

Extract from Article in "Wall Street Journal", Apr. 4, 1902.

THE WATERING OF CAPITAL.

The process known as "watering" capital, means essentially the increasing of capital not primarily, the acquisition of new property or for cash, but to represent an earning capacity existing supposed to exist or expected. In a reorganization commonly so-called capital is usually cut down to bring it into proportion with an ascertained earning capacity. Reorganization, however, simply means adjustment of capital to earnings, which, of course, can be done in either direction. It is also true to say that capital is watered not so much to afford a medium for the distribution of earning capacity as it is because speculative conditions offer an opportunity for disposing of the watered capital for cash.

The most remarkable example of capital watering in corporation history is undoubtedly the U.S. Steel Company. This company as everybody knows was formed a year ago by the union of some ten corporations, practically every one of which, was itself a somewhat similar formation. The Federal Steel Company for example, was a union of the old Illinois Steel Company and the Minnesota Iron Company on a very liberal basis of capitalization. The American Steel & Wire Company underwent what amounted (according to recent disclosures) to at least a double watering in the course of its formation. The other companies including even the Carnegie Company all experienced a similar process. In the final formation of the Steel Corporation, each and every one was watered once more on a large scale. It is not easy to determine without a long and troublesome examination the exact amount of the watering that was done, but it appears that whereas the ten companies now mainly comprising the U. S. Steel Company had about \$220,000,000 bonds, \$250,000,000 preferred stock, and \$460,000,000 common stock, the Steel Company now has in one way and another close upon \$350,000,000 bonds, and over \$500,000,000 each of preferred and common stock. Thus it looks as if the final watering amounted to substantially \$300,000,000 of stock and \$100,000,000 of bonds. It must be understood that we are not using the word "watering" in an offensive sense, but merely as describing the process of extra capitalization.

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It is evident, therefore, that no one man is essential to the conduct of the business of the United States Steel Corporation and that the loss of the service of even such an able man as President Schwab is scarcely noticed. Furthermore, the business of the corporation will go ahead totally unaffected by the ordinary vicissitudes of life and death."