

Complaint.

FEDERAL TRADE COMMISSION
v.
THE HENKEL-CLAUSS COMPANY.

COMPLAINT IN THE MATTER OF THE ALLEGED VIOLATION OF SECTION 5 OF
AN ACT OF CONGRESS APPROVED SEPTEMBER 26, 1914.

Docket 802—June 23, 1922.

SYLLABUS.

Where razors of high quality had long been made in Sheffield, England, and the word "Sheffield" when applied to cutlery had come to mean to the trade and purchasing public cutlery of good quality there made; and thereafter a corporation engaged in the manufacture and sale of razors at Fremont, Ohio, with a capacity to mislead and deceive the purchasing public,

- (a) Sold razors of domestic manufacture stamped "Sheffield" without any other marks to show the true place or origin;
- (b) Sold razors, for which it charged from \$4 to \$5 per dozen, packed in individual containers bearing the legend, "Price \$3.00 Special Quality, Fully Warranted," the fact being that said razors were neither of special quality nor fully warranted, and that said marked price was a fictitious and misleading price greatly in excess of the usual retail price of such razors:

Held, That such misbranding, and such misrepresentation of price, under the circumstances set forth, constituted unfair methods of competition.

COMPLAINT.

The Federal Trade Commission, having reason to believe from a preliminary investigation made by it that The Henkel-Clauss Company, hereinafter referred to as the respondent, has been and is using unfair methods of competition in violation of the provisions of Section 5 of an Act of Congress approved September 26, 1914, entitled "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," and it appearing that a proceeding by it in respect thereof would be to the interest of the public, issues this complaint, stating its charges in that respect on information and belief, as follows:

PARAGRAPH 1. That the respondent is a corporation organized and existing under the laws of the State of Ohio, with its principal place of business at Fremont, in said State.

PAR. 2. That respondent is engaged in the business of manufacturing and selling cutlery, including razors, and causes commodities sold by it to be transported to the purchaser thereof from the State of Ohio through and into other States of the United States, and carries on such business in direct, active competition with other persons, partnerships and corporations similarly engaged.

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PAR. 3. That respondent, in the course of its business as described in Paragraph 2 hereof, sells to jobbers and retailers at prices ranging from \$4.00 to \$5.00 per dozen, razors which are defective or otherwise unsuitable for the market, packed singly in cases, which said cases bear labels on which are printed a false and fictitious proposed resale price, to-wit, \$3.00, and the words "Special Quality, Fully Warranted," which said words also are false; that said false and fictitious price, and said false words are calculated to and do mislead and deceive the purchasing public into the belief that a high-grade razor is contained in said case, notwithstanding said razors are sold to the public at a much lower price than \$3.00.

PAR. 4. That respondent further, in the course of its said business, manufactures and sells razors which are defective or otherwise unsuitable for the market, upon which is imprinted the word "Sheffield," without any marks to show the true place of origin of said razors; that razors of high quality have been manufactured in large quantities in Sheffield, England, for a long period of time, and the word "Sheffield," when used in connection with cutlery, has come to be understood by the trade and the purchasing public as indicating that such cutlery was made in Sheffield, England, and is of good quality; that the use by the respondent of the word "Sheffield," as aforesaid, on razors of inferior quality made in the United States by respondent, which razors are defective and unsuitable for the market, is calculated to, and does, mislead and deceive the purchasing public, and is so used by respondent to enable the dealers selling such razors at retail to pass off an inferior grade of razors as and for razors of good quality made in Sheffield, England.

PAR. 5. That by reason of the facts recited, the respondent is using an unfair method of competition in commerce within the intent and meaning of Section 5 of an Act of Congress entitled "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," approved September 26, 1914.

REPORT, FINDINGS AS TO THE FACTS, AND ORDER.

Pursuant to the provisions of an Act of Congress approved September 26, 1914, the Federal Trade Commission issued and served a complaint upon the respondent, The Henkel-Clauss Company, charging it with unfair methods of competition in commerce in violation of the provisions of said Act.

The respondent, The Henkel-Clauss Company, having entered its appearance by its attorneys, Culbert & Culbert, and filed its answer herein, denying certain allegations of the complaint and admitting others, and having made and filed herein a stipulation as to the

facts wherein it is agreed that the Commission may take the statement of facts contained in such stipulation, as the relevant, material facts of this proceeding, and proceed further upon the complaint, answer and stipulation, to make its report, stating its findings as to the facts and its conclusion, and enter its order disposing of the proceeding; the right to file briefs or make oral argument being waived,

Thereupon this proceeding came on for final hearing, and the Commission, having considered the complaint, the answer thereto and the stipulation as to the facts, and being fully advised in the premises, makes this its findings as to the facts and conclusion:

FINDINGS AS TO THE FACTS.

PARAGRAPH 1. That the respondent, The Henkel-Clauss Company, is a corporation organized under the laws of the State of Ohio, with its principal place of business at Fremont, in said State; that respondent was originally incorporated in 1906 as the Henkel Company, and in 1919, by amendment of its charter, its name was changed to The Henkel-Clauss Company.

PAR. 2. That the respondent at all times since its organization has been engaged in the business of manufacturing and selling shears, manicure sets, razors, and other articles, causing same to be transported to the purchasers thereof, from the State of Ohio, through and into other States of the United States and to foreign countries, in due course of commerce among the several States and foreign nations.

