

Northern Kentucky Views Presents:

---

Part 2

# The Making of the Kentucky Central Railroad

by

Dr. Joseph F. Gastright

Presented at the  
Historical Confederation of Kentucky

October 5, 1985

---

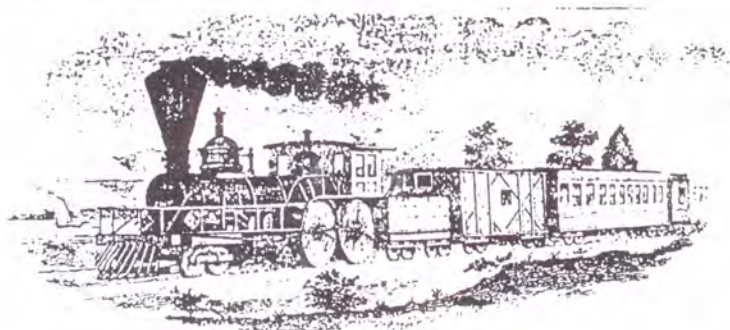
[www.nkyviews.com](http://www.nkyviews.com)



# KENTON COUNTY HISTORICAL SOCIETY

## QUARTERLY REVIEW

SPRING 1984



The following is Part Two of a series by Dr. Joseph F. Gastright.

### The Making of the Kentucky Central...

The investors in the Covington and Lexington Railroad had every reason to be pleased after the second year of operation. The 1856 earnings of \$399,948.12 were an increase of \$134,974.46 over those of the year before. New equipment had attracted public notice and business appeared to be booming. The railroad was issuing mortgage bonds to support the expansion. The bonds sold for top dollar to new investors in Northern Kentucky, Central Kentucky and Cincinnati.

Mortimer Murray Benton, president of the line, saw a different picture from that held by the public. It was true that the flow of livestock, agricultural products and manufactured goods had increased beyond expectation. To meet schedules and take advantage of the business, the road had invested heavily in new engines and cars. Benton and the other officers--E.B. Clark, Secretary, Samuel J. Walker, Treasurer, and Superintendent Charles A. Withers, all residents of Covington had invested heavily in the first mortgage bonds sold to complete construction. Indeed, the officers and their friends--John B. Casey, Augusta Robbins, Frederick Gedge and John T. Levis had purchased the entire \$550,000.00 issue in 1855.

After operating expenses were deducted from the first year profits, the road had only \$138,694.11 to pay the outstanding interest of over \$177,000.00. The balance sheet also showed a disturbing unsecured debt of \$470,000.00 which was temporarily covered by those officers and several banks. The officers approved the issue of \$750,000.00 in second mortgage bonds. These inferior securities were to be paid out of any profits remaining after the first mortgage accounts were settled. During 1855 \$130,000.00 in bonds were sold for 90¢ on the dollar, the equal of any such bonds in the country.

The officers did not produce an annual report in 1856 and the outlay of the road remains unclear. Subsequent testimony reveals that the remainder of the second mortgage bonds did not bring so great a return. During the same period, the directors approved the sale of several hundred thousand dollars of income bonds which were to pay interest only after the secured debt was settled. A cautious investor would have noted the absence of an annual report and raised questions about the situation.

In late fall of 1857, the stockholders endorsed the action of the board in suspending interest on the inferior bonds and securities. President Benton reported income of \$426,408.36 during the year. He also reported that the officers had negotiated a ten year lease of the Paris to Lexington roadway as well as taking over the operation of the Lexington to Danville line. The report noted that the trains had been run with great regularity and without a serious accident. The suspension was explained as necessary to place the company on a firmer basis. Most of the inferior debts were held by heavy investors, friendly to the line, who could be counted on to support the action.

The total liabilities of the line had increased by \$494,000.00 to \$2,930,000.00. Annual interest on all debts amounted to \$223,000.00. Some \$610,000.00 in income bonds would await payment unless the profits increased. The Covington, Pendleton County and Cincinnati debts were paid on schedule. The Superintendent's report showed fourteen locomotives in good order and hundreds of railroad cars disposed to collect and move cargo. Operating expenses remained high and ten miles of line had been thoroughly ballasted during 1857. "Much iron had been taken up, the defective ends cut off and relaid," for the peace of mind of passengers. This was necessary since the weight of the trains tended to flatten the weak ends of the light-weight rails and produced a clump-clump instead of a click-click for the passengers.

