ANNUAL REPORT

1962

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

Term expires 1963

THOMAS E. DEACY, JR.	*Kansas City, Mo.*
BRUCE 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.*
GALE F. JOHNSTON	*St. Louis, Mo.*
RICHARD J. LOCKWOOD	*St. Louis, Mo.*
WM. A. McDONNELL	*St. Louis, Mo.*

Term expires 1965

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.*

EXECUTIVE COMMITTEE

LESTER E. COX — B. B. CULVER, JR. — RICHARD J. LOCKWOOD
WM. A. McDONNELL — L. W. MENK — JUDSON S. SAYRE
C. P. WHITEHEAD

OFFICERS

WM. A. McDONNELL	*Chairman of the Board*	St. Louis, Mo.
L. W. MENK	*President*	St. Louis, Mo.
W. R. ALLEN	*Vice President & General Manager*	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.
H. B. PARKER	*Controller*	St. Louis, Mo.
J. K. BESHEARS	*Vice President-Personnel*	St. Louis, Mo.
H. L. GASTLER	*Vice President-Staff*	St. Louis, Mo.
G. M. RAYBURN	*Secretary and Treasurer*	St. Louis, Mo.
F. L. COULTER	*Vice President-Fiscal*	New York, N.Y.
H. H. KNUTH	*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

	1962	1961
Operating revenues	\$129,028,096	\$126,239,487
Operating expenses	\$101,222,627	\$ 98,269,120
Ratio of expenses to revenues	78.45	77.84
Taxes	\$ 8,816,817	\$ 10,426,611
Taxes per share of common stock	\$ 4.79	\$ 5.67
Income available for fixed charges	\$ 14,508,401	\$ 13,354,794
Fixed charges	\$ 5,721,822	\$ 5,886,154
Times fixed charges earned	2.54	2.27
Contingent interest	\$ 2,735,572	\$ 2,780,397
Income before dividends	\$ 6,051,007	\$ 4,688,243
Preferred dividends — \$5 per share	\$ 1,423,550	\$ 1,423,550
Earnings per common share	\$ 2.51	\$ 1.78
Dividends per common share	\$ 1.00	\$ 1.00
Freight revenue	\$117,452,961	\$114,492,436
Tons — revenue freight	28,754,406	28,371,082
Ton miles — revenue freight (thousands)	9,254,473	9,017,920
Avg. revenue per ton mile — revenue freight	1.269¢	1.270¢
Gross ton miles (thousands)	20,296,247	19,917,083
Train miles — freight	7,590,051	7,469,891
Gross ton miles per train mile	2,674	2,666
Average miles hauled — revenue freight	321.85	317.86
Gross ton miles per train hour	59,070	57,559
Passenger revenue	\$ 2,047,385	\$ 2,088,446
Passengers carried	280,628	301,977
Passenger miles	73,007,979	77,629,580
Average revenue per passenger mile	2.804¢	2.690¢
Average distance carried	260.16	257.07
Train miles — passenger	2,294,806	2,279,901
Average number of employes	9,292	9,550
Miles of road operated	5,020	5,021

St. Louis-San Francisco Railway Company
REPORT FOR 1962

To the Stockholders:

There is submitted herewith a report of operations of your Company for the year ended December 31, 1962.

NET INCOME

Net income of $6,051,007, before sinking funds, is equivalent to $2.51 per share of Common Stock versus $4,688,243, or $1.78 per share in 1961.

Contributing to the improvement in earnings were higher revenues, an increase in other income, and substantial tax savings resulting from amortization and the new depreciation guidelines issued by the U. S. Treasury Department in July. These tax savings are discussed fully on the next page.

The yield on invested capital in 1962 was 3.42%.

OPERATING REVENUES

Operating revenues in 1962 were $129,028,096, up $2,788,609, or 2.2%, from the level of the previous year, as the national economy recovered in the first quarter but thereafter moved mostly in a sidewise direction.

Freight revenue totaled $117,452,961 versus $114,492,436 in 1961 despite a disappointing wheat crop resulting from a reduction in the acreage planted as well as by unfavorable weather just before harvest. Revenue from the movement of wheat was off some $2,200,000 from the level of the preceding year. An increase in the volume of new automobiles moved on multi-level railway cars and a further rise in piggyback traffic made encouraging contributions to freight revenue, as discussed in greater detail on pages 4 and 5. Traffic gains also were registered in the movement of iron and steel, coal and coke, and forest products; declines were noted in the volume of flour and mill products, sand and stone, as well as cement, lime and plaster.

While freight revenue was up 2.6%, carloadings rose only slightly, from 748,637 in 1961 to 752,179 in 1962, but the average revenue per car increased from $152.93 to $156.15. The average load per car was up 2.1%, as the trend toward heavier loading under incentive rates continued to follow the rise in the carrying capacity of newer equipment.

Passenger revenue again was down, from $2,088,446 in 1961 to $2,047,385 in 1962, despite a 5% rise in coach fares which was effective throughout the entire year of 1962 but only in the last six months of the previous year. On November 15th, the 10% Federal tax on passenger fares was discontinued and on December 15th, Company interstate fares were further increased by a like percentage.

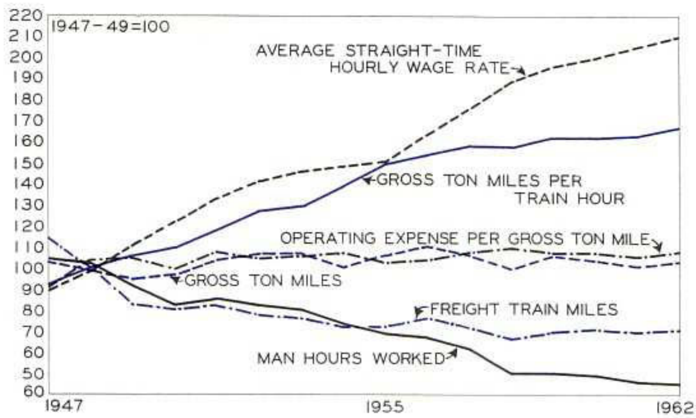
OPERATING EXPENSES

Affected by a greater volume of traffic and increased expenditures for maintenance, as well as higher wages, operating expenses of $101,222,627 were up 3.0% from the level of the previous year. Had they not been partially offset by increased efficiency, higher wages alone would have added $1,275,000 to payroll costs. In the face of such constantly rising costs, the Company continued its effort to maintain a firm control of expenses. Aside from the installation of newer and larger freight cars, less costly to maintain and offering better protection against expensive lading damage, the Company moved ahead with its studies of work methods and procedures. Nearing adoption in the coming year is a more centralized accounting system which will consolidate many of the record-keeping functions now performed at several locations. Other studies, aimed at discontinuing unprofitable services and operations, led to a Company application to the Interstate Commerce Commission for authority to abandon 105.8 miles of branch-line railroad running between Nash, Missouri, and Pocahontas, Arkansas.

