Y4
. C 73/2
91-90/
PT. 1

1041

91/4
C73/2
91-90
pt. 1

GOVERNMENT
Storage

DOCUMENTS
FEB 4 1971
THE LIBRARY
KANSAS STATE UNIVERSITY

FAILING RAILROADS

HEARINGS

BEFORE THE

COMMITTEE ON COMMERCE
UNITED STATES SENATE

NINETY-FIRST CONGRESS

SECOND SESSION

ON

S. 4011, S. 4014, and S. 4016

TO PROVIDE FOR LOAN GUARANTEES TO ASSIST RAILROADS IN ACQUIRING, CONSTRUCTING, OR MAINTAINING FACILITIES OR EQUIPMENT

Part 1

JUNE 25, 26, JULY 8 AND 22, 1970

Serial No. 91–90

Printed for the use of the Committee on Commerce

KSU LIBRARIES
A11900 965266

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

FAILING RAILROADS

HEARINGS

BEFORE THE

COMMITTEE ON COMMERCE
UNITED STATES SENATE

NINETY-FIRST CONGRESS

SECOND SESSION

ON

S. 4011, S. 4014, and S. 4016

TO PROVIDE FOR LOAN GUARANTEES TO ASSIST RAILROADS IN ACQUIRING, CONSTRUCTING, OR MAINTAINING FACILITIES OR EQUIPMENT

Part 1

JUNE 25, 26, JULY 8, AND 22, 1970

Serial No. 91–90

Printed for the use of the Committee on Commerce



U.S. GOVERNMENT PRINTING OFFICE

50-934 O WASHINGTON : 1970

COMMITTEE ON COMMERCE

WARREN G. MAGNUSON, Washington, *Chairman*

JOHN O. PASTORE, Rhode Island
VANCE HARTKE, Indiana
PHILIP A. HART, Michigan
HOWARD W. CANNON, Nevada
RUSSELL B. LONG, Louisiana
FRANK E. MOSS, Utah
ERNEST F. HOLLINGS, South Carolina
DANIEL K. INOUYE, Hawaii
JOSEPH D. TYDINGS, Maryland
WILLIAM B. SPONG, JR., Virginia

NORRIS COTTON, New Hampshire
HUGH SCOTT, Pennsylvania
WINSTON PROUTY, Vermont
JAMES B. PEARSON, Kansas
ROBERT P. GRIFFIN, Michigan
HOWARD H. BAKER, JR., Tennessee
CHARLES E. GOODELL, New York
MARLOW W. COOK, Kentucky

FREDERICK J. LORDAN, *Staff Director*
MICHAEL PERTSCHUK, *Chief Counsel*
A. DANIEL O'NEAL, *Transportation Counsel*
JOHN CARY, *Staff Counsel*
ARTHUR PANKOPF, JR., *Minority Staff Director*
HENRI F. RUSH, JR., *Minority Staff Counsel*

CONTENTS

	Page
Opening statements by the chairman	1, 161
Text of bills:	
S. 4011	3
S. 4014	10
S. 4016	20
Agency comments on S. 4011:	
General Counsel of the Treasury	26
Comptroller General	27
General Counsel of the Defense Department	28
General Counsel of the Post Office	28
Agency comments on S. 4014:	
Comptroller General	29
Office of Emergency Preparedness	30
General Counsel of the Defense Department	31
Agency comments on S. 4016:	
Securities and Exchange Commission	31
Comptroller General	32

CHRONOLOGICAL LIST OF WITNESSES

JUNE 25, 1970

Volpe, Hon. John A., Secretary, Department of Transportation; accompanied by James M. Beggs, Under Secretary of Transportation; Charles D. Baker, Assistant Secretary of Transportation; and Carl Lyon, Deputy Administrator of the Federal Railroad Administration 47

JUNE 26, 1970

Volpe, Hon. John A., Secretary, Department of Transportation; accompanied by James M. Beggs, Under Secretary of Transportation; Charles D. Baker, Assistant Secretary of Transportation; and Carl Lyon, Deputy Administrator of the Federal Railroad Administration—Resumed 75

JULY 8, 1970

Stafford, Hon. George M., Chairman, Interstate Commerce Commission; accompanied by Fritz Kahn, Deputy General Counsel; Howard Domingus, Assistant Director, Bureau of Accounts; John Grady, Chief, Field Service; Edward Margolin, Director, Bureau of Economics; Robert G. Rhodes, Bureau of Economics; Thaddeus W. Forbes, Associate Director, Office of Procedures; John Mattras, Office of Proceedings; and William J. McCormick, Chief, Section of Financial Analysis, Bureau of Economics 166

Letter with questions of Senator Hartke and Mr. Stafford's answers thereto 191–281

Letter with questions of Senator Prouty and Mr. Stafford's answers thereto 282

JULY 22, 1970

Javits, Hon. Jacob, U.S. Senator from New York 285

Prepared statement 294

Saunders, Stuart T., former chairman of the board, Penn Central Co., Philadelphia, Pa 298

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

	Page
ICC Finance Docket No. 25932, Pennsylvania Co. Debentures	176
ICC Reports, Finance Docket No. 25854, Penn Central Transportation Co. Notes	172
Penn Central Investigation (Docket No. 35291), Interstate Commerce Commission	163
Pennsylvania Co. perspectus	101
Review and Outlook—Bailing Out the Penn Central, article from the Wall Street Journal	296
Statistical summary for Loan Guaranties to Railroads under Part V of the Interstate Commerce Act, as amended, section of financial analysis, June 30, 1970	33
The Case For—and Against—Nationalization, article from Time magazine	293

FAILING RAILROADS

THURSDAY, JUNE 25, 1970

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met, at 11:15 a.m. in room 5110, New Senate Office Building, Hon. Warren G. Magnuson (chairman of the committee), presiding.

Present: Senators Magnuson, Pastore, Hartke, Moss, Spong, Cotton, Prouty, Baker, and Cook.

OPENING STATEMENT BY THE CHAIRMAN

The CHAIRMAN. The committee will come to order.

The Chairman has a very short statement before the Secretary testifies.

These hearings are for the purpose of opening this committee's examination of various measures designed to provide railroads with financial assistance in the form of loan guarantees.

We have now before us three bills, one commonly known as the administration bill, which Senator Cotton introduced by request, a bill which the Chairman introduced by request, which revives title V of the old 1958 act, and then a bill submitted by Senator Javits, cosponsored in the House by Congressman Reid, I understand, which is a little different approach to this problem.

These hearings have been scheduled not necessarily at the request of the administration, but scheduled because all of us, after some preliminary meetings, have become acutely aware of the seriousness of this problem. And so we are happy to honor the request, too, of the administration that we take a look at this matter to see what role the Congress should take in trying to solve the problem. I hope it will be possible to thoroughly discuss the various proposals. It will be necessary to have adequate justification of the need for action. It will also be necessary to show that the bill, a particular bill, or a combination of these bills, fulfills the need may exists.

It is my desire to have answers to these questions in particular.

Transportation is the responsibility of this committee in the Senate, as it is of the House Interstate and Foreign Commerce Committee, and we are deeply concerned about anything that may adversely affect the transportation pattern of these United States. If there is any way that Congress can act and be helpful to avoid any drastic disruption in our transportation system or some catastrophe, we are perfectly willing to entertain these ideas. In 1958 we had a similar

Staff members assigned to these hearings: A. Daniel O'Neal and John Cary.

situation. It mainly involved the New England railroads, particularly the New Haven and other railroads and we put in the 1958 Transportation Act what is known as title V which guaranteed loans for equipment and rolling stock for these railroads on the theory that if they did that, their business would increase and, therefore, they would be able to be in a better financial position.

It turned out under title V, I think there were 11 requests for guaranteed loans and they were made. The largest one was for the New Haven and there were smaller ones for other roads. They have all been paid back, but two, and those two were 15-year loans that will not come due until 1973. We have no indication that they will not be paid also. But title V was for 5 years and it expired in 1963 because there was no indication then that the railroad business wanted to apply for any more loans.

So we are coming back a little bit to what we talked about in 1958.

(The bills, agency comments, and Congressional Record article follow:)

91ST CONGRESS
2D SESSION

S. 4011

IN THE SENATE OF THE UNITED STATES

JUNE 23, 1970

Mr. COTTON introduced the following bill; which was read twice and referred to the Committee on Commerce

A BILL

To assure performance by railroads engaged in interstate commerce of transportation services necessary to the maintenance of a national transportation system, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Emergency Transportation Assistance Act of 1970".

PURPOSE

SEC. 2. It is the purpose of this Act to provide for emergency financial assistance to rail carriers to aid them to meet temporary and urgent financial requirements which, if not met, might seriously impair their ability to perform those transportation services necessary to the maintenance of a na-

tional transportation system adequate to meet the needs of the commerce of the United States, the postal service, and the national defense.

DEFINITIONS

SEC. 3. For the purposes of this Act—

(1) the term "Secretary" means the Secretary of Transportation;

(2) the term "rail carrier" means any common carrier by railroad subject to part I of the Interstate Commerce Act (49 U.S.C. 1-27).

GUARANTEES

SEC. 4. (a) To carry out the purpose of this Act, the Secretary is authorized to guarantee, in whole or in part, payment of principal and interest on loans made to rail carriers. Before making a guarantee under this section, the Secretary must find, in writing, that—

(1) the loan is necessary to carry out the purposes of this Act;

(2) the loan is not otherwise available on reasonable terms and conditions; and

(3) the general financial condition of the rail carrier, upon obtaining the loan to be guaranteed, would be such as to hold out a reasonable assurance of its ability to repay the loan within the time fixed therefor and afford reasonable protection to the United States.

A loan guaranteed under this section may not bear interest at a rate exceeding such per centum per annum as the Secretary deems reasonable, taking into account the range of interest rates prevailing in the private market for similar loans and the risks assumed by the Federal Government; nor may its maturity date, including all extensions and renewals thereof, be later than fifteen years from its date of issuance. The Secretary may prescribe such other terms and conditions as he deems appropriate, and may prescribe and collect from the lender a guarantee fee at a reasonable annual rate in connection with each loan guaranteed under this Act.

(b) At no time shall the outstanding aggregate principal amount of all loans guaranteed under this section exceed $750,000,000.

DECLARATION OF DIVIDENDS

SEC. 5. No rail carrier may declare any stock dividend while there is any principal or interest remaining unpaid on any loan to such carrier for which the Secretary stands as guarantor, in whole or in part, under this Act, unless the Secretary consents in writing and after finding that the payment of the dividend would not be inconsistent with the purposes of this Act.

CONSULTATION WITH RAIL CARRIERS

SEC. 6. The Secretary shall consult, as necessary, with any rail carrier which has received a loan guaranteed under

this Act concerning any matter which may bear upon the ability of such carrier to meet its obligations as they become due.

PAYMENT OF GUARANTEES; ACTION TO RECOVER PAYMENTS MADE

SEC. 7. (a) To enable the Secretary to carry out his rights and responsibilities under section 4 of this Act, he is authorized to issue to the Secretary of the Treasury notes or other obligations in such forms and denominations, bearing such maturities, and subject to such terms and conditions, as may be prescribed by the Secretary with the approval of the Secretary of the Treasury. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or other obligations. The Secretary of the Treasury is authorized and directed to purchase any notes and other obligations issued hereunder and for that purpose he is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act, as amended, are extended to include any purchase of such notes and obligations. The Secretary of the Treasury may

at any time sell any of the notes or other obligations acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes or other obligations shall be treated as public debt transactions of the United States. There are hereby authorized to be appropriated to the Secretary such sums as may be necessary to pay the principal and interest on the notes or obligations issued by him to the Secretary of the Treasury.

(b) Any guarantee made by the Secretary under this Act shall not be terminated, canceled, or otherwise revoked, except as provided by terms and conditions prescribed by the Secretary under section 4 of this Act; shall be conclusive evidence that such guarantee complies fully with the provisions of this Act and of the approval of the principal amount, interest rate, and all other terms of the guarantee; and shall be incontestable from the date the guarantee is made, except as to any person participating in, or having knowledge on that date, of fraud, duress, or mutual mistake of fact relating to the guarantee.

(c) The Attorney General shall take such action as may be appropriate to enforce any right accruing to the United States by reason of its having made guarantees under this Act, or by reason of its having paid money or incurred expenses as a result of making such guarantees.

ASSISTANCE OF DEPARTMENTS OR OTHER AGENCIES

SEC. 8. (a) In carrying out the provisions of this Act, the Secretary may use available services and facilities of other departments, agencies, and instrumentalities of the Federal Government, with their consent and on a reimbursable basis.

(b) Departments, agencies, and instrumentalities of the Federal Government shall exercise their powers, duties, and functions in such manner as will assist in carrying out the objectives of this Act.

REVOLVING FUND

SEC. 9. The guarantee fees collected under section 4, together with other receipts arising out of this Act (including sums borrowed under section 7), shall be placed in a separate fund in the United States Treasury. Such fund shall be available, without fiscal year limitation, for payments required under the guarantees, for the repayment of sums borrowed under section 7 (including interest thereon), and for administrative expenses and such other expenditures as may be necessary, in the Secretary's judgment, to facilitate the prudent administration of this Act.

APPROPRIATIONS

SEC. 10. There are authorized to be appropriated to the Secretary such sums as may be necessary for administrative expenses incident to the administration of this Act.

ANNUAL REPORT

SEC. 11. The Secretary shall transmit to the Congress, one year following the date of enactment of this Act and annually thereafter, reports on the administration of this Act.

EXPIRATION OF GUARANTEE AUTHORITY

SEC. 12. The authority contained in section 4 of this Act shall expire five years after the date of its enactment.

91ST CONGRESS
2D SESSION

S. 4014

IN THE SENATE OF THE UNITED STATES

JUNE 23, 1970

Mr. JAVITS (for himself and Mr. GOODELL) introduced the following bill; which was read twice and referred to the Committee on Commerce

A BILL

To authorize the Secretary of Transportation to guarantee loans to rail carriers to assist them in the performance of transportation services necessary to the maintenance of a national transportation system, and for other purposes and to establish a joint congressional committee to carry out a study and investigation for the purpose of making recommendations for the solution of the problems of the Nation's railroads.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Emergency Transportation Assistance Act of 1970".

TITLE I—EMERGENCY LOAN GUARANTEE AUTHORITY

SEC. 101. It is the purpose of this title to provide for emergency financial assistance to rail carriers to aid them to meet temporary and urgent financial requirements which, if not met, might seriously impair their ability to perform those transportation services necessary to the maintenance of a national transportation system adequate to meet the needs of the commerce of the United States, the postal service, and the national defense.

DEFINITIONS

SEC. 102. For the purposes of this Act—

(1) The term "Secretary" means the Secretary of Transportation;

(2) The term "rail carrier" means any common carrier by railroad subject to part I of the Interstate Commerce Act (49 U.S.C. 1–27).

GUARANTEES

SEC. 103. (a) To carry out the purpose of this title, the Secretary is authorized to guarantee, in whole or in part, payment of principal and interest on loans made to rail carriers. Before making a guarantee under this section, the Secretary must find, in writing, that—

(1) the loan is necessary to carry out the purposes of this title;

(2) the loan is not otherwise available on reasonable terms and conditions; and

(3) the general financial condition of the rail carrier, upon obtaining the loan to be guaranteed, would be such as to hold out a reasonable assurance of its ability to repay the loan within the time fixed therefor and reasonable protection to the United States. A railroad in reorganization pursuant to Bankruptcy Act is not ineligible to receive a loan guaranteed under this title if the Secretary makes the other findings required by this section.

A loan guaranteed under this title may not bear interest at a rate exceeding such per centum per annum as the Secretary deems reasonable, taking into account the range of interest rates prevailing in the private market for similar loans and the risks assumed by the Federal Government; nor may its maturity date, including all extensions and renewals thereof, be later than fifteen years from the date of original issuance. The Secretary shall require that any loan guaranteed pursuant to this title be used solely for railroad transportation purposes and may prescribe such other terms and conditions as he deems appropriate to ensure that the purpose of this Act is met. The Secretary may prescribe and collect from the lender a guarantee fee at a reasonable

annual rate in connection with each loan guaranteed under this title.

(b) At no time shall the outstanding aggregate principal amount of all loans guaranteed under this title exceed $750,000,000.

DECLARATION OF DIVIDENDS

SEC. 104. No rail carrier may declare any stock dividend while there is any principal or interest remaining unpaid on any loan to such carrier for which the Secretary stands as guarantor, in whole or in part, under this title, unless the Secretary consents in writing after finding that the payment of the dividend would not be inconsistent with the purposes of this title.

CONSULTATION WITH RAIL CARRIERS

SEC. 105. The Secretary shall consult, as necessary, with any rail carrier which has received a loan guaranteed under this title concerning any matter which may bear upon the ability of such carrier to repay the loan within the fixed time therefore and reasonable protection to the United States; and to ensure that the purpose of this title is being carried out.

PAYMENT OF GUARANTORS; ACTION TO RECOVER PAYMENTS MADE

SEC. 106. (a) To enable the Secretary to carry out his rights and responsibilities under section 103 of this title, he is authorized to issue to the Secretary of the Treasury notes or

50-934 O - 71 - 2

other obligations in such forms and denominations, bearing such maturities, and subject to such terms and conditions, as may be perscribed by the Secretary with the approval of the Secretary of the Treasury. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or other obligations. The Secretary of the Treasury shall purchase any notes and other obligations issued hereunder and for that purpose he is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, and the purposes for which securities may be issued under that Act, are extended to included any purchase of such notes and obligations. The Secretary of the Treasury may at any time sell any of the notes or other obligations acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes or other obligations shall be treated as public debt transactions of the United States. There are authorized to be appropriated to the Secretary such sums as may be necessary to pay the principal and interest on the notes or obligations issued by him to the Secretary of the Treasury.

(b) Any guarantee made by the Secretary under this

title shall not be terminated, canceled, or otherwise revoked, except as provided by the terms and conditions prescribed by the Secretary under section 103 of this title; shall be conclusive evidence that such guarantee complies fully with the provisions of this title and of the approval of the principal amount, interest rate, and all other terms of the guarantee; and shall be incontestable from the date the guarantee is made except as to any person participating in, or having knowledge on that date, of fraud, duress, or mutual mistake of fact relating to the guarantee.

(c) The Attorney General shall take such action as may be appropriate to enforce any right accruing to the United States by reason of its having made guarantees under this title, or by reason of its having paid money or incurred expenses as a result of making such guarantees.

ASSISTANCE OF DEPARTMENTS AND OTHER AGENCIES

SEC. 107. (a) In carrying out the provisions of this title the Secretary may use available services and facilities of other departments, agencies, and instrumentalities of the Federal Government, with their consent and on a reimbursable basis.

(b) Departments, agencies, and instrumentalities of the Federal Government shall exercise their powers, duties, and functions in such manner as will assist in carrying out the provisions of this title.

REVOLVING FUND

SEC. 108. The guarantee fees collected under section 103, together with other receipts under this title (including sums borrowed under section 106), shall be placed in a separate fund in the United States Treasury. Such fund shall be available, without fiscal year limitation, for payments required under the guarantees, for the repayment of sums borrowed under section 106 (including interest thereon), and for administrative expenses and such other expenditures as may be necessary, in the judgment of the Secretary, to facilitate the prudent administration of this title.

APPROPRIATIONS

SEC. 10. There are authorized to be appropriated to the Secretary such sums as may be necessary for administrative expenses incident to the administration of this title.

ANNUAL REPORT

SEC. 11. The Secretary shall transmit to the Congress, one year following the date of enactment of this title and annually thereafter, reports on the administration of this title.

EXPIRATION OF GUARANTEE AUTHORITY

SEC. 12. The provisions of section 103 of this title shall expire five years after the date of enactment of this title.

TITLE II—JOINT COMMITTEE ON RAILROADS

SEC. 201. (a) There is hereby established a joint congressional committee to be known as the Joint Committee

on Railroads (referred to hereinafter as the "joint committee").

(b) The joint committee shall be composed of seven Members of the Senate appointed by the President of the Senate, four from the majority party and three from the minority party, and seven Members of the House of Representatives appointed by the Speaker of the House of Representatives, four from the majority party and three from the minority party.

(c) The joint committee shall select a Chairman and Vice Chairman from among its members. Eight members of the joint committee shall constitute a quorum, except that the joint committee may prescribe a lesser number of members to constitute a quorum for the purpose of conducting hearings. Vacancies in the membership of the joint committee shall not affect the authority of the remaining members to execute the functions of the joint committee, and shall be filled in the same manner in which original appointments were made.

FUNCTIONS OF THE JOINT COMMITTEE

SEC. 202. (a) The joint committee shall conduct a comprehensive study and investigation of the financial and other problems of the Nation's common carriers by railroad for the purpose of making recommendations for the solution of such problems.

(b) On or before September 30, 1970, the joint committee shall transmit to each House of the Congress a report which shall contain its findings and recommendations, including recommendations for such legislation as the joint committee shall deem appropriate. Upon the transmittal of such report, the joint committee shall cease to exist.

HEARINGS

SEC. 203. (a) In carrying out its duties under this concurrent resolution, the joint committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings, to sit and act at such places and times, to require by subpoena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, to procure such printing and binding, and to make such expenditures as it deems advisable.

(b) The joint committee may make such rules respecting its organization and procedures as it deems necessary. Subpoenas may be issued over the signature of the chairman of the joint committee or by any member designated by him or by the joint committee, and may be served by such person or persons as may be designated by such chairman or member. The chairman of the joint committee or any member thereof may administer oaths to witnesses.

STAFF AND ASSISTANCE

SEC. 204. (a) The joint committee shall have power to appoint and fix the compensation of such experts, consultants, technicians, and staff employees as it deems necessary and advisable.

(b) With the consent of the department or agency concerned, the joint committee is authorized to utilize the services, information, facilities, and personnel of the departments and agencies of the Government, and may employ on a reimbursable basis or otherwise the services of such personnel of any such department or agency as it deems advisable.

(c) With the consent of the chairman of any committee of either House of Congress, or any subcommittee thereof, from which members of the joint committee have been appointed the joint committee may utilize the information and facilities, and the services of members of the staff, of such committee or subcommittee whenever the chairman of the joint committee determines that such action is necessary and appropriate.

EXPENSES

SEC. 205. The expenses of the joint committee shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman of the joint committee or by any member of the joint committee duly authorized by the chairman.

91ST CONGRESS
2D SESSION

S. 4016

IN THE SENATE OF THE UNITED STATES

JUNE 24, 1970

Mr. MAGNUSON (by request) introduced the following bill; which was read twice and referred to the Committee on Commerce

A BILL

To provide for loan guarantees to assist railroads in acquiring, constructing, or maintaining facilities or equipment.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Railroad Loan Guarantee Act of 1970".

PURPOSE

SEC. 2. It is the purpose of this Act to provide for assistance to common carriers by railroad subject to the Interstate Commerce Act to aid them in acquiring, constructing, or maintaining facilities and equipment for such purposes, and in such a manner, as to encourage the employment of labor and to foster the preservation and development of a national

transportation system adequate to meet the needs of the commerce of the United States, of the postal service, and of the national defense.

DEFINITIONS

SEC. 3. For the purposes of this part—

(a) The term "Secretary" means the Secretary of Transportation.

(b) The term "additions and betterments or other capital expenditures" means expenditures for the acquisition or construction of property used in transportation service, chargeable to the road, property, or equipment investment accounts, in the Uniform System of Accounts prescribed by the Interstate Commerce Commission.

(c) The term "expenditures for maintenance of property" means expenditures for labor, materials, and other costs incurred in maintaining, repairing, or renewing equipment, road, or property used in transportation service chargeable to operating expenses in accordance with the Uniform System of Accounts prescribed by the Interstate Commerce Commission.

LOAN GUARANTIES

SEC. 4. In order to carry out the purpose declared in section 2, the Secretary upon terms and conditions prescribed by it and consistent with the provisions of this Act, may guarantee in whole or in part any public or private financing

institution, or trustee under a trust indenture or agreement for the benefit of the holders of any securities issued thereunder, by commitment to purchase, agreement to share losses, or otherwise, against loss of principal or interest on any loan, discount, or advance, or on any commitment in connection therewith, which may be made, or which have been made, for the purpose of aiding any common carrier by railroad subject to the Interstate Commerce Act in the financing or refinancing (1) of additions and betterments or other capital expenditures, made after January 1, 1970, or to reimburse the carrier for expenditures, made from its own funds for such additions and betterments or other capital expenditures, or (2) of expenditures for the maintenance of property: *Provided*, That in no event shall the aggregate principal amount of all loans guaranteed by the Secretary exceed $500,000,000.

LIMITATIONS

SEC. 5. (a) No guaranty shall be made under section 4—

(1) unless the Secretary finds that without such guaranty, in the amount thereof, the carrier would be unable to obtain necessary funds, on reasonable terms, for the purposes for which the loan is sought;

(2) if in the judgment of the Secretary the loan involved is at a rate of interest which is unreasonably high;

(3) if the terms of such loan permit full repayment more than fifteen years after the date thereof; or

(4) unless the Secretary finds that the prospective earning power of the applicant carrier, together with the character and value of the security pledged, if any, furnish reasonable assurance of the applicant's ability to repay the loan within the time fixed therefor and reasonable protection to the United States.

A statement of the findings of the Secretary required under the provisions of this subsection shall be made a matter of public record by the Secretary with respect to each loan guaranteed under the provisions of this Act.

(b) It shall be unlawful for any common carrier by railroad subject to the Interstate Commerce Act to declare any dividend on its preferred or common stock while there is any principal or interest remaining unpaid on any loan to such carrier made for the purpose of financing or refinancing expenditures for maintenance of property of such carrier, and guaranteed under this Act.

MODIFICATIONS

SEC. 6. The Secretary may consent to the modification of the provisions as to rate of interest, time of payment of interest or principal, security, if any, or other terms and conditions of any guaranty which it shall have entered into pursuant to this Act or the renewal or extension of any such

guaranty, whenever the Secretary shall determine it to be equitable to do so.

PAYMENT OF GUARANTIES: ACTION TO RECOVER PAYMENTS MADE

SEC. 7. (a) Payments required to be made as a consequence of any guaranty by the Commission made under this part shall be made by the Secretary of the Treasury from funds hereby authorized to be appropriated in such amounts as may be necessary for the purpose of carrying out the provisions of this Act.

(b) In the event of any default on any such guaranteed loan, and payment in accordance with the guaranty by the United States, the Attorney General shall take such action as may be appropriate to recover the amount of such payments, with interest, from the defaulting carrier, carriers, or other persons liable therefor.

GUARANTY FEES

SEC. 8. The Commission shall prescribe and collect a guaranty fee in connection with each loan guaranteed under this Act. Such fees shall not exceed such amounts as the Commission estimates to be necessary to cover the administrative costs of carrying out the provisions of this Act. Sums realized from such fees shall be deposited in the Treasury as miscellaneous receipts.

ASSISTANCE OF DEPARTMENT OR OTHER AGENCIES

SEC. 9. (a) To permit it to make use of such expert advice and services as it may require in carrying out the provisions of this Act, the Secretary may use available services and facilities of departments and other agencies and instrumentalities of the Government, with their consent and on a reimbursable basis.

(b) Departments, agencies, and instrumentalities of the Government shall exercise their powers, duties, and functions in such manner as will assist in carrying out the objectives of this part.

ADMINISTRATIVE EXPENSES

SEC. 10. Administrative expenses under this part shall be paid from appropriations made to the Secretary for administrative expenses.

TERMINATION OF AUTHORITY

SEC. 11. Except with respect to such applications as may then be pending, the authority granted by this part shall terminate at the close of June 30, 1975: *Provided,* That its provisions shall remain in effect thereafter for the purpose of guaranties made by the Secretary.

THE GENERAL COUNSEL OF THE TREASURY,
Washington, D.C., August 4, 1970.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 4011, "To assure performance by railroads engaged in interstate commerce of transportation services necessary to the maintenance of a national transportation system, and for other purposes"; S. 4014, "To authorize the Secretary of Transportation to guarantee loans to rail carriers to assist them in the performance of transportation services necessary to the maintenance of a national transportation system, and for other purposes and to establish a joint congressional committee to carry out a study and investigation for the purpose of making recommendations for the solution of the problems of the Nation's railroads"; and S. 4016, "To provide for loan guarantees to assist railroads in acquiring, constructing, or maintaining facilities or equipment."

Section 4 of S. 4011 and section 103 of S. 4014, which are of primary interest to the Department, would authorize the Secretary of Transportation to guarantee principal and interest on loans made to rail carriers if he found that (1) the loan was necessary to carry out the purposes of the bill; (2) the loan was not otherwise available on reasonable terms; and (3) the rail carrier, upon receiving the guaranteed loan, would be able to repay the loan and afford reasonable protection for the United States. A loan guaranteed under this section would bear interest at a rate that the Secretary deemed reasonable, taking into account interest rates for such loans in the private market and risks assumed by the Federal Government, and its maturity date could not be later than fifteen years from the date of issuance. The Secretary could prescribe a reasonable annual guarantee fee. The outstanding aggregate principal of all loans guaranteed could not exceed $750,000,000.

To enable the Secretary to carry out his responsibilities section 7 of S. 4011 and section 106 of S. 4014 would authorize him to issue to the Secretary of the Treasury notes or other obligations which would bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or other obligations. The Secretary of the Treasury would be authorized to sell notes or obligations so acquired. Section 9 of S. 4011 and section 108 of S. 4014 would require that guarantee fees and other receipts be deposited in a revolving fund in the United States Treasury which fund would be available for payments required under the guarantees, repayment of sums borrowed, and administrative and other necessary expenditures.

S. 4014 would, in addition, establish a Joint Committee on Railroads, composed of seven Members of the Senate and seven Members of the House, to conduct a comprehensive study and investigation of the financial and other problems of the Nation's common carriers by railroad for the purpose of making recommendations for the solution of such problems.

S. 4016 would provide that the Secretary of Transportation could guarantee loans, discounts, or advances, made to railroads subject to the Interstate Commerce Act to finance capital expenditures, or to reimburse a railroad for capital expenditures made from its own funds. No guaranty could be made (1) unless the carrier could not obtain necessary funds at reasonable terms without such guarantee; (2) if the loan involved an unreasonably high rate of interest; (3) if the loan could be repaid in more than fifteen years; and (4) unless there was reasonable assurance that the applicant could repay the loan within the time fixed. Payments required to be made as a consequence of any guaranty would be made by the Secretary of the Treasury from funds authorized to be appropriated to carry out the provisions of the Act. The Interstate Commerce Commission would be authorized to prescribe and collect guaranty fees which would be deposited in the Treasury as miscellaneous receipts.

S. 4011 is similar to H.R. 18125, "To authorize the Secretary of Transportation to guarantee loans to rail carriers to assist them in the performance of transportation services necessary to the maintenance of a national transportation system, and for other purposes," which incorporates legislation proposed by the Department of Transportation. Therefore, the Department recommends that favorable consideration be given to S. 4011 in lieu of S. 4014 and S. 4016.

The Department has been advised by the Office of Management and Budget that there is no objection from the standpoint of the Administration's program to the submission of this report to your Committee.

Sincerely yours,

SAMUEL R. PIERCE, JR.,
General Counsel.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., August 10, 1970.

B–107449
HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your letter of June 26, 1970, requesting our comments on S. 4011.

S. 4011 would provide for assistance to railroads to aid them in meeting temporary and urgent financial requirements which if not met might seriously impair their ability to perform transportation services necessary to the maintenance of a national transportation system. Under the provisions of the bill, the Secretary of Transportation would be authorized to guarantee loans to railroads made for such purpose not to exceed $750,000,000.

The intent of the proposed bill is to ensure that the loans guaranteed be used for providing transportation services. To ensure that such funds are used solely for railroad transportation purposes and not used, directly or indirectly, to assist any non-railroad aspect of a rail carrier's operation, we suggest the following language be inserted in section 4(a)(3) on page 3 at the end of line 7: "The Secretary shall require that any loan guaranteed under this act be used solely for railroad transportation purposes as regulated under 49 U.S.C. 1(1) and (2)."

The bill does not grant the Secretary of Transportation or the Comptroller General the specific authority to examine the financial records and documents of the railroads. We believe that the bill should include such authority to both during periods of any outstanding loan guarantee.

Section 4 of the bill provides that the aggregate principal amount of all loans guaranteed by the Secretary shall not exceed $750,000,000. No restrictions are stated in the bill, however, which limit the amount of loans guaranteed for an individual railroad. We believe that the capability of the bill to assist as many railroads as possible within the authorized guarantee limit would be enhanced by limiting the amount guaranteed for any one railroad.

The prohibition in section 5 against the declaration of stock dividends may be interpreted as not being applicable to cash dividends. Apparently it is the intent to prohibit the declaration of any dividends and if so we suggest that the word "stock" be deleted and that "on its preferred or common stock" be inserted after "dividend" on line 16, page 3.

Section 7(a) would authorize the Sceretary of Transportation to issue to the Secretary of the Treasury notes or other obligations to carry out his responsibilities for payment of guarantees. The Secretary of the Treasury would be authorized to sell the notes or other obligations. The section also would authorize to be appropriated to the Secretary of Transportation such sums as may be necessary to pay the principal and interest on the obligations issued by him to the Secretary of the Treasury. Under section 9 guarantee fees and other receipts arising out of the act would be placed in a separate fund, without fiscal year limitation, to meet obligations incurred under the act.

From the standpoint of adequate congressional control and administrative simplicity, we question the need for the issuance of notes—section 7(a), and for the separate fund—section 9. We suggests that these sections be deleted and replaced by provisions which would direct that (1) the Secretary of the Treasury, upon notification by the Secretary of Transportation, shall make such payments as may be required on account of defaults on loans guaranteed under the bill from funds authorized to be appropriated in such amounts as may be necessary and (2) guarantee fees collected under section 9 be deposited in the Treasury as miscellaneous receipts.

Section 12 provides that the authority to guarantee loans shall expire five years after the enactment of the act. Such language may be interpreted to preclude the guarantee of applications for loans pending at the end of such five-

year period. If this is not the intent of section 12, we suggest that the following be inserted at the beginning of section 12: "Except with respect to applications as may then be pending."

Sincerely yours,

ROBERT F. KELLER,
Assistant Comptroller General of the United States.

GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE,
Washington, D.C., August 18, 1970.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request to the Secretary of Defense for the views of the Department of Defense with respect to S. 4011, 91st Congress, a bill "To assure performance by railroads engaged in interstate commerce of transportation services necessary to the maintenance of a national transportation system, and for other purposes."

The purpose of the bill is to permit the Secretary of Transportation to guarantee loans, the outstanding aggregate not to exceed $750,000,000, which would provide emergency financial assistance to rail carriers to aid them in meeting temporary and urgent financial requirements. Such requirements, if not met, might seriously impair the ability of specific rail carriers to perform transportation services considered necessary for the maintenance of a national transportation system adequate to meet the needs of the commerce of the United States, the postal service, and the national defense.

The Department of Defense supports the maintenance of a commercial transportation system that will provide fast, safe, efficient and convenient transportation at the lowest cost consistent therewith. United States railroads provide direct and indirect support to this department in peacetime and are considered an important portion of our commercial transportation system. In addition, present plans provide for the use of railroads during periods of emergencies and consequently the Department of Defense welcomes the enactment of any legislation which will assure that adequate rail service is available to meet the needs of national defense.

In view of the fact, however, that S. 4011 relates primarily to the responsibilities of another government agency, the Department of Defense defers to the views of the Department of Transportation.

The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to the presentation of this report for the consideration of the Committee.

Sincerely,

FRANK A. BARTIMO,
Acting General Counsel.

THE GENERAL COUNSEL,
POST OFFICE DEPARTMENT,
Washington, D.C., August 18, 1970.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your request for the Department's comments on S. 4011, S. 4014 and S. 4016.

These measures, while not identical, have a common purpose: to provide financial assistance to railroads by guaranteeing loans made to them.

S. 4011 and S. 4014 are similar in structure and language. However, S. 4014 specifically negates any ineligibility for loan guarantees for a railroad in reorganization under the Bankruptcy Act, and provides, in Title II, for the establishment of a Joint Committee on Railroads. The Joint Committee would conduct a comprehensive study and investigation of the financial and other problems of the railroads and make recommendations for solving such problems. S. 4011 does not have the above two provisions.

S. 4016 varies considerably in structure, language and provisions from S. 4011 and S. 4014. For example, S. 4016 provides that payments required to be made

as a consequence of any guaranty would come out of appropriated funds provided to the Secretary of the Treasury for this purpose. S. 4011 and S. 4014 provide that funds needed as a result of guarantees would be acquired by issuing notes or other obligations to the Secretary of the Treasury, who would be required to purchase them. The Secretary of Transportation would then pay the principal and interest on such notes and obligations out of appropriated funds. There are also other minor differences between these bills.

The continuation of a sound rail transportation system is a matter of importance to the Post Office Department. Since these bills are designed to achieve such a system, the Department concurs in their purposes.

With regard to the specific provisions of the bills, we defer to the Secretary of Transportation.

The Office of Management and Budget advises that there is no objection to the submission of this report to the Committee from the standpoint of the Administration's program.

Sincerely,

DAVID A. NELSON,
General Counsel.
By LOUIS A. COX,
Deputy General Counsel.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., August 10, 1970.

B–107449.
HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your letter of June 26, 1970, requesting our comments on S. 4014.

S. 4014 would provide for assistance to railroads to aid them in meeting temporary and urgent financial requirements which, if not met, might seriously impair their ability to perform transportation services necessary to the maintenance of a national transportation system. Under the provisions of the bill, the Secretary of Transportation would be authorized to guarantee loans to railroads made for such purpose not to exceed $750,000,000.

The bill would also establish a joint congressional committee to conduct a study and investigation of the financial and other problems of the Nation's railroads for the purpose of making recommendations for the solution of such problems.

The bill does not grant the Secretary of Transportation or the Comptroller General the specific authority to examine the financial records and documents of the railroads. We believe that the bill should include such authority to both during periods of any outstanding loan guarantee.

Section 103(b) of the bill provides that the aggregate principal amount of all loans guaranteed by the Secretary shall not exceed $750,000,000. No restrictions are stated in the bill, however, which limit the amount of loans guaranteed for an individual railroad. We believe that the capability of the bill to assist as many railroads as possible within the authorized guarantee limit would be enhanced by limiting the amount guaranteed for any one railroad.

The prohibition in section 104 against the declaration of stock dividends may be interpreted as not being applicable to cash dividends. Apparently it is the intent to prohibit the declaration of any dividends and if so we suggest that the word "stock" be deleted and that "on its preferred or common stock" be inserted after "dividend" on line 8, page 4.

Section 106(a) would authorize the Secretary of Transportation to issue to the Secretary of the Treasury notes or other obligations to carry out his responsibilities for payment of guarantees. The Secretary of the Treasury would be authorized to sell the notes or other obligations. The section also would authorize to be appropriated to the Secretary of Transportation such sums as may be necessary to pay the principal and interest on the obligations issued by him to the Secretary of the Treasury. Under section 108 guarantee fees and receipts arising out of the act would be placed in a separate fund, without fiscal year limitations to meet obligations incurred under the act.

From the standpoint of adequate congressional control and administrative simplicity, we question the need for the issuance of notes—section 106(a), and

for the separate fund—section 108. We suggest that these sections be deleted and replaced by provisions which would direct that (1) the Secretary of the Treasury, upon notification by the Secretary of Transportation, shall make such payments as may be required on account of defaults on loans guaranteed under the bill from funds authorized to be appropriated in such amounts as may be necessary, and (2) guarantee fees collected under section 103 be deposited in the Treasury as miscellaneous receipts.

Section 12 provides that the authority to guarantee loans shall expire five years after the enactment of the act. Such language may be interpreted to preclude the guarantee of applications for loans pending at the end of such five-year period. If this is not the intent of section 12, we suggest that the following be inserted at the beginning of section 12: "Except with respect to applications as may then be pending."

The provision in section 202(b) directing that the joint committee transmit a report of its findings and recommendations as to the problems of the railroads by September 30, 1970, seems to give the committee a very short period in which to organize, hold hearings, study the complex problems of the railroads and make recommendations for their solution. We suggest your Committee give consideration to extending the period for the joint committee to make its report.

Sections 10, 11, and 12 apparently should be numbered 109, 110, and 111 respectively.

We note the typographical error in line 3, page 5, of the bill in spelling of the word "prescribed."

Sincerely yours,

ROBERT F. KELLER,
Assistant Comptroller General of the United States.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF EMERGENCY PREPAREDNESS,
Washington, D.C., August 17, 1970.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your request for an expression of the views of this Agency concerning S. 4011 and S. 4014, 91st Congress, similar bills, each of which is cited as: "Emergency Transportation Assistance Act of 1970."

The stated purpose of each of these bills is to provide emergency financial assistance to rail carriers to aid them in meeting temporary and urgent financial requirements which, if not met, might seriously impair their ability to perform those transportation services necessary to the maintenance of a national transportation system adequate to meet the needs of the commerce of the United States, the postal service, and the national defense. Each would authorize the Secretary of Transporation to guarantee, in whole or in part, payment of principal and interest on loans made to rail carriers in an amount not to exceed $750,000,000 in aggregate at any one time.

The transportation industry now accounts for approximately 20 percent of this nation's gross national product and employs more than 10 million persons. Our economic prosperity and our military security depends upon the existence of a viable national transportation system. The railway carrier system is a principal and essential element of that system.

