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KILPATRICK-KOCH DRY GOODS COMPANY.

THE PACIFIC RAILROADS

Review of Their Condition and Prospects from a Government Standpoint.

SECRETARY SMITH ON NATIONAL CONTROL

Feasible and Profitable Plan. Fortified by Statistics—Reference to a Commission Recommended.

The report of Hon. Hoke Smith, secretary of the interior, contains an extended review of the relations of the national government with the bond-aided Pacific railroads, their earnings, debts and obligations, and the several plans offered for a settlement of the government's claim. Included are statistical tables showing the amount of bonds issued and the date of maturity, also the secretary's conclusions as to the best means of protecting the government's interests.

That portion of the report will interest the great west, and is as follows: The government directors of the Union Pacific Railroad company, as the result of a personal inspection and examination of the railroad, its roadbed, and all its appurtenances and rolling stock, as operated and maintained by the receivers, find the physical condition of the properties "up to the best standard."

They also submit a comparative statement of the results of financial operations for the years ended June 30, 1894 and 1895, which exhibits a decrease in the gross earnings of the aided or main line (bridge junction Omaha, Neb., to a point five miles west of Ogden, Utah, 1,029.484 miles, said five miles being leased to and operated by the Central Pacific), of \$916,000.

The report reviews at considerable length the litigation pending in the courts of Colorado, Kansas and Nebraska, having for its object the foreclosure of certain mortgages upon the properties of the Union Pacific (main line), the Denver Pacific and the Kansas Pacific, foreclosures suits having been instituted by reason of the inability of the receivers to meet, at maturity, the interest falling due on the various mortgages. It presents questions of "great gravity, to which the attention of the department and of congress is seriously invited," to wit:

(1) Whether the properties of that part of the Kansas Pacific which lies east of the Kansas-Missouri state line and which embraces valuable terminals in Kansas City are subject to the government lien, and (2) what would be the effect upon the latter of a decree of foreclosure and sale of the properties on the main line of the Union Pacific?

One of the government directors, Mr. W. J. Coombs, in a written communication to his associates and creditors, presents his views with reference to an adjustment of the government debt. This communication is submitted as part of the report, and is as follows: The action proposed, which will probably take the form of a bill to be presented to congress, is as follows:

For the purpose of reaching a reasonable basis of settlement, and also affording to the government the protection which the present situation appears to require, we suggest the following action:

"First. The attorney general shall, immediately after the maturity of any portion of the debt due to the United States from the Union Pacific Railway company or the Central Pacific Railway company, institute proper proceedings for the protection and foreclosure of the lien of the United States from Omaha to Ogden and similar proceedings for the protection and foreclosure of the lien of the United States from Ogden to Sacramento and thence to San Jose.

"Second. The secretary of the treasury shall have the power to pay, settle and adjust all amounts due to become due for principal and interest which are secured by

liens prior to the said liens of the United States affecting the properties above referred to, including the power to take assignments of any foreclosures decrees or mortgages securing such prior liens, if necessary.

"Third. The entire railroad property affected by said government liens, extending from Omaha to San Jose, shall, under orders of court to be entered in the suits to foreclose the said liens, be forthwith sold, under the direction of the secretary of the treasury, to such purchasing committee or corporation authorized to take title to the same as will agree to refund the entire amount advanced by said government, with interest or purchase of prior liens, and of the interest on the same, and an amount not to be less than a sum limited by congress as to the minimum to be received in satisfaction of its claims against the Union Pacific Railway company and the Central Pacific Railway company.

"If at such proposed sale no committee or corporation will bid the minimum price so fixed, it shall be the duty of the secretary of the treasury to report the facts to the next session of congress for such further action in regard to the minimum bid as congress may think proper to take.

"The purchasing committee or corporation purchasing said railroads shall have power to possess, control and operate the same, and to complete construction between Sacramento City and Oakland, shall not be allowed to consolidate with other transportation lines and shall be subjected to reasonable conditions as to freight and passenger fares."

The object of the proposed bill, as stated by Mr. Coombs, is to realize the intention of congress in extending aid in the construction of what was expected to be a union transportation system from the Missouri river to the Pacific ocean.

A violation of this understanding is, in his opinion, a main cause of the present deplorable condition of the Union Pacific railroads, and no settlement should be effected until the terms of the Southern Pacific, to which the Central Pacific has been leased and of which it is under full control, are being brought to bear upon ship-companies who wish to ship by the Central route to the east to compel them to ship by the Southern route.

