

STOCK EXCHANGE PRACTICES

FRIDAY, OCTOBER 6, 1933

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

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

Present: Senators Fletcher (chairman), Adams (substitute for Barkley and proxy for Costigan), Norbeck, and Couzens.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; George S. Franklin, Wallace P. Zachry, Warren Leslie, Walter G. Dunnington, Clifton Murphy, John T. Cahill, and Bernhard Knollenberg, counsel for Dillon, Read & Co.; Root, Clark, Buckner & Ballantine, George H. Murphy of counsel, counsel for United States & Foreign Securities Corporation and United States & International Securities Corporation; Patrick J. Hurley and Charles M. Travis, counsel for Associated Gas & Electric Co.

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

Mr. PECORA. Mr. Tracy will resume the stand.

TESTIMONY OF ERNEST B. TRACY—Resumed

Mr. PECORA. Mr. Tracy, will you tell us—

Mr. TRACY (interposing). Mr. Pecora, for the record I have a list of present and former directors of both of the investment companies, with a list of all directors' meetings and the names of the directors who attended those meetings. I should like to submit these to you.

Mr. PECORA. Very well. Let me see them.

Mr. DILLON. Mr. Pecora, before you start out on your examination might I say a word?

Mr. PECORA. Certainly.

Mr. DILLON. The other day when we were discussing the advisability of banks publishing their portfolios of investment securities, you were asking if I knew of any institution that did so, and I mentioned one. This morning I received from Mr. Frew, chairman of the Corn Exchange Bank Trust Co., New York City, his statement. His is a commercial bank, and is the only one I know of than does it. I thought you and the gentlemen of this subcommittee might be interested in looking at his statement, because it does cover the point you were discussing.

Mr. PECORA. I think it might be well to offer that in evidence for the enlightenment of the subcommittee.

The CHAIRMAN. Let it be received and made a part of the record.

(The statement dated February 1, 1933, of the Corn Exchange Bank Trust Co., was marked "Committee Exhibit No. 12, October 6, 1933," see p. 1764.)

Mr. PECORA. I also offer in evidence, Mr. Chairman, the list of present and former directors of the United States and International Securities Corporation, which has just been produced by Mr. Tracy; and also as a part of the same exhibit a compilation of the meetings of the board of directors of the United States and International Securities Corporation, showing the dates thereof and the names of the directors present at such meetings.

The CHAIRMAN. Let it be received and made a part of the record.

(A statement of present and former directors of United States & International Securities Corporation was marked "Committee Exhibit No. 13, October 6, 1933," see p. 1769.)

Mr. PECORA. I also offer in evidence a list produced by Mr. Tracy, purporting to show present and former directors of the United States & Foreign Securities Corporation, together with a statement showing the dates of the various meetings of the Board of directors of that corporation, and with the names of the directors who attended such meetings.

The CHAIRMAN. Let it be received and made a part of the record.

(A statement of present and former directors of United States & Foreign Securities Corporation was marked "Committee Exhibit No. 14, October 6, 1933," see p. 1771.)

Mr. PECORA. Mr. Tracy, have you by any chance with you a copy of the report and accounts of the United States & International Securities Corporation as of December 31, 1932, purporting to have been prepared by Price, Waterhouse & Co.?

Mr. TRACY. I will have to see whether we have that. [After consulting an associate] Yes; I have a copy of that.

Mr. PECORA. Will you kindly turn to the tabulation at the end of the report, which is entitled "United States & International Securities Corporation, Securities Owned December 31, 1932."

Mr. TRACY. I have it before me.

Mr. PECORA. Now, under the caption "Railroad stocks" of that tabulation do you find an entry indicating that on December 31, 1932, there was an item in the portfolio of the United States & International Securities Corporation of 45,000 shares of the common stock of the Chicago, Rock Island & Pacific Railway Company?

Mr. TRACY. I do.

Mr. PECORA. To which there was ascribed a book value in this report of \$5,566,366.99, and a market value of \$151,875?

Mr. TRACY. I do.

Mr. PECORA. Are you familiar with the transaction or transactions whereby this investment trust, of which you were the president, acquired those 45,000 shares of that railroad stock at what is denominated in this report as a book value of over 5½ million dollars, but which, according to your testimony on yesterday, means the cost price to the investment trust?

Mr. TRACY. Correct. We bought it in the open market.

Mr. PECORA. You bought it in the open market?

Mr. TRACY. To the best of my recollection, yes. [After consulting an associate.] Well, some of it we bought from the United States & Foreign Securities Corporation.

Mr. PECORA. And that is the other investment trust?

Mr. TRACY. Correct.

Mr. PECORA. That had you as its president while you were president also of this United States & International Securities Corporation?

Mr. TRACY. That is right.

Mr. PECORA. Over what period of time were the transactions had by which the United States & International Securities Corporation acquired in the aggregate those 45,000 shares of the Chicago, Rock Island & Pacific Railway Co. stock at a cost to it of over 5½ million dollars?

Mr. TRACY. Well, I will have to look that up, Mr. Pecora. I do not carry that in my mind.

Mr. PECORA. All right.

Mr. TRACY. I am sorry for the delay, but we have had so many transactions that I cannot keep them in my mind.

Mr. PECORA. All right. You may look it up.

Senator COUZENS. While you are looking up that data let me ask: What were the circumstances by which one of these investment trusts bought Chicago, Rock Island & Pacific Railway Co. stock from the other trusts?

Mr. TRACY. Well, I will have to look up that data for you, Senator Couzens. I am getting that now.

Senator COUZENS. I was not asking the date but was wondering what the circumstances were that induced one trust to buy that stock from the other trust.

Mr. TRACY. Well, if you will permit me to get the data I may be able to answer your question more intelligently.

Senator COUZENS. All right.

The CHAIRMAN. In other words, Senator Couzens, the two trusts were practically doing the same kind and character of business; and Dillon, Reed & Co., too, were doing the same kind of business.

Senator COUZENS. And Dillon, Read & Co. controlled both of them.

Mr. PECORA. And one was buying securities from the other.

Mr. TRACY. I am told that we purchased about half of that in December of 1929.

Mr. PECORA. About half of the 45,000 shares of the Chicago, Rock Island & Pacific Railway Co. in December of 1929?

Mr. TRACY. I am so informed.

Mr. PECORA. That was at a time when the stock market had generally undergone an upheaval and was still in the throes of it, wasn't it?

Mr. TRACY. It had certainly undergone an upheaval, but I might say that—

Senator COUZENS (interposing). When was the other half purchased?

Mr. PECORA. Yes. I was just going to ask that question.

Mr. TRACY. Seventeen thousand shares, Senator Couzens, were bought from the United States & Foreign Securities Corporation. The balance of the stock was bought over a period of time. We will have to go to our books in order to get all of that for you.

Senator COUZENS. When were the 17,000 shares bought from the other trusts?

Mr. TRACY. In December of 1929.

Senator COUZENS. And at what price?

Mr. TRACY. I am told that they were purchased at a price of \$111.84, which was the market price of the date when they were purchased.

Senator COUZENS. In other words, in December of 1929 that was the market price?

Mr. TRACY. That was the market price then.

Senator COUZENS. And do you recall the circumstances of the transfer or sale from one trust to the other of those shares?

Mr. TRACY. Well, it is pretty hard, Senator Couzens, to recall the reasons for either the sales or the purchases made. We have made a great many hundreds of them. But as a rule—

Senator COUZENS (interposing). Well, this was rather an inter-company sale, wasn't it?

Mr. TRACY (continuing). As a rule and practice, all purchases and sales were passed on by the board of directors of the companies.

Mr. PECORA. But, Mr. Tracy, you attended the meetings of the boards at which those sales and purchases were approved?

Mr. TRACY. I attended meetings very regularly, but I would have to look it up to see whether I attended those particular meetings or not, but believe I did.

Mr. PECORA. Didn't you testify here on yesterday to the effect, in substance, that the customary procedure followed by these two investment trusts for the making of those investments was for the executive officer to make the purchase in the exercise of his best judgment, and thereafter report it to the board of directors at its ensuing meeting?

Mr. TRACY. Well, Mr. Pecora—

Mr. PECORA (continuing). And then get a ratification and approval of it by the board?

Mr. TRACY. I think you misunderstood me, Mr. Pecora.

Mr. PECORA. Possibly I did, and if I have misunderstood you, I want to get the fact correctly on the record in a way that there can be no misunderstanding.

Mr. TRACY. That has been done frequently, but as a rule we discussed at board meetings the type of securities that we would buy, and the type of industry in which we would invest. We would have those looked into and would say: Let us invest so much money in the oil industry and the rails, and would compare this railroad with another one and would buy the one that looked cheapest.

Mr. PECORA. You say you would have them looked into. Who would look into them?

Mr. TRACY. A service corporation that we had—

Mr. PECORA (interposing). What is the name of it?

Mr. TRACY. The Keswick Corporation.

Mr. PECORA. Do you know anything about the Keswick Corporation?

Mr. TRACY. I certainly do.

Mr. PECORA. Isn't that a corporation wholly controlled by Dillon, Read & Co.?

Mr. TRACY. It is not.

Mr. PECORA. Isn't it a corporation with offices adjoining the offices of Dillon, Read & Co., and access to which may be had through an inside door leading from the office of Dillon, Read & Co.?

Mr. TRACY. Yes; the offices are in the same building as the offices of Dillon, Read & Co., and one can get through by going through an outside passage to the offices of the Keswick Corporation. That is true of a great many buildings.

Mr. PECORA. How familiar are you with the organization and conduct of this Keswick Corporation?

Mr. TRACY. The Keswick Corporation is a service corporation to do our research work, look over statistical reports, make examinations for us, interview officials of companies and get figures that may not have been published, if we want to get any very recent information about an industry, and they make their reports to us. They are used generally as a convenience to the company in any way that I can use them.

Senator COUZENS. What company?

Mr. TRACY. The Keswick Corporation.

Senator COUZENS. But what company uses the Keswick Co.?

Mr. TRACY. United States & Foreign Securities Corporation and United States & International Securities Corporation, for which I may be acting.

Senator COUZENS. And also Dillon, Read & Co.?

Mr. TRACY. Not to my knowledge.

Senator COUZENS. You do not know that Dillon, Read & Co. uses this Keswick Corporation?

Mr. TRACY. Not to my knowledge.

Mr. PECORA. When was this Keswick Corporation organized, if you can tell us?

Mr. TRACY. I will have to look up that date.

Mr. PECORA. Perhaps I can help you when I suggest the date March 27, 1930.

Mr. TRACY. That is correct.

Mr. PECORA. Did the Keswick Corporation, for the United States & International Securities Corporation in December of 1929 make research and investigation of the railroad security that we have been discussing and which was purchased by the United States & International to the extent of over $5\frac{1}{2}$ million dollars?

Mr. TRACY. Yes, sir; it did.

Mr. PECORA. How could it have done so if it was not incorporated until March of 1930?

Mr. TRACY. Wait. What date did you say? December of 1929?

Mr. PECORA. Well, you told us that 41,000 of those 45,000 shares had been acquired in December of 1929, if I correctly understood your testimony.

Mr. TRACY. That is correct. The Keswick Corporation was not formed then.

Mr. PECORA. Who made the research at that time that guided the directors of the investment trust in making those investments?

Mr. TRACY. There was a very elaborate report made by Coverdale & Colpitts, consulting engineers, who specialized in railroad work, on the Chicago, Rock Island & Pacific Railroad. It was most favorable, I might say.

Senator COUZENS. Have you any record of how many times their surveys have been wrong?

Mr. TRACY. Of how many times they have been wrong?

Senator COUZENS. Yes.

Mr. TRACY. I think anybody has been wrong who made predictions in 1929. If there are any that were not I should like to meet them.

Senator COUZENS. I know something about Coverdale & Colpitts, or whatever the name is, and how long have they been in business, may I ask.

Mr. TRACY. That I would have to find out.

Senator COUZENS. For a great many years, haven't they?

Mr. TRACY. I think for a great many years.

Senator COUZENS. Is there a record as to their predictions of earning power of corporations and how often or whether generally they have been accurate?

Mr. TRACY. That I would not like to give you an opinion on off-hand, but their estimates conform pretty well with the opinions of the usual statistical services at that time. If you will go back you will find that people like Moody were recommending Rock Island. Standard Statistics were recommending Rock Island. Not that we were taking their recommendations, but I just give you that as a parallel. Everybody thought railroad securities were a good purchase in those days.

Senator COUZENS. Previous to that time, how long experience had you had with this firm of Colpitts & Co.?

Mr. TRACY. I think they had done work for—I don't know. I personally am not an expert on railroad securities.

Senator COUZENS. You do not know what the general record of this company is, then?

Mr. TRACY. No; I do not, Senator, but I know that they have a good reputation.

Senator COUZENS. Among whom?

Mr. TRACY. Among people that I know. I have never heard anybody say anything unfavorable about Colpitts & Co.

Senator COUZENS. Well, of course, you can have a good reputation for making reports—

Mr. TRACY (interposing). I am not talking about that; I am talking about being honest. I thought that was what you had in mind.

Senator COUZENS. About what?

Mr. TRACY. About being honest in their dealings.

Senator COUZENS. I have not made any charges that they were dishonest; no.

The CHAIRMAN. Were the Van Sweringens interested in this Chicago, Rock Island & Pacific road?

Mr. TRACY. I beg your pardon?

The CHAIRMAN. Were the Van Sweringens interested in that road?

Mr. TRACY. Not to my knowledge; no.

Mr. PECORA. Before we leave the Keswick Corporation, Mr. Tracy, do you know what its capital structure is?

Mr. TRACY. I will have to look that up. It is merely a service corporation. There is not any mystery about it.

Mr. PECORA. Who caused it to be organized?

Mr. TRACY. We did.

Mr. PECORA. And who were its officers? Are its officers former employees and attachés of the two investment trusts of Dillon, Read & Co.?

Mr. TRACY. Yes; they are.

Senator NORBECK. Pardon me, Mr. Chairman. I am confused. I thought the witness testified they did not control them, and he is now testifying that they did. Am I right or did I misunderstand you?

Mr. TRACY. The Keswick Corporation?

Senator NORBECK. Yes.

Mr. TRACY. No; we were responsible for the forming of the Keswick Corporation. We wanted them to be a statistical corporation that could be used to look up things of that kind.

Senator NORBECK. I am referring now to an answer you made previously. Did you deny that they were controlled by you or did you not when you were asked the question? I am trying to get the facts here. If the witness testifies both ways it is pretty hard for me to get them.

Mr. TRACY. I just want to have what the question is.

Senator NORBECK. I will waive it. Go ahead.

Mr. TRACY (after conferring with an associate). Oh, no; not controlled by Dillon, Read & Co. I misunderstood you. It was formed by the investment company.

Mr. PECORA. You mean United States & Foreign Securities Corporation and the United States & International Securities Corporation?

Mr. TRACY. Yes; they were responsible for forming it.

Mr. PECORA. They were responsible for forming it?

Mr. TRACY. Yes.

Mr. PECORA. Are its officers and directors, or do its officers and directors, include former employees of the two investment trusts that you have mentioned, as well as Dillon, Read & Co.?

Mr. TRACY. They include, yes, former employees of the investment trust, and I think former employees of Dillon-Read.

Mr. PECORA. And the office of this Keswick Corporation is at what address?

Mr. TRACY. It is on Cedar Street.

Mr. PECORA. What is the number?

Mr. TRACY. I cannot give you the number, but I know how to get there. It is the first door on the—I don't go by numbers on Wall Street. I go by familiar signs.

Mr. PECORA. How does the public get there?

Mr. TRACY. I should think they go through there——

Mr. PECORA (interposing). Through the Cedar Street entrance to the building?

Mr. TRACY. I should think they would go through——

Mr. PECORA (interposing). And when you get there how do you reach the Keswick offices? Do you go through this interior passage-way running between the offices of Dillon, Read & Co. and the Keswick Corporation?

Mr. TRACY. Why, I go whichever is the most convenient way for me to go. If I am coming from Wall Street I would go into Cedar Street. If I was coming over from Broadway or uptown I would probably go through the office of Dillon-Read. Whichever is most convenient, that is the way I go.

Mr. PECORA. Does this Keswick Corporation do any research to any extent for others than these two investment trusts of which you were president?

Mr. TRACY. Yes; I believe they do.

Mr. PECORA. To any extent?

Mr. TRACY. Well, I don't know how much they do. I know they do a great deal of work for us—the investment companies. I don't know how much they do for other people.

Mr. PECORA. Do you know the capital structure of the Keswick Corporation?

Mr. TRACY. I can give it to you.

Mr. PECORA. If you will.

(Mr. Tracy conferred with associates and examined documents.)

Senator COUZENS. While you are looking that up, may I ask what is the basis of compensating this research corporation by these two securities trusts?

Mr. TRACY. We own some stock in that, Senator, and we pay them, I think—pay the monthly fee for it.

Senator COUZENS. Pay them a monthly fee?

Mr. TRACY. It is simply a convenience—research organization to do the research work—take all the burden off me that I can put on them.

Senator COUZENS. Yes; but I am wondering why the investment trusts do not employ these men themselves. I just don't get the connection.

Mr. TRACY. With the thought that it is perhaps better to have a separate organization.

Senator COUZENS. As a matter of convenience?

Mr. TRACY. For instance, we have two different boards, two different companies. Now, employing men in one company and employing the same men in the other company is not as satisfactory as putting them into a different organization as a matter of convenience, for following records, accounting, the statistical services, the newspapers, and doing all that kind of work. For instance, we put some men to work on the X company. Who are we going to charge that to, this company or the other? It is just a matter of convenience. It is purely a service company. It is not anything of any significance. It is to help us do our work intelligently, that is all. There is no mystery about it at all.

Mr. PECORA. Do you know anything about the personnel of the Keswick Corporation, this organization that you and your fellow directors use to help you reach a judgment or conclusion about the investments you should make for the investment trusts?

Mr. TRACY. Yes; I do.

Mr. PECORA. What do you know about it?

Mr. TRACY. Well, I know them very well. Mr. Frank I have known, the president, known him for a number of years; and Mr. Nitze. Those are the two gentlemen that I come in contact with that I use.

Mr. PECORA. What position does Mr. Frank hold with the company?

Mr. TRACY. He is the president.

Mr. PECORA. And prior to his becoming president of the Keswick, what was his relation, either to United States & Foreign Securities Corporation or the United States & International Securities Corporation or Dillon, Read & Co.?

Mr. TRACY. Why, he was in those companies.

Mr. PECORA. In what capacity?

Mr. TRACY. In the statistical end, doing the same kind of work he is doing now.

Mr. PECORA. When you say in the statistical end, do you mean that he was in the accounting department or bookkeeping department?

Mr. TRACY. Research. For instance, here is Mr. Frank—I say, “Mr. Frank, will you please try to get me all the information you can get me about that oil corporation?”

Mr. PECORA. That simply represents statistical information that he would collect from sources where such data was to be found?

Mr. TRACY. He would have charge of getting that information. He was also at that time a vice president of the United States & Foreign.

Mr. PECORA. Now, have you informed yourself concerning the capital structure of the Keswick Corporation?

Mr. TRACY. There are 500 shares of \$100 par value, \$50,000.

Mr. PECORA. How were those shares distributed?

Mr. TRACY. I will just look that up for you.

Mr. PECORA. See if this statement which I will now embody in my question refreshes your recollection concerning that: 125 of these shares owned by the United States & International Securities Corporation; 125 owned by United States & Foreign Securities Corporation; 50 shares held in the name of the Oakmont Corporation; 50 shares in the name of the New Eastern Corporation; 50 shares in the name of the Surrey Corporation; 50 shares in the name of the Brighton Corporation; and 50 shares in the name of the Bristol Corporation?

Mr. TRACY. That is correct.

Mr. PECORA. We see from those that the two investment trusts that we are inquiring about owned half and do own half of the only outstanding capital stock?

Mr. TRACY. That is right.

Mr. PECORA. And the other half is owned by five other corporations in equal proportions of 50 shares apiece?

Mr. TRACY. I am told that is right, yes.

Mr. PECORA. Now, do you know anything about those five other corporations, each of which owns 50 shares of this research institution?

Mr. TRACY. I have heard about them frequently.

Mr. PECORA. Aren't they corporations that are virtually the personal property of certain individuals who are members of the firm of Dillon, Read & Co.?

Mr. TRACY. I know they are connected with Dillon, Read & Co. I don't know what the ownership is.

Mr. PECORA. Well, it is a fair statement, isn't it, to say that half of the capital stock of this Keswick Corporation is owned by the two investment trusts and the other half is owned by the five corporations who represent interests of Dillon, Read & Co. or their respective or individual associates or partners?

