

St. Paul in Receivership

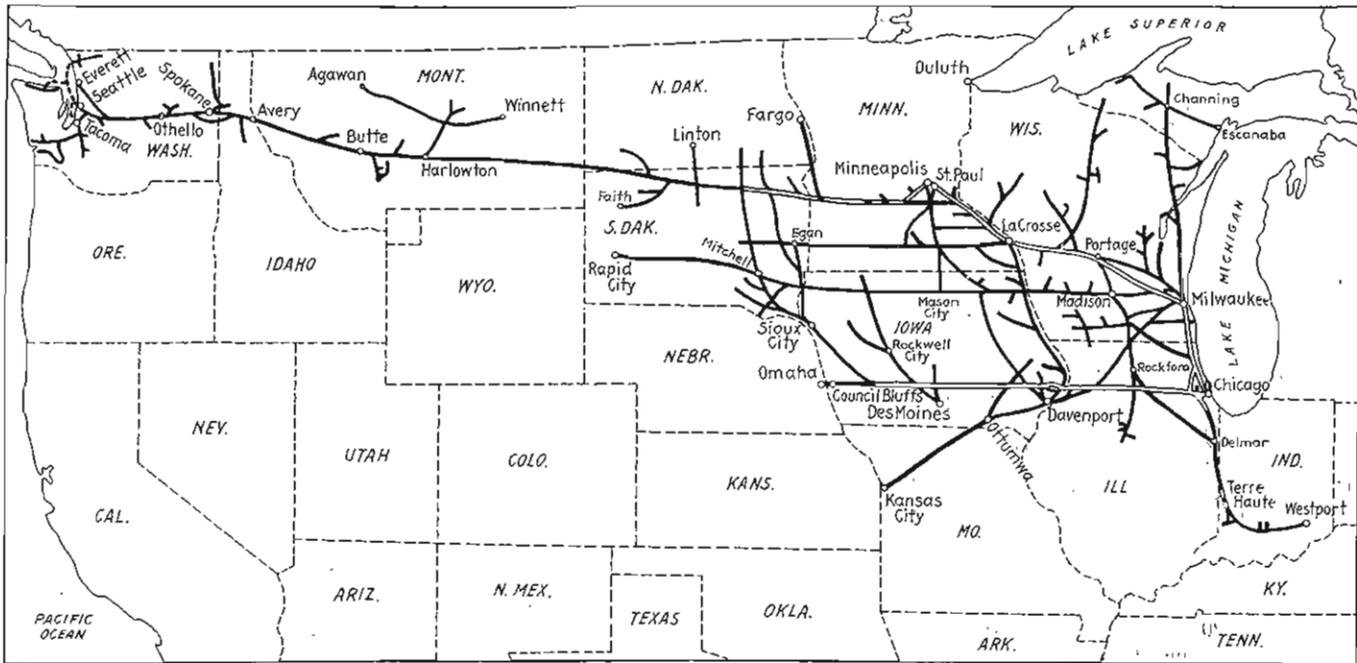
*H. E. Byram, Mark W. Potter and Edward Brundage
chosen to operate property by Judge Wilkerson*

SUSPENSE resulting from the financial worries of the Chicago, Milwaukee & St. Paul and the fear that it might be unable to meet the \$48,000,000 maturities on its bonds on June 1 were set at rest by announcement Tuesday evening that a receivership would be found necessary. On Wednesday the receivership was established by Judge James H. Wilkerson of the United States District Court at Chicago, who appointed as receivers H. E. Byram, Mark W. Potter and Edward J. Brundage. The petition for receivership was filed by the Brinkley Coal Company and there was no opposition to it. The operation of the road will continue under its present officers.

The Chicago, Milwaukee & St. Paul operates 11,000

the company reported a net after charges of \$207,686.

