

Complaint.

FEDERAL TRADE COMMISSION

v.

BIG DIAMOND OIL & REFINING CO. ET AL.

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

Docket 795—March 16, 1923.

SYLLABUS.

Where a corporation, and certain officers thereof responsible for its organization and management, in promoting the sale of stock,

- (a) Misrepresented, in personal solicitation and in newspapers, prospectuses, circulars, and other advertisements, the character of its leases and other holdings, in respect of their alleged location near other well-known, producing properties;
- (b) Claimed for the enterprise and its stock the approval and sanction of the war-time Capital Issues Committee; the fact being that the application for such approval contained various false statements and misrepresentations and that such approval was granted upon the promise of the corporation to devote the proceeds of the stock authorized to be sold to the completion of its refinery (which promise was not fulfilled), and upon the express understanding that it did not go to the legality, validity, value, or security of the stock;
- (c) Represented that some of the stock offered was a part of that authorized by the Capital Issues Committee, when, as a matter of fact, it was personal stock of the aforesaid officers;
- (d) Misrepresented the value of and production from its holdings and the alleged dividends received therefrom;
- (e) Falsely claimed that the enterprise was a going concern, on a sound, dividend-paying basis; when in fact it at no time earned any net profits and its affairs were mismanaged by the aforesaid officers (who diverted to their own use proceeds belonging to the company) in collusion with one another, and in their personal interest as opposed to that of bona fide stockholders; and
- (f) For the purpose of stimulating the sale of stock declared a pretended dividend on outstanding stock and made payments thereon with funds derived from the sale of stock, when as a matter of fact the corporation was heavily indebted and at no time had sufficient net profits, surplus, or other funds from which to pay a genuine dividend;

With the result that the purchasing public was misled and deceived, and numerous persons were thereby induced to purchase said stock:

Held, That such practices, 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 Big Diamond Oil & Refining Company, P. M. Faver, J. F. Dofflemyer, B. F. King, and

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O. E. Houston, hereinafter referred to as respondents, have been and are 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 to the Commission 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, Big Diamond Oil & Refining Company, is a corporation organized on July 13, 1917, under the laws of the State of Arizona, with principal office at Oklahoma City, Okla., having authorized capital stock of \$3,000,000, divided into 3,000,000 shares of the par value of \$1 each, which corporation was promoted by the respondents, B. F. King, J. F. Dofflemyer, O. E. Houston, and P. M. Faver; that the purposes for which said corporation was organized were, among others stated, to drill oil wells and build and operate oil refineries.

PAR. 2. That the respondents, B. F. King, J. F. Dofflemyer, O. E. Houston, and P. M. Faver, were designated in the articles of incorporation of the respondent, Big Diamond Oil & Refining Company, as members of its board of directors, and at the first meeting of said board, said respondents, B. F. King, J. F. Dofflemyer, O. E. Houston, and P. M. Faver, were elected president, first vice president, treasurer, and secretary, respectively, of said respondent, and thereafter the respondent P. M. Faver was elected president and the respondent B. F. King was elected vice president of said respondent Big Diamond Oil & Refining Company.

PAR. 3. That immediately after its organization the respondent, Big Diamond Oil & Refining Company, issued to each of the respondents, B. F. King, J. F. Dofflemyer, O. E. Houston, and P. M. Faver, 150,000 shares of its capital stock, in consideration of the assignment to said Big Diamond Oil & Refining Company of certain oil and gas leases, and for alleged services rendered in the promotion of said corporation, all of which leases and the alleged services rendered were of no value, and such transactions were a fraud on stockholders who thereafter bought the stock of such corporation for cash; that of the stock so issued to the respondents, King, Dofflemyer, Houston, and Faver, one-third was assigned back to the corporation to be sold to the public and the proceeds used as working capital and for building a refinery, and although such stock was assigned to the corporation for the purposes stated, it was sold to the public as the personal stock of said respondents, King, Dofflemyer, Houston, and Faver, to enable them to avoid the blue sky laws

of several States in the sale of such stock; that such stock was sold on mail orders and by agents on commission to numerous purchasers in the various States of the United States, and respondents caused certificates of such stock, when sold, to be transported to the purchasers thereof, from the State of Oklahoma through and into other States of the United States, and in the sale of such stock respondents were in direct, active competition with other persons, partnerships, and corporations similarly engaged.

