

THE ATTRITION OF DEFUNCT SECURITIES

— MAX D HENSLEY —

The youngsters used to play Monopoly with the old stock certificates they found in the box from Granddad's old bank, the one in San Pedro, California, that failed during the depression. Granddad held stock certificates for sailors from Long Beach, and the 'worthless' ones accumulated in the box. When the boys tired of playing with the certificates, Mom tossed out all but the nicest survivors. Many years later one of the boys decided to sell the certificates, including three from the Argentine Mining Company, and one of those came my way.

The story of that little bank's hoard is not new, but it piqued my curiosity about how vintage securities are lost, and the magnitude of those losses. Clues about the losses are obvious - stock exchange listings for companies whose securities we never see in the marketplace, or printing company specimens never found issued. My purpose here is to measure a 'snapshot' population of vintage securities for losses over time to gain a semi-quantitative measure of the extent of those losses.

STOCK PRINTING RECORDS

I needed a starting population to measure against. While stock exchange listings could provide one potential starting point, the order ledgers of the American Bank Note Company ('ABNCo'), helpfully made available by the Museum of American Finance in New York, offered the huge advantage of supplying original population information for defined sets of securities.

ABNCo's order ledgers contain detailed descriptions of each order the company obtained for checks, securities, letterheads and other products. For example, the ledger for the last half of 1880 is a large bound volume of heavy lined paper, where ABNCo recorded each order chronologically in flowing hand annotated with order delivery dates and modifications (including cancellations). The ledgers list the company name and state of incorporation, a description of the order and its status, e.g., the security's color, design and serial numbers (including prefixes), number of bound certificate books and, in one instance, the number of retained specimens. Unfortunately, the order ledgers contain virtually no other information on these clients, such as the principals or the location or business activities of the companies.

I chose the ledger for the last half of 1880 as the study vehicle. Considerable data is available on the past appearances of mining securities (and therefore survival rates), so I decided to focus only on mining company securities from this ledger.

A page by page survey of the ledger revealed 57 mining or mining-related companies (deduced from names) placing orders for securities in the last half of 1880. Since some companies ordered more than one product (e.g. different share denominations), the number of discrete products totaled 67.



Argentine Mining Co, Butte, Montana, in brown, 1889. One of three shares that once served as 'Monopoly money' for youngsters

SURVIVORS

Next it was necessary to survey the survivors. This was a hit-or-miss activity since no comprehensive guide to mining securities exists. I screened the ledger data against my own records, reference books (1, 2, 3, 4), the Whaco! database (5), publicly available collector and dealer resources (6), private databases (7) and signature sales such as the important Filer collection auctioned by Fred Holabird Americana. Champion Stamp, which purchased a large archive of ABNCo material in the 1990s, stated that none of the Table companies is represented by specimens or proofs in its current inventory.

The resulting census is shown in the Table. It is no doubt incomplete, and I shall be delighted to hear from anyone possessing information on the study securities, particularly those that are missing. The Table illustrates several key points:

Table: Mining Company Securities Printed by ABNCo July-December 1880

Key: Cons = Consolidated; G = Gold; M = Mining; M & M = Mining and Milling; S = Silver.

'Color' is border color except the Tombstone shares, which are tints. Paper is white except for the Minas Prietas 'A' prefix certificates, which are light pink. 'Others' = securities of identical design but of different colors than in the ledger, unless otherwise noted. All are shares unless 'bond' is noted. 'Company' is omitted from names. The census for the more common issued certificates (designated '+') is probably an underestimate because it has been unimportant up until now to account for all of them.

