

[Duplicate]

To the Bondholders and Stockholders of the
NORTHERN PACIFIC RAILROAD COMPANY,
and of Trust Company Receipts therefor.

New York, Philadelphia and Berlin,
March 16, 1896.

Pursuant to the announcement of the Committees, of which Mr. Edward D. Adams and Mr. Brayton Ives, respectively, are Chairmen, a plan has been prepared for an independent reorganization of the Northern Pacific Railroad System on a basis of fair treatment to all classes of security holders, and of fixed charges on the reorganized property reduced to an amount believed to be well within its demonstrated earning capacity. This plan has been prepared with our joint approval and co-operation; and, in conformity with an arrangement with the Committees, we have undertaken to act in carrying it into effect.

The plan also has received the approval of the representatives of a majority of the mortgage bonds now in course of foreclosure, and upon which the reorganization is based.

To carry out the plan the following securities will be created:

First.—Prior Lien One Hundred Year 4 Per Cent. Gold Bonds for \$130,000,000.

These bonds are to be secured by a mortgage upon the main line, branches, terminals, land grant, equipment and other property, embraced in the reorganization as carried out, and also all other property thereafter acquired by the use of any of the bonds to be issued under this mortgage, or the General Mortgage hereinafter mentioned.

The proceeds of the lands applicable to these bonds after the retirement of the General First Mortgage Bonds (as provided further on) will be applied, one-half, but not in any one year exceeding \$500,000, to the purchase of the Prior Lien 4 Per Cent. Bonds at not exceeding 110 per cent., and their cancellation; and the remainder, under carefully-guarded restrictions, will be used for betterments and additions to the property pledged as security for the bonds.

Whenever these bonds cannot be purchased at the maximum price, the unapplied land proceeds for that year will be used to purchase the General Lien 3 Per Cent. Bonds at not exceeding 100 per cent., and their cancellation.

Second.—General Lien 150-Year Three Per Cent. Gold Bonds, limited in amount to \$60,000,000, in addition to a reserve for the 100-year four per cent. Prior Lien Mortgage of \$130,000,000.

These bonds are to be secured by a mortgage second in lien to the Prior Lien Mortgage, and covering the same property.

Third.—Preferred Stock, Four Per Cent. Non-Cumulative, limited in amount, under the Plan, to not exceeding \$75,000,000, which amount can be increased only with the consent of Preferred and Common Stockholders, as provided in the Plan. All the Preferred Stock will be registered and transferable, at the option of the holder, either in New York or at the Deutsche Bank, Berlin. Dividends upon stock registered in Berlin may be collected there at the rate of 4.20 marks per dollar.

Each share of this Preferred Stock will be entitled to non-cumulative preferential dividends out of surplus net earnings to the extent of four per cent. per annum without deduction for any United States, State or Municipal taxes which the Railroad Company may at any time be required to pay or retain therefrom. In any fiscal year in which 4 per cent. dividends shall have been declared on both Common and Preferred Stock, all shares, whether preferred or common, shall participate equally in any further dividends for such year.

After the termination of the Voting Trust hereinafter provided for, the Preferred Stock will have the right to elect a majority of the Board of Directors of the new Company whenever for two successive quarterly periods the full and regular quarterly dividends, at the rate of four per cent. per annum, are not paid in cash.

The right will be reserved to the New Company to retire this stock, in whole or in part, at par, from time to time, upon any first day of January during the next twenty years.

Fourth.—Common Stock to the amount of not exceeding \$80,000,000.

In furtherance of the independent reorganization and the administration of the property and its securities, both classes of stock of the new Company (except such shares as may be disposed of to qualify directors) are to be vested in the following five Voting Trustees, viz.: J. Pierpont Morgan, Georg Siemens, August Belmont, Johnston Livingston and Charles Lanier, for five years, although, in their discretion, the Voting Trustees may deliver the stock at any earlier date. In the meanwhile the Voting Trustees are to deliver their certificates in usual form.