PAR. 4. That in the sale of stock, as set out in paragraph 3 hereof, respondents made use of advertisements in newspapers of general circulation throughout the United States, and in prospectuses, circulars, circular letters, and other advertising matter, which advertisements and advertising matter contained numerous false and deceptive statements of and concerning the respondent, Big Diamond Oil & Refining Company, the value of oil leases alleged to be owned by it, the value of its stock, and its dividend earning capacity; said respondents caused such advertising matter to be transported from the State of Oklahoma through and into other States of the United States, to prospective purchasers and to agents of respondents; which said false and deceptive statements contained in such advertising matter were calculated to and did mislead and deceive the public, and numerous persons were thereby induced to purchase said stock; that among such false and deceptive statements were statements to the effect that development was going on all around the lands leased by the company in Caddo County, Okla., whereas all of such lands were in unproven and undeveloped territory; that the company owned oil leases on 2,942 acres of land in proven territory, whereas the only lease which the company claimed to own in proven territory was a lease on $6\frac{3}{4}$ acres near Humble, Tex., but which lease had never been assigned to the company but was held by the respondents Faver and Dofflemyer; the further statement was made that the company owned an oil well which produced 25 barrels of oil per day, whereas such well produced from 4 to 7 barrels of oil per day; also that such stock had been approved by the Federal Capital Issues Committee, whereas such committee had only authorized the sale of 23,000 shares of said stock, as not incompatible with the national interest, but without approval as to the validity or worth of the stock; that numerous other statements of like false and deceptive character were contained in such advertisements and advertising matter.

PAR. 5. That as a means of enhancing the sale of stock in the respondent, Big Diamond Oil & Refining Company, respondent on

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May 31, 1918, caused a dividend of 2½ per cent to be declared on all stock which had been sold prior thereto for cash; that at the time such dividend was declared said respondent had earned no profits and possessed no surplus fund from which a dividend could be paid, but such respondent was insolvent; that by the declaration of such dividend the public, and particularly the stockholders of such respondent, were deceived, and numerous persons were thereby induced to purchase stock in said respondent.

PAR. 6. That the business and affairs of the respondent, Big Diamond Oil & Refining Company, have at all times been conducted by its promoters and officers in the interest and for the benefit of such promoters and officers, and particularly the respondents, B. F. King, J. F. Dofflemyer, O. E. Houston, and P. M. Faver, who have contributed nothing of value to the assets of said company, and the business and affairs of said company have at all times been conducted to the disadvantage of those minority stockholders who paid cash for stock in said company and thereby provided it with all the working capital it ever possessed.

PAR. 7. That by reason of the facts recited, the respondents are 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 respondents, Big Diamond Oil & Refining Company, P. M. Faver, J. F. Dofflemyer, B. F. King, and O. E. Houston, charging them with the use of unfair methods of competition in commerce in violation of the provisions of said act.

Respondents B. F. King and O. E. Houston having filed their answers and entered their appearances by their attorneys, Messrs. Stuart, Sharp & Cruce, and Oscar E. Houston, respectively, and respondents P. M. Faver and J. F. Dofflemyer having demurred to the complaint and, without waiving any rights thereunder, entered their appearances and filed their answers by their attorney, P. M. Faver, and appearance having been entered and answer filed by J. W. McKenney, receiver for Big Diamond Oil & Refining Company, by Messrs. Bridges & Vertrees and E. B. Anderson, his attorneys, hearings were had before an examiner of the Commission theretofore duly appointed, and testimony and evidence introduced in support

of the allegations of the complaint, and also by the respondents in support of their defense, and the testimony so taken was reduced to writing and filed, together with the other evidence, in the office of the Commission.

And thereupon this proceeding came on regularly for final hearing, and the Commission having heard argument of counsel and having duly considered the record and being fully advised in the premises, makes this its report, stating its findings as to the facts and conclusion.

FINDINGS AS TO THE FACTS.

PARAGRAPH 1. That the respondent, Big Diamond Oil & Refining Company, is a corporation organized on July 13, 1917, under the laws of the State of Arizona, with its principal office at Oklahoma City, Okla., having an authorized capital stock of \$3,000,000 divided into 3,000,000 shares of the par value of \$1 each, which corporation was promoted by the respondents, B. F. King, J. F. Dofflemyer, O. E. Houston, and P. M. Faver; that the purposes for which said corporation was organized were, among others stated, to drill oil wells and build and operate oil refineries.

