

AUDITOR'S BULLETIN No. **10.**

September, 1894.

Seattle, Lake Shore & Eastern Railway Co.

REORGANIZATION COMMITTEE

OF THE

NORTHERN PACIFIC RAILROAD COMPANY.

James J. Hill Papers
Minnesota Historical Society

SEATTLE, LAKE SHORE & EASTERN RAILWAY CO.

This Company was originally chartered on April 28th, 1885, and it now extends between the points named in the State of Washington.

Seattle to Sallal via Snohomish or Woodinville Junction.....	63.25	Miles.
Snohomish Junction to International Boundary Line.....	102.28	"
Spokane Falls connection track and Spokane Falls to Davenport on the Central Washington Railroad of the Northern Pacific Railroad	50.05	"
Gilman Line Loop.....	1.65	"
Salmon Bay Branch.....	2.00	"
Yesler Branch.....	.90	"
Terence Branch .....	.20	"
Huron Lumber Company Branch	2.00	"
Winsor Branch.....	2.00	"
Coal and Iron Company Branch.....	2.50	"
Blackman's Siding .....	.20	"
Total mileage	227.03	Miles.

Mileage is now stated to be 227 miles 169½ feet.

The section Spokane Falls to Davenport, 50.05 miles, is built at a point connecting with the Main Line of the Northern Pacific Railroad, 420 miles distant from the other section of the Seattle, Lake Shore & Eastern Railway running north from Seattle.

A First Mortgage at the rate of \$25,000 per mile was placed on this road on August 10th, 1886, and under it, to date, the bonded debt is \$5,675,000, being at the rate of \$25,000 per mile on 227 miles. Interest, which is at the rate of 6 per cent., is payable February 1st and August 1st. Principal matures August 1st, 1931.

A Sinking Fund, based on 1 per cent. of the total Mortgage, began to operate on August 1st, 1891.

Capital Stock authorized was..... \$15,000,000
in shares of \$100 each. Of this there has been issued a total of..... 4,150,000

By an agreement the Bonds are guaranteed as to principal, interest and sinking fund by the Northern Pacific Railroad Company.

I find an agreement dated June 5th, 1890, between Messrs. Logan, Christian and Armour and the Oregon & Transcontinental Company, concerning which the Executive Committee of the Northern Pacific Railroad Company took action as under on June 5th, 1890.

The President submitted a form of contract between T. M. Logan, E. D. Christian and H. O. Armour, acting individually and as Trustees, of the one part, and the Northern Pacific Railroad Company, of the other part, and strongly urged its adoption.

Whereupon, upon motion duly made and seconded, it was

Resolved, That the President be and hereby is authorized to execute the said agreement, which is as follows :

AGREEMENT made and entered into this fifth day of June, 1890, by and between Thomas M. Logan, Edward D. Christian and H. O. Armour, individually and as Trustees, under an agreement dated the 20th day of February, 1890, hereinafter referred to as parties of the first part, and the Oregon & Transcontinental Company, as party of the second part.

Whereas, On the 20th day of February, 1890, certain stockholders of the Seattle, Lake Shore & Eastern Railway Company entered into an agreement for the deposit of capital stock then owned by them and to which they might thereafter be entitled of the Seattle, Lake Shore & Eastern Railway Company, reserving the voting power on the said stock to the parties of the first part hereto, the said stock being deposited with the Manhattan Trust Company, which issued its certificates to the various depositors, certifying such deposit under the terms of said agreement ;

And, Whereas, There have been or will be deposited under the terms of said agreement more than a majority of the capital stock of the Seattle, Lake Shore & Eastern Railway Company, the sale and disposition of which the parties of the first part claim the power to control so as to be able to sell and deliver to the party of the second part a majority of the whole of the capital stock of the Seattle, Lake Shore & Eastern Railway Company that has been issued, and that will be outstanding when the railway of the said company shall be completed to the international boundary line between the United States and British Columbia ;

And, Whereas, The party of the second part is desirous of acquiring said stock, and the parties of the first part of selling the same.

Now, in consideration of the premises, and of the sum of one dollar by each of the parties hereto to the other paid, the receipt whereof is hereby acknowledged, and of other valuable considerations, the parties hereto have covenanted and agreed and do hereby covenant and agree as follows :

First.—The party of the second part agrees to purchase not less than a majority of the capital stock of the Seattle, Lake Shore & Eastern Railway Company, as the same may have been issued when the said railway shall be completed to the boundary line aforesaid, and it agrees to accept the delivery of not less than such majority and of as much more than a majority as the parties of the first part may desire to deliver, not exceeding, however, in the aggregate more than stock to the extent of three million one hundred and sixty-four thousand six hundred dollars (\$3,164,600) par value.

Second.—The party of the second part agrees to pay for the said stock and the parties of the first part agree to accept forty-five dollars per share for each share of the par value of one hundred dollars, which sum shall be paid by the party of the second part to the parties of the first part as follows: Two hundred and fifty thousand dollars on the first day of July, 1890, with interest from the 23d day of May, 1890; two hundred and fifty thousand dollars on the first day of September, 1890, with interest from the 23d day of May, 1890; two hundred and fifty thousand dollars on the first day of November, 1890, with interest from the 23d day of May, 1890, and the balance, with interest from the 23d day of May, 1890, on the first day of June, 1891, or sooner at the option of the party of the second part, the rate of interest being 6 per cent. per annum.