PAR. 3. That on or about May 1, 1919, respondent purchased and took over all of the assets and property of the Clauss Shears Company, a corporation with principal place of business at Fremont, Ohio, which corporation had theretofore been manufacturing and selling cutlery of various kinds, including razors; that among the property so purchased by respondent and thereafter resold by it, was a small quantity of razors upon which were imprinted the words "Sheffield" without any other marks to show the true place of origin of same, and which razors respondent assumed and believed had been manufactured in Sheffield, England, and imported by said Clauss Shears Company, but which razors were of domestic manufacture.

PAR. 4. That razors of high quality have been manufactured in Sheffield, England, in large quantities for a long period of time and the word "Sheffield," when used in connection with cutlery, has come to be understood by the trade and purchasing public in the United States, as indicating that such cutlery was made in Sheffield, England, and is of good quality, and the sale of cutlery

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made in America upon which the word "Sheffield" is imprinted has the capacity or tendency to mislead and deceive the purchasing public.

PAR. 5. That further among the property purchased from the Clauss Shears Company, as set forth in Paragraph 3 hereof, were razors of various grades and patterns and razor blades upon which respondent thereafter fitted handles; that some of said razors, when so purchased, were packed singly in cases upon which were printed "Price, \$3.00. Special Quality, Fully Warranted," and the remainder of such razors were packed by respondent in cases which were also acquired from said Clauss Shears Company, upon which cases were also printed "Price \$3.00, Special Quality, Fully Warranted"; that such razors were in odd lots, some being of good quality and others seconds or defective and unsuitable for the general trade; that such razors were not listed for sale by respondent in its catalog, but were closed out in job lots at special prices ranging from \$4.00 to \$5.00 per dozen, some of which razors were sold and transported to dealers in New York, N. Y.; that such razors, packed as aforesaid, were all disposed of by respondent about one year prior to the issuance of the complaint herein, and since said time no sales under similar circumstances have been made by respondent.

PAR. 6. That the razors sold by respondent, as set out in Paragraph 5 hereof, were not of special quality and were not fully warranted, and the price noted on the containers thereof was fictitious and misleading and greatly in excess of the fair market value of such razors in the regular course of retail trade, and the printed matter on the containers of such razors had the capacity or tendency to mislead and deceive the purchasing public as to the quality or value of such razors.

CONCLUSION.

That the practices of the said respondent, under the conditions and circumstances described in the foregoing findings, are unfair methods of competition in commerce among the States and with foreign nations, and constitute a violation of Section 5 of the Act of Congress approved September 26, 1914, entitled, "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes."

ORDER TO CEASE AND DESIST.

This proceeding having been heard by the Federal Trade Commission upon the complaint of the Commission, the answer of the respondent, and a stipulation as to the facts, and the Commission having made its findings as to the facts, with its conclusion, that

the respondent has violated the provisions of the Act of Congress approved September 26, 1914, entitled "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes,"

Now, therefore, it is ordered, That the respondent, The Henkel-Clauss Company, its officers, directors, agents, representatives, servants and employees, cease and desist, from directly or indirectly—

Selling or offering for sale, razors or other cutlery upon which is etched or otherwise imprinted the word "Sheffield," as a brand name, label, trade-mark or trade name, or as a part thereof, unless the blades or cutting part of such cutlery or the steel from which same is made, be manufactured in Sheffield, England.

Selling or offering for sale in interstate or foreign commerce, razors bearing upon the containers in which same are packed, fictitious and misleading price marks greatly in excess of the prices at which such razors sell in the usual course of retail trade.

Selling or offering for sale in interstate and foreign commerce, razors of inferior quality, seconds, or razors for any reason unsuitable for the general trade, packed in containers upon which are printed the words "Special Quality. Fully Warranted," or words of like import.

It is further ordered, That the respondent, within sixty (60) days after the date of the service upon it of this order, file with the Commission a report in writing setting forth in detail the manner and form in which it has complied with the order to cease and desist hereinbefore set forth.

FEDERAL TRADE COMMISSION

v.

S. E. J. COX ET AL.

COMPLAINT IN THE MATTER OF THE ALLEGED VIOLATION OF SECTION 5
OF AN ACT OF CONGRESS APPROVED SEPTEMBER 26, 1914.

Docket 402—June 24, 1922.

SYLLABUS.

Where concerns organized for the purpose of dealing in oil and oil stocks, and where two individuals, promoters, organizers, stockholders and officers of said concerns, in advertising for sale their stocks, separately and in conjunction with one another,

- (a) Falsely represented that one of said concerns had producing wells in the best part of the shallow territory of a well known oil producing section, that said wells adjoined some of the oldest and best producers of said section, and that it had leases in the midst of said section's most prolific deep well gusher district;
- (b) Falsely represented that some of said concerns owned or had the use of an instrument, device, or formula by means of which they could locate and had located oil beneath the surface of the earth;
- (c) Falsely represented that one of said concerns had brought in a 30,000 barrel gusher on a certain lease, the fact being that said gusher was brought in by another company in which none of them had any interest and that said concern had no interest in the particular portion of the aforesaid lease on which said gusher was developed;
- (d) Falsely represented that 10 per cent of the production from the rich producing properties of said concern would be placed in a special fund to pay purchasers of the stock \$2 for every \$1 invested, displaying in connection with such advertisement pictures of a lake of oil described as the production of the aforesaid gusher from "Lucky Cox's" property;
- (e) Falsely represented that said concern had obtained a lease in a certain well known oil field;
- (f) Falsely represented in a monthly magazine called "Truth," which they published without disclosing their connection therewith, that successful producing properties of several companies operating in the Burkburnett and Ranger oil fields were being organized into a large company under one head, for the purpose of economy and efficiency, and that the new company, one of the aforesaid concerns, had sufficient producing property at Burkburnett to enable it to pay a dividend of 2 per cent per month on all stock issued at the time of organization;
- (g) Falsely represented that the aforesaid producing property was situated in the heart of the Burkburnett field, and that oil therefrom was flowing into the said concern's tank in sufficient volume to pay easily 4 per cent a month, although only 2 per cent would be paid until more production was secured;
- (h) Widely advertised the payment of dividends by said concern, the fact being that the moneys so paid were paid out of funds not properly avail-