The terms desired and the object proposed by Mr. Coombs can only be reached, in his opinion, by effecting a reorganization of the main lines of the Union and Central Pacific railroads, and no settlement should be effected which does not include in its terms a settlement with both companies.

He declares that this demand should be insisted upon by the government, even to the extent of foreclosing its lien, if it cannot be brought about by amicable arrangement.

GOVERNMENT BONDS ISSUED.

Reports of the commissioners of railroads show the bonds issued by the government for the aid of railroads to be as follows:

Union Pacific Railroad—Maturity of bond:	1886	1887	1888	1889	1890	1891	1892	1893	1894	1895
January 1, 1887	3,200,000									
January 1, 1888	1,500,000									
January 1, 1889	1,500,000									
January 1, 1890	1,500,000									
January 1, 1891	1,500,000									
January 1, 1892	1,500,000									
January 1, 1893	1,500,000									
January 1, 1894	1,500,000									
January 1, 1895	1,500,000									
Total	15,000,000									

FIRST MORTGAGE BONDS.

The lien of the bonds issued by the United States was made subordinate to those issued by the railroad companies, except as to certain provisions for the transportation of mail, government supplies, etc. In pursuance of the act of July 2, 1864, the respective railroads issued their bonds, which, under the provisions of said act, were to become first mortgage bonds. The amounts and dates of maturity of said mortgage bonds thus issued are stated below:

Union Pacific Railway, Union Division Bonds—Maturity of bond:

Year	Amount
January 1, 1887	\$ 4,475,000
January 1, 1888	1,500,000
January 1, 1889	1,500,000
January 1, 1890	1,500,000
January 1, 1891	1,500,000
January 1, 1892	1,500,000
January 1, 1893	1,500,000
January 1, 1894	1,500,000
January 1, 1895	1,500,000
Total	17,275,000

Total Union Division bonds—\$17,275,000

Kansas Division Bonds—Maturity of bond:

Year	Amount
August 1, 1885	\$ 2,240,000
January 1, 1886	4,065,000
Total	6,305,000

Total Kansas Division bonds—\$6,305,000

Central Pacific Railroad—Maturity of bond:

Year	Amount
July 1, 1885	\$ 2,955,000
July 1, 1886	2,955,000
July 1, 1887	2,955,000
July 1, 1888	2,955,000
July 1, 1889	2,955,000
July 1, 1890	2,955,000
July 1, 1891	2,955,000
July 1, 1892	2,955,000
July 1, 1893	2,955,000
July 1, 1894	2,955,000
July 1, 1895	2,955,000
Total	29,550,000

Sioux City & Pacific Railroad—Maturity of bond:

Year	Amount
January 1, 1888	\$ 1,628,000
Total	1,628,000

Total first mortgage bonds—\$64,613,000

It will be seen by a comparison of the two sets of bonds that those issued as first mortgage bonds by the railroad did not in all cases follow the requirements of the act of July 2, 1864, and that they are not of even tenor and date, time of maturity, etc., and that the bonds authorized to be issued to said railroad companies by the government, the dates of the maturity of these bonds disclose the fact that a bond for the Kansas Pacific, for which the Union Pacific was liable, matured on the 1st of November of this year, while a bond for which the Central Pacific was liable matured on the 15th of January of this year. It will also be seen that a number of these bonds mature early in the next year, and all of them mature by the 1st of January, 1899. It would seem, therefore, to be impossible for congress longer to postpone action with regard to these bonds and the property upon which they constitute a lien.

THE GOVERNMENT'S INTEREST.

In determining what course should be pursued, two objects will receive consideration: (1) The collection of the debt due to the government, and (2) The creation of a great through line from the Missouri to the Pacific. This was the original purpose of the government, leading to the issue of these bonds.

I will not undertake to review the conduct of those who have managed this property, and who have misused the government's aid. A most interesting presentation of the facts will be found in the report of the commission appointed under authority of an act of congress approved March 3, 1867, consisting of Messrs. Anderson, Littler and Patterson. If a suggestion of leniency on the part of the government should be made in the interests of those who received the government's bounty, a study of the facts which this commission developed will show that the time has come to regard only the interests of the government.