RATIOS

Below is set forth a tabulation showing the number of cents spent from each revenue dollar for major items of operating expense in the years 1962 and 1961.

	1962	1961
Transportation............	39.06	39.58
Maintenance of Way......	14.04	13.41
Maintenance of Equipment.	15.04	15.11
Traffic Expenses...........	3.83	3.89
General Expenses..........	6.22	5.58
Incidental Expenses........	.26	.27
Operating Ratio......	78.45	77.84



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 17th and 25¢ on December 17th.

On February 15, 1963, 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 15th to holders of record March 1st.

TAXES

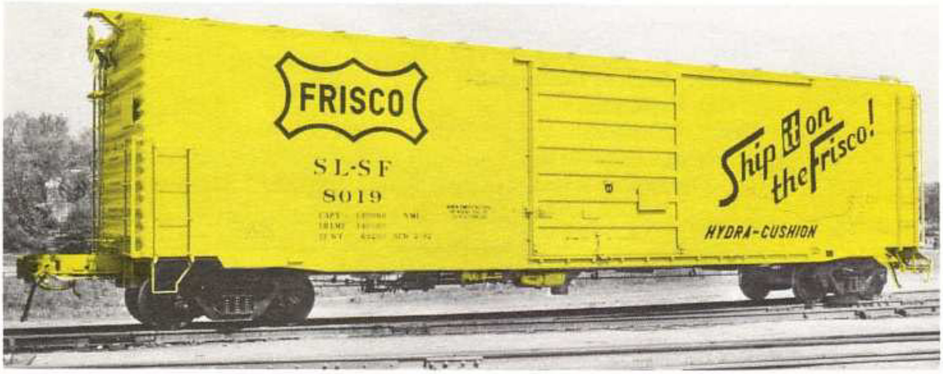
Estimated taxes in 1962 totaled $8,816,817 versus $10,426,611 in 1961.

Federal Income Tax accruals were reduced and net income increased in 1962 by $1,058,000 from amortization of defense facilities, and $1,763,000 from the new guideline depreciation rates. These amounts were equivalent to 57¢ and 96¢ per share of Common Stock, respectively. The comparable figure for 1961 was $1,492,000 from amortization, or the equivalent of 81¢ per share of Common Stock. Since 1951, these tax savings have accumulated to approximately $27,513,000.

Starting in 1963, amortization will no longer exceed the amount of normal depreciation recorded in the accounts and charged to operating expenses in accordance with accounting requirements of the Interstate Commerce Commission. It is not expected that the added tax benefit from guideline depreciation rates will fully offset the loss of credits from expiration of amortization.

In February, 1962, the Company received a $1,000,000 refund on its 1945 Federal Income Tax plus interest thereon of $487,795. In 1963, principally because of the new depreciation guidelines, the Company will file claims to recover Federal Income Taxes paid in the years 1959 to 1961, inclusive.

Payroll taxes in 1962, at a rate of 11¼% on employe earnings to a maximum of \$400.00 per month, were \$4,965,188, an increase of \$220,520 or 4.6% over 1961.



Insulated box car, with a capacity of 70 tons, and equipped with cushioned under frame to absorb shock.

USE OF FINANCIAL RESOURCES

In addition to meeting all of its current expenses, taxes, rents and fixed and contingent interest payments, the Company paid \$3,039,039 in cash from its treasury for capital improvements to roadway and structures. For equipment there was spent \$10,954,295, consisting of \$8,411,862 of serial maturities of equipment obligations paid and \$2,542,433 for additions and betterments to equipment. Current sinking funds of \$816,687 were satisfied primarily by the surrender of treasury securities. An additional \$816,426 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 1962 were \$3,262,786.

After these payments, the Company had a net working capital (excess of current assets over current liabilities) of \$7,430,651 at the end of the year. Year-end cash and temporary cash investments were \$11,099,626, or \$1,094,176 more than on December 31, 1961.

