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N.Y.

September 10th 1895.

Dear Sir,

On the argument of the Pearsall suit for Injunction, the Attorney General of Minnesota was in the Court during the whole time, expecting, as he said, to be heard in the case, but as the argument covered over three days and his being heard did not figure whatever, he did not speak. During the trial he took the greatest interest in any allusion to the proposed capitalization of the Northern Pacific, and said the greatest interest of the State was to prevent too large an amount of capital from being issued on 3,450 miles of railway. The Bill mentioned an amount of more than one hundred millions of bonds and one hundred millions of stock. The Attorney General was much impressed with what he considered "an attempt to reduce the annual interest by increasing the principal," &c.

The wheat rate case which was tried by our Co. any early in the summer, turned entirely on the question of a fair return on the value of the property, regardless of its cost. Notwithstanding the old St Paul and Pacific, the First Division Company, had judgments in foreclosure entered against them for \$34,000,000., principal and interest of the defaulted bonds, this was capitalized for eight millions of bonds and fifteen millions of stock, or twenty three millions in all. The State urged strongly that the measure of the value should not be more than the

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price our old syndicate paid for the bonds, plus the expense of foreclosure. The Court, however, following Judge Brewer and other United States Judges, took the ground that the value of the road, upon which value it was entitled to earn a reasonable return, must be what it would cost to produce it as it is today, or, in other words, its present value. Our Counsel was able to show value of terminals owned by the Company as fifteen to sixteen million dollars, which with the equipment, general condition of the road, renewed structures, highway bridges, &c., made the cost as testified to by the best experts at from thirty three to forty thousand dollars per mile, while the Company's capital is less than \$20,000. per mile, of stock and bonds. The average of the State, including the Northern Pacific, is about \$40,000. per mile. The Attorney General, for the State, and his witnesses started in at a valuation of about \$20,000. per mile, but were in cross-examination forced up to about thirty or thirty two thousand per mile.

In re-organizing the Northern Pacific, a proposed issue of 175,000,000 of bonds and 100,000,000 of stock, making a total capital of 275,000,000, would be an average of, say, \$83,300. a mile of railway, including a fair equipment, terminals at Superior, Duluth, Seattle and other small towns, but no terminals in the principal cities of St Paul, Minneapolis and Portland, Ore. It is at least probable that Minnesota and other States will ask to be heard as to the question of capitalization, on the ground that the capitalization establishes the amount of money the Company requires annually above its operating expenses and taxes. It is

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doubtful if the State has any legal right to a hearing, where the corporation is a Federal one; still, with a man like Judge Caldwell, who is always ready to restrict corporations, and is at present named as a Presidential possibility with a support of Populists and labor organizations, it is not by any means certain that he would forego the chance of "squeezing the water out" of the proposed Company, and if he should take this course, it would be very difficult to get the capitalization, both stock and bonds, above forty five or fifty thousand dollars per mile. Judge Hanford is a fair minded, strong, sensible lawyer, but would probably follow the same course on the Eastern end, should Judge Caldwell take action on the Eastern end. The whole matter of the legal management of the Northern Pacific re-organization from the point I have mentioned has apparently been overlooked, and may give much trouble, as it is the only question in which the public have any interest beyond the general one of desiring to have the Company re-organized. It will take great care on the part of Counsel to prevent these questions coming up. Should the lawyers succeed in keeping it out of re-organization, the public cannot be prevented from having their interests by legislative action towards fixing rates, and then the only defence the Company can offer is the right to collect money enough for the services rendered, to pay operating expenses, maintenance, and reasonable return on fair valuation for the property. During the entire existence of the Northern Pacific it has been well understood that its construction and operation were extravagant and

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wasteful, and the people do not feel that they should be burdened with the financial responsibility through the rates of transportation to be collected to cover the want of attention on the part of those who bought the bones, as to the manner in which the money was spent, or the wasteful methods of the Company.

Yours truly,

11th - h.m. -

P.S. - I have just opened yours of the 8th and will write you at length.

Our crop is heavier than any careful estimate. Remittances to N.Y. today, \$75,000.
Earnings 1st week Sept: \$435,776, increase over same time last year \$141,101.

J.J.H.