

Commission Scores Rock Island

Following are press dispatches from Washington, under date of Aug. 17:

The Interstate Commerce commission today handed down a report on the financial transactions and the operation of the Rock Island Railroad Company under the Reid-Moore syndicate and the history of the management which finally placed the road in a condition of bankruptcy. An aggregate of losses amounting to \$20,000,000 is charged to have been caused by the syndicate. It is pointed out that the Rock Island, from being a few years ago one of the finest railroad properties in the country, with its stock selling in the markets of the world at around \$200 a share, now is in the hands of receivers, with its stock down to \$20 a share, although its earnings have steadily increased and last year were the largest in its history.

Nowhere in the report does there appear a hint of a basis for criminal prosecutions, although it is regarded as certain that the findings of the commission will go to the department of justice, leaving it to the attorney general to compare the acts of questionable conduct in the management of the road with the statutes that may apply to them.

The acquisition by the Reid-Moore syndicate of \$20,000,000 of Rock Island stock in 1901 is mentioned as the beginning of the story of manipulation by which the road essentially was wrecked. The members of the syndicate gradually became members of the board of directors, and by the organization of two holding companies, and the creation of an executive committee the successive steps in depreciating the property succeeded. Capital stock was several times increased, the debt was swelled and the net income was reduced. Besides the losses enumerated by the report, many millions were given away by the executive committee.

Where Commission Failed

The commission confesses failure to determine just how much Messrs. Reid and Moore and their partners succeeded in taking out of the Rock Island. The comment of the commission is that whatever their gains may have been, the holders of Rock Island stocks and bonds have that which is of little value.

It is declared that misrepresentation of assets was a regular practice of the company, and that misleading reports were published to fool the stockholders.

The commission suggests that the terms of the Clayton anti-trust act should apply to directors of railroads, so that no director could serve on the board of two competing companies, and also that there should be a law under which railway officials should be held to accountability as strictly as government officials.

A limit on the issuance of stock and bonds also is urged. The material part of the report follows:

"Many large contributions were made to officers and directors of the railway company. J. E. Gorman, first vice-president, was secretly paid \$18,750 per annum.

C. A. Moore, chief engineer, received a salary of \$15,000 per annum and a secret bonus of \$3,000. Upon the retirement of R. A. Jackson as general solicitor he was given \$100,000 in cash.

Great Bonus to Loree

"As an inducement to L. F. Loree to relinquish after 10 months' service a joint contract with the railway company and the Frisco, under which he was to receive a salary of \$75,000 per annum for a period of five years

and in addition was to be paid a bonus of \$500,000 at the expiration of the contract, he was given bonds of the railway company of a par value of \$450,000.

"C. H. Warren, vice-president, was given by the railway company \$150,000 of the common and \$105,000 of the preferred stock of the New Jersey company and \$50,000 in cash.

"R. R. Cable, a member of the executive committee, received from the railway company \$30,000 in bonds of the Iowa company, then worth \$24,500 for his service in the acquisition of the Burlington, Cedar Rapids and Northern Railway Company, and he was paid by the latter company \$85,000 in the same transaction.

"Robert Mather, president, was given \$25,500 in cash. George T. Boggs, director and secretary of the board of directors of the railway company, was given \$15,000 in cash when he retired from the secretaryship of the railway company.

"When the capital stock of the railway company was increased to \$75,000,000, shares of the par value of \$880,500 were placed in the name of the president, to be distributed in accordance with a resolution passed by the executive committee 'for the benefit of such officers of the company as the president shall elect and determine.'

The contributions to officials of the railroad company in excess of their salaries aggregated about \$1,000,000.

"A significant transaction was that growing out of the action of C. H. Venner, a stockholder, who made demands on the officers of the company for a list of its stockholders. The railway company paid Venner \$291,000, ostensibly in consideration of his delivery to it of securities of the New Jersey company and of the railway company, valued at \$91,000, and stock of the Nebraska Central railway and of the Nebraska Construction company of a nominal value of \$200,000. Neither the Nebraska Central railway company nor the Nebraska Construction company had any road or other tangible assets, and their stock is without value.

"The payments to Venner were in consideration of his refraining from further prosecuting in the courts his opposition to the syndicate plans."

The commission finds that the total loss to the Rock Island in the Alton deal was \$6,370,000. In the Trinity and Brazos deal it is shown that the Rock Island invested \$4,504,782, practically all of which represents loss. In the Consolidated Indiana Coal Company the company, by its large advances, incurred a loss not yet determined, but approximately several millions. The interest loss already is \$400,000. The net loss of the Rock Island in the Dering Coal Company is fixed at \$906,420, with a probable additional loss in securities of \$2,500,000. Of the investment of \$12,000,000 in the Rock Island Improvement Company the commission says the Rock Island sustained great loss.

These items and others show an aggregate loss to the railway company of more than \$20,000,000.