Mr. TRACY. Yes; those companies are all identified with Dillon, Read & Co. This company was not organized for that purpose. It is simply a service corporation, a matter of convenience.

Mr. PECORA. Now, let us get back to the report made by Price, Waterhouse & Co. of the condition of the United States & International Securities Corporation as of December 31, 1932.

The CHAIRMAN. Before you get to that may I ask Mr. Tracey what was the book value of this stock which one investment company sold to the other investment company in December 1929? You sold it at 111, I believe. What was the book value?

Mr. TRACY. I will get that for you, Mr. Chairman.

Senator NORBECK. Mr. Chairman, may I ask a question about something I do not understand. I just want to ask the witness. The findings of this research corporation which has been discussed here at length become part of the information given to the public as to the value of these securities that you people offer for sale, do they not?

Mr. TRACEY. We do not offer any securities. It supplies us with certain information on which we base our judgment, whether we sell or buy, whether we will buy or will not buy it or sell it.

Senator NORBECK. When you say sell it, you sell it to whom?

Mr. TRACY. Sell it on the market.

Senator NORBECK. And then you say you don't offer anything to the public. You know, you confuse me with your statements.

Mr. TRACY. It is in the open market.

Senator NORBECK. But when you sell it you sell to the public, don't you?

Mr. TRACY. We sell on the stock exchange.

Senator NORBECK. Yes. Now, I am asking the question. You evaded it entirely. I asked you whether the certification of this research corporation which seems to be an instrument of your own—they have certain findings, and are they used as a certification of the value or condition of this stock when it is offered?

Mr. TRACY. We do not offer it.

Senator NORBECK. You say "offer"—well, when it is sold.

Mr. TRACY. May I give you an illustration?

Senator NORBECK. Yes; most certainly.

Mr. TRACY. For instance, they will come into us and say, "We don't like the trend of the earnings of a certain railroad", and we will look those over and decide that they should be sold. For instance, Canadian Pacific Railroad; we will give an order to the broker to sell that Canadian Pacific Railroad. We simply sell it on the exchange. We do not offer it to the public. You understand that, don't you, Mr. Pecora, the way that is done? That is all we were doing.

Mr. PECORA. I don't think the Senator is addressing himself to what you think he is.

Mr. TRACY. I beg your pardon.

Mr. PECORA. I think Senator Norbeck and I——

Senator NORBECK (interposing). Are talking about two different matters.

Mr. PECORA. Are talking at cross-purposes. You don't understand what the Senator has in mind.

Mr. TRACY. I don't think I do. I was trying to give an illustration of what I understood the Senator to mean.

Mr. PECORA. Let us get back to the portfolio of the United States & International Securities Corporation as of December 31, 1932. It appears from this report that on that date there were 45,000 shares of the common stock of the Chicago, Rock Island & Pacific Railway Co. in the portfolio, doesn't it?

Mr. TRACY. The report of the United States & International Corporation of December 31, 1932?

Mr. PECORA. Yes.

Mr. TRACY. Forty-five thousand shares.

Mr. PECORA. And those shares cost the investment trust five million five hundred and sixty-six thousand and odd dollars?

Mr. TRACY. That is right.

Mr. PECORA. And that on December 31, 1932, those shares had a market value of only \$151,875?

Mr. TRACY. I am sorry to say that is correct.

Mr. PECORA. So there was a depreciation there of very nearly \$5,400,000?

Mr. TRACY. Yes.

The CHAIRMAN. Now you can answer the question I put to you, I take it?

Mr. TRACY. I have here the book value of the Rock Island on the United States & Foreign Securities Corporation's books when it was sold, which was \$119.64, according to the information that I have. I think that is correct.

Senator COUZENS. May I ask you at that point, where it is you get that book value? Who did you get it from?

Mr. TRACY. That is cost.

Mr. PECORA. That is the term, Senator, that they use for "cost."

Senator COUZENS. Yes; but I thought the chairman asked for the book value of the stock on the books of the railroad.

The CHAIRMAN. No; I was talking about the cost.

Senator COUZENS. Oh, I misunderstood.

Mr. PECORA. The testimony yesterday shows that what has been denominated as the book value was the cost price.

Senator COUZENS. Yes; I understand now. I thought the chairman was trying to find out what the book value of the stock was on the books of the railroad company.

You don't have that, do you? Did your investigators or research men attempt to find out what the book value was on the books of the railroad at the time this investigation was made?

Mr. TRACY. Yes. As I remember, the report of Coverdale & Colpitts, it was considerably over \$125 per share. I know that, taking the Interstate Commerce Commission's valuations, it was more than that. I don't know how much more, but that is my recollection, Senator.

Mr. PECORA. What I want to find out is if these 45,000 shares of the Chicago, Rock Island & Pacific Railroad were acquired during

the year 1932 by this investment trust or whether the acquisition of those 45,000 shares covered a much longer period of time.

Mr. TRACY. I will have to check that up. I hope you will excuse me, but there have been so many of these transactions that I cannot possibly keep them all in mind.

Mr. PECORA. I understood you to say a little while ago that more than half of the 45,000 shares were purchased for the portfolio of the United States & International Securities Corporation in December 1929.

Mr. TRACY. I think you misunderstood me, Mr. Pecora. There were 17,000 shares purchased in December 1929.

Mr. PECORA. Was that the first time that that stock, any of that stock, had been purchased for the portfolio of the United States & International Securities Corporation?

Mr. TRACY. I would like to check that. [After conferring with associates.] I think the balance of the stock, Mr. Pecora, was purchased from July 1929 on. I will have to look up the details of the purchases for you. As I remember it, we began buying it in July 1929.

Mr. PECORA. Have you before you a report that shows the portfolio of the United States & International Securities Corporation as of December 31, 1929?

Mr. TRACY. I will see whether I can get one. [After a pause.] I have before me the report of the United States & International Securities Corporation securities owned December 31, 1929.

Mr. PECORA. Do you find any entry therein relating to the holding of any common stock of the Chicago, Rock Island & Pacific by your investment trust as of December 31, 1929?

Mr. TRACY. Yes, sir.

Mr. PECORA. How many shares?

Mr. TRACY. They owned 41,400 shares, at a cost of \$5,186,946.99.

Mr. PECORA. Now, were all of those 41,000-odd shares purchased between July 1929 and the end of that year?

Mr. TRACY. Now that I will have to look up for you again, Mr. Pecora. I cannot remember the dates of purchases of all of these transactions. We have thousands of them, and I hope you will excuse delay in looking them up. [After conferring with associates.] I am told that they haven't got them here. They will have to go back and look it up on the ledgers for you—unless you have it.

Mr. PECORA. All right. Let me ask you: You gave some date in July 1929 a few moments ago in one of your answers. Was that date intended to indicate the date of the transaction whereby the United States & International Securities Corporation acquired some 11,000 shares of the common stock of the Chicago Rock Island & Pacific?

Mr. TRACY. I don't remember the circumstances under which I gave that date.

Mr. PECORA. You recall that you did refer to a date in July 1929 a few minutes ago?

Mr. TRACY. I believe I did, but I don't know in what connection, Mr. Pecora. If you will refresh my memory—

Mr. PECORA. Were you the president of the United States & International Corporation in July 1929?

Mr. TRACY. Was I president of it? Yes.

Mr. PECORA. You were president practically at the inception of that corporation in 1928?

Mr. TRACY. Yes.

Mr. PECORA. Do you recall what discussion you had with any of your fellow directors on the board of the United States & International Securities Corporation leading to the decision to invest moneys of that investment trust in common stock of this railroad company?

Mr. TRACY. There was a discussion practically at every directors' meeting and at a lot of the officers' meetings with regard to the purchase of railroad securities, because at that time, Mr. Pecora, it seemed to the board that they afforded the best opportunities for investment. Industrials were selling on a return basis of about 1 percent, utilities 2 percent, and railroads afforded the highest yield. We had to get something that would give us a yield.

Mr. PECORA. Now, Mr. Tracy, the fact is that according to your testimony on December 31, 1929, there was in the portfolio of the United States & International over \$5,000,000 worth of the common stock of the Chicago, Rock Island & Pacific Railroad Co.?

Mr. TRACY. That is right.

Mr. PECORA. That is, when I say over \$5,000,000 worth I mean cost.

Mr. TRACY. Cost; yes.

Mr. PECORA. Costing that much?

Mr. TRACY. That is right.

Mr. PECORA. That is a very large investment to make in a single security, isn't it?

Mr. TRACY. It is a fairly large investment; yes.

Mr. PECORA. Do you recall any larger investment in any one security that was made by this investment trust at any time?

Mr. TRACY. Well, now, I would have to go back and look that up. Yes; I see one here that is larger.

Mr. PECORA. Well, we have looked into that. Perhaps I can refresh your recollection, and I call—

Mr. TRACY (interposing). I see one that is larger right here, the St. Louis & San Francisco.

Mr. PECORA. Yes; the St. Louis & San Francisco Railway Co.?

Mr. TRACY. That is correct.

Mr. PECORA. In the common stock of which your investment trust invested \$5,820,983.39 up to December 31, 1932; is that right?

Mr. TRACY. \$5,820,983.39.

Mr. PECORA. These two securities, namely, the Chicago, Rock Island & Pacific Railway Co. common stock and the St. Louis & San Francisco Railway Co. common stock, are the two classes of securities in which your investment trust made its largest investments, are they not?

Mr. TRACY. Well, they were among the largest. If you have looked it up, I will take your word for it.

Mr. PECORA. Won't you please run your eye now down the list of the portfolio of the United States & International Securities Corporation as of December 31, 1932?

Mr. TRACY. Yes; that was.

Mr. PECORA. They are the largest?

Mr. TRACY. Correct.

Mr. PECORA. And by far the largest, are they not?

Mr. TRACY. Yes, they are by far the largest.

Mr. PECORA. The next largest security in which you invested represented an investment of less than \$2,000,000, didn't it?

Mr. TRACY. That is correct.

Mr. PECORA. Now, in view of the fact that your investment trust invested over \$5,566,000 in the common stock of the Chicago, Rock Island & Pacific Railway Co. and over \$5,820,000 in the common stock of the St. Louis & San Francisco Railway Co., would you say that you and your fellow members of the board on this investment trust gave any special attention to either of those securities before you made these large investments therein?

Mr. TRACY. Yes; I should say we did.

Mr. PECORA. Yes. Now, do you recall, in view of that fact, what discussion you had with your fellow directors on the matter of making those investments?

Mr. TRACY. Yes, sir; we had reports made on both those railroads by Coverdale & Colpitts.

Mr. PECORA. Yes.

Mr. TRACY. Both of which were favorable.

Mr. PECORA. Yes.

Mr. TRACY. If you will look back even to the service manual of those days you will find that Moody recommended Frisco in October 1929.

Mr. PECORA. Yes.

Mr. TRACY. You will find that the Standard Statistics and Moody's both recommended the purchase of Rock Island throughout that period.

Senator ADAMS. Mr. Tracy, may I ask you the question, you were here the other day when Mr. Dillon was explaining the fundamentals of the investment trust, were you not?

Mr. TRACY. I have been here; yes.

Senator ADAMS. As I recollect it, he said it was to afford the opportunity to the small investor to secure the diversification which he could not secure in his own individual purchases. How do you reconcile that theory of the operation of an investment trust where you put 40 percent of the money contributed by the first preferred stockholders into two stocks?

Mr. TRACY. They were large investments, Senator, yes, but we exercised—

Senator ADAMS (interposing). They did not follow the principle of diversification, did they?

Mr. TRACY. We exercised great care, we thought, and investigated those two companies thoroughly.

Senator ADAMS. But didn't you use as the basis for the formation of the investment trust the very argument that any man might make mistakes in one or another, so that the thing to do was to distribute them? I think that was Mr. Dillon's argument; so that a man might make a mistake, but if you distributed it as widely as you could you avoided that great hazard. Now you ran right into the hazard that you organized the institution to avoid.

Mr. TRACY. We did run into that hazard, but it was not 40 percent, Senator.

Senator ADAMS. Well, there was nearly \$11,000,000, wasn't there, in these two companies?

Mr. TRACY. Out of a 60,000,000 corporation.

Mr. PECORA. Over 11,000,000.

Senator ADAMS. This was not the Foreign Securities?

Mr. TRACY. International.

Senator ADAMS. International—then, I will have to reduce my figures to 20 percent.

The CHAIRMAN. This was the second one.

Mr. PECORA. Thirty-three and one third would be more accurate, Senator.

Senator ADAMS. It is still very liberal.

Mr. TRACY. Eleven million out of sixty.

Senator ADAMS. Are those two corporations allied in their operations, the Frisco and Rock Island?

Mr. TRACY. They have an interchange of freight and freight service and everything of that kind.

Senator ADAMS. They are not part of the same sort of allied railroad structure?

Mr. TRACY. No; not by any means. I think the Southern Pacific's report of 1930 or '31 disclosed the fact that they had purchased a lot of Frisco that cost them 130, which we did not know anything about when we bought it. Apparently they thought well of it also at that time.

Senator ADAMS. That is the real point.

Mr. TRACY. We believed it was a good investment. That is why we went into it.

Senator ADAMS. But you were saying to the general public "You are apt to make mistakes, and the thing to do is to secure diversification. Don't put too many of your eggs in one basket. We will take care of that, and see that they are properly distributed."

Mr. TRACY. We had a lot of cash on hand, Senator. We had a lot more money coming that was due on the allotment certificates. I do not know whether you remember the yield that you could get on investments in that period.

Senator ADAMS. Yes. I know.

Mr. TRACY. All the directors felt that railroads offered the best yield, the best return commensurate with safety, which one could put his money into at that time. We made a very intensive study of the railroads. We had a number of reports on other railroads that we did not go into.

Senator ADAMS. You yielded to the same temptation that Mr. Dillon was speaking of the other day. I think he almost pictured himself as a "mossback" in investment circles. He said that they would not yield to the temptation to get high yields, and yet instead of avoiding that, you did yield to the temptation of high yields.

Mr. TRACY. We had to invest our money to yield better than 5 percent, because that is what we had to pay our stockholders.

Senator ADAMS. But you were advising purchasers to avoid that very thing.

Mr. TRACY. Our object was to look for safety first, Senator.

Senator NORBECK. They did not prove safe.

Mr. TRACY. No.

Senator COUZENS. May I ask—

Senator NORBECK. This advice you were giving turned out to be rather unreliable, did it not?

Mr. TRACY. I do not think anybody foresaw the conditions.

Senator NORBECK. You have the faculty of answering some question that nobody asks you.

Mr. PECORA. Mr. Tracy, to follow up Senator Norbeck's inquiry as to whether or not these two railroad stock investments proved safe, let me ask if it is not a fact, according to your own portfolio statement, that the 49,100 shares of the common stock of the St. Louis & San Francisco Railway Co. which were in the portfolio of the United States & International Securities Corporation on December 31, 1932, and which had been acquired at a cost to that investment trust of \$5,820,983.39, had, on December 31, 1932, a market value of only \$42,962.50.

Mr. TRACY. I will accept your statement on that, without even looking it up. Those railroads are both in receivership.

Mr. PECORA. Do not accept my statement. So long as you have your own documents before you—

Mr. TRACY. Of course, we have had a big loss in it.

Mr. PECORA. Are the figures I have quoted correct figures?

Mr. TRACY. We have a tremendous loss in those—a complete loss, you might say. They are both in receivership.

Senator COUZENS. May I ask the date of those Coverdale & Colpitts reports, when you used their reports as a guide in purchasing those securities? What are the dates of those reports?

Mr. TRACY. I will have to rely on my memory, but they were some time in the summer of 1929.

Mr. PECORA. Were they in July 1929 or thereabouts?

Mr. TRACY. I know they were in the summer of 1929.

Mr. PECORA. Do you know, further, that in July 1929 Dillon, Read & Co. and the United States & International Securities Corporation formed a pool or joint or syndicate account to trade in the common stock of the Chicago, Rock Island & Pacific Railway Co., on a 50-50 basis, as between these two participants?

Mr. TRACY. I am informed that we formed an account at that time with Dillon, Read & Co. to acquire stock in the market. That was our object in going into it.

Mr. PECORA. Did you, at about the same time—and when I say “you”, I mean the United States & International Securities Corporation—form a similar joint account with Dillon, Read & Co., on a 50-50 basis, to trade in the stock of the St. Louis & San Francisco Railway Co.?

Mr. TRACY. As I recall, we formed an account to purchase stock in the market; yes.

Mr. PECORA. Who were the managers of both those accounts?

Mr. TRACY. I will have to look that up for you.

Senator COUZENS. Some “wise guys” must have been unloading on them all that time. There is no question about that.

Mr. TRACY. The joint railroad account, to purchase railroad securities, was formed in July 1929.

Mr. PECORA. Can you give the specific date?

Mr. TRACY. July 13.

Mr. PECORA. When were the operations of those two joint accounts terminated?

Mr. TRACY. I am told on November 9, 1929.

Mr. PECORA. Was it not November 12, 1929?

Mr. TRACY (after conferring with an associate). According to our records, November 9, I am told.

Mr. PECORA. Three days difference does not matter very much.

The CHAIRMAN. Who was the manager of these accounts?

Mr. TRACY. It was a joint management.

Mr. PECORA. Are you sure it was a joint management?

Mr. TRACY. I am so informed. I will check it again (after conferring with an associate). Yes; I am told it was a joint management.

The CHAIRMAN. Who composed it?

Mr. PECORA. Dillon, Read & Co. and the investment trust, in equal shares. Each had a 50 percent interest.

Mr. TRACY. We wanted to buy railroad securities. We formed this account with Dillon, Read & Co. to buy railroad securities. They wanted to buy railroad securities also.

The CHAIRMAN. Had these roads, at that time, obtained loans from the Reconstruction Finance Corporation, do you know?

Mr. TRACY. I do not think the Reconstruction Finance Corporation was in existence.

Senator COUZENS. It was not organized until 1932, Senator.

Mr. PECORA. Let me, for your possible information, Mr. Tracy, state that we submitted a questionnaire to Dillon, Read & Co. which, among other things, called for information as to any pools, joint accounts, syndicates, or trading accounts in stocks in which Dillon, Read & Co., or its agencies or representatives participated, and of which Dillon, Read & Co. were managers; and that in their answer to that part of our questionnaire Dillon, Read & Co. informed us in writing—and I have the specific writing before me—that this joint account which was formed on July 13, 1929, and terminated on November 12, 1929, to deal in the stock of the Chicago, Rock Island & Pacific Railway Co., was one of the joint accounts which they managed.

Mr. TRACY. According to my recollection, Mr. Pecora, no securities could be bought in that joint account without the consent of both Dillon, Read & Co. and the investment trust. They could not buy anything in that account without our consent, and we could not buy anything in the account without their consent.

Mr. PECORA. Who gave the consent on behalf of the investment trust to any transactions for either one of those joint accounts?

Mr. TRACY. The board decided what we would buy.

Mr. PECORA. Did you, as president, have active participation in the discussions that led to these transactions?

Mr. TRACY. Indeed, I did. At a lot of the officers' meetings we discussed that at great length.

Mr. PECORA. Was this an open-market trading account?

Mr. TRACY. It was to acquire stock in the open market.

Mr. PECORA. To buy and sell?

Mr. TRACY. To acquire stock. That was our object. It was to acquire stock in railroads, to make investments in railroad securities.

Mr. PECORA. Let us confine ourselves, for the time being, to the joint account that was formed between Dillon, Read & Co. and the

United States & International Securities Corporation on July 13, 1929, to acquire common stock of the Chicago, Rock Island & Pacific Railway Co. Who put up the funds with which that joint account was operated?

Mr. TRACY. The United States & International Securities Corporation, to the best of my information.

Mr. PECORA. Put up all the funds?

Mr. TRACY. Put up all the funds.

Mr. PECORA. And Dillon, Read & Co. had a half interest in any profits?

Mr. TRACY. Correct; or losses.

Mr. PECORA. Or losses. Do you think that was a proper function for an investment trust to undertake?

Mr. TRACY. That is a very usual thing to do.

Mr. PECORA. Do you think it is a proper function, apart from its being usual?

Mr. TRACY. I do not think there is any harm in it at all.

Mr. PECORA. Do investment trusts commonly advertise to the investing public that among the transactions in which they engage with the moneys subscribed by the investing public, are joint accounts with others in market operations in securities?

Mr. TRACY. I do not know that they advertise that, no; but that is nothing unusual, to go into an account of that kind. I can explain it to you if you would like to have me do so.

Mr. PECORA. I wish you would give me a complete explanation of it.

