

**Grand Jury Holds E. R. Gurney and Shafer Brothers**

Six Men and Woman Taken Into Custody on Charges Of Fraud in Financial Transactions.

(Continued From Page One)

nection with the operations of the Lion Bonding & Surety company, of which he was president at the time it went into a receiver's hands several months ago.

One is for embezzlement of \$60,000 from the Lion Bonding & Surety company; a second for embezzlement of \$143,500 of certificates of deposits and a third for embezzlement of \$110,000 of notes given by officers and stockholders of the company.

**Capital Impaired.**

The indictments against Gurney were said to be based on investigations of his conduct in August, 1920, when the company underwent an audit by a New York auditor, who reported to President Gurney an "apparent impairment" of capital. It is said that Gurney then got a number of notes made out to himself, signed by officers and stockholders of the company, and sent these to 16 banks out in the state, asking to have certificates of deposit in return or, in some cases, to have credit given the company, or a checking account. Also it is said he asked to have these transactions made to appear as of June 30.

The certificates of deposit and credits were then included in the company's assets. When the auditor was unable to see that this improved the situation, the directors of the Lion company passed a resolution acknowledging that \$300,000 in "voluntary contributions" had been received from stockholders, stating that the stockholders had no claim to the return of this amount.

**No Personal Profit.**

A few weeks later, it is said, Gurney sent back the certificates of deposit and other credits in the outside banks, received back the notes and the whole transaction was wiped out. Gurney himself did not profit by the deal at all, it appears. The grand jury report advises, in this connection, that the banks be prosecuted for violation of the banking laws. It points out that the irregularity permitted the company to continue in business to the ultimate loss of stockholders and others.

**Embezzlement Charges.**

The Shaferes are charged with the embezzlement of three promissory notes totalling \$30,000, the property of the American Bank Building company, and also with embezzlement of \$15,000 from M. F. Shafer & Co. of which they were officers but which is now defunct.

Marion F. Shafer lives at the St. Regis apartments. Ward Shafer's home is at 4816 Capitol avenue.

The third man arrested was Samuel H. Grace, charged with embezzlement of a \$20,000 certificate of deposit belonging to Division No. 1, Railway Employees department of the American Federation of Labor, of which he was secretary-treasurer.

Grace gave bond at once for the \$5,000 required. It was signed by Charles M. Garvey, owner of the Puritan laundry.

Robert C. O'Bryan, secretary-treasurer and manager of the Great Western National Body company, was brought in and gave \$5,000 bond to answer two charges of embezzlement, one August 4, 1920, in connection with a check for \$3,173.24 drawn by the company on C. D. Lampert, and another alleged embezzlement of \$3,000 from the company.

**Woman Also Accused.**

Sam B. Musser, president of the American Brokerage and Development company, was arrested late in the afternoon in his office in the Arlington block. With him was arrested Miss Ruth C. Strickland, his stenographer.

Three separate indictments charge the two with obtaining money under false pretenses. It is charged that on March 23 obtained \$64 from Kathryn Calvert, on March 7, \$168 from Sophia Stern and on October 14, 1920, \$50 from Catherine Guastafson for oil leases. They represented, it is alleged that their concern had bought a drilling outfit for \$11,000 and that a well was being drilled on the alleged property in Montana, all of which representations were false, it is alleged.

Miss Strickland was released late in the afternoon on her own recognizance after she had promised to appear in court at 10 this morning. Musser remained in jail.

Tony Bortka, South Side, was arrested on the indictment for embezzlement. With a partner, John Doe, he is charged with having taken \$4,000 from Nick Malinovich as "first payment" on a farm near Scottsbluff.

District Judge Troup issued an order late yesterday permitting Attorney General Davis to retain stock books of the Waterloo Creamery company, the Alamito Dairy company and Great Western Body company, as well as "records and other evidence" in these companies collected by the special grand jury.

**Sermon Informs Woman Pastor Mate Divorced Her**

Port Huron, Mich., Oct. 3.—Mrs. Flossie Baldwin first learned she had been divorced by her husband, the Rev. George Baldwin, when she sat in the congregation and heard the sermon he delivered. Neighbors told court officers that when papers were served Mrs. Baldwin did not know what they meant and failed to oppose the action. The pastor charged his wife was unfaithful. There is a 6-months-old baby.

