

## STATEMENT OF CYRUS S. EATON

With Respect To  
Activities in Promotion, Financing,  
and Management of Business Enterprises

This statement has been made for the purpose of outlining the history of my activities in promoting, organizing, reorganizing, managing and financing corporations, with particular reference to the use made of Otis & Co. in connection with those activities. In referring to Otis & Co., I refer both to the partnership of that name of which I had been a member since 1914, and to the corporation which succeeded the partnership in the 1930's. In order to explain how my connection with Otis came about, it is necessary to begin in 1906 with my activities in the electric light and power public utility field.

### ACTIVITIES IN GAS AND ELECTRIC PUBLIC UTILITIES

In 1906 I went into the new cities of Canada to obtain electric light and power and gas franchises, with the backing and support of a New York syndicate which included Thomas Lamont, who became senior partner of J. P. Morgan and Company, and Ben Strong, who later became President of the Federal Reserve Bank. Just after I had concluded franchises with the city of Edmonton, a panic occurred in Wall Street and I received a telegram from Mr. Strong recalling me to New York and advising that because of the market collapse the venture was at an end. He offered, however, to permit me to go on with what I had already obtained,

and to permit me to have whatever could be salvaged from the venture. I was able to obtain backing in Montreal for a part of the undertaking but had to give up some of it. This occurred in November of 1907. I was also able to obtain some temporary backing in New York for commitments we had made in the United States.

Thereafter the whole of my time and attention was devoted to public utilities and I emerged with two properties, Canada Gas and Electric and Gage County Gas, Light and Power Company in Nebraska.

In 1912 I formed Continental Gas and Electric Company, a utility holding company, and arranged for the sale of \$2,000,000 in bonds and \$150,000 of preferred stock to a New York banking group. When I went to New York to close the transaction, it developed that there had been an upset in the money market and interest rates had risen to such a point that the bankers refused to go through with the transaction. I returned to Cleveland and went to the Citizens Savings and Trust Company about my problem. Joseph Nutt, President of Citizens, and John Sheridan, President of The First National Bank, formed a syndicate to buy the securities and brought in Otis & Co., then Cleveland's leading investment firm to distribute the securities. I had no connection with Otis & Co. at that time. Otis & Co. brought in other investment bankers and the securities were successfully distributed.

In this manner Otis had been used to accomplish a necessary service to me in obtaining the financing required by Continental Gas and Electric.

By 1913 the financial situation in New York had stabilized. There was great activity among utility people in expanding their interests, and I hoped to expand my own position in that field. The biggest bankers in New York were backing Electric Bond and Share and in Chicago dealers and others were backing Samuel Insull. I hoped to accomplish the same result in Cleveland with the backing and support of the Cleveland banks. However, it appeared that if I were going to expand heavily in the utilities field, more capital would be required, and Otis & Co. would be helpful. I therefore contributed capital to Otis, became a partner, and continued with my activities in the utilities field.

The World War beginning in 1914 made expansion in the public utilities field difficult because the price of coal rose rapidly while the gas and electricity rates were regulated. As a result, there was no expansion during this period. During this period I was serving as President of Continental Gas and Electric, Canada Gas and Electric, Gage County Electric, and other utilities, so that I was managing and running that utility group. Because of the War, however, I was not expanding substantially in the utilities field. I devoted my attention instead to

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helping to organize and finance people who were making tanks, shells, trucks, and other materials for the War.

After the end of World War I, I resumed expansion of my utilities business. During the War there had been a shortage of copper and other materials used in construction, but the end of the War made the necessary materials available and we expanded rapidly. In 1924 Continental Gas and Electric acquired Kansas City Power and Light from the Armour estate. When the estate decided to sell, a syndicate consisting of Stone & Webster, Chase National Bank, the Continental Bank of Chicago and the Electric Bond and Share Company was formed to buy the company. This was about as powerful a group as you could assemble in the banking, financial or utility world. We also were negotiating for Kansas City Power and Light. I went to Chicago on a Saturday to talk with the representatives of the estate and the President of the company. The negotiations continued until late Saturday night and the price was finally agreed on shortly before midnight. The sellers specified, however, that their commitment was not to be firm until we made a \$250,000 deposit. I was back in Cleveland by Sunday. At the opening of the banks in Kansas City on Monday morning we had the deposit there. The sellers agreed that a sale had been made and it was announced publicly. Stone & Webster called Kansas City Power and Light and said "We think you were a little premature in announcing the sale before we had everything signed up."