Mr. TRACY. If my memory serves me correctly, we had at that time something like \$15,000,000 in cash, and about \$22,000,000 that was due on the allotment certificates. We were very long on cash, and my recollection of the deal was that we said we would put up the money, and we charged interest at the rate of 5½ percent, which was more than enough to cover our earnings on the preferred stock, which were 5 percent. There is nothing unusual about that kind of an operation, provided you know the credit of the people you are doing business with. I would not think of going out and investing our money on a joint account with somebody that did not have the proper credit.

Senator COUZENS. Why was a joint account necessary? Why could you not do it yourself?

Mr. TRACY. Dillon, Read & Co. also wanted to buy railroad securities at that time. We discussed it at great length in the officers' meetings and directors' meetings. We have officers' meetings once a week, and sometimes more frequently, which all the directors are invited to attend if they want to, at which we discuss things informally. Most of the directors turn up for those meetings if they can. Dillon, Read & Co. wanted to buy railroad securities, also.

Senator COUZENS. Did they want to buy them for their own account?

Mr. TRACY. For their own account; and we decided to do this thing jointly, so that we would not compete with each other in the market.

Senator COUZENS. Did you yourself ever own any of the common stock of either of those railroads?

Mr. TRACY. No, I did not.

Senator COUZENS. Do you know of any of your individual officers or directors that owned any stock in the Rock Island or the Frisco?

Mr. TRACY. I cannot give you a definite answer on that.

Senator COUZENS. I just asked you if you knew.

Mr. TRACY. I think that Charles Hayden was chairman of the board of the Rock Island, if I remember correctly.

Mr. PECORA. Mr. Charles Hayden is one of the gentlemen whom you mentioned yesterday as a director of this investment trust.

Mr. TRACY. Yes.

Senator COUZENS. Let him complete his answer. I would like to have him answer what he knows about that, first.

Mr. TRACY. I do not think any of the others were on the Rock Island.

Senator COUZENS. Were any of them on the Frisco?

Mr. TRACY. I think Mr. Ecker was on the Frisco.

Senator COUZENS. When you purchase these stocks and when they are transferred to your name is there any means of finding the source of the stocks, that is, from whom they were transferred?

Mr. TRACY. I do not think so.

Senator COUZENS. I know nothing about these operations, so I may be asking some very foolish questions. I was wondering if there was any way of finding out who owned this stock that was apparently unloaded on you.

Mr. TRACY. I am told the market went up after we bought these securities.

Senator COUZENS. Obviously the seller of those stocks did not think so much of them, or they would not be unloaded in such large quantities, would they?

Mr. TRACY. I do not know who you mean might have been unloading.

Senator COUZENS. Selling, if you like that word better.

Mr. TRACY. Somebody must have sold them if we bought them.

Senator COUZENS. Certainly. I wonder why they were selling, if the outlook was so good. I was just trying to get the mental reaction of the man who would sell these stocks, and who would sell at that time, when the reports were so good.

Mr. TRACY. If you go back and review Moody's and Standard Statistics, you would be very much surprised to see the records they made in those days.

Mr. PECORA. Mr. Tracy, what individuals among the personnel of the United States & International Securities Corporation participated, in behalf of that corporation, in the management of this joint account in the shares of the Chicago, Rock Island & Pacific Railway Co.?

Mr. TRACY. The purchases were reported at the meetings as they were made at our weekly meetings and directors' meetings.

Mr. PECORA. Is that the extent to which your investment trust participated with Dillon, Read & Co. in the management of this account?

Mr. TRACY. We followed the transactions and the purchases which were made on the stock exchange, Mr. Pecora.

Mr. PECORA. You have told me that this joint account was managed by Dillon, Read & Co. and the investment trust.

Mr. TRACY. Correct.

Mr. PECORA. The investment trust is a corporation and its acts are committed through the medium of individuals who are officers, directors, or employees. Who were those individuals who, in behalf of this corporation, participated in the management of this joint account with Dillon, Read & Co. in 1929?

Mr. TRACY. I am told that the United States & International made both those purchases, and Mr. Frank, who was then in the employ of the company, attended and took care of most of those purchases.

Mr. PECORA. Is Mr. Frank here now?

Mr. TRACY. I believe he is.

Mr. PECORA. Where is he?

Mr. TRACY. There he is right there [indicating].

Mr. PECORA. If he will remain in attendance, we may call him as a witness later.

When that joint account was terminated, on either November 9 or November 12, 1929, in the stock of the Chicago, Rock Island & Pacific Railway Company, were there any profits or losses to the syndicate managers?

Mr. TRACY. There must have been losses, because the market went down. I will get the exact figures.

Senator COUZENS. Losses to whom?

Mr. TRACY. There must have been book losses, because the market had quite a tumble between October 1 and November 9.

Senator COUZENS. Who suffered the losses, those in the joint account?

Mr. TRACY. Yes; there must have been losses. I am just looking that up, Senator.

Senator COUZENS. In the joint account?

Mr. TRACY. Yes.

Senator COUZENS. We know it was a loss to the investment trust, but was there a loss in the joint account?

Mr. TRACY. Certainly. The account was formed to share the profits equally, and the loss equally.

Senator COUZENS. If you went out and bought the stock, and turned it in to the investment trust at the price you paid for it, how would there be any profit or loss? You must have been selling and buying, and all that sort of thing.

Mr. PECORA. It was a trading account, was it not?

Mr. TRACY. Mr. Pecora, when the account was terminated, I am told that there was a loss of approximately \$2,300,000, which was shared equally between the two groups, the United States & International Securities Co. and Dillon, Read & Co.

Mr. PECORA. Those losses occurred as the result of market operations in the stock of the railroad companies.

Mr. TRACY. Yes, sir.

Mr. PECORA. How many shares —

Mr. TRACY. They only bought stock.

Mr. PECORA. They only bought?

Mr. TRACY. Bought.

Senator COUZENS. When they bought, to whom did they turn it over? When this joint operation bought stock, to whom did they deliver the stock?

Mr. TRACY. It was delivered to the United States & International Securities Corporation for carrying purposes. We carried it all, put up the money and carried it all, and all the securities were delivered to us, at the market price.

Senator COUZENS. Will you explain to me how a loss occurred?

Mr. TRACY. When the account was terminated, Senator, on November, we took the market prices as of that date, and the difference between the cost and market as of that date, showed a loss to the joint account of \$2,300,000. The account was terminated, and each one took their proportionate share of the securities. Each took half.

Senator COUZENS. They did not deliver them to each as they were accumulated by the joint account?

Mr. TRACY. No. The United States & International kept all the securities. We were putting up all the money, and we kept all the securities that were bought in the joint account.

Senator COUZENS. You delivered half of them in November to Dillon, Read & Co.?

Mr. TRACY. That is right; against cash.

Senator COUZENS. That loss was, then, the difference in the market between the date of purchase and the date of settling up the account, is that correct?

Mr. TRACY. You see, we put up all the money to buy these securities. Then we charged the account $5\frac{1}{2}$ percent interest. We kept all the securities. When the account was terminated we delivered half the securities to Dillon, Read & Co., against which they paid us cost.

Senator COUZENS. Cost at what time?

Mr. TRACY. Cost during the period in which the securities were bought. We bought some in July, some in August, and some in September, and when the account was terminated it showed a loss of \$2,300,000.

Senator COUZENS. What did the market price as of November 9, when the account was terminated, have to do with it? What did that have to do with it if you took them over at cost?

Mr. TRACY. We took ours over, but we charged Dillon, Read & Co. their share of the cost, you see, of what they stood us in the account.

Senator COUZENS. You did not turn them over to Dillon, Read & Co. at cost, then, did you? You turned them over to Dillon, Read & Co. as of the market, November 9?

Mr. TRACY. No. We turned them over at cost to the account.

Senator COUZENS. I may be dumb. I do not see where there is any profit or loss in it, if you turned them over at cost.

Mr. TRACY. That loss represents the difference between cost and market at that time. We delivered the securities to Dillon, Read & Co.

Senator COUZENS. At what price?

Mr. TRACY. And they paid for them at the price they cost the syndicate, you see?

Senator COUZENS. Yes.

Mr. TRACY. The securities at that time were worth \$2,300,000 less than they had cost the syndicate.

Senator COUZENS. Yes; but you have had no loss if you turned them over at cost. You did not turn them over at the market. If you turn a thing over at cost, how can there be a loss?

Mr. TRACY. They paid us cost. It was an unrealized loss. We gave them the securities.

Senator COUZENS. They did not pay you what they cost you?

Mr. TRACY. Yes. They paid us exactly what we paid for them.

Senator COUZENS. I may be dumb, but I do not see how there can be a loss.

Mr. TRACY. There was an unrealized loss.

Senator COUZENS. What do you mean by an unrealized loss?

Mr. TRACY. When the account was terminated we delivered half the securities to Dillon, Read & Co. at the cost of those securities to the syndicate. At that time the market price of those securities showed a loss of \$2,300,000. The loss was there whether it was realized or not. You could have bought, at the market price, at \$2,300,000 less, as of the date of closing of the account, but that had been bought during the period ahead of that.

Senator COUZENS. Yes; but you speculated on what the market would be when the joint account was closed, did you not?

Mr. TRACY. We thought it was going up, naturally, or we would not have gone into it.

Senator COUZENS. What became of this loss when it was not a realizable loss? What did you do with the loss when it was not realized?

Mr. TRACY. We kept our securities.

Senator COUZENS. What difference did it make to Dillon, Read & Co., if they were to share in the cost price? If they were to pay cost, where was the loss? There was a potential loss if you had attempted to sell them, but, as you did not sell them—

Mr. TRACY. We did not sell ours.

Senator COUZENS. So, how was there a loss, if you did not sell them?

Mr. TRACY. It is a potential loss for us, and would so show on our annual report, that they cost us so much, and the market value would be so much.

Senator COUZENS. What happened with that transaction of the \$2,300,000 potential loss? What did you do with that? How was that potential loss handled?

Mr. TRACY. Our share of the securities would go on our books at cost to us.

Senator COUZENS. Yes.

Mr. TRACY. And in our annual report we would show those securities at cost. In the next column we would show the market value, so that anybody taking that report would see that they cost us so much, and they are worth so much, which is so much less.

Senator COUZENS. And so, in so far as your half is concerned, you had a loss of \$1,150,000.

Mr. TRACY. Half of \$2,300,000.

Senator COUZENS. Between what you had paid for them and what the then market was.

Mr. TRACY. Yes.

Senator COUZENS. That \$1,150,000 would be, I assume, a potential loss to Dillon, Read & Co. Did you pay them for that loss?

Mr. TRACY. Certainly not.

Senator COUZENS. Where was the loss, then?

Mr. TRACY. That was just a potential loss to Dillon, Read & Co. That was a book loss.

Senator COUZENS. So, there were no cash transactions with respect to that loss?

Mr. TRACY. Not at the closing of the syndicate; no, sir.

Senator COUZENS. At any other time?

Mr. TRACY. Dillon, Read & Co. subsequently sold those securities, I think, and then they must have registered an actual loss on them.

Senator COUZENS. So that there was only a potential loss, and not a real loss.

Mr. TRACY. As of the date of closing, if the market had gone up again, there would not have been a loss.

The CHAIRMAN. The account was not terminated by the sale of these securities, but by distribution.

Mr. TRACY. Distribution. Each took half of the securities.

The CHAIRMAN. There was not any actual sale of them.

Mr. TRACY. No; each took half the securities, and each paid half the amount of the cost.

Senator COUZENS. When you entered into the trading arrangement, you had an understanding that you were to share the profits and losses?

Mr. TRACY. Yes.

Senator COUZENS. I still cannot get through my mind how there was any profit or loss, if it was done at cost. You admit in your testimony that it is only a potential loss, so there was no real profit and loss in the transactions if it was all done on a cost basis.

Mr. TRACY. Not in that syndicate, Senator. If we had sold the securities belonging to the syndicate, we would have shared the actual loss.

Senator COUZENS. But the syndicate did not sell any.

Mr. TRACY. No.

Senator COUZENS. The syndicate only bought.

Mr. TRACY. Yes.

Senator COUZENS. So there was no real profit and loss at all.

Mr. TRACY. No; a book loss.

Senator COUZENS. But you did contemplate, when you entered into the trading agreement, that you might sell as well as buy.

Mr. TRACY. There might be a loss.

Senator COUZENS. Through selling and buying.

Mr. TRACY. Yes.

Senator COUZENS. Did the trading arrangement sell short at all?

Mr. TRACY. No.

Senator COUZENS. They did not sell at all, at any time?

Mr. TRACY. Not to my knowledge.

Senator COUZENS. They only bought.

Mr. TRACY. The simple purpose of forming it was to acquire the railroad securities, that was all.

Mr. PECORA. Have you the minute book of the United States & International Securities Corporation covering the period between July 1929 and the 1st of January 1930?

Mr. TRACY. December 1, 1930?

Mr. PECORA. January 1, 1930.

Mr. TRACY (after conferring with associates). I have it here.

Mr. PECORA. Will you kindly look through the minute book for that period of time and see if you find any entries therein relating to the investment trust's going into this joint account with Dillon, Read & Co.?

Mr. TRACY. No; I do not find any reference to it, but I know it was gone into at great length during the months of May and June and up to the middle of July. I went away about the middle of July.

Mr. PECORA. Do you find any entries in the minutes of any meeting of the board of directors of your investment trust for the months of May or June that relate to this joint-account venture? Incidentally, while you are looking at it you need not confine yourself to any period of time. Look through the minute book and see if you can point out any entries therein relating to this joint account.

Mr. TRACY. No; I do not see any until you get over to September 9.

Mr. PECORA. But this joint account, you say, was formed on July 13?

Mr. TRACY. That is correct.

Mr. PECORA. And the decision then had been made on behalf of your investment trust to go into this joint account some time before July 13?

Mr. TRACY. Yes. It was discussed at all of the officers' meetings held during that period.

Mr. PECORA. Did you not record in your minutes of the meetings any references at all to decisions by which the investment trust entered into a joint-account operation involving millions of dollars?

Mr. TRACY. Apparently it is not recorded.

Mr. PECORA. Is that the way these minutes were kept generally?

Mr. TRACY. We never recorded sales until after they were made.

Mr. PECORA. What was the purpose of keeping minutes of meetings of the board of directors and failing to include any mention in those minutes of discussions which led to the making of important decisions by the board of directors?

Mr. TRACY. It is not customary in any companies that I am connected with to put into the minutes all the things you discuss, Mr. Pecora.

Mr. PECORA. Even such important items of discussion as one involving an investment of several millions of dollars?

Mr. TRACY. No.

Mr. PECORA. What are the minutes good for, then?

Mr. TRACY. They record what you have done.

Mr. PECORA. After it has been done, some report is made to the board of directors and such a report is entered in the minutes? Is that the way these minutes were kept?

Mr. TRACY. It is the usual thing to discuss what you are going to do. When it is done, it is recorded in the minutes.

Mr. PECORA. The decision to enter this joint account must have been reached prior to July 13, 1929?

Mr. TRACY. Certainly.

Mr. PECORA. Was the making of that decision, whenever it was made, recorded in the minutes?

Mr. TRACY. We did not have any meeting in the summer of 1929. It was recorded at the first meeting held after that.

Mr. PECORA. At what meeting or meetings of the board of directors of your investment trust did they reach the decision to enter into this joint-account operation with Dillon, Read & Co. that involved an investment of several millions of dollars on behalf of the investment trust?

Mr. TRACY. It was probably decided at one of the officers' meetings.

Mr. PECORA. But not at a directors' meeting?

Mr. TRACY. It had been discussed, as I have told you, Mr. Pecora.

Mr. PECORA. I am not asking you now about an entry of a discussion in the minutes, but about the making of the decision.

Mr. TRACY. It is not recorded until the meeting that was held on September 9.

Mr. PECORA. Will you produce the minutes of the meeting in September 1929, in which you say that for the first time there is any mention at all of this transaction?

Mr. TRACY. I have them here. They are in the treasurer's report.

Mr. PECORA. Will you let me look at those minutes, please?

Mr. TRACY. Certainly [handing book to Mr. Pecora]. The treasurer's reports are part of the minutes and attached to them. Senator COUZENS. Read them out loud so that we can all hear.

Mr. PECORA. Will you kindly show me where, in the minutes of the board of directors of your investment trust, of the meeting held on September 9, 1929, there is any reference to this joint account or to any transactions had in its name?

Mr. TRACY (reading): The chairman presented to the meeting financial reports of the treasurer of the corporation covering the transactions of the corporation during the months of June, July, and August 1929.

Here [indicating] is the report of the transactions entered into by the officers of the corporation, June 8 to June 30, 1929; the purchase of the Chesapeake & Ohio Railway Co. stock—

Mr. PECORA. Just get down to the transactions relating to this.

Mr. TRACY. All right. The last half of the month of July, Florida Power & Light; International Telephone & Telegraph Co., Chicago, Rock Island & Pacific, 5,000 shares; 10,000, Pennsylvania; 30,000, Frisco; 10,000 Southern Pacific; 10,000, Southern Railway; odd amounts of Seaboard bonds and notes.

Mr. PECORA. According to the minutes of the meeting of the board of directors of your investment trust held on September 9, 1929, and to which you have directed my attention in answer to my previous question, the directors present at that meeting were as follows: Clarence Dillon, Charles Hayden, Dean Mathey, J. W. McConnell, and Ernest B. Tracy. You acted as chairman of the meeting, and Mr. Frank acted as secretary of the meeting and kept the minutes. Is that the Mr. Frank to whom you made reference earlier

this morning? Is that the man connected with the Keswick Corporation?

Mr. TRACY. Yes.

Mr. PECORA. Mr. Mathey, whose name I have mentioned, is one of the partners of Dillon, Read & Co., is he not?

Mr. TRACY. That is correct.

Mr. PECORA. Now, you have called my attention to the following entry appearing at page 161 of your minute book, relating to the meeting of that date, September 9, 1929, which reads as follows:

The chairman presented to the meeting financial reports of the treasurer of the corporation covering the transactions of the corporation during the months of June, July, and August 1929. A discussion of these reports and of the securities held by the corporation then ensued. Thereupon, on motion duly made and seconded, it was unanimously resolved that the reports of the treasurer of the corporation covering the transactions of the corporation during the months of June, July, and August 1929, copies of which have been submitted to this meeting, and all of the transactions set forth therein, hereby are in all respects approved, ratified, and confirmed.

Embodied in the minutes of the meeting of September 9, 1929, you called my attention to certain reports purporting to have been made to the board by the treasurer of the investment trust and in which mention is made that at certain times certain shares of the Chicago, Rock Island & Pacific Railway Co. had been acquired?

Mr. TRACY. That is right. If that is what it says there, that is right.

Mr. PECORA. The references in those reports of the treasurer to the acquisition of any securities of the Chicago, Rock Island & Pacific Railway Co., as far as I can find them, are contained at page 173 of this minute book, and show the acquisition of 5,000 shares of Chicago, Rock Island & Pacific Railway common stock at \$135.23, or a total of \$676,137.50; and that those purchases were made through G. N. P. Murphy & Co. Also at page 175 of the minute book is a statement embodied in the report of the treasurer that 19,900 shares of the common stock of the Chicago, Rock Island & Pacific had been acquired at \$138.39, for a total of \$2,753,962.50—

Senator COUZENS. From whom did they purchase those?

Mr. PECORA. It does not say, Senator.

Mr. TRACY. It was purchased through the account.

Mr. PECORA. In the first instance the information embodied in the treasurer's report shows the firm of brokers through whom the 5,000 shares were acquired, but the entry relating to the acquisition of the 19,900 shares does not appear to give the name of the broker through whom the purchase was made.

Mr. TRACY. I think where it shows the broker's name is where it is applied to the account. I think you will find it shows it.

Mr. PECORA. What did you say?

Mr. TRACY. I believe you will find the purchase against the broker's name there—

Mr. PECORA. I have just found this reference now, Senator, and I am going to read it. It appears at page 174 of the minute book and is contained in one of the reports submitted by the treasurer, and it reads as follows [reading]:

6. The United States & International Securities Corporation and Dillon, Read & Co. entered into an agreement to establish a joint railroad securities trading account, the funds for which to be provided for by the United States &

International Securities Corporation, taking as reimbursement 5½ percent interest on the daily balances, the profits or losses of this account to be shared equally by each participant. As agreed upon, the following securities were purchased, totaling \$10,891,578.

Then in the list that follows that statement appear, among other things, these entries, which I shall specifically read, because I propose to make it the subject of further examination.

Nineteen thousand nine hundred shares Chicago, Rock Island & Pacific Railway Co. common at \$138.89—\$2,753,962.50.