The funded debt that matures on June 1, 1925, totals \$48,000,000. It includes \$35,100,000 of the gold 4 per cent bonds issued in December, 1915, and \$11,831,515 of the European, 15-year 4 per cent debenture bonds, issued in June, 1910, in the original amount of \$48,176,655 (or the equivalent in francs and pounds) of which \$36,345,139 had been acquired by the company prior to December 31, 1923, and pledged to secure an equal amount of the gold 4 per cent bonds maturing on the same date. It had been hoped that some method might be worked out to meet the June 1 maturities. The making public of a report on the physical condition of the property by Coverdale & Colpitts, the firm of engineers retained by the



The Chicago, Milwaukee & St. Paul

miles of railroad. Its going into receivership means that there will now be operated by receivers a total of about 19,000 miles of railroad in the United States, of which over one-half is included in the Milwaukee's own mileage. Other important roads at present in the hands of receivers include the Chicago & Alton, the Minneapolis & St. Louis and the Atlanta, Birmingham & Atlantic, all three of which are equivalent to but a proportion of the St. Paul's mileage. The total of 19,000 miles in the hands of receivers is the largest since 1918. In 1916, over 37,000 miles of railroad were in the hands of the courts.

The Milwaukee's capitalization on December 31, 1923, totaled \$667,658,895. It had outstanding \$117,411,300 of common stock and \$115,931,900 of preferred. Its funded debt totaled \$434,242,796 inclusive of about \$25,000,000 of equipment trusts and notes owing to the United States Government of \$55,000,000. Interest on funded debt in 1924 totaled \$20,447,614 and for the year 1924 the road reported a deficit after fixed charges of \$1,868,606. In 1923, with slightly larger gross income

company's directors, was awaited with interest. About ten days ago it began to be believed that no means could be found. The result was a sharp decline in the price of St. Paul securities on the stock exchange. In a single day—Wednesday, March 11—the price of the gold 4's fell ten points to 53 and bonds of later maturity fell three or four points. There was later a slight recovery. On the day, Wednesday this week, that the announcement of the receivership was made, the gold 4 per cent bonds closed at 48½. The common stock closed at 6¼ and the preferred at 10¼.

Directors Explain Cause of St. Paul's Difficulties

The directors, meeting in emergency session in New York on Wednesday, gave out a statement following the close of their meeting, indicating that the engineers employed to report on the physical and financial conditions of the property, had submitted an outline of their findings. The report apparently was in line with expectations. It stated namely that the physical condition of the road

was in excellent shape but that the financial structure was such as to make a readjustment imperative. The directors' statement said that "in the conclusion of the engineers, the management and the board of directors reluctantly concur. They also feel that the interests of the company and its security holders would not be conserved by using the small amount of remaining available marketable securities to meet further current deficits." The statement also said:

Various plans have been considered to meet the maturity on June 1 next of the European Loan of 1910 and 4 per cent. gold bonds of 1925, amounting approximately to \$48,000,000. Before determining upon any action in regard to this maturity the directors retained Messrs. Coverdale and Colpitts, engineers, to study and report upon the present status, the immediate and future capital requirements and the earning possibilities of the property.

While their full report is not completed, they have discussed the matter with the directors and have advised them of their conclusion that even if the maturing bonds could be refunded by the voluntary action of the holders, or otherwise, it would not solve the company's difficulties and that a readjustment of the financial structure of the company is required.

The causes contributing to the company's present difficulties are:

1. The competition of the Panama Canal, which by reason of the low freight rates between the Atlantic seaboard and the Pacific Coast and also to the Far East, via the canal, has been heavily felt by all transcontinental lines, and particularly by the Chicago, Milwaukee & St. Paul because of the large percentage of its investment in the Puget Sound extension.

2. The depressed agricultural and business conditions of the past few years in the Northwest, where a large part of the company's traffic originates. Passenger earnings, which were \$31,-

provided the new money required for improvements to road and equipment, and for additional equipment, is found, and the necessary relief from the present excessive fixed charges is given, by a readjustment of the existing financial structure.

In the conclusion of the engineers, the management and board of directors reluctantly concur. They also feel that the interests of the company and its security holders would not be conserved by using the small amount of remaining available marketable securities to meet further current deficits.