They were shocked by the answer, "We've sold it to someone else." If you get into that kind of conflict, you make some enemies. This was a very powerful syndicate, and they were outraged about it and lodged a complaint with the Public Utilities Commission in Missouri and everywhere else. In about three weeks, however, the head of the syndicate called me and said, "How would you like to take a million dollars profit?"

After that, Continental added Columbus Railway Power and Light Co. Later in the same year, Continental and United Light and Power Co. were combined. I subsequently became Chairman of the Board of United Light and Power Co. I also became President of Columbus Railway Power and Light Co. in 1925.

In 1928 I was able to bring about the acquisition by United Light and Power Co. of American Light and Traction Company, which in turn owned Detroit Gas Company, Milwaukee Gas Light Company, San Antonio Public Service Co., Binghampton Gas Works, Grand Rapids Gas Light Co., Madison, Wisconsin Gas and Electric Co., Washtenaw Gas Co., Muskegon Traction and Lighting Co., Nebraska Gas and Electric, Iowa Gas and Electric, and was the largest shareholder of Detroit Edison. United Light and Power Co. owned, in addition to Continental Gas and Electric Co. and its subsidiaries mentioned above, United Light and Railways Co. of Delaware and Tri-City Railway and Light Co. At this point United was one

of the three large public utility organizations in the United States. I served as Chairman of American Light and Traction in addition to being Chairman of United.

It is important to recognize that the combination of public utilities in the United States which took place during the 1920's was more than a series of financial transactions. These mergers actually were for the purpose of making possible the distribution of power from large interconnected central stations which replaced small local power plants restricted to their own communities.

Otis was extensively used in marketing the securities of these companies which made possible the expansion I have described. Of course Otis profited substantially by this activity. However, my personal concern was with the development of the utilities and anything I was doing at Otis was incidental to that activity, although a very necessary element in obtaining capital.

I was also connected with the Lehigh Coal and Navigation Company. I had arranged the purchase of stock in Consolidated Edison in New York City and this led to the purchase of an interest in Lehigh Coal and Navigation. Lehigh was very diversified. They had a railroad that was valuable and at that time they were the largest producers of anthracite coal in the country. Beside that they had a very powerful electric power company down there. I formed a syndicate

to buy into this situation. One of the participants was a well-known Clevelander, Frank Taplin, who went in for a couple of million dollars. I was made a member of the Board of Directors of the company.

In United Light we also owned the Brooklyn Burrough Gas Company, The Brooklyn Power Company and Brooklyn Supply, and we also had the largest financial interest in Consolidated Edison. This was later sold to the Mellon people.

The Citizens Gas Company was a utility supplying gas to the city of Indianapolis. I was associated with a syndicate which owned stock at \$35 or \$40 a share, having relied on a legal opinion that a former option of the city of Indianapolis to buy the stock at \$25 a share was no longer effective. The city claimed the right to buy, however, and the matter was litigated in the Federal District Court, the Court of Appeals and the Supreme Court, the case being decided against us. Meanwhile, the price of the stock had dropped to \$10 a share. However, the city was still determined to buy it, and was prepared to pay \$25 plus interest increasing the price to the equivalent of \$35. To accomplish the transaction it was necessary to set up a utility district in order to be able to finance the transaction with revenue bonds, as the city of Indianapolis did not want to issue its own obligations. The transaction had to be approved by the Indiana Legislature and I worked with Governor Paul McNutt of Indiana in working this out.

It was necessary to provide \$10,000,000 for the transaction, and Otis was utilized for this purpose. Three or four million dollars of the bonds were sold to Mr. Donner, the former owner of Donner Steel, which was one of the companies put together in Republic.

The use of Otis & Co. in the acquisition of public utility properties is further shown by the Central States deal, despite the fact that this ultimately turned out to be a very unprofitable venture.

In 1946 New Empire Corporation and Utilities Securities Corporation agreed to sell 500,000 Common Shares of Central States Electric Corporation for cash or, at the election of the purchasers, for \$562,500 cash and 100,000 shares of Alleghany Corporation. Through the operations of Otis & Co. Mr. Daley and I were able to gather together a syndicate for the purpose of making this acquisition and, hopefully, bringing about the reorganization of Central States.

The syndicate was made up of three separate groups. Each was to acquire a one-third share of the Central States stock being offered. The first group was comprised of Pittston Co. which was to put up \$375,000 in cash for 166,667 shares of Central States. The second group was comprised of Robert K. Young, Anita Young, Robert McKinney, Allan Corp. and Mrs. Jeanette L. Routh. This group was to give 100,000 shares of Alleghany and \$75,000 in cash for 166,667 shares of Central States and 90,000 shares of Steep



Rock Iron Mines, Limited. The third group was comprised of Investors Trust Limited and Premium Iron Ores Limited. This group was to put up 90,000 shares of Steep Rock and \$112,500 cash for 166,667 shares of Central States.