Thirty thousand shares St. Louis & San Francisco Railway Co. common at \$130.58, a total of \$3,917,525.

One hundred sixty-nine thousand shares of Seaboard Air Line Railway Co. at 45.77—no; these are bonds, \$169,000 par value.

Mr. TRACY. I think it is only fair to read the whole list, giving all the securities, because that was the joint account and we were buying railroad securities at that time.

Senator COUZENS. Have we any copy of the joint agreement that was entered into?

Mr. PECORA. I am going to ask the witness for that as soon as I get through examining him about this minute book, Senator.

Mr. TRACY. There are a lot of others contained in that; and I think, in fairness, they all ought to be read.

Mr. PECORA. All right. I will read them all. I have already referred to the Chicago, Rock Island & Pacific and the St. Louis & San Francisco common. The entry further shows that there had been purchased for this joint account—

Ten thousand shares of Pennsylvania Railroad Co. capital stock at 98.41, a total of \$984,000.

Ten thousand shares Southern Pacific Co. capital stock at 144.91, a total of \$1,449,000.

Ten thousand shares Southern Railway Co. at 159.77, a total of \$1,597,000.

\$169,000 par value of bonds of the Seaboard Air Lines Railway, 5 percents, due in 1949, at \$45.77, a total of \$77,350.50.

\$106,000 par value of Seaboard Air Line Railway 5 percent bonds maturing in 1949 at \$46.86, a total of \$49,667.

\$89,000 par value of Seaboard Air Line Railway Co. first and consolidated 6 percent bonds maturing in 1945, at \$69.93, a total of \$62,235.50.

The CHAIRMAN. How were those purchases made?

Mr. TRACY. In the open market, Mr. Chairman.

Mr. PECORA. You have heretofore, told us with respect to the acquisition, through the medium of this joint account, of common stock of the Chicago, Rock Island & Pacific Railway Co., that the joint account in question was an account formed to acquire the stock—am I correct in that?

Mr. TRACY. To purchase railroad securities.

Mr. PECORA. And you have also told us in the course of your testimony this morning similarly with respect to the acquisition of the shares of the common stock to the acquisition of the shares of the Common stock of the St. Louis & San Francisco Railway Co. Am I correct in that, too?

Mr. TRACY. I believe you are, sir.

Mr. PECORA. At page 174 of this minute book the reference, which I have read into the record therefrom, is made to this joint account as a joint railroad securities trading account. Was this joint railroad securities trading account that your investment trust entered into with Dillon, Read & Co. a trading account in all that that

term implies, or was it merely an account that was formed to enable the participants simply to acquire railroad issues?

Mr. TRACY. The object of the account, Mr. Pecora, was to purchase railroad securities.

Mr. PECORA. Why was it styled a trading account if that was the object?

Mr. TRACY. At that time, I cannot tell you that; but the object of the account was to buy railroad securities.

Mr. PECORA. Then the name given to that joint account, namely, joint railroad securities trading account, was perhaps a misnomer?

Mr. TRACY. I do not think the words "trading account" had the stigma attached to them at that time that has been developed since.

Mr. PECORA. Whether it had a stigma at that time, a trading account in 1929 meant the same thing as a trading account in 1933, did it not?

Mr. TRACY. It was formed for the purpose of buying railroad securities.

Mr. PECORA. We know that; you have told us that. But why was it called a trading account if it was formed only for the purpose of acquiring securities and not selling them.

Mr. TRACY. We might have decided to sell some securities.

Mr. PECORA. What was the decision that was reached some time prior to July 13, 1929, by the board of directors of your investment trust with respect to going into any kind of a joint account with Dillon, Read & Co.?

Mr. TRACY. We wanted to buy railroad securities.

Mr. PECORA. Not to sell them?

Mr. TRACY. No.

Mr. PECORA. Just to buy?

Mr. TRACY. Yes; we wanted to acquire them.

Mr. PECORA. When, in pursuance of that judgment or decision, your company went into a joint trading account with Dillon, Read & Co., was there a departure, by so doing, from the decision that the board had arrived at regarding the purposes of this account?

Mr. TRACY. None. The purpose of the officers was to acquire railroad securities, and we acquired them.

The CHAIRMAN. When the account was terminated, Mr. Tracy, how was the adjustment made? Did Dillon, Read & Co. take an equal number of shares of this stock and the investment company an equal number of the shares? How did you agree among yourselves as to the division of the stock that you had acquired?

Mr. TRACY. It was a 50-50 basis.

The CHAIRMAN. Each stock?

Mr. TRACY. Yes, sir.

Senator COUZENS. I think the copy of the agreement entered into is the best evidence.

Mr. PECORA. Will you produce the original or a true copy of the agreement entered into between your investment trust and Dillon, Read & Co. by which this joint account was created?

Mr. TRACY. I have before me one of the originals.

Mr. PECORA. Will you produce it, please?

(Witness produced a paper which he handed to Mr. Pecora.)

Mr. PECORA. You say it is one of the originals. Do you mean it is a duplicate original?

Mr. TRACY. Yes.

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

Mr. TRACY. I would rather not have it marked up, because it is our file copy.

Mr. PECORA. The marking is not going to damage it, is it? Putting an exhibit number on it will not damage it.

(The document referred to, dated July 13, 1929, headed "Thirty Million Dollar Railroad Securities Joint Account", was received in evidence as Committee's exhibit no. 15.)

Mr. PECORA. The exhibit produced by the witness, which has been marked "Committee Exhibit 15", of this date, is a carbon copy, is it not?

Mr. TRACY. Yes.

Mr. PECORA. A typewritten carbon?

Mr. TRACY. Yes.

Mr. PECORA. And it reads as follows. [Reading:]

THIRTY MILLION DOLLAR RAILROAD SECURITIES JOINT ACCOUNT,
July 13, 1929.

DILLON, READ & Co.,
New York, N.Y.

DEAR SIR: Referring to the above account which is being formed today to buy and/or sell and/or trade in the common and/or preferred stocks and/or bonds of various railroads, subject to the condition that the account shall never be committed at any one time in a net amount exceeding \$30,000,000, long or short, we beg to confirm the participation of \$15,000,000 allotted to you in this account.

The account is to terminate October 15, 1929, unless sooner dissolved by mutual agreement, and may be extended by mutual consent. The account shall be under the joint management of Dillon, Read & Co. and the United States & International Securities Corporation.

Purchases and/or sales for the account are to be approved by both parties. Participants will share pro rata, that is, in the proportions which their respective participations bear to the total participations in the account in the profits, losses and expenses of the account, and at the termination of the account will be entitled to receive their respective pro rata shares of any assets then remaining in the account in the form in which the same then exists, less their respective pro rata shares of the charges to the account.

We will carry for the account all of such stock and/or bonds which the account is long at an interest rate of 5½ percent. If at some future time all or part of any of the securities long in the account be turned over to a new company, it is our understanding that you will be given an opportunity to make an offering of the securities of such company and for doing so will be entitled to reasonable compensation.

Kindly confirm your acceptance of the participation allotted you by signing the attached copy of this letter and returning it to us.

Yours very truly,

UNITED STATES & INTERNATIONAL SECURITIES CORPORATION.

Then there is a blank, a space, and vice president. In the lower left-hand corner is the word "Accepted", and a signature reading "Dillon, Read & Co., July 13, 1929."

Mr. PECORA. This agreement, or the agreement evidenced by this letter, Mr. Tracy, relates to a pretty large account, does it not?

Mr. TRACY. I would call it a pretty large account.

Mr. PECORA. One to which your investment trust was committing itself to the extent of as much as \$15,000,000?

Senator COUZENS. Committed itself to \$30,000,000 as a matter of fact.

Mr. PECORA. Yes. Committed itself to \$30,000,000; that is, committed itself to furnish the funds up to the amount of \$30,000,000, but its participation therein for its own account was not to exceed \$15,000,000.

As I have been examining you this morning, Mr. Tracy, along this line, I noticed that almost in every instance before you answered the question you had a whispered conference with a young man who is now seated at your right. Who is that young man? I do not recognize him.

Mr. TRACY. He is Paul Nitzé.

Mr. PECORA. Who is he? What is his relationship to your investment trust?

Mr. TRACY. He is vice president of the Keswick Corporation.

Mr. PECORA. I have no objection to your getting any information or advices that you want to get from any of your associates to enable you to answer any question that I put to you, but I do now want to ask you Mr. Tracy—you are president of this investment corporation—if you need to confer with Mr. Nitzé or anybody else in order to enable you to answer my question?

Mr. TRACY. Well, when I do, Mr. Pecora, I will ask that you be kind enough to let me confer with him. There are questions of details.

Mr. PECORA. There will be no objection to your conferring with him.

Mr. TRACY. All right. If I need any information with regard to specific purchases and sales and details that I cannot carry in my head I will make the request of you, if you will be kind enough to let me do it.

Mr. PECORA. Now do you need any information from Mr. Nitzé or anybody else in order to enable you to answer questions relating to the making of this joint account agreement of July 13, 1929?

Mr. TRACY. I will have to find out first what you are going to ask me about it.

Mr. PECORA. I propose to ask you a number of questions with respect to the making of this agreement. Do you feel that you have sufficient personal knowledge of all the circumstances surrounding the making of this agreement that you do not have to have advices and information from any of your associates?

Mr. TRACY. I think I know a great deal about it; yes.

Mr. PECORA. Well, let us see how much you know about it first.

Mr. TRACY. You might ask me the question, Mr. Pecora, but I may have to refresh my knowledge of it.

Mr. PECORA. Yes. Do you acknowledge that the making of this agreement of July 13, 1929, by your investment trust with Dillon, Read & Co. involved a business transaction of considerable moment and consequence to the investment trust?

Mr. TRACY. It did. The operation was of large magnitude.

Mr. PECORA. Do you know any other single agreement touching upon any of the business operations of your investment trust that exceeded this agreement in magnitude?

Mr. TRACY. I do not.

Mr. PECORA. In view of that fact, Mr. Tracy, will you be good enough to tell this committee if you can why there is absolutely no mention in the minute book of your investment trust of the making of this agreement at the time it was made or at the time the decision to enter into it was made?

Mr. TRACY. I think I told you before, Mr. Pecora, that this matter was discussed at the directors' meetings, at officers' meetings; I discussed it outside of the meetings with different directors, and we came to the conclusion—the board—that railroad securities offered the best field for investment on earnings, market basis, on yield basis, and we decided to look into the railroads. We spent money on reports not only on the Rock Island, the Frisco, the Denver & Rio Grande Western, the Chicago Great Western, but one or two other roads, and as the result of all those deliberations we decided to buy railroad securities. And that is the method that we employed. That is our usual form of reporting operations to the board. But everyone on the board knew about that account. There was not anybody that did not know it.

Mr. PECORA. What reason was there for not mentioning somewhere in the minute book of your board the fact that the board had committed itself to a joint account involving a potential liability of \$30,000,000?

Mr. TRACY. I do not know. As I told you, everybody on the board was familiar with that, and the details of it, and our reasons for going into it. It was unanimous. We were not trying to hide anything from anybody. Every director knew everything that we were doing.

Mr. PECORA. I have not used any such term as "hide" anything. I am simply trying to get from you some explanation of why it was not mentioned. It might have been an oversight for all I know. I do not say that you were trying to hide something, but I am trying to get your own reason or explanation for the absolute absence from the record of the minutes of your board meetings held at any time prior to and up to July 13, 1929, of any reference to this transaction involving potentially a 30-million-dollar commitment by your company. That is what I am trying to find out.

Mr. TRACY. There was no reason that I know of. It was not usual for us to put those things in our minutes, Mr. Pecora. But I come back and tell you again that all of them had hashed over this thing, had discussed it, had talked about it, had discussed railroads, had reports made of it, and it was the unanimous opinion of the board that railroad securities offered the best field for investment at that time.

Mr. PECORA. What do you regard as the primary function served by the keeping of minutes of meetings of boards of directors?

Mr. TRACY. To record what you have done.

Mr. PECORA. Exactly.

Mr. TRACY. And I think everything is recorded in there. All the purchases that we have made.

Mr. PECORA. Well, you made purchases after you made decisions to purchase?

Mr. TRACY. Yes.

Mr. PECORA. The important thing is the making of the decision, is it not, because without the decision the purchase does not subsequently follow?

Mr. TRACY. No; it does not.

Mr. PECORA. Why do you not put in your minutes, or cause to be put there, the important decisions that the board makes with regard to the contemplated purchase of securities?

Mr. TRACY. Well, it is not customary—I am on a number of boards—to record any transactions until they are reported.

Mr. PECORA. If you were asked at any time and place to say, under oath, at what meeting of the board of directors the final decision was arrived at to enter into this joint-account agreement of July 13, 1929, would you be able to answer on the basis of your personal recollection?

Mr. TRACY. No.

Mr. PECORA. Do you know any of your fellow directors who would be able to answer such a question on personal recollection?

Mr. TRACY. No. But what I can tell you and what they could tell you is that we had discussed this thing for months. We had gone into the railroad securities, we had looked into railroads, we had looked into everything else, and we decided to acquire railroad securities because—

Mr. PECORA. You cannot tell us when you reached that decision and when you actually embodied such a decision in a written agreement which bears a definite date? The fact of the making of that written agreement at the time it was made is not mentioned in the minutes anywhere? Is that not the situation?

Mr. TRACY. That is right. It is not. But the purchases are recorded, and the amounts.

The CHAIRMAN. But the agreement contemplates not only acquiring securities but selling them.

Mr. TRACY. Well, that is the usual form, Mr. Chairman, when that account was formed to purchase railroad securities.

Mr. PECORA. Then if it was formed solely to purchase railroad securities for the benefit of the account, and it had only two participants, namely, Dillion, Read & Co. and your investment trust, why was the agreement so drawn as to confer upon the managers of this account the right not only to purchase but to sell; the right not only to buy long but to sell short?

Mr. TRACY. That is the usual form, Mr. Pecora.

Mr. PECORA. Who prepared this usual form? Do you find it in any textbook on forms?

Mr. TRACY. No; I do not think you do.

Mr. PECORA. Well, who prepared this usual form?

Mr. TRACY. I will find out for you if you wish.

Mr. PECORA. Please.

Mr. TRACY (after conferring with his associates). I do not know who wrote that, and they do not seem to be able to tell me. But that is the usual form whenever an account is formed to buy and sell.

Mr. PECORA. Do you know who signed that contract or that agreement of July 13, 1929, in behalf of your company?

MR. TRACY. No. I will try to find out for you. Do you know who signed it (addressing his associates)? I will have to look that up.

MR. PECORA. All right. Now, Mr. Chairman, I notice the time is 12:15 p.m., and as I recall it, it was the purpose of the committee to adjourn early today. In view of that, and in view of the fact that I notice in this room the presence of Hon. Patrick J. Hurley who I know desires to make some statement to the committee respecting a matter that is before the committee or is to come before the committee, may I suggest that we suspend the examination of this witness at this time and ask Mr. Hurley to address the committee if he desires to do so.

The CHAIRMAN. Will that be agreeable to you, Mr. Tracy?

MR. TRACY. Yes, sir.

The CHAIRMAN. We will suspend the examination of Mr. Tracy, then, for the present. Our purpose is to adjourn, when we do adjourn, until Tuesday. Then, Mr. Tracy, we will not resume with you until 10 o'clock on Tuesday. We are going to adjourn now until 10 o'clock next Tuesday.

MR. PECORA. Mr. Chairman, will you request that all witnesses now under subpoena, whether they have already been called to testify or not, return under that subpoena on Tuesday morning?

The CHAIRMAN. All witnesses who have been subpoenaed will be present Tuesday at 10 o'clock.

(Thereupon, the examination of Mr. Tracy was temporarily discontinued until 10 a.m. the following Tuesday, October 10, 1933.)

The CHAIRMAN. Before Mr. Hurley takes the stand I wish to make this statement for the record. The committee wishes to express its regret because of the illness of Senator Glass and his enforced absence. I have just received this memorandum with reference to Senator Glass' illness and I will ask that it be placed in the record at this point.

(The memorandum referred to is as follows:)

OCTOBER 6, 1933.

Senator Glass wishes Senator Fletcher to know that he is confined to his bed under the care of a physician and trained nurse, and that this illness has prevented him from attending the sessions yesterday and today.

RIXEY SMITH, *Secretary.*

The CHAIRMAN. We will now ask Mr. Hurley to take the stand. You wanted to ask Mr. Hurley some questions, Mr. Pecora?

MR. PECORA. No. I think Mr. Hurley has indicated to me that he has some statement to make to this committee, or some application to address to it.

The CHAIRMAN. Are you appearing as counsel, Mr. Hurley?

MR. HURLEY. Yes, sir.

The CHAIRMAN. Not as a witness?

MR. HURLEY. Not as a witness.

The CHAIRMAN. There is no need for you to be sworn, then. You may proceed with any statement you desire to make, Mr. Hurley.

STATEMENT BY HON. PATRICK J. HURLEY IN BEHALF OF THE ASSOCIATED GAS & ELECTRIC CO.

Mr. HURLEY. Mr. Chairman and members of the committee, my appearance before this committee in behalf of the Associated Gas & Electric Co. is primarily for the protection of the rights of approximately 350,000 citizens throughout the country who have invested in its securities. As we understand it, the committee desires to present to the public a true statement of the methods employed in issuing the securities of the company. We feel that the best interests of the security holders will be promoted by the conducting of the entire proceedings in public. With that in view, the company has for itself and all its subsidiaries presented willingly all of its records to Mr. Pecora and his agents. The books and records of the company and its subsidiaries are and will continue to be available to Mr. Pecora and this committee.

The affairs of the company have been fully investigated by the Federal Trade Commission. That commission recently published a report of its investigation (S. Doc. 92, pt. 45, 70th Cong., 1st sess.). The frank cooperation of the corporation was commended by the chief counsel for the Federal Trade Commission in the public record referred to at page 837, as follows:

Mr. HEALY. I think it appropriate for me to say at this time, at least, I desire to say on behalf of myself and Dr. Walker, the chief economist, and also on behalf of the Commission, that we appreciate the cooperation which we have had from the Associated Gas & Electric Co. in our work and in Mr. Nodder's work of preparing and presenting this report for the record.

I am moved to say that the company has not refused us any information which the representatives of the Commission deemed material and pertinent under the resolution and statute that we work under.

Commissioner McCULLOCH. It is very appropriate that that acknowledgment should be made on the record. Now, are you ready for adjournment?

The Associated Gas & Electric Co. is the largest independent utility holding company in the United States. By that I mean that it is controlled by its management and not by banks or banking connections generally referred to as Wall Street. There are undoubtedly large interests who would like to see this company dismembered, even though it were necessary to force it into receivership to do so. Unquestionably a receivership would be destructive to the best interests of hundreds of thousands of security holders throughout the United States.

In addition to this, so-called "chiselers" have formed and attempted to form committees ostensibly to serve the security holders but actually to profit by the distress that this can bring to the security holders of this corporation. As evidence of this I would like to call the attention of the committee to the fact that one of these so-called "security protective committees" has attached to its circulars which have been sent out to dealers the following statement:

Until further notice the sum of \$6, which is approximately 4 percent of the current market value, will be allowed and paid to investment dealers who are active, for each debenture deposited through them, to cover their cost of assisting debenture holders in depositing with this committee, the same to be payable immediately upon satisfactory proof of deposit.

Necessarily this very high cost of procurement of depositors must be charged together with all other expenses against the security holders.

Senator COUZENS. Do you mind an interruption, Mr. Hurley?

Mr. HURLEY. No, sir.

Senator COUZENS. What is the purpose of collecting these securities?

Mr. HURLEY. They state that they are collected by a protective committee for the protection of the security holders. I have here a complete record of the advertising campaign conducted in the papers and the advertisement itself.

Senator COUZENS. I would like to have that placed in the record.

The CHAIRMAN. It may be marked as an exhibit and spread upon the record.

(Advertising matter of the Debenture Holders' Protective Committee was marked "Committee Exhibit No. 16, October 6, 1933," see p. 1775.)

Senator COUZENS. Why did they need protection? That is what I wanted to know.

Mr. HURLEY. I think possibly that in the case of a company with far-flung interest that is under investigation, in these times when taxes have been increased, cost of operations increased, and the income on the commodity reduced, there is a chance to break the company down.

Senator COUZENS. What do you mean by that? That they are in default on their securities?

Mr. HURLEY. I mean to say that throughout the depression this company has paid interest to date and is still paying interest.

Senator COUZENS. So you have no securities in default?

Mr. HURLEY. As I understand, there are none in default. I am advised this morning that the interest is all paid to date.

