

[Year Ending June 1894]

NORTHERN PACIFIC R.R. MILEAGE - ALL LINES.

	Miles.
Main Line, Ashland, Wis., to Portland, Oregon, and Pasco Jet. to Wallula, Washington - - - - -	2,136.46

Branch Lines owned by Northern Pacific R.R.

Little Falls & Dakota R.R. - - -	90.48	
N.P. Fergus & Black Hills R.R. - - -	117.75	
Fargo & South Western R.R. - - -	87.38	
South Eastern Dak. R.R. - - - - -	14.84	
N.P. La Moure & Mo. River R.R. - -	21.33	
Sanborn, Cooperstown & Turtle Mt. R.R.	36.75	
Jamestown & Northern R.R. - - - - -	102.59	
Jamestown & Northern, extension - -	18.03	
Helena & Jefferson Co. R.R. - - - -	22.16	
Rocky Mountain R.R. of Montana - - -	52.89	
N.P. & Manitoba R.R. - - - - -	263.71	
Spokane Falls & Idaho R.R. - - - - -	14.33	
Cleallum R.R. - - - - -	5.37	
N.P. & Cascade R.R. - - - - -	10.29	
Green River & Northern R.R. - - - -	11.87	
Tacoma, Orting & S.E.R.R. - - - - -	10.61	
Rocky Fork & Cook City R.R. - - -	45.43	
N.P. & Puget Sound Shore - - - - -	16.76	
Duluth, Crookston & Northern R.R. -	44.51	
United R.Rs. of Washington - - - -	150.78	1,205.86
Sundry short branches and spurs - -	80.12	
Duluth to No. Pac. Junc. - 1/2 int.	23.32	
Superior Short Line on Conner's Point - 1/2 interest - - - - -	1.41	109.85

The Main Line is bonded as follows:

	Amount out- standing.	Annual Interest & Sinking Fund charge.
Missouri Div. Mortgage - - -	\$1,852,000.	
Pend a' Oreille Div. Mortgage	431,000.	
General First Mortgage - -	42,521,000.	\$5,320,000. -- 7%
General Second Mortgage - -	19,216,000.	
General Third Mortgage - - -	11,980,000.	
Dividend Certificates ex- changeable for Third Mortgage Bonds - - - - -	519,500.	31,170. -- 6%
Consolidated Mtge. Bonds - -	48,867,000.	2,443,350. -- 5%
Total Funded Debt, N.P.R.R., outstanding - - - - -	\$125,386,500.	\$7,794,520.

The above named Bonds all bear interest at rate of six (6) per cent and one (1) per cent sinking fund, except the Consolidated Bonds which bear five (5) per cent without sinking fund. The above funded debt covers the Main Line - 2,136.46 miles - and the Branch Lines owned by the Northern Pacific Company - 1205.86 miles - making the total mileage 3,342.32 miles of Main and Branch Lines owned.

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BRANCH LINES LEASED, Bonds of which are guaranteed by the North-
ern Pacific R.R.Co.

	Mileage	Funded Debt	Interest	Sinking Fund.
James River Valley R.R.	63.75	\$ 963,000.	\$ 57,780.	\$ 9,630.
Nor. Pac. & Montana R.R.	362.21	5,381,000.	322,860.	
Central Washington R.R.	109.41	1,750,000.	105,000.	17,500.
Duluth & Manitoba R.R.	205.90	3,001,000.	190,060.	30,010.
Spokane & Palouse R.R.	153.96	1,766,000.	105,960.	
Helena & Red Mountain R.R.	18.16	400,000.	24,000.	4,000.
C.d'Alene & R'y. Nav. Co.	52.15	1,238,000.	74,280.	
(The C.d'Alene R'y. & Nav.Co. is owned by the No.Pac.Co. but is covered by Mtge. & Bonds outstanding for \$1,238,000. & is therefore treated as a leased line.)	965.54	14,499,000.	869,940.	61,140.
St Paul & Nor. Pac. R.R.	193.06	8,423,000.	505,380.	
	1,158.60	\$22,832,000.	\$1,375,320.	\$61,140.