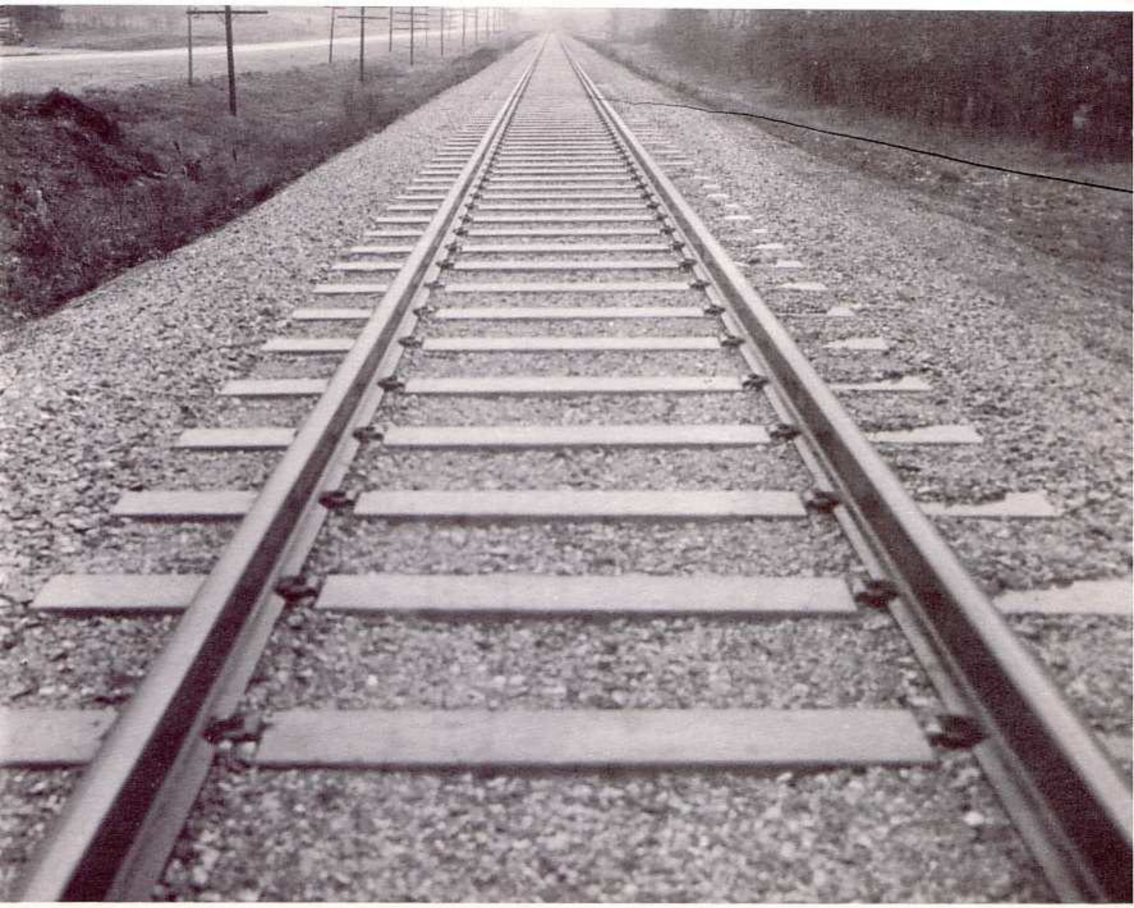
TRAFFIC PROMOTION

The year saw a continuation of the program to improve the Company's competitive position. Highlighting the effort was the collaboration of sales and service personnel in analyzing current marketing data, industrial trends and Frisco's relative position in the transportation picture. In tailoring its services to meet a changing economy, the Company is paying especial attention to the price and service aspects of transportation and moving ahead with its continuing re-appraisal of rates and schedules to attract additional traffic.

TRAILER ON FLAT CAR SERVICE (Piggyback)

For the eighth consecutive year, piggyback traffic continued its uninterrupted growth, with revenue climbing a sharp 32.5%, from \$1,568,675 in 1961 to \$2,079,284 in 1962.

The Company offers a complete door-to-door TOFC service, under which it furnishes highway trailers and railway cars, picks up freight at the shipper's door and unloads it at consignee's place of business. TOFC service also is offered under which (1) the customer furnishes highway trailers and drayage; (2) the customer furnishes railroad cars, highway trailers and drayage; (3) the railroad furnishes highway trailers while the



Test installation of concrete ties under continuous welded ribbon rail near Cabool, Missouri. Installation extends for one-half mile.

customer performs the drayage. In addition to offering a complete joint TOFC service with its wholly-owned motor subsidiary, the Frisco Transportation Company, your Company also offers a complete joint service, on one bill of lading, with three common motor carriers serving the states of Connecticut, Illinois, Indiana, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Texas and Wisconsin.

During the year, the Interstate Commerce Commission undertook a broad investigation of Trailer on Flat Car service in the United States, the outcome of which could have a direct bearing on the future growth of this class of traffic.

MULTI-LEVEL AUTO TRANSPORTS

Company revenue from the movement of new automobiles on multi-level railway cars reached the record level of \$5,521,543 as the automobile industry had its best year since 1955; in 1961, Company revenue from this class of traffic totaled \$3,929,099.

As the rail movement of highway vehicles grows, the Company continues to expand its automobile and truck carrying fleet. A new multi-purpose, fixed-deck freight car of dual construction with a cushioned underframe has been put into service for the movement of automotive trucks, agricultural implements, piggyback loads and containers. Eighty-nine feet in length, the car can be operated either as a flat car or equipped with a bi-level rack. See pictures on pages 6 and 7.

CENTRAL OF GEORGIA

On December 3, 1962 the Interstate Commerce Commission issued an order approving the Southern Railway's application to acquire control of the Central of Georgia Railway through the purchase of your Company's holdings of Central stock for $22,655,000. The Railway Labor Executives Association has filed a petition for reconsideration, and the Southern Railway has requested clarification of certain labor conditions imposed by the Commission. To date, the Commission has not acted upon these petitions.

Multi-purpose, fixed deck, freight car, 89′ in length, showing trucks loaded saddle-back, tilted and one atop the other. **(See photo page 7).**

To finance the purchase of the stock, the Southern has applied to the Commission for authority to issue and sell $23,000,000 of general mortgage 25-year bonds. A decision on this application is being awaited.

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 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 1962 or 1961.

LITIGATION

Three division cases are pending:

One involves the division of interline revenue on traffic between Eastern and Southern Territories. Hearings have been held and the case has been fully submitted to the Interstate Commerce Commission, 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 May 2, 1962, the Commission issued an order generally favorable to your Company in the division of interline revenue on traffic to and from Western Trunk Line Territory. An appeal from this decision is now pending in the United States District Court at Denver.

IMPROVEMENTS

During the year the Company spent a total of \$3,039,039 for capital improvements to roadway and structures. New 132-pound ribbon rail, in 1,404′ lengths, was laid on 45.55 miles of track, and 477,951 crossties were renewed.

As part of its roadway program in 1962, the Frisco made a test installation of concrete ties under continuous welded ribbon rail on both straight and curved high-speed main line track. The installation, near Cabool, Missouri, extends for a distance of one-half mile and will be kept under observation to appraise the relative merits of concrete versus timber ties (see picture on page 5).

Multi-purpose, fixed deck, freight car, 89′ in length, equipped with removable bi-level rack. (See photo page 6).