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able therefor and that said concern had no income properly applicable to dividend purposes;

- (4) Falsely represented that said concern's operations included the purchase of a refinery with a capacity of 2,500 barrels per day, to be increased to 6,000 barrels as soon as said refinery was taken over, the fact being that the capacity of the same was only 1,500 barrels when in good repair, and that its condition was such during the time owned by said concern that its output was limited to 750 or 800 barrels per day;

With the effect of misleading and deceiving the public and of injuring competitors in the sale of other securities:

Held, That such false and misleading advertising, under the circumstances set forth, constituted an unfair method of competition.

COMPLAINT.

The Federal Trade Commission, having reason to believe from a preliminary investigation made by it that S. E. J. Cox, whose given name is to the Commission unknown, Prudential Oil & Refining Company, Prudential Trust & Securities Company, General Oil Company, (Mrs.) N. E. Cox, whose given name is to the Commission unknown, and Napoleon Hill, hereinafter referred to as the respondents, have been and are using unfair methods of competition in interstate commerce in violation of the provisions of Section 5 of an Act of Congress approved September 26, 1914, entitled "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," and it appearing that a proceeding by it in respect thereto would be to the interest of the public, issues this complaint stating its charges in that respect on information and belief as follows:

PARAGRAPH 1. That the respondent S. E. J. Cox is a resident of the State of Texas with his principal office and place of business in the City of Houston, in said State; that the said S. E. J. Cox for several years last past has been engaged and is now engaged in the promotion of the respondent companies, the Prudential Oil & Refining Company, the Prudential Trust & Securities Company and the General Oil Company, and various other associations and organizations; that the said respondent claims and has claimed that the purposes of promoting the said respondent companies was and is that of creating organizations for the development and promotion of oil wells on oil leases located generally in the Mid-Continental and Gulf Oil Fields; that the respondent companies, Prudential Oil & Refining Company and the General Oil Company are promotions organized and being organized for the purpose of developing oil wells in said fields; that the respondent the Prudential Trust & Securities Company is a corporation organized for the pur-

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pose of holding and selling stock and shares of these said oil companies and other organizations and associations.

That the respondent, the Prudential Oil & Refining Company, is a common law corporation or association organized in the year 1917 in the City of Chicago, in the State of Illinois, with a capital stock of \$3,000,000, having a par value of \$1 per share; that the capital stock of the said company was later increased to \$10,000,000, having a par value of \$1 per share; that at the time of its organization the principal office and place of business of the company was in the City of Chicago, in the State of Illinois, and that about January, 1918, the principal office and place of business was transferred to the City of Houston, in the State of Texas, in which City the respondent now has its principal office and place of business; that the president of the respondent, the Prudential Oil & Refining Company, is S. E. J. Cox.

That the respondent, the Prudential Trust & Securities Company, was organized in the State of Delaware, in 1916, under the name Prudential Securities Company and that subsequently the corporate title was changed to Prudential Trust & Securities Company; that it is now existing under and by virtue of the laws of the State of Delaware; that its present principal office and place of business is in the City of Houston in the State of Texas; that the respondent S. E. J. Cox is the president of the same; that the activities of said respondent are largely confined to promoting new organizations and associations.

That the General Oil Company, formerly known as the Texas Ranger Oil Company, is a pre-organization association with headquarters in the City of Houston, in the State of Texas; that the same is being promoted by respondent S. E. J. Cox and his associates partly through the respondent, the Prudential Trust & Securities Company, which company is selling the stock thereof; that the capitalization of the said respondent, General Oil Company, is to be \$750,000 divided into shares of the par value of \$10 each; that the officers of the said company are to be respondent S. E. J. Cox, president, G. Aven and L. B. House, whose given names are to the Commission unknown; that G. Aven and L. B. House are employees of respondent S. E. J. Cox; that the headquarters of the pre-organization association are in the City of Houston, in the State of Texas.

That the present address of each of the said respondents is 212 Scanlan Building, Houston, Tex.

That the respondent, N. E. Cox, is the wife of the respondent S. E. J. Cox; that she has been associated with S. E. J. Cox in the promotions and undertakings above described; that her residence is in the

City of Houston, State of Texas; that respondent, Napoleon Hill, has been in the employ of the respondent S. E. J. Cox and the respondent companies and associations at a salary of \$5,000 per year as advertising agent for said respondents; that the said respondent professes to be an expert psychologist and has a school of applied psychology and advertising in the City of Chicago, and also publishes there a magazine called "Hill's Golden Rule."

