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THE NORTHERN PACIFIC.

THE RECEIVERS COULD NOT MAKE BOTH ENDS MEET LAST YEAR.

Net Earnings Barely Enough to Prevent the Disintegration of the Property—Status of the Reorganization Negotiations.

The report was circulated in Wall street yesterday that the negotiations between Messrs. Edward D. Adams, J. P. Morgan, and President James J. Hill of the Great Northern Railway Company, and their immediate associates, for the reorganization of the Northern Pacific Company, which have been going on for several months past, had fallen through or been discontinued. The reason alleged was that Mr. Hill, who originally agreed to guarantee the Northern Pacific Company when reorganized \$6,200,000 of net earnings applicable to payment of interest upon the company's bonds, had declined to accept certain proposed modifications of his original proposition. It is true that Mr. Hill has declined to modify his original proposition, which, with other propositions, was embodied in a contract that was executed by all the parties in interest, including the Deutsche Bank, the largest single holder of Northern Pacific securities, at a conference held in London last spring. But it is not true that efforts to carry out the terms of what is popularly spoken of as the London agreement have been abandoned.

There is excellent authority for the statement that Mr. Hill stands ready to carry out his part of that agreement whenever the Northern Pacific Railroad shall have been reorganized. The difficulty all along has been that various counsel for the Adams Reorganization Committee and for certain bankers interested in underwriting the plan of reorganization have asserted that the Great Northern Railway Company could not legally hold the control of the Northern Pacific Company nor guarantee its bonds. The answer of the Great Northern people has been that their charter, which is nearly forty years old, confers upon the company the power to do precisely what Mr. Hill proposes. All of the counsel of the Great Northern Company are unanimous upon this point.

Chief among the suggestions of the bankers and the Reorganization Committee is one for the formation of a third company to hold a majority of the stock of the reorganized Northern Pacific Company and also a majority of the stock of the Great Northern Company. This proposition was submitted to the various parties in interest a few weeks ago when Mr. Hill was in this city. He went home saying he would think the matter over. He returned on Monday, and on Tuesday informed Messrs. Adams, Morgan, and others interested with them that the third company plan did not appeal to him, and that he had decided to stand upon his original proposition. Mr. Hill maintains, it is understood, that to seek to control or operate the Northern Pacific road to a third company or by any indirect means would be a reflection upon the chartered rights of the Great Northern Company.

The argument is also advanced that the history of the Oregon and Transcontinental, the Richmond Terminal, and other companies formed solely to control railway properties have turned out so disastrously that that method has fallen into disrepute. Another argument against the third company is that the Northern Pacific would not derive the full and direct benefit of the credit of the Great Northern Company, and that to place the third company above suspicion a large amount of money, say \$15,000,000, would have to be placed in its treasury as a guarantee that it would live up to its obligations. The capital of such a company would easily run up to \$100,000,000, upon which a large sum would have to be paid annually in taxes, and, besides, the character of the company would make it a target for politicians and unscrupulous officials.

Mr. Hill's determination, announced on Tuesday, not to modify the original agreement in favor of the third company scheme, did not result in the breaking off of the negotiations; on the contrary, conferences between the several leaders and their lawyers were going on all of yesterday. Mr. Hill started for his home last night.

As bearing upon the claim which the President of the Northern Pacific Company is endeavoring to maintain at Seattle, that Judge Jenkins had no jurisdiction over the property of the company in appointing the receivers, it is interesting to note that in 1875 George W. Cass was appointed receiver of the Northern Pacific Company by a United States Circuit Court in the State of New York, and served in that capacity without question until the company was reorganized.

So much has been said recently regarding the probable net earnings of the Northern Pacific Company for the year ending June 30, on account of their bearing upon the reorganization, that it seems desirable to correct certain misleading statements regarding them. The figures of the operations of the company for June have not yet been made public, and they may not be for some little time to come, as the receivers are making up an annual statement that will include them. It can be stated, however, without fear of contradiction, that when the figures for the year are made up they will not show, as frequently asserted, net earnings of more than \$6,200,000, the amount of the proposed Great Northern guarantee.

The annual statement when made up will show receipts from all sources of approximately \$6,689,782, and this result has been spoken of as net earnings. It is far from being that. From this amount must be deducted the rentals, which include the interest paid on Duluth and Manitoba and Spokane and Palouse divisional bonds, taxes, and several hundred thousand dollars earned by branch roads not owned or covered by Northern Pacific mortgages, and which consequently belong to the bondholders of those branch lines as part of their rental. The total of these items for the year ending June 30 last will not be far from \$2,351,839. Deducting this from the total net receipts, as given above, and it appears that the net earnings are \$4,337,943, or nearly \$2,000,000 less than the proposed guarantee of the Great Northern Company.

The disposition of the net earnings, as just shown, during the year ending June 30 was under the following heads: Sinking fund and interest on the first general mortgage bonds, sinking fund and interest on the Missouri division bonds, sinking fund and interest on Pend d'Oreille division bonds, interest on receivers' certificates, miscellaneous interest on receivers' obligations, and interest on collateral trust notes. All of these payments are obligatory to retain the main line intact, to prevent the receivership from being in default, and to retain possession of valuable properties such as the St. Paul and Northern Pacific road, the securities of which are pledged under the collateral trust notes. The amount of these disbursements is \$4,366,822, against actual net earnings of \$4,337,943, showing that the receivers have run behind \$28,879 in managing the property during the last fiscal year.

There is not included in the above disbursements the annual interest charge of \$210,000 on the company's equipment trust bonds, nor has any payment been made on account of the principal of those bonds. It appears that there is not a dollar available for the second, third, and consolidated mortgage bonds, and obviously no provision can be made from current receipts for the physical rehabilitation of the property, which, according to all accounts, is sadly needed, both for safety and to reduce the expenses of operating the road.