Third.—The parties of the first part will deposit with the Farmers' Loan and Trust Company, of the trust certificates issued by the Manhattan Trust Company under the terms of the said agreement of the 20th day of February, 1890, such a number thereof and to such an extent as will represent at the time of the completion of the said railway to the boundary line aforesaid, at least a majority of the capital stock of the said Railway Company then authorized to be issued, such deposit to be made on or before the first day

of July, 1890, and the parties of the first part shall be at liberty to deposit trust certificates to an extent not exceeding three million one hundred and sixty-four thousand six hundred dollars (\$3,164,600) in par value of the stock of said Railway Company, and certificates representing at least a majority shall be deposited on or before the first day of July, 1890, and at the option of the parties of the first part additional certificates representing the maximum hereinbefore provided shall be deposited up to the first day of August, 1890. It is understood that the certificates of the Manhattan Trust Company referred to in the above clause includes the certificates based upon orders upon the Construction Company for stock, as well as the certificates representing stock actually deposited by the subscribers; and it is further understood that there shall be at all times while this agreement remains in force at least a majority of the capital stock of Railroad Company for the time being issued in the possession of the Trust Company. Should any certificates be tendered for deposit under the terms of this agreement after the first day of August, 1890, it shall be optional with the party of the second part whether the deposit of the same shall be accepted or not, and all certificates so deposited are expressly made subject to the terms and conditions of this agreement. The said trust certificates shall remain deposited until the time fixed for the final payment of the purchase price, and until such final payment the same shall not be withdrawn, but the title thereto shall remain in the parties of the first part, and the voting power upon the stock represented by the said certificates is expressly reserved to the parties of the first part until the time of the final payment hereinbefore provided for.

Fourth.—In the event of any default by the party of the second part, all payments which may theretofore have been made by the party of the second part shall be forfeited to the parties of the first part, and at the request of the parties of the first part the Farmers' Loan and Trust Company shall, without further notice to the party of the second part, sell and dispose of the said trust certificates, and of all right, title and interest of, in and to the stock of the Railway Company represented thereby, either at public or private sale, applying the proceeds, if any, to the payment of the sums herein agreed to be paid by the party of the second part; should any overplus beyond such contract be realized upon such sale, the same shall be paid to the party of the second part. Should there be any deficiency the parties of the first part may recover the same by action at law or otherwise.

Fifth.—The sums of money herein provided to be paid shall be paid by party of the second part to the parties of the first part, the receipt of a majority of whom shall be evidence of payment, the parties of the first part assuming to distribute the moneys to be received by them to those who may be entitled thereto.

Sixth.—The party of the second part agrees to purchase and take an assignment of all the indebtedness which is now due or owing, or which may be or become due or owing, from the said Railway Company to the Seattle and Eastern Construction Company, before they shall be entitled to the delivery to themselves of the said trust certificates or the said stock or any part thereof. A schedule of such indebtedness is hereto annexed, marked "A."

Seventh.—The party of the second part further agrees to pay a fair and reasonable sum to the Construction Company for all maps, plans, profiles, field notes, filings, surveys and gradings of the proposed lines of the Seattle, Lake Shore & Eastern Railway in what is known as the Big Bend Country in Eastern Washington, and from the eastern end of the Seattle, Lake Shore & Eastern Railway in King County to what is known as the Denny or Kirk Iron Mines in or near the Cascade range of mountains, as to the lines which have been run over what is known as Cadiz Pass in the Cascade Mountains, provided, however, that the whole sum to be paid shall not exceed forty-five thousand dollars. Provided, further, that this article shall not apply to any constructed road or roads to be constructed under this agreement; nor shall it apply to any surveys in the Snoqualmie Pass or in the Yakima Valley; and should the Construction Company and the party of the second part be unable to agree upon a fair valuation as aforesaid, then the valuation

shall be fixed by an engineer appointed by each of the said parties, and in the event of their failure to agree, by a third engineer to be selected by the engineers first appointed as aforesaid.

Eighth.—The parties of the first part obligate and pledge themselves to use their best efforts to obtain the abrogation or modification of an existing ordinance of the City of Seattle which requires the Railway Company to build through the Snoqualmie Pass before a certain date fixed therein.*

Ninth.—The parties of the first part agree to cause the railroad to be constructed north from the present terminus near the south bank of the Stillaguamish River to the international boundary line by the Seattle and Eastern Construction Company, in accordance with the specifications furnished and attached to this contract. Should any dispute arise as to the proper construction of the railway to that point under the said specifications, the matter shall be referred to the respective engineers of the companies, and if they should fail to agree they shall refer the matters in dispute to another engineer to be selected by them, and the decision of such third engineer shall be final, and it is agreed that such construction to the boundary line shall be completed on or before the first day of June, 1891.

Tenth.—The parties of the first part agree to turn over, on the 25th day of July, 1890, to the party of the second part such portion of the railway of the Seattle, Lake Shore & Eastern Railway Company as shall then be constructed, and from time to time thereafter until the construction of the railroad to the boundary line, such further sections, of not less than five miles, as shall be ready for operation, and the party of the second part agrees to accept and cause to be operated the same.

