

THE RELATION OF TRUST COMPANIES TO INDUSTRIAL COMBINATIONS, AS ILLUSTRATED BY THE UNITED STATES SHIPBUILDING COMPANY

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The industrial combinations of to-day are not the simple result of business conditions; neither are they, as they actually exist, the simon-pure offspring of economic principles. Trusts are made, not born. They are in part creatures of invention which find their origin in the brain of the promoter whose inventive faculties are stimulated by the desire for unearned wealth. "Necessity is the mother of invention," even as applied to the invention of a trust, but the necessity in this case is not a necessity created by economic laws, but the necessity of the promoter.

Trust companies and similar institutions sometimes bear the same relation to industrial combinations as manufacturers do to the product of the mechanical or scientific inventor's brain. They produce it, place it on the market, and find purchasers for it, compensating themselves, by getting the largest obtainable profit for the least possible risk or responsibility.

Through the protracted legal proceedings against the United States Shipbuilding Company, the public has had an opportunity to observe the methods by which an industrial combination was actually financed.

My purpose is to produce a photograph of how it was done, not a thesis on how it should be done.

¹I deal with this topic in my personal capacity, and not in any sense as representing any other body or bodies of men, and without reflecting the views of any one else.

It is my good fortune to be a member of the editorial staff of the New York *Sun*, but it must be distinctly understood that neither the substance nor the language of this article has been submitted to any of my associates, nor is the New York *Sun* in anywise responsible for my statements.

It is important that my position shall be clearly understood as to combinations of capital, commonly called trusts, and also as to "trust companies," both actual and nominal.

Whatever may be said in this article with reference to the *morale* of the Shipbuilding Trust must not be understood as defining, or even reflecting my attitude towards all combinations. I do not take the position that the combination movement in itself is bad, nor that all combinations are evil-producing in their results; and it is too palpable to require affirmation, not only that trust companies were originally fiduciary institutions, but also that many of them remain so, in the true sense of the word, to-day.

The United States Shipbuilding Company was incorporated under the laws of the State of New Jersey, by dummies furnished for the occasion, on June 17, 1902, with a subscribed capital of \$3,000. On July 3d following, the capitalization was, on paper, increased to \$45,000,000 in stock and \$26,000,000 of bonds. On the 11th and 12th of August the United States Shipbuilding Company purchased the Union Iron Works, the Bath Iron Works, Limited, The Hyde Windlass Company, The Crescent Shipyard Company, The Samuel L. Moore & Sons Company, The Eastern Shipbuilding Company, The Harlan & Hollingsworth Company, The Canda Manufacturing Company and the capital stock of the Bethlehem Steel Company, paying for them \$6,000,000 in cash, \$14,050,000 of bonds and \$28,000,000 of stock. The entire amount of securities disposed of to acquire these companies and to provide \$1,500,000 working capital and to pay the profits of the various persons and institutions concerned in the promotion amounted, at par value, to \$69,500,000. For this \$69,000,000 of securities the combination received, besides the required cash working capital of \$1,500,000, constituent companies which, omitting the Bethlehem Steel Company, were valued later by competent men at \$12,441,518.26. The Mercantile Trust Company was the Trustee under the first mortgage on the Shipbuilding plants, securing \$16,000,000 of bonds and the New York Security and Trust Company was the Trustee under the mortgage on the capital stock of the Bethlehem Steel Company, which was also a second mortgage on the Shipbuilding plants, securing \$10,000,000 of collateral mortgage bonds.

The Trust Company of the Republic was banker for the issue of the bonds, and, through its President, advanced large sums of money, much of which was obtained by borrowing on Shipbuilding securities. When the crash came the Trust Company of the Republic was able to figure up a cash loss of \$982,334.

With the fall of the United States Shipbuilding Company my story has nothing to do. My theme is the methods by which it was established, false and insecure as that establishment was, and my story must end at the point where it was left to stand alone, for at that point it reached its meridian.

To a full understanding of the matter it is necessary to take up the tale at the beginning.

John W. Young was a promoter who had the idea that it would be a good stroke of business to combine the leading shipbuilding industries of the country into one gigantic corporation, and had worked out a theory by which it could be done with much profit to the promoters.

Young's idea was good, but his method, which he made inseparable from his idea, was bad. After many futile attempts, he succeeded in finding a group of men who accepted his theory, and using it as a base, constructed thereon a condition which they called a trust, and which was incorporated under the name of the United States Shipbuilding Company. The theory was impossible; the condition was untenable; the trust, as it was manufactured, was impracticable, and the United States Shipbuilding Company was insolvent.

The financial world was absorbed at the time in creating industrial combinations, some of which were either actually bankrupt or were on the verge of bankruptcy, inflating values and watering stocks, successfully offering new securities to a public eager to buy them and finally dividing with promoters and vendors profits which, even in that era of inflation, were considered enormous. Young got his first start when he met Lewis Nixon.

Mr. Lewis Nixon had been a constructor in the United States Navy but had resigned from the service to engage with the Cramps. As a naval constructor he designed the *Oregon*, the *Indiana* and the *Massachusetts*, and these vessels established his reputation as one of the ablest shipbuilders in the world. Five years, at least, before he met Young he had leased the Crescent Shipyards at Elizabethport, N. J., and later acquired various properties until he had bought all the available waterfront adjacent to the original shipyards property. Subsequently he organized the Crescent Shipyards Company, and this was capitalized for \$1,200,000. Young interested Nixon by showing him an option for the purchase of the Newport News Shipbuilding and Dry Dock Company, and Nixon gave Young an option on his own plant and agreed to work with him in forming the proposed combination. This was the start. Young now had two options and the name and reputation of the greatest shipbuilder of the United States to work with.

He had the co-operation of Col. John J. McCook, a director in

the Mercantile Trust Company and as well an active partner of the law firm of Alexander & Green, counsel for the Mercantile Trust Company, counsel for the United States Shipbuilding Company, and from time to time counsel for Nixon and Dresser as the Shipbuilding Syndicate. Col. McCook, as he has told me, became intensely interested in the proposed combination and did all he could to accomplish it. Young occupied a room adjacent to the offices of Alexander & Green, and Alexander & Green, Col. McCook and Young worked in unison. Options on other shipbuilding companies were obtained and the plan was submitted to the banking house of H. W. Poor & Co., on Wall Street, which finally consented to become banker for an issue of bonds and a prospectus was prepared. The companies which were then to be included were substantially the same as those which finally entered it. The prospectus was ready for issue on May 7, 1901, but on that day occurred what is known as the Northern Pacific panic, and the pamphlets were not distributed. Some say this was because of the panic; others that it was because no satisfactory report could be obtained of the annual earnings of the constituent companies. Whatever the reason, the project fell flat and Poor & Co. did not attempt to revive it. The promoters had all their work to do over again. For nearly a year they tried unsuccessfully to get other financial houses to assume the undertaking. Meanwhile, they succeeded in renewing some of their options.