**Nothing Can Revive Saloon, Is View of English Pastor**

London, Oct. 3.—"The American drinking saloon is dead. Prohibition has killed it. Nothing can revive it."

In this trilogy of staccato sentences, Dr. R. J. Campbell, vicar of Christ Church, Westminster, who has just returned from a long journey through the United States, gave his opinion of prohibition in America.

**Former Bankers Are Held**



W. E. SHAFER



M. F. SHAFER

**Earth Rallying From Meteorological Mumps**

(Continued From Page One)

some other cause, is entirely problematical.

It is a case, however, that, whatever the cause, this terrestrial ball has been subjected of late to rough usage, notwithstanding that the war is over. A glance back at some recent disasters and natural phenomena show the following:

Three hundred buildings wrecked and many killed by hail storm and waterspout at Baez, Cuba. Three volcanoes, Villarrica, Liama and Lanin, spout flames more than 1,000 feet from craters. Drought kills fish in River Seine and France suffers most severe drought in 47 years.

Rhine and Moselle rivers do great damage in highest flood in 130 years. Cloudburst and hail storm damage Rome, Italy.

Mount Vesuvius shows activity and earthquake shock is felt from Leghorn to Lake Lugano.

Italian destroyers carry inhabitants to safety as volcano Stromboli resumes activity. Damage of several million drachmas done in Genoa by severe hail storms.

Earth slide blocks Corinth canal. Cyclone devastates three towns in Haiti.

Volcano Kilauae in Hawaii spouts immense fountains of lava. Activity of the volcano Popocatepetl in Mexico increasing.

Earthquake shakes Vera Cruz and 400 other cities. Lightning strikes oil wells, causing millions of dollars damage in Tampico and other districts. Mexicans pray to "water-godess" to end drought.

Volcano Colema in Jalisco is in eruption. Many lives lost in waterspout which destroyed part of Tangier, Morocco.

Floods in Philippines.

Volcano Masaya in Nicaragua in eruption. Typhoon and floods in Philippines, and especially on island of Luzon, do great damage.

Six new craters opened in Mount Iztalco, Salvador. Heat in the Alps causes glaciers to shrink and nine mountain climbers are killed.

Seventy people dead in tornado which swept southern United States. Flood inundates Pueblo, causing \$10,000,000 property loss.

Forty-seven perish in San Antonio (Tex.) flood.

One consolation of the freak weather, however, is the prospect of an "open winter."

**Snow in Michigan.**

Ironwood, Minn., Oct. 3.—Sleet with intermittent flakes of snow fell here this morning. The temperature was about 42 degrees at 10 a. m. This is the first sleet and snow of the season.

**More Arrests Expected In \$1,000,000 Robbery**

Chicago, Oct. 3.—Three alleged leaders in the \$1,000,000 union station mail robbery last January will be up tomorrow for examination by postal inspectors.

As a result, government officials believe all members of the gang now already in custody will be arrested within 48 hours. One of the trio is said to have confessed. From him \$61,000 in stolen Liberty bonds have been recovered.

The men are Frank Rio, indicted a score of times for bond thefts. Thomas Dyer and Robert O'Neill. The latter two have figured in police records in connection with robberies and shooting affrays for 12 years.

**Preacher Is Slugged.**

Houston, Tex., Oct. 3.—R. Hecox, traveling preacher of Santa Barbara, Cal., was slugged and robbed as he was resting at a school house eight miles east of here Saturday night, according to a report made to officers here today. He was found this morning. He will live.

**Complete Report of Douglas County Grand Jury**

The report of the grand jury follows: This grand jury, having been called for the special purpose of investigating alleged violation of the penal laws of our state relating to the conduct of officers and directors of corporations, companies, stock jobbing associations, and promotion schemes, under various forms, has been in almost continuous session since September 8, and has worked diligently and faithfully to perform the duties of the office.

Inasmuch as the investigation of corporations or companies on whom complaints have been made required practically our entire time, we were unable to give other matters the necessary attention they deserve. In fact found it impossible during this term to properly investigate other companies that appear to need investigation.