PAR. 2. That respondents S. E. J. Cox, N. E. Cox, Napoleon Hill and the Prudential Trust & Securities Company for themselves and in behalf of the respondent oil companies and other companies and associations in the conduct of the business of promoting the respondent oil companies and the various other unnamed companies and associations and in advertising for sale and selling stock of the same, and in inducing and procuring subscriptions for stock of said companies and of other companies promoted by these respondents, and in selling such stock have procured such subscriptions to stock and purchasers for stock from various persons, firms corporations and copartnerships in various States of the United States; that numerous letters and circulars and much advertising matter have been distributed through the mails by and on behalf of said respondents in various States of the United States; that many such stocks and subscriptions for such stock have been sold to various persons, firms, corporations and copartnerships in various States of the United States and that the same have been transported from the City of Chicago, in the State of Illinois, and from the City of Houston, in the State of Texas, and from various other places to the purchasers thereof, located in other States than in the States from which they were sent; that in the conduct of their said business as aforesaid the respondents, S. E. J. Cox, N. E. Cox, Napoleon Hill and Prudential Trust & Securities Company have carried on a constant current of trade and commerce between various states of the United States in competition with numerous other persons, firms, corporations and copartnerships engaged in the sale and distribution of various stocks and securities.

PAR. 3. That the respondent, S. E. J. Cox for himself and on behalf of the respondent oil companies, the Prudential Oil & Refining Company and the General Oil Company and on behalf of the Prudential Trust & Securities Company, and while acting as president and agent of such respondents and in the line of his duties as such president and agent, and the respondent, the Prudential Oil & Refining Company and Prudential Trust & Securities Company and the General Oil Company through their president and agent S. E. J. Cox, and the respondents N. E. Cox and Napoleon Hill for themselves

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and in conjunction with and on behalf of their principals as aforesaid, all and each with the effect of stifling and suppressing competition and injuring competitors engaged in the sale and distribution of stock subscriptions and stocks and securities and other interests, and with the effect of deceiving and defrauding the public and particularly that portion of the public who bought or contracted for stock subscriptions or stocks and securities in the respondent oil companies and other companies and associations as aforesaid, and with the effect of causing such purchasers and contractors of purchase to buy such stock subscriptions and stocks and securities, and with the effect of preventing such purchasers and contractors of purchase from purchasing stock subscriptions and stocks and securities from competing associations and companies to the injury of both the purchasers of such stocks and securities and contractors of purchase of the same, and also the competitors of respondents, have engaged in the following trade practices, false advertising, and the circulation of false information and advertising and false representations all as hereinafter more particularly set forth, to-wit:

(a) The respondents S. E. J. Cox, N. E. Cox, Prudential Trust & Securities Company, and Napoleon Hill, each by himself and in cooperation and conjunction with each other, did on November 22, 1917, organize and promote and are now promoting the Prudential Oil & Refining Company, respondent herein; did since the year 1916, promote and are now promoting, the Prudential Securities Company later named the Prudential Trust & Securities Company, respondent herein; are now and for several months have been organizing and promoting the Texas-Ranger Oil Company, now known as the General Oil Company, respondent herein; and did at various other times organize and promote, and are now promoting, various other corporations.

(b) Respondents S. E. J. Cox, N. E. Cox, Napoleon Hill, and the Prudential Trust & Securities Company through its president and agent S. E. J. Cox and other agents, each and all have been during many months last past, and are advertising for sale and selling stocks and securities and subscriptions for stock in the Prudential Oil & Refining Company and the General Oil Company, respondents, and other associations and companies; that in the conduct of such business the respondents, and each of them, with the intent, purpose and effect of deceiving and misleading the public, as aforesaid, have made, published, advertised and circulated false, misleading and unfair reports and statements concerning the plan of organization, assets, resources, business, progress, good-will, financial standing and responsibility of the respondent oil com-

panies, and the respondents S. E. J. Cox and Prudential Trust & Securities Company and the various other unnamed companies and associations as aforesaid, and have suppressed and concealed from the public facts relating to and affecting the plans of organization of the various companies, the financial standing and condition of the said companies and S. E. J. Cox and the said respondents continue so to do.

(c) Respondents S. E. J. Cox, N. E. Cox and Napoleon Hill, each by himself and in cooperation and conjunction with each other, did secure the publication and circulation of a certain editorial entitled "An interesting man and his wife who have made \$1,000,000 for other people," which editorial was published and circulated in and through the April, 1919, number of the magazine known as "Hill's Golden Rule," the same being edited and published by Napoleon Hill, 149 West Ohio Street, Chicago; that the said article contains numerous false and misleading statements known by the respondents at the time of their publication and circulation to be false and misleading, and published and circulated by the said respondents for the purpose of furthering the plans and purposes of the respondents as particularly set forth in Paragraph 3 above.

(d) Respondent S. E. J. Cox for himself and on behalf of the respondents of whom he is president and agent, falsely informed numerous persons inquiring with respect to stock of the Prudential Oil & Refining Company that the same had been withdrawn from the market; that in so doing he used such language in the replies made to such inquiries as would naturally lead such inquirers and as did, as a matter of fact, lead such inquirers to believe that the said stock of the Prudential Oil & Refining Company had been withdrawn from the market because of its value, when he knew at the time that he made such answers that the stock was withdrawn from the market because of the warning of the Capital Issues Committee against further exploitation; that he made such representation for the purpose of deceiving and misleading the inquirers as to value of the stock of the said company and the value of the stock and stock subscriptions in the various promotions of the said S. E. J. Cox and that such inquirers were so deceived and misled; that along with the information so given he recommended and urged such inquirers that they invest their capital in the stock of the Texas-Ranger Oil Company now known as the General Oil Company, respondent, and that such inquirers, relying on the misrepresentations made, did invest capital which they would not otherwise have invested in the stock of the Texas-Ranger Oil Company, now known as the General Oil Company.

