the Puget Sound Company which it then owned or any other stock of the Puget Sound Company which it might thereafter acquire. It was reported also that the St. Paul promised not to sell any of the Puget Sound Company's bonds it held in its treasury until after January 1, 1911. These bonds were sold by the company to Kuhn, Loeb & Company and a group of French banks at a price of 93 1/4% of the face value. They were sold by this banking house and by the French banks at 96 and interest. These bonds had a total par dollar value in excess of $48,000,000. The bankers' commission was at the rate of 1.5% or over $770,000. In addition Kuhn, Loeb & Company made $113,000 as their share of the profits of the syndicate which distributed the bonds.

The proceeds of the issue were used toward the payment of $14,000,000 borrowed from the banks to meet underlying bond maturities,[1] to provide the Puget Sound Company through advances with more funds with which to construct and equip its lines, and to provide for working capital for the St. Paul.[2]

In March, 1911 $25,000,000 Chicago, Milwaukee & Puget Sound Railway 4's were sold, as pointed out previously.[3] The stockholders on November 22, 1909 at their meeting in Milwaukee and the board on April 9, 1912 authorized the issuance of $50,000,000 convertible gold debenture bonds bearing not over 5% per annum. $34,893,500 of these bonds were offered to the stock-

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1. See p.231.
2. Chronicle, vol.90, p.1424, 1459 and 1554, and vol.91, p.38. Boston News Bureau, Jan.14, 1911. Coverdale & Colpitts, Appendix, p.1. In equity No.4931, p.526. Poor's, 1925, p.1307. 131 I.C.C.p.330.
3. See p.197.

holders of record on April 25, 1912 at par to the extent of 15% of their holdings. The time limit for the stockholders to accept the offer was set at May 31. Kuhn, Loeb & Company and the National City Bank underwrote the issue. 15% of the stock out on April 25, 1912 was $34,893,465. These bonds were dated June 1, 1912, due June 1, 1932, and bore 4 1/2% interest per annum payable June 1 and December 1. These bonds were made subject to call as a whole only at 105 and interest on and after December 1, 1922 on not less than 90 days published notice. Furthermore, the bonds were made convertible at par after June 1, 1917 and before June 1, 1922 with common stock at the option of the holders. The accrued interest on the bonds converted and the dividends on the stock were to be adjusted at the time of conversion as provided for in the bonds and the indenture. The indenture was executed to the United States Trust Company, New York, as trustee. Some time subsequently the Bankers' Trust Company, New York, succeeded this trust company as trustee. Like the 25 year gold debenture 4's of 1909 and the 4% fifteen year European loan of 1910, these 4 1/2% convertible gold debentures were not secured at the time by any specific pledged property of the company. As with the other two issues, the St. Paul simply promised to include these bonds in any future mortgage on the property on an equal basis with any other bonds that might be issued on such a mortgage. 97% of this block was taken by the stockholders, leaving only $1,050,000 for the under-

writing syndicate.[1] $13,700 of this block were taken by the insurance department of the company which held in the fund some of the company's stock.

Another block of $13,857,300 of these bonds were offered to the stockholders of record February 8, 1913 at par to the extent of 6% of their holdings. The time limit was set at February 28, 1913 when payment had to be made in full. These were underwritten by the banks also. The stockholders took 95.5% of this block leaving only 4.5% for the underwriters.[2] $5,500 of this block were taken by the insurance department as a stockholder.

These bonds were issued for the purchase and construction of additional lines of railway, additions, and betterments, additional equipment and real estate, and for the purchase, construction, and equipment of extensions, branches, and additions to the St. Paul road. Actually most of the proceeds went into the extension.[3]

As pointed out previously, in this chapter, the St. Paul arranged an extension of the Milwaukee & Northern first mortgage 6's from June 1, 1910, the maturity date, to June 1, 1913 at 4 1/2% per annum so that these bonds would mature with the other Milwaukee & Northern mortgage, the consolidated mortgage securing 6's.[4] $3,156,000 of the first mortgage 4 1/3's and $4,003,000 of

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1. Chronicle, vol.94, p.1056, vol.94, p.1118, and vol.96, p.1585. Poor's, 1912, p.3007 and 1925, p.1307. Annual Report, 1913. Coverdale & Colpitts, Appendix, p. 1. In equity No.4931, p. 589 and 608.
2. Chronicle, vol.96, p.885, and vol.96, p.715 and 789. Poor's, 1913, p.1847 and 1925, p.1307. Annual Report, 1913.
3. Poor's, 1925, p. 1307.
4. See p. 222.

the consolidated mortgage 6's were outstanding and in addition $1,088,000 of the latter were in the company's treasury. In 1913 the St. Paul decided to extend both issues to June 1, 1934, at 4 1/2% per annum and sell at the same rate of interest the $1,088,000 consolidated mortgage bonds held in its treasury. The extension and sale were arranged through Harris, Forbes & Company, Potter, Choate & Prentice, and Brown Brothers & Company, New York. The first mortgage bonds and the consolidated mortgage bonds were offered by these houses at 99 1/3 and interest and 98 and interest respectively, yielding 4.53% and 4.54%. The holders of these bonds maturing on June 1, 1913 could exchange them for the new issues at the above prices by depositing their bonds on or before 3 p.m. Tuesday, May 13 with the trustee.[1]

In April, 1913 Kuhn, Loeb & Company and the National City Bank, New York, and Kidder, Peabody & Company, Boston, sold $30,000,000 of the St. Paul General Mortgage 4 1/2's at 99 1/2 and interest. For a number of years subsequent to the execution of this mortgage the company, as pointed out previously, sold blocks of bonds on this mortgage bearing 4% per annum. These were designated Series A. Then for a number of years several blocks aggregating $8,950,000 were sold on this mortgage bearing 3 1/2%. These were designated Series B. Then in 1909 a block of $35,000,000 4's were sold (Series A again). Now in 1913

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1. Chronicle, vol.96,p.1080 and 1364. Annual Report, 1913. Poor's, 1925, p. 1307.

the company began a new series with these $30,000,000 4 1/2's. These were designated Series C. About a week after the announcement of the offering, $20,000,000 of the $30,000,000 were sold by the banks at 99 1/2 and interest to private investors, insurance companies, and savings banks. At this time it was announced that the banks would hold the remainder for private sale at 99 3/4. In July, 1913 the banks announced that the entire block of $30,000,000 had been sold.[1]

On June 30, 1913 there were 11 mortgages on the property prior to the General Mortgage of 1889 securing outstanding bonds aggregating $58,309,000.[2] The purposes for which the $30,000,000 General 4 1/2's had been previously issued to the company's treasury from which they were sold to the banks were the refunding dollar for dollar of an equal amount of underlying bonds maturing in 1909 and 1910, $10,648,000; for betterments and improvements to the terminals at Chicago, Milwaukee, and Racine, enlarged yards and increased facilities at Montevideo, Galewood, and other places, enlarged shops at sundry places, and the construction of second, third, and fourth main tracks, round houses, stations, platforms, and telegraph and telephone lines, $13,358,371; for real estate in Chicago and Minneapolis, $134,243; and for additional equipment, $5,859,986.[3]

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1. Chronicle, vol.96,p.1088 and p. 1156 and vol.97, p. 175. Annual Report, 1913. Poor's, 1915, p. 1307.
2. Poor's, 1914, p. 1003 and 1005.
3. Chronicle, vol.97, p. 520. Poor's, 1914, p. 1003.

With the sale of these $30,000,000 General 4 1/2's there were outstanding on June 30, 1913 in the hands of the public and in the insurance fund $48,341,000 Series A 4's, $8,950,000 Series B 3 1/2's, and $30,000,000 Series C 4 1/2's, all secured on the General Mortgage of 1889. In addition there were $9,741,000 4 1/2's and $159,000 4's in the treasury which were disposed of shortly after June 30, 1913. On June 30, 1913 the General Mortgage securing $87,231,000 outstanding bonds was flanked on one side (prior) by 11 underlying mortgages securing $58,309,000 bonds and on the other (subsequent) by $185,077,969.30 debenture bonds and $232,223,100 stock about half of which was preferred paying 7% per annum and half of which was common paying 8% per annum in dividends.