Otis & Co. served as purchaser, acting as agent for all of the people. It was Otis & Co. which put the syndicate together and it was through the medium of Otis & Co. and its handling of the mechanics of the transaction that this multi-cornered deal was able to be worked out in one single transaction. At the conclusion of the trading New Empire and Utilities Securities held 100,000 shares of Alleghany and \$562,500 in cash; Pittston held 166,667 shares of Central States; Anita Young, Robert McKinney and others in the second group held 166,667 shares of Central States, Robert Young held 90,000 shares of Steep Rock; Investors Trust held 50,000 shares of Central States; and Premium Iron Ores, Limited held 116,666 shares of Central States.

#### ACTIVITIES IN THE STEEL INDUSTRY

I first became active in the steel industry in about 1924, when I was asked to solve a problem for Trumbull Steel Company. Trumbull was at that time a very important Ohio industry. The National City Bank of New York had bought \$18,000,000 of bonds of Trumbull for resale to the public. At that time it was the practice to offer the securities the same day the contract was signed, and to obtain the audits and engineering reports afterward. The National City Bank had

offered the bonds for sale and they had been oversubscribed; however, when the audit was received, it appeared that the inventory had been substantially written up and the excess included in earnings. The National City was greatly alarmed that it might be responsible if the bonds were sold, and withdrew the offering. Since the bond issue was to refund \$18,000,000 of bank loans, this action caused a panic among the banks which had made the loans, there being about a dozen of them in New York, Cleveland, Chicago, St. Louis and Boston. The company had about \$6,000,000 on deposit with the banks, and the Chicago and St. Louis bankers were considering offsetting the deposits, and then putting the company in receivership with the hope of selling it to realize the remaining \$12,000,000. Mr. Alexander, president of the Bank of Commerce in New York, considered this too drastic a remedy and called for me, as we had become friendly in the course of the development of the utility business.

I suggested that the financing be arranged to offer \$12,000,000 of bonds and \$6,000,000 of debentures, the group of banks underwriting half while I found underwriters for the other half. Mr. Alexander said that banks had not traditionally been in the underwriting business and in his opinion should not attempt to underwrite an issue, but agreed to lend me \$18,000,000 and to give me time to find buyers for the issue. The transaction was successfully carried out and I continued as a result to be active

in the affairs of Trumbull, serving as a director of the Company.

Trumbull was at this time engaged in finishing steel and Republic Steel in Cleveland had excess capacity in the manufacture of raw steel. Republic was planning to build mills for finishing steel, which would duplicate those of Trumbull, particularly in the manufacture of sheets for use in the automobile industry. It occurred to me that in a combination of these two companies the facilities of each would complement the other. So I bought an interest in Republic Steel, the stock of which at that time was widely spread with no one holding a large block. I then called on the chairman of Republic and, as I was the largest stockholder, was asked to put some directors on its Board. We then ultimately consolidated Trumbull and Republic.

In the meantime, I had become interested in United Alloy, which was a large company in Canton, Ohio. The president of United, who was also its largest stockholder, called on me in Cleveland and offered to sell me his interest, which I arranged to buy.

United had a competitor in Massillon, Ohio, Central Steel Company, one of whose officers was Ben Fairless, later senior vice president of Republic and still later president of United States Steel. With his assistance we consolidated Trumbull, Republic, United and Central.

At this point the largest stockholder of Inland Steel, a Mr. Jones, who had formerly been Chairman of that company, approached me to buy his interest in Inland, as he wanted to retire. After I bought this stock I was called on by the two principal officers of Inland, Eddie Block, Chairman, B. D. Block, President, who asked me to become a director of Inland, but I was too busy to be able to take the responsibility at that time. Subsequently they indicated that they had become concerned about expansion of other steel companies in the Chicago market and wanted to combine with Youngstown Sheet and Tube, which had properties in Chicago as well as in Youngstown. The Blocks wanted me to work out such a merger. I became a member of the Inland board and tried to accomplish a merger, but found it opposed by Bethlehem Steel, which itself wanted to merge with Youngstown. Bethlehem offered us \$54,000,000 for our stock in Youngstown, which we refused, only to find by the end of 1929 that its value had declined to \$1,500,000. In the course of this activity I had become a director of Youngstown and Chairman of Trumbull before its merger with Republic.