R E C A P I T U L A T I O N .

	Mileage	Funded Debt	Funded debt	An'l.Chge.	An'l.Chge.
		(Total)	per mile	for int.& S.Fund.	per mile of road.
Main Line owned	2,136.46	125,386,500.	37,514.81	7,794,520.	2,332.07
Br.Lines owned	1,205.86				
Branch Line, C. d'Alene R'y. Co.	52.15	1,238,000.	23,739.21	74,280.	1,424.35
Br.Lines leased	1,106.45	21,684,000.	19,597.81	1,301,040.	1,231.13
				61,140.	
	4,500.92	148,308,500.		9,230,980.	

Showing on basis of present apportionment of Earnings, Operating Expenses and Taxes, as per Report of Northern Pacific R.R.Co.

Line	Earnings	Operating Expenses	Taxes	Net Earnings	Fixed Charges	Deficit
N.P.R.R. Main Line	12,476,100.	8,745,200.	348,865.	3,382,035.		
Br. Lines owned	1,392,600.	1,055,500.	38,850.	298,250.	7,794,520.	4114235
	13,868,700.	9,800,700.	387,715.	3,680,285.	7,794,520.	4114235
<u>Branch Lines Leased</u>						
Duluth & Man.	279,600.	297,100.	7,800.	25,300.	210,070.	235370
James Riv. Valley	33,600.	42,400.	1,035.	9,835.	67,410.	77245
Helena & Red Mt.	5,650.	11,200.	155.	5,705.	28,000.	33705
Nor. Pac. & Man.	424,000.	422,000.	11,830.	9,830.	322,860.	332690
C. & A. Alene R. & N. Co.	76,650.	105,090.	2,140.	30,580.	74,280.	104860
Central Wash'n.	65,158.	62,380.	1,820.	953.	122,500.	121542
Spokane & Palouse	231,350.	196,850.	6,455.	28,045.	105,960.	77915
TOTAL	1,116,008.	1,137,020.	31,235.	52,247.	931,080.	983327
				29,003.		
St Paul & N.P.R.R.	1,562,500.	878,400.	46,875.	637,225.	505,380.	131845
						Surplus

RECAPITULATION.

N.P. Main Line & Branches owned	13,868,700.	9,800,700.	387,715.	3,680,285.	7,794,520.	4114235
Br. Lines leased	1,116,008.	1,137,020.	31,235.	52,247.	931,080.	983327
						Surplus
St Paul & N.P.R.R.	1,562,500.	878,400.	46,875.	637,225.	505,380.	131845
	16,547,208.	11,816,120.	465,825.	4,265,263.	9,230,980.	4965717

The Gross Earnings, Operating Expenses and Taxes for the year ending June 30th 1894 for the Main and Branch lines owned and Branch Lines leased have not been published separately, and can be obtained only from the books of the Northern Pacific Co. The above division is therefore made on the basis of the published figures for the year ending June 30th 1893; that is, the gross earnings for the entire system for year ending June 30th 1894 were 69.17% of those for the year ending June 30th 1893. The divisions shown above of the earnings for the year ending June 30th 1894 are therefore 69.17% of the earnings shown for each division for the year ending June 30th 1893. The Operating Expenses and Taxes for the year ending June 30th 1894 were 81.65% of those for year ending June 30th 1893, and the division of expenses for June 30th 1894 have been made on this basis. In making this division it has been assumed that the reduction in earnings and expenses for the year ending June 30th 1894 has been about uniform over the entire system. While this may not have been the case, the variation could not have been large enough to materially change the result as between the lines owned and the lines leased, the gross earnings, expenses and taxes remaining the same as published in the Company's Report for the year ending June 30th 1894.

