

GROWTH OF THE SYNDICATE

Emous Profits Made in Launching the Modern Trust.

HISTORY OF SEVERAL RECENT DEALS

By Millions Are Made in Floating Railroad and Industrial Combinations—Morgan's Share in Syndicate Development.

Articles called over from London of the syndicate which is underwriting the securities of a new shipping combine has excited interest in the history of the development of these syndicates and the extent of their growth in this consolidation is to receive a total of \$25,000,000 in common stock and \$50,000,000 preferred.

A spite of the extraordinary attention which has been attracted to this arrangement, the syndicate is not a new thing, it is a product of a prominent financial interest in Wall street that is not so large as was received by the underwriting of the steel trust organization.

Syndicate's Development.

Since 1890 the underwriting syndicate has had a remarkable development in this country. It has made possible the formation of companies with hundreds of millions of dollars capital. It has brought great harmony into the harmonious working of the companies they underwrite.

Little is known outside of Wall street of the syndicate, but the part it plays in the market is well known. The syndicate is the stock market operator, it turns these securities into cash. This is why underwriting syndicates often remain in existence long after the apparent use for them has expired.

First Syndicates.

Syndicates were first organized in England in about the year 1840, and in floating all large corporations and joint stock companies since that time they have been extensively employed.

Mr. Morgan's First Triumph.

The first great achievement of J. P. Morgan was his first reorganization of the Reading railroad. It had been controlled for years by Francis O. Johnson, who had many spectacular things, such as floating the very elusive "deferred income bond."

Operator's Part.

If all the members of the syndicate receiving profit in such manner as this were to attempt to realize their cash values in the market, there would be a general slaughter. It becomes necessary, therefore, to employ the skilled market operator.

Messrs. J. P. Morgan & Co. therefore organized a syndicate which agreed to supply \$20,000,000 in cash upon its being demanded by the managers of the undertaking.

It was obviously impossible for any one banking house to undertake to supply such a sum of money. Even had it been possible, the risk of loss would have been too great. Hence, while J. P. Morgan & Co. themselves subscribed a large amount of the sum, the major portion of it was distributed among a number of banking establishments.

The first and only call made for payment was for \$25,000,000. This sum was paid to the syndicate, to be used when necessary to secure the securities of subsidiary corporations and to supply working capital.

It was never expected that the syndicate would be called upon to supply the total amount of money subscribed. In fact, such a call would have been decidedly embarrassing. Here is where the value of the guarantee came in, however. With such a guarantee as this, and with such a payment of stocks to operate with, the syndicate managers could go to trust companies and borrow money upon the securities received as commissions.

The process is to gradually pay off the loans at the trust companies, sell the securities and send the proceeds to the members of the syndicate. In the case of the steel trust the \$25,000,000 was returned within a short time and it is expected that the total dividends upon the syndicate's subscriptions will amount to about \$40,000,000.

No such profit as this was ever before made by such a transaction in this country. It was explained by the managers, however, that the profit was not abnormal when the risk undertaken was considered. The risk might have been said theoretically to be epitomized as follows: The possibility that all of the subsidiary companies might not be secured, the possibility of panic conditions in the market, which would render the sale of the commission securities difficult—the possibility of impediments in the flotation of the company's securities.

This, which is the method of operation of the syndicate, its theoretical purpose is to supply such cash as may be needed. Its practical purpose is to furnish the necessary credit. When the necessities of the case make it essential to provide cash and credit, the scheme is not considered successful. The profit of the syndicate is reckoned as a commission upon its liability, not upon the amount of cash paid in. It is an application of the same principle as that upon which bankers make loans.

First Syndicates.

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1890 to be in serious straits and have to supply the full amount subscribed, and then be in doubt about a dividend. This does not happen often, however, as the managers of syndicates are usually houses of such standing that the success of the scheme is practically guaranteed before it is ever launched.

Outside of the steel syndicate the most profitable underwriting deal of recent years was that of the reorganization of the Union Pacific Railroad company. Its profits were never publicly stated, but the circular containing the reorganization plan stated that the syndicate had pledged itself to supply \$10,000,000, if needed. It was to receive \$6,000,000 in preferred shares, of which Kuhn, Loeb & Co., as bankers, were to receive \$1,000,000.

The syndicate which underwrote the reorganization of the Erie railroad received \$15,000,000 in new prior lien 4 per cent bonds, and contracted to furnish up to \$14,000,000 in cash to the new company. In addition, the firm of J. P. Morgan & Co., as depositaries of the old securities which were to be exchanged for the new, were to receive \$500,000 in cash as compensation.

Last October the Mexican National railroad's affairs were readjusted. The syndicate which carried the scheme through bought for \$12,967,000 cash the following securities, to which are added their present market quotations: First consolidated 4 1/2 per cent bonds, \$5,221,000 (par value), present quotation 102 1/2%; first consolidated 4 1/2, \$2,595,212 par value, quotation 81 1/4, and preferred stock, \$2,400,000 par value, present quotation 41.