In addition to the maturity of approximately \$48,000,000 due June 1 next, there are the loans from the United States Government of \$25,000,000 due in 1927, and \$30,000,000 due in 1930, as well as the convertible gold notes of approximately \$50,000,000 due in 1932, and the twenty-five-year gold bonds of approximately \$33,000,000 due in 1934. The several maturities of 1925, 1932 and 1934, as well as a very large proportion of the bonds held as security by the United States government, are secured, directly or indirectly, by the same lien, namely, that of the general and refunding mortgage due in 2014.

Later Maturities Considered

To provide for some of these maturities or to offer special inducements for refunding to some, unless this would permanently meet the company's difficulties, would be unfair in the present outlook to the bonds maturing at later dates which it might be impossible similarly to provide for.

Any readjustment of the financial structure of the company will necessarily affect the preferred and common stock, the various issues of bonds which are directly or indirectly secured by the general and refunding mortgage, and the bonds secured by the Puget Sound mortgage, of which \$154,489,500 of the outstanding \$181,664,500 bonds, or over 85 per cent., are pledged under the general and refunding mortgage.

The directors believe that a prompt readjustment of the company's affairs will be to the best interest of the security holders and will enable the company to resume its former place among

CHICAGO, MILWAUKEE & ST. PAUL, OPERATING AND TRAFFIC STATISTICS, SELECTED ITEMS, 1913 TO 1924

| Year ended June 30 | Mileage | Revenue tons | Revenue ton-miles | Average haul | Revenue per ton miles cents | Revenue train load | Revenue car load | Total operating revenues | Total operating expenses | Net operating revenue | Operating ratio | Net after charges |
|-----------------------|---------|-----------------|----------------------|-----------------|--------------------------------------|--------------------------|------------------------|--------------------------------|-----------------------------|-----------------------------|--------------------|----------------------|
| 1913..... | 9,613 | 34,805,491 | 8,570,061,411 | 246 | 0.793 | 357 | 16.78 | \$94,084,055 | \$62,883,968 | \$31,200,087 | 66.84 | \$18,140,745 |
| 1914..... | 9,684 | 33,007,277 | 8,079,689,505 | 245 | 0.808 | 380 | 16.50 | 93,613,700 | 62,890,301 | 30,723,399 | 67.18 | 15,476,286 |
| 1915..... | 10,053 | 32,959,392 | 8,185,988,375 | 248 | 0.781 | 390 | 16.84 | 91,433,374 | 61,971,701 | 29,463,673 | 67.78 | 11,968,283 |
| 1916..... | 10,130 | 38,313,345 | 10,043,235,657 | 262 | 0.757 | 425 | 17.94 | 105,646,484 | 69,120,958 | 36,525,526 | 65.43 | 16,717,357 |
| Year ended Dec. 31 | | | | | | | | | | | | |
| 1916..... | 10,208 | 39,986,136 | 10,747,233,415 | 269 | 0.741 | 442 | 18.15 | 110,609,689 | 73,765,051 | 36,844,638 | 66.69 | 16,068,260 |
| 1917..... | 10,257 | 38,444,353 | 10,545,443,466 | 274 | 0.758 | 468 | 20.06 | 113,739,202 | 85,195,964 | 28,543,238 | 74.90 | 4,468,632 |
| 1918..... | 10,303 | 40,307,047 | 11,504,301,469 | 285 | 0.840 | 536 | 22.89 | 132,894,455 | 122,196,105 | 10,698,350 | 91.95 | 6,327,891 |
| 1919..... | 10,647 | 40,295,220 | 11,501,514,483 | 285 | 0.924 | 554 | 21.97 | 150,370,394 | 138,561,705 | 11,808,689 | 92.15 | 7,643,045 |
| 1920..... | 10,624 | 45,041,277 | 11,384,600,804 | 253 | 1.029 | 544 | 22.38 | 168,158,734 | 164,697,121 | 3,461,613 | 97.94 | 4,366,071 |
| 1921..... | 10,809 | 34,067,136 | 8,283,212,410 | 243 | 1.266 | 493 | 21.15 | 146,765,766 | 127,957,002 | 18,808,764 | 87.18 | Def. 11,070,609 |
| 1922..... | 11,030 | 42,034,285 | 10,601,913,667 | 252 | 1.094 | 543 | 22.18 | 156,950,628 | 129,596,696 | 27,353,932 | 82.57 | Def. 6,143,168 |
| 1923..... | 11,011 | 51,314,300 | 11,922,243,644 | 232 | 1.073 | 551 | 21.96 | 169,628,338 | 134,999,228 | 34,629,110 | 79.59 | 207,686 |
| 1924..... | 10,987 | *..... | *..... | *..... | *..... | *..... | *..... | 158,366,458 | 125,550,061 | 32,816,398 | 79.40 | Def. 1,868,606 |