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To ascertain the amount of taxes chargeable to each line, there has been first charged to the St Paul & Northern Pacific R.R. three per cent (3%) upon its gross earnings, that being the rate of taxation in Minnesota, in which State that Railway is located. This was deducted from the total amount of taxes paid, and the balance was divided between the several lines on basis of earnings. This is to the advantage of the Branch Lines, both owned and leased, on account of their small earnings. The actual taxes assessed against them would undoubtedly be more. In making the apportionment of earnings between lines, the Northern Pacific R.R.Co. has allowed the Branch Lines a constructive mileage of 200%, or two miles for every one the traffic was actually hauled on each Branch Line. This would probably add to the earnings of Leased Lines from 35 to 40%. For the purpose of showing the relative earnings of the Northern Pacific R.R.Co.'s. lines "owned" and those "leased", there has been deducted 25% of the earnings of such Leased Lines and the amount added to the earnings of the "Lines Owned", thus placing the "Leased Lines" on the basis of being operated by their respective owners, giving them such advantages as are customary under like conditions. This gives the following showing on the above basis, assuming that the Branch Lines leased were operated by their respective owners.

Lines.	Earnings	Op't'g. Ex- penses & taxes.	Net earnings	Fixed Charges	Deficit
N.P. Main Line & Branches owned	14,147,702.	10,196,188.89	3951513.20	7794520.38	43006.80
Duluth & Man.	209,700.	297,100.	87400.		
James Riv. Valley	25,200.	42,400.	17200.		
Helena & Red Mt.	4,237.50	11,200.	6962.50		
Nor. Pac. & Man.	318,000.	422,000.	104000.		
C. d'Alene & R.N.Co.	57,467.50	105,090.	47602.50	931080.12	555.20
Central Wash'n.	48,268.50	62,380.	13511.50		
Spokane & Palouse	173,512.50	196,850.	23337.50		
Prop'n. of taxes on above		23,461.20	23461.20		
Total of Leased Lines	837,006.00	1,160,481.20	323475.20	931080.12	555.20
St Paul & Nor. Pac.	1,562,500.	925,275.	637225.	505380.	131845.

The amount of taxes added to the actual Operating Expenses, and shown above under the heading "Operating Expenses and Taxes" are arrived at in the manner heretofore explained, the only difference being that the revised earnings were used as the basis of the apportionment, thus making the burden of the Leased Lines, if anything, that much lighter.

It will be noticed that, of the Leased Lines, the St Paul and Northern Pacific is the only one earning sufficient to pay its Operating Expenses, Taxes and Fixed Charges. The other lines failed to earn their Operating Expenses and Taxes, showing deficiency in that respect of \$323,475.20, and leaving totally unprovided for, their Fixed Charges amounting to \$931,080. which, added to the loss in operation, makes a total deficiency of \$1,254,555.20 for the year.

None of these lines are provided with equipment of their own, the same being furnished by the Northern Pacific R.R.Co.

Of the MAIN LINE, the portion between Superior and Ashland, Wis., about 70 miles, is of little value, and probably contributes no net earnings to the Company.

As hereinbefore mentioned, in apportioning the earnings of the Northern Pacific System, all branch lines, both "owned" and "leased" have been allowed constructive mileage of twice the distance the traffic was actually carried on such branch lines.

Of the BRANCH LINES "OWNED", most of them contribute something to the traffic of the Main Line, while some of them do not earn the cost of operation. Some of these lines are short spurs to mines and other industries along the System, as the Cleallum, Northern Pacific and Cascade, Green River and Northern, Tacoma Orting and South Eastern, depending almost entirely on the continuance of the mines or other industries to which such lines have been built. It is proper to say that some of the coal mines, and particularly the Northern Pacific Company's mine reached by the Cleallum spur is a large and productive mine.

THE HELENA AND JEFFERSON CO., with its continuation to Basin, is practically of no value. The Rocky Mountain R.R. of Montana runs from Livingston into the Yellowstone Park, and is operated during two or three summer months only, and then at a heavy loss. The tourist travel to the Park could have been carried by a good line of stage coaches from Livingston the entire trip, as well as from the end of the Rocky Mountain R.R. at Cinnabar.

THE NORTHERN PACIFIC AND MANITOBA, 265.71 miles, with the Northern Pacific Terminal Co. in Winnipeg, consists of Branch Lines in the Canadian province of Manitoba, and are practically extensions of the Duluth & Manitoba "Branch Leased", and separated from the Northern Pacific proper by a distance of 206 miles, and may be considered worthless, as they do not feed the Main Line, but are a steady cause of outlay. The Terminals are under a separate mortgage, and bonded for \$750,000.