PAR. 2. Respondents B. F. King, J. F. Dofflemyer, O. E. Houston, and P. M. Faver were designated in the articles of incorporation of the respondent, Big Diamond Oil & Refining Company, and served as members of its board of directors, and at the first meeting of said board respondents B. F. King, J. F. Dofflemyer, O. E. Houston, and P. M. Faver were elected president, first vice president, treasurer, and secretary, respectively, and shortly thereafter respondent B. F. King was elected vice president of said company, and thereupon respondent P. M. Faver was elected president and served as such at all times thereafter.

PAR. 3. Immediately after the organization of respondent company, respondents B. F. King, J. F. Dofflemyer, O. E. Houston, and P. M. Faver caused, in accordance with an agreement among themselves, respondent company to transfer to, and hold for, their personal accounts 100,000 shares each of the company's stock, and to set apart 250,000 shares of the company's stock to be sold to the public for the purpose of obtaining working capital and building a refinery, which transfers of stock were to be made for, and in consideration of, the alleged assignment to said Big Diamond Oil & Refining Company of certain oil and gas leases and alleged services rendered in the promotion of respondent company. Thereafter and prior to the issuance of the complaint herein, the shares of the capital stock of respondent company were sold by respondents and by their

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agents on mail orders and by direct, personal solicitation of respondent persons and respondents' agents to numerous purchasers in the various States of the United States, and respondents caused the certificates of said stock, when so sold, to be issued and transported to the purchasers thereof from the State of Oklahoma through and into other States of the United States; and in the sale of said stock respondents were in direct, active competition with many other persons, partnerships, and corporations similarly engaged.

PAR. 4. In the sale of stock as set out in paragraph 3 hereof and as inducements to prospective purchasers to purchase said stock, numerous false, misleading, and deceptive statements and other representations were made by respondents and their agents in collusion with each other, and they also made use of advertisements in newspapers of general circulation throughout the United States and prospectuses, circulars, letters, and telegrams (all of which are hereinafter referred to as "advertising matter"), which advertising matter also contained numerous false, misleading, and deceptive statements and other representations; and respondents caused such advertising matter to be transported from the State of Oklahoma through and into other States of the United States to their said agents and to prospective purchasers of said stock for the purpose of inducing prospective purchasers to purchase said stock. Said false, misleading, and deceptive statements and other representations made by respondents and their agents and those contained in said advertising matter were to the following effect:

(1) That oil developments was going on all around lands leased by respondent company in Caddo County, Okla., and that said lands were in proven oil territory, whereas in truth the said lands claimed to be so leased by respondent company in said county were in unproven and undeveloped territory, the nearest production to same being from 2 to 4 miles away.

(2) That respondent company owned oil leases on 2,942 acres of land in proven oil territory, whereas in fact not more than 77 acres of said lands may be truthfully so classed.

(3) That the company owned in fee simple six and two-thirds ($6\frac{2}{3}$) acres in the heart of the well-known Humble oil fields of Texas, on which property the company owns and is operating a well having a settled production of 25 barrels of oil per day, and that said well is producing for respondent company a net income of over \$11,000 per year, which production is paying a substantial dividend on the company's investment, whereas in truth respondent company never owned or held the title to said $6\frac{2}{3}$ -acre property, and it received the oil runs from said well only for a period of about 11 months, from May, 1918, to March, 1919, and said company's claim to such oil runs was based upon an agreement by it to pay a certain indebtedness on the property, which indebtedness respondent company never paid, and said company is not now in

possession of, or receiving any production from, said property, and said well, when producing, had a capacity of only 4 to 11 barrels per day, and respondent company's gross income from said property and well was less than \$3,000 and was at no time sufficient to pay a dividend on the company's investment, and said property was at no time a source of profit to said respondent company.

(4) That respondent company owned a lease on 5 acres of land situated in the "world-famed Goose Creek oil fields of Texas, practically surrounded by gushers producing from 5,000 to 35,000 barrels daily," and that said 5-acre lease has a cash value of \$300,000, whereas in truth said 5-acre tract is outside of the said Goose Creek oil fields of Texas, and the nearest oil production in any direction was more than three-fourths of a mile south thereof, and the said lease did not have a cash value of \$300,000, but was of little or no value, and said property has been abandoned by respondent company as nonproductive.