On the 31st of March, 1902, the Trust Company of the Republic opened its doors for business at 346 Broadway. Its capital was \$1,000,000, and its surplus \$500,000. The Trust Company of the Republic proposed to deal with cotton growers in the South, who are accustomed to borrowing money at the New York legal rate of interest plus a bonus. It intended to lend money to the cotton people against crops stored in warehouses, at the legal rate of interest and without bonus, and to borrow money in the North against these crops and on other securities which it should accumulate. The opportunities for a large and lucrative business were bright and alluring. The new Trust Company had among its organizers and directors men whose names stood then and stand to-day for strength and probity in the world of finance.

As the head of this concern whose future promised so much,

the directors selected Daniel LeRoy Dresser. Mr. Dresser was a merchant, not a financier.

However, here was a new Trust Company, anxious for business, with a man inexperienced in financial affairs at its head. In the same city were an eager promoter and a firm of lawyers, who had for a long time used every effort to obtain the support of a financial institution in their joint project without success. Such a combination has its possibilities. These were sufficiently attractive for Mr. Young, the promoter, to seek an alliance with Mr. Dresser. He succeeded, but not until it had been made apparent to Mr. Dresser that Col. John J. McCook was associated with Young, in the plan which he had to propose. The subject of the United States Shipbuilding Company was not at first broached to Mr. Dresser by the promoters. He was told of a syndicate of French bankers who desired to trade in American industrial securities and do their trading on this side of the Atlantic so that they might avoid the tax to which such transactions are subject when accomplished within the jurisdiction of the laws of France. It was represented to Mr. Dresser that the syndicate had been formed and was waiting only to make a connection with a responsible and reputable house in the United States. Profits derived from business which they should transact together were to be divided equally.

This seemed to Mr. Dresser to be an excellent opportunity for the Trust Company of the Republic, especially since the capital of the French Institution was represented to be 20,000,000 francs, and before the Trust Company of the Republic was a month old the preliminary arrangements for a working agreement had been completed and put in writing. Before binding agreements were attempted, however, the matter of the French banking house, of the existence of which no conclusive proof has been adduced, was dropped, and the plan for forming a shipbuilding combination was substituted. Exactly how this was accomplished it is almost impossible to determine. The truth is difficult to ascertain when the statements of the individuals most interested vary so widely. As a matter of fact, though, while negotiations concerning the French banking house were still uncompleted Young sailed for Paris, leaving his affairs in the hands of his lawyers. This was on April 22, 1902.

Mr. Young was absent on this trip to Paris about three weeks, returning to America about May 15th. During his brief stay in this country, before he took his second trip to Paris, copies of a prospectus dated April 19, 1902, and marked "Private and Confidential," for the consolidation of the shipbuilding plants under the name of the United States Shipbuilding Company appeared, with the name of the Mercantile Trust Company as trustee of the mortgage and Alexander & Green as counsel.

Mr. Dresser was asked to take up the matter of exploiting the United States Shipbuilding Company. A memorandum was shown to him, setting forth the profits which were to be derived from the successful performance of this work. Mr. Dresser agreed that the Trust Company of the Republic should act as banker, its name was inserted and the prospectus was "confidentially" issued.

The original proposition was to issue \$16,000,000 of bonds and \$20,000,000 of stock, divided equally into common and preferred shares. This was before the Bethlehem Steel Company was considered.

A digest of the memorandum shows that it was proposed to dispose of \$9,000,000 of bonds, \$2,500,000 of preferred stock and \$2,500,000 of common stock in order to realize \$8,100,000 in cash. Of the cash and securities then remaining and in hand \$6,400,000 in cash, \$4,050,000 of bonds, \$4,000,000 of preferred stock and \$4,050,000 of common stock were to be paid to the owners of the properties to be acquired, leaving \$1,700,000 cash, \$2,950,000 in bonds, \$3,750,000 of preferred stock and \$2,750,000 in common stock. Of this, \$1,500,000 in cash and \$1,500,000 of bonds were to be retained in the treasury of the proposed combination for working capital. This left \$200,000 cash, \$500,000 bonds, \$3,750,000 preferred stock and \$3,750,000 common stock—a grand total of \$9,150,000, figuring the securities at par value—to go to the promoters. From it they were to defray the expenses of promotion. Before the constituent properties were purchased, however, \$400,000 cash was added to this profit by reducing the aggregate price to be paid for constituent companies to \$6,000,000. The underwriting contract was with, and ran to the Mercantile Trust Company.

The Trust Company of the Republic was asked to obtain \$3,000,000 of the \$9,000,000 of underwriting and was assured that

the remaining \$6,000,000 was obtained or would be obtained, in Paris and London. In a letter written to the Trust Company of the Republic later John W. Young promised that its compensation should be \$67,000 in cash, \$250,000 in bonds, \$700,000 in preference shares and \$700,000 in common shares. This was large bait, and it was swallowed. The hook made its presence felt later.

From this time on Mr. Dresser, acting for himself and for his company, worked with Lewis Nixon in promoting the combination. When Young sailed for Paris he left his options, which were made to Lewis Nixon as trustee, with Alexander & Green and gave Mr. Nixon power of attorney over them. Young left also a tender of all the companies which were to be included in the combination. The Trust Company of the Republic desired some further information than was contained in the prospectus, and one W. T. Simpson, the accountant upon whose figures the prospectus was based, was sent to Mr. Dresser. The accountant succeeded in showing Mr. Dresser and his advisers that the companies to be taken in were in good condition and that to combine them was desirable. The Trust Company of the Republic then took up the favorable consideration of the tender of the companies which were to form the trust.

By the terms of the underwriting agreement the \$9,000,000 of bonds were to be underwritten at 90 and each underwriter was to receive as a bonus 25 per cent. of his underwriting in each kind of stock. A public offering was to be made of the underwritten bonds at 97½, and the difference between this and the underwriting price was to be shared *pro rata* among the underwriters, less expenses of advertising, etc.

Just at this time the agitation for a subsidy on American-built ships had reached its height and the measure before Congress seemed certain to succeed. English companies were casting something more than longing eyes in the direction of our shipyards in consequence, and were making substantial efforts to form such a combination as Young proposed. On the surface, with two-thirds of the bonds to be underwritten abroad, the plan seemed certain of success—and the profits to accrue to the principals in the undertaking were most enticing. The Trust Company of the Republic agreed to undertake that portion of the labor assigned to it and obtain \$3,000,000 of underwriting. It did this more willingly

since word had been received from Young in Paris, that he was succeeding and that the underwriting allotted to the French capital would be completed in a few days.

The investing and speculating public had, seemingly, recovered tone and was at least supposed to be ready again to absorb securities of industrial combinations. It was not apparent at that time that the market was in the condition so excellently described by the most successful reorganizer the country, perhaps the world, has ever seen—glutted with undigested securities. Promoters and underwriters alike prophesied an easy sale for the bonds and a correspondingly easy reaping of profits.

The Trust Company of the Republic performed its share of the labor without great difficulty, for the prospect of a large bonus of stock without the investment of a dollar appeals to underwriters. Indeed, so good did the proposition seem that \$320,000 of bonds were paid for by the underwriters and withdrawn from the public offering, and \$2,500,000 was represented to have been sold abroad.