*Not yet available.

034,000 in 1920, were only \$21,768,000 in 1924, due largely to motor vehicle competition.

3. The large increases in the cost of labor and materials, and in taxes, which have not been offset by corresponding increases in rates or in volume of traffic.

Forecasts of Future Earnings Pessimistic

4. The lack, for a number of years, of surplus earnings to apply toward necessary improvements, betterments, etc., the consequences of which are that the current position of the company is unfavorable, and that its equipment has suffered deterioration and is insufficient in amount.

The engineers find that the present management has striven aggressively against these difficulties and to the extent of the resources available has effected marked improvements in the company's operations and in the physical condition of its property.

The engineers' forecast of future earnings indicates that at best it will be several years before the company will be able to meet its present fixed charges and additional requirements such as the rentals imposed by the use of the new Union Station in Chicago, amounting to approximately \$800,000 a year, larger reserves for depreciation of equipment, further interest requirements on borrowings necessary for various capital purposes such as a system of 11,000 miles continually needs in order to serve the public, and such items as the repayment of equipment trust certificates, at present \$2,662,000 per annum.

On the other hand, their forecast also indicates that, under conditions of reasonable prosperity in the territory which the company serves, the road can again be put upon a sound basis,

the financially strong roads of the country and serve its territory even more effectively than in the past.

The board of directors has therefore placed the facts before the company's bankers and representatives of large amounts of the above-mentioned classes of the company's securities with a view to the organization of committees to cooperate in formulating a plan of readjustment, to be submitted at the earliest possible date.

Protective Committees

Committees have already been organized to protect the interests of the bondholders, common stockholders and preferred shareholders.

The bondholders committee is headed by Frederick H. Ecker, vice-president of the Metropolitan Life Insurance Company. "A committee has been formed," said an official statement on behalf of bankers for the road, "to protect the interest of the railway company's general and refunding mortgage bonds, series A and B; 25-year 4 per cent gold bonds of 1909, 4 per cent 15-year European loan bonds of 1910, 4½ per cent convertible gold bonds, and 4 per cent gold bonds of 1925, all of which are secured under the company's general and refunding mortgage of November 1, 1913, and the Chicago, Milwaukee & Puget Sound first mortgage 4 per cent gold bonds, more

than 85 per cent of which are pledged under the same mortgage."

The committee, of which Mr. Ecker is chairman, consists of Bertram Cutler, representing the John D. Rockefeller interests; Samuel H. Fisher, representing the Harkness interests; Jerome J. Hanauer of Kuhn, Loeb & Co., (the company's banker), William E. Knox, president of the Bowery Savings Bank and the American Bankers Association, representing the savings banks; Charles E. Mitchell, president of the National City Bank; Charles A. Peabody, president of the Mutual Life Insurance Company, and H. F. Whitcomb of Milwaukee, representing the Northwestern Mutual Life Insurance Company. Sanford H. E. Freund of 55 Wall Street is secretary of the committee and Shearman & Sterling are its counsel.

