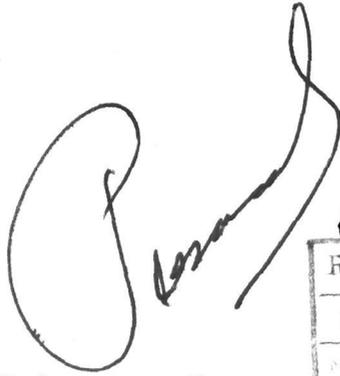


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N^o. 192-B, 9 MAY 1949



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H. 3868

April 30, 1949

IN REPLY PLEASE REFER TO

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RMP:					
FILE: Messersmith					

Dear Danne:

I sent you a letter some days ago and I have been wanting to write you since then, but have been very much occupied. First of all a word about myself. I saw Dresel when I came back as I was not feeling too fit yet and there were obviously some traces left of the intestinal infection. We arranged that a Dr. Crohn here in New York, who is supposed to be one of the best men in the field, to make a very thorough x-ray examination and he did this on Wednesday and Thursday of this week. It was the most thorough x-ray examination I have had anywhere and I was very pleased when, at the end of the two days, Dr. Crohn and Dresel told me that everything was functioning normally and well. That doesn't cure me of my inconveniences, but it is a satisfaction to know that there is nothing of any serious character. As a matter of fact, I feel very much better.

We had a Board meeting the Saturday following my return and as we did not finish we started on Sunday morning at 9:00 and ran to 1:00. It was very useful to do this as there were many things it was advisable to be gone over by the Board. I am not going into detail but will only cover the principal things discussed and decided.

First of all, I gave the Board a resumé of the happenings during our visit to London and Brussels and told them that we were of the opinion that events showed that the trip had been necessary, in fact imperative, as we foresaw. I said, and Mr. Graydon agreed, that it was our impression that if we made certain changes in the plan we would be able to carry it.

I told the Board that, as we shall need some services in London, we had asked the firm of Binder, Hamlyn & Co. to aid us there in such matters in which we would ask their assistance, and the Board approved this action. I also said that as we would have to ask some questions of counsel, we had asked Mr. Archibald of Parker Garrett to aid us in this connection, and the Board expressed their approval. I also said that both Binder and Archibald had told us that we would

need the services of a stock broker for certain specific purposes in connection with the listing of the new securities, and I reported that after careful consideration we had all been of the opinion that we should ask Mr. Collis of Kit Cat to help us in this connection, and that he had expressed his willingness to do so. The Board approved. In the foregoing connection, I observed that we had not made any specific arrangements for compensation with Binder, Archibald and Collis as Graydon and I had been uniformly told that this was not necessary or desirable as we could be certain of the reasonableness of their charges. The Board expressed its accord.

We had a discussion as to where the meetings should be held to consider the plan by the various groups of security holders. I reported that I had discussed this with Binder and others in London and that they could see no reason why the meetings should not be held in Toronto. The Board agreed that the meetings should be held in Toronto. This is of course also very desirable from the company's point of view, but we did not wish to reach a decision on this important point until we knew what the reaction in London was.

We discussed in the Board, as we had discussed the previous day with the lawyers from New York and Toronto, the question of the deposit of securities. This was a point which Binder had raised in London. It was the original idea of Binder that certain banks in England, Brussels, Switzerland and Paris could be named as depositories, but Mr. Graydon and Mr. Guest pointed out that in Canadian practice it is customary in the notices in a reorganization to state that the bond and share holders can deposit their securities in any bank or trust company. We agreed among the lawyers the day before and in the Board meeting under reference that the security holders in England and on the Continent should be informed that they could send their receipts for the deposited securities and the proxies to Binder, Hamlyn in London, who would appropriately inform Toronto before the respective meetings.

The question as to whether the new securities should be bearer or registered was discussed in the meeting of the lawyers and also in the Board meeting. It was appreciated that from the Company's point of view we would prefer registered bonds, but that a good many of the security holders may want bearer bonds. This question is receiving every consideration and I think the appropriate arrangements to satisfy all parties can be worked out. The lawyers are giving thought to this.

The question of the mailing of the circular and of the plan to the security holders was discussed and the idea of Binder that it would facilitate matters and speed up receipt if copies were mailed from Toronto and from London simultaneously was found acceptable. We of course had this idea ourselves and had discussed it with Binder. The present plan, therefore, is to send a supply of the circular and plan to Binder who will address them to the various holders whose

address we know in England and on the Continent and they will be mailed simultaneously in London and in Toronto. As the address of a good many of the security holders is not known, this plan to have a supply of the circular and plan available in Toronto, London, Brussels, Paris and perhaps one or two other places where persons will know that they can call or write for copies, is good.