It is for this reason that the President, as noted in his address to the nation on June 17, 1970, on Economic Policy and Productivity, requested the Congress to enact legislation that will enable the Department of Transportation to provide emergency assistance to railroads in financial difficulties.

Inasmuch as the Secretary of Transportation and his staff have the primary responsibility for representing the Administration with respect to legislation designed to implement that request of the President, I defer to the views of the Secretary concerning S. 4011, S. 4014, and comparable bills.

The Office of Management and Budget has advised that there is no objection to the submission of this report from the standpoint of the Administration's program.

Sincerely,

G. A. LINCOLN,
Director.

GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE,
Washington, D.C., August 18, 1970.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request to the Secretary of Defense for the views of the Department of Defense with respect to S. 4014, 91st Congress, a bill "To authorize the Secretary of Transportation to guarantee loans to rail carriers to assist them in the performance of transportation services necessary to the maintenance of a national transportation system, and for other purposes and to establish a joint congressional committee to carry out a study and investigation for the purpose of making recommendations for the solution of the problems of the Nation's railroads."

The purpose of the bill is to permit the Secretary of Transportation to guarantee loans which would provide emergency financial assistance to rail carriers to aid them in meeting temporary and urgent financial requirements. Such requirements, if not met, might seriously impair the ability of specific rail carriers to perform transportation services considered necessary for the maintenance of a national transportation system adequate to meet the needs of the commerce of the United States, the postal service, and the national defense. At no time shall the aggregate principal amount of all loans guaranteed under this bill exceed $750,000,000.

In addition, the bill would establish a joint congressional committee to be known as the Joint Committee on Railroads. The purpose of such joint committee will be to conduct a comprehensive study and investigation of the financial and other problems of the Nation's common carriers by railroads. Upon completion of the study, the proposed joint committee would be required to transmit to each House of the Congress a report containing its findings and recommendations.

The Department of Defense supports the maintenance of a commercial transportation system that will provide fast, safe, efficient and convenient transportation at the lowest cost consistent therewith.

United States railroads provide direct and indirect support to this department in peace time and are considered an important portion of our commercial transportation system. In addition, present plans provide for the use of railroads during periods of emergencies and, consequently, the Department of Defense welcomes the enactment of any legislation which will assure adequate rail service is available to meet the needs of national defense.

In view of the fact, however, that S. 4014 relates primarily to the responsibilities of another government agency, the Department of Defense defers to the views of the Department of Transportation.

The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to the presentation of this report for the consideration of the Committee.

Sincerely,

FRANK A BARTIMO,
Acting General Counsel.

SECURITIES AND EXCHANGE COMMISSION,
Washington, D.C., July 23, 1970.

Re. S. 4016, 91st Congress.
HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: In the absence of Chairman Budge, I am responding to your request of June 26, 1970, for the Commission's report on S. 4016. We have carefully examined S. 4016, the "Railroad Loan Guarantee Act of 1970," and wish to submit the following report on it.

The bill would permit the Secretary of Transportation to guarantee "in whole or in part" loans made by public or private lenders to any common carrier by railroad subject to the Interstate Commerce Act, against loss of principal or interest thereon where the proceeds of the loans are to be used for the prescribed purposes. The bill would also authorize the Interstate Commerce Commission to prescribe and collect loan guarantee fees to cover the necessary cost of administering its provisions.

Securities issued by railroads that are subject to Section 20(a) of the Interstate Commerce Act, which would appear to include those to be issued in connection with loans contemplated under S. 4016, would be exempt from the registration and prospectus requirements of the Securities Act of 1933 under Section 3(a)(6) thereof [15 U.S.C. 77c(a)(6)], but not from the anti-fraud provisions of this Act. Such securities would likewise be exempt from the indenture and trustee qualification provisions of the Trust Indenture Act of 1939 under Section 304(a)(4) thereof [15 U.S.C. 77ddd(a)(4)].

Securities issued by such railroads are not exempt, however, from the requirements of the Securities Exchange Act of 1934 [15 U.S.C. 78a et seq.], with one exception involving the solicitation of proxies in connection with reorganizations effected under the jurisdiction of the I.C.C. Nevertheless, securities contemplated under the subject bill could be exempt under the definition of "exempted security" in Section 3(a)(12) of that Act [15 U.S.C. 78c(a)(12)] if they were wholly guaranteed as to principal or interest by the United States, but such exemption would not apply if they were guaranteed only "in part" as provided in Section 4 of the bill. While we note this difference in the applicability of the Securities Exchange Act depending on whether the guarantee is total as to either principal or interest or is only partial as to either or both, we do not suggest that such a difference is undesirable. In fact, it is in keeping with the apparent Congressional intent in the original framing of the Section 3(a)(12) exemption in 1934.

Except for the foregoing observations, the Commission has no comment on S. 4016. Thirty copies of this report are submitted herewith as requested.

The Office of Management and Budget has advised that there is no objection to the submission of this report from the standpoint of the Administration's program.

Sincerely yours,

HUGH F. OWENS,
Commissioner.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., August 10, 1970.

B-107449
HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your letter of June 26, 1970, requesting our comments on S. 4016.

S. 4016 would provide for assistance to railroads to aid them in purchasing or maintaining facilities and equipment as a means of preserving and developing an adequate national transportation system. Under the provisions of the bill, the Secretary of Transportation would be authorized to guarantee loans for railroads made for such purpose in an aggregate principal amount not in excess of $500,000,000.

The bill does not grant the Secretary of Transportation or the Comptroller General the specific authority to examine the financial records and documents of the railroads. We believe that the bill should include such authority to both during the period of any outstanding loan guarantee.

Section 4 of the bill provides that the aggregate principal amount of all loans guaranteed by the Secretary shall not exceed $500,000,000. No restrictions are stated in the bill, however, which limit the amount of loans guaranteed for an individual railroad. We believe that the capability of the bill to assist as many railroads as possible within the authorized guarantee limit would be enhanced by limiting the amount which may be guaranteed for any one railroad.

Section 5(b) provides that no recipient of a loan guarantee shall declare any dividend while there is unpaid principal or interest on a loan made for the purpose of financing or refinancing expenditures for *maintenance of property.* The bill is silent, however, in regard to recipients of loans guaranteed under the bill for financing or refinancing *additions and betterments or other capital expenditures.* If the dividend restrictions are intended to apply to all recipients of loan guarantees, we suggest that the following be inserted in section 5(b) at page 4, line 18, immediately preceding the word "expenditures": "additions and betterments or other capital expenditures, or."

Section 6 gives the Secretary the authority to consent to modification of original loan guarantee provisions without any apparent restrictions such as

provided in section 5(a) of the bill. It would appear that such broad authority is in conflict with section 5(a) which is intended apparently to safeguard the financial interest of the United States.

On page 5, in section 7(a), line 6, and section 8, lines 18 and 21, the word "Commission" should be changed to "Secretary."

On page 6, in section 10, line 13, and section 11, line 18, the word "part" should apparently be changed to "Act."

Sincerely yours,

ROBERT F. KELLER,
Assistant Comptroller General of the United States.

[From the Congressional Record—Senate, June 24, 1970]

S. 4016—INTRODUCTION OF "RAILROAD LOAN GUARANTEE ACT OF 1970"

Mr. MAGNUSON. Mr. President, I introduce, by request, a bill to provide for loan guarantees to assist railroads in acquiring, constructing or maintaining facilities or equipment. My introduction of this bill is merely for the purpose of having legislation before the Committee on Commerce which would provide an alternative measure to others which are before this committee. This bill is identical to part V of the Interstate Commerce Act which expired in 1963 except for certain technical changes necessary to bring it up to date and to make the Department of Transportation the administering agency.

I ask unanimous consent that the bill be printed in the RECORD at this point.

The PRESIDING OFFICER (Mr. BAYH). The bill will be received and appropriately referred; and, without objection, the bill will be printed in the RECORD.

The CHAIRMAN. With that I am going to ask the distinguished chairman of the Subcommittee on Surface Transportation if he has a statement too. The hearings will be technically under the full committee and we know that the members of the full committee, those who have an interest in it, and particularly the Subcommittee on Surface Transportation will ask a lot of questions and dig into this matter.

Senator Hartke, we would be glad to hear from you. We will put in the record the number of loans that were made under title V of the 1958 act; they totaled $243 million.

I think I made a little misstatement when I said the New Haven sort of triggered the matter. The biggest loan wasn't to the New Haven, it was to the Penn Central, $40 million, and the next largest guaranteed loan, was to the Missouri, Kansas & Texas. We will put in the record all of the amounts.

(The information follows:)

INTERSTATE COMMERCE COMMISSION

BUREAU OF ACCOUNTS

SECTION OF FINANCIAL ANALYSIS, JUNE 30, 1970

Statistical Summary for Loan Guaranties to Railroads under Part V of the Interstate Commerce Act, as Amended

Index

Appendix A.—Statement showing by railroads (on sheets 1–3 thereof) amount of each loan applied for and final action by the Commission; and (on sheet 4) a recapitulation of total number of applications and total amount of guaranties authorized for each railroad.

Appendix B.—Statement showing by railroads for each loan, the term of the guaranty, date of final maturity, rate of interest, and the purpose of the loan.

Appendix C.—Statement showing by railroads, for each loan, the repayments of principal and the unpaid balance as of June 30, 1970.

Appendix D.—Statement showing the total appraised value of the collateral securing the total unpaid balance of principal for all loans to each railroad. Sheet 2 shows details in respect of loans to New Haven Railroad and the Trustees.

APPENDIX A

RECAPITULATION BY RAILROADS OF LOAN GUARANTEE APPLICATIONS RECEIVED AND ACTIONS THEREON

Finance docket No.	Railroad	Amount applied for			Action		
		Original amount	Amended or withdrawn	Net amount	Date	Amount approved	Amount denied
20691	Atlantic & Danville	$800,000		$800,000	Jan. 6, 1960		$800,000
20429	Boston & Maine	10,500,000	$4,500,000	6,000,000	June 22, 1959	$3,000,00	3,000,000
21365	Do	3,000,000		3,000,000	Jan. 17, 1961	3,000,000	
21615	Do	1,000,000		1,000,000	Aug. 15, 1961	1,000,000	
21888	Do	[1] 5,845,348	5,845,348		July 27, 1962 [1]		
22231	Do	1,000,000		1,000,000	Oct. 3, 1962	1,000,000	
22639	Do	1,000,000		1,000,000	July 24, 1963	1,000,000	
	Total	22,345,348	10,345,348	12,000,000		9,000,000	3,000,000
21555	Central of New Jersey	15,000,000		15,000,000	Aug. 26, 1961	15,000,000	
22640	Do	5,000,000		5,000,000	Dec. 20, 1963	2,000,000	
					Nov. 6, 1964	3,000,000	
	Total	20,000,000		20,000,000		20,000,000	
21210	Chicago & Eastern Illinois	3,000,000		3,000,000	Sept. 23, 1960	3,000,000	
22361	Do	12,000,000	200,000	11,800,000	Feb. 28, 1963	11,800,000	
	Total	15,000,000	200,000	14,800,000		14,800,000	
21494	Erie-Lackawanna	15,000,000		15,000,000	June 8, 1961	15,000,000	
22632	Do	15,000,000	10,000,000	5,000,000	Nov. 12, 1963		5,000,000
	Total	30,000,000	10,000,000	20,000,000		15,000,000	5,000,000
20517	Georgia & Florida	1,000,000	65,040	934,960	May 8, 1959	934,960	
20518	Do	1,000,000		1,000,000	Oct. 5, 1959	1,000,000	
	Total	2,000,000	65,040	1,934,960		1,934,960	
20760	Lehigh Valley	6,000,000	77,000	5,923,000	Nov. 27, 1959	5,923,000	
21300	Do	5,000,000		5,000,000	Dec. 7, 1960	5,000,000	
21539	Do	2,500,000		2,500,000	Apr. 28, 1961	2,500,000	
21776	Do	5,000,000		5,000,000	Nov. 28, 1961	5,000,000	
22339	Do	5,000,000		5,000,000	Apr. 25, 1963	3,400,000	1,600,000
	Total	23,500,000	77,000	23,423,000		21,823,000	1,600,000
21454	Missouri-Kansas-Texas	16,000,000		16,000,000	May 22, 1961	16,000,000	
21552	Do	6,000,000		6,000,000	June 26, 1961	6,000,000	

22577	Do	12,000,000		12,000,000	Nov. 12, 1963	12,000,000	
	Total	34,000,000		34,000,000		34,000,000	
21551	Monon	5,000,000		5,000,000	July 26, 1961	5,000,000	
22675	Do	5,500,000		5,500,000	Sept. 23, 1963	5,500,000	
	Total	10,500,000		10,500,000		10,500,000	
20372	New Haven	16,542,460	8,383,060	8,159,400	Aug. 5, 1960	8,159,400	
20397	Do	500,000		500,000	Jan. 8, 1960	500,000	
20398	Do	1,500,000		1,500,000	Oct. 28, 1959	1,500,000	
21299	Do	6,000,000		6,000,000	Oct. 31, 1960	4,500,000	1,500,000
21299	Do	4,500,000		4,500,000	Dec. 29, 1960	3,500,000	1,000,000
21299	Do	3,500,000		3,500,000	Feb. 14, 1961	3,500,000	
21299	Do	1,500,000		1,500,000	May 12, 1961	1,500,000	
	Subtotal, finance docket No. 21299	15,500,000		15,500,000		13,000,000	2,500,000
	Subtotal, New Haven RR	34,042,460	8,383,060	25,659,400		23,159,400	2,500,000
21685	New Haven trustees	5,000,000		5,000,000	Aug. 2, 1961	5,000,000	
21808	Do	7,500,000		7,500,000	Dec. 7, 1961	7,500,000	
	Subtotal, New Haven trustees	12,500,000		12,500,000		12,500,000	
	Total, New Haven and trustees	46,542,460	8,383,060	38,159,400		35,659,400	2,500,000
20689	Penn Central (New York Central)	40,000,000		40,000,000	Sept. 16, 1959	40,000,000	
20395	New York, Susquehanna & Western	[2] 450,000	450,000		Jan. 29, 1959[2]		
20840	Do	300,000		300,000	Apr. 20, 1960	300,000	
20841	Do	200,000		200,000	Dec. 23, 1959		200,000
21794	Do	555,000		555,000	Mar. 1, 1962	555,000	
	Total	1,505,000	450,000	1,055,000		855,000	200,000
21121	Norfolk Southern	2,000,000		2,000,000	Sept. 21, 1960	2,000,000	
22488	----do	5,400,000		5,400,000	June 5, 1963	5,400,000	
	Total	7,400,000		7,400,000		7,400,000	
21547	Pittsburgh & West Virginia	1,500,000		1,500,000	June 26, 1961	1,500,000	
22445	Do	1,500,000		1,500,000	Mar. 18, 1963	1,500,000	
	Total	3,000,000		3,000,000		3,000,000	
22545	Reading	30,000,000		30,000,000	June 26, 1963	30,000,000	
	Grand total	286,592,808	29,520,448	257,072,360		243,972,360	13,100,000

[1] B. & M. application, finance docket No. 21888 for $5,845,348, was withdrawn at request of applicant and dismissed by order of July 27, 1962.

[2] New York, Susquehanna & Western application, finance docket No. 20395 for $450,000, was withdrawn at request of applicant and dismissed by order of Jan. 29, 1959.

RECAPITULATION—LOAN GUARANTEE APPLICATIONS APPROVED

Railroad	Number of applications	Total amount guaranteed
Boston & Maine	5	$9,000,000
Central of New Jersey	2	20,000,000
Chicago & Eastern Illinois	2	14,800,000
Erie-Lackawanna	1	15,000,000
Georgia & Florida	2	1,934,960
Lehigh Valley	5	21,823,000
Missouri-Kansas-Texas	3	34,000,000
Monon	2	10,500,000
Penn Central (formerly New York Central)	1	40,000,000
New Haven	4	23,159,400
New Haven trustees	2	12,500,000
New York, Susquehanna & Western	2	855,000
Norfolk Southern	2	7,400,000
Pittsburgh & West Virginia	2	3,000,000
Reading	1	30,000,000
	36	243,972,360

APPENDIX B

LOAN GUARANTEE APPLICATIONS STATEMENT SHOWING FOR APPROVED APPLICATIONS THE TERM OF GUARANTEE, RATE OF INTEREST, AND PURPOSE OF LOAN

Finance Docket No.	Railroad	Amount approved	Term of guarantee (years)	Date of final maturity	Rate of interest (percent)	Purpose of loan
20429	Boston & Maine	$3,000,000	15	Dec. 1, 1974	5	(1).
21365	Do	3,000,000	15	July 1, 1975	5	(1).
21615	Do	1,000,000	6	July 1, 1965[2]	4⅞	(1).
22231	Do	1,000,000	15	Oct 15, 1977	5	(1).
22639	Do	1,000,000	3	July 1, 1966[2]	4¾	(1).
	Total	9,000,000				
21555	Central of New Jersey	15,000,000	15	July 1, 1976	5	(3).
22640	Do	5,000,000	15	Dec. 1, 1978	5	(1).
	Total	20,000,000				
21210	Chicago & Eastern Illinois	3,000,000	15	July 31, 1975	5¼	(1).
22361	Do	11,800,000	15	Dec. 31, 1977	5	(4).
	Total	14,800,000				
21494	Erie-Lackawanna	15,000,000	15	June 1, 1976	5¼	(1).
	Total	15,000,000				
20517	Georgia & Florida	934,960	10	Dec. 31, 1970[2]	5	(5).
20518	Do	1,000,000	10	Dec. 23, 1970[2]	5½	(6).
	Total	1,934,960				
20760	Lehigh Valley	5,923,000	15	Aug. 1, 1974	5.0059	(7).
21300	Do	5,000,000	15	June 15, 1975	8½	(1).
21539	Do	2,500,000	4	May 17, 1970	6	(1).
21776	Do	5,000,000	15	Nov. 1, 1976	4½ and 5	(1).
22339	Do	3,400,000	15	May 1, 1977	4¼	(1).
	Total	21,823,000				
21454	Missouri-Kansas-Texas	16,000,000	15	May 1, 1976	5	(1).
21552	Do	6,000,000	15	June 1, 1976	4¾	(1).
22577	Do	12,000,000	15	June 1, 1978	5⅝	(1).
	Total	34,000,000				

LOAN GUARANTEE APPLICATIONS STATEMENT SHOWING FOR APPROVED APPLICATIONS THE TERM OF GUARANTEE, RATE OF INTEREST, AND PURPOSE OF LOAN—Continued

Finance Docket No.	Railroad	Amount approved	Term of guarantee (years)	Date of final maturity	Rate of interest (percent)	Purpose of loan
21551	Monon	5,000,000	15	July 1, 1976	4¾ and 5	[8].
22675	Do	5,500,000	15	Oct. 1, 1978	4⅝	[9].
	Total	10,500,000				
20372	New Haven	8,159,400	15	June 1, 1975	5½	[10].
20397	Do	500,000	6	Jan. 1, 1965[2]	5½	[11].
20398	Do	1,500,000	15	Jan. 1, 1974	5	[12].
21229	Do	4,500,000	1	Nov. 3, 1961	5	[1].
21299	Do	3,500,000	1	do	5	[1].
21299	Do	3,500,000	1	do	5	[1].
21299	Do	1,500,000	1	do	5	[1].
	Subtotal, finance docket No. 21299	13,000,000				
	Subtotal, New Haven RR	23,159,400				
21685	New Haven trustees	5,000,000	10	Aug. 4, 1971	5¼	[1].
21808	Do	7,500,000	10	Dec. 13, 1971	5¼	[1].
	Subtotal, New Haven trustees	12,500,000				
	Total, New Haven and trustees	35,659,400				
20689	New York Central	40,000,000	15	July 1, 1974	5	[1].
20840	New York, Susquehanna & Western	300,000	15	Dec. 1, 1974	5½	[1].
21794	Do	555,000	10	Sept. 1, 1972	5½	[13].
	Total	855,000				
21121	Norfolk Southern	2,000,000	15	July 1, 1974	5¼	[1].
22488	Do	5,400,000	15	May 1, 1978	4¾	[14].
	Total	7,400,000				
21547	Pittsburgh & West Virginia	1,500,000	15	June 1, 1976	4¾	[1].
22445	Do	1,500,000	2	May 28, 1965[2]	4¾	[1].
	Total	3,000,000				
22545	Reading	30,000,000	15	July 1, 1978	4¾	[15].
	Grand total	243,972,360				

[1] Reimbursement of treasury.
[2] These loans have been paid in full.
[3] Financing acquisition of not less than 634 covered hopper cars and 725 box cars at a cost in excess of $5,000,000; and reimbursement of treasury $10,000,000.
[4] Refinancing certain equipment obligations incurred after Jan. 1, 1957.
[5] Acquisition of 100 new freight cars.
[6] Maintenance and rehabilitation of roadway.
[7] Refinance equipment obligations, $1,167,127; finance planned capital expenditures, $1,574,609; and reimbursement of treasury, $3,181,264.
[8] Reimbursement of treasury, $2,268,359; and acquisition of 4 diesel locomotives and 116 freight cars with a total cost of $2,731,641.
[9] Financing acquisition of 9 new locomotives, $2,400,000; and 74 freight cars, $1,100,000; and reimbursement of treasury, $2,000,000.
[10] Acquisition of 30 new diesel electric locomotives.
[11] Acquisition of maintenance-of-way equipment and machinery.
[12] Construction of certain shop facilities.
[13] Financing acquisition of 3 locomotives.
[14] Financing acquisition of 17 new locomotives, $2,975,000; and reimbursement of treasury, $2,425,000.
[15] Financing acquisition of 56 new locomotives, $11,000,000; and reimbursement of treasury, $19,000,000.
Note: Reimbursement of treasury items above represent reimbursement for capital expenditures made after Jan. 1, 1957, from the railroad's own funds.

APPENDIX C

LOAN GUARANTEE APPLICATIONS STATEMENT SHOWING REPAYMENTS AND UNPAID BALANCES FOR APPROVED APPLICATIONS

Finance docket No.	Railroad	Date	Amount approved	Approved but not disbursed	Repayments	Unpaid balance, June 30, 1970
20429	Boston & Maine	June 22, 1959	$3,000,000		$2,100,000	$900,000
21365	Do	Jan. 17, 1961	3,000,000		1,200,000	1,800,000
21615	Do	Aug. 15, 1961	1,000,000		1,000,000	
22231	Do	Oct. 3, 1962	1,000,000		483,333	516,667
22639	Do	July 24, 1963	1,000,000		1,000,000	
	Total		9,000,000		5,783,333	3,216,66
21555	Central of New Jersey	Aug. 26, 1961	15,000,000		4,208,517	10,791,483
22640	Do	Dec. 20, 1963	5,000,000		715,910	4,284,090
	Total		20,000,000		4,924,427	[1] 15,075,573
21210	Chicago & Eastern Illinois	Sept. 23, 1960	3,000,000		3,000,000	
22361	Do	Feb. 28, 1963	11,800,000		4,961,004	6,838,996
	Total		14,800,000		7,961,004	6,838,996
21494	Erie-Lackawanna	June 8, 1961	15,000,000		3,000,000	12,000,000
20517	Georgia & Florida	May 8, 1959	934,960		[2] 934,960	
20518	Do	Oct. 5, 1959	1,000,000	[2] $100,000	[2] 900,000	
	Total		1,934,960	100,000	1,834,960	
20760	Lehigh Valley	Nov. 27, 1959	5,923,000		3,123,000	2,800,000
21300	Do	Dec. 7, 1960	5,000,000		2,336,000	2,664,000
21539	Do	Apr. 28, 1961	2,500,000		1,375,000	1,125,000
21776	Do	Jan. 28, 1961	5,000,000		2,469,000	2,531,000
22339	Do	Apr. 25, 1963	3,400,000		1,235,000	2,165,000
	Total		21,823,000		10,538,000	11,285,000
21454	Missouri-Kansas-Texas	May 22, 1961	16,000,000		2,880,000	13,120,000
21552	Do	June 26, 1961	6,000,000		1,080,000	4,920,000
22577	Do	Nov. 12, 1963	12,000,000			12,000,000
	Total		34,000,000		3,960,000	30,040,000
21551	Monon	July 26, 1961	5,000,000		1,100,000	3,900,000
22675	Do	Sept. 23, 1963	5,500,000		1,950,000	3,550,000
	Total		10,500,000		3,050,000	7,450,000
20372	New Haven (assumed by Penn Central)	Aug. 5, 1960	8,159,400		5,439,600	2,719,800
20397	Do	Jan. 8, 1960	500,000		500,000	
20398	Do	Oct. 28, 1959	1,500,000		1,182,868	[3] 4317,132
21299	Do	Oct. 31, 1960	4,500,000		[4] 627,900	[4] 3,872,100
21299	Do	Dec. 29, 1960	3,500,000			3,500,000
21299	Do	Feb. 14, 1961	3,500,000			3,500,000
21299	Do	May 12, 1961	1,500,000			1,500,000
	(Subtotal, finance docket No. 21299)		[5] 13,000,000		627,900	[4] 12,372,100
	Subtotal, New Haven RR		23,159,400		7,750,368	15,409,032
21685	New Haven trustees	Aug. 2, 1961	5,000,000			5,000,000
21808	Do	Dec. 7, 1961	7,500,000			7,500,000
	(Subtotal, New Haven trustees)		12,500,000			12,500,000
	Total, New Haven trustees		35,659,400		7,750,368	27,909,032
20689	Penn Central (New York Central)	Sept. 16, 1959	40,000,000		23,100,000	16,900,000
20840	New York, Susquehanna & Western	Apr. 20, 1960	300,000		200,200	99,800
21794	Do	Mar. 1, 1962	555,000		425,500	129,500
	Total		855,000		625,700	229,300

APPENDIX C—Continued

LOAN GUARANTEE APPLICATIONS STATEMENT SHOWING REPAYMENTS AND UNPAID BALANCES FOR APPROVED APPLICATIONS—Continued

Finance docket No.	Railroad	Date	Amount approved	Approved but not disbursed	Repayments	Unpaid balance June 30 1970
21121	Norfolk Southern	Sept. 21, 1960	2,000,000	----------	1,000,000	1,000,000
22488	Do	June 5, 1963	5,400,000	----------	600,000	4,800,000
	Total		7,400,000	----------	1,600,000	5,800,000
21547	Pittburg & West Virginia	June 26, 1961	1,500,000	----------	900,000	600,000
22445	Do	Mar. 28, 1963	1,500,000	[5]1,400,000	100,000	----------
	Total		3,000,000	1,400,000	1,000,000	600,000
22545	Reading	June 26, 1963	30,000,000	----------	2,000,000	28,000,000
	Grand Total		243,972,360	1,500,000	77,127,792	165,344,568

[1] Central of New Jersey defaulted on its loans in finance docket Nos. 21555 and 22640 in March 1967, with unpaid principal balances of $12,375,000 and $4,620,000, respectively. On June 1, 1967, the United States paid the unpaid principal balance of these loans, plus interest of $373,312.50, with funds provided by supplemental appropriation (Public Law 90–21). As of June 30, 1970, $1,919,427 had been applied on the principal of these loans from revenue derived from the collateral security.

[2] The entire unpaid principal balance of these loans, with accrued interest, was paid by the receiver of the Georgia & Florida on June 29, 1963, from the funds received by him from sale of all of the properties and franchises of the railroad to certain subsidiaries of the Southern Railway. No further disbursements will be made.

[3] New Haven defaulted on its loans in finance docket Nos. 20398 and 21299 in July 1961, with unpaid principal balances of $1,375,000 and $13,000,000 respectively. On Oct. 2, 1961, the United States paid the unpaid principal balance of these loans, plus interest, with funds provided in supplemental appropriations bill 1962 (H.R. 9169). The loans in finance docket Nos. 20372 and 20397 were assumed by the trustees. The loan in finance docket No. 20372 was subsequently assumed by Penn Central. As of June 30, 1970, $1,057,868 has been applied on the principal of the loan in finance docket No. 20398 under an agreement approved by the court leaving a balance of $317,132.

[4] As of June 30, 1970, $627,900 had been applied against the principal of this loan as a result of settlement of certain claims. (See also footnote 4 on sheet 2 of app. D).

[5] Upon request of the railroad the commitment of the lender in respect of this undisbursed balance terminated as of Oct. 31, 1964. Accordingly, no further disbursements will be made.

APPENDIX D

SECURITY FOR OUTSTANDING PT. V LOANS

	Principal amount of Securities or cost of Equipment or other Property pledged	Appraised value of collateral [1]	Amount of loan outstanding as of June 30, 1970
Boston & Maine	$5,861,600	$3,427,889	$3,216,667
Central of New Jersey [2]	15,422,060	13,615,146	15,075,573
Chicago & Eastern Illinois	13,316,320	10,712,996	6,838,996
Erie-Lackawanna	24,321,575	14,915,700	12,000,000
Lehigh Valley	34,226,960	14,943,595	11,285,000
Missouri-Kansas-Texas	52,594,000	37,527,610	30,040,000
Monon	10,236,612	7,366,830	7,450,000
Penn Central (formerly New York Central)	43,695,000	7,646,884	16,900,000
New York, New Haven & Hartford [3]	8,159,400	4,649,930	15,409,032
Trustees of New York, New Haven & Hartford RR. Co.[3]	12,500,000	12,500,000	12,500,000
Total New York, New Haven & Harftord RR. Co. and trustees	20,659,400	17,149,930	27,909,032
New York, Susquehanna & Western	1,055,000	634,170	229,300
Norfolk Southern	7,400,000	7,400,000	5,800,000
Pittsburgh & West Virginia	1,710,000	1,402,200	600,000
Reading Co	48,653,644	29,624,570	28,000,000
Grand totals	279,152,171	166,367,520	165,344,568

[1] Based principally on (a) the average of high and low market values for the current period of pledged securities, and (b) the depreciated value of equipment and other property as of June 30, 1970, where the title to equipment or other property is the collateral.

[2] Recovery of the Jersey Central loans has been in the hands of the Department of Justice since default in March 1967. Our valuation of the collateral does not, therefore, reflect any settlements which may have been entered into in respect to the collateral.

[3] See following table for details in respect of security for loan guarantees to New Haven RR. and New Haven Trustees.

Detail in Respect of Security for Pt. V Loan Guarantees to New Haven RR. and the Trustees

Finance Docket No.	Decided	Total amount of guarantee	Unpaid balance of principal, June 30, 1970	Appraised value of security, June 30, 1970	Amount paid by United states at time of default
New Haven RR.:					
20372	Aug. 5, 1960	$8,159,400	$3,263,760	[1] $4,725,270	
20397	Jan. 8, 1960	500,000		([2])	
20398	Oct. 28, 1959	1,500,000	355,907	[3] 355,907	$1,375,000
21299 [8]		13,000,000	[4] 12,372,100	([4])	13,000,000
Total		23,159,400	15,991,767	5,081,177	[5] 14,375,000
New Haven trustees:					
21685	Aug. 2, 1961	5,000,000	5,000,000	[6] 5,000,000	
21808	Dec. 7, 1961	[7] 7,500,000	7,500,000	[6] 7,500,000	
Total		12,500,000	12,500,000	12,500,000	
Grand total, New Haven RR. and trustees		35,659,400	28,491,767	17,581,177	14,375,000

[1] Net depreciated value of 30 locomotives. This loan was assumed by New Haven trustees and by Penn Central in 1968.
[2] This loan, which was assumed by trustees, has been paid in full.
[3] Balance will be satisfied by delivery to the United States of B. & P. bonds upon finalization of Boston & Providence reorganization.
[4] This loan is not secured by any pledge of collateral. However, New Haven convenanted that if it should receive any income from certain claims then in litigation and certain other sources, such income shall be applied in reduction of the outstanding loan. As of June 30, 1970, $627,900 has been applied against the principal of this loan as a result of settlement of certain of said claims.
[5] New Haven defaulted on its loans in finance docket Nos. 20398 and 21299 in July 1961, with unpaid principal balances of $1,375,000 and $13,000,000, respectively. On Oct. 2, 1961, the United States paid the unpaid principal balance of these loans, plus interest of $300,740, with funds provided in supplemental appropriations bill 1962 (H.R. 9169).
[6] Receiver's certificates.
[7] On Dec. 7, 1961, a loan guarantee of $7.5 million was approved. $3 million was disbursed to the trustees on Dec. 31, 1961, and the remaining $4.5 million was disbursed on Mar. 4, 1965.
[8] Embraces 4 separate authorizations (all millions). $4.5 on Oct. 31, 1960; $3.5 on Dec. 29, 1960; $3.5 on Feb. 14, 1961; and $1.5 on May 12, 1961.

Supplementary Statement of Commitments and Contingencies, Interstate Commerce Commission—Loan Guarantees to Railroads Under Pt. V of the Interstate Commerce Act, as Amended

Guaranteed or insured credits:
Gross amount outstanding ..... [1] $137,500,000
Collateral or other realizable assets 154,300,000
Description of collateral: (See appendix hereto).

[1] Represents contingent liability of the United States under loan guarantees authorized and disbursed by lenders, less repayments as of the above date. This amount gives effect (1) to payment by the United States on Oct. 2, 1961 of $14,375,000 ($1,685,768 has since been recovered) principal unpaid balance of two guaranteed loans of New York, New Haven & Hartford RR. Co., which are identified in the appendix hereto, with funds provided in supplemental appropriations bill 1962 (H.R. 9169), and (2) to payment by the United States on June 1, 1967, of $16,995,000 ($1,919,427 has since been recovered) principal unpaid balance of 2 guaranteed loans of the Central RR. Co. of New Jersey, also identified in the appendix hereto, with funds provided by supplemental appropriation (Public Law 90–21). The other outstanding guaranteed loan of New York, New Haven & Hartford RR. Co., also identified in the appendix, was assumed first by the New Haven trustees in the reorganization proceeding and later by Penn Central when it acquired the New Haven railroad properties.

N.B. This loan guarantee program (pt. V of the Interstate Commerce Act, as amended) terminated, as to receipt of new applications, on June 30, 1963. All applications pending as of that date have been processed, and the proceeds of all loans guaranteed under this program have been fully disbursed.

APPENDIX

DESCRIPTION OF COLLATERAL

[In millions]

Name of railroad and description of collateral	Value of Collateral: Principal amount of securities or cost of Equipment or other property pledged	Value of Collateral: Appraised value of collateral [1]	Amount of loan outstanding as of June 30, 1970
Boston & Maine RR:			
Finance docket No. 20429			$0.9
Finance docket No. 21365			1.8
Security for finance docket Nos. 20429 and 21365:			
B. & M. 1st mortgage series TT bonds	$1.7	$0.8	
Northern RR., 21,410 shares common stock	2.1	1.3	
Vermont & Massachussetts RR., 11,647 shares common stock	1.2	.5	
Stony Brook RR., 1,863 shares common stock	.2	.1	
B. & M. Transportation Co., mortgage note	.3	.3	
B. & M. Transportation Co., 1,000 shares common stock	.1	.1	
Springfield Terminal RR. Co., 2,000 shares stock	.2	.4	
U.S. Treasury Bonds due Nov. 15, 1973	.02	.02	
Finance docket No. 21615			[2]
Finance docket No. 22231 Equity in collateral pledged to secure above loans under finance docket Nos. 20429 and 21365			.5
Finance docket No. 22639			[2]
Total	5.8	3.5	3.2
Central Railroad of New Jersey:			
Finance docket No. 21555:			
Central Railroad of New Jersey, general morgtage 3¼ percent bonds	1.5	.4	
Hopper cars		1.5	
Lehigh & New England RR. Co., 1st mortgage bonds	2.5	2.5	
250 shares L. & N. E. RR. Co., no par common stock	.9	.7	
Second mortgage on physical properties of Central Railroad of New Jersey	6.8	6.8	10.8
Finance docket No. 22640:			
Promissory note of Railway Express Agency, Inc	.3	.3	
19,994 shares New York & Long Branch RR. Co	2.0		
New York & Long Branch RR. Co., 5 percent Cons. mortgage bonds, Series A	.3		
New York & Long Branch RR. Co., 4 percent Cons. mortgage bonds, series B	1.0	1.4	
Equity in collateral pledged under above Finance docket No. 21555 (Represented by assignment of the railroad's equity in all the freight cars and the securities pledged as collateral for the loan in finance docket No. 21555, and delivery of a 3d mortgage on all of the railroad's properties)			4.2
Total	15.4	13.6	[3] 15.0
Chicago & Eastern Illinois RR.:			
Finance docket No. 21210			[2]
Finance docket No. 22361: 1,518 miscellaneous type freight cars	13.3	10.7	6.8
Total	13.3	10.7	6.8
Erie Lackawanna RR.:			
Finance docket No. 21494:			
D.L. & W., Pennsylvania div., 1st mortgage 6 percent series B bonds	8.0	6.3	
D.L. & W., Pennsylvania div., 1st mortgage 6 percent series C bonds	6.5	3.8	
Erie RR. Co. 1st Consl. mortgage 4 percent series I bonds	4.2	1.7	
Securities of affiliated companies	5.6	3.1	12.0
Total	24.3	14.9	12.0

See footnotes at end of table, p. 44.

APPENDIX—Continued

DESCRIPTION OF COLLATERAL—Continued

[In millions]

Name of railroad and description of collateral	Value of Collateral: Principal amount of securities or cost of Equipment or other property pledged	Value of Collateral: Appraised value of collateral [1]	Amount of loan outstanding as of June 30, 1970
Lehigh Valley R.R.:			
Finance docket No. 20760:			
Genl. Consol. mortgage 5 percent bonds	10.0	4.1	
7 trailers	.04	.01	
10 airslide cars	.1	.06	
100 flat cars	.6	.4	
2 diesel-electric locomotives	.4	.2	
196 gondola cars	1.0	.7	
2 steel scows	.1	.08	
100 trailers	.5	.04	2.8
Finance docket No. 21300:			
Genl. Consol. mortgage 5 percent bonds	6.5	2.7	
1st mortgage 4 percent bonds	5.0	1.8	2.7
Finance docket No. 21539: Genl. Consol. mortgage 5 percent bonds	7.0	2.9	1.1
Finance docket No. 21776:			
Genl. Consol. mortgage 4½ percent bonds	1.0	.4	
Genl. Consol. mortgage 5 percent bonds	.9	.4	
Equity in collateral pledged as security for loans in finance docket Nos. 20760, 21300, and 21539, as shown above			2.5
Finance docket No. 22339:			
Equity in collateral pledged as security for loans in finance docket Nos. 20760, 21539, and 21776, as shown above			
Lehigh Valley's 50 percent interest in Buffalo Creek RR Co	1.1	1.1	2.2
Total	34.2	14.9	11.3
Missouri-Kansas-Texas RR.:			
Finance docket No. 21454: Prior lien 5 percent series G bonds	24.0	17.3	13.1
Finance docket No. 21552: Prior lien 5 percent series G bonds	[4] 8.0	6.0	4.9
Finance docket No. 22577:			
Prior lien 5 percent E bonds	11.0	7.9	
Prior lien 5 percent G bonds	7.0	5.0	
Prior lien 4½ percent series D bonds	2.2	1.3	12.0
Total	52.2	37.5	30.0
Monon RR.:			
Finance docket No. 21551:			
1st mortgage 4 percent Contg. Inc. series B bonds	.3	.2	
1st mortgage 4 percent Contg. Inc. series A bonds	.1	.08	
2d mortgage 4½ percent Contg. Inc. series A bonds	.2	.1	
18 70-ton special equipped box cars	.3	.2	
40 2,600-cubic-foot covered hopper cars	.5	.5	
21 trilevel auto rack cars	.5	.5	
2 2,250-horsepower diesel locomotives	.4	.4	
6 2,000-horsepower diesel locomotives	1.1	.9	
1st mortgage 4 percent Contg. Inc. series C bonds	.6	.3	
1st mortgage 4 percent Contg. Inc. series D bonds	.3	.2	
Equity in collateral securing loan in Finance Docket No. 22675			[5] 3.9
Finance docket No. 22675:			
8 diesel-electric locomotives	1.6	1.4	
50 covered hopper cars	.7	.5	
6 trilevel automobile rack cars	.1	.1	
13 cushion-underframe box cars	.2	.2	
5 airslide covered hopper cars	.07	.06	
1st mortgage 4 percent Contg. Inc. series A bonds	1.4	.8	
2d mortgage 4½ percent Contg. Inc. series A bonds	1.8	1.0	3.6
Total	10.2	7.4	7.5

See footnotes at end of table, p. 44.