EQUIPMENT

To improve operations, reduce costs and modernize our services to shippers, the following types of new freight-carrying equipment were placed in service at a total cost of \$3,217,334: 150 insulated box cars, each with a capacity of 70 tons and equipped with cushioned underframes to absorb shock; 25 aluminum, center-flow hopper cars, each with a capacity of 100 tons and a volume of 4,000 cubic feet, and 20 high side hopper cars, each with a capacity of 70 tons and a volume of 5,400 cubic feet, for the movement of wood chips to paper mills. Also purchased were sixty-six 89′ cushioned underframe flat cars, two equipped with tie-down devices and the remainder equipped with bi-level racks for the movement of automobiles and small trucks; sixteen of these flat cars were put in service in 1962; the remainder are to be delivered in early 1963. With the exception of the aluminum, center-flow hopper cars, which were purchased for cash, all of the above-mentioned equipment was financed through Conditional Sale Agreements.

Total cash expenditures for additions and betterments to equipment were \$2,542,433.

Equipment obligations outstanding at year-end, including those due in one year, amounted to \$48,752,565, a decrease of \$5,733,579, representing serial maturities paid during the year of \$8,411,862, less additional obligations incurred of \$2,678,283.

Equipment debt installments due in 1963 will amount to \$7,813,831; equipment depreciation chargeable to operating expenses will approximate \$7,000,000.

INDUSTRIAL DEVELOPMENT

The year was one in which an aggressive plant development program continued to attract new industries to the lines of the Company. Aside from the traffic which these plants generate, their payrolls and taxes will benefit the communities in which they are located. During the year a total of 97 new plants began operations in the territory of the

Pear-shaped aluminum covered hopper car of high capacity for the movement of dry, bulk commodities.

Frisco and its subsidiaries. These involved a capital expenditure of more than \$16 million and created in the neighborhood of 1,700 new job opportunities. In the same period, 26 existing plants were expanded at a capital cost in excess of \$6.5 million; the enlarged plants are expected to provide additional employment for some 340 persons.

Many choice acres of plant sites are available for new or relocating industries.

LABOR

Non-operating employes were granted a wage increase of 10.28¢ per hour under an agreement made in 1962. The agreement further provides for a minimum of five working days' advance notice of job abolishments. The Train Dispatchers received a similar wage adjustment during the year.

Awaiting settlement are: (1) Notices received from the Telegraphers, the Clerks and the Shop Crafts for job security benefits; (2) A notice from the Yardmasters for a wage increase of \$30 per month, plus 8%, and health and welfare benefits for employes and dependents, and (3) A notice from the Brotherhood of Railroad Trainmen for a wage increase of 25¢ per hour, plus health and welfare benefits for employes and dependents, and a reduction in the number of hours constituting a basic month's work for dining car stewards.

Early in the year, a Commission appointed by the President of the United States 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 employes as well as in the method of computing pay. Failing to reach a settlement with the Operating employes on these recommendations, the carriers served notice of their intention to place into effect on August 16, 1962 their original 1959 proposals for changes in working rules. In the litigation which followed, a U. S. District Court and a Court of Appeals ruled in favor of the carriers. On March 4th the U. S. Supreme Court refused to review the decision of the Court of Appeals.

EMPLOYMENT AND WAGES

The average number of employes in 1962 was 9,292 and the total payroll $61,976,703. In 1961 the average number was 9,550 and the total payroll $62,083,078.

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 AWARD

For the ninth consecutive year, the National Safety Council's Public Safety Activities Award was conferred upon the Frisco in recognition of its efforts to prevent accidents at rail-highway crossings, and on railroad property as well as at home and off the job.

MANAGEMENT CHANGES

At a meeting of the Directors on October 5th, the undersigned was elected President of your Company, succeeding Clark Hungerford who, until his untimely death on October 18th, served the Frisco and the railroad industry with distinction and devotion. The Company, to which he made a lasting contribution, records his passing with profound sorrow and a sense of great loss.

A Director since 1953 and a prominent figure in the banking field, Wm. A. McDonnell was elected Chairman of the Board of Directors on November 9th. He brings to his new position a background of financial and business experience which will continue to serve the Frisco well on a full-time basis.

Effective December 1st, W. R. Allen, formerly General Manager at Springfield, Missouri, became Vice President and General Manager with headquarters at St. Louis, Missouri.

On July 1st, H. B. Parker, formerly Assistant Controller, became Controller succeeding C. E. Blair who retired after more than 49 years of conscientious railroad service.

Effective January 1, 1963, G. M. Rayburn, formerly Assistant Controller, was made Secretary and Treasurer, succeeding R. J. Stone who retired after more than 34 years of illustrious service to the Company and the railroad industry.