When Young went to Paris, ostensibly to attend to the matter of the French bank, but really to obtain underwriting for the Ship-building Company, he found no difficulty in accomplishing his purpose so far as obtaining names was concerned. He had been in Paris before on promotion enterprises and had among his acquaintances a certain Baron P. Calvet-Rogniat. Him he enlisted in the undertaking, and when he returned to New York in the middle of May he brought a written contract in which the Baron agreed to obtain \$3,000,000 of underwriting in France.

Rogniat's undertaking was as follows:

“PARIS, May 7, 1902.

JOHN W. YOUNG, Esq.,

DEAR SIR:

In consideration of the premises I for myself and as the representative of a group of financiers headed by Mr. Victor Schreyer, hereby undertake and agree to obtain the signatures of said group of *substantial underwriters (who are good, and who have agreed to underwrite the same)* to the underwriting letter of the UNITED STATES SHIPBUILDING COMPANY, a copy of which is hereto attached, dated April 19, 1902, to the full amount of three millions five hundred thousand dollars of the bonds of said company on or before May 21st properly verified, the same to be cabled to Messrs. Alexander & Green, 120 Broadway, New York City, on or before that date.

I also undertake and agree to procure either the withdrawal of said bonds under the terms of said underwriting letter; or the public issue of said bonds under the terms of said letter through either the Franco-Swiss Bank of Paris or other equally substantial bank, simultaneously with the public issue of the said company's bonds in America, it being understood in accordance with clause one of the said underwriting letter that this agreement shall not be binding upon the undersigned unless the entire amount of \$9,000,000 of bonds shall have been underwritten.

Yours truly,
P. CALVET ROGNIAT."

Rogniat and those who were associated with him in Paris obtained names to this underwriting agreement and nominal subscriptions for this amount and more. It was easy to do so because a list of names signed to the underwriting agreement seemed sufficient. The element of responsibility was not closely inquired into nor thought essential.

Representations were made to prospective underwriters there that the American public was eager to buy the securities of industrial combinations, and that all that was required was a list of names with amounts set opposite to each which should aggregate \$3,000,000; that the securities would find a ready market here, and that the issue of \$9,000,000 would be oversubscribed. This, it was explained, would leave the underwriters in the enviable position of taking profits without investing a single franc. This is usually, of course, the ideal of an underwriter, but it is customary, even in Wall Street, for an underwriter to be able to meet his obligation.

So far as can be ascertained few substantial Parisians placed their names on the agreement. Strenuous efforts which were made later to compel these underwriters to pay their obligations failed absolutely, except that the Baron Rogniat did contribute \$25,000, for the recovery of which amount he has brought suit against the Mercantile Trust Company. A total of \$4,250,000 was underwritten in this manner in the French capital and a list of the names obtained was forwarded.²

Mr. Dresser, who obtained the underwriting allotted to him, was advised by Col. McCook that because of the coronation preparations which were being made in London it had been found impos-

²For an article on the "History of the French Baron-Underwriter," see the *New York Evening Post* of January 6, 1904.

sible to conclude arrangements for obtaining the \$3,000,000 of underwriting which had been assured from the English capital. Mr. Dresser was asked if he would undertake to obtain here an additional \$1,750,000. The list sent by Rogniat indicated that Paris would take \$4,250,000, which left only \$1,750,000 of the foreign underwriting to be secured. Mr. Dresser agreed to perform this extra work. The burden was being shifted gradually to the shoulders of the Trust Company of the Republic. The proposition contained in the cable (*q. v.*) of Mr. Alexander from France, to Alexander & Green, New York, to assign the underwriting to the Trust Company of the Republic was significant.

The bonds of the United States Shipbuilding Company were offered to the public on June 14, 1902. On that date a prospectus was published in the public prints which stated what was not true. The question whether the responsibility for this prospectus rests with the Trust Company of the Republic or with the Mercantile Trust Company or with both is before the courts.

The prospectus stated, among other things, that the United States Shipbuilding Company had been organized under the laws of the State of New Jersey, and mentioned as directors a number of responsible men. It goes without saying that these gentlemen were not directors, because the company had not yet been incorporated. Some of them say they were not consulted about the use of their names, and only four of them ever served as directors when the company was organized some months later. The prospectus went on to say that Alexander & Green, counsel for the new company, certified as to the validity of the organization and of the securities issued and the title of the company to the property acquired. It stated that the plants were earning \$2,250,000 a year and had abundant facilities for additional work and increased earnings. On June 18th the books were opened for subscriptions in twelve cities in this country, and in Paris, and the fishermen sat back and waited for the public to take the bait.

The response was not only discouraging; it should have been fatal. The public sent subscriptions for only \$490,000 of the bonds. This was again a period where the Trust Company of the Republic should have thrown the undertaking overboard and charged the expense it had incurred to profit and loss, but they seemed to have

relied upon the French underwriting. The public did not rise to it, the underwriters generally did not want it sufficiently to take their bonds before they were offered at public sale, and the whole thing was flattening out.

The promoters turned to Bethlehem (not in the scriptural sense) for salvation.

On June 12, 13 and 14, 1902, Mr. Dresser and Mr. Nixon discussed with Charles M. Schwab, then President of the United States Steel Corporation, the advisability of acquiring the Bethlehem Steel Company for the Shipbuilding Company, and submitted to him financial statements of the shipbuilding plants, their resources, liabilities and earnings. The Bethlehem Steel Company was prosperous and remunerative and, besides, would place the United States Shipbuilding Company, if acquired by the combination, in the enviable position of being able to build armored vessels and thus compete for government work.

Some idea of the value and importance of this company can be learned from the earning capacity of the property. At the time of its transfer to the Shipbuilding Company, it was earning at the rate of \$1,500,000 a year, and is now earning, I am informed, at the rate of \$3,000,000 a year. The interest charges on the underlying bonds make the only fixed charges of \$557,500, which would leave substantially, at the present rate of earning, for distribution upon the securities issued on account of that property 5 per cent. on the \$10,000,000 of bonds, 6 per cent. on the \$10,000,000 of preferred stock and 14 per cent. on the \$10,000,000 of common stock.

Mr. Schwab asked for the Bethlehem Steel Company \$9,000,000 in cash, besides a certain amount of securities. The cash was, of course, out of the question. The promoters had peddled all the securities for which they could find a market and did not see their way clear to sell outright bonds against the Bethlehem Steel Company, which was the only way in which they could raise money to pay the demand of Mr. Schwab. They proposed therefore to pay for the Bethlehem Steel Company with securities issued against that plant itself. Mr. Schwab told them that Mr. J. P. Morgan, who was then in Europe, would have to be consulted, because J. P. Morgan & Co., as managers of another syndicate, held the stock of the Bethlehem Company and were entitled to participation

in any profit realized from such a sale. Mr. Morgan was communicated with by cable and an answer was received. In the afternoon of June 14, 1902, Mr. Nixon and Mr. Dresser closed the negotiations for taking the Bethlehem Steel Company.