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(e) Respondents S. E. J. Cox, N. E. Cox, and Napoleon Hill, each by himself and in cooperation and conjunction with each other for themselves and on behalf of the respondent companies of which S. E. J. Cox is the president and for which he was agent, published and circulated from the City of Houston, Texas, within the two years last past a magazine called "Truth"; that in publishing and circulating such magazine he wholly failed and neglected to disclose the fact that he was publisher and that he did circulate the same; that it was sent by them and each of them to numerous prospective purchasers of stocks and stock subscriptions of the respondent companies; that in the said magazine they and each of them greatly exaggerated fortunes to be made out of oil stocks and operations and inserted in the said magazine a double center page advertisement of oil stocks, particularly of the Texas-Ranger Oil Company, now known as the General Oil Company, respondent, and also a full page advertisement of the Prudential Trust & Securities Company; they and each of them also published and distributed in the same manner and on behalf of the same parties a pamphlet entitled "One Million Dollars" and also had inserted in the Houston Chronicle, a newspaper published in the City of Houston, a page advertisement entitled "Get the great profits from the north central Texas oil fields without risking the loss of a single dollar—a successful producing company" and also published and distributed a circular dated March 4, 1919, entitled "Frenzied Fairy Finance," wherein they and each of them falsely and erroneously represented the profits being made and to be made from oil wells and leases and other similar investments through the property owned by the Prudential Oil & Refining Company to be far in excess of profits actually made or to be reasonably expected from such properties, and wherein they and each of them greatly exaggerated the economic advantages of owning stock in said company, and therein also they and each of them represented to prospective purchasers of stocks and stock subscriptions that the same were guaranteed by a so-called "production bond"; that they and each of them greatly misrepresented the economic value of the said production bond and misinformed said prospective purchasers as to the value of such bond and as to the efforts being made to have the Federal Government pass a law making similar bonds a requirement in connection with the sale and distribution of stocks and securities in interstate commerce.

(f) Respondent S. E. J. Cox for himself and on behalf of the respondents of whom he is president and agent and particularly on behalf of the General Oil Company, published and circulated numerous advertisements in which he falsely and fraudulently repre-

sented and guaranteed that the respondent company, the General Oil Company, would pay to purchasers of stock subscriptions in said company 2 per cent dividends monthly on said stock from the time of its issuance and that said dividends would be paid from the earnings on oil production by said respondent company; that the said respondent S. E. J. Cox also falsely and fraudulently represented to the public that he was holding in trust checks amounting to more than \$1,025 to be used for the payment of scholarships for worthy and needy boys and returned soldiers and that the said checks represented dividends received by himself from the earnings of the respondent, the General Oil Company.

(g) That the respondent S. E. J. Cox for himself and on behalf of the respondents for whom he was president and agent, and particularly on behalf of the respondent, Prudential Trust & Securities Company, falsely and fraudulently represented that the said Prudential Trust & Securities Company had in the year 1918 paid a stock dividend of 200 per cent, and that from then on the said company would be able and would pay out of its earnings a dividend of 5 per cent per month on the capital stock of said company with the prospect that said dividends would increase shortly to 10 or 20 per cent per month.

(h) That all of the said false and fraudulent representations and assertions made by the respondents as set forth in Paragraph 3, Sections (a), (b), (c), (d), (e), (f), and (g), and each of them, were made with the knowledge of their falsity and their tendency to mislead and defraud the public, and were made for the purpose of misleading and defrauding the public into buying stock and stock subscriptions of the respondent companies and other promotions conducted by said respondents, and that as a result of such false and fraudulent representations numerous persons, firms, corporations and copartnerships have bought such stocks and stock subscriptions as aforesaid.

(i) That the respondents, each and all of them, each on behalf of himself and for the companies for whom he was agent, made numerous other false and fraudulent representations and circulated many false and erroneous advertisements through various magazines and the mails generally and through their personal efforts and the efforts of their agents and committed numerous other acts well knowing their falsity and tendency to deceive and mislead the public, all with the purpose and intention of misleading and deceiving the public and causing them to purchase stocks and stock subscriptions through respondents S. E. J. Cox and the Prudential Trust & Securities Company, for and on behalf of themselves and the companies

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and prospective companies for whom they were agents; that numerous persons relying upon such false and fraudulent representation, did buy such stocks and stock subscriptions to the injury of themselves and respondents' competitors as set forth in the premises.

PAR. 4. That all of the acts hereinabove set forth and complained of were done by the respondents within the four years last past.

REPORT, FINDINGS AS TO THE FACTS, AND ORDER.

Pursuant to the provisions of an Act of Congress approved September 26, 1914, the Federal Trade Commission issued and served a complaint upon the respondents, S. E. J. Cox, N. E. Cox, Prudential Oil and Refining Company, Prudential Securities Company, and General Oil Company, charging them with the use of unfair methods of competition in commerce in violation of the provisions of said Act. Respondent, Napoleon Hill, was served neither with the complaint nor any processes or notices because he could not be found.

The above named respondents, with the exception of Napoleon Hill, having entered their appearance by their attorneys and filed answer therein, hearings were had and evidence was thereupon introduced in support of the allegations of said complaint, and on behalf of the said respondents before George McCorkle, an examiner of the Federal Trade Commission theretofore duly appointed.

And thereupon this proceeding came on for final hearing and counsel having submitted briefs and the Commission having duly considered the record and being now fully advised in the premises, and being of the opinion that the methods of competition in question are prohibited by said Act, makes this its report, stating its findings as to the facts and conclusions.

FINDINGS AS TO THE FACTS.

PARAGRAPH 1. That the respondents, S. E. J. Cox and N. E. Cox, are husband and wife, and are now, and for several years last past, have been residents of Houston, Tex.