The general mortgage bonds were secured by a mortgage on all the company's old lines east of Mobridge, South Dakota, except several hundred miles of line in Wisconsin which constituted the old Milwaukee & Northern acquired in the early nineties, several years after the General Mortgage was executed. On these lines it was on June 30, 1913 an absolute first mortgage on about 3,750 miles of first track including that which entered Milwaukee and Chicago and a refunding mortgage on about 2,580 miles of first track subject to the 11 prior liens all maturing on or before July 1, 1926. The prior mortgages were all closed by the General Mortgage and a sufficient number of Generals were reserved to retire the prior bonds. The retirement of these prior underlying bonds would make the General Mortgage an absolute first mortgage

at the rate of $23,750 per mile not counting any future generals that might be issued for other purposes than refunding. In 1913 the mortgage was with the prior liens at the rate of $22,193 per mile.[1]

The debentures were to be included in a future mortgage on the property on an equal basis with bonds issued on that future mortgage. This mortgage would have to be on a property on which on June 30, 1913 east of Mobridge with the exception of several hundred miles in Wisconsin there were 11 underlying first mortgages and a General partly first mortgage and in addition two mortgages on the several hundred miles in Wisconsin not covered by the General Mortgage and on which west of Mobridge there was a first mortgage securing $173,525,511.84 bonds all but $27,175,000 of which were in the company's treasury.

It may be interesting to the reader at this time to know that in 1909 the common stock sold at a high of 165 1/8 and low of 141; and the preferred, at a high of 181 and low of 158 1/8. In 1910 the common stock sold at a high of 159 3/8 and low of 113 3/4; and the preferred, at a high of 172 1/4 and low of 143. In 1912 the high of the common was 117 5/8 and the low was 99 3/8, while the high of the preferred was 149 and the low was 139 1/4. Instead of financing through the sale of stock, bonds were sold during these years at an average rate of 5%.[2]

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1. Chronicle, vol.96, p.1088.
2. 151 I.C.C., p.529.

The company did some extensive short time borrowing at the banks during this period. Two financial statements during this period as of June 30 show substantial floating indebtedness. On June 30, 1908 the company owed the banks $6,250,000. $3,450,000 General 3 1/2's were sold during the fiscal year ending on that date. However, during that year the company's expenditures for equipment was exceptionally heavy.[1] Construction work was started on the new extension some months before. The sale of a large block of common stock in August, 1908 and a large block of common and preferred in December, 1908, all to the stockholders, of course enabled the company to pay this off.[2] Then on June 30, 1910 the company owed the banks $4,000,000. Now in June, 1909 the company, as pointed out previously, sold $25,000,000 debenture 4's.[3] Between then and July 1, 1910 the maturities of underlying bonds amounted to $32,027,000.[4] Later, as was pointed out previously, the road decided to extend the $9,155,000 Milwaukee & Northern first mortgage 6's at 4 1/2%. This made the minimum refunding requirements $19,440,000. The road did not apply the receipts from the sale of the debenture 4's to the refunding but advanced large sums to the Puget Sound Company.[5] The St. Paul then borrowed from the banks $16,000,000 to meet part of these maturities.

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1. Annual Report, 1908.
2. See p. 218.
3. See p. 220.
4. Chronicle, vol. 91, p. 38.
5. See p. 220.

Then $25,000,000 General 4's were sold in December, 1909.[1] In January, 1910, 250,000,000 francs in bonds were sold in France.[2] Ample proceeds were now available to repay the short term indebtedness.[3] $8,000,000 out of the $8,000,000 received from the Paris banks as the first amount on the sale of the French bonds went toward the payment of this indebtedness the first week in June, 1910. The second payment of $4,000,000 was made toward the end of June. So on June 30, 1910 the company still owed the banks according to its financial statement as of that date $4,000,000. Another $1,000,000 fell due and was paid the next day. The balance $3,000,000 was liquidated shortly after.[4]

As should be obvious to the reader by this time, the maturities were substantial. As pointed out in the previous chapter, only a small part of the maturities after June 30, 1905 would be convertible issues as was entirely the case during the last period. Of the $507,000 consolidated 7's of 1875 which were out on June 30, 1905 and due on July 1, 1905, all were of course paid. Although these were convertible into preferred stock, the holders lost their chance some months previously when the previous dividend was paid on this stock. All the St. Paul's underlying bonds which were convertible into preferred stock could be so converted only within 10 days from the date the dividend on the preferred was declared payable. Of the $831,000

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1. See p. 221.
2. See p. 223.
3. See p. 224.
4. Chronicle, vol. 91, p. 38.

Iowa & Dakota Division Extension 7's (convertible) due on July 1, 1908, $819,000 were converted into preferred stock during this period and $812,000 were paid. At this time and for a short while up to the sale of the convertible 4 1/2% gold debentures in 1912 (convertible into common stock) the St. Paul had no convertible funded debt.

The $1,106,500 Wisconsin Valley Railroad 7's were paid on January 1, 1909, the maturity date.[1] All but $1,000 of the $4,000,000 Southeastern Division 6's were likewise paid. They were due on July 1, 1909. The maturities in 1910 were substantial. The issues, amounts outstanding, and the due dates were as follows: $6,880,000 Hastings & Dakota Division Extension 7's, $980,000 Hastings & Dakota Division Extension 5's, $3,000,000 Chicago & Pacific Division 6's, all due on January 1, 1910; $8,155,000 Milwaukee & Northern 6's due on June 1, 1910; and $7,438,000 Southern Minnesota Division 6's, and the $8,840,000 Mineral Point Division 5's, both due on July 1, 1910. These 1910 maturities amounted to $20,097,000. The $8,155,000 Milwaukee & Northern 6's were extended to June 30, 1913 at 4 1/2% per annum, as pointed out previously.[2] The rest of the 1910 maturities amounted to $19,942,000. They were all paid at a time when the St. Paul was entangled with heavy expenditures in connection with the extension and during a time when it was

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1. Ibid., vol.97, p. 1532.
2. See p. 222.

floating several large issues of debentures which were to be included in any future mortgage on the property. As was also mentioned earlier, $14,000,000 was borrowed from the banks to meet part of these maturities and this was paid off with part of the proceeds from the sale of the 15 year debenture 4's in France. The refunding of these $20,087,000 bonds due in 1910 bearing 5, 6 and 7% rates of interest per annum with bonds bearing 4% interest per annum effected an annual saving of about $460,440.[1]

Although these bonds were, with the exception of the Milwaukee & Northern 6's, paid in cash some of which was borrowed at the time from the banks and paid with the proceeds of the French loan which happened to be available at the time, it must not be forgotten that the French loan was for the building of the extension and that ultimately these underlying bonds were to be replaced with bonds secured by the General Mortgage of 1889 as provided for in the terms of that mortgage. If the company paid any of these bonds with its funds or with borrowed funds, the trustees of this mortgage would issue bonds to the company which it held in the treasury and sold when it needed the funds and when the money market was favorable.[2] In short this financing was a refunding proposition.

On June 1, 1913 the extended $2,155,000 Milwaukee & Northern first mortgage 4 1/2's and the $4,003,000 Milwaukee &

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1. Chronicle, Railway & Industrial Section, vol. 91, p. 34.
2. See p.55.

Northern consolidated 6's fell due. Both issues were extended to June 1, 1934 at 4 1/2% per annum, as was mentioned earlier.[1]

The capital structure at the beginning and end of this period was as follows:[2]

	June 30, 1905	June 30, 1913
Common Stock:		
In the Hands of the Public and in the Insurance Fund	$ 58,183,900	$115,946,000
In the Company's Treasury		402,200
Total Common Stock	$ 58,183,900	$116,348,200
Preferred Stock:		
In the Hands of the Public and the Insurance Fund	$ 49,327,400	$115,931,900
In the Company's Treasury		343,000
Total Preferred Stock	$ 49,327,400	$116,274,900
Funded Debt:		
In the Hands of the Public and the Insurance Fund	$119,264,500	$299,554,454.86
In the Company's Treasury	3,912,000	156,295,511.44
Total Funded Debt	$123,176,500	$455,848,966.30

A summary of the changes in the funded debt over the period which is given in detail in Table XI in the Appendix appears as follows:

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1. See p. 226.
2. Chronicle, vol.81, p. 838. Annual Report, 1913.

Funded Debt, June 30, 1905			$128,173,500.00
Increased by:			
Generals issued for:			
Improvements to the Property	$35,889,000		
Underlying Bonds redeemed and cancelled	35,837,000	$ 63,536,000.00	
25-year Gold Debenture 4's sold		38,050,000.00	
15-year European Loan Gold Debenture 4's sold		48,178,854.66	
Convertible Gold Debenture 4 1/2's sold		48,850,800.00	
Chicago, Milwaukee & Puget Sound Railway 4's assumed		173,525,511.64	321,305,466.30
			$453,451,966.30
Decreased by:			
Underlying Bonds redeemed and cancelled		$ 26,837,000	
Convertible Underlying Bonds received in exchange for Preferred Stock and cancelled		619,000	27,456,000.00
Funded Debt, June 30, 1913			$456,025,966.30

From what has been said previously in this chapter, the above tables should be clear to the reader. The two blocks of Generals aggregated $55,000,000 which were sold were from those issued to the treasury above. Of the $456,025,966.30 issued funded debt, $156,395,211.64 was in the company's treasury. This consisted of $146,350,511.64 Chicago, Milwaukee & Puget Sound 4's, $9,741,000 General 4 1/2's, $159,000 General 4's, and $44,700 convertible gold 4 1/2's. Of the remaining $299,554,454.66 funded debt $1,778,200 was in the insurance fund of the company and the

rest was in the hands of the public. A detailed statement of the funded debt on June 30, 1913 appears in Table XII in the Appendix.