CHANGES IN THE DIRECTORATE

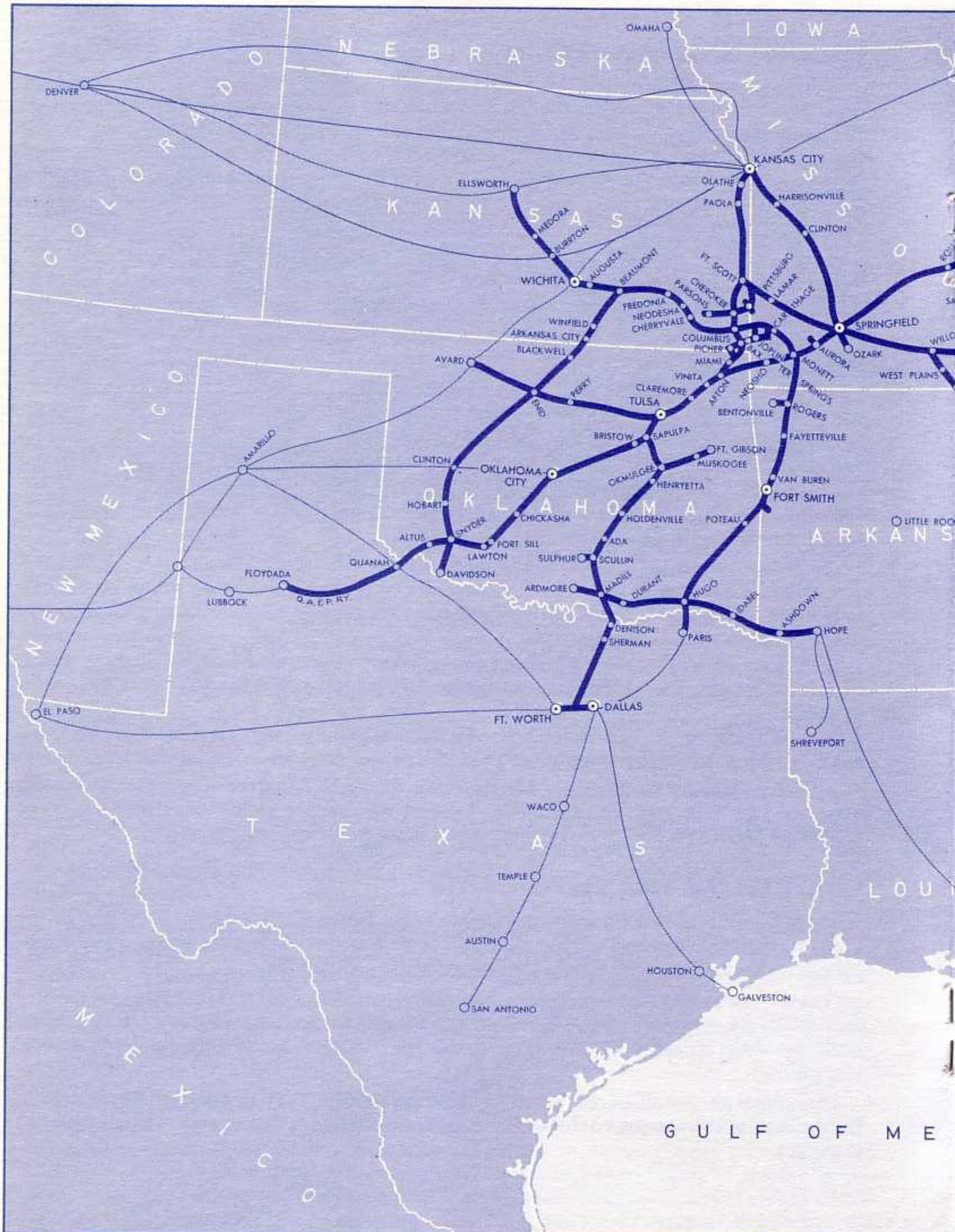
At a meeting of the Directors on October 5th, Bruce K. Goodman, President of the Library Plaza Corporation of Evanston, Illinois, was elected a Director of your Company to complete the term of the late Benedict K. Goodman.

On December 7th, at a meeting of the Directors, Thomas E. Deacy, Jr., of the law firm of Deacy & Deacy in Kansas City, Missouri, was elected a Director of the Frisco until the next stockholders' meeting to fill the vacancy created by the death of Mr. Hungerford.

Submitted on behalf of the Board of Directors who join me in expressing appreciation for the support of our shareholders, the patronage of our customers and the efforts of our employes.

L. W. Menk

President


OMAHA
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COLORADO
DENVER
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OLATHE
PAOLA
HARRISONVILLE
CLINTON
ELLSWORTH
KANSAS
MEDORA
BURRTON
AUGUSTA
BEAUMONT
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CHEROKEE
PARSONS
FREDONIA
NEODESHA
CHERRYVALE
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FAYETTEVILLE
NEW MEXICO
AMARILLO
BRISTOW
SAPULPA
FT. GIBSON
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OKLAHOMA-CITY
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HENRYETTA
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OKLAHOMA
HOBART
CHICKASHA
HOLDENVILLE
POTEAU
LITTLE ROCK
ARKANS
ALTUS
SNYDER
FORT SILL
LAWTON
ADA
SULPHUR
SCULLIN
QUANAH
DAVIDSON
FLOYDADA
LUBBOCK
Q.A.&P. RY.
ARDMORE
MADILL
DURANT
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IDABEL
ASHDOWN
HOPE
DENISON
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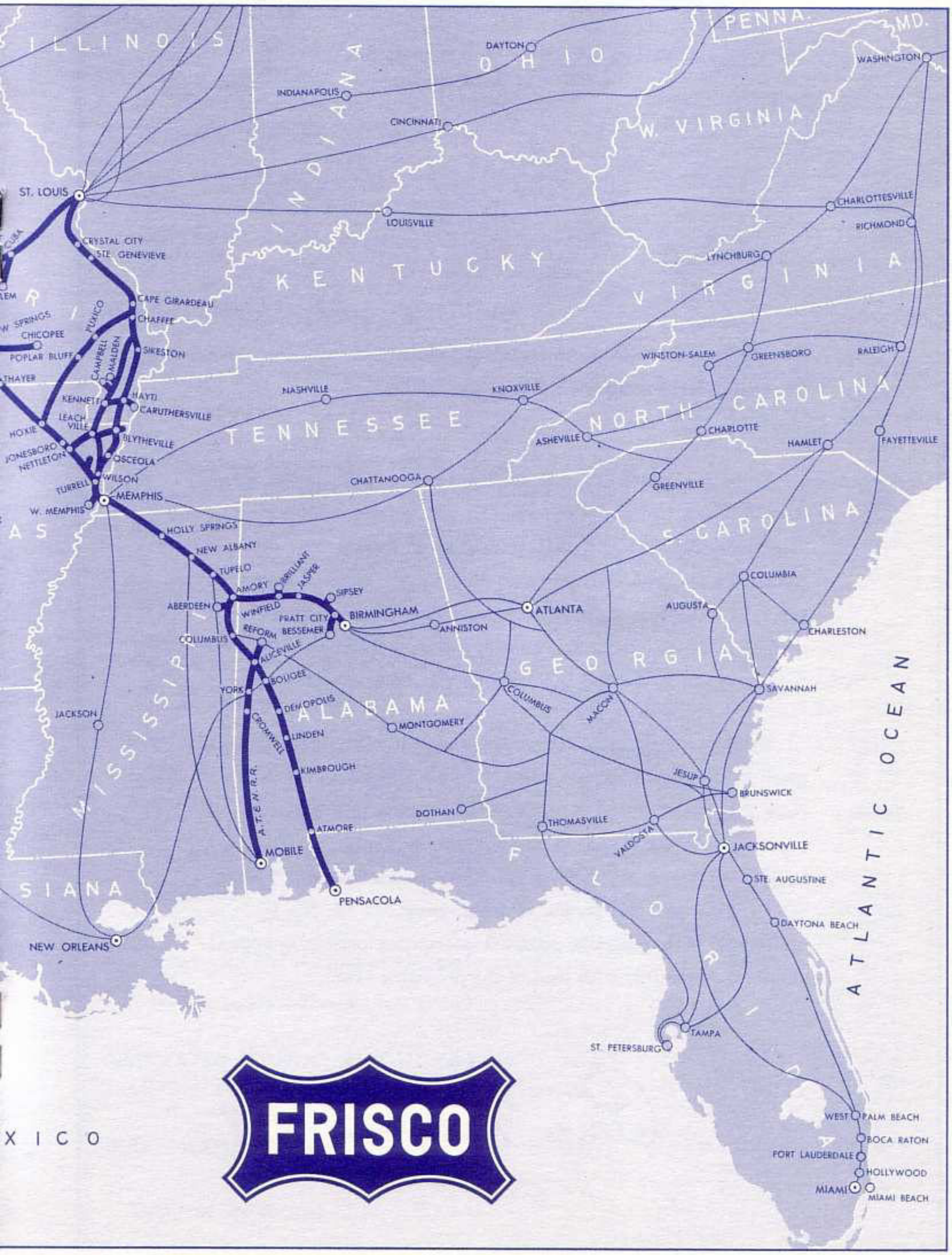

