and stockholders did not meet in that state, the domicile of the St. Paul, to consider plans of reorganization in accordance with the statutes of that state. The federal commission thought that this was a matter not proper to be treated in the proceedings under way.

The commission examined the proposed expenditures to be made from the fund to be created by the $4 a share assessment which was not to appear in the capital structure, for the plan provided for bonds to the stockholders for their assessment in a par amount $4 less than the assessment per share. The commission claimed that the estimates of the expenses in connection with the termination of the receivership and reorganization submitted to it were not sufficiently up to date to pass on the reasonableness of them and the public interest thereby. Therefore it ordered that the $4 to be paid in on each share to meet these expenses be impounded in a separate fund, and also ordered that no amounts be paid from this fund unless and until authorized by due order of court or by this commission.

Therefore the application of the new company was accepted except as to the issuance of General Mortgage 5's for purposes given and with the restrictions in connection with the fund to be created by $4 of the assessment on each share of stock.

Commissioner Hall submitted a brief opinion concurring only in part. He did not think that what the stockholders do with their money was anybody's affair except their own. He thought the commission should have done nothing in respect to the application which might be made of the $4 per share paid into the reorganization managers by existing stockholders.

The decision of the commission was reached by a 7 to 4 vote. Commissioner Eastman wrote a long dissenting opinion in which Commissioners Campbell and McNamany joined. Commissioner Lewis also wrote a dissenting opinion. These dissenting opinions are interesting.

Commissioner Eastman pointed to the charge made by the majority against the Jameson group branding them as speculators. Even if Jameson and others had purchased a large share of their bonds subsequent to receivership at low prices, assuming good faith in the future of the property, such purchases were natural and legitimate. Speculation had been rife all along the line. The stock offered the best opportunities. As was pointed out, most of the large stockholders of the old company had unloaded sometime before the receivership. Immediately thereafter the common fell to about $3.25 and the preferred to about $7.50 per share. After the announcement of the plan the stock went up until it was around $20 for the common and $37 for the preferred (at the time of this decision of the commission) due no doubt to the generosity shown the stockholders in the plan, thought Eastman. The members of the stockholders' committees held and represented stock to a considerable extent purchased since the receivership. At the time of the decision out of the twenty largest stockholders of the St. Paul only two were not brokerage houses holding for clients whose identity was not disclosed.

Eastman pointed out that once the reorganization managers and their personally selected committees had agreed upon a plan,

resistance upon the part of security holders involved a probability of heavy expense and also grave risk of ultimate disaster. Eastman thought that under the circumstances many flocked to the standard of the managers only with reluctance. The security holders could either join the reorganization or stay out. If they chose the latter alternative, they would have to go to the expense of hiring experts to convince the courts and the commission that the plan ought not be approved. Furthermore if they decided to come in later, they were threatened with unknown penalties by the managers or else be doomed to accept a ruinous cash settlement. This latter ghost proved to be a reality in this case as the upset price and bid price were so low that the non-assenting bondholder could receive only about 49¢ on the dollar; and the non-assenting stockholder, not one cent.

Eastman also showed how the interest charges on the new funded debt would amount to $23,807,174 including the $9,119,885 contingent interest charges on the new adjustment bonds which were to become cumulative in 1930. All this must be paid beginning with 1930 before any dividends could be paid on the stock. The fixed interest charges on the old funded debt amounted to $21,514,062. Under the new financial structure, unless earnings in the future averaged much better than the past gave reason to anticipate, it would be utterly impractical for the new company to finance by new issues of stock. The financing would be done by repeated issues of mortgage bonds if securities were to be issued. He pointed out how the financial unsoundness of the practice of securing new capital wholly or even largely by continual increases

in the funded debt was strikingly illustrated by the history of the St. Paul itself in connection with the construction of the extension. Eastman said that the new adjustment bonds would sail under false colors. For most practical purposes they were not one whit better than preferred stock with cumulative dividends. But in this case they were to masquerade as bonds with no voting power, with voting power after 1930 confined to the securities labeled as stock which would likely be of interest chiefly to speculators. It will be remembered that the savings banks held a large amount of junior bonds which were now to be replaced in part by these new adjustment bonds. The banks were not allowed to hold preferred stock. On examining their holdings in these bonds Eastman concluded that the stock to be received in exchange for them (he believed that stock should be issued) could be liquidated without trouble.

Eastman agreed with the Jameson committee in the belief that there was to be a wrongful diversion of part of the assets or trust fund from the junior bondholders to the stockholders under the plan. For all but $4 of the assessment per share of stock the stockholders were to receive new mortgage bonds superior in lien to those the junior bondholders were to receive for 80% of their holdings. The $4 per share would aggregate $9,330,072. Assuming the bonds in which the stockholders were to be required to invest were worth only 98, a further contribution of $2,427,067 was to be made, making a total of $11,757,139. They were to receive stock in the new company the present curb quotations on

which were about $26 for the common and $44 on the preferred making a total market value on this basis of $81,487,712. In other words for a payment of $11,757,139 at the maximum, they were to remain an equity worth $81,487,712 in the face of the fact that the junior bondholders were to be called upon to make sacrifices by accepting for 80% of their holdings new adjustment bonds inferior in lien to those given to the stockholders and the new financing mortgage besides. In addition up to $5,000,000 per year or two-thirds of the yearly net income available for interest on these new adjustment bonds might be diverted from the payment of the interest on these bonds, not cumulative until 1930, to capital expenditures. Eastman thought this case warranted the commission considering the treatment of private parties under the plan. The reader will note that the majority refused to consider this. Eastman thought that the majority of the commission, when confronted with the dilemma of approving a poor plan (recognized as a plan with defects by the majority) or of compelling the negotiation of new agreements with the likelihood of further considerable delay and expense in taking the road out of receivership, should have chosen the latter alternative.