A large part of my activity with these companies in addition to working on the reorganizations described was in picking men for key jobs. I have already mentioned Ben Fairless. As a further example, I brought into Trumbull Avery Adams, who went on from there to be Vice President of U. S. Steel and is now Chairman of the Board of Jones and

Laughlin. In addition, I was helpful in assisting with the marketing of products of one company through connections with another.

In putting the Republic Steel combination together Otis was used to provide capital by underwriting an issue of \$60,000,000 of preferred stock. Otis formed a syndicate for this purpose including Kuhn, Loeb of New York and a great many others. One of the members of the firm of Otis & Co. was Ferdinand Eberstadt, who had formerly been the second senior partner of Dillon, Reed in New York. Mr. Eberstadt had been accustomed to dealing with international finance on a big scale and he was the man who headed up these large underwritings for Otis. It was very helpful for me to have someone such as Otis that I could call on. It gave assurance if you were doing something that involved a lot of money to have a competent house that could go along with it, and it was helpful that Otis was in Cleveland, and not in New York, since my home was here and my center was here. It was very important to have a Cleveland house of size and competence that I could work with.

At the time I was working with Trumbull, they were obtaining iron ore from Cleveland Cliffs, which had helped them finance a blast furnace before I became associated with Trumbull. After I became active in Trumbull Mr. William Mather of Cleveland Cliffs approached me because he was concerned lest his company lose their business. Cleveland Cliffs

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also supplied ore to Central Steel Company. We continued to deal with Cleveland Cliffs, and our friendship ultimately led to my participating in a reorganization of Cleveland Cliffs in 1929. We organized a new company called the Cliffs Corporation. Half of the stock was issued to the Cleveland Cliffs shareholders in exchange for their company and half was issued to our group in exchange for \$40,000,000 of stock in various steel companies, including Inland, Republic, Youngstown Sheet and Tube, Central Alloy Steel Corporation, and Wheeling. The result was that we had an interest in a very large reserve of iron ore, a big fleet on the Lakes, docks on the upper Lakes and a railroad to transport the ore.

An entirely independent transaction in the steel industry involved Follansbee Steel, which was one of the small independent steel companies located on the Ohio River. In about 1954 a man from Texas had proposed to buy it and dismantle it and move the mill. My recollection is that the main mill was to go somewhere in Georgia. Follansbee Steel was the only industry in the town and had been there for a great many years. When the president of the company and one or two others had agreed to sell it, there was consternation in the town and we were asked to solve the problem. We organized a syndicate to purchase the company and stop the sale. The company thereafter continued successfully under our direction and management for several years, when we were able to sell it to Wheeling Steel, which has maintained the mills and plants there.

## ACTIVITIES IN THE IRON ORE INDUSTRY

In the early 1940's Mr. Daley and I organized Premium Iron Ores Limited (from time to time known as Consolidated Premium Iron Ores Limited). Premium was an Ontario, Canada corporation, all of the common stock of which was owned by Mr. Daley and me and our families. One of the primary purposes in the original organization of this company was to provide financing and marketing services for Steep Rock Iron Mines, Limited.

Steep Rock owned a large deposit of high grade ore near Atikokan, Ontario which was located under the waters of Steep Rock Lake and could not readily be reached by transportation facilities. In order to develop the Steep Rock deposits it was first necessary to divert a river, pump and clear a 100 billion gallon lake, build a 125 mile power line, a railway spur and loading docks, and construct a plant capable of handling two million tons of ore a year.

The officers of Steep Rock contacted a Montreal investment banking firm which in turn got in touch with Otis & Co. to attempt to work out a plan for financing the Steep Rock development. After months of negotiations, we arranged for the Canadian Government to undertake the building of the spur railway and the financing of the power line, the Reconstruction Finance Corporation to make a loan of \$5,000,000, and Otis & Co. to underwrite a securities offer of \$2,250,000 debentures and 562,500 shares of common stock.

As a result of our contacts with Steep Rock through Otis and our work on the underwriting and registration of the securities and negotiation of the other financing, Mr. Daley and I obtained for Premium the exclusive sales agency for the Steep Rock ore for a ten-year period. This contract between Premium and Steep Rock, among other things, provided for the purchase by Premium of 1,437,500 Steep Rock shares for one cent per share.

The connection with Steep Rock in turn led to Premium acquiring interests in other iron mine activities in Canada. Premium was approached by a prospector with iron ore samples from the Ungava region, and Mr. Daley and I conducted negotiations on behalf of the company with him. The consulting geologist for Steep Rock did much of the technical work in determining the quality of the ore samples. Ultimately, Atlantic Iron Ores Limited was formed for the development of the original ores in the Ungava region. This company was owned 80% by Premium and 20% by the prospector. At a later date, Cleveland Cliffs and Steep Rock were brought into the partial ownership of Atlantic.