With reference to the form of the proxy, this is being worked out by the lawyers and Blakes in Toronto are giving this special attention. Binder in London has requested that he see a draft of the proposed proxy in advance and we are taking the necessary steps to see that Binder sees the form of the proxy before it is definitely determined.

I informed the Board that as a result of conversations in London and in Brussels, and particularly in London, the First Boston had come to the conclusion that it would be desirable to make certain changes in the reorganization plan as proposed by the First Boston and accepted by the Board of the Bank. I said that Graydon and I were in accord with the First Boston as a result of our conversations in London that it would be desirable to make a few changes. I said specifically this would cover calling the preferred shares under the reorganization plan, and which replace the second mortgage, income debenture stock and different treatment for the income debentures. I said that we had arrived at the conclusion that certain changes were necessary to make sure that the plan would carry. I will not go into detail about this as you are familiar with what we had in mind when I left Brussels. The Board stated that it was understanding of the fact that certain changes might have to be made in the plan as proposed by the First Boston and approved my taking up this matter eventually with the World Bank whose authorization and approval is needed in the case of both changes contemplated.

I will revert to the matter of the changes in the plan later.

With reference to the service contract, Mr. Allan Graydon had brought up the question that it would be necessary to make in the circular some reference to the fact that we have a service contract and that it is with Sofina. It was agreed by the Board that reference would have to be made in the circular to the fact that we have a service contract and that it is with Sofina, but that it will not be necessary to give details in the circular with regard to the contract or to append a copy of the contract to the circular. That we have to mention the service contract in the circular is clear and all the lawyers are of that opinion, but they will agree to the mention being restricted to the foregoing. We are all of the opinion that it will be helpful if we can say in connection with the service contract that the service contract has been submitted to the

Bank and has its approval", but I am not sure that the Bank will agree to this. We will of course explore this.

Donald Duncan and Allan Graydon both said that the wording of the service contract was not good and that it should be put into legal language by lawyers. I said that as long as the substance of the contract, as drawn up by Maryssael and Le Paige and agreed to by Sofina and Mexlight according to the fifth draft, was not changed it seemed quite proper that the contract should be put into legal language. I said that it was my idea at the outset that the contract should be drawn up by Maryssael and Le Paige because the substance of it was technical and on the basis of compensation, and therefore they were in a better position to do it than anyone else. Personally, I am unable to see that it is so important that this document be drawn up by lawyers; but as both Donald and Allan Graydon were of the opinion that the language was really bad, I agreed that it should be drawn up by the lawyers. This meant delay. It was agreed that Mr. Schanzer of Donald's office would take the fifth draft and put it in legal language and then we would send it to Allan Graydon and once they were agreed as to the form, then I would send copies to Maryssael and Sofina. I hope to get this out of the way as fast as possible because I do not like this delay in bringing the matter to the World Bank. I suppose, as it is a contract, it is best that it be in language that the lawyers like. Both Donald and Graydon emphasized that once this contract is entered into any interested party has a right to see it upon request, and that therefore it should be in legal language. Schanzer has given us a draft that he has prepared and we are sending it to Allan Graydon and I shall try to move this thing along as fast as we can.

I have told the Board that as the annual report of the Chairman and of the General Manager would have to be prepared before the plan of reorganization was submitted to the bond and shareholders, it was my thought to make little mention of the details of the plan in the annual report, and there was agreement on this point.

We discussed the question of compensation of the First Boston and of Sullivan & Cromwell. I presented the letter, dated February 25, from the First Boston Corp. setting forth the scope of their work and the compensation, and after full discussion, it was agreed that I should inform the First Boston that the Board was in accord with their letter. There was full discussion of the amount of the fee and I called attention to the circumstance that the First Boston had first proposed a fee of \$500,000 and were now prepared to do it for \$350,000. I will not go into full details of the discussion. Donald Duncan was the only one who strongly expressed himself that the compensation was too large. I told him that some of the things he stated in this connection

could only be substantiated by asking for offers from various companies and that if we had done that at the outset, it was my definite opinion from what I had learned that we do not know that we would ~~not~~ have gotten the services of a company we wanted for a less figure. Donald said he did not feel he could vote on the fee as he had no instructions from Sofina. I said that we were all interested in Sofina and that in doing what we could for the best interests of Mexlight, we were serving the best interests of Sofina, but that I did not feel that we could ask the opinion of Sofina. I refer to the discussions which there had been about the First Boston, much of which I said in my opinion was undesirable and had not been helpful. I said that I knew that you felt that the fee the First Boston was asking was too high, but that you had stated to me just before I left Brussels that whatever fee I would recommend you would support. I would like to go into the whole discussion with regard to the fee in detail, but the circumstances do not permit me to do so without making this letter too long and I have a great deal before me for all the rest of the day. We voted on the question of the fee and all present voted that I write to the First Boston in acknowledgement of their letter accepting the arrangement as it was quite obvious that we could no longer delay making an answer. I will not go into this aspect further, but all were in agreement that we had to make a reply to the First Boston without further delay.