The committee to represent the interests of the preferred stockholders is headed by Mortimer N. Buckner, chairman of the board of the New York Trust Company and its other members are Arthur W. Loasby, president of the Equitable Trust Company of New York; Oliver C. Fuller, chairman of the board of the First Wisconsin National Bank, Milwaukee, Wis., and Harold I. Pratt, of Charles Pratt & Co., of New York. Boyd G. Curtis, of 100 Broadway, is secretary of the committee, and George Welwood Murray counsel.

A committee also has been formed to represent the holders of the common stock, composed of Donald G. Geddes, of Clark, Dodge & Co., chairman; George W. Davison, president of Central Union Trust Company of New York; Bayard Dominick, of Dominick & Dominick; Walter L. Johnson, of Shearson, Hammill & Co., and Percy A. Rockefeller. C. E. Sigler, 80 Broadway, is secretary of the committee and Cotton & Franklin, counsel. The Central Union Trust Company, of New York, will be depositary for the common stock.

Statement by F. J. Lisman

An interesting analysis of the St. Paul situation was made public by F. J. Lisman of F. J. Lisman & Co., on Monday, before the receivership was established. Mr. Lisman said in part:

Many security holders say a receivership can only be temporarily avoided, and that to defer it will be very much worse in the long run. They think it is best to reorganize the road now, raise from \$30,000,000 to \$50,000,000 by asking the stockholders to pay an assessment, and creating a new mortgage ahead of the general and refunding bonds, under which the company can raise at a reasonable rate of interest such additional capital as may be needed from time to time.

They point to the fact that the company has coming due within ten years many bond issues, that is, \$50,000,000 in 1932, \$33,000,000 in 1934, and the \$55,000,000 due the Government and secured by the same mortgage. If a receivership is to come, it might as well come now, they argue, and the company be permanently put on a sound basis.

The bonds about to mature are secured by a general and refunding mortgage. There are other bond issues outstanding secured by the same mortgage; in fact, there are altogether some \$200,000,000 of these bonds, of no less than five different issues, held by the public and secured by this mortgage. The Government has lent to the Chicago, Milwaukee & St. Paul some \$55,000,000 and has approximately \$67,000,000 of bonds secured by this mortgage as security for these advances, and the company has over \$50,000,000 additional in its treasury.

Terms of the Trust Deed

Under the terms of the trust deed all these bonds become due and payable if there is a default on the \$48,000,000 of bonds maturing on June 1. This would mean a foreclosure of the mortgage, assessment on the stock and a change of capitalization. Naturally the directors are going to do everything possible to prevent this.

Nearly all mortgages contain a clause which provides that no bondholder may bring suit except through the trust company which is trustee for the mortgage. Such a clause means that the trustee is agent for all the bondholders. The courts have

held many times, notwithstanding such a clause, that a bondholder may bring suit as an ordinary creditor and get judgment. In the case of the bonds due June 1 next, there is the unusual provision in the bond itself to the effect that no bondholder can bring suit except through the trustee and that the trustee can only act if 20 per cent. of the bondholders so require.

The directors unquestionably are going to ask the holders of the \$48,000,000 bonds to take in exchange a new bond, which probably will bear 6 per cent. and which may become due in from seven to ten years, or possibly even later. They even may offer to give bondholders additional security, by offering them in exchange for their present bonds a note secured by \$1,500 of bonds for every \$1,000 note. If more than 80 per cent. of the holders of the maturing bonds agree to such an extension, the balance apparently will be bound. That is, they may be debarred from litigation and the situation will appear to have been "saved".

There are a large number of bondholders of the system, however, who believe that in the end the Chicago, Milwaukee & St. Paul and its security holders will be very much better off if it is not "saved" at this time. They point out the fact that there is no way by which it can obtain additional capital for the purpose of increasing its facilities. Additional capital is necessary for all railroads in the United States, but especially so in a country largely undeveloped, like the territory of the St. Paul.