Through contact with this same prospector, another area in the Ungava region was developed and a second company, International Iron Ores Company was created for the development of this region. International was owned by Premium through the medium of Premium's 90% owned subsidiary, Glendora Holdings Company. International then acquired all of the



stock of Atlantic, and, at this stage, Premium, through the medium of Glendora, owned 55% of International.

International, which was a combination of the old International and Atlantic, then created a new corporation for the further development of the mines in the Ungava region, Ungava Iron Ores Company, Limited. This company was owned 50% by International and 50% by a group of German organizations who were interested in developing this region and having the ores shipped to Germany. Otis & Co. and Mr. Daley and I were all influential in obtaining the contacts with the German organizations and inducing them to take part in this venture.

Mr. Daley and I, throughout this period, devoted much time and effort to the developing of these companies, and, as a result of our experience in financial matters, assisted in obtaining the financing for all of these companies. A good part of the financing was done through Premium, although Otis & Co. participated in a number of the issues. Otis & Co. also carried on many of the investigations required for the development and bore the overhead expenses incurred by Mr. Daley and myself.

As a result of the fact that Premium was a Canadian company, the financial matters for Premium and the Canadian development companies had to be conducted in the United States through another corporation, Technical Services, Inc. This company carried on all of the Ungava business and

financing in the United States. The preferred shares of Technical Services, Inc. were owned entirely by Otis & Co., and Mr. Daley, myself and other people associated with Otis & Co. owned all of the common shares of this company.

#### ACTIVITIES IN THE RUBBER INDUSTRY

In 1929 or 1930 the President of Goodyear, Mr. Litchfield, the President of Firestone, Mr. Firestone, Mr. Davis, who then represented the DuPonts as President of U. S. Rubber, and the President of Goodrich all spent a whole day once a month at the Farm, discussing plans. They usually came for breakfast, stayed on for lunch and left in the late afternoon. The DuPonts had acquired control of U. S. Rubber, which was perhaps the oldest big rubber company but had no automotive business. Goodyear had most of the General Motors business and Firestone had the Ford business. Mr. DuPont asked me to lunch in New York, pointed out the relationship between DuPont and General Motors and said that he did not want all the business for U. S. Rubber, but wanted some of it. I talked to Mr. Litchfield of Goodyear who was opposed to it, saying that General Motors wouldn't want U. S. tires for quality reasons. I persuaded Litchfield to go along, and went to New York where I persuaded Walter Chrysler to buy his entire requirements from Goodyear.

After that I was interested in a major way in Goodyear and while I did not join their board, being too busy to attend meetings, I named the majority. I believe I

was influential in eliminating the price cutting that had been taking place up to that time, particularly in the sale of tires at less than cost as original equipment on new cars.

#### ACTIVITIES IN THE HOTEL INDUSTRY

In the early 1920's I became interested in Bowman Biltmore. Bowman was a very successful hotel operator. He had the Biltmore and the Commodore, but he wanted to get into the chain hotel business which has now become so popular with all the big hotel groups, and sought me as an associate in that program. He bought a big hotel in Florida and built a beautiful hotel in Havana. He also built Biltmore hotels in Los Angeles and in Dayton, Ohio. I went down to Havana with him when he was working on his Havana development and went on his board sometime late in the 1920's. During this time he and I were together a great deal in New York. He wanted to have people on his board who were well known. His board included Wrigley of the chewing gum company, Armour of Armour Packing Company, Percy Rockefeller, and Chandler, the head of Coca Cola at that time. During the depression, the New York hotels were all having financial difficulties and I worked with him in attempting to solve some of his problems.

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## ACTIVITIES IN THE PAINT INDUSTRY

In 1926 I became a director of Sherwin Williams. Mr. Cunningham was Chairman of the Board and had formerly been President of Sherwin Williams, and was a very large stockholder. He was a very able man, but he became very ill and realized that his illness would in time prove fatal. He asked me to call on him, and I did so. He reported that under the circumstances he believed he should sell a block of his stock and thought that the Sherwin and Williams families, who had been his partners, would also want to sell. The DuPont interests, which had recently acquired the Grasselli Company, a very successful chemical company in Cleveland, were also in the paint business and hearing of the probability that these stocks might be sold, decided to buy them. George Martin, who was President of Sherwin Williams didn't like the idea of the sale of the company to DuPont and I didn't want to have the head office move out of town as had been the case with Grasselli. Accordingly, Martin and I agreed that I should form a group to buy the stock. A price was agreed on and we bought the stock and kept it away from DuPont. The group included Continental Shares, Commonwealth Securities and some others. I did not want to be a member of the board, but at Martin's insistence I did so. Thereafter, in 1927 additional funds being needed to expand Sherwin Williams and maintain its position in the industry, \$12,500,000 of 6% cumulative preferred stock was issued and marketed by a syndicate organized and headed up by Otis & Co. Through this means a major industry was retained in Cleveland.