PAR. 2. That the respondent, Prudential Securities Company, called in the complaint Prudential Trust & Securities Company, is a corporation organized in the year 1916 by the respondent, S. E. J. Cox, in association with others, under the laws of the State of Delaware, and had its principal office and place of business in Chicago, Ill., until July or August, 1917, when same was removed to Houston, Tex. Soon after the organization of the Prudential Securities Company, respondent, S. E. J. Cox, became its President and directed and

controlled its business up to the month of February, 1920, when it ceased to do business. The business of said respondent consisted of the promotion of various enterprises and the sale of stocks and securities, including its own stock, and more particularly stocks of the companies hereinafter mentioned, which companies were organized and promoted by the said respondent, S. E. J. Cox. During the months of March, April and May of 1918, the Prudential Securities Company carried on its business under the name of the Prudential Trust & Securities Company, but thereafter resumed its legitimate corporate name. In February, 1920, it ceased to do business and was succeeded by the S. E. J. Cox Company, which assumed its assets and liabilities, and exchanged for its stock shares in the S. E. J. Cox Company, which was a common law trust, and conducted and still conducts the same kind of business as its predecessor, the Prudential Securities Company. The S. E. J. Cox Company has been throughout its existence and now is controlled and operated by the respondent, S. E. J. Cox.

PAR. 3. That the respondent, Prudential Oil & Refining Company, was organized as a common law trust in 1917 by the respondents, S. E. J. Cox, N. E. Cox and the Prudential Securities Company, with a capitalization of 3,000,000 shares of the par value of \$1 each, which was later increased to 10,000,000 shares. Respondents, S. E. J. Cox and N. E. Cox and the Prudential Securities Company, at first advertised and promoted the said Prudential Oil & Refining Company from Chicago, Ill., but later during the latter part of 1917 or early in 1918 removed its place of business also to Houston, Tex.

Stock in the Prudential Oil & Refining Company was advertised and sold by respondents, S. E. J. Cox and N. E. Cox, chiefly through the medium of the Prudential Securities Company, until May, 1919, when it ceased to operate, though no steps were taken to dissolve the company.

PAR. 4. The General Oil Company was organized by respondents, S. E. J. Cox and N. E. Cox, individually and through the Prudential Securities Company and on August 27, 1919, it was incorporated under the laws of the State of Texas with a capitalization of 100,000 shares of the par value of \$10 per share. During the months of April and May, preceding its organization, it was promoted and advertised as the Ranger Texas Oil Company.

The General Oil Company, above mentioned, ceased active business about February, 1920, and in November, 1920, its assets, liabilities, and also its name were assumed by another association organized under a declaration of trust bearing the name of the General Oil Company and having a capitalization of 2,000,000 shares of par value of \$10 each.

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On or about October 19, 1920, the last named General Oil Company, Trust Association, respondent herein, passed through legal processes into the hands of the receiver appointed by the District Court of the Eightieth Judicial District of the State of Texas, in and for the County of Harris.

PAR. 5. In August or September, 1918, the Bankers Texas Oil Company was organized and promoted by respondents, S. E. J. Cox, N. E. Cox, and the Prudential Securities Company. The Bankers Texas Oil Company purchased from the Prudential Oil & Refining Company certain of its leases in the State of Texas and equipment for operating thereon and in payment therefor issued and delivered to the Prudential Oil & Refining Company 1,000,000 shares of the capital stock of the Bankers Texas Oil Company. This transaction was supervised and directed by respondent, S. E. J. Cox. The Bankers Texas Oil Company in December, 1918, was absorbed by the respondent, Prudential Oil & Refining Company and stock of the latter was exchanged for shares in the former.

PAR. 6. That the stock of the three respondents, Prudential Securities Company, Prudential Oil & Refining Company, and the General Oil Company, and the stock of the Bankers Texas Oil Company was sold by the respondents, S. E. J. Cox and N. E. Cox, and the Prudential Securities Company, who in connection with the sale of said stock and as a means of effecting the sale of said stock, circulated and distributed throughout the United States large quantities of advertising matter consisting of magazines, circulars, newspapers, pamphlets, and other forms of printed matter. Certificates of the stock sold were transmitted by the respondent from Houston, in the State of Texas, where the said respondents had their principal place of business to purchasers thereof located in the various other States of the United States.

PAR. 7. The respondents, S. E. J. Cox and N. E. Cox, separately and in conjunction with each other, and as officers of the respondents, Prudential Securities Company and Prudential Oil & Refining Company, each of which was directed and controlled by them, sold or caused to be sold the stock of the Prudential Oil & Refining Company, by falsely representing to purchasers and prospective purchasers, by circulars and other advertising matter, distributed and circulated by said respondents as found in paragraph 6 herein, that the Prudential Oil & Refining Company had producing wells in the best of Humble's shallow territory, and leases in the midst of Humble's most prolific deep-well gusher district, and that its producing wells were adjoined by some of the oldest and best producers of Humble, which had been brought in 14 years theretofore.

That at the time these representations were made the Humble oil field in the State of Texas was well known on account of extensive production of oil, and the Prudential Oil & Refining Company neither owned any producing well in Humble nor did any of its holdings or leases adjoin producing wells brought in at Humble 14 years or any other time theretofore, and it had no lease in the midst, either of Humble's gusher district or proven oil area.

