

MEMORANDUM.

PLAN FOR RE-ORGANIZATION.

The total net income of the Northern Pacific R.R.Co., as nearly as it can be arrived at from all the data obtainable, available for payment of interest is \$4,293,350. Assuming that with better methods of operation under our supervision, as considered in London, and which is further explained in the comparative statement of the four large Companies compiled from the Report of the Railway Commissioners of North Dakota, a copy of which you have, the net earnings could be increased to the extent of \$1,750,000., and that a further increase of net revenue could be made by avoiding unnecessary reductions in the rates of transportation, duplication of train service, &c., amounting to \$750,000., or \$2,500,000. in all, to which add income of the Railroad Company as shown above, \$4,293,350.20, the possible net income of the re-organized Company would be \$6,793,350.20.

It must be borne in mind that the above estimate might not be realized, owing to a failure of crop or other contingency, which would reduce the earnings of the Company. The present fiscal year enjoys the benefit of the largest wheat crop in five years, and we know that the acreage of wheat planted this spring, which will furnish the tonnage for next ~~spring~~ year, will be 20% less than last year on the Eastern end of the line, and in the State of Washington, where the crop sold for 20 to 25 cents per bushel, the area planted was not greatly exceed one half of last year. The low prices of wheat, which is the leading staple, also the general depression in agricultural products, as they affect the whole North West, are important in estimating the future earnings.

On the other hand, the gross earnings of the Company for the year ending June 30th 1895 will show an increase over the previous year, from which the fore-going tables are made.

Any plan of re-organization should be made on the safe side of the limit of net income, and the above amount, \$6,793,350.20, seems to be the very outside estimate available for the purpose of re-organization on the basis of present information.

Upon the showing of operating expenses obtained by the best lines running out of Chicago, applied to the Northern Pacific for the past year, it would not be probable to approximate the last named figures, and it is believed that the Northern Pacific for the current year will not show any reduction in expenses which will materially change the ratio between gross and net earnings.

In re-organizing, would leave the Divisional Bonds

Missouri River Division - - - - -	\$1,852,000.
Pend d'Oreille Division - - - - -	431,000.

to be retired by the Sinking Fund, which would probably be done inside of three years, if the land sales were properly urged.

Organize a new Company with Capital Stock - - - \$100,000,000.

Provide an issue of 4% Land Grant Gold Bonds, payable after fifty years, as might be deemed most advisable, redeemable from the sales of land (as freed from the lien of the existing Mortgages of the present Company) by purchase in the market up to 105%, or by drawing by lot at 105%, if unobtainable by purchase.

CONVERSION OF BONDS.

Delay for the present any attempt to exchange the General First Mortgage Bonds. A favorable opportunity may arise within a reasonable time. When the re-organization has been completed, means can probably be found to induce this exchange or redemption.

Reserve, however, for the purpose of this Conversion, an amount of the new 4% Bonds equal to 125% of the outstanding First Mortgage Bonds - - - - - \$53,151,000.
or as much less as may be required, owing to the action of the Sinking Fund in the meantime.

Second Mortgage Bonds outstanding	- - - - -	\$19,216,000.
Third " "	- - - - -	11,980,000.
Dividend Certificates outstanding)	
exchangeable for Thirds) - - -	519,000.
Consol. Mortgage Bonds outstanding	- - - -	48,867,000.
Collateral Trust Notes	- - - - -	9,335,000.

Exchange the present Bonds as above, at the following rates, for the new 4% Bonds and Common Stock:

	New Bonds	Common Stock.
Second Mortgage Bonds - - - @ 100%	\$19,216,000.	10% \$ 1,921,600.
Third " " - - - @ 70%	8,386,000.	30% 8,594,000.
Dividend Certificates - - @ 70%	353,300.	
Consol. Mortgage Bonds - - @ 37 1/2%	18,310,125.	62 1/2% 32,041,875.
Totals required for Exchange	\$46,275,425.	\$56,057,475.
Add amount reserved for		
First Mortgage Bonds - - -	53,131,000.	
	\$99,406,425.	