APPENDIX—Continued

DESCRIPTION OF COLLATERAL—Continued

[In millions]

Name of railroad and description of collateral	Value of Collateral: Principal amount of securities or cost of Equipment or other property pledged	Value of Collateral: Appraised value of collateral [1]	Amount of loan outstanding as of June 30, 1970
Penn Central Co. (formerly New York Central):			
Finance docket No. 20689:			
Consol. mortgage 4 percent series C bonds	14.5	2.8	----
Ref. and Imp. Mortgage 5 percent series C bonds	29.2	6.5	16.9
Total	643.7	9.2	16.9
New York, New Haven & Hartford RR.:			
Finance docket No. 20372:			
30 diesel-electric locomotives (assumed by Penn Central)	8.2	4.3	[7] 2.7
Finance docket No. 20397	----	----	([7])
Finance docket No. 20398: Administration claim	----	.3	[9] .3
Finance docket No. 21299: Unsecured note of New Haven [8]	----	----	[10] 12.4
Total	8.2	4.6	15.4
Less: Net amount paid by United States and unrecovered on defaulted loans (see footnote 5)	----	----	12.7
Adjusted total	----	----	2.7
New York, New Haven & Hartford RR. Co. trustees:			
Finance docket No. 21685: Trustees certificates	5.0	5.0	5.0
Finance docket No. 21808: Trustees certificates	7.5	7.5	7.5
Total	12.5	12.5	12.5
New York, New Haven & Hartford RR. Co. and trustees total	20.7	17.1	15.2
New York, Susquenhanna & Western RR.:			
1st & Consol. 4 percent series B Emerg. bonds	.5	.3	.1
Finance docket No. 21794: 3 diesel-electric locomotives	.6	.3	.1
Total	1.1	.6	.2
Norfolk Southern Ry:			
Finance docket No. 21121: Notes secured by 2d mortgage with a value of not less than	2.0	2.0	1.0
Finance docket No. 22488:			
Notes secured by 2d mortgage constituting a 3d lien with a value not less than	2.4	2.4	----
1st lien on 31.5 miles of new railroad in Beaufort County, N.C., with a value of not less than	3.0	3.0	4.8
Total	7.4	7.4	5.8
Pittsburgh & West Virginia Railway:			
Finance docket No. 21547:			
1st mortgage 5 percent series B bonds	.7	.6	.6
1st mortgage 4¾ percent series C bonds	1.0	.8	
Finance docket No. 22445: Notes secured by 2nd mortgage with a value of not less than	----	----	([2])
Total	1.7	1.4	.6
Reading Co.:			
Finance docket No. 22545:			
1st and Ref. mortgage 5 percent series E bonds	37.5	21.7	----
57 Diesel-electric locomotives	11.2	7.9	----
37 general purpose 2,500 horse power diesel locomotives; 5 road switching 1,200 horse power diesel locomotives; 5 yard switching 900 horse power diesel locomotives; 10 road switching 2,400 horse power diesel locomotives	----	----	$28.0
Total	$48.7	$29.6	$28.0

See footnotes at end of table, p. 44.

APPENDIX—Continued

DESCRIPTION OF COLLATERAL—Continued

[In millions]

Name of railroad and description of collateral	Value of Collateral: Principal amount of securities or cost of Equipment or other property pledged	Value of Collateral: Appraised value of collateral [1]	Amount of loan outstanding as of June 30, 1970
RECAPITULATION			
Boston & Maine	5.8	3.5	3.2
Chicago & Eastern Illinois	13.3	10.7	6.8
Erie-Lackawanna	24.3	14.9	12.0
Lehigh Valley	34.2	14.9	11.3
Missouri-Kansas-Texas	52.2	37.5	30.0
Monon	10.2	7.4	7.5
New York, New Haven & Hartford	8.2	4.6	2.7
Trustees of New York, New Haven and Hartford RR. Co	12.5	12.5	12.5
Total, New York, New Haven & Hartford RR. Co. and trustees	20.7	17.1	15.2
New York, Susquehanna & Western	1.1	0.6	0.2
Norfolk Southern	7.4	7.4	5.8
Penn Central (formerly New York Central)	43.7	9.2	16.9
Pittsburgh & West Virginia	1.7	1.4	0.6
Reading Co	48.7	29.6	28.0
Grand total	263.3	154.2	137.5

Based principally on (a) the average of high and low market values since Jan. 1, 1970, to date of pledged securities; and (b) the depreciated value of equipment and other property as of June 30, 1970, where the title to equipment or other property is the collateral.

[2] These loans have been paid in full.

[3] The Central of New Jersey defaulted on its loans in finance docket Nos. 21555 and 22640 in March 1967, with unpaid principal balances of $12,375,000 and $4,620,000, respectively, and on June 1, 1967, the United States paid the unpaid principal balance on these 2 loans, plus interest of $373,312.50, with funds provided by supplemental appropriation (Public Law 90–21). Recovery of the loans is now in the hands of the Department of Justice. Accordingly, our valuation of the collateral may not in every instance reflect settlements which may have been made by Justice.

[4] On Jan. 6, 1967, $600,000 principal amount of collateral pledged in financial docket No. 21552 was released by trustee (pursuant to sec. 8(c) of the guarantee agreement dated June 1, 1961) to M–K–T after payment and satisfaction of $600,000 of the collateral trust notes. On May 11, 1970, $360,000 principal amount of such collateral was released after payment of $360,000 of the collateral trust notes.

[5] By its supplemental order dated Dec. 29, 1965, the Commission authorized the substitution of (1) new equipment to be purchased at a cost of $2,731,641, of which $2,386,498 had been expended; (2) $591,000 principal amount of 1st mortgage 4 percent series C bonds; and (3) pledge of the railroad's equity in collateral securing the loan in finance docket No. 22675. In addition, the above supplemental order requires Monon to pledge $1,000,000 of its 1st mortgage bonds of and when such bonds are authenticated in the future under the provisions of its 1st mortgage. The foregoing substituted collateral is in lieu of the $4,000,000 purchase money mortgage on proposed dock facilities initially authorized in this proceeding. The proposed construction of dock facilities has now been abandoned.

[6] Bonds were pledged in original principal amount of $86,500,000 under the loan agreement collateral was withdrawn as principal payments were made.

[7] The unpaid balance of the loans in finance docket Nos. 20372 and 20397 were assumed by the trustees appointed by the court in the reorganization proceedings. The loan in finance docket No. 20397 was paid in full January 1965. The loan in finance docket No. 20372 was assumed by Penn Central in December 1968.

[8] The New York, New Haven & Harftord R.R. Co. defaulted on its loans in finance docket Nos. 20398 and 21299 in July 1961, with unpaid principal balances of $1,375,000 and $13,000,000 respecitvely, and on Oct. 2, 1961, the United States paid the unpaid principal balance on these loans, plus interest of $300,740, with funds provided in supplemental appropriations bill 1962 (H.R. 9169).

[9] Under agreement between Department of Justice and the trustees of New Haven R.R. approved by the court in December 1965, accrued interest was waived and the principal was to be paid in installments during 1966 and 1967. As of June 30, 1970, $1,057,868 has been received and applied in reduction of the outstanding balance. The $317,132 balance will be satisfied by the delivery to the United States of Boston & Providence R.R. bonds upon finalization of the Boston & Providence reorganization proceeding which bonds will be guaranteed by Penn Central, and if the balance is not satisfied in that manner, it will become a claim of administration.

[10] No securities or other property were pledged as collateral security for this loan. However, New Haven covenanted that if it should receive any income from certain claims then in litigation and certain other sources, such income shall be applied in reduction of the outstanding loan. As of June 30, 1970, $627,900 has been applied against the principal of this loan as a result of settlement of certain of said claims.

INTERSTATE COMMERCE COMMISSION, BUREAU OF ACCOUNTS, SECTION OF FINANCIAL ANALYSIS—PT. V LOANS
RECONCILIATION OF DIFFERENCES IN AMOUNTS FOR SAME ITEMS SHOWN IN ANNUAL REPORT (SCHEDULE 6) TO TREASURY DEPARTMENT AND STATEMENTS FURNISHED BUREAU OF BUDGET BY BUDGET AND FISCAL OFFICE

Railroad	Amount of loan outstanding as of June 30, 1970			
	Treasury report	Statement to Bureau of Budget	Items in Budget statement which are under or over amounts for similar items in Treasury report	
			Under	Over
Boston & Maine	$3,216,667	$3,216,667		
Central of New Jersey		15,075,573		[1] $15,075,573
Chicago & Western Illinois	6,838,996	6,838,996		
Erie-Lackawanna	12,000,000	12,000,000		
Lehigh Valley	11,285,000	11,285,000		
Missouri-Kansas-Texas	30,040,000	30,040,000		
Monon	7,450,000	7,450,000		
New Haven	2,719,800	15,409,032		[1] 12,689,232
New Haven Trustees	12,500,000	12,500,000		
New York, Susquehanna & Western	229,300	229,300		
Norfolk Southern	5,800,000	5,800,000		
Penn Central (formerly New York Central)	16,900,000	16,900,000		
Pittsburgh & West Virginia	600,000	600,000		
Reading	28,000,000	28,000,000		
Total	137,579,763	165,344,568		27,764,805
Difference		27,764,805		

[1] Explanation: Amount paid by United States upon default—no further contingency—therefore not included in Treasury report. Amounts applied against principal of loan in finance docket No. 20398 as result of settlement between Department of Justice and Trustees, and amount applied against principal of unsecured loan in finance docket No. 21299 as a result of settlement of certain claims. Amounts applied against principal of Central of New Jersey loans as a result of income received on collateral and proceeds from maturing Treasury bills.

Difference:	
New Haven	+$14,375,000
Finance docket No. 20398	1,057,868
Finance docket No. 21299	627,900
Total	−1,685,768
Net, New Haven	+12,689,232
Central of New Jersey	+16,995,000
Financial docket No. 21555	1,583,517
Financial docket No. 22640	335,910
Total	−1,919,427
Net, Central of New Jrsey	+15,075,573
Net total	+27,764,805

Note: The above differences are due to the fact that the Treasury report (schedule 6, "Supplementary Statement of Commitments and Contingencies") shows the contingent liability of the United States as of the date thereof whereas the statements furnished Budget include the unpaid balance on defaulted loans of New Haven and Central of New Jersey which are still a debt due the United States (even though the lenders have been paid through supplement appropriations). Such defaulted loans are excluded from the Treasury report since they are no longer a contingent liability of the United States.

The CHAIRMAN. Senator Cotton, the Senator from Indiana wanted to know if you wanted to make a statement first.

Senator COTTON. No, I would rather wait; I have some questions I want to ask, but my desire is to learn and not to attempt to impart wisdom on this subject for a while. It is a rather complicated situation.

The CHAIRMAN. I might say for the record, in the bill that the chairman introduced to revive title V, the only substantial change was substitution of the Department of Transportation for the In-

terstate Commerce Commission because, in 1958, the Department of Transportation was not in existence and the only agency we had to work through was the Interstate Commerce Commission.

Senator HARTKE. Thank you, Mr. Chairman.

I would say that the Penn Central was one of our giant corporations; today it is bankrupt. I have some ideas as to why and how this happened, and as far as I am personally concerned, I intend to do everything I can to ascertain every significant detail before we are through. My principal concern today, however, is to make sure the U.S. Government, through the instrumentality of this committee of the U.S. Senate, knows exactly what is happening in a bankruptcy of this kind and I hope we can find out from the court on a day-to-day basis.

The Congress wrote the bankruptcy law; we are now being asked to dole out vast sums of money to support the transportation industry. I think we owe an obligation to the millions of people affected by this bankruptcy directly or indirectly to keep posted on a day-to-day basis as to exactly what happens. The Bankruptcy Act of 1938, which I have reviewed in detail, made some significant changes and I hope the court will follow the general outline of the intention of the policies at that time.

I do think that there is one other aspect, Mr. Chairman, to be put in perspective here, and that is the fact that we are just now seeing an attempt by the House of Representatives to concern itself with the Hill-Burton Hospital Construction Act and the Labor and HEW appropriations bill earlier this year, both of which were vetoed. Now we are being asked to put the full faith and credit of the Congress of the United States behind a measure to improve the credit position of a bankrupt railroad which has been plagued with management problems and which allegedly has $7 billion in assets.

I think this raises some interesting questions and I hope we can get into these as we proceed.

The CHAIRMAN. They raised some interesting questions for the chairman for about 6 months last year when they vetoed the HEW bill.

Senator PASTORE. Will the chairman yield for a moment?

The CHAIRMAN. Yes.

Senator PASTORE. One thing disturbs me. I have read Mr. Volpe's statement, and understand the bill that was introduced by Mr. Cotton gives a wide range of authority to the Department of Transportation. It will be up to you, Mr. Volpe, to determine who should receive a loan and who should not receive a loan. And then you have to call upon the Treasury Department to give you the money that you are guaranteeing in case of default.

Secretary VOLPE. Only in the case of default.

Senator PASTORE. Up to the tune of $750 million, over a period of 5 years.

Now I read in the paper only the other day, and correct me if I am wrong, that in the squabble between Mr. Saunders and Mr. Gorman, Mr. Saunders stepped out with a retirement pension of $144,000 a year.

Now the question that occurs to me, where does this money come

from? I would hope during the progress of these hearings we could determine some of this. I mean, who is paying for this pension? Where is the money coming from, who are we trying to help and why are they in the difficulty they are today if that is the extravagance that has been exercised on the part of the officials who have been around here with their hats in their hands trying to get Federal money.

Senator HARTKE. I would like to say to Senator Pastore, in line with that pension concern, that was one of the reasons I am so concerned about the bankruptcy. What is going to happen to the pension rights of the employees, the vast number of people; are their rights going to be protected?

This is a serious problem in relation to the bankruptcy hearing. That is why, Mr. Chairman, I have indicated that I hope that some place along the line, not alone the Interstate Commerce Commission which is an arm of the Congress—sometimes I wonder how strong—but this committee also sought to be kept informed on a day-to-day basis what is happening in that bankruptcy.

The CHAIRMAN. Let us make some short statements here and hear from the Secretary and then we will have some questions.

Senator Cotton?

Senator COTTON. I have some questions but I would like to hear from the Secretary first and question him afterward. That is usually the way we proceed.

The CHAIRMAN. Yes. I thought you might have a preliminary statement.

Senator COTTON. No, I don't want to shoot off until I——

The CHAIRMAN. Until you know what you are aiming at.

All right.

Mr. Secretary, you go right ahead. We know that you have been over in the House testifying yesterday and this morning, so you can go right ahead with your statement. And will you identify the people with you for the record?

STATEMENT OF HON. JOHN A. VOLPE, SECRETARY OF TRANSPORTATION, DEPARTMENT OF TRANSPORTATION; ACCOMPANIED BY JAMES M. BEGGS, UNDER SECRETARY OF TRANSPORTATION; CHARLES D. BAKER, ASSISTANT SECRETARY OF TRANSPORTATION; AND CARL LYON, DEPUTY ADMINISTRATOR OF THE FEDERAL RAILROAD ADMINISTRATION

Secretary VOLPE. Thank you very much, Mr. Chairman, and members of the committee.

On my left is my hardworking Under Secretary, James Beggs; on my right, Assistant Secretary Charlie Baker; and to Mr. Beggs' left, Carl Lyon, the Deputy Administrator of the Federal Railroad Administration.

I want to express my gratitude for this opportunity to discuss with you S. 4011 and companion measures, which would authorize the Secretary of Transportation to guarantee loans to railroads.

One only has to look at the current headlines to see that all is not well with the railroad industry today. Going behind the head-

lines, it is not difficult to demonstrate the serious financial condition of the industry:

1. The margin of net operating income to gross has deteriorated markedly since 1966 when it was 8.2 percent. It is now down to about 4.5 percent, little better than the 4 percent of the critical period of 1960–61.

2. Financial strains are reflected also in net working capital, which has declined steadily since 1963. Net working capital in that year was $828 million. By December 31, 1969, this figure had dropped by almost $800 million—reaching a low of $58.4 million. If any single statistical trend captures the essence of the industry's financial problem, it is this one.

3. In recent years, cash flow from retained income and depreciation/retirement charges has provided for only about 60 percent of gross capital expenditures. The remainder has come principally from additional borrowing for equipment and drawing upon working capital.

4. Equipment obligations outstanding increased from $2.5 billion at the end of 1962 to $4.2 billion at the end of 1968, or by almost 65 percent over this period.

Comparing 1969 to 1968, there was a 10-percent drop in net income; operating revenues were up 5.4 percent to a record of $11.5 billion, but operating expenses rose 5.6 percent to a record of $9.1 billion; and net railway operating income for 1969 was off about $24 million. Twenty-one of the 74 class I railroads showed deficits for 1969. Let me repeat that, 21 of the 74 class I railroads showed deficits for 1969. Of these, 14 railroads are in the eastern districts, six in the west, and one in the south. The results for the full year 1969 were worse than 1968; and the industry entered 1970 in no better financial condition than in the preceding year.

One of the best indicators of the health of the industry is the rate of return on investment. This is true in any industry. From a postwar high of 4.22 percent, the rate of return reached a postwar low of 1.97 percent in the recession year of 1961. From that low, the rate of return rose to a high of 3.9 percent in 1966. Since 1966, it has steadily dropped, reaching 2.38 percent in 1969.

While the general health of the industry is disturbing, I should not leave the impression that all railroads are in severe financial straits. Obviously, if 21 of the 74 class I railroads showed deficits for 1969, 53 either broke even or showed a profit. We are dealing with a national system, however, and the effects of disturbances any place in that system are felt throughout it.

Taking the Penn Central Railroad as a case in point, 21 percent of all freight cars loaded pass over the Penn Central, and 70 percent of Penn Central traffic involves other railroads.

This traffic moves either from the Penn Central to another road or from another road to the Penn Central. When one considers that of total intercity freight movements the railroads move 66 percent of our food, 84 percent of our lumber and wood products, 73 percent of our pulp and paper, 66 percent of our primary metals, 69 percent of our transportation equipment, and 58 percent of our chemicals, we can appreciate the role of the Penn Central Railroad in the efficient functioning of our entire railroad system.

If traffic moves inefficiently over this road, the loss may be felt by every other railroad. If for any reason traffic were to stop moving over this road, it would result in loss of employment and revenues not only to the Penn Central but to many other railroads and the industries they serve.

You have all seen or heard the railroad commercials and I would have to agree that we do all need the railroad. In 1969, the railroads carried 780 billion ton-miles of freight, or an increase of 34 percent over the 580 billion ton-miles carried in 1960. I should note that notwithstanding this gain, the railroads' share of traffic is declining as a result of strong competition from other modes—in the last 20 years their share of total has dropped from 56.2 percent to 41.2 percent.

Looking to the future, we estimate that by 1980, the railroads will be carrying almost 43 percent more freight than they carried in 1969, or well in excess of 1 trillion ton-miles. The railroads will continue to be by far the largest single mover of intercity freight.

No other modes of transportation singly or in combination could conceivably fulfill the role of the railroads. In fact, the other modes will have their hands full meeting the projected demands for their own services. There can be no question, if we are to move efficiently the goods necessary to meet the needs of this Nation, we must maintain a healthy railroad industry. Our projections are based on the assumption that we will.

Without attempting to identify all of the problems facing the railroads today, and which must be overcome, I would like to mention a few—some of which the administration and the Congress are attempting to deal with. We urgently need to improve rail passenger service and, at the same time, relieve the railroads of the very heavy passenger service deficits they are currently experiencing.

I might add I would like to pay tribute to this committee and the Members of the Senate for the very expeditious way they handled the bill and, on a completely bipartisan basis, passed the bill, if I remember correctly, by 77 to 3, which is a pretty good vote anytime.

The CHAIRMAN. Well, that is par for the course for this committee. I think we ought to say there that we are very hopeful that this will relieve some of the problems we are talking about. But it is down the road. It just can't take hold for another year or year and a half.

Secretary VOLPE. That is true.

The CHAIRMAN. It is going to be a gradual thing, but it ought to be very helpful; we hope it will be.

Secretary VOLPE. Yes, we could improve railroad finances almost immediately by prohibiting discriminatory State taxation.

Improving railroad safety is another matter of great urgency—and the accident at Crescent City early this week underscores the need. While there may be shortrun costs to the industry in meeting higher standards of safety, there should be very substantial long-run savings. I again commend this committee for dealing affirmatively with this problem.

Finally, I would mention the problem of freight car shortages. The Department and the ICC are now examining the ways by which this problem might be attacked and solved.

These actions will all help improve the financial condition of the railroads, but more is needed. Last week, the administration forwarded to the Congress one of the bills before us this morning, which would authorize the Secretary to guarantee loans to rail carriers to aid them to meet temporary and urgent financial requirements.

The very serious financial condition of the Penn Central Railroad, as well as several other roads, prompted the legislation. Because of the uncertainty as to whether the administration's bill would be promptly enacted, the Defense Department's interim loan guarantee was not forthcoming.

As you know, the Penn Central thereupon on Sunday, filed for reorganization under the Bankruptcy Act. I do not believe that this fact has lessened the need for the authority we seek.

The Penn Central needs cash. We would hope that trustee certificates providing the necessary cash could be sold without a Government guarantee, but the consequences of any failure to raise cash make it imperative, in my view, that the guarantee authority be available to be used if needed.

I do not wish to imply that passage of the legislation would assure a guarantee to the Penn Central or any other railroad. In this and every other case, the request for a guarantee will be carefully scrutinized and made only if there is a reasonable chance for repayment of the loan.

The problem is not simply the Penn Central. Several other railroads are now experiencing financial difficulties and their condition could deteriorate. Should situations arise where the timely guarantee of a loan by the Government might avoid a financial crisis such as that being experienced by the Penn Central, the authority to avert it should be at hand. And that authority is contained in S. 4011.

Very briefly, S. 4011 would authorize the Secretary to guarantee a loan to a rail carrier for the purpose of meeting its temporary and urgent financial requirements—and we would assure that the funds were used only for railroad purposes.

The loans guaranteed could not exceed the interest rates established by the Secretary and could not extend beyond 15 years from the date of issuance.

The outstanding aggregate amount of all loans guaranteed could not exceed $750 million. A guarantee fee would be charged in connection with each loan. A rail carrier receiving a guaranteed loan could not declare a stock dividend without the consent of the Secretary.

This flexibility in the payment of dividends is necessary to cover the situation where dividends are paid to a parent railroad company by a subsidiary. We would not want to cut off this cash flow.

In the event of default on a guaranteed loan, the Secretary would make good on the default by borrowing from the Secretary of the Treasury. The Secretary's authority to guarantee loans would expire 5 years after the date of enactment. In both form and substance, this bill, as the chairman indicated, is quite similar to the 1958 law granting authority to the Interstate Commerce Commission. As you know, that authority expired in 1963.

One of the major differences between the administration's pro-

posal and the former ICC authority relates to the purposes for which the guarantees could be granted.

The Congress limited the ICC guarantee authority at that time to loans needed for capital expenditures. This is not the problem facing the railroads today. The railroads in trouble need cash to pay current operating expenses. Unless the guarantees could be used for that purpose, they frankly would be of little use.

The other major difference between the previous and proposed legislation relates to the method by which funds would be obtained to make payment in the event of default.

Under the ICC Act, the Secretary of the Treasury paid the lender from appropriations made for that purpose. Under our proposal, the Secretary of Transportation would be authorized to borrow the necessary funds from the Secretary of the Treasury.

This permits an immediate payment to a lender rather than requiring him to wait for an appropriation and enhances the attractiveness of the guarantee.

Some minor amendments to S. 4011 are necessary as a result of the failure to obtain an interim loan guarantee for the Penn Central and its subsequent petition for reorganization. If the committee desires, we will be happy to work these out with the committee staff.

In conclusion, Mr. Chairman, I believe it is imperative that Congress promptly enact S. 4011.

The standby authority which it provides is a tool which we must have available to assist the railroad industry in this critical period.

Gentlemen, the testimony I presented today has not been designed for the purpose of bailing out a particular railroad or a particular group of stockholders of any railroad. Neither has the purpose of my testimony been to provide either a Republican or a partisan solution to the situation. What we are concerned with is the very real possibility of substantial unemployment of American working men and women that would take place if the railroad industry as a whole were to suffer any further losses. Literally millions of American working men and women could be affected by the situation existing in our railroad industry today.

Our Nation's railroads bear no political label, they were not created to serve either Democratic or Republican commuters or shippers. They were created to serve the American public, and it is in this spirit of public service that I have testified today.

This includes both those people who work for the railroad industry and those in other important industries. Let us keep in mind that, to a very large degree, the delivery of the goods and services to our great American public is dependent on both the quality and quantity of railroad service.

Let us also keep uppermost in mind that the livelihood, and therefore the pocketbooks, of literally millions of Americans are dependent upon the future of our railroad industry.

Our Nation needs a healthy railroad industry; our people need a healthy railroad industry; and unless we complete action as soon as possible—on this vital legislation as well as other legislation, I do not believe that the railroad industry will be able to survive.

That is the end of my statement.

Mr. Chairman and members of the committee, I would be very happy to answer questions.

My staff is here also to answer your questions in every way we can.

The CHAIRMAN. Thank you, Mr. Secretary. We appreciate your statement. I appreciate your comment that this committee has acted promptly on these matters.

Now two quick questions and I will let the other members inquire. All of the proposals envision that a stock dividend could not be declared by any railroad receiving a loan without the consent of, in the 1958 Act, the ICC, and in this case the Secretary.

Secretary VOLPE. Yes.

The CHAIRMAN. Did the Penn Central pay a cash dividend last year?

Secretary VOLPE. Yes, they did.

The CHAIRMAN. How much?

Secretary VOLPE. $43 million. Not the railroad, though, the Penn Central Co.

The CHAIRMAN. I wanted that clear. They did pay a cash dividend last year.

Secretary VOLPE. That is correct, the Penn Central Co.

The CHAIRMAN. Will you put in the record when they paid it?

Secretary VOLPE. We shall. I can't recall it now.

(The following information was subsequently received for the record:)

On September 20, 1969, Penn Central, the parent company, paid 60 cents per share, for a total of $14,465,273.

The CHAIRMAN. Apparently when they knew they were in financial difficulties, they still paid a cash dividend.

Secretary VOLPE. That was the Penn Central Co., as distinguished from the Penn Central Railroad, yes.

The CHAIRMAN. Now I won't belabor this, it doesn't have much to do with this matter, but it has a great deal to do with members of this committee.

You mentioned boxcars, and I am glad you mentioned that. That has been a problem since 10 North Dakota farmers wanting more boxcars to deliver their grain to Duluth petitioned the ICC 83 years ago. That was docket 1.

Now I am going to ask Senator Cotton if he has some questions and then Senator Hartke, chairman of the subcommittee, and I hope the committee will be as brief as possible, because we were a little late in getting started.

Senator COTTON. Thank you, Mr. Chairman.

I will be very brief. I have a couple of questions, Mr. Secretary, which you will readily understand are more or less for my own protection. My name is on your bill and the first year I was in the Senate of the United States a lot of my colleagues used to come around to me with a sweet smile and a winning manner and get me to cosponsor bills. I got my name on a lot of bills and when the chickens came home to roost I discovered myself compelled to vote against about six bills I had cosponsored. It was a little embarrassing.

For my own protection, I read the bill after I introduced it.

Usually I read it first, but speed was of the essence. There are just a couple of questions I want to clear up before I get into the corridor and some newsman asks me about the bill.

On page 2 of the bill it says:

> Before making a guarantee under this section, the Secretary must find in writing that 1) the loan is necessary to carry out the purposes of this Act, 2) the loan is not otherwise available.

and so on. Then it says:

> The Secretary must find in writing that the general financial condition of the rail carrier, upon obtaining the loan to be guaranteed, would be such as to hold out a reasonable assurance of its ability to repay the loan within the time fixed therefor and afford reasonable protection to the United States.

If this bill, S. 4011, passed the Senate today and the House tomorrow, would you be able to make any loans to the Penn Central with that provision in there?

Secretary VOLPE. I could, but not the day after you passed the bill. I would certainly want to satisfy myself of the things you have indicated before I would consent to guarantee a loan.

Senator COTTON. You would want first to look into the management situation and the generous retirement incomes that have gone to officers who have been retired. Knowing you, Mr. Secretary, and having known you in your years as Governor of Massachusetts, I am sure that you would go from top to bottom of the whole organization before you gave a guarantee.

Secretary VOLPE. Senator, let me just say to you that on the Penn Central, and as I indicated there is no guarantee at all that Penn Central or any other railroad would get a loan, is now in the hands of the court. The court will appoint trustees.

The situation will be somewhat different than it would have been if the railroad had remained in private management's hands. I would hope that I would be able to use the same kinds of tools with the court appointed trustees as I could use with private management. Inasmuch as I am going to be the person, or the U.S. Government is going to be the agency which is going to guarantee the loan, we would want to have everything opened up to us to assure ourselves of the complete integrity of the loan and that the money would not be used for purposes other than what the act calls for.

The CHAIRMAN. Would the Senator yield for a clarification?

Senator COTTON. Certainly.

The CHAIRMAN. Since we have all discussed this, and this wasn't the case in 1958, but now that they have gone into bankruptcy, I want to ask this question to clear up the record:

If you should decide to make a loan to the Penn Central——

Secretary VOLPE. Guarantee.

The CHAIRMAN. Yes, if you should, the court would have to approve of that loan, would they not?

Secretary VOLPE. That is right, sir.

The CHAIRMAN. All right. Thank you.

Senator COTTON. Thank you, Mr. Chairman. That is what I was going to point out. Shouldn't the bill recognize the fact that when you are dealing with a railroad that is in the hands of receivers, under the direction of a court, a separate procedure may be required

for dealing with that particular loan? Have the experts who prepare your bills gone into that?

Secretary VOLPE. As I indicated in my testimony, Senator, things happened pretty fast between last Wednesday and this Tuesday. I indicated that I believe there are some changes, modifications in language, that will have to be made. We certainly would be very happy to work with the staff of the committee in developing the kind of language which both the committee and ourselves feel would be appropriate and necessary to cover those railroads that are not yet in bankruptcy as well as those that are.

Senator COTTON. You wouldn't have quite the same control over a court appointed trustee as to how the money received under a guaranteed loan was spent as you would have with a private corporation to which you loaned the money. Is that correct?

Secretary VOLPE. That generally would be correct. The fact remains we would be the ones who would be guaranteeing the loan. I think with that kind of leverage the court and trustees would do some listening.

Senator COTTON. Just one or two quick questions I must ask because this is the Cotton bill and I want to know a little more about it.

I note on page 5 it says "There are hereby authorized to be appropriated to the Secretary such sums as may be necessary * * *" Does that mean that if this authorization bill is passed, and, somewhere along the line the $750 million is appropriated, the appropriations committees of the Congress would retain some authority? Would their approval be required prior to your making these loans or does the $750 million go plunk into your hands for 5 years with no strings attached outside of the annual reports you make to the Congress.

Secretary VOLPE. I was going to ask my Under Secretary to answer your question, but since you put it as you did, I will answer it myself.

I would say, sir, that there is nothing we do at the Department of Transportation that wouldn't be available for complete scrutiny by this committee. I would expect to report to this committee on our actions, because unless they are actions in the public interest, I certainly would not take them.

Senator COTTON. I understand that, Mr. Secretary, and please don't take these questions as being hostile. They are quite the contrary.

Secretary VOLPE. I had a few hostile ones on the other side, so don't mind if I am a little suspicious this morning.

Senator COTTON. I am being the devil's advocate, Mr. Secretary, to make sure I am in a position to defend my own bill. And that question didn't carry any such implications. Congress can have reports, and the committees of Congress can scrutinize those reports to their heart's content. The question is after we scrutinize, do we have any authority to do anything about it?

In other words, if this bill should pass in its present form, would you have blanket authority to make these guaranteed loans over a 5-year period, making a report to Congress each year, but with not one string that Congress could pull?

If you die tomorrow—I am more likely to than you are, if this session goes on—but suppose you die tomorrow and there is another Secretary, or suppose a dire catastrophe came to this country and the Democrats took back the power and we should have another Secretary. How do we know what the next Secretary might do?

In other words, I want to have clear in my mind the answer to this question: Under this bill, does the Secretary of the Department of Transportation have complete authority for 5 years to play with the $750 million with no obligation other than a report which Congress can read and then whistle at?

Secretary VOLPE. The answer is "yes," Senator, except for the word "play." But inasmuch as my Under Secretary helped to write this language, perhaps I could ask him to amplify.

Senator COTTON. Again I am sure you know these questions are friendly, not unfriendly. I am just trying to get the facts.

Mr. BEGGS. As you know, Senator Cotton——

The CHAIRMAN. They are very timely, because we do not know just who is going to be there from day to day.

Secretary VOLPE. Mr. Chairman, I spoke to the President this morning and I am still Secretary.

The CHAIRMAN. You are in good shape, then.

Mr. BEGGS. This bill is written so that the Secretary can commit the money. In the event of default, the Appropriations Committee would be on the hook, so to speak, to appropriate the money to back it. The original bill by the ICC was written in such a way that it was not a pledge and it required the appropriation before the loan could be paid off.

The reason that we wrote our bill this way was that the previous provision made it somewhat difficult to negotiate with the banks because there was no absolute guarantee.

The intent was to make the authority specific so we could go in and get the best possible conditions from the banks.

Senator PASTORE. Will the Senator yield at that point?

Senator COTTON. Certainly.

Senator PASTORE. Don't you think it would have a salutary effect if we wrote into this bill provision for reports? As I pointed out before, very broad authority is being given to one individual—and this is without any reflection on Mr. Volpe for whom I have the highest affection and admiration. I think he is a good administrator; there is no question about that at all, and no one should misunderstand this. But the fact remains that one man has a tremendous amount of power under this bill. He could commit $750 million in 1 year; he could commit $750 million in 1 month under this bill. While it is true that it does not go beyond the 5-year period, there is nothing in here that limits you to any particular period within the 5-year range.

Secretary VOLPE. That is correct.

Senator PASTORE. Would it not be better, inasmuch as the Appropriations Committee has to come into play, that in each instance a report be made—after all, this would not be many, many applications. You only have so many railroads and each time you act it will be on a large scale; it will run into millions and millions of dollars. Why wouldn't it be better to write into this law, in addition

to your broad reporting provision of yearly reports, that in each instance where a loan is made that you submit to the Congress, either to this committee or the Appropriations Committee or the Congress itself, the amount of the loan, to whom it is made, under what conditions it was made, and the reasons for making it?

In that event, of course, Congress will be currently informed and kept informed as to each transaction, because you are not going to have a multitude of transactions here.

Secretary VOLPE. I hope not.

Senator PASTORE. I would hope you would consider that, to put it into the bill itself. Because, after all, you are putting the Congress in a position that once you have made a guarantee and after there is a default, you call upon the Secretary of the Treasury to pay the money at that time. There is a legal responsibility on the part of the Government——

The CHAIRMAN. And it has to be appropriated.

Senator PASTORE. Yes, and it has to be appropriated. It is an obligation that is fixed. For that reason I think the Congress ought to know in each instance what is being done, what the obligation of the Congress might be, to whom it is given, and under what conditions.

Secretary VOLPE. Senator, let me say I would personally—recognizing the fact I am the Secretary of Transportation today and not thinking about whether or not I will be the Secretary of Transportation tomorrow——

The CHAIRMAN. Let us not pursue this. We do not want you to start down the road here; we want to keep you here.

Secretary VOLPE. In the bill, on page 6, we did insert a paragraph by which we have made available to us the services and facilities of other departments, agencies, and instrumentalities of the Federal Government. We believe this is a desirable provision. If this committee and the Congress, in its judgment, should write in a provision that on the occasion of each loan we were to notify the Congress of the amount of the loan, to whom it is made, et cetera, I would have no objection.

Senator COTTON. Now, I will conclude right away with just a couple more questions. In this bill I know it is your purpose and your responsibility to look into the past and present administration of the railroad and insist on what you would consider reliable and dependable and efficient administration before any loan is made. All of these rumors about where the money has gone, such as the fancy retirement incomes and so on, would be fully considered. But does the language in the bill specifically require that kind of analysis, or is it just under the general provision that you shall have reasonable assurance of their ability to pay? Does that contain by implication the duty to go into all of these questionable transactions, such as the concealment or diversion of assets?

Secretary VOLPE. Senator, that is exactly right. This is an authority which the present Secretary of Transportation, or any other Secretary, would take very, very seriously. Not only the language that you noted under paragraph 3, section 4, but also on page 3, line 8. "The Secretary may prescribe such other terms and conditions as he deems appropriate," et cetera. I can assure you that if

I felt that the management of a railroad that came in for a guarantee just could not bring that railroad back into a viable position, and they would not agree to a change in the management, or in some way indicate how they were going to bring that railroad back into a viable position, I would not guarantee their loan. We would have the tools, I think.

Now, if this committee, your staff and my staff, can work out language that strengthens this power, I would have no objection.

Senator COTTON. That was my question. Again, I know you would, and I am quite sure any Secretary would have that intent. But would you object if some guidelines or criteria were added to assist you in determining some of the things you would need to satisfy yourself about?

Secretary VOLPE. I would have no objection whatsoever, sir.

Senator COTTON. Now, at the bottom of page 5, the bill reads:

> The Attorney General shall take such action as may be appropriate to enforce any right accruing to the United States by reason of its having made guarantees under this Act, or by reason of its having paid money or incurred expenses as a result of making such guarantees.

Would you or a member of your staff indicate exactly, for the record, what that paragraph means? What kind of action would be taken by the Attorney General?

Secretary VOLPE. With your permission, I would like to have Carl Lyon answer that question, sir.

Mr. LYON. Senator, I am not certain I can give you the definitive answer that you would like to have. I can tell you that it does place a definite obligation upon the Attorney General to take action to protect the interests of the Government.

I cannot list what actions can be taken. But, there is a definite obligation upon the Attorney General to protect the full rights of the Government.

Senator COTTON. So that under this bill, not only is the Secretary of the Department of Transportation charged with the responsibility of satisfying himself before he makes a guarantee; following through after he makes the guarantee; and making reports to the Congress; but also the Attorney General is provided as a backstop.

Does this paragraph C mean the Attorney General independently is supposed to exercise some surveillance over these loans? If a railroad holding company is beginning to divert railroad funds or indulging in what is generally called "milking" its assets or engaging in other practices in which the Government would have an interest, is the Attorney General supposed to proceed even if the Department of Transportation has not been alerted to the situation?

Mr. LYON. The Attorney General's authority under this section, Senator, does not rely upon the Secretary's authority; it is separate and apart from that. You are correct in your statement in that, if he knew that laws were being violated or U.S. rights infringed, he would be expected to take appropriate action.

Senator COTTON. He may exercise an independent surveillance of the operations of the company. It does not say he shall, and he probably won't.

Mr. LYON. It says he shall take appropriate action to enforce any rights the Government may have. He has no discretion there. It is mandatory.

Senator COTTON. If the Secretary of Transportation communicates with the Attorney General and says that we have a loan of so many million dollars to "X" railroad, and we are suspicious that they are paying too big a salary to their management, then the Attorney General shall take action.

Secretary VOLPE. That is absolutely correct, sir.

Senator COTTON. But it does not necessarily mean that the Attorney General has an independent duty to exercise some surveillance himself over these loans does it? That duty would still rest as a practical matter in the hands of the Secretary of Transportation wouldn't it? The Attorney General has so many other things to do that I am sure he would not be looking over the shoulder of the Secretary of Transportation and should not be expected to implement this section, should he?

Mr. LYON. I agree with what you say, Senator. And if the Attorney General is aware of a misallocation of funds or infringement of the Government's rights by the corporation, he has a definite obligation to act.

Senator COTTON. I understand that—if it came to his attention.

Mr. LYON. Yes, sir.

Secretary VOLPE. The Secretary of Transportation would call it to his attention if it came to the Secretary's.

Senator COTTON. I am sure he would. I was just trying to get straight in my mind the relationship of the Attorney General and his duties and the Secretary of Transportation and his duties under this bill.

The CHAIRMAN. Well, the Attorney General will come after the fact, in case they have to foreclose or proceed legally to keep the assets intact.

Secretary VOLPE. That is correct.

Senator COTTON. But if before they were trying to collect the loan moneys were being diverted or the Secretary of Transportation was not satisfied with the conduct of the railroad, he could call on the Attorney General to take action, couldn't he?

Mr. LYON. That is correct.

Senator COTTON. But as a practical matter, probably the Secretary of Transportation would be the only one actually following these things unless it accidentally came to the Attorney General's attention.

Secretary VOLPE. That is correct.

Senator COTTON. I will not take further time now. There are some other things I would like to discuss with your representatives later so that I may be thoroughly familiar with some of the details. But I thank you, and hope you understand that I was trying to make sure that I had the ammunition to defend the Cotton bill.

The CHAIRMAN. Senator Hartke.

Senator HARTKE. Thank you, Mr. Chairman.

I think the basic question presented as a result of the Penn Central's collapse and bankruptcy is whether or not a monetary transfusion into the Penn Central or to any other railroad at this moment will really provide a significant cure for the illness which is affecting these railroads. In other words, are we going to really avoid the sickness or are we just going to temporarily give them relief

from a very sharp pain. In line with that, I wonder to what extent has the Department of Transportation really reviewed the railroad problem generally? In other words, were you completely unaware of the fact that the Penn Central was faced with this collapse?

Secretary VOLPE. We were aware, Senator, as far back as late last fall of the general financial health of the entire railroad industry, although not the Penn Central in particular. I was called on by, I believe, the members of the executive committee of the American Association of Railroads. They indicated to me, as Secretary of Transportation, that they were having serious difficulties. They showed me charts which indicated some of the statistics which I have given you this morning on the cash flow, the reduction in profits, and so forth. We were not aware that Penn Central, per se, was in dangerous financial straits until only recently. About 2 months ago, the Penn Central called our attention to their financial picture during this first quarter. It was starting to look pretty bad, and, as a matter of fact, they indicated they might have to request relief in one form or another.

At that time we were pushing for our railroad passenger bill which this committee has so expeditiously handled, and we believed——

Senator HARTKE. Let me stop you there. I think I pushed the Department more than you pushed me.

Senator VOLPE. Let's say we pushed each other.

Senator HARTKE. All right.

Secretary VOLPE. I would say that guaranteeing a loan is not going to do the job. We have certain limitations, which is the point I want to make, as far as our responsibility over the railroads. A good part of the responsibility for railroads lies in the hands of the ICC.

Since the ICC has had a permanent chairman, I have consulted with him to the degree the statutes permit me to, with regard to certain obligations of his as well as obligations of mine. I have tried to determine how the department and the regulatory agencies can more effectively look at the long-range problems of the railroad industry, as well as the other transportation modes, to assure a healthy and stable climate for all modes of transportation.