Company	Color	Serial numbers of the order	Quantity seen from the order			Others seen from the company
			Proof	Specimen	Issued	
Amie Cons M	green	301-8000	1	0	10+	brown
Alice G & S M	black	1001-1500	1	0	0	black (1)
Alta Montana M	black	1501-2000	1	1	6+	0
Barbee & Walker S M	brown	701-1200	0	0	0	0
Baywood Taylor M & M	black	1-500	0	0	0	0
Beauce G M & M	black	1-500	1	0	10+	0
Big Pittsburgh Cons S M	green	1001-1500	2	0	0	\$500 bond
Bonanza Development	black	1-1000	0	0	4+	orange (2)
Bull Domingo M (3)	green	A501-A1000	0	0	0	brown
Catalpa M	brown	501-1500	0	1	20+	black
Cedral Hydraulic M	black	1-500	0	0	0	0
Chrysolite S M	brown	A1501-A2000	1	0	1	black
	green	3001-3500	0	1	2	0
Climax M	brown	A1001-A1500	0	0	1	0
	green	4501-5500	0	0	23+	0
Colorado Prince M	brown	A501-A1000	0	1	2	0
	green	501-1000	0	0	1	0
Crescent S	black	1-1500	0	0	20+	0
Cusihuriachic M (4)	black	501-3000	0	0	0	bond
Deadwood Terra M	brown	501-2000	1 (5)	0	0	0
Del Monte Cons M (bond) (6)	green	1-200	1	0	0	brown share
Dunkin M	green	A501-A1000	1	0	1 (7)	0
Eagle River Cons M	black	501-2000	1	0	0	0
Empire M of Utah	black	3001-3500	0	0	10+	0
Escondido S M	black	1-500	0	0	0	0
Excelsior Water & M	black	3001-4000	0	0	2	0
Father DeSmet Cons G M	blue	1001-1500	0	0	2	blue '189-'
	red	1001-1500	0	0	100+	0
Great Eastern G M	black	4751-5750	0	0	5+	0
Homestake M	black	3001-4000 (?)	0	0	100+	0
Iron S M	orange	A501-A1000	2	1	10+	red
Jones-Bonanza M	blue	751-900	0	1	1 (8)	0
Kismet Consol. M	orange	A1-A500	0	0	0	0
	green	1-1500	0	0	0	0
La Plata M & Smelting	black	A501-A6000	0	0	1	0
	black	1001-1500	0	0	0	50-share
Leadville Cons M	black	A2001-?	0	1	10+	no prefix
Little Chief M (NY)	brown	A1001-A1500	0	1	0	olive
	green	2001-3000	0	1	10+	0
Lowland Chief Cons M	brown	A501-A1000	0	0	0	0
	green	501-1000	0	0	2	0
Malachite Silver M (9)	color?	1-500	0	0	0	0
Mariposa Land & M	red	A801-A1000	0	0	5	brown; blue
Minas Prietas M (10)	black	A1-A500 (11)	1	0	1	0
	black	1-1000	0	0	1	0
Mona (Mono?) G & S M	brown	A1-A500	0	0	0	0
Montana Copper M	green	1- 500	0	0	1 (12)	0
Moose M (\$500 bond)	black	451-550	2	1	0	\$100 bond
Moulton M	black	1-1000	0	0	100+	blue; green
Newfoundland Cons Copper M	blue	1-500	1	0	0	brown; black; light brown
Old Dominion Copper M	green	1-500	0	0	1	brown
Reliance M (13)	brown	A1-A500	1	0	0	green? (14)
Robinson Cons M	green	501-1500	0	1	4	blue
Santa Eufalia (Eulalia?) S M	black	1-1000	0	1	0	blue
South American Ms (15)	black	1-500	0	0	0	green
Spring Valley Hydraulic M	black	1501-2000	0	0	4	0
Standard Cons M	brown	A3501-A5500	0	0	0	black; blue
Starr-Grove S M	black	1-500	0	0	6	0
Stormont S M	green	1001-1500	0	0	50+	0
Sunset M	black	1-1000	0	0	0	0
Tifo(?) Tofo(?) M	black	1-1000	0	0	0	0
Tombstone M & M	brown	A501-A1000	0	0	15+	0
	green	501-1000	0	0	15+	0
United Gregory G M	black(?)	1-1000	1	0	0	0
Van de Water G & S M	black	501-1500	0	0	4	0
Yankee Smelting & Construction	black	1-2500	1	0	0	0
Yedras M	black	1-500	0	0	0	0

