Annual Report

1961

FRISCO

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.

DIRECTORS

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

Term expires 1962

LESTER E. COX	*Springfield, Mo.*
B. B. CULVER, JR.	*St. Louis, Mo.*
JUDSON S. SAYRE	*Chicago, Ill.*
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.*
L. W. MENK	*St. Louis, Mo.*
DAVID ROBERTS, JR.	*Birmingham, Ala.*

Term expires 1964

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.*

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	*Chairman & President*	St. Louis, Mo.
L. W. MENK	*Vice President-Operation*	St. Louis, Mo.
R. J. STONE	*Vice President, Secretary & Treasurer*	St. Louis, Mo.
J. E. GILLILAND	*Vice President-Traffic-Ind. Development*	St. Louis, Mo.
E. D. GRINNELL, JR.	*Vice President & General Counsel*	St. Louis, Mo.
C. E. BLAIR	*Controller*	St. Louis, Mo.
J. K. BESHEARS	*Vice President-Personnel*	St. Louis, Mo.
F. L. COULTER	*Vice President-Fiscal*	New York, N.Y.
H. L. GASTLER	*Vice President*	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

	1961	1960	5 YEAR AVERAGE 1956 — 1960
Operating revenues	$126,239,487	$130,627,383	$131,751,687
Operating expenses	$ 98,269,120	$102,499,770	$103,508,469
Ratio of expenses to revenues	77.84	78.47	78.56
Taxes	$ 10,426,611	$ 10,160,158	$ 10,818,807
Taxes per share of common stock	$ 5.67	$ 5.53	$ 5.90
Income available for fixed charges	$ 13,354,794	$ 14,863,722	$ 15,193,892
Fixed charges	$ 5,886,154	$ 5,880,001	$ 5,748,646
Times fixed charges earned	2.27	2.53	2.64
Contingent interest	$ 2,780,397	$ 2,773,297	$ 2,813,452
Income before dividends	$ 4,688,243	$ 6,210,424	$ 6,631,794
Preferred dividends — $5 per share	$ 1,423,550	$ 1,423,550	$ 1,754,840
Earnings per common share	$ 1.78	$ 2.61	$ 2.66
Dividends per common share	$ 1.00	$ 1.00	$ 1.15
Freight revenue	$114,492,436	$118,121,179	$118,707,427
Tons — revenue freight	28,371,082	28,535,149	29,453,983
Ton miles — revenue freight (thousands)	9,017,920	9,137,169	9,142,362
Avg. revenue per ton mile — revenue freight	1.270¢	1.293¢	1.298¢
Gross ton miles (thousands)	19,917,083	20,502,939	20,751,144
Train miles — freight	7,469,891	7,549,461	7,617,736
Gross ton miles per train mile	2,666	2,716	2,724
Average miles hauled — revenue freight	317.86	320.21	310.39
Gross ton miles per train hour	57,559	57,130	56,084
Passenger revenue	$ 2,088,446	$ 2,226,815	$ 3,350,202
Passengers carried	301,977	343,168	514,570
Passenger miles	77,629,580	83,477,092	126,349,711
Average revenue per passenger mile	2.690¢	2.668¢	2.652¢
Average distance carried	257.07	243.25	245.54
Train miles — passenger	2,274,917	2,457,523	3,198,811
Average number of employes	9,550	10,004	11,542
Miles of road operated	5,021	5,022	5,055

St. Louis-San Francisco Railway Company

REPORT FOR 1961

To the Stockholders:

There is submitted herewith a report of operations of your Company for the year ended December 31, 1961.

NET INCOME

Net Income of $4,688,243, before sinking funds, is equivalent to $1.78 per share of Common Stock versus $6,210,424, or $2.61 per share in 1960.

Reductions in revenues, in other income and in the tax credits allowed for fast tax write-offs of defense facilities all contributed to the decline in earnings. Tax credits have the effect of increasing earnings by reducing Federal Income Taxes. In 1961, our earnings per share of Common Stock were increased $0.81 by such fast tax write-offs; in 1960, earnings were increased $1.35. Under present tax laws, such fast tax write-offs will continue to gradually decrease until 1965, after which they will end.

The yield on invested capital in 1961 was 3.19%.

REVENUES

Operating revenues in 1961 were $126,239,487, down $4,387,896, or 3.4% from the level of 1960.

Freight revenue totaled $114,492,436 versus $118,121,179 in 1960. Essentially the year was marked by a business recovery which began in the second quarter. There were soft spots, however, notably in steel and automobile production and in other heavy industries which contribute to railway traffic volume. Industrial production, at a low point in January, rose gradually to a high point in December but, while the trend of the economy was upward, monthly production did not surpass the 1960 high until July. Agriculturally, the year was another good one, with the wheat harvest in the Company's territory taking its place among the better ones on record.

Carloadings were 732,173 versus 746,904 in 1960, as the movement of most categories of freight declined; however, the trend toward heavier loading under incentive rates brought a 1.6% increase in the net tons per loaded car. Piggyback and multi-level railway car operations are discussed on page 5.

Passenger revenue again was down, from $2,226,815 in 1960 to $2,088,446 in 1961, as a 5% increase in coach fares, which became effective July 1, failed to fully offset revenue losses from reduced patronage.

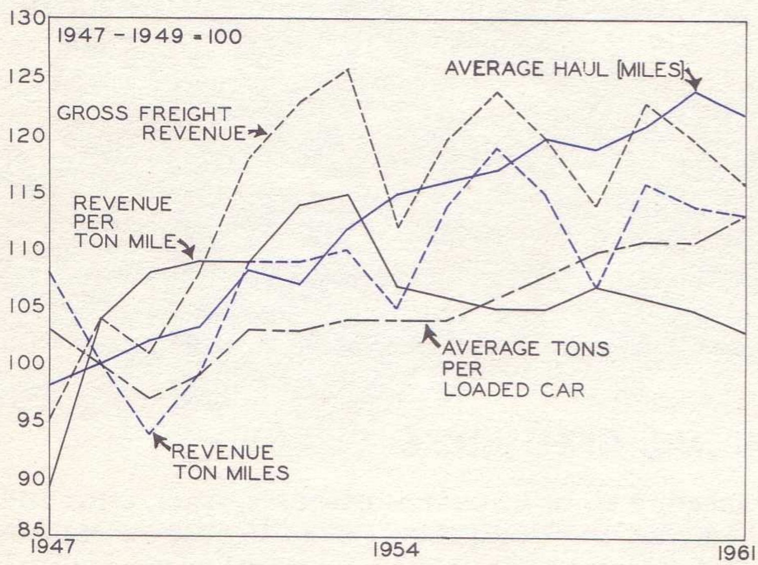
OPERATING EXPENSES

In a year in which revenues, other income and tax credits declined, the Company's control of operating expenses proved to be an important factor in the partial recovery of earnings from the levels of the first five months. After absorbing wage increases and higher costs of fringe benefits for employes, operating expenses were reduced from $102,499,770 in 1960 to $98,269,120 in 1961, or 4.1%. Aside from a reduction in maintenance expenditures incident to the decline in traffic, the curtailment of operating expenses also was made possible by the dualization of stations, the discontinuance of unprofitable services and operations and the utilization of cost-reducing equipment and methods.