Nixon and Dresser agreed that Mr. Schwab should receive \$10,000,000 collateral mortgage bonds and \$10,000,000 of each kind of stock, \$30,000,000 in all at par, for the capital stock of the Bethlehem Steel Company. Later the common stock was increased by an additional \$5,000,000. By this method it was proposed to increase the capitalization of the Company, advertised as \$20,000,000 with \$16,000,000 bonded indebtedness, to \$45,000,000 stock and \$26,000,000 bonded indebtedness.

After the negotiations for the Bethlehem property were concluded, Mr. Schwab called in his counsel, Mr. Max Pam, to prepare the necessary contracts. This was Mr. Pam's first connection with the matter.

On June 17th, three days after the prospectus was published, the United States Shipbuilding Company was incorporated in New Jersey by an officer and two employees of the Corporation Trust Company with a capital of \$3,000. These men acted as directors also, taking their instructions from the promoters. In July the capital of the company was increased to the amount I have already mentioned, a dummy board of directors having been furnished for this purpose.

On July 2d Mr. Nixon and Mr. Dresser went to Mr. Schwab's office to sign the formal agreement under which they were to take over the Bethlehem Steel Company. They contracted to pay to J. P. Morgan & Co., as syndicate managers, \$7,246,871.48 in cash and \$2,500,000 of each kind of stock of the Shipbuilding Company for the 299,910 shares of the Bethlehem Company which were held by J. P. Morgan & Co. as syndicate managers. This was the entire issue of Bethlehem stock, with the exception of ninety shares. The par value of each share was \$50. In order to get the money with which to pay J. P. Morgan & Co., Mr. Nixon and Mr. Dresser signed with Mr. Schwab an agreement which assured to them this cash requirement.

Under this agreement Mr. Schwab contracted to furnish the cash necessary to acquire the stock of the Bethlehem Steel Company

and to accept in return \$10,000,000, par value, 5 per cent., twenty year collateral gold bonds, and \$7,500,000 of each kind of stock of the United States Shipbuilding Company. The mortgage on which the bonds were to be issued was to be a second mortgage lien upon the properties of the Shipbuilding Company and to have a voting power equal to the same amount of stock, although the first mortgage on the constituent companies was not to cover the Bethlehem Steel Company. The shares of the Bethlehem Steel Company, acquired thus with Mr. Schwab's money, were to be deposited with the New York Security and Trust Company as security for the mortgage; the Shipbuilding Company was required to guarantee a dividend of 6 per cent. on the capital stock of the Bethlehem Company; to provide the Bethlehem Company with work sufficient to earn this dividend, or to advance the money therefor, and to see that the Bethlehem Company should always have the \$4,000,000 working capital which it then claimed to have.

It was also agreed that the holders of the collateral bonds in the absence of any default should elect a full minority of directors of the Bethlehem Steel Company. The form and provisions of the bonds to be issued under this agreement were to be satisfactory to Mr. Schwab and his counsel, and the deal was not to be concluded until the other constituent companies had been duly acquired and paid for.

Mr. Schwab and Mr. Pam have been criticised severely for making the terms of this contract stringent. I asked Mr. Pam recently why Messrs. Nixon and Dresser agreed to the terms of that contract, and he replied that the terms of the contract were not unreasonable; that they were intended to protect Mr. Schwab against any untoward contingencies; that the agreement was submitted by Messrs. Nixon and Dresser to their counsel and was fully discussed and passed on by their counsel before being signed by them; that the terms of the agreement were assented to and the contract signed after conference and negotiation between himself and Messrs. Nixon and Dresser and Messrs. Alexander and Green, who, in this matter, were acting as Nixon and Dresser's counsel.

Mr. Alexander, while abroad, had gone to Paris to see if any money could be collected from the underwriters there, but he

apparently found them averse to paying anything. In the first place, they are reported as saying they had been induced to underwrite by being told that payment would never be expected; in the second place, after the pitiful failure of the public offering, a cable was sent to Paris saying that the public issue was a success. This the Paris underwriters interpreted as meaning that the entire \$9,000,000 of bonds had been taken by the public and that nothing remained for them to do except to take their profit. They refused to accept Mr. Alexander's explanation that it was the custom in this country to call an issue a success, no matter how badly it had failed, and to peddle the bonds afterwards. The best Mr. Alexander was able to accomplish was to get the Frenchmen to give their notes for the amounts they had underwritten. These notes were to mature on October 6th. That the French underwriting was *nil* was not, however, admitted by the contracting parties. It was still carried as a good asset and counted as part of the underwriting.

Assurances were received from Paris, from time to time, reiterated, that the money from the French underwriters would be forthcoming.

On the 23d day of July, 1902, by cable, the French underwriting was called.

The calls were made by cable, possibly to avoid legal complications under French laws. The following cable is an example of the call:

"July 23, 1902.

ODERO,

C/o Panta [the cable address for Rogniat] Paris.

Have allotted you \$8,000 bonds of the Shipbuilding underwriting. Pay Morgan & Harjes twenty-five per cent. on allotment July twenty-fifth. Upon payment we will issue negotiable receipt in New York to your order.

MERCANTILE TRUST CO."

A call was made in America at the same time.

The American underwriters had responded promptly to the call, and an inquiry from New York as to why Paris did not pay brought the following:

"PARIS, July 25th, 1902.

MACCOOK, N. Y.

All I hear indicates general response. Short notice creates slight delay.

Appreciate money must be in New York before August. Underwriters contemplate simultaneous payment. Have payments been made New York.

(Signed) BEATTY."

(Maccook was the New York cable address of Alexander & Green, and Beatty was the Paris cable address of C. B. Alexander.)

On the 5th of August, 1902, matters were approaching a crisis and the following was sent:

"NEW YORK, August 5, 1902.

OPPENHEIM, YOUNG AND MAYER,

C/o Trebor, Paris.

Can you not give us an exact statement of the present condition of payments by underwriters each for twenty-five per cent. due July twenty-fifth and August first respectively, and when cash remittances will be actually paid? We must know on account of commitments here, and so far have nothing except promises. Where is the hitch and why the continued delay after everything so far as we can gather from your cables is settled.

REPUBLICUS MACCOOK NIXON."

Finally on the 7th, the following cable was sent to Young:

"NEW YORK, August 7, 1902.

YOUNG,

C/o Trebor, Paris.

We are getting tired of promises to pay to-morrow. We must make our payments here and must have French money to do it with.

REPUBLICUS."

The following cables further explain the situation:

"NEW YORK, August 8, 1902.

CALVET ROGNIAT,

C/o Trebor, Paris.

Monday last day for closing Bethlehem. All other plants must be paid for before closing this transaction. It is absolutely essential to have your money in New York Saturday.

REPUBLICUS."

"NEW YORK, August 11, 1902.

CALVET ROGNIAT,

C/o Trebor, Paris.

No payments received to-day from French underwriters. Please cable immediately when money is to be in New York.

REPUBLICUS."

"PARIS, August 12, 1902.

REPUBLICUS, N. Y.

Rogniat's Russian returns delayed yesterday; learn part arrived, he and others pay to-day; Schreyer and all seem now ready to pay. Know nothing of second call. Have wired Alexander to come here.

Our persuasion and his iron hand in velvet gloves of course will bring desired results.

YOUNG."