(5) That respondent company and its stock had the approval of the Capital Issues Committee and the United States Government, and that the sale of such stock had been authorized by said committee, whereas in truth said Capital Issues Committee only rendered a decision that the sale of 23,000 shares of the respondent company's stock would not be incompatible with the national interest at that time, which decision of said Capital Issues Committee was based upon an application made by respondent company with respect to the issuance of securities under Title II of the War Finance Corporation Act, and also upon respondent company's promise that \$20,000 of the proceeds of said shares to be sold would be used to complete respondent company's refinery, and neither the said Capital Issues Committee nor the United States Government approved respondent company or its stock in any way, and said committee's decision was made with the stipulation and understanding that it in no manner approved the legality, validity, worth, or security of said stock, and the said application made by respondent company to said committee contained false statements of fact as to the capitalization of respondent company and the number of shares issued and other misleading representations, and the funds received from the sale of stock, passed upon as aforesaid by said committee, were never used, as promised, to complete respondent company's refinery.

(6) That some of the shares of said stock offered for sale and sold by respondents were part and parcel of said 23,000 shares passed upon by the Capital Issues Committee, as aforesaid, whereas in truth said shares so offered and sold were considered and handled by respondents as the personal stock of respondent individuals.

(7) That respondent company was on a sound dividend-paying basis and a going concern earning substantial profits, whereas in truth respondent company was at no time on a dividend-paying basis or in sound financial condition and at no time earned any net profits, and respondents, colluding with each other therein, mismanaged and controlled the business of respondent company and its finances to their own personal interests as against the interests of the bona fide stockholders who purchased their stock from respondents;

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and respondent persons, in said collusion, diverted to their own use proceeds belonging to the company and derived from the sale of stock to the public.

The aforesaid false, misleading, and deceptive statements and other representations made by respondents and their agents, and those contained in said advertising matter, as hereinbefore set out, were calculated, have and had the capacity and tendency to, and did, mislead and deceive the purchasing public, and numerous persons were thereby induced to purchase said stock of respondent company.

PAR. 5. As a means of enhancing the sale of stock, respondents declared a so-called dividend of 2½ per cent, to be paid on July 1, 1918, on all stock outstanding and paid up on May 31, 1918, whereas respondent company was at that time heavily indebted, and it at no time had sufficient net profits, surplus, or other funds from which to pay any genuine dividend, but stock and funds derived from the sale of stock were used to pay part of said so-called dividend, and, owing to lack of sufficient funds, some stockholders were never paid. By the declaration of said so-called dividend the purchasing public, and particularly the stockholders of respondent company, were misled and deceived, and numerous persons were thereby induced to purchase stock of said respondent company.

PAR. 6. That on the 29th day of May, 1920, the respondent, Big Diamond Oil & Refining Company, was placed in the hands of a receiver by the District Court of Jefferson County, Okla., in a certain action wherein R. M. Golden et al. were plaintiffs and respondent company was defendant.

CONCLUSION.

The practices of the respondents, under the circumstances and conditions described in the foregoing findings as to the facts, 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 of the respondents, the testimony and evidence, and argument of counsel, and the Commission having made its findings as to the facts with its conclusion that 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 respondent, Big Diamond Oil & Refining Company, its officers, agents and employees, and respondents, P. M. Faver, G. F. Dofflemyer, B. F. King, and O. E. Houston, their agents and employees, do cease and desist from directly or indirectly making, or causing to be made, in selling in commerce or in promoting or furthering in commerce the sale of stock or other securities of the Big Diamond Oil & Refining Company or any other corporation, trust, or association, any statement or representation in any way whatsoever to the effect:

(1) That oil development is going on all around lands owned or leased by any such corporation, trust, or association.

(2) That any lands owned, leased, or claimed by any such corporation, trust, or association are in proven oil territory.

(3) That any such corporation, trust, or association owns in fee simple, or has leases on, any producing oil property;

(4) That any such corporation, trust, or association is on a dividend-paying basis or is earning substantial profits;

(5) That any such corporation, trust, or association has oil wells producing specific quantities of petroleum daily; or that any such corporation, trust, or association has any specific income;

(6) That any such corporation, trust, or association owns lands or leases on lands, in or near any well-known producing oil fields;

(7) That the legality, validity, worth, or security of any such stock or other securities, or that any such corporation, trust, or association, has been approved, passed upon or sanctioned in any way by the United States Government or any agency thereof;

(8) That any such stock or other securities is treasury or company stock or other securities of any such corporation;

(9) That any such corporation, trust, or association is about to pay or has paid any genuine dividends;

(10) That any such corporation, trust, or association is properly managed in the best interests of all its stockholders;

When such statement or representation is not true in fact.

It is further ordered, That respondents, within sixty (60) days from notice hereof, file with the Commission a report in writing stating in detail the manner in which this order has been complied with and conformed to.