## ACTIVITIES IN THE OIL INDUSTRY

The President of National Refining Company, Frank Fretter, was a neighbor and personal friend of mine. He asked me to take some interest in his company so I bought some of his stock. He then asked me to be a member of his board, which included many of the distinguished businessmen of Cleveland, such as Pickands, D. C. Norton, G. G. Wade and the owner, Mr. Bolton. I finally was persuaded to join the board and was able to advance the business of the company through the sale of lubricating oil to power companies in which I was interested.

The result of this activity led me to a further connection with National Refining at a later date, when Mr. Daley and I organized a syndicate to buy National Refining Company, reorganize it and finally liquidate it. In this transaction Otis & Co. was extensively used to handle the mechanics of assembling large quantities of stock and a large number of buyers. It is very difficult to conduct a transaction of this kind without such a facility as Otis provided.

## ACTIVITIES IN THE PACKING INDUSTRY

William Davies Company was the leading packing company of Canada. It was headed by Sir Joseph Flavelle, who was also Minister of Munitions, both for Canada and for Great Britain. I was instrumental in accomplishing a merger of William Davies Company with several Canadian companies

and then with one or two of the smaller packing companies in Chicago, which was then the big American packing center. This led us to Hammond Standish, which was the leading packing house in Detroit. This company came to see me with the idea of a possible consolidation with Davies. I had come into contact with these people through Otis & Co. Otis had arranged financing for a number of packing companies, including Cleveland Provision Company, Hammond Standish, Jacob Dole Company of Buffalo, and the Cudahay Company, and I became a director of both Hammond Standish and Cleveland Provision.

This was an instance in which the activities of Otis on its own account assisted in some of the transactions which I was trying to accomplish independently of Otis.

#### ACTIVITIES IN INVESTMENT COMPANIES

In the course of my early activity in assembling public utilities, I had been instrumental in the organization of Foreign Utilities, Ltd., a Canadian corporation in which I held a substantial interest, as did members of my family. Subsequently, I organized Continental Shares for similar purposes in the United States.

Another investment company was Commonwealth Securities, which was in fact a reorganization of the William Capp Company. I had owned the William Capp Company, which was a small investment company for some years. Thomas White, a son of Windsor White, had been President of White Motor

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Company, of which his father was Chairman of the Board. He disagreed with his brother Walter, with the result that Tom left the company, being succeeded by Walter, and came to me to discuss the formation of an investment business. We used the William Capp Company, changing its name to Commonwealth Securities, which became a large holding company.

#### ACTIVITIES IN THE TRANSPORTATION INDUSTRY

One of my early interests in transportation was in the old Cleveland Street Railway Company. I later disposed of this one to the Van Sweringen brothers.

George Bishop, who was an associate of mine, was one of the leaders of inter-urban transit. He acquired the Washington, Baltimore and Annapolis Railway, and at his request I became one of his directors. The company had a double track high-speed electric railway connecting Washington with Baltimore and both cities with Annapolis. I helped them to acquire the gas and electric utilities in the city of Annapolis and also in all the other small towns along the line. These utilities we eventually sold to the big power company in Baltimore. I also assisted during the War in bringing about a decision of the government to build a camp, later called Camp Mead, on the route of the Washington, Baltimore and Annapolis, rather than on the route of the Pennsylvania or the B & O. As there were about 35,000 men in training there, there was an immense traffic, making expansion of the railroad necessary and I was helpful in

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obtaining options on a great fleet of cars from the Long Island Railroad at a good price, so that we were able to run big trains from Washington and Baltimore to Camp Mead every five minutes.

I had an investment in the W. B. & A., but sold the entire block to Commander Black, who owned the Baltimore Sun and was the chief stockholder in the big bank there and thought there should be more Baltimore stockholders.