In addition is to be calculated that prior to June 30, 1914, the railway company paid to financial institutions, in connection with the issuance of bonds, commissions aggregating more than \$1,000,000 and suffered discounts of more than \$17,700,000.

The railway company included among its assets certificates of indebtedness of the Trinity and Brazos Valley Railway Company, carried at book value of \$3,694,863.87. The Trinity and Brazos Valley Railway

FEDERAL COMMISSION SHOWS LOSSES OF ROCK ISLAND RAILROAD IN DEALS

Figures taken from Interstate Commerce Commission report:

Total loss on transactions, about	\$20,000,000
Expenses of maintaining and housing companies, more than	290,000
Frisco deal, approximately	6,500,000
Alton deal, approximately	6,370,000
Trinity and Brazos Valley Railway deal, more than	4,500,000
Consolidated Indiana and Dering Coal Companies, at least	1,300,000
Contributions or gratuities to officers and directors, about	1,000,000
Venner transaction	217,000
Miscellaneous and unexplained expenditures	72,523

was then in the hands of a receiver and facing a debt of \$8,000,000.

"The company carried as assets bonds of the Toledo, St. Louis and Western Railroad Company, at a book valuation of \$6,000,000, secured only by stock of the Chicago and Alton Railroad Company, which had a market value on June 30, 1915, not in excess of \$1,600,000.

"The directors also reported as assets the 5 per cent debenture bonds of the Iowa company, which were in fact worthless, but which were reported as worth nearly \$6,000,000.

Cites "Misleading Practices"

"Another misleading and objectionable practice of the railway company was the failure to state on the pay roll the true amounts paid to its officers.

"The publication of misleading reports to stockholders can not be too severely condemned, and the individuals guilty of such acts should be subject to a just penalty.

"The syndicate decided to put the railway into a receivership. The board of directors was not informed of the intention, and at no meeting of the board was any authority given for any such action. Members of the board of directors not in the confidence of the syndicate and stockholders were kept in ignorance of the fact that such a bill had been prepared."

The report says in conclusion: "The property of the railway company will be called upon for many years to make up the drain upon its resources resulting from transactions outside the proper sphere in which stockholders had a right to suppose their moneys were invested. This record emphasizes the need of railway directors who actually direct.

"A director of a railroad is a quasi public officer, who occupies a position of trust. A director who submits blindly to the exploitation of his company is a party to its undoing, and he should be held responsible for the same acts as if he had a personal interest instead of an accessory interest before the fact.

"It is inconceivable that a director of ordinary business prudence and sagacity would sanction large expenditures without an inquiry as to the purpose of such disbursements.

"So long as this situation exists, however, it suggests the need of a law to charge such directors of responsibility for the dissipation of corporate funds.

"The Clayton anti-trust act will make it unlawful for any person at the same time to be a director in two or more competing corporations, any one of which has a capital, surplus, undivided profit aggregating more than \$1,000,000, but common carriers are exempted from its application.

"It should be just as grave an offense for an official of a railway to be faithless to his trust for financial gains as it is for an elected official of the government to betray his trust for money reward.

"By this case the need of some limitations on the issuance of stocks and

bonds by common carriers, whether directly or through holding companies devices or otherwise, is again demonstrated."

PRESIDENT ADVISES NEW JERSEY

The Washington staff correspondent to the Chicago Tribune sends the following special under date of Sept. 7:

The White house made public a letter written by Secretary Tumulty to Sheriff "Gene" Kinkaid of Hudson county, New Jersey.

Secretary Tumulty's letter follows:

"I received your letter inviting me to be present at the meeting of the Hudson County Democratic committee, scheduled for Sept. 11, the object of which, as you state, is the indorsement of the president. It was my understanding when we discussed this matter some weeks ago that the meeting you had in mind was merely a meeting of the Hudson county committee, for which you were anxious to procure the services of Senator Lewis of Illinois as the speaker.

"I had a talk with the president about this matter, and he deeply appreciates the generosity of these suggestions, but New Jersey is his own state, the men who would act in this matter are his own personal friends, and he feels that it might seem as if he were taking advantage of the extraordinary situation now existing to gain some personal advantage such an expression of confidence by them.

"As I said in my letter to State Chairman Grosscup a year ago, this would be inconsistent with his whole thought and spirit, and he shrinks from it as from something that would embarrass him rather than help him.

"I feel confident that you will understand the spirit in which he says this, and that in urging the democrats of Hudson county not to do this he is not abating in the least his deep appreciation.

"Of course, if your meeting has no connection with an indorsement of the president and is one to be held under the auspices of the democratic county committee and shall be participated in by all factions in Hudson county, I will gladly aid you in procuring as a speaker the services of either Senator James or Senator Lewis."

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W. A. SUTTON, 2651 Orchard Avenue, Los Angeles, California