The Puget Sound securities in this table may be confusing and a few words of explanation may be necessary at this time. Up to January 1, 1913 when the Puget Sound Company was merged with the St. Paul the former company had issued $173,585,511.64 of its 4's on its first mortgage authorizing an issue of $300,000,000.[1] $146,350,511.64 of these were issued to the St. Paul for advances, and on January 1, 1913 were in the latter's treasury. $27,175,000 were outstanding.[2] The St. Paul assumed the $173,585,511.54 at the time of the merger. Soon after June 30, 1913, $8,138,988.36 more were issued to the St. Paul for advances it had made to the former subsidiary. This last issue made a total of $154,489,500 of Puget Sound 4's in the St. Paul's treasury and a total of $181,664,500 issued on the mortgage. These were all the bonds that were ever issued on the Puget Sound mortgage. The $44,700 convertible gold 4 1/2's in the treasury were the remainder of the block of $13,957,300 offered to the stockholders in February, 1913. These were all disposed of shortly after June 30, 1913.

The $46,947,000 increase in the preferred stock consisted of $66,328,500 issued in 1906 and $619,000 issued in exchange for convertible Iowa & Dakota Division Extension 7's.

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1. See p. 196.
2. See pp. 197 and 201.

The $58,164,300 increase in the common stock represents the two issues made in 1906. Of the $116,274,900 preferred stock issued to date, $343,000 was retained in the company's treasury of the issue in 1906. Of the remaining $115,931,900 preferred, $86,100 was in the company's insurance fund. Of the $116,348,200 common, $403,300 was retained in the company's treasury from the two issues in 1906 and of the remaining $115,486,000 common, $5,300 was in the insurance fund. Of the $745,300 stock in the company's treasury $377,200 was common from the issue of common in August, 1906 and $105,000 was common from the issue in December, 1906. The remainder, $343,000, was preferred from the issue in December, 1906. Of course the rest of the preferred and common, not in the treasury or in the insurance fund, were in the hands of the public.

The insurance fund grew during this period. During this period $76,100 preferred and $5,300 common stock of the company were taken by the insurance department from the issues in 1906. As noted previously, some of the debentures which were issued were sold to this department. Additional bonds in other railroad companies were also acquired. On June 30, 1913 the insurance fund amounted to $2,846,459.15. The total par value of securities in which practically all this fund was invested was $2,802,900 consisting of $86,100 preferred and $5,300 common stock of the company, $1,778,200 various bonds of the company, $37,000 bonds of the Tacoma Eastern, a subsidiary company, and $800,000 bonds of other railroad companies.[1]

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1. Annual Report, 1913.

Needless to say such financing as that which took place during this period very profoundly affected the financial structure of the company. Each mile of line became heavilly burdened with obligations to the owners and to outsiders who advanced money to the company for the purchase of its bonds. The changes in the capitalization per mile during this period were as follows:

	June 30, 1905[1]	June 30, 1909[2]	June 30, 1913
Stock	$15,555.15	*$18,207.66	$24,603.43
Bonds	17,676.97	15,865.79	31,782.97
Total Capitalization	$33,232.12	$34,073.45	$56,385.40
Interest	858.34	802.53	1,213.59

*The $30,482,200 stock issued in connection with the extension was excluded in the calculation of this figure as the extension mileage was not as yet part of the company's line.

The middle set of figures is interesting. No securities issued in connection with the extension were included in calculating them. Neither was the mileage of the extension, then under construction, included. These figures show what the financial structure would have been if no extension were being built. The stock per mile exceeded the bonds per mile on the company's old lines, a wonderful financial structure for a railroad. Then, as pointed out previously, large amounts of underlying bonds bearing

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1. Ibid., 1905.
2. Ibid., 1909.

5, 6, and 7% interest per annum came due in 1910. With these refunded at 4%, which was actually done, the financial structure on the old lines was improved still more. The financial structure on June 30, 1913 did not look like that of the same railroad the financial history of which is here being related. In fact after the construction and merger of the extension on January 1, 1913 it was not the same railroad. The interest charges per mile on June 30, 1913 were about the same as they were on June 30, 1891. However, the funded debt per mile was half again as large as on June 30, 1891. The funds for the company's new lines were secured at 4 and 4 1/2% interest per annum. The old lines were largely built or purchased many years before with funds secured at 5, 6, 7, and even 8% interest per annum.[1]

In connection with the writing down of the $100,000,000 capital stock of the Puget Sound Company from $100,000,000, the amount at which it was carried on the books of the subsidiary company, to a nominal amount as a muniment of title on the books of the St. Paul, the parent company, at the time it absorbed the subsidiary, some trouble with the commission about this time may as well be indicated at this point.[2] On June 30, 1910 the Puget Sound Company carried the investment in road and equipment at $236,333,987.42. During the year ending June 30,

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1. See Chapter I.
2. See p. 201.

1911 there was a net increase of $22,458,301.41 for equipment and rolling stock making the amount in this account on June 30, 1911, $258,792,228.83. Then during the next year the account was increased by $8,997,248.94 to $267,789,477.77. On the liability side the capital stock was carried at $100,000,000 and the bonds (Chicago, Milwaukee & Puget Sound 4's) at the face value of the amounts issued to the St. Paul for advances, $183,000,000 on June 30, 1910, $154,859,000 on June 30, 1911, and $155,891,410.27 on June 30, 1912. Along with the stock and bonds the outstanding advances from the St. Paul for which no bonds had been issued appeared from year to year of the three years of independent operation. These amounts were carried at $15,038,729.78 on June 30, 1910, $15,898,816.17 on June 30, 1911 and $29,422,341.90 on June 30, 1912.[1]

The stock was given to the St. Paul in 1909. The bonds were given for advances. $100,000,000 in bonds of the subsidiary company was given to the St. Paul when the subsidiary company was organized in place of the previous four subsidiary companies on December 31, 1909 and a mortgage executed on its property (the extension). These bonds were for advances received from the St. Paul which in turn secured the funds from the sale of about that much stock at par to its stockholders in 1909. The payment for this stock was nicely made due in installments covering the period of construction of the main line.[2] Therefore, as in

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1. Annual Reports of the C.M. & P.S. Ry. Co. for these years.
2. See p. 219.

other cases of similar financing in the past, no consideration existed for the receipt of the $100,000,000 stock of the subsidiary company by the St. Paul. Subsequent advances were made for which bonds of the subsidiary company were issued to the St. Paul which in turn secured the funds from the sale of debentures. Some of the subsidiary company's bonds were sold, as pointed out.

No such amounts as those appearing in the property account of the Puget Sound Company were invested in the property as of June 30 in 1910, 1911, and 1912. Obviously the property account was written up on the books of the subsidiary in order to offset the $100,000,000 capital stock carried on the liability side at that amount even before the extension's main line was opened for which no cash or property was received. It was a case of stock watering. Cases of this kind of course expose the public to all the dangers of stock watering. A wider base is laid by these practices on which large earnings might be distributed in future years without the appearance of an inordinately high rate of dividends and a greater burden is put on the public by way of rates for service. In addition, in cases of this kind there is always, in addition to the public aspect of the matter, the possible deception of outside shareholders and bondholders that an entirely fictitious valuation of assets is in reality a true one.