Eastman suggested his version of a proper alternative plan which he claimed would (1) provide a structure under which financing would be possible through stock as well as bond issues even if the earnings were not to prove as favorable in the future as it was hoped that they would be, (2) give the force of stock with voting power to all securities the return on which was dependent upon

income, and (3) require the least sacrifice upon the part of creditors which would satisfy the demands of the public interest. Stated in the order of priority the new securities under his alternative plan would be as follows:

	Par value
Undisturbed bonds, including $22,139,000 of guaranteed Terre Haute bonds.	$182,139,000
First and refunding mortgage, no bonds to be issued thereunder at present but to be available without limitation for future financing.	———
Prior preference stock, none to be issued at present but to be available without limitation for future financing, dividend rates on particular issues to be fixed as circumstances may require.	———
First preferred stock, 5%, open for further issues, at other dividend rates if necessary.	289,268,787
Second preferred stock, 5%, but if non-cumulative sharing with common stock in dividends at a higher rate.	115,845,000
Common stock	75,000,000

Of the first preferred stock, $328,592,115 was to go to the defaulted bondholders and $60,676,672 to the stockholders in return for their cash contributions. If it were thought desirable, 30% in prior preference stock and 70% in first preferred stock instead of 100% in the latter could be given to the defaulted bondholders without serious impairment of the plan. It might be quite possible that this first preferred stock would provide for

future financing and that issues of prior preference stock might not be necessary. The second preferred stock was to go to the present preferred stockholders with the exception of the $3,000,000 for the Director General; and the common stock, to the present common stockholders. The common stock was to be reduced to $75,000,000 because the evidence as to property value at the time before the commission did not fully support a larger issue. This would not be serious to the holders of common stock for the value of their equity and the amount they might receive in dividends were to be in any event determined by future earnings and whatever property value was finally determined. No doubt dividends on the prior preferred stock and probably dividends on the first preferred after 1930 should be cumulative.

Eastman concluded that the arbitrary way in which the receivership and reorganization proceedings of the St. Paul were handled convinced him that the public interest should be represented from the beginning and not only at the end when a plan is submitted to a public commission for approval with probable serious consequences in view if it is not approved, that bankers and lawyers should assist but not dominate in the preparation of a plan, that security holders committees should be selected at meetings of security holders called for the purpose instead of by reorganization managers or other outside volunteers, that reorganization managers should be wholly impartial and neutral and not affiliated with groups of security holders or any particular group of bankers, that the plan should be submitted to the commission for its assent

before the security holders are asked to assent to it and after a public hearing, and that there should be no divided jurisdiction or in other words necessity of the courts to pass on questions which have been or are to be decided by the commission or vice versa.

Commissioner Lewis in his dissenting opinion pointed out how the net earnings available for interest had shown a tendency to balance on the $18,000,000 line over a number of years past. The plan was to result in fixed charges amounting to $13,863,489. After 1930, the $8,143,685 annual interest on the new adjustment bonds was to be cumulative. So finally the total fixed and cumulative contingent interest charges, disregarding new issues in the future, were to aggregate $22,007,174. This was to come ahead of the dividends on the stock. It was a million and a quarter greater than the total interest charges then accruing under the old financial burden on which the St. Paul went into receivership. He thought that the new financial structure was too unsafe for approval. Like Eastman he thought that the reorganization plan did not go far enough.

He thought that the financial structure should be reorganized further. Under the plan he predicted that unless a healthy reversal of adverse conditions took place there was little hope for dividends on the stock for a long time ahead. Therefore, under the plan the stock, both common and preferred, was destined to nothing more than stock market speculation for some time to come. With stock of such value, the new company almost from the beginning must look to bond issues for new money. These new issues would

make dividends still more remote. Considering the new adjustment bonds as mortgage obligations and counting the no par common stock in at only the $4 unkapitalized assessment on each share, the bonds at face were to amount to 79.1% of the total value of securities under the plan. Commissioner Lewis thought that a financial structure with total interest charges in excess of $15,000,000 or $16,000,000 should not be approved in this case. The new financial structure should be constructed at this time in which bonds constituted from 50 to 60% of the total securities. The property and services it seemed had improved in recent months.

Therefore so far as the public interest was concerned, he thought, there was no need for the commission to be spurred on to the approval of a plan simply because if it were rejected or changed it would take some time to prepare and submit a new plan and get the road out of receivership.

This decision of the majority ended the long legal battle in which the plan of the reorganization managers was finally "put across."

The reader will note that the particular objections that the Jameson group had to the plan differed somewhat in the successive briefs this committee filed with the court and subsequently with the commission. The reader will note in comparing the arguments and objections of the Jameson committee with the decisions rendered in the successive steps of the legal battle that although this dissenting group lost its fight it did secure some of the things for which it asked. The decision in the federal district court in Chicago approving the plan and confirming the sale marked the real victory. The commission narrowed the issue quite a bit when it (the majority) refused to consider the rights of private parties and to consider the application of the new company as to its effects on the public interests only.

The reader will not be able to find an approval of any formulated rules for the determination or calculation of a proper upset price for a bankrupt property which is to be sold. The managers suggested the capitalization of the average earnings for the previous three years with adjustments. The Jameson group objected to both the average and the adjustments and suggested the capitalization of the previous current year's earnings at 6% with other adjustments. The managers objected to the Jameson suggestions in this respect. They claimed that if the property was earning sufficient to support such a value there never would have been a receivership. Then they added that the upset price should be low enough for there to be a fighting chance of a successful bid at the sale and a successful bid was only possible

when the upset price was set so low that security holders would be discouraged from holding their securities for the distributive cash proceeds of the sale. As a practical matter it would seem that the managers were right in order that a receivership might be terminated and the property returned to its owners. The method followed by the Jameson committee would fit better in a problem involving the determination of the value for rate making purposes. The determination of an economic value was uncalled for in this situation. If it were a question of the determination of a value for taxation purposes, the problem would have been much simpler. In such a problem the determination of the values of different tax paying properties would have been called for. The absolute value of each property would have been unimportant. The relative values of the different tax paying properties would have been much more important in determining the share of the total taxes each of the properties should pay. However, the actual case here was a bankrupt property which was to be sold after some of the creditors' mortgages had been defaulted and foreclosed. The absolute amount of the value for purposes here (upset price) was important. Certainly the fact that the restoration of the property to the owners, which would be desirable to everyone (creditors, employees, and the public) would be facilitated and, within certain limits, only made possible by an upset price sufficiently low should be an important consideration in the determination of the upset price figure. After hearing both sides the court set a figure between the two suggested by the opposing groups but much closer to that suggested by the managers.