The portions of the railway so turned over to be operated by the party of the second part until the final payment, at their own cost, risk and expense, but the general control of the property shall remain vested in a Board of Directors to be elected by the parties of the first part, and the title to the said railway shall, in all respects, remain undisturbed until final payment shall have been made by the party of the second part. Provided, however, that said Board of Directors shall, during the existence of this agreement, pass all resolutions requested by the party of the second part necessary to enable said party of the second part to operate said road, and to comply with the laws of the State of Washington in relation thereto, and the said board shall take such steps as it may be advised by counsel are requisite and necessary to obtain from the State of Washington any right, title and interest which the said State has in the tide lands or shore of Elliott's Bay now occupied or claimed by said Seattle, Lake Shore & Eastern Railway Company, and do all such acts and take all such steps as are necessary to protect and perfect the riparian rights of said road. Provided, further, that the said board shall not permit or allow any of the capital stock to be issued except as provided to be issued for the construction of the West Coast Branch to the international boundary line, or the debts or liabilities to be increased except as may be incurred from the operation of the road during the existence of this agreement, or such as may be necessary to provide for the interest on the bonded debt, without the consent of the party of the second part, except under and in pursuance of the provisions of this agreement; and the said Board of Directors shall not, during the existence of this agreement, declare any dividends on the stock of said company or in any way distribute the net earnings thereof.

Eleventh.—On or before the 25th day of July, 1890, the party of the second part will obtain an agreement from the Northern Pacific Railroad Company, by which the said company shall agree to guarantee the payment of principal and interest of all the bonds which may have been issued, or which may thereafter be issued, by the said Seattle, Lake Shore & Eastern Railway Company, and to guarantee that the amount provided by the mortgage securing the said bonds, and dated August 10th, 1886, be paid into the sinking fund from time to time shall be actually paid, and the party of the second part agrees to procure such guarantee of the Northern Pacific Railroad Company to be stamped or engraved upon the bonds of the said Seattle, Lake Shore & Eastern Railway Company, to the extent of its railway as the

* I cannot find any abrogation or modification of the ordinance of the City of Seattle requiring the Railway Company to build through the Snoqualmie Pass.

same may be then constructed, on presentation at some place to be designated and made known by the party of the second part; and accordingly as the said road shall be constructed and new bonds issued thereon, the said bonds shall be stamped as aforesaid, it being understood that bonds to the extent of twenty-five thousand dollars per mile may be lawfully issued by the said Seattle, Lake Shore & Eastern Railway Company, and the bonds to be stamped are to be to that extent.

The form of the said guarantee is to be as follows:

"For value received, the Northern Pacific Railroad Company hereby guarantees the semi-annual payments of the interest on the within bond as the same shall become due, and also guarantees the payment of the principal thereof when the same shall become payable."

Twelfth.—It is further understood and agreed that if the construction of the West Coast Branch to a connection with the Canadian Pacific Railroad at the international boundary line shall not be completed within the time specified, then the party of the second part shall have the right to take possession of the said West Coast Branch and to complete the construction at the expense of the said Seattle and Eastern Construction Company, the latter company receiving the securities to be issued thereunder when and as completed, upon paying the actual and reasonable cost of said construction.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands and seals the day and year first above written :

T. M. LOGAN. [SEAL]

E. D. CHRISTIAN. [SEAL]

H. O. ARMOUR. [SEAL]

THE OREGON & TRANSCONTINENTAL COMPANY,

By H. VILLARD,

President.

[SEAL]

Attest :

EDWARD EDES,

Assistant Secretary.

EXHIBIT A.

Amount cash advances as of April 30th, 1890, by Construction Company to Railway Company, New York office books.....	\$64,723 79
Surplus equipment furnished Railway Company by Construction Company as of April 30th, 1890.....	133,703 16
Interest paid on note for locomotive.....	292 87
Paid in May, 1890, to Pullman on account of equipment.....	10,000 00
Interest to be adjusted.....	.....
Amount still due Pullman on equipment already delivered.....	26,081 50
Contract with Pullman Palace Car Company for 50 new flats at \$440.64 each.....	22,032 00
Total.....	\$256,833 32

On June 6th, 1890, the Board of Directors of the Northern Pacific Railroad Company took action as under:

Whereas, By an agreement dated the fifth day of June, 1890, entered into by and between Thomas M. Logan, Edward D. Christian and H. O. Armour, individually and as Trustees, and the Oregon & Transcontinental Company, the said Logan, Christian and Armour agreed to, and by the terms of said agreement, did sell to said Oregon & Transcontinental Company a majority of the stock of the Seattle, Lake Shore & Eastern Railway Company;

And, Whereas, Said sale so as aforesaid made of said stock was so made at the instance, request and for the benefit of the Northern Pacific Railroad Company, which said last named Company is to operate said Seattle, Lake Shore & Eastern Railway;

