

ANNUAL
REPORT

1960



ST. LOUIS -
SAN FRANCISCO
RAILWAY
COMPANY

ST. LOUIS - SAN FRANCISCO RAILWAY COMPANY

GENERAL OFFICES — 906 Olive Street, St. Louis 1, Mo.

NEW YORK OFFICE — 120 Broadway, New York 5, N. Y.

CLARK HUNGERFORD, *Chairman and President, St. Louis, Mo.*

Term expires 1961

T. H. BANISTER..... *St. Louis, Mo.*
 E. L. BRUCE, JR..... *Memphis, Tenn.*
 CLARK HUNGERFORD..... *St. Louis, Mo.*
 GALE F. JOHNSTON..... *St. Louis, Mo.*
 RICHARD J. LOCKWOOD..... *St. Louis, Mo.*
 W. A. McDONNELL..... *St. Louis, Mo.*
 L. W. MENK..... *St. Louis, Mo.*

DIRECTORS

Term expires 1962

LESTER E. COX..... *Springfield, Mo.*
 B. B. CULVER, JR..... *St. Louis, Mo.*
 R. J. STONE..... *St. Louis, Mo.*
 LEWIS B. STUART..... *St. Louis, Mo.*
 C. P. WHITEHEAD..... *Granite City, Ill.*

Term expires 1963

BENEDICT K. GOODMAN..... *Evanston, Ill.*
 HUGH L. HARRELL..... *Oklahoma City, Okla.*
 R. OTIS McCLINTOCK..... *Tulsa, Okla.*
 DAVID ROBERTS, JR..... *Birmingham, Ala.*

EXECUTIVE COMMITTEE

LESTER E. COX	B. B. CULVER, JR.	BENEDICT K. GOODMAN
CLARK HUNGERFORD	RICHARD J. LOCKWOOD	W. A. McDONNELL
	C. P. WHITEHEAD	

OFFICERS

CLARK HUNGERFORD	<i>Chairman & President</i>	St. Louis, Mo.
L. W. MENK	<i>Vice President-Operation</i>	St. Louis, Mo.
R. J. STONE	<i>Vice President-Executive Department</i>	St. Louis, Mo.
J. E. GILLILAND	<i>Vice Pres.-Traffic-Ind. Development</i>	St. Louis, Mo.
JAMES L. HOMIRE	<i>Vice President & General Counsel</i>	St. Louis, Mo.
E. R. BELT	<i>Vice President, Secretary & Treasurer</i>	St. Louis, Mo.
T. H. BANISTER	<i>Vice President-Executive Department</i>	St. Louis, Mo.
C. E. BLAIR	<i>Controller</i>	St. Louis, Mo.
J. K. BESHEARS	<i>Vice President-Personnel</i>	St. Louis, Mo.
F. L. COULTER	<i>Vice President-Fiscal</i>	New York, N. Y.
E. G. BAKER	<i>Vice President</i>	Birmingham, Ala.

TRANSFER AGENT

Transfer Agent for Common and Preferred Stock
 A. C. LEIGH, 120 Broadway, New York 5, N. Y.

REGISTRAR

Registrar for Common and Preferred Stock
 Bankers Trust Company, 16 Wall Street, New York 15, N. Y.

Annual meeting of Stockholders second Tuesday in May of each year

FRISCO FACTS

	1960	1959	5 YEAR AVERAGE 1955 — 1959
Operating revenues	\$130,627,383	\$133,561,450	\$132,306,346
Operating expenses	\$102,499,770	\$104,538,296	\$103,204,889
Ratio of expenses to revenues	78.47	78.27	78.00
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Taxes	\$ 10,160,158	\$ 11,631,133	\$ 11,977,200
Taxes per share of common stock	\$ 5.53	\$ 6.33	\$ 6.59
Income available for fixed charges	\$ 14,863,722	\$ 15,289,705	\$ 15,491,632
Fixed charges	\$ 5,880,001	\$ 5,881,857	\$ 5,446,522
Times fixed charges earned	2.53	2.60	2.84
Contingent interest	\$ 2,773,297	\$ 2,790,837	\$ 2,498,765
Income before dividends	\$ 6,210,424	\$ 6,617,011	\$ 7,546,346
Preferred dividends — \$5 per share	\$ 1,423,550	\$ 1,423,550	\$ 2,086,168
Earnings per common share	\$ 2.61	\$ 2.83	\$ 3.00
Dividends per common share	\$ 1.00	\$ 1.00	\$ 1.25
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Freight revenue	\$118,121,179	\$121,162,124	\$118,833,067
Tons — revenue freight	28,535,149	29,773,811	29,816,380
Ton miles — revenue freight (thousands)	9,137,169	9,312,700	9,138,365
Avg. revenue per ton mile — revenue freight	1.293¢	1.301¢	1.300¢
Gross ton miles (thousands)	20,502,939	20,851,434	20,863,123
Train miles — freight	7,549,461	7,471,145	7,669,991
Gross ton miles per train mile	2,716	2,791	2,720
Average miles hauled — revenue freight	320.21	312.78	306.49
Gross ton miles per train hour	57,130	57,280	55,234
<hr/>			
Passenger revenue	\$ 2,226,815	\$ 2,640,929	\$ 3,862,215
Passengers carried	343,168	406,667	602,398
Passenger miles	83,477,092	97,702,738	146,605,133
Average revenue per passenger mile	2.668¢	2.703¢	2.634¢
Average distance carried	243.25	240.25	243.37
Train miles — passenger	2,457,523	2,777,912	3,477,715
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Average number of employes	10,004	10,446	12,415
Miles of road operated	5,022	5,034	5,070

St. Louis-San Francisco Railway Company

REPORT FOR 1960

To the Stockholders:

There is submitted herewith a report of operations of your Company for the year ended December 31, 1960.

NET INCOME

Net income of \$6,210,424, before sinking funds, is equivalent to \$2.61 per share of Common Stock versus \$6,617,011, or \$2.83 per share in 1959.

The earnings per share of Common Stock were increased \$1.35 in 1960 and \$1.44 in 1959, because of special deductions from income for fast tax write-offs of defense facilities. These had the effect of reducing the amount of income subject to Federal Income Tax. In 1961 and in the years thereafter the amount of annual deductions from income because of fast tax write-offs of defense facilities will decrease gradually until 1965, after which the tax benefit from such deductions will end.

The yield on invested capital in 1960 was 3.31%.

REVENUES

Operating revenues in 1960 totaled \$130,627,383, down \$2,934,067, or 2.2%, from the level of 1959.

Freight revenues totaled \$118,121,179 versus \$121,162,124 in 1959. Agriculturally, the year was a good one, with the wheat harvest one of the best on record. Industrially, the year opened with production in January at a post-war peak, 11% higher than at the beginning of 1959. Thereafter production began to level off and to decline moderately until at year-end it stood at a level eight percentage points below what it was in January. Carloadings were below year-ago levels in all months except February and for the year totaled 746,904 versus 775,708 in 1959, as the movement of most categories of freight declined. Revenues from the movement of automobiles continued to rise and are discussed in greater length on Pages 4 and 5.

Passenger revenues continued downward from \$2,640,929 in 1959 to \$2,226,815 in 1960. In line with its policy of eliminating service no longer justified economically, the Company obtained regulatory authority to discontinue the operation of six passenger trains with a consequent reduction in train miles and operating expenses. These trains had been operated between Tulsa, Oklahoma, and Dallas, Texas; Fort Scott, Kansas, and Tulsa, Oklahoma, and between Monett, Missouri, and Wichita, Kansas.