The commission had nothing to say about the issue. The reader will note that the majority of the commission in its decision on the plan looked upon the whole reorganization procedure as regular. However, in its critical report on the past affairs of the company, put out at the same time, it criticized the road's board of directors for losing control of the road's affairs during a number of months prior to the receivership and pointed out in clear fashion how the bankers set up the machinery just after the receivership to put its proposition "across." Eastman, in his dissenting opinion, pointed to the low upset price. He seemed to be sympathizing with the Jameson group. However, his opinion contains nothing concerning the proper basis of an upset price. He suggested reorganization procedure different than that followed in the case of the St. Paul. He suggested more democratic selection of security holders' committees, presenting the plan to the commission before it is submitted to the security holders for approval, etc. Of course the adoption of such suggestions would make substantial opposition to a plan less probable and to that extent make the problem of the proper upset price less important also. The whole question is really a legal and not an economic one.

As to the Jameson committee's objections to the plan, the reader will note a change in the particular points stressed in different briefs. A big factor in the reorganization plan's favor no doubt was the vastness of the majority of the securities deposited under the plan over the amount deposited with the Jameson

group. Jameson represented and was only working for the various defaulted issues on the General and Refunding Mortgage and not the defaulted bonds on the Puget Sound mortgage. It seemed at times that he would not stop short of breaking up the property, if that were necessary, in his efforts in behalf of the holders of securities he represented. The commission thought a break-up was contrary to the public interest. He and his insurance company owned nearly all the bonds the Jameson committee represented. There is not any doubt but what some of his proposals were impractical in the treatment of a bankrupt property. The managers were sensative to criticism. They modified their plan in order to secure the support of the first two groups of dissenting security holders which were organized. However, the Jameson demands were too much for them. They refused to meet them. As a result the receivership was delayed a year.

The reader has probably wondered by this time why Jameson's fire insurance company was permitted to handle defaulted securities. Ordinarily, according to Mr. Field, insurance companies are not allowed to deal in such securities, but it seemed that the laws of the State of New York did not limit the operations of fire insurance companies in this respect.

The reader will note that the only substantial opposition to the plan and the efforts of the managers and the majority of the security holders to terminate the receivership came from the Jameson group. There was some opposition, as noted, from the State of Wisconsin when the new company applied to the commission to take over the property. A certain Mr. Siebolt, who had written some

sensational financial literature, wrote a series of articles during the receivership proceedings. In these articles he criticized the road and also the reorganization. The Chicago papers refused to publish his articles. Some eastern papers and several in the middle west put them out. Now according to Field, the chief counsel for the road, whom the writer interviewed in the summer of 1938, Siebolt came into the legal offices of the road in Chicago and asked for certain information which would verify and substantiate his points in the articles already published. Field told him that this information should have been received before he wrote the articles. He was referred to the court. His seeking this information subsequent to the publication of the articles of course indicated to an intelligent person that very little value could be placed on these articles as a basis for formulating any intelligent opinions. Incidently, Siebolt testified against the plan and the managers before the court and before the commission. Field said to the writer that none of his testimony was sustained. Field maintained that the commission's report on the road's past affairs and its decision on the plan, especially the former, were "full of poison." He claimed that the commission's criticism of the management was unsound. His forty years experience on the road, he claimed, convinced him that the management was and always had been "as clean as a whistle."

During the latter part of January ,1928 the Jameson committee terminated its deposit agreement, dated November 5, 1925. The bonds deposited with it were returned to the holders in exchange for the latter's certificates of deposit. To defray the expenses

connected with the committee's work, a charge of $25 was made on each $1,000 of deposited bonds. The committee itself served without compensation.[1]

As a matter of general interest and also as a matter in connection with Jameson's point that the plan unduly favored the stockholders at the expense of the bondholders (sustained by Commissioner Eastman) the figures in the following table may be of interest to the reader before events subsequent to the long legal battle which was finally terminated by the decision of the commission are discussed. This table shows the net market value

THE NET MARKET VALUE OF A HOLDING OF ONE SHARE OF STOCK AND A HOLDING OF $100 PAR VALUE DISTURBED BONDS IN THE ST. PAUL ON VARIOUS DATES GIVEN BELOW.

	September 19, 1924	April 17, 1925	April 5, 1928	June 1, 1928
Common Stock	$13.00	$ 4.75	$29.30	$29.99
Preferred Stock	20.00	8.875	41.65	40.88
General and Refunding 4 1/2's	49.75	45.25	78.90	78.40
General and Refunding 5s	52.50	45.25	78.90	78.40
4 1/2% Bonds, due 1932	53.50	45.25	78.90	78.40
4% Bonds, due 1934	51.50	45.25	78.90	78.40

Note: The figures for the stock for Sept.19 and April 17 were the low for those days on the exchange. The figures for the bonds for those dates were for actual sales. The figures for the stock for April 5 and June 1 represent the low for the new stock of the new company less the assessment and plus the market price of the 5% mortgage bonds received for the assessment (on the basis of $100). The figures for the bonds for those dates represent the sum of the market values of the 5% mortgage bonds (20%) and 5% adjustment bonds (80%) in the new company received for the old bonds (also on the basis of $100). All the above figures were obtained directly or calculated from quotations given in the Chronicle.

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1. Chronicle, vol.128, p.573.

of a holding of one share of common stock, of one share of preferred stock, and of $100 par value of each of several of the more important bonds which were defaulted, all in the old company, on September 19, 1924, about six months before the receivership when many "wise ones" no doubt sold out, on April 17, 1928, when the full effects of the announcement of the receivership had sufficient time to be reflected in the market, on April 5, 1928, when the approval of the commission and the fact that the plan had "come through" had time to be reflected in the market, and on June 1, 1928, when the assessments were paid and the new securities were distributed. Of course the figures for the latter two dates represent the market value of the new securities received in exchange for the old as provided for in the plan. For the latter two dates in the case of the stock the assessment has been deducted. All the figures are on the basis of one share of stock or $100 par value in bonds. In short this table shows the net market value of a holding of one share of stock and a holding of $100 par value in bonds for each kind stock and several of the important issues of disturbed bonds held by a security holder throughout this period and exchanged for at the proper time for securities in the new company.