Some of the half-million dollars in new debt was spent at the Covington Locomotive Works, organized by local entrepreneur Alexander L. Greer. This corporation produced five locomotives for the Covington and Lexington Railroad. The "General Allen," described as a 15 x 22", 54", 56,000 lb. locomotive produced for the Covington and Lexington, was acquired, or captured by the United States Army on March 10, 1864, at Memphis.

In early 1858, the officers authorized the sale of \$750,000.00 in third mortgage bonds at 7½%. The entire issue was purchased at heavy discount by the company's secretary, Samuel J. Walker for his brother James W. Walker. Robert B. Bowler, a Cincinnati investor purchased \$100,000.00 in third mortgage bonds at 65¢ on the dollar from Walker. Bowler had previously purchased some \$200,000.00 in income bonds and an unknown quantity of second mortgage bonds. He expressed an interest to Walker in becoming more involved in the operation of the road. Meanwhile in Cincinnati, Bowler was contacting stock and security holders to get their vote in the upcoming stockholders' meeting. He and many of those investors had been disappointed by the suspension of interest voted in 1857. Bowler determined to take control in order to protect his own investment.

Samuel J. Walker and his brother James were owners of the Walker and Simmons Dry Goods business on the southwest corner of Sixth and Madison. The prospect of a wealthy Cincinnati interested in the undervalued bonds was both profitable and promising. An infusion of Cincinnati money would do much to assure the value of their other securities. The word was passed around and Robert B. Bowler was appointed a director of the railroad at the 1858 stockholders' meeting.



Earnings had increased only slightly to \$437,579.00 in 1858. After expenses, the profit of \$227,434.77 would not allow the payment of current interest and the payment of the interest that had been suspended in 1857. President John T. Levis reported that service was provided with "better safety and satisfaction since business was more evenly distributed across the year." Levis went on to state that more rolling stock was needed and that the depots were inadequate or non-existent. With the addition of depots at Covington and other towns, with better water stations and with permanent bridges, the line would be in first-rate shape. The president recommended that the suspension be continued for a second year.

The directors were in a bad position. The available funds would not cover the interest due on all debts and at the same time allow planned improvements to the line. Bowler was appointed to a committee with President Levis to confer with the third mortgage holders about the unpaid interest. In a meeting at Levis' house on the west side of Garrard between Third and Fourth Streets, Bowler strongly urged that the interest to third mortgage holders be given priority over the road's other debts. The move was unorthodox since the earlier mortgages were legally due payment before the inferior debts.

Such a move would be a calculated risk. Local founders of the road who held the first mortgage bonds would probably not object since they were interested in getting through the financial problems with their investments sound. The interest at 7% was substantial, but not critical when weighed against the possible bankruptcy of the line. The second mortgage holders were a more troublesome lot because the bonds had been sold to a diverse group who had less to lose individually should the line fail. The best excuse for paying the inferior third mortgage interest was that Bowler and other new money had purchased the bonds. The payment would raise the value of the inferior bonds and presumably allow the road to secure additional money from their sale.

Levis agreed to the gamble and in January 1858 Bowler along with Levis and John B. Casey were delegated to raise the issue of non-payment with the first and second mortgage holders. Casey was an influential first mortgage holder who had taken over Benjamin Leather's business on Lower Market. His father had purchased land immediately south of Kennedy's farm early in the century and John B. had built a substantial double home which still exists immediately north of the Arthur Apartments. The committee had a "full, fair, frank and friendly" exchange with Henry Vallette, Joseph C. Butler and other of the "out of town" investors, and reported that the second mortgage interest should be paid before the third. Not mentioned to either the stockholders or the public was the direct threat by certain second mortgage holders to file suit to force the sale of the road if their interest was not paid in 1858.

In May, Bowler proposed a desperate gamble to the directors. The road should in effect ignore the threat and issue a circular proposing to raise an additional \$800,000.00 from the sale of bonds. The funds would be used to put the line in first-class operation and--rather astoundingly to pay interest first on the third mortgage bonds due December 1857. If the line could convince all of its investors that the future was bright and that the rising incomes were sure to produce profits then the bonds would sell at a high rate, new money would pour in, the interest would be paid and the crisis would subside.