THE DULUTH, CROOKSTON & MANITOBA practically parallels the Duluth & Manitoba, except that the latter runs into and through Crookston, a town of about 6,000 inhabitants, and if the traffic is sent over this line, the Leased Line is made of no value.

THE SPOKANE FALLS & IDAHO R.R., 14.33 miles, is the Southern extension of the Spokane and Colouse "Leased Line", commencing 110 miles from the Northern Pacific R. y.

THE ROCKY FORK AND COOK CITY was built to reach the Rocky Fork coal field, a deposit of lignite coal situated on Rocky Fork, Montana, which was supposed would furnish the Company with a cheap supply of coal for the middle section of its lines, but the quality of the coal has not proved as good as was expected. It is generally understood that a large sum of money was made by inside parties out of the construction of this line, and the purchase of the coal property.

THE UNITED R.R.S. OF WASHINGTON cover extensions to South Bend, and other real estate enterprises, and were not built because there was any traffic for them to haul. The Company's accounts will show how near they come to earning the expense of operation.

MAIN LINE BRANCHES AND SPURS, 80.12 miles, With the exception of 7.71 miles between South Superior and Duluth which is very valuable, this mileage is made up of spurs and tracks to various industries along the Main Line, scattered through seven States, as follows:

Wisconsin - - - -	19.16	miles
Minnesota - - - -	13.00	"
North Dakota - - -	6.89	"
Montana - - - - -	19.32	"
Idaho - - - - -	5.83	"
Washington - - -	14.90	"
Oregon - - - - -	1.41	"
	<u>80.51</u>	

Several of these spurs are less than 1,000 feet in length, as will be shown by reference to some of the earlier reports of the Railroad Commissioners of North Dakota and Minnesota, and none of this mileage,

except the 7.71 miles, Superior to Duluth, is any security upon which to issue Bonds. It should be counted only as ordinary and temporary side-tracks, liable to be removed or changed at any time. The 7.71 miles, Superior to Duluth, will not affect the worthless mileage on the branch lines owned.

DULUTH TO NORTHERN PACIFIC JUNCTION, 28.32 miles - half interest owned jointly with the St Paul & Duluth R.R. This line was originally the St Paul & Duluth, and was located along the high Northern bank of the St Louis River. It was difficult and expensive to maintain, and had gradients of nearly 2%. Several years ago it was abandoned, and each Company (The Northern Pacific and St Paul & Duluth) built separate lines on different routes, which have been, and are now, operated separately. There is practically no such joint interest in existence, and none should be counted.

The Northern Pacific owns jointly with the St Paul & Duluth, and some separately, valuable right of way and tracks in Duluth, but not in excess of its requirements for its business.

BRANCH LINES LEASED. With the exception of the St Paul and Northern Pacific R.R. all of the "Branch Lines Leased" show a loss in operation alone of \$323,475., which with their annual interest charge makes their loss last year, as per statement, \$1,254,555.20. When it is borne in mind that these branch lines have no equipment of their own, depending wholly on the Northern Pacific in this respect, it will be evident that the Northern Pacific Company or its re-organized successor will lose nothing by allowing the Bondholders of these "Branch Lines Leased" to determine for themselves, in their own way, the actual value of the respective lines covered by the separate mortgages, the rental of which has been the guarantee by the Northern Pacific Company of the interest of the different Bonds issued under the mortgages. Neither the traffic from these lines, nor anything of value to the Northern Pacific Company growing out of their construction, will be lost by this course, as there is no one else to assume their burden.