The reader will note that on September 18, 1924 the market prices of the various bonds (all secured by the same mortgage) extended over a very small range. No doubt the market, sensing trouble ahead, realized that these bonds, if any, would be defaulted and in that case no doubt would be treated alike in any adjustments that might follow. Of course after the plan was announced which

provided that these bonds were to be treated alike, one should expect that these bonds would be valued at the same figure as actually was the case on the second date.

It is interesting to note relative fluctuations in the various securities in the table between September, 1934 (before the receivership) and April, 1935 (shortly after the receivership was announced). The common stock declined about 80% of its price in September; the preferred, about 55%; the General and Refunding 4 1/2's, about 8%; the General and Refunding 5's, about 14%; the 4 1/2% Bonds, due 1932, about 18%; and the 4% Bonds, due 1934, about 13%. The stock dropped materially no doubt because it was doubtful whether the holders would receive anything eventually. Then following the establishment of the fact that the plan had won, a holding of one share of common increased in net market value by April, 1938, by an amount about five times the sale price in April, 1935; preferred stock, about four times; and each of the various bonds, about 70%. Clearly the stock increased, subsequent to the receivership with the plan of the managers announced, to a much greater relative extent than the disturbed bonds. Up to shortly after the announcement of the receivership the stock declined to a much greater extent than the disturbed bonds. No doubt the chance for speculation in the stock was great. No doubt there was a great deal of speculative dealing in the stock. Since the receivership to April, 1938 the net market value of the holding of a common share increased $24.55; preferred stock, $33.78; and

bonds, $31.65. Probably this greater relative appreciation in market values in the case of the stock was in part a reflection of the treatment given the stock in the managers' plan. However, during this time a great speculative wave in stocks swept over the exchange. Stocks were bid to prices far out of line with the present earnings and the prospective earnings to be reasonably expected as available as dividends on these stocks. The reader must be careful in formulating his own opinion on the plan of reorganization, which was adopted, on the basis of movements in the market prices of disturbed securities subsequent to the announcement of that plan. Although these movements are relevant, the plan should be judged primarily on the situation existing at the time the plan was being framed and, on completion, finally announced. Besides at the time the plan was announced it seemed that the bondholders were not in a position to furnish the new money immediately needed to successfully continue the operation of the property in which they had an equity. The figures in this table no doubt are generally interesting to say the least.

CHAPTER XIII.

THE NEW COMPANY AND SOME ASPECTS OF THE PERIOD OF RECEIVERSHIP.

On November 27, 1926 the managers announced that the name of the new company was to be the Chicago, Milwaukee & Pacific Railroad Company. They also announced that the new company was to be incorporated in Delaware where the necessary incorporation fees amounted to only $25,000 as against $400,000 in Wisconsin where the old company was chartered.[1] Then the business interests of the city of St. Paul urged that the name of this city be retained in the name as there seemed to be quite a sentiment attached to the name of that city in the northwestern section of the country. In December the managers announced that they would comply with this request, and announced that the new name was to be the Chicago, Milwaukee, St. Paul & Pacific Railroad Company.[2] Evidently the new company was incorporated as planned in Delaware. John J. McCloy was selected as temporary president of the new company late in 1926. This selection was for the purpose of the signing of certain necessary papers prior to the lifting of the receivership after which new regular officers were to be chosen.[3] The next step was the re-incorporation of the new company in Wisconsin. On April 1, 1927 the articles of

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1. Chronicle, vol.123, p. 3649.
2. Ibid., p. 3178.
3. Ibid., p. 3772.

incorporation were filed at Madison. Before the legislature of that state adjourned a week previous, it passed a law reducing the incorporation fees chargeable against the new road and also providing for the issuance of no par common stock. With these obstacles of incorporating in that state removed, it was decided to finally incorporate the new company in the same state in which the old company had been incorporated. This action of the legislation was taken as a reflection of the feelings of the people of Wisconsin toward their first railroad.[1] Under date of April 11, 1927 Swaine and Seatland, who purchased the property at the foreclosure sale, entered into an agreement with the new company and certain other parties whereby the purchasers assigned and transferred to the new company all of their right, title, and interest in and to this property upon consideration that the new company fulfill all the obligations imposed upon them by the decree of foreclosure confirming the sale and issue and deliver to the managers the new securities called for in the plan and that the managers distribute these securities to the various parties entitled to them and assign to the new company all securities deposited under the plan together with the $55,000,000 in government notes and all claims of general creditors.[2] In the afternoon of January 11, 1928 Judge Wilkerson issued an order directing the receivers, who had been in charge of the property for nearly three years, to execute and deliver the deed of transfer to the reorganized company, and also an order which provided that all the owners of

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1. Ibid., vol. 124, p. 2116.
2. 131 I.C.C., p. 680.

securities of the old company, who had not already deposited under the reorganization, were to be given until February 15, 1928 to make deposit. Failure to deposit was to debar a holder from participating in the benefits of the plan.[1] On the same day the receivers signed the deed conveying the property to the new company effective at midnight January 16, 1928. The receivers turned the deed over to Swaine, who was one of the bidders at the sale and also counsel for the reorganization committees. At the same time it was announced that Mr. H. A. Scandrett, vice president of the Union Pacific Railroad Company, was to be the president of the new company.[2] On Monday, February 16, operations commenced under the new company. Mr. Scandrett came to Chicago from Omaha and took charge on that date.

A few days later the reorganization managers notified the security holders that the new company had acquired the property. The holders of certificates of deposit of common and preferred stock deposited under the plan were ordered to pay on or before February 16, 1928 their assessment of $32 and $28 per share respectively or pay half of the assessment on or before that date and half on or before June 1, 1928. The reader will note that the plan originally called for these payments a year earlier. The delay in the courts and before the commission forced the setting ahead of the dates of the payment of the assessment. The 50 year 5% mortgage bonds to be issued for all but $4 of this assessment were to bear interest from February 1, 1928. The new securities

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1. Minneapolis Tribune, Jan. 12, 1928.
2. Chronicle, vol. 126, p. 248.