Mail revenues of \$3,637,539 were down \$15,029 despite a 13% increase in mail pay rates granted late in the year by the Interstate Commerce Commission retroactively to September 1, 1960.

FREIGHT RATE INCREASE

On October 24, 1960, as a result of the decision of the Interstate Commerce Commission in Ex Parte 223, a general freight rate increase, with certain exceptions, became effective on railroads of the United States. Generally, rates 65¢ and under, per one hundred pounds, were increased one-half cent; rates over 65¢ per one hundred pounds were increased one cent.

OPERATING EXPENSES

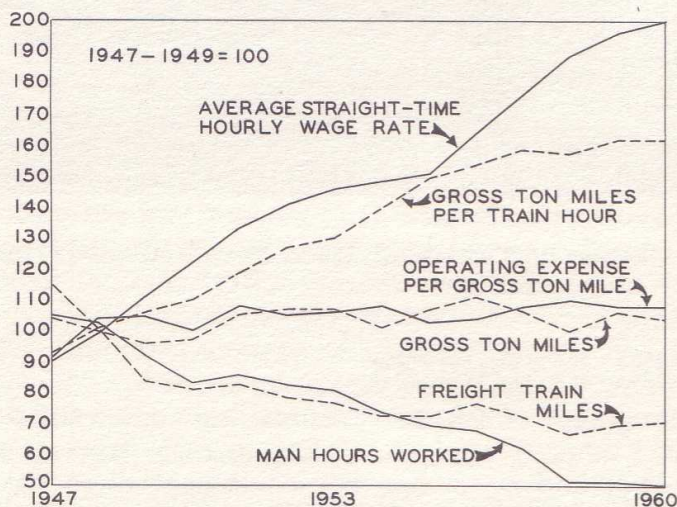
Despite wage increases which were calculated to cost \$1,305,000 during the year, operating expenses were reduced \$2,038,526 or 2.0% from the level of 1959. Affected by a decline of 3.7% in carloadings, the reduction in operating expenses is also a measurement of increased efficiency made possible by the Company's continuing program to reduce costs through better tools, improved methods of doing work and the consolidation or elimination of facilities and services to conform to present-day requirements.

RATIOS

The tabulation following shows the number of cents spent from each revenue dollar for major items of operating expense in the years 1960, 1959 and for an average of the five-year period 1955-1959.

	1960	1959	Average 1955-59
Transportation.....	38.93	38.41	38.37
Maintenance of Way.....	14.78	14.51	14.30
Maintenance of Equipment.....	15.13	16.12	15.87
Traffic Expenses.....	3.86	3.76	3.94
General Expenses.....	5.50	5.19	5.08
Incidental Expenses.....	.27	.28	.44
Operating Ratio.....	78.47	78.27	78.00

FREIGHT TRAIN PERFORMANCE



DIVIDENDS

A dividend of \$5.00 per share on the Preferred Stock was paid in quarterly installments during the year. Common dividends during the year totaled \$1.00 and were paid as follows: 25¢ on March 15th; 25¢ on June 15th; 25¢ on September 15th, and 25¢ on December 15th.

On February 3, 1961, the full dividend of \$5.00 per share on the Preferred Stock, payable in quarterly installments of \$1.25, was declared. At the same time, a dividend of 25¢ per share of Common Stock was declared payable March 15, 1961, to holders of record March 1st.

TAXES

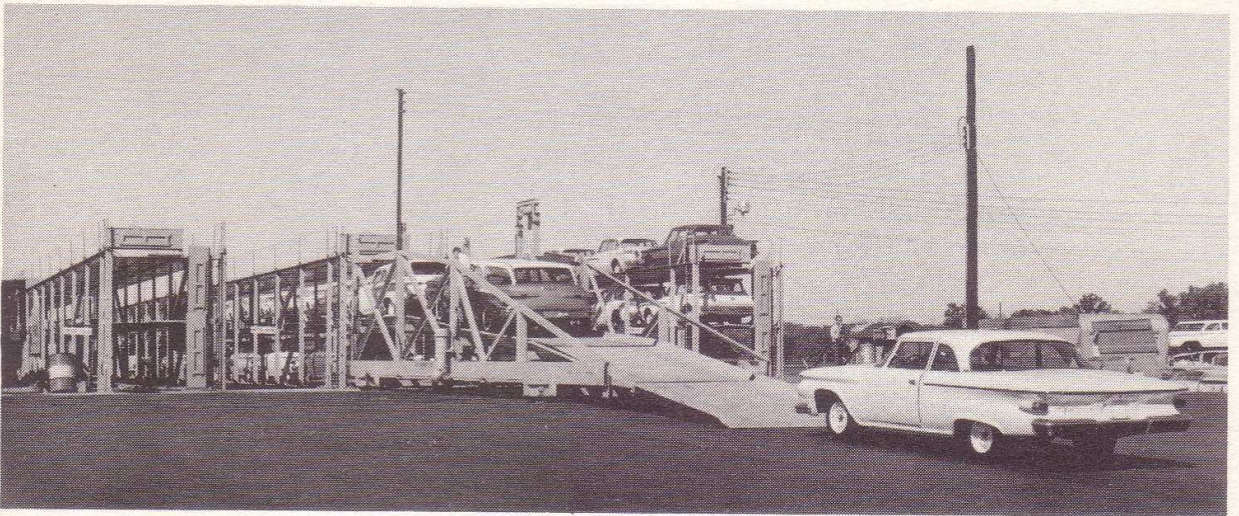
Estimated taxes in 1960 totaled \$10,160,158 versus \$11,631,133 in 1959.

Deductions from income before taxes for amortization of defense facilities, principally diesel locomotives, freight cars, new yards and centralized traffic control systems, certified by government authority as necessary in the interest of national defense, had

the effect of reducing 1960 Federal Income Tax accruals \$2,489,000, and increasing net income by the same amount. This was equivalent to \$1.35 per share of Common Stock. In 1959 the reduction in Federal Income Taxes attributable to these fast tax write-offs amounted to \$2,653,000 or \$1.44 per share of Common Stock. In the nine-year period 1951-1959, Federal Income Tax accruals were similiary reduced approximately \$20,711,000.

After expiration of the period over which defense facilities may be amortized, normal depreciation on the amortized portion of the cost of facilities will continue to be recorded in the accounts as a charge to operating expenses in accordance with the accounting rules of the Interstate Commerce Commission. Such depreciation charges, however, will not be allowed as deductions from income in determining taxable income.

Payroll taxes in 1960, at a rate of 10½%, on employee earnings to a maximum of \$400 per month were \$5,059,417, an increase of \$227,258 due to an increase in taxes which became effective June 1, 1959.



Loading ramp which enables new automobiles to be driven onto triple and double-deck railway cars.