I would like to add that during one phase of the conversation, on the compensation of the First Boston, Donald asked whether he could speak with me alone. I went with him to the adjoining room and he told me a long story about recent conversations between you and Meyer and between him and Meyer concerning Lazard acquiring Sofina shares and "control". I will write you separately about this, but I only make mention of it here because I had the definite impression that Donald was trying to bring pressure on me not to recommend action on the First Boston fee at this time. I do not like it and I shall tell Donald so when I see him at noon today for lunch. There are phases on this aspect that I would like to write you about. ~~immediately.~~

It is really not important I write these to you when I will give them to you

With reference to the compensation of Sullivan & Cromwell, I brought to the attention of the Board their letter of February 21 and the Board requested me to write to Sullivan & Cromwell to the effect that we accepted the arrangement proposed. All were in accord.

Mr. Allan Graydon raised the question as to whether, so far as the services of Blakes are concerned, the Board desired him to make a specific arrangement such as the one made in the case of Sullivan & Cromwell. I told him that I thought I was expressing the thought of the Board that we were entirely content to leave this matter to him and to propose such arrangements as he saw fit and I felt that arrangements he would propose would be acceptable to the Board. He said that he would think over the matter and let us know later.

I raised the question as to whater we were going to do about the status of Mr. Spéciael in connection with the presidency of the Company and membership on the Board. I said that the Board was fully familiar with my opinion, views which were based entirely on what I considered the best interests of Mexlight and that that was the only interest I thought we could consider in this connection. I stated that I had discussed this matter with you before I left Brussels on several occasions and that you had proposed to me the idea of making Spéciael Vice Chairman at a salary of \$15,000 for the first year beginning July 1, 1949, and that the matter could be considered further later in the light of further developments. I said that I did not consider this arrangement a desirable one as I did not like the idea of Mr. Spéciael being Vice Chairman, particularly with reference to the situation in Mexico and things we have to keep in mind there. I also said that it must be considered that in case I could not function Mr. Spéciael, as Vice Chairman, would be the principal officer of the Company and from the point of view of our operations in Mexico, I did not consider that good. I emphasized the importance of ~~composition in connection with the right situation~~ and how we cannot be vulnerable in any respect. *the matter*

We had very long discussions on this whole matter, as well as on the composition of the Board of Directors in the future. I do not think that the other members of the Board were very clear as to what we should do in the matter of Mr. Spéciael. I think that none of them liked the idea of his being Vice Chairman. They saw all sorts of inconveniences in that. Donald suggested that we might create an executive committee of the Board composed of 4 or 5 members and that Spéciael could be Chairman of the Committee, and as such there would be reason for giving him \$15,000 a year. This idea of an executive committee with Spéciael as Chairman as a device to solve this question had some acceptance and they liked it better than the idea of Vice Chairman, which they did not like at all. I advanced the idea that Mr. Spéciael had not been and would not be able to contribute much to the Company and that I remained of the opinion that he should be kept on only as a member of the Board with the usual compensation. That I said in my opinion was the solution in the best interests of the Company and that is what I thought we should bear in mind. I was, however, only one member of the Board and it was quite obvious that the Board was not ready to reach a decision on this matter. So action was deferred until a later meeting.

There was some thought of having Spéciael remain only as a member of the Board and being given a considerable separation payment as former President, or a pension. I said that the payment of a considerable separation allowance would bring us all kinds of trouble and would in my opinion not be justified. Mr. Allan Graydon found some basis for a separation payment as it was customary in some companies in Canada. I observed in this connection that the situation in Canada was very different from that in Mexico and that I considered a separation payment would be known and it was my duty to say that if known it would make us trouble of a serious character.

