

GREAT NORTHERN RAILWAY COMPANY,

27-29 PINE STREET,

P. O. Box 756.

NEW YORK,

September 30th 1898.

My dear Lord Mount-Stephen:-

Herewith I enclose copy of a letter to Messrs Morgan and Company, under date of the 27th instant, in regard to our Northern Pacific matters.

I have tried to recite the condition for the past year, and I think have done so accurately. I had a short interview with Mr. Morgan today. I am thoroughly convinced he does not mean to dissolve the Voting Trust or hand over the property until he is compelled to, and it is an open question whether it is worth while to compel him to or not. It is barely possible that he will give us a majority of the Board, or an even representation on the Board, he retaining the Voting Trust. I think the last year's success of the Northern Pacific is so great that he feels highly elated over it and desires to get all the credit he can out of it.

You will recall his conversation during our interview at his house a year ago last Spring when Mr. Gwinner was present. I think you will remember enough of the conversation to see that I have stated the case as I did to Mr. Morgan at that time, and you will remember he fully agreed with the statement I made. I am going to ask him tomorrow to give us three more members of the Board of Directors, and will name Mr. Kennedy, Mr. Sterling, and Mr. George Baker of the First National Bank, New York. All three of these gentlemen are large owners of Northern Pacific stock, either for themselves or, as in Mr. Sterling's case, for yourself and Lord Strathcona.

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The Northern Pacific is getting into rather unsatisfactory shape in the West. Mellen is ambitious to reduce the capitalization by increased mileage, and has had many notions for building new enterprises not one of which would be of any service to the Company. The greatest weakness of the Northern Pacific is the want of judgment and ability in directing its policy, and there is great danger of his any time starting a fire that he cannot quench.

If Morgan does not agree to give us the representation we want, and he insists, as he can under the terms of the Voting Trust unless it is contested, in which case I have no doubt it would be declared illegal, I am not at all clear that it would not be better for us to realize on our Northern Pacific holdings and wait until they make some aggressive move or give us sufficient provocation, and then give them a thorough dressing. This may no doubt appear as heroic treatment, and certainly it is exactly the object we had in mind to avoid when we invested our money in Northern Pacific, and Mr. Morgan probably could be compelled to carry out his agreement after suit at law which always takes time and money and may in the end be uncertain.

The net income of the Great Northern Railway for the next year will be from fifteen to sixteen millions. Take the former. Its interest and its dividends at seven per cent on all the stock would amount to nine and one-half millions, which would leave a surplus of five and one-half. The Northern Pacific's average rate paid by the public this year is nearly a mill and a half higher than the Great Northern's rate. In other words, if the Northern Pacific carried its



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business at the average rate of the Great Northern for the year, it would have had two millions two hundred thousand dollars less money than it actually collected on freight traffic during the year. In any contest, its rates would have to be as low as those of the Great Northern, and a reduction of two and one-half millions on ours would still leave us three millions surplus above our dividends, and bring them down four and one-half millions leaving them where they could not pay two per cent on the Preferred Stock.

If we should be unfortunately forced into a fight with the Northern Pacific, there would be no doubt as to the outcome; and the Great Northern will not at any time reduce its dividends or be found with less than a good round surplus. Of course if the Northern Pacific, after its record for the past two years, should get into a contest with us, we would have long before realized on all our investments, and could with the same money buy twice the amount of its securities after a few months contest.

I dislike to write in this vein or to consider the matter in this light. At the same time, the properties are so intimately connected that one or the other will pitch the key and dominate the policy, and I do not think there is any room for doubt as to which that one will be.

I hope, although I do not feel any confidence, that Mr. Morgan will agree to give us the representation on the Board for which I will ask him tomorrow; and in any event I propose to keep very quiet and

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have no confidant in this matter of which I am writing you so fully. We will take plenty of time, and let patience have its perfect work.

I will send you a review of the Northern Pacific report and our own, with comparisons showing the real differences. Mr. Kendrick has followed the operation of the Northern Pacific on the lines laid down over a year ago; and while the report indicates that the result is to a greater or less extent due to reductions in grades, &c., which have been carried on for several years, the actual facts are that the best results have been accomplished where the grades have not been touched and where the only change has been in the method of operation. In fact, the work of changing grades and improving the condition of the road has been going on for the past eight years and no change in operation has occurred until the past twelve months.