The St. Paul in defence of the accounting practices followed [illegible]ted to the state law in Washington at the time which did n[illegible] t a railroad incorporated in that state to issue bonds in excess of twice the stock. The road needed more funds and the $100,000,000 stock would permit the issuance of $200,000,000 in bonds $181,664,500 were actually issued. So the stock was increased from $3,000,000 to $100,000,000 and the certificate was delivered on June 2,1909.[1] However, the commission maintained that "even if the laws of the state of Washington compelled it to issue a large amount of stock representing no investment in order to legalize its issue of bonds there was no necessity for including the par value of that stock in the property investment account."[2]

Then how could the matter be handled without violating the prescribed rules for accounting of railroad properties? Evidently the Washington law, unlike the laws in many other commonwealths, did not forbade the issuance of capital stock ex[illegible] for an equivalent at par in cash or property. A statement of deferred assets on the balance sheet of the Puget Sound Company showing discount on securities sold of $[illegible],000,000 could have been inserted. Probably better yet the parent company could just as well have taken payment for its advances to the Puget Sound Company partly in bonds and partly in stock. No

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1. Chronicle, vol.88, p. 838.
2. 29 I.C.C.,p.514. Railway Age Gazette XLVI.

aplcing of the subsidiary company's bond issue by so large a stock bonus was needed under the circumstances. Conformity with the state law might truly have been obtained by an original issue of $35,000,000 of Puget Sound bonds and $75,000,000 of stock in exchange for the cash originally raised. The stock would then have been put out full paid in cash and subsequent bond issues to a total of $150,000,000, sufficient to provide for future expansion, could have ensued. To the parent company the same measure of control as actually existed would have resulted then, true enough, with lessened safeguards against loss in case of bankruptcy. However, the likelihood of failure was too remote to receive serious consideration.[1]

However, as pointed out previously, the subsidiary company was absorbed by the parent company, and the Puget Sound stock was no longer carried at its watered value. This move of course eliminated any future dangers concerning the accounting practices followed.

After the discussion concerning the larger part of the financing connected with the extension during this period, the reader may wonder why the St. Paul undertook the work under four separate corporate organizations and later under one separate corporate organization, which latter organization was for awhile an operating as well as a constructing unit, rather than construct the extension in its own name like the construction of

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1. Ripley, p. 34, 37, and 58.

the 219 mile extension to Rapid City, South Dakota, completed just prior to the beginning of construction work on the extension. The St. Paul incorporated four subsidiary companies. These were merged into one company on December 31, 1908. On January 1, 1913 this company was merged with the parent company. The parent company's stock was sold to furnish the first funds. Some of the subsidiary company's bonds were sold. A large amount of debenture bonds of the parent company were sold and through advances to the subsidiary company for which the subsidiary company issued its bonds to the parent company the rest of the necessary funds were obtained.

Because of the strong financial condition of the company on June 30, 1905 the stock was rated very high and was available as expanding media. Therefore its use to a certain extent for the construction of the extension was to be expected. As pointed out previously, the payments on the issuance of preferred and common in December, 1905, the proceeds of which went into the extension, were made payable in installments, the final one becoming due in March, 1908. It was estimated in 1906 that it would take three years to put the new line in operation. It was also estimated that from the funds obtained in this manner the line could be built and equipped and the construction advances out of the earnings of the company could be returned to the treasury. Interest was paid upon the installments toward the purchase of the new shares and included as a part of the cost of construction. With the payment of the final installment, the new

shares were put on a dividend basis. By this time the line was nearly ready for operations. By this method the old shareholders were protected against immediate loss from the reduction of dividends occasioned by the work of construction.[1]

The company's old General Mortgage did not cover this property. New bonds for the construction of the extension could not be issued on this mortgage. The company needed more money. By 1909 it realized that its first estimates were too low as to the cost of the extension. So in 1909 the subsidiary company filed a mortgage on the new property. This method of securing new funds was not a new one. In the past some times when the old company's security was none too good to sell bonds itself and when after acquired property clauses in its mortgages would extend to the new construction the old company would often incorporate a new company which would issue bonds which would be a first mortgage. Then the parent company would give them the desirable credit rating by guaranteeing them. Although the St. Paul did endorse some of its subsidiary company's bonds which were sold as first mortgages on the new line, its credit rating was good and its General Mortgage, on which it had been doing practically all its financing from 1889 up to the time it built the extension, contained no after acquired property clauses which would extend that mortgage over the new line. Outside the

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1. Cleveland and Powell, p. 76.

sale of its own stock the St. Paul secured practically all the remaining funds by taking the subsidiary company's bonds itself and selling its own bonds, also quite a common practice in American railroad history.[1]

Where the new construction work is exceptionally heavy and important and where it crosses a number of states with strict statutory requirements regarding the construction of new railroads, the job is often broken up into a number of component parts, tied together by a control which is exercised over them by the general officers of the company.[2] The accounting operations are very difficult where construction work is carried on along with regular operations. It is much easier to separate the two into separate units if the construction work is significant. Even with a separate company the St. Paul, as pointed out previously, got into trouble with the commission concerning accounting practices being followed while construction work and regular railroad operations were simultaneously being carried on by its subsidiary.[3] Mr. Field mentioned to the writer that these administrative difficulties to a large extent prompted the management to incorporate the extension as a unit separate from the old company.

Another question that may come into the reader's mind at this time is why the actual cost of the extension so far as

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1. Ibid., p. 72. Ray Morris, "Railroad Administration" (1920) p.187, hereafter referred to as Morris.
2. Morris, p. 24.
3. See p. 199.

so much higher than the estimated cost. As pointed out previously, those in charge of the company's affairs estimated that the cost of the extension would be about $45,000,000. Later the estimate was raised to $60,000,000. Both estimates, as shown by the financing related above of which practically all the proceeds went into the construction of the extension, its branches, and equipment for these new lines, as should be obvious to the reader at this time, were proving to be only a small portion of the total actual investment. The cost only to January, 1909 was about $88,000,000. The main line was not complete yet. Many branches had to be built as well as terminals. Much equipment had to be purchased or built.[1] The cost to August 1, 1909, when through traffic was established, was $90,508,000.[2] Ultimately the cost was in excess of $250,000,000. How could the estimates of men, whose calculations because of their relations with the property should be the most reliable of any, be so far off the actual subsequent expenditure being made on the extension during this period and the period following to be discussed in the following chapter? As the actual construction work was done during this period this matter may well be considered at this point.

Almost contemporaneously with the construction of the Puget Sound extension two transcontinental lines were built, the Canadian Northern and the Grand Trunk Pacific. In this country

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1. Chronicle, vol. 88, p. 203.
2. Coverdale & Colpitts, p. 13.

the Union Pacific System built various lines in the Northwest, and the Northern Pacific and Great Northern spent large sums in adding to their facilities and as a joint enterprise built the Spokane, Portland & Seattle. The Western Pacific was built from Salt Lake City to San Francisco and the Los Angeles & Salt Lake was built from Ogden to Los Angeles. In addition, work was being pushed on the Panama Canal. The immediate effect on the St. Paul was to increase the cost of building the extension. The ultimate effect will be brought out at a later point in this history.

Mr. F. J. Pearson, now president of the New York, New Haven & Hartford, was the engineer in charge of construction west of Butte, Montana. He testified before the commission in their subsequent investigation of the road's affairs leading up to the receivership that certain extraordinary costs were incurred in its construction on account of forest fires, floods, rock and snow slides, and similar contingencies; that because of the great amount of railroad work being done in this country and Canada, contract prices were high, "in fact it was a heyday for contractors and their forces," prices reaching the peak in 1906 and 1907 when the St. Paul contracts were let; that much heavier work was done than originally planned so that the first costs of construction covered much work which other trans-continental lines did during a long course of years after original construction in the way of grade revisions, realignment,

permanent tunnels, trestles, etc. [the previous history of the St. Paul as related in this and previous chapters shows the truth of this point as regards the St. Paul's old lines east of Hebridge] ; and that the road was exceptionally well ballasted for a new line, so that when it was opened for business it was in a position to compete on equal terms from a physical standpoint with the long-established transcontinental lines.

Examination by the commission's valuation engineers disclosed that the contract prices were substantially the same as those paid for similar work done during the same period in the Pacific Northwest. But in many instances, the commission found, classifications were raised to help contractors, instead of paying them bonuses or otherwise taking care of them. For instance much grading was done during the winter months under severe conditions, and in such cases the contractor may be paid on the hard pan basis instead of on the basis for common earth. Or the work might be fretted with stumps and roots of trees. The carrier's records indicate that in many instances increased classification was allowed for these and other reasons to take care of what would be contractors' losses or expenses due to unforeseen conditions, and certain classes of extra bills, etc. The commission's engineers testified that the additional amount paid by reason of increased classification was approximately $1,785,000.

Mr. Pearson had had a wide experience in the Pacific Northwest, having been an engineer and operating officer of the

Northern Pacific for nearly 33 years and chief engineer during the last five years of this period. In the light of that experience and that of various railroads handling construction projects, he built up an organization in such a manner that he was able to keep in close touch with the work of the sub-contractors and assure himself of their competency, efficiency, and honesty. The details of the organization, the contractors, etc. are irrelevant. The investigation of the commission's Bureau of Valuation did not disclose losses due to dishonest expenditures. Mr. Pearson told the commission that before proceeding with the location of that portion of the line generally paralleling the Northern Pacific in western Montana, roughly between Lombard and St. Regis, a distance of some 300 miles, he reported informally to his superior that the joint use of the Northern Pacific tracks with the St. Paul as tenant seemed more desirable than expenditure for additional construction. He was authorized to take the matter up informally with the Northern Pacific, but that carrier finally declined to enter into such an arrangement. The St. Paul then proceeded to build its own line.