Notes

- (1) Two specimens are known, both later printings with '19—' date line.
- (2) A 1909 issued share.
- (3) A website (cigarboxlabels.com) discloses an 1885 circular from a company of the same name, soliciting funds pending a sheriff's sale. A proof in green exists of the Bull Domingo Consolidated Mining Co.
- (4) An 1885 bond by a company of this name is known. Winslow sale 21, lot 305.
- (5) Progress, not final, proof.
- (6) Shares are known from 1880 (proof and issued, both brown).
- (7) A Dunkin Mining Co issued, uncanceled share was sold in Smythe sale 212, lot 5511, described as having a green underprint. No imprint was noted, so this may have been a later litho by this company.
- (8) The only certificate of this company known to the author has a greenish blue shade.
- (9) The ledger notes 'litho by Henry Koch', suggesting a subcontracted job. This is not the common lithographed Malachite Mining Co.
- (10) A proof in this company's name appeared in Smythe sale 227, lot 6436. Type uncertain.
- (11) According to the ledger, A251-A500 were printed with share price altered to \$10.
- (12) A 1900-dated certificate; may be a later issue.
- (13) Garbani (1) lists a number of Sunset Mining companies (page 229), but this was a popular name and may not be connected with the ABNCo order here.
- (14) A proof border (only) in green for a 100 share certificate is known.
- (15) A South American Mines Co ABNCo litho specimen dated '19—' exists.

- 50 of the 57 companies that placed orders with ABNCo in the census period are survived by at least one example of their securities, but not always by those ordered at that time.
- 17 of the 67 orders in the ledger are not represented in the census in any form (specimen, proof or issued).
- A further 12 of the 67 orders have no issued security listed in the census.
- The field would be even more impoverished were it not for the ABNCo archives: 13 orders are represented only by proofs or specimens.

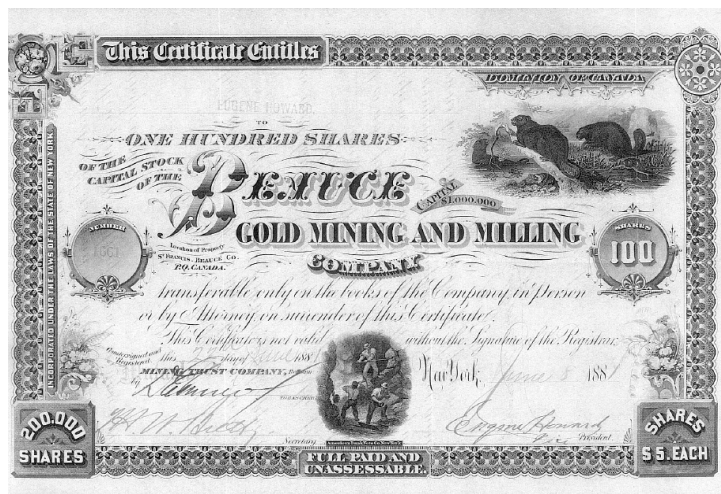
Some of the Table companies were heavily sold and promoted, a factor that would be expected to enhance their survivability. Nearly 8,000 Amie Consolidated Mining Co certificates in green were delivered in the last half of 1880 and, in fact, the Amie Consolidated in green is a widely-available share (although the census revealed only a single example in brown). Nonetheless, some large orders have no survivors. For example ABNCo delivered 2,500 certificates to the Cusihiuriachic Mining Co during the study period, but not a single one of them turned up in the census.

With the information at hand it is difficult to definitively correlate survivability with the total shares printed. For one thing it would be necessary to check the total number of orders of a certificate style, something not possible with the 1880 data alone because companies placed orders for the same certificate style outside of the study period. It seems intuitive, however, and is backed by anecdotal evidence, that



Specimen Alice Gold and Silver Mining Co, incorporated in Utah Territory, located in Walkerville, Montana, share to be listed in New York – a ledger company known only from specimens. This example was pulled from what is likely to have been a re-engraved plate from the ledger order. The date is partially preprinted as ‘19—’ but stylistically the piece is 1880s

companies issuing huge numbers of share certificates, such as Homestake and Amie Consolidated, are better represented by survivors.



Bauc Gold Mining and Milling Co, located in Canada, Serial No 1661, black, from a later printing than the ledger (nos 1-500)

MISSING STOCKS

Fred Holabird together with Doug McDonald compared the mining stock listings in the 1863 issues of the *Mining and Scientific Press* with their extensive knowledge of Nevada mining stocks and concluded that only about 15-20% of the original issuers are known today by certificates.