The railroad passenger bill is one result of this examination, as is the railroad safety bill.

Senator HARTKE. But if you were aware—certainly I do not believe that anyone who is familiar with the transportation industry could be unaware of the pending difficulties of the railroads, at least we have been on it for more than a year in this committee alone.

If you were aware of this, really seriously aware of it 2 months ago, why did you wait until the last minute to take action?

Secretary VOLPE. Senator, I had heard the wolf at the door story quite a few times. I was not aware of the seriousness of the problem until they actually laid out on a chart their figures for the first time. Those figures only became a cause for worry less than a month ago, which is when we started to work on this problem.

Senator HARTKE. But Mr. Secretary, let's be real candid about this situation.

Secretary VOLPE. I am trying to be.

Senator HARTKE. As this moment you know very little more about the Penn Central Railroad's history and financial status, its dealings, what happened in its stock, why the merger failed, why the system went on the rocks, than you did 2 months ago, isn't that true, really?

Secretary VOLPE. Not really. I think we know——

Senator HARTKE. If you did, you didn't document it in your statement today. I do not know where you received this information, but I think we can go through here and find out that there is no history. There are rumors all over the place, there are statements about what happened. Were you called in the first time the Government really moved into it, decided to move into it. Were you notified to appear, you or any member of your Department, at that time the decision was made or as reported in the Wall Street Journal on June 19:

> The decision was made at a top level meeting on May 26, which included Attorney General Mitchell, Treasury Secretary Kennedy, Defense Secretary Laird and Presidential assistant Peter Flanigan. These officials were ready to give the guarantee without investigation of Penn Central's poverty claims or consideration of whether a management change was in order. Transportation Secretary Volpe wasn't at the first meeting because he was out of town and his subordinates didn't enter the picture until he got back.

Is that a fair statement?

Secretary VOLPE. I don't believe so. Secretary Laird was not even in the country.

Senator HARTKE. What I am pointing to is the question whether the primary consideration at that time was a viable transportation system, which you have spoken of and which we all agree is needed, or was the primary consideration at that time the rescue of the financial backing and the creditors.

Secretary VOLPE. My primary concern has always been, Senator, my belief that we have to maintain a viable railroad industry in our Nation. This is only one railroad, which, unfortunately or fortunately, handles the freight for the complete northeast quadrant of our Nation. A breakdown, I feel, in that one railroad would have a very damaging effect on the rest of the railroad industry.

Senator HARTKE. Mr. Secretary, do you know who owns the Penn Central? Do you know who the stockholders are really?

Secretary VOLPE. No, I do not.

Senator HARTKE. Does your Department know it?

Secretary VOLPE. I think we know from reading some information about it. I read about one fellow who owned 169,000 shares of stock. That was the first time I heard of it. No, we are interested primarily in maintaining a healthy, viable economy. I was not interested in helping stockholders.

Senator HARTKE. Well, in this situation, after all, the Penn Central did precipitate this legislation, how much money do you think the Penn Central will need?

Secretary VOLPE. Had they not gone into voluntary bankruptcy—and this is our opinion, an estimate—there are some of my staff who have worked on this for many, many long hours during the last 2 or 3 weeks. My staff felt it could be done for loans of up to $250 or $300 million. There are others who say it might have been closer to $400 or $450 million. But that was before Sunday. After

Sunday, with the sale of trustee certificates, if they can be sold without guarantees, and I am not in a position to say if they can be or not, we are not in a position to say how much would be required. Until we receive an application, from the Penn Central, under the reorganization, we could not determine the amount needed. I intend to look at it with the careful scrutiny I am sure you would want me to do.

Senator HARTKE. In relationship to this estimate which varies in your statement from $200 million to $450 million, what would that money be used for, do you know?

Would it be to buy more hotels?

Secretary VOLPE. No, the bill we have, as a matter of fact, specifies it could be used only for railroad operations. It could not be used to buy hotels or anything else of a non-railroad nature.

Senator HARTKE. All right. I will come back to that. As I understand it—I think I might as well proceed at this point now—as I read the bill, it is to aid them to meet temporary and urgent financial requirements. What does that mean? I understood you to say that means operating expenses. What does the word "temporary" mean?

Secretary VOLPE. The word "temporary" can be interpreted to mean a month or two, a year or two. I think if you read the rest of the sentence, it sheds light on what we think the word temporary means.

Senator HARTKE. You read it to me, tell me what you mean. I have read it all. In other words, I don't see any qualification of temporary there.

Secretary VOLPE (reading).

> Provide emergency financial assistance to rail cariers to aid them to meet temporary and urgent financial requirements which, if not met, might seriously impair their ability to perform those transportation services necessary to the maintenance of a national transportation system adequate to meet the needs of the commerce of the United States, the postal service and the national defense.

Senator HARTKE. How long in advance could the requirements be foreseen.

Secretary VOLPE. In advance of the date of the issuance of the loan or——

Senator HARTKE. Does a temporary loan mean a short term, 5 years, or does it mean 15 years?

Secretary VOLPE. The bill provides for loans of up to 15 years. We could well decide that a loan to a particular railroad, although it was temporarily in a severe cash squeeze, could be paid off within a 5-year period. We would have to exercise our judgment, after reviewing their complete financial prospectus and everything else we could procure, as to the length of the loan.

Senator HARTKE. What would the Government get in exchange for the loan?

Secretary VOLPE. Wherever possible, we would try to get a pledge of any assets that might be available.

Senator HARTKE. Is that a requirement? In other words here we have the Penn Central allegedly with what—$7 billion worth of assets—do you know how much assets they have?

Secretary VOLPE. Seven billion dollars in assets. That is the figure which is, shall I say, thrown around.

Senator HARTKE. But you don't know.

Secretary VOLPE. Yes, we do know. We have their statements, but we have tried to go behind those statements. Mr. Beggs has gone into that in some detail. I would be very happy to have him indicate to you at least a partial breakdown of the assets of the three layers of the Penn Central Co.

Senator HARTKE. Was this information submitted by Penn Central? What is the source?

Mr. BEGGS. This is public information—information submitted to the ICC and financial information used in public statements of the corporation.

Senator HARTKE. All right. Let me ask you, what is the total of those assets, according to your best judgment?

Mr. BEGGS. The book value of the assets is about $6.8 billion. Of that $6.8 billion, the railroad itself, the Transportation Company, has assets close to $5 billion. The rest of the assets are held by the Pennsylvania Company, and is mostly real estate and other operating properties, such as pipelines. That amounts to about $2 billion.

The remainder feeds indirectly to the holding company at the top of the corporation.

Senator HARTKE. What you are giving to us is reports from the ICC, the same situation I had with them. We want to find out if we are going to be in the business of loaning out the taxpayers' money? Don't you think we are entitled to know the whole history of this operation?

Mr. BEGGS. Yes, sir.

Senator HARTKE. Not just a sort of surface operation as we have had before. Who owns it, who do they owe the money to, what are their assets, what are their investments, how much is being used for nontransportation purposes.

Mr. BEGGS. We can supply every bit of that information.

Senator HARTKE. You can now?

Mr. BEGGS. Yes, sir.

Senator HARTKE. For the Penn Central. Can you tell us who owns the Penn Central. I thought the Secretary said you couldn't.

Mr. BEGGS. Can I supply a stockholders' list?

Senator HARTKE. Can you give us even major control.

Mr. BEGGS. I think that would be obtainable, yes, sir.

Senator HARTKE. I am not talking about the list of those 30 that comes down through the ICC hearings. I am talking about the actual beneficial behind-the-scenes owners.

Mr. BEGGS. I would doubt that it could be obtained.

Senator HARTKE. I think that is the important point. Let's not leave the impression we can, because I think that is wrong at this moment, isn't it?

Mr. BEGGS. At the present time, there is very little equity left in this company. Therefore, I am not sure that this is particularly pertinent to the problem we are addressing here, which is whether there is security for a loan.

Senator HARTKE. How much is left?

Mr. BEGGS. The market values it at about $150 million out of the so-called asset value of $6.8 billion.

Senator HARTKE. But you don't even know who holds that, do you?

Mr. BEGGS. No, sir.

Senator HARTKE. And can you find out?

Mr. BEGGS. I would doubt that you could get a complete list of the beneficial owners of the stock.

Senator HARTKE. You couldn't even come up with beneficial owners of the stock in relation to control?

Mr. BEGGS. I think that would be obtainable. I think you could get the control.

Senator HARTKE. Don't you think we should know that?

Mr. BEGGS. I think it would be pertinent to know if one were making a loan to this company, yes, sir.

Senator HARTKE. Do you think that in exchange for a loan to this railroad or any other that we ought to have certain requirements as to service which is going to be rendered?

Mr. BEGGS. Certainly, as indicated in the testimony, the reason for granting a guarantee on a loan would not be for any purpose but to maintain service on the railroad for the public and for the shippers.

Senator HARTKE. Do you think that you ought to require, as a condition to such loans, divestiture of assets which have no relationship to the transportation industry?

Secretary VOLPE. Not necessarily, Senator, if those assets are providing substantial revenues that are keeping the railroad going. In this case, based on the information we have, if the Penn Central Co. had not held nonrailroad properties from which to draw assets and dividends last year, the loss instead of being 40-odd million dollars would have been on the order of $185 million.

In other words, there was some $140 million or more that went from nonrailroad properties to pay off the deficit of the railroad.

Senator HARTKE. Yes, but as Chairman Magnuson indicated, at the same time you are talking about all of their difficulties, they continue to pay out dividends of $43 million?

Secretary VOLPE. They did, sir, that is correct.

Senator HARTKE. Didn't you say $43 million.

Secretary VOLPE. Yes, sir. I am not trying to justify it, Senator. That is not my purpose here this morning, as you know.

Senator HARTKE. I understand that you think it is not. But there is no question that if the Penn Central hadn't gotten into this situation, I don't think you would have been here with legislation today, do you?

Secretary VOLPE. Well, there are some other railroads, Senator, that are not at the very point that the Penn Central was last week, but who are not very far away.

Senator HARTKE. Can you identify what other railroad needs we are going to have? The dollars?

Secretary VOLPE. The best estimate we could come up with was that $750 million in guarantees would be sufficient to meet the demands that we could foresee for the 5-year period during which these

loans could be made. Your guess might be a little less, or might be a little more. This is our best estimate. We would hope that we would not need the entire $750 million, as was the case in 1958. They only used just under half of the $500 million that was made available.

I would hope we wouldn't have to use more than $300 million of this money. We have no way of determining that.

Senator HARTKE. I think we ought to make the record clear at this moment, too, that there were defaults under the 1958 act, Mr. Chairman.

The CHAIRMAN. What were they? Small amounts?

Senator HARTKE. A total of $31 million, the Central Railroad of New Jersey and New Haven.

Secretary VOLPE. Yes, the two of them have defaulted. One has paid some money, however, and there is still a chance of collecting some money from the other.

Senator HARTKE. Congress appropriated the money through a supplemental appropriation and now it is in the hands of the Department of Justice to try to recover it.

The CHAIRMAN. This is the Jersey Central?

Secretary VOLPE. Yes, sir.

Senator HARTKE. Can you tell us what other railroads will be applying for money?

Secretary VOLPE. No, I cannot. Senator, I think you would consider me to be—well, I better be careful about what you would consider me to be. Let me say I think if I were to indicate to you and this committee in public those railroads which I think might be on the verge of financial problems, I could be very seriously injuring the employees of those railroads, the stock of those railroads, and the service on those railroads.

I don't believe that it would be fair for me to publicly indicate those railroads that we believe may apply for such loans.

All we have to do is look at the financial returns of some of these railroads to determine that they are not in the best of financial shape.

Senator HARTKE. As far as the employees are concerned, if they would go into bankruptcy, wouldn't they still be employed?

Secretary VOLPE. Not necessarily.

Senator HARTKE. Not necessarily, but probably. That has been the history of bankruptcy with railroads.

Secretary VOLPE. That is correct, provided the trustees could sell trustee certificates.

Senator HARTKE. Do the directors of these railroads to whom you refer, do they know about the financial condition, do they know how soon they are going to have to apply for loans?

Secretary VOLPE. I presume they know they are not in good financial shape, but they have not notified me. We have had no request from any other railroad at this time.

Senator HARTKE. Have any of them notified you they are considering making a request of that type in the event this law passes?

Secretary VOLPE. No.

Senator HARTKE. Have you tried to make a determination of those corporations and those railroads which would be requiring such funds?

Secretary VOLPE. Yes, we have analyzed the cash position of various railroads. It would appear to us that there could be three or four—not necessarily tomorrow or next month, but in the not too far distant future—that might ask for this kind of a guarantee. What we are asking for is standby authority to enable us to fulfill their needs without having to wait until they go into bankruptcy.

Senator HARTKE. You mentioned the question of cash, the shortage of cash for Penn Central. Did you indicate they might not be able to meet their payroll?

Secretary VOLPE. We indicated that they may not be able to meet a payroll. I will not say that they won't meet their payroll. We can only surmise. Yesterday it was touch and go, and they did finally meet their payroll, although we have evidence that at the close of business yesterday there were at least two cities where employees were unable to cash their checks because the banks refused to honor them.

I can only say to you that it is our judgment that there may be, on the next pay day, insufficient capital unless the present management, with the assistance of the court, can get themselves turned around and possibly sell some of their assets. If they can, without giving them away, they will be able to find enough money to meet the payrolls. I can't, however, make that as a positive judgment.

Senator HARTKE. Have you asked the railroads for their cash position, Penn Central?

Secretary VOLPE. Yes, we have.

Senator HARTKE. Have they given it to you?

Secretary VOLPE. Yes, we have it. They told us as of Friday they had $7 million in the bank.

Senator HARTKE. I think before we can make some of these determinations we ought to have a lot more information. For example, on the question here you cite the low margin and of net operating income to gross, the low rate of return on investment, decrease in working capital, insufficient cash flow to supply capital expenditures, and for payroll. In my opinion this doesn't give us enough information to really demonstrate why they are in their present position. That is we need a statement of the sources and uses of the funds, we need this for a specified period, we need to know the revenues, the loans, the bond sales, the stock sales, the repayment of receivables, the sale of assets, whether they are making collection of their accounts receivable, and who is in default in that regard.

We also need to know how that cash was used, in other words, for operating expenses or whether it was put into investment in equipment, other investments, payment on debt—now we know part of it was used for dividends in a time of extreme difficulty. This is what I am asking you about, you mentioned the money that came in from the subsidiary corporations to the transportation company, but what about in prior years, how much of the money from the transportation company went the other way? Do you know?

Secretary VOLPE. There is only 2 years that this company has been in business——

Senator HARTKE. I understand that. But they made some acquisitions and paid high interest rates, did they not, in order to obtain some of those acquisitions?

Secretary VOLPE. They paid high interest rates for loans, Senator, and as a matter of fact were unable to sell $100 million worth of debentures 3 months or so ago at 10½ percent.

Senator HARTKE. I understand that. But you don't have a record of what happened in those years in the transfers, do you?

Secretary VOLPE. No, I do not.

Senator HARTKE. In other words, we don't have a good history of the Penn Central, do we?

Secretary VOLPE. I wouldn't say we have a complete history of the Penn Central. I would say if I am given the authority by the Congress to guarantee such loans, that I would try to get the kind of information that any prudent manager would want before he made any such loan.

The CHAIRMAN. Excuse me, off the record.

(Discussion off the record.)

The CHAIRMAN. I just have one quick question and I have to leave too.

Did you get any detailed reason from the Defense Department as to why they turned down the loan?

Secretary VOLPE. The reason I have been given, Mr. Chairman, is that they became uncertain of the probability of the passage of legislation along the lines that we are talking about today.

The CHAIRMAN. That would supersede their own.

Secretary VOLPE. That is correct. In other words, if legislation was not passed by the Congress along these lines, and the $200 million had been made by way of a temporary guarantee of a loan, then they might have been left holding the bag, particularly if that $200 million wasn't sufficient to bring the railroad back into a viable position.

The CHAIRMAN. Did Secretary Laird make that decision, do you know?

Secretary VOLPE. I presume Under Secretary Packard did, because Secretary Laird was out of town.

The CHAIRMAN. The Under Secretary, Mr. Packard, recommended it because of this situation and Secretary Laird agreed to it and probably the White House too, I am sure the matter went down there, too. Well, we may have Mr. Packard up here.

Senator Prouty, do you have a few quick questions?

Senator PROUTY. Mr. Chairman, I have a number of questions but I will just ask two at this time.

Inasmuch as I understand Under Secretary Beggs was the primary contact with the Penn Central, I will address this question to him, which may be repetitious to some degree.

Mr. Beggs, as a result of the investigation you have undertaken, are you absolutely clear that none of the assets of the now bankrupt Penn Central Transportation Co. have been diverted to the parent Penn Central Co. or other related subsidiaries within the corporate family through means suggested by Commissioner Tuggle when he was here 2 or 3 days ago?

Mr. BEGGS. I am unaware that any assets were diverted to the holding company. The major transfer of assets came between the transportation company and the Penn Co., which holds the non-

railroad assets. The Penn Co. is owned 100 percent by the transportation company. So when you use the word "diversion" in that case, it is a movement of the assets from one corporate shell to another. Both of them are a single corporate entity, however, in the sense that the stock of the Penn Co. is owned 100 percent by the transportation company, and both of them are, therefore, subject to reorganization under section 77 of the Bankruptcy Act.

Senator PROUTY. Is there any particular reason to believe that any of the type of transactions that are prohibited by section 10 of the Clayton Antitrust Act are involved?

Mr. BEGGS. No, sir, not to my knowledge.

Senator PROUTY. In your view would a thorough investigation of the intracorporate financial affairs of the Penn Central Co. and its various subsidiaries, including the transportation company following the merger of the Pennsylvania and New York Central Railroads, be warranted?

Mr. BEGGS. Yes, sir, I would want such an investigation before we were to proceed with a loan. In any event, I think an investigation of that sort would be wise in the current situation. I am assuming the trustees will be appointed in the next 30 days. I would assume that some investigation will be undertaken by the courts, because reorganization of this railroad is going to be very, very difficult. I think all of this background material will be necessary to that reorganization.

Senator PROUTY. Mr. Secretary, I would asume that before approving any application for loan guarantees under the bill which has been suggested by the administration, you would undertake an investigation of not only the railroad's subsidiaries, which would be the direct applicant for such a guarantee, but also where a holding company or conglomerate company is involved, of its parent and other subsidiaries within the corporate family?

Secretary VOLPE. Absolutely.

Senator PROUTY. It would be helpful, would it not, if we were to require in connection with this legislation that not only the railroad but any organization controlling, controlled by, or under common control with such railroad join in the railroads application for a loan guarantee?

Secretary VOLPE. I would have no objection to such an inclusion.

Senator PROUTY. Thank you.

The CHAIRMAN. Mr. Baker.

Senator BAKER. Mr. Chairman, I have just two questions with the understanding that we will have an opportunity to put more questions to the Secretary and his colleagues at a later time.

The first is a subjective one and you may feel you cannot answer it. If you can't, I will understand.

What single factor can you identify in the operation and management of the Penn Central that caused its present difficulty?

Secretary VOLPE. Well, trying to identify a single factor, or perhaps two factors, that caused the demise of this conglomerate is very difficult. I would say that you have two giant firms which, because of the great delay involved in their merger, did not properly prepare for the assimilation of lines and elimination of duplication which

was supposed to be the primary reason for the combination. Further, they did not develop a management team to coordinate the whole picture and enable them to more efficiently operate the system.

I believe, however, that this is not the entire answer. I would say the very heavy losses from the railroad passenger service have been a major contributing factor in the situation that has developed. I would say also that the boxcar situation has contributed to the total picture. I would call these the major reasons.

Senator BAKER. I am sure that is right. If I can summarize briefly, I gather you said management, passenger traffic, and equipment shortage are the three items that probably contributed most to the present financial difficulties of this business?

Secretary VOLPE. I would say that is a good summary.

Senator BAKER. Mr. Secretary, all of us are aware of course of the enormous importance of this transportation facility to the economy, and we are also aware of the psychological impact that financial failure of a corporation of this magnitude may have on the economy.

I think the economy has shown remarkable resilience so far in this period of uncertainty. But I ask one further question to keep things in perspective.

If nothing is done by way of extraordinary legislation, what would happen in the course of the ordinary judicial process in accommodating the affairs of this railroad in receivership and reorganization? Specifically, of course, what I am driving at is, would there be a cessation of service? Would there be jeopardy to the employees of the railroads? What would be the practical impact if we leave it to section 77 of the insolvency statutes of the United States for ordinary disposition?

Secretary VOLPE. Senator, anyone who could predict absolutely the situations that will develop in the course of the next few weeks or months would be a man who has a better crystal ball than the present Secretary of Transportation. I can only give you my impression of what may happen.

I hope some of my worst fears do not materialize. I pray they do not materialize.

I can only suggest that a great deal depends on whether or not the court-appointed trustees are able to sell trustee certificates without a guarantee. That would determine whether or not the employees could be paid. If not, the question is whether you would have employees who would wait any length of time before they decided to find a job elsewhere.

Senator BAKER. May I interrupt at that point? I think there is enough lawyer left in me after these years of not practicing to make this statement. Isn't it true that if the trustees choose to issue certificates to raise money to meet the current operating costs of this railroad, that they can do it, subordinating the rights, claims and liens of all other obligations of the railroad, and make it a first claim on the entire gross assets of this railroad?

Secretary VOLPE. That is correct, sir.

Senator BAKER. Is there any doubt in your mind that the trustees could raise a reasonable sum of money, pledging $7 billion worth of corporate assets on a first lien basis without a government guarantee?

Secretary VOLPE. If you use the figure of $7 billion in assets, Senator, I don't think there would be any question about it. But if you look behind that $6.8 billion, you have railroad property that is only worth anything if it is used as a railroad. If it cannot be used any further for a railroad, then, that $6.8 billion is going to shrink awfully fast.

I don't know if we can assume that there would be $6.8 billion, in assets, not including other nonrailroad assets that would be available. I would hope very much that they could sell the trustee certificates, and it is quite possible they may be able to. If they are able to, and can continue to pay the employees, the dangers I would see would concern the morale of the organization. The fact is that this failure could have a domino effect—again, I trust and pray it does not—and perhaps hasten the day when one or more other railroads might also go under.

So, rather than affecting just the employees of this one railroad, it could affect the employees of other railroads as well as employees of industries who are served by railroads, by way of both their raw materials and their finished products.

I just can't say specifically what would happen. I do feel that the kind of stand by authority which we are suggesting would be excellent insurance in case either this railroad or other railroads reach a point where they have to have it.

Senator BAKER. Mr. Secretary, I am inclined to agree with you and my present sentiment is to support this bill on that basis. However, I think just to keep things in perspective, that it isn't amiss to examine the alternatives and what would happen if we don't pass it.

It may seem superfluous or simplistic, but isn't it fair to say that with or without this legislation, under the regular orderly insolvency proceedings, there is a high degree of likelihood that this facility will continue to operate as a transportation company, regardless of what we do on this committee on the Congress?

Secretary VOLPE. If this was a company, Senator, that was about as large as those which have previously been reorganized under section 77, I would say that we would know what will happen. This is the first time we have had an organization of this size go into reorganization, however, and I don't think we know what will happen.

As a matter of fact, the Central of New Jersey, anticipating that a merger would take place this spring or this summer, has been able to keep going. We have already been advised by the Central of New Jersey that if that merger is delayed until 1972, as would appear to be the case because the Interstate Commerce Commission is reconsidering the matter, they will be unable to continue operation of the railroad.

Senator BAKER. Thank you very much.

I think we would all agree that our primary responsibility is to continue to provide a transportation facility, and our secondary concern is to provide against the psychological or indirect financial impact it may have on the economy generally.

And our third consideration, if any, is to the equity and debt holders of this corporation in reorganization.

That may sound like a harsh appraisal of the situation, but I think it is appropriate that as public officials we keep that in mind, that is the order of priority.

Secretary VOLPE. That is my priority also.

Senator COTTON. Wouldn't you add the welfare of the employees?

Senator BAKER. Yes, I tried to include that as part of the maintenance of this transportation facility, which would include the company as an existing operating railroad company for the transportation of freight and passengers, together with those people who operate it; together with their interest and rights and security in it; together with the defense and economic interests of the U.S. Government in seeing that we have an efficient transportation system. That is our concern. Beyond that it seems to me we have very little, if any, concern.

Senator HARTKE (presiding). Mr. Cook.

Senator COOK. On page 2 of the bill introduced by Mr. Cotton, I read to you section 4, paragraph 3, "the general financial condition of the rail carrier." I am wondering if your department would give serious consideration to an amendment which would take out the phrase "railroad carrier" and insert the word "corporation."

The reason I ask is, in looking over the Consolidated Penn Central annual report, we find that Penn Central owns the Pittsburgh & Lake Erie Railroad and Detroit-Toledo & Erie Railroad; they own a pipeline operation; they own the Great Southwest Corp.; they own Arvida Corp., and so on. We have no knowledge until we get the complete and absolute corporate structure how much stock and how much cash went out from the rail corporation to involve themselves in these corporations.

I am wondering if the Department would consider not limiting the Congress to the word "rail" carrier, but giving as much latitude to the Department, including the word "corporation," so that we can at least get to the bottom as to why some of these things may well have occurred.

Secretary VOLPE. Senator, as a good lawyer, I am sure you will agree I ought to consult with my general counsel. As a layman, I would have no objection to that.

Senator COOK. There is one other thing I might suggest to the Department and its legal counsel.

I think along with this, consideration ought to be given to working out with the Internal Revenue Department the problem they are wrestling with now and have not come up with an affirmative answer. That is the treatment of the loss carryforward, in regard to reorganization, and in regard to future new owners. It is important whether this loss carryforward—which I understand in regard to Penn Central is somewhere around $600 million—can be utilized in the disposition of this corporation, in the event new management is considered.

I think it ought to be clear in regard to the Federal Government's loan participation, because we are going to be totally subordinated to everybody. We ought to at least make it as attractive as possible in such a reorganization that every benefit of loss would be available to a new owner. It might be easier for us in this participation

and under the Attorney General's responsibilities here, to make it easier to dispose of these properties.

I only pass this on as a suggestion, because I think the question is in a state of flux and if we are toying with an item in bankruptcy—by the way, the Penn Railroad is not in bankruptcy, it is not bankrupt yet. It has filed and it will be adjusted at a time in the future. I think the record ought to make that very clear.

But I think we also, in dealing with setting up a three-quarter of a million dollar fund should make sure all of these things are available to bail ourselves out.

Sitting here thinking about some of the questions, I might say that no one is going to subordinate their debt to the Federal Government. Obviously if we try by legislation to ask that other creditors be subordinated, we might as well nationalize the railroads tomorrow. These creditors are not going to lend the railroads any money if they know they have to give up their position in receivership or a bankruptcy proceedings.

Secretary VOLPE. I am glad you mentioned that word, because I think someone asked a question about alternatives. Perhaps it was in the other hearings, but one of the alternatives to our bill is nationalization of the railroads.

I, for one, would not like to see the Federal Government get involved in operating the railroads of this Nation at this stage in our history.

Senator COOK. The other thing I would ask you—I am not at all sure I agree with you at all—and that is you only ask authority to hold up stock dividends, and you feel that somehow or other cash dividends should be continued. I refer you to page 6, a rail carrier receiving a guarantee load should not declare a stock dividend without the consent of the Secretary.

This flexibility in the payment of dividends is necessary to cover the situation where dividends are paid to the parent railroad company by a subsidiary. The only point I am trying to make is I would hope if the Federal Government is going to be low man on the totem pole in regard to obligations, that it would also ask for the authority to determine that cash dividends need not be paid, along with stock dividends.

I only pass that on because I think with a railroad that knew it was in serious trouble, that paid a $43 million dividend last year, did not use good management logic. I will close with this, in regard to this management logic, I am delighted that a major corporation in the country, whose chairman of the board last year was paid $326,972, and whose president was paid $250,000, now has to subject itself to asking a bunch of $42,500 fellows if they can help them out.

Senator COTTON. Mr. Chairman, I have just one question.

Senator HARTKE. Yes, Senator Cotton.

Senator COTTON. If you, under this authority, are making loans to a railroad that is not in bankruptcy, you would probably say to that railroad that their management must be approved. They would have to submit the name of the man or men who are going to conduct the railroad's business and have them approved, or they would not get the loan. You probably would take that step, would you not?

Secretary VOLPE. Yes, sir.

Senator COTTON. Now if a railroad goes into bankruptcy—if the Penn Central's petition is granted and they go into the hands of receivers, you will not be able to exact that because the court would have something to say. The court might designate somebody you did not approve.

Doesn't that present something of a different problem in dealing with a railroad in bankruptcy?

Senator COOK. If I may interject, first, under section 77 the majority of the outstanding creditors have to agree. That is my understanding.

Senator COTTON. Yes; and that is a further restriction.

Secretary VOLPE. There would be a restriction on the trustees as well, because the Department of Transportation would be the one who would determine whether or not they would guarantee the loan. If the trustees wanted the loan guaranteed, I think they might listen.

Senator COTTON. But after the loan was guaranteed, and 2 or 3 years went on, couldn't that problem occur?

Secretary VOLPE. If the railroad, while it was in receiver's hands, made a change in management, I suppose it would be quite difficult at that stage of the game to take any action. On the other hand, I don't think a railroad, knowing that it is a pretty heavily regulated industry, would thumb its nose at Uncle Sam.

Senator COTTON. Well, I have seen it done.

Thank you, Mr. Chairman.

Senator HARTKE. Mr. Secretary, you are going to come back tomorrow, but I want to clear up one thing which I hope you didn't mean, or at least I understood you to say the principal cause of the difficulty, one of the principal causes was the loss on passenger service alone, that the freight service carried its own load. According to the statements, they were also losing money in the freight business.

Secretary VOLPE. That is correct.

Senator HARTKE. In regard to the Penn Central, why should they be treated differently really? Why should they get specialized treatment? LTV was required to liquidate some of its assets. A few years ago in my State of Indiana Studebaker Corp. liquidated the whole automobile business and the Government didn't come in and rescue them and step in.

Now that the bankruptcy has been filed by the Penn Central, the sale wouldn't be a distress sale, would it? I mean it is a different situation.

Secretary VOLPE. Let me say, just, that the other industries you are talking about are not regulated industries.

Senator HARTKE. Does that give them any special treatment? Are they entitled to special attention from the taxpayers? Isn't the same money you are using—just because they are regulated—they are in the public interest, I grant you that. But do they receive any special financial consideration from the Government because they are regulated?

Secretary VOLPE. They shouldn't receive any special consideration whatsoever under any circumstances. I am not interested in whether or not the Penn Central Co. per se is a healthy organization. I am interested in a healthy railroad that can provide services to the

people. That is all I am concerned about. And if there has been—I don't know that there has been—but if there has been hanky-panky then you and I ought to know about it.

Senator HARTKE. Yes.

Would you agree or disagree with the statement made by Shef Lang, who was formerly the railroad administrator under President Johnson's administration, when he said at that time, that using the Defense Production Act as justification was a lot of nonsense. He said much as some current officials grumble, he maintained the Government role only protects the security holders and since they allowed the property to be misused, they deserved to be wiped out.

These are his words. He said the Government should not step in unless the company can't generate enough cash to keep the trains moving even after bankruptcy proceedings might have freed it of its debts.

Would you agree or disagree with that?

Secretary VOLPE. I couldn't agree or disagree with the entire statement, Senator. I can agree with him wholeheartedly that the reason we are suggesting this legislation is to keep that railroad running, to keep its employees working, and to provide for the commerce of these United States. That is what I am interested in.

Senator HARTKE. I think we are all interested in that. But as I have expressed my concern with the ICC, I think that someplace along the road we have not had that type of anticipation which we should have had.

Mr. Secretary, if you can't come back tomorrow—can you?

Secretary VOLPE. Yes, I shall rearrange my program so I can be here at 11 o'clock.

Senator COOK. Mr. Chairman, may I ask a question?

Senator HARTKE. Yes, sir.

Senator COOK. During the course of this, has the Department looked into the present legal status of the acquisition of the New York, New Haven, and Hartford by the Penn Railroad; the fact that it is in the Supreme Court; the fact that there is a dispute as to the New Haven bondholders who say they are due $178 million, and Penn Central says they are willing to pay them $150 million. Because I think knowing Penn Central may well be the first applicant if this bill is passed, that it is incumbent on the Department to look into other liabilities of the company in the amount of $178 million, which would also go into this reorganization, if in fact the Supreme Court rules the Penn Central can buy out the New York-New Haven bondholders.

Secretary VOLPE. Having been the Governor of Massachusetts during this period——

Senator COOK. I rode it many, many years. I am only suggesting this to you, because it is in the Supreme Court—there is a dispute of $28 million. The railroad contends they want to pay $150 million, and the bondholders want more, and I think one better determine whether it is going to see another $178 million liability go on the books.

Secretary VOLPE. We will look into it, but we believe that the difference is being held in trust. We will check and have it available for you at the hearing tomorrow morning.

Senator HARTKE. I think we will have to call some other witnesses; probably call the ICC back; probably the Treasury.

Senator Magnuson suggested we call Secretary Packard. I think in view of some of the conversations, we will have to have some private witnesses, certainly some from Penn Central. Some airlines have indicated they would like to testify and there has been a request from former administration officials. However, we will recess at this time until 11 o'clock tomorrow morning. As far as I know, the only witness scheduled at that time will be the Secretary.

(Whereupon, at 1:15 p.m., the hearing was adjourned, to reconvene at 11 a.m., Friday, June 26, 1970.)

FAILING RAILROADS

FRIDAY, JUNE 26, 1970

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met at 11:30 a.m. in room 5110, New Senate Office Building, Hon. Vance Hartke presiding.

Present: Senators Magnuson (chairman of the committee) Hartke, Moss, Cotton, Scott, Baker, and Cook.

Senator HARTKE. Good morning, Mr. Secretary. I am sorry we have delayed you here. We just had a vote and we understand you have had your experience this morning, too.

Secretary VOLPE. Quite.

Senator HARTKE. I think one thing should be made clear concerning the bankruptcy law and that is basically that the law is designed in specific relation to railroads for the very purpose of keeping them operating; that some of the expressions we have had here have indicated the fear that, unless this law was passed, the railroads would not open.

Second, I believe that it is common knowledge—one can almost take judicial notice of the fact—that even though we frequently have said we are talking about railroads generally, the fact still remains that if the Penn Central had not gone into this serious financial crisis, probably you would not have this legislation before us today. So I think those two pertinent facts should be matters which we should recognize here.

Mr. Secretary, one problem that faces the committee, and I would imagine that you might have some information on this: If the Defense Department considered the loan under the provisions as not desirable, would there be any reason to expect it would be any more desirable if some other legislation were passed in the same fashion to guarantee it just because it came through the Department of Transportation, rather than through the Department of Defense?

STATEMENT OF HON. JOHN A. VOLPE, SECRETARY OF TRANSPORTATION; ACCOMPANIED BY JAMES M. BEGGS, UNDER SECRETARY; CHARLES D. BAKER, ASSISTANT SECRETARY; AND CARL LYON, DEPUTY ADMINISTRATOR OF THE FEDERAL RAILROAD ADMINISTRATION—Resumed

Secretary VOLPE. Mr. Chairman, I certainly don't feel that the rationale for the Defense Department's decision would also apply to a loan that might be requested of the Department of Transportation if this legislation is passed.

The fact is that one of the reasons that the Defense Department gave for denying the "V" loan was the lack of assurance that this bill would be passed. Further, we have no idea, as I indicated yesterday, as to whether the Penn Central will ask for a guarantee of a loan, and whether the Department of Transportation would grant a guarantee.

All we are asking for is the kind of stand by legislation that would allow us to act should they be unable to sell trustee certificates. We want to insure that they are able to keep up the service, and that is all. The service to passengers, the service to shippers, the service that brings raw materials to the States, and the service that brings the finished product back to other States, these are the kinds of things with which we are concerned. This would be the basis on which we would either approve or deny a request for a guarantee, provided we were reasonably assured that the loan would be repaid.

Senator HARTKE. Well, you see you have touched all three of the items to which I referred earlier.

I think they represent the crux of the problem here in trying to deal with this legislation, first, as though it is emergency legislation even as though it is something general, and at the same time to keep it associated with the circumstances surrounding the Penn Central and yet to disassociate it from the Penn Central.

In other words, I don't think we can go both ways. The fact of it is, and I think you would agree, would you not, that the Penn Central's financial collapse certainly was the precipitating cause of this legislation.

Secretary VOLPE. I would say it was the thing that triggered it, but I can assure you that for the last 3 or 4 months I have had my railroad advisor looking at the total problem of the railroads. We were quite convinced that unless something positive was done, one or the other railroad would get into this condition.

We feel that unless this legislation is available, the Penn Central may be followed by others. I am sure you have seen the stories in various newspapers this morning about some of the problems that might arise. The interline payments for cars that Penn Central would be using, for example, might not be made to other railroads, thereby straining their financial situations.

These are all problems that we are looking at. Perhaps we might not have come up with this legislation at this exact moment, but I can assure you that two weekends ago I received a report from my Federal Railroad Administrator, indicating that a great many of these problems might arise and suggesting what some of the solutions might be.

So it is not a question of the Penn Central alone. But I will agree, Mr. Chairman, the Penn Central problem did precipitate the prompt action that we have taken.

Senator HARTKE. By the way, is the Federal Railroad Administrator here?

Secretary VOLPE. Mr. Whitman is on a trip.

My Deputy Railroad Administrator is here.

Senator HARTKE. Is there any reason the administrator himself is absent?

Secretary VOLPE. There is no reason other than the fact that he is not in Washington, D.C., today or yesterday.

Senator HARTKE. Is there——

Secretary VOLPE. We can have him here any time you want him, Mr. Chairman. The deputy will add to this.

Mr. LYON. When this first came about, Mr. Whitman was out of town, and on the first 2 days of these hearings, he was also out of town. I got deeply involved in the problem as deputy in the natural course of events, and have continued to be involved in it.

Mr. Whitman has now returned to town, but we made the decision I should continue since I have been so deeply involved.

Senator HARTKE. When did you first become involved in this problem?

Mr. LYON. I have been involved in it off and on since it first came about, together with Mr. Whitman.

Senator HARTKE. Yes, but when?

Mr. LYON. The same time the secretary indicated yesterday that the Department first became aware of the significant problem.

Senator HARTKE. When was that?

Mr. LYON. I think it was in the neighborhood of 2 months ago that we began to be aware of the problem.

Senator HARTKE. What information was submitted to you at that time which gave you concern?

Mr. LYON. We became more aware of the specific financial problems of the Penn Central. Up to that time, we had been reviewing and dealing with general railroad problems.

Senator HARTKE. What was there 2 months ago that was significantly different from before?

Secretary VOLPE. I am not certain there was anything significantly different, except the matter had become more serious and we had more information available to us.

Senator HARTKE. What kind of general information? What I am trying to find out is what happened 2 months ago? Was there something that happened 2 months ago which was rather significant and revealed the impending bankruptcy of the Penn Central?

Mr. LYON. I think the Under Secretary would like to respond to that, Senator.

Senator HARTKE. Wait just a minute; I am talking about you now. Mr. Whitman is not here. You say you were involved. I am asking you whether you were involved as Deputy Railroad Administrator.

Mr. LYON. Yes, I was, with Mr. Whitman, in the initial meetings we had in the Department to discuss these problems.

Senator HARTKE. What was the significance of that meeting? Was there anything different than before? If it was different, what was there to cause concern at that time? What information did you receive?

Mr. LYON. Well, one of the things we had been studying over the past 6 months in particular had been the capital needs of the industry. We became aware that the Penn Central's immediate capital needs, immediate cash position, was becoming critical.

Senator HARTKE. What did they advise you was their immediate cash position?

Mr. LYON. I don't recall the exact amount at the time.

Senator HARTKE. What do you mean by their cash position? Are you referring to their cash flow or cash on hand or what are you referring to by cash position?

Mr. Beggs, I didn't mean to foreclose you. If you would like to turn it over to him, that is all right.

Mr. LYON. I would like to explain that I got into this as the railroad-oriented individual. The financial matters at these meetings were mostly taken care of by the Under Secretary and the Secretary and his staff. I didn't get into these matters, which is why I would like to have those kinds of questions responded to by him.

Senator HARTKE. That is all right. Let me ask this: Is Mr. Whitman going to be involved in this in the future?

Secretary VOLPE. Mr. Chairman, the Federal Railroad Administrator has just been offered a very, very substantial position as the president of a railroad and has just tendered to me his resignation.

(Laughter.)

Secretary VOLPE. I don't know what is funny about that but——

Senator HARTKE. This is the Katy Railroad, right?

Secretary VOLPE. Yes.

Senator HARTKE. After all, it is not going to be a big secret very long.

Secretary VOLPE. No, I just wondered why the people laughed when I said he was becoming the president of a railroad. I don't think all of the railroads are going to die. I think it is a tremendous opportunity. He is a man that did a tremendous job for us.

It is too bad we couldn't keep him, but we had him for a year and a half. He is resigning his post, and we are in the process of determining who to select for his replacement.

Senator HARTKE. Mr. Secretary, you indicated yesterday there were a number of railroads which were probably in bad financial condition in addition to the Penn Central and they potentially would be seeking assistance under this bill. As you have indicated, there is a list of some of these railroads which has been made public, as far as the news media is concerned. Specifically the Washington Post on June 23 made a list of some of the reasons, and in those were listed the Grand Trunk Central, owned by Canadian National, Chicago Northwestern, Chicago, Milwaukee, St. Paul and Pacific, the Rock Island, and the Missouri-Kansas-Texas, which is the Katy, right?