to be issued to the stockholders were to be issued when the full assessment was paid in. The stockholders unable to furnish the funds were urged to borrow from the banks, and, if unable to do so, to notify the managers who would then endeavor to assist them. The holders of undeposited securities were notified to deposit their securities on or before February 18, 1928.[1] On February 4, 1928 Judge Wilkerson awarded about $1,500,000 in fees to the receivers, receivers' counsel, trustees, and others for services rendered in the receivership of the road. The three receivers were awarded $100,000 each. The largest item was $250,000 allotted to the law firm of Davis, Polk, Wardwell, Gardner & Reese of New York City, counsel to the trustees in the receivership and foreclosure proceedings.[2] On February 18, 1928 the new issues called for in the plan (trust certificates for the common and preferred stock, 50 year 5% mortgage bonds, and 5% adjustment bonds) were admitted to trading on the New York stock market.[3]

On February 27, 1928 the managers reported that the new securities as called for by the plan were ready for distribution. The government had by this time received the $2,000,000 new preferred stock and all but $4,000,000 of the $55,000,000 in cash coming to it in settlement of the road's debt to it as provided in the plan and accepted by Secretary Mellon (of the Treasury) as satisfactory to the government. According to this announcement the

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1. Ibid.,p.403. The details concerning the new stock and the new bonds to be received for the assessment were given previously in this account in connection with the presentation of the plan.
2. Minneapolis Journal, February 5, 1928. Chronicle,vol.126,p.888.
3. Minneapolis Journal, February 18, 1928.

holders of certificates of deposit for deposited bonds (defaulted bonds) in the old company were to receive for each $1,000 bond with coupons maturing after February 1, 1925, which had been deposited, cash equal to the adjustment of interest as provided in the plan upon the old bonds to February 1, 1925; $300 principal amount of new 50 year 5% mortgage gold bonds, Series A, with interest from February 1, 1928; $30 in cash for accrued interest on such bonds from February 1, 1925 to February 1, 1928; and $800 principal amount of 5% convertible adjustment mortgage gold bonds, Series A, ranking for interest from February 1, 1925. The new adjustment bonds were to bear a coupon due October 1, 1927, covering the period from February 1, 1925 to June 30, 1927 and subsequent coupons for semi-annual interest. Script certificates were to be issued for the new bonds for amounts less than $100.[1] The stockholders were provided for in an announcement several weeks prior. The holders of receipts for general claims were to receive one share of new preferred stock for each $100 face value of claims as finally established with interest to March 13, 1925.[2] Of course the reader will note that because of the setting up of the voting trust, as provided for in the plan, those entitled to shares of the new stock were to receive only voting trust certificates for the present.

On February 15, 1928 the board of the new company declared 1 1/2% interest in respect of the October 1, 1927 coupon

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1. The other details concerning these new securities were given previously in this account in connection with the presentation of the managers' plan.
2. Chronicle, vol. 126, p. 1345.

of the new adjustment mortgage bonds. This coupon, as was pointed out, covered the period from February 1, 1925 to June 30, 1927. It was to be payable as soon as the new bonds had been delivered. The directors also declared 1/2% interest in respect of the coupon due April 1, 1928 which covered the last six months of 1927.[1] Although the property began to be operated under the new company after midnight on February 16, 1928, the old company formally passed out of existence by the signing of an order by Judge Wilkerson in Chicago on March 22, 1928, formally ending the defunct road's receivership and transferring its property to the newly organized Chicago, Milwaukee, St. Paul & Pacific Railroad Company.[2]

The property will now be left operating under the new company, the Chicago, Milwaukee, St. Paul & Pacific Railroad Company. The reorganization was completed. Hanover of Kuhn, Loeb & Company was planning a trip to Europe for a rest after the strenuous work connected with the road's difficulties. The new securities were in the process of distribution the details of which had been all worked out.[3] New financing in connection with the refunding of the $14,000,000 security gold loan of 1924 and with the purchase of additional equipment was soon under way. However, these matters pertained to the new company which was "carrying on" in place of the predecessor. The writer is only concerned with the financial history of the predecessor.

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1. Minneapolis Journal, February 16, 1928.
2. Ibid., March 23, 1928. Chronicle, vol.126, p.1806.
3. For a brief account of the new company, its previous history, the description of the new securities, and the adjustments in the old financial structure as called for by the reorganization, see Chronicle, Railway & Industrial Compendium, Railway Number, May 25, 1928, p. 43.

A summary of the receivership and reorganization proceedings may be of aid to the reader here. The St. Paul went into the receivers' hands on March 16, 1935. On June 1, the reorganization managers announced a plan of reorganization and called for the deposit of the disturbed securities thereunder. On October 9 the managers declared the plan operative. On November 30 they announced some modifications in the plan in order to meet some of the criticisms of dissenting security holders. These modifications secured the support of two of the three organized groups of dissenting security holders - the Ieslin group (stock) and Roosevelt group (bonds). The third, the Jameson group (bonds) continued to object to the plan and fought against it through the federal courts and the commission. On April 27, 1936 the road was ordered by the court to be sold. On November 23, the date designated by the court, the road was sold at Butte, Montana, for $140,000,000. The representatives of those in favor of the managers' plan were the successful bidders. On January 19, 1937 the sale was confirmed by the court. On January 4, 1938 the commission rendered its decision approving the managers' modified plan and authorising the new company to take over the old company's property under this plan. On February 16 operations on the property commenced under the new company. The receivers were in charge of the property for nearly three years. The opposition of the Jameson group prolonged the receivership for probably a year. The St. Paul reorganization was the largest in American railroad history, and was, it seemed, carried through in a short time

considering the size of the undertaking.

There was some financing other than that having to do directly with the reorganization that is worthy of mention.

In August, 1925 Kuhn, Loeb & Company and the National City Company sold a block of $9,270,000 of the St. Paul's equipment trust certificates. This was the total amount authorized. The certificates were dated August 1, 1925, due in annual installments of $618,000 to August 1, 1940, and bore interest at the rate of 5% per annum, payable on February 1 and August 1. These certificates were designated Series D. The security consisted of 3,000 forty ton capacity box cars, 1,000 forty ton automobile cars, 1,500 forty ton stock cars, 500 fifty ton flat cars, and 500 fifty ton gondola cars. The title to this equipment, costing not less than $12,360,000 of which 25% was paid in cash, was vested with the Bank of North America and Trust Company of Philadelphia, the trustee. The certificates were guaranteed unconditionally as to principal and interest by endorsement by the receivers. Of course the new company assumed the obligation later on taking over the property. These certificates were sold by the banks at an average price for equal amounts of all maturities of 98 3/4 with an average yield of 5.5%.[1]

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1. Chronicle, vol. 121, p. 703. Poor's, 1925, p. 1307.