And finally we have this significant suggestion by cable:

"ST. MORITZ, AUGUST 13, 1902.

"MACCOOK." Alexander & Green, N. Y.

Suggest Mercantile assign to Shipbuilding Company call, who can sue or to Republicus with consent of Shipbuilding Co.

ALEXANDER."

As late as September 8th the theory was still current that there would be results from the French underwriting.

About the 6th of October, 1902, Mr. Dresser arrived at Paris and within a few days after his arrival cabled to the Trust Company of the Republic that the French underwriting was valueless.³

The Mercantile Trust Company was a party to the underwriting agreements, in manner as appears from the printed form of such agreements, and which is the same as the signed originals except that it contains the words "Private and Confidential" and the date "April 19, 1902," at the top. The printed form is as follows:

PRIVATE AND CONFIDENTIAL

APRIL 19, 1902.

THE UNITED STATES SHIPBUILDING COMPANY.

A corporation to be organized under the laws of the State of New Jersey, either by that or some similar name, proposes to acquire the plants and equipment of the following concerns or their capital stocks, free from any liens:

THE UNION IRON WORKS,
THE BATH IRON WORKS, Limited,
AND
THE HYDE WINDLASS COMPANY,

San Francisco, California.

Bath, Maine.

³For detailed history of the cables and correspondence, see *New York Evening Post*, October 8, 1903.

What is reported to be Rogniat's version of the Shipyard transaction appears in the *New York World* of January 11, 1904.

THE CRESCENT SHIP YARD

AND

THE SAMUEL L. MOORE & SONS COMPANY,

THE EASTERN SHIPBUILDING COMPANY,

THE HARLAN AND HOLLINGSWORTH COMPANY,

AND

THE CANDA MANUFACTURING COMPANY,

Elizabethport, New Jersey.

New London, Connecticut.

Wilmington, Delaware.

Carteret, N. J.

UNDERWRITING AGREEMENT.

For \$9,000,000 Series A First Mortgage, Five Per Cent. Sinking Fund, Gold Bonds, due 1932, part of an authorized issue of \$16,000,000, Bonds of \$1,000 each, \$5,500,000 being Withdrawn from Public Issue for Disposal under the Vendors' and Subscribers' Contracts, and \$1,500,000 being Reserved in the Treasury of the Company. Additional Bonds may be issued only for the Purpose of Acquiring Additional Plants and Equipment and for Improvements and Betterments, upon such Terms and Conditions as shall be Approved by the Holders of a Majority of the Bonds under the Present Issue Outstanding at the Time of such Approval.

We, the undersigned, agree, each for himself, with The Mercantile Trust Company, for itself and for the United States Shipbuilding Company, and to and with each other, to subscribe to, receive and pay for the amount of five per cent. first mortgage, sinking fund, gold bonds of the United States Shipbuilding Company of one thousand dollars each, set opposite our respective signatures hereto, at the price of \$900 for each bond, 25 per cent. to be paid upon allotment and the balance upon the demand of The Mercantile Trust Company.

We further agree to receive and pay for any smaller amount than that subscribed for which may be allotted to us respectively.

The conditions of this underwriting agreement are as follows:

1 That this agreement shall not be binding upon the undersigned unless the entire amount of \$9,000,000 of bonds shall have been underwritten.

2 That within such reasonable time as shall be fixed by The Mercantile Trust Company the said \$9,000,000 of bonds (less any amount withdrawn by the underwriters as hereinafter set forth), will be offered to the public, through such banker or bankers or brokers as shall be designated by The Mercantile Trust Company, for subscription at not less than 95 %.

3 With the consent of the Mercantile Trust Company, any other concern may be included in this combination, or others substituted therefor, provided the working efficiency or values are not lessened or impaired.

4 That, if the amount of bonds subscribed and paid for upon such public issue shall be at least equal to the amount of bonds so offered to the public, then all liability under this agreement shall cease.

5 That, in case the amount of bonds subscribed for upon such public offering shall be less than the total amount of bonds so offered to the public, or in case the bonds subscribed for upon such public issue shall not be paid for

to an amount equal, at the rate of 95 %, to the total of such public offering, then such deficiency in subscriptions and payments will, upon the demand of The Mercantile Trust Company, be made good by the subscribers hereto in the manner aforesaid *pro rata* in the proportion their subscriptions for bonds not withdrawn by them from public issue bear to the total amount of bonds so offered to the public.

6 That each underwriter shall receive in preferred and common stock of the United States Shipbuilding Company, twenty-five per cent. of the par value of the bonds hereby underwritten in each kind of stock, and also that all the proceeds, not to exceed 5 %, realized from the sale of the bonds at public issue in excess of 90 %, after deducting issue expenses, shall belong to the underwriters.

7 That any underwriter shall have the option of withdrawing from the public issue any of the bonds hereby underwritten by him, provided that he notify The Mercantile Trust Company five days prior to the day fixed for the public issue, that he elects to purchase said bonds, provided that in the proportion of the bonds so purchased he waives his said right to participate in the cash proceeds realized from the public issue.

8 That no Underwriter shall sell or offer for sale the bonds so purchased, nor any of the bonus shares of stock he receives, until twelve months after the date of payment, without the consent of The Mercantile Trust Company.

NEW YORK, April 19, 1902.

I have seen a printed copy of this mortgage dated August 11, 1902, between the United States Shipbuilding Company and the Mercantile Trust Company. It was signed in behalf of the United States Shipbuilding Company and by Lewis Nixon, as Vice-President, attested by Frederick K. Seward, as Secretary; and in behalf of the Mercantile Trust Company by Alvin K. Krech, Vice-President, attested by J. D. Ostrander, Assistant Secretary, and acknowledged on the 11th day of August, 1902. In this mortgage the form of the bond is provided and declares that Series A to be issued under this mortgage shall not exceed \$16,000,000.

There is a further provision that "this bond shall not become effective or obligatory for any purpose unless and until it shall have been authenticated by the certificate thereon endorsed by the said Trust Company."

The mortgage contained the provision that

ARTICLE I, SECTION 2.

"Bonds to the amount of Sixteen Million Dollars with all coupons for interest thereto attached shall forthwith be executed by the Shipbuilding Com-

pany and delivered to the Trustee for authentication, and the Trustee shall immediately and without awaiting the recording of this indenture authenticate and deliver the same upon the order of the President or Vice-President and Treasurer of the Shipbuilding Company."

and the further provision that

ARTICLE I, SECTION 4.

"The Shipbuilding Company covenants that it will not issue, exchange, sell or dispose of any bonds hereunder in any manner other than in accordance with the provisions of this indenture and the covenants and agreements in that behalf herein contained."

That the Mercantile Trust Company had any legal title to the bonds or had control of their possession or distribution by the Shipbuilding Company does not appear to be the fact.

The only apparent interest on the part of the Mercantile Trust Company was its compensation as Trustee, unless it be true, as has been asserted, that the Mercantile Trust Company was one of the underwriters, which subscription was subsequently, as I have been informed, personally assumed by Mr. Alvin W. Krech.