Government Loans

There is much loose talk about what the government should do to help the situation. The government, as security for its advances, has \$18,000,000 of general mortgage bonds as well as \$68,829,000 refunding mortgage bonds. The general mortgage bonds are secured by a first mortgage on the bulk of the company's mileage and are a perfectly good security. The gossips think that the government ought to give up its good security and accept refunding bonds in exchange therefor.

In view of all these conditions it would appear that a surgical operation will become necessary sooner or later, unless conditions in the Northwest improve much more rapidly than reasonably can be expected at this time. Wall Street, while anxiously waiting for news, is quite prepared for the worst. This is indicated by the price level of the various securities of the system.

For example, the 4½ and 5 per cent bonds, due 2014, and even the 4½s, due 1932, all have been selling in the 50s. The only issue secured by the general and refunding bonds selling much above that are the bonds about to come due, and they are selling in the 50s. At this price they would yield a return of considerably more than 200 per cent. per annum on the money if they were paid off in cash within 90 days. Thus, the market gradually has been adjusting itself to the fact that if the principal of these bonds is not paid these issues will rank coequally, in accordance with the terms of the mortgage, under which all these bonds are alike in case of foreclosure."

The Receivers

H. E. Byram has been president of the Milwaukee since October, 1917. He started in railway service in 1881 as a call boy on the Chicago, Burlington & Quincy and was later a stenographer and clerk. From 1889 to 1894, he was out of railway service, but then returned to railway employ as a clerk in a general manager's office on the Northern Pacific. He later became chief clerk in the office of the vice-president, and in 1898 was appointed to his first official position in the operating department as assistant general superintendent of the Montana Central. He was later superintendent of the Cascade Division of the Great Northern, assistant to the first and fourth vice-presidents of the Chicago, Rock Island & Pacific, and for a period in 1904 he was general superintendent of the southwestern district of that road. In September, 1904, he returned to the Chicago, Burlington & Quincy as general superintendent of the Nebraska division. In 1908, he became assistant to the vice-president, and from February, 1910, to October, 1917, when he left to become president of the Milwaukee, he served as vice-president of the Burlington.

Mark W. Potter has just retired from the Interstate Commerce Commission, after having served as a member of that body since May, 1920. He is a lawyer by profession, and prior to his appointment by the commission was a member of the law firm of Hornblower, Miller, Garrison & Potter at New York. For many years he was interested in the development of the natural sources of the

mountainous sections of Kentucky, Virginia, Tennessee and North Carolina, in connection with which he became interested in the Carolina, Clinchfield & Ohio of which he became counsel in 1905. In 1907, he was elected chairman of the board, and in February, 1911, he was also elected president of that property. Upon his recent retirement from the Interstate Commerce Commission, it was announced that he would return to the practice of law at New York.

Edward J. Brundage, the third receiver is also a lawyer by profession. He was born at Campbell, N. Y., on May 13, 1869, and was educated in the public schools. After being employed in railroad offices in Detroit, Mich. and Chicago, Mr. Brundage was admitted to the bar in Illinois. He was elected to the house of representatives of Illinois in 1899 and president of the board of county commissioners of Cook County in 1905. He was appointed corporation counsel of the city of Chicago in 1907, and held that position for four years. From 1915 to 1917, Mr. Brundage served as judge of the court of claims of Illinois. He was elected attorney general of that state in 1917 and was re-elected in 1921. Since his retirement from that office late last year Mr. Brundage has engaged in the practice of law in Chicago.

Meeting of Santa Fe Apprentices

THE second of the unique and inspiring conventions of the Santa Fe apprentices was held at San Bernardino, California, February 19-21, this being even more successful than the conference held at Albuquerque, New Mexico, a year ago.

One hundred fifty picked young men were in attendance, having been sent as delegates from the various apprentice clubs of the system. Practically every division point on the system, from the Great Lakes and Gulf of Mexico to the Pacific Coast was represented. Thirteen of the apprentice clubs sent basket ball teams to compete in the tournament held in connection with the conference. The railway management granted necessary leave of absence and provided transportation for those attending the convention, but every detail of the convention, including the preliminary and final arrangements of the program and the entertainment of delegates, was planned and carried out by the boys themselves.