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FEDERAL TRADE COMMISSION

v.

LONE STAR OIL CO. ET AL.

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

Docket 796—March 23, 1923.

SYLLABUS.

Where a corporation and individuals interested therein, in promoting the sale of stock of said corporation; through newspapers, prospectuses and other advertising matter, and otherwise.

- (a) Represented that the personally owned stock so offered was treasury stock being sold to supply the company with money for extra drilling operations, in order to increase its earnings and further to develop its properties; the fact being that the company received none of the proceeds thereof;
- (b) Claimed that most of its holdings were located in the heart of a famous oil field and that the rest were located within its productive area; the fact being that, with the exception of a very small proportion, said holdings were largely in "wildcat" territory;
- (c) Grossly misrepresented the amount of its earnings and income, the dividend rate warranted thereby, and its prospects in general; the fact being that at no time were its net profits (if it had any), sufficient to warrant any such dividend rate as alleged;

With the result that the purchasing public was misled and deceived and numerous persons were thereby induced to purchase said stock:

Held, That such practices, substantially as described, constituted unfair methods of competition.

COMPLAINT.

The Federal Trade Commission, having reason to believe, from a preliminary investigation made by it, that Lone Star Oil Company, Joe L. Stetman, Mrs. M. S. Lawson, C. H. Langdon, C. A. Bradley, J. D. Hawk, George F. Barton, J. B. Braidwood, and George B. Kemp, hereinafter referred to as the respondents, have been and are 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 this respect on information and belief as follows:

PARAGRAPH 1. That the respondent Lone Star Oil Company is a corporation organized under the laws of the State of Colorado, with principal place of business at Denver in said State, having authorized capital stock of \$200,000 divided into 30,000,000 shares of the par

value of one cent (\$0.01) each; the respondents Joe L. Stetman, Mrs. M. S. Lawson, C. H. Langdon, C. A. Bradley, and J. D. Hawk were the promoters of said respondent Lone Star Oil Company and participated in the conduct and management of its affairs; that the respondent George F. Barton, operating under the name and style of Barton Brokerage Company, J. B. Braidwood, operating as Braidwood Brokerage Company, and George B. Kemp were actively engaged as brokers in the sale of the stock of the respondent Lone Star Oil Company, as hereinafter set out.

PAR. 2. That the respondent Lone Star Oil Company was organized in October, 1917, to take over all the outstanding capital stock of the Holly Oil Company, a corporation, all the stock of which was then held by the respondent C. A. Bradley; that the said Holly Oil Company then owned an oil lease on 10 acres of land in the Humble, Tex., field, upon which tract there were six oil wells which were then producing approximately 135 barrels of oil per day; that upon the organization of the respondent Lone Star Oil Company there was issued to the respondent C. A. Bradley 26,666,667 shares of its stock in consideration of the assignment by the respondent C. A. Bradley of all the outstanding capital stock of said Holly Oil Company, to the respondent Lone Star Oil Company; thereupon the respondents C. A. Bradley and Joe L. Stetman, who was the president of the respondent Lone Star Oil Company, entered into a partnership for the sale of the stock issued to the respondent C. A. Bradley as aforesaid, upon a commission of 40 per cent of the proceeds of the sale of such stock; that before any of such stock was sold the respondent C. A. Bradley withdrew from such partnership with the respondent Joe L. Stetman, whereupon the respondent J. D. Hawk became a member of such partnership, and after 1,500,000 shares of such stock had been sold by such partnership the respondent Joe L. Stetman sold his interest in such partnership and its business to the respondent Mrs. M. S. Lawson, who thereupon organized the Lawson Securities Company, which company was designated as sales agent for the sale of the stock issued to the respondent C. A. Bradley as aforesaid, portions of which stock were then sold through brokers among whom were the respondent George F. Barton, operating as Barton Brokerage Company, the respondent J. B. Braidwood, operating as the Braidwood Brokerage Company, and the respondent George B. Kemp; that respondents sold numerous shares of such stock to various persons outside the State of Colorado and caused certificates of such stock when sold to be transported to the purchasers thereof from the State of Colorado

through and into other States of the United States and carried on the business of selling such stock in direct, active competition with other persons and corporations similarly engaged.