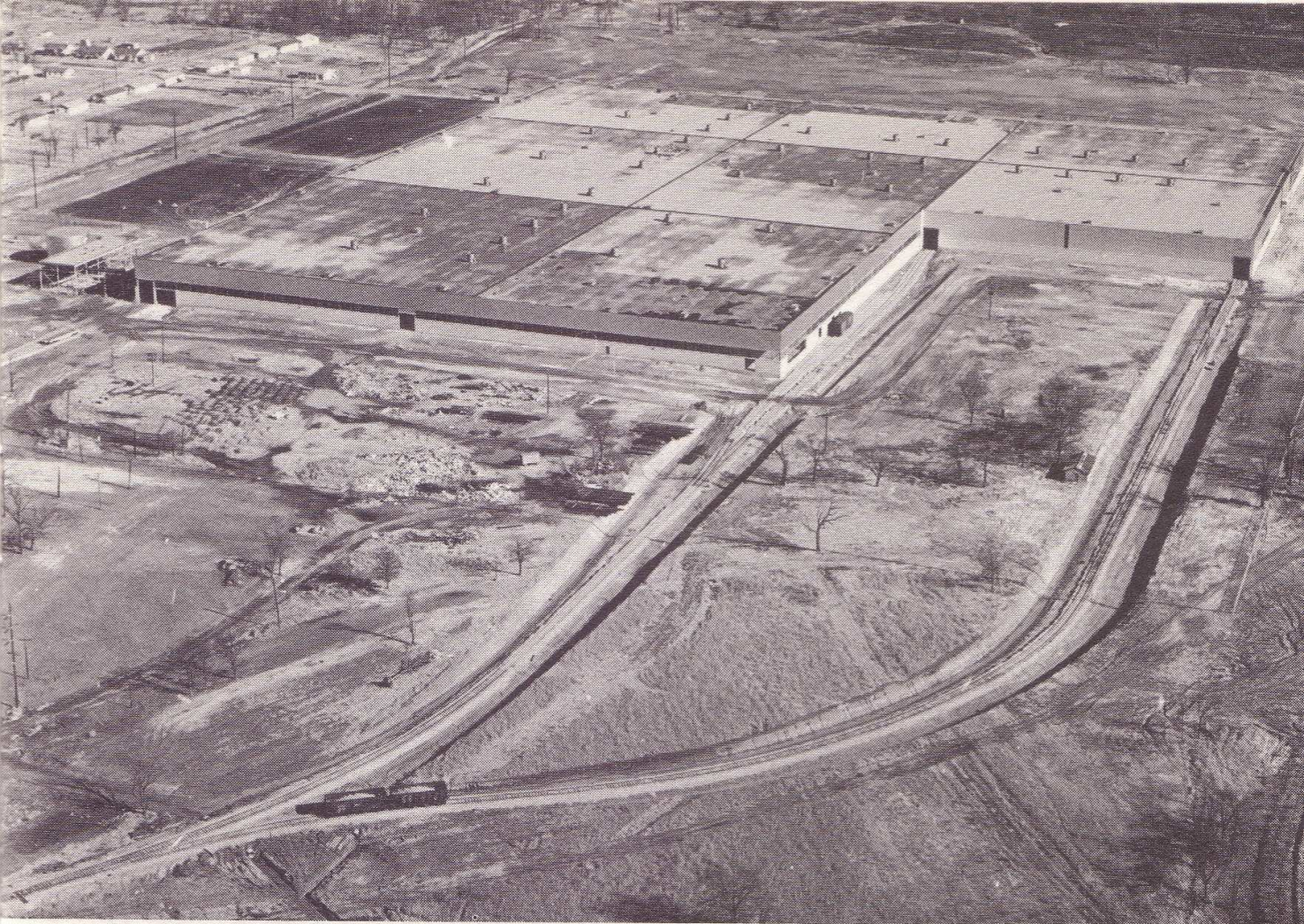
USE OF FINANCIAL RESOURCES

In addition to meeting all of its current expenses, taxes, rents and fixed and contingent interest payments, the Company paid \$5,089,251 in cash from its treasury for capital improvements to roadway and structures. For equipment there was spent \$8,281,168, consisting of \$7,123,680 of serial maturities of equipment obligations paid and \$1,157,488 for additions and betterments to equipment. Current sinking funds of \$788,772 were satisfied by the surrender of treasury securities costing \$594,586 in prior years and \$194,186 of cash. An additional \$778,216 of treasury cash was expended in the purchase of Company securities to be held in the treasury in anticipation of the future requirements of the sinking funds. Cash dividend payments in 1960 were \$3,260,686.

After these payments, the Company had a net working capital (excess of current assets over current liabilities) of \$12,135,291 at the end of the year. Year-end cash and temporary cash investments were \$11,370,426, or \$879,165 less than on December 31, 1959.

TRAILER ON FLAT CAR SERVICE (Piggyback)

Combining the advantages of highway and railway transportation for a better over-all performance, piggyback service continued to expand. During 1960, rail carloads of piggyback traffic moved via Company lines totaled 12,488, which included 6,982 carloads of new automobiles; in 1959 rail carloads of piggyback traffic totaled 5,676 and included 2,000 carloads of automobiles. Piggyback revenues were \$4,582,512 in 1960 versus \$1,971,614 a year earlier.



Aerial view of new Borg-Warner plant nearing completion at Fort Smith, Arkansas.

MULTI-LEVEL AUTO TRANSPORTS

Noteworthy during the year was the further development of a new method of transporting automobiles upon triple and double deck railway cars instead of upon highway trailers for movement via railway flat cars. In this innovation your Company led the railroad industry. Toward the last quarter of the year, the Company put in service 131 triple deck and 16 double deck railway cars which, by year end, had moved 2,514 carloads of automobiles for additional revenues of \$1,606,663. An aerial view of a trainhaul movement of new automobiles so loaded is included in this report along with a photograph showing the method of loading.

Combined revenues for multi-level car and piggyback operations in 1960 totaled \$6,189,175.

CENTRAL OF GEORGIA

On August 11, 1960, your Company entered into a contract with the Southern Railway Company to sell to the latter all shares of Central of Georgia Preferred and Common Stock heretofore acquired by your Company. Stockholders of the Southern have approved its proposal for financing the purchase of the stock from your Company and the proposed sale now is subject to the approval of the Interstate Commerce Commission. The selling price under the contract is \$22,655,000, representing full reimbursement of the cost of acquisition of the stock by your Company. The Southern has filed an application with the Interstate Commerce Commission for approval of the transaction, which the three carriers believe will be mutually beneficial and one which the Interstate Commerce Commission can approve as being in the public interest. Your Company has intervened in the proceeding in support of the Southern's application.

All shares of Central of Georgia stock beneficially owned by your Company are held under a Voting Trust Agreement dated March 17, 1956, by The Hanover Bank

of New York City as successor Trustee to Fred B. Wilson, deceased. Your Company's holdings consist of 111,187 shares of Preferred (out of a total outstanding of 170,394), and 249,987 shares of Common (out of a total outstanding of 337,242).

As reported in the 1959 Annual Report, two appeals were then pending from judgments of the United States District Court in St. Louis which dismissed actions against the Company, its directors and certain of its officers in connection with the Company's acquisition of Central of Georgia stock.

During the year, the judgments from which these appeals were taken were affirmed by the United States Court of Appeals for the 8th Circuit, and the Supreme Court of the United States refused to review the decisions.

In 1960, dividends received by the Company from Central of Georgia stock amounted to \$805,922, the same as in 1959. The Central of Georgia has not declared any dividends for 1961 on Preferred or Common Stock because of unsatisfactory earnings in 1960.



