

November 6, 1908.

CM Sp. file

MEMO, BY H. E. COOPER.

CHICAGO, MILWAUKEE & ST. PAUL.

Dear Mr. Rockefeller:

While absent on my recent trip, after having completed the inspection of the St. Paul R.R., I wrote you stating that I found conditions, in my judgment, satisfactory, and advising the purchase of this stock when opportunity offered. While still lacking certain statistics of the property which I requested (which in delaying to furnish me it seems to me the company has been rather remiss), I give below, briefly and without the burden of statistics, the reasons affording the basis of my recommendation at that time.

1. MANAGEMENT: Those whom I met and talked with seemed to me to be of a high order as compared with the officials of other roads. They seemed, generally speaking, able men, straightforward and well informed. Mr. Earling, the President, is, in my opinion, a distinctly high-class man, and moreover one entirely trustworthy. His sole interest seems to be the welfare of his property.

2. PHYSICAL CONDITION: The property is, generally speaking, in first class condition. Roadbed, rails, ties, bridges, terminals, buildings, etc., are all well kept up. At the same time, I judge from the operating results attained, and by comparison with conditions in competitive properties, the company needs to spend a considerable amount of money in internal improvement and development; for instance, they are not as well equipped in the matter of sidings and passing tracks as the Chicago and Northwest; more yards are needed in certain places, etc. In talking with the Vice-President and Operating Manager, he admitted that the company, in his opinion, needed to spend say

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\$25,000,000 in internal improvements. This judgment of his, however, was somewhat contested by Mr. Earling, the President. It is apparent, however, that the company has deferred such matters until such time as its extension to the Coast is completed; they are bending all their energies upon the quick and proper completion of this extension with the idea of returning to the other problems of improvement on the other parts of the system when that work is finished. It is, therefore, nothing which would indicate a lack of attention.

The matter of track elevation in both Milwaukee and Minneapolis is pressing rather acutely. So far, the company has avoided doing so through political manipulation, and they claim that they will be able to continue deferment of such action for some years to come. However, I doubt this, and believe they may just as well make up their mind to meet this situation at a total expenditure of from Nine to Ten million Dollars in the next two or three years.

The equipment is, generally speaking, in good order. The company was provident enough and rich enough to take advantage of the recent depression and consequently lower prices to bring all their equipment up in almost a perfect state of repair. They will need, however, in the course of a short time, in my opinion, a greater quantity of large box cars. They are spending large amounts at the present time in the purchase and manufacture of new equipment to provide for the necessities of their extension, so that this difficulty is undoubtedly being eradicated.

3. OPERATIONS: Generally speaking, and by comparison, the road is efficiently operated, although I note by comparative statistics that some of their competitors seem to get greater results. This will partly be met by expenditures for internal improvements rendering possible quicker train movement,

heavier train loads, etc.; but also the company seems to be subject to the criticism of not keeping detailed statistics on all matters of operation as do other large railroads. It was my impression that they did too much by rule of thumb. Mr. Earling, while very progressive in a large way, is in many matters of detail rather old-fashioned, judging by the standards I have seen on other properties. He is nevertheless a man to serve well the interests of the road's customers, and I found everywhere that the road was more popular with the shippers than its competitors.

4. EXTENSION TO THE COAST: this extension is, in my opinion, well judged and being extremely well executed. The location is strategic and the extension will, I believe, open up a large volume of new traffic and pay for itself in very quick order. It is being most promptly and most stably constructed, the work being carried on with a dispatch which by comparison, for instance, with the Western Pacific, is most impressive. While in its early stages the dividend payments on the additional One hundred Millions of stock may be somewhat of a drag on the earnings of the rest of the system, I think this will be quickly corrected, and the extension will of itself show a nice surplus.

5. HIDDEN EQUITIES: The company has approximately 36,000 acres of coal land in Illinois, estimated to contain 180,000,000 tons; also other coal lands along the line of its extension. The Illinois lands showed a profit for 1908 of \$250,000, which was not distributed.