Among the features of the conference were the basket ball tournament, the convention proper, and the trip with its opportunity for each apprentice to learn more of the railroad for which he works, of the country which it traverses and serves, and of the equipment and methods used in other shops of the road.

The apprentice instructors of the system offered a handsome cup to be held by the winning basket ball team for a year. Two other cups were donated by the supervisory forces at Albuquerque and the Chamber of Commerce at San Bernardino, to be held permanently by the apprentice team winning the annual tournaments. The playing was on a par with that of state or college tournaments—many of the apprentices were former high school or college stars. A high degree of sportsmanship was shown.

At no time was there "crabbing" or any foul language. It was a surprise to see the teams from the larger shops go down in defeat before those from the smaller points. Topeka, San Bernardino, and Albuquerque were eliminated early in the contest. The final championship game between La Junta, Colorado, and Fort Madison, Iowa, was hotly contested, ending 12 to 11 in favor of the Iowa team.

The convention proper opened with an address of welcome by Major Grant Holcomb who reminded his hearers that an apprenticeship course such as they had the opportunity of serving on the Santa Fe was in many respects a college course in their chosen vocation. H. S. Wall, mechanical superintendent, compared the present advanced apprenticeship of the Santa Fe with that of former years.

The whole theme of the convention was built around the apprentice clubs and their activities, with reports from members of the different clubs explaining how their club functioned and how it was conducted. If the club was a live one, the delegates were called upon to explain why it was alive and if it was dead they were called upon to tell why it was dead. These clubs stand for the physical, mental, and moral development of their members. As an indication of their activities it is interesting to note that one of the clubs issues a monthly paper which first came out in a mimeograph form with blue print cover but has grown until it now appears in print with local advertisements, items of interest and inspiring and helpful articles. This same club last year conducted a real wild west rodeo show and put on a theatrical performance which proved so successful that it had to be repeated.

In order to participate in athletics or other activities of the clubs the members must be up in their school and shop work. The boys themselves aid in carrying out the rules and policies of the management.

In addition to discussion of club activities, the program included talks by some of the boys themselves on shop subjects, with addresses by local and other shop officials, on such subjects as safety and safety, the importance of minor details in repairing cars, air brakes and how they function, the locomotive booster, methods of furthering the education of apprentices in shop and school, etc.

Reverend A. T. Goodwin spoke on "The Apprenticeship of Life," in which he urged a unity of purpose in striving toward an ideal, a physical and mental improvement, and the appreciation of fellowship. D. R. Weiman, spoke on "Popular Bunk," and F. M. Duckles, state secretary, Y. M. C. A., told of the club work of his organization. F. W. Thomas, supervisor of apprentices, spoke on "Wisdom, Skill and Service," congratulating the boys on their opportunities and good work and inspiring them to greater achievement.

Hospitality that is only equaled in the home was extended the visiting delegates, lodging and breakfast being provided by local railway employees and officials and other residents of the city. A dance was given in their honor by the local supervisory officers. Four hundred couples participated, the supervisor of apprentices and the mechanical superintendent leading the grand march. A group of seventy-five Indians all in feathers and blankets and bead regalia, brought from the Navajo Indian Reservation of Arizona gave an exhibition of their various dances—a wonderful "show" by real Indians. The hospitality of the local officials also included a sixty-five mile automobile ride for the delegates through the orange belt, the itinerary including Highlands, Redlands and Riverside, the boys enjoying the beauties of Smiley Heights, Mt. Rubidoux, and the Mission Inn.

Ivor J. Davies, freight carman apprentice, San Bernardino, was president of this year's conference. C. LeRoy Coleman, special apprentice, La Junta, was elected president for the ensuing year. La Junta, Colorado, whose club has been most active during the past year, was chosen as the place of meeting for next year's convention.

On returning to their home stations each delegate not only made oral report to his local apprentice club but also made written report to his master mechanic or superintendent shops, with copy to the supervisor of apprentices.