Some trouble in connection with this piece of financing was interesting. The commission's approval to the issuance of these notes was requested. Because bids were not called for from the banks on this offering, some bondholders filed a protest with the commission which proceeded at once to investigate the manner in which the transaction was handled. The road, in the opinion of the receivers, needed some new equipment. One of the receivers consulted the road's bankers. The bankers' engineers then investigated the road's needs for new equipment to handle the heavy business in the fall. The engineers received bids for the needed equipment from the equipment companies. Then they reported their findings to the banks. Kuhn, Loeb & Company then offered to handle an issue of certificates on this equipment with the National City Company, and to advance $3,800,000 at 6% per annum for six months to cover the equipment to be purchased in addition to that to be covered by the equipment trusts. The other two receivers knew nothing of the negotiations until the banks made this offer. The offer was approved by the three receivers. Then the court was consulted. By an order entered June 2, 1925 the court authorized the receivers to order the new equipment, and by an order entered July 30, 1925 it authorized the receivers to issue $9,270,000 equipment trusts and to borrow with the notes of the receivers $3,800,000 to pay for the balance of the equipment. The certificates were sold to the Kuhn, Loeb & Company and the National City Company for 97. As pointed out previously, they were sold by the banks for 98 3/4. The commission on September 12

approved of the issue and authorized the company to assume obligation and liability in respect thereto. The commission decided that the price at which the certificates were sold to the banks were fair considering the declining condition of the money market in July, 1925, when the sale took place. Some of the commissioners, however, thought that competitive bids on the issue should have been called for from the banks. These commissioners pointed out that such securities had become so standardized that the price was a function of market interest merely. Consequently the advantages of dealing with the issuing company's own banks in connection with other types of financing did not exist with the issuance of equipment trusts. These commissioners pointed out that the Norfolk & Western successfully sold equipment trusts to bankers on competitive bids in 1924 and that the North Western was then intending to do the same.[1]

However, some financial authorities do not agree with these commissioners. These authorities claim that recent experience with these securities indicates that the price is not a function to a large extent of market interest alone. The certificates put out by roads with a good credit rating, it has been found, can be sold at higher prices than certificates put out by roads with a poor credit rating in cases where the equipment security is identical. The merits of selling these securities to the banks by competitive bids are doubted by these authorities. They claim that

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1. Chronicle, vol.121, p.1458. Railway Review, Oct.3,1925,p.535.

certain details in connection with the preparation of the trust agreement which makes for safety to the investor in the issue have been neglected in some cases. A bank long familiar with the road's affairs and interested in the road's factors are not likely to permit the neglect of these details. Furthermore the larger banks with the most experienced staffs and best organizations to market the security and the largest lists of desirable investing customers have been recently finding the business of buying these certificates on a competitive bid basis very unprofitable as compared with other business they can handle. Consequently they have withdrawn from the field where competitive bids are involved.

There were some maturities during this period. The European loan of 1910 4's and the gold 4's of which there were outstanding in the hands of the public $11,831,515 and $35,100,000 respectively matured on June 1, 1925. As was pointed out previously, the St. Paul defaulted in the payment of them. These two maturities were the immediate causes of the receivership. The $3,083,000 outstanding Chicago & Missouri River Division 5's matured on July 1, 1926. The receivers applied to the court to pay these bonds. The court approved and they were paid. This was the last of the numerous divisional mortgages formerly underlying the General Mortgage on the old lines east of Mobridge.

The funded debt of the company in the hands of the public at the close of the reorganization appears in Table XXIX of the Appendix. The figures for the undisturbed issues were as of December 31, 1927. The figures for the new securities called for

by the reorganization were those authorized to be issued by the commission for meeting the disturbed obligations out in the hands of the public, the figures for the latter being as of June 30, 1927. The reorganization plan provided for a new First and Refunding Mortgage which does not appear in this table as no bonds were to be issued on this mortgage in the reorganization. These bonds, when issued, were to be prior to both of the last two issues in the table. In addition to the $443,747,789 funded debt in the table there were some undisturbed securities in the insurance fund. There were also some General 5's in the treasury available for future financing. $20,000,000 of these General 5's were pledged as security to the Security Gold Loan of 1924. $18,000,000 had been pledged as part of the security to two of the three notes to the government which notes were paid in cash as provided for in the plan. The payment of these notes of course released the collateral. Besides there was nearly $12,000,000 more in the treasury unpledged. These Generals were designated Series D when used for collateral in the past. As pointed out previously, the new company tried to secure the permission of the commission to issue some of these bonds for certain capital expenditures made during the receivership, but the commission refused. Incidently, the disturbed (defaulted) obligations and the capital stock of the old company which were held in the treasury or in the insurance fund were cancelled.

In addition to these securities in the table there were $119,845,800 preferred stock and 1,174,080 shares of no par common

The $119,845,800 preferred stock consisted of $115,845,800 issued to the stockholders in the old company, $3,000,000 issued to the government in the settlement of its note, and $1,000,000 issued to the general creditors. All the common stock given here was issued to the common stockholders in the old company. As was pointed out previously, the issuance of more stock was authorized in connection with the conversion privilege attached to the new adjustment mortgage bonds. These bonds were convertible half into preferred stock and half into common stock at the option of the holder during the life of the bond.

Another matter relevant to the general financial affairs of the road during this period was the proposed merger of the Great Northern and Northern Pacific systems. For years, as everyone interested in transportation affairs knows, there had been a community of interests between these two systems. Jointly the two had acquired the Burlington many years ago. A large proportion of the stockholders of each of the roads were holding stock in both roads. In fact, about 61% of the total stock of both roads was held by the same stockholders in recent years. On July 8,1937 these roads applied to the commission for permission to operate as one unified system. The stockholders of the two roads were to turn in their shares for an equal number of shares in the unified company which was to exercise a stockholders' control over the Burlington. The reader familiar with transportation history will remember at this point the efforts of these same two lines to unify into a company to be called the Northern Securities Company some

years previously. However, this proposition did not withstand the test of the court.