Hold the first and second holders, pay the thirds, raise new money and restore confidence--that was the plan. In the meantime, assure the investors that their unpaid interest was being invested to make necessary improvements. Covington, Cincinnati, Pendleton County and the other stockholders had much to lose if the gamble failed since their stock would be almost worthless. The stockholders did little to protect their investment or give any indication of concern. With the officers and directors of the road so heavily invested, it is not surprising that the public and stockholders would be kept in line.

The credit of the line improved after Bowler's involvement. Indeed from the point of view of the creditors and employees, Bowler was more than a director. He became its most visible and influential manager. Non-payment of the interest allowed quick payment of local debts and Bowler moved to straighten out the deposit of income quickly into company's accounts at the Covington Branch of the Northern Bank of Kentucky.

Indeed, from its spending, no one would suspect that the line in 1858 was in trouble. Covington Mayor Bushrod W. Foley, who lived at Front and Russell Streets, was appointed to a directorship and took an active role in negotiating with the investors. Frederick Gedge, another deeply involved first mortgage holder, added his influence to the new spending and borrowing of the railroad. Gedge along with his sons, James C. and William H. operated a highly successful tobacco business on the east side of Scott Boulevard between Fourth and Fifth Streets. The directors assured the first and second stockholders that the road was totally sound and that in 1859 all debts would be paid to-date and "for all time thereafter."

During 1858, the line spent as if tomorrow would be profitable indeed. The troublesome wood trestle over Townsend Valley was the most costly improvement facing the directors. But new equipment was purchased, wood was stockpiled and the line looked as if total prosperity had arrived. William H. Clement, one of the most experienced railroad men in the county, was hired to examine the condition of the road in 1858. He was the superintendent and engineer of the Little Miami Railroad from 1844 to 1857, and general superintendent of the Ohio and Mississippi Railroad from 1857. He became president of the Little Miami from 1860 to 1867.

The Little Miami was the first railroad in the Cincinnati area. It was chartered in 1836 to run up the Little Miami River Valley sixty-six miles to Xenia and later to Springfield, eighty-five miles away. Clement was an expert on the condition and problems of new railroads. Clement reported on the Covington and Lexington that the iron was in good condition but that the ditches needed opening and that the bridges needed gradual rebuilding. The condition compared favorably with his own railroad. He recommended construction of a partial fill to replace the long Townsend Valley trestle and the strengthening of other bridge work. The total cost was reported as modest.

Thomas D. Davis, master machinist on the road, who lived on the north side of Thirteenth Street between Russell and Washington, felt that the road had improved a great deal from 1856 to 1858. Ralph W. Reynolds, who was road master of the line at its office on the west side of Washington Street between Eighth and Pike knew more about the condition of the line than anyone. He had been a yard master on the Lake Shore line before he arrived in Covington in 1851 and had been employed with the C & L since. Reynolds knew that about five or six miles of iron, perhaps 500 tons needed replacement. The iron could be re-used by transporting it to the mill for re-rolling as it was replaced. During 1858, he documented over 5,000 days of labor ballasting the line, 4,000 removing landslides and 8,000 days cleaning the ditches. The depots were inadequate but they could wait.

George M. Clark had worked on the railroad in 1851 and 1852 as a civil engineer. In 1855, he became the secretary of the road as well as general ticket agent. Clark was aware that the depots were inadequate. He estimated that \$25,000 to \$30,000 was needed to build a station in Covington and perhaps another \$5,000 in Paris. The line continued to end in the middle of Washington Street near the commercial center of Covington. A private individual had built an eating house on the east side on rented ground that was serving as a passable station. The best estimates by those insiders was that the line would require no more than \$200,000.00 in 1858 and the following years to insure continued safety and needed improvements. All agreed that loss of life had not occurred and that general safety had been excellent.



A Selected Bibliography

Levis, Bowler and the other directors tackled the needs by increasing expenditures a good deal in 1858. Suit brought in Lexington by various second bond holders on November 1, 1858, did not deter the spending as we will see. The directors had neglected to discuss this unfortunate breach in their plans at their meeting in December of 1858. The stockholders voted in the same board. General Desha of Harrison County received the highest vote, 5,213 shares and Bowler the lowest, 3,339 shares.

In January 1859, while under suit, the road's oldest supporters became nervous about their investments. Samuel J. Walker agreed to cover the personal debts of the early investors to the corporation, provided that the corporation agree to pay him before other debts. The board agreed to begin the process by paying off certain personal debts owed all but directly to the board itself. In effect, Casey, Walker, Gedge, Levis and Mortimer Murray Benton were bailing out of their personal liabilities while the other security holders were unpaid. In February, claims by the Lexington and Danville Railroad were disallowed as being junior while the damages to the lands of the Western Baptist Theological Institute in Covington were being settled, with S.J. Walker as agent. The agreement with the institute included the purchase of additional land desired by the railroad for expansion.