PAR. 3. That respondents and each of them in the course of the sale of the stock of the respondent Lone Star Oil Company, as described in paragraph 2 hereof, caused advertisements to be published in newspapers of general circulation throughout the United States and made use of circulars, circular letters, and other advertising matter which they gave general circulation throughout the United States, which advertisements and advertising matter contained numerous false and deceptive statements concerning the respondent Lone Star Oil Company, its properties, the extent of its operations, and the value of its stock; the further false and deceptive statement was made that the stock which respondents were selling, as aforesaid, was treasury stock of the respondent Lone Star Oil Company and that the proceeds of the sale of same would be used for drilling oil wells for the respondent Lone Star Oil Company and for general development purposes for said company, whereas such stock was the property of the respondent C. A. Bradley and no part of the proceeds of the sale of same was turned in to the treasury of the respondent Lone Star Oil Company; that such statements were calculated to and did mislead and deceive the public and numerous persons were induced thereby to purchase said stock.

PAR. 4. That the use by each and all of said respondents severally and in their common interest, of the practices hereinbefore set out is an unfair method of competition in commerce within the 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 a complaint against Lone Star Oil Company, Joe L. Stetman, Mrs. M. S. Lawson, C. H. Langdon, C. A. Bradley, J. D. Hawk, George F. Barton, J. B. Braidwood, and George B. Kemp, charging them with the use of unfair methods of competition in commerce in violation of the provisions of said act and served said complaint upon Lone Star Oil Company, Joe L. Stetman, C. A. Bradley, J. D. Hawk, George F. Barton, and J. B. Braidwood. Service of said complaint was not effected upon respondents Mrs. M. S. Lawson and George B. Kemp, as they could not be found. Respondent C. H. Langdon received

due and timely notice of issuance of said complaint and the proceedings had herein.

Respondents Lone Star Oil Company, C. H. Langdon, Joe L. Stetman, George F. Barton, and J. D. Hawk entered their appearances, respondents Mrs. M. S. Lawson and George B. Kemp appearing neither in person nor by attorney, and respondent J. B. Braidwood having deceased, hearings were had before examiners of the Federal Trade Commission theretofore duly appointed and testimony and evidence taken on behalf of the Commission; and respondents having been given full opportunity to cross-examine the witnesses offered on behalf of the Commission and to introduce evidence in their defense the hearings before the examiners were duly closed, and the testimony so taken being reduced to writing was filed in the office of the Federal Trade Commission.

And thereupon this proceeding came on for final hearing before the Federal Trade Commission, and the Commission having heard argument of counsel and having duly considered the record and being now fully advised in the premises, makes this its report, stating its findings as to the facts and conclusion:

FINDINGS AS TO THE FACTS.

PARAGRAPH 1. That the respondent Lone Star Oil Company is a corporation organized under the laws of the State of Colorado, with its principal place of business at Denver, in said State, having an authorized capital stock of \$300,000, divided into 30,000,000 shares of the par value of one cent each. The respondents Joe L. Stetman, Mrs. M. S. Lawson, C. H. Langdon, C. A. Bradley, and J. D. Hawk were the promoters of respondent Lone Star Oil Company and, with the exception of C. A. Bradley, participated in the conduct and management of its affairs and the sale of stock of respondent company as hereinafter set out. Respondent George F. Barton, operating under the name and style of Barton Brokerage Company, was actively engaged as broker and agent, ostensibly for respondent company, in the sale of stock of respondent Lone Star Oil Company as hereinafter stated.

PAR. 2. That respondent Lone Star Oil Company was organized, as aforesaid, in October, 1917, to take over the outstanding capital stock of the Holly Oil Company, a corporation, all the stock of which was then held by respondent C. A. Bradley. The Holly Oil Company then owned an oil lease on 10 acres of land in the Humble Oil Field of Texas, upon which tract there were a number of oil wells which were then collectively producing approximately 135