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MISSISSIPPI
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CHAFFEE
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REFORM
ALICEVILLE
BOLIGEE
YORK
DEMOPOLIS
JACKSON
CROMWELL
LINDEN
MONTGOMERY
COLUMBUS
MACON
SAVANNAH
A.T. & N. R.R.
KIMBROUGH
JESUP
BRUNSWICK
DOTHAN
ATMORE
THOMASVILLE
VALDOSTA
JACKSONVILLE
MOBILE
PENSACOLA
STE. AUGUSTINE
DAYTONA BEACH
NEW ORLEANS
TAMPA
ST. PETERSBURG
FRISCO
WEST PALM BEACH
BOCA RATON
FORT LAUDERDALE
HOLLYWOOD
MIAMI
MIAMI BEACH

Price Waterhouse & Co.
14 SOUTH FOURTH STREET
ST. LOUIS 2

March 1, 1963

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

We have examined the balance sheet of the St. Louis-San Francisco Railway Company and railroad subsidiaries consolidated at December 31, 1962 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.

In our opinion, except that provision has not been made for the possible increase in income taxes of future periods as set forth in Note 2 to the financial statements, the accompanying statements present fairly the financial position of St. Louis-San Francisco Railway Company and railroad subsidiaries consolidated at December 31, 1962 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

	1962	1961
	(000) omitted	
OPERATING REVENUES:		
Freight	$117,453	$114,492
Other	11,575	11,747
Total operating revenues	129,028	126,239
OPERATING EXPENSES:		
Maintenance of way and structures	18,122	16,936
Maintenance of equipment	19,405	19,075
Transportation	50,399	49,963
Other	13,297	12,295
Total operating expenses (includes depreciation of $9,206,000 and $9,525,000, respectively)	101,223	98,269
Net operating revenue	27,805	27,970
OPERATING CHARGES:		
Taxes (except federal income taxes)	10,164	10,023
Equipment and joint facility rents	5,233	4,938
Total operating charges	15,397	14,961
Net operating income (before federal income taxes)	12,408	13,009
OTHER INCOME, net	1,310	849
	13,718	13,858
FIXED AND CONTINGENT CHARGES:		
Fixed charges	5,722	5,886
Contingent interest	2,735	2,781
Total fixed and contingent charges	8,457	8,667
Income before federal income taxes	5,261	5,191
ESTIMATED FEDERAL INCOME TAXES: (Note 2, Page 16)	**790**	503
NET INCOME (in conformity with I.C.C. principles)	$ 6,051	$ 4,688

Bold face type denotes credit.

CONSOLIDATED BALANCE SHEET

	December 31, 1962	December 31, 1961
	(000) omitted	
ASSETS		
CURRENT ASSETS:		
Cash	$ 3,604	$ 2,073
Temporary cash investments	7,496	7,932
Cash deposits for interest, dividends, etc.	2,252	2,283
Receivables from U. S. Government, individuals, agents and companies	10,816	10,872
Material and supplies, at average cost	4,829	7,258
Other current assets	255	298
Total Current Assets	29,252	30,716
SPECIAL DEPOSITS	1,167	1,066
INVESTMENTS (Page 18):		
Securities of and advances to subsidiaries and affiliates	8,132	7,988
Central of Georgia Ry. Co. Preferred Stock	9,077	9,077
Central of Georgia Ry. Co. Common Stock	13,560	13,560
Other	29	27
Total Investments	30,798	30,652
PROPERTIES (Note 4, Page 17):		
Roadway and structures	311,094	308,951
Equipment	187,107	185,609
Non-operating property	2,962	2,880
Accrued depreciation — road	**34,134**	**32,551**
Accrued depreciation — equipment	**99,076**	**94,926**
Accrued depreciation — non-operating property	**204**	**175**
Excess of the stated value of assets acquired over liabilities assumed upon reorganization	**49,559**	**49,718**
Total Properties	318,190	320,070
OTHER ASSETS:		
Estimated salvage recoverable from retired property	322	358
Discount on long term debt	2,537	2,661
Miscellaneous	956	1,202
Total Other Assets	3,815	4,221
Total Assets	$383,222	$386,725

Bold face type denotes credit.