**Violation of Blue Sky Laws.** In our investigation we found numerous instances where the laws of this state regarding the sale of stock, issuance of bonds, etc., have been violated, both directly and by subterfuge. This evasion of the law seems to have been aided by reluctance of the buying public to call attention of the proper authorities to such violations. However this grand jury has not spent so much of its time in the investigation of technical violations of the blue sky law, and whether stocks and bonds have been sold without a permit as it has spent in seeing whether the stockholder has had an honest "run-for-his-honey" after the stock is sold. Most of our attention has been directed towards the integrity and honesty of purpose of the management of these various companies. The law cannot guarantee the success of the business venture, but it should in our opinion assure to the stockholder that corporate business will be honestly conducted. We want to understand therefore, that on time has been given to a scrutiny of the doings of the officials of various companies, and we hereafter set forth some of the means and devices that have been used to loot the corporate treasury which we believe should be prohibited.

**Excessive Salaries.** We found in some cases companies now defunct were paying as high as \$1,000 per month to officers who gave only a part of their time to the conduct of the company affairs. We believe that the payment of excessive salaries, simply because such an one is president or vice president of a company, and especially to one who does not devote all of his time to the company, is gross mismanagement to say the least.

**Sales by Officers to Their Companies.** An officer of a corporation occupies a position of trust with relation to the company's money. Certainly he should be extremely upright in all sales of his own personal property to himself as a corporate officer. This jury has found numerous instances, however, where corporate officers have sold property which cost them nothing, or at most a small sum to their corporations for large sums of money at fictitious valuation, and have taken from the corporate treasury large sums in payment.

**Amounts to Embezzlement.** It is the opinion of the jury that such transactions are fraudulent and amount in substance to the embezzlement of money, and this grand jury has returned indictments accordingly. One flagrant example is that of a chemical formula acquired by officers of a company at a price around \$5,000, but which was sold to the company of which they were officers for \$100,000, and money taken from the treasury accordingly.

**Fictitious Appraisals of Real Estate.** Numerous instances of this device have come before us. The valuation of property has been arbitrarily raised on the books of the companies to entirely unwarranted heights, and such new book entries used to lead stockholders and prospective stockholders into the belief that the corporation had earned a profit. This fictitious appraisal of real estate was also used for floating large issues of stock.

It is to be regretted that in some instances prominent citizens subscribed their names on appraisal estimates which their better judgment should have prevented them from signing, as they were then used to mislead the unwary investor.

**Overlapping Directorates.** In general it seems that interlocking directorates are legitimate.

proper and useful in many fields of business. However, this device has been used by many promotion schemes to segregate from the assets of a large company part of the assets for the benefit of a favored few of a smaller company; also in many cases where directors were the same the assets of one corporation have been used for the benefit of another corporation indiscriminately. This is a fraud and a wrongful diversion of money, and in some cases amounts to actual embezzlement of money by such directors.

**Attorneys.** There are instances where attorneys seem to have counseled and directed schemes whereby large stock issues were floated and payments of money made to officers and directors of corporations for no consideration except their ability to milk their company. No doubt those attorneys justify their conduct on the ground that they were simply advisors, selling their knowledge of the law. It is the opinion of this jury, however, that when an attorney continually consorts with, advises, counsels and assists officers of corporations in perpetrating frauds upon stockholders and assisting in the selling of the relations of attorney and client becomes an accessory to the transaction.

**Crimes Outside Douglas County.** Our investigation has uncovered several crimes upon which we cannot return indictments because they were not committed in Douglas county. We feel that a proper spirit of law enforcement dictates that the facts of some of these should be set out so that action may be taken by the officers of various counties if they so desire.

**Complicated Example.** One of the most complicated of these is disclosed in the affairs of the Lion Bonding & Surety company and the following statement is entirely justified by correspondence signed by the officers of that company and original documents, all of which are in the possession of the grand jury.

In August, 1920, when this company was probably impaired and under examination by the United States government, the officers secured notes of several officers and employees aggregating \$300,000. These notes were sent to 16 banks in Nebraska who issued therefor certificates of deposit in like amount. All of them predating the certificates to the date of June 30, and some of them even altering their books to correspond. These certificates of deposit were taken as assets of the company by the auditors of the United States government and the insurance department of the state of Nebraska. Within two weeks after such a showing the certificates of deposit were returned to the various banks which issued them, and the notes returned to the makers and destroyed. The insurance department was misled by this action and the company continued in business for a number of months afterwards to the greater ultimate loss to stockholders and policyholders.