The 6% Collateral Trust Notes receive their interest regularly during re-organization, and sell at about 78%. Give these notes an option to exchange for the new Bonds at par. - - - \$ 9,335,000.

CASH REQUIRED:

For Receivers' Certificates - - - - -	\$ 5,000,000.
" Equipment Notes - - - - -	3,000,000.
" Expenses of Re-organization - - - - -	2,000,000.
" Improvements to be made during next three years - - - - -	5,000,000.
	<u>\$15,000,000.</u>

To raise this Cash, sell to the Great Northern Railway
\$11,258,575. new Bonds, and 65,425 shares (\$33,942,500.)
Common Stock for - - - - - \$11,000,000.

Sell the Chicago & Northern Pacific Bonds, the Chicago & Calumet Bonds, and other securities not connected with the property, which are held under the Collateral Trust, for, say - - 5,000,000.
\$16,000,000

RECAPITULATE.

Annual Interest.

New Bonds for Conversion - -	\$99,406,425.
" " Coll. Trust - -	9,335,000.
" " Sale to G.N.R'y	11,253,570.
	<u>\$120,000,000.</u> @ 4% \$4,800,000.

NEW COMMON STOCK REQUIRED.

		Shares.
To Second Mortgage Bonds -	\$ 1,921,600.	19,216
To Third " "	3,594,000.	35,940
Consol. " "	30,541,900.	305,419
Gt. Nor. Ry. Sale	33,942,500.	339,425
	<u>\$70,000,000.</u>	<u>700,000</u>

This would leave the new Company with \$6,000,000. cash to begin with providing amply for improvements, &c., and permitting the net earnings to be used for dividends. In order to enable the new Company to pay its annual interest, \$4,800,000., and 4% on its shares would require \$7,600., and to pay interest and 5% dividends on the stock would require net earnings of \$8,300,000.

The Land Grant already deeded, and that which is due the Company, amounts to about 37,000,000 acres. Of this, say 3,000,000 acres of the lands East of the Missouri River are pledged to the Preferred Stock under the former re-organization, and have been excepted from the lien of all the Mortgages except the First General Mortgage. These are subject, however, to any judgment against the Railroad Company for a deficiency under any Mortgage, or other valid claim against the Railroad Company.

Of the Land Grant on the Pacific Coast, a considerable quantity of timber has been sold or contracted; still the Company owns a large amount of valuable land in that section. The lands East of the Columbia River are mostly dry grazing land, with some more or less valuable tracts of timber in the Mountain sections.

The entire Land Grant may be classified into three general classes, based on selling values:

Lands worth \$10. per acre - - - - -	1,000,000 acres
" " 3. " " - - - - -	3,000,000 acres
" " .50 " " - - - - -	33,000,000 "

making the Grant worth, say \$35,000,000.

The cost of surveying these lands has to be paid to the General Government by the Railroad Company, and will not be less than fifteen cents per acre on an average for the lands unselected.

The sales of land in the dry grazing sections might be made to "cattle and live-stock Companies", but only at a low price. All lands that can be cultivated, the produce of which will add to the traffic revenue of the Company, should be sold to actual settlers, even at quite low figures. The timber and other valuable lands on the Pacific Coast and elsewhere should be sold as fast as a fair price can be obtained. Heretofore the Railroad has been able to avoid the payment of taxes on its lands, as a general rule, but hereafter it may be considered that all the lands will be assessed by local assessors, and placed on the lists in the several States and Counties for taxation. This, above all things, makes it desirable for the Company to sell its lands as fast as possible, and avoid the large annual tax which must be paid.

After the First General Mortgage has been retired, by conversion or otherwise, the proceeds of lands sold go to the retirement of the 4% new Bonds as before mentioned.