CONSOLIDATED BALANCE SHEET

	December 31, 1962	December 31, 1961
LIABILITIES	(000) omitted	
CURRENT LIABILITIES:		
Audited accounts and wages payable	$ 2,827	$ 2,421
Accrued and miscellaneous accounts payable	8,975	9,567
Interest and dividends payable	4,985	5,089
Estimated federal taxes on income (Note 5, Page 17)	175	703
Other accrued taxes	2,621	2,538
Other current liabilities	2,238	2,126
Total Current Liabilities (excluding current portion of long term debt)	21,821	22,444
LONG TERM DEBT (Page 19):		
First Mortgage Bonds, 4% Series A — 1997	68,639	68,639
First Mortgage Bonds, 4% Series B — 1980	17,488	18,005
Second Mortgage Income Bonds, 4½% — 2022	26,077	26,452
Income Debentures, 5% Series A — 2006	31,429	31,801
Equipment obligations	48,753	54,486
Total Long Term Debt ($7,814,000 payable in 1963)	192,386	199,383
OTHER LIABILITIES:		
Estimated casualty and other reserves	742	561
Miscellaneous, including deferred credits	613	593
Total Other Liabilities	1,355	1,154
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	28,471
Common, no par value — Authorized 6,000,000 shares, issued 1,842,286 shares, less 50 shares in treasury in 1962 and 1,837,986 shares, less 50 shares in treasury in 1961	81,465	81,388
CAPITAL SURPLUS	408	408
RETAINED INCOME (Page 16)	57,316	53,477
Total Shareholders' Equity	167,660	163,744
Total Liabilities and Shareholders' Equity	$383,222	$386,725

CONSOLIDATED RETAINED INCOME STATEMENT

	(000) omitted
Balance December 31, 1961	$ 53,477*
Add:	
Net income for the year	6,051
Refund and adjustments of prior years federal income taxes	1,051
	60,579
Deduct:	
Dividend on Preferred Stock — $5.00 per share	1,424
Dividend on Common Stock — $1.00 per share	1,839
	3,263
Balance December 31, 1962	$ 57,316

*$130,000 transferred from Capital Surplus to conform to I.C.C. change in classification.

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, ACCELERATED AND GUIDELINE DEPRECIATION: The company and its railroad subsidiaries maintain their books of account, and the accompanying statements have been prepared, in conformity with principles and methods of accounting prescribed or authorized by the Interstate Commerce Commission. These principles and methods do not provide for the income tax effect of the excess of tax amortization and depreciation over recorded depreciation as is necessary to conform with generally accepted accounting principles.

The supplementary income information shown below reflects the adjustments necessary to present net income in conformity with generally accepted accounting principles:

	1962	1961
Net income (in conformity with ICC principles) as set forth in the consolidated income statement	$6,051,000	$4,688,000
Adjustments to generally accepted accounting principles:		
Provision for the future income tax effect of —		
Amortization of defense facilities	(1,058,000)	(1,492,000)
Accelerated depreciation	(724,000)	(527,000)
Guideline depreciation	(1,763,000)	—
Other	—	(284,000)
Net income (as it would be stated in conformity with generally accepted accounting principles)	$2,506,000	$2,385,000

The cumulative reduction in federal income taxes since 1951, due to the above-mentioned differences, not reflected in the accompanying balance sheet, amounted to $30,718,000 at December 31, 1962.

3. PENSION PLAN: Unfunded past service costs of the Company's pension plan amounted to approximately $6,300,000 at December 31, 1962. The cost of the plan charged to income in 1962 was $1,221,000, including $881,000 of past service; in 1961 the cost was $536,000, including $238,000 past service which was charged to retained income.

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.

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, 1962 nondepreciable property, including land and land rights, aggregated approximately $201,400,000.

5. FEDERAL INCOME TAXES: Federal taxes on income for 1959 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, 1962 there were 1,320,702 shares of authorized common stock reserved as follows:

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

(b) 661,890 shares for conversion of second mortgage income bonds at rate of 25 shares for each $1,000 of bonds.

(c) 84,740 shares for issuance under a restricted stock option plan authorized in 1952 for certain officers and key employees. Options on 4300 shares were exercised in 1962. During 1962 options were granted to purchase 18,740 additional shares at the highest market values on the dates of the grants.

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	287,504
*Railway Express Agency, Inc.	14	1.45	No Par	1,400
*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
				$ 1,811,903
Notes:				
Clarkland, Inc.	....	....	....	$ 1,696,960
906 Olive Corporation	....	....	....	225,000
Frisco Transportation Co.	....	....	....	64,892
Railway Express Agency, Inc	....	....	....	404,817
				$ 2,391,669
Investment Advances:				
Birmingham Terminal Co.	....	....	....	$ 302,750
Clarkland, Inc.	....	....	....	1,526,199
Kansas City Terminal Ry. Co.	....	....	....	783,269
Frisco Transportation Co.	....	....	....	333,000
Union Terminal Co., The—Dallas	....	....	....	221,656
Wichita Union Terminal Ry. Co.	....	....	....	759,713
Wichita Terminal Association	....	....	....	2,000
				$ 3,928,587
Total investments in affiliated companies	....	....	....	$ 8,132,159
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	....	....	....	24,849
Total other investments	....	....	....	$22,666,382

*Pledged under mortgages.