The company has also timber lands, which they have bought at cheap prices, aggregating \$11,000,000 and which will contain, conservatively, 18,000,000,000 feet of lumber. The company made about \$1,000,000 in 1908 out of these lands, which was undistributed. It is the intention of the company not to sell this timber, but to let it increase in value. Earling estimated that

in 15 years this timber will in itself be worth from \$60,000,000 to \$75,000,000. This seems rather rosy, but I have no doubt it will increase immensely in value.

The company has also about \$16,000,000 represented in the building of branch lines, etc., which have never been bonded.

The company has about 27,000,000 bonds, averaging 6%, falling due up to and including 1910, which if refunded on a 3.80% basis would save about \$500,000 in interest charges. In the refunding of these bonds, there may well be presented an opportunity for giving rights to the stockholders.

6. OTHER CONSIDERATIONS: The most influential spirit in the organization is Mr. William Rockefeller. Mr. Earling apparently confers with him on all larger matters of policy, and everywhere is evident a conservativeness matched with progressiveness in the handling of the road's affairs. Mr. William Rockefeller informed me confidentially that he holds 500,000 shares of the stock, part preferred and part common; some of this of course cost him very low prices, and all undoubtedly much reduced in cost by constant trading in the stock in the open market. There, therefore, opens the question of policy as to identifying ourselves in a large way in a property whose destiny is practically controlled by him; also there is the question whether, in any considerable purchases, we would be buying his stock? I judge, however, that he has sincere faith in the future of this property, so that I doubt much if he would consider selling any particular amount of stock except for trading purposes.

Furthermore, there seemed to be a strong undertone in his conversation as to the desirability of sharing with stockholders in the shape of stock rights any advantages to be gained by refunding, new capitalization, etc. He seems to fear that the drift of legislation is against the advisability of

further charging new construction to earnings as the road has been doing in the past, so that new construction, which properly belongs to capital account but which the St. Paul has, for the purposes of conservatism, been charging to earnings, will in the future be represented by capitalization which in turn will probably present rights to stockholders.

7. CONCLUSION: While there are some things subject to criticism in the condition and management of the road, I think they are mostly more or less in the nature of details, and that in a large way we can afford to ignore them. I believe the property has an important destiny, and will as time goes on sell higher. Furthermore, the existence of the hidden equities presents possibilities in the way of additional distributions.

Balancing the entire situation, I believe the stock to be a purchase and recommend its purchase whenever favorable opportunity offers. I believe that we could well afford to have, say \$3,000,000 to \$5,000,000 invested in this property.

Very truly yours,

Mr. John D. Rockefeller, Jr.

November 18, 1908.

Mr. John D. Rockefeller, Jr.,

Dear Mr. Rockefeller.

CHICAGO, MILWAUKEE & ST. PAUL RAILROAD:

In my recent memo on this subject I inadvertently omitted to mention the matter of the probable method of financing of the St. Paul's extension. The news article in this morning's Times to the effect that St. Paul would issue 100,000,000 of bonds to pay for this (which story, by the way, is with only a modicum of foundation) recalled my oversight to me.

The plan as discussed on the trip and as at present held by Mr. Earling and by Mr. William Rockefeller, is that the various parts of the Extension now existing as companies organized under different states, shall be merged into one company whose securities shall be held in the St. Paul's treasury. It is planned to authorize a large amount of bonds sufficient as to the outstanding bonds to take care of a good portion of the cost of building the Extension, and as to the remainder to provide for future extensions, improvements, etc. These bonds will be held free in the St. Paul's treasury, together with the stock representing the Extension.

There is no plan at present to sell these bonds, but of course they will provide an asset which will be marketable at some time in the future and in the marketing of which will probably accrue rights to the St. Paul's stockholders. At the same time they, together with the stock of the Extension company, will provide an asset which in time should represent a very valuable equity to the St. Paul's stockholders.

The above would come properly in my previous memo under the head of "Hidden Equities" — it was there that I intended to insert it. It is, I judge from his conversation, Mr. William Rockefeller's idea and Mr. Earling's as well, that the financing of this Extension will provide the basis, in the course of a year or two, for very valuable rights to be given to St. Paul stockholders.

I would suggest that after reading this you pass it to your father so that he may have it in connection with the previous memo. which you stated you had forwarded to him.

Very truly yours,