PAR. 8. That in the year 1918 the respondents, S. E. J. Cox, N. E. Cox, and the Prudential Securities Company, sold or caused to be sold in the manner and by the means found in paragraph 6 herein, the said stock of the Bankers Texas Oil Company acquired by the Prudential Oil & Refining Company as found in paragraph 5 herein, as well as the stock of the Prudential Oil & Refining Company and in connection with the sale of said stocks, among other statements, falsely represented that the Prudential Securities Company, respondent herein, owned, and that the Prudential Oil & Refining Company, respondent herein, and the Bankers Texas Oil Company, had the use of an instrument, device or formula by means of which they could locate and had located oil beneath the surface of the earth; whereas, in truth and in fact there is no instrument, device or formula of any character or description by which said result can be accomplished other than the processes ordinarily employed in Texas and elsewhere.

PAR. 9. In the year 1918 and 1919 the respondents, S. E. J. Cox and N. E. Cox and the Prudential Securities Company, in the manner and by the means described in paragraph 6, and in connection with the sale of the stock of the Prudential Oil & Refining Company, circulated the false representation that it had brought in a 30,000-barrel gusher on its Noel Lease in Louisiana, whereas, in truth and fact the so-called gusher on the Noel Lease was brought in by the Planters Oil Company of Louisiana, in which company none of the respondents had any interest whatever, and the Prudential Oil & Refining Company never had any lease on or interest in the particular portion of the said Noel Lease on which the said gusher was developed.

PAR. 10. The respondents, S. E. J. Cox, N. E. Cox and the Prudential Securities Company, in selling and attempting to sell stock of the Prudential Oil & Refining Company in the manner and by the means found in paragraph 6 herein, circulated pictures of a lake of oil described as the production of said gusher from "Lucky Cox's" property, and falsely represented that 10 per cent of the production from the rich producing properties of the Prudential Oil & Refining Company would be placed in a special fund to pay purchasers of its stock \$2 for every \$1 invested therein. In truth

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and in fact the Prudential Oil & Refining Company owned neither the gusher nor the oil therefrom or any of it, and had only an option to purchase, which was never exercised or consummated on certain land developed by it in the locality of the said gusher, and no production from any source out of which to provide said fund.

PAR. 11. Similarly, said respondent, S. E. J. Cox, N. E. Cox and the Prudential Securities Company, in their effort to sell stock of respondent, Prudential Oil & Refining Company, circulated throughout the United States in April and May, 1919, the false statement that said respondent, Prudential Oil & Refining Company, had obtained a lease in the well known West Columbia fields in Texas, when in truth and fact such lease was located southwest of the West Columbia field and at least 3 miles therefrom.

PAR. 12. The above and foregoing representations as set out in Paragraphs 7, 8, 9, 10 and 11 herein, were false, and had the capacity to mislead and deceive, and the natural and probable tendency and effect of them and of each of them, was to mislead and deceive the public, more particularly the portion thereof who purchased stock in the Prudential Oil & Refining Company, consisting approximately of 3,000 persons residing in the various States and Territories of the United States.

PAR. 13. The respondents, S. E. J. Cox and N. E. Cox and the Prudential Securities Company, caused to be published and circulated throughout the United States during the months of April, May, June, August and September, 1919, a monthly publication called "Truth," without disclosing the connection therewith of said respondents or any of them, in which magazine the public was informed that they were about to organize a company, which for a short time was described as the Ranger Texas Company and afterwards called as found in Paragraph 4, the General Oil Company. As an inducement to influence prospective purchasers of stock to invest in said company, the General Oil Company, it was falsely represented by said respondents in the said issues of this magazine that successful producing properties of several companies operating in the large Burkburnett and Ranger Texas Oil fields of North Texas were being organized into a large company, under one head, for the purpose of economy and efficiency. The respondents, S. E. J. Cox, N. E. Cox, and the Prudential Securities Company, further falsely represented, in connection with the sale of said stock that the company, to wit: Ranger-Texas, later called the General Oil Company, then had property at Burkburnett producing enough oil to enable it to pay a dividend of 2 per cent a month on all stock issued at the time of organization. They also

falsely advertised in May, 1919, that said producing property was situated in the heart of the Burkburnett field and oil therefrom was flowing into its banks in sufficient volume to pay easily 4 per cent per month, but that only 2 per cent would be paid until more production was secured.

That in truth and in fact, respondent, General Oil Company, owned one-half interest only in the producing lease at Burkburnett, called the Bryan and Couch Lease, the purchase price of which, only partially paid in cash by respondents was \$25,000, which half interest was sold in November, 1919, for \$12,000. The General Oil Company derived from its interest in this lease between April, 1919, when it was first acquired, and November, 1919, when it was sold as aforesaid, a sum not exceeding \$2,285.

That there were issued and outstanding in June, 1919, 6,358 shares of the General Oil Company and on August 31, 1919, four days after its organization was completed, which was on, to-wit, August 27, 1919, there were outstanding 22,351 shares.

During the greater portion of the period named, to-wit, April to November, 1919, the General Oil Company was acquiring properties and leases in West Texas and elsewhere and engaged in extensive operations including the purchase of large supplies of machinery and other equipment, requiring the use of large sums of money, and that when said representation was made by said respondents, S. E. J. Cox, N. E. Cox and the Prudential Securities Company, as to the sufficiency of oil then being produced by said company, to warrant a dividend of 2 per cent on all stock issued, at the time of its organization, the returns of the General Oil Company, from its only production, were insufficient for its current, operating expenses, and in no wise available for any dividend.

