

ALGOMA'S PRESIDENT EXPLAINS FINANCING

Corporation is Looking Toward Canada's Further Development

How is it that the Lake Superior Corporation is not going to be made to pay up? That is a very natural question in the circumstances, and the committee has examined the position from two points of view, Mr. J. F. Taylor, president of the Algoma Steel Corporation, Limited, told the bond and note holders of the company at a meeting in London, cabled reports of which have already appeared in *The Monetary Times*. First of all, we have had regard to the earnings of the Lake Superior Corporation; and, secondly, to the free assets available. Now, I think you will agree with me when I say that the Lake Superior Corporation in its position of guarantor is practically in a new position, and for the same cause that we are in trouble with the Algoma Steel Corporation the Lake Superior Corporation has not had the necessary time nor opportunity out of dividends received to create the necessary reserves in respect of its guarantees. As a matter of fact, at June 30th, 1913, the income of the corporation amounted to something over \$800,000, whereas this year at June 30th last it was cut in half. So far as free assets are concerned, the Lake Superior Corporation has a certain amount of free assets, the principal among which are the preferred and common stocks of the Algoma Steel Corporation. Now, the question has been put to us, Why not give the bond and note holders a share in these stocks—give them a bonus out of those stocks? The Lake Superior Corporation directors have not been callous in the matter, and have thought out the position very seriously, particularly with a view to the future. They have thought it out in relation to their existing guarantees and their other obligations, and could not conscientiously see their way to give up part of those stocks at all. It is perfectly true that if the bondholders or the trustees like to sue the Lake Superior Corporation in respect of its guarantees judgment would in all probability be given against the Lake Superior Corporation, but what would be the effect of that judgment?

Gained Control of Corporation.

The corporation, as we have seen, has limited assets at the present moment, and the net result would be to bring their first mortgage bondholders on the scene, and they, keep in mind, hold \$5,800,000 of the purchase money bonds of the Algoma Steel Corporation, so that our complications might be serious. It was with a view to avoiding such, and also with a view to avoiding exacting conditions, that the present scheme has been put forward and a voting trust adopted. You may be inclined to think, so far as the voting trust is concerned, that you have gained nothing at all. It is perfectly true that the committee acting for the bondholders and noteholders—the committee that will act as trustees—have not gained anything by way of assets; but they have gained something, they have gained control of the Algoma Steel Corporation, and will prevent the Algoma Steel Corporation, in effect, from parting with any of its cash resources.

Now for the scheme itself. As I have said, we have done our best, in the light of all circumstances, to present as fair and as reasonable propositions as it was possible. Some criticism has been levelled at us because we have made proposals which apparently seem to favor the noteholders. In the first place, a matter of £15,000 of bonds has been added to the noteholders' security. This is a small matter, so I will pass it over. But the main point that has been attacked is that we propose to give the noteholders at maturity 105.

Position of Noteholders.

I just want to say a few words about the position of the noteholders. We received something like £500,000 at the beginning of this year; they have received one payment of interest, and out of three years will receive in cash two payments altogether. In addition they hold first and refunding bonds of the Steel Corporation at 66, so that, generally speaking, they are in a stronger position, but have been somewhat less fortunately treated than the first and refunding bondholders in the matter of interest. Hence it was a case for a bargain, and we are free to admit that we have made the best bargain in the circumstances. The cash position of the Algoma Steel Corporation involves my going over the transactions of the past year. Before dealing with the accounts of the Steel Corporation and seeing its position, you will be glad to know that the auditors of the company—a

first-class firm, Messrs. Barrow Wade Guthrie and Company, say, with reference to the accounts, that there has been improvement all round, which applies to the more important matter of the conservative allocation of expenditures as between expense and property accounts. There is evidence, they say, of anticipation and provision for extraordinary items of expense, which in prior years have only been taken care of when payment for such has been made. With that preface as to the accuracy and standing of the accounts, I would like to take you over the transactions for last year, the difference between the balance sheet figures at June 30th last and June 30th of the previous year practically representing the figures which I am going to quote to you now.

Cash Position Shown.

I find that in respect of cash we had reduced trust funds by \$63,000 throughout the year, investments \$230,000, materials \$1,800,000, and cash \$600,000. These reductions, in effect, represent cash released for the purposes of the business; but in addition, from the proceeds of the sales of the notes we have practically had \$2,500,000, making altogether about \$5,000,000 put into the business in one way or another. Now, the question which naturally arises is: What has been done with that \$5,000,000? I find that our products represent an increased value of \$260,000; that the Steel Corporation has lent to its subsidiary companies—the coal companies—\$200,000; that its property account has been increased by \$1,000,000, representing expenditure for its hydro-electric development, on its open-hearth furnaces, etc.; that the accounts receivable have increased by nearly \$1,000,000, and that the bank and other loans have been reduced by over \$2,500,000. Why does the Steel Corporation find itself in such a position that it has to ask at this time that its interests be funded? That is explained, said Mr. Taylor, by the fact that at June 30th we had over \$1,000,000 locked up in accounts receivable, and that instead of having about \$600,000 in hard cash, as we had at June 30th of the previous year, we had only \$50,000, and we are suddenly faced with a situation that is unequalled, and the net result is that, as between our cash position and seriously reduced earnings, we have had to conserve and to be wise for the future.

Reduced Pay-Roll.

Mr. Taylor pointed out the capacity of the Steel Corporation had been doubled. Referring to operations, he said the reduced pay-roll was practically \$100,000 per month. No less than 700,000 tons of ore were imported in six months, because during the other six months our ports are icebound. We import a similar quantity of coal, and provision has to be made to currently finance all this. Hitherto we have depended very largely on temporary loans, and the situation at June 30th, 1913, in that respect was not a very comfortable one; hence our making the large reduction in our loans. In concluding, the president remarked: I have always said that in Canada, in the West, the prairies have not been opened up by the farmers, but by the railway companies, and following the railway companies has come the Algoma Steel Corporation, which has supplied the preponderance of rails hitherto, and will probably continue to do so, so that everything points to a safe situation when normal conditions are resumed.

NEW TORONTO SECURITY FIRM

A new security company has been established in Toronto under the name of Messrs. Fletcher, Macfarlane and Company, with offices in the new Royal Bank Building. The personnel of the company is as follows: Messrs. Grant Fletcher, Stuart Macfarlane, and W. E. Morgan Dean.

Contraband and neutrality do not seem to be on speaking terms.

The Montreal section of the Life Underwriters' Association met on Thursday, when the speaker was Mr. J. F. Weston, of Toronto, managing director of the Imperial Life Assurance Company of Canada.

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