Of the BRANCH LINES OWNED, the following may be classed as of no practical value to the Company, as they are, and have been, operated at a loss, and do not help the Main Line to the extent of such loss, or, as in case of Spokane & Idaho and Northern Pacific & Manitoba, they are separated from the lines owned by long "Leased Lines":

Northern Pacific & Manitoba - - - - -	263.71 miles
Spokane & Idaho - - - - -	14.33 "
Helena & Jefferson Co. - - - - -	22.16 "
Rocky Mountain of Montana - - - - -	52.89 "
Duluth, Crookston & Manitoba - - - - -	44.51 "
	<u>397.60 "</u>

Total Main Line owned - - - - -	2136.46
Total Branch Lines owned - - - - -	<u>1205.86</u>
	3342.32

Less branches which as shown above do not earn operating expenses - - - - -	<u>397.60</u>
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Total Main and Branch Lines 2944.72 miles, which practically make all the net earnings of the Northern Pacific R.R., as shown on folios 3 & 4, viz.:

Gross Earnings, as per Company's Report - - - - -	\$16,547,209.51
Operating Expenses - - - - -	\$11,816,120.17
Taxes - - - - -	<u>465,825.06</u>
Net Earnings - - - - -	<u>12,281,945.23</u>
	\$ 4,265,264.28

To arrive at the earnings of the Northern Pacific proper, the "Branch Leased Lines", and the St Paul & Northern Pacific should be deducted from the above, as these lines are subject to their respective bonded indebtedness. This has been done on folio 3, which shows the accounts as apportioned by the Company, making the net earnings \$3,680,285., and on folio 4 showing the approximate earnings on basis usual between lines similarly situated, making the net earnings \$3,951,513.20, to which should be added any other earnings or income which is not covered by sinking fund or subject to any prior lien.

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INCOME FROM STOCKS OWNED.

St. Paul & Northern Pacific R.R. - - - - -	\$131,845.
Northern Pacific Express Co. - - - - -	11,528.✓
St. Paul Union Depot Co. - - - - -	3,500.✓
Duluth Union Depot Co. - - - - -	7,500.✓
Rocky Fork Coal Co. (doubtful) - - - - -	3,412.✓
	<u>\$157,785.</u>

INCOME FROM BONDS OWNED.

Minnesota Transfer Co. - - - - -	\$ 6,180.
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INCOME FROM RENTS.

Tracks, yards &c., Minn. & St. Louis R'y. - - - - -	\$ 58,817.69 ✓
" " Soo Road - - - - -	62,598.65 ✓
" " Chicago Great Western R'y. - - - - -	46,840.89 ✓
" " Minn. & Pacific R'y. - - - - -	5,911.77 ✓
" " C. St. P. & Omaha R'y. - - - - -	703.20 ✓
" " Eastern R'y. of Minnesota - - - - -	3,000. ✓
	<u>\$177,872.26</u>
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RECAPITULATION.

Income from Stocks owned - - - - -	\$157,785.
Income from Bonds owned - - - - -	6,180.
Income from rents - - - - -	<u>177,872.</u>
	\$341,837.
Add net earnings from lines owned (fol. 4) - - - - -	<u>3,951,513.20</u>
Total net income - - - - -	<u>\$4,293,350.20</u>
available for payment of interest	

The above does not include income from
 Chicago & Northern Pacific Bonds
 Chicago & Great West. Bonds
 Northern Pacific Gen. Mtge. Bonds
 Wisconsin Central Bonds
 Yellowstone Park Ass'n.

and a number of various other items published as income, for the reason that they are only charged against the different Companies, and are not collected or collectible.

[June, 1894]

LIST OF STOCKS AND BONDS
held as security for Collateral Trust
Notes and Receivers' Certificates.

	Par Value.
Northern Pacific Consol. Bonds - - - - -	\$11,576,000.
Chicago & Northern Pacific Consol. Bonds - - - - -	3,805,000.
" " " Stock - - - - -	15,010,000.
Chicago & Calumet Term. R'y. Bonds - - - - -	6,000,000.
" " " Stock - - - - -	5,000,000.
Northern Pacific Express Co. Stock - - - - -	342,500.
St Paul & Northern Pacific R'y. Stock - - - - -	6,950,000.
No. Pac. R.R.Co. 2nd Mtge. Bonds - - - - -	8,500.
" " 3rd " " - - - - -	9,000.
Minnesota Transfer Co. 1st Mtge. Bonds - - - - -	103,000.
No. Pac. & Manitoba Term. Mtge. Bonds - - - - -	100,000.
St Paul Eastern Gr. Transfer R'y. Co. Mtge. Bonds - - -	8,000.
Puget Sound & Alaska S.S.Co. Stock - - - - -	600,000.
Yellowstone Park Ass'n. Stock - - - - -	308,000.
Northern Pacific Coal Co. Stock - - - - -	100,000.
Chicago Union Transfer Co. Stock (Com.) - - - - -	40,000.
" " " " (Pref.) - - - - -	40,000.
St Paul Union Depot Co. Stock - - - - -	50,000.
Duluth Union Depot Co. Stock - - - - -	25,000.
Minnesota Transfer Stock - - - - -	3,500.
	<u>\$50,078,500.</u>

