Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

Dear Mr. Irey:

The Capone investigation is going steadily ahead. Not as fast as I would like to have it, but the evidence in the case against Al has been strengthened since my last letter to you.

I sent you a copy of an affidavit made by the Reverend H. C. Hoover, by which we established through admissions made by Al Capone to him that he (Capone) was the owner of the gambling establishment of which we have the book records reflecting a net profit of $574,000, during a period of twenty-four months. I am enclosing a copy of a statement made by Chester Bragg, prominent real estate dealer in Cicero, in which he states that Al Capone admitted to him that he was the owner of this establishment. I am enclosing a copy of a report made by David A. Morgan, investigator for the West Suburban Ministers and Citizens Association, of Cicero, and Berwyn, relating to a raid made by him and others on this gambling establishment, May 16, 1925. He states that during the raid he turned over to Lieutenant Davidson, the sheriff in charge of the raid, Mr. Al Capone, as the owner of the place, and I asked Morgan how he knew Al was the owner, and he stated that Al came to the place a few minutes after the establishment had been entered by the officers. The officers had placed a guard at the door with instructions not to allow any one to enter. Al demanded that he be let in and told Mr. Morgan, "I am the owner of this place". When Al entered the establishment during the raid, he also said to Morgan and others, "This is the last raid you will ever pull". It was the last raid Morgan ever pulled. Morgan and
Bragg were knocked down and assaulted by the gang that afternoon when they left the gambling establishment. A month later three men were waiting in an alley near Morgan's garage when he returned home about midnight. They apparently were going to take him "for a ride", as they were armed and commanded him to accompany them. He resisted and they shot him, leaving him to die, but he was not fatally wounded and recovered in about a month.

He said he decided the raiding business was not healthy and that Al Capone had made good his threat that it would be the last raid he would ever make. I am enclosing copies of affidavits made by J. Stanton and James Funk, telegraph operators, employed in the gambling establishment. They state that the office in which they worked was very private; that they were not allowed to permit employees of the establishment, or patrons, to frequent the wire office, as information coming over the wires relating to the races was strictly confidential. They further state that Al Capone was one of the few persons that entered the wire office. Shumway, the cashier, testifies that Al directed that he (Shumway) take charge of the funds on hand at the time of the raid. In view of the unqualified admissions of Al to three high class witnesses that he was the owner of the establishment, and the further evidence that Al directed the cashier (Shumway) to take charge of the currency on hand when the raid was made, it appears that the government is warranted in proceeding against him on account of his failure to report income from this source, and to pay the tax upon it.

We have secured further evidence relating to the transactions of Louis Lipschultz, who was indicted on March 15th. We have a new witness, Lawrence Pedigo, who states that he purchased alcohol from Louis Lipschultz in the years 1927 and 1928, valued at about $60,000. We have cancelled checks which he made payable to Lipschultz, and which bear Lipschultz's endorsement, covering about $20,000. We have bank records by which we trace the entire $60,000 from Pedigo into the hands of Louis Lipschultz. This witness states that Lipschultz informed him that he worked for Al Capone. He stated further that several of the shipments of alcohol which he secured from Lipschultz were analyzed by a chemist in Rock Island, Illinois, and that it was necessary for him to return the shipments to Lipschultz because the alcohol was poisoned alcohol and he did not dare to sell it to his patrons.
We have secured further evidence relating to Sam Juzik, who was indicted for the years 1927 and 1928. The new evidence relates to the year 1929, and a new indictment covering the three years is to be returned by the grand jury within a day or two.

I was anxious to get an additional special agent started promptly, on some new angles of the Capone case, and you wired instructions that Special Agent Sullivan be assigned. It was necessary for him to complete some work on the police cases, and he has not been available until this afternoon. I have some leads which may establish income to Capone from houses of prostitution, and Agents Sullivan and Malone are starting out this afternoon on that angle. I believe that this angle will warrant careful investigation, because in the event that we can show the connection of the taxpayer with this particularly disreputable business, we would probably be assured of a conviction in the event such evidence is brought before the jury. We also believe that if such evidence is presented, the court would, no doubt, inflict a heavier sentence than would be inflicted if the income related only to gambling.

The office space which was talked about when you were in Chicago has not materialized. We may get a small room suitable for one or two men to work in within a few days, if some furniture can be secured. The room is located next to the United States Commissioner's Office, where there are a lot of questionable persons hanging around the halls. I would not feel it advisable to use that room unless we could have steel filing cabinets in which to lock our records. We are now using four cabinets in this office, and we are badly in need of two or three more, as the old desk I am using cannot be locked, and the ancient flat top desk being used by Revenue Agents Clagott, Westrich and Hodgins cannot be locked. The three revenue agents have one small desk between them. I have tried to get the use of an additional steel cabinet, but they are needed for other purposes. I tried today to borrow a cabinet from the United States Attorney's Office, and they are "to let me know about it". That is the usual stall around here.
Plenty of encouragement that we will have additional space, etc., but no results. I do not have much hope about space or filing cabinets. Perhaps you could send me three of the cabinets, with locks. It takes several months to secure them in the ordinary course. I believe this assignment may last several months longer. There are three revenue agents and four special agents now working with me. Could you secure authority for us to rent a suite of three offices in a private building? In that event we should have authority for a telephone. We also should have a stenographer and furniture would have to be purchased. If money is not available for the rental of an office, perhaps we could take over the offices now being used by the special agents assigned here on the police cases. The rent for that office is paid by the Chicago Association of Commerce; also the telephone bill. I do not know how long they will continue to pay this rent, but assume that satisfactory arrangements could be made. It would probably be necessary to rent or buy one or two desks to be used in that office. If we leave this building, we should have a stenographer, as it would not be practicable to call stenographers from the Federal Building to take statements when we are interviewing witnesses. I would not bother you about these matters if I could get assistance here, or if I could see the end of this work in sight, but I felt you would be interested. We cannot work effectively, efficiently, or intelligently under the present conditions, and it may affect our health or our good nature to work under these conditions during the summer months.

Regards,

[Signature]
Special Agent.