The following table states the amount due on the subsidy bonds and the first mortgage bonds, and also gives the credits on account of the sinking fund. It shows what would be the investment of the government in these properties if it is compelled to pay off the first mortgage bonds, which alone are superior to the government lien. It would be an increased investment of \$64,613,000 to save an investment already made of \$117,436,000. As the properties are worth very much more than the first mortgage bonds, and as the government has the second mortgage bonds, the government occupies the position of being forced to make good the first mortgage bonds in order to secure its own claim. If the first mortgage bonds on any plan of extension are simply those of the railroad company, they could not be disposed of at the low rate of interest at which the government bonds would sell. As the interest which they would draw comes out of the property to which the government must look for a payment of the second mortgage bonds, it would seem clearly

better that the government should assume the first mortgage bonds, guarantee them and put the rate of interest at the figure for which the government bonds sell if the bonds are to be renewed or extended.

COST OF CONTROL.

Cost to the United States of obtaining possession, by foreclosure, of the bond-aided Pacific railroads, as of date June 30, 1895:

Item	Amount
Principal of the United States subsidy bonds	\$27,205,512.00
Interest on same June 30, 1895	27,855,000.00
Total	\$55,060,512.00

Cost of acquiring properties—\$66,658,300.00

Total issue of bonds by the government upon the bond-aided lines amounts to \$64,613,000. Interest on the same to June 30, 1895, is \$105,055,000.00. If the government has the right to apply the sinking fund collected under the act of 1875, known as the Thurman funding act, a credit can be made upon this amount of \$52,874,096.74, leaving a total due the government of \$117,436,002.99.

A study of the act referred to must create a doubt as to the application of this sinking fund to the sinking fund to be collected. It should be distributed according to existing priorities and not to the government alone. The right, however, of the government to apply the sinking fund to its debt by charging material in fixing the time when defaults on the part of roads occur, for the properties are worth much more than the first mortgage bonds.

The following tables show the gross receipts, expenditures and net receipts of each of these roads for the past ten years:

UNION PACIFIC RAILROAD COMPANY.

Year	Gross Receipts	Expenditures	Net Receipts
1885	\$12,215,484.71	\$7,706,656.61	\$4,438,878.10
1886	12,190,038.00	7,695,812.58	4,454,225.42
1887	12,709,705.25	7,426,812.58	5,282,892.67
1888	14,511,567.45	10,418,260.76	4,093,306.69
1889	14,418,859.15	10,478,864.46	3,939,994.69
1890	15,180,216.36	11,184,242.92	3,995,973.44
1891	14,620,722.23	10,828,010.94	3,792,711.29
1892	14,620,722.23	10,828,010.94	3,792,711.29
1893	13,136,011.76	9,771,201.25	3,364,810.51
1894	11,766,471.57	8,264,617.77	3,501,853.80
Total	\$126,191,766.87	\$89,900,915.76	\$36,290,851.11

Expenditures include annual interest on first mortgage bonds, \$1,628,740.

CENTRAL PACIFIC RAILROAD COMPANY.

Year	Gross Receipts	Expenditures	Net Receipts
1885	\$5,849,214.78	\$5,085,655.76	\$763,559.02
1886	6,235,484.45	5,391,802.17	843,682.28
1887	8,525,803.92	6,273,215.92	2,252,588.00
1888	9,178,267.65	7,631,915.49	1,546,352.16
1889	8,711,414.45	6,622,491.84	2,088,922.61
1890	8,745,785.27	7,305,585.19	1,440,200.08
1891	9,646,296.84	7,627,381.61	2,018,915.23
1892	9,646,296.84	7,627,381.61	2,018,915.23
1893	8,413,829.24	7,469,928.28	943,900.96
1894	8,256,312.57	7,284,917.10	971,395.47
Total	\$82,255,677.89	\$76,541,456.85	\$5,714,221.04

Expenditures do not include annual interest on first mortgage bonds, \$373,187.

CENTRAL BRANCH UNION PACIFIC RAILROAD COMPANY.

Year	Gross Receipts	Expenditures	Net Receipts
1885	\$1,547,791.79	\$1,011,911.99	\$535,879.80
1886	1,742,262.78	1,201,511.54	540,751.24
1887	2,257,667.65	1,387,192.48	870,475.17
1888	2,418,629.79	1,617,196.46	801,433.33
1889	2,643,121.33	1,705,548.93	937,572.40
1890	2,643,121.33	1,705,548.93	937,572.40
1891	2,643,121.33	1,705,548.93	937,572.40
1892	2,643,121.33	1,705,548.93	937,572.40
1893	2,643,121.33	1,705,548.93	937,572.40
1894	2,643,121.33	1,705,548.93	937,572.40
Total	\$22,255,677.89	\$15,841,456.85	\$6,414,221.04

Expenditures do not include annual interest on first mortgage bonds, \$373,187.