Of the fore-going securities, the following could be disposed of
by the re-organized Company, after acquisition by it of the same:-

	Par Value.
Chicago & Northern Pacific Bonds - - - - -	\$ 3,805,000.
Chicago & Calumet Bonds - - - - -	6,000,000.
No. Pac. & Manitoba Terminal Bonds - - - - -	100,000.
Chicago & Northern Pacific Stock - - - - -	15,010,000.
Chicago & Calumet Stock - - - - -	5,000,000.
Chicago Union Transfer Stock (Pref.) - - - - -	40,000.
" " " " (Com.) - - - - -	40,000.
	<u>\$29,995,000.</u>

The Northern Pacific Company's Bonds would necessarily disappear
in the process of the re-organization. The remaining stocks in the list
would properly be retained by the new Company, as representatives of more
or less valuable adjuncts to the System, each possessing some earning
power, save the Puget Sound & Alaska Steamship Co. and the Yellowstone
Park Ass'n.

Estimated amount for which the above securities could be sold:

Chicago & Northern Pacific Bonds - -	40%	\$1,522,000.
Chicago & Calumet - - - - -	35%	2,100,000.
No. Pacific & Manitoba Terminal - -	Nil	
Chicago & Northern Pacific Stock -	Nil	
Chicago & Calumet Stock - - - - -	Nil	
Chicago Union Transfer Co. (Pref.) -	50%	20,000.
" " " " (Com.) - -	20%	8,000.
		<u>\$3,600,000.</u>

The shares of the St Paul & Northern Pacific Railroad Co., the North-
ern Pacific Express Co. and the Northern Pacific Coal Co., pledged as
collateral, do not comprise the entire holdings in the same of the Northern
Pacific Company. These, and the cost of the same to the Company, are as
follows:

	Par Value.	Cost.
St P. & N.P.R&Y. Co. - - - - -	\$7,000,000.	\$5,267,525.37
Northern Pacific Coal Co. - - -	600,000.	669,117.63
Northern Pacific Express Co. - -	343,000.	347,497.53
	<u>\$7,943,000.</u>	<u>\$6,284,140.53</u>

[June, 1894]

MEMORANDUM FOR LONDON AND BERLIN.

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 \$4,293,350.20. Assuming that with better methods of operation under our supervision, as considered in London, and which are also indicated in the comparative statement of the Northern Pacific R.R., Great Northern R'y., Chicago, Milwaukee & St Paul R'y. and Chicago North Western R'y. from the report to the Railway Commissioners of North Dakota, the net earnings could be increased to the extent of \$1,750,000., and a further increase of net revenue could be made by avoiding unnecessary reductions in rates of transportation, duplication of train service, &c., amounting to \$750,000., or \$2,500,000. in all, to which add the net income above of \$4,293,350.20, the possible net income of the re-organized Company on the basis of last years operation would be \$6,793,350.20. It must be borne in mind that the above estimate might not be realized, and, on the other hand, the gross earnings of the Company might, and probably will, show an increase hereafter. In any event, the last named sum, should, in my judgment, be the very outside estimate for net income for the purpose of re-organization on the basis of present information.

Upon the showing of results obtained by the best lines running out of Chicago, it would not be possible to operate the Northern Pacific, and secure the results above shown, and it is believed that the Northern Pacific operation for the current year will not show any reduction in expense which will materially change the ratio between gross and net earnings.

In re-organizing, I 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 are properly urged.

Conversion of Bonds.