On June 24, 1902, John W. Young undertook to transfer and sell to the Shipbuilding Company the various shipbuilding and other properties mentioned, with a certain amount of cash, and his payment was to come from the issue of the \$16,000,000 of first mortgage bonds, of which \$1,500,000 were to remain in the treasury.

The Shipbuilding Company did not acquire title to the shipbuilding plants until the 11th of August, and up to that time no bonds were, apparently, deliverable by or on the behalf of the Shipbuilding Company, on any account whatever. Any issue of the bonds by the Shipbuilding Company prior to that time seems strange to the uninitiated.

On the 11th day of August, when the Bethlehem properties were to be turned over, the promoters of the Shipbuilding enterprise were facing a crisis. Under the contract for the sale of the Bethlehem property it was provided that the properties of the Shipbuilding Company should not only be acquired, but the title vested in the Shipbuilding Company; and this required the payment of \$6,000,000, besides the possession of a cash working capital of \$1,500,000.

The provisions of the agreement showing the caution exercised in behalf of Mr. Schwab, to assure the full compliance with these conditions and to assure the good faith of the transactions before the Bethlehem was turned over, are as follows:

"At the time of the said purchase of said shares of stock of the Bethlehem Steel Company by said Nixon and Dresser and the sale to said Schwab of the bonds, preferred stock and common stock to be issued by said Shipbuilding Company, as herein provided for, *said Shipbuilding Company shall have duly purchased and become possessed of the property and assets or the capital stock or both of said 'Subsidiary Companies.'*

"Said Nixon and Dresser shall furnish the certificates of Messrs. Alexander & Green, of Counsel for said Shipbuilding Company, and the other parties financially in interest in such form as shall be satisfactory to said Schwab, of the validity of the organization of the said Shipbuilding Company, of the acquisition by it of the properties, plants and assets or capital stock or both of said 'Subsidiary Companies' of the acquisition by it of said stock of the said Bethlehem Steel Company, of the issuance of full paid, non-assessable shares of preferred stock and common stock of the Shipbuilding Company to be delivered to said Schwab under this agreement, and of the validity thereof, and of the authorization and issue of the stocks and bonds of the Shipbuilding Company, together with satisfactory evidence of the consent and authority of all parties in interest, for the issue of the said stocks and bonds of said Shipbuilding Company, as herein provided for."

To summarize, it was insisted in behalf of Mr. Schwab that the Bethlehem Company should not come into the combination until the other properties had been acquired and paid for, the titles vested in the Shipbuilding Company and the considerations for the issuance of the various securities properly received.

The necessary certificate of Alexander & Green was furnished to both J. P. Morgan & Co. and Mr. Schwab, as is shown by the evidence taken before Mr. Oliphant, United States Commissioner, in the Shipbuilding hearing.

A cable to Young, in Paris, on August 8th, said:

"Under our contract to purchase Bethlehem, which must be consummated Monday, we have to have all other plants fully paid for and transferred to Shipbuilding Company first. This means all cash must be in hand Saturday, entirely irrespective of date of option. There is serious danger in Bethlehem matter as they will give no extension of time.

REPUBLICUS."

Bethlehem could not be acquired until all the cash requirements were in hand to acquire the plants and working capital.

It was determined to borrow the money on the Shipbuilding securities to take the place of the non-forthcoming funds of the French underwriters.

Dresser and Nixon got some loans, but they were unable to get enough, so Dresser arranged with different institutions for deposits of the Trust Company of the Republic's funds, and then they borrowed the amount of this money individually, placing with the loaning institutions double the amount borrowed in Shipbuilding bonds, giving their joint notes and the guaranty of the Trust Company of the Republic, signed by D. LeRoy Dresser, President.

Some of these loans were on the books of the Trust Company of the Republic, but all new loans were not at first put upon the books of the Trust Company of the Republic as an indebtedness of the Trust Company. Some were entered as contingent liabilities and some were carried as assets.

In one instance, five hundred thousand dollars were deposited in a trust company by Mr. Dresser as an interest-bearing deposit, a credit to the Trust Company of the Republic. Five hundred thousand dollars were borrowed from this same trust company by Mr. Dresser upon \$1,000,000 of Shipbuilding bonds, accompanied by the joint note of Mr. Nixon and Mr. Dresser and a guaranty executed by Mr. Dresser in the name of the Trust Company of the Republic. All of this was done, according to the testimony, in the branch office of the Trust Company of the Republic at 71 William Street, New York City, and the minutes of the Trust Company of the Republic do not show that the transactions were at the time done with the knowledge of the Board of Directors.

The check of the other trust company, to the order of Nixon and Dresser, was deposited in the Trust Company of the Republic to the credit of the loans of Nixon and Dresser.

There certainly was a failure to observe proper banking methods.

The Knickerbocker Trust Company declined to loan on Dresser's and Nixon's notes supported by the collateral of the Shipbuilding bonds, and required additional collateral. It obtained an assignment in the following form :

KNOW ALL MEN BY THESE PRESENTS, that the MERCANTILE TRUST COMPANY, a corporation of New York, hereby releases to the UNITED STATES SHIPBUILDING COMPANY (a corporation of New Jersey), its successors or assigns, all the right, title and interest of said The Mercantile Trust Company in and to certain underwriting agreements relative to the First Mortgage Five Per Cent. Sinking Fund Gold Bonds of the said Shipbuilding Company, hereto annexed, and respectively executed by the following named Subscribers, for the amount of bonds set opposite their names, to wit:

C. W. Wetmore	\$200,000
E. G. Bruckman.....	200,000
J. W. Gates.....	100,000
Alex. R. Peacock.....	100,000
Edwin Gould.....	100,000
George J. Gould.....	100,000
Dumont Clarke.....	25,000
Stuyvesant Fish.....	50,000
Richard Delafield.....	25,000
C. M. Schwab.....	500,000
Ex. Norton & Co.....	125,000
W. L. Stow.....	50,000
S. P. McConnell, &c.....	25,000
Dated August 11, 1902.	

MERCANTILE TRUST COMPANY,
By A. W. KRECH,
Vice-President.

In the presence of
W. W. GREEN.

In connection with this loan there was executed the following:

The Trust Company of the Republic hereby certifies that, under the underwriting agreements relative to the first mortgage, five per cent. sinking fund gold bonds, Series A, of the United States Shipbuilding Company, of which several copies are hereto annexed, the entire amount of \$9,000,000 were underwritten as provided in Clause (1) of said agreements.

Dated New York, August 11, 1902.

TRUST COMPANY OF THE REPUBLIC,
By JAMES DUANE LIVINGSTON,
Vice-President.