And, Whereas, By the terms of said agreement, the said Oregon & Transcontinental Company stipulated that on or before the 25th day of July, 1890, it would obtain an agreement from the Northern Pacific Railroad Company, by which said Company should agree to guarantee the payment of the principal and interest of all the bonds heretofore, or which may hereafter be, issued by the Seattle, Lake Shore & Eastern Railway Company, to the amount of twenty-five thousand dollars (principal) per mile, under the mortgage of the said Company dated August 10th, 1886, and further that said Northern Pacific Railroad Company should guarantee that the amount provided by the said mortgage securing said bonds should be paid into the sinking fund of said Seattle, Lake Shore & Eastern Railway Company from time to time, as provided in said mortgage; and by the agreement aforesaid the said Oregon & Transcontinental Company agreed to procure such guarantee of the Northern Pacific Railroad Company to be stamped or engraved upon the bonds of the Seattle, Lake Shore & Eastern Railway Company to the extent of its railway as then constructed, on presentation at some place to be designated and made known by the said Oregon & Transcontinental Company, and accordingly as the said Seattle, Lake Shore & Eastern Railway Company should be further constructed, between the Stillaguamish River and the international boundary line, and new bonds issued thereon, said bonds so issued should be stamped as aforesaid, it being understood that bonds to the extent of twenty-five thousand dollars per mile might lawfully be issued by the said Seattle, Lake Shore & Eastern Railway Company, and the said Oregon & Transcontinental Company agreeing that the said Northern Pacific Railroad Company should guarantee and stamp bonds for said Seattle, Lake Shore & Eastern Railway Company to the extent of twenty-five thousand dollars per mile of road constructed and to be constructed as aforesaid;

And, Whereas, It was agreed by the written agreement aforesaid that said guaranty should be in form as follows:

"For value received, the Northern Pacific Railroad Company hereby guarantees the semi-annual payment of the interest on the within bond as the same shall become due, and also guarantees the payment of the principal thereof when the same shall become payable."

Now, therefore, this Agreement, made and entered into this sixth day of June, 1890, by and between Thomas M. Logan, Edward D. Christian and H. O. Armour, owning bonds of the said Seattle, Lake Shore & Eastern Railway Company, both individually and as Trustees, and acting upon their own behalf as well as in their capacity as Trustees, and for their own benefit and for the benefit of all persons who are now holders of, or who may hereafter become holders of, the bonds heretofore, or which may hereafter, be issued by said Seattle, Lake Shore & Eastern Railway Company, parties of the first part, and the Northern Pacific Railroad Company, party of the second part.

Witnesseth: First.—That, in consideration of the premises hereinbefore recited and of the sum of one dollar to it in hand paid by the parties of the first part to the party of the second part, the receipt whereof is hereby acknowledged, the said party of the second part does hereby covenant, stipulate and agree that it will and does hereby guarantee the prompt payment of the interest as the same matures and of the principal at the maturity thereof, of all the bonds heretofore issued by the Seattle, Lake Shore &

Eastern Railway Company as described in the mortgage heretofore made by the Seattle, Lake Shore & Eastern Railway Company to the Union Trust Company of New York, as Trustee, bearing date the 10th day of August, 1886, and also all bonds which may be hereafter issued by virtue of the provisions of said mortgage, not exceeding, however, an issue of said bonds at the rate of twenty-five thousand dollars per mile of railroad hereafter constructed, between the Stiliguamish River and the international boundary line, and at the same rate per mile for the newly constructed road of the West Coast Branch to the south bank of the Stiliguamish.

Second.—And said party of the second part further agrees with said parties of the first part that it will guarantee the prompt payment into the sinking fund of the said Seattle, Lake Shore & Eastern Railway Company of all sums on bonds issued and to be issued as aforesaid for sinking fund purposes required to be paid by the terms, stipulations and conditions of said mortgage or deed of trust dated August 10th, 1886, and hereinbefore referred to.

Third.—And said party of the second part further stipulates and agrees that the form of the guaranty to be stamped or engraved upon the bonds of said Seattle, Lake Shore & Eastern Railway Company shall be as follows:

“For value received, the Northern Pacific Railroad Company hereby guarantees the semi-annual payments of the interest on the within bond as the same shall become due, and also guarantees the payment of the principal thereof when the same shall become payable,”

and will cause the guaranty to be properly signed by one of its executive officers duly authorized so to do.

Fourth.—And said party of the second part further covenants, agrees and stipulates that it cause the said guaranty in the language aforesaid to be stamped or engraved upon the bonds of the said Seattle, Lake Shore & Eastern Railway Company heretofore issued, upon presentation of each or any of said bonds for the purpose aforesaid at the office of the party of the second part, in the City of New York, and that upon all bonds which may hereafter be issued by said Seattle, Lake Shore & Eastern Railway Company upon newly constructed road of the West Coast Branch to the south bank of the Stiliguamish and upon road to be constructed between the Stiliguamish River and the international boundary line under said mortgage, dated August 10th, 1886, it will cause in like manner the said guaranty to be stamped or engraved thereon and duly signed by one of its officers so authorized to do when presented to it for that purpose.

In witness whereof, the parties of the first part hereto have hereunto set their hands and seals individually and as Trustees, and the party of the second part has caused these presents to be signed by its President and its corporate seal to be hereto affixed and attested by its Assistant Secretary, the 6th day of June, A. D. 1890.

T. M. LOGAN. [SEAL]

E. D. CHRISTIAN. [SEAL]

H. O. ARMOUR. [SEAL]

T. M. LOGAN,
E. D. CHRISTIAN,
H. O. ARMOUR,

As Trustees.

NORTHERN PACIFIC RAILROAD COMPANY,

By T. F. OAKES,

President.

[SEAL]

Attest:

GEO. H. EARL,

Assistant Secretary.

