Is that why these men are permitted to engage in transactions of \$38,000,000, to be carried on by word of mouth?

Mr. COUNTY. Yes, sir; because when we bind ourselves that is considered preferable in good business circles, not all business circles, depending upon the people you are dealing with—

Mr. PECORA. (interposing). Then you have to depend upon the recollection of individuals?

Mr. COUNTY. No, sir. It is always dependent upon the cash payment when there is a delivery of the stock.

Mr. PECORA. Well, what good is that if the terms themselves are to be left to individual recollections of conversations?

Mr. COUNTY. If the Pittsburgh & West Virginia sale had not been completed then the situation would have remained as it was before—the Pennroad Corporation would have retained its money, and Mr. Taplin would have retained his stock.

Mr. PECORA. Do you consider that a better way to do business where \$38,000,000 is involved than basing it upon a written agreement?

Mr. COUNTY. I do with Mr. Frank Taplin, because we had known him for 30 years or more, and he keeps every obligation he makes.

Mr. PECORA. And for that reason it was better to have his spoken word than a written agreement?

Mr. COUNTY. It wasn't necessary to have a written agreement. I have seen more lawsuits result from written agreements than from oral views. If you want to get into a first-class lawsuit, have a written agreement to buy stock and have the market fall away from it in a month.

Mr. PECORA. And if you want to avoid an agreement, have it by word of mouth also?

Mr. COUNTY. If you want to have a definite settlement after a word-of-mouth agreement, in case the man does not produce the goods he does not get the money. That was Mr. Taplin's case.

Mr. PECORA. But the wise counsellors of the Pennroad Corporation also approved the agreement of October 29, 1929, under which the corporation obligated itself to buy 402,000 shares of Seaboard Air Line stock, whereas it had only intended to buy 125,000 shares; is that it?

Mr. COUNTY. Without going into the details of it, they approved that arrangement. In fact, they had to take 402,000 shares as the result of going into a syndicate, and it shows the responsibility you take when you go to a syndicate.

Mr. PECORA. Why did those wise men go into that syndicate agreement with Dillon, Read & Co.?

Mr. COUNTY. Because that was the best way we knew under the circumstances that then prevailed. It might have gone the other way. It must be remembered that a long time elapsed between the negotiations and the time of the approval by the Interstate Commerce Commission. But it must have been a splendid thing to have done or the Commission would not have approved of it. The fact that the market falls away from you illustrates the effect of not making quick settlements in any financial transaction.

Mr. PECORA. Mr. Taplin testified in June of 1930 before the Interstate Commerce Commission—and you heard him repeat it here, or affirm this morning—that one of the reasons why he went into the negotiations to sell to the Pennroad Corporation those 222,930 shares of the Pittsburgh & West Virginia Railway Co.'s stock in September of 1929 was because he foresaw a financial storm and he wanted to unload, to use his own expression, the stock of the Pittsburgh & West Virginia Railway Co. Did you learn that for the first time today?

Mr. COUNTY. I did sir, but I think Mr. Frank Taplin did not foresee the kind of hurricane that we had. He was in this position, or this is my explanation of it: He was in the position where either you or myself would be as the manager of a syndicate, of seeing the price rise to a place where he thought he would have a very good profit, and that that was the time to choose to take advantage of his price.

Mr. PECORA. No. He says he did it at that time because he saw a financial storm coming, not because prices were rising.

Mr. COUNTY. Oh, as to a financial storm coming, he was at the head of the game, with all this rise, if I remember right, at the end of October. In my experience, and I have had a very broad one, I did not see, and I did not see one banker, either here or abroad, that saw anything like this storm forthcoming, not one, nor business man either.

The CHAIRMAN. The bankers of the world seem to have been the poorest hands that the world had on that subject. The same was true in Europe as in this country.

Mr. COUNTY. I think that is so.

The CHAIRMAN. Speaking about the great advantage to the Penn-road Corporation of having directors of such marked ability and standing, and men of such great affairs, was that the thing that led them to take stock, shown by the statement, that cost them \$51,000,-000 which subsequently, according to this statement, had a market value of \$5,000,000?

Mr. COUNTY. Senator, of course it depends on whether we are speaking with foresight or hindsight. May I give you this illustration? In that same period all of the governments of the world were bankrupt; and this dear old country of ours that we love so much has gone off the gold standard, although written in the bond is "I will pay you in gold."

Let me give you another illustration, which is probably more definitely to the point. The Pennsylvania Railroad stock sold for \$110 a share. It has since sold for \$6.50 a share. Both of those prices represent hysteria of the worst kind. I would not be at all surprised, in the impetus of the country, to see it go over \$50. But my foresight may be entirely wrong.

The CHAIRMAN. I hope you are right. I think conditions are somewhat better.

Mr. COUNTY. Thank God for it!

Mr. PECORA. Of how many companies were you a director in 1929?