	Outstanding.	New Bonds.
First General Mortgage - - -	\$42,521,000. @ 125%	\$53,151,000.
Second " " - - -	19,216,000. @ 100%	19,216,000.
Third " " - - -	11,980,000. @ 75%	8,985,000.
Consolidated Mortgage - - -	48,867,000. @ 37%	18,310,125.
Dividend Certificates, exchangeable for Second Mortgage Bonds - - - - -	519,500. @ 75%	389,625.
		<u>\$100,051,750.</u>
Receivers' Certificates - - - - -		\$ 5,000,000.
Collateral Trust Notes - - - - -		9,355,000.
Equipment Trust Notes - - - - -		3,000,000.
		<u>\$17,355,000.</u>
Expenses of re-organization - - - - -		2,000,000.
Fund for improving railway grades and equipment - - - - -		5,000,000.
		<u>\$24,355,000.</u>

[June, 1894]

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Form a new Company with \$100,000,000. capital stock, which Company would buy at foreclosure sale of the Second, Third and Consolidated Mortgages, the owned lines of the Company. Create a new 4% gold fifty year Bond redeemable at par after forty years in sums of one million dollars or any multiple thereof on one years notice. Amount of such Bonds \$150,000,000., of which \$100,051,750. would be required for exchange and conversion of present outstanding Bonds as above. Issue to Third Mortgage Bondholders paid up Common Stock for amount of their reduction of bonded debt exchanged:

Third Mortgage Bondholders - - -	\$2,995,000.
Consol. Mortgage Bondholders - -	<u>30,541,875.</u>
Total required for exchange - -	\$33,536,875.
Sell - - - - -	\$19,948,250. Bonds @ 75% = - - -
	\$14,960,825.
Sell to G.W. interest 30,000,000. Common Stock)
10,000,000. Preferred Stock @ 5%	<u>8,000,000.</u>
Amount to be realized from sale of Chicago Bonds, &c.	<u>3,650,000.</u>
	\$26,610,825.
Less Receivers' debts, Collateral Trust notes,	
Equipment Trust expenses, &c. - - - - -	<u>19,355,000.</u>
Available for improvements, &c. - - - - -	\$ 7,255,825.

If the First General Mortgage Bonds would not exchange on the basis of 125, that part of the plan could be postponed, as I think they would exchange before the matter was finally closed. If, however, they refused, the Land Grant could be used to redeem these Bonds, or bring them to an exchange to avoid redemption. Mr. Adams thinks these Bonds can be exchanged, and as his former firm took part in the original syndicate which placed them his judgment should be good.

The above would leave the new property with annual charges as follows:

Missouri Division Bonds -	\$1,352,000.	
Pend d'Oreille Division Bonds	<u>431,000.</u>	
	\$2,283,000. @ 6% -	\$ 136,980.
New General Mortgage Bonds -	120,000,000. @ 4% -	4,800,000.
Preferred Stock - - - - -	10,000,000. @ 5% -	<u>500,000.</u>
		\$5,436,980.

In case all efforts to exchange the First General Mortgage Bonds failed, there would be added to the annual interest \$425,210. or with the Sinking Fund - - - - - 850,420. to be added to the above annual charge, making the highest annual charge \$6,287,400.

The foreclosure of the different Northern Pacific Mortgages would relieve the new Company from all unprofitable or unwise contracts, &c., and from all guarantees. The Branch Lines Leased could be dealt with each on its own merits, and in order to determine the value of the respective lines, they might be operated under an agreement with each providing fair conditions which would enable both parties to judge of such value, and a part of the stock remaining in the treasury, or of the unused Bonds could be used for their purchase.

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 "
" " .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 lands 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.

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. The object of the re-organization is to give the Bondholders of the present Company the greatest amount of Bonds possible ~~and to make up the balance of the par value~~ which bonds will be good under almost any conditions of the future, and to make up the balance of the par value of such Bonds as have not received new Bonds to this extent in the Common Stock of the new Company.

The 300,000 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 Company cannot make any re-organization which will pay the interest on the Bonds as herein proposed, with nothing for either Preferred or Common Stock.