

# Earnings and Capitalization

The majority of the stock of the Omaha & Council Bluffs Street Railway Company is owned by citizens of Omaha and Council Bluffs, and control of the property, therefore, is vested at home. There are now about 500 stockholders in the corporation. Of late years many local investors have bought the company's stocks and bonds, a practice which the Company is glad to encourage.

In this article is presented a condensed statement of the earnings and expenditures of the Company for the year 1908, and also a condensed balance sheet at the close of business December 31, 1908, showing the assets and liabilities.

From the first it will be seen that the net profits of the Company for the year were \$422,680, of which \$400,000 was paid in dividends, and \$22,680 carried to surplus.

The second statement shows that the outstanding capitalization of the Company amounts to \$9,433,000 in bonds, and \$9,000,000 in stock, or a total of \$18,433,000.

That the entire physical property of the Company could be reproduced today for less than \$18,433,000, all conditions being equal, is undoubtedly true. In this connection several important factors must be considered. Millions of dollars have been spent for construction and equipment of which no trace remains today. Large amounts were forced into the capitalization through the principle of competition fostered by the people in the 80s. The capital account was further swelled by reason of the absence of a depreciation fund prior to the reorganization of 1902.

A considerable part of the capitalization of the Company represents values which never went into the property because it was necessary to sell securities for much less than par in order to obtain capital for construction, reconstruction, renewals, rehabilitations, electrification and the purchase of competing lines. The principal reason why the Company was forced to part with its stocks and bonds at sacrifices was because the corporation never succeeded in paying a dividend until 1899.

For illustration: An investor buys stock which has borne no dividends on the theory that some day it will pay dividends. The difference between the par value of the security and the price he pays for it is the way he measures his belief in the chances of dividends being paid. He offers \$60, say, for a \$100 stock (face value); \$60 goes to the Company and is spent on the property. But when the days of profit-making comes the Company has to pay dividends on \$100, not on \$60.

As a general rule the more prosperous a company is the less of this kind of "water" gets into the capitalization. A very prosperous corporation can sell its securities at a premium, and the premium as well as the par-value proceeds may be spent on the physical property. Fortunately this Company has now established the value of its securities so that in future little, if any, discount will be required if present conditions continue in the sale of its securities.

Before presenting the condensed statements permit us to call attention to the fact that the Omaha & Council Bluffs Street Railways paid no dividends for thirty out of forty years, and that in 1908, if the capitalization outstanding was cut in two, the total earnings on bonds and stocks were less than 10 per cent. for that year.

Following is the statement of the receipts and expenses of the Company for the year 1908:—

Gross earnings.....	\$2,304,162.29
Operating Expenses [including Depreciation].....	1,251,934.47
	\$1,052,227.82
Taxes.....	\$127,909.76
Interest on Funded Debt.....	441,137.38
Rent of Leased Lines.....	60,500.00
	\$629,547.14
Net Income.....	422,680.68

Dividends:	
5% on \$4,000,000 preferred stock.....	\$200,000.00
4% on \$5,000,000 common stock.....	200,000.00
	\$400,000.00
Surplus for the year.....	\$ 22,680.68

Following is the condensed General Balance Sheet as of December 31, 1908:

ASSETS	
Plant, Property, Franchises and Leases.....	\$17,046,352.39
Stock held in trust [for improvements, etc.].....	6,000,000.00
Other Permanent Investments.....	2,379,261.05
Material and Supplies.....	69,971.48
Cash.....	263,517.04
Sundry Accounts.....	59,494.76
	\$25,818,596.72
LIABILITIES	
Capital Stock, preferred.....	\$ 5,000,000.00
Capital Stock, common.....	10,000,000.00
Funded Debt [bonds].....	9,433,000.00
Current Accounts.....	155,515.48
Reserve for Depreciation.....	868,742.19
Damages, etc.....	85,631.26
Surplus.....	275,707.79
	\$25,818,596.72

The total number of passengers carried by the entire system in 1908 was 55,087,993. Of this number 12,810,947 rode on transfers or free, the latter being comparatively few and representing firemen and policemen in uniform and the Company's own employees.

In 1903 the percentage of passengers carried on transfers was 21 per cent. In 1908 the proportion had grown to 30 per cent and it is constantly increasing. This condition not only decreases the earnings per passenger, but tends to decrease the net earnings of the Company.

Professor Mortimer E. Cooley, Dean of the Department of Engineering at the University of Michigan and a foremost street railway authority, recently, while testifying in an important case, discussed the subject of universal transfers, stating that they increased travel, but diminished earnings per passenger. All expenses advanced with the number of passengers carried, he said, and therefore, universal transfers had resulted not only in decreased net earnings per passenger, but in decreased net earnings for the Company.

Transfers reduced the revenue per passenger for that part of the system in Omaha and suburbs to 3.76 cents in 1908.

In the general balance sheet will be noticed an item of \$868,742.19 "reserve for depreciation." The Company is setting aside a constantly increasing amount each year—\$240,000 for 1909—as a depreciation fund. This account is for this purpose of replacing construction or equipment worn out or junked because of obsolescence. It does not go for additional equipment or for new construction, but simply to maintain the operating efficiency of the existing plant.

If there is no depreciation fund the expenditures for this purpose find their way into the capitalization. This has been declared contrary to public policy by the New York, Wisconsin and other State Public Service Commissions and by the United States Supreme Court. It is proper, therefore, to make provision for depreciation from the earnings, in order to preserve the integrity of the property and keep down the capitalization.

Up to 1898 the local street railways did not succeed in earning enough to establish a depreciation fund. As a result depreciation charges found their way into the capital account. There was no alternative since it was manifestly impossible to increase the rate of fare.

In considering the capitalization of the Omaha & Council Bluffs Street Railway Company it should be remembered that it reflects actual conditions developed while Omaha and Council Bluffs were growing from frontier outposts to large and splendid cities. The man who put his money in real estate and kept it there has seen his capital increased many times. The man who put his money in our street railways received nothing in the nature of profits for years, and today is receiving less than would be deemed remunerative in mercantile or manufacturing lines.

This particular installment of our series marks a departure in corporate methods in the United States. We have been presenting articles for many weeks in the hope of making our Company and its affairs understood. Our effort is being watched all over the country as a guide to indicate how far a large corporation may go in dealing with the public on terms of utmost frankness.

G. W. WATTLES, President,  
Omaha & Council Bluffs Street Railway Company.

(The Installment Next Sunday will be the Concluding Chapter of this Series, and will Recapitulate what has already been presented.)