Secretary VOLPE. I can't agree all of these are in that category. Mr. Baker has followed those names more closely than I have. I can add to that, however, Mr. Chairman, the Central Railroad of New Jersey. I want to be sure this gets into the record, because I was asked yesterday if I had any application from any railroad for guarantee of a loan. I indicated to you that the Central Railroad of New Jersey had wired that because of the reopenings of the merger case by the ICC, it was quite probable that that merger might not be accomplished until 1972. Therefore, they were not going to be able, even though they were in section 77, reorganization, to continue their operations much longer.

I looked at that wire again after I got back, and the last sentence, I suppose, could be interpreted as an application. I just want to

be sure the record is straight. They indicated that CNJ's present cash position is so critical it cannot survive without financial aid which must be forthcoming in a matter of weeks. Therefore, I urge the legislation be in a form to make immediate and sufficient funds available to CNJ and request an opportunity to appear before your Committee at any hearings to be held.

I presume you could interpret that as a request for a guarantee. I just wanted to make sure I told the complete truth.

Senator HARTKE. This is one of the railroads that is involved under the 1958 Act?

Secretary VOLPE. That is correct, sir. It is still under receivership.

Senator HARTKE. Now on the railroads we mentioned here, and I don't want to imply by the mere fact that they have been mentioned in the news media that they are potential problems, but what do you know about their prospects, as far as their financial condition is concerned? What are their future prospects? Do you have any information?

Secretary VOLPE. We can give you general information, without picking out any one railroad, or any group of railroads. I certainly do not want to put anything into the record that would indicate a position of real concern for one railroad, as this might adversely affect the carrier, its employees, stockholders, and others.

May I say in general that I think the basic problem is the lack of cash flow and liquidity, so far as some of these railroads are concerned. As a result of a reduction in earnings caused by the loss of some of their business to competing modes, by the downturn in the economy during recent months, and by their inability to put money into new equipment which would avoid the necessity for very large maintenance costs, they have found themselves in a position where their cash position is quite poor.

I am not saying that any one of these railroads will come in tomorrow or the day after such legislation is passed, but I would venture a guess that there could well be one or more of these railroads that might be applying for a guarantee of loans.

Senator HARTKE. I think as you have indicated, one thing is necessary before you can establish anything in this regard, and that is we must at least have accurate information as to the cash flow.

Just for the sake of the record, would you explain what you mean by cash flow, so we have a definition of the term as you understand it, as distinguished from the cash on hand?

Secretary VOLPE. Charlie or Jim, would you take that?

Mr. BEGGS. In the case of the railroads, they are receiving from their customers revenues which come in daily out of their accounts receivable. There are immediate expenses against those revenues. Direct expenses, such as payroll, direct operating expenses for supplies, fuel, and so forth, must be deducted from those cash receipts as they come through each day. There are, however, noncash expenses such as depreciation, wear and tear on the equipment, that goes into a reserve. That is part of the cash flow. The rest of the cash flow is involved in the profits generated, if any, from the receipt of revenues from customers. There are also some other smaller, noncash expenses which result in cash flow to the railroads.

So in financial terms, it is the profit after taxes generated by the road, plus the depreciation that goes into the depreciation reserve, plus other noncash expenses which are charged against operations, but which do not result in cash outflow.

Senator HARTKE. Now I think that it was indicated here that one of the things you concerned yourself with as the Deputy Railroad Administrator, was the fact there was a loss of cash flow, as far as the Penn Central, which became evident 2 months ago.

Mr. BEGGS. The Penn Central had been running at an operating ratio of about 86 percent for some time. This means the direct costs charged against the revenues is 86 percent of the revenues. With that kind of condition, there is very little money left. When you draw against the 14 percent that remains out of revenues, you very quickly run out of money. In fact, this railroad has been running a negative cash flow position for the last 2 years. When you go back and look at the situation of the two roads before the merger, they were both cash poor before the merger.

So you have a situation where you have had a cash drain over the 2½ years since the merger of two railroads which were cash poor when they merged. There has been a continuous problem of obtaining sufficient cash, and that accounts for the fact that they obtained very large bank liens in the last 2½ years in order to get cash.

Senator HARTKE. Can you tell us what the cash-flow situation is now, how much is coming in at the present time over operating revenues?

Mr. BEGGS. Well, we don't have the complete picture of this. But the railroad generates——

Senator HARTKE. You are putting your finger on what I have been talking about for a long time. You don't have a complete picture?

Mr. BEGGS. That is correct. Neither does the management have a good picture.

Senator HARTKE. Right. In other words, we are dealing with the biggest railroad corporation in the United States and neither the Department of Transportation, ICC, nor the management of the railroad know what the situation is as far as the financial condition of that railroad is concerned.

Mr. BEGGS. Well not in great detail. However, in broad outline, the picture is clear. The railroad receives about $5 million in revenues each day from their customers. Against that there are certain essential expenditures that have to be made. The payroll has to be met, and this runs $15 million to $20 million a week. Then there is the direct expenses of fuel and supplies to keep the railroad running. There are equipment charges, because most of the equipment on this railroad is not owned directly, but leased by other owners.

These expenditures are essential. As near as we can tell at the present time there is sufficient cash flow to just barely cover these expenses and keep the railroad operating.

Senator HARTKE. Do you have something to show that? Or is this just a judgment you have made on the basis of assumptions?

Mr. BEGGS. No, we have a cash-flow projection that has been made by the financial officers of the railroad.

Senator HARTKE. But that is by the financial officers of the railroad, right?

Mr. BEGGS. That is correct.

Senator HARTKE. You don't have any independent study or you have not reviewed their material?

Mr. BEGGS. We haven't had time to get into the details since the railroad went into reorganization.

Senator HARTKE. I understand. But about the past, in other words, how do we really know? In the first place since their petition in bankruptcy was filed, and if that is granted—I think Senator Cook is right, they are not in bankruptcy yet—but as soon as they are declared bankrupt, the obligations, as far as the fixed charges are concerned, are eliminated.

Mr. BEGGS. That is correct.

Senator HARTKE. So we are back to the proposition as to the necessary cash to keep them moving and this goes back to the question of their operating income and operating expenses.

Mr. BEGGS. That is correct.

Senator HARTKE. And that cash flow becomes the question as to whether or not there is sufficient money to keep the railroad going. I just wanted to give you this for 1970. If you have something later than that I would like to see it. According to the Penn Central's income statement, they are not in any trouble keeping operating at all, isn't that true?

Mr. BEGGS. I can't make that judgment.

Senator HARTKE. You don't have any information to deny that judgment, do you?

Secretary VOLPE. I can neither confirm nor deny that judgment. We are not here to defend the management of the Penn Central Railroad, Mr. Chairman. We are only here to try to convince the Congress, which is going to have to make the final decision, that it would be desirable to have an insurance policy by way of standby authority to the Department of Transportation to be used if and when we believed it was essential to maintain public service and there was a reasonable chance to get our money back. We are not here, as I say, to defend the management or otherwise aid the Penn Central. They precipitated the situation, but we have an overall obligation, as a Department, to try to develop the ways and means by which we can maintain a healthy transportation industry. This includes railroads as well as other modes.

Senator HARTKE. Yes, I understand, Mr. Secretary. But at the same time you come to the Congress and say there is an urgent need for this to be done and this urgency is predicated on a complete lack of facts. Let me say this to you, to the Deputy Railroad Administrator, Mr. Beggs, or yourself, I don't care. You said there was something that happened 2 months ago, and we have not been able to identify that something yet. I just passed it by, because I sort of came to the conclusion there was not a real significant change.

Was there a difference in the operating revenue and the operating expenses as differentiated from the first quarter of 1970?

Secretary VOLPE. Mr. Chairman, at that meeting what was then the management of the Penn Central and one of its financial officers indicated what the picture looked like for the first quarter which was then just about ending. They indicated to us that based on the first quarter of 1970, as contrasted to the first quarter of 1969,

it looked as though they were going to be in for some very difficult times ahead. They were in difficulty last year, but as I indicated yesterday in my testimony, their overall profits from nonrailroad operations came within $40 million or so of offsetting the overall railroad losses.

They did not come to us at that time to say they wanted money or a guarantee, they came to indicate to us how the Penn Central situation was deteriorating. We became convinced at that time that unless something was done, the situation would get worse.

We said, however, that the figures they had shown us were not very enlightening, and we felt we ought to have more figures or more sharply defined figures, on which we could base some judgments as to what ought to be done. This is all that happened.

They did come in at a later date, but by that time their situation had become even worse. That is when we started to develop the ways and means by which they could be prevented from going into bankruptcy.

Senator HARTKE. Mr. Secretary, the point still remains, there are two things that have been discussed here. One is the fact that there has been some banks which have refused to cash checks for some of the employees.

Secretary VOLPE. We had someone check that this morning. Would you like a report?

Senator HARTKE. Yes, in just a second.

The second thing is the employees, as far as they are concerned, have an interest in keeping the railroad going. But the point remains, if they go into bankruptcy, I think it is clear at this time there is no immediate danger that the railroad will not operate. The railroad is going to operate through the bankruptcy proceeding when the trustees are appointed.

Secretary VOLPE. Mr. Chairman, that is your judgment. I cannot make that judgment at this time.

Senator HARTKE I think that is a fair judgment, especially when you—I want to put these figures in the record from the income statement, the parent railroad company only, in the first quarter of 1970, the railway operating revenues were $402,972,000, while their railway operating expenses were $382,629,000. Which means that they have at this stage in that first quarter a surplus, which is available of over $20 million in that quarter alone for the covering of expenses. And there is no reason to anticipate that wages would go up or operating expenses would go up or that their revenues would come down.

Secretary VOLPE. Mr. Chairman, you have, I presume, eliminated from that amount many other expenditures that under normal conditions would be made.

The CHAIRMAN. What he is trying to say is if the judgment declares them bankrupt, those other expenditures—I am not expert on bankruptcy law—would remain frozen.

Secretary VOLPE. That is correct.

The CHAIRMAN. And they would only have to be sure they had what we call operating expenses. And until the bankruptcy matter is settled by the trustees, that is the only obligation they have, operating expenses versus operating revenues.

Senator HARTKE. That is exactly right.

Senator Cook?

Senator COOK. Mr. Chairman, there is one thing I think we ought to make very clear in this business. When we keep rather loosely using the word "bankruptcy." They did not file for bankruptcy, they filed under section 77 to be reorganized. I think this ought to be made clear, because I think we may be giving the public some kind of an idea that the Penn Central filed for bankruptcy. They filed to have their line reorganized under section 77 which is an act that was adopted by the U.S. Congress and is commonly referred to as the Channel Act. I think we ought to keep that straight and talk in terms of reorganization, and not talk in terms of bankruptcy.

Senator HARTKE. I think that is a fair interpretation.

Now there have been some employees, though, that have not been able to get their checks cashed. You say you have checked that recently.

Can you give us your best information on that?

Secretary VOLPE. There apparently were a few smaller banks that, because of the press information, decided they would not gamble and apparently would not cash these checks. We understand that there are only two banks involved. We had not yet been able to determine this morning whether they are honoring all checks. We believe that the situation is being resolved, and I think before the end of this day all banks will be honoring checks to the employees.

Senator HARTKE. Are any of the banks which have refused to honor the checks creditors of the corporation?

Secretary VOLPE. I do not know.

Senator HARTKE. You said yesterday that some of these were in Cleveland, and I think it was so reported.

Secretary VOLPE. Yes. The Cleveland situation, I understand, has been cleared up.

Senator HARTKE. What banks were involved there, do you know?

Secretary VOLPE. I know they were in Cleveland, but I did not get the names of the banks. However, I understand this morning that the Cleveland situation has been cleared up.

Senator HARTKE. Do you know whether it was the Central National Bank of Cleveland and Cleveland Trust Co.?

Secretary VOLPE. I do not know.

Senator HARTKE. Or the National City Bank of Cleveland?

Secretary VOLPE. I don't know.

Senator HARTKE. You do know both of those banks are creditors of the corporation?

Secretary VOLPE. I do not know that either. That is not my responsibility, Mr. Chairman. That is the responsibility of the Interstate Commerce Commission. We are talking about what we are going to try to do from this day forward. What happened before, Mr. Chairman, is only something about which you and I can feel very sorry and hope is not repeated. Certainly, in any dealings I have with this or any other organization, I would be prepared to look at what they have in the till today and what the possibilities are for revenues, and then make a decision as to whether or not we feel there is a reasonable chance of that money being paid back.

Whether or not *A* bank or *B* bank is a creditor is not really of any great interest to me at this particular time.

Senator COTTON. Mr. Chairman, may I get something straight in my own mind?

Senator HARTKE. Yes, sir.

Senator COTTON. What some of us are most interested in, particularly those who represent the Northeast section of this country, is whether or not railroad service will continue and we will get the raw materials to our factories and the finished product away from our factories.

Now the Chairman indicated or stated as an assumption that once a railroad goes under section 77, their continued service is assured. I just heard you say that you were notified by the Central of New Jersey that even though they were under 77 they were likely to have to curtail or cease service unless something was done. Is that correct? Do you have any comment on the assumption that the biggest railroad in the country, under section 77, is sure to be able to continue to render transportation service?

Secretary VOLPE. Senator, I think it might be well to read this wire into the record, because I think it indicates some of the problems that might come, whether it is the Penn Central, the Central of New Jersey or any other railroad. I say might come, because I don't have a crystal ball. This wire says:

> Reference is made to proposed legislation which I understand will come before the Senate Commerce Committee regarding federal guarantee of loans to be made to railroads in financial difficulty. The Central Railroad Company of New Jersey, serving 12,000 commuters daily, and more freight customers in New Jersey than any other railroad, that has been in reorganization under the Bankruptcy Act for over three years, during which it has continued to suffer operating losses and a loss of cash. We had anticipated ICC approval of the N&W–C&O merger in early 1970, with the position of the Justice Department conditions requiring applicants to furnish financial aid to CNJ, but the action of the ICC of June 16, of reopening the case, will delay merger until 1972. CNJ's present cash position is so critical it cannot survive without financial aid which must be forthcoming within a matter of weeks. Therefore I urge the legislation be in a form to make immediate and sufficient funds available to CNJ and request an opportunity to appear before your Committee at any hearings to be held.

That is signed by John E. Ferrell, Trustee of the Central Railroad Co. of New Jersey.

I think that answers your question, Senator.

As I say, I can't determine whether this would be the situation with the Penn Central or any other railroad. It could well be, as Senator Cook has stated, that as a result of the Penn Central's filing for reorganization, there may be certain bills which they will not have to pay. If those debts are frozen, they may not need funds. I would hope that would be the situation, but I can't guarantee it.

Senator COTTON. I will not continue to interrupt you, but is it correct that curtailment of service may possibly be avoided if the receiver, not yet named, can manage to sell the certificates?

Senator VOLPE. That is correct, Senator.

Senator COTTON. If he cannot, there is danger of curtailment or paralysis of service. Is that correct?

Secretary VOLPE. That is correct, if they are unable to sell trustee certificates.

Senator COTTON. I merely wanted to determine your attitude toward the assumption that since Penn Central is under section 77,

there is a guarantee of continued service. You do not so regard it?

Secretary VOLPE. Not as an absolute fact.

The CHAIRMAN. Mr. Chairman, could I add something on that point? I think there is a great deal of apprehension and rightly so, and I do not know, I would ask the distinguished Senator from Kentucky who is more familiar with the operations of these things in the courts than I am, but I think it is customary or it has been done, that if the certificates are sold that there is a priority to pay the wages. Is that usually the case?

Secretary VOLPE. That is correct, Senator.

The CHAIRMAN. So that people who are working, whatever is done, they usually, the judge usually or the trustees asking the judge, pay them first.

Secretary VOLPE. Provided they are able to sell the trustee certificates, you are absolutely right.

The CHAIRMAN. I understand that. But if any money comes in from certificates, the priority goes to the railroad workers, and I know they are quite concerned about this. I hope our friends back there will at least write this up and allay some misapprehensions and fears, because usually what railroads I have known that have operated under reorganization, the first priority is to see that everybody is paid and then they shift the priorities to the other obligations down the line; is that correct?

Senator COOK. That is correct. Mr. Secretary, there is one other question I would like to ask in regard to the letter from the trustee of the Central New Jersey. Do you have any knowledge purely and simply from that letter whether Norfolk & Western has put any funds at all into that railroad or whether they will continue to put any funds in until the ICC approves the merger? Because I think we may wind up in the newspaper having somebody say the Central of New Jersey is going down; and that 12,000 commuters are going to be left standing and so forth. This is not a bankruptcy, yet it was carried in practically every major newspaper in the country that Penn Central filed in bankruptcy. They did not, they filed in reorganization.

I think we do not have enough facts on Central of Jersey: We do not know whether Norfolk & Western and C&O have put any money in to keep it operating. Obviously they want to pick up this line, and obviously if they want to pick up the line, they are going to supply cash to the Central of Jersey in the interim period while the ICC is making up its mind.

So I think we ought to clarify this matter and not get ourselves in the position where we have people writing that another railroad is going down the drain.

Secretary VOLPE. Senator, I did not read the telegram to indicate that we were prepared to guarantee a loan to this railroad. It was read only to clarify my statement yesterday for the record. I certainly would not consider the application until we actually got it.

Senator COOK. May I ask one other question at this point?

Senator HARTKE. Yes.

Senator COOK. Apparently the impression has been given, Mr. Secretary, and I say this in all fairness, that your Department has been derelict in not finding out what was going on at Penn Central.

Is it not true, and do your records not indicate that in fact under the 1958 Act that a loan was made to the New York Central Railroad for $40 million, which called for payments in the sum of $3.3 million a year? That the principal and interest on that loan has been paid up to date? That as of now there is a balance due on that loan to the ICC under the 1958 authority of $16.9 million? And that as a matter of fact the Bureau of Accounts of the ICC was notified today by the Irving Trust Co., in New York that its principal and interest payments that were due by the Penn Central, who assumed that loan, that as of the first day of July, that this loan would be in default? So it has been on record to the ICC—as a matter of fact, I expect it has been on record for committees of the Congress that have ben studying railroads if they would look into it—that the Penn Central or at least the New York Central borrowed $40 million from the Federal Government back in 1958 or 1959; is that correct.

Secretary VOLPE. That is absolutely correct, September 16, 1959.

Senator COOK. Borrowed $40 million?

Secretary VOLPE. They have repaid $23.1; outstanding balance, $16.9 as of December 31, 1969.

Senator COOK. And their next payment on the first of July would be in default, as I understand it, pursuant to a notification given to the ICC Bureau of Accounting as of today from the Irving Trust Co., in New York?

Secretary VOLPE. Inasmuch as those are obligations due the ICC, they would receive that before we would.

Senator COOK. One other remark, Mr. Chairman.

The criticism has been made of the Administrator of the Railroad, the fact that he is about to take over the presidency of the Katy Railroad; as my memory serves me, prior to January 20, 1969, when the new administration came in, Alan Boyd, your predecessor, left to become president of the Illinois Central Railroad. Is that not true?

Secretary VOLPE. Yes, sir.

The CHAIRMAN. Mr. Boyd—let's get this clear—did not leave voluntarily.

Senator COOK. Mr. Boyd accepted his position as president of the Illinois Central before the new administration came in, so he was out job hunting.

The CHAIRMAN. When he knew he was going out.

Senator SCOTT. Could I ask one question here? The greatest concern I think we all have are those 90-some thousand employees of the Penn Central. To nail this down as to their reason for concern, as I understand it, they have this usual wage priority under 77 B if receiver certificates or trustee certificates can be sold, if the banks or somebody will buy them. That is the real problem, isn't it? If they should have a shortage of operating capital not sufficient to meet operating expenses and wages due, the only way under the present reorganization that they can get this money is to have the court appoint a receiver or trustee. And that person then issues certificates with very high priority, which in turn dilutes everybody elses financial interest in the line. And then if they are sold, the employees are paid; if they are not sold, the employees are not paid.

If the employees are not paid, the railroad presumably does not run.

I do not want to strike any panic notes, because we do not expect that to happen. But that is the situation we are facing, is it not?

Secretary VOLPE. Senator, that is basically the situation, but I would add a further point. There is a certain amount of revenue coming into the corporation every day; there is a certain amount of expenditures going out every day. Certain of those expenditures now will be frozen. That is, they will not have to meet certain obligations.

I am not in a position to sit in judgment today on whether or not the amount of revenue coming in, minus the expenditures of funds approved by the court, will leave sufficient funds to meet the payrolls, or how much they will require by way of trustee certificates.

As I said earlier, what we are asking for is an insurance policy to cover a situation where they are unable to sell trustee certificates to pay the employees and cover the day-to-day operating expenses. As of this morning, they had a 10-day open line of credit. Ten days is not very long, but they have a 10-day open line of credit for the purchase of oil, coal, and such things as they need to keep the railroad operating.

It is a combination of the two, Senator, the ability to sell trustee certificates and the difference between revenues and expenditures.

Senator SCOTT. That is the only reason I make the point, to underscore the entirely legitimate concern of the 90-some thousand railroad employees in the passage of legislation. And that concern does not turn on some of the questions we are going into, whether management made mistakes—I have no doubt they did—whether management was good or bad. The testimony may well indicate they should be faulted. But basically these 90-some thousand employees have got to be paid and not just paid today and tomorrow and next month, but paid over a period of time which, as I see it, is the fundamental reason why some legislation is needed.

That is all I have.

The CHAIRMAN. Senator Hartke, I have to go to Appropriations again, so might I interrupt here?

Senator HARTKE. Yes, sir.

The CHAIRMAN. You have to add to the railroad operating revenue figure 5 percent; is that included in here?

Senator HARTKE. No, that is not; that is a statement as of the first of the year.

The CHAIRMAN. Because, you see, the ICC granted a 5-percent freight raise which took effect June 1.

Secretary VOLPE. I might add that the figures they presented to us, I think in April, included that 6 percent.

The CHAIRMAN. Before they granted it? They have a great liaison.

Secretary VOLPE. No, they just felt the picture would be that much worse if there was not a 6-percent increase.

The CHAIRMAN. The point I am trying to make is that the 5 percent will give them a boost in their operating revenues, it should be to 5 percent. When we talk about operating revenues, they should have sufficient if they just take the revenues plus the operating costs to operate the railroad. And the reason that they are $62 mil-

lion net loss as against 12 last year is for other financial manipulations. Isn't that correct? I use the word "manipulations"—financial dealings. Buying more bonds or higher interest rates, whatever it might be. Isn't that correct?

Secretary VOLPE. May I have Mr. Baker answer that, Mr. Chairman.

Mr. BAKER. Senator, I think——

The CHAIRMAN. I do not use the word "manipulation" in a bad context. They apparently for some reason got into higher interest rates, they could not borrow any more and these are financial dealings, whatever you want to call them. In this case it may turn out to be some manipulations that do not look too good. I do not know.

Mr. BAKER. If I might just comment on that, Senator. I think one of the reasons for the uncertainty as to how much revenue will be available to cover these operating expenses is shown by their projections of ordinary earnings, which as Jim Beggs has indicated is a major source of cash to cover operations.

The first quarter projections that were made in their 1970 plan showed a deficit on the order of $75 million. Recently at the time it was clear that this difficulty was really emerging on a grade scale, the deficit was determined to be on the order of $168 million.

Now, it is perfectly clear, as the chairman pointed out earlier, that in a reorganization many of the expenses that would be deducted from revenues and would be reflected in these ordinary earnings figures, are no longer required. Nonetheless, I think the kind of uncertainty that the Secretary has been underscoring is the swing of roughly $100 million in projected ordinary earnings. Coupled with that are difficulties in operating income over the last five years. The operating income—again, this includes certain expenses which are not under reorganization situations required to be paid—is indicative, I think, of the change in the general revenues from railroad operations and the costs associated therewith.

As I understand it, the two railroads, which of course were separate in 1965, showed operating income from freight operations of $135 million in that year. By 1969, this had shrunk to $37 million. On the other hand, the passenger deficit in 1965 was $58 million while in 1969 it had increased to roughly $100 million.

I simply wish to insert these figures because I think they do indicate the kind of uncertainty that seems to surround the availability of cash flow to meet these operating expenses.

The CHAIRMAN. I understand that. But what we are thinking of now is keeping the railroad running, and, number two, to pay the people who are keeping it running. This is what I do not see, that there is any reason why that cannot be done, looking at the figures with the 5 percent raise that took effect on June 1. The rest of it you have to look at another way. There are taxes, dividend income, other things, interest payments, all of those things.

I understand that, but this is the main thing: We want to assure the public that is served by this railroad and other railroads that this is likely to happen, it will keep running, that they will pay the people who are running it either through the certificate method or from the operating revenues.

Now, one more question and I will quit.

In all of these bills that have been suggested we never specified what the maximum interest rate could be on a guaranteed loan, have we?

Secretary VOLPE. No, we did not.

The CHAIRMAN. And we did not in the 1958 Act?

Secretary VOLPE. That is correct.

The CHAIRMAN. If the bill should pass and the application is made, and they give you the figures, at "X" percent, will it be one of the considerations as to whether the loan is granted that the interest rate is too high?

Secretary VOLPE. I would certainly think that would be one of the considerations. Definitely, sir.

The CHAIRMAN. It would have to be, because if you guarantee a 10½ percent loan, nobody can make it on that interest rate. I think at the bottom of all of this is high rates when you get right down to it. Their inability to make a loan at a reasonable price.

Secretary VOLPE. That is shown by the fact that they were not able to sell the debentures.

The CHAIRMAN. At the bottom of everything is high interest rates. But you would have to consider whether the government might involve itself in an interest rate that would run over a reasonable amount.

Secretary VOLPE. Absolutely.

The CHAIRMAN. I do not mean a timely reasonable amount, but a reasonable amount as we see it. We used to limit it at 6 percent around here on bills. Maybe we should put a limitation in this bill; maybe we could start it downward a little bit. But if a loan is guaranteed, usually it is more attractive at a lower interest rate than if it is not guaranteed.

Secretary VOLPE. Absolutely.

The CHAIRMAN. Thank you, Mr. Chairman.

Senator HARTKE. With all due respect to the media, I think the media was not completely in error in referring to this as bankruptcy, because of the fact that when we look at it the chapter 77 reorganization provision is a part of the Bankruptcy Act of 1938, which I have been doing a lot of work on, incidentally. And in the statement made by the Secretary himself he refers very definitely to the—"The Penn Central on Sunday filed for reorganization under the Bankruptcy Act," he says. All I am saying is I think any slip of the pen or tongue in regard to bankruptcy by the media certainly in this case is not that type of thing to which the Vice President could refer adversely.

Now, I want to make it perfectly clear that I share this concern about keeping the railroads operating as much as anyone else. I was trying to do the best I could here to alleviate some of those fears by demonstrating that it is not in all good common sense going to stop; that they are going to operate.

I think Senator Cook would agree with me on this that under normal circumstances bankruptcy for railroads is not completely new. We had a big one starting in 1914, which he has studied, as Senator Cook indicated in our conversations, this is the classic bankruptcy case that is studied in every law school, the New Haven case, and they are still going.

But I am interested in one thing, I do not want to see some individuals, whether acting intentionally or innocently, whether they are creditors or railroads, to blackmail the Congress into passing legislation to provide for loan money under these circumstances which may not even be necessary.

I say to you, Mr. Secretary, that in your statement, although you say you are not concerned with the problems that happened before, in your statement you make this assertion: "The Penn Central needs cash." That is not an assumption, that they may need it. You say they need cash. We have determined here that we are not too sure whether it is cash they need or what. "But we would hope the trustee certificates providing the necessary cash could be sold without a Government guarantee, but the consequences of any failure to raise cash make it imperative that the authority be available to be used if needed."

That is why I made the statement this morning that the precipitating cause of this legislation was the Penn Central and they are the thrust of it and that is why we cannot ignore the Penn Central.

Now, in regard to the cash situation, I want to clear this up for the benefit of the employees and the banks. I mentioned two banks in Cleveland. I want to point out that it has come to our attention that in Columbus, the Ohio National of Columbus, and Columbus Huntington National Bank have refused to cash checks for employees. In Buffalo, New York Manufacturers and Traders Bank.

Now, I have also been notified in my home State of Indiana, First National Bank in Terre Haute is refusing to cash checks. All I am saying is I do think in all good conscience somehow we ought to clear this up with the banks at the earliest possible moment. As of now there is no reason for these people to take this type of action in regard to employees' checks.

Senator Cook. Would the Chairman yield at this point?

Senator Hartke. Yes, sir.

Senator Cook. It seems to me that unless the chairman is prepared to say the Congress should really do something about this situation, to move in and exercise some control, I am not sure what authority the Secretary of Transportation has to notify banks throughout the United States that they ought to cash Penn Central's checks.

Senator Hartke. Then we ought to notify them they should not. I think we ought to put them on warning or——

Senator Cook. May I ask the Chairman by what authority the chairman of this committee or the Secretary of Transportation of the United States should notify any bank in the United States that it should cash Penn Central checks if we are not going to consider some legislation that is going to allow the Federal Government to guarantee loans to banks so they can see to it these checks are cashed? I mean, I can only say to you it is all right to riddle this thing in one question and then to turn around and say in another for the protection of 95,772 employees of the Penn Central, that somehow or other the Secretary of Transportation should get on the phone and notify banks in Cleveland, Columbus, and Terre Haute, Ind., that they ought to cash Penn Central checks. I think that is our job on this committee.

Senator Hartke. Let me just say to the Senator from Kentucky,

I did not make that statement. The Secretary made the statement that this had all been cleard up. That is what was said this morning. If that has changed, we will change it. All I am saying to you is if he has enough information that these checks are to be cashed, that is one thing. If you want to create this doubt, I am not so prepared myself. I do not know. We have been trying to find out; we are trying to find out now. We have asked ICC; we have asked them for some time to come in and tell us what is going on. They have utterly failed. What I am saying quite honestly is either one of two things has to be true: Either there is danger of something happening if you cash a check or else there is no danger. If we don't know, let's say we don't know.

Senator COOK. May I say to the Chairman, I think what the Secretary has said is that he is not aware of all of the ramifications of the Penn Central's current crisis, that he does not possess all of the financial facts of that organization, and as a matter of fact, if he can find to the best of his ability what type of daily cash flow they have, that apparently he has tried to solve some of these problems.

But I think the record will show, as taken down by the stenographer, that you specifically asked the Secretary to clear up this problem. I am only saying to you unless the Secretary can see to it that sufficient cash flow is available, that I don't know how the Secretary can call banks in the United States and tell them to cash Penn Central checks.

Senator COTTON. Mr. Chairman, if I understood the Secretary, and I want him to correct me, if I am wrong, he has indicated that he is trying to get legislation that will enable him to do something to try to remedy this apparently dangerous situation in transportation.

Now God knows he is trying, he wouldn't be up here otherwise. And I don't see anything wrong in the Secretary saying to anybody, including a bank, that he is trying to get the Congress to give me some emergency legislation.

Now, Mr. Secretary, isn't that the situation? Aren't your efforts directed toward reassuring the various parties that the Government is aware of the problem and wants to solve it.

Secretary VOLPE. Yes, sir. I would like to comment on the Chairman's——

Senator HARTKE. Mr. Secretary, let's clear this up. Earlier this morning you said you cleared this up on all of these banks and they were cashing checks.

Secretary VOLPE. I did not say that.

Senator HARTKE. All right. Let's expunge it——

Secretary VOLPE. Don't expunge anything.

Senator HARTKE. Just say what you said.

Secretary VOLPE. I will try to remember to the best of my ability, which is not too good with this pain in my jaw.

Senator HARTKE. I have a sore throat myself.

Secretary VOLPE. Well, we all have our crosses. What I did say is that, based on information that we had as of the close of business last night and what we could determine before I came here this morning, the situation in Cleveland had been cleared up. You asked

me about which banks those were, I told you I did not know. You asked me if I knew whether they were creditors, I told you I did not know. You asked me what other cities were involved, and I told you I thought there were still two cities where, at least as of last night, had not cashed checks.

That is my testimony, as I remember it. Not word for word, but as closely as I can remember it.

Senator COOK. I think you said you had been advised by the brotherhood.

Secretary VOLPE. That is correct. I discussed this with the brotherhoods the night before last, and talked with one of them this morning.

Senator HARTKE. In other words, the information that it had been cleared up didn't come from the brotherhood, did it?

Secretary VOLPE. The information came from members of the brotherhoods whose employees called them to tell them they hadn't been able to cash their checks.

Senator HARTKE. Yes. The difficulty presented here is that I personally do not want to be stampeded into taking action on this bill simply because of a threat that something is going to happen—that the employees can't cash their checks.

If that is going to happen, that is one thing.

I frankly don't believe it will happen. I think the checks will be honored, I think the railroad will keep running. That is my opinion.

I know Senator Cook can disagree with that, but I will tell you there is nothing in the past history of the Reorganization Act that indicates to the contrary. I will say this, there are some creditors who under the law have the right to request the appointment of receivers and trustees, trustees for this, under the law it is their right to request those trustees be named, they are certainly going to be in a tight fix as to what will happen to their money, I grant you that.

But that is an entirely different problem, what happens to the creditors of the corporation, as distinguished from operation of the railroad and payment of employees.

Secretary VOLPE. Mr. Chairman, may I say I am not here to stampede the Congress or this committee into doing anything. I am here to try to indicate to you, to the best of my ability, the facts as I know them, the situations that may arise as I foresee them. I can't state with certainty exactly what will happen.

I can indicate some fears. I can indicate that in the past these reorganization proceedings have been carried on and the railroads have kept running. This is an unusual situation, however, because it is such a large one. The Penn Central represents 21 percent of the total track mileage.

You indicated earlier that the New Haven Railroad underwent reorganization in 1958 and is still running. Let me say, yes, the New Haven Railroad is running. However, if that is the kind of service the Penn Central is going to give throughout its system, I for one don't want that kind of service. It would mean unemployment for thousands of people across the Nation. The New Haven still is not giving New England or New York the kind of service I believe they are entitled to.

As far as protecting stockholders, or anybody else, I could care

less except for those widows who have written to me and said they own 100, 200, or 300 shares of this stock, and are very, very concerned because it means their income for their elderly years.

I do not know who the stockholders are. None of them have called me, and my objective is the same as yours, Mr. Chairman, to make sure that this railroad keeps running and the employees get paid.

Senator HARTKE. Yes, I think we agree on that.

Senator COTTON. I think I have taken enough time this morning.

Senator COTTON. Mr. Chairman, I thank you.

I questioned the Secretary yesterday. I hope to have an opportunity to be in conference with either the Secretary or under secretary. We are pressed for time. I don't want to take time and do not want to take a lot of time right now.

Senator Cook has been giving this matter some careful study and I would like to surrender my time to Senator Cook this morning. That doesn't mean I don't want to use some time later on.

Senator COOK. I want to thank the Senator very much. I want to say to the Chairman first of all that I don't disagree with him at all, as a matter of fact, because it has been this Senator's contention all along that under section 77 no railroad to my knowledge has ever ceased to operate.

Accordingly, under section 77, by reason of the abeyance at least until a reorganization program is adopted, that the payment of principal and interest on major obligations is forestalled and in its own peculiar way, the rail labor is accordingly protected and it will be protected. I can only say that the secretary hit it very hard, that the only people who are really going to be hurt in this, and I give you these figures as of the fifth of June, are the 126,931 stockholders of the Penn Central who own 24,085,285 shares.

Now I must say in all fairness that I hope when we go into all of this in the future, that we talk in terms of management and not in terms of stockholders, because I might suggest to the Chairman that Mr. Lang, who was the previous Federal railroad administrator made a remark that I can't agree with at all. He said that the Penn Central stockholders deserve to be wiped out, since they allowed this property to be misused.

Now there are many stockholders that didn't allow this property to be misused at all. I think the railroad will continue to operate. I don't think there is any question about that. But I think we stand to knock out the savings of many hundreds of people, maybe some of them deserve to have it knocked out, who are in a management position.

But I want to make this clear right now, that we are not talking about this railroad stopping operation. I just feel that a reorganization program will be approved ultimately.

There are several things I would like to, if I may, Mr. Chairman, get into the record in regard to the legislation. It is the intention of this Senator, as I stated yesterday, to propose certain amendments which we are working on now. I would like to propose them to your Department for consideration.

First of all, I think it is extremely important that the Department be allowed to continue to utilize the loss carry-forward for any new organization in reorganization. I think it is essential to have that.

Secondly, I would ask the Secretary one question today, purely and simply, because of the discussion yesterday with the Chairman and with Mr. Magnuson. Would the Secretary consider the inclusion in this proposed act, of a section that would set up a loan committee for the benefit of the Secretary? The loan committee would be very small, no more than three or five, and would be the same as that of any bank in the United States which has a loan committee. With the benefit of such a committee an analysis of a loan application can be made. An immediate report can be made to the Secretary by a solid loan committee, and a logical analysis can be made by him along with his other duties. With this committee, our committee can feel that good, solid economic advice is being given to the Secretary. Our committee can feel that this loan committee will transcend secretaries, and logic might prevail as well as it prevails in every private lending institution I know of in the United States.

Senator HARTKE. Let me say, before you answer, Mr. Secretary, that the statement made by the Senator from Kentucky is very meritorious, at least on the surface, and I congratulate you for it.

Senator COOK. I thank the Chairman. I think that at this stage of the game, if the committee and the Department can work out changes that are logical and will make this more palatable, both to the committee and to the Congress, we will stand a far better chance of coming up with the type of legislation that will be subject to passage rather than subject to a great deal of debate.

Senator COTTON. That is the reason, may I say why I surrendered my time for questioning to the Senator from Kentucky this morning. I sat for years under our rules of seniority exactly where he is sitting. They never got to me and they didn't get to him yesterday.

I knew informally he had certain suggestions he wanted to make. That is why I deferred to him today so he could make those suggestions.

Senator COOK. Thank you.

Secretary VOLPE. Senator Cook, I think the Chairman will indicate that our Department, since I became secretary at least, has worked very closely with the Committee members and the staff of the committee, to iron out differences of opinion and to arrive at compromises in legislation. The first two points you mentioned are things we would certainly give serious consideration to, and I think could accept.

I certainly would want to review them with some of my staff people, but we have worked very closely with you in the past to develop suitable language.

Senator COOK. One other question, Mr. Chairman.

Mr. Beggs, there is no problem if Penn Central, for instance, uses a 6-percent rate, or 5-percent rate, in projecting its next quarter income. This is no more than a projection.

I think the railroads of the United States anticipated there would be some rate increase. As a matter of fact, the liaison couldn't be too good, because Penn Central thought it would be 6 percent and it wound up 5 percent. But they did use that figure in their projections and this is no more than logical business practice to determine income.

Mr. BEGGS. Yes, sir. That is correct, but I think the record should show that not all of that rate increase will be translated into increased revenues. The railroads never achieve a full measure of the rate increases. Probably, the 5-percent rate increase will come down to something on the order of 4 percent. There is nothing wrong in that.

The railroad has projected their revenues on that basis, and even with those revenue increases, they still have significant problems.

Senator COOK. One last question and it is in the nature of a request, Mr. Secretary, to your legal counsel. I would like for the benefit of the committee, the records of the ICC on the $40 million loan that was extended to New York Central in 1958, so we can see what the financial condition of the New York Central was at the time.

I would appreciate it if we could also have something for the benefit of the committee. Something we can relate to the present standing of the Penn Central, New York, New Haven and Hartford situation in the Supreme Court.

Senator HARTKE. We will request both of those officially.

Senator COOK. Thank you, Mr. Chairman.

(The following information was subsequently received for the record:)

There has been no final determination of the amount owed the New Haven bond holders by the Penn Central. The Supreme Court on June 29, 1970, remanded the question for reconsideration by the Interstate Commerce Commission and the reviewing courts under the section 77 proceedings. The opinion follows.[1]

Secretary VOLPE. May I add one more comment. I don't believe that in my statement yesterday, although we did go into the percentages of net working capital, et cetera, that I had before me statistics concerning the net working capital and maturing debt of railroads of class 1 in the United States. I'd like to indicate those now.

As of December 31, 1966, the net working capital in millions of the railroads of class 1 were $477.2 million. In 1967, that figure had dropped to $276.3 million. In 1968, it had dropped to $152.7 million. In 1969 it had dropped to $58.7 million.

Conversely, in those same years, the figures for funded debt maturing within 1 year were as follows: $529.4 million, in 1966; $524.7 million in 1967; $615.3 million in 1968 and $751.4 million in 1969.

I think I would have to say, based on those figures, that there is a liquidity crisis.

Senator COOK. Mr. Secretary, maybe we shouldn't be too critical of them. They have been practicing deficit spending like the Congress has for many, many years and they finally found out they couldn't get away with it. Maybe we will find it out some day.

Senator HARTKE. These are your figures or whose figure?

Secretary VOLPE. These are, I believe, ICC figures.

Senator HARTKE. Do you know how the ICC got them?

Secretary VOLPE. From the railroads, I presume.

Senator HARTKE. Probably, yes, from the railroads. I have been through this with them now for over a year, going through this

[1] See p. 551.

magic jumbo they have down there of how they get their figures and how we get ours. The point is, do you know what happened to that money?

Secretary VOLPE. Why the net working capital went down?

Senator HARTKE. Yes, what did they do with the capital?

Secretary VOLPE. I suppose when you don't make a profit, the net capital becomes less.