My first connection with the Chesapeake and Ohio was through Otis & Co. The C. & O. had \$30,000,000 of bonds to be refunded in 1947 or 1948. The company had discussed it with its traditional bankers, headed by J. P. Morgan, of Morgan, Stanley and Company with whom were affiliated the other leading banking houses of New York. I called on the president of the company and asked to be allowed to consider the matter, but he referred me to Mr. Young. I suggested the desirability of western participation in the railroad and indicated that Otis would be interested and probably Halsey Stuart of Chicago. Mr. Young asked Mr. Stuart and me to dinner and asked us what we would pay for the bonds. We proposed that the matter be submitted on sealed bids. Mr. Young asked us to let him know what our price would be, however, and we proposed to pay 100. A meeting of the C. & O. directors was then called and the New York banking group, represented by Harold Stanley and the senior partners of Kuhn, Loeb, and some of the representatives of the other

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houses attended. They had previously proposed to pay 93-1/2, which on \$30,000,000 of bonds made quite a difference. Mr. Young advised them that he had been talking to others and was going to take the highest price. The New York bankers moved up, I think to 94 or 94-1/2. Young then called Stuart and me and advised us that we had the bonds at \$100. This outraged the banking community.

We then found that we were unable to sell the bonds, in part because the New York bankers advised those who inquired of them not to buy, suggesting that the bonds could eventually be obtained at \$85. Otis and Stuart did not reduce the price, however, but continued to hold them. Eventually there came a change in money rates, so that interest rates were reduced and the value of bonds rose. Eventually the Equitable Life Insurance Company called and agreed to buy \$5,000,000 of the bonds at \$107. After that the balance were sold rapidly at comparable prices.

This incident started a chain reaction resulting in the general institution of competitive bidding for such securities after a major battle before the SEC.

Needless to say, the C. & O. was greatly pleased by the results of this transaction, which had saved them about \$325,000 and had established the principle for the future. I went on their board at about this time, replacing Mr. Hollister of Taft, Stettinius and Hollister. Mr. Taft was a director of the B. & O. and he and his partners had

numerous connections with the New York banking interests.

Subsequently I became Chairman of the Board of the C. & O. The C. & O. owned 800,000 shares of the New York Central, and the New York Central was unwilling to have a representative of the C. & O. on their Board, although Mr. Young thought the C. & O. was entitled to two directors out of 15. This led to a proxy battle in which Young eventually obtained all the directors. In order to assist Mr. Young in this situation I bought some of the stock formerly controlled by him through the Alleghany Corporation. Since then I have been reasonably active in C. & O. affairs.

In more recent years I have been actively engaged in the acquisition of control of the Baltimore and Ohio Railroad for the C. & O. In this transaction, as in many others, it was essential to have an investment house to work closely with us. If Otis & Co. had still been active in the field, we would have used Otis. Otis being unavailable, we used Merrill, Lynch who had taken over the brokerage business and assumed the liabilities of the old Otis partnership and had also acquired much of Otis's investment business and its offices. They performed very valuable services, but it did not take the place of having an investment house of our own.

## ACTIVITIES IN THE NEWSPAPER INDUSTRY

I have previously said that Senator Taft had been on the other side in my struggle to establish competitive bidding for railroad securities. The Cincinnati Star was owned by the Taft family and the Cincinnati Enquirer was owned by the MacLean family, which also owned the Washington Post. The MacLean estate decided to sell the Enquirer and the Star proposed to buy it. The employees of the Enquirer were concerned because they thought the consolidation with their competitor would mean that the Enquirer would be wiped out. They came to see me for a solution to the problem. Their proposal was that 800 employees could produce \$2,000,000 among them for the equity and if they could borrow an additional \$6,000,000, they might be able to make the acquisition. I discussed the matter with the trust company which was the executor for the estate and their attitude was that they wanted to sell for the best price. Finally they sent word to the employees' group that they were about to sell the property at 4:00 o'clock the following afternoon and would have to have a firm offer with a million dollar deposit. They were represented in Washington by Senator Tydings, who wrote out the proposal and arrived with it in time, raising it enough to meet Taft's unconditional bid of \$8,100,000. The employees and their friends raised about \$2,500,000 and the rest was raised on an issue of first mortgage bonds and an issue of debentures through the assistance of Halsey

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Stewart. The deposit of \$1,000,000 was provided by Portsmouth Steel, and it received a fee of \$250,000 in addition to interest on the money.

#### ACTIVITIES IN THE COAL INDUSTRY

I was drawn into the coal business through my activities in public utilities. North American Power Company, which owned Cleveland Electric Illuminating and also utilities in Milwaukee, St. Louis and Washington, was one of the very big holding companies. In order to have an insured supply of coal for their power plants in St. Louis and Milwaukee, they acquired a reserve of coal in western Kentucky, holding it in a wholly owned subsidiary, West Kentucky Coal Company. After the Public Utility Holding Company Act required the liquidation of these companies, North American distributed the stock of West Kentucky to the stockholders of North American, of whom there were 32,000. As a result, the stock of this small company was divided into lots of 5, 10 and 15 shares, there being 850,000 shares to divide among 32,000 people.