Senator COUZENS. I want to get this straight, because it is not usual to form bondholders committees or security holders committees until there is a default.

Mr. HURLEY. I am pointing to this, Senator, because it is very unusual, and it is an attack upon what I conceive to be the fundamental rights of persons who have invested in these securities to prepare for themselves a competence for illness or old age, and I am calling it to the attention of the committee because it is an attack upon the rights of these investors throughout the United States.

May I proceed?

Senator COUZENS. Yes.

Mr. HURLEY. An investigation of this nature must necessarily bring forth those who will attempt to profit by any distress caused to the investors. I do not see that the committee can in any way prevent this, but I do want to call attention to the fact that it is taking place.

The press recently has carried quite generally a story to the effect that Mr. Pecora has said that the Associated Gas & Electric Co. is "a corporate labyrinth resembling the Insull group in structure and formation." No statement that has been made could be more damaging to the welfare of the investors of this company. The Insull situation has come to have a specific derogatory meaning in the public mind. Without referring to questions of fraud or mismanagement, it means a bankrupt situation. I feel certain

that such a comparison would not have been made by Mr. Pecora after he had completed this investigation.

Let us look for a moment to the differences between this situation and the Insull situation, to which Mr. Pecora likens it. The Insull holding company situation was built up largely on thin equities with large amount of underlying securities held by the public. These equities were freely pledged as collateral for the bank loans which the companies were unable to pay, resulting in the foreclosure of the loans. The earnings of the holding companies were in large part based on intercompany profits on the sales of properties and securities, which could not continue to be shown when the depression came. These are the things which caused the collapse of the Insull structure. The policies of the Associated management have been exactly the opposite. The Insull organization on the advent of the depression was immediately unable to pay the interest upon its securities; in contrast, the Associated Gas & Electric Co. has continued to pay the interest on its securities throughout the depression.

The condition of the company under the present investigations and attacks from without together with increased taxes and the increased cost of compliance with the provisions of the N.R.A. is raising the cost of operation of the company at a time when rates are actually being reduced. I agree with Mr. Pecora that there are complexities in the corporate organization. That must necessarily be so when it is understood that the company operates in 26 States of the Union, in Canada, and in the Philippine Islands; but his attention should also be called to the great strides the company has made in simplifying the corporate structure. Since 1922, 216 corporations have been eliminated by the Associated System in simplifying its corporate structure. For the information of the committee, I will hand Mr. Pecora, if he desires to have it, a statement of the corporations actually eliminated from the system during this period. The process of simplification is still going on.

As I said in the beginning, I am appearing here primarily in the interest of the people throughout the country who have invested in these securities, in a hope that we may be able to work constructively together to save those investors.

I said also in the beginning that the books of the Associated and its subsidiary companies are now and will continue to be at the disposal of Mr. Pecora and this committee. Mr. Pecora has asked for the private books of private concerns owned or controlled by Mr. H. C. Hopson. I am not attorney for Mr. H. C. Hopson.

Senator COUZENS. Who is Mr. Hopson?

Mr. HURLEY. Mr. Hopson is executive vice president of the company.

Senator COUZEN. That is, the holding company?

Mr. HURLEY. Yes, sir.

The CHAIRMAN. He really has the management of the company?

Mr. HURLEY. Yes.

The CHAIRMAN. And its affairs?

Mr. HURLEY. Yes, sir.

Senator COUZENS. Has he been here right along during this investigation?

Mr. HURLEY. No, sir.

Mr. PECORA. I have never laid eyes on him, Senator Couzens.

Senator COUZENS. Do you know where he has been?

Mr. HURLEY. I know where he is now.

Senator COUZENS. Is he here in the room?

Mr. HURLEY. No. There is a vice president here in the room now.

Senator COUZENS. Where is Mr. Hopson?

Mr. HURLEY. Mr. Hopson is in Chicago.

Senator COUZENS. Has he been active in the affairs of the company during this year?

Mr. HURLEY. No, sir. He has been ill part of the time. I might say this: There is some one here who will say to the committee that Mr. Hopson is available, and when I finish this you will find that he is available at any time the committee wants him, and has been for any public hearing that was desired.

Mr. Pecora has asked for the private books of the private concerns owned or controlled by Mr. H. C. Hopson. I am advised, however, that the confidential records of clients and others, not concerned with the Associated Gas & Electric Co., are in the H. C. Hopson & Co. records. While Mr. Hopson has every desire to cooperate, yet he feels that he should not be compelled to disclose the confidential records of disinterested parties. He has stated that he will submit himself and his books to this committee, but as a matter of protection for himself it should be under proper subpoena and with the understanding that he is not voluntarily divulging confidential records of others which do not have a direct or indirect bearing on any matters pertaining to this investigation; and that he will be allowed to appear before this committee in person, with his books.

As this committee probably knows, the Associated Gas & Electric Co. is at present time undergoing recapitalization. Half truths and rumors may become public before the true facts as stated by the managers in public hearing to the committee, and in such event it will be exceedingly damaging to the welfare of the security holders.

My purpose in appearing before you gentlemen is to get a statement before you of those salient facts, and to present ourselves so far as the Associated Gas & Electric Co. is concerned without any qualifications whatever, to this committee.

The CHAIRMAN. Has the Federal Trade Commission investigation been completed, Mr. Hurley?

Mr. HURLEY. I understand so, although I think the question of the findings is not fully agreed to by Mr. Pecora. However, he may speak for himself on that. It was my understanding that it had been completed, and here was the conclusion of the document thanking the company for its cooperation.

Mr. PECORA. Mr. Hurley, may I ask if you know what is the date of the report of the Federal Trade Commission's examination?

Mr. HURLEY. I haven't the date here, but it is Senate Document 92, part 45, Seventieth Congress, first session.

Mr. PECORA. Perhaps if you would confer with Mr. Travis, who is a New York attorney and who I see is sitting alongside you, he might confirm what I understand to be the fact, that this report was made and dated as of some time in 1929.

Mr. TRAVIS. I believe it was December 31, 1929, and accountants are now bringing it down to date.

Mr. PECORA. And the examination has been going on for some time past on behalf of the Federal Trade Commission to bring that down to date.

Mr. TRAVIS. Yes, sir.

Mr. PECORA. But the report referred to by Mr. Hurley, in what I believe was his prepared statement, as I noticed he read it, is one that was made as of December of 1929. Is that correct, Mr. Travis?

Mr. TRAVIS. That is the way I understand it.

Mr. PECORA. That is my understanding, too.

Mr. HURLEY. I say this to Mr. Pecora, that this morning, when this was handed to me, I labored under the impression that that was more recent and that it was the conclusion of the present hearing. But we are in agreement on that now.

Mr. PECORA. I think, Mr. Hurley, I have what I understand to be the facts, that your professional services were retained by your client in this matter only last Sunday.

Mr. HURLEY. Yes, sir.

Mr. PECORA. But, necessarily—

Mr. HURLEY (interposing). In fact, later than that.

Mr. PECORA (continuing). But you could not have had what might be regarded by any stretch of imagination a reasonable time in which to inform yourself by your own processes, of the facts.

Mr. TRAVIS. Of course, I should like to say—

Mr. PECORA (continuing). And you, Mr. Hurley, have had to rely, quite necessarily in the circumstances, upon a statement of facts given to you by others. I believe that is a correct statement, isn't it, Mr. Hurley?

Mr. HURLEY. Of course, I have had very little time to examine the records of the company. However, I believe that I have made to the committee a correct statement of the situation as it now confronts you.

Mr. TRAVIS. Might I just say, in order to attempt to make this matter perfectly clear—

Mr. PECORA (interposing). You might just put your full name on the record, and your relationship to the Associated Gas & Electric Co.

STATEMENT OF CHARLES M. TRAVIS, OF THE LAW FIRM OF TRAVIS, BROWNBACK & PAXSON, COUNSEL FOR THE ASSOCIATED GAS & ELECTRIC CO.

Mr. TRAVIS. My name is Charles M. Travis, of the firm of Travis, Brownback & Paxson, counsel for Associated Gas & Electric Co.

Senator COUZENS. Might this matter about chiselers be placed in the record?

Mr. HURLEY. Yes. I don't know whether I gave it to you. And do you want this in the record or not? This was connected with a press release.

Senator COUZENS. I think he has already read that, Mr. Pecora.

Mr. PECORA. No doubt that might go in, if Senator Couzens desires it.

Senator COUZEN. Well, if that is a press release I don't know that Mr. Pecora has seen that.

Mr. PECORA. Then that has already been made public, through the press, as you say it has been furnished to the press.

Senator COUZENS. I should like an opportunity to look over those papers that have to do with the so-called "chiselers."

Mr. PECORA. I believe the committee reporter has it and will hand it over to Senator Couzens for his inspection.

Senator COUZENS. You may go right ahead, Mr. Pecora, so far as I am concerned.

The CHAIRMAN. Mr. Travis, you may now proceed with your statement.

Mr. TRAVIS. I thought there might be a little misunderstanding in regard to the Federal Trade Commission investigation. While the accounting period for which the report was made ended December 31, 1929, the public hearings before the Commission are of a very much more recent date, and the statement which Mr. Hurley quoted was at a public hearing, I believe, within the past year.

The CHAIRMAN. Do you represent the Associated, Mr. Travis?

Mr. TRAVIS. I represent the Associated Gas & Electric Co.

The CHAIRMAN. How long have you been representing them?

Mr. TRAVIS. I have been doing legal work for that company, I suppose, for 10 years.

The CHAIRMAN. Proceed, Mr. Pecora.

Mr. PECORA. May I ask Mr. Travis if he will be good enough to tell the committee from his personal knowledge when Mr. Hopson left the New York offices of the Associated Gas & Electric Co.; when he was last there?

Mr. TRAVIS. Well, I went away from New York, I think it was, on the 17th of August, for a short vacation. Mr. Hopson was there at that time. I heard after I returned, which was a few days after Labor Day, that he had left a few days after I went away, and I have since been informed that he went away on the doctor's orders, that he had high blood pressure, and while he was away in Kentucky—

Mr. PECORA (interposing). Where did he go, Mr. Travis?

Mr. TRAVIS. I could not tell you from my own knowledge where he went.

Mr. PECORA. Well, from any information that you have where did he go?

Mr. TRAVIS. I understand that he started in to make a tour of some of the properties.

Mr. PECORA. Do you mean an automobile tour?

Mr. TRAVIS. Yes; an automobile tour.

Mr. PECORA. At a time when he was ill and suffering from high blood pressure?

Mr. TRAVIS. Yes.

Mr. PECORA. Has he returned to the office of the company in New York at any time since he left some time in August?

Mr. TRAVIS. No; he has not.

Mr. PECORA. Have you been in touch with him daily?

Mr. TRAVIS. No.

Mr. PECORA. Since he left the New York office of the company on this automobile tour?

Mr. TRAVIS. No; I have not, Mr. Pecora.

Mr. PECORA. Have you tried to get in touch with him daily or frequently during that time?

Mr. TRAVIS. I have not tried to get in touch with him frequently, but I have tried to get in touch with him on several occasions.

Mr. PECORA. And were you able to do so?

Mr. TRAVIS. On several occasions I was able to do so.

Mr. PECORA. You know that representatives of the investigating staff of this committee, since the middle of August, or, that is, from a date somewhat prior to that time, have made very, very frequent efforts by inquiring at the New York office of the Associated Gas & Electric Co. for information concerning the whereabouts of Mr. Hopson, to get in touch with him, and that they never were able to get any such information?

Mr. TRAVIS. Well, I was not aware that they had made inquiries as to his whereabouts until within the past 2 weeks or so.

Senator COUZENS. Where did Mr. Hopson go after he made an inspection of the plants?

Mr. PECORA. Do you know whether Mr. Hopson actually made an inspection of the plants on this automobile tour?

Mr. TRAVIS. I understand that he was down in Bowling Green, Ky., which is the center of the Kentucky-Tennessee properties; that he was taken ill there with intestinal influenza and was ill for some days. That as soon as he was able to get out he went to Chicago to be there with his sister who was at that time in Chicago.

Senator COUZENS. Has he been there continuously since?

Mr. TRAVIS. He has been there continuously.

Mr. PECORA. How long has Mr. Hopson been in Chicago?

Mr. TRAVIS. I do not think I am able to answer that question, Mr. Pecora.

Mr. PECORA. I had a conversation with you in the office of the committee in New York a week ago today, didn't I, Mr. Travis?

Mr. TRAVIS. Yes, sir.

Mr. PECORA. At that time you came up to the office in response to a telephone conversation or request from me, did you not?

Mr. TRAVIS. Yes, sir.

Mr. PECORA. Would you mind giving the committee the substance of the conversation you and I then had about Mr. Hopson's whereabouts and our inability to get in touch with him either directly or through his office?

Mr. TRAVIS. The first or the second conversation?

Mr. PECORA. Well, we only had one on Friday, didn't we, and we had another one the next day, last Saturday. But I am referring now to the first one, on Friday, and we only had one conversation on Friday.

Mr. TRAVIS. Well, Mr. Pecora stated to me that he thought he had been very patient with Mr. Hopson, that he had tried, or that Mr. McEldowney had tried some time before that to get the books, or had asked for the books of H. C. Hopson & Co., and that they had not then been able to get the books; that Mr. Pecora thought there had been unnecessary delay, that he thought Mr. Hopson was not cooperating in the matter, and that he was forced to insist that Mr. Hopson either let Mr. McEldowney examine the books or be advised where he was so that he might be served.

Mr. PECORA. Did I indicate how long I had been trying to establish contact with Mr. Hopson, either directly or through his office, but had been unable to do so?

Mr. TRAVIS. I think you said about 4 weeks.

Mr. PECORA. I said it was at least 4 weeks, didn't I?

Mr. TRAVIS. I think so.

Mr. PECORA. And did I also say to you, among other things, that the day before our conversation Mr. McEldowney, who is one of the examiners on the staff of the investigators for the committee, had reported to me that Mr. Shields, who I understand is a member of the bar and an associate of yours, is he not?

Mr. TRAVIS. No; he is not an associate of mine.

Mr. PECORA. Well, he is a member of the bar and in your office, as I understand.

Mr. TRAVIS. No; he was in Mr. Hopson's office at that time.

Mr. PECORA. Well, that Mr. Shields had said to Mr. McEldowney the day before I had this conversation with you, last Friday, that he (Mr. Shields) deplored very much the fact that we had been unable to get in contact with Mr. Hopson, either directly or through his office, because he (Mr. Shields) felt certain that if Mr. Hopson knew that I wanted to get in communication with him that Mr. Hopson would immediately make himself available. Do you remember my saying something like that to you in that conversation?

Mr. TRAVIS. I remember your saying something about what Mr. Shields had said but do not remember the details.

Mr. PECORA. Do you remember my further saying to you in our conversation of last Friday, in substance, that Mr. Shields' statement seemed incredible to me, but that I was willing to give him the benefit of any doubt that might exist in my mind concerning its credibility, and hence in view of the fact that he said that Mr. Hopson in his (Mr. Shields') opinion would make himself available to me if he only knew that I wanted to get in touch with him; and in view of the further fact that it had been reported to me by the persons in the office of the Associated Gas & Electric Co. that they had tried, and tried in vain, to establish contact with Mr. Hopson, that within 24 hours after our conversation of last Friday I would feel constrained to adopt some other method for informing Mr. Hopson of the fact that I wanted to get in touch with him for the purposes of this investigation?

Mr. TRAVIS. Yes.

Mr. PECORA. And I told you that that other method would consist of a request to the press to publish the fact that I wanted to meet Mr. Hopson in connection with this investigation because it had been found impossible, or I had been unable through our own resources or through the facilities of your office, to establish such contact with him. Do you remember that I said that to you in substance last Friday?

Mr. TRAVIS. I do not recall, Mr. Pecora, that you said you had been trying to establish contact with him. But it may be your language was somewhat similar to that.

Mr. PECORA. I see. Well, now—

Mr. TRAVIS (continuing). I think you did say that you had been trying to make service on him.

Mr. PECORA. Well, your office knew that before I stated that fact to you last Friday, didn't it? Did not associates of yours in the office know from the fact that a United States Marshal, or a Deputy

United States Marshal had made inquiries concerning the whereabouts of Mr. Hopson at the office of the Associated Gas & Electric Co., that I was trying to effect service in behalf of this committee on Mr. Hopson, so that you knew that fact before I told you last Friday, didn't you?

Mr. TRAVIS. I think I knew that on Thursday afternoon, that I was informed of it. I was away the day before, out of town.

Mr. PECORA. Is it a fact so far as you can tell us that for about 4 weeks persons connected with the office of the Associated Gas & Electric Co. had sought to get into communication, by telephone or otherwise, with Mr. Hopson to inform him of my request, but had been unable to do so?

Mr. TRAVIS. I did not know that, but at one time, and I believe it was in the early part or middle of September, I learned that they were unable to get in touch with Mr. Hopson, and were advised that he was ill and unable to talk over the telephone.

Mr. PECORA. Who made that attempt to talk with Mr. Hopson over the telephone?

Mr. TRAVIS. I, myself, made the attempt.

Mr. PECORA. Well, you told me that on last Friday, didn't you?

Mr. TRAVIS. Yes, sir.

Mr. PECORA. And that was the first time you told me that. You told me that about a week or 10 days prior to our conversation of last Friday you had succeeded in locating Mr. Hopson by telephone somewhere, but that when you asked to speak to him you were told by the person at the other end of the telephone, wherever it was, that Mr. Hopson was too sick to come to the telephone to talk to you?

Mr. TRAVIS. Yes.

Mr. PECORA. And do you remember that when you told me that on last Friday I replied that I could not quite understand the ailment from which Mr. Hopson was suffering, that he was so ill that he could not come to the telephone to talk to you after you had located him by telephone and yet reports or statements had been made to my representative by persons in the office of the Associated Gas & Electric Company that they had been absolutely unable to locate Mr. Hopson anywhere because he was on an automobile tour and that they did not know his itinerary. Didn't I say that to you, in substance?

Mr. TRAVIS. I think you did make that statement.

Mr. PECORA. And then didn't you indicate to me that you felt you would be able within the following 24 hours to establish contact, by telephone or otherwise, with Mr. Hopson, and that you would probably be able to get from him a definite statement as to whether or not he was going to make available to the examiners for this committee the books and records that had been withheld from them for the previous several weeks?

Mr. TRAVIS. Yes.

Senator COUZENS. Well, Mr. Pecora, I now understand that you can get Mr. Hopson by means of a subpoena properly served, and also his books.

Mr. PECORA. I shall be very glad to avail myself of the information which is forthcoming to me now for the first time in several weeks.

Senator COUZENS. Can you locate Mr. Hopson now for the service of a proper subpoena upon him to have him bring his books and papers?

Mr. TRAVIS. I have his address in Chicago.

Senator COUZENS. Will you please furnish that address to Mr. Pecora.

Mr. TRAVIS. It is 120 South La Salle Street, room 845. That is the office of Robinson & Co.

Senator COUZENS. Are they lawyers?

Mr. TRAVIS. No; they are investment dealers.

Senator COUZENS. And he has an office with them?

Mr. TRAVIS. He makes his headquarters with them and gets his mail there.

Senator COUZENS. So we can get a subpoena on him at that place?

Mr. TRAVIS. I am informed he will not make any attempt to evade service.

Senator COUZENS. Well, that is all on that, isn't it?

Mr. PECORA. Yes; that is all on that. Of course, we have been trying for the last 4 weeks to locate him.

The CHAIRMAN. Do you know whether Mr. Hopson is able to attend the hearing now?

Mr. TRAVIS. I understand that he is in poor health, in a very nervous condition.

The CHAIRMAN. But he is up and attending to business?

Mr. TRAVIS. Well, as much as he can attend to. I do not know how much that is.

The CHAIRMAN. Where are these books and records?

Mr. TRAVIS. I believe they are in New York City.

Mr. PECORA. In whose custody?

Mr. TRAVIS. Well, as to that I cannot tell you, Mr. Pecora.

Mr. PECORA. Whereabouts in New York City?

Mr. TRAVIS. At the office of H. C. Hopson & Co.

Mr. PECORA. Where is that office?

Mr. TRAVIS. 61 Broadway, New York City.

Mr. PECORA. Is that the place where the American Gas & Electric Co. also has its offices?

Mr. TRAVIS. The Associated Gas & Electric Co. has offices in that building. But the office is provided by H. C. Hopson & Co.