In making reference to this contract, which was transferred to the Northern Pacific Railroad Company, as stated hereinafter, I shall in future not make mention of the Oregon & Transcontinental Company as a contracting party, but will refer to the Northern Pacific Railroad Company as the contracting party.

On June 19th, 1890, the Board of Directors passed the following resolutions :

NORTHERN PACIFIC RAILROAD COMPANY,

BOARD OF DIRECTORS,

June 19th, 1890.

On motion of Mr. Rolston, duly seconded, it was

Resolved, That the action of the Executive Committee in authorizing the President to execute for and in behalf of this Company the agreement fully set out in said committee's report, this day read to the Board, between Thomas M. Logan, Edward D. Christian and H. O. Armour, of the one part, and this Company, of the other part, be approved and ratified.

The Chairman then laid before the Board an agreement which had been entered into by the Oregon Transcontinental Company on the 5th day of June, 1890, at the request and for the benefit of this Company, with Thomas M. Logan, Edward D. Christian and H. O. Armour, for the purchase of the majority of the capital stock of the Seattle, Lake Shore & Eastern Railway Company, at a price equal to \$45 per share for each share of the par value of \$100, to be paid for as follows: Two hundred and fifty thousand dollars on the first day of July, 1890; two hundred and fifty thousand dollars on the first day of September, 1890; two hundred and fifty thousand dollars on the first day of November, 1890, and the balance on the first day of June, 1891, with interest from May 23d, 1890, on the amount of each payment, at the rate of 6 per cent. per annum.

On motion of Mr. Rolston, duly seconded, it was

Resolved, That this Company will take an assignment from said Oregon & Transcontinental Company of said agreement of June 5th, 1890, and assume all the covenants and agreements therein contained to be performed by the Oregon & Transcontinental Company, and upon such assignment being executed and delivered, the President of this Company is authorized and requested to make the several payments provided in said agreement to be made by the Oregon & Transcontinental Company.

On motion of Mr. Rolston, duly seconded, it was

Resolved, That the action of this Company as authorized by the two preceding resolutions shall be taken in such form and under such instruments as shall be approved by counsel of the Company.

On June 23d, 1890, the contract was assigned to the Northern Pacific Railroad Company, as appears below.

KNOW ALL MEN BY THESE PRESENTS, that the Oregon & Transcontinental Company, for and in consideration of one dollar, and other good and valuable considerations, the receipt whereof is hereby acknowledged, has sold, assigned, transferred and set over, and by these presents does sell, assign, transfer and set over, to the Northern Pacific Railroad Company, its successors and assigns, to its and their own proper use and benefit, a certain agreement for the sale of at least a majority of the capital stock of the Seattle, Lake Shore & Eastern Railway Company, made and executed by Thomas M. Logan, Edward D. Christian and H. O. Armour, individually and as Trustees, to the Oregon & Transcontinental Company,

dated the fifth day of June, 1890; and also all the rights, powers, privileges, options and benefits granted to or acquired by the Oregon & Transcontinental Company under said agreement; the Northern Pacific Railroad Company agreeing, in consideration of said assignment, to perform all the covenants, agreements, promises and stipulations contained in said agreement to be performed by the Oregon & Transcontinental Company.

Dated June 23d, 1890.

OREGON & TRANSCONTINENTAL COMPANY,

[SEAL]

By COLGATE HOYT,
Vice-President.

Attest:

EDWARD EDES,
Assistant Secretary.

NORTHERN PACIFIC RAILROAD COMPANY,

[SEAL]

By T. F. OAKES,
President.

Attest:

GEO. H. EARL,
Assistant Secretary.

Payments for the stock (principal and interest) were made as under:

July 1st, 1890.....	\$251,625 00	
August 26th, 1890.....	254,000 00	
October 29th, 1890	256,625 00	
May 27th, 1891	714,145 04	
	<hr/>	\$1,476,395 04
Of which there was for principal 31,626½ shares at \$45	\$1,423,192 50	
Interest on deferred payments.....	53,202 54	\$1,476,395 04
	<hr/>	

To this the Northern Pacific Railroad Company has added:

Discount on Consols.....	\$252,194 81	
Expenses of Consols.....	13,413 86	265,608 67
	<hr/>	
Making the stock cost.....		\$1,742,003 71
Equal to \$55.08 per share.		

This item of \$265,608.67 represents the discount on, and expenses of, Consols sold, as a means of procuring the money with which to pay for the stock purchased as per contract.

In applying the terms of the contract no distinction was apparently made between Messrs. Logan, Christian and Armour and the Seattle and Eastern Construction Company, they being virtually one and the same. The application made was rather based upon what the Seattle, Lake Shore & Eastern Railway Company owed, and this would appear to be the correct view.

Taking the contract seriatim, I found the following:

Paragraphs Nos. I to V, inclusive, were complied with.