LONG TERM DEBT

	DATE OF MATURITY	OUTSTANDING DEC. 31, 1962	1963 MATURITIES	INTEREST EXPENSE FOR 1962
FUNDED DEBT UNMATURED—				
First Mortgage Series A 4%	Jan. 1997	$ 68,639,200†	*	$ 2,745,568
First Mortgage Series B 4%	Sep. 1980	17,488,000†	*	705,378
Second Mortgage Income Series A 4½%	Jan. 2022	26,076,600†	*	1,173,447
Income Debentures Series A 5%	Jan. 2006	31,429,500†	*	1,562,125
		$143,633,300		$ 6,186,518
EQUIPMENT OBLIGATIONS—	Serially to			
Trust Certificates:				
Series A 2¾%	Jan. 1963	$ 552,000	$ 552,000	$ 15,813
Series B 2⅝%	Aug. 1963	370,000	370,000	15,781
Series C 2½%	Nov. 1963	284,000	284,000	13,017
Series D 2½%	Mar. 1964	568,000	284,000	15,679
Series E 2¼%	Dec. 1964	544,000	272,000	17,850
Series F 2¼%	May 1965	450,000	150,000	11,250
Series G 2⅜%	Aug. 1965	741,000	247,000	21,020
Series H 2⅜%	Dec. 1965	1,119,000	373,000	34,696
Series I 2⅞%	Aug. 1966	1,356,000	339,000	44,669
Series J 3⅛%	Dec. 1966	1,260,000	315,000	48,808
Series K 2⅞%	Dec. 1967	935,000	187,000	31,809
Series L 3⅜%	Jun. 1968	2,070,000	345,000	74,713
Series M 3%	Jan. 1969	3,000,000	500,000	105,000
Conditional Sale Agreements:				
Dated Dec. 1, 1955, No. 1, 3½%	Dec. 1970	9,380,800	1,172,600	355,689
Dated Apr. 1, 1956, No. 2, 3½%	May 1971	595,000	70,000	22,254
Dated Sep. 1, 1956, Nos. 3 & 4, 4¼%	Sep. 1971	1,396,552	155,172	62,101
Dated Sep. 1, 1956, No. 5, 4¼%	Jun. 1972	1,232,305	133,333	56,431
Dated Jan. 1, 1957, Nos. 6, 7, 8, 9, 5%	Jul. 1972	10,551,334	1,110,667	569,217
Dated Dec. 15, 1958, No. 10, 4¾%	Feb. 1974	709,167	61,667	34,743
Dated Dec. 1, 1959, No. 11, 5⅝%	Feb. 1975	853,750	68,300	49,304
Dated Mar. 1, 1960, No. 12, 5¾%	Mar. 1975	4,000,000	320,000	237,667
Dated Aug. 1, 1960, No. 13, 5¼%	Aug. 1975	2,697,041	208,000	145,235
Dated May 1, 1961, No. 14, 4¾%	Jun. 1976	1,561,733	117,400	77,900
Dated Jan. 2, 1962, No. 15 & 16, 4¾%	Jan. 1977	2,131,500	152,400	80,579
Dated Nov. 1, 1962, No. 17, 5%	Nov. 1977	** 394,383	26,292	—
		$ 48,752,565	$ 7,813,831	$ 2,141,225

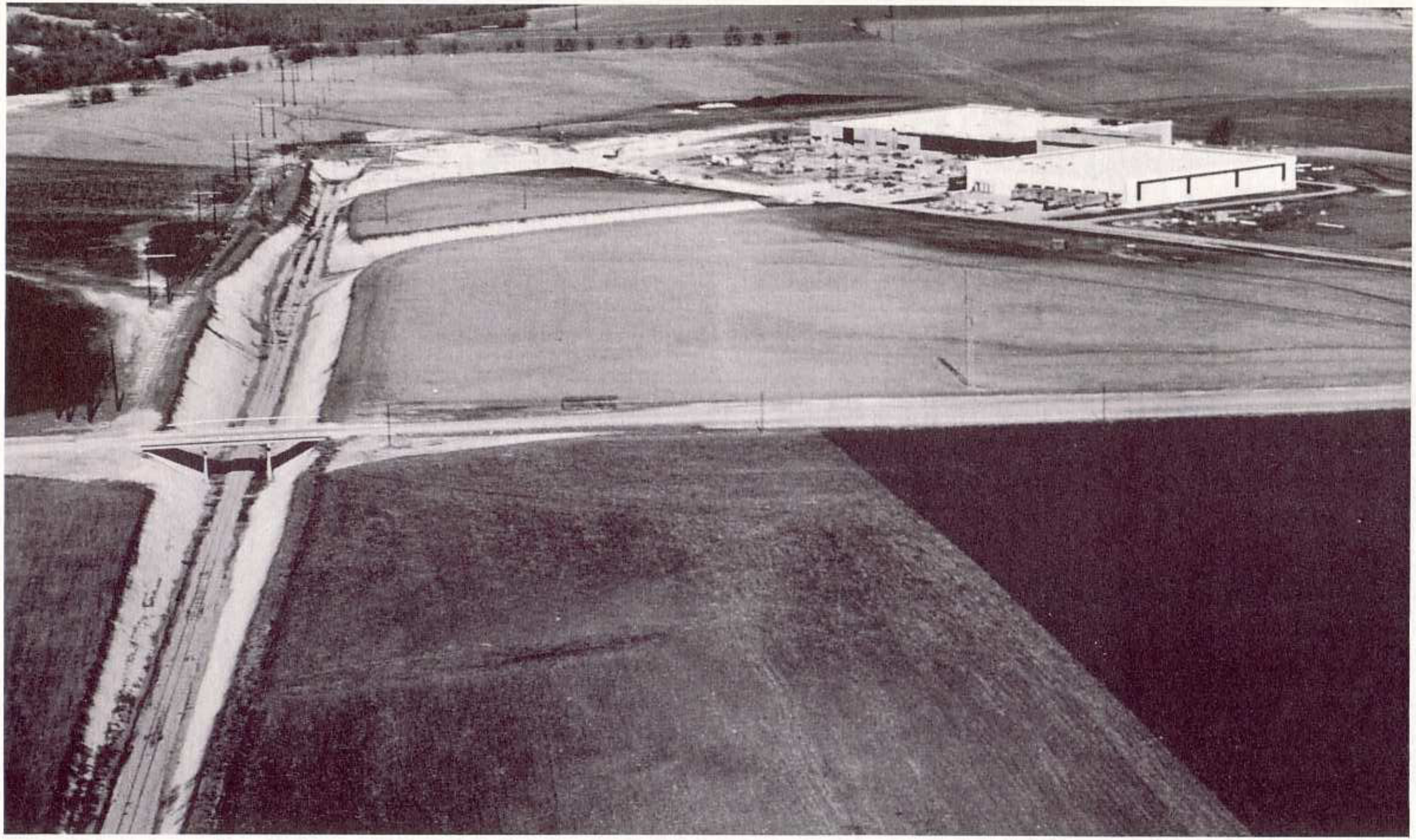
*Subject to sinking fund provisions under mortgage indentures.

First Mortgage Series A	$ 338,894
First Mortgage Series B	195,000
Second Mortgage Income Series A	132,378
Income Debentures Series A	165,645

†Excludes bonds held in treasury as follows:

First Mortgage Series A	$ 414,000
First Mortgage Series B	600,000
Second Mortgage Income Series A	399,000
Income Debentures Series A	229,000

**Represents 16 of 62 bi-level flat cars. Remainder to be delivered in 1963.



Aerial view of the new Johnson & Johnson surgical dressing plant which went into operation at Sherman, Texas.

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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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