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barrels of oil per day. That upon the organization of the respondent Lone Star Oil Company, it issued to respondent C. A. Bradley 26,666,667 shares of its stock in consideration of the assignment by the respondent C. A. Bradley of all the outstanding capital stock of the said Holly Oil Company to respondent Lone Star Oil Company. Thereupon respondent C. A. Bradley, Joe L. Stetman, who was then the president of the respondent Lone Star Oil Company, and respondent J. D. Hawk, who was assistant secretary of respondent company, formed a partnership for the sale of the stock issued to respondent C. A. Bradley, as aforesaid, upon a commission of 40 per cent of the proceeds of the sale of such stock. That before any such stock was sold, respondent C. A. Bradley withdrew from such partnership with respondents Joe L. Stetman and J. D. Hawk, whereupon one Morris H. Block became a member of such partnership in the place of respondent Bradley, and after about 1,500,000 shares of such stock had been sold by said partnership, which operated ostensibly as agents of respondent company in said business, respondent Joe L. Stetman sold his interest in said partnership to respondent Mrs. M. S. Lawson, who was the secretary-treasurer of respondent Lone Star Oil Company. The Lawson Securities Company was then organized, and was continuously thereafter managed and controlled by respondent Mrs. M. S. Lawson, respondent J. D. Hawk, said Morris H. Block, and one Mrs. H. I. Barwise, and said Lawson Securities Company, upon its organization, succeeded to and acquired the business of said partnership and became the selling organization for the sale of the stock issued to respondent C. A. Bradley, as aforesaid, and in carrying on such business it styled itself "financial agents" of respondent Lone Star Oil Company. Many shares of said stock were sold from and after the time of organization of respondent company by respondent Lone Star Oil Company, by respondents Stetman and Langdon, each trading individually and as officer, director, and agent of respondent Lone Star Oil Company and under the unincorporated firm name and style of Joe L. Stetman & Company, by respondent J. D. Hawk, trading under the name and style of Lawson Securities Company, and by respondent George F. Barton, trading under the name and style of Barton Brokerage Company, to numerous purchasers throughout the various States, and they, and each of them, caused certificates of such stock when so sold to be transported from the State of Colorado through and into various other States of the United States to the purchasers thereof, and they and each of them carried on the business of selling and distributing such stock to the public in direct, active competition with other persons, partnerships, and corporations similarly engaged.

PAR. 3. In the sale of said stock as set out in paragraph 2 hereof, and as inducements for prospective purchasers to purchase said stock, numerous false, misleading, and deceptive statements and other representations were made by respondents Lone Star Oil Company, Stetman, Langdon, Hawk, and Barton, trading as aforesaid, and their agents, and they also made use of advertisements in newspapers of general circulation throughout the United States and prospectuses, circulars, letters, and telegrams (all of which are hereinafter referred to as "advertising matter") which advertising matter also contained numerous false, misleading, and deceptive statements and other representations, and said respondents, trading as aforesaid, caused such advertising matter to be transported from the States of Colorado and Utah, through and into other States of the United States to prospective purchasers of said stock for the purpose of inducing said prospective purchasers to purchase said stock. Said false, misleading, and deceptive statements and other representations made by said respondents Lone Star Oil Company, Stetman, Langdon, Hawk, and Barton, and their agents, and said false, misleading, and deceptive statements and other representations contained in said advertising matter were to the following effect:

(1) That the said stock offered for sale and sold was treasury stock of respondent Lone Star Oil Company and that such stock was being sold to supply said company's treasury with money for extra drilling operations in order to increase its earnings and to further develop its properties, whereas in truth the stock so offered for sale and sold was not treasury stock of respondent company, but stock that had been issued to respondent C. A. Bradley for and in consideration of the stock of said Holly Oil Company as hereinbefore set forth, and respondent Lone Star Oil Company received none of the proceeds from the sale of said stock, but said proceeds to the extent of \$100,000 were paid to respondent C. A. Bradley and the balance of said proceeds went to the various persons and companies engaged in selling said stock to the public, all of which facts were well known to said respondents making said representations.

(2) That respondent company's earnings and income from production from its properties were \$50,000 per year, which were increased by the drilling of additional wells to approximately \$125,000 per year, and, even before the company received an advance of 35 cents a barrel in the selling price of its oil, the production from its properties was netting the company approximately 15 per cent of its entire capitalization of \$300,000; whereas in truth the total income from respondent company's production did not exceed the sum of \$60,000, all of which income from production was received over a period of more than two years from December 1, 1917, to December 31, 1919, and by far the greater part of said total income was received from the sale of oil produced after the adoption of the practice of making

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said representations, and the net profits accruing from said production, if there were any, were very small, and at no time were said net profits sufficient to amount to approximately 15 per cent of respondent company's entire capitalization of \$300,000 as represented, and respondent company's expenses in operating its properties from which its said production was obtained were very large in proportion to the income and at times said expenses were as much or more than the income.

(3) That the holdings of respondent company consisted of 110 acres in "the very heart" of the famous Humble Oil Field of Texas, and 43 acres additional within the productive area of said oil field; whereas in truth the only property respondent company owned in said Humble Oil Field was a lease on a little less than 10 acres from which all its production was derived, and its other property consisted of a lease on 100 acres situated 3 miles outside of said Humble Oil Field and not within or near any oil-producing area, but is in what is classed as "wild cat" territory, and said 43-acre tract referred to was located outside of, and at least 1 mile from, any oil-producing area.