Specially modified in the Company's shops, the above car is used for the movement of woodchips to pulp and paper mills. Cars of this type have had their sides and ends extended upward to increase their cubic capacity.

LITIGATION

On December 6, 1960, an Examiner of the Interstate Commerce Commission served a recommended report and order involving the division of interline revenues on traffic to and from points in Transcontinental Territory. This report, in part, was adverse to the interests of your Company and other mid-western railroads. Exceptions will be filed seeking modification of the unfavorable recommendations of the report.

Hearings also are being held by the Interstate Commerce Commission in another case involving interline revenues on traffic moving between Eastern Territory and Southern Territory. In this case your Company is participating with the other Southern rail carriers.

In a suit brought by Riss & Company, Inc. for damages for alleged unlawful conspiracy, the Federal Court entered a verdict in favor of your Company.

IMPROVEMENTS

During the year the Company spent a total of \$5,089,251 for capital improvements to roadway and structures.



Aerial view of new Montgomery Ward regional distribution depot at Fort Worth, Texas totaling 500,000 square feet of warehouse space.

New and heavier rail was laid on 79.62 miles of track: 69.38 miles of 132-pound and 10.24 miles of 115-pound. Cross ties renewed totaled 515,304. Other improvements included the completion of a new three-mile belt track at Springfield, Missouri, which by-passes the congested area of the city and facilitates the location of new industries; the installation of specially designed ramps for loading automobiles on multi-level railway cars (see picture on Page 4); the extension of Centralized Traffic Control between West Tulsa and Sapulpa, Oklahoma, and the improvement of a dispatcher's telephone circuit between Oklahoma City, Oklahoma, and Quanah, Texas, to provide better communications between those two points. At Memphis, Tennessee, work was begun on a new freight house which, with appurtenant facilities, the Company expects to complete in 1961.

EQUIPMENT

The Company purchased and put in service during the year 400 fifty-foot box cars at a cost of \$4,797,513. For transporting automobiles as shown on Page 20, the Company also purchased and put in service 131 triple-deck railway cars at a cost of \$3,146,605. Except for one triple-deck car which was constructed for cash as a prototype, all of the aforementioned rolling stock was financed through Conditional Sale Agreements. Additionally, 16 leased flat cars were equipped with double-deck racks purchased for cash at a cost of \$92,556. Total cash expenditures for additions and betterments to equipment were \$1,157,488.

Equipment obligations outstanding at year end, including those due within one year, amounted to \$59,726,697, an increase of \$789,361, due to additional obligations incurred of \$7,913,041, less the serial maturities paid during the year of \$7,123,680.

Equipment debt installments due in 1961 will amount to \$7,517,739. The effect of these payments will be offset by equipment depreciation chargeable to operating expenses.



Handling "ribbon" rail in quarter-mile lengths, formed by welding together 39-foot rail sections to reduce the number of joints, thus providing for smoother riding qualities and less wear at the joints.

INDUSTRIAL DEVELOPMENT

In the face of economic factors which were not as favorable during 1960 as in some previous years, the Company was successful in locating a total of 110 new industries aggregating a capital investment of almost \$27,000,000. These new traffic-producing industries have created additional employment in our territory for more than 3,000 people. During the year, 35 previously-producing industries expanded their plants at a cost of more than \$7,000,000.

LABOR

Under agreements negotiated on an industry-wide basis during the year, previously-granted cost-of-living increases totaling 17¢ per hour were made a part of basic rates of pay and provisions for further cost-of-living increases were cancelled. Additionally, operating employes were granted a wage increase of 2% effective July 1, 1960, and will receive another 2% increase on March 1, 1961; non-operating employes were granted

a wage increase of 5¢ per hour effective July 1, 1960, plus fringe benefit improvements in holiday pay, vacations, and medical and group life insurance for employes as well as their dependents. At this writing no new labor agreement has been executed with the Railroad Yardmasters of America; therefore, previous contract provisions for cost-of-living increases continue in effect.

The wage increases and the improved fringe benefits granted under the labor agreements negotiated in 1960 will add more than \$2,000,000 to annual costs.

The carriers' request for changes in working rules and for the elimination of locomotive firemen has been submitted to a Presidential Commission of fifteen members divided equally among carrier, labor and public representatives. The Commission will make nonbinding recommendations by December 1, 1961.

EMPLOYMENT AND WAGES

The average number of employes in 1960 was 10,004 and the total payroll \$64,226,072. In 1959 the average number was 10,446 and the total payroll \$65,367,176.

FINANCIAL STATEMENTS

Included in this report are the consolidated financial statements of the St. Louis-San Francisco Railway Company and its controlled railroad subsidiaries, together with the opinion thereon of the Company's independent public accountants, Price Waterhouse & Co.

SAFETY

Working in cooperation with the National Safety Council in its campaign for an off-the-job safety program as well as on-the-job, the Company continued its activities to promote safety consciousness, and was awarded the National Safety Council's Public Safety Activity Award for the seventh consecutive year.

PERSONNEL CHANGES

On July 1, 1960 Mr. L. W. Menk was elected Vice President—Operation, succeeding Mr. R. J. Stone who became Vice President—Executive Department.

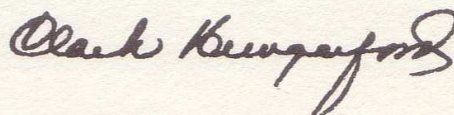
Effective February 1, 1961, Mr. Stone became Vice President, Secretary and Treasurer, succeeding Mr. E. R. Belt who will retire after more than 51 years of railroad service.