But enough of this. I will cable you as soon as I hear definitely from Morgan. In the meantime, kindly keep this letter in London. I find that whatever goes to Berlin comes back to Morgan's people, either through Adams or directly. The Berlin people are, I think, all right, but I hardly believe they realize the actual situation.

Yours very truly,

Right Honorable,

Lord Mount-Stephen,

Brocket Hall, Hatfield.



After my last return from New York I took up the consideration of a plan for the reduction of the capital stock of the Northern Pacific Railway. In attempting to work out any such plan I have found provision in the Mortgages and agreements connected therewith which present objections more or less difficult to overcome. At the same time, the necessity for such a reduction is so very great that the best interests of all concerned in the property, both bondholders and shareholders, demand such reduction, and that it should be made at an early day. The present heavy capitalization is a dangerous menace to the rates of the Company, as well as to every other Railway Company in the North-West.

The plan which has appeared to me as the simplest and easiest to carry out is to offer the Common shareholders to retire fifty of the eighty millions of that stock at 30% of its par value, and then allow the holders having accepted this offer to exchange the remaining thirty millions for fifteen millions of Preferred stock at the rate of two shares of Common for one of Preferred. This to be followed by abolishing the preference classification entirely and make all Common Stock. The money to carry this into effect has been partially raised by the sale of land contracts, and I believe the Pacific Coast lands can be sold so as to provide at least six million dollars more.

The retirement of the old Northern Pacific Land Grant bonds entitles the present Company to Prior Lien bonds to the amount of \$1,300. for every \$1,000. of the old bonds retired, or say \$13,000,000. for the remaining bonds of the old Company. There may be some difficulty in reconciling the interests of the Company and the Trustees under the existing Mortgages so as to enable this to be done. If the holders of Northern Pacific bonds and stock do not realize the danger which threatens the Company's existence from its over-capitalization, it may be difficult to carry such a plan as the foregoing.

Without going into further detail as to the manner in which the proposed reduction of capital can be most readily and effectively car-



ried out, the result would be to leave the Company with \$90,000,000. of stock in place of \$155,000,000. as at present, upon which to pay 6% per annum would require \$5,400,000.

The present debt per mile of the Northern Pacific Company is about \$67,000., while that of the Great Northern Company is \$29,420.

I feel very strongly that those most actively and directly responsible for the welfare of the Northern Pacific Company do not realize the danger which threatens the Company. The matter calls for the most serious consideration, and that before anything is allowed to occur which will place the Company's life in danger and make it difficult to apply a remedy which will place it on a safe basis. The rate case now on trial in North Dakota may result in a verdict fixing the value of the Northern Pacific for purposes of traffic rates at \$40,000. or \$45,000. per mile, and the latter amount is \$10,000. per mile more than an officer of the Company gave as the original cost of construction, &c. Should the Court fix the value of the property at \$45,000., there would remain no reasonable ground for appeal; and it is the opinion of good lawyers that no Court would ever reverse the judgment or increase the amount. Such a judgment would wipe out the entire present Common Stock and about one-half of the Preferred. Our Counsel has worked long and hard with Mr. Bunn, the Counsel of the Northern Pacific, in trying to win this case, upon which it may be said depends the life of the Company; and yet I venture to say that neither yourselves nor others who are responsible for the conduct of the Northern Pacific fully realize the danger which threatens the Company. During Colonel Lamont's recent visit to the West, he informed me that in conversation with some of the Western United States Court Judges voluntary reference was made by them to the high capitalization of the road, and one of them characterized any attempt to pay a dividend on the Common Stock as a fraud upon the public. I asked Colonel Lamont to advise you fully as to this matter.

I will not take more of your time to give reasons why I think the



capital stock of the Company should be reduced, but will ask to be allowed some of your time to consider the relation of myself and friends to the question of the Company's future.

When the London agreement was made in April 1896 between your house and the Deutsche Bank, on one side, and Lord Mount-Stephen and myself, on the other, for the general purposes set forth in that agreement and which was not sought by either myself or friends, the object for making the agreement was stated by Mr.Gwinner, who prepared it, and by Mr.Morgan, to be to secure the co-operation and unification of the policy of the Northern Pacific and Great Northern Companies at as early a date as was possible. Under the agreement, we paid into the hands of your house, for the purchase of Northern Pacific securities, \$3,000,000.; and later, after the re-organization had been completed, and pursuant to the terms of the agreement, you offered us the shares held by the Re-organization Committee. You will recall my taking Mr.Cannon on one occasion, and Mr.Moore on another, and in their presence telling you that unless the control of the property could be given to us within a short time, as contemplated by the agreement, we did not wish to buy the shares. Mr.Coster said the matter was in Mr.Morgan's hands, and Mr.Morgan, on his return from the country, said that when we made the purchase it would be only right that we should control the property and that it would be given to us as soon as it could be safely done, &c., and within a reasonable time. In London, in the Spring of 1897, at Mr.Morgan's house, this matter was again gone over and the same conclusions arrived at.

