CANADIAN WESTERN LUMBER CRITICIZED

Affiliated Companies Guarantee System — Analysis of Finances and Profits

A financial scheme for an arrangement between the Canadian Western Lumber Company and the Columbia River Lumber Company has been carried by the debenture holders. Much criticism and comment was heard regarding this in London and the London Financial Times said: The Canadian Western Lumber Company, with a share capital of $15,500,000, was brought out in 1910, and the Columbia River Lumber Company, which was a subsidiary, and has a share capital of $5,500,000, in the following year. All the share capital has been issued in both cases the Canadian Western holding the whole of that of the Columbia River. A further associated concern is the Columbia Western Lumber Yards, which has a share capital of $5,000,000, and acts as the retail organization of the other two ventures, which own all the $2,500,000 ordinary capital. The public in London were offered $2,500,000 preference shares, on which the Canadian Western and the Columbia River jointly and severally guarantee a minimum dividend of 6½ per cent. per annum. The Canadian Western placed £1,500,000 five per cent. first mortgage debenture stock here at 88 in 1910, and the Columbia River £600,000 five per cent. first mortgage debenture stock at 89 in 1911; the latter is guaranteed by the Canadian Western. Thus we have a somewhat complicated guarantee system, which is really of little value unless all the companies are doing well, for each is so dependent on one or both of the others that if they fail to prosper they bring their associated concerns down with them.

Prospectus and Profits.

Neither the Canadian Western nor the Columbia River has earned anything approaching prospectus estimates, save in one year in the case of the former. The Canadian Western relied on a gross profit of about $1,010,000 and the Columbia River on a gross profit of about $480,000 per annum. What has actually been accomplished the following table shows:—

Year.	Gross profit. Canadian Western.	Gross profit. Columbia River.	Carry forward. Canadian Western.	Carry forward. Columbia River.
1910	$ *360,100	....	$ 11,100	....
1911	877,900	$*247,700	183,400	$128,800
1912	1,336,500	337,900	488,900	260,500
1913	985,000	297,700	13,300	354,900

*For nine months.

No Stock Dividends.

Up to last year debenture service was covered, but no dividends were paid on the preferred and ordinary shares, the carry forward in the case of each company representing the accumulated net profit. The close family connection between the various concerns seems to have had a rather demoralizing effect on the accounts, and it is a little difficult to know how the separate undertakings stand. Thus, though the net profit of the Columbia River is supposed each year to be transferred to the Canadian Western, the balance sheet shows that it is apparently still retained by the former concern. Nevertheless, the Canadian Western also takes credit for it in its own accounts.

Now the companies find themselves badly in need of funds, notwithstanding that the statements in the last annual reports, which were issued as recently as March, were of a very optimistic character.

Independent Report Suggested.

Yet financial difficulties must be acute or there would not even be a superficial justification for the drastic proposals put forward. Not only are the debenture holders of the Canadian Western and the Columbia River asked to accept payment of the October coupon in the one case and the December coupon in the other half in cash and half in two-year deferred warrants, but they are invited to surrender their first charge principal in exchange for new five per cent. debenture stock in the Canadian Western, only 50 per cent. of which will be so secured, the other 50 per cent. being merely income stock. That the holders are offered as a sop $225 in ordinary shares in respect of each £100 of debenture stock does not make the scheme any the more inviting. The interest on the income stock, as its name implies, will, though cumulative, be dependent annually on profits, and so, too, will that of the first debenture stock for the next two years.

The Columbia River debenture stockholders will lose the separate guarantee by the Canadian Western they now possess, and the status of the whole of the new debenture stocks wants defining in relation to the guarantee given by the two companies in respect of the Columbia Western Lumber Yards preference capital. Since the original debenture issues the total of the Canadian Western has been raised to £2,000,000 and that of the Columbia River to £1,000,000, partly in order to cover floating indebtedness. Allowing for redemptions the aggregate of the two concerns now outstanding is £2,768,600. The amount of floating loans as at July 31st was $3,733,400. The commercial position of the undertakings is by no means clear and the debenture holders are practically asked to go into the scheme in the dark. The Financial Times final comment was that there certainly should be an independent report on the businesses before anything further is done, and we advise those who are interested in the companies to strongly oppose the arrangement now suggested.

CANADA TO SUPPLY SOME CAPITAL

Supply of Thirty Millions Per Month Cut Off, Increased Production Necessary

Great Britain has financed her own national debt, and also her own public utilities, and then loaned thousands of millions all over the world. On the other hand Canada has had to borrow practically all its national, provincial and municipal debts from England, while the mortgage funds and other moneys came from the same source, was the summing up of Mr. J. W. Flavelle before the Canada Club at Montreal. Last year she had to pay 27,000,000 pounds sterling in interest alone, and probably this year, between the balance of trade and interest there would be $300,000,000 going out of the country. It was the duty of the banks to so conserve matters that confidence in Canadian finances would remain unshaken, and then she would be able to discharge her obligations.

There was a disposition to criticize the banks, and Mr. Flavelle admitted that at times they seemed unreasonable, but on the whole he thought they had honorably performed a great service to the country.

Borrowing Thirty Millions Monthly.

There was an impression that the banks had plenty of money and only refused loans on good security from a desire to be nasty. But the banks had not only to examine the soundness of the security, but also to assure themselves of the regularity of repayment when they took money from general use and loaned it for individual use. He argued that the chief anxiety this year would not be commercial but financial. We had to face the problem of living on what we had unless we could re-establish borrowings. At the moment practically no money was thus coming into Canada, where for years past it had been coming in at the rate of $30,000,000 a month, and if this cessation continued it would mean very anxious times for bankers as well as merchants and manufacturers.

Apply the Remedy.

"In the past we have come by our money easily; we have prospered with a minimum of effort other than energy. If some have lost let us pay up without whining. There is grave danger of a mean spirit getting abroad, and that we shall think of our inconvenience and trouble. Instead of blaming ourselves we are too apt to blame the banks, the government, or someone else. It is hard to see your savings go, but the world will go on just the same, and the discipline may be good for the country in the long run, and we must not show ourselves poor losers. We must play the part of men, confronted as we are with conditions which are not temporary. There is a period of readjustment ahead that will tax all our best qualities for a year or more to come. Instead of scolding we must apply the remedy, and that is produce more and spend less."