

10851 Spring Knoll Drive
Rockville, Maryland
February 2, 1959

The High Commissioner
Trust Territory of the Pacific Islands
Agana, Guam

Dear sir,

Reference is made to Contract No. TT-17, as amended, for the recovery by ourselves of iron and steel scrap from the Trust Territory. This contract is very seriously in arrears insofar as royalty payments are concerned. Activities are now at a standstill in the Trust Territory.

This Corporation has certain tangible assets such as machinery and equipment, costing a tremendous amount of money, that reposes in the Trust Territory. Additionally the Corporation has a quantity of scrap generated and ready for shipment on Truk and Koror, and additional scrap ready for shipment on Angaur if a ship may be persuaded to call there. This scrap, if the quantities reported to us actually exist, would be valued at about \$45,000 in place. If all of the machinery, that cost so much to purchase, should be treated only as scrap, its scrap value ought to be perhaps \$25,000.

What shall we do? The present royalty basis is completely unworkable, and merely can result in increases in indebtedness that we can never hope to pay. But the market for ferrous scrap has increased to the point where a reasonable operation, based upon three shipments per year, may be expected, and will make a modest profit. We therefore propose for your consideration the three following alternatives:

FIRST ALTERNATIVE. This alternative is that we do nothing, return the corporate Charter to you for cancellation, and leave the scrap and equipment for local disposition.

SECOND ALTERNATIVE. This alternative is that we liquidate by making a final shipment of all possible scrap, plus all equipment not needed in the Islands. The revenue will be used as follows:

1. To defray all costs of this final shipment.
2. To pay all indigenous labor.
3. To pay all suppliers with unpaid bills.
4. To pay all unsecured creditors (i.e., Navy, T.T.P.I., and unpaid salaries and debts).

If any echelon should be reached where there are not sufficient funds to meet all claims, then claims will be paid pro rata.

To facilitate this, it is desirable that there be a trustee appointed, to whom the Corporation will convey all assets that it has. This trustee will be mutually entrusted with the duty of liquidating all corporate assets wherever found, and applying the proceeds. You have indicated to me informally that you find some appeal in this idea of trusteeship.

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The trustee should be someone versed in the scrap business, capable of carrying out the trust. I would consider Mr. Baggerly or possibly Mr. Thompson as suitable, as they know the business, can sell the scrap, and can make intelligent plans that an unversed trustee would find difficult.

An alternative to this would be a petition in bankruptcy before the District Court of the United States for the Southern District of California. Such a case would result in the appointment of a receiver and trustee, and would reverse the priorities abovementioned. Under Section 10 of the Bankruptcy Act, first would come all claims of the United States (after the cost of liquidation should be paid). Then would come unpaid wages and salaries. Since the debts to the United States under the royalty schedules furnished to you and the Navy exceed the possible assets through a liquidation shipment, this action would defeat all that we are all anxious to achieve, that is, the payment of outstanding accounts to all indigenous persons. We therefore do not plan this procedure unless you advise us that you desire it.

THIRD ALTERNATIVE. We propose that there be careful inquiry into the alternative of continuing in business, upon the basis of a reduced royalty, reduced as of a point in time when accounts would be close to self-balancing. (The contract was signed November 30, 1951, and November 30, 1955 would be such a suitable date.) We should then do the following:

A. Submit an accounting as of January 1, 1959, as has already been done, but revised to meet the new royalty schedule.

B. Survey carefully the business situation with an on-the-spot inquiry into scrap available, condition of equipment, availability of shipping, and all costs. A prospective balance sheet, incorporating all known costs and estimating the variable of the cost of labor and of the price of scrap, should be prepared by the writer while on the ground. If this appears favorable, and if it appears that the business may operate at a profit, then serious consideration should be given to a continuation. None of us should be unmindful that to date the Government has received over \$1 million cash from this contract, as royalties, that indigenous labor has been paid over \$2 million, and that the contract has greatly aided in supporting one of the two large ships in the Trust Territory, that should be present if disaster should overtake one. Because of these factors, business should continue if we are all reasonably sure that, at today's prices and under today's conditions, there is enough scrap at the right price to permit continuation at a modest profit.

C. If it is decided to continue business, all business must be solely on a cash basis. Credit has been fatal to this Corporation in Saipan, and the President was not even aware until very recently that any obligations existed. Funds reasonably sufficient to see through the next shiploading must be in hand in cash before continuing business (they are already promised).

D. Definite arrangements must be made, against a reasonably firm schedule, for shipping, at a price reflecting the present Guam-Japan freights, but on a CQD basis as regards loading time. Customary Quick Despatch is needed because of the endless quarrels with Mcline; they contend that the shipping corporations owe them money, whereas the shipping corporations contend that freights have been overpaid. This should be avoided.

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We shall be grateful for your informal views about these three approaches. It may be that none will suit you, and you may have other things in mind. If so, we shall be grateful for your own ideas. But a decision must be taken in the immediate future. As it is, the writer has borrowed and spent about \$9,000 in corporate affairs since last shiploading, merely to keep the corporation alive.

With thanks for your consideration, I am,

Yours very truly,

BRUCE AITCHISON, President
Micronesia Metal & Equipment Co. Inc.