RATIOS

The tabulation following shows the number of cents spent from each revenue dollar for major items of operating expense in the years 1961, 1960 and for an average of the five-year period 1956-1960.

	1961	1960	Average 1956-60
Transportation	39.51	38.93	38.94
Maintenance of Way	13.39	14.78	14.33
Maintenance of Equipment	15.06	15.13	15.71
Traffic Expenses	3.85	3.86	3.93
General Expenses	5.77	5.50	5.27
Incidental Expenses	.26	.27	.38
Operating Ratio	77.84	78.47	78.56



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 8, 1962, the full dividend of $5.00 per share was declared on the Preferred Stock, payable in quarterly installments of $1.25. At the same time, a dividend of 25¢ per share of Common Stock was declared payable March 15, 1962, to holders of record March 1st.

TAXES

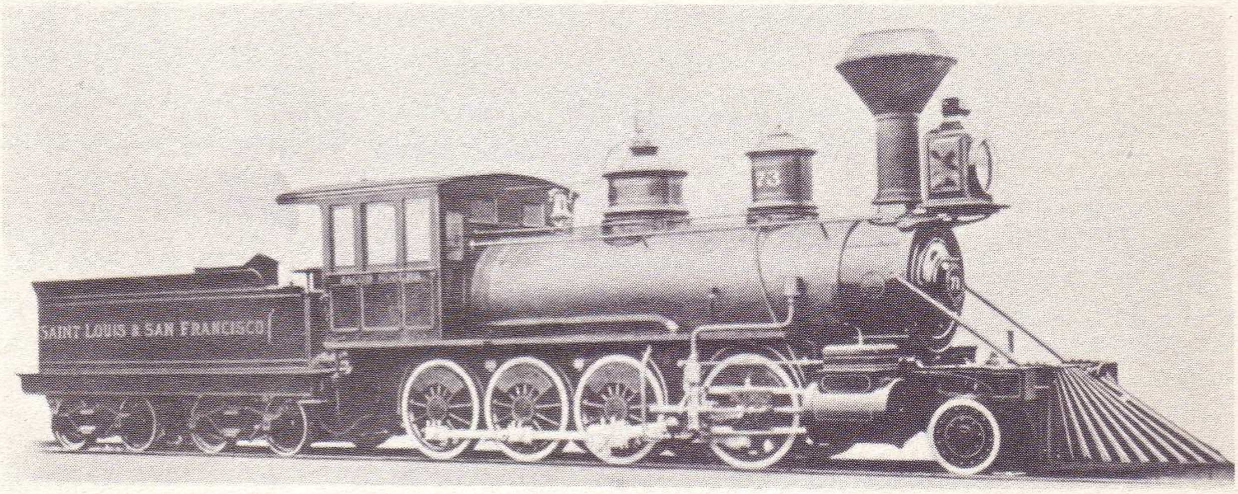
Estimated taxes in 1961 totaled $10,426,611 versus $10,160,158 in 1960.

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 1961 Federal Income Tax accruals $1,492,000 and increasing net income by the same amount. This was equivalent to $0.81 per share of Common Stock. In 1960 the reduction in Federal Income Taxes attributable to these fast tax write-offs amounted to $2,489,000 or $1.35 per share of Common Stock. In the ten year period 1951-1960, Federal Income Tax accruals were similarly reduced approximately $23,200,000.

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 1961, at a rate of 10½%, on employee earnings to a maximum of $400 per month were $4,744,668, a decrease of $314,748 or 6.2%. Effective January 1, 1962, this rate was increased to 11¼%.

On February 23, 1962 the Company received a $1,000,000 refund on its 1945 Federal Income Tax plus interest thereon of $487,795.



1881 steam freight locomotive, capable of 955 horsepower.

USE OF FINANCIAL RESOURCES

In addition to meeting all of its current expenses, taxes, rents and fixed and contingent interest payments, the Company paid $3,969,039 in cash from its treasury for capital improvements to roadway and structures. For equipment there was spent $10,157,422, consisting of $7,585,886 of serial maturities of equipment obligations paid and $2,571,536 for additions and betterments to equipment. Current sinking funds of $808,257 were satisfied by the surrender of treasury securities costing $799,278 in prior years and $8,979 of cash. An additional $199,625 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 1961 were $3,260,911.

After these payments, the Company had a net working capital (excess of current assets over current liabilities) of $8,518,028 at the end of the year. Year-end cash and temporary cash investments were $10,005,450, or $1,364,976 less than on December 31, 1960.

TRAFFIC PROMOTION

Encouraged by its success in pioneering the return to the rails of a portion of new automobile shipments—first via piggyback and then via multi-level railway car operations—the Company continued its effort to improve its competitive position. Aside from an intensified campaign by sales and managerial personnel to spur the use of its facilities by both industrial and agricultural interests, the Company moved ahead with a traffic research program to study the price and service aspects of transportation with a view toward making proper changes in rates, schedules and equipment to meet present-day competitive realities. In recognition of its sales training program to promote traffic, the Company was presented during the year with the Railway Progress Institute's Golden Freight Car Award.

TRAILER ON FLAT CAR SERVICE (Piggyback)

For the seventh consecutive year, revenue from piggyback traffic (excluding new automobiles) continued to grow, from $1,342,845 in 1960 to $1,568,675 in 1961.

During the year, the movement of new automobiles in piggyback service was entirely supplanted by the new technique of hauling them on multi-level railway cars, thus avoiding the necessity of tying up highway trailers in railroad movement.