In reorganizations the underwriting syndicates always assume responsibility for assessments to be met by shareholders. This was a prominent feature of the Atchafalaya reorganization plan which was made public on June 11, 1894. The reorganization committee, in a circular to the stockholders outlining the plan of rehabilitation, said: "Syndicates may be formed to furnish the money needed in case of foreclosure to pay the non-assessments, pay bondholders their shares of the proceeds of the sale, and such syndicates by such payments and to the extent thereof shall be entitled to and shall represent and succeed to all the rights that the bondholders receiving such payments would have been entitled to if they had assented to this plan and deposited their bonds."

The assessments on the common stock of Atchafalaya amounted to \$10,000,000 when the company was reorganized, and a syndicate was organized in London and this country to supply the cash. This syndicate was to guarantee the exchange and flotation of the following securities: \$120,000,000 general mortgage bonds, \$87,000,000 second mortgage bonds, \$12,000,000 prior lien bonds and \$100,000,000 of common stock. Just what sum was cleared by the syndicate in this reorganization was never announced, but the immense responsibility assumed justifies the statement that the profit was very large, \$10,000,000 or \$12,000,000 being regarded as a conservative estimate.

This matter of reorganizing assessments was a very important one also in the reorganization of the Richmond & West Point Terminal company—one of J. P. Morgan's great accomplishments. In the Richmond Terminal company—which was a holding company, interested in the Richmond & Danville, East Tennessee, Virginia & Georgia, and other railroad properties in the south—were such interests as General Samuel Thomas, Calvin S. Brice, Patrick Calhoun, John H. Inman and Alfred Bully.

In the general crash of the 1893 panic period this company was reorganized, and J. P. Morgan & Co. reorganized the properties into the present prosperous Southern Railroad company. The commission of the syndicate which floated the securities of this new company was in stock at that time valued at \$7 a share, but it now sells at \$20. It is supposed that the syndicate sold its holdings at about 25—thus bringing into its coffers a very comfortable number of millions of dollars upon its guarantee of some \$10,000,000 or \$15,000,000 of cash.

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The road was turned over to Austin Corbin, and very large net earnings were reported. A. A. McLeod attempted to combine the coal and carrying industries on the Reading line, and the property went to smash. Following the crash of 1893, Mr. Morgan again reorganized the road, reaping large commissions once again.

The first of the large industrial companies to be reorganized was the Sugar trust. Its reorganization was forced by the fact that its shareholders, the heirs of the state of New York had not been legally drawn, and it was forced to take refuge in New Jersey. The Cordage trust was the first of the big industries to be really reorganized after the modern fashion. Its troubles furnished one of the most picturesque incidents in the history of the state of New York.

In the formation of many large combinations the underwriting agreement is private and only the managers appear as financing the deal. In the Northern Securities combination, for example, no syndicate managers appeared at all. Control of the stocks to be consolidated was already secured and that any consolidation was to be effected was ostensibly not one of the purposes of the company's flotation. Shares of the Northern Pacific and Great Northern railroads were deposited directly with the Northern Securities company without the intervention of bankers, and J. P. Morgan & Co. themselves secured the transfer of some \$78,000,000 of Northern Pacific stock from the Union Pacific interests to the Northern Securities company without one dollar of commission.

Sometimes the testimony of Mr. Morgan before the United States commission in the Peter Power hearing. Often a combination is brought about by inside interests entirely, bankers appearing merely as depositaries. Thus was the method used in the organization of the Glucose trust or Corn Products company. The capitalization was \$80,000,000, but no underwriting syndicate appeared to guarantee the flotation of the securities. All of this was done by "inside interests," who, of course, received a large commission. To catalogue the profits which have been made by underwriting syndicates in Wall street in recent years would be to make a list of all the important reorganizations and combinations which have been effected, record the amount of money guaranteed by the underwriting syndicates and take 25 per cent of the total sum. These syndicates have amounted to very much more within the last three years than ever before because of the custom which had grown up of not calling for more than a small percentage of the total. Previous to 1898 the total subscription price was called for, but up to that year the \$200,000,000 corporation was almost an entire stranger. The profits to be derived from under-

"Mrs. Pinkham Saved me from an Operation."



Operations Avoided.

When a physician tells a woman suffering with ovarian or womb trouble that an operation is necessary, it of course frightens her. The very thought of the operating table and the knife strikes terror to her heart.

And our hospitals are full of women who are there for ovarian and womb operations!

It is quite true that these troubles may reach a stage where an operation is the only resource, but such cases are much rarer than is generally supposed, because a great many women have been cured by Mrs. Pinkham's medicine after the doctors had said the operation must be performed.

Lydia E. Pinkham's Vegetable Compound has been very successful in curing ovarian troubles. In fact, up to the point where the knife must be used to secure instant relief, this medicine is certain to help.

Ovarian troubles are easily developed from womb troubles, and womb troubles are so very common that ovaritis is steadily on the increase among women. It is, nevertheless, a most serious trouble, and to recommend wrong treatment for it is a crime for which there cannot be too deep a penalty.

It is, therefore, with full consciousness of the seriousness of the disease and the steady failure of other medicine to cure it, that we present for ovarian and womb trouble Lydia E. Pinkham's Vegetable Compound as the most certain to help of any medicine in the world to-day. Any person who could read the letters in Mrs. Pinkham's files at her office in Lynn, Mass., would be convinced of the efficiency of Mrs. Pinkham's Compound.