Mr. Field, chief counsel of the road, in an interview with the writer said that the St. Paul at first planned to build a "cheap extension". However, as the work got under way the management realized that in order to compete with other trans-continentals, especially the Northern Pacific, a much better line with many fixtures not included in the original plans would be

necessary. This statement substantiates Pearson's point above that much heavier work was done than originally planned.

After all is said and done, however, it is clear that the project was started with no adequate comprehension by those controlling the destinies of the St. Paul of its probable cost, particularly in view of the high standard of construction actually attained. The commission found from Pearson's testimony and from the records that little, if any, consideration had been given to the building or acquisition of branch lines and feeders later found necessary to secure traffic.[1] It is surprising sometimes how the management of large business enterprises just seem to feel their way along in the dark.

The condensed income account for this period appears as follows:[2]

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1. I.C.C., p. 822.
2. Coverdale & Colpitts, p. 11 and 18.

CONDENSED INCOME ACCOUNT
(Figures in Thousands)
Years ended June 30

Item	1906	1907	1908	1909	1910	1911	1912	1913
Average Miles Operated	7,185	7,411	7,516	7,513	8,946	9,429	9,570	9,613
Operating Revenues	$55,150	$60,227	$57,885	$61,296	$ 77,872	$81,676	$81,201	$95,861
Operating Expenses	31,517	37,517	37,742	39,950	51,880	57,519	59,128	64,486
Net Revenue from Railway Operations	23,633	22,980	20,143	21,346	25,792	24,358	22,073	31,375
Taxes	2,373	2,296	2,305	2,429	2,896	3,341	3,922	3,824
Railway Operating Income	21,260	20,684	17,838	18,917	22,896	21,017	18,151	27,551
Non-Operating Income	443	1,284	1,403	1,342	6,037	4,924	2,786	4,208
Gross Income	21,703	21,968	19,241	20,259	28,933	25,940	20,937	31,579
Deductions from Gross Income	984	1,080	769	1,291	3,514	3,149	1,578	2,432
Net Income Available for Interest	20,719	20,878	18,472	18,968	25,419	22,791	19,365	29,327
Interest on Funded Debt	5,914	5,942	5,917	5,856	6,812	8,616	9,543	11,438
Net Income	14,805	14,936	12,555	13,112	18,607	14,175	9,822	17,889
Dividends on Preferred-Amt.	3,479	3,479	3,491	3,499	8,115	8,115	8,115	8,115
Dividends on Preferred-Perct.	7	7	7	7	7	7	7	7
Dividends on Common-Amount	4,073	4,938	5,817	5,817	8,116	8,116	6,957	5,797
Dividends on Common-Percent	7	7	7	7	7	7	6	5
Total Dividends	7,538	8,417	9,308	9,316	16,231	16,231	15,071	13,912
Balance	7,369	6,519	3,247	3,796	2,376	*2,056	*5,429	3,977

* Deficit

In 1906 there was a substantial increase in revenues.[1] The earnings from freight traffic were over $40,000,000, an increase of over $4,000,000 or about 12% over 1905. The number of tons carried was 28,201,941, an increase of 2,896,033 or about 13%. The number of tons of agricultural products carried was 6,081,381 or about 16%. The tonnage in other products was 20,110,620, an increase of 2,073,530 or about 12%. The ton miles were 4,863,808,007, an increase of 583,399,448 or about 14%. Earnings from passenger traffic were over $11,000,000, an increase of nearly $1,000,000 or about 10%. Passenger miles increased about 10%. So the increase in business was general. Expenses also increased but not to the same extent with the result of a substantial increase in net income in spite of a large increase in taxes. The cost of conducting transportation increased nearly $1,500,000. $1,511,758.23 was put into the renewal and improvement fund. This was the last credit made to this fund, as was pointed out previously.

In 1907 there was another substantial increase in revenues. The earnings from freight traffic were over $44,000,000, an increase of about $4,000,000 or about 4. 30,596,041 tons were carried, an increase of 2,394,100 tons or about 8%. The tons of agricultural products carried were 6,470,915, an increase

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1. In these income statements the operating results of the Chicago, Milwaukee & Puget Sound Railway were combined with those of the St. Paul during the period from July 30, 1909 to December 31, 1912, the period of the independent operation of the former, so that more accurate comparisons might be made with later periods when the lines were actually merged. When a year is mentioned in this analysis the fiscal year ending June 30 is meant. Unless otherwise stated, the sources of material in this section of this chapter are from the annual reports of the St. Paul and Puget Sound Companies for these years.

of 379,815 or about 8%. The rest of the tonnage was 22,135,136, an increase of 2,014,508 or about 10%. The ton miles were 5,155,888,331, an increase of 491,554,224 or about 11%. The earnings from passenger traffic were over $12,000,000, an increase of nearly $1,000,000 or about 9%. The number of passengers carried was 12,348,478, an increase of 1,058,457 or about 9%. Again the increase in business was general. However, expenses increased to the same substantial extent preventing an increase in net income. Maintenance of equipment increased nearly $3,000,000; and the cost of conducting transportation, over $3,000,000. The cost for labor in all departments was about $26,500,000, an increase of nearly $4,000,000. Equipment expenditures for replacements were exceptionally large.

In 1908 the new accounts as prescribed by the commission went into force so an accurate comparison with the previous year is not possible. Revenues from freight were over $40,000,000, a decrease of over $3,500,000 or 8%. Tons carried were 26,188,853, a decrease of 2,406,188 or about 8%. Tons of agricultural products were 5,840,370, a decrease of 830,545 or about 13%. Tons of other products were 20,548,183, a decrease of 1,575,643 or about 7%. The average miles each ton was carried were 190.17, an increase of 9.88 miles or about 5%. Of course this was not sufficient to offset the decrease in tonnage. The number of passengers carried was 14,234,127, an increase of

1,987,649 or about 18%. The passenger miles were 518,498,348, an increase of 69,870,261 or about 13%. However, the revenues from this source increased very little because the revenue per passenger per mile was only 1.918 cents, a decrease of .284 cents or about 13%. Business was poor especially in agricultural products. Although maintenance of equipment decreased over $1,500,000 and no substantial amounts were put into improvements and charged to operating expenses any more under the new prescribed accounting practices, total operating expenses were about the same as the year before. Therefore net income decreased substantially.

In 1909 there was a substantial increase in revenues. Revenues from freight were nearly $42,300,000, an increase of nearly $2,000,000 or about 5%. 27,498,704 tons were carried, an increase of 1,309,851 or about 5%. This increase was contributed almost entirely by other than agricultural products. Revenues from passenger traffic were nearly $13,000,000, an increase of nearly $1,000,000 or about 7%. Expenses increased but not to the same extent as revenues. Maintenance of way and structures increased nearly $1,000,000. The spring dividends in 1909 were made payable on March 1. Previously the dividends were declared payable in April and October. Now for a time the Company paid its semi-annual dividends in September and March.[1]

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1. Chronicle, vol.88, p. 230.

The 1910 income figures in the table include those for a year's operation of the St. Paul and 11 months operation of its subsidiary. The income figures were now the result of the operations of a new transcontinental railroad system. The St. Paul's revenues from freight for 1910 were nearly $45,000,000, an increase of over $2,500,000 or about 8%. It carried 30,898,915 tons of freight, an increase of 3,199,211 tons or about 12%. The increase was entirely contributed by other than agricultural products, the traffic in which was 24,044,750 tons, an increase of 3,313,063 tons or about 15%. The average miles each ton was carried were 173.52, a decrease of 10.17 or about 6%. Passenger business increased materially. The revenue from passenger traffic was nearly $15,000,000, an increase of over $2,000,000 or about 15%. 17,813,548 passengers were carried, an increase of 2,351,608 or about 15%. Operating expenses of the St. Paul increased substantially. Maintenance of way and structures increased over $1,000,000; and transportation expenses, over $4,500,000. All this above was on the St. Paul's old lines. The operating results of the Puget Sound Company separately appear on page 198. The increase in the amount of dividends paid by the St. Paul in 1910 over 1909 was due to the fact that the approximately $100,000,000 St. Paul stock issued in December, 1906 was by this time paid up by installments and was on a dividend basis.