MULTI-LEVEL AUTO TRANSPORTS

The year saw an expansion of the multi-level railway car fleet as the new technique pioneered by the Company gained wider acceptance throughout the country. During 1961, Company revenue from the movement of new automobiles on multi-level railway cars totaled $3,929,099 versus $4,846,330 in 1960. The decrease in revenue in 1961 is due largely to the cut-backs in automobile production which occurred during the year.

1961 diesel-electric locomotive. Four units together are capable of 10,000 horsepower.

CENTRAL OF GEORGIA

During the year hearings were held by the Interstate Commerce Commission on the Southern Railway's application to acquire control of the Central of Georgia Railway Company through the purchase of your Company's holdings of Central stock for $22,655,000.

On February 21, 1962 an Examiner's recommended report and order was issued recommending approval of the Southern's application. Under I. C. C. rules, exceptions to this recommended report, if any, must be filed before March 23, 1962.

All shares of Central of Georgia stock beneficially owned by your Company are held by the Manufacturers Hanover Trust Company of New York City under a Voting Trust Agreement approved by the Interstate Commerce Commission. 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).

The Central of Georgia paid no dividends in 1961; in 1960 dividends received by your Company from Central of Georgia stock amounted to $805,922.

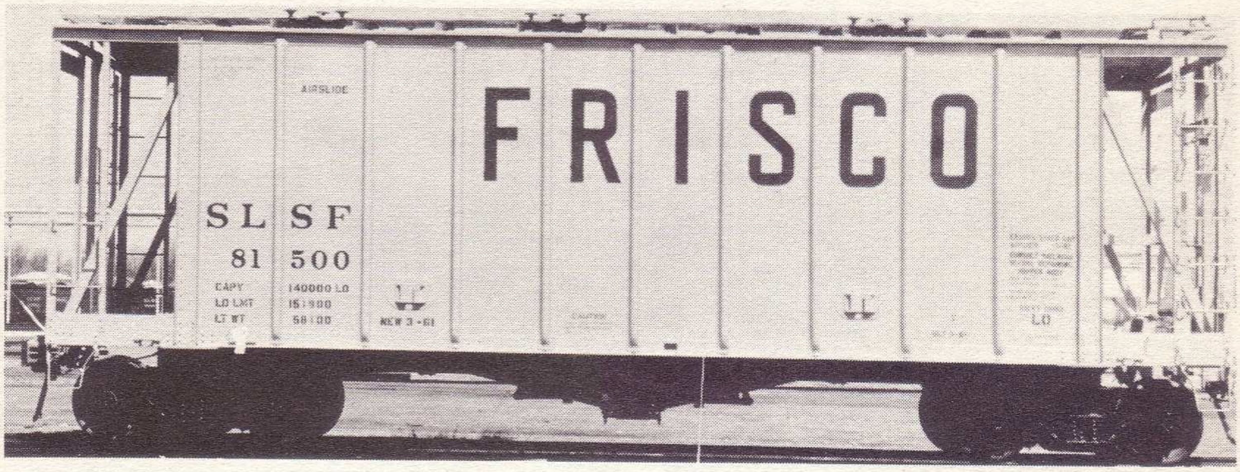
LITIGATION

Three division cases are pending before the Interstate Commerce Commission:

One involves the division of interline revenue on traffic between Eastern and Southern Territory. Hearings have been held, but a decision has not been rendered.

In the second proceeding, involving the division of interline revenue on traffic to and from Transcontinental Territory, an Examiner's recommended report and order was in part adverse to your Company's interests. On June 20, 1961, the Commission heard arguments relating to exceptions to the report. No decision has been rendered.

On November 7, 1961, the Commission heard oral arguments in the third proceeding which involves the division of interline revenue on traffic to and from Western Trunk Line Territory. No decision has been rendered.



Air-slide, covered hopper car used for the movement of dry, fine commodities such as flour and starch. In unloading, compressed air is used to activate and stimulate the outward flow of the contents.

IMPROVEMENTS

During the year the Company spent a total of $3,969,039 for capital improvements to roadway and structures.

New and heavier rail was laid on 51.62 miles of track: 45.14 miles of 132-pound, and 6.48 miles of 115-pound. Crossties renewed totaled 271,901.

Among the improvement projects completed during the year was a new freight house at Memphis, Tennessee, incorporating the latest advancements in efficient, damage-free handling procedures for merchandise in rail and truck service. Constructed in the shape of an inverted "L", the structure is located on five acres of land and gives the Company and its trucking subsidiary, the Frisco Transportation Company, a modern, mechanized facility with a total of seven tracks to permit the loading and unloading of 54 box cars simultaneously. A modern office is included in the new structure for rail and truck line personnel. (See picture on page 7).

EQUIPMENT

During the year, the Company put into service, at a cost of $1,737,833, one hundred 70-ton, 50-foot, insulated box cars equipped with damage free loaders. Also installed, at a cost of $117,546, were eight airslide, covered hopper cars for the movement of flour, starch, and similar dry, fine commodities. Eight diesel-electric locomotives were purchased and put into service at a cost of $1,790,000. The box cars were financed through Conditional Sale Agreements; the air-slide, covered hoppers and the locomotives were purchased without long-term financing.

To augment its fleet of automobile-carrying equipment, the Company purchased for cash, at a cost of $560,100, an additional 46 tri-level and 35 bi-level racks for installation on long, low-deck flat cars leased from the Trailer Train Company, in which your Company is a stockholder.

Aerial view of new freight house opened by the Company in Memphis, Tennessee in 1961.

Total cash expenditures for additions and betterments to equipment were $2,571,536.

Equipment obligations outstanding at year-end, including those due in one year, amounted to $54,486,144, a decrease of $5,240,553, representing serial maturities paid during the year of $7,585,886 less additional obligations incurred of $2,345,333.

Equipment debt installments due in 1962 will amount to $8,242,639; equipment depreciation chargeable to operating expenses will amount to $7,240,000.

INDUSTRIAL DEVELOPMENT

Looking toward the future, the Company continued its efforts to enlarge the traffic potential of its territory by attracting new industries. During the year, 85 new plants went into operation along the lines of the railroad system. These involved a capital investment of more than $49,000,000 and created about 4,200 new job opportunities. Expansions to existing plants in the same period totaled 35, involving an investment of $15,000,000 and offering employment to an estimated 360 persons.