The strongest and most grateful statements possible to make come from women who have escaped the operating table by the use of this medicine. Let any woman suffering from these troubles, or anything which may develop into them, write and get Mrs. Pinkham's advice. If you are beyond the reach of the medicine, you will be frankly told so, but, if not, you will be fully and carefully and kindly advised.

The most serious of all the diseases of women, as well as the minor ills, are promptly overcome by

Lydia E. Pinkham's Vegetable Compound.

\$5000 REWARD

Owing to the fact that some skeptical people have from time to time questioned the genuineness of the testimonial letters we are constantly publishing, we have deposited with the National City Bank of Lynn, Mass., \$5,000, which will be paid to any person who can show that the above testimonials are not genuine, or were published before obtaining the writer's special permission.—LYDIA E. PINKHAM MEDICINE CO., Lynn, Mass.

Earnest Words of Gratitude.

"DEAR MRS. PINKHAM—Your Vegetable Compound has completely cured me of the worst form of womb trouble, and made me a strong, healthy, robust woman. Before using Lydia E. Pinkham's Vegetable Compound, I suffered with severe pains in back and side, headache and nervousness. Menstrues would sometimes occur every two weeks, and once I had a severe hemorrhage which lasted a month. I was confined to my bed and the attending physicians told me I would have to undergo an operation as soon as I was strong enough. I read in one of your little books several testimonials from ladies who were cured by your Compound after having been told by their doctors that an operation was necessary, and I made up my mind then and there to commence taking your Compound. I did so and it has completely restored me to good health. I have gained twenty-two pounds since taking it and my flesh is as solid as a rock. My friends remark about the change in me. I am a living advertisement of what Lydia E. Pinkham's Vegetable Compound can do, and have influenced many of my friends to try it, which has proved very gratifying in its results. I thank you for restoring me to health."—ANNIE HARTLEY, 509 S. Sangamon St., Chicago, Ill.

ANOTHER OPERATION AVOIDED.

"DEAR MRS. PINKHAM—I feel very grateful to you for the benefit I derived from your kind advice and remedies. I was troubled with a complication of female troubles, had ovaritis, painful and irregular menstruation, leucorrhoea, nervousness, and weakness. I had no appetite and could not sleep nights. The least exertion would cause shortness of breath and dull pains in my hips and side. The doctors all advised me to have an operation and have one of my ovaries removed, but this I could not bear to think of. I was induced to try Lydia E. Pinkham's Vegetable Compound, and after taking the first bottle I was much improved. It renewed my appetite, health, and strength. I continued taking it, also your Blood Purifier and Sanative Wash, until entirely cured of all my troubles. The pains have never returned, and my health is splendid.

"Your remedies have been a boon to me, and I am sure many a woman owes her life to them."—MARIE WEBB, 356 Columbus Ave., Boston, Mass.

"DEAR MRS. PINKHAM—I feel it my duty to publish the wonderful help Lydia E. Pinkham's Vegetable Compound has been to me. I was like a crazy person—could not eat or sleep; there was no rest for me day or night. Physicians examined me and said an operation was necessary. Before undergoing it, however, I determined to try Lydia E. Pinkham's Compound. I am so glad I did, for it cured me. I am a well woman now and can do any kind of work. I want this published throughout the land, so that all my suffering sisters may read, and if in any way afflicted with female troubles, they may be induced by my sincere statements to try the wonderful Vegetable Compound and be cured."

—MRS. MARGARET BAMPFORD, Centennial Ave., Crescent Beach, Revere, Mass.

"DEAR MRS. PINKHAM—I wish to send you my testimonial stating the grand effect Lydia E. Pinkham's Vegetable Compound has had on my health. I was suffering to such an extent from ovarian trouble that my physician thought an operation would be necessary. Your medicine having been recommended to me, I decided to try it. After using several bottles I found that I was cured. My system was toned up and I suffered no more with my ovaries. Your medicine is the greatest boon on earth to suffering women."

—MRS. ANNIE ASTON, Box 127, Troy, Mo.

Every Woman should use Lydia E. Pinkham's Vegetable Compound. It is the best medicine for women's ailments. It cures ovarian troubles, womb troubles, and all female ailments. It is a safe and reliable remedy, and has cured thousands of women. It is sold by all druggists and is available in every part of the world.

Advertisement for BLATZ BEER, featuring a bottle illustration and text: 'The kind that's Right', 'BLATZ BEER', 'MILWAUKEE', 'VAL BLATZ BREWING CO., MILWAUKEE, OMAHA BRANCH, 2412 Douglas St., Tel. 1061.'

Advertisement for 'Every Woman' medicine, featuring a bottle illustration and text: 'Every Woman should use Lydia E. Pinkham's Vegetable Compound. It is the best medicine for women's ailments. It cures ovarian troubles, womb troubles, and all female ailments. It is a safe and reliable remedy, and has cured thousands of women. It is sold by all druggists and is available in every part of the world.'