Senator HARTKE. And if you use it to purchase something else too.

Senator COOK. These are all railroads?

Secretary VOLPE. Yes, all class I railroads.

Senator HARTKE. I understand that. But if they divert that resource over to the purchase of other corporations? You don't know where it went; do you know?

Secretary VOLPE. No, I do know that in the case of the Penn Central, while I can criticize many management decisions, some of the properties they bought have given them excellent dividends and kept the railroad going. These properties provided $140 million worth of profits which were used to maintain the railroad last year.

Senator HARTKE. That may be open to question. I am not saying it is not true. But let me ask you, do you know how much of the Penn Central's property is pledged or otherwise encumbered?

Secretary VOLPE. Well, if you can get through the financial complexities of these three different corporations, you can determine that there is practically—practically I said, not completely—nothing which is not in one way or other pledged.

Now you can, by the value of stock and other means, develop a figure that shows there might be a few dollars or some property that can be utilized for pledging purposes. But for all intents and purposes, from what we have been able to learn, there is very, very little that isn't already pledged.

Charlie Baker could add to that.

Senator COOK. Would this not be in the assets and liabilities as listed in the petition filed for reorganization?

Secretary VOLPE. Yes.

Senator COOK. I think we ought to request a copy of that.

Senator HARTKE. Yes, we will request a copy of that.

(The following information was subsequently received for the record:)

The only liabilities listed were commercial paper and principal and interest payments on debt obligations and rental on equipment leases maturing between June 22 and July 1, 1970, as follows:

Commercial paper outstanding:	
June 22	$1, 700, 000
June 24	500, 000
June 25	500, 000
June 26	700, 000
June 29	1, 650, 000
June 30	3, 245, 000
July 1	1, 500, 000
Total	9, 795, 000

Principal and interest on debt obligations and rental on equipment leases:	
June 23	$200, 000
June 25	100, 000
June 26	300, 000
June 30	1, 400, 000
July 1	19, 900, 000
Total	21, 900, 000

Senator HARTKE. Mr. Secretary, I don't know if you are right or wrong, but I know what I have here is dated June 17, 1970, the Penn Central Transportation Co., interim loan agreement, which they submitted to the Department of Defense.

On page—I don't know what page it is, it says three of something——

Secretary VOLPE. I know what page you are referring to, Mr. Chairman. $87 million.

Senator HARTKE. Page 3 of the pledge agreement. They make this statement "Representations and warranties"—this was made to the Defense Department—"Representations and warranties. The pledger hereby represents and warrants that the pledger is the legal and equitable owner of the pledged shares and holds the same free and clear of all liens, charges, encumbrances and security interest of any kind in nature." And then under the loan agreement they list these corporations, Dispatch Shops, Inc. of New York, Fruit Growers Express Co. of Delaware, the Green Real Estate Co. in Michigan, the Merchants Dispatch Transportation Corp. of Delaware, Penn Central Park, Inc., in Pennsylvania, the Penndianna Improvement Corp., the Pennsylvania Truck Lines, Inc. in Pennsylvania, and I don't know why they list it again, but they list the same corporation in a different form, preferred and common stock I guess it is, the Pennsylvania Truck Lines, Inc., and the Philadelphia, Baltimore and Washington Railroad Co. These are all listed as being free of any encumbrances whatsoever.

Do you have any comment on that?

Secretary VOLPE. Yes. That is why I didn't say specifically that there were no funds that weren't completely pledged. Mr. Beggs can answer the question.

Mr. BEGGS. I would like to make several comments on that, Mr. Chairman.

When the "V" loan agreement was being negotiated, we searched very diligently through the corporate asset account to see whether there were any unpledged assets. This was quite difficult because, in addition to absolute pledges in many of their indenture agreements, there were negative covenants in a number of these agreements which cover the balance of the assets.

It is not clear, and we would have to search further. While the point is moot since the loan agreement was not consummated, we would want to search further to see whether those assets are truly unencumbered.

However, even if they are unencumbered, and in addition to those listed there are some bonds of the company that the railroad company held in the treasury account which theoretically are unencumbered, I would suggest to you that the value placed on them is somewhat theoretical. If any of those assets had a true market value, unquestionably the banks would have taken them as a pledge for loans prior to this.

I would suggest to you further that the company has very little of value that the investing public, the sophisticated investing public, thinks is worth anything. The stock traded yesterday for I think $8 a share, which for the 24-million-odd shares outstanding, makes the market value of the stock less than $200 million.

There is no one in the investing public that thinks there is substantial value in the remaining assets. Nevertheless, in order to achieve security for a loan, you get what you can. These assets were listed as unencumbered, although there may be some incumbrance in terms of negative covenants, in order to achieve some security. What market value they have, except as part of an operating railroad, is open to serious financial question.

Senator HARTKE. Do you know how much these assets are estimated to be worth?

Mr. BEGGS. They have a book value of $87 million.

Senator HARTKE. The ones listed in this loan agreement?

Mr. BEGGS. That is correct. What you could actually sell them for, is a much more difficult question.

Senator HARTKE. Has the Department of Transportation ever looked into whether or not the Penn Central management has been diverting assets from the railroad itself, that is stripping the Transportation Co. of its assets and leaving it with debts?

Mr. BEGGS. We have taken a look at the various financial transactions that have gone on since the merger. There was the purchase of stock in several companies with money that came through the sale of the Long Island Railroad and the sale of some other assets of the railroad company. There were also loans from the Transportation Co. to the Penn Co., or I should say, more correctly, there were loans from the Transportation Co. to companies held by the Penn Co.

However, during the last year and a half, the net cash flow, as the Secretary indicated, has been in the other direction. Cash has flowed from the Pennsylvania Co. into the Transportation Co. and there was even a repayment of something over $100 million from the subsidiary into the Transportation Co.

Senator COOK. Was that an accelerated repayment?

Mr. BEGGS. Yes, sir.

Senator COOK. For the benefit of working capital?

Mr. BEGGS. Yes, sir.

Senator HARTKE. Are you aware that the Penn Central Railroad was recently found in violation of the Federal Aviation Act for unlawful acquisition of a certified air carrier through a Penn Central subsidiary, Executive Jet Aviation, and was fined under criminal penalties for violation of that Act?

Mr. BEGGS. Yes, sir. I am not aware of that in detail, but I am aware of it.

Mr. Baker might be able to comment further.

Mr. BAKER. Well, as I understand it, this related to an activity that was conducted by the Penn Railroad prior to the merger with the New York Central. I believe it was about 1965 or 1966. It was discovered that the Penn Railroad at that time, through one of its subsidiary corporations, was the principal interested party in the Executive Jet operation.

(The following information was subsequently received for the record:)

Our information indicates that Penn Central still owns 57% of Executive Jet, but that the stock is held in a voting and liquidating trust by Detroit Bank and Trust Co. CAB's divestiture order required Penn Central to dispose of its holding by March 1971. Penn Central, in its second quarter report, has written off a large part of its Executive Jet investment of approximately $21 million.

Senator COOK. That is based at Columbus, Ohio, is it not?

Mr. BAKER. I believe so, sir.

Senator COOK. Mr. Chairman, they were not only fined, but told to immediately proceed to divest themselves.

Senator HARTKE. Yes. That was in March, 1968.

What was the loss on that?

Mr. BAKER. I do not have that, Mr. Chairman.

Senator HARTKE. There was a consent agreement entered into in March 1969.

Mr. BAKER. I believe so.

Senator HARTKE. Would it be about $100 million?

Mr. BAKER. I don't know, sir. I can get the information for you.

Senator HARTKE. Was that a factor involved in their difficulties financially?

Mr. BAKER. I am sure if there was a loss of that magnitude, it would be one of many factors contributing to their present difficulties.

Senator HARTKE. Don't you think this is something we should try to find out?

Mr. BAKER. Yes, sir, we will indeed get that information.

Senator COOK. Mr. Chairman, I might add that if they were forced by the ICC to sell their interest in that company and could not sell it in such a way that they might recoup their money, it might be conjectural whose fault it might be.

If you are told to immediately divest yourself, and given a specific date, you sure as the world are going to have a difficult time getting your money back if you are forced to do it.

Senator HARTKE. I just wondered how much that was a contributing factor.

Senator COOK. I am familiar with Executive Jet in Columbus, Ohio, and I doubt seriously it would be $100 million. I couldn't conceive of it being anywhere near that amount of money.

Senator HARTKE. The involvement didn't just involve the chartered air service. It involved the International Bahamas Line.

Mr. BEGGS. Yes.

Senator HARTKE. Is that a different operation?

Mr. BEGGS. No, it was an associated operation. The total value of the whole operation that sticks in my memory is considerably less than $100 million.

Senator HARTKE. Will you supply that information?

Mr. BEGGS. Yes.

Senator HARTKE. The Penn Central has written off $126 million to long haul passenger facilities west of Harrisburg, even though those facilities are still being used.

Mr. BEGGS. That is correct, sir.

I am sorry, sir, that is not correct. They wrote off the entire assets of the New Haven as being worthless. That amounted to a loss of, I think, $126 million or a writeoff of $126 million. This was part of the loss shown in the 1969 statement. They have not written off the total value of the 34 long-haul railroads, I do not believe.

Senator HARTKE. Well, I am going to ask the staff to ask ICC to give us that information. I hope you will check that out too.

(The following information was subsequently received for the record:)

There was a $126 million writeoff on long-haul passenger facilities of Penn Central west of Harrisburg, Pa. The writeoff was merely an accounting entry, and involved no loss of cash or other assets.

Mr. BAKER. Mr. Chairman, if I may, I think there was a figure of $126 million which was reported and can be found on page 18 of the prospectus that was issued with the proposed sale of the $100 million issue by the Penn Co. I believe this is filed with the committee. This does relate to the long-haul passenger services.

Senator HARTKE. So-called west of Harrisburg.

Mr. BAKER. Yes, sir. As I understand it, the ICC has not accepted this as an appropriate writeoff. Certainly this is related to what activities of the interstate passenger service would or would not be continued. At this point in time, I think this constitutes essentially a bookkeeping transaction and the value of these facilities would be dependent on whether or not they generated any revenue producing service in the future.

I think it was the contention of the Penn Central Corp. that they would not be utilized in the future for revenue-producing activities.

Senator HARTKE. You are right, there is no question it is in their prospectus. And that is contained on page 18 thereof. I think we ought to include the perspectus in the record.

(Testimony resumes on p. 154.)

(The perspectus follows:)

REVISED PRELIMINARY CIRCULAR DATED MAY 12, 1970

CIRCULAR

$100,000,000

Pennsylvania Company

% Sinking Fund Debentures Due 1995

Maturing At Option Of Holder On June 1, 1975

Annual sinking fund payments commencing in 1976 equal to 5% of the principal amount of the Debentures outstanding at the close of business on June 1, 1975 will retire at least 95% of the issue one year prior to maturity. The Company may increase the sinking fund payment in any year commencing in 1981 by an amount not exceeding the required sinking fund payment for that year. The Debentures are redeemable at prices set forth herein at the option of the Company, except that prior to June 1, 1980, no redemption may be made from or in anticipation of moneys borrowed at an interest cost of less than % per annum. Interest is payable on each June 1 and December 1.

Application is being made to list the Debentures on the New York Stock Exchange.

THE ISSUANCE AND SALE OF THE DEBENTURES ARE SUBJECT TO AUTHORIZATION BY THE INTERSTATE COMMERCE COMMISSION. IN CONNECTION WITH SUCH AUTHORIZATION THE INTERSTATE COMMERCE COMMISSION DOES NOT PASS UPON THE MERITS OF THE SECURITIES FROM AN INVESTMENT STANDPOINT, NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS CIRCULAR.

	Price to Public(1)	*Underwriting Discounts and Commissions*	*Proceeds to Company(1)(2)*
Per Debenture	%	%	%
Total	$	$	$

(1) Plus accrued interest on the Debentures from June 1, 1970.
(2) Before deduction of expenses payable by the Company, estimated at $.

The Debentures are offered by the several Underwriters when, as and if issued by the Company and accepted by the Underwriters, subject to their right to reject orders in whole or in part and to authorization by the Interstate Commerce Commission. It is expected that the Debentures, in definitive fully registered form, will be ready for delivery on or about June , 1970.

The First Boston Corporation

Glore Forgan Staats
Incorporated

Salomon Brothers & Hutzler

The date of this Circular is June , 1970.

Preliminary—Information contained herein is subject to completion and amendment in the final Circular.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE DEBENTURES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CONTENTS

	Page
Introduction	3
Use of Proceeds	4
Capitalization	5
Statement of Earnings	6
Business	8
Transactions with Affiliated Companies	21
Description of Debentures	21
Legal Opinions	24
Experts	24
Index to Financial Statements	25
Underwriting	51

No dealer, salesman or any other person has been authorized to give any information or make any representations, other than those contained in this Circular, in connection with the offer contained in this Circular, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or the Underwriters. This Circular does not constitute an offer of any securities other than the Debentures offered hereby or an offer of such Debentures in any State to any person to whom it is unlawful to make such offer in such State.

INTRODUCTION

Pennsylvania Company ("Pennco" or the "Company") was incorporated in Delaware on December 12, 1958 and is the successor to a company of the same name, which had been incorporated by special act in Pennsylvania in 1870. All of the Common Stock of the Company is owned by Penn Central Transportation Company ("Railroad"), which since October 1, 1969 has operated as a wholly-owned subsidiary of the recently organized Penn Central Company ("Penn Central").

Pennco operates as an investment company, with its principal interests in companies not directly related to the railroad operations of the Penn Central system. The Company's principal investments include its holdings in Norfolk and Western Railway Company ("N&W") and other railroads, all of the Common Stock of Buckeye Pipe Line Company ("Buckeye") and controlling interests in two real estate development companies, Great Southwest Corporation ("Great Southwest") and Arvida Corporation ("Arvida"). See "Business" for information concerning the market and estimated values of securities owned and related factors.

From 1963 through 1968 Pennco significantly increased its holdings of non-railroad securities. Except for certain purchases from Railroad as set forth under "Transactions with Affiliated Companies", Pennco's holdings of non-railroad securities have not increased significantly since the end of 1968. Penn Central, which controls Pennco, has recently made and expects to continue to make investments in non-railroad securities. No representation is or can be made as to the amount or nature of future investments to be made by Pennco or Penn Central.

In 1969 Pennco issued collateral trust bonds and debentures aggregating $85 million, the proceeds of which were used to purchase assets of, or make loans to, Railroad to assist it in meeting its obligations. The proceeds from the sale of Debentures offered hereby will be similarly used. See "Use of Proceeds" and "Transactions With Affiliated Companies". Under the terms of the Indenture under which the Debentures are to be issued, Pennco is required to maintain at all times its Net Tangible Assets (as defined) having a Fair Value equal to not less than 300% of the principal amount of the Debentures and all other funded debt outstanding and not subordinated to the Debentures and certain transactions are prohibited unless Non-Rail Assets (as defined) are 250% of such funded debt. See "Description of Debentures—Certain Covenants".

All the outstanding Common Stock of Pennco is pledged to secure up to $300 million of loans to Railroad by a group of banks under a Credit Agreement, dated as of April 1, 1969. Pursuant to the Credit Agreement, Railroad may borrow, repay and reborrow at the prime rate on 90-day loans until January 1, 1971, at which time outstanding loans may be refunded by term notes bearing interest at various rates, based on the prime rate in effect from time to time, payable in five annual installments from January 1, 1972 to January 1, 1976. At March 31, 1970, $250 million was outstanding under the Credit Agreement, which amount may not be increased without an equivalent reduction in Railroad's outstanding commercial paper. Under the Credit Agreement outstanding notes may be declared immediately due and payable in the event that, among other things, any obligation of Railroad, Pennco, Penndel Company, The Pittsburgh and Lake Erie Railroad Company or Pittsburgh, Fort Wayne and Chicago Railway Company for the payment of borrowed money, for the deferred purchase price of property or for the rental, charter or hire of rolling stock is not paid when due or is declared due and payable prior to stated maturity by reason of default or violation of the terms thereof. The Credit Agreement also provides that, without the consent of the majority in interest of the banks, the securities and assets of Penndel Company, The Pittsburgh and Lake Erie Railroad Company and Pittsburgh, Fort Wayne and Chicago Railway Company may not be encumbered nor may such named companies incur indebtedness for borrowed money beyond a specified limit, prior to the execution by Railroad of a mortgage upon the major portion of its property for the purpose of securing the payment of bonds issued to the public. The Credit Agreement also places some restrictions on the amount and types of indebtedness which may be incurred by Railroad without such consent.

USE OF PROCEEDS

The net proceeds from the sale of the Debentures offered hereby, estimated at $, will be used by Pennco (i) to purchase from Railroad all of the outstanding stock of Manor Real Estate Company ("Manor") and Despatch Shops, Inc. ("DSI") including Railroad's open account advances to Manor, at the book net worth of such companies ($26.3 million and $16.8 million, respectively) and the face amount of such advances ($24.1 million), all as of March 31, 1970, (ii) to reimburse its treasury for the purchase from Railroad on March 31, 1970, of all of the outstanding stock of Clearfield Bituminous Coal Company ("CBC") at the book net worth of such company ($16.9 million) and (iii) subject to approval of the Interstate Commerce Commission, to purchase a $ million note of Railroad with the same maturity date as, and a higher interest rate than, the Debentures and with installments of principal comparable in percentage of principal and dates to the sinking fund payments applicable to the Debentures. See "Business—Companies Being Purchased from Railroad". Pending receipt of the proceeds from the sale of the Debentures, up to $50 million may be borrowed by Pennco from banks and either loaned to one of Railroad's subsidiaries to repay advances previously made to it by Railroad or applied to the purchase of Manor or DSI. Any such borrowings will be repaid upon the sale of the Debentures.

Funds provided to Railroad by Pennco have been used in the past and may continue to be used by Railroad as a source of cash. During 1970 Railroad has budgeted capital expenditures of approximately $100 million (exclusive of equipment acquisitions, all of which are separately financed) and has maturities of long-term indebtedness aggregating $106 million, exclusive of indebtedness of others guaranteed by Railroad. It is expected that the funds to provide for such capital expenditures, long-term debt maturities and other cash requirements will be provided from the proceeds of the Debentures offered hereby, short-term indebtedness (in addition to renewals or extensions of existing short-term debt) and long-term financing to be provided either by Pennco or from other sources, including, to the extent realized, any cash generated by the operations of Railroad. Reference is made to the loss incurred by Railroad in the first quarter of 1970 set forth under "Business—Railroad Operations". For further information concerning the financial condition of Railroad and its parent, Penn Central, reference is also made to the financial statements included herein generally and specifically to the Statement of Consolidated Source and Application of Funds of Penn Central, to Note 10 to the Financial Statements of Penn Central and to the scheduled maturities of long-term debt in Note 7 to the Financial Statements of Penn Central. While various plans for meeting the future financial requirements of Railroad are under consideration, no specific plans have been adopted and no commitments have been obtained. The participation of Pennco in meeting these requirements may be limited, as indicated above, by the requirement to maintain Net Tangible Assets (as defined) at 300% of funded debt and the restrictions on the amount of dividends it may pay and against further Railroad Investments (as defined) unless Non-Rail Assets (as defined) equal or exceed 250% of funded debt. See "Description of Debentures—Certain Covenants".

At May 8, 1970, Railroad had outstanding $152.1 million of commercial paper pursuant to orders of the Interstate Commerce Commission authorizing up to $200 million of such paper. To the extent that commercial paper outstanding has been less than $200 million, Railroad has borrowed under a $50 million bank line of credit. As additional backing for its commercial paper Railroad has available $50 million under the Credit Agreement referred to under "Introduction". Between April 21, 1970 (the day preceding the announcement of the operating results of Railroad for the three months ended March 31, 1970) and May 8, 1970, maturities and payments of commercial paper exceeded sales of commercial paper by $41.3 million. Of the commercial paper outstanding at May 8, 1970, approximately $75 million matures prior to June 30, 1970, and the balance at various dates to December 16, 1970.

Since December 31, 1969 a subsidiary of Penn Central has borrowed, with the guarantee of Penn Central, approximately $59 million in Swiss francs, bearing an average interest rate of approximately 10.1% and maturing approximately one year from date of issue, and such funds were indirectly made available to Railroad.

CAPITALIZATION

The capitalization of Pennco on a company only basis as of December 31, 1969, and as adjusted to reflect the issuance and sale of the Debentures, was as follows:

	Outstanding	As Adjusted
	(in thousands)	
Long-Term Debt (1):		
Collateral Trust Serial Bonds, 4.15-4.50% due 1970-1975 (2)	$ 11,900	$ 11,900
Collateral Trust Bonds, 5¼% due 1985 (2)	25,060	25,060
Collateral Trust Bonds, 8¼% due 1989 (2)	35,000	35,000
Bank Loan due 1970-1971 (3)	4,050	4,050
9% Sinking Fund Debentures Due 1994 (4)	50,000	50,000
Debentures offered hereby	—	100,000
Total Long-Term Debt	126,010	226,010
Shareholders' Equity:		
Cumulative Preferred Stock, 4⅝%, $100 par value (authorized, 730,000 shares; issued and outstanding, 705,786 shares) (4)	70,579	70,579
Common Stock, $25 par value (authorized, 5,600,000 shares; issued and outstanding, 4,985,000 shares)	124,625	124,625
Retained Earnings	245,658	245,658
Total Shareholders' Equity	440,862	440,862
Total Long-Term Debt and Shareholders' Equity	$566,872	$666,872

NOTES:

(1) Includes $5.7 million of long-term debt due within one year. See Note 4 to Pennco Financial Statements for further information concerning long-term debt. See also "Business of Pennco—Norfolk and Western Railway Company" for information concerning N&W shares pledged as collateral and the possible necessity of prepaying or purchasing debt in order to free such shares to meet the exchange rights of other outstanding securities of Pennco and its affiliates.

(2) See Schedule of Investments and Advances accompanying the Pennco Financial Statements for securities pledged as collateral under indentures of Pennco.

(3) Bears interest at the prime rate in effect from time to time.

(4) The 9% Sinking Fund Debentures Due 1994 are exchangeable from November 1, 1970 to April 15, 1979, inclusive, for N&W Common Stock at $81.97 per share and 610,002 shares of N&W Common Stock are at the date of this Circular held in escrow to provide for the exchange of such Debentures. The Cumulative Preferred Stock is exchangeable at any time for N&W Common Stock at $137 per share and 516,228 shares of N&W Common Stock are held in escrow to provide for the exchange of such Cumulative Preferred Stock.

PENNSYLVANIA COMPANY (Company Only)
STATEMENT OF EARNINGS

The following statement of earnings of Pennsylvania Company (an indirect subsidiary of Penn Central Company), so far as it relates to the year ended December 31, 1969, has been examined by Peat, Marwick, Mitchell & Co., independent certified public accountants, whose report thereon appears elsewhere in this Circular. This statement should be read in conjunction with the balance sheet of Pennsylvania Company and the related notes included elsewhere in this Circular. With respect to the figures for the four years ended December 31, 1968, which are unaudited, management of the Company believes that all adjustments (none of which were other than normal recurring accruals) necessary to a fair presentation for such years have been included.

	Year Ended December 31,				
	1965	1966	1967	1968	1969
	(Unaudited)				(Audited)
	(in thousands)				
REVENUES:					
Dividends:					
Affiliated companies	$ 27,915	$ 24,363	$ 20,113	$ 21,011	$ 24,220
Norfolk and Western Railway Company	15,519	15,068	13,337	12,136	10,557
	43,434	39,431	33,450	33,147	34,777
Interest:					
Affiliated companies	2,780	1,221	1,148	2,461	3,609
Other	133	228	439	646	678
	2,913	1,449	1,587	3,107	4,287
Investment transactions:					
Norfolk and Western Railway Company (note 2):					
Net gain on sale of stock	1,519	—	—	6,260	7,201
Amortization of gain under exchange agreement	—	7,025	6,921	6,538	6,305
Gain on reacquisition of company bonds	—	—	—	382	938
Gain on sale of Wabash Railroad Company preferred stock	—	—	2,609	1,074	—
	1,519	7,025	9,530	14,254	14,444
Miscellaneous, net	(4)	4	36	1	1
Total revenues	47,862	47,909	44,603	50,509	53,509
EXPENSES:					
General and administrative	178	340	528	334	157
Interest and debt expense	3,423	3,243	3,347	3,255	4,292
Total expenses	3,601	3,583	3,875	3,589	4,449
NET EARNINGS (note 5)	$ 44,261	$ 44,326	$ 40,728	$ 46,920	$ 49,060
Times interest and debt expense earned	13.9	14.7	13.2	15.4	12.4

Note references are to notes to financial statements of Pennsylvania Company.

The annual interest requirement on long-term debt outstanding on December 31, 1969 (excluding long-term debt due within one year) is $9.2 million. The initial annual interest on the Debentures offered hereby is $. On a pro forma basis for 1969, adjusting for the issuance of the Debentures (without including any income earned on securities to be purchased from the Railroad but including annual interest receivable on the $49 million note issued to Pennco by Railroad in December, 1969), interest and debt expense would have been earned 2.9 times. In addition, if 1969 income were adjusted for the $4.4 million reduction in dividend income resulting from the exchange of shares of Common Stock of Wabash Railroad Company ("Wabash") for shares of N&W Common Stock referred to below and to eliminate approximately $1.3 million of interest from an affiliate on advances which are no longer outstanding, the pro forma coverage would have been 2.6 times.

The decrease in dividend income from 1965 through 1968 was due in part to a decline in the earnings of, and dividends paid by, Detroit, Toledo & Ironton Railroad Company (see "Business—Detroit, Toledo & Ironton Railroad Company"), in part to the redemption by N&W in 1965 of 243,419 shares of its 4% Adjustment Preferred Stock and 71,100 shares of its 6% Cumulative Preferred Stock owned by Pennco and in part to sales by Pennco of shares of Common Stock of N&W and shares of 4½% Preferred Stock of Wabash. See "Transactions with Affiliated Companies".

In addition, dividend income has been and will continue to be adversely affected by exchange agreements between Pennco and N&W. Over the period October 1966 to June 1974, 800,000 shares of N&W Common Stock held by Pennco are to be exchanged in ten equal installments for $104 million principal amount of N&W 4⅝% Convertible Subordinated Debentures. A total of 400,000 of such shares was exchanged through December 31, 1969. The aggregate consideration of $104 million to be received by Pennco has been recorded as an investment and profit is being recognized as income ratably over the term of the agreement. Of the $52 million principal amount of such Debentures received to December 31, 1969, $41.6 million had been sold at prices ranging from 80% to 96.5% of principal amount.

On March 31, 1970, 595,255 shares of Wabash Common Stock owned by Pennco were exchanged for 671,692 shares of N&W Common Stock. While this exchange produced a gain of $51 million in the reported consolidated results of Penn Central for the first quarter of 1970 ($46.9 million in Pennco's own statement), dividends received by Pennco on the Wabash Common Stock in 1969 amounted to $8.4 million compared to annual dividends of $4.0 million at the current dividend rate paid by N&W on the 671,692 shares of N&W Common Stock received. Including the $46.9 million gain from the exchange, Pennco reported net earnings of $57.7 million for the three months ended March 31, 1970 compared to $12.9 million for the three months ended March 31, 1969. Excluding such gain, net earnings for the three months ended March 31, 1970 would have been $10.8 million.

PENNSYLVANIA COMPANY (Company Only)
SOURCE AND APPLICATION OF FUNDS
(not covered by report of independent certified public accountants)

	Year Ended December 31,		
	1967	1968	1969
	(in thousands)		
SOURCE:			
Net earnings	$40,728	$46,920	$ 49,060
Less non-cash item—amortization of gain on exchange of Norfolk and Western Railway Stock	6,921	6,538	6,305
	33,807	40,382	42,755
Sales of securities	24,097	24,965	12,606
Financing:			
Collateral trust bonds	—	—	35,000
Debentures	—	—	50,000
	—	—	85,000
Miscellaneous	148	32	—
Total	$58,052	$65,379	$140,361
APPLICATION:			
Dividends—Common	$25,500	$24,000	$ 24,000
—Preferred	3,265	3,264	3,264
	28,765	27,264	27,264
Reduction of debt:			
Collateral trust bonds	3,400	6,050	7,690
Loan agreement	—	3,549	3,000
Bank notes	150	1,650	3,600
	3,550	11,249	14,290
Advances to (repayments from) affiliates—net	21,801	9,804	(13,453)
Investments:			
Purchased from Railroad*	—	—	84,000
Other*	—	—	25,211
	—	—	109,211
Unamortized discount on debt	—	—	1,136
Miscellaneous	—	—	537
Increase in working capital	3,936	17,062	1,376
Total	$58,052	$65,379	$140,361

* See "Transactions with Affiliates".

BUSINESS

Pennco operates as an investment company. On December 31, 1969, the book value of total assets of the Company was $598.9 million, of which investments represented by stocks, bonds and other indebtedness amounted to $570.6 million (95.3% of total assets). Of this $570.6 million, stocks and bonds were $548.0 million (91.5% of total assets). For a schedule of securities owned by Pennco at December 31, 1969, see Schedule of Investments and Advances accompanying the Pennco Financial Statements.

The following table lists the stocks and bonds owned by Pennco at May 8, 1970 (based on market quotations where available and otherwise as estimated by the Company) without giving any effect to the application of the proceeds from the sale of the Debentures other than inclusion of CBC, recently purchased at book net worth (see "Use of Proceeds"):

Security	Shares	Cost or Less	Market or Estimated Value
		(in millions)	
Arvida Corporation Common Stock	3,529,277	$ 22.0	$ 32.6(1)
Buckeye Pipe Line Company Common Stock(2)	14,000	100.3	98.0
Clearfield Bituminous Coal Company Common Stock	16,500	16.9	16.9(3)
Detroit, Toledo & Ironton Railroad Company Capital Stock(2)	245,329	25.9	40.7
Great Southwest Corporation Common Stock(4)	23,747,850	84.3	250.6(1)
Great Southwest Corporation Cumulative Preferred Stock,			
Series "A" 6%	3,500,000	3.5	2.3
Series "B" 7%	3,650,000	.5	2.8
Series "C" 7.6%	16,410,980	2.4	13.8
Norfolk and Western Railway Company Common Stock (2) (5)	1,863,541	121.1	134.6(1)
Norfolk and Western Railway Company Common Stock (subject to exchange for N&W 4⅝% Convertible Subordinated Debentures)	400,000	52.0	30.2
The Philadelphia, Baltimore and Washington Railroad Company Capital Stock (2)	277,259	37.2	28.7
Wabash Railroad Company 4½% Preferred Stock (2)	101,836	3.8	6.0(1)
Other (6)		142.0	110.4
Total		$611.9	$767.6

NOTES:

(1) At bid prices for over-the-counter securities and closing sale prices for listed securities on May 8, 1970. There can, of course, be no assurance that these values could be realized upon a liquidation of such securities.

(2) Pledged, in whole or in part, as collateral under the Company's indentures. At May 8, 1970, pledged securities had an aggregate market or estimated value of $179.6 million. The total principal amount of obligations secured by such pledged securities was $69.9 million. See Schedule of Investments and Advances accompanying the Pennco Financial Statements.

(3) Included on a cost basis only.

(4) Includes $2,550,000 of cost and $16.2 million of estimated value for warrants, which expire March 1, 1977, to purchase 2,102,110 shares of Common Stock at approximately $2.17 per share.

(5) Pennco is subject to an order of the Interstate Commerce Commission that it and its affiliates dispose of all shares of N&W Common Stock owned by them by October 15, 1974, except that sufficient shares to meet the exchange rights of holders of Pennco's 9% Sinking Fund Debentures Due 1994 (610,000 shares) and of the holders of $3 Cumulative Preference Stock, Convertible Series A, of Penn Central (400,000 shares) need not be disposed of until October 15, 1979. At May 8, 1970, 516,172 shares of N&W Common Stock were held in escrow subject to the exchange rights of the holders of Pennco's 4⅝% Cumulative Preferred Stock and 610,002 shares of N&W Common Stock were held in escrow subject to the exchange rights of the holders of the Company's 9% Sinking Fund Debentures Due 1994. Under the terms of Penn Central's $3 Cumulative Preference Stock, Convertible Series A, Penn Central is to use its best efforts, subject to certain conditions, to deposit in escrow within five years 120,000 shares of N&W Common Stock.

(6) Includes $49,000,000 principal amount of a 9¼% promissory note due 1994 of the Railroad having instalment payments comparable to the sinking fund payments applicable to Pennco's 9% Sinking Fund Debentures Due 1994. This note is junior to approximately $1.7 billion of secured debt of Railroad.

Of the $767.6 million total market or estimated value of the stocks and bonds owned by Pennco at May 8, 1970, $100.8 million consisted of Railroad Investments. See "Description of Debentures—Certain Covenants".

Arvida Corporation

As of December 31, 1969, Pennco held 58% of the voting stock of Arvida. The corporation managing the properties of Arvida holds an option expiring July 25, 1970, to purchase from Pennco approximately 15% of the voting stock of Arvida at $7.80 per share. At May 8, 1970, the reported bid price of such stock in the over-the-counter market was $9¾ per share.

Arvida owns land on both the east and west coasts of Florida totaling approximately 35,000 acres. Properties are located in the Miami, Fort Lauderdale, Boca Raton and Palm Beach areas on the east coast and the Sarasota area on the west coast. Arvida's business includes land development, construction and sale of condominium apartments, sales of land to developers and operation of the Boca Raton Hotel and Club.

A summary statement of consolidated earnings for Arvida for the years 1965 through 1969 (not covered herein by report of independent certified public accountants) is as follows:

	Year Ended December 31,				
	1965	1966	1967	1968	1969
	(in thousands)				
Sales of real estate	$12,557	$ 8,810	$11,786	$15,244	$ 8,804
Other revenues	6,374	7,714	6,919	7,907	10,668
Total revenues	18,931	16,524	18,705	23,151	19,472
Cost of property sold	10,538	7,067	9,258	10,201	6,092
Other expenses	7,384	7,445	7,380	8,565	11,038
Total expenses	17,922	14,512	16,638	18,766	17,130
Income before Federal income taxes	1,009	2,012	2,067	4,385	2,342
Provision for Federal income taxes	484	990	1,007	1,950	1,028
Net income	$ 525	$ 1,022	$ 1,060	$ 2,435	$ 1,314

Dividends have not been declared on the Arvida Common Stock.

The decrease in real estate sales for the year ended December 31, 1969, is directly attributable to the delayed completion of two high-rise condominium apartment buildings and to a reduction in the volume of land holdings offered for sale by Arvida. Arvida has adopted a policy of retaining most of its land holdings for its own construction and development program, rather than selling them to others for development.

For the three months ended March 31, 1970, Arvida reported revenues of $11.7 million and net income of $700,000, compared to revenues of $5.4 million and net income of $400,000 for the three months ended March 31, 1969.

Buckeye Pipe Line Company

Buckeye, 100%-owned by Pennco, operates a 7,000-mile system of crude oil pipelines in Indiana, New York, Pennsylvania, Michigan and Ohio and refined petroleum products pipelines in Florida, Illinois, Indiana, Michigan, New Jersey, New York, Ohio, Pennsylvania and Washington as a common carrier under the jurisdiction of the Interstate Commerce Commission ("ICC") and various state authorities. Based on the latest available transportation statistics for the United States, as published by the ICC, Buckeye's pipeline system was the 13th largest in total operating revenues and 8th largest in barrels of crude oil and refined products received into the system. During 1969 Buckeye transported an average of approximately 42 million gallons per day of crude oil and refined products.

Under an indenture dated June 1, 1969, all of the Common Stock of Buckeye is pledged as security for the 8¼% Collateral Trust Bonds due 1989 of Pennco.

A summary statement of consolidated earnings for Buckeye for the years 1965 through 1969 (not covered herein by report of independent certified public accountants) is as follows:

	Year Ended December 31,				
	1965	1966	1967	1968	1969
	(in thousands)				
Total revenues	$29,716	$31,661	$32,528	$35,748	$37,645
Total expenses	18,488	19,236	18,924	21,936	25,424
Net earnings	$11,228	$12,425	$13,604	$13,812	$12,221
Dividends declared					
Preferred stock	$ —	$ —	$ 324	$ 590	$ 570
Common stock	5,965	5,800	6,300	6,300	6,300

NOTE: Buckeye has been included in the consolidated Federal income tax returns filed by the Railroad. No income taxes were paid for the periods covered, and no provision has been reflected above for Federal income taxes.

50-934 O - 71 - 8

Buckeye reported net earnings of $12,221,000 in 1969, down 11.5% from earnings of $13,812,000 in 1968. This decrease resulted from loss of domestic shipments of crude oil to Buffalo refineries which have substituted Canadian crude and diversion of some long-haul trunkline business because of new construction by connecting lines.

For the three months ended March 31, 1970, Buckeye reported revenues of $10.0 million and net earnings of $4.5 million, compared to revenues of $9.5 million and net earnings of $3.8 million in the three months ended March 31, 1969.

Detroit, Toledo & Ironton Railroad Company

Pennco owns all 245,329 outstanding shares of Capital Stock of Detroit, Toledo & Ironton Railroad Company ("DT&I"), of which 26,029 shares are pledged as part of the security for the Company's Collateral Trust Serial Bonds. DT&I operates 475 miles of railroad in Ohio and Michigan, the main line extending approximately 359 miles from Detroit in a general southerly direction to Ironton, Ohio. At many points, connections are made with other railroads, including Railroad, N&W, Baltimore and Ohio Railroad Company, Chesapeake and Ohio Railway Company, Erie Lackawanna Railway Company and others. The territory is highly industrialized.

Net income of DT&I and dividends declared to Pennco for the calendar years 1965 through 1969 (not covered by report of independent certified public accountants) are as follows:

	Year Ended December 31,				
	1965	1966	1967	1968	1969
			(in thousands)		
Net income	$5,194	$3,489	$ 998	$2,905	$4,225
Dividends declared	3,790	2,220	—	736	1,472

The decrease in net income of DT&I for 1967 was primarily attributable to a two month strike in the automobile industry and also to civil disturbances in the Detroit area.

For the three months ended March 31, 1970, DT&I reported net income of $500,000 compared to net income of $2.3 million in the three months ended March 31, 1969.

Great Southwest Corporation

Pennco presently owns approximately 90% of the voting stock of Great Southwest; Macco Corporation, formerly a 100%-owned subsidiary of Pennco, was merged into a wholly-owned subsidiary of Great Southwest in 1969. In addition to the development of land for industrial, commercial, residential and recreational uses, an important part of the operation of Great Southwest has been the planning, construction and sale of amusement parks, two of which are now operated by Great Southwest as the general partner in two limited partnerships.

At December 31, 1969, Great Southwest owned approximately 34,480 acres of land and leased, as lessee, approximately 665 acres. Joint ventures and limited and general partnerships in which Great Southwest had varying interests at that date owned approximately 10,872 acres. The present real estate operations are concentrated in or about Los Angeles, San Francisco, San Diego and the Lake Tahoe area in California, Dallas and Fort Worth, Texas, Atlanta, Georgia and Hawaii. The two amusement parks already completed and sold are located in the Dallas-Fort Worth and Atlanta areas, and a park presently under construction is located near St. Louis. Great Southwest has recently entered into a joint venture agreement with C. Brewer & Company Limited, under which Great Southwest may, upon the occurrence of certain events, acquire a 45% interest in up to 285,000 acres of real estate located in Hawaii. Great Southwest plans to engage in real estate development in other areas.

In December 1969, Great Southwest acquired all the outstanding capital stock of a company engaged in the manufacture and sale of mobile homes for a purchase price of $15.4 million, which may be increased

by $5 million depending upon earnings of the acquired company over a four year period commencing January 1, 1970. In 1970, Great Southwest acquired a developer, builder and operator of multi-family dwellings which include apartments, duplexes and condominiums in Dallas and Tarrant Counties, Texas and at Incline Village, Lake Tahoe, Nevada. The purchase price was 933,333 shares of Great Southwest Common Stock which, based upon earnings over a five year period, may be increased to 1,400,000 shares. In January 1970 Great Southwest acquired for $2 million a 50.2% interest in a company engaged in the manufacture of small general purpose computers and data processing equipment.

A summary statement of consolidated earnings of Great Southwest for the years 1965 through 1969 (not covered herein by report of independent certified public accountants) is as follows:

	Year Ended December 31,				
	1965	1966	1967	1968**	1969
	(in thousands)				
Real estate and other sales	$ 7,284	$19,055	$35,825	$104,826	$120,667
Operating revenues	11,630	12,090	18,794	23,405	12,950
Earnings from joint ventures	518	2,175	973	2,382	1,900
Other revenues	545	1,263	599	2,741	8,721
Total revenue	19,977	34,583	56,191	133,354	144,238
Cost of sales and selling expenses	4,486	14,230	24,119	72,009	66,163
Operating expenses	7,045	7,604	11,298	15,078	7,919
Other expenses	5,804	6,909	9,366	13,306	18,613
Total expenses	17,335	28,743	44,783	100,393	92,695
Earnings before income taxes and extraordinary credit	2,642	5,840	11,408	32,961	51,543
Provision for Federal and State income taxes*	843	342	3,019	7,399	17,180
Earnings before extraordinary credit	1,799	5,498	8,389	25,562	34,363
Sale of securities	—	—	—	1,863	—
Net earnings	$ 1,799	$ 5,498	$ 8,389	$ 27,425	$ 34,363
Dividends declared:					
Preferred stock	$ —	$ 11	$ 254	$ 541	$ 1,187
Common stock	122	—	—	1,151	2,656

* Great Southwest's operations are included in the consolidated return of Penn Central. In 1968, Great Southwest entered into an income tax allocation agreement with the Railroad wherein a charge is made, in lieu of Federal income taxes, equal to 95% of the tax which would be due if Great Southwest's operations were reported in a separate return. Since the amount of such charge is affected by timing differences which arose prior to 1968 between financial accounting and accounting for Federal income tax purposes, Great Southwest made retroactive provision for deferred Federal income taxes.