In making up the fore-going memorandum, I have endeavored to give the Northern Pacific Co. the full value of every element considered for the purpose of re-organization, and have proceeded, to this end, upon the general lines of the understanding arrived at in London. The object of the re-organization is to give the Bondholders of the present Company the greatest amount of Bonds possible, which Bonds will be good under almost any conditions of the future, and to make up the balance of the value of such Bonds as have not received new Bonds to this extent in the Common Stock of the new Company.

The 339,425 shares of the Common Stock may seem a large premium to pay for the purpose for which it is given, but when the present earning capacity of the Company is borne in mind, together with improved results that must be secured, it will appear perfectly plain that the present Bondholders are receiving, in the new Bonds and Stock, securities which will at once have a recognized value, owing to the strong position the Company will be placed in as regards competition, and its ability to earn money.

This plan has avoided any preferred Stock, for the reason that it would seem advisable in case such Preferred Stock was issued, to limit its dividend to 5%, which would also limit its value; on the other hand, the Common Stock receiving the whole net earnings less the interest charge would enhance its market value, owing to the speculative value it would have as entitled to all advantages that might arise from any source.

The rate for exchange of present Bonds for new Bonds and Stock might have to be varied to some extent. This could be done as found necessary.

19-1-381

I think it fair to say that, while we expect to increase the net income \$2,500,000., or over 60% of the year 1894, making it possible to carry the interest charge on the proposed issue of Bonds and leave a balance to enhance the value of the Stock required for re-organization, we only ask for a division of what we may be able to make the property earn in excess of the amount required for the re-organization.

In order to secure the results in operation for the re-organized Company, it would be necessary to change the entire method, and largely the force, of the present Company. I would propose to do this by dividing as far as possible our trained men, placing them in the responsible positions, where we would be able to make progress from the very commencement, as our men understand the local conditions. Any staff selected by a Board of Directors who have not this special knowledge, would be under the disadvantage of having to learn the local relations of the property with reference to the cost of its maintenance, its requirements for train service and proper discharge of its duty to the public, the changes of seasons, floods, &c. In fact, it would take from one to two years to familiarize any new set of men with all these conditions, and, even then, there is no Railroad Company running West from Chicago which, at the present time, is being operated on a basis that would produce the required results on the Northern Pacific. One of the most vital considerations is to prevent the constant reductions in rates. This can only be controlled by absolutely rigid supervision in that respect. I have before me notices from the Northern Pacific Company to our Company of reductions in rates of transportation since January 1st, which amount to a very large sum in the year's aggregate, and which do not increase the traffic of that Company in any respect, neither do they reduce the operating expenses a dollar. It is difficult for any one not familiar with the situation and all the material facts, to realize the extent of the improvements that must be made, and which, in my judgment, can only be made by a thorough and effective organization, combined with a complete knowledge of all the conditions affecting the income and expenses of the property.

In case all efforts to exchange the First General Mortgage Bonds failed, there would be added to the annual interest charge \$425,210., or, including the Sinking Fund, \$500,420., to which add for interest on early Divisional Mortgages \$283,000. @ 6%, \$136,980., would make the total interest and Sinking Fund \$5,737,400. It will be noticed that the lowest amount of annual interest is about \$750,000. higher than the net income for the past year, and in case the First General Mortgage Bonds are not exchanged it will be \$1,600,000. more than last years' net income.

The foreclosure of the Second, Third and Consolidated Northern Pacific Mortgages would relieve the new Company from all undesirable and unwise Contracts, as well as from all guarantees. The Branch Lines could be dealt with each on its own merits, and in order to determine the value of these lines respectively, they might be operated for a time under an agreement with each, providing such fair conditions as would enable both parties to judge of such value. A part of the Stock and Bonds remaining in the treasury, or both, could be used for their purchase.

Memo-

Plan for re-organization

James J. Hill Papers
Minnesota Historical Society

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