As part of its promotional effort, the Company administers a land development program embracing over 2,100 acres of land in 27 planned industrial districts owned by the Company or its subsidiaries. Acreage in such districts is reserved for the location of industries which the Company feels will make stable investments, become rail customers and create markets for raw materials in the territory served by the railroad.

LABOR

Under agreements negotiated on an industry-wide basis during 1960, operating employes received a wage increase of 2% on March 1, 1961. On the same date, non-operating employes were granted fringe benefit improvements in holiday pay, vacations, hospitalization, and group life insurance for themselves, as well as medical and hospitali-

Aerial view of Company's automobile unloading facilities at Irving, Texas. Automobiles have been unloaded from multi-level railway cars which transported them from St. Louis, Mo., and await movement by highway trailers to ultimate destinations in North Texas and the Southwest.

zation insurance for their dependents. It is estimated that wage increases and improved fringe benefits added $1,970,000 to 1961 costs.

During the year, the Railroad Yardmasters of America accepted the recommendations of an Emergency Board appointed by the President of the United States and were granted a wage increase and improved fringe benefits generally conforming to the pattern accepted by other railroad employes.

Extensive hearings were conducted during the year by a Commission also appointed by the President of the United States to make recommendations with respect to the request made by the rail carriers for changes in working rules for operating employes and for the right to eliminate locomotive firemen in freight and yard service. Among other measures, the Commission recommended the gradual elimination of firemen in road freight and yard service with job retraining and severance pay, and various changes in working rules governing road and yard operations as well as in the method of computing pay. The recommendations are not binding upon either the carriers or the unions.

On September 1st, non-operating employes served notices upon the rail carriers for a wage increase of 25¢ per hour and for an agreement which would provide six months' advance notice of position abolishments. These proposals are now being heard by a Presidential Emergency Board. On October 2nd, notices were served on the carriers for an eight per cent wage increase for train dispatchers. These notices are pending at this writing.

EMPLOYMENT AND WAGES

The average number of employes in 1961 was 9,550 and the total payroll $62,083,078. In 1960 the average number was 10,004 and the total payroll $64,226,072.

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 accountants, Price Waterhouse & Co. Among the other enterprises in which your Company has an interest is the New Mexico and Arizona Land Company which issues its own annual report; anyone desiring a copy may obtain one by writing to the New Mexico and Arizona Land Company, 906 Olive Street, Room 718, St. Louis 1, Missouri.

SAFETY

The prevention of accidents continued to receive the close attention of Company personnel. During the year, the railroad was selected by the National Safety Council to receive its Public Safety Activity Award for the eighth consecutive time. Taking note of the Company's efforts to promote safety consciousness, the Council found the work of Company safety officers and protection personnel in stressing traffic, home and public safety "highly commendable".

Since 1947, the Frisco has won nineteen safety awards.

RETIREMENTS

Among those retiring during the year were Mr. James L. Homire, Vice President and General Counsel; Mr. T. H. Banister, Vice President-Executive Department, and Mr. E. G. Baker, Vice President, all after long careers of railroad service.

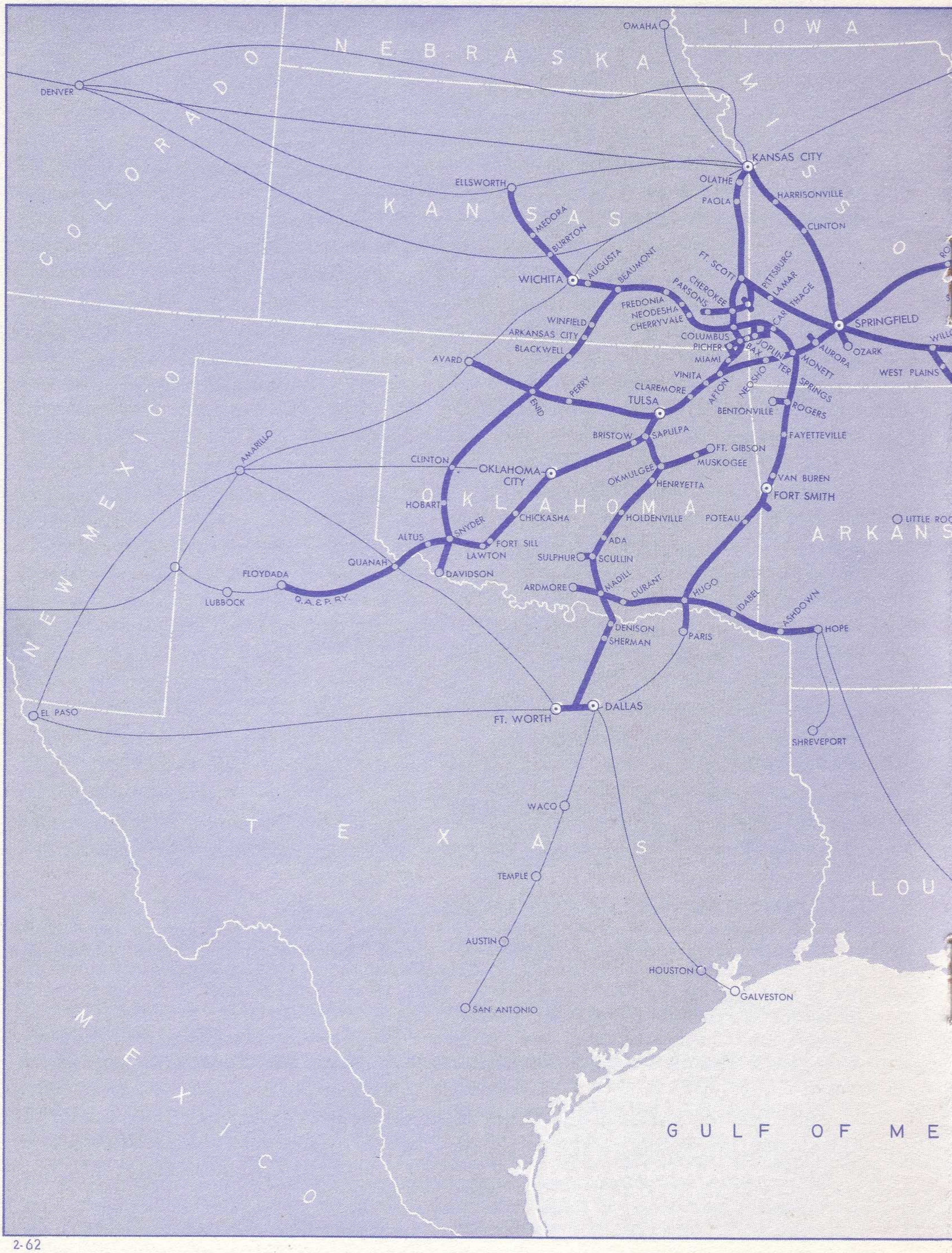
CHANGES IN THE DIRECTORATE

At their annual meeting on May 9, 1961, 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 16 to 15. At a meeting of the Board of Directors on February 8, 1962, Mr. Judson S. Sayre, Chairman of the Board, Norge Sales Corporation, Chicago, Illinois, was elected a Director of the Company succeeding Mr. R. J. Stone. 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.