Current and deferred Federal income taxes included in the provision for Federal and State income taxes for the years 1965 through 1969 are as follows:

	1965	1966	1967	1968	1969
Federal:	(in thousands)				
Current	$ —	$ —	$ —	$1,428	$ 4,947
Deferred	818	210	2,657	2,790	11,258
	$818	$210	$2,657	$4,218	$16,205

Subsequent to the date that Great Southwest's annual report for the year ended December 31, 1968 was distributed to the shareholders, but prior to the date of filing the Federal income tax return for such year, management of Great Southwest changed its election with respect to the reporting of income on certain sales of Macco Corporation and its subsidiaries. As a result of this change, income which Great Southwest had previously intended to report on the instalment basis for tax purposes was all reported in 1968 taxable income. Accordingly, deferred taxes were decreased and net earnings for 1968 were increased by $7,437,000.

** Subsequent to the sale of Six Flags over Georgia, the Company changed its policy toward amusement parks from one of constructing and operating such parks to one of constructing, developing and selling such parks. Accordingly, the sale of the amusement park known as Six Flags over Georgia in 1968 has been reclassified from amounts previously reported to reflect the transaction as an ordinary sale rather than an extraordinary item. The sale of Six Flags over Texas has been treated in an identical manner. In each case, following the sale, the amusement park was conveyed to a partnership through which a subsidiary of Great Southwest, as the general partner, operates the amusement parks.

Great Southwest records sales of land and buildings in the year of sale and generally takes the full sales price into income even though in many instances a substantial portion of the sales price is payable over an extended period of time and may not include personal liability of the purchaser so that the collection of the total purchase price may be dependent upon successful development of the property. A substantial portion of Great Southwest's real estate sales in 1968 and 1969 are in this category and were made to a limited number of individuals. The Tax Reform Act of 1969 and other recent tax rulings have made investments in properties of this type less attractive to individuals. For this and other reasons, including general economic conditions and the difficulty in obtaining mortgage financing, there can be no assurance that such sales will continue.

In the past Great Southwest has been able to make substantial real estate sales by accepting the prepayment of several years interest. However, by reason of a November, 1968 release of the Internal Revenue Service limiting the deductibility of prepaid interest, the number of prepaid interest transactions may decrease substantially, and Great Southwest's sales may be adversely affected thereby.

For the three months ended March 31, 1970, Great Southwest reported revenues of $40.5 million and net earnings of $1.5 million, compared to revenues of $16.8 million and net earnings of $5.2 million in the three months ended March 31, 1969.

Norfolk and Western Railway Company

At March 31, 1970, Pennco owned 2,263,597 shares or approximately 23% of N&W's outstanding Common Stock. Under an ICC order, Railroad and its subsidiaries and affiliates are required to divest themselves by October 15, 1974 of all N&W shares, except that sufficient shares to meet the exchange rights of holders of Pennco's 9% Sinking Fund Debentures Due 1994 (610,000 shares) and of the holders of $3 Cumulative Preference Stock, Convertible Series A, of Penn Central (400,000 shares) need not be disposed of until October 15, 1979.

At March 31, 1970, Pennco was obligated to deliver up to 1,126,228 shares of N&W Common Stock upon exercise of exchange rights by holders of its 9% Sinking Fund Debentures Due 1994 and 4⅝% Cumulative Preferred Stock and to deliver 400,000 shares to N&W in exchange for $52 million principal amount of N&W's 4⅝% Convertible Subordinated Debentures. In addition, Penn Central is obligated, beginning in 1975, to deliver up to 400,000 shares of N&W Common Stock upon exercise of exchange rights by holders of its Preference Stock issued in connection with two recent acquisitions. Pennco has pledged 995,677 shares of N&W Common Stock to secure its Collateral Trust Serial Bonds due 1970-75 and its Collateral Trust Bonds due 1985. Pledged shares may be withdrawn, so long as certain minimum values of security are maintained, as the outstanding amount of bonds which they secure are reduced. In the event that shares of N&W Common Stock released as a result of the payment of serial maturities and sinking fund retirements are not sufficient to meet the commitments for N&W Common Stock, open market purchases or optional redemptions of such bonds may have to be made. In 1969, $5.3 million principal amount of such bonds were purchased and in 1970 $2.1 million have been purchased to date.

The information hereinafter set forth relating to N&W is derived from official records and published information, principally reports to stockholders, reports filed with the ICC, evidence introduced in proceedings before the ICC and reports of financial reporting services. It should be noted that the ICC does not approve, disapprove or pass upon the accuracy or adequacy of statements and reports filed with it. Although the information has been taken from sources believed to be reliable, Pennco and the Underwriters cannot warrant the accuracy or completeness of the information concerning N&W contained herein or that events unknown to them have not occurred which may affect the accuracy or significance of such information.

N&W is one of the major rail systems serving the East and Midwest. N&W's principal lines extend westward from Norfolk to Lake Erie, where they extend northeastward along both shores of Lake Erie to Buffalo and eastward to Connellsville, Pennsylvania. From the south shore of Lake Erie, N&W's lines also extend westward to Chicago, Peoria, Des Moines, Omaha, Kansas City and St. Louis. N&W also has lines reaching Durham, Winston-Salem, Bristol and Norton, Virginia, Hagerstown and Cincinnati.

In 1968, the acquisition of control of Erie Lackawanna Railroad Company provided access to the port of New York and the purchase of certain railroad properties and other assets of The Delaware and Hudson Company and its subsidiaries gave the system New England connections and a line to Montreal.

A schedule of consolidated earnings information for N&W (not covered by report of independent certified public accountants) taken from the 1969 annual stockholders' report of N&W is as follows:

	Year Ended December 31, (in thousands except per share amounts)				
	1965	1966	1967	1968	1969
Operating Revenues	$601,100	$623,100	$603,200	$857,100	$989,700
Operating Expenses	398,500	418,800	425,100	617,200	720,200
Taxes	72,800	62,100	47,400	78,000	83,100
Net Income	90,400	98,300	70,400	76,300	87,400
Earnings Per Share of Common Stock:					
Primary—Based on average shares outstanding and shares to be outstanding after conversion of Dereco Preferreds on April 1, 1973	$9.64	$10.59	$7.68	$7.78	$8.60
Pro Forma—Assuming Full Conversion of all Convertible Securities and Issuance of Shares for Wabash Common Stock	$9.43	$10.30	$7.54	$7.52	$8.25

Consolidated figures include Dereco, Inc. and its subsidiaries, Erie Lackawanna Railway Company and Delaware and Hudson Railway Company, from March 1, 1968, April 1, 1968 and July 1, 1968, their respective dates of acquisition.

For the three months ended March 31, 1970, N&W reported on a consolidated basis operating revenues of $245.8 million and net income of $9.5 million, compared to operating revenues of $234.3 million and net income of $22.2 million in the three months ended March 31, 1969. Based on the average number of common shares outstanding and shares to be outstanding after conversion of the Dereco Preferred Stocks on April 1, 1973, earnings per share for the three months ended March 31, 1970 and 1969 were $0.88 and $2.03, respectively. Assuming full conversion of all convertible securities and the issuance of shares of N&W Common Stock for shares of Wabash Common Stock on March 31, 1970, earnings per share for the three months ended March 31, 1970 and 1969 were $0.87 and $2.00, respectively.

The boards of directors and stockholders of N&W and The Chesapeake and Ohio Railway Company ("C&O") approved a plan of merger of C&O into N&W. C&O's principal line extends westward from the port of Hampton Roads, Virginia, through Virginia, West Virginia and Ohio into Michigan. It also has lines reaching Chicago, Louisville and Washington, D. C., and extending from Detroit through the Province of Ontario to Buffalo. C&O has 18 significant points of interchange with N&W.

The ICC hearing examiner on March 20, 1969 recommended approval of the merger, leaving for the future the terms of any ultimate inclusion of the railroad operations of Reading Company, The Central Railroad Company of New Jersey and Boston and Maine Corporation in the N&W system. The Central Railroad Company of New Jersey and Boston and Maine Corporation are currently in bankruptcy. A decision by the ICC may be made in the near future. Pennco has opposed the merger before the ICC on the grounds that the terms of the merger are unfair to N&W stockholders.

The Philadelphia, Baltimore and Washington Railroad Company

The Philadelphia, Baltimore and Washington Railroad Company ("PB&W") is operated by the Railroad under 999-year leases. Under the terms of the leases, the Railroad pays all expenses, taxes, interest on obligations and dividends of PB&W. The railroad lines of PB&W consist of the following: Philadelphia to Washington, 138 miles; Pittsburgh to East St. Louis and Chicago, 845 miles; and branch lines, 1,360 miles.

Of the 796,759 shares of PB&W Capital Stock outstanding, Pennco owns 277,259 shares (34.8%), of which 38,390 shares are pledged as part of the security for Pennco's Collateral Trust Serial Bonds. The balance of the Capital Stock is owned by Railroad. Dividends are declared only on the shares of Capital Stock owned by Pennco and have amounted to $2.3 million in each of the years 1965 through 1969.

Approximately $20 million of mortgage bonds of PB&W, of which $1.5 million are owned by Railroad, will mature June 1, 1970. PB&W has requested ICC approval for a proposed issue of $26.5 million principal amount of mortgage bonds, guaranteed by Railroad and maturing in 1976, to refund the maturing bonds and $6.5 million additional principal amount of bonds owned by Railroad and Pennco. Railroad expects to arrange a short-term refinancing of the maturing bonds pending sale of the refunding issue.

Companies Being Purchased from Railroad

The stocks of, and advances by Railroad to, Manor Real Estate Company, Clearfield Bituminous Coal Corporation and Despatch Shops, Inc. are being sold to Pennco as described under "Use of Proceeds". The aggregate purchase price of $84.1 million exceeds the value of $29.3 million at which the assets are carried in Railroad's accounts, resulting in a gain to Railroad of $54.8 million. The purchase is being made at the book net worth of the subsidiaries and the gain to Railroad is eliminated in consolidation. On a combined basis the three companies had approximately $563,000 of net earnings in 1969, but paid dividends to Railroad in 1969 in the aggregate amount of $3.7 million.

Manor Real Estate Company. Manor acquires and holds land for development or resale, owns stock of affiliated companies and notes of affiliated and non-affiliated companies, and owns bituminous coal acreage in Pennsylvania, West Virginia and Ohio. Recoverable tonnage for Manor's coal lands is estimated at 1,850 million tons, of which approximately 270 million tons are subject to existing leases. The principal markets are in New York, Pennsylvania, northern Ohio and Canada. The sulphur content of such coal is believed to vary from less than 1% to 5%.

At December 31, 1969, Manor had investments of $31.5 million of which $17.7 million represented investments in affiliates. At the same date, Manor had outstanding long-term debt of $48.6 million, including notes payable to banks of $22 million bearing interest at the prime rate (currently 8%) and maturing in February, 1971 and advances of Railroad to Manor of $24 million. No dividends, other than stock dividends, may be paid by Manor without the consent of such banks. At March 31, 1970, Railroad's advances to Manor, being purchased by Pennco, were $24.1 million. Such advances are substantially subordinated to the indebtedness to banks.

As of December 31, 1969, Manor also had approximately 8,000 acres of real estate available for development or resale, located principally in New Jersey, Pennsylvania, Maryland and Ohio.

A summary statement of earnings for Manor for the years 1965 through 1969 (not covered by report of independent certified public accountants) is as follows:

	Year Ended December 31,				
	1965	1966	1967	1968	1969
	(in thousands)				
Revenues:					
Rents and royalties	$1,109	$1,364	$1,227	$1,128	$1,087
2 Penn Center rental, net (sold September 1967)	534	574	385	—	—
Dividends and interest:					
Affiliated companies	892	111	68	—	137
Other	646	705	739	804	848
Profits on sales of property, securities and other, net	1,536	1,060	1,822	5,786	1,016
Total revenues	4,717	3,814	4,241	7,718	3,088
Expenses:					
General, administrative and other expenses	1,077	1,085	1,157	1,128	952
Depreciation and depletion	251	258	296	260	280
Taxes, other than Federal income	636	523	560	884	798
Interest	799	805	601	97	1,819
Total expenses	2,763	2,671	2,614	2,369	3,849
Income (loss) before charge (credit) in lieu of Federal income taxes	1,954	1,143	1,627	5,349	(761)
Charge (credit) in lieu of Federal income taxes*	—	—	—	1,587	(47)
Net earnings (loss)	$1,954	$1,143	$1,627	$3,762	$(714)
Dividends paid	—	—	—	—	$2,000

During the year ended December 31, 1969, two wholly-owned subsidiaries were merged into Manor; Manor's statement of earnings has been restated to reflect the accounts of the merged companies for all periods presented.

* Manor is an indirect wholly-owned subsidiary of Penn Central and its accounts are included in the consolidated Federal income tax returns filed by Penn Central. In 1968 Manor entered into a tax allocation agreement with its parent, Penn Central Transportation Company, which provided for Manor to pay the parent the amount by which its tax liability was reduced or eliminated because of utilization in the consolidated return of operating losses or capital losses of other members of the group, but in no event more than 95% of the tax which would have been due if Manor had filed a separate return. The credit in 1969 arose from an adjustment to the prior year's charge.

For the three months ended March 31, 1970, Manor reported revenues of $643,000 and a net loss of $355,000, compared to revenues of $845,000 and a net loss of $95,000 for the three months ended March 31, 1969.

Clearfield Bituminous Coal Corporation. CBC owns bituminous coal producing acreage in Clearfield County, Indiana County and Cambria County, all in Pennsylvania, with additional acreage in Ohio and West Virginia. The major portion of this acreage is leased to operating coal companies. Recoverable tonnage is estimated at 513 million tons. The sulphur content of such reserves ranges from less than 1% to 4%. Royalty income has totaled approximately $600,000 in each of the years 1965 through 1969.

In addition CBC owns a nursery which produces approximately 15 million seedlings per year and 35,000 acres of surface lands.

At December 31, 1969, CBC had investments of $9.7 million of which $7.8 million represented investments in affiliates.

A summary statement of earnings for CBC for the years 1965 through 1969 (not covered by report of independent certified public accountants) is as follows:

	Year Ended December 31,				
	1965	1966	1967	1968	1969
	(in thousands)				
Revenues:					
Rents and royalties	$ 884	$ 886	$ 890	$ 803	$ 773
Dividends and interest:					
Affiliated companies	68	320	374	270	325
Other	520	296	338	274	476
Profits on sales of property, securities and other, net	372	178	110	156	331
Total revenues	1,844	1,680	1,712	1,503	1,905
Expenses:					
General, administrative and other expenses	205	191	170	144	144
Depreciation and depletion	241	227	187	214	189
Taxes, other than Federal income	174	162	163	186	201
Interest	—	—	—	—	115
Total expenses	620	580	520	544	649
Income before charge in lieu of Federal income taxes	1,224	1,100	1,192	959	1,256
Charge in lieu of Federal income taxes*	312	330	264	286	231
Net earnings	$ 912	$ 770	$ 928	$ 673	$1,025
Dividends paid	$ 600	$ 600	$ 700	$ 800	$700

* CBC is an indirect wholly-owned subsidiary of Penn Central and its accounts are included in the consolidated Federal income tax returns filed by Penn Central. In 1968 CBC entered into a tax allocation agreement with its parent, Penn Central Transportation Company, which provided for CBC to pay the parent the amount by which its tax liability was reduced or eliminated because of utilization in the consolidated return of operating losses or capital losses of other members of the group, but in no event more than 95% of the tax which would have been due if CBC had filed a separate return. For the periods prior to merger of The New York Central Railroad Company into The Pennsylvania Railroad Company on February 1, 1968, CBC was a member of the New York Central affiliated tax groups and a participant in a similar tax agreement.

For the three months ended March 31, 1970, CBC reported revenues of $477,000 and net earnings of $297,000, compared to revenues of $332,000 and net earnings of $142,000 for the three months ended March 31, 1969.

Despatch Shops, Inc. DSI in recent years has been utilized in the acquisition of land and property which it leases to Railroad. DSI through its wholly-owned subsidiary, Realty Hotels, Inc. operates the Barclay, Biltmore, Commodore and Roosevelt Hotels, owned by Railroad in the Grand Central Terminal area of New York City. Profits from such operations are paid to Railroad as additional rent.

Prior to the merger of Railroad with The New York Central Railroad Company ("New York Central") on February 1, 1968, DSI was chiefly engaged in the building and repairing of railroad cars in its plant in East Rochester, New York for New York Central and its affiliates. The availability of more modern facilities owned by Railroad at Hollidaysburg, Pennsylvania, has enabled it to phase out the facilities at East Rochester.

A summary statement of earnings for DSI for the years 1965 through 1969 (not covered by report of independent certified public accountants) is as follows:

	Year Ended December 31,				
	1965	1966	1967	1968	1969
	(in thousands)				
Revenues:					
Rent of shop facilities to Railroad	$306	$ 305	$314	$312	$ 246
Other rents and royalties	134	132	133	127	150
Construction of cars, net	252	1,573	262	477	3
Interest	18	10	8	3	—
Profit (loss) on sales of property and other, net	(36)	57	46	7	340
Total revenues	674	2,077	763	926	739
Expenses:					
General, administrative and other expenses	91	104	112	101	81
Depreciation and depletion	167	171	169	171	165
Taxes, other than Federal income	71	59	119	60	67
Total expenses	329	334	400	332	313
Income before charge (credit) in lieu of Federal income taxes	345	1,743	363	594	426
Charge (credit) in lieu of Federal income taxes*	112	765	(14)	189	174
Net earnings	$233	$ 978	$377	$405	$ 252
Dividends paid	—	—	—	—	$1,000

* DSI is an indirect wholly-owned subsidiary of Penn Central and its accounts are included in the consolidated Federal income tax returns filed by Penn Central. In 1968 DSI entered into a tax allocation agreement with its parent, Penn Central Transportation Company, which provided for DSI to pay the parent the amount by which its tax liability was reduced or eliminated because of utilization in the consolidated return of operating losses or capital losses of other members of the group, but in no event more than 95% of the tax which would have been due if DSI had filed a separate return. The credit in 1967 arose from an adjustment to the prior year's charge. For the periods prior to the merger of The New York Central Railroad Company into The Pennsylvania Railroad Company on February 1, 1968 DSI was a member of the New York Central affiliated tax groups and a participant in a similar tax agreement.

For the three months ended March 31, 1970, DSI reported revenues of $91,000 and a net loss of $9,000, compared to revenues of $134,000 and net earnings of $20,000 for the three months ended March 31, 1969.

Management

Eight of the ten directors of Pennco are directors of Penn Central. Stuart T. Saunders, Chairman of the Board of Penn Central and the Railroad, is President of Pennco. W. W. Riley is Secretary, Treasurer and Comptroller of Pennco.

The directors and officers of Penn Central are as follows:

Stuart T. Saunders*	Chairman of the Board and Director
Paul A. Gorman*	President and Director
David C. Bevan*	Chairman of the Finance Committee and Director
Louis W. Cabot	Director (Chairman, Cabot Corporation)
John T. Dorrance, Jr.	Director (Chairman of the Board, Campbell Soup Company)
Otto N. Frenzel*	Director (Chairman of the Board, Merchants National Bank & Trust Company)
E. Clayton Gengras*	Director (Chairman of the Board, Security Insurance Group)
Edward J. Hanley*	Director (Chairman of the Board, Allegheny Ludlum Steel Corporation)
Franklin J. Lunding*	Director (Chairman of the Finance Committee, Jewel Companies, Inc.)
Walter A. Marting	Director (President, Hanna Mining Company)
Thomas L. Perkins*	Director (Counsel, Perkins, Daniels & McCormack)
Alfred E. Perlman	Director (Vice Chairman of the Board, Railroad)
R. Stewart Rauch, Jr.	Director (President, The Philadelphia Saving Fund Society)
John M. Seabrook	Director (Chairman of the Board and President, International Utilities Corporation)
Robert W. Minor	Senior Vice President—Legal and Public Affairs
Charles S. Hill	Vice President—Controller
Edward A. Kaier	Vice President and General Counsel
William A. Lashley	Vice President
Jonathan O'Herron	Vice President
Bayard H. Roberts	Secretary
John H. Shaffer	Treasurer

* Also a director of Pennco; in addition, Robert S. Odell and Daniel E. Taylor, who are directors of Railroad but not of Penn Central, are directors of Pennco.

Railroad Operations

On October 1, 1969 Penn Central acquired all the capital stock of Railroad pursuant to a plan of merger and reorganization. Railroad is the parent company of the railroad system. It owns and controls, through stock ownership, leases or operating contracts, numerous railroad properties, including properties acquired by merger with New York Central on February 1, 1968 and by purchase from the Trustees of The New York, New Haven and Hartford Railroad Company ("New Haven") on December 31, 1968. Railroad has a number of subsidiaries engaged in businesses other than railroad operations, the most important of which is Pennco.

As of December 31, 1969, Railroad operated 20,570 miles of road, of which 8,415 miles were owned, 10,608 miles were operated under lease or operating agreement and 1,547 miles were operated under trackage rights. The mileage operated included 6,324 miles of main line and 14,246 miles of branch line. As of December 31, 1969, Railroad had in service through ownership or lease 3,982 diesel-electric locomotives, 225 electric locomotives and 174,956 freight cars, including 62,837 box cars, 61,751 hopper cars and 38,983 gondola cars. Its passenger train cars on the same date totalled 3,800, including 917 self-propelled cars used primarily in suburban passenger operations.

Penn Central Transportation Company (Company Only)

Statement of Earnings

The following statement of earnings of Penn Central Transportation Company (a wholly-owned subsidiary of Penn Central Company), so far as it relates to the two years ended December 31, 1969, has been examined by Peat, Marwick, Mitchell & Co., independent certified public accountants, whose report thereon appears elsewhere in this Circular. This statement should be read in conjunction with the balance sheet of Penn Central Transportation Company and the related notes included elsewhere in this Circular. With respect to the figures for the three years ended December 31, 1967, which are unaudited, management of the Company believes that all adjustments (none of which were other than normal recurring accruals) necessary to a fair presentation for such years have been included.

	Year Ended December 31,				
	1965	1966	1967	1968	1969
	(Unaudited)			(Audited)	
	(in thousands)				
Income:					
Railway operating revenues	$1,552,643	$1,575,703	$1,506,834	$1,514,071	$1,651,978
Income from rental of properties, net	20,633	21,779	25,129	27,131	33,772
Dividends and interest—consolidated subsidiaries	35,938	37,031	40,762	40,155	66,324
Dividends and interest—other	4,009	5,349	4,743	15,451	2,661
Net gain on sales of properties and investments	3,631	2,857	16,756	35,437	12,587
Income under tax-allocation agreements (note 5)	8,759	15,581	7,442	19,038	21,543
Total income	1,625,613	1,658,300	1,601,666	1,651,283	1,788,865
Costs and Expenses:					
Railway operating expenses, excluding items listed below	1,137,841	1,155,897	1,139,997	1,173,761	1,296,397
Depreciation, including depreciation on leased lines (note 3)	92,029	94,767	96,365	94,135	91,279
Taxes, except Federal income	111,167	112,756	123,802	125,602	144,059
Equipment and other rents, net (note 13)	126,912	124,320	144,036	169,292	183,802
Interest on debt	51,350	54,711	59,389	68,787	96,764
Guaranteed dividends and interest—leased lines	25,894	25,117	25,033	26,315	26,173
Miscellaneous, net	7,998	5,576	3,959	(1,454)	6,719
Total cost and expenses	1,553,191	1,573,144	1,592,581	1,656,438	1,845,193
Earnings (Loss) From Ordinary Operations (notes 4 and 13)	72,422	85,156	9,085	(5,155)	(56,328)
Extraordinary Items:					
Costs and losses incurred upon merger (note 6)	—	—	(275,422)	—	—
Loss on investment in long-haul passenger service facilities (note 12)	—	—	—	—	(126,000)
Provision for loss on sale of Long Island Railroad	(24,278)	—	—	—	—
Payment from affiliate of note charged off in prior year	20,900	—	—	—	—
Retirement losses—railroad properties	(13,356)	—	—	—	—
Net Earnings (Loss) (notes 4, 6, 12, and 13)	$ 55,688	$ 85,156	$ (266,337)	$ (5,155)	$ (182,328)

Note references are to notes to financial statements of Penn Central Transportation Company.

For the three months ended March 31, 1970, Railroad reported operating revenues of $403 million and a net loss of $62.7 million compared to operating revenues of $406 million and a net loss of $12.8 million in the three months ended March 31, 1969. The net loss of $62.7 million reported by Railroad for the three months ended March 31, 1970, was after a gain of $16.9 million on the sale of CBC to Pennco. Such gain is eliminated in Penn Central's consolidated earnings. See "Use of Proceeds". The decline in the results of Railroad's operations was attributed in part to the national economic slowdown, bad weather, strikes in industries served, increased labor costs and a threatened railroad strike.

The increased loss from ordinary operations for the year ended December 31, 1969, as compared with the year ended December 31, 1968, was attributable to service defects and expenses which have resulted from merger of the former Pennsylvania and New York Central railroads and the inclusion as of December 31, 1968 of New Haven railroad into the system. In addition Railroad experienced a decline in revenues from passenger service, rising inflation concurrent with falling industrial production, high interest rates on an increased amount of fixed obligations and strikes and threatened strikes in basic industries.

The extraordinary charge against 1969 earnings reflects the write-off of Railroad's investment in equipment and terminals used for certain long-haul passenger service as there is no longer any possibility that this investment can be recovered.

The following table sets forth for the years 1967, 1968 and 1969 and for the three months ended March 31, 1969 and March 31, 1970 the relative contributions of railway operations and of other sources to earnings (loss) from ordinary operations (not covered by report of independent certified public accountants):

	Year Ended December 31,			Three Months Ended March 31,	
	1967	1968	1969	1969	1970
			(in thousands)		
Railway operating revenues	$1,506,834	$1,514,071	$1,651,978	$405,952	$ 402,972
Railway operating expenses (incl. depreciation)	1,236,362	1,267,896	1,387,676	338,897	382,629
Taxes, equipment rents and other deductions	271,797	293,440	334,580	83,039	85,834
Fixed charges	84,422	95,102	122,937	26,779	36,109
(Loss) on railway operations	(85,747)	(142,367)	(193,215)	(42,763)	(101,600)
Income from other sources	94,832	137,212	136,887	29,999	38,891
Earnings (loss) from ordinary operations	$ 9,085	$ (5,155)	$ (56,328)	$(12,764)	$ (62,709)

In 1969 approximately 81.4% of Railroad's revenues came from freight, 8.9% from passenger service and 9.7% from mail and other services. Of the freight revenues 50.8% consisted of general merchandise and other freight, 14.9% coal, 12.5% iron and steel, 10.8% motor vehicles and motor vehicle parts and 11.0% miscellaneous.

Measured in terms of interstate train service, Railroad furnishes 35% of the passenger service in the United States and 64% of passenger service in the eastern United States. Passenger service operations continue to show a substantial deficit and Railroad has been experiencing severe difficulties with commuter service in the New York and Philadelphia metropolitan areas.

During 1969, Railroad was given permission by the ICC to discontinue 27 intercity passenger trains and petitions filed in 1969 to discontinue 14 additional east-west passenger trains are still pending. Railroad is now operating approximately 1,280 daily passenger trains and in March, 1970 petitioned the ICC for discontinuance of 34 more of these trains on long distance routes in east-west service comprising substantially all its long-haul passenger service west of Buffalo and Harrisburg. In November, 1969 a memorandum of agreement was signed with the states of New York and Connecticut, under which certain of the former New Haven facilities will be sold or leased by Railroad to government agencies so that the New York and Connecticut suburban service can be improved with funds supplied by the federal government and the two states.

Railroad, directly and through subsidiaries, controls various separately operated railroad companies, including DT&I, The Pittsburgh and Lake Erie Railroad Company and Lehigh Valley Railroad Company. Railroad is under an order of the ICC to offer Lehigh Valley Railroad Company for inclusion in another railroad system and unless and until it is so included in another railroad system, Railroad is obligated to continue the operations of Lehigh Valley Railroad Company. Such operations incurred a loss of $7.1 million in 1969.

Legal Proceedings

The order of the ICC effective November 28, 1968, in *Increased Freight Rates, 1968, Ex Parte No. 259* permitted freight rate increases which approximated $68 million annually for the Railroad and is under attack in three separate cases. All of these cases have been decided favorably to the Railroad and two of them are on appeal to the United States Supreme Court.

The order of the ICC effective November 18, 1969 in *Increased Freight Rates, 1969, Ex Parte No. 262* permitted freight rate increases which approximated $80 million annually for Railroad and is presently under investigation by the ICC. Such order is under attack in a suit pending before the District Court for the District of Columbia.

The Railroad is a party to a petition for a 6% increase in freight rates, now pending before the ICC in *Increased Freight Rates, 1970, Ex Parte No. 265.* If the proposed increase is permitted to become effective, it is expected to produce approximately $84 million annually in additional freight revenues for the Railroad.

Railroad is constantly engaged in negotiations with one or more of the approximately 20 railroad labor organizations which represent its employees. Such negotiations are subject to the provisions of the Railway Labor Act which require the parties to go through mediation and other processes before resorting to self-help. Employee requests for substantial wage increases are presently the subject of labor negotiations. At the present time all such labor negotiations, whether handled by Railroad individually or jointly with other railroads on a national basis, are still subject to Railway Labor Act prohibitions against strike action.

A three-judge Federal court in New York City set the purchase price for the assets of New Haven, purchased by Railroad on December 31, 1968, at approximately $150 million. The reorganization court at New Haven, Connecticut, however, decided that the price should be $28 million higher, and the bondholders of New Haven are asking for an even higher purchase price. Appeals by Railroad from the reorganization court's decision and by the bondholders from the decision of both courts are pending before the United States Supreme Court.

See Note 5 to Financial Statements of Pennco and Note 4 to Financial Statements of Penn Central for information with respect to certain income tax proceedings.

TRANSACTIONS WITH AFFILIATED COMPANIES

Pennco applied the proceeds from the sale of $35,000,000 principal amount of its 8¼% Collateral Trust Bonds due 1989 to the purchase in July, 1969 from the Railroad of the following securities at the prices indicated:

Security	Price
1,462,109 shares Common Stock of Madison Square Garden Corporation	$16,197,243 ($11.078 per share)
Subordinated Note, Strick, Inc.*	$ 6,776,000 (100% of the principal amount)
Subordinated Note, Transport Pool Corporation	$ 2,661,000 (100% of the principal amount)
Warrants to purchase 500,000 shares of Class A Stock of Strick, Inc. at $5 per share and 500,000 shares of Class A Stock of Transport Pool Corporation at $2 per share.	$ 4,700,000
Pennsylvania Railroad General Mortgage Series H Bonds, 4¼%, due 1986	$ 4,666,000 (100% of the principal amount)

* This note was subsequently surrendered to Strick, Inc. in exchange for 67,760 shares of Series A Preferred Stock, bearing dividends of $5 per share per annum commencing 1974, and a warrant, expiring December 31, 1978, to purchase 250,000 shares of Strick, Inc. Class A Stock at prices declining from $20 to $14 per share over a period of 9 years.

In the past three years Pennco has sold approximately $1.5 million principal amount of the Railroad's General Mortgage Bonds, Series F, 3⅛%, due 1985 and $7 million principal amount of the Railroad's General Mortgage Bonds, Series H, 4¼%, due 1986 to the Railroad at their principal amount. In December, 1968, Pennco sold 30,428 shares of 4½% Preferred Stock of Wabash to another subsidiary of the Railroad in exchange for $2,468,000 principal amount of Pennco's Collateral Trust Bonds, 5¼%, due 1985.

In December 1969 Pennco loaned to Railroad the proceeds from the sale of $50,000,000 principal amount of its 9% Sinking Fund Debentures Due 1994 and received from the Railroad a 9¼% promissory note due 1994 in the amount of $49,000,000 payable in installments related to the sinking fund for such Debentures.

In December 1969 Pennco received 1,400,610 shares of Common Stock of Great Southwest in settlement of $25,210,978 of advances and receivables due to Pennco from Great Southwest.

See "Introduction" and "Use of Proceeds" for information concerning certain other recent and proposed transactions with affiliates. See also Note 2 to Financial Statements of Pennco.

DESCRIPTION OF DEBENTURES

The following statements with respect to the Debentures are summaries of the detailed provisions of an Indenture dated as of June 1, 1970 (the "Indenture") between the Company and Manufacturers Hanover Trust Company, Trustee (the "Trustee"). Wherever particular provisions of the Indenture or terms defined therein are referred to, such provisions or definitions are incorporated by reference as a part of the statements made, and the statements are qualified in their entirety by such reference.

The Debentures are to be issued under the Indenture and will be direct obligations of the Company limited to $100,000,000 principal amount. The Debentures will be delivered only in fully registered form in denominations of $1,000 or any multiple of $1,000. Debentures in the several denominations are interchangeable without service charge. Principal and interest will be payable at an office or agency of the Company in the Borough of Manhattan, The City of New York. Interest will be payable semiannually on June 1 and December 1, commencing December 1, 1970, to the registered holders of Debentures of record at the close of business on May 15 or November 15, as the case may be, preceding the interest payment date. Debentures may be presented for registration of transfer at an office or agency of the Company in the Borough of Manhattan, The City of New York.

The Debentures mature on June 1, 1995 or, at the option of the holder, on June 1, 1975. The holder of each Debenture shall have the right, to be exercised within the 45-day period ending on March 1, 1975, to have the principal of his Debentures, or any portion thereof which is a multiple of $1,000, mature on June 1, 1975. Notice of such right and instructions regarding its exercise will be sent to each holder not more than 90 days and not less than 60 days prior to March 1, 1975.

Certain Covenants

In the Indenture the Company covenants to maintain at all times Net Tangible Assets having a Fair Value, determined as set forth below, equal to not less than 300% of the principal amount of the Debentures and all other outstanding funded debt of the Company which is not subordinated in right of payment to the Debentures. In the case of listed securities, the Fair Value shall be the average of the last reported sale prices per share on each day the security was traded in each of the last three calendar months ending prior to the date of determination. In the case of securities traded in the over-the-counter market, the Fair Value shall be the average of the latest reported bid prices per share on each day the security was quoted in each of the last three calendar months ending prior to the date of determination. In the event that the Fair Value of listed and over-the-counter securities, taken together, is not sufficient to satisfy the 300% test, the Fair Value of other tangible assets shall be determined by three appraisers, one such appraiser being appointed by the Company, one by the Trustee and the third by the two so appointed. In any case, if the Company has contracted to sell certain assets, the Fair Value cannot exceed the contract price, taking indebtedness exchangeable for such assets at the principal amount thereof and stocks at the greater of their par or stated value or their involuntary liquidation preference. "Net Tangible Assets" is defined as total tangible assets less current liabilities.

The Indenture also provides that the Company will not (i) declare or pay any dividend (other than dividends payable in Common Stock) or make any distribution on, or redeem or acquire for value, any shares of "Restricted Stock" (defined as Common Stock of the Company and any other Capital Stock owned by Railroad or any Affiliate or which is issued for Railroad Investments), (ii) transfer any tangible assets other than Railroad Investments to any Affiliate or (iii) make or acquire any Railroad Investment for a consideration other than Subordinated Debt, Capital Stock or another Railroad Investment, unless, after giving effect thereto, Non-Rail Assets equal or exceed 250% of the Funded Debt of the Company. Notwithstanding this limitation, however, dividends on Restricted Stock are permitted in an amount not in excess of (i) Available Net Income from the first day of the calendar year in which a dividend was last paid on Restricted Stock which did not cause Non-Rail Assets to fall below 250% of Funded Debt, plus $25 million, over (ii) the amount of dividends paid on Restricted Stock since such date.

"Available Net Income" is defined as net income determined in accordance with generally accepted accounting principles, excluding provisions for deferred taxes and adding or subtracting net gain or loss from sale or revaluation of securities up to 25% of net income before such sale or revaluation, minus all dividends or distributions other than on shares of Restricted Stock; provided, however, that Available Net Income is never to be a negative number. "Railroad Investments" are (i) investments in, advances to or similar interests in Railroad, Lehigh Valley Railroad Company or any Leased-Line Subsidiary of either of them and (ii) investments in, advances to or similar interests in any Person if at the date of determination more than 25% in value of the gross assets of such Person consists of Railroad Investments. "Non-Rail Assets" is defined as Net Tangible Assets minus the Fair Value of all Railroad Investments included therein. The term "Leased-Line Subsidiary" is defined as a subsidiary which owns or operates railroad properties or equipment and which in its most recent fiscal year derived 25% or more of its revenues from rentals paid to such subsidiary under leases of such railroad properties or equipment to Railroad or to Lehigh Valley Railroad Company. At May 8, 1970, the Company had $100.8 million, in market or estimated value, of Railroad Investments.

The Fair Value of the assets of the Company is to be determined annually and at any time upon request by the Trustee or the holders of 25% in principal amount of the outstanding Debentures.

Compliance with these covenants must be certified to the Trustee before the Company may declare more than $50 million of dividends, other than dividends payable in Common Stock, on Restricted Stock in any period of 12 consecutive months and, in the event there is an existing default on any funded debt of Railroad at maturity or which would entitle the holders thereof to accelerate the maturity thereof, before declaration of any dividend, other than dividends payable in Common Stock, on Restricted Stock or any transfer of assets to an Affiliate.

Redemption

Subject to the limitations referred to below, the Debentures may be redeemed at the option of the Company in whole or in part at any time, on not less than 30 days' notice, nor more than 60 days' notice, at the following redemption prices for the periods indicated (expressed in percentages of the principal amount):

12-month period ending May 31	Redemption Price	12-month period ending May 31	Redemption Price	12-month period ending May 31	Redemption Price
1971.....	%	1980.....	%	1989.....	%
1972.....		1981.....		1990.....	
1973.....		1982.....		1991.....	
1974.....		1983.....		1992.....	
1975.....		1984.....		1993.....	
1976.....		1985.....		1994.....	
1977.....		1986.....		1995.....	
1978.....		1987.....			
1979.....		1988.....			

together, in each case, with accrued interest thereon to the date fixed for redemption; provided, however, that prior to June 1, 1980, no such redemption may be made, directly or indirectly, as a part of, out of the proceeds of, or in anticipation of, any refunding operation involving the incurring of indebtedness having an interest cost (computed in accordance with generally accepted financial practice) of less than % per annum.

The Debentures are also redeemable, on like notice, for the sinking fund referred to below, on June 1, 1976 and on each June 1 thereafter to and including June 1, 1994, at the principal amount thereof, together with accrued interest to the date fixed for redemption.

Sinking Fund

The Indenture provides that prior to June 1, in each year, commencing in 1976, the Company will pay to the Trustee as a mandatory sinking fund a sum sufficient to redeem a principal amount of Debentures equal to 5% of the aggregate principal amount of Debentures outstanding (including Debentures held uncancelled by the Company) at the close of business on June 1, 1975. At its option the Company may make an additional sinking fund payment on or before the date of any mandatory sinking fund payment in an amount which does not exceed the amount of the mandatory sinking fund payment applicable to such year. The option to make such an additional sinking fund payment is not cumulative and to the extent not exercised shall terminate.

At its option the Company may credit against any mandatory sinking fund payment the principal amount of Debentures redeemed or acquired by it other than pursuant to the sinking fund, but may not credit the principal amount of Debentures which matured on June 1, 1975 or which were cancelled prior to such date.

Events of Default, Notice and Waiver

The Indenture provides that, if an event of default specified therein shall have happened and be continuing, either the Trustee or the holders of 25% in principal amount of the Debentures then outstanding may declare the principal of all Debentures to be due and payable.

Events of default are defined in the Indenture as being: default for 30 days in payment of any interest or sinking fund instalment when due, and default in payment of principal and premium, if any, when due; default for 90 days after written notice to the Company by the Trustee or by the holders of 25% in principal amount of the outstanding Debentures in performance of any covenant in the Indenture; default resulting in acceleration of any indebtedness of the Company which acceleration has not been rescinded or annulled within ten days after written notice shall have been given by the Trustee or by the holders of 25% in principal amount of the then outstanding Debentures; and certain events of bankruptcy, insolvency and reorganization.

The Indenture provides that the Trustee shall, within 90 days after the occurrence of a default, give to the Debentureholders notice of all uncured defaults known to it; provided that, except in the case of default in the payment of principal and premium, if any, or interest on any of the Debentures

or the making of any sinking fund payment, the Trustee shall be protected in withholding such notice if it in good faith determines that the withholding of such notice is in the interests of the Debentureholders. The term default for the purpose of this provision only shall mean the happening of any of the events of default specified above except that any grace period shall be eliminated.

The Indenture contains a provision entitling the Trustee, subject to the duty of the Trustee during default to act with the required standard of care, to be indemnified by the holders of the Debentures before proceeding to exercise any right or power under the Indenture at the request of Debentureholders. The Indenture provides that the holders of a majority in principal amount of the outstanding Debentures may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee.