Mr. PECORA. I want to say to the committee in answer to some of the statements embodied in the statement made by Mr. Hurley, that we have been given access to corporate books and records of companies connected or affiliated with the Associated Gas & Electric Co., but we have, despite repeated requests therefor, been denied access to the books of accounts and other records of what has been referred to here as personal or private companies of Mr. Hopson. That is in accordance with your understanding, isn't it, Mr. Hurley?

Mr. HURLEY. I would correct that only in one way according to my understanding. You understand that I have none of it by way of personal information, but I have been advised that they have not denied access to the books but that they wanted Mr. Hopson or someone whom he might designate or designated by you, to appear when the books are examined, so that they might be examined in public and no half truths gotten to the public by way of erroneous conclusions by reason of lack of understanding of what they contain.

Mr. PECORA. Mr. Hurley, I haven't the slightest doubt, of course, that that information has been given to you, but I want to say it is utterly at variance with the statements that they have made to my representatives when they have sought access to those books.

The CHAIRMAN. Well, the committee's accountants and investigators do not give to the public, information which they are obtaining in any case. That information is collected for this committee and given through the committee here if it is given at all.

Mr. PECORA. Now, the delay, as I have understood it, that we have experienced in getting access to those books, which have been very properly referred to here as books of companies owned by Mr. Hopson, has been due, so far as the reasons for the delay have been vouchsafed to us, by individuals in the office of the Associated Gas & Electric Co., to the fact that they wanted the specific authorization given to themselves from Mr. Hopson before making those records available to us. And it was for that reason that we have been seeking to get in touch with Mr. Hopson, with a view to getting that consent. And we have been utterly unable to do it, and the information given to this committee in the last few minutes as to Mr. Hopson's whereabouts is the first information I have acquired in any way, manner, or form concerning Mr. Hopson's specific whereabouts, except that on last Sunday, just prior to my leaving my home for the train to come to Washington for the purposes of this hearing, Mr. Hurley was kind enough to call me up on the long-distance phone and inform me he had just been consulted in connection with this matter, and asked me if I would not, in view of that fact, not press for the time being, any steps that I contemplated taking to enable us to get in touch with Mr. Hopson or have access to those books.

Mr. HURLEY. I think, Mr. Pecora, I might add to that that I have worked very expeditiously to try to throw this whole situation out into the deadliest limelight of publicity. I did it just as quickly as I could do it, because I am convinced that nothing short of accurate public information can save the 360,000 innocent people who have invested in the securities of this corporation. My first opportunity after having gotten just a cursory knowledge of what is involved in this case brought me, of my own solicitation, to this committee at this time. Is that correct, Mr. Pecora?

Mr. PECORA. Yes, sir.

Senator COUZENS. Is that all, Mr. Chairman?

Mr. PECORA. The books in question belonging to those companies that are alluded to as the companies of Mr. Hopson, in our opinion, or in my opinion, at least, are necessary to an intelligent and complete investigation of the methods by which the securities of the Associate Gas & Electric Co. and its subsidiaries and affiliates have been issued and sold to the public in an aggregate value of hundreds of millions of dollars. And, among other things, the books of a company called Utility Accounting & Tax Consultants, which, according to report made to me by my investigators, performed certain service for the Associate Gas & Electric Co. and its subsidiaries, charging them fees for such service which run into substantial amounts, estimated to be between 1½ and 2 million dollars a year.

Mr. HURLEY. Pardon me, Mr. Pecora. Would you mind if I interrupted you just a minute?

Mr. PECORA. I was through anyway.

Mr. HURLEY. I have no intention—and I hope you realize it—of criticism. I have had, as I told you, just a cursory glance at this, but I think that the statement that you have read is not correct and does mislead the public. That is exactly the thing that we would like to avoid. I would like to see Mr. Hopson on this stand with his books. Now, the figure is given to me of much less than that, and if I have the truth, the services rendered by that company were the services that would have been rendered by some independent institution, and that company was able to give that service to the stockholders of the Associated at less cost than it would have cost otherwise, and the figures that have been given to me reach no such proportions as you have stated.

Mr. PECORA. Without the books themselves, Mr. Hurley, before us, neither you nor I could satisfactorily state what the figures are.

Mr. HURLEY. No; and that is the reason—

Mr. PECORA (interposing). But I want to say this, that the sources from which the information given to me has been obtained are sources which, in my opinion, could be relied upon. Now, the best evidence is the books themselves.

Mr. HURLEY. Yes.

Mr. PECORA. I have been trying to, and my examiners have been trying to, see them for several weeks.

Mr. HURLEY. That is exactly why I say to you, Mr. Pecora—this, of course, is said in the best spirit—it would be better not to make statements on what those books contain until the books themselves have been presented, and then the public can get a correct statement, not an estimate. Really, I believe that the very thing that you have stated there represents one of the reasons for my wanting to get into the public mind immediately the true facts, the books themselves.

Mr. PECORA. I will say this as far as Mr. Hurley is concerned: In conferences I have had with him in the last 24 hours here in Washington, to which he returned only a short time ago from Chicago, they have been, so far as Mr. Hurley and I are concerned, of an extremely satisfactory and agreeable character, and Mr. Hurley has evinced to me every willingness on his part, so far as he can control the situation of the action of any one that he represents, to cooperate with this committee to the fullest possible extent. But it seems to me that the decision does not rest with any counsel; it rests with Mr. Hopson. That has been the situation as I have understood it for many weeks, and that is why I have sought to get in touch with Mr. Hopson and have been unable to do so.

The CHAIRMAN. Mr. Hopson insists that he do not voluntarily appear to produce these books, but that he be subpoenaed to do so.

Mr. HURLEY. He wants to protect his rights in the matter.

The CHAIRMAN. He is exceedingly careful in that regard.

The committee will stand adjourned until Tuesday at 10 o'clock. (Whereupon, at 1:03 o'clock p.m., the subcommittee adjourned until the following Tuesday at 10 o'clock a.m.)

COMMITTEE EXHIBIT No. 12, OCTOBER 6, 1933

THE CORN EXCHANGE BANK, TRUST CO., NEW YORK CITY, N.Y., 1853-1933

Statement, February 1, 1933

Officers: Walter E. Frew, chairman; Dunham B. Sherer, president; Henry A. Patten, first vice president.

Vice presidents, Ralph Peters, Jr., Edward B. MacKenzie, Frederick T. Martin, Calvert Brewer, Richard D. Brown, John S. Wheelan, Edward S. Malmar, E. Herrick Low, John R. McWilliam, Theodore H. Spratt, John W. Ross, Perry M. Rushmore.

Vice president and secretary, Frederick K. Lister.

Assistant vice president, William L. Cronin, Clarence W. Bird.

Assistant secretary, Robert F. Crowell.

Trust officers, Henry C. White, Charles D. Wheelock.

Directors, Walter E. Frew, Richard Whitney, Philip Lehman, Ethelbert Ide Low, Robert A. Drisdale, Henry A. Patten, Warren B. Nash, Ralph Peters, Jr., D. Schnakenberg, John H. Phillips, Dunham B. Sherer, Clinton D. Burdick, C. W. Nichols, George E. Turnure, Arthur A. Fowler, Percy S. Straus, Robert Lehman, D. Stewart Iglehart, George Doubleday, Davide Wakeman.

To the Stockholders of Corn Exchange Bank Trust Co.:

There is submitted herewith statement of your company as of February 1, 1933, and for your information, there is included a list of the company's securities.

All stocks have been reduced to market value as of December 31, 1932, and all bonds which have failed to pay maturing coupons have been reduced to \$1 on our books.

The net earnings from operation during 1932 were \$3,334,531.75. Branches now number 72, and are well located in various parts of New York City.

Your company commenced business February 1, 1853, and you will note that we have completed our eightieth year. The organization is composed of men and women working conscientiously for the growth of your company.

We trust we will receive your support in our efforts to make 1933 one of the most successful in our history.

Your very truly,

WALTER E. FREW,

Chairman.

DUNHAM B. SHERER,

President.

STATEMENT

FEBRUARY 1, 1933.

Due individuals, firms, corporations, and banks-----	\$220, 875, 730. 97
To meet these deposits we have:	
Cash in vaults and banks-----	53, 768, 248. 96
Checks on other banks-----	12, 522, 396. 54
U.S. Government securities-----	68, 946, 076. 81
State, municipal, and tax-exempt bonds-----	20, 291, 493. 02
Railroad bonds-----	7, 341, 854. 76
Public-utility bonds-----	3, 859, 476. 06
Industrial and other bonds-----	8, 414, 134. 88
Foreign bonds-----	2, 302, 370. 87
Preferred stocks-----	471, 372. 50
Common and other stocks-----	1, 497, 707. 75
Secured demand loans-----	31, 369, 584. 26
Secured time loans-----	7, 662, 693. 10
Bills discounted-----	18, 282, 219. 34
First mortgages on real estate-----	21, 659, 711. 47
Stock of Federal Reserve bank, Corn Exchange Safe Deposit Co., and Discount Corporation of New York----	2, 898, 780. 00
Customers' liability on acceptances-----	923, 085. 69
Banking houses and lots-----	15, 291, 262. 66
Other real estate-----	1, 409, 361. 42
· Total to meet indebtedness-----	260, 011, 830. 09
This leaves-----	40, 036, 099. 12

Capital.....	\$15,000,000.00
Surplus and undivided profits.....	22,145,673.18
Reserves	2,890,425.94

The Corn Exchange Bank Trust Co. can act as one of your executors or trustees, issue letters of credit, travelers' checks and drafts on foreign countries, rent you a safe deposit box, and provide every banking and trust service.

LIST OF SECURITIES

UNITED STATES GOVERNMENT SECURITIES

- \$9,500,000 United States of America, fourth Liberty 4½ percent, 1938-33.
- \$35,000,000 United States of America, treasury bonds 3⅞ percent, 1943-41.
- \$2,000,000 United States of America, certificates of indebtedness 3¾ percent March 15, 1933.
- \$500,000 United States of America, certificates of indebtedness 2 percent, May 2, 1933.
- \$974,700 United States of America, Treasury certificates 2 percent, March 15, 1933.
- \$400,000 United States of America, Treasury notes 3 percent May 2, 1934.
- \$500,000 United States of America, certificates of indebtedness, 1½ percent, June 15, 1933.
- \$1,900,000 United States of America Treasury notes, 3 percent, June 15, 1935.
- \$2,600,000 United States of America, Treasury notes, 3¼ percent, August 1, 1936.
- \$1,500,000 United States of America, Treasury notes 2⅛ percent, August 1, 1934.
- \$9,300,000 United States of America, Treasury notes 3¼ percent, September 15, 1937.
- \$3,900,000 United States of America, Treasury notes 3 percent, April 15, 1937.

STATE, MUNICIPAL, AND TAX-EXEMPT SECURITIES

- \$150,000, State of Arkansas, highway, 5 percent, 1954.
- \$100,000, State of Arkansas, highway, 5 percent, 1960.
- \$250,000, State of Arkansas, highway, 4¾ percent, 1963.
- \$90,000, Bergen County, N.J., public works, 6 percent, 1935-37.
- \$160,000, Bergen County, N.J., improvement, 5¾ percent, 1934-37.
- \$100,000, Bloomfield, N.J., improvement, 5¼ percent, 1938-53.
- \$150,000, Camden, N.J., park and building, 6 percent, 1937.
- \$22,000, Columbia County, N.Y., funding, 6 percent, 1937.
- \$475,000, East Orange, N.J., tax revenue notes, 6 per cent, 1933.
- \$900,000, Federal farm-loan bonds, 4½ percent, 1942-33.
- \$100,000, Federal farm-loan bonds, 4½ percent, 1943-33.
- \$35,000, Town of Hempstead, N.Y., school district no. 9, 6 percent, 1933.
- \$50,000, State of Louisiana, highway, 5 percent, 1942.
- \$50,000, State of Louisiana, highway, 5 percent, 1948.
- \$50,000, Monroe County, N.Y., tax anticipation notes, 4¼ percent, 1933.
- \$750,000, Montclair, N.J., tax revenue notes, 4¾ percent, 1933.
- \$472,000, Morristown, N.J., improvement, 6 percent, 1934-7.
- \$18,000, Mount Vernon, N.Y., public works, 5 percent, 1937.
- \$470,000, Nassau County, N.Y., relief, 4¾ percent, 1935-7.
- \$500,000, Nassau County, N.Y., tax anticipation notes, 3½ percent, 1933.
- \$525,000, Newark, N.Y., temporary loan, 6 percent, June 17, 1933.
- \$10,000, Borough of New Canaan, Conn., tax anticipation notes, 4¾ percent, 1933.
- \$100,000, New Haven, Conn., tax anticipation notes, 5 percent, 1933.
- \$78,000, New Rochelle, N.Y., sewer, 5¾ percent, 1936.
- \$50,000, New York City corporation stock, 3 percent, 1935.
- \$176,176,000 New York City serial, 4½ percent, 1960.
- \$10,000 New York City corporation stock, 4½ percent, 1967.
- \$433,000, New York City certificate of indebtedness, 5¾ percent, 1933-35.
- \$400,000, New York City corporation stock, 6 percent, 1933.
- \$2,408,000, New York City revenue bills, 5 percent, 1933.
- \$2,169,000, New York City revenue bills, 5¾ percent, 1933.

- \$4,223,500, New York City corporation stock, 6 percent, 1935-37.
- \$900,000, State of New York gold notes, 2¾ percent, 1933.
- \$10,000, State of New York World War, 4¼ percent, 1945.
- \$328,000, Port of New York Authority bridge, 4 percent, 1936-50.
- \$275,000, Port Chester, N.Y., street sewer, 5¼ percent, 1935.
- \$450,000, Rochester, N.Y., tax anticipation notes, 4¾ percent, 1933.
- \$25,000, Rochester, N.Y., general municipal, 6 percent, 1935.
- \$170,000, Salt Lake City, Utah, 4¼ percent refunding, 1934-36.
- \$150,000, Salt Lake County, Utah, tax anticipation notes, 2½ percent, 1933.
- \$120,000, San Diego, Calif., improvement, 5 percent, 1934-37.
- \$210,000, Savings and Loan Bank, New York, 5 percent, 1933.
- \$100,000, State of South Carolina, highway, 4½ percent, 1950.
- \$250,000, Syracuse, N.Y., tax anticipation notes, 1.89 percent, 1933.
- \$25,000, Syracuse, N.Y., improvement, 4 percent, 1937.
- \$25,000, Suffolk County, N.Y., certificate of indebtedness, 4.4 percent, 1934.
- \$140,000, State of Tennessee, building, 5¼ percent, 1934.
- \$100,000, State of Tennessee, building, 4½ percent, 1945.
- \$400,000, Union County, N.J., tax anticipation notes, 4¾ percent, 1933.
- \$150,000, Westchester County, N.Y., indebtedness, 3.7 percent, 1934-36.
- \$325,000, Yonkers, N.Y., notes, 4.85 percent, 1933.
- \$100,000, Yonkers, N.Y., certificate of indebtedness, 5¾ percent, 1933.
- \$50,000, Yonkers, N.Y., local improvement, 6 percent, 1936.
- \$250,000, Yonkers, N.Y., certificate of indebtedness, 5 percent, 1933.
- \$145,000, Yonkers, N.Y., local improvement, 5 percent, 1933.
- \$5,000, Yonkers, N.Y., local improvement, 4¾ percent, 1933.

RAILROAD BONDS

- \$250,000 Alleghany Corporation collateral trust convertible 5 percent, 1944.
- \$35,000 Alleghany Corporation collateral trust convertible 5 percent, 1949.
- \$50,000 Alleghany Corporation collateral trust convertible 5 percent, 1950.
- \$420,000 Baltimore & Ohio Railroad Co. convertible 4½ percent, 1960.
- \$285,000 Boston & Maine Railroad first mortgage 5 percent, 1967.
- \$128,000 Carolina, Clinchfield & Ohio Railway Co. first consolidated 6 percent, 1952.
- \$489,000 Chesapeake Corporation convertible collateral trust 5 percent, 1947.
- \$250,000 Chesapeake & Ohio Railway Co. (B) refunding and improvement 4½ percent, 1995.
- \$200,000 Chesapeake & Ohio Railway Co. notes 6 percent, 1934.
- \$553,000 Chicago, Milwaukee, St. Paul & Pacific Railroad Co. mortgage 5 percent, 1975.
- \$250,000 Chicago & Northwestern Railway Co. (A) convertible 4¾ percent, 1949.
- \$500,000 Chicago, Rock Island & Pacific Railway Co. (A) secured gold 4½ percent, 1952.
- \$25,000 Cincinnati Union Terminal Railway (A) first mortgage 4½ percent, 2020.
- \$250,000 Cleveland Union Terminal Co. first mortgage sinking fund 4½ percent, 1977.
- \$50,000 Cleveland, Cincinnati, Chicago & St. Louis Railway refunding and improvement 4½ percent, 1977.
- \$50,000 Cleveland, Cincinnati, Chicago & St. Louis Railway refunding and improvement 4½ percent, 1977.
- \$40,000 Colorado & Southern Railway (A) general mortgage 4½ percent, 1980.
- \$103,000 Delaware & Hudson Co., the, gold 5½ percent, 1937.
- \$31,000 Denver & Rio Grande Railroad Co. first consolidated 4 percent, 1936.
- \$200,000 Denver & Rio Grande Western Railroad Co. refunding and improvement (B) 5 percent, 1978.
- \$145,000 Erie Railroad Co. refunding and improvement 5 percent, 1975.
- \$40,000 Great Northern Railroad Co. general mortgage 4½ percent, 1977.
- \$100,000 Illinois Central Railroad gold notes 4½ percent, 1934.
- \$300,000 Louisville & Nashville Railroad Co. first and refunding 4½ percent, 2003.
- \$44,000 Missouri Pacific Railroad first and refunding 5 percent, 1977.

- \$150,000 Missouri Pacific Railroad Co. first and refunding mortgage 5 percent, 1981.
- \$102,000 Missouri Pacific Railroad Co. first and refunding mortgage 5 percent, 1980.
- \$416,000 Missouri Pacific Railroad Co. first and refunding 5 percent, 1978.
- \$280,000 Morris & Essex Railroad Co. construction mortgage 4½ percent, 1955.
- \$20,000 Morris & Essex Railroad Co. construction mortgage 5 percent, 1955.
- \$150,000 New York Central Railroad Co. (A) refunding and improvement 4½ percent, 2013.
- \$200,000 New York, Chicago & St. Louis Railroad refunding mortgage 4½ percent, 1978.
- \$300,000 New York, New Haven & Hartford Railroad first and refunding 4½ percent, 1967.
- \$10,000 New York, New Haven & Hartford Railroad secured gold 6 percent, 1940.
- \$12,000 New York, Susquehanna & Western Railroad Co. general mortgage 5 percent, 1940.
- \$24,000 Oregon-Washington Railroad & Navigation Co. (A) first and refunding 4 percent, 1961.
- \$300,000 Pennsylvania Co. secured gold 4¾ percent, 1963.
- \$200,000 Pennsylvania Railroad Co. secured gold 5 percent, 1964.
- \$50,000 Pere Marquette Railway Co. first mortgage 4½ percent, 1980.
- \$48,000 Pittsburgh, McKeesport & Youghiogeny Railroad second mortgage 6 percent, 1934.
- \$50,000 Reading Co. (B) general and refunding mortgage, 4½ percent, 1997.
- £4,000 St. Paul, Minneapolis & Manitoba Railway Co. Pacific Extension 4 percent, 1940.
- \$250,000 Southern Pacific Co. gold with warrants 4½ percent, 1969.
- \$250,000 Terminal Railroad Association of St. Louis general mortgage 4 percent, 1953.
- \$25,000 Texas & Pacific Railway Co. general and refunding 5 percent, 1980.
- \$50,000 Western Maryland Railway Co. first and refunding mortgage 5½ percent, 1977.
- \$250,000 Western Pacific Railroad Co. first mortgage 5 percent, 1946.