Early in March, 1927 it was reported that the St. Paul would oppose the reported merger before the commission.[1] Late in the same month, Byram, on returning from a trip through the northwestern section of the country, announced that many people on the coast feared the proposed merger. He claimed that their fears were based on the experience shippers had had previous to the construction of the Puget Sound extension by the St. Paul. The service was so poor that Christmas deliveries often arrived in February.[2]

Hearings were held at various places and briefs were filed in support and in opposition of the proposal. At the public hearing extending over a period of three weeks in Minneapolis in October, 1927 the St. Paul furnished most of the opposition. In January, 1928 at a hearing in Washington, D.C., the road's representatives rebutted the arguments of those in support of the plan. The last of the public hearings on the proposal ended on March 31, 1928.

The principal arguments that were advanced for unification included these:

1. Transportation in the territory traversed by the railroad applicants would be reduced in cost $10,000,000 annually.

2. Remoteness of the producing area to markets would be lessened by reduction of mileage through use of the shortest lines.

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1. Chronicle, vol.124, p. 1352.
2. Ibid., p. 1815.

3. Shippers in the territory would profit in many instances by removal of switching charges, since they would be placed on the direct lines of the unified Northerns.

4. Service would be expedited and otherwise improved.

5. The unified system would be financially able to compete with strongly financed railroads in other competiting areas.

6. Extension of lines, development of the territory, and enlargement of manufacturing by the railroads in the territory would be stimulated.

The new Chicago, Milwaukee, St. Paul & Pacific Railroad led the fight of the objectors. This opponent was supported by two state railroad commissions and a number of cities. The opposition of the new company was based principally on these grounds:

1. Unification of the two Northern lines, its principal competitors, would weaken the newly organized system just as it was emerging from receivership.

2. Unification of the operations of the two Northerns and the Spokane, Portland & Seattle would set up a system for all time which could not be matched in magnitude in the Northwest if a time should come for grouping of American railroads into systems of equal strength.

3. The strength of the unified system would react in obtaining industries along its lines and influence shipments to the detriment of the newly organized road.

4. The proposed unification was not in the public interest since the Northerns had made no promise of rate reductions.

5. There was no demand on the part of the public for unification of these railroads because the service was entirely satisfactory.

6. Many of the economies promised for unification could be effected by agreement between the railroads without corporate unification.

The Minneapolis & St. Louis contended also that the proposed unification was not in the public interest and that it would result in curtailed interchange with the Northerns, resulting unfavorably upon a railroad in the hands of a receiver (Minneapolis & St. Louis). The opposition of the cities and states was based largely on the prediction that there would be reductions in payrolls.[1]

The case rested at this point (conclusion of the public hearings) by the time the new company had assumed control of the St. Paul's property and the new issues were being distributed or in other words at the close of the period of time covering the affairs of the road relevant to this history. At this time, in respect to the proposed unification, it was announced that written briefs had to be in by August 5, 1928. Then oral arguments, it was thought, would be heard late in the summer. The conclusion of the oral arguments was to make the case ready for decision. At this time (in the spring of 1928) a decision was expected before the close of the year.[2]

The effects of such a unification on the newly organized company, if the proposal materialized, would be doubtful. The lines of the Puget Sound extension were built practically parallel with the Northern Pacific for many hundreds of miles. Much of the

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1. For a summary of the arguments, pro and con, see Minneapolis Journal, Feb.20,1928. An exact statement of the plan of unification and the arguments in favor of the plan appeared in a pamphlet entitled "Plan of Unification of the N.P.,C.B. and S.P. & S., Facts" prepared and circulated by the C.B. & N.P. under date of Nov.28, 1927. A presentation of the plan and arguments, pro and con, appeared in Business Survey, March 30, 1928.
2. Minneapolis Journal, March 22, 1928.

territory tapped by the two lines was identical. Competition between the two lines had been keen. The newly organized company feared that the proposed unification would strengthen its competitor. Certainly the unification was contrary to the apparent intent to some day unify the great American systems into combined systems of approximately equal strength. It would seem that such combination would in time be necessary to build up a rate structure which would assure different railroad properties of a "fair" return on the investment. Such a rate structure was no doubt contemplated by the framers of the Transportation Act of 1920. No doubt such unifications were also contemplated. But experience subsequent to the passage of that act has shown the stronger carriers to be bitterly opposed to being included with weaker carriers in any unification. No doubt, also, agreements between the two Northerns without corporate unification would make possible at least some of the economies and improvements to the service claimed by the advocates of the unification proposal.

There were many physical changes in the property during the receivership. Some of the projects undertaken by the receivers were only possible because of the receivership.[1]

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1. Unless otherwise stated, the material for this section of this chapter was obtained from "Final Report of Receivers and Petition for Discharge," dated Feb.13,1928 and filed on Feb.27,1928 in the district court of the U.S. for the northern district of Illinois, eastern division, Guaranty Trust Co.of New York and Merrel P. Calloway,complainants,against C.M.& St.P.Ry.Co.,et.al.,defendants, in equity consolidated cause No.4931. The 1927 figures in this report contain partly estimated figures for Dec. of that year. This report will be hereafter referred to as Receivers' Report.

The gross expenditures, not including the Terre Haute and Gary, chargeable to investment account divided between road and equipment during the years 1925, 1926, and 1927 compared with the average for the nine years preceding the receivership were as follows:

Average annual expenditure for nine years preceding receivership.	Road	Equipment	Total
	$5,568,000	$8,864,000	$14,432,000
1925	4,350,000	14,848,000	19,198,000
1926	5,550,000	853,000	6,303,000
1927	6,830,000	3,414,000	10,244,000
Average 1925,1926,1927	5,577,000	6,305,000	11,882,000

In short, the average expenditures for the three years 1925, 1926, and 1927 as compared with the average for the nine preceding years were $9,000 more for road and $2,559,000 less for equipment or a total of $2,550,000 less. Evidently the receivers had been conservative in the use of funds at their disposal.