Paragraph VI, for reference to which see Exhibit A of contract. There was paid to Messrs. Logan, Christian and Armour:

Cash advances by Construction Company.....	\$64,723 79	
Interest to May 29th, 1891	8,329 41	\$73,053 20
Surplus equipment	\$133,703 16	
Interest on note for engine.....	292 87	
Paid in May, 1890, to Pullman Palace Car Company.....	10,000 00	
Interest on above three amounts.....	11,661 68	155,657 71
Due Pullman Palace Car Company on equipment already delivered.....		26,081 50
Due Pullman Palace Car Company for 50 flat cars.....		22,032 00
Items paid as per Exhibit "A"		\$276,824 41

Allowance was also made for the following items, which were not shown in Exhibit A, but which were found, after rigid investigation, to be debts of the Seattle, Lake Shore & Eastern Railway Company:

Logging trucks, interest and sundries.....	\$5,234 85	
Three notes and interest.....	22,163 55	
Railroad material	9,390 57	
D. H. Gilman	11,017 81	47,806 78
For maps, profiles, surveys, etc., as per Paragraph VII of contract.....		5,000 00
Total.....		\$329,631 19
Less amount deducted in final settlement.....		58,956 74
Total allowed.....		\$270,674 45

Paragraphs VIII and IX, were complied with. Paragraph X of contract, recites that Messrs. Logan, Christian and Armour agree to turn over to the Oregon & Transcontinental Company "such portion of the railway of the Seattle, Lake Shore & Eastern Railway Company as shall then be constructed, and from time to time thereafter.....such further sections, of not less than five miles, as shall be ready for operation, and the party of the second part (Oregon & Transcontinental Company) agrees to accept and cause to be operated the same."

It will be remarked that this agreement, bearing date June 5th, 1890, was between Messrs. Logan, Christian and Armour, individually and as Trustees, and that the Seattle, Lake Shore & Eastern Railway Company was not a party to it. Yet, the gentlemen named undertook;

A. To cause the railroad to be constructed north from the St. Ilguamish River to the international boundary line by the Seattle and Eastern Construction Company.

B. To turn the Seattle, Lake Shore & Eastern Railway Company's property over to the Oregon & Transcontinental Company.

In the first instance it would appear that the Construction Company and the Seattle, Lake Shore & Eastern Railway Company should have been a party to the contract.

When the date (July 25th, 1890) approached, on which the Seattle, Lake Shore & Eastern Railway Company was to be turned over to the Northern Pacific Railroad Company, the managers of the Seattle, Lake Shore & Eastern Railway Company refused to carry out this part of the contract, and the road was not turned over until March 25th, 1892.

There is a penalty clause (No. IV) in the contract saying that moneys paid by the Northern Pacific Railroad Company shall be forfeited unless all payments are made, but no recital is made as to penalty or what shall be done if the other contracting party should fail in its obligations.

I do not find that any examination of the accounts of this Company or of its physical features was made before the contracts were signed, and *the guarantee of the Northern Pacific Railroad Company had been ordered stamped on the bonds of the Seattle, Lake Shore & Eastern Railway Company*, as per Paragraph XI.

Questions began to arise, and the Assistant General Auditor, Mr. M. P. Martin, was sent to Seattle. The President of the Seattle, Lake Shore & Eastern Railway Company positively refused to allow Mr. Martin to examine the Company's books and records, and insisted he should only have excerpts from the books or look at only those entries affecting the agreement of June 5th, 1890. Reference was made to New York, and at last the books were opened to Mr. Martin.

Many serious questions arose.

In the application, No. A 1026, dated March 10th, 1891, to the Committee on Stock List of the New York Stock Exchange, it is stated:

"Said Bonds may be issued on Main or Branch Roads of this Company to the extent of \$25,000 per mile."

Just what the Seattle, Lake Shore & Eastern Railway people considered "branches" is shown by the following:

Gilman Line Loop.....	1.65 Miles.
Salmon Bay Branch.....	2.00 "
Yesler Branch.....	.90 "
Terence Branch.....	.20 "
Huron Lumber Company Branch.....	2.00 "
Winsor Branch.....	2.00 "
Coal & Iron Company Branch.....	2.50 "
Blackman's Siding.....	.20 "

Total..... 11.45 Miles.

and on these so-called Branches, Bonds were issued to an amount of..... \$286,250 00

In this connection I find that Mr. Kendrick, now General Manager, made an affidavit when Chief Engineer. He says, concerning these spurs, side tracks and so-called branches:

"That the above specified branches, spurs, sidings and loops, with the exception of the Salmon Bay Branch and the Gilman Loop, the first of which forms a connection between the track of the Seattle, Lake Shore & Eastern Railway and the City of Ballard, and the latter which extends from the said railway to a coal mine, are nothing more than working tracks, such as must be built for the accommodation of the business commonly transacted by railroad companies; that the Smith's Cove Branch extends from the Seattle, Lake Shore & Eastern Railway to the site of the coal bunkers which the said railway company