There was a substantial increase in revenues in 1911. From the appearance of the operating statistics for the St.Paul it appears that the subsidiary company contributed the increased business resulting in the increase in the combined figures in the table. The number of tons carried on the St. Paul's old lines was 28,183,647, a decrease of 3,905,288 or about 13%. This decrease was caused almost entirely by the decrease in tonnage of other than agricultural products. 21,054,282 tons of these products were hauled, a decrease of 3,850,488 tons or about 15%. However, the average miles each ton was carried were 198.88, an increase of 25.18, or about 15%. The revenues from passenger traffic and the number of passengers carried decreased each about 9%. The total operating revenues were about the same as for 1910. The company complained about the adequacy of the rates. Certain expenses increased materially. Maintenance of equipment increased over $1,000,000, and transportation expenses increased over $1,500,000. The company attributed the increase in its operating expenses to the increased cost of labor. A glance at the Puget Sound Company's statement for 1911 on page 198 does show a substantial increase in both revenues and operating expenses over 1910 although the 1910 statement of this company covers only 11 months. In short, for the combined properties for the year 1911 the expenses increased to a greater extent than revenues and caused the net income of the combined properties as shown in the table to substantially decrease as compared with the year before.

The St. Paul drew criticism from the commission concerning its 1910 and 1911 income statements. The revenues and expenses as reported by the St. Paul for the two years under fire were as follows:[1]

	1910	1911
Operating Revenues	$64,846,893.87	$64,975,095.00
Operating Expenses	44,790,997.01	47,053,718.61
Net Operating Revenues	$20,055,896.86	$17,922,276.39

The commission maintained that the St. Paul included in the income accounts for the year 1910 all interest and rents which were in fact assignable for a certain period prior to July 1, 1909. These items totalled over $4,800,000. These items were revenues from the three years of construction work. At the same time certain operating expenses were reduced more than $500,000 by crediting items such as salvage from cars destroyed as far back as 1907. These accounting operations increased the income of the St.Paul by more than $5,000,000. What the St.Paul had done was clear. The company had large obligations to meet in connection with the extension and accordingly drew on certain sources of income which had previously been untouched. The press and later the commission objected to the fact that they were all included in the 1910 statement. Then in the 1911 annual report to the stockholders the company remarked after noting a loss in net revenues of about $2,000,000, "the large decrease in the net operating revenue is accounted for by the inability to obtain

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1. Annual Reports, 1910 and 1911.

increased rates and the great increase in the cost of labor." Commissioner Harlan objected and stated that if the items referred to previously were not included in the 1910 statement the net operating revenues for 1911 would have shown an increase of $2,800,000 in 1911 over 1910. This statement of course brought the financial press to the defense of the road for the net operating revenues which did not include income from interest, rents, etc. actually did decrease about $2,000,000. The loss was real and followed from an increase of $2,282,731.58 in the reported operating expenses for 1911. There was an increase in transportation expenses as reported by the company from $26,347,282 in 1910 to $27,085,958 in 1911. The salvage credit from cars destroyed could not appear under this item, but under maintenance outlays. The commissioner also said the company's statement as regards labor costs in 1911 as against 1910 were at variance with the facts. However, using some of the commissioner's own average wage figures for the two years, one can easily refute his statement.[1] The criticism of the commission was made in the spring of 1914. The report of the commission also contained the criticisms noted elsewhere in this chapter concerning the subsidiary company's 1910 income statement and the fact that this subsidiary company during its years of independent operation carried its $100,000,000 par value capital stock on its books at that figure when the stock represented no cash or property

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1. Ibid., vol.68, p. 838.

investment.[1] The commission in 1914 was investigating whether the railroads were following its prescribed accounting practices. What it had to say about the St. Paul and its former subsidiary happened four years previously. However, the report at the time caused a slump on the exchange in the St. Paul's securities. Mr. Field in an interview with the writer said he was very much surprised at the time at the severity of the criticism in the report and thought that such a report concerning events at that period of the company's history was unwarranted.

One financial writer maintained that the 1910 statement was manipulated to create a favorable market for the sale of the securities then being floated in France. He claimed that all this operated very favorably upon the next year's comparative results. He noted that the effect on the stock quotations was pronounced. The price of the common went from 113 up to 133, dropped back shortly afterwards, and went below par in 1912.[2] However, the St. Paul's statement for 1911 was poorer than the one for 1910.

The freight revenues of the St. Paul for 1912 declined about 4% chiefly due to the decrease in the tonnage of agricultural products. The tons of these products carried was 5,178,042, a decrease of about 10%. The crops failed in certain states in the fall of 1911. Maintenance of way and structures and maintenance of equipment each increased nearly $1,000,000.

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1. 20 I.C.C.
2. Ripley, p. 23.

Transportation expenses decreased a little over $1,000,000. In short the operating revenues of the St. Paul declined and the operating expenses increased resulting in a decrease of considerably over $2,000,000 in net operating revenues in 1912 as compared with 1911. The Puget Sound statements for the two years compare similarly. Therefore the combined statements in the table show slightly declining revenues and substantially increased operating expenses which situation would contribute to the large decrease in net income from 1911 to 1912. In 1912 a semi-annual dividend of 2 1/2% was declared payable on the St. Paul common in the spring of 1913. The stock had been on a 7% basis paying 3 1/2% semi-annually for a number of years. Mr. Roswell Miller, chairman of the board, announced that the crop failure in the west in the fall of 1911 had caused a decrease in agricultural tonnage. Furthermore, he pointed out that at this time in January, 1912 t there was no outlook for the better for the balance of the fiscal year 1913. Rates were continually being reduced and the cost of labor was high.[1] During the six months ending December 31, 1911 the company earned a trifle more than 2 1/2% on the common or an annual rate of a little over 5%. It was not expected in well informed circles that the last half of the fiscal year to June 30, 1912 would be any better than the first half. The lumber trade was extremely dull and the movement of other classes of tonnage was on a restricted scale.

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1. Chronicle, vol. 94, p. 349.

If the outlook for crops was unfavorable by the time the next dividend came due, another 2 1/2% instead of 3 1/2% was in prospect.[1] In fact, the St. Paul common stock's 7% days were over from this time on.

On January 1, 1913 the subsidiary company was merged with the St. Paul. The operating statistics given here for 1913 are compared with the combined St. Paul and Puget Sound figures for 1912. The revenues from freight traffic in 1913 were nearly $68,000,000, an increase of over $12,000,000 or about 22%. The number of tons carried was 34,805,491, an increase of 5,519,378 or about 19%. The traffic in agricultural products was 7,281,131 tons, an increase of about 31%. The traffic in the other products was 27,514,360 tons, an increase of 3,792,184 tons or about 16%. The ton miles were 8,570,061,411, an increase of 1,993,854,438 or about 30%. The average distance each ton was carried was 246.23 miles, an increase of 21.68 miles or about 11%. The average number of tons in each loaded car was 18.78, an increase of about 10%. The revenues from freight per freight train mile were $2.23, an increase of about 9%. The revenues from passenger traffic were nearly $18,500,000, an increase of over $1,000,000 or about 11%. The number of passengers carried was 18,123,475, an increase of 1,233,538 or about 8%. Hence there was an enormous increase in revenues. Business was good. Agriculture evidently "came back." Operating expenses increased

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1. Financial America, January 22, 1913.

but not to the same extent as revenues. Maintenance of equipment increased nearly $2,400,000; and transportation expenses, a little over $2,500,000. Therefore, the net income increased substantially in spite of a material increase in interest charges. 1913 was undoubtedly a good year. However, 2 1/2% continued to be paid semi-annually on the common. A 3 1/2% semi-annual dividend was paid regularly on the preferred throughout the period covered by this chapter.

It may be well to summarize the business conditions and operating results during this period for the subsequent difficulties of the road, which will be related later, in many cases had their origins in this important period under discussion. It is important that the reader realize this point.

Business was good in 1906 and 1907. There was a depression in 1908. Throughout the country the early part of 1910 marked the culmination of a period of recovery following the panic of 1907 and subsequent depression of 1908. The years 1910 and 1911 were comparatively quiet from a business standpoint. There was a slight revival of activity in 1912 which reflected itself in the St. Paul's report of June 30, 1913. However, this was followed by a dull period in 1913.