It is rather difficult to determine what specific crime was committed in the perpetration of this transaction. The several banks who falsified their records are outside of Douglas county, and we therefore have no jurisdiction to indict them for falsification of their books.

**Recommend Action.** We suggest that the various prosecuting officers in the respective counties where these transactions occurred take immediate steps looking toward the prosecution of these violations of the banking law.

We have returned indictments charging embezzlement of the amount of these certificates of deposit and notes, believing that the statute relating to embezzlement most nearly describes the transaction which did take place in Douglas county. We think the attention of the public ought to be called to the fact that it is this sort of manipulation by the officers of various companies, and the tacit cooperation therein of various bankers that has led to the imperiling of the stability of many Nebraska banks.

We feel that this grand jury ought not to adjourn without making some recommendations in regard to the Nebraska laws in reference to the general conduct of corporation affairs. It is to be regretted that the corporate laws of Nebraska are decidedly meager, and that we do not have on our statute books a complete code governing in detail the management of corporations as have several other states. There are certain definite recommendations which we think ought to be enacted into statutory law, and which would in a large measure prevent, or at least provide a mode of punishment for numerous other companies which were promoted during the last two or three years.

**Sale of Stock.** First—Undoubtedly a statute should be passed making it a felony for the officers of a corporation to pay dividends to the stockholders therefrom out of money received from the sale of stock. It is probable that this statute should go still further and make it a criminal offense to pay dividends out of the appreciation on properties or under any other guise, unless such dividends represent an actual earned cash profit of the corporation.

Second—We believe that it ought to be made a felony for the officers of a corporation to deliberately utilize the funds of the corporation in enterprises entirely foreign to the scope of the corporate character and the legitimate transactions of the business for which the corporation was formed.

Third—We believe that some reasonable standard of duty should be imposed upon the officers and directors of corporations so that gross neglect of attention to corporate business should carry a penalty upon the officers and directors so neglecting their duty.

Fourth—We believe a criminal penalty should be imposed upon the officers of corporations who issue large blocks of stock without consideration, thus diluting the value of the stock of the public who have paid cash therefor.

The Matter of the Reports. In pursuance to instructions by the court we wish to report that we have made an investigation of the rental situation in Omaha. After hearing the testimony of a number of competent and well-informed witnesses we failed to obtain any definite or conclusive evidence of an organization, combination or agreement among the owners or managers of residence or business property by which they have at any time sought to fix or control the rental price of detached houses, apartments, offices or store rooms.

severely rebuked for raising rentals that are already higher than they should be.

**Blame the War.** While rentals in some instances are undoubtedly high and abnormal, we believe that the situation is one of the results of the world war, and will eventually right itself through the regular channels of supply and demand.

We find that building of every kind has been retarded by the high cost of construction and difficulty in securing loans, and it is doubtful if any substantial improvement can be hoped for in the rental situation until the supply is such as to meet the demand.

**Hotels and Inns.** In accordance with the court's instructions to see that Sections 3104 to 3107 inclusive of the Revised Statutes of Nebraska, relating to hotels and rooming houses have been complied with, we had City Commissioner Harry B. Zimmerman appear before us, and he has had an inspection made of such hotels and inns, and accordingly has presented to this grand jury a separate report covering 49 such hotels and inns. This report shows that the higher class of hotels to be in excellent condition, but there are some irregularities in complying with the laws with some of the second and third class hotels.

We have been informed by Mr. Zimmerman that the proprietors of these hotels have been ordered to remedy the situation, and all of those requirements as made by commissioner Zimmerman should be complied with. This grand jury recommends that the deputy state fire warden for Douglas county work in conjunction with the city authorities, with the view of having the hotel and inkeepers comply not only with the state law, but also with the provisions of the Omaha city ordinances.

**Douglas County Hospital.** In our inspection of the Douglas county hospital we found sanitary conditions and food to be good, and believe the present superintendent is filling his position acceptably so far as it is possible for him to do. We found, however, that the protection against fire is very poor, and the present fire hose being wholly unfit for use, and we recommend the immediate installation of new fire hose together with additional chemical fire fighting apparatus.

We also found that there was an insufficient number of nurses in the hospital and recommend the employing of sufficient additional nurses to properly take care of the inmates of this institution.

