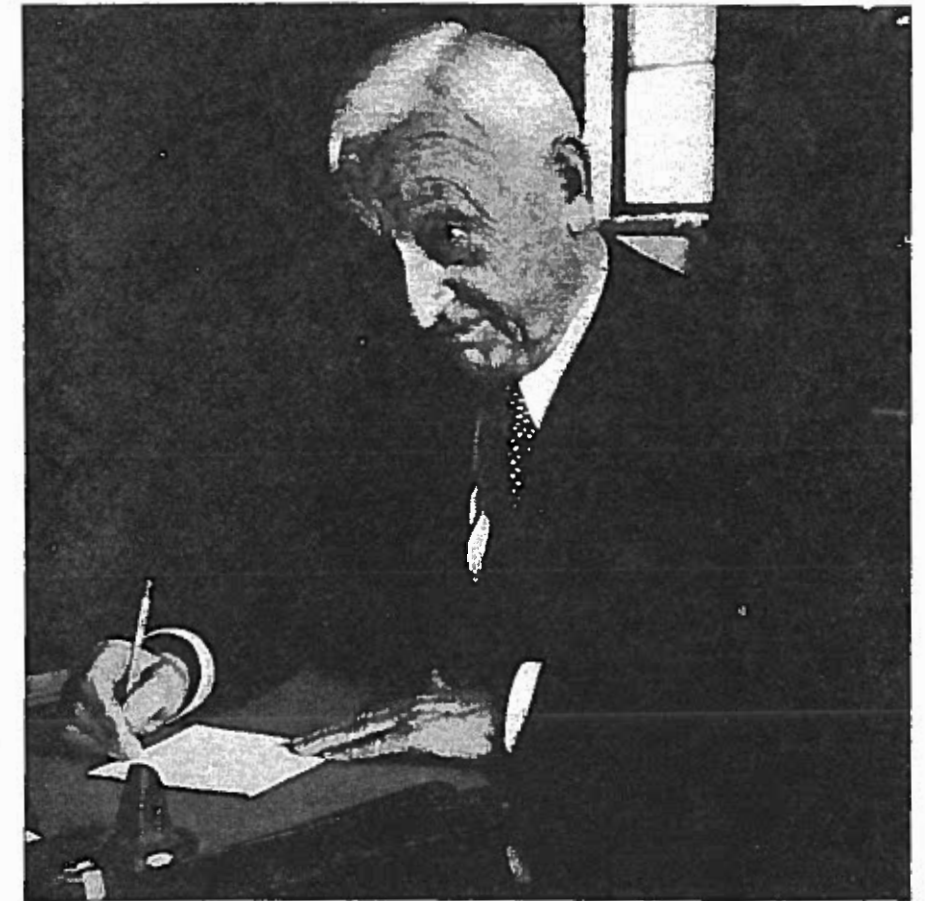


NAMES & FACES



Cyrus Eaton is a man who "can charm an eagle right off his nest." But back of the charm there is a fierce pride and a world of business shrewdness. When the Depression collapsed his first fortune, his pride drove him to rebuild. Using his charm and his shrewdness, he is now . . .

Building His Second Empire

Cyrus Stephen Eaton, 71-year-old business giant, let it be known a few weeks ago that he had bought substantial interests in two electric utility companies—Kansas City Power & Light Co. and Cleveland Electric Illuminating Co. (BW—Mar. 5 '55, p34). At this point, Eaton began the last sweep of his career's second great cycle through the worlds of high finance and big industry.

The first cycle of this fabulous 47-year career ended in the 1930s, amid general economic disaster. Now:

- For the second time in his life, Eaton is building an interest in the electric utility industry—the area that gave him his start and netted him his first million dollars. His two latest acquisitions represent his first move into the field since he sold vast holdings in it during the early 1930s.

- For the second time in his life, Eaton stands at the controls of a huge fortune. His first fortune, reputedly about \$100-million, cracked and disintegrated during the Depression. His second is bigger, though only a few men know by how much.

- **Empire**—In buying into electric utility companies once more, Eaton disclaims any dream of building a utility empire to match the one he had in the early 1930s. That one was the nation's third largest; it ranked in value only below the immense utility networks of tycoons Sidney Mitchell and Samuel Insull.

Eaton says his new interest in electric utilities stems from quite ordinary business considerations, not necessarily those of a man who would be king:

- He believes his big store of knowledge and experience will prove an asset to any utility in which he invests.

- He senses a trend away from government ownership of the electric power industry, and this pleases him as an investor.

- He foresees good times for the two companies he has bought into. Both, in his opinion, have (1) smart management and (2) the prospect of increased demand for their product.

Eaton says he has no idea at this time where his investments in the industry will end. Certainly, he intends to be more than a casual stockholder.

He is rumored to have acquired stock options in two other electric utilities, and there are some observers who see all this as the beginning of a second Eaton utility empire. However, even these observers are sure Eaton will never again reach his former heights in the industry. Present federal regulations, if nothing else, preclude that.