The Prior Lien bonds are to be appropriated approximately as follows:

To retire an equal amount of General First Mortgage Bonds.....	\$41,879,000
To provide for the conversion and, so far as necessary, for the Sinking Fund of the General First Mortgage Bonds (any amount not so used to be added to the reserve for new construction, etc.)	14,657,650
For the payment of Receivers' Certificates and Equipment Trust, and for the conversion of the Collateral Trust Notes and the General Second Mortgage Bonds.....	40,040,350
Total present issue under the Plan, estimated at	\$96,577,000
Reserved to provide at their maturity for an equal amount of Bonds of the St. Paul & Northern Pacific Railroad Company	8,423,000
Estimated amount to be reserved for new construction, betterments, equipment, etc., under carefully-guarded restrictions in the mortgage, and to the extent of not exceeding \$1,500,000 per annum	25,000,000
Total authorized issue.....	\$130,000,000

The General Lien bonds are to be appropriated approximately as follows:

For the conversion of the General Third Mortgage Bonds, Dividend Certificates, and the Consolidated Mortgage and Branch Line Bonds under the Plan	\$56,000,000
Estimated amount to be reserved under carefully-guarded restrictions in the mortgage, for new construction, betterments, equipment, etc	4,000,000
Total issue in excess of Prior Lien Bonds, estimated at	\$60,000,000
Reserved to provide for the Prior Lien Bonds at their maturity in 100 years ...	130,000,000
Maximum amount of both Mortgages.....	\$190,000,000

The Preferred Stock is to be appropriated approximately as follows:

For conversion and adjustment of various Main Line and Branch Line Mortgage Bonds and the defaulted interest thereon, and other purposes, as provided in the Plan.....	\$72,500,000
Estimated amount which may be used for reorganization purposes or may be available as a Treasury asset of the new Company....	2,500,000
	\$75,000,000

The Common Stock is to be appropriated approximately as follows:

For purposes of the reorganization, as provided in the Plan	\$77,500,000
Estimated amount which may be used for reorganization purposes or may be available as a Treasury asset of the new Company.....	2,500,000
	\$80,000,000

The basis of exchange of existing bonds and of sale of new stock is as follows:

	Receive:				
	Cash.	New Prior Lien Mortgage Bonds.	New General Lien Mortgage Bonds.	Preferred Stock Trust Certificates.	Common Stock Trust Certificates.
General First Mortgage Bonds.....	* 3 %	135 %			
General Second Mortgage Bonds.....	† 4 %	118½ %		50 %	
General Third Mortgage Bonds.....	† 3 %		118½ %	50 %	
Dividend Certificates.....	† 3 %		118 %	50 %	
Consolidated Mortgage Bonds.....	† 1½ %		66½ %	62½ %	
Collateral Trust Notes.....	‡ 7 %	100 %		20 %	
Northwest Equipment Stock.....	¶ 100 %				
Depositors of Preferred Stock—for payment of a sum equal to \$10 per share,				50 %	50 %
Depositors of Common Stock—for payment of a sum equal to \$15 per share,					100 %

The foregoing percentages as to bonds are based upon the principal amount of deposited securities.

The payments by depositors of Preferred and Common Stock must be made in not less than three installments, at least 30 days apart, when and as called for by advertisement, as more fully provided in the Plan.

The new bonds will be in coupon form for \$500 and \$1,000 each, with right of conversion into registered bonds of \$1,000 and \$10,000. Interest on new Prior Lien Bonds issued for present General First Mortgage Bonds will start from July 1, 1896, and will be paid quarterly, as provided in the Plan. Interest on all other bonds (whether Prior Lien or General Lien) will start from January 1, 1897, payable on or before completion of the reorganization.

Equitable cash settlements will be made for fractional amounts of new bonds and stocks accruing to depositors.

* Payable April 1, 1896. This represents the coupon due July 1, 1896.

† Payable 60 days after the plan shall have been declared operative.

‡ Payable 3 per cent. on May 1, 1896; 4 per cent. on January 1, 1897.

¶ Payable at any time, in the discretion of the Managers, on or before completion of reorganization, with interest at 6 per cent. per annum from June 1, 1896.

With reference to the present General First Mortgage Bonds it may be explained that it is not sought in any way to enforce a conversion, and the offer to them is made solely upon the belief that, on the terms proposed, such conversion, while advantageous to the Company, is also manifestly to the advantage of bondholders so converting.