Mr. COUNTY. I suppose, somewhere from 125 to 150. That is my job. My position with the Pennsylvania Railroad Co. is this: I am vice president of finance and also of corporate relations; and in the Pennsylvania system alone, between the companies which are directly in the system and the companies in which we have a joint ownership with other railroads, such as terminal companies, there are something like 150 companies. It is my particular job to sit on those boards; but there is a great deal of humbug about that statement—not about me, but about that statement; and I will just explain it in a moment.

I am the president of the Delaware Railroad. If Senator Townsend here, he knows where that is located; or Senator Goldsborough knows where that railroad is. I sit on that board, and we hold about three meetings a year. To do what? To take from the Pennsylvania Railroad the guaranteed dividends it pays upon the stock and handle their distribution, to submit a report to our stockholders at the annual meeting, and to answer any questions that they may put to us. When you just multiply that by 50, there is not a bit of business of those companies that could not be transacted, if you got them all together, in 3 days. They are leased and chiefly owned by the Pennsylvania Railroad Co., with guaranteed dividends, and they do not operate their properties; they are operated by the Pennsylvania Railroad.

In the new era which is coming on, when everybody sees it the way we see it in the railroad business, under the broad powers of the Federal Government we will have a transportation system without any State borders. That is, we can engage in rail transportation with

one company; we can engage in bus transportation or truck transportation or air transportation or steamship transportation, and we will be under proper regulation. Now, until that day occurs, with the variety of laws that we have to deal with, with the variety of taxation systems, which is the chief thing for keeping them separate, and so on, we must put up with the ways we have at present. Even with all its failings, the companies that are now embraced in the Pennsylvania system at one time in their lives were equal to 700 different corporations. We have got them down to about 150 now; and if we keep on, with the help of the Government and with the help of business and of progress, we will get them down further to 3 or 4 or 5.

So in time, I think I may say to Senator Goldsborough, even the dear name of the old Delaware Railroad will be "Pennsylvania Railroad." I hope I have made that very clear. The reason I have made that clear is this—and I am glad that you have given me the opportunity: If you look at the chart illustrating the work of a simple railroad man like myself, you will see spider webs woven in and out to describe what I am doing. There is the whole thing I am doing.

May I also say this—and probably my associates will forgive my wandering: The greatest holding company in the world is the United States of America. It was incorporated and given certain limited powers to do for the States what severally they could not do for themselves. It has gone along in this broad field. It has financed them; it has taken them over, and even when we have given it all those broad powers, when it comes to dealing with business questions, what do we have? It must have a separate corporation for each activity of the Government, such as the Reconstruction Finance Corporation, farm bureaus, the Shipping Board, the waterways, and so forth, and there is a good substantial business reason for that. In time I hope all will be successful. That is my earnest hope. Nevertheless, they require these separate entities, although, as I say, it is the greatest holding corporation in the world, and the best.

You will excuse my wandering into the field of philosophy.

THE CHAIRMAN. Do you approve generally of these holding corporations, such as the Pennroad Corporation and the Pennsylvania Co.?

MR. COUNTY. I do, of the Pennsylvania Co., Senator. I will speak later on about the Pennroad Corporation. The Pennsylvania Co. has been in operation since 1870. Let me tell you some things about it, because it illustrates what the Pennroad Corporation could do at any time.

When we wished to extend our system west of Pittsburgh including what is now the Pittsburgh, Fort Wayne & Chicago Railroad Co., those companies had broken down absolutely. The Pennsylvania Co., the holding company, got from the Pennsylvania Railroad Co. the rails of the old Portage Railroad owned by the State, and those rails were leased from the Fort Wayne & Chicago; and that is how we began to go westward. In time I expect the Pennroad Corporation, if we are allowed by law—and we will not do it unless we are—to take a very marked part in stabilizing the financial condition of those companies in which it has investments.

We will if we are let alone. That is exactly what the United States is doing for the States. That is what we propose by these holding companies to do.

It is very true, Senator, that there have been unfortunate holding companies, but nevertheless we must not subject them to pitiless criticism at a time when the whole world, following the war, has shaken the vitals of mankind and produced nothing but poverty from one end of the world to the other.

Mr. PECORA. One of the criticisms directed to holding companies is based upon the fact that in the issuance of their securities the organizers or inciters are allowed to get options on the best securities at prices much lower than those at which the securities are offered to the general public. That is a very sound criticism, is it not?

Mr. COUNTY. It is a very sound criticism; but let us not inject that into this thing. The clear conception of the advice we got from the bankers, and which was sustained by your own judgment, was this: Form this company. If the stockholders of the Pennsylvania Railroad Co. want it to succeed let it alone.

Mr. PECORA. Let me interrupt you just a moment. The Pennroad Corporation, as I recall it, had among its initial board of directors five or six directors who were directors and officers of banks and other financial institutions in and around the city of Philadelphia?