- **Builder**—There are many forces today that make it hard for a single businessman to become really big, in the pattern of such men as J. P. Morgan and John D. Rockefeller. There are new public philosophies, heavy taxes. Talk of business bigness today is likely to refer to corporations, to management teams rather than single men.

But there are powerful single individuals in the American scene today, and Eaton is one of them. He is perhaps even more intriguing than most of the others, for this is his second time at the top. He built and lost a kingdom in a day when many other men were doing the same. Then he tackled a totally new environment, learned its rules, and doggedly built a second king-

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"... he met Rockefeller, whereupon the course of his life changed abruptly..."

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dom when many other giants of his early era had gone into morose retirement.

Here is how he did it.

I. The First Empire

Cyrus Eaton was trained originally for the Baptist ministry, and it may be to this fact that he owes his present eminence in the business world. His uncle preached at a Baptist church in Cleveland frequented by the magnate John D. Rockefeller. Young Eaton, one summer, paid an extended visit to his uncle with the object of learning more about the church. He met Rockefeller, whereupon the course of his life changed abruptly.

For three summers thereafter, Eaton worked as a clerk in one of Rockefeller's enterprises. Upon graduation from college, Eaton found a full-time job as clerk waiting for him. He took it, for he had decided by this time that his career lay this way rather than in the ministry.

In 1907, though he did not recognize it as such, the cornerstone of his two empires was laid. Rockefeller interests sent him to Manitoba, Canada, to secure a franchise for an electric power plant. Eaton got the franchise, but subsequently the interests behind him decided they didn't want it after all. They asked Eaton if he would like it for himself.

Eaton was just a young man, in his mid-20s. But he figured there was a chance here to make some big money. He took the franchise, borrowed heavily, and built an electric power plant at Brandon, Manitoba. In 1909, he sold it at a handsome profit. This gave him his initial stake.

• **Utility Group**—From then until the early 1930s, Eaton spent much of his time gathering an immense group of utility companies. His holdings stretched throughout the Midwest, and from Canada to Brooklyn. Most of them eventually became consolidated under the corporate chieftainship of United Light & Power Co., a utility that served cities in Michigan and Illinois and that Eaton controlled.

During this period of utility empire-building, Eaton became part of the financial catastrophe that broke the back of Samuel Insull's huge Midwest utility empire. Eaton has been blamed widely for the catastrophe; he himself maintains that he and Insull were friends, that the whole thing was the

result of a miscalculation by Insull and his advisers.

What happened was this: Eaton had a \$65-million interest in two Chicago utilities, Commonwealth Edison Co. and Peoples Gas Light & Coke Co. He sold this interest to Insull at that price. The huge debt proved too much for Insull's financial sinew to take, and the Insull utility companies slowly collapsed.

Observers who blame Eaton for the calamity say that Eaton, as a competitor of Insull, must have known that the combination of debt and competition would mean trouble for Insull. Eaton denies this.

• **Shares**—While building up his utility empire, Eaton was also busy on another project: Continental Shares, Inc. He formed it in 1926, nominally as an investment trust. Actually, it became a combination investment-holding-financing agency. It grew fast. Its capital and surplus soared from \$2.5-million at the end of 1926 to \$123-million as of Sept. 30, 1930, the last year in which Eaton headed the company as board chairman.

The company's assets went into the securities of all kinds of companies. Among them were Eaton's United Light & Power, together with big steel, coal, rubber, paint, and paper companies. Shares of Continental were listed on the New York Stock Exchange, and at one time were quoted at \$300.

• **Steel**—Still a third project occupied Eaton's thoughts in the years before 1930. This project envisioned a huge, fully integrated steel company that would challenge the supremacy of U. S. Steel Corp.

The idea had its birth in 1925, when Eaton stepped into the financial tangle of Trumbull Steel Co., Warren, Ohio, and emerged as the controlling interest. With Trumbull in his possession, Eaton quickly acquired several small iron and steel companies. Out of a somewhat confused mass of corporate identities, eventually, emerged Republic Steel Corp.

The next step, as Eaton planned it, involved Inland Steel Co., in which he had a large financial interest. Inland would buy the controlling interest in Youngstown Sheet & Tube Co. Then Inland would be consolidated with other Eaton steel enterprises, and the result would be the second-biggest U. S. steelmaker.

But the plan never came off. Trouble now began to strike Eaton from right and left. One by one, the parts of his empire disintegrated:

The steel plan met trouble in the person of Bethlehem Steel Corp., which did not view happily the idea of losing its second-place ranking in the industry. It launched an attempt to buy Youngstown Sheet & Tube, one of the pillars



EATON had taken a terrific financial beating—how bad, nobody but he has ever known.

of Eaton's proposed giant company. Eaton countered with a court suit to halt the Bethlehem-Youngstown deal. A long battle followed, during which all Eaton's steel plans had to lie dormant. Eaton emerged the winner, but the court proceedings had cost him a huge amount of money. Not only that; when Eaton staggered out of court, the country was struggling with the Depression. Eaton had to banish his steel dream on the spot.