I was in close and frequent touch with Mr. Young through Chesapeake & Ohio matters and Mr. Young controlled Alleghany which in turn controlled the Pittston Company, a coal company. As a result, Pittston was kept informed of the development through me and decided to buy West Kentucky stock in the open market. They accumulated 40,000 or 50,000 shares and found they were having competition from

another group trying to buy in. The stock was so thinly spread that the competition would push the price up. As a result, Pittston decided to give up and to sell the stock it had acquired.

The other purchaser, we found out later, was a Mr. Potter who had acquired 30,000 or 40,000 shares. When the company would not put him on the board, he lost interest and decided to sell. Sometime in the early 1950's I cleared with Mr. Young to see whether he would object to my trying my hand at it. Receiving his approval, I formed a group who began buying gradually. Otis & Co. was of course utilized extensively in this connection, and we went on until we acquired quite a substantial holding. As I had an old friend, a New York banker, who was a director of the Nickel Plate and was also on the board of West Kentucky, we were invited to go on the board. Several of the directors representing the North American dropped off and were replaced by our people. Later the president died and I became chairman and Mr. Easton president. We then purchased the Nashville Coal Company and I devoted a great deal of my time thereafter to the coal business.

#### ACTIVITIES IN OTHER MANUFACTURING INDUSTRIES

During the War I was asked to assist in the reorganization of National Acme Company. At the instance of Mr. Goff of The Cleveland Trust Company I became a member of the Board of Directors and the Executive Committee of

this company. National Acme, a machine tool manufacturer had acquired a similar company in Windsor, Vermont, and there was some consideration of moving the company to Vermont, New England being a leading area for the manufacture of machine tools. I was instrumental in arranging for the combined operation to be located in Cleveland, as I was interested in the development of the machine tool industry here. I remained on the board of National Acme until sometime in the late 1920's.

The Ohio Brass Company was controlled by the Black family and others in Mansfield. I was asked to serve on their Board of Directors and also owned some stock in this company. They were the leading American manufacturers of insulators, and also made other things used in the electrical industry. Our utilities were very big buyers of their product, and the relationship enabled the utilities to obtain prompt supplies and enabled the Ohio Brass Company to maintain a close relationship with its customers. It is still one of the best industrial companies in Ohio.

#### SUMMARY

I have tried to show how I originally came to make use of the original Otis & Co. when it was a partnership; how I provided additional capital to that partnership in order that it would be more closely related to my own activities and would be financially able to assist in my activities in a larger way; and how it continued to be used throughout my business career.

Otis has never been my main interest, either when it was a partnership or later when it was a corporation because, as is apparent from what I have said, I was tremendously engrossed in other things. During the period, for example, when I was working with the public utilities, I was putting in as much as 16 hours a day, 7 days a week of work, and I had no time to be active in Otis & Co. Otis was necessary, however, in what we were trying to do, and when we had our financial difficulties in the 1930's and the partnership was unable to continue, I knew that we had to organize a new Otis & Co. to take its place. Merrill, Lynch, as I have said, had taken over the brokerage business of the old partnership and assumed its liabilities. We were attempting to wind up the remaining affairs of the partnership, but this took some years to accomplish. Meanwhile, Otis had extensive connections with sources of capital as well as relationships with other investment houses which it was necessary to preserve, and we also needed an institution such as Otis which would give us a local, Cleveland connection with the financial world. To solve this, the new Otis & Co., a corporation, was organized. I did not at first have a financial interest in it, and it was owned and controlled at that time by Mr. Daley. This new company was able to replace the old in those areas in which the old partnership had been essential to the efficient conduct of my own business activities. The new company did not have a seat on the New York Stock

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Exchange and did not attempt to rebuild the brokerage business which the partnership had formerly had, since this activity was not of importance in the continuance of the activities which were my concern or those which became the principal concern of Mr. Daley.

Later, when Otis again had financial difficulties, Mr. Daley and I were confronted with the problem whether we should lend it funds, or induce members of our family and friends to lend it funds, in order to help keep it going. Otis was not, in fact, a very profitable investment, and while we believed that it should under normal conditions be able to survive and make a reasonable profit, we had no reason to expect it to become of immense value; we merely wanted to have it continue to hold its position in the financial community in order that it would be useful to us. The result was that the company eventually became indebted to us for much more than we should have permitted if we had realized that we could not completely solve the Otis financial problem.

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C. S. Eaton

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