CHANGES IN THE DIRECTORATE

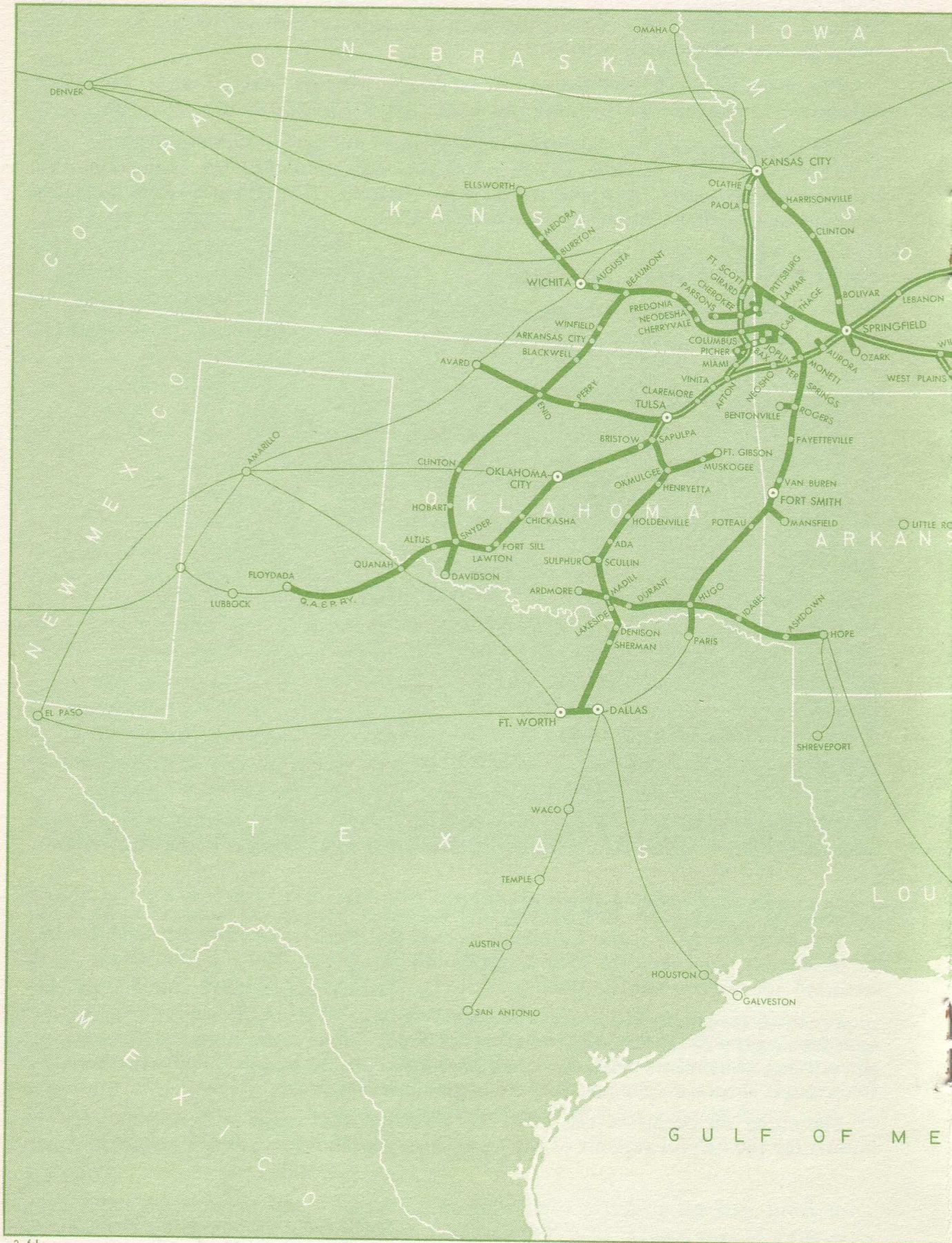
It is with sorrow that the Company records the death of two of its Directors: Mr. E. M. Dodds, who died on May 1, 1960, and Mr. Hugh McK. Jones, whose death occurred on November 13, 1960.

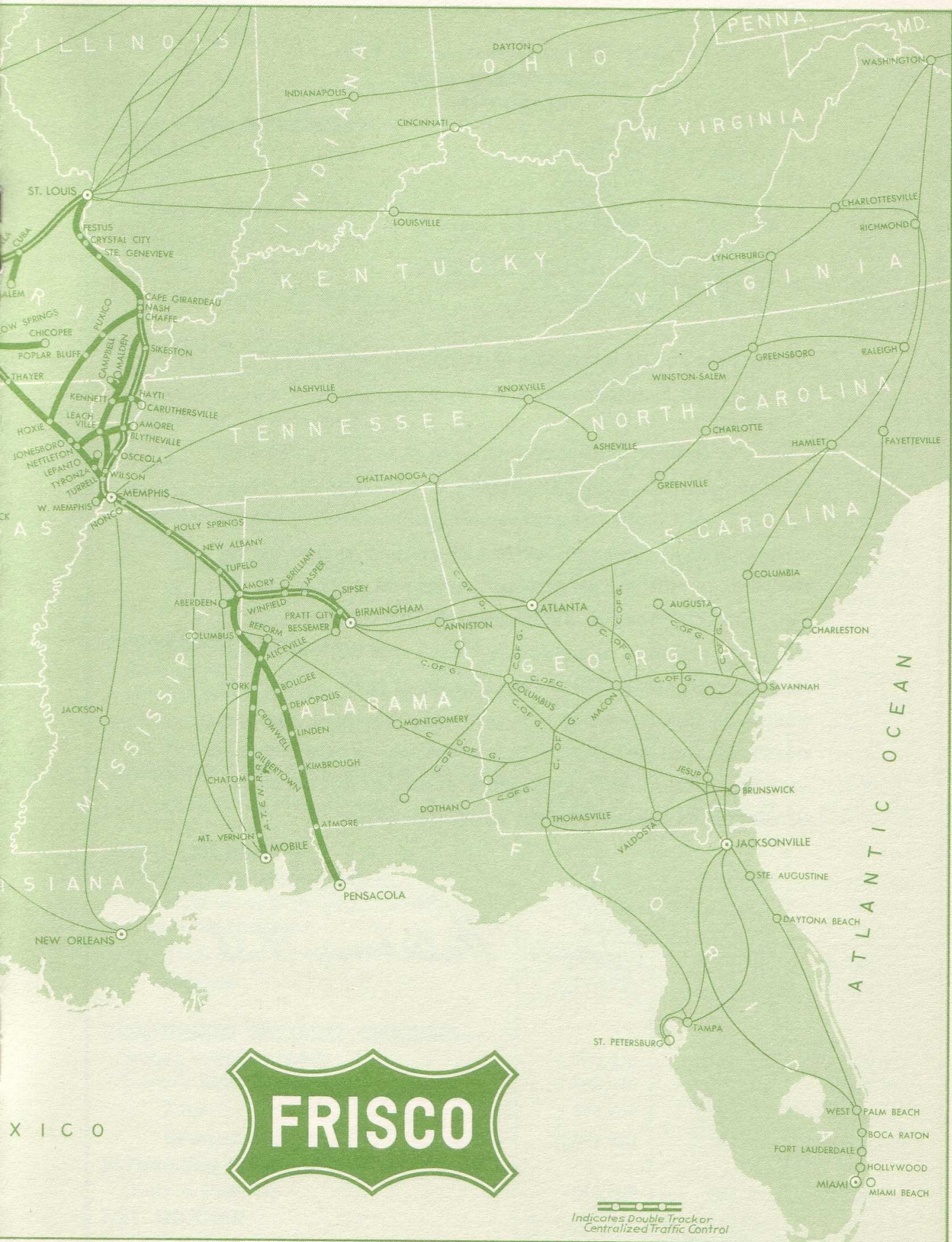
At their annual meeting on May 10, 1960, the stockholders of the Company approved a proposal to amend the Articles of Association for the purpose of decreasing the number of members of the Board of Directors from 17 to 16. The present Board of Directors is shown on the inside cover page of this report.

Submitted on behalf of the Board of Directors who again wish to gratefully acknowledge the helpful support of the Company's stockholders, patrons and employes.



Chairman and President







 Indicates Double Track or Centralized Traffic Control

PRICE WATERHOUSE & Co.