Continental Shares, meanwhile, had likewise come upon hard times. The 1929 stock market crash had brought the roof down upon the company. Its annual statement as of Dec. 31, 1931, showed a writeoff in stock values of more than \$90-million since the previous year's report. In 1930, for instance, the company had valued some 416,000 shares of United Light & Power at \$32.8-million; a year later, it valued 449,000 at \$5.3-million.

The utility empire dissolved early in the 1930s largely as a result of new federal regulations. Eaton was forced to dispose of great pieces of his holdings.

Thus, as the Depression took hold of the country, Eaton stood amid ruins. He had taken a terrific financial beating—how bad, nobody but he has ever known. He retired to his century-old farmhouse in a Cleveland suburb to lick his wounds.

II. The Second Empire

Cyrus Eaton is a man of great, fierce pride. He may not seem so to a casual visitor: for he is a quiet man, almost bookish. He is a calm, charming host. He does not smoke, and he drinks very sparingly. He never loses his temper in public, never raises his voice, never even admits the existence of enemies—only "detractors," or people with "different philosophies." The loss of his fortune did not bother him nearly so much as

the loss of personal prestige. Before the 1930s, he had been in constant demand by railroads and industrial companies in need of directors and advisers. Now, he found himself being ousted even from companies he had helped create.

• **Otis**—Eaton began his long return climb on the ladder of Otis & Co. This was an investment banking company of which Eaton was majority owner; it was one of the few valuable possessions he had salvaged from the Depression.

Eaton had always been critical of negotiated agreements between underwriting companies and their clients. He favored sealed bids, and during the late 1930s and early 1940s he pushed a fierce crusade for general acceptance of his philosophy. This crusade did two things for Eaton: It made him and Otis & Co. felt throughout the financial community, and it gained him a powerful friend: Robert R. Young.

Young had moved into the Cleveland scene to buy up the tangled railroad holdings of the Van Sweringen brothers. He fell in with Eaton and cheered Eaton's philosophy loudly. Otis & Co. steadily gained business. By 1946, it was one of the top 10 underwriting outfits in the country.

• **Trouble**—Otis & Co.'s road was not all smooth, however. About five years ago the company became involved in a rough court argument with Kaiser-Frazer Corp., an Otis client. Otis headed a syndicate that had agreed to offer the public a \$10-million issue of Kaiser-Frazer common stock. Then, for reasons that differ from one account of the case to another, the syndicate backed out, refused to handle the offering. The long legal battle at one point came close to putting Otis & Co. out of business.

The company emerged from court with a clean bill of health. But it is functioning in a much more limited way today, as a sort of private banking agency rather than a retailer of securities.

• **Rails and Steel**—Otis & Co.'s early success put Eaton back on his feet, however. He determinedly set about building his second empire. One by one, he gathered these segments:

• **Chesapeake & Ohio RR.** Eaton's association with Young turned his eyes to this railroad, and he began buying into it soon after Young pulled it out of the Van Sweringen tangle. Today, Eaton is principal stockholder and chairman of the board.

• **Portsmouth Steel Co.** This was formed in 1946 by Eaton and some friends to take over the Portsmouth, (Ohio) works of Wheeling Steel Corp. Eaton eventually sold the physical property to Detroit Steel Corp. Despite stockholder opposition, he kept Portsmouth Steel's corporate shell as a holding company, and has now invested some of its money in Follansbee Steel Corp. Portsmouth Steel money is also invested in:

• **Cleveland-Cliffs Iron Co.** This is an iron ore producer of which Eaton has been a director for 30 years. It was to have played a part in the giant steel company he envisioned in his first empire. It gets some of the ore it sells from:

• **Steep Rock Iron Mines.** Eaton financed this mining venture with a loan from Reconstruction Finance Corp. It has been producing well over a million tons of rich ore per year, and is expected to double its output this year or next.

• **West Kentucky Coal Co.** This company had once been the property of a public utility holding company, but was divested under government orders. After a period of backing and filling by Young, Eaton, and a third bidder, Eaton emerged with (1) the stock and (2) chairmanship of the board. Eaton denies reports that, in this deal, he was acting on behalf of his friend John L. Lewis, president of the United Mine Workers.

• **Other Segments**—There are many more parts to Eaton's second empire. He is a director of Sherwin-Williams Co., as he was in his first empire. He is the principal owner of an estimated billion tons of iron ore, as yet undeveloped, on Ungava Bay, Quebec.

There is little doubt in the minds of Clevelanders that from now on, no matter what enterprise catches Eaton's eye, he can get all the financial backing he wants.

• **At Home**—Will he ask for it? Nobody knows but Eaton. He says he will stay in the business of making money until his health, which is rugged, ceases to be so.

When he retires, it will probably be to one of his two cattle farms. One is near Cleveland, the other in Nova Scotia, where he was born. He will retire to his cattle and his books, both of which he loves. But it is doubtful that, even then, he will neglect business news and the daily stock market report.