Clark Hungerford

Chairman and President



NEBRASKA
IOWA
COLORADO
KANSAS
MISSOURI
NEW MEXICO
OKLAHOMA
ARKANSAS
TEXAS
LOU
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GULF OF ME
OMAHA
DENVER
KANSAS CITY
OLATHE
PAOLA
HARRISONVILLE
CLINTON
ELLSWORTH
MEDORA
BURRTON
WICHITA
AUGUSTA
BEAUMONT
FT. SCOTT
PITTSBURG
LAMAR
CARTHAGE
CHEROKEE
PARSONS
FREDONIA
NEODESHA
CHERRYVALE
WINFIELD
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OKLAHOMA CITY
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VAN BUREN
FORT SMITH
HOBART
CHICKASHA
HOLDENVILLE
POTEAU
LITTLE ROC
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TEMPLE
AUSTIN
SAN ANTONIO
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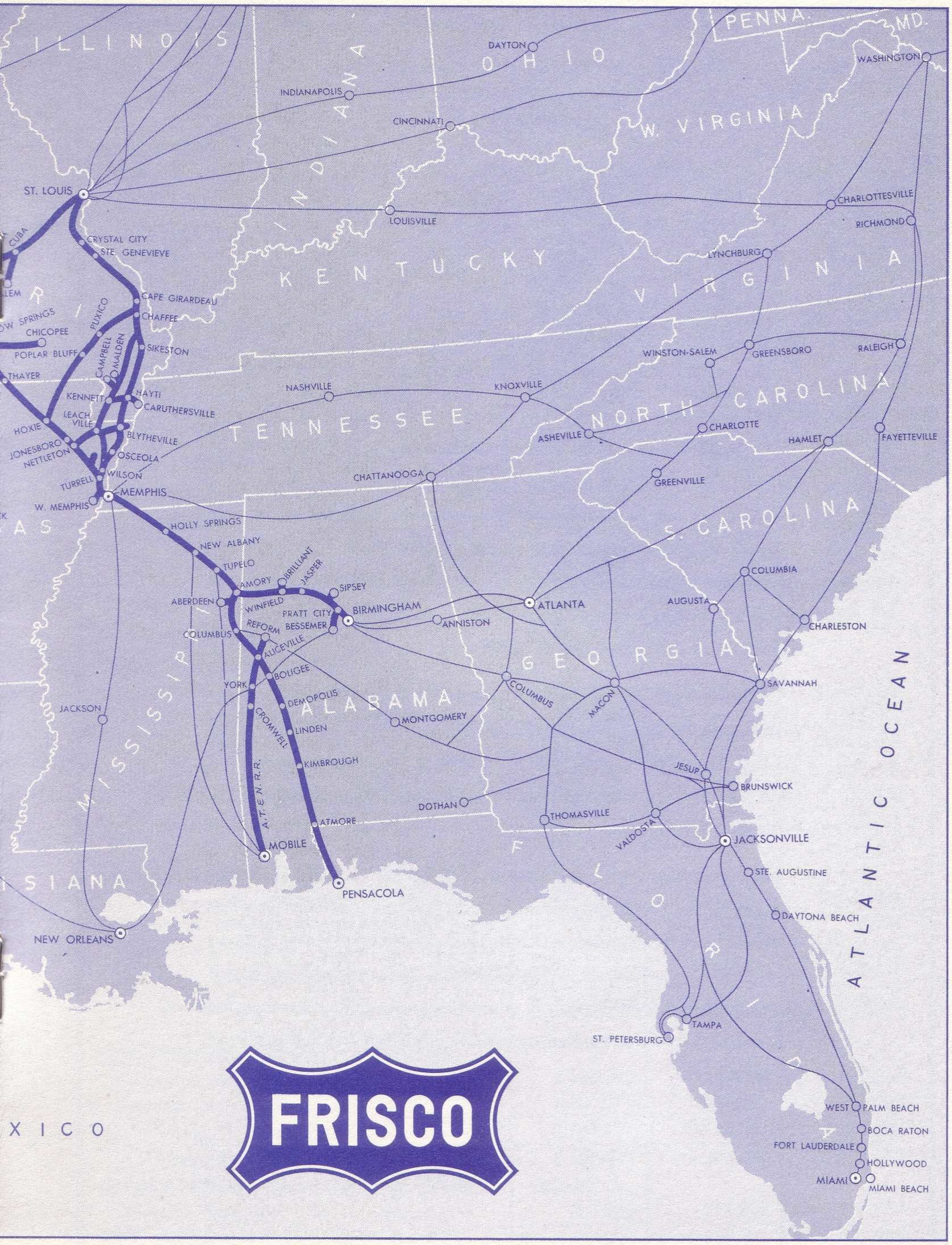
GALVESTON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WASHINGTON
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CUBA
LYNCHBURG
CAPE GIRARDEAU
CHAFFEE
PUXICO
CHICOPEE
POPLAR BLUFF
CAMPBELL
MALDEN
SIKESTON
THAYER
WINSTON-SALEM
GREENSBORO
RALEIGH
NASHVILLE
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HAYTI
CARUTHERSVILLE
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MEMPHIS
ASHEVILLE
CHARLOTTE
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GREENVILLE
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NEW ALBANY
TUPELO
AMORY
BRILLIANT
JASPER
SIPSEY
ABERDEEN
WINFIELD
PRATT CITY
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JACKSON
A. T. & N. R.R.
KIMBROUGH
JESUP
BRUNSWICK
DOTHAN
THOMASVILLE
VALDOSTA
ATMORE
JACKSONVILLE
MOBILE
PENSACOLA
STE. AUGUSTINE
DAYTONA BEACH
NEW ORLEANS
TAMPA
ST. PETERSBURG
WEST PALM BEACH
BOCA RATON
FORT LAUDERDALE
HOLLYWOOD
MIAMI
MIAMI BEACH
FRISCO

PRICE WATERHOUSE & CO.
14 SOUTH FOURTH STREET
ST. LOUIS 2

March 2, 1962

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

We have examined the balance sheet of St. Louis-San Francisco Railway Company and railroad subsidiaries consolidated at December 31, 1961 and the statements of income and retained income for the year. Our examination 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.