14 SOUTH FOURTH STREET

ST. LOUIS, 2

March 3, 1961

To the Board of Directors and Stockholders of
St. Louis-San Francisco Railway Company:

In our opinion, the accompanying financial statements present fairly the financial position of St. Louis-San Francisco Railway Company and railroad subsidiaries consolidated at December 31, 1960 and the results of their operations for the year, in conformity with principles and methods of accounting prescribed or authorized by the Interstate Commerce Commission applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

CONSOLIDATED INCOME STATEMENT

	1960	1959	5 YEAR AVERAGE 1955 — 1959
OPERATING REVENUES—			
Freight.....	\$118,121,179	\$121,162,124	\$118,833,067
Passenger.....	2,226,815	2,640,929	3,862,215
Mail.....	3,637,539	3,652,568	3,859,376
Express.....	1,449,025	1,616,563	1,380,476
Switching.....	3,437,111	2,984,516	2,849,225
All other.....	1,755,714	1,504,750	1,521,987
Total Operating Revenues.....	130,627,383	133,561,450	132,306,346
OPERATING EXPENSES—			
Maintenance of way & structures.....	17,293,701	17,192,430	16,965,293
Depreciation of way & structures.....	2,011,516	2,185,003	1,958,399
Maintenance of equipment.....	12,428,764	14,168,747	13,999,130
Depreciation of equipment.....	7,340,404	7,363,129	6,995,554
Traffic.....	5,038,847	5,024,172	5,217,456
Transportation.....	50,857,754	51,301,455	50,759,368
Miscellaneous operations.....	351,429	374,147	582,687
General.....	7,177,355	6,929,213	6,727,002
Total Operating Expenses.....	102,499,770	104,538,296	103,204,889
Net Operating Revenue.....	28,127,613	29,023,154	29,101,457
OPERATING CHARGES—			
Railway tax accruals (except Fed. Inc.)....	10,360,116	10,173,911	9,440,205
Net rent for equip. & joint facilities.....	4,895,561	4,603,060	3,041,916
Total Operating Charges*.....	15,255,677	14,776,971	12,482,121
Net Railway Operating Income*.....	12,871,936	14,246,183	16,619,336
OTHER INCOME LESS DEDUCTIONS			
Balance for Fixed Charges*.....	1,778,786	1,827,252	1,265,890
	14,650,722	16,073,435	17,885,226
FIXED CHARGES—			
Interest on long term debt.....	5,740,679	5,740,782	5,311,262
Amort. of discount on long term debt.....	110,089	112,887	105,492
Other fixed charges.....	29,233	28,188	29,767
Total Fixed Charges.....	5,880,001	5,881,857	5,446,521
Balance*.....	8,770,721	10,191,578	12,438,705
CONTINGENT INTEREST CHARGES—			
Second mortgage bonds.....	1,190,322	1,199,862	1,199,862
Income debentures.....	1,582,975	1,590,975	1,298,903
Total.....	2,773,297	2,790,837	2,498,765
Balance*.....	5,997,424	7,400,741	9,939,940
ESTIMATED FEDERAL INCOME TAXES			
(Note 2, Page 16).....	213,000	783,730	2,393,594
NET INCOME	\$ 6,210,424	\$ 6,617,011	\$ 7,546,346

*Before Federal income taxes.

Bold face type denotes credit.

CONSOLIDATED BALANCE SHEET

	DEC. 31, 1960	DEC. 31, 1959
ASSETS		
CURRENT ASSETS—		
Cash.....	\$ 3,259,531	\$ 3,644,728
Temporary cash investments.....	8,110,895	8,604,863
Cash deposits for interest, dividends, etc.....	2,279,405	2,711,507
Receivables from U. S. Government, individuals, agents and companies.....	10,712,778	11,245,382
Material and supplies, at average cost.....	5,832,722	6,229,191
Other current assets.....	270,268	214,434
Total Current Assets.....	30,465,599	32,650,105
SPECIAL DEPOSITS.....	1,269,684	1,129,845
INVESTMENTS (Page 18) —		
Securities of and advances to subsidiaries and affiliates.....	7,977,594	7,983,388
Central of Georgia Ry. Co. Preferred Stock.....	9,077,371	9,077,371
Central of Georgia Ry. Co. Common Stock.....	13,559,934	13,559,934
Other.....	33,923	32,571
Total Investments.....	30,648,822	30,653,264
PROPERTIES (Note 3, Page 17) —		
Roadway and structures excluding donations and grants....	305,678,415	303,204,227
Equipment.....	187,913,566	185,462,754
Non-operating property.....	2,748,917	2,571,297
Accrued depreciation — road.....	31,164,114	30,568,666
Accrued depreciation — equipment.....	91,838,858	90,083,047
Accrued depreciation — non-operating property.....	100,347	105,632
Acquisition adjustment, being principally the excess of the stated value of assets acquired over liabilities assumed upon reorganization.....	49,738,350	49,668,328
Total Properties.....	323,499,229	320,812,605
OTHER ASSETS—		
Estimated salvage recoverable from retired property.....	906,283	872,104
Discount on long term debt.....	2,748,712	2,862,891
Miscellaneous.....	948,528	666,443
Total Other Assets.....	4,603,523	4,401,438
Total Assets.....	\$390,486,857	\$389,647,257

Bold face type denotes credit.

CONSOLIDATED BALANCE SHEET

	DEC. 31, 1960	DEC. 31, 1959
LIABILITIES		
CURRENT LIABILITIES—		
Audited accounts and wages payable.....	\$ 2,875,819	\$ 2,797,068
Accrued and miscellaneous accounts payable.....	5,135,140	5,623,488
Interest and dividends payable.....	5,081,535	5,448,800
Estimated federal taxes on income (Note 4, Page 17).....	619,302	1,258,214
Other accrued taxes.....	2,583,702	2,515,769
Other current liabilities.....	2,034,810	2,057,597
Total Current Liabilities (excluding current portion of long term debt).....	18,330,308	19,700,936
LONG TERM DEBT (Page 19) —		
First Mortgage Bonds, 4% Series A — 1997.....	68,639,200	68,848,200
First Mortgage Bonds, 4% Series B — 1980.....	18,255,000	18,788,000
Second Mortgage Income Bonds, 4½% — 2022.....	26,451,600	26,663,600
Income Debentures, 5% Series A — 2006.....	31,801,500	32,147,500
Equipment obligations.....	59,726,697	58,937,336
Miscellaneous obligations.....		12,437
Total Long Term Debt (\$7,517,739 payable in 1961)...	204,873,997	205,397,073
OTHER LIABILITIES—		
Reserve for vacation pay expense — estimated.....	3,505,118	3,388,499
Estimated casualty and other reserves.....	634,391	612,698
Miscellaneous, including deferred credits.....	572,995	822,673
Total Other Liabilities.....	4,712,504	4,823,870
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 5, Page 17) —		
Preferred, \$100 par value, authorized 1,500,000 shares — Series A 5% issued 287,036 shares, less 2,326 shares in treasury.....	28,471,000	28,471,000
Common, no par value — Authorized 6,000,000 shares, issued 1,837,186 shares, less 50 shares in treasury.....	81,373,419	81,373,419
CAPITAL SURPLUS (\$17,499 added in 1960).....	522,475	504,976
RETAINED INCOME (Page 16).....	52,203,154	49,375,983
Total Shareholders' Equity.....	162,570,048	159,725,378
Total Liabilities and Shareholders' Equity.....	\$390,486,857	\$389,647,257

CONSOLIDATED RETAINED INCOME STATEMENT

Balance December 31, 1959.....	\$49,375,983
Add:	
Net income for the year.....	6,210,424
	55,586,407
Deduct:	
Dividend on Preferred Stock — \$5.00 per share.....	1,423,550
Dividend on Common Stock — \$1.00 per share.....	1,837,136
Miscellaneous debits — Net.....	122,567
	3,383,253
Balance December 31, 1960.....	\$52,203,154

NOTES TO FINANCIAL STATEMENTS

1. Included in the consolidated financial statements are the accounts of the parent company and its controlled railroad subsidiaries, St. Louis, San Francisco and Texas Railway Company, Quanah, Acme & Pacific Railway Company, Alabama, Tennessee and Northern Railroad Company, and Birmingham Belt Railroad Company.