PUBLIC-UTILITY BONDS

- \$100,000 American Power & Light Co. gold debentures, 6 percent, 2016.
- \$150,000 American Water Works & Electric Co., Inc., gold debentures, 6 percent, 1975.
- \$100,000 Bell Telephone Co. of Canada, first mortgage, 5 percent, 1955.
- \$200,000 Bell Telephone Co. of Canada, first mortgage, 5 percent, 1957.
- \$500,000 Brooklyn-Manhattan Transit Corporation, sinking fund gold, 6 percent, 1968.
- \$500,000 Brooklyn, Manhattan Transit, gold, 6 percent, 1934.
- \$20,000 Brooklyn, Queens County, and Suburban Railroad Co., first mortgage, 5 percent, 1941.
- \$110,000 Denver Gas & Electric Light Co., first and refunding, 5 percent, 1951.
- \$100,000 Detroit City Gas Co., first mortgage, 6 percent, 1947.
- \$250,000 Hudson & Manhattan Railroad Co., (A) first lien and refunding, 5 percent, 1957.
- \$20,000 International Hydro Electric System, convertible debentures, 6 percent, 1944.
- \$200,000 Interborough Rapid Transit Co., first and refunding, 5 percent, 1966.
- \$250,000 International Telegraph and Telephone Corporation, debentures, 5 percent, 1955.
- \$500,000 Massachusetts Gas Cos., sinking fund debentures, 5 percent, 1955.
- \$28,000 Montclair Water Co., gold, 5 percent, 1946.
- \$100,000 North American Edison Co., (B) 5½ percent, 1963.
- \$200,000 Pacific Power & Light Co., first mortgage, power and light, 5 percent, 1955.
- \$150,000 Standard Gas & Electric Co., debentures, 6 percent, 1966.
- \$110,000 Standard Gas & Electric Co., debentures, 6 percent, 1951.
- \$250,000 Western Union Telegraph Co., gold, 5 percent, 1960.

INDUSTRIAL AND OTHER BONDS

- \$50,000 American & Continental Corporation, debenture, 5 percent, 1943.
 \$100,000 American International Corporation, convertible gold debenture, 5½ percent, 1949.
 \$1,000,000 American Metals Co., Ltd., gold notes, 5½ percent, 1934.
 \$800,000 American Securities Investment Corporation, debenture, 6 percent, 1937.
 \$54,000 American Type Founders Co., sinking-fund gold debenture, 6 percent, 1940.
 \$51,000 Associated Oil Co. notes, 6 percent, 1935.
 \$25,000 Atlantic Gulf & West Indies Steamship Line, collateral trust, 5 percent, 1959.
 \$1,000,000 Canadian International Paper Co., first mortgage, 6 percent, 1949.
 \$77,000 Consolidated Publishers, Inc., collateral trust sinking fund, 6¾, 1936.
 \$500,000 General American Investors Co., Inc., debenture, 5 percent, 1952.
 \$160,000 General Rayon Co., Ltd., debenture, 6 percent, 1948.
 \$250,000 Gobel, Adolph, Inc., collateral trust notes with warrants, 6½ percent, 1935.
 \$250,000 Goodyear Tire & Rubber Co., first mortgage collateral trust, 5 percent, 1957.
 \$169,000 Gotham Silk Hosiery Co., Inc., sinking-fund debenture, 6 percent, 1936.
 \$800,000 Grace Steamship Co., notes, 6 percent, 1934-41.
 \$50,000 Gulf Oil Corporation of Pennsylvania, sinking-fund debenture, 5 percent, 1947.
 \$303,000 Hudson, J. L., Co., notes, 5 percent, 1933-36.
 \$200,000 Hudson Coal Co., The, first mortgage sinking fund, 5 percent, 1962.
 \$500,000 International Paper Co., refunding mortgage sinking fund, 6 percent, 1933.
 \$100,000 Keith Corporation, B. F., first general refunding, 6 percent, 1946.
 \$100,000 Loew Theatre & Realty Corporation, first mortgage sinking fund, 6 percent, 1947.
 \$250,000 National Dairy Products Corporation debenture, 5¼ percent, 1948.
 \$100,000 Pennsylvania-Dixie Cement Corporation first mortgage sinking fund, 6 percent, 1941.
 \$214,000 Phillips Petroleum Co. sinking fund debenture, 5¼ percent, 1939.
 \$19,500 Prudence Bonds Corporation first mortgage collateral, 5½ percent, 1932-35.
 \$250,000 Prudence Co., Inc., The, guaranteed collateral trust, 5½ percent, 1961.
 \$55,000 Railway Express Agency, Inc., serial gold (A), 5 percent, 1933-48.
 \$250,000 St. Joseph Lead Co. convertible debenture, 5½ percent, 1941.
 \$205,000 Saks Realty Corporation leasehold, 6 percent, 1933-46.
 \$116,000 School of Education Realty Corporation of New York University, debenture, 6 percent, 1935.
 \$175,000 Schulco Co., Inc., (A) guaranteed mortgage sinking fund, 6½ percent, 1946.
 \$440,000 Solvay American Investment Corporation notes, 5 percent, 1942.
 \$50,000 Smith A. O. Corporation first mortgage, 6½ percent, 1933.
 \$250,000 United Drug Co. gold, 5 percent, 1953.
 \$100,000 United States Rubber Co. serial notes, 6½ percent, 1933-40.

FOREIGN BONDS

- \$249,000 Australia, Commonwealth of, extension loan of 1925, 5 percent, 1955.
 \$75,000 Australia, Commonwealth of, extension loan of 1928, 4½ percent, 1956.
 \$32,100 Cuba, Republic of, extension sinking fund, 5½ percent, 1953.
 \$90,400 Cuba, Republic of, internal 5 percent.
 \$25,000 Cuba, Republic of, serial gold 5½ percent, 1933-37.
 \$57,800 Cuba, Republic of, sinking fund 5½ percent, 1940.
 \$25,000 Dresden, Germany, city of, extension loan sinking fund 7 percent, 1945.
 \$605,000 German Government, gold 5½ percent, 1965.
 \$125,000 Imperial Japanese Government, sinking fund gold 5½ percent, 1965.
 \$76,000 Leipzig, Germany, city of, extension loan of 1926, 7 percent, 1947.

- \$200,000 Newfoundland, Government of, bonds, 5 percent, 1952.
 \$300,000 New South Wales, Australia, State of, extension sinking fund, 5 percent, 1957.
 \$200,000 Province of Ontario, Canada, Treasury bills, 3½ percent, 1933.
 \$100,000 Queensland, Australia, State of, extension sinking fund, 7 percent, 1941.
 \$180,000 Siemens Schukertwerke, 7 and 7¾ percent, 1933-35.
 \$50,000 Taiwan Electric Power Co., Ltd., sinking fund gold bonds, 5½ percent, 1971.
 \$100,000 Uruguay, Republic of, sinking fund external, 8 percent, 1946.
 \$250,000 Uruguay, Republic of, sinking fund external, 6 percent, 1960.

STOCKS

- 9,990 shares of Corn Exchange Safe Deposit Co.
 2,499 shares of Discount Corporation of New York.
 27,000 shares of Federal Reserve Bank of New York.

PREFERRED STOCKS

- 550 shares of Johns-Mansville Corporation.
 2,100 shares of New York, New Haven & Hartford Railroad Co.
 1,095 shares of Standard Gas & Electric Co., 7 percent.
 10,000 United Corporation.

COMMON AND OTHER STOCKS

- 4,200 shares of Allied Chemical & Dye Corporation,
 100 shares of Bank for International Settlements.
 1,000 shares of Bond & Mortgage Guarantee Co.
 400 shares of Consolidated Gas Co.
 8,000 shares of General Motors Corporation.
 3,500 shares of Glen Alden Coal Co.
 4,100 shares of Great Northern Railway Co.
 400 shares of Guaranty Trust Co.
 1,172 shares of International Elevating Co.
 5,000 shares of Kennecott Copper Co.
 5,000 shares of New York Central Railroad Co.
 2,300 shares of New York, New Haven & Hartford Railroad Co.
 3,500 shares of Northern Pacific Railway Co.
 5,000 shares of Public Service Corporation of New Jersey.
 5,000 shares of Standard Brands, Inc.
 1,000 shares of Title Guarantee & Trust Co.
 19,000 shares of United Corporation.
 Sundry stocks and bonds not included in the above list are carried on our books at \$1 with a quoted value on February 1, 1933, of \$310,603.

COMMITTEE EXHIBIT No. 13, OCTOBER 6, 1933

UNITED STATES & INTERNATIONAL SECURITIES CORPORATION

Present and former directors

- Ernest B. Tracy, president United States & International Securities Corporation.
 Clarence Dillon, Dillon, Read & Co.
 Matthew C. Brush, president American International Corporation.
 J. H. Hillman, Jr., president J. H. Hillman Coal & Coke Co.
 Charles Hayden, Hayden, Stone & Co.
 Dean Mathey, Dillon, Read & Co.
 E. G. Wilmer, retired.
 G. M. Moffett, president Corn Products Refining Co.
 M. S. Sloan, formerly president New York Edison Co.
 S. Z. Mitchell, formerly chairman of the board, Electric Bond & Share Co.

UNITED STATES & INTERNATIONAL SECURITIES CORPORATION

Date of meeting and directors present

November 7, 1928: Messrs. Clarence Dillon, Charles Hayden, Dean Mathey, George M. Moffett, Matthew S. Sloan, Ernest B. Tracy.

December 13, 1928: Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, Matthew S. Sloan, Ernest B. Tracy.

January 10, 1929: Messrs. Clarence Dillon, S. Z. Mitchell, G. M. Moffett, Matthew S. Sloan, J. H. Hillman, Jr.

February 14, 1929: Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, G. M. Moffett, Matthew S. Sloan, Ernest B. Tracy.

March 15, 1929: Clarence Dillon, Dean Mathey, S. Z. Mitchell, Matthew S. Sloan, Ernest B. Tracy.

April 8, 1929: Dean Mathey, S. Z. Mitchell, G. M. Moffett, Matthew S. Sloan, Ernest B. Tracy, Charles Hayden.

June 27, 1929: Ernest B. Tracy, Clarence Dillon, Dean Mathey, S. Z. Mitchell.

September 9, 1929: Clarence Dillon, Charles Hayden, Dean Mathey, J. W. McConnell, Ernest B. Tracy.

October 16, 1929: Clarence Dillon, Dean Mathey, Charles Hayden, S. Z. Mitchell, George M. Moffett, Matthew S. Sloan.

November 11, 1929: Clarence Dillon, Dean Mathey, S. Z. Mitchell, G. M. Moffett, Ernest B. Tracy.

November 22, 1929: Ernest B. Tracy, Clarence Dillon, Charles Hayden, J. H. Hillman, Jr., Dean Mathey, S. Z. Mitchell, George M. Moffett.

December 9, 1929: Messrs. Clarence Dillon, Charles Hayden, Dean Mathey, G. M. Moffett, M. S. Sloan, Ernest B. Tracy.

January 8, 1930: Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, George M. Moffett, Ernest B. Tracy.

February 13, 1930: Clarence Dillon, Dean Mathey, George M. Moffett, Ernest B. Tracy, E. G. Wilmer.

March 10, 1930: Clarence Dillon, Charles Hayden, George M. Moffett, S. Z. Mitchell, E. G. Wilmer, Ernest B. Tracy, M. S. Sloan.

April 14, 1930: Clarence Dillon, Charles Hayden, T. H. Hillman, Jr., Dean Mathey, Matthew S. Sloan, E. G. Wilmer.

May 19, 1930: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, George M. Moffett, Matthew S. Sloan, E. B. Tracy, E. G. Wilmer.

June 9, 1930: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, Sidney Z. Mitchell, George M. Moffett, Matthew S. Sloan, E. G. Wilmer.

August 11, 1930: Messrs. Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, George M. Moffett, Ernest B. Tracy, E. G. Wilmer.

September 8, 1930: Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, George M. Moffett, Matthew S. Sloan.

October 14, 1930: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, George M. Moffett, Matthew S. Sloan.

November 10, 1930: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, Matthew S. Sloan.

December 8, 1930: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, Matthew S. Sloan, Ernest B. Tracy.

January 12, 1931: Matthew C. Brush, Clarence Dillon, Charles H. Hayden, Dean Mathey, Sidney Z. Mitchell, George M. Moffett, Matthew S. Sloan, Ernest B. Tracy.

February 9, 1931: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, Matthew S. Sloan, Ernest B. Tracy.

March 9, 1931: Messrs. Matthew C. Brush, Charles Hayden, Dean Mathey, George M. Moffett, Matthew S. Sloan, Ernest B. Tracy.

April 13, 1931: Matthew C. Brush, Charles Hayden, Dean Mathey, S. Z. Mitchell, George M. Moffett, Ernest B. Tracy, E. G. Wilmer.

May 11, 1931: Matthew C. Brush, Charles Hayden, S. Z. Mitchell, George M. Moffett, Ernest B. Tracy, E. G. Wilmer.

June 8, 1931: Matthew C. Brush, Charles Hayden, Dean Mathey, Ernest B. Tracy, E. G. Wilmer.

July 15, 1931: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, Ernest B. Tracy, E. G. Wilmer.

August 10, 1931: Clarence Dillon, Matthew C. Brush, Charles Hayden, Ernest B. Tracy, Sidney Z. Mitchell, Dean Mathey.

- September 14, 1931: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, Ernest B. Tracy.
- October 19, 1931: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, Ernest B. Tracy.
- November 9, 1931: Messrs. Matthew C. Brush, Charles Hayden, Dean Mathey, S. Z. Mitchell, Ernest B. Tracy, E. G. Wilmer.
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- January 11, 1932: Messrs. Clarence Dillon, Charles Hayden, Dean Mathey, Ernest B. Tracy, E. G. Wilmer.
- February 8, 1932: Messrs. Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, Ernest B. Tracy, E. G. Wilmer.
- March 14, 1932: Messrs. Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, Ernest B. Tracy, E. G. Wilmer.
- April 11, 1932: Messrs. Matthew C. Brush, Charles Hayden, Dean Mathey, Ernest B. Tracy, E. G. Wilmer.
- May 9, 1932: Messrs. Charles Hayden, Dean Mathey, S. Z. Mitchell, Ernest B. Tracy, E. G. Wilmer.
- June 15, 1932: Messrs. Charles Hayden, Dean Mathey, Ernest B. Tracy.
- July 11, 1932: Messrs. Matthew C. Brush, Charles Hayden, Dean Mathey, S. Z. Mitchell, Ernest B. Tracy.
- August 8, 1932: Messrs. Clarence Dillon, Ernest B. Tracy, Dean Mathey.
- September 12, 1932: Messrs. Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, Ernest B. Tracy.
- October 10, 1932: Messrs. Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, Ernest B. Tracy, E. G. Wilmer.
- November 14, 1932: Messrs. Matthew C. Brush, Charles Hayden, Dean Mathey, Sidney Z. Mitchell, Ernest B. Tracy, E. G. Wilmer.
- December 12, 1932: Messrs. Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, Ernest B. Tracy.
- January 9, 1933: Messrs. Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell.
- February 14, 1933: Messrs. Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, Ernest B. Tracy.
- March 13, 1933: Messrs. Matthew C. Brush, Clarence Dillon, Dean Mathey, Ernest B. Tracy.
- April 10, 1933: Messrs. Matthew C. Brush, Clarence Hayden, Dean Mathey, Ernest B. Tracy.
- May 8, 1933: Messrs. Matthew C. Brush, Charles Hayden, Dean Mathey, Ernest B. Tracy.
- June 12, 1933: Messrs. Matthew C. Brush, Charles Hayden, Dean Mathey, Ernest B. Tracy.
- July 10, 1933: Messrs. Clarence Dillon, Charles Hayden, Dean Mathey, Ernest B. Tracy.
- September 11, 1933: Messrs. Clarence Dillon, Charles Hayden, Dean Mathey, Ernest B. Tracy.

COMMITTEE EXHIBIT No. 14, OCTOBER 6, 1933

UNITED STATES & FOREIGN SECURITIES CORPORATION

Present and former directors

- Ernest B. Tracy, president United States & Foreign Securities Corporation.
Clarence Dillon, Dillon, Read & Co.
F. H. Ecker, president Metropolitan Life Insurance Co.
G. M.-P. Murphy, G. M.-P. Murphy & Co.
C. S. McCain, chairman of the board, Chase National Bank.
W. A. Phillips, Dillon, Read & Co.
R. C. Schaffner, A. G. Becker & Co.
E. J. Birmingham, E. J. Birmingham & Co.
E. G. Wilmer, retired.
Percy H. Johnston, chairman of the board, Chemical Bank & Trust Co.
John Sherwin, formerly chairman, Union Trust Co., Cleveland.
George W. Davison, chairman of the board, Central Hanover Bank & Trust Co.
Anson W. Burchard, formerly chairman of board, General Electric Co.

J. W. Hornor, retired.
 George W. Wickersham, Cadwalader, Wickersham & Taft.
 Harrison Williams.
 Benjamin Joy, retired.
 R. E. Christie, Jr., Dillon, Read & Co.
 Daniel G. Wing, chairman of board, First National Bank, Boston.
 Herbert Fleishhacker, president Anglo-California National Bank of San Francisco.

Date of meeting and directors present

December 10, 1924: Messrs. Clarence Dillon, G. W. Wickersham, John Sherwin, R. C. Schaffner, E. G. Wilmer, J. W. Hornor, F. H. Ecker, A. W. Burchard, W. A. Phillips.
 April 13, 1925: F. H. Ecker, A. W. Burchard, C. Dillon, J. W. Hornor, H. Williams, W. A. Phillips, J. Sherwin, R. C. Schaffner, E. G. Wilmer.
 May 28, 1925: A. W. Burchard, J. W. Hornor, F. W. Ecker, W. A. Phillips, R. C. Schaffner, E. G. Wilmer.
 July 13, 1925: E. G. Wilmer, H. Williams, G. W. Wickersham, John Sherwin, R. C. Schaffner, J. W. Hornor, R. E. Christie.
 September 30, 1925: E. G. Wilmer, F. H. Ecker, G. W. Wickersham, H. Williams, J. W. Hornor, W. A. Phillips, Anson W. Burchard, C. Dillon.
 January 19, 1926: Messrs. E. G. Wilmer, Herbert Fleishhacker, F. H. Ecker, John Sherwin, Clarence Dillon, Anson W. Burchard, J. W. Hornor, William A. Phillips.
 June 17, 1926: Messrs. Benjamin Joy, R. C. Schaffner, John Sherwin, William A. Phillips, Anson W. Burchard.
 October 4, 1926: Messrs. Benjamin Joy, Clarence Dillon, Frederick H. Ecker, Anson W. Burchard, G. W. Wickersham.
 January 5, 1927: Messrs. Clarence Dillon, G. W. Wickersham, Frederick H. Ecker, John Sherwin, William A. Phillips, C. W. Davison, Benjamin Joy.
 May 10, 1927: Messrs. George W. Davison, Frederick H. Ecker, Robert C. Schaffner, William A. Phillips, Robert E. Christie, Jr.
 September 20, 1927: Messrs. Clarence Dillon, F. H. Ecker, W. A. Phillips, R. C. Schaffner, E. B. Tracy.
 December 22, 1927: Messrs. Clarence Dillon, G. W. Davison, F. H. Ecker, G. M.-P. Murphy, R. C. Schaffner, E. B. Tracy.
 January 5, 1928: Messrs. G. W. Davison, Clarence Dillon, P. H. Johnston, G. M.-P. Murphy, W. A. Phillips, R. C. Schaffner, E. B. Tracy.
 February 8, 1928: Messrs. Clarence Dillon, F. H. Ecker, P. H. Johnston, W. A. Phillips, E. B. Tracy.
 March 14, 1928: F. H. Ecker, P. H. Johnston, G. M.-P. Murphy, W. A. Phillips, E. B. Tracy.
 May 9, 1928: Clarence Dillon, F. H. Ecker, P. H. Johnston, G. M.-P. Murphy, John Sherwin, E. B. Tracy.
 June 13, 1928: G. W. Davison, Clarence Dillon, F. H. Ecker, P. H. Johnston, G. M.-P. Murphy, W. A. Phillips, E. B. Tracy.
 September 12, 1928: George W. Davison, Clarence Dillon, Percy H. Johnston, William A. Phillips, Robert C. Schaffner.
 October 10, 1928: G. W. Davison, Clarence Dillon, P. H. Johnston, G. M.-P. Murphy, W. A. Phillips, E. B. Tracy.
 October 24, 1928: Clarence Dillon, George W. Davison, Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.
 October 29, 1928: Clarence Dillon, George W. Davison, Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.
 November 14, 1928: Messrs. Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.
 December 12, 1928: George W. Davison, Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Robert C. Schaffner, John Sherwin, Ernest B. Tracy.
 January 9, 1929: Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, Robert C. Schaffner.
 February 13, 1929: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, Robert C. Schaffner, Ernest B. Tracy.
 March 13, 1929: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Ernest B. Tracy, Daniel G. Wing.

April 10, 1929: Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, John Sherwin.

June 12, 1929: Clarence Dillon, Percy H. Johnston, William A. Phillips, Ernest B. Tracy.

September 11, 1929: Clarence Dillon, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

October 9, 1929: Charles S. McCain, Grayson M.-P. Murphy, Percy H. Johnston, Daniel G. Wing.

