

LAKE SUPERIOR IRON AND CHEMICAL REORGANIZATION.

Bondholders Are Asked to Give up Their Mortgage Rights and Take Preference Stock.

In October, 1910, the Lake Superior Iron and Chemical Company sold in London £616,420, or \$3,000,000 6 per cent. first mortgage gold bonds at par. Already the company has encountered trouble and has proposed a reorganization scheme. According to the prospectus, the company's average earnings for five years were "more than sufficient for interest requirements on all the bonds now issued, although they provide nearly \$3,000,000 of new money for extensions and working capital." Further, according to an independent expert valuation, the total real property and plant on which the bonds were a specific first charge amounted, together with the cash, to \$8,558,903, which compared with a total of first mortgage bonds then and now outstanding of \$6,500,000. It was on the strength of these figures and also of the good names on the prospectus, that the bondholders put up their money.

Plan of Reorganization.

According to a plan of reorganization, drawn up and urged by a committee, the holders of the first mortgage bonds are to be asked to give up their mortgage rights, and to accept in exchange an equal amount of six per cent. cumulative preference stock of the reorganized company and 50 per cent. of common stock.

Discussing this proposal, in sarcastic vein, the London Financial Times says:—"The reason for the step from the company's point of view is perfectly simple. The existence of a large bonded debt, it blithely says, is proving a serious detriment to your company . . . because it seriously hampers, and may soon prevent, the obtaining of the banking facilities required to carry the large stocks of iron which accumulate at such times. We admit that creditors are often a nuisance. Mr. Micawber was not the only person who has found them so. We confess, too, that getting rid of awkward creditors by confiscating their security is a plan delightfully simple, but in the Old World, at any rate, it is still regarded as somewhat unorthodox, to put it mildly. From the bondholders' point of view, what is there to be said for the scheme? Is it that the company has got into such dire straits that the only hope for the bondholders is to find money, or submit to money being found, upon a prior lien bond? According to the reorganization committee's own statement, this is not so. We are told that for the six months ended 31st March, 1913 (the last figures available), the company showed net profits of \$341,777, which is more than sufficient to meet all charges for the same period. It is true that, they add, owing to the cash position having been so seriously impaired during the period of reconstruction the money required for the coming July coupon will not be available.

What is the Explanation?

"That is unfortunate, but a temporary scarcity of available funds in the circumstances is not disastrous, and is no argument for the acceptance of this scheme. It is mentioned, with an emphasis intended to coax the bondholders to submit to the plan, that no mortgage shall be placed on any of the properties of the company while the preferred stock (including that to be given in exchange for the bonds) remain outstanding, except under certain special conditions. The company wants \$700,000 in cash for construction work, but that is all to be found by an assessment upon the present issues of preferred and common stocks.

"Why, then, if the company is earning its charges and can raise the fresh funds needed by a call upon the stockholders, does it seek to tamper with the security solemnly pledged to the bondholders? There seems to be only one explanation. Amongst the liabilities appearing in the balance sheet as at 31st December last is an item, Bank loans secured by pig-iron warrants \$629,200. It is not difficult to believe, having regard to the depression in the iron trade referred to in the company's reports, that the collateral security given to the bank in the form of pig-iron warrants is not as good as it was. By taking away the charge given to the bondholders the bank loans referred to would possess a first lien upon the company's property and plant, and thus loans which may at present rest upon questionable security would automatically become adequately covered.

Position of the Bondholders

"With all the other details of the scheme we are not greatly concerned. For instance, there is the position of holders of the \$640,000 of six per cent. five-year notes (secured by a second mortgage upon the company's property), who are asked to exchange their notes for 95 per cent. of preferred stock. The exchange, we believe, would confer an advantage upon these holders as compared with the first bondholders if the prices they gave for their scrip be taken into account, and in any case their main interest is to see the company continue as a going concern, for the exercise of foreclosure rights by the first mortgage bondholders would have awkward consequences to those having a junior charge. It is, however, of

secondary importance to discuss the scheme as it affects the noteholders and the stockholders.

"The consideration that dwarfs all others is the assurance of those who, after getting the public to subscribe at par for bonds solemnly declared less than three years ago to be secured by an absolute first mortgage upon assets worth over 130 per cent. of their face value, now seek, with no apparent reason other than to give a benefit to specifically unsecured creditors, to take away that first mortgage and reduce the first bondholders themselves to the rank of unsecured creditors. That the bondholder whose judgment is unfettered by any other consideration than that of his bond will resist the scheme tooth and nail goes without saying. If by some strange combination of circumstances the plan is forced through, we can only say that an interpretation will be put upon a first mortgage in an American company (this one was incorporated under the laws of the state of New York) that will make the British capitalist, when offers from the same quarter are made to him, button up his pocket."

FIRE INSURANCE IN SASKATCHEWAN.

There are 85 companies duly licensed to write fire insurance in Saskatchewan, of which 83 are foreign companies and two incorporated by the Saskatchewan legislature. Of these companies, 73 hold licenses from the superintendent of insurance at Ottawa, with whom the deposits to protect the policyholders are made. The remaining 12 have deposited with the minister at Regina the securities required by the Saskatchewan Fire Insurance Act. In addition to the above stock companies, there are 9 mutual companies of which number 4 were organized under the mutual fire insurance act of Saskatchewan, and five incorporated elsewhere but registered under the foreign companies act with the registrar of joint stock companies.

Two companies, the Western Union of Vancouver and the Winnipeg Fire are withdrawing from the province, having reinsured with the Pacific Coast and the Nova Scotia Fire respectively. At present two companies, the Equitable Fire and Marine Insurance Company and the Mount Royal Assurance Company are applying for admission into the Saskatchewan field.

Fifty-eight companies have filed their reports of 1912 business, which shows that last year the amount of risks written totalled \$78,039,071.88 with premium income of \$1,662,985.15. The net amount at risk during 1912 as reported to June 12th was \$70,304,665, with premium income of approximately two million dollars.

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