In March of 1859, the message was out: the road was going to lose the suit and the investors stood to lose a great deal. Vallette, Alexander Greer and the Harrison County investors offered to lease the road and guarantee all debts in face of the suit. Their petition was rejected by the directors because they stated that, "They had no power to part with its control."

In April, General Desha resigned and the directors declined a plea by Harrison County to fill Desha's position because there was "no urgent, indispensable necessity for the election of a director for Harrison County." In August 1859, the directors' personal debts, assumed by Walker, were cleared. Finally, on November 10, 1859, Bowler was elected president and authorized to pay all expenses of the board members incurred in their duties. The new president reported that, pursuant to the orders of the Lexington Court, the railroad had been sold to pay its debts.

During 1859 while under suit, you would imagine that the railroad's financial condition worsened such that the sale was considered necessary even by the road's mentors. The stockholders surprisingly did not oppose the sale. The impending war and war-fever led many to look to the other important issues facing Northern Kentucky. Few noticed that the railroad earned over \$500,000.00 in the year of its sale. During the year, the directors built, bought and improved right up to the day of the sale.

The losers were numerous and confused. The organized losers were convinced the road was worth less than \$2,000,000.00. They received the word from Bowler who convinced them that it was a bad deal at even 1.5 or 1.6 million. George H. Perrin was convinced by Levis, who did not think it worth as much. Perrin tried to convince his Harrison County neighbors that the road was a bad bargain. Despite his efforts, the Harrison County investors offered \$2,000,000.00 for the road, but were out-bid.

The winning corporation bid \$2,250,000.00 for a property estimated worth at least \$4,000,000.00 in hard assets. Just after the sale, Perrin and the other losers were offered a chance to purchase stock in the new line. The offer was made by the new owners: President Robert B. Bowler, James and W.H. Gedge, John T. Levis and Rich Stowers.

(to be continued)

Annual Report to the Stockholders of the Covington and Lexington Railroad Co. Covington, 1858.

Annual Reports of the President and Engineer of the Covington and Lexington Railroad - Dec., 1850. Covington, 1850.

City Council of Covington, Charter of the Covington and Lexington Railroad Company. Covington, 1849.

Clark, Thomas D. "The Lexington and Ohio Railroad - A Pioneer Venture," The Register of the Kentucky Historical Society (1933), XXXI, 9-28.

Collins, Richard. History of Kentucky. Covington, 1874.

Curry, Leonard P. Rail Routes South. Lexington, 1969.

Exhibit of the Condition, Progress, and Business of the Covington and Lexington Railroad Company - Dec., 1852 and April, 1853. New York, 1853.

Fifth Annual Report to the Stockholders of the Covington and Lexington Railroad - Nov. 1, 1854. Covington, 1855.

Hall, Charles, ed. The Cincinnati Southern. Cincinnati, 1902.

Herr, Kincaid A. The Louisville and Nashville Railroad, 1850-1940, 1941-1959. Louisville, 1959.

Johnson, M. C. Court of Appeals of Kentucky - The Covington and Lexington R. R. Company against R. B. Bowler's Adm'r, etc. Cincinnati, No date.

Klein, Maury. History of the Louisville and Nashville Railroad. New York, 1972.

Panoramic View of the Cincinnati Southern Railway. Cincinnati, 1878.

Record in Kenton Circuit Court of the Suit of the Covington and Lexington Railroad Co. against James Winslow, Trustee, etc., R. B. Bowler's Heirs and others. Cincinnati, 1871.

Sprague, Stuart S. "Kentucky and the Cincinnati - Charleston Railroad, 1835-1839," The Register of the Kentucky Historical Society (1975), 73, 122-135.

Stover, John F. Railroads of the South, 1865-1900. Chapel Hill, 1955.

Sulzer, E. G. "A Kentucky Thoroughbred, A Work Horse and Two Old Sires," The Railway and Locomotive Historical Society (1960), 102, 6-26.

Sulzer, E. G. Ghost Railroads of Kentucky. Indianapolis, 1967.

Turner, Charles W. Chessie's Road. Richmond, 1956.