November 13, 1929: Messrs. Clarence Dillon, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Percy H. Johnston, Frederick H. Ecker, Ernest B. Tracy.

November 22, 1929: Clarence Dillon, Percy H. Johnston, Charles S. McCain, Grayson H.-P. Murphy, Robert C. Schaffner, William A. Phillips, Ernest B. Tracy.

December 11, 1929: Clarence Dillon, Grayson M.-P. Murphy, William A. Phillips, John Sherwin, Percy H. Johnston, Ernest B. Tracy.

January 8, 1930: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, Robert C. Schaffner, Ernest B. Tracy.

February 13, 1930: Clarence Dillon, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

March 12, 1930: Clarence Dillon, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, E. G. Wilmer.

April 9, 1930: Clarence Dillon, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

May 21, 1930: Messrs. Clarence Dillon, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

June 11, 1930: Clarence Dillon, Percy H. Johnston, Charles S. McCain; E. G. Wilmer.

August 13, 1930: Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

September 10, 1930: Clarence Dillon, William A. Phillips.

September 11, 1930: Clarence Dillon, Percy H. Johnston, Charles S. McCain, William A. Phillips, John Sherwin.

October 9, 1930: Clarence Dillon, William A. Phillips.

October 23, 1930: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, Robert C. Schaffner.

November 12, 1930: Messrs. Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, William A. Phillips, Ernest B. Tracy.

December 10, 1930: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

January 14, 1931: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

February 11, 1931: Clarence Dillon, Grayson M.-P. Murphy, Charles S. McCain, William A. Phillips, Ernest B. Tracy.

March 11, 1931: Charles S. McCain, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

April 8, 1931: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

May 13, 1931: Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

June 10, 1931: Messrs. Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, E. G. Wilmer.

July 8, 1931: Clarence Dillon, Percy H. Johnston, Charles S. McCain, Ernest B. Tracy, E. G. Wilmer.

August 12, 1931: Clarence Dillon, Percy H. Johnston, Charles S. McCain, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

September 9, 1931: Clarence Dillon, Percy H. Johnston, William A. Phillips, Ernest B. Tracy.

October 14, 1931: Clarence Dillon, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

November 11, 1931: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

December 9, 1931: Clarence Dillon, Frederick H. Ecker, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, E. G. Wilmer.

January 13, 1932: Messrs. Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, E. G. Wilmer.

February 10, 1932: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

March 9, 1932: Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

April 13, 1932: Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

April 20, 1932: William A. Phillips, Ernest B. Tracy.

April 27, 1932: Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

May 11, 1932: Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, E. G. Wilmer.

June 8, 1932: Messrs. Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, E. G. Wilmer.

July 13, 1932: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

August 10, 1932: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, Ernest B. Tracy.

September 14, 1932: Clarence Dillon, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

October 13, 1932: Clarence Dillon, Frederick H. Ecker, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, E. G. Wilmer.

November 9, 1932: Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

December 14, 1932: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, William A. Phillips, Ernest B. Tracy.

January 11, 1933: Messrs. Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

February 8, 1933: Messrs. Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

March 8, 1933: Messrs. Clarence Dillon, Frederick H. Ecker, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

April 12, 1933: Messrs. Clarence Dillon, Frederick H. Ecker, Charles S. McCain, William A. Phillips, Ernest B. Tracy.

May 10, 1933: Messrs. E. J. Birmingham, G. M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

May 22, 1933: Messrs. Frederick H. Ecker, Charles S. McCain, Grayson M.-P. Murphy, Robert C. Schaffner, Ernest B. Tracy.

June 14, 1933: Messrs. Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

July 12, 1933: Messrs. Clarence Dillon, Charles S. McCain, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

August 9, 1933: Messrs. Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

September 13, 1933: Messrs. Clarence Dillon, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

(Committee Exhibit No. 16 of October 6, 1933, is here printed in the record in full, as follows:)

(NOTE.—Committee Exhibit 16 appears only in the committee's copy of today's proceedings.)

COMMITTEE EXHIBIT No. 16 OF OCTOBER 6, 1933.—GENERAL UTILITIES SECURITIES INC., NEW YORK, N.Y.

TRAVIS, BROWNBACK & PAXSON,
New York City, October 5, 1933.

P. J. HURLEY Esq.,
Washington, D.C.

MY DEAR MR. HURLEY: I am enclosing photostatic copies of the following publicity of the so-called Associated Gas & Electric Co. Debenture Holders' Protective Committee headed by W. A. Nash:

1. Advertisement of the committee in the New York Times, June 2, 1933.
2. Advertisement of the committee in the New York Times, July 14, 1933.
3. Letter to debenture holders dated June 15, 1933, accompanied by a transmittal blank and slip offering commission to investment dealers.

Very truly yours,

CHARLES M. TRAVIS.

[From the New York Times, June 2, 1933]

ASSOCIATED GAS & ELECTRIC COMPANY

DEBENTURE HOLDERS' PROTECTIVE COMMITTEE

To All Debenture Holders of Associated Gas & Electric Co.:

On May 15th last, the Associated Gas & Electric Co. requested all debenture holders to exchange their debentures under 1 and 3 options. These options, apparently, are so adverse to the interests of debenture holders that many holders feel that they should take steps to protect their rights. It has been deemed advisable that a committee be formed for the protection of the debenture holders and the undersigned have been requested to and have agreed to act as such committee.

Immediately upon the announcement by the company of the so-called "options", the organization of this committee was commenced. The committee feels that immediate concerted action is necessary and that you can best conserve your rights by depositing your debentures with this committee at the earliest possible moment.

A deposit agreement has been prepared and is now on file with the depositary and with the secretaries of the committee.

Debenture holders are invited to communicate promptly with the secretaries or depositary of the committee or its counsel.

Counsel.—Battle, Levy, Van Tine & Flower, 37 Wall Street, New York, N.Y.; Poland & Davis, 27 State Street, Boston, Mass.

Secretary.—John H. Galloway, Jr., 20 Broad Street, New York, N.Y., Rm. 1418. Tele. HANover 2-2980.

Assistant secretary.—Roger R. Phillips, 27 State Street, Boston, Mass., Telephone CAPitol 0900.

Committee.—W. A. Nash, chairman, 27 State Street, Boston, Mass.; Rex R. Thompson, 120 Broadway, New York, N.Y.; Ambrose W. Benkert, 52 Wall Street, New York, N.Y.; E. G. Diefenbach, 44 Wall Street, New York, N.Y.

Depositary.—The Commercial National Bank & Trust Co. of New York, 56 Wall Street, New York, N.Y.

Codepositary.—The National Rockland Bank of Boston, 30 Congress Street, Boston, Mass.

[From the New York Times, Friday, July 14, 1933]

ASSOCIATED GAS & ELECTRIC CO. DEBENTURE HOLDERS' PROTECTIVE COMMITTEE

HOW CAN SUCH A PLAN BE ATTRACTIVE?

Associated Gas & Electric Co. is offering holders of its several issues of debentures a so-called "Plan of rearrangement of debt capitalization" which is, this committee believes, merely a plan to persuade debenture holders to

surrender their just rights in order to maintain the company's present management and their positions of control, and to preserve their positions as stockholders and the positions of other stockholders at the expense of the debenture holders.

Don't exchange 100 percent for 50 percent.—To maintain their present senior position, debenture holders should deposit their debentures with this committee. In the event of a default of interest by the company and the inability to pay the full face value of their securities, the debenture holders will then be in a position to claim the assets of the company, which include all the stock of Associated Gas & Electric Corporation, the subsidiary through which the company owns and controls the underlying utility properties which ultimately are the assets behind the debentures.

The company's management seek to forestall the objective of this committee. Though great profits were theirs in prosperous years, they are now entirely unwilling to make any sacrifice necessitated by the pressure of hard times. They seek to cast the whole burden on the debenture holders in order to protect the management and the stockholders. They ask debenture holders to accept, under option 1, in exchange for their present holdings, half the amount of their face value in fixed-rate debentures of the corporation; or, under option 2, income debentures of the corporation yielding less interest, when, as a matter of fact, all the stock of the corporation is owned by the company and is therefore already security to the face amount of the present outstanding debentures of the company. Thus, debenture holders are asked to give up half their principal and income, or to take the chance of receiving lesser income or no income, in exchange for their present right to enforce full payment of both principal and interest upon default in either or both.

The function of the protective committee.—This committee's purpose is to safeguard the debenture holders from being misled into surrendering their just rights. Its entire efforts aim to prevent any steps tending to impair the security they now have.

The committee's deposit agreement provides that all expenses shall not exceed 2½ percent of the face value of the debentures deposited with it, viz., not more than \$25 per \$1,000 debenture. This is relatively nominal when debenture holders consider that upon the committee's achieving its objective they stand to gain many times that amount.

In one of the company's recent advertisements nothing was said in answer to the committee's objections to the so-called "plan" of the company. Instead, the major portion of the advertisement was devoted to an attack upon this committee's policy of allowing security dealers \$8 for each \$1,000 debenture deposited through them with the committee. This item is included in the 2½ percent maximum expenses of the committee and has been rendered necessary by the fact that security dealers have been offered up to \$7.50 for each debenture deposited with them under the company's so-called "plan." This fact has never been mentioned in the company's advertisements. Can it be that the company's treasury, either directly or indirectly, is footing this expense and the expense for advertising the management's own plan in the newspapers and through the mails?

It is obvious that the interests of debenture holders can best be conserved by immediate concerted action in depositing their holdings with this committee in support of its efforts to protect and maintain the rights of debenture holders. Literature of the committee may be obtained upon request from the secretary or assistant secretary of this committee, or from its depository or co-depository.

W. A. NASH, *Chairman*,
 REX R. THOMPSON,
 AMBROSE W. BENKERT,
 F. G. DIEFFENBACH,
Committee.

Counsel.—Battle, Levy, Van Tine & Fowler, New York; Poland & Davis, Boston, Mass.

Secretary.—John H. Galloway, Jr., 20 Broad Street, New York, N.Y., Room 1418, telephone Hanover 2-2980.

Assistant secretary.—Roger R. Phillips, 27 State Street, Boston, Mass., telephone Capital 0900.

Depository.—The Commercial National Bank & Trust Company of New York, 56 Wall Street, New York, N.Y.

Codepository.—The National Rockland Bank of Boston, 30 Congress Street, Boston, Mass.

Until further notice the sum of \$6 (which is approximately 4 percent of current market value) will be allowed and paid to investment dealers, who are active, for each debenture deposited through them, to cover their cost of assisting debenture holders in depositing with this committee, the same to be payable immediately upon satisfactory proof of deposit.

ASSOCIATED GAS & ELECTRIC CO.,
New York, N.Y., June 19, 1933.

To debenture holders of Associated Gas & Electric Co.:

In a letter dated May 15, 1933, the management of Associated Gas & Electric Co. proposed to its debenture holders a plan of rearrangement of capitalization, which, in the opinion of the undersigned committee, takes away from the debenture holders the legal and moral rights to which they are entitled. The plan proposes an exchange of your debentures under any one of three different options.

The committee is informed that, in connection with the sale of many of the company's debentures in recent years, it was generally stated that the debentures were a direct obligation of the company, but not secured by a mortgage or pledge, and that the company agreed not to pledge any of its properties without ratably securing the holders of the debentures except in the case of a purchase-money mortgage and liens and except in the case of pledges in the usual course of business as security for temporary loans maturing not more than 1 year from the date of issue, or indemnity not exceeding 1 year.

Associated Gas & Electric Co. was organized under the laws of the State of New York in 1906 as a holding company and became the owner and holder of large amounts of the capital stock of various utility operating companies, upon which stock, it is claimed, the debenture holders of Associated Gas & Electric Co. had a first claim for the payment of principal and interest.

Associated Gas & Electric Corporation was formed early in 1932 (being successor through change of name to Associated Utilities Investing Corporation, a Delaware corporation, which was originally organized in 1922), and immediately issued a large amount of 8-year 8-percent gold bonds, which became a first claim upon all of the assets, as we understand it, of Associated Gas & Electric Corporation.

Associated Gas & Electric Co. now proposes to exchange its issued and outstanding debentures under the terms of the options above referred to for debentures of Associated Gas & Electric Corporation, which, as explained above, is an intermediate holding company controlled directly by Associated Gas & Electric Co., the latter controlling all subsidiaries through the former.

We further understand that Associated Gas & Electric Co., on February 25, 1932, made it known that the only assets held by Associated Gas & Electric Co. were the entire outstanding shares of Associated Gas & Electric Corporation which, in turn, controls directly or indirectly all companies making up Associated Gas & Electric system.

As the proposition now stands, debenture holders of Associated Gas & Electric Co. are requested to exchange the debentures of that company, under the terms of which they have a first claim on the assets of the company, for debentures of Associated Gas & Electric Corporation, which would be junior, as we understand it, to a large amount of 8-year 8 percent gold bonds. The substitution of the debentures of the corporation for the debentures of the company as offered under option (1) materially nullifies the restrictions mentioned in paragraph 2 above. Although such action may or may not be legal, it seems to us that this move very clearly approaches a breach of faith. An exchange under option (1) involves the giving up of 50 percent of principal and interest and a consequent loss of this amount, without any sacrifice on the part of stockholders, preferred or common, who stand to benefit tremendously when prosperity returns.

Under option (2), the holder who exchanges receives an income bond with less coupon rate for an obligation with fixed interest. The holder who exchanges surrenders his legal rights to fixed interest and his rights to all the equities of the company for breach of contract. These equities, with return of prosperity, may become exceedingly valuable. It is to retain these valuable equity rights that the company is seeking to effect this plan of "rearrangement of capitalization."

Under option (3) the holder who exchanges receives a debenture which may become an income debenture, i.e., a debenture on which interest is paid only if earned. The slight additional income offered is inconsequential compensation for the present holder giving up his right to a fixed interest payment

and his right to take over all the assets of the company in the event of default of contract. Debentures issued under this option have the further serious objection that they rank junior to the debentures issued under options (1) and (2). When the debentures issued under this option become income debentures, they are in effect nonvoting cumulative preferred stock. This option completely vitiates the security now held.

To many debenture holders, investment bankers and banks, the above-mentioned plan of "rearrangement of capitalization" seems not only extremely unfair to the debenture holders, but entirely unprecedented and unjust. It was, therefore, deemed necessary that a committee be formed to represent the debenture holders in order that this inequitable plan may be prevented from being enacted and/or in order to represent the debenture holders in forming a just and equitable plan of "rearrangement of capitalization."

The committee feels that Associated Gas & Electric Company, either directly or indirectly, owns valuable properties which should be kept intact and the committee will use its best efforts to do so. While we are not in sympathy with the company's financing operations, we would have no quarrel with the above proposition if all securities now junior to these debentures were also called upon to make some proper sacrifice, but that is not the case. All equity securities remain as they are, including of course that portion of the equity owned by those active in the management, and all sacrifices made by the present debenture holders will, in the long run, accrue directly to the benefit of the equity holders. This seems to us to be far from equitable. The committee feels that the sacrifices which the debenture holders are called upon to make and which are not shared in by the equity holders, is contrary to all precedent as, to the best of our knowledge, information, and belief, in all other "rearrangements of capitalization," the equity holders have been called upon to bear the brunt and to make the greater sacrifice.

The aim of the committee is to so represent the debenture holders that, in any financial reorganization, they will receive a more equitable and just interest in the new set-up than is provided for in the company's plan. If the company's position is so serious that it is imperative for its preservation that sacrifices be made, then the committee proposes to use their best endeavors to see that the sacrifices are made by the junior security holders and not by the debenture holders who occupy the senior position. If it should prove necessary for the debenture holders to sacrifice either a part of their principal or a part of their income, then we believe they should be compensated for this sacrifice by a substantial interest in the equity securities in the form of a bonus.

This committee has a definite and fixed purpose and, as stated above, it aims to so represent the debenture holders as to secure to them a fair, equitable, and just return for the debentures which they now hold. The committee shall endeavor, if possible, to obtain an independent audit of the books of the company and to cooperate with the management in an amicable manner in the arrangement of a plan, if it is found that a "rearrangement of capitalization" is necessary. The committee is very much averse at this time to receivership or other legal proceedings, feeling that, in order to safeguard the rights of the debenture holders, an amicable adjustment of matters is more desirable than litigation. Nevertheless, if it is necessary, the committee will not hesitate to take such action, whether at law or in equity, as its counsel may deem fit and proper in order that the rights of the debenture holders may be maintained to the fullest extent, even though such litigation would involve receivership.

None of the members of this committee or its counsel have ever been and none are now in any way directly or indirectly connected with the company or its management. The committee's sole interest is to extend to the Debenture holders the maximum protection at this time when the safety and security of their investment is threatened.

No money is asked with the deposit of debentures with this committee and there are three matters of interest to debenture holders to which the committee calls particular attention: First, the cost to debenture holders for all services of the committee under the terms of its deposit agreement cannot exceed a sum equal to more than 2½ percent; second, no personal liability for any debt of the committee can possibly attach to depositing debenture holders; and, third, interest accruing on all deposited debentures will be paid to the depositor or his successor in title if, as, and when such interest has been collected and, in receiving the payment of such interest, it will not be necessary for debenture holders to surrender or exhibit their certificates of deposit.

For the convenience of the debenture holders depositing with this committee, the depositary banks will collect interest when, as, and if paid on debentures deposited with them, and mail to the depositing debenture holders a check for such interest.

The object in the organization of this committee is to create a responsible agency through which the debenture holders, who are so widely scattered through the United States, Canada, and in other foreign countries, may act in concert for the protection of their rights and interests. It is essential that every debenture holder wishing to protect his interests through this committee deposit his debentures as quickly as possible, using the letter of transmittal attached to this notice and sending the same directly to the depositary, codepositary, or one of the agents. Deposits of debentures will be received and held by the depositary or codepositary subject to the terms and conditions of the deposit agreement, copies of which are on file with the depositary, codepositary and their agents. A copy of the deposit agreement may be obtained upon request from the secretary or assistant secretary of this committee, or from the depositary, codepositary, or any of their agents. The depositary or codepositary will issue transferable certificates of deposit to each depositor.

If you wish to avail yourself of the protection afforded by this committee, it is important that you indicate the same by filling out the transmittal letter attached and sending it, together with your debentures, to one of the depositary banks, or one of the agents at once. All those who deposit their debentures with this committee will be kept informed as to the progress which is made in their behalf.

W. A. NASH, *Chairman*,
 REX R. THOMPSON,
 AMBROSE W. BENKERT,
 E. G. DIEFENBACH,

Committee.

JOHN H. GALLOWAY, JR., *Secretary.*

TRANSMITTAL BLANK FOR DEPOSITING REFUNDING, GOLD AND/OR CONVERTIBLE DEBENTURES OF ASSOCIATED GAS & ELECTRIC CO.

Depositary.—The Commercial National Bank & Trust Co. of New York, 56 Wall Street, New York, N.Y.

Codepositary.—The National Rockland Bank of Boston, 30 Congress Street, Boston, Mass.

To the depositary or codepositary by which this letter is received:

GENTLEMEN: The undersigned hereby deposits with you as agent and depositary under the deposit agreement, between W. A. Nash, Rex R. Thompson, Ambrose W. Benkert, and E. G. Diefenbach, as a committee, and such holders of the refunding, gold and/or convertible debentures of Associated Gas & Electric Co. as may become parties to the agreement by depositing their debentures thereunder, a copy of which agreement is on deposit with you.

The undersigned hereby assents to all the provisions of said agreement and becomes a party thereto, depositing herewith the following described debentures of Associated Gas & Electric Co., all of which debentures so deposited are specifically indicated below:

Denomination	Serial numbers	Maturity	Rate of interest	Coupons attached	Total amount

Please issue your certificate(s) of deposit for said securities in the following name:

Name _____ Address _____
 (Please type or print, using full name) Number Street
 City or town _____ State _____

Very truly yours,

 (Signature of depositor)

Deposits may be sent to the depositary or codepositary or any one of their agents.

(See instructions on back hereof.)

INSTRUCTIONS

Please fill out one letter of transmittal for each party depositing. Debentures should be sent, together with letter of transmittal, by registered mail to the depository, codepositary, or any one of their agents. Additional letters of transmittal may be procured from the secretary of the committee or the depository, codepositary, or any one of their agents.

Registered debentures should be accompanied by appropriate assignments executed in blank by the registered owner, whose signature should be guaranteed by a bank or trust company having a principal office or a correspondent in New York City, or by a brokerage firm having membership on the New York Stock Exchange. Assignments executed by fiduciaries should be accompanied with proper evidence of their authority to execute such assignments. Assignments executed in behalf of corporations should be accompanied by appropriate resolution of the board of directors or other evidence of proper authority for such assignment.