Are shares missing because companies failed to take delivery of their orders? This seems unlikely because the ledger annotates cancellations and expressly reports deliveries. For example, the ledger reports that the Mona (Mono?) Mining Co order (for which not a single surviving example is known) was delivered on January 19, 1881. The ledger does not indicate that any of the orders in the Table were cancelled.

A second possible explanation for the absence of survivors was that promoters pulled the offerings. This seems highly unlikely considering those hardy times. Scruples were in short supply (a pinched out vein was a mere inconvenience to these eternal optimists), considerable expense was entailed in printing the certificates, many companies had substantial backing whatever their merits, and no meaningful securities regulation existed (other than minimal state and stock exchange provisions). If the delivered certificates were not sold we also should expect to see more unissued share certificates (due to souvenir keeping and the like). However, very few securities from these companies are found unissued (excepting only a few Father DeSmets and 400 or more Crescents in blue).

EFFECT OF SEC RULES

The next question is, of course, what has been responsible for the losses since the shares were issued, and can something be done to reduce them in the future? Attrition of certificates from the 1880s is more likely the result of past lack of interest and neglect than any governmental or institutional policy.



This ABNCo proof on India paper of the Bull-Domingo Consolidated Mining Co, Colorado, appears to be part of the ledger order (which lists the company as the Bull Domingo Mining Co). No issued examples are known to the author



Father De Smet Consolidated Gold Mining Co, Black Hills, Dakota, in blue, issued April 1880. The ABNCo order ledger reports serial numbers 1001-1500 for the blue variety printed in the last half of 1880. This share serial no 140 would have been from the first 1,000 printed earlier

Many companies have redeemed their stock, especially when the company was sold, and often these redeemed certificates were destroyed, either immediately or after a period in archives. This will sometimes account for the cases where a handful of issued and uncanceled certificates is known, as only those unredeemed for some reason survived as souvenirs or in estate papers (often attorney files). Unfortunately, fear of legal liability today contributes to an atmosphere in which shredding is mistakenly seen as the safe course, despite the substantial collector value of many vintage securities.

Transfer agents are organizations such as banks or brokers (about 1,100 of them are registered with the Securities & Exchange Commission ('SEC')) responsible for recording changes in ownership of securities and maintaining securities archives for issuing companies. Transfer agents (either specialized organizations or in-house operations, as in the case of Homestake or various railroads) have been the source of many of scripophily's most significant hoards of vintage securities.

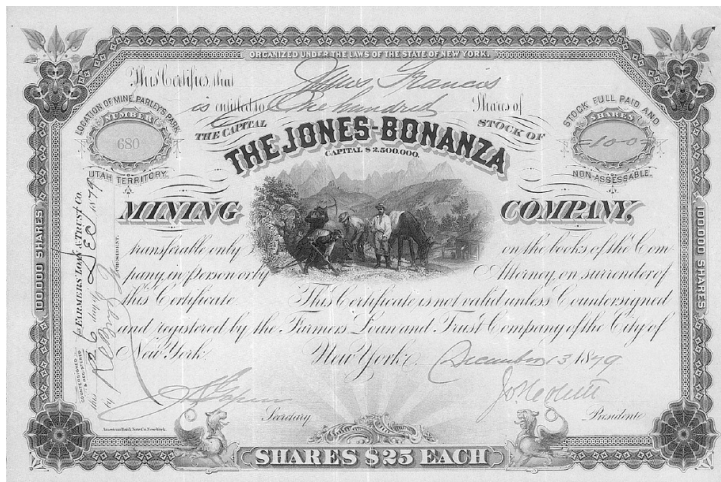
The securities custodial activities of transfer agents were unregulated until 1975. At that time stock market volume had surpassed the ability of the transfer agents to handle the growing flood of paper securities, and the industry began seriously moving to electronic transfers and record keeping. By the early 1990s transfer agent lapses in the handling of securities had facilitated several thefts of cancelled securities and their fraudulent sale or use as collateral.* The resulting scandal and losses led to calls for increased SEC regulation of the custodial function, including rules mandating destruction of cancelled certificates. This caused a great deal of concern in the scripophily community (8).