Speaking for myself and friends, our holding in the Northern Pacific is much larger than that of any other interest, and this investment was made with the distinct understanding on our part that the spirit of the London agreement would be treated in good faith. We have since the date of the agreement done everything in our power to advance the interests of the Northern Pacific in every material and substantial way to forward its interests under all conditions.



When Mr. Winter was selected for President, notwithstanding our large interest and our prospective interest as well, the first information we had on the subject was a notice that he had been selected. The selection proved an unfortunate one. After his resignation and Mr. Mellen was selected, you will recall my telling you that I would do the best I could to aid him in establishing the operation of the Company on lines of economy which would result at an early day in paying a dividend on its shares. Before Mr. Mellen's connection with the property, I had gone over a plan of operation thoroughly with Mr. Kendrick, and gave him the information and advice and the benefit of six years of our records to enable him to place the Northern Pacific on a proper economic basis, and Mr. Kendrick has carried out this work with great intelligence and to an extent I feel sure that was not looked for by the Board of Directors or by those responsible for the affairs of the Company.

We have tried to be patient and reasonable in all things, but I must say we are not satisfied with the course which appears to control the Company's policy. There appears to be constant disposition to buy or build lines which cannot be operated advantageously as a part of that System, or which may bring on reprisals in the way of building other lines which would greatly injure the Northern Pacific.

As large owners of the Northern Pacific property, I feel we have a right to object to what is manifestly against the Company's interest. I feel it my duty to say that a continuation of the efforts to take up new enterprises which are not necessary or beneficial will bring about a contest which will not have any doubtful result. I have had, during the past six months, great solicitude and apprehension for both Northern Pacific and Great Northern. With the old Company, we had nothing to bind them to us or us to them, and we felt competent to deal with any question that might arise. I am glad to say that our ability to do this is at least not impaired. At the same time, as large owners of the Northern Pacific we ought not to be in constant fear as to the railway situation between the Companies, or a want of harmonious and cordial



relations which should exist but which at present I am compelled to say only exist in a form which may at any time stand out in a different attitude.

If I did not wish to stand firmly by what I believe are the best interests of the Northern Pacific, it would be an easy matter for myself and friends to join in the present attempts at inflation and unload our shares at more than twice their cost, letting the Northern Pacific drift into a position where another re-organization would be called for. While the Northern Pacific has made an excellent showing for the past year and has been well operated, the Great Northern has not been idle. Our net income available for interest and dividends, as per forthcoming Report, is over \$13,000,000., and keeping our accounts as those of the Northern Pacific are kept would materially increase this sum. Our interest and dividend together amount to \$7,700,000., leaving a surplus so large as to invite further rate suits. You will readily see that no Court in the land would long permit us to make any such earnings; and should the Court trying the present rate cases or any other rate cases that may arise affecting our earnings, order an expert accountant to examine our books and accounts, our earnings would be dropped at least \$3,000,000. below what they now are, and then our surplus would be large.

In the middle of last month we established a new grain tariff, reducing our revenue about \$1,000,000. annually, in order to avoid as far as possible action of either shippers or Commissioners which would place us on the defensive. It is, I believe, of the utmost importance that we should make these reductions voluntarily and not through orders of the Courts, for the reason that success in the Courts would bring no end of efforts in that direction. The reduction we made last Spring was so adjusted as to affect the Northern Pacific to the smallest possible extent, making the bulk of the reduction at points local on our own lines.

Speaking for myself, I desire to continue to do everything I can to advance the interests of the Northern Pacific, provided however that its affairs can at an early day be put in a position where the interests of

the Company will be placed upon a firm basis.

I expect to be in New York the last of this week, and will have the pleasure of calling at your office when I hope we can consider the matters of which I have written, with a view to getting matters in the best position for the future of not only the Northern Pacific but of all the railways in the North-West.

In the meantime, I am,

Yours very truly,