Mr. COUNTY. That is quite right, sir.

Mr. PECORA. Why did it have to go to a firm of private bankers for financial advice?

Mr. COUNTY. Because the firm of private bankers—the business they carry on is very decidedly different from a bank and trust company. If you look at those men who are on the board—

Mr. PECORA. The Pennroad Corporation went to Kuhn, Loeb & Co. for their advice.

Mr. COUNTY. Surely. In other words, we went after advice as to the character of corporation and the scope of it which we thought would best meet the situation.

Mr. PECORA. Was there no banking and financial experience among the banking directors who were officers and directors of the Pennroad Corporation to give them that advice?

Mr. COUNTY. No, sir; because they are engaged in a totally different kind of banking business. They do not take large issues of securities and get syndicates up.

Mr. PECORA. Neither did Kuhn, Loeb & Co. in this instance get syndicates up. They advised against it.

Mr. COUNTY. In this case they did; but they are accustomed to deal in a broad way with securities—what is the kind of securities to market? What is the best way to market them? What kind or character must they have to meet the market demands?—because market demands for securities change just as rapidly as women's hats.

Mr. PECORA. Do you think commercial bankers are not in touch with those conditions?

Mr. COUNTY. I do not think they are so able as the other bankers to sell new issues of securities. After all, the banks are small in the city of Philadelphia. It is a very conservative city. The banks are admirably managed and they are very strong. The business of a

national bank, of course, is not to buy a lot of securities. That is only a part of their job. It is making loans to all those big industries in the city of Philadelphia, commercial loans. The scope of a trust company is different, because it, again, makes loans and manages trust estates. Our people are interested in that kind of work and they understand it thoroughly. When a security is submitted to them, they can review and pass upon it. This was a new step entirely to us, and under new conditions which we had never faced before.

Mr. PECORA. And there were not enough bankers with financial experience represented on the board to enable the company to operate without seeking and paying handsome prices for the advice of private bankers?

Mr. COUNTY. That is exactly the case. We have eminent lawyers on our legal staff, and when a case of any importance occurs we certainly go to the best experts in the business. The Government does the same.

I should say for the services of Kuhn, Loeb & Co. that they have had a long experience in all of these matters, and that is of the highest importance, because it touches not only conditions in this country but abroad. The men are eminently qualified for it; and I do not know of any firm whose participation with us in offering securities for sale, such as the Pennsylvania Railroad does, will more assuredly mean success than Kuhn, Loeb & Co.

Senator GOLDSBOROUGH. "The Government does the same" must be a compliment to you, Mr. Pecora.

Mr. PECORA. I don't know that he intended that for me.

Mr. COUNTY. I did. You are brought in here as a specialist. Why did not the Government get someone else?

Mr. PECORA. The Government gets such services cheaper than a corporation.

Mr. COUNTY. Sometimes.

Mr. PECORA. One of the directors at the outset was Mr. James S. Alexander?

Mr. COUNTY. Yes.

Mr. PECORA. Mr. James S. Alexander was then, I think, chairman of the board of the Guaranty Trust Co. of New York?

Mr. COUNTY. Mr. Alexander at that time had practically retired. Mr. Alexander I had known for 20 years, and he was the president of the National Bank of Commerce in New York. He was a Scotsman, certainly by instinct, and one of the finest bankers I ever met.

Mr. PECORA. He was connected with the Guaranty Trust Co.?

Mr. COUNTY. Yes.

Mr. PECORA. And they operated an investment affiliate known as the "Guaranty Co."?

Mr. COUNTY. Yes.

Mr. PECORA. Which was in the business of issuing and selling securities?

Mr. COUNTY. Yes.

Mr. PECORA. Didn't you think he had an experience that qualified him to give advice to the Pennroad Corporation as a director of it, with regard to the kind of securities it should issue and how it should market them ?

Mr. COUNTY. To advise, yes; but Mr. Alexander did not come on as an original director of the Pennroad Corporation. He came on later. If he had been on the board, his advice would have been listened to. But there were 10 other people on that board who had us persuaded that that was the proper path to travel.

And another thing is this: Kuhn, Loeb & Co. had a greater and broader knowledge of all plans of finance; and I must again repeat that the cheapest thing we do is to pay the best experts

Mr. PECORA. I think that is all I want to ask.

The CHAIRMAN. That is all.

Mr. COUNTY. Thank you, gentlemen.

The CHAIRMAN. The subcommittee is now adjourned subject to the call of the chairman. It has been suggested that we probably will not meet before October 3; but we might change that date at any time. It is very probable that we will have no further hearings until about October 3; but the Chair has the right and the authority to call a session at any time he sees fit to do so. At present we stand adjourned subject to the call of the chairman, which will probably be about October 3.

(Whereupon, at 5:30 p.m., the subcommittee adjourned subject to the call of the chairman.)