PAR. 14. The respondents, S. E. J. Cox and the Prudential Securities Company under his direction, caused the General Oil Company to distribute among its shareholders during the months following, the sums of money hereinafter set opposite to them, which they and each of them falsely represented as dividends, to-wit:

August, 1919.....	\$6, 309. 45	November, 1919.....	\$11, 061. 90
September, 1919.....	7, 563. 70	December, 1919 ..	22, 033. 45
October, 1919 ..	12, 604. 95		

That for the purpose of influencing prospective investors to purchase stock of the General Oil Company the said respondents, S. E. J. Cox, N. E. Cox, and the Prudential Securities Company widely advertised throughout the United States in the manner, and by the means hereinbefore found in paragraph 6, the fact that said pretended dividends would be paid, and had actually been paid.

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That in truth and in fact, the General Oil Company at the time the so-called dividends were declared or distributed, owned no producing property except the said one-half interest in the said Bryan & Couch lease, and from it received a sum not in excess of \$2,285; and neither then nor at any time theretofore, earned or had any income properly applicable to dividend purposes. The money with which these so-called dividends were paid was acquired by loans from the Prudential Securities Company, controlled and directed as aforesaid by respondent, S. E. J. Cox and also from the sale of certain holdings of the General Oil Company under his supervision and direction for \$50,000. The sum of money so obtained, to-wit, \$50,000 together with the returns from oil production, to-wit: \$2,285, apart from the uses to which alone it could have been properly applied, was insufficient to pay the so-called dividends or any part of said dividends.

PAR. 15. Respondents, S. E. J. Cox, N. E. Cox, the Prudential Securities Company and the General Oil Company, in their campaign to sell the stock of the respondent, the General Oil Company, falsely represented in news letters and circulars distributed throughout the United States that its operations included the purchase of a refinery at Wichita Falls, Tex., with a capacity of 2,500 barrels per day, which would be increased to 6,000 barrels as soon as the refinery was taken over, and in August, 1919, they represented to the public that the deal for this refinery had been finally closed. In truth and in fact, however, it had a capacity of only 1,500 barrels per day when in good repair, and during all of the time it was owned and operated by the General Oil Company, its condition was such that it was impossible to handle more than 750 or 800 barrels per day.

PAR. 16. That the above and foregoing representations and statements as set out in Paragraphs 13, 14 and 15 herein, were false and had the capacity to mislead and deceive, and the natural, probable tendency and effect of them, and of each of them, was to mislead and deceive the public, more particularly the portion thereof who purchased stock in the General Oil Company, consisting approximately of 8,000 persons residing in the various States and Territories of the United States.

PAR. 17. In the years 1917, 1918 and 1919 when respondents, S. E. J. Cox and N. E. Cox, through the Prudential Securities Company and otherwise, were soliciting purchasers for, and selling stock in the Prudential Securities Company, the Bankers Texas Oil Company, the Prudential Oil & Refining Company and the General Oil Company, they and each of them were engaged in direct competition with numerous persons, copartnerships, associations and cor-

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porations in Texas and in different parts of the United States, selling or attempting to sell in interstate commerce, the stock or other securities of corporations and associations engaged in the production of oil, or the exploration and development of prospective oil producing territory.

CONCLUSION.

That the practices of the respondents, under the conditions and circumstances described in the foregoing findings, are unfair methods of competition in interstate commerce and constitute a violation of the provisions of Section 5 of the Act of Congress approved September 26, 1914, entitled, "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes."

ORDER TO CEASE AND DESIST.

This proceeding having been heard by the Federal Trade Commission upon the complaint of the Commission, the answer and amended answer of respondents, the testimony and evidence, and the briefs of counsel, and the Commission having made its findings as to the facts with its conclusion that the respondents have violated the provisions of the Act of Congress approved September 26, 1914, entitled "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes,"

It is now ordered, That the respondents, S. E. J. Cox and N. E. Cox, as officers, shareholders or agents of respondents, Prudential Oil & Refining Company, Prudential Trust and Securities Company and General Oil Company, and as officers, shareholders or agents of any other corporation, association or partnership, and respondents, S. E. J. Cox and N. E. Cox, and the said respondents Prudential Oil & Refining Company, Prudential Securities Company and General Oil Company, their officers, agents and trustees, do cease and desist from directly or indirectly—

1. Publishing, circulating or distributing, or causing to be published, circulated or distributed, any magazine, newspaper, pamphlet, circular, letter, advertisement or any other printed or written matter whatsoever in connection with the sale or offering for sale in interstate commerce of stock or securities wherein is printed or set forth any statement or representation to the effect that said respondents or any of them are able to locate or procure the location or discovery of oil beneath the surface of the earth by means of any instrument, device or formula.

2. Publishing, circulating, or distributing, or causing to be published, circulated or distributed, any magazine, newspaper, pamphlet,

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circular, letter, advertisement or any other printed or written matter whatsoever in connection with the sale or offering for sale in interstate commerce of stock or securities wherein is printed or set forth any false or misleading statements or representations to the effect that the property or operation of any corporation, association or partnership is in proven oil territory, or any other false or misleading statements or representations concerning the promotion, organization, character, history, resources, assets, oil production, earnings, income, dividends, progress or prospect of any corporation, association or partnership; and

It is further ordered, That said respondents, S. E. J. Cox and N. E. Cox, shall within 60 days from the date of service of this order, file with the Commission a report setting forth in detail the manner and form in which they have complied with the order of the Commission herein set forth.

GROSNER'S.

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Complaint.

FEDERAL TRADE COMMISSION

v.

GERALD D. GROSNER, TRADING UNDER THE NAME AND
STYLE OF GROSNER'S.