Over the period under review business conditions were affected by different causes in the various sections traversed by the company's lines. The building boom in the Pacific Northwest, mentioned previously, culminated in 1909, the year the Puget Sound was opened for traffic. The lumber industry in Washington which

had shown an increase of nearly 200% in volume of output during the decade preceding 1908 remained nearly stationary during the remaining years of this period. In Montana during the closing years of this period there was the beginning of a large influx of new settlers, particularly in the territory opened up by the main and branch lines of the Puget Sound extension. Consequently a great deal of new land was opened up. Intense competition was inaugurated between the St. Paul and other established lines following the opening of the new extension during the closing years of this period. The rates seemed inadequate to the management during these years.[1]

During this period $176,039,000 was available for interest which was $60,038,000. The road earned nearly three times its interest charges. However, this ratio by years over the period shows a decline from nearly four to somewhat over two in 1913. The large increase in the funded debt placed a heavy burden of fixed charges upon the company. The increase in this item during the closing years of the period contributed to the decrease in the net income in 1911 and 1912. After the payment of the above interest, $116,001,000 was available for dividends and the property. Over 80% of this or $96,022,000 was paid in dividends, leaving $19,979,000 to devote to the property. At the beginning of the period both the preferred and common were paying 7% per annum, and at the end the preferred was still on a 7% basis but the common was on a 5% basis. It seems as

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1. Cowdrick & Chloitts, p. 15. The calendar years are referred to in these two paragraphs.

though the property was fairly well kept up during this period. In 1908 business was poor but the management pointed out in the annual report to the stockholders for that year that it did not believe for that reason to let the property depreciate. The management was justifying the slight increase in total operating expenses for that year during a time when the total operating revenues declined substantially from the year before. Then in 1912 the financial press in commenting on the decrease of 1% in the semi-annual dividend on the common pointed out the faithfulness with which the management was keeping up the property.

The comparative statistics of the St. Paul with other systems as of the close of the previous periods in the preceding chapters are omitted as of the close of this period because business has not had sufficient time as yet to develop sufficiently along the company's new lines. The statistics for that reason would be useless and their comparison would be unfair to the new transcontinental. Those interesting comparative statistics will again be presented at a more proper time.

CHAPTER VI

ELECTRIFICATION--1913 TO 1917.

This period now under review is the time from when the road was beginning to operate its lines as a unified trans-continental system to government operation growing out of the World War. During this period a large amount of work was done on the track elevation and depression projects which were begun in the closing years of the previous period. The installation of block signals was carried on at a rapid pace. The rapid expansion in the property in the way of new branches, extensions, and second track, which marked the previous period, continued during this period for a couple of years and then came to practically a standstill. This was due in part to the fact that the company completed its "finishing off" work on the extension and also in part no doubt to the disturbed conditions arising out of the war which began to be manifested during the close of this period. So with the close of this period the development of new territory and the extension of the company's lines in the Northwest ceased to be the principal factors in considering the future of operations. Thereafter, the operation of its lines by the United States Government, the readjustment of traffic during the war period, and the influence of post-war conditions were controlling factors. During this period the company under-took the electrification of a part of its main line in Montana

and Idaho, entering into a contract with the Montana Power Company for the necessary electric current. By March, 1917, 438 miles, extending from Harlowton, Montana, to Avery, Idaho, was under electrical operation, and in that month work was commenced on the electrification of 210 miles in Washington between Othello and Tacoma. The halt in the rapid expansion of the company's lines, the beginning of the disturbances to the company's business arising out of the war, and the electrification of two western divisions of the company's coast extension were the outstanding characteristics of this period. The last of these was probably the chief one.[1]

Work on the extension from Crystal Falls to Iron River in Michigan was practically completed in August, 1914. At that time the main line and the connections with various iron mines had been completed and were in operation. By June 30, 1914 the lines from Hilger to Roy, from Roy Junction to Winnifred, from Lewistown to Grass Range, and from Colorado Junction to Cliff Junction, all in Montana, were completed and in operation. By the same date the line into Spokane was completed and in operation.[2] The company owned this line from Plummer, Idaho, to Bell, Washington,

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1. Coverdale & Colpitts, p. 15.
2. Annual Report, 1914.

and used jointly with the Oregon-Washington Railroad & Navigation Company, the latter's new line from Bell to Spokane. The new line from Lewistown to Great Falls in Montana, 137 miles, was completed and opened for operations early in September, 1914. All these projects were under way, as previously pointed out, at the close of the previous period. Work on the Newood River Line, a logging road extending 18.85 miles northwesterly from Merrill, Wisconsin, was commenced in October, 1913. This line was completed and put into operation in December, 1914.[1]

In November, 1914 the St. Paul took over the property of the Great Falls Terminal Railway Company and merged the property with its own. The railway of this company was constructed at Great Falls, Montana, as a terminal facility of the Great Falls-Lewistown line mentioned above with $200,000 capital stock. There were 3.45 miles of this railway all of which had been electrified. It was deemed advisable both on account of economy and efficiency in operation to take over these terminals and make them a part of the St. Paul. Accordingly the Great Falls Terminal Railway Company conveyed all its property and franchises to the St. Paul by deed dated November 5, 1914 since which date the latter company was operated as part of its own system.[2] The property account of the St. Paul was debited $855,902.47 for the purchase.[3]

In 1915 the St. Paul owned the entire capital stock of the Seattle, Port Angeles & Western Railway Company, which was

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1. Ibid., 1915.
2. Poor's, 1918, p. 195.
3. Annual Report, 1915.

organized under the laws of Washington on January 20, 1915. On June 30, 1915 this company had under active construction a line extending from Fairmont westerly through Port Angeles to Farlee, all in Washington, approximately 68 miles. 34 miles of this line had been completed and put into operation the previous January.[1] The line tapped the rich timber country of the Olympic Peninsula and was already proving to be an excellent feeder for the St.Paul.[2] Like the Tacoma Eastern and several other companies the St. Paul was operating the property as an independent unit, finally merging it along with the others on December 31, 1918 with the St. Paul's property.

On January 25, 1918 the St. Paul acquired the property and franchises of the Idaho & Washington Northern Railroad.[3]

The Idaho & Washington Northern Railroad Company.

The Idaho & Washington Northern Railroad Company was chartered on March 25, 1907 under the laws of Idaho.[4] In November the road was opened. It extended from Newport, Washington, to McGuires, Idaho, 44.84 miles, with a branch from Clagstone Junction to Coleman in Idaho, 6.11 miles. Early in 1910 an extension from Newport to Ione, Washington, through the valley of the Pend d'Oreille River, about 51 miles, and later in the same year an extension from Ione to Metaline Falls, Washington, about 10 miles, were completed and put into operation.

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1. Chronicle, vol.100, p. 981 and 1751.
2. Annual Report, 1915.
3. Ibid., 1918.
4. Poor's, 1915, p. 1294.

A year later an extension was built from McGuires to Grand Junction in Idaho, 2.78 miles, and trackage rights were secured over the line of the Spokane International Railway from Grand Junction, Idaho, to Spokane, Washington, 22.1 miles. Later the road was operating under contract the Idaho & Western Railway from McGuires, Idaho, to Spear, Washington, 15,38 miles.

In 1907 the company executed a first mortgage on its property. On this mortgage $3,380,000 bonds were issued up to the time the road was acquired by the St. Paul. These bonds were 25 year bonds due on May 1, 1932, bore interest at 5% per annum, payable on May 1 and November 1, and were subject to redemption on November 1, 1912 and on any interest date thereafter to May 1, 1917 inclusive at 107 1/2 and interest and on November 1, 1917 and any interest date thereafter at 105 and interest. A sinking fund of 2 1/2% of the gross earnings beginning with the calendar year 1913 was provided for. The total authorized amount was $4,733,000. The unissued bonds were issuable at $30,000 per mile on new equipped main line. In 1910 a second mortgage was executed on the property to secure an issue of convertible notes of which $1,200,000 were issued up to the time the St. Paul acquired control of the road. These notes were dated December 1, 1910, due on December 1, 1915, and bore interest at 5% per annum, payable June 1 and December 1. These five year notes were callable on 60 days notice on December 1, 1912 at 105 and interest, on December 1, 1913 at 104 and interest, and on December 1, 1914 at 103 and interest. Furthermore, these notes were convertible at the option of the holder into stock at $75 on December 1, 1911, at $80 on

December 1, 1912, at $85 on December 1, 1913, at $90 on December 1, 1914, and at $95 on June 1, 1915. No prior lien in excess of $150,000 could be put on the property without the consent of the trustee of these notes. In addition prior to the acquisition of control by the St. Paul $720,000 of an authorized $800,000 coupon notes were issued. These were dated May 1, 1912, due on May 1, 1918, and bore interest at 6% per annum, payable on May 1 and November 1. These were not secured by a lien on the property. $3,172,100 of an authorized issue of $5,000,000 capital stock was issued prior to St. Paul's entrance into the company's affairs.[1]

In addition some equipment securities had been issued. $5,370 notes at 5% per annum were issued on 6 refrigerator cars costing $7,162.50. $76,700 equipment trust notes at 5% per annum, dated August 11, 1910, and maturing in seven installments to February 11, 1914 were issued on 100 box cars costing $95,875. $38,043.12 equipment trust notes at 6% per annum, dated March 30, 1911, and maturing in four installments to September 30, 1913 were issued on two freight locomotives costing $50,237.52.[2] By June 30, 1914 only $10,303.75 of all these equipment notes were out.