The present General First Mortgage Bonds mature in 1921, but are redeemable by compulsory drawings at any time at 110 per cent. from the proceeds of land sales or the fixed annual contribution by the Company to the Sinking Fund.

These compulsory redemptions in the past have been a disturbing factor in all calculations for investment purposes, and the inauguration of a new and vigorous policy for the sale of the lands may be expected from this time forward greatly to increase the amount of such redemptions.

In some years these redemptions have required large contributions from the Operating Department, even to the extent of the entire annual Sinking Fund, a sum which would provide for the annual interest on about \$19,000,000 of Prior Lien Bonds as now proposed. It is manifestly to the benefit of holders of General First Mortgage Bonds to obtain an investment of longer continuance, and it is also to the benefit of all subsequent securities to diminish this unnecessarily large burden of annual fixed charge.

A conversion on the basis indicated in the preceding table will relieve the holders of General First Mortgage bonds from these calls for redemption, which prevent their bonds from reaching the high price they would otherwise command, and also will relieve the Company from the burden of the Sinking Fund requirements, and also permit the use of a portion of the proceeds of land sales for the benefit of the property.

The General First Mortgage bonds now outstanding are at the rate of about \$20,466 per mile. The proposed Prior Lien Bonds, including those reserved for the St. Paul and Northern Pacific Bonds, will amount to about \$22,310 per mile, and will cover all the Equipment and the Branches and Terminals as proposed under the Plan.

The annual fixed charges for interest and sinking funds on the present General First and Divisional Mortgage Bonds are at the rate of \$1,618 per mile, while it is estimated that on the Prior Lien Bonds they will amount to only \$935 per mile.

A Syndicate of \$45,000,000 has been formed to provide the amounts of cash estimated as necessary to carry out the terms of the plan of

reorganization, to furnish the new Company with cash working capital and with a sum estimated at \$5,000,000 for early use in betterment and enlargement of its property.

The adjusted net earnings of the Northern Pacific System for the past five years show an average surplus over the fixed charges under the plan of reorganization of about \$1,800,000 per annum, a sum sufficient to pay an annual dividend of about 2½ per cent. on the new Preferred Stock. Included in this period were the last two fiscal years, when, owing to a combination of unfavorable circumstances, earnings fell to abnormally low figures, thus greatly reducing the average. Even for the present year, notwithstanding the great disadvantages under which the system is operated, the earnings promise to amount to a sum which would pay 2 to 3 per cent. dividend on the new Preferred Stock when the property shall have been relieved from its present legal entanglements and excessive financial burdens. It is believed, as it seems to us with good reason, that, in the future these earnings can be greatly increased.

All holders of bonds and stock affected by the plan may now deposit their securities with either of us at our offices, receiving therefor negotiable receipts, exchangeable at any time for reorganization certificates.

Securities not deposited as above will not be entitled to participate in the benefits of the reorganization.

Holders of receipts of the Mercantile Trust Company of New York for Bonds deposited under the existing Bondholders' Agreement of February 19, 1894, are invited, with the least possible delay, to signify their approval of this plan by producing their existing receipts at one of our offices, in order that we may stamp such approval thereon. Under the terms of the plan, the Managers have the right, which at any time hereafter, in their discretion, they may exercise, to exclude from the plan any holders of such receipts who shall not conform to the request to present their receipts for stamping, as expressly assenting to the plan.

Copies of the agreement and plan of reorganization are now ready for distribution, and all security holders are invited to obtain them from us, as all depositors are bound thereby, without regard to this circular. They set forth in detail many features which it is impracticable to condense into this circular, but which are of much importance to security holders.

[Mar. 16, 1896]

We believe that the prompt consummation of the plan will result to the best interests of all security holders, and will place this vast property on a sound and conservative basis.

Any further information connected with the reorganization, which may be desired by security holders, will be furnished on application at any of our offices.

J. P. MORGAN & CO.,

23 Wall Street, New York.

DREXEL & CO.,

5th and Chestnut Sts., Philadelphia.

DEUTSCHE BANK,

Berlin.