Reference is made to the accompanying report of the President regarding the company's investment in the Central of Georgia Railway Company. The company's equity in the net income of Central of Georgia amounted to approximately \$200,000 in 1960 and \$1,600,000 in 1959. The dividends received in each of the years of 1960 and 1959 were \$805,922.

2. In accordance with the present accounting regulations of the Interstate Commerce Commission, railroads are required to record in their accounts normal depreciation computed at prescribed rates regardless of the amount of the amortization under certificates of necessity or accelerated depreciation which may be claimed for federal income tax purposes. A summary of the excess of amortization and accelerated depreciation over normal depreciation follows:

	Excess of amortization over normal depreciation	Excess of accelerated over normal depreciation	Reduction in tax provision
1959.....	\$5,102,000	\$666,000	\$3,000,000
1960.....	4,787,000	909,000	2,961,000
Cumulative reduction to December 31, 1960 (including \$740,000 adjustment applicable to prior years).....			25,154,000

This reduction in the tax provision may be temporary since depreciation subsequently recorded in the accounts will not be deductible for federal income tax purposes. Interstate Commerce Commission regulations do not permit the recording in the accounts of a provision for the possible effect on income taxes in future years.

NOTES TO FINANCIAL STATEMENTS (Continued)

There are other differences in the reporting of income for Interstate Commerce Commission and federal income tax purposes which affect the provision for federal income taxes. The principal differences are in property bases and rates of depreciation.

3. Gross properties are stated at estimated original cost as determined by the Interstate Commerce Commission as of January 1, 1947 for reorganizational purposes, plus additions and betterments at cost and less retirements since that date.

Depreciation on road property, other than rail, ties, ballast, etc. has been provided at prescribed rates since January 1, 1943. In accordance with Interstate Commerce Commission track accounting regulations, rail, ties, ballast, etc. are not depreciated. At the time of its reorganization the company recorded the estimated accumulated depreciation applicable to depreciable property for the period prior to January 1, 1943.

The cost of depreciable property retired, less salvage, is charged to accrued depreciation, while the cost of non-depreciable property retired, less salvage, is charged to operating expense.

At December 31, 1960 consolidated non-depreciable property aggregated approximately \$205,700,000.

4. Federal taxes on income for 1956 and subsequent years are subject to final determination by the Treasury Department. In the opinion of management, the reserve provided for federal taxes on income is adequate.

5. The preferred stock is redeemable at par plus accrued dividends. The stock is convertible at the option of the holders at any time on or before 15 days prior to the date as of which such stock shall have been called for redemption, at the rate of two shares of common for each share of preferred.

At December 31, 1960 there were 1,337,427 shares of authorized common stock reserved as follows:

(a) 574,072 shares for conversion of preferred stock.

(b) 673,515 shares for conversion of second mortgage income bonds at rate of 25 shares for each \$1,000 of bonds.

(c) 89,840 shares for issuance under a restricted stock option plan authorized in 1952 for certain officers and key employees. All options heretofore granted expired January 5, 1960, and all shares of stock formerly subject to such options are now available for the granting of options under the Incentive Stock Option Plan expiring December 31, 1962.

6. The Company for some time has had a non-contributory "pay as you go" pension plan for officers and supervisory employees. Payments under this plan were charged to operating expenses as paid and amounted to \$265,000 for the year 1959 and \$142,000 for the six months ended June 30, 1960.

Effective July 1, 1960 the plan was amended to provide for deposits into a trust fund. Payments into the trust fund for the six months ended December 31, 1960 amounted to \$258,000, consisting of the current service cost of \$135,000 which was charged to operating expenses and a minimum payment of \$123,000 on the past service liability which was charged to retained income. The estimated unfunded past service liability under the amended plan is approximately \$7,000,000. Any payment for the funding of this past service liability other than the minimum must have approval of the Board of Directors.

7. The Company is guarantor of principal and interest, individually or jointly with other railroads, of obligations of various affiliated companies. The Company is a participant in a service interruption policy with The Imperial Insurance Company, Limited.

INVESTMENTS IN AFFILIATED AND OTHER COMPANIES

	NUMBER OF SHARES	PER CENT OWNED	PAR VALUE	BOOK VALUE
AFFILIATED COMPANIES—				
Stocks:				
Clarkland, Inc.....	500	100	\$ 50,000	\$ 76,010
Clarkland Royalty, Inc.....	100	100	1,000	44,866
*Frisco Transportation Co.....	4,500	100	450,000	450,000
Greater Tulsa, Inc. Preferred Stock	630	100	6,300	6,300
Greater Tulsa, Inc. Common Stock	70	100	700	700
906 Olive Corporation.....	1,500	100	150,000	150,000
New Mexico and Arizona Land Co..	500,258.48	50.03	500,258	515,469
*Birmingham Terminal Co.....	250	16 $\frac{2}{3}$	25,000	25,000
Illinois Terminal Railroad Co.....	181.818	9.09	1,818	1,818
*Kansas City Terminal Ry. Co....	1,833 $\frac{1}{3}$	8 $\frac{1}{3}$	183,333	183,333
Pullman Co., The.....	8,456	1.1562	84,560	312,872
*Railway Express Agency, Inc.....	14	1.45	No Par	1,400
*Rock Island-Frisco Term'l Ry. Co.	2,000	40	200,000	1
*Terminal R. R. Association of St. Louis.....	2,058	6 $\frac{1}{4}$	205,800	1
Trailer Train Co.....	500	2.94	500	50,000
*Tulsa Union Depot Co.....	1,000	100	No Par	1,000
*Union Terminal Co., The—Dallas..	60	12 $\frac{1}{2}$	6,000	6,000
*Wichita Union Terminal Ry. Co....	333 $\frac{1}{3}$	33 $\frac{1}{3}$	33,333	12,502
				<u>\$ 1,837,272</u>
Notes:				
Clarkland, Inc.....				\$ 1,696,960
906 Olive Corporation.....				325,000
Frisco Transportation Co.....				427,538
Railway Express Agency, Inc.....				404,817
				<u>\$ 2,854,315</u>
Investment Advances:				
Birmingham Terminal Co.....				\$ 321,494
Clarkland, Inc.....				1,175,575
Kansas City Terminal Ry. Co.....				656,042
Frisco Transportation Co.....				480,000
Union Terminal Co., The—Dallas..				220,222
Wichita Union Terminal Ry. Co....				376,380
Working Funds — Various Cos....				56,294
				<u>\$ 3,286,007</u>
Total investments in affiliated companies.....				<u>\$ 7,977,594</u>
OTHER INVESTMENTS—				
Central of Georgia Ry. Co. Preferred Stock Series B.....	111,187	65.25	11,118,700	\$ 9,077,371
Central of Georgia Ry. Co. Common Stock.....	249,987	74.13	No Par	13,559,934
Kansas, Oklahoma & Gulf Ry. Co. Preferred Stock Series C.....	43	.07	4,300	4,228
Miscellaneous items.....				29,695
Total other investments.....				<u>\$22,671,228</u>
*Pledged under mortgages.				