The company is required to maintain its accounts in conformity with principles and methods of accounting prescribed or authorized by the Interstate Commerce Commission, which principles and methods differ from generally accepted accounting principles as set forth in Notes 2 and 3.

In our opinion, with the exceptions referred to in the preceding paragraph, the accompanying statements present fairly the financial position of St. Louis-San Francisco Railway Company and railroad subsidiaries consolidated at December 31, 1961 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

CONSOLIDATED INCOME STATEMENT

	1961	1960	5 YEAR AVERAGE 1956 — 1960
OPERATING REVENUES:			
Freight	$114,492,436	$118,121,179	$118,707,427
Passenger	2,088,446	2,226,815	3,350,202
Mail	3,791,229	3,637,539	3,792,818
Express	1,293,616	1,449,025	1,396,195
Switching	3,072,044	3,437,111	2,959,232
All other	1,501,716	1,755,714	1,545,813
Total Operating Revenues	126,239,487	130,627,383	131,751,687
OPERATING EXPENSES:			
Maintenance of way & structures	14,768,030	17,293,701	16,884,159
Depreciation of way & structures	2,132,791	2,011,516	1,994,473
Maintenance of equipment	11,612,253	12,428,764	13,517,068
Depreciation of equipment	7,392,343	7,340,404	7,183,911
Traffic	4,860,318	5,038,847	5,180,373
Transportation	49,889,378	50,857,754	51,296,860
Miscellaneous operations	334,105	351,429	505,580
General	7,279,902	7,177,355	6,946,045
Total Operating Expenses	98,269,120	102,499,770	103,508,469
Net Operating Revenue	27,970,367	28,127,613	28,243,218
OPERATING CHARGES:			
Railway tax accruals (except Fed. Inc.)	10,023,440	10,360,116	9,743,789
Net rent for equip. & joint facilities	4,937,865	4,895,561	3,777,547
Total Operating Charges*	14,961,305	15,255,677	13,521,336
Net Railway Operating Income*	13,009,062	12,871,936	14,721,882
OTHER INCOME LESS DEDUCTIONS:	848,732	1,778,786	1,403,069
Balance for Fixed Charges*	13,857,794	14,650,722	16,124,951
FIXED CHARGES:			
Interest on long term debt	5,752,132	5,740,679	5,602,943
Amort. of discount on long term debt	105,062	110,089	116,297
Other fixed charges	28,960	29,233	29,406
Total Fixed Charges	5,886,154	5,880,001	5,748,646
Balance*	7,971,640	8,770,721	10,376,305
CONTINGENT INTEREST CHARGES:			
Second mortgage bonds	1,190,322	1,190,322	1,197,954
Income debentures	1,590,075	1,582,975	1,615,498
Total	2,780,397	2,773,297	2,813,452
Balance*	5,191,243	5,997,424	7,562,853
ESTIMATED FEDERAL INCOME TAXES:			
(Note 2, Page 16)	503,000	**213,000**	931,059
NET INCOME	$ 4,688,243	$ 6,210,424	$ 6,631,794

***Before Federal income taxes.** **Bold face type denotes credit.**

CONSOLIDATED BALANCE SHEET

	DEC. 31, 1961	DEC. 31, 1960
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,073,144	$ 3,259,531
Temporary cash investments	7,932,306	8,110,895
Cash deposits for interest, dividends, etc.	2,283,213	2,279,405
Receivables from U. S. Government, individuals, agents and companies	10,871,720	10,712,778
Material and supplies, at average cost	7,257,537	5,832,722
Other current assets	543,986	270,268
Total Current Assets	30,961,906	30,465,599
SPECIAL DEPOSITS	1,065,738	1,269,684
INVESTMENTS (Page 18):		
Securities of and advances to subsidiaries and affiliates	8,042,118	7,977,594
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	26,293	33,923
Total Investments	30,705,716	30,648,822
PROPERTIES (Note 4, Page 17):		
Roadway and structures excluding donations and grants	308,950,947	305,678,415
Equipment	185,609,047	187,913,566
Non-operating property	2,879,467	2,748,917
Accrued depreciation — road	**32,550,541**	**31,164,114**
Accrued depreciation — equipment	**94,926,369**	**91,838,858**
Accrued depreciation — non-operating property	**174,604**	**100,347**
Acquisition adjustment, being principally the excess of the stated value of assets acquired over liabilities assumed upon reorganization	**49,717,885**	**49,738,350**
Total Properties	320,070,062	323,499,229
OTHER ASSETS:		
Estimated salvage recoverable from retired property	357,714	906,283
Discount on long term debt	2,661,350	2,748,712
Miscellaneous	902,061	948,528
Total Other Assets	3,921,125	4,603,523
Total Assets	$386,724,547	$390,486,857

Bold face type denotes credit.