There was also a suggestion that Mr. Spéciael might retire as President and remain only as a member of the Board and that he be given a pension of around 12 or 15 thousand dollars a year. I said that I would have to object strongly to that. We had decided to give a pension to Conway and a reduced pension to his widow eventually, but that this had been a special case for Conway had been with Mexlight and Mextrams in an active recognized administrative capacity in Mexico and that even there we could find some understanding of giving him a pension, but that we could certainly not find any understanding for giving Spéciael a pension. I think the validity of the statements I made in this connection was recognized. I emphasized also that if we paid a pension to Spéciael or a separation payment, it would be known to the officers of the Company in Mexico and to some of our personnel. I said that most of our personnel in Mexico was adequately compensated, but that we had no ~~compensation~~ plan and that we had been handling this matter so far as our personnel in Mexico was concerned on a case by case basis. I said that until the Company had a definite ~~compensation~~ plan for our officers and higher people in Mexico, we would be completely destroying morale and that we could not do.

agreement
reference

In substance, I think we were all agreed that Maryssael should be elected President of the Company to begin as of July 1, 1949. There was no agreement as to what should be done concerning the status of Spéciael. There was I think complete agreement that it would be inadvisable to create a position of Vice Chairman with compensating pay. Aside from that the matter was left high and dry for further consideration.

We discussed the question of the composition of the Board and this letter is already so long that I cannot go into further detail here, except to state that no definite action was taken. We were all in agreement that certain changes will have to be made which will strengthen the Board. The one concrete thing which came out was that Donald has not talked with Judge Paterson and I gathered is not so keen about it as he was before. In any event, we discussed names, etc., but we have to talk this over with you further and all of us are giving it thought.

With regard to the changes in the reorganization plan, we have been discussing this every day with the First Boston and we have kept Wilmers informed over the telephone. I was hoping long before this to be able to telegraph you the results of our coordinated thinking here, but have not been able to do it. Wilmers does not apparently like some of the aspects of the last proposals of the First Boston. I do not know whether he has been in touch with you by telegram or telephone. Our thought here has been that we wanted to coordinate our views here before taking up the matter with you and I still want to do this. It is fortunate in a way that Iliff is not going to be in Washington until May 4. We have arranged for Ford and myself to go to Washington to see the Bank on May 4. If by that time we have not reached an agreement on the matter with the First Boston, we will only discuss with the Bank two major points, one whether they will agree to calling the issue to replace the present second mortgage an income debenture stock, and two, if they will agree to the elimination of the proposed Class A stock

and have only one class of common stock and to create a new category to be known as preferred stock to take care of the principal or part of the principal of the present income debentures.

Whether we can discuss all the details with the Bank immediately is another matter because before we can do that the Board and the First Boston have to be in accord and we want to consult with you. Nevertheless, it is useless to discuss any of the details of the changes in the plan unless the Bank is willing to go ahead with the above two mentioned points; so whether or not we are ready to discuss details with the Bank on May 4, we will in any event discuss with the Bank their willingness to go along with these two points. It is useless for us to do all this work that we are now doing in making all sorts of calculations and plans if we cannot get the Bank to agree to the two major points. In some of the discussions and consideration which some of us have had concerning changes in the plan, we have failed to take into account that whatever we may want we may not be able to get the Bank to agree to.

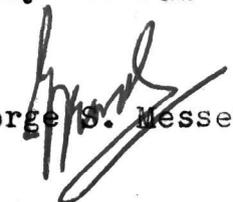
Then too, there is a limit to the degree that we can endeavor to make our views, with regard to the plan as to changes therein, prevail with the First Boston. Some of us have forgotten that after all it is essential for us that this be an independent plan and that it has to be a plan sponsored by the First Boston and if it is to be a First Boston plan and sponsored by them, they have to assume the responsibility for the plan and that means that in the final analysis they cannot sponsor a plan and will not which is not in accord with their own best judgment and views. I must say that the First Boston has shown itself very amenable to all the suggestions they have received from all concerned.

I am not going into details in this matter with regard to the changes because we will have to do this over the telephone. Wilmers left the hospital today and plans to be in New York on Wednesday, the third, and I am going to ask him to come to Washington so that Ford and the rest of us can talk over things before we go to the Bank, on May 4. Even though Wilmers will be in Washington, I think it would be better not for him to go to the Bank, which he willfully appreciate, as so far as the Bank is concerned only the First Boston and the Company should appear.

This is a very long letter, but still somewhat unsatisfactory, but I am writing it under pressure as I have the whole day very full and must leave for Washington tomorrow. I expect to see Snyder and Louis Johnson and Martin and Gaston and the State Department people, etc. during my stay. I have dictated a memorandum covering the conversations I had with the United Nations people on Spain and Bachrach will be sending you that.

With all good wishes,

Cordially and faithfully yours,


George S. Messersmith