Now in November and December, 1913 and in January, 1914 the St. Paul acquired from the holders thereof $3,389,000 of the first mortgage 5's, all the $1,200,000 of the convertible 5%

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1. Ibid., 1915, p. 1294.
2. Ibid., 1913, p. 1744.

notes, all the $739,000 coupon 5% notes, and $3,625,000 or approximately 85% of the capital stock or a total of $7,941,700 in stocks and bonds. In payment for these the St. Paul delivered to the holders of the Idaho securities $5,319,000 of its 25 year 4% bonds. These bonds were the same as the $25,000,000 issue sold in 1909 issued on an indenture dated July 1, 1909. The St. Paul assumed control of the line on January 31, 1914.[1] The interest on the first mortgage 5's and the convertible 5% notes was defaulted early in 1914. In August, 1915 the suit was brought up to foreclose. In November, 1915 the decree of foreclosure and sale was entered. On January 25, 1916 the property and franchises were offered at public auction at Spirit Lake, Idaho. The St. Paul bid in on the bonds and notes it held and received the property which was conveyed to it by a deed dated January 25, 1916.[2] The property was merged with that of the St. Paul and the property account of the latter was debited $5,688,784.05 for the purchase.[3] At the time of the transfer the road extended from Grand Junction, Idaho, to Metaline Falls, Washington, a little over 100 miles, and from Coleman to Clagstone Junction, Idaho, about 6 1/2 miles. On June 30, 1915 the rolling stock consisted of 13 locomotives, 0 units of passenger equipment, and 455 units of freight and miscellaneous equipment.[4] The earning power of this property with its fancy financial structure for

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1. See p. 220. Chronicle, vol.97,p.1832 and vol.98,p.386.
2. Chronicle, vol.102,p.437. Poor's, 1917, p. 655. C.M. & St.P. Ry.Co., Foreclosure Cases, Testimony and Exhibits, p. 811.
3. Annual Report, 1916.
4. Poor's, 1916, p. 584.

several years ending June 30 prior to its acquisition by the St. Paul were as follows:[1]

	1910	1911	1912	1913	1914	1915
Gross Earnings	$613,358	$712,706	$515,891	$882,546	$491,700	$380,921
Net Earnings	214,797	213,911	93,781	181,510	30,504	98,392
Balance for the Year	41,389	*46,093	*149,042	*188,318	*209,397	*245,434

*Deficit

In April, 1916 an eastern extension of the line of the Seattle, Port Angeles & Western from Discovery Junction to Port Angeles, was placed in operation.[2] An extension of this subsidiary company's lines from Majestic to Twin Rivers, Washington, 8 miles, was completed early in 1917.[3] Authority was given for a further extension to the Pysht River and thence to the Soleduc River at the mouth of Bend Break, about 15 miles, tapping a heavy body of spruce, hemlock, and cedar timber. A contract was let for the three miles west from Twin Rivers and the work was about 50% complete on December 31, 1917. It was planned to complete this extension in the spring of 1917.[4] During the latter half of 1916 the Milwaukee Terminal Railway Company, another subsidiary, purchased from the Northern Pacific an iron barge used by the latter to ferry trains across the Columbia River between Pelaska and Cobb, prior to the completion of its bridge over the Columbia River at Portland. The barge was 300 feet long and had

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1. Ibid., 1911 to 1917 inclusive.
2. Chronicle, vol.101,p.1362. Annual Report, 1916.
3. Special Report, Six Months ending December 31, 1916.
4. Annual Report, 1917. This and subsequent reports were for calendar years to which the fiscal year of the company was changed.

three tracks. When remodelled it was placed in service between Seattle, Bellingham, and Port Townsend. On the Bellingham & Northern, another subsidiary, a branch from Goshen to Welgrme in Washington, 11.3 miles, was completed in December, 1916 and placed in operation.[1] Work on the Chateau line from Great Falls to Agawam in Montana, 88.70 miles, was completed and put into operation on June 30, 1917. This line was in the process of construction at the end of the previous period. During the present period work on this line was temporarily suspended[2] and later resumed. Grading, bridging, and track laying was completed on an extension from Grass Range to Winnette, Montana, 22.98 miles, and grading and bridging was completed to Blanchard Creek on an extension of the Big Blackfoot line (formerly a subsidiary which was recently absorbed) from Blackfoot Junction to Clearwater in Montana, 22.01 miles, and track laid on the same to a point 1 1/2 miles east of Blackfoot Junction by the close of this period on December 31, 1917.[3]

On December 31, 1917 the company owned solely 9,840.81 miles of main line and owned jointly 109.74 miles or a total of 9,950.35 miles of main line. This main line was located in the following states: in Wisconsin, 1,823.59 miles; in Illinois, 415.04 miles; in Iowa, 1,875.64 miles; in Minnesota, 1,348.80 miles; in North Dakota, 379.93 miles; in South Dakota, 1,796.95

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1. Special Report, Six months ending December 31, 1916.
2. Annual Report, 1914.
3. Annual Report, 1917.

miles; in Minnesota, 140.27 miles; in Michigan, 197.39 miles; in Montana, 1,157.28 miles; in Idaho, 337.99 miles; and in Washington, 482.58 miles. On June 30, 1913 the main lines of the company extended 9,484.91 miles. The company was operating a total of 14,973.43 miles of track on December 31, 1917 as against 13,687.73 miles on June 30, 1913.[1] These figures do not include the mileage of the several companies controlled by the St. Paul and operated at this time as independent units. The increase in mileage during this period was only a small fraction of the increase during the preceding period when the coast extension was built. The most significant change in the property was not that of new lines topping new territory as was the case during the previous period.

The Electrification Project

John D. Ryan became a director of the St. Paul in 1909 upon the request of William Rockefeller, who for many years had a large interest in the Anaconda Mining Company and was a director of that company during the St. Paul's electrification. When Ryan became a director he was president of the copper company, which had extensive interests in Montana, and he was

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1. Poor's, 1918, p. 193 and 200.

also interested in water power. He and his associates had acquired control of the Great Falls Water Power & Town Site Company from the Hill interests and water power was being developed at Great Falls, Montana, when he became a director. Ryan is reported to have said that he was interested in railroad electrification from two standpoints: (a) as one of the new uses for copper, and (b) in securing an outlet for the great undeveloped water power controlled by him and his associates. As a director of the road he thought that he ought not be an active party in its power negotiations. He took pains to make his position clear to everyone. He avoided taking parts in the board's discussions concerning electrification and avoided meetings when the question was to come up. In framing the power contracts he was the active negotiator for the power companies and Terling, then president, and Goodnow, his assistant, represented the railroad. Ryan depended on the railroad officials to protect the carrier's interests.

As early as 1906 electric supply companies had made reports with respect to electrifying the Butte, Anaconda & Pacific Railway, a short line controlled by the Anaconda Copper Company, engaged principally in hauling ore from Butte to Anaconda, a distance of about 25 miles. For many years the St. Paul owned 49% of the stock of this road, but sold it subsequent to the period discussed here. Operation of this road by electricity commenced in May, 1913. The work was done by the General Electric Company

under an absolute guaranty of performance. In the meantime that company made various studies and investigations with regard to electrification of the St. Paul.[1]

These relationships are interesting and no doubt were material in bringing about the electrifying of sections of the lines of the St. Paul.

In January, 1913 there were public rumors of the plans of the progressive St. Paul system calling for the electrification of about 450 miles of the company's lines through the mountains in Montana and Idaho. On January 7, 1913 a press dispatch from Washington said the Interior Department had made a 50 year grant to the Great Falls (Montana) Power Company for transmission lines and additional hydro-electric developments which would furnish electric power for the St. Paul. The grant provided for a compensation to the Federal Government of 5 mills per 1,000 KW (kilowatts) but subject to periodical adjustment every 10 years, and also provided for government regulation of the rates and the sale of the power to the United States, to the states within which the transmission lines were to be located, and to municipal corporations in such states at as low a rate as could be given to any other purchaser for a like use under similar conditions. The company was forbidden to claim any earning value for the grant or any selling value should the public take over the company's works at any time. The power company had the right to

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1. 131. I.C.C., p. 838.