There was a second assignment by the Shipbuilding Company, also signed by James Duane Livingston, Second Vice-President of the United States Shipbuilding Company, to Lewis Nixon and D. LeRoy Dresser, which assignment was as follows:

THIS AGREEMENT, made this 11th day of August, 1902, between the UNITED STATES SHIPBUILDING COMPANY a corporation of New Jersey, hereinafter sometimes called the Shipbuilding Company, party of the first part, and LEWIS NIXON and D. LEROY DRESSER, party of the second part, WITNESSETH:

The SHIPBUILDING COMPANY, through its agent, the Mercantile Trust Company, entered into several agreements, called "Underwriting Agreements," relative to the sale of the First Mortgage Five Per Cent. Sinking Fund Gold Bonds of the Shipbuilding Company, including, among others, the agreements hereto annexed, signed by the below-mentioned subscribers, for the amount of bonds respectively set opposite their names:

C. W. Wetmore	\$200,000
E. G. Bruckman	200,000
J. W. Gates	100,000
Alexander R. Peacock	100,000
Edwin Gould	100,000
George J. Gould	100,000
Dumont Clarke	25,000
Stuyvesant Fish	50,000
Richard Delafield	25,000
C. M. Schwab	500,000
(J. D. L.) Ex-Norton & Co.	125,000
W. L. Stow & Co.	50,000
S. P. McConnel	25,000

Upon each of the foregoing underwriting agreements, 50 per cent. of the amount subscribed has been called and paid, Lewis Nixon and D. LeRoy Dresser are about to borrow from Knickerbocker Trust Company the sum of seven hundred thousand dollars (\$700,000) and to assign as collateral security therefor, the above described underwriting agreements to the extent of the unpaid liability of the subscribers thereon together with the First Mortgage Five Per Cent. Sinking Fund Gold Bonds of the Shipbuilding Company to the amount in par value of \$1,600,000, and Preferred Stock of the Shipbuilding Company to the amount of 4,000 shares and Common Stock of the Shipbuilding Company to the amount of 4,000 shares.

NOW, THEREFORE, THIS AGREEMENT WITNESSETH: That the Shipbuilding Company, in consideration of the promises and the sum of one dollar to it in hand paid, the receipt whereof is hereby acknowledged, assigns to Lewis Nixon and D. LeRoy Dresser, their assign or assigns, each and all the underwriting agreements above described, and hereto annexed, with all the right, title and interest therein of the Shipbuilding Company, with full power to said Lewis Nixon and D. LeRoy Dresser, their assign or assigns, in the name of the Shipbuilding Company, or otherwise, to enforce the said agreements, and each of them, to make calls thereon, or cause the same to be made, and to do any other act which the Shipbuilding Company might, could or should do to fully be entitled to the benefit and security of the said agreements.

IN WITNESS WHEREOF, the SHIPBUILDING COMPANY has caused this agreement to be executed in its name by its Second Vice-President, and its corporate seal to be hereto affixed and attested by its Secretary, this 11th day of August, 1902.

[SEAL]

UNITED STATES SHIPBUILDING CO.,
By JAMES DUANE LIVINGSTON,
2d Vice-President.

Attest.

FREDERICK SEWARD,
Secretary.

Upon this document was endorsed a further assignment in the following language:

"For value received we hereby assign, transfer and set over to the Knickerbocker Trust Company all our right, title and interest in and to the foregoing instrument, and in the underwriting agreements therein mentioned.

Dated August 11, 1902.

DANIEL LEROY DRESSER,
LEWIS NIXON.

In the presence of
BRAINARD TOLLES."

Mr. Dresser had reached the end of his own resources and had exhausted those of the Trust Company of the Republic. Both were in danger, and he knew it. The responsibility had been shifted upon his shoulders. No help seemed forthcoming from the originators of the undertaking and the promises of other promoters as to French financial returns were becoming shadowy. In this predicament he sought Mr. Schwab's counsel, Mr. Schwab being in Europe at the time. Mr. Pam took Mr. Dresser over to the office of J. P. Morgan & Co. and introduced him to Mr. Perkins.

Mr. Dresser requested a loan of \$2,500,000, but Mr. Perkins said he could not make loans on Shipbuilding securities. Mr. Dresser said that he and his associates were expecting remittances in a week or ten days from the French underwriting and would need the assistance only that long. Mr. Perkins was told by Mr. Dresser that the proceeds of the French underwriting would not long be delayed. Mr. Dresser called again the next day and told Mr. Perkins that several financial institutions would be willing to assist them if they could have the additional funds, and again requested a loan.

Mr. Perkins was unwilling to make a loan, but he did finally say that he would deposit \$2,100,000 in any three responsible Trust Companies Mr. Dresser might name for ten days or two weeks.

Mr. Dresser mentioned the Knickerbocker Trust Company, the Trust Company of the Republic and the Manhattan Trust Company.

The Manhattan Trust Company did not accept the deposit. The other two companies did receive \$1,400,000, issued their certificates of deposit to J. P. Morgan & Co. and loaned this amount to Mr. Nixon and Mr. Dresser.

Mr. Perkins introduced Mr. Dresser to the New York Security and Trust Company, which made a loan to Dresser and Nixon of \$350,000, making the total assistance secured in that way \$1,750,000.

The \$1,750,000 thus borrowed, while it was a great help, was not sufficient to place the promoters in a position to buy the properties for which they held options. They were still short of the necessary cash requirements. But the Trust Company of the Republic had more than \$4,000,000 in deposits.

Methods similar to those described were taken with other institutions, until, in the joint names of Mr. Nixon and Mr. Dresser, secured by the guaranty of the Trust Company of the Republic issued by Mr. Dresser, and the Shipbuilding Company collateral some millions were raised sufficient to draw the checks to the vendors, which checks aggregated \$6,000,000.

The Trust Company of the Republic had received from underwriters and subscribers \$2,327,812.50, of which it had contributed \$250,000 of its own money. It had lent directly to Mr. Nixon and Mr. Dresser, or supported their notes by its guaranties, \$3,672,187.50.

Under these conditions the fateful day for paying for the properties arrived. The Trust Company of the Republic prepared twenty-four checks, aggregating \$6,000,000, fifteen of which were made out to the order of Lewis Nixon, and through the latter, as holder of the options under Young's power of attorney, it is said the checks were delivered to the owners of the constituent companies. Besides this cash the vendors, of whom Mr. Nixon was one, were supposed to receive \$4,050,000 in bonds and \$4,000,000 in each kind of stock.

The great Shipbuilding Company was now an accomplished

fact with the exception of taking over the Bethlehem; but the structure was built upon a dangerous foundation, likely to give way at any time. The weaknesses were the extravagant values placed upon the shipyards and the French underwriting.

The Bethlehem transfer, which was performed on August 12th, though of vast importance, was very simple. Mr. Nixon and Mr. Dresser met the various parties in interest in the office of J. P. Morgan & Co., and there received the stock of the Bethlehem Steel Company, paying for it with Mr. Schwab's check for \$7,246,871.48, and passing over \$10,000,000 collateral mortgage bonds, \$10,000,000 of preferred stock and \$10,000,000 of common stock, of which \$2,500,000 of each kind of stock was delivered to J. P. Morgan & Co. as syndicate managers. It remained only for the new holders of the Bethlehem stock to deposit it with the New York Security and Trust Company as security for the collateral mortgage. This they did without delay.

It is not my intention to follow the fortunes of the United States Shipbuilding Company to their conclusion. It is clear, however, from the disclosure of the facts, that, with the exception of the Bethlehem Steel Company, the Union Works and the Hyde Windlass Company, the constituent companies were indebted far beyond their ability to pay, and the new trust was without the earning capacity to meet the heavy fixed charges fastened upon it by the promoters' issue of \$16,000,000 of bonds. The subsequent failure and fall of the company was inevitable, no matter who was in charge of its affairs or how efficient its management.