proposed to build, but which never have been built, and to the 'Ocean Dock,' so-called, which is not used and is in a state of decay and unfit for use; that the said branch is merely an auxiliary terminal track, and does not form a distinct route to a remote objective point, or to any point that would furnish business other than that which would be derived by the said railway company if the said track had not been constructed; that the Yesler spur extends from the main track of the said railway company to a sawmill; that no reason exists for its further extension, and that if continued it would extend into a large body of water called Lake Washington; that the said spur track is nothing but an auxiliary working track, put in for the purpose of securing to the Seattle, Lake Shore & Eastern Railway Company the business of said sawmill; that the Winsor Branch was built for the purpose of reaching a tract covered with standing timber; that it is customary for railroad companies to build tracks of this kind for the purpose of procuring business for their main line, and that therefore this track is an auxiliary or working track; that when the timber is removed from the region penetrated by the branch it will become worthless; that the Terence Branch was, properly speaking, a side track, being connected with the main line at both ends, and was constructed for the accommodation of a sawmill; furthermore, that the said side track has been long since abandoned, taken up, and the material removed; that Blackman's Siding was built for the purpose of accommodating a sawmill, and is nothing but a working track for the accommodation of the current business of the company in connection with a sawmill; that it has from necessity been extended since it was constructed and (it has been) bonded; and the affiant further states that the Gilman Loop would not, under ordinary circumstances, be bonded by a railroad company; that it is a track built for the purpose of reaching the Gilman coal mine, and is not likely to be extended to a remote objective point; that it is an auxiliary working track, and the only distinction in its favor as compared with the other branches and spurs herein specified is the probable permanency of the business afforded by the coal mine and the consequent stability of the value of the spur. The affiant further charges that none of the branches, spurs, loops and sidings herein specified are constructed according to the standard of the main line of the Seattle, Lake Shore & Eastern Railway Company; that said lines are, and always have been, of an inferior character, as to location, character of the grading, surfacing and track-laying; that such lines are not, and never have been, properly ballasted; that the affiant is informed and believes that the said tracks are built in part upon property which is not owned by the Seattle, Lake Shore & Eastern Railway Company. The affiant states that the several tracks in question could not properly cost as much per mile as the main line of the Seattle, Lake Shore & Eastern Railway Company as constructed, and that the tracks if bonded for the same amount per mile as the main line, have been bonded for more than their value, and that of themselves they do not furnish adequate permanent security to an extent greater than the intrinsic value of the rails, switches and metallic portable property, and then only for the purpose of use at some other point or points."

It is abundantly evident that bonds should not have been issued for these spurs, siding, other pieces of track and so-called branches. A branch line, legitimately characterized as such, is not a track extending from a main line, terminus or yard to a specific industry.

The application of this contract resulted so that the road which ought to have been turned over to the Northern Pacific Railroad Company on July 25th, 1890, remained in the possession of and under the control of the vendors until March 25th, 1892, the Northern Pacific Railroad Company under its guarantee of the Bonds being responsible for such deficiency as might arise. That a deficit did arise is shown by the following figures instancing the operations of the Seattle, Lake Shore & Eastern Railway Company.

I should state that when the Seattle, Lake Shore & Eastern Railway Company was placed in the hands of receivers on July 1st, 1893, at the instance of the minority stockholders, the Northern Pacific Railroad Company was ordered to turn over all books and records to such receivers. I have therefore not been able to take these results from the books, but I have obtained them from statements in the possession of Assistant General Auditor Mr. M. P. Martin, and I am content to accept them as accurate:

<i>Year ending June 30th.</i>	<i>Gross Earnings.</i>	<i>Operating Expenses.</i>	<i>Net.</i>	<i>Interest, Taxes and Insurance.</i>	<i>Deficit.</i>
1888	\$37,607 61	\$17,014 17	\$20,593 44	\$20,677 00	\$83 56
1889	206,328 97	121,347 55	84,981 42	110,391 25	25,409 83
1890	372,894 55	237,860 69	135,033 86	199,903 57	64,869 71
1891	430,710 72	326,832 85	103,877 87	271,109 66	167,231 79
1892	429,190 65	364,108 43	65,082 22	532,783 97	467,701 75
1893	474,823 64	303,383 16	171,440 48	429,141 51	257,701 03
	\$1,951,556 14	\$1,370,546 85	\$581,009 29	\$1,564,006 96	\$982,997 67

Interchange of business for the year ending June 30, 1893, amounted to. \$944,972 63

The account of the Northern Pacific Railroad Company against the Seattle, Lake Shore & Eastern Railway Company stands as under:

1890.					
Interest on funded debt.			\$73,000 00		
Taxes			13,345 86		
Bills payable.			41,724 01		
					\$128,069 87
1891.					
Interest on funded debt.			320,250 00		
Sinking fund			54,500 00		
Taxes			5,319 82		
					380,069 82
1892.					
Interest on funded debt.			340,500 00		
Sinking fund			30,000 00		
Taxes			5,000 00		
Bills payable (Thomas Burke) *			5,890 55		
Spokane Division, September, 1890, to March 31, 1892.					
Earnings	\$5,872 04				
Expenses	30,847 47	Loss	24,975 43		
					406,365 98
Other items allowed in settlement:					
Equipment and interest.			209,006 06		
Account due to Seattle Construction Company.			73,053 20		
Three notes and interest.			22,163 55		
Material			9,390 57		
D. H. Gilman.			11,017 81		
					324,631 19
Less amount deducted in settlement.			58,956 74		
					265,674 45

* This note was dated 1882, but had not been entered on the books.

1893.

Interest on funded debt.	\$166,740 00		
Due Seattle, Lake Shore & Eastern Railway Company. . .	\$302,823 34		
Due Northern Pacific Railroad Company.	216,363 85	86,459 49	80,280 51

Total owing to Northern Pacific Railroad Company. \$1,260,460 63

The Eastern Division of the Seattle, Lake Shore & Eastern Railway Company, known as the Spokane Division, and being 50.05 miles in length, representing an issue of bonds to the extent of \$1,251,250, is a singularly unproductive piece of property. It extends westwardly from Spokane, and crossing the Central Washington Railroad at a point known as Medical Lake, which is 26.4 miles from Spokane, this Spokane Division continues virtually parallel to the Central Washington Railroad to a point called Davenport, which on the Spokane Division mileage is 50.05 miles from Spokane.

