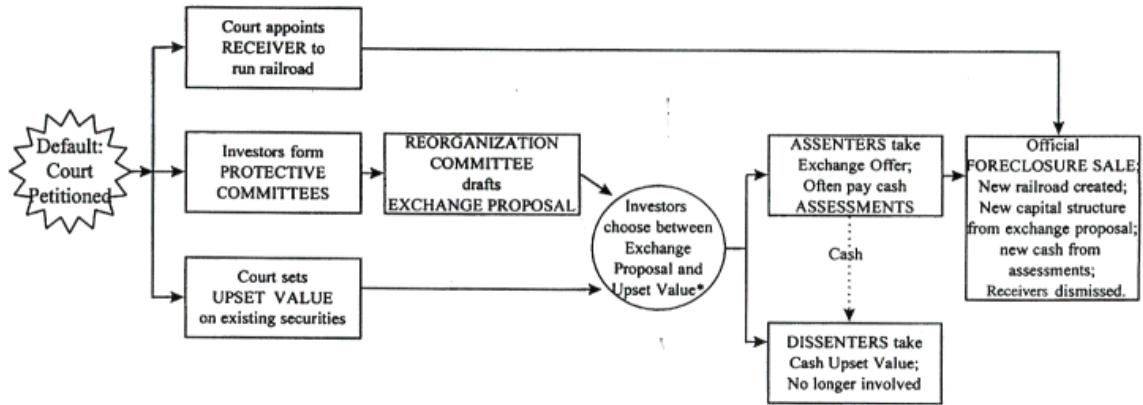
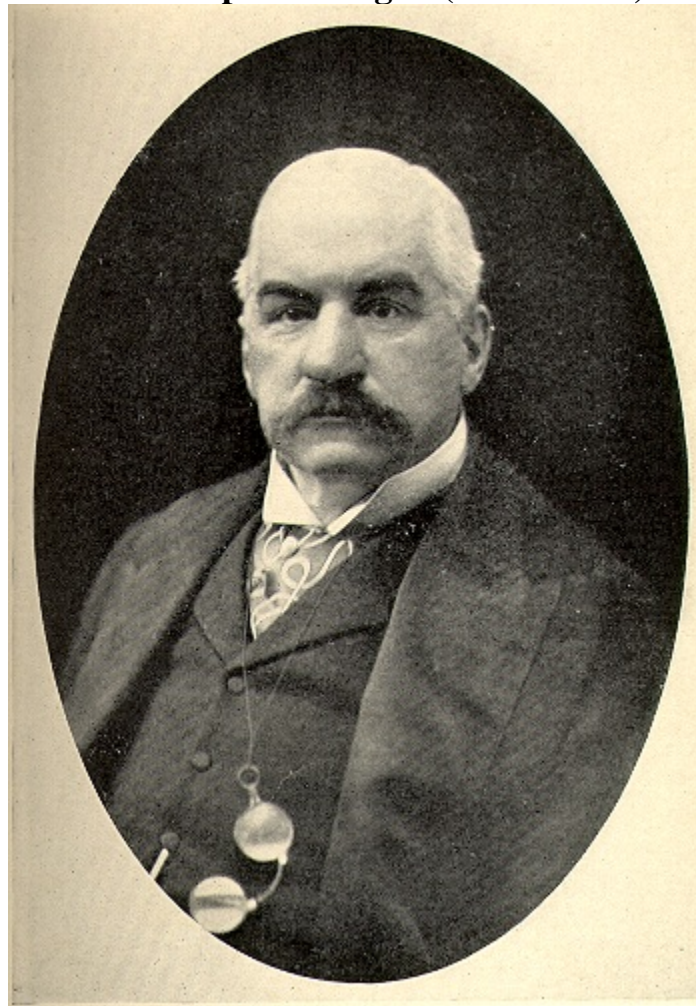


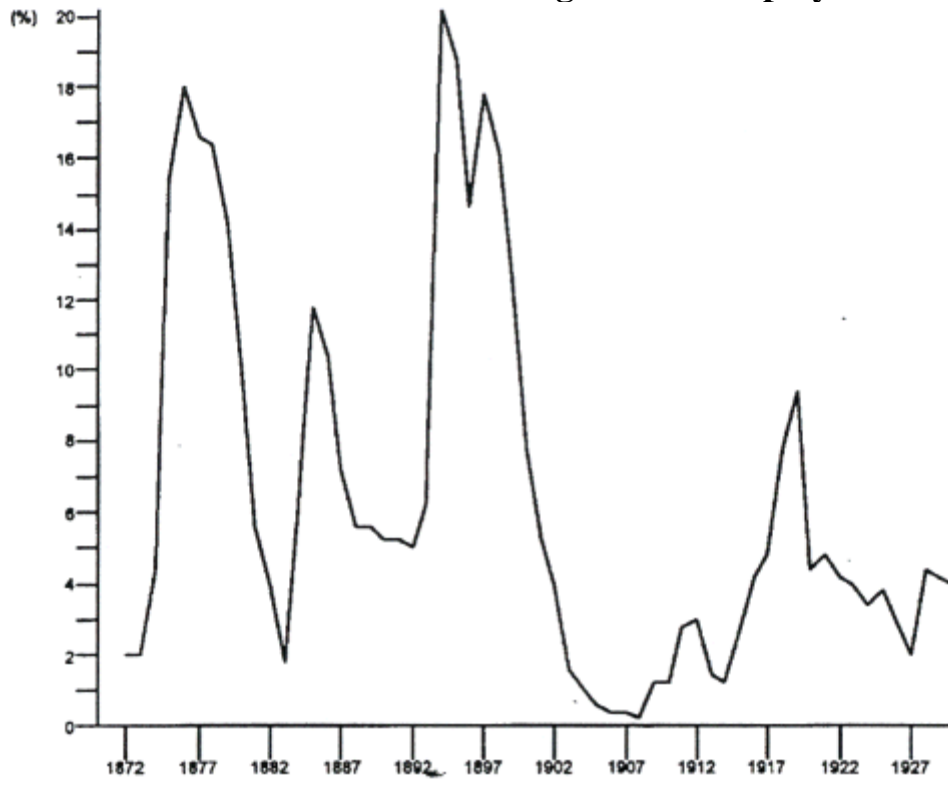
The Mechanics of "Equity Receivership"



John Pierpont Morgan (1837 - 1913)



Percent Railroad Mileage in Bankruptcy



Morganization: How Bankrupt Railroads were Reorganized

- 1. American Railroads usually were financed with first mortgage bonds with a gold clause that guaranteed the payment of principal and interest in gold.**
- 2. These bonds were fully negotiable and were backed by a *lien* upon the land under the Railroad -- the *real* estate -- and any improvements upon it -- roadbed, rails, bridges, etc.**
- 3. The owners had the right to foreclose -- that is, go into court and seek to protect their rights under the lien including seizure of the physical assets.**
- 4. The Railroads had to keep running, so Equity Receivership had to be used. *Liquidation* was out of the question.**

Solution: Reorganization (Morganization)

- 1. New Securities were exchanged for the old to bring the debt down to a level such that operating revenue was sufficient to pay the dividends.**
- 2. The Railroad was reorganized by Morgan's Lawyers and skilled Railroad Managers.**
- 3. A *Voting Trust* was set up to control the Railroad. The owners of stock with voting rights in the reorganized company had to place their shares in a trust that gave Morgan's associates voting control of the Board of Directors of the Railroad. In effect, J. P. Morgan staked his name and reputation on the solvency of the Railroad and this made it attractive to outside investors.**