Mr. Schwab and Mr. Pam have been repeatedly charged with wrecking the United States Shipbuilding Company. I have devoted many weeks to the examination of the evidence, documents and facts in connection with the entire matter, and have thoroughly informed myself from all available sources of information with reference thereto. From the evidence at hand it appears that neither Mr. Schwab nor Mr. Pam had any connection with promoting, organizing or financing the Shipbuilding enterprise nor with the various transactions in connection therewith. Whether the criticism of Mr. Schwab, in securing for himself so large a consideration for the Bethlehem Steel Company stock is justified (considering that he is the only one who received no cash for his

property, having received his entire pay in securities) is not for me to say. Nor is it within my province to comment on the criticism and complaint made against his counsel, Mr. Pam, for his faithfulness in protecting his client's interests in the preparation of the contract and mortgage. It was Mr. Pam's effort to safeguard and protect his client's interests against any unforeseen contingencies. Whatever may be the facts pertaining to the safeguarding of Mr. Schwab's interests, the conclusion is inevitable that it was not to this, but rather to the financial transactions which occurred prior to his contract with the Shipbuilding Company that its downfall must be traced.

While I shall not follow the United States Shipbuilding Company any further, having told now in outline the story of how it was established, it is well to continue with the Trust Company of the Republic until the final effect of its operations has been shown. The parties in interest must have fairly groaned with relief when the properties were paid for, although the methods by which they accomplished this reminds one rather of the shiftless Micawber than of any other person or thing in fiction or in history.

It must also be borne in mind that this transaction was all completed in a short space of time and during the months of July and August of the summer of 1902, when there were few if any meetings of the Board of Directors of the Trust Company of the Republic. The transactions were not entered upon the minute-book of either the Executive Committee or the Board of Directors.

The troubles of the unfortunate Trust Company of the Republic were just beginning. The French underwriting produced not a dollar. Dresser's ambition to organize a gigantic trust had been satisfied, but in the process the capital, surplus and deposits of the Trust Company of the Republic had been nearly wiped out and it was in an exceedingly precarious position. Only immense success on the part of the creature it had made could save it from the fate of Frankenstein. It had gambled on the result of the French underwriting and had lost. Although the great Shipbuilding Company had been launched and the required \$1,500,000 of working capital had been credited to the United States Shipbuilding Company on the books of the Trust Company of the Republic as of August 12th, the funds therefor were lacking to meet its drafts. It became

necessary to provide that amount. Armed with guaranties signed by Dresser in the name of the Trust Company of the Republic and a vast amount of Shipbuilding securities, Mr. Nixon and Mr. Dresser borrowed, on August 30 and September 4 and 5, 1902, \$1,500,000 from New York banks on their notes, secured in what had now become the usual manner.

The returns from the American underwriters and subscribers were applied to the reduction of the obligations of Mr. Nixon and Mr. Dresser. They brought the total in which they were indebted to the Trust Company of the Republic down to \$3,279,909, to repay which they had nothing more substantial in sight than the French underwriting. This amount was afterwards reduced to \$982,334.10.

At this point the bank examiner visited the Trust Company of the Republic. Its difficulties were not a matter of general knowledge, and it was esteemed a most prosperous institution. Its warehouse business in the South was growing at a phenomenal rate, the newspapers were filled with tales of its progress and its brilliant prospects in an almost virgin field. But when the State Bank Examiner finished his inspection the world was informed of the almost inextricable tangle it had got into through its connection with the Shipbuilding Trust, and its stock dropped to below par.

At this critical juncture a syndicate, which became known as the Sheldon Syndicate, was formed to take over the financial obligations of the Trust Company of the Republic, accepting in payment therefor securities of the Shipbuilding Trust. The Syndicate did take over these obligations and thus relieve in part the situation. Even then, had the Shipbuilding Company been established upon a sound basis, or had it even acquired properties which, exclusive of the Bethlehem, and the two others mentioned, were sound and self-supporting, the Trust Company of the Republic would have won its way clear financially. But since the Shipbuilding Company was itself insolvent and a failure, it was not possible for the Trust Company of the Republic to realize on the securities which it held of the combination and thus replace the large amount in which it was involved. Its reputation, too, had been sacrificed. It was reorganized under a new name and is to-day only a memory, and its history only a contention in the courts.

It is not to be assumed that I have covered the whole question of the relation of the trust company to the industrial combination; nor even the whole question as to the relation of these two trust companies to the Shipbuilding Corporation. On the contrary, I have carefully avoided discussion of certain topics which may be the subject of litigation, and I have touched only so far as was necessary to fill out the lines of my view of the situation upon matters pertaining thereto which are in doubt and which may be the subject of litigation.

The tendency of financial institutions—known in our State as ‘‘moneyed corporations’’—is to affiliate too closely with industrial propositions, the ultimate outcome of which cannot be adequately determined from the showings made by promoters and others interested in their flotation.

There is a side of the picture which is less unpleasant than the side which I have turned to you. It is that the lesson which has been taught by the organization of the Shipbuilding Company had a wholesome effect upon Wall Street and other financial institutions. It is, too, that because the present Superintendent of Banks in the State of New York ably supervised the adjustment of the intricate details, so far as his jurisdiction was concerned, no financial panic resulted from a disclosure of the condition into which the Trust Company of the Republic had been led by its President.

I have no time to draw a parallel, but I think that those who are familiar with the history of similar undertakings in England and Scotland will admit that they show a more dangerous affiliation in those countries between financial institutions and industrial promotions. Across the water many men in high financial position acted as directors of flotations which were similar to this one, but which had really a less stable foundation. Many financial institutions not only fathered industrial propositions which failed to turn out as expected, but they endorsed them. The result was that in England, after a collapse, financial institution after financial institution closed its doors and a panic resulted.

From the standpoint of a single individual I believe that I have portrayed the final example of an undertaking of the kind which I have been describing. To-day, as a consequence of the

lesson which has been learned by the false establishment of the United States Shipbuilding Company, our financial leaders and our financial institutions are gradually withdrawing from affiliations with industrial combinations, and each one is assuming its true position.

The reader will agree with me that the institution and the industrial combination are of value, each in its place, but a close partnership between the two is dangerous, inasmuch as the financial institution and the industrial combination must necessarily stand upon a different footing in their relations to the public. The *salve* in the situation is that the general public did not become a participator in the flotation of which I have been speaking, and did not invest largely in the securities of the Shipbuilding Company.

The result has been unfortunate for those who did become investors, but the heaviest loss fell upon men who were in a financial position to stand it: namely, the underwriters, who entered for profit and who expected large returns with but little responsibility.

Even as concerns the Trust Company of the Republic it is a subject for congratulation that by the wiser subsequent management which undertook its reorganization, its financial credit has been sustained and as a consequence of the assistance rendered by the men who formed the "Sheldon Syndicate," who can well afford the loss, it is in a position to continue business as an institution of integrity.