The results of the Spokane Division of the Seattle, Lake Shore & Eastern Railway Company, so far as I have found them, show as follows:

<i>Year ending June 30th.</i>	<i>Gross Earnings.</i>	<i>Expenses and Taxes.</i>	<i>Surplus.</i>	<i>Deficit.</i>	<i>Net Deficit.</i>
1890	\$9,058 33	\$14,858 10	.....	\$5,799 77	.....
1891	12,758 60	28,474 04	.....	15,715 44	.....
1892	10,711 16	24,493 13	.....	13,781 97	.....
1893	20,901 46	9,045 26	\$11,856 20	.....	.....
	\$53,429 55	\$76,870 53	\$11,856 20	\$35,297 18	\$23,440 98

This does not include interest on Bonds and Sinking Fund which on this division, as represented by its mileage, amount to per annum. \$87,587 00 which, however, I have included in my figures of the general results on page 12.

The Northern Pacific Railroad Company has locked up in the Seattle, Lake Shore & Eastern Railway Company the following:

Investment in stock and interest thereon.	\$1,476,395 04
Debt to June 30th, 1893.	1,260,460 63

and it has sundry recent debits against the Seattle, Lake Shore & Eastern Railway Company as under:

Sundry miscellaneous items.

Coal, engine rent, store stock, etc.	20,589 89
Freight account.	9,291 73
Passenger account.	688 26

Total owing to Northern Pacific Railroad Company. \$2,767,425 55

The Spokane Falls Union Depot Company is an adjunct to the Seattle, Lake Shore & Eastern Railway Company, but all books and records having been turned over to the receivers of the Seattle, Lake Shore & Eastern Railway Company, I am unable to obtain the needed particulars.

In connection with this Depot Company a question of Seattle, Lake Shore & Eastern Railway Company common stock arises.

People at Spokane Falls subscribed to \$175,000 of common stock at par. This operation was undertaken through the Bank of Spokane.

There was collected and paid in. \$154,829 94
leaving a balance of. 20,170 06

One Donald Ross was the Trustee in this matter, and he has not paid over this sum of \$20,170 06

The contention has been made that the stock representing this sum was burned in the great fire which took place in August, 1889, but *the whole of the authorized stock has been issued*, so far as the records go. Whether it was all passed to purchasers and the money paid is not known.

The records show the issue of Bonds and Stock to have been as under:

BONDS.

Seattle to Sallal Prairie,		
40 miles at	\$20,000	\$800,000
23.25 miles at	25,000	581,250
Woodinville to Sumas,		
102.25 miles at	25,000	2,556,250
Spokane to Davenport,		
50.05 miles at	25,000	1,251,250
Branches, spurs and side tracks,		
11.45 miles at	25,000	286,250
Commissions to Bankers.		200,000
Total issued		<hr/> \$5,675,000

STOCK.

Seattle to Sallal Prairie,		
40 miles at	\$10,000	\$400,000
23.25 miles at	12,000	279,000
Woodinville to Sumas,		
102.03 miles at	15,000	1,530,400
Spokane to Davenport,		
50.05 miles at	12,000	600,600
Branches, spurs and side tracks,		
11.25 miles at	12,000	135,000
Right of way, Seattle		525,400
Labor, material, Seattle		4,600
Michigan Mill Block, Seattle		500,000
Spokane subscriptions.		175,000
Total issued		<hr/> \$4,150,000

Capital Stock was issued on the several dates shown to the various amounts specified :

June 30th, 1889.....		\$2,335,000
" 1890.....		3,174,600
" 1891 }		
" 1892 }		
" 1893 }		4,150,000

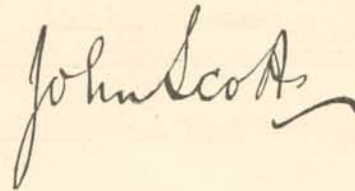
The contract to sell \$3,164,600 of Capital Stock was dated June 5th, 1890, and, as will be seen by referring above, the road had issued only \$3,174,600 of stock on the 30th of that month and year. It is little likely that the vendors could have delivered on June 5th, 1890, the stock they had contracted to sell even if the Northern Pacific Railroad Company had been prepared to pay cash for it then. The records do not show at whose instance deferred payments were arranged for, but it would appear that if the vendors could not deliver the stock the deferred payments were made to suit them. In either event the Northern Pacific Railroad Company had to pay interest on the deferred payments from May 28th, 1890, amounting to..... \$53,202 54

When, after many disputes, matters were finally adjusted, general releases were executed in March, 1892, as under :

Logan, Christian and Armour to Northern Pacific Railroad Company, Oregon & Transcontinental Company, and Seattle, Lake Shore & Eastern Railway Company.

Seattle & Eastern Construction Company to Northern Pacific Railroad Company, Oregon & Transcontinental Company, and Seattle, Lake Shore & Eastern Railway Company.

Northern Pacific Railroad Company to Messrs. Logan, Christian and Armour.



September, 1894.