LONG TERM DEBT

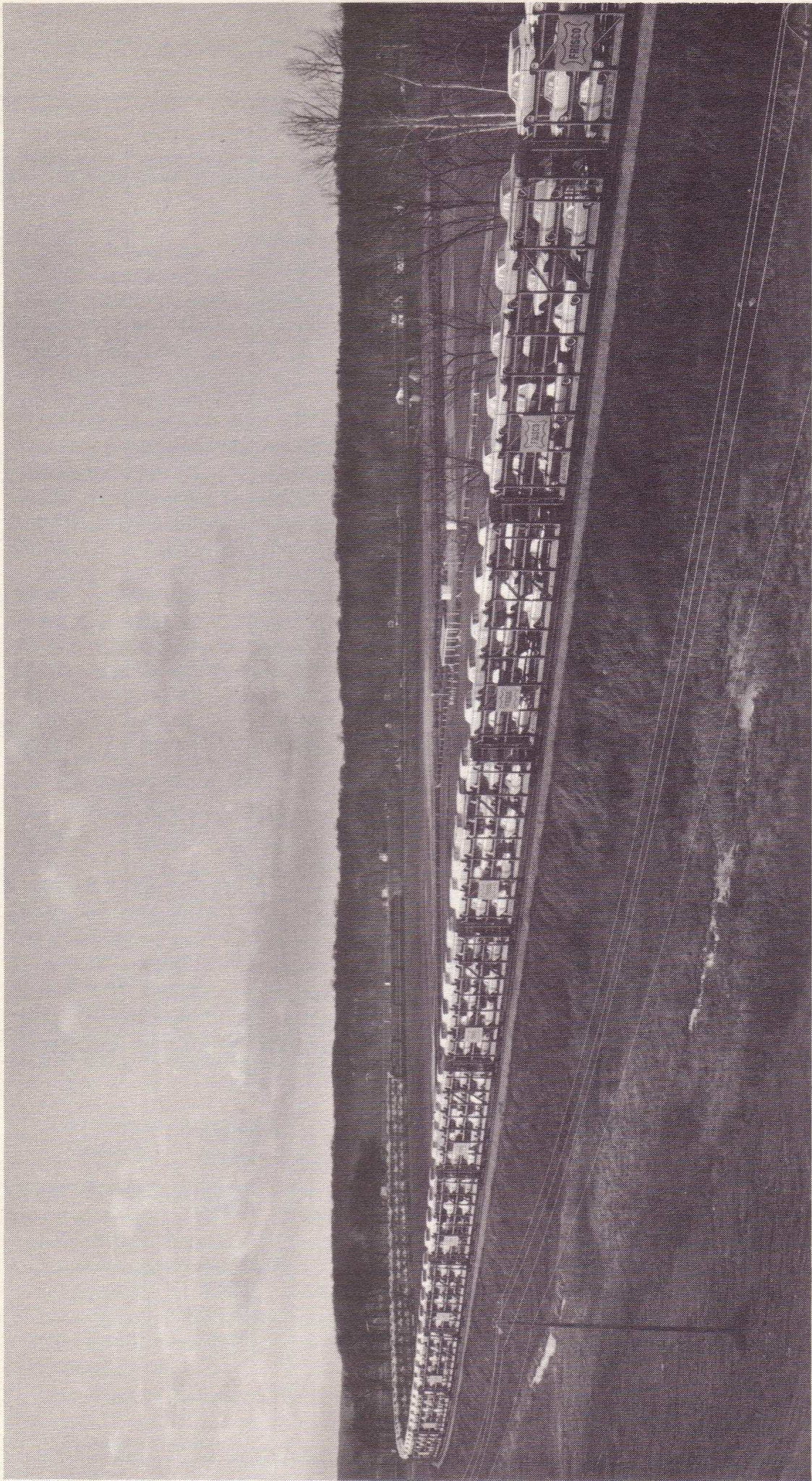
	DATE OF MATURITY	OUTSTANDING DEC. 31, 1960	1961 MATURITIES	INTEREST EXPENSE FOR 1960
FUNDED DEBT UNMATURED—				
First Mortgage Series A 4%.....	Jan. 1997	\$ 68,639,200†	*	\$ 2,751,433
First Mortgage Series B 4%.....	Sep. 1980	18,255,000†	*	744,094
Second Mortgage Income Series A 4½%.....	Jan. 2022	26,451,600†	*	1,190,322
Fifty Year Income Debentures Series A 5%..	Jan. 2006	31,801,500†	*	1,582,975
		\$145,147,300		\$ 6,268,824
EQUIPMENT OBLIGATIONS—				
	Serially to			
Trust Certificates:				
Series A 2¾%.....	Jan. 1963	\$ 1,656,000	\$ 552,000	\$ 46,173
Series B 2⅝%.....	Aug. 1963	1,110,000	370,000	35,206
Series C 2½%.....	Nov. 1963	852,000	284,000	27,217
Series D 2½%.....	Mar. 1964	1,136,000	284,000	29,879
Series E 2¼%.....	Dec. 1964	1,088,000	272,000	30,090
Series F 2¼%.....	May 1965	750,000	150,000	18,000
Series G 2⅜%.....	Aug. 1965	1,235,000	247,000	32,752
Series H 2⅜%.....	Dec. 1965	1,865,000	373,000	52,414
Series I 2⅞%.....	Aug. 1966	2,034,000	339,000	64,161
Series J 3⅛%.....	Dec. 1966	1,890,000	315,000	68,496
Series K 2⅞%.....	Dec. 1967	1,309,000	187,000	42,562
Series L 3⅜%.....	Jun. 1968	2,760,000	345,000	98,000
Series M 3%.....	Jan. 1969	4,000,000	500,000	135,000
Conditional Sale Agreements:				
Dated Dec. 1, 1955, No. 1, 3½%.....	Dec. 1970	11,726,000	1,172,600	437,771
Dated Apr. 1, 1956, No. 2, 3½%.....	May 1971	735,000	70,000	27,154
Dated Sept. 1, 1956, Nos. 3 & 4, 4¼%.....	Sep. 1971	1,706,896	155,172	75,291
Dated Sept. 1, 1956, No. 5, 4¼%.....	Jun. 1972	1,525,243	133,333	68,677
Dated Jan. 1, 1957, Nos. 6, 7, 8, 9, 5%.....	Jul. 1972	12,772,667	1,110,667	680,283
Dated Dec. 15, 1958, No. 10, 4¾%.....	Feb. 1974	832,500	61,667	40,602
Dated Dec. 1, 1959, No. 11, 5⅝%.....	Feb. 1975	990,350	68,300	52,025
Dated Mar. 1, 1960, No. 12, 5¾%.....	Mar. 1975	4,640,000	320,000	154,631
Dated Aug. 1, 1960, No. 13, 5¼%.....	Aug. 1975	3,113,041	208,000	28,768
		\$ 59,726,697	\$ 7,517,739	\$ 2,245,152

*Subject to sinking fund provisions under mortgage indentures.

First Mortgage Series A	\$ 304,315
First Mortgage Series B	195,000
Second Mortgage Income Series A	134,703
Fifty Year Income Debentures Series A.....	165,645

†Excludes bonds held in treasury as follows:

First Mortgage Series A.....	\$1,277,000
First Mortgage Series B.....	309,000
Second Mortgage Income Series A.....	489,000
Fifty Year Income Debentures Series A.....	355,000



Trainload movement of new automobiles loaded upon triple-deck railway cars.

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*A copy of a supplemental report
which includes additional
financial and statistical statements
will be mailed to any stockholder
or interested person upon request.*

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