CONSOLIDATED BALANCE SHEET

	DEC. 31, 1961	DEC. 31, 1960
LIABILITIES		
CURRENT LIABILITIES:		
Audited accounts and wages payable	$ 2,420,574	$ 2,875,819
Accrued and miscellaneous accounts payable	9,567,222	8,640,258*
Interest and dividends payable	5,089,153	5,081,535
Estimated federal taxes on income (Note 5, Page 17)	702,588	619,302
Other accrued taxes	2,538,356	2,583,702
Other current liabilities	2,125,985	2,034,810
Total Current Liabilities (excluding current portion of long term debt)	22,443,878	21,835,426*
LONG TERM DEBT (Page 19):		
First Mortgage Bonds, 4% Series A — 1997	68,639,200	68,639,200
First Mortgage Bonds, 4% Series B — 1980	18,005,000	18,255,000
Second Mortgage Income Bonds, 4½% — 2022	26,451,600	26,451,600
Income Debentures, 5% Series A — 2006	31,801,500	31,801,500
Equipment obligations	54,486,144	59,726,697
Total Long Term Debt ($8,242,639 payable in 1962)	199,383,444	204,873,997
OTHER LIABILITIES:		
Estimated casualty and other reserves	561,030	634,391
Miscellaneous, including deferred credits	593,263	572,995
Total Other Liabilities	1,154,293	1,207,386*
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6, 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 1,837,986 shares, less 50 shares in treasury in 1961 and 1,837,186 shares, less 50 shares in treasury in 1960	81,387,719	81,373,419
CAPITAL SURPLUS ($15,393 added in 1961)	537,868	522,475
RETAINED INCOME (Page 16)	53,346,345	52,203,154
Total Shareholders' Equity	163,742,932	162,570,048
Total Liabilities and Shareholders' Equity	$386,724,547	$390,486,857

***Restated for comparative purposes.**

CONSOLIDATED RETAINED INCOME STATEMENT

Balance December 31, 1960	$52,203,154
Add:	
Net income for the year	4,688,243
	56,891,397
Deduct:	
Dividend on Preferred Stock — $5.00 per share	1,423,550
Dividend on Common Stock — $1.00 per share	1,837,361
Miscellaneous debits — Net	284,141
	3,545,052
Balance December 31, 1961	$53,346,345

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION: 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.

2. AMORTIZATION AND ACCELERATED DEPRECIATION: 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
1960	$4,787,000	$ 909,000	$2,961,000
1961	$2,870,000	$1,012,000	$2,019,000
Cumulative reduction to December 31, 1961			$27,173,000

This reduction in the tax provision may be temporary since depreciation subsequently recorded in the accounts for property amortized will not be deductible for federal income tax purposes. Interstate Commerce Commission regulations do not permit railroads to record in the accounts a provision for the possible effect on income taxes in future years as is commonly done under generally accepted accounting principles.

3. PENSION PLAN: The Company for some time had a noncontributory "pay as you go" pension plan for officers and supervisory employees. Effective July 1, 1960 the plan was amended to provide for deposits into a trust fund. Payments into the trust fund for the year 1961 amounted to $536,000 consisting of the current service cost of $298,000 which was charged to operating expenses

and a minimum payment of $238,000 on the past service liability which was charged to retained income in accordance with regulations of the Interstate Commerce Commission. Under generally accepted accounting principles the latter charge would be against current income. Payments into the trust fund for the six months ended December 31, 1960 amounted to $135,000 for current service and $123,000 for past service.

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.

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

Depreciation on depreciable road properties has been provided at prescribed rates since January 1, 1943. 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. In accordance with Interstate Commerce Commission accounting regulations, rails, ties, and other track materials are not depreciable property.

The railroads follow an acceptable alternate accounting practice of "replacement" accounting for rails, ties, and other track materials instead of depreciation accounting. Under this method, costs of replacements are charged to expenses except for costs of betterments which are capitalized. The amounts capitalized are not depreciated.

At December 31, 1961 nondepreciable property, including land and land rights, aggregated approximately $205,800,000.

5. FEDERAL INCOME TAXES: 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.

6. CAPITAL STOCK: 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, 1961 there were 1,330,052 shares of authorized common stock reserved as follows:

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

(b) 666,940 shares for conversion of second mortgage income bonds at rate of 25 shares for each $1,000 of bonds.

(c) 89,040 shares for issuance under a restricted stock option plan authorized in 1952 for certain officers and key employees. During 1961 options were granted to purchase 86,250 shares at $17.875 per share (fair market value at date of grants). Options on 800 shares were exercised in 1961.

7. CONTINGENT LIABILITIES: 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	16⅔	25,000	25,000
Illinois Terminal Railroad Co.	181.818	9.09	1,818	1,818
*Kansas City Terminal Ry. Co.	1,833⅓	8⅓	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	6¼	205,800	1
Trailer Train Co.	500	2.70	500	50,000
*Tulsa Union Depot Co.	1,000	100	No Par	1,000
*Union Terminal Co., The—Dallas	60	12½	6,000	6,000
*Wichita Union Terminal Ry. Co.	333⅓	33⅓	33,333	12,502
				$ 1,837,272
Notes:				
Clarkland, Inc.	....	....	....	$ 1,696,960
906 Olive Corporation	....	....	....	275,000
Frisco Transportation Co.	....	....	....	158,209
Railway Express Agency, Inc	....	....	....	404,817
				$ 2,534,986
Investment Advances:				
Birmingham Terminal Co.	....	....	....	$ 308,823
Clarkland, Inc.	....	....	....	1,217,597
Kansas City Terminal Ry. Co.	....	....	....	718,987
Frisco Transportation Co.	....	....	....	386,000
Union Terminal Co., The—Dallas	....	....	....	223,087
Wichita Union Terminal Ry. Co.	....	....	....	759,713
Working Funds — Various Cos.	....	....	....	55,653
				$ 3,669,860
Total investments in affiliated companies	....	....	....	$ 8,042,118
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	....	....	....	22,065
Total other investments	....	....	....	$22,663,598

*Pledged under mortgages.