(4) That respondent company was on a dividend paying basis with earnings sufficient to maintain the payment of dividends; whereas in truth all the dividends declared by the respondent company were the following:

2 per cent cash dividend payable January 15, 1918.

4 per cent cash dividend payable March 15, 1918.

5 per cent stock dividend on all stock outstanding on June 15, 1918.

3 per cent cash dividend on all stock outstanding on September 15, 1918.

and the par value of the stock distributed as said stock dividend amounted to \$13,865.27, and said cash dividends, if paid on the outstanding stock at the respective times, would have exceeded the sum of \$24,000, but respondent company claims to have disbursed a total of only \$14,793.99 in distributing said cash dividends. However, the profits of respondent company from all sources for the period December 1, 1917, to December 31, 1918, which period covered the period in which the foregoing dividends were declared, amounted to much less than the par value of the stock and the funds so distributed as said dividends, and furthermore the company's final net profits for said period are listed in its profit and loss statement as being less than \$1,500.

The foregoing false, misleading, and deceptive statements and other representations made by respondents Lone Star Oil Company, Stetman, Langdon, Hawk, and Barton and their agents, and those false, misleading, and deceptive statements and other representations contained in said advertising matter as hereinbefore set out, were calculated, have and had the capacity and tendency to, and did, mislead and deceive the purchasing public and numerous persons were thereby induced to purchase said stock.

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PAR. 4. That respondent, C. A. Bradley, having in mind the sale of the property of the Holly Oil Company at Humble, Tex., made suggestions to and advised some of the other individual respondents in this proceeding as to the organization and promotion of respondent Lone Star Oil Company, and upon its organization he received 26,666,667 of its 30,000,000 shares of capital stock for the capital stock of the Holly Oil Company. These 26,666,667 shares of stock were, in accordance with agreement, to be sold or so much thereof as would net him \$100,000, as hereinbefore mentioned, and while he was interested in the sale of said stock, it does not appear from the record in this proceeding that he was at any time an officer of respondent company or that he ever sold or offered for sale any of the stock of respondent company or was responsible for the representations made in the sale of stock as hereinbefore set forth.

PAR. 5. That shortly after the institution of this proceeding against respondents, and before the taking of any testimony herein, respondent, J. B. Braidwood, departed this life.

CONCLUSION.

That the practices of respondents, Lone Star Oil Company, Joe L. Stetman, C. H. Langdon, J. D. Hawk, and George F. Barton, under the conditions and circumstances described in the foregoing findings are unfair methods of competition in interstate commerce 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 pleadings, the testimony and evidence and argument of counsel and the Commission having made its findings as to the facts with its conclusion that respondents, Lone Star Oil Company, Joe L. Stetman, C. H. Langdon, J. D. Hawk, and George F. Barton, 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 respondent Lone Star Oil Company, its officers, agents and employees, and respondents Joe L. Stetman, C. H. Langdon, J. D. Hawk, and George F. Barton, their agents and employees, do cease and desist from directly or indirectly making, or causing to be made by any means whatsoever in selling in commerce, or in promoting and furthering in commerce the sale of stock or other

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securities of Lone Star Oil Company or of any other corporation, trust, or association, any statement or representation to the effect that (1) said stock or other securities is treasury or company stock or other company securities; or (2) that the proceeds from the sale of said stock or other securities is being received and used by such company, corporation, trust or association for developing its holdings; or (3) that the earnings and income of Lone Star Oil Company or any other such corporation, trust, or association is a stated amount or approximates a stated amount; or (4) that the holdings of Lone Star Oil Company or any other such corporation, trust or association is in the Humble Oil Field of Texas, or in any oil producing area, or in proven oil territory; or (5) that Lone Star Oil Company or any other such corporation, trust, or association is on a dividend paying basis and is earning sufficient profits to maintain the payment of dividends; when any or all said statements or representations are not true in fact.

It is further ordered, That respondents Lone Star Oil Company, Joe L. Stetman, C. H. Langdon, J. D. Hawk, and George F. Barton within sixty (60) days from notice hereof file with the Commission a report in writing, stating in detail the manner in which this order has been complied with and conformed to.

AUSTIN-WESTERN ROAD MACHINERY CO.

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Complaint.