Further than the things mentioned we cannot see where conditions can be much improved upon, except through the building of a new hospital, but in as much as rather extensive repairs are now being made on these buildings this jury does not feel that at the present time it would be advisable to recommend a bond issue for the purpose of erecting new buildings. We are very much of the opinion, however, that the present buildings are unsuitable and feel that this matter should receive the careful consideration of the county commissioners and citizens of Douglas county.

**Jury Visits Jails.** The grand jury visited the various jails of the county and found the Douglas county jail to be well managed, clean and habitable and offer no criticism of its management or condition.

South Side jail needs some repairs

and, aside from this apparent necessity, we find nothing further of import, we find nothing further of import. We recommend that the city jail be equipped with the necessary steel cells for confining the prisoners in the new building, and that said cells be furnished with mattresses where prisoners are held longer than 24 hours; as while the new building has been occupied for some time there has been no change with reference to the accommodations for the prisoners in general and the conditions of the old jail are intolerable, being unsanitary and over-crowded.

This grand jury wishes to commend the management of Riverview Home. This institution we found in first-class condition, well managed, clean and, as the name implies, a "home." The additions of chemical apparatus and a night watchman to be on guard seems absolutely necessary in the protection of those retained at the home and we so recommend.

**Grand Jury to Probe Ku Klux Klan Riot**

(Continued From Page One)

He asked this, he said, so he would know whom to hold responsible in case disorders occurred. After a conference with masked leaders at a house on the outskirts of the town where the klavans were assembling, at which he tried to persuade the men to desist from violating what he interpreted as a law against masked men marching in a public demonstration, the sheriff returned to the business section of the town, vowing there would be no parade, according to eye-witnesses.

Shortly afterwards a crowd estimated at 3,000 persons many of whom had gathered from nearby towns to witness the parade, saw the front line of ghostly figures swing into step and begin their march toward the main street of the town, down a road leading in from Waco.

**Cheers Greet Marchers.** As the sheeted marchers advanced, cheers from the crowd greeted them, mingled with hoots and jeers from those admonishing the sheriff not to interfere, and from the factions opposing the demonstration.

When the leader of the column, bearing an American flag, reached a street intersection near the main business part of the town, Sheriff Euchaman, followed by his two deputies and a crowd of spectators, halted the standard bearer and grappled with him in an attempt to snatch the mask from his face.

Other marchers came to the assistance of their leader, and in the fight which followed the sheriff was wounded. Immediately confusion reigned. A fusillade of shots was fired and it was some time before order could be restored sufficiently to determine the casualties.

**Sherman, Tex., Grand Jury Probes Tar and Feathering**

Sherman, Tex., Oct. 3.—A charge to investigate the tarring and feathering here, September 20, of Fred Ziegler, former hotel man, as well as the activities of any organization in the county which "presumes to take into its own hands the administration of justice," was delivered today to an extraordinary grand jury by Judge Silas Hare.

Chompson, Belden & Co. THE SILK SHOP. Chiffon velvets and all silk duvetyn in American beauty, silver, sand, brown, Copen, navy and rich black. Millinery velvets, both Lyons and Panne, feature seasonable new shades. An unusually large collection for \$2.50 to \$3.50 a yard. Several new Canton crepes in the most desirable qualities, \$3.75 to \$5 a yard. South Aisle—Main Floor. Lamp Shade Making Is a Pleasure Here. You are offered a selection which includes every new idea in shade making—as well as the newest materials, silks, crepes, fringes, braids, floral sprays and frames. A number of very attractive novelty frames are of interest. Lessons in shade making are without charge. Daily classes, 10 to 12—2 to 5. Hair Nets. 50c a dozen. Sonia nets, cap and fringe shapes in all colors. Notion Section. Brown Art Linen for 30c. Recommended Pony Stockings for Children. Appreciated alike by children and mothers for their wearing qualities. Pony stockings are made from the finest of selected yarns, reinforced with triple knees, heels and toes. Fall Oxfords. Black and brown kid and calfskin, lace and strap styles, military and low, flat heels. Trim appealing, attractive lasts of the best quality. \$8 to \$10 a pair. Hosiery—Main Floor.

Taste is a matter of tobacco quality. We state it as our honest belief that the tobaccos used in Chesterfield are of finer quality (and hence of better taste) than in any other cigarette at the price. Luggett & Myers Tobacco Co. Chesterfield CIGARETTES of Turkish and Domestic tobaccos—blended. They Satisfy.