

Cement Merger Charges

(By The Guide Special Correspondent)

Press Gallery, Ottawa, May 19

The charges of Sir Sanford Fleming with regard to the "appropriation" of \$13,000,000 worth of securities of the Canada Cement Company at the time of the formation of that merger, continue to be one of the chief topics of discussion in the corridors of the Parliament buildings and it is practically certain that an investigation of the whole circumstance will be held when the House resumes in July.

In the House of Commons yesterday, Dr. Spence asked if a parliamentary investigation was to be held, and Hon. W. S. Fielding stated that the matter was before the private bills committee, and he had no doubt that the committee would thoroughly enquire into it.

Meanwhile, statements have been made by a number of the officers of the company declaring that Sir Sanford's allegations are incorrect, but in these very contradictions are to be found the strongest confirmation of the fact that the stock of the Canada Cement Company is heavily "watered" and that even though some of the figures given by Sir Sanford Fleming may not be quite accurate, he does, in the main, correctly indicate the true condition of affairs.

Nothing Unusual

Perhaps the most serious statement that has been made is that of the Montreal Herald, which, in the course of a lengthy defence of the deal, states that there was "nothing unusual" in the transaction. It has also been stated by the solicitor of the company, J. F. Orde, K.C., that the transaction was "perfectly legal" and in accordance with a contract made between the Canada Cement Company and the Bond and Share Company, which secured the \$13,000,000 worth of securities as its payment for forming the merger.

"The promoters themselves," says the Herald, "undoubtedly received a very large block of the stock of the company for their services, though not anything like \$13,406,150. The great bulk of this, if not all of it, was in common stock. The promoters might conceivably have received as much as \$10,000,000 of this stock. But the common stock represents nothing in the world except the chance which the company may have of earning more than the amount necessary to pay interest and preferred stock dividends. The bonds and preferred stock represent roughly the earning power of the old companies, somewhat magnified, so that the common stock represents the chance of a large increase over the old earning powers as a result of the amalgamation.

Ethics of Stock Watering

"It is a primary doctrine of company ethics, as understood on this continent," the Herald continues "that the interests which bring about such an increase of earning powers by a consolidation are entitled to most of the increased benefits. At the present quotations \$10,000,000 of common stock would be worth rather under \$2,000,000." On the financial page of the same newspaper appear the following paragraphs:

"The cement merger has, contrary to expectations, proved quite a benefit to the consumer. The price of cement during 1910 was lowest for any year on record except one year when there was a depression in the industry and cement was sold below cost."

"It is the avowed intention of the management that the shareholders' profits must depend on the increased volume of business rather than higher prices for the product."

Everyone knows, of course, that the price of cement has been enormously increased since the formation of the merger, and these statements of the Herald are ample evidence of the desire of that paper to place the company in as favorable a light as possible. The statement of the Herald as to the amount received by the Bond and Share company, of which W. M. Aitken, a member of the British Parliament, is the proprietor, is supported by an interview given to the press by J. M. Kilbourn, vice-president of the Canada Cement company. Mr. Kilbourn's statement was that a little under two and one-half millions of common stock, together with a small sum in cash realized from the sale of preferred stock, not more than a reasonable amount to cover the legal expenses, printing, advertising, etc., were all that remained in the hands of the Bond and Share company.

The chief difference between Sir Sanford Fleming's statement and the statements made on behalf of the merger, lies in the fact that Sir Sanford speaks of the face value of the stock while the officials of the company deal with the price at which they were issued and are now quoted on the market, namely from twenty to twenty-three cents on the dollar for common stock, and eighty-five cents or thereabouts for the preferred stock, bearing interest at 7 per cent., and when the representatives speak of the Bond and Share company receiving \$2,000,000 or \$2,500,000 of common stock they mean shares of a face value of \$19,000,000 but valued at the present time at twenty or twenty-five cents on the dollar.

Interest on "Water"

As far as the public who use cement are concerned, however, the point is that, although the properties forming the merger were purchased for \$14,822,250, and were evidently worth considerably less than that sum in actual cash because their owners accepted a considerable portion of the payment for the same in stock which was valued at twenty and eighty-five cents on the dollar, the company has issued stock and bonds to the amount of \$27,225,000 on which interest must be paid.

The common stock, of which \$13,498,400 was issued, represents, as the Herald points out, "nothing in the world except the chance which the company may have of earning more than the amount necessary to pay interest (on the bonds) and preferred stock dividends," but inasmuch as the Canada Cement company has a virtual monopoly of the cement production of Canada, being a merger of eleven companies with plants in every part of the Dominion, and is protected by a duty under the general tariff of 1 1/2 cents per 100 lbs., there is no reason why the common stock, which represents no capital placed in the business, should not be made to earn a dividend. In the payment of dividends, it should be explained, the bonds, which are entitled to five per cent., rank first, the five per cent. debentures, which the bill now before Parliament proposes to create, come second, the seven per cent. preference shares third, and the common stock comes last and takes whatever profits remain whether they amount to the half of one per cent. or to twenty per cent. or more.

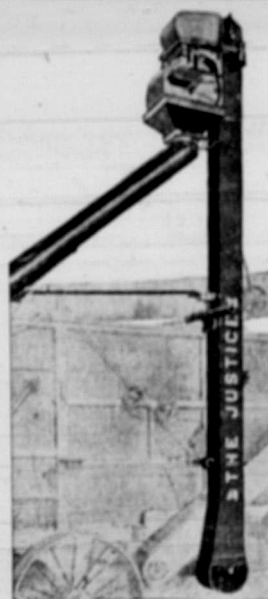
The Promoters' Benefit

The bill which brought about the present exposure is to permit the exchange of the seven per cent. preference shares for 5 per cent. debentures. It is stated that the parties desiring to make the exchange are European investors who prefer a sure 5 per cent. to an uncertain 7 per cent., and it is pointed out that the change would reduce the dividends payable on the stock which is converted by 2 per cent., leaving that amount to be added to the dividend on the common stock. According to the statements of the officials of the Canada Cement company, the chief holders of the common stock are the Bond and Share company, so that it is easy to see who would reap the benefit of the proposed change.

A CHINESE IMPERIAL FAVORITE

News has reached London that Li Lien-yong, Chief Eunuch of the Imperial Household at Peking, died at his residence in that city on March 4 at the age of 69. Since the passing of Her Majesty the Empress Dowager Tzu Hsi (November 15, 1908), he had been slowly failing in health, his vigorous constitution enfeebled by chronic dysentery, and his spirits depressed by the loss of his imperial mistress, who had made of him a lifelong companion, as well as by the changes introduced into the palace by the new Empress Dowager, Lung Yu. These gradually deprived him of nearly all his former authority and influence, leaving him in old age little interest in life beyond that of watching the accumulation of his wealth.

For forty years his name was one to conjure with. In his unscrupulous hands lay the making and marring of China's dignitaries, grand councillors, viceroys and governors competing for his favor, government contractors sur-



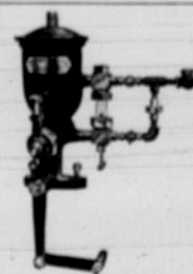
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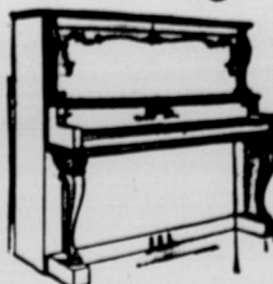


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