In the development of the final rules for cancelled securities the SEC accepted comments arguing against destruction of cancelled certificates, because of their importance to financial history, their aesthetic merits and their value to collectors. The SEC noted that it was 'sensitive to these interests' (9) and elected not to mandate destruction of cancelled certificates. Instead, Rule 17Ad-19 (17CFR240.17-Ad19, *full text available by Google search*) merely requires that transfer agents keep records of transactions involving cancelled certificates destroyed or 'otherwise disposed of' than by destruction. In its comments to Rule 17Ad (9) the SEC expressly acknowledges that 'otherwise disposed of' includes sale to collectors or dealers.

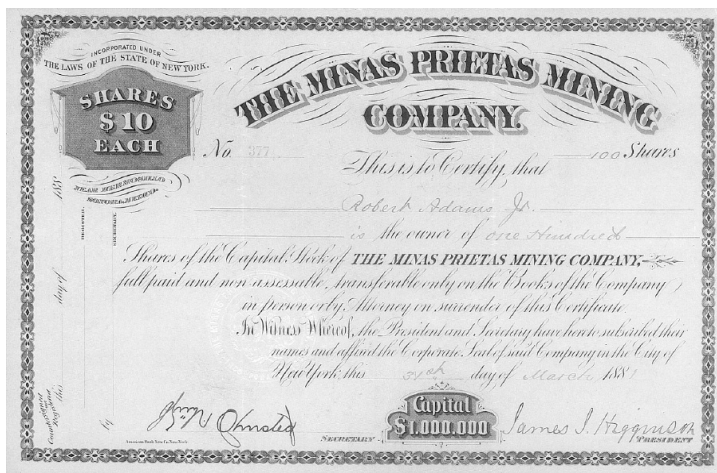
While this Rule is good for scripophily, it will choke off one potential avenue of supplies to the marketplace: The 'midnight raid' has now been barred by SEC regulation. Any disposal of securities now requires formal

* 'Cancelled' does not necessarily mean cancelled on the face of the certificate. It refers to 'cancelled' on the books of the issuing company, whereby the certificate may be valueless but physically untouched and therefore apparently 'live'.

record keeping, thereby requiring that disposal be an institutional policy for transfer agents and not a frolic for freelancers. Buyers need to be astute about the sources of their material. While this might be disadvantageous to the hobby for the short-term, cutting off 'leakage' might help force changes in transfer agent policies that will be overall of much greater significance and benefit.



Jones-Bonanza Mining Co, located at Parleys Park, Utah, 1879, part of an earlier printing than ledger serial nos 751-900



Minas Prietas Mining Co, located in Mexico. This certificate (black), issued in 1881, is part of the ledger order for this company. The 'A' prefix certificates have a pink undertint and red legend overprint. Only one of each type is known to the author

Custodians also are fearful of being treated as unregistered broker-dealers when disposing of their archives. However, it is possible for custodians to seek a safe harbor from the relevant SEC regulations by seeking a 'no enforcement' letter from the SEC. Here the SEC agrees to permit the sale of dead securities without broker-dealer registration provided certain precautions are taken to protect the public, most notably prominently marking the securities of live companies 'cancelled'. It is important to note that the SEC did not extend the 'cancelled' marking requirement to shares of 'now-dissolved or defunct' companies. It is not necessary to deface with cancellations the certificates of any such companies. See for example reference (10). 'No enforcement' letters can be sought by lay persons; samples are available on the SEC website. While custodians may have to deal with other issues (for example, shareholder confidentiality in regards to modern securities), more than adequate safe-harbors have been made available by the SEC. Any custodian previously reluctant to offer its holdings to the collector market would be well advised to take another look at the legal landscape.

THOUGHTS IN CONCLUSION

In summary, the data here identifies substantial losses of defunct vintage securities, particularly if we take into account color classes. The author hopes that these data will stimulate others to find and preserve historical collections and archives of this material, in particular to use whatever leverage can be brought to bear on transfer agents and other custodians, including a systematic educational outreach program to inform (and comfort) securities custodians about their options short of shredding.

The author is a patent attorney in San Antonio TX who collects engraved share certificates of North American companies. He can be contacted at maxdhensley@yahoo.com. He gratefully acknowledges the generous assistance of Dave Bunk, Doug McDonald, Dave Beach, Fred Holabird, the Museum of American Finance and Champion Stamp Co.

References

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