1894 376,153.89 284,490.27 91,753.62

Total \$5,524,448.31 \$2,644,555.93 \$2,879,892.38

Av. 10 yrs. 552,444.83 264,455.59 287,989.24

Expenditures do not include annual interest on first mortgage bonds, \$85,000.

SIoux CITY & PACIFIC RAILROAD CO.

Year	Gross Receipts	Expenditures	Net Receipts
1887	\$47,965.26	\$2,885.51	\$45,079.75
1888	47,965.26	2,885.51	45,079.75
1889	55,034.12	3,093,653.38	248,380.74
1890	51,290.66	275,617.77	141,672.89
1891	58,719.07	622,964.99	235,824.07
1892	64,263.29	275,617.77	345,345.52
1893	45,395.84	20,460.28	24,935.56
1894	48,146.73	49,725.47	2,421.26
1895	47,512.12	20,460.28	27,051.84
1896	41,828.08	284,620.37	152,257.71
Total	\$488,211.25	\$3,138,236.79	\$1,754,074.46

Av. 10 yrs. 48,821.12 313,823.68 175,407.44

Expenditures do not include annual interest on first mortgage bonds, \$7,689.

It will be seen that the average annual net earnings of the Union Pacific and Central Pacific main lines during the past ten years have been \$8,181,220, while the total amount of the first mortgage bonds and the government bonds issued upon the main lines, less the sinking fund for the main lines, is \$152,245,551.66. This annual net profit shows the properties to have earned nearly 6 per cent on the entire amount which the government has paid and would pay if it were compelled to pay off the first mortgage bonds.

FIOHABIAN NET PROFIT.

The following table is prepared for the purpose of showing the probable net profit each year after paying interest charge upon the main lines of the Union and Central Pacific, if the government should be compelled to take up the first mortgage bonds and the bonds it has already issued, substituting for both sets of bonds government 3 per cent bonds:

Year	U. P. Ry.	Cent. P. Ry.	Total
Av. gross receipts 10 yrs.	\$13,619,176.04	\$8,550,056.56	\$22,169,232.60
Av. gross receipts 10 yrs.	9,805,901.97	6,584,802.22	16,390,704.19
Av. net receipts 10 yrs.	\$3,813,274.07	1,965,254.34	\$5,778,528.41

VARIOUS PLANS CONSIDERED.

As the original government bonds and the first mortgage bonds are about due, they can be paid off at their face value, and as a government 3 per cent bond is worth more than par at the present time, there would be no difficulty in utilizing a new 3 per cent bond to pay off or call in both of the other issues.

It will be seen that if such a course were pursued by the government and this property averaged in the future the same net profit toward the liquidation of the entire bonded indebtedness.

There are various ways in which the interests of the government could be intelligently handled. I present this additional

plan because it is feasible and because it shows a way by which the government could at the collection of its debts by reducing the fixed charges on the road to the lowest possible figure. It is, of course, most desirable that the government should at once terminate its connection with the property and rid itself of the indebtedness which it has assumed. To accomplish such a result as government no doubt would be ready to submit to a reasonable loss. To reduce the loss to the lowest point it will be necessary for the government to negotiate with possible purchasers, and the sum which will be obtained must depend, at least in part, upon the knowledge of those who desire to buy that, as a last resort, the government will pay off the first mortgage bonds and protect its property.

A plan for the reorganization of the Union Pacific Railway company has been prepared by a committee consisting of General Lewis Fitzgerald and others. An examination of their plan shows that the securities which they mention as reserved for the settlement of the debt to the United States consist of \$35,750,000 of first mortgage bonds, \$10,000,000 of bonds of an issue of one hundred millions, and \$20,864,400 of preferred stock of an issue of seventy-five millions.

According to the estimates contained in their plan, these securities should be worth in round numbers \$45,000,000, against a balance due the government of \$55,000,000. If the government is to deal with this subject in connection with any plan of reorganization by other security holders, then the true credits offered to the government become the first mortgage bonds and the government bonds of an issue of one hundred millions, and \$20,864,400 of preferred stock of an issue of seventy-five millions.

Accord to the estimates contained in their plan, these securities should be worth in round numbers \$45,000,000, against a balance due the government of \$55,000,000. If the government is to deal with this subject in connection