

ST. PAUL RAILROAD HELD FALSIFIER BY COMMERCE BOARD

Accused of Manipulating Books to Show Revenue Loss and Deceive Stockholders.

ACTUAL CONDITION GOOD

Asserted Puget Sound Income Was Swelled in Effort to Sell Bonds to the Public.

ACTS OF MANAGEMENT CRITICISED

(BY A STAFF CORRESPONDENT.)

Washington, D. C., March 6.—[Special.]—Charges of serious falsifications of the accounts of the Chicago, Milwaukee and St. Paul railroad company and of its subsidiary, the Chicago, Milwaukee and Puget Sound railroad company, were made today in a report issued by the interstate commerce commission.

It is alleged that by manipulations of the bookkeeping of both companies, involving several hundred million dollars, the stockholders, prospective investors in St. Paul and Puget Sound securities, and the public generally were deceived concerning the actual condition and earnings of the system.

The methods charged are denounced in the severest terms by the commission which serves notice that henceforth the penalties of the law will be invoked to compel common carriers to keep honest accounts. The report states that the St. Paul already is revising its system of accounts in compliance with the rules of the commission.

Five Charges of Deception.

The principal charges of deception cited are:

That the St. Paul company exaggerated its income for 1910 by more than \$5,000,000.

That for 1911 the road reported a \$2,000,000 decrease in income which it falsely informed its stockholders was due to failure to obtain higher freight rates and to increased cost of labor.

That the Puget Sound company falsely reported an income of more than \$2,000,000 for 1910 and used the fictitious showing of profit to boom the sale of its bonds to the public.

That the Puget Sound company falsely reported a valuation of its properties which was \$100,000,000 in excess of the cash investment.

That by a reduction of the rate of depreciation the St. Paul has inflated its net operation income \$500,000 a year.

Report Causes a Sensation.

In spite of the reports of irregularities in St. Paul financing, which have been current for a year or more, the report issued by the commission caused a sensation here. The reference to the scheme by which the St. Paul sought to show by falsification the need of increased freight rates is regarded as significant, inasmuch as the question of a 7 per cent advance in tariffs is pending before the commission. The carriers are endeavoring to establish their claim to an advance by a showing of loss of revenue. The commission has indicated an intention of examining the accounts of the roads closely to ascertain whether this loss is actual or fictitious.

The officers of the St. Paul company are:

President—A. J. Earling.

Vice presidents—H. B. Williams, E. W. McKenna, J. H. Holland, E. S. Keeley, E. D. Sewall, D. L. Bush, H. B. Earling.

Treasurer—F. G. Banney.

Secretary—E. W. Adams.

The directory of the road includes these Chicagoans: J. Ogden Armour, A. J. Earling, and Stanley Field.

The following New York men are directors: D. G. Geddes, William Rockefeller, Percy Rockefeller, John D. Ryan, H. R. Williams, Samuel McRoberts, John A. Stewart, W. P. Bliss, and C. W. Harkness. L. J. Pettit of Milwaukee completes the list of directors.

Earning Ability Is Good.

The commission makes no charges against the St. Paul's report of the past year and it goes out of the way to make it clear that no cloud should be cast upon the earning ability of that company.

"We do not mean to be understood by anything said in the report as intimating that the St. Paul company is not a valuable property and is not achieving the results reasonably to be anticipated from the extension of its line to the Pacific coast.

"The last report of the Puget Sound company to this commission as a separate property covered the period from July to December, inclusive, of the year 1912. The earnings for that period as compared with the earnings of the corresponding periods of previous years show a very substantial growth. After making all due allowances for undetermined misstatements in the reports, the showing of results of the operation of the new line must be regarded as very favorable.

"What we wish to make clear is that the accounts of these companies have not correctly shown the facts, a condition of affairs not creditable to the St. Paul lines or to their officials."

Cites Faults of Company.

"Under the accounting rules of the commission the St. Paul company was permitted to include in its accounts a proper revenue for such transportation, rents for equipment, and other of its facilities used in the construction of the Puget Sound and interest on the funds advanced," the report says. "This should have been done from month to month and from year to year, as the service was performed and the funds so made available to the Puget Sound company.

"That course, however, was not pursued. On the contrary, the St. Paul company included in its income accounts for the year 1910 all the interest, rents, and revenues assignable to the period prior to July 1, 1909,