LONG TERM DEBT

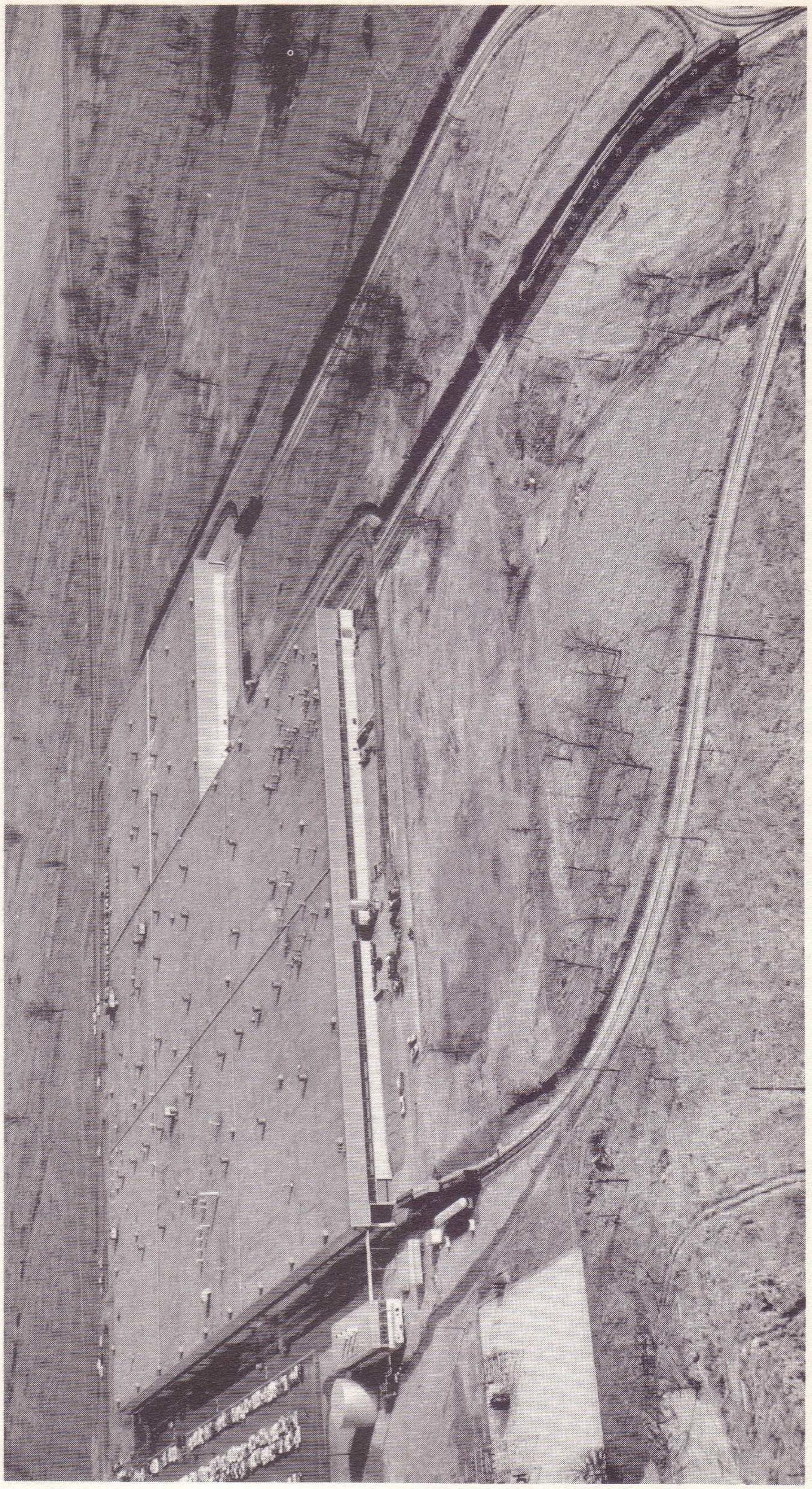
	DATE OF MATURITY	OUTSTANDING DEC. 31, 1961	1962 MATURITIES	INTEREST EXPENSE FOR 1961
FUNDED DEBT UNMATURED—				
First Mortgage Series A 4%	Jan. 1997	$ 68,639,200†	*	$ 2,745,568
First Mortgage Series B 4%	Sep. 1980	18,005,000†	*	725,467
Second Mortgage Income Series A 4½%	Jan. 2022	26,451,600†	*	1,190,322
Income Debentures Series A 5%	Jan. 2006	31,801,500†	*	1,590,075
		$144,897,300		$ 6,251,432
EQUIPMENT OBLIGATIONS—	Serially to			
Trust Certificates:				
Series A 2¾%	Jan. 1963	$ 1,104,000	$ 552,000	$ 30,992
Series B 2⅝%	Aug. 1963	740,000	370,000	25,494
Series C 2½%	Nov. 1963	568,000	284,000	20,117
Series D 2½%	Mar. 1964	852,000	284,000	22,779
Series E 2¼%	Dec. 1964	816,000	272,000	23,970
Series F 2¼%	May 1965	600,000	150,000	14,625
Series G 2⅜%	Aug. 1965	988,000	247,000	26,886
Series H 2⅜%	Dec. 1965	1,492,000	373,000	43,555
Series I 2⅞%	Aug. 1966	1,695,000	339,000	54,415
Series J 3⅛%	Dec. 1966	1,575,000	315,000	58,652
Series K 2⅞%	Dec. 1967	1,122,000	187,000	37,186
Series L 3⅜%	Jun. 1968	2,415,000	345,000	86,356
Series M 3%	Jan. 1969	3,500,000	500,000	120,000
Conditional Sale Agreements:				
Dated Dec. 1, 1955, No. 1, 3½%	Dec. 1970	10,553,400	1,172,600	396,730
Dated Apr. 1, 1956, No. 2, 3½%	May 1971	665,000	70,000	24,704
Dated Sep. 1, 1956, Nos. 3 & 4, 4¼%	Sep. 1971	1,551,724	155,172	68,696
Dated Sep. 1, 1956, No. 5, 4¼%	Jun. 1972	1,382,462	133,333	62,859
Dated Jan. 1, 1957, Nos. 6, 7, 8, 9, 5%	Jul. 1972	11,662,001	1,110,667	624,750
Dated Dec. 15, 1958, No. 10, 4¾%	Feb. 1974	770,833	61,667	37,672
Dated Dec. 1, 1959, No. 11, 5⅝%	Feb. 1975	922,050	68,300	53,146
Dated Mar. 1, 1960, No. 12, 5¾%	Mar. 1975	4,320,000	320,000	256,067
Dated Aug. 1, 1960, No. 13, 5¼%	Aug. 1975	2,905,041	208,000	156,137
Dated May 1, 1961, No. 14, 4¾%	Jun. 1976	1,679,133	117,400	35,309
Purchase Agreement:				
General Electric Co.		607,500	607,500	—
		$ 54,486,144	$ 8,242,639	$ 2,281,097

*Subject to sinking fund provisions under mortgage indentures.

First Mortgage Series A	$ 322,654
First Mortgage Series B	195,000
Second Mortgage Income Series A	133,388
Income Debentures Series A	165,645

†Excludes bonds held in treasury as follows:

First Mortgage Series A	$ 851,000
First Mortgage Series B	321,000
Second Mortgage Income Series A	226,000
Income Debentures Series A	101,000



Aerial view of new Borg-Warner plant (Norge Division) opened at Fort Smith, Arkansas, in February 1962.

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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.

Write to:

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