The number of units of equipment purchased and constructed for nine years preceding receivership, not including the Terre Haute, were as follows:

	Steam Loco-motives	Electric Loco-motives	Freight Train Cars	Passenger Train Cars
Average per year from 1918 to 1924 inclusive	34	6	2,804	2
1925	--	-	6,534	-
1926	1	-	10	-
1927	--	-	1,002	-
Average 1925,1926,1927	0	0	2,550	0

The steam locomotive purchased in 1926 was a second hand narrow gauge engine secured from the Birmingham Rail and Locomotive Company.

The estimate of Coverdale & Colpitts of the number of units of equipment to be purchased during the years 1935 to 1937 in their recommended future program of additions and betterment were as follows:

Year	Steam Loco-motives	Electric Loco-motives	Freight Train Cars	Passenger Train Cars
1935	--	--	--	--
1936	--	--	6,500	--
1937	40	--	6,500	--

From the foregoing the reader will note that the purchase of new equipment by the receivers had been considerably less than the average for the period of nine years preceding receivership and also less than the estimate of Coverdale & Colpitts.

The following figures may be of interest:

	December 31, 1934	December 31, 1927
Steam Locomotives Owned	2,030	1,768
Average Tractive Effort (Pounds)	36,487	39,180
Revenue Freight Train Cars	64,171	61,385
Average Capacity (Tons)	43.1	43.4

While the number of steam locomotives had decreased 271 units due to the retirement of obsolete light locomotives, the receivers had obtained a greater use from the locomotives in service by running power through terminals instead of changing. The adequacy of motive power had been maintained without resorting to the purchase of new locomotives, there having been 348 locomotives in serviceable condition stored as of July 9, 1937, all of which were available for the heavy fall business.

During the year 1927, 500 automobile and 500 stock cars had been received from the car builders.

New rail laid during the years 1925, 1926, and 1927 in betterments and renewals compared with the average per year for the nine years preceding receivership were as follows:

	Tons	Track Miles
Average 1916 to 1924 inclusive	17,585	124.0
1925	46,293	320.1
1926	57,858	398.3
1927	53,358	334.8
Average 1925,1926,1927	52,503	345.7

In short, during the nine years preceding receivership there were laid an average of 17,585 tons or 124.0 track miles of new rail in renewals or betterments a year, while during the years 1925, 1926, and 1927 an average of 52,503 or 345.7 track miles a year were laid.

Many projects were undertaken by the receivers either for the purpose of improving the property, for reducing operating expenses,or to increase revenue. Only some of the more important ones will be mentioned here.

For handling freight traffic coming over the Northern Pacific line from Duluth, over which the company had trackage rights, a yard and facilities were constructed at St. Paul at a cost of approximately $1,425,000. Savings in yard and train operation due to the economical and efficient handling of such freight amounting to between $250,000 and $300,000 a year were estimated by the receivers.

The old city ticket office on Second Avenue South near Sixth Street, Minneapolis, was not sufficiently near the center of the business section in the opinion of the receivers. Space was rented in the Hotel Radisson. The receivers claimed that the move had proven a wise one from the increase in passenger ticket sales during the first year of operation. In fact the increase was large enough to pay the increased rent for the entire term of the lease (ten years).

After the termination of federal control the railway established its city passenger and ticket office in New York City on the 15th floor of the building at 42 Broadway. Owing to its location on the 15th floor and in the extreme downtown district, the receivers moved it to space on Fifth Avenue near 45th Street, secured for a period of ten years. The receivers thought this latter location was convenient to the leading hotels, passenger stations, and the mid-town retail district. The following increase in ticket sales proved the move to be a wise one.

The receivers caused the removal of the road's city ticket office in the consolidated ticket office in the Insurance Exchange Building on Jackson Boulevard in Chicago, where it was put with other competing roads during federal control, to space on the ground floor in a building at the corner of Clark and Monroe Streets in a highly improved section of the loop district and reasonably near some of the larger hotels and the retail district. The space was leased for fifteen years at an annual rental of approximately $28,000 more than the cost in the con-

solidated ticket office. The receivers estimated that the increase in ticket sales would be not less than $150,000 a year.

Two busses for carrying employees from Bensenville terminal to Chicago replacing trains which were previously making eleven round trips a day were purchased, resulting in a saving estimated to be about $8,000 a month. $5,000 to $6,000 of this represented reduction in the railway's proportion of expenses and maintenance of the new union depot at Chicago by reason of eliminating the trains previously run.

A branch line seven miles in length was constructed and put into service during August, 1936 to serve about 14,000 acres of highly productive reclaimed farm land in Freeborn County, Minnesota. The cost of constructing this branch including side tracks, etc., amounted to about $175,000 exclusive of right of way and grading donations, and the station earnings for the ten months ended May, 1937 were $91,405. The gross earnings for the year 1937 were approximately $114,000.[1]

During 1936 the receivers caused the construction of a new modern, concrete, fireproof elevator with the necessary machinery, together with tracks and unloading facilities permitting a capacity of sixty cars per ten hours, which with the concrete storage tanks not destroyed by a fire, which destroyed the wooden elevator at this point on June 17, 1934, provided an approximate

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1. Chronicle, vol.132, p.3451 and p.1847.

storage capacity of 1,300,000 bushels. The work cost about $500,000. The plant complete was leased for a term of ten years at an adequate annual rental equivalent to reasonable interest on the investment. Because of inadequate grain handling facilities at Milwaukee a large amount of grain which would naturally go to Milwaukee for lake shipment east was diverted to eastern points which avoided the expense, delay, and congestion of handling through Chicago. Besides grain originating in Wisconsin, Iowa, Minnesota, and the Dakotas was yielding the same revenue as though shipped through Chicago with an additional eighty-five mile haul. In addition, handling charges at Chicago were about $17 a car. The receivers were paying large sums for switching of cars of grain delivered to elevators located at other roads in Milwaukee. To overcome these disadvantages the receivers caused this elevator, designated "E", to be built at Milwaukee. The receivers estimated the gross revenue from increased tonnage would amount to between $300,000 and $350,000 a year.

For many years the company owned and operated its own sleeping cars and the receivers for two years continued such operation. The sleeping cars on the railway's two principal trains, the "Pioneer Limited" operated between Chicago and Minneapolis and the "Olympian" running between Chicago and Seattle and Tacoma, had become old and out of date as compared with those on the lines of competitors between these points. The receivers were not in a position to purchase the necessary up-to-date equipment to maintain