The Indenture includes a covenant that the Company will file annually with the Trustee a certificate of no default, or specifying any default that exists, and a certificate as to defaults on funded debt of Railroad.

In certain cases, the holders of a majority in principal amount of the outstanding Debentures may on behalf of the holders of all Debentures waive any past default or event of default except, unless theretofore cured, a default in payment of the principal and premium, if any, or interest on any of the Debentures.

Modification of the Indenture

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the holders of 66⅔% in principal amount of the outstanding Debentures, to execute supplemental indentures adding any provisions to or changing or eliminating any of the provisions of the Indenture or modifying the rights of the holders of Debentures, except that no such supplemental indenture may (i) extend the fixed maturity of any Debentures, impair the right of a holder to elect maturity at June 1, 1975, reduce the principal amount thereof or any premium thereon, or reduce the rate or extend the time of payment of interest thereon, without the consent of the holder of each affected Debenture, or (ii) reduce the aforesaid percentage of Debentures, the consent of the holders of which is required for any such supplemental indenture, without the consent of the holders of all Debentures then outstanding.

Concerning the Trustee

Manufacturers Hanover Trust Company is trustee with respect to certain railroad bond issues and equipment financing agreements and has provided approximately $14.5 million of equipment financing to Railroad and its affiliates. It participates with other banks in a Credit Agreement with Railroad under which it has loaned $16.7 million out of a maximum commitment of $20 million. See "Introduction". In addition, it has participated in other loans to Railroad to the extent of $10.5 million, and has loaned $6 million to Pennco under a commitment for a total of $10 million which loan will be repaid upon the sale of the Debentures. See "Use of Proceeds".

LEGAL OPINIONS

Legal matters relating to the issuance of the Debentures will be passed upon for the Company by Edward A. Kaier, Esq., Edwin K. Taylor, Esq. or David L. Wilson, Esq., special counsel to the Company employed by the Railroad, and for the Underwriters by Messrs. Sullivan & Cromwell, New York, N. Y. Messrs. Sullivan & Cromwell have from time to time rendered legal advice and services to Pennco and its affiliates and are currently representing Pennco and Railroad in certain pending proceedings.

EXPERTS

The financial statements and schedule of investments and advances of Pennsylvania Company (company only) and the financial statements of Pennsylvania Company and consolidated subsidiaries, of Penn Central Company and consolidated subsidiaries, and of Penn Central Transportation Company (company only) have been examined by Peat, Marwick, Mitchell & Co., independent certified public accountants, for the respective periods indicated in their reports and are included herein in reliance upon such reports and upon the authority of said firm as experts.

All narrative statements of interim results of operation for the first quarter of 1970 compared to the first quarter of 1969 include all adjustments (comprising only normal recurring accruals) necessary to a fair presentation of such results.

INDEX TO FINANCIAL STATEMENTS

	Page
Pennsylvania Company	
Comptroller's Certificate	26
Opinion of Independent Certified Public Accountants	26
Company Only Statements:	
Earnings—five years ended December 31, 1969	6
Source and Application of Funds—three years ended December 31, 1969	7
Balance Sheet—December 31, 1969	27
Retained Earnings—five years ended December 31, 1969	29
Consolidated Statements:	
Balance sheet—December 31, 1969	27
Earnings and Retained Earnings—five years ended December 31, 1969	28
Notes to Financial Statements	30
Schedule of Investments and Advances (Company Only)—December 31, 1969	35
Penn Central Company and Consolidated Subsidiaries	
Controller's Certificate	38
Opinion of Independent Certified Public Accountants	38
Consolidated Balance Sheet—December 31, 1969	39
Consolidated Earnings and Retained Earnings—five years ended December 31, 1969	40
Notes to Financial Statements	42
Consolidated Source and Application of Funds—two years ended December 31, 1969	50
Penn Central Transportation Company (Company Only)	
Earnings—five years ended December 31, 1969	18
Balance Sheet—December 31, 1969	39
Retained Earnings—five years ended December 31, 1969	41
Notes to Financial Statements	42

50-934 O - 71 - 9

PENNSYLVANIA COMPANY (COMPANY ONLY)
PENNSYLVANIA COMPANY AND CONSOLIDATED SUBSIDIARIES

COMPTROLLER'S CERTIFICATE

The undersigned hereby certifies that in his opinion the statements of earnings and retained earnings of Pennsylvania Company and of Pennsylvania Company and consolidated subsidiaries for the four years 1965 to 1968 present fairly the results of their operations in conformity with generally accepted accounting principles applied on a consistent basis except that with respect to Pennsylvania Company and consolidated subsidiaries no provision for deferred Federal income taxes has been made, and that the statement of source and application of funds of Pennsylvania Company for the years 1967, 1968 and 1969 presents fairly the information contained therein.

W. W. Riley
Comptroller

Wilmington, Del.
April 21, 1970

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Pennsylvania Company:

We have examined the balance sheets of Pennsylvania Company (an indirect subsidiary of Penn Central Company) and of Pennsylvania Company and consolidated subsidiaries as of December 31, 1969 and the related statements of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Pennsylvania Company at December 31, 1969 and the results of its operations for the year then ended, and, except that no recognition has been given to deferred income taxes as explained in note 5, the financial position of Pennsylvania Company and consolidated subsidiaries at December 31, 1969 and the results of their operations for the year then ended, all in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. The schedule of investments and advances of Pennsylvania Company (company only) at December 31, 1969 has been subjected to the same auditing procedures and, in our opinion, the data shown therein is stated fairly in all material respects when considered in conjunction with the basic financial statements taken as a whole.

PEAT, MARWICK, MITCHELL & CO.

Philadelphia, Pennsylvania
March 12, 1970, except as to note 11
which is as of March 31, 1970

PENNSYLVANIA COMPANY (COMPANY ONLY)
PENNSYLVANIA COMPANY AND CONSOLIDATED SUBSIDIARIES

BALANCE SHEETS
December 31, 1969

ASSETS	Company Only	Consolidated
	(in thousands)	
CURRENT ASSETS:		
Cash and temporary cash investments	$ 23,368	$ 38,648
Receivables:		
Transportation services	—	16,515
Real estate sales, including current portion of long-term notes	—	20,939
Interest	252	671
Affiliated companies	2,351	5,405
Other	984	5,509
	3,587	49,039
Materials and supplies, at cost	—	6,998
Prepaid expenses	—	2,590
Total current assets	26,955	97,275
INVESTMENTS AND ADVANCES, at cost or less (notes 2 and 4):		
Consolidated subsidiaries	257,005	—
Other	313,577	525,601
	570,582	525,601
REAL ESTATE COMPANIES—PROPERTIES HELD FOR DEVELOPMENT OR RESALE, at cost (note 4)	—	173,468
PROPERTIES (notes 3 and 4)	—	695,947
Less accumulated depreciation (note 3)	—	191,075
	—	504,872
DEFERRED CHARGES AND OTHER ASSETS	1,346	12,400
INVESTMENT IN CONSOLIDATED SUBSIDIARIES IN EXCESS OF NET ASSETS ACQUIRED	—	113,628
	$598,883	$1,427,244

LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES (excluding debt due within one year):		
Notes payable	$ —	$ 41,571
Accounts payable	—	10,876
Dividends payable	816	1,019
Due to Penn Central Transportation Company	—	5,611
Accrued expenses	1,197	23,525
Other	—	1,896
Total current liabilities (excluding debt due within one year)	2,013	84,498
LONG-TERM DEBT (note 4):		
Due within one year	5,700	71,518
Due after one year	120,310	437,819
Total long-term debt	126,010	509,337
MINORITY INTEREST IN SUBSIDIARIES	—	96,949
UNAMORTIZED GAIN ON EXCHANGE AGREEMENT (note 2)	27,845	27,845
EXCESS OF NET ASSETS ACQUIRED OF CONSOLIDATED SUBSIDIARIES OVER INVESTMENT	—	45,962
DEFERRED INTEREST, TAXES, AND OTHER	—	30,737
AMOUNTS PAYABLE TO AFFILIATED COMPANIES	2,153	29,883
SHAREHOLDERS' EQUITY:		
4⅝% cumulative preferred stock of $100 par value per share. Authorized 730,000 shares; issued 705,786 shares (note 6)	70,579	70,579
Common stock of $25 par value. Authorized 5,600,000 shares; issued 4,985,000 shares	124,625	124,625
Retained earnings	245,658	406,829
Total shareholders' equity	440,862	602,033
	$598,883	$1,427,244

See accompanying notes to financial statements.

PENNSYLVANIA COMPANY AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED EARNINGS AND RETAINED EARNINGS

	Year ended December 31,				
	1965	1966	1967	1968	1969
		(Unaudited)			(Audited)
		(in thousands)			
REVENUES:					
Transportation:					
Railroad (note 8)	$ 50,256	$ 49,826	$ 46,303	$ 50,847	$ 52,186
Pipeline	29,323	31,372	32,450	35,514	37,344
	79,579	81,198	78,753	86,361	89,530
Real estate and related operations:					
Property sales	11,915	38,567	56,976	132,891	153,949
Rents and other	6,896	13,123	14,849	16,432	19,969
	18,811	51,690	71,825	149,323	173,918
Investments:					
Dividends and interest	37,130	33,651	29,163	30,208	37,290
Net gain on sales	1,539	7,049	9,583	16,219	14,583
	38,669	40,700	38,746	46,427	51,873
Total revenues	137,059	173,588	189,324	282,111	315,321
COSTS AND EXPENSES:					
Transportation:					
Railroad	36,854	38,347	37,007	40,522	43,731
Pipeline	17,231	17,528	17,002	18,871	21,958
	54,085	55,875	54,009	59,393	65,689
Real estate and related operations:					
Cost of properties sold	9,114	23,135	45,483	95,818	93,365
Operation of rental properties and other	6,217	18,239	10,235	15,054	30,320
	15,331	41,374	55,718	110,872	123,685
Other:					
Interest and debt expense	13,185	14,284	15,576	15,572	20,526
Federal income taxes (note 5)	—	1,453	810	4,523	6,218
Minority interest in earnings of subsidiaries	557	1,288	1,650	4,616	11,633
	13,742	17,025	18,036	24,711	38,377
Total costs and expenses	83,158	114,274	127,763	194,976	227,751
NET EARNINGS (note 5)	53,901	59,314	61,561	87,135	87,570
RETAINED EARNINGS AT BEGINNING OF YEAR	194,175	221,808	253,857	286,653	346,523
	248,076	281,122	315,418	373,788	434,093
Cash dividends:					
Preferred stock—$4.625 per share	3,268	3,265	3,265	3,265	3,264
Common stock	23,000	24,000	25,500	24,000	24,000
	26,268	27,265	28,765	27,265	27,264
RETAINED EARNINGS AT END OF YEAR	$221,808	$253,857	$286,653	$346,523	$406,829

See accompanying notes to financial statements.

PENNSYLVANIA COMPANY (COMPANY ONLY)

STATEMENT OF RETAINED EARNINGS

	Year ended December 31,				
	1965	1966	1967	1968	1969
	(Unaudited)				(Audited)
	(in thousands)				
Balance at beginning of year	$157,189	$175,182	$192,243	$204,206	$223,862
Net earnings (note 5)	44,261	44,326	40,728	46,920	49,060
	201,450	219,508	232,971	251,126	272,922
Cash dividends:					
Preferred stock—$4.625 per share	3,268	3,265	3,265	3,264	3,264
Common stock	23,000	24,000	25,500	24,000	24,000
	26,268	27,265	28,765	27,264	27,264
Balance at end of year	$175,182	$192,243	$204,206	$223,862	$245,658

See accompanying notes to financial statements.

PENNSYLVANIA COMPANY (COMPANY ONLY)

PENNSYLVANIA COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

(dollar amounts in thousands)

(1) Principles of Consolidation:

The consolidated financial statements include the accounts of the company and its majority-owned subsidiaries, except the Wabash Railroad Company, the divestment of which is arranged as ordered by the Interstate Commerce Commission.

The following significant subsidiaries were acquired during the years 1965 to 1969, and their operations have been included in the statement of consolidated earnings and retained earnings since the respective dates of acquisition:

Arvida Corporation	51% interest acquired in July 1965; increased to 58% in 1966
Great Southwest Corporation	60% interest in common stock acquired July to December 1964; increased to 72% in 1965; 74% in 1966; and 82% in 1969
Macco Corporation	100% interest acquired in October 1965 (merged into Great Southwest Corporation in March 1969)

In December 1969 Great Southwest Corporation, acquired all the outstanding stock of Richardson Homes Corp. by purchase and in January 1970 acquired I. C. Deal Companies Inc. through an exchange of stock treated as a pooling of interests. Earnings of Richardson Homes are consolidated from date of acquisition; the accounts of I. C. Deal have not been included in the consolidation as of December 31, 1969 since they are not material.

Great Southwest sold in 1968 Great Southwest Warehouses, Inc., a subsidiary, and Six Flags Over Georgia, a division of a subsidiary, and in 1969 sold Six Flags Over Texas, another division. Operations of the subsidiary and divisions were included in earnings until date of disposition. In connection with the sale of the divisions, Great Southwest entered into an agreement with the new owners to manage the operations of the divisions on a fee basis related, in part, to the net earnings generated from operations.

(2) Investments and Advances (see note 4):

Investments and advances are as follows:

	Company Only	Consolidated
Majority-owned subsidiaries eliminated in consolidation	$257,005	$ —
Unconsolidated subsidiary—Wabash Railroad:		
Common Stock—595,255 shs.—99%-owned (see note 11)	7,341	3,292
Preferred Stock—101,836 shs.—33%-owned	3,838	3,838
	11,179	7,130
50%-owned railroad and railroad terminal companies—stocks	11,960	12,010
Affiliated companies (principally railroad connections):		
Stocks	44,029	44,173
Bonds, notes and advances	86,280	119,129
	130,309	163,302
Other:		
Norfolk and Western:		
Common stock—1,191,905 shares (acquired at market value from Penn Central Transportation Company, which company's cost was $31,277)	66,855	66,855
Debentures held or receivable under exchange agreement	62,400	62,400
Mortgage notes and contracts—real estate sales	—	178,951
Miscellaneous	30,874	34,953
	160,129	343,159
Total	$570,582	$525,601

PENNSYLVANIA COMPANY (COMPANY ONLY)

PENNSYLVANIA COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

(dollar amounts in thousands)

Certain investments held by Pennsylvania Company were acquired from Penn Central Transportation Company, generally in exchange for funds obtained by Pennsylvania through financing. The valuation placed on securities exchanged has been determined sometimes on the basis of market value or underlying equity on the date of exchange and sometimes on the basis of the transportation company's cost. During the last three years securities with an aggregate cost to the transportation company of $36,171 were sold to Pennsylvania for $36,180. The aggregate estimated market (or underlying equity) value of such securities on the respective dates of exchange was $30,613. In addition, the transportation company has from time to time purchased securities from Pennsylvania, but the aggregate amount of such purchases in the last three years was not significant.

Wabash Railroad Company

The Wabash properties have been leased to Norfolk and Western Railway Company since October 1964 under a rental arrangement that provides for a fixed rental, additional rental equated to dividends declared on Norfolk and Western stock, and payment of all expenses related to operation of the properties. An agreement also provides for exchange of all the Wabash common stock for 671,692 shares of Norfolk and Western common stock by October 1970. The Norfolk and Western common shares to be acquired through this exchange are subject to the voting restriction and extended divestiture requirements as explained under Norfolk and Western Railway Company below. Unaudited net earnings and dividends received from Wabash were:

	1965	1966	1967	1968	1969
Net earnings	$15,426	$ 6,617	$7,333	$10,204	$10,490
Dividends	14,463	12,327	9,758	8,970	8,941

50%-owned Companies

The net assets attributable to 50%-owned companies, on the basis of unaudited financial statements, were less than the Company's investment therein by $3,428 ($3,283 consolidated) at December 31, 1969. Dividends received from such companies were $225 in 1965; $248 in 1966; $169 in 1967; $281 in 1968; and $225 in 1969.

Affiliated Companies

The net assets attributable to the investment in stock of affiliated companies, on the basis of unaudited financial statements, exceeded the Company's investment therein by $38,169 ($39,912 consolidated) at December 31, 1969. Dividends received from such companies were $2,556 in 1965 and $2,497 in each of the years 1966 through 1969.

Norfolk and Western Railway Company

On October 16, 1964 The Norfolk and Western-Nickel Plate-Wabash Unification Plan became effective pursuant to an order of the Interstate Commerce Commission. As ordered by the Commission, voting rights of the Norfolk and Western holdings are placed with trustees under voting agreements until completion of divestiture, which is required by October 15, 1974, as to 791,905 shares, and by October 15, 1979 as to the remaining shares in accordance with an extension of the original divestiture period approved by the Commission in 1969.

Under an April 1966 agreement with Norfolk and Western 800,000 shares of its common stock are to be exchanged in stipulated installments to June 1974 for $104,000, principal amount of Norfolk and Western 4⅝% debentures, convertible into Norfolk and Western common stock by any holder other than Penn Central or its affiliates. The total consideration of $104,000 received or receivable under the exchange agreement was recorded as an investment in 1966. The resulting profit is being recognized as income ratably over the term of the agreement. At December 31, 1969 there is $27,845 of profit allocable to the remaining periods under the agreement. Profit recognized during the five years ended December 31, 1969 was none in 1965; $7,025 in 1966; $6,921 in 1967; $6,538 in 1968 and $6,305 in 1969. A total of 400,000 shares has been exchanged to December 31, 1969 and of the $52,000 principal amount in debentures received therefor, $41,600 have been sold. For purposes of reporting to the Interstate Commerce Commission, the gain is being recognized as disposition of securities received in exchange occurs. The cumulative effect at December 31, 1969 is a reduction of $7,631 in earnings reported to the Commission.

At December 31, 1969 the market value of Norfolk and Western common stock holdings, including shares receivable in exchange for Wabash common stock, was $144,196 a substantial portion of which is subject to pledge or other restriction. Dividends and interest received from Norfolk and Western in the aggregate were $15,555 in 1965; $15,188 in 1966; $13,771 in 1967; $12,783 in 1968; and $10,836 in 1969.

PENNSYLVANIA COMPANY (COMPANY ONLY)
PENNSYLVANIA COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

(dollar amounts in thousands)

(3) Properties:

Properties in the consolidated balance sheet consist of the following general classes:

Transportation properties:	
Operating properties:	
Pipelines and related facilities	$218,751
Railroad, including $68,899 in equipment	130,904
Leased to Penn Central Transportation Company:	
Road, structures, etc.	140,076
Revenue equipment (rolling stock)	118,904
Other properties:	
Real estate companies	84,799
Miscellaneous	2,513
Total properties	$695,947

Transportation properties of the railroad companies are stated at valuations determined by the Interstate Commerce Commission in 1915 to 1919, with subsequent additions at cost or less. Pipeline and other properties are stated at cost.

Transportation properties generally are depreciated in accordance with regulations issued and at rates approved by the Interstate Commerce Commission. As required, replacement accounting is used for certain properties, principally track structure and grading accounts. Under this method, amounts capitalized are not depreciated but replacements in kind are expensed; betterments and additions are capitalized; and retirements are charged to expense. Leased railroad equipment is depreciated over the initial lease life (approximately 20 years). Depreciation of other properties is provided on the straight-line method over the estimated useful lives of such assets. Depreciation expense on a consolidated basis was:

1965 (unaudited)	$12,874
1966 (unaudited)	13,031
1967 (unaudited)	13,442
1968 (unaudited)	14,212
1969 (audited)	15,234

(4) Long-Term Debt:

At December 31, 1969, long-term debt, including debt due within one year, was as follows:

	Company Only	Consolidated
Bank loan, 8½% due to 1971	$ 4,050	$ 4,050
Mortgage bonds, and notes, 2¾% to 9½%, due to 1995	—	141,033
Sinking fund debentures, 3½% and 9%, due to 1994	50,000	56,500
Collateral trust bonds and notes, 4.15% to 8¼% due to 1989	71,960	71,960
Railroad equipment obligations, 3⅜% to 6% due to 1986	—	69,271
Real estate and other secured loans, 4⅞% to 12% due to 1999	—	144,366
Various unsecured notes, 6% to 8½% due to 1986	—	8,627
Miscellaneous obligations	—	13,530
Total	$126,010	$509,337

Certain issues require annual installments of principal, in varying amounts, to the final maturity dates indicated.

Payments of principal for the next five years are:

	Company Only	Consolidated
1970	$5,700	$71,518
1971	1,650	46,757
1972	2,400	42,543
1973	2,000	22,552
1974	1,800	21,716

PENNSYLVANIA COMPANY (COMPANY ONLY)
PENNSYLVANIA COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—(Continued)
(dollar amounts in thousands)

Investments with a cost of $234,567 for the Company, including investments in consolidated subsidiaries, and $423,478 on a consolidated basis, as well as substantially all properties have been pledged as security for loans or are otherwise restricted.

The Company is required, under the terms of the indenture relating to a $50,000 issue of 9% Sinking Fund Debentures due 1994, to maintain net tangible assets, as defined, of at least 300% of the debentures and all other funded debt which is not subordinated to such debentures. Net tangible assets at December 31, 1969 exceeded the amount which the Company was required to maintain.

The 4½% cumulative preferred stock and certain additional debt instruments similarly limit the amount of funded debt which may be incurred by the Company, but in an amount which at December 31, 1969 was less restrictive than that described above.

(5) Federal Income Taxes:

The taxable income of the Company and of its subsidiaries owned 80% or more is included in the consolidated Federal income tax returns filed by Penn Central Company. No taxes are payable on this basis for the years 1965 to 1969, nor are the Company or its subsidiaries, other than Great Southwest Corporation, required to pay to Penn Central any amount in lieu of such taxes.

Federal income taxes reported in the statement of consolidated earnings and retained earnings are applicable to subsidiary companies which file separate tax returns and consist of the following:

	Current	Deferred
1965 (unaudited)	$ —	$ —
1966 (unaudited)	553	900
1967 (unaudited)	268	542
1968 (unaudited)	2,804	1,719
1969 (audited)	5,231	987

Current taxes shown above include $2,573 for 1968 and $5,190 for 1969 payable to Penn Central Transportation Company by Great Southwest Corporation under a tax-allocation agreement entered into in 1968, the terms of which provide for a charge in lieu of Federal income taxes equal to 95% of taxes which would be payable if Great Southwest had filed separate returns.

No deferred income taxes are reflected for companies included in the consolidated tax return or for companies subject to Interstate Commerce Commission regulations which prohibit the reflection of such taxes in reports thereto. Deferred income taxes arise from timing differences due principally to reporting for tax purposes of depreciation on accelerated methods and property sales on the installment basis. On a consolidated basis the deferred income taxes, if reflected as required by generally accepted accounting principles (after giving recognition to tax effect of capital gains, dividend income and maximum utilization of investment tax credits), would have approximated $55,000 at December 31, 1969 and would have had the effect of decreasing reported consolidated earnings as follows:

1965 (unaudited)	$ 2,897
1966 (unaudited)	5,461
1967 (unaudited)	4,303
1968 (unaudited)	6,232
1969 (audited)	16,906

Deferred taxes applicable to Pennsylvania Company (company only) are not considered to be material.

The Internal Revenue Service has proposed tax deficiencies of approximately $50,000, exclusive of interest, against Penn Central Company and its subsidiaries relating to the years 1954 to 1961. Pennsylvania Company and its subsidiaries are severally liable for any such deficiency. However, Penn Central and its subsidiaries have filed protests against the proposed deficiencies; counsel is of the opinion that these protests will be settled substantially in the companies' favor. Accordingly, no accrual has been made in the accounts for such taxes, or interest thereon.

PENNSYLVANIA COMPANY (COMPANY ONLY)
PENNSYLVANIA COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

(dollar amounts in thousands)

(6) Preferred Stock:

Beginning in 1974, the company will be required to make annual redemptions of the 4½% cumulative preferred stock equal to 5% of the maximum shares outstanding at any time prior to redemption, at par plus unpaid dividends and a premium of $5.00 a share in 1974, which decreases in equal annual amounts to $2.50 a share in 1979. In addition the stock is redeemable at the option of the company at any time, at par plus unpaid dividends and a premium of $10.00 a share in 1970, which decreases in equal annual amounts to $5.00 a share in 1979. At the option of the holder, each share of stock is convertible into approximately .73 shares of Norfolk and Western common stock.

During the three years ended December 31, 1969, 112 shares of preferred stock have been redeemed for 80 shares of Norfolk and Western common stock.

(7) Pension:

Pension plans for various subsidiaries provide retirement benefits for substantially all full-time employees. It is generally the policy of these companies to fund pension costs accrued. Pension expense in each of the five years ended December 31, 1969 was as follows:

1965 (unaudited)	$495
1966 (unaudited)	468
1967 (unaudited)	584
1968 (unaudited)	527
1969 (audited)	489

(8) Intercompany Rents:

Rents from lease of road and equipment to Penn Central Transportation Company, included in the statement of consolidated earnings and retained earnings as railroad revenues, were as follows:

1965 (unaudited)	$14,184
1966 (unaudited)	12,680
1967 (unaudited)	11,824
1968 (unaudited)	11,515
1969 (audited)	11,199

(9) Lease Obligations:

Certain consolidated subsidiaries have obligations under long-term leases which expire at various dates to 2031. The annual rentals on these leases, including rail transportation equipment leases, will be approximately $3,400 annually for the years 1970 through 1974.

(10) Contingent Liabilities:

The consolidated group has contingent liabilities aggregating $73,683 as of December 31, 1969 in respect of the principal of obligations issued by nonconsolidated companies. Of these contingent obligations, $57,290 have been entered into jointly, or jointly and severally, with other companies.

In addition, there are other contingent liabilities but management believes these contingencies will not have a material adverse effect upon the company or consolidated financial position.

(11) Subsequent Event:

On March 31, 1970 the 595,255 shares of Wabash Railroad Company common stock held as an investment were exchanged for 671,692 shares of Norfolk and Western Railway Company common stock in accordance with the terms of an agreement entered into in October 1964 (see note 2). The Norfolk and Western shares were recorded as an investment at their fair market value on date of exchange, resulting in a gain of $46,940 ($50,989 consolidated).

PENNSYLVANIA COMPANY (COMPANY ONLY)

SCHEDULE OF INVESTMENTS AND ADVANCES(1)

December 31, 1969

	Number of Shares	Percentage of Ownership*	Basis (Cost or Less) (in thousands)
Majority-owned subsidiaries eliminated in consolidation:			
Arvida Corporation, common stock	3,529,277	58%	$ 22,047
Buckeye Pipe Line Company, common stock(2)	14,000	100	100,293
The Connecting Railway Company, capital stock	60,771	74	15,856
Detroit, Toledo & Ironton Railroad Company:			
Capital stock(3)	245,329	100	25,882
Advances which bear 6% interest	—	—	2,250
Great Southwest Corporation:			
Common stock	23,747,850	82	84,297
Warrants to purchase 2,102,110 shares of common stock at $2.17 per share which expire in March 1977			
Cumulative preferred stock, $1 par value—voting:			
Series A, 6%	3,500,000	100	3,500
Series B, 7%	3,650,000	100	513
Series C, 7.6%	16,410,980	100	2,367
			257,005
Unconsolidated subsidiary—Wabash Railroad Company:			
Common stock(4)	595,255	99	7,341
4½% preferred stock, $100 par value(3)	101,836	33	3,838
			11,179
50%-owned companies:			
Montour Railroad Company stock	51,000	50	6,385
Toledo, Peoria & Western Railroad Company stock	45,000	50	5,575
			11,960
Affiliated companies:			
Stock:			
Illinois Northern Railway	600	12	115
The Philadelphia, Baltimore and Washington Railroad Company(3)	277,259	35	37,223
The Pullman Company	118,298	16	3,313
West Jersey and Seashore Railroad Company, Common	65,758	28	3,378
			$ 44,029

(*continued*)

PENNSYLVANIA COMPANY (COMPANY ONLY)

SCHEDULE OF INVESTMENTS AND ADVANCES(1) — (Continued)
December 31, 1969

	Interest Rate	Principal Amount	Basis (Cost or Less)
		(in thousands)	
Affiliated Companies, continued:			
Bonds, Notes and Advances:			
American Contract Company	6 %	$20,305	$ 20,305
Lehigh Valley Railroad Company and subsidiaries:			
Consolidated Mortgage Bonds, April 1, 1989	4½	30	22
General Consolidated Mortgage Bonds:			
Series A, May 1, 2003	4	817	413
Series B, May 1, 2003	4½	176	83
Series C, May 1, 2003	5	81	41
First Mortgage Bonds, July 1, 1974	4½	1,228	958
Lehigh & Lake Erie Railroad Company, First Mortgage Bonds, March 1, 1994	4½	76	52
Lehigh Valley Harbor Terminal Railway Company, First Mortgage Bonds, February 1, 1984	5	471	376
Lehigh Valley Terminal Railway Company, First Mortgage Bonds, October 1, 1979	5	287	230
Penn Central Transportation Company:			
Note, November 30, 1994	9¼	49,000	49,000
The Pennsylvania Railroad Company, General Mortgage Bonds:			
Series F, January 1, 1985	3⅛	2,249	2,263
Series G, May 1, 1985	3	722	722
Series H, April 1, 1986	4¼	8,666	8,666
Pittsburgh, Cincinnati, Chicago & St. Louis Railroad Company, General Mortgage Bonds, Series D, August 1, 1975	5	3,149	3,149
			86,280
Total, affiliated companies			130,309

(continued)

PENNSYLVANIA COMPANY (COMPANY ONLY)

SCHEDULE OF INVESTMENTS AND ADVANCES(1) — (Continued)

December 31, 1969

	Number of Shares	Principal Amount	Basis (Cost or Less)
		(in thousands)	
Other:			
Norfolk and Western Railway Company (3) (5):			
Common Stock	1,191,905		$ 66,855
Common Stock with exchange rights	400,000		52,000
4⅝% Debentures		$10,400	10,400
Madison Square Garden Corporation, Common Stock (14% owned*)	1,462,109		16,197
Penn Towers, Inc., common stock (40% owned)	9,600		—
Strick, Inc.:			
Series A preferred stock, dividends of $5 per share commencing in 1974	67,760		7,316
Warrant to purchase 250,000 shares of Class A stock, which expires December 31, 1978			
Warrant to purchase 500,000 shares of Class A stock, which expires December 31, 1973			1,213
Transport Pool Corporation:			
Warrant to purchase 500,000 shares of Class A stock, which expires December 31, 1973			3,487
Subordinated Promissory Note, December 31, 1978, which bears interest at the prime rate, payable semi-annually beginning December 31, 1973		2,661	2,661
			160,129
Total investments and advances			$570,582

NOTES:

* Does not reflect ownership by affiliated companies.

(1) See notes 2, 4 and 11 to financial statements of Pennsylvania Company.

(2) Pledged as security for 8¼% Collateral Trust Bonds.

(3) The following are pledged as security for 4.15% to 4.50% Collateral Trust Serial Bonds:

	Number of Shares
Detroit, Toledo & Ironton Railroad Company, capital stock	26,029
Wabash Railroad Company, 4½% preferred stock	22,650
The Philadelphia, Baltimore and Washington Railroad Company, capital stock	38,390
Norfolk and Western Railway Company, common stock	73,277

(4) Includes 540,584 shares (subsequently converted into 610,002 shares of Norfolk and Western Railway Company Common Stock) deposited in escrow in conjunction with 9% Sinking Fund Debentures.

(5) Includes 1,002,400 shares pledged as security for 5¼% Collateral Trust Bonds and 516,228 shares held in escrow in conjunction with 4⅝% Cumulative Preferred Stock.

PENN CENTRAL COMPANY AND CONSOLIDATED SUBSIDIARIES
PENN CENTRAL TRANSPORTATION COMPANY (COMPANY ONLY)

CONTROLLER'S CERTIFICATE

The undersigned hereby certifies that in his opinion the statement of consolidated earnings and retained earnings of the company and its consolidated subsidiaries for the three years ended December 31, 1967 presents fairly the results of their operations in conformity with generally accepted accounting principles, except that no provision has been made for deferred federal income taxes, applied on a consistent basis, as restated (see note 13); and the statements of earnings and retained earnings of Penn Central Transportation Company (company only) for the three years ended December 31, 1967 present fairly the results of its operations in conformity with generally accepted accounting principles, applied on a consistent basis, as restated (see note 13); and the statement of consolidated source and application of funds for the two years ended December 31, 1969 presents fairly the information contained therein.

C. S. HILL
Controller

April 21, 1970
Philadelphia, Pa.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
Penn Central Company:

We have examined the balance sheets of Penn Central Company and consolidated subsidiaries and of Penn Central Transportation Company (a wholly-owned subsidiary of Penn Central Company) as of December 31, 1969 and the related statements of earnings and retained earnings for the two years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of earnings and retained earnings present fairly the financial position of Penn Central Company and consolidated subsidiaries and of Penn Central Transportation Company at December 31, 1969, the results of operations of Penn Central Transportation Company for the two years then ended, and, except that no recognition has been given to deferred income taxes as explained in note 4, the results of operations of Penn Central Company and consolidated subsidiaries for the two years then ended, all in conformity with generally accepted accounting principles applied on a consistent basis, as restated (see note 13).

PEAT, MARWICK, MITCHELL & CO.

Philadelphia, Pennsylvania
March 12, 1970, except as to the
second paragraph of note 15
which is as of March 31, 1970

PENN CENTRAL COMPANY AND CONSOLIDATED SUBSIDIARIES
PENN CENTRAL TRANSPORTATION COMPANY (COMPANY ONLY)

BALANCE SHEETS
December 31, 1969

ASSETS	Consolidated	Transportation Company
	(in thousands)	
CURRENT ASSETS:		
Cash and temporary cash investments	$ 154,385	$ 80,331
Loans and notes receivable	19,513	1,495
Accounts receivable and unbilled revenue	322,584	291,686
Materials and supplies, at cost	103,841	89,670
Other	30,554	14,633
Total current assets	630,877	477,815
INVESTMENTS AND ADVANCES, AT COST OR LESS (notes 2 and 7)	535,711	1,139,038
REAL ESTATE COMPANIES—PROPERTIES HELD FOR DEVELOPMENT OR RESALE, AT COST (note 7)	215,076	—
PROPERTIES (notes 3, 7 and 12)	7,010,224	3,825,579
Less accumulated amortization, depreciation and losses upon merger (notes 3 and 6)	1,747,337	902,731
Total properties, net	5,262,887	2,922,848
DEFERRED CHARGES AND SUNDRY ASSETS	93,613	56,939
INVESTMENT IN CONSOLIDATED SUBSIDIARIES IN EXCESS OF NET ASSETS ACQUIRED	112,512	—
Total assets	$6,850,676	$4,596,640

LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES (excluding debt due within one year):		
Notes payable	$ 147,559	$ 102,048
Accounts payable	39,611	25,595
Accrued expenses	407,874	360,659
Federal income taxes (note 4)	273	—
Other	13,938	10,153
Total current liabilities (excluding debt due within one year)	609,255	498,455
LONG-TERM DEBT (note 7):		
Due within one year	228,130	106,058
Due after one year	2,411,563	1,585,585
Total long-term debt	2,639,693	1,691,643
ESTIMATED LIABILITIES INCURRED UPON MERGER (note 6)	101,935	101,935
CASUALTY AND OTHER CLAIMS	101,232	90,667
AMOUNTS PAYABLE TO SUBSIDIARY COMPANIES	—	167,711
DEFERRED CREDITS AND OTHER LIABILITIES	166,613	240,857
MINORITY INTERESTS IN SUBSIDIARIES	266,313	—
EXCESS OF NET ASSETS ACQUIRED OF CONSOLIDATED SUBSIDIARIES OVER INVESTMENT	155,667	—
SHAREHOLDERS' EQUITY:		
Preference stock—without par value. Authorized 25,000,000 shares; none issued (note 15)	—	—
Common stock—without par value. Authorized 100,000,000 shares; issued 24,111,881 shares at $1 stated value (note 8)	24,112	—
Capital stock—$10 par value. Authorized 27,000,000 shares; issued 24,113,703 shares (note 8)	—	241,137
Additional paid-in capital (note 8)	1,285,622	1,068,730
Retained earnings	1,500,234	495,505
Total shareholders' equity	2,809,968	1,805,372
Total liabilities and shareholders' equity	$6,850,676	$4,596,640

See accompanying notes to financial statements.

PENN CENTRAL COMPANY AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED EARNINGS AND RETAINED EARNINGS

	Year Ended December 31,				
	1965	1966	1967	1968	1969
	(Unaudited)			(Audited)	
	(in thousands)				
REVENUES:					
Transportation:					
Railroad	$1,723,967	$1,750,354	$1,673,934	$1,705,077	$1,872,453
Pipeline	29,323	31,372	32,450	35,514	37,344
	1,753,290	1,781,726	1,706,384	1,740,591	1,909,797
Real estate and related operations:					
Property sales	26,977	61,390	113,455	175,842	186,438
Rents and other	62,392	66,674	74,347	92,448	91,970
	89,369	128,064	187,802	268,290	278,408
Investments:					
Dividends and interest	41,748	40,102	34,793	46,189	39,084
Net gain on sales	2,930	11,113	16,845	53,564	25,437
	44,678	51,215	51,638	99,753	64,521
Total revenues	1,887,337	1,961,005	1,945,824	2,108,634	2,252,726
COSTS AND EXPENSES:					
Transportation:					
Railroad (note 13)	1,601,751	1,608,544	1,635,207	1,712,968	1,895,555
Pipeline	17,231	17,528	17,002	18,871	21,958
	1,618,982	1,626,072	1,652,209	1,731,839	1,917,513
Real estate and related operations:					
Cost of properties sold	15,346	45,248	76,894	104,788	103,997
Operation of rental properties and other	33,681	39,997	46,878	67,948	69,759
	49,027	85,245	123,772	172,736	173,756
Other:					
Interest and debt expense	80,723	86,229	90,771	102,206	137,018
Federal income taxes (note 4)	6,509	2,008	124	2,168	1,622
Minority interest in earnings of subsidiaries	10,224	14,057	10,429	11,896	18,429
	97,456	102,294	101,324	116,270	157,069
Total costs and expenses	1,765,465	1,813,611	1,877,305	2,020,845	2,248,338
EARNINGS FROM ORDINARY OPERATIONS (notes 4 and 13)	121,872	147,394	68,519	87,789	4,388
EXTRAORDINARY ITEMS (notes 4, 6, and 12):					
Costs and losses incurred upon merger	—	—	(275,422)	—	—
Loss on investment in long-haul passenger service facilities	—	—	—	—	(126,000)
Provision for loss on sale of Long Island Railroad	(28,134)	—	—	—	—
Retirement losses—railroad properties	(13,539)	—	—	—	—
NET EARNINGS (Loss) (notes 4, 6, 12, and 13)	$ 80,199	$ 147,394	$ (206,903)	$ 87,789	$ (121,612)
RETAINED EARNINGS AT BEGINNING OF YEAR:					
As previously reported	1,759,950	1,797,705	1,891,348	1,632,307	1,674,433
Adjustments (note 13)	6,298	3,355	3,460	546	(9,191)
As adjusted	1,766,248	1,801,060	1,894,808	1,632,853	1,665,242
	1,846,447	1,948,454	1,687,905	1,720,642	1,543,630
CASH DIVIDENDS	45,387	53,646	55,052	55,400	43,396
RETAINED EARNINGS AT END OF YEAR	$1,801,060	$1,894,808	$1,632,853	$1,665,242	$1,500,234
PER SHARE DATA (based on average shares outstanding):					
Earnings from ordinary operations	$5.35	$6.44	$ 2.98	$3.80	$ .18
Extraordinary items	(1.83)	—	(11.96)	—	(5.22)
Net earnings (loss)	$3.52	$6.44	$(8.98)	$3.80	$(5.04)
Cash dividends	$2.00	$2.35	$ 2.40	$2.40	$ 1.80

See accompanying notes to financial statements.

PENN CENTRAL TRANSPORTATION COMPANY (COMPANY ONLY)

STATEMENT OF RETAINED EARNINGS

	Year ended December 31,				
	1965	1966	1967	1968	1969
	(Unaudited)			(Audited)	
	(in thousands)				
Balance at beginning of year:					
As previously reported	$1,093,616	$1,107,572	$1,142,511	$ 827,362	$ 730,047
Adjustments (note 13)	(32,253)	(35,908)	(39,338)	(45,578)	(8,818)
As adjusted	1,061,363	1,071,664	1,103,173	781,784	721,229
Net earnings (loss) (notes 4, 6, 12, and 13)	55,688	85,156	(266,337)	(5,155)	(182,328)
	1,117,051	1,156,820	836,836	776,629	538,901
Cash dividends	45,387	53,647	55,052	55,400	43,396
Balance at end of year	$1,071,664	$1,103,173	$ 781,784	$ 721,229	$ 495,505

See accompanying notes to financial statements.

50-934 O - 71 - 10

PENN CENTRAL COMPANY AND CONSOLIDATED SUBSIDIARIES
PENN CENTRAL TRANSPORTATION COMPANY (COMPANY ONLY)

NOTES TO FINANCIAL STATEMENTS
(dollar amounts in thousands)

(1) Principles of Consolidation:

The consolidated financial statements include the accounts of Penn Central Company, a newly-formed holding company approved by shareholders during 1969; its wholly-owned subsidiary, Penn Central Transportation Company; and all majority-owned subsidiaries of Penn Central Transportation Company, except the Wabash Railroad Company, the divestment of which is arranged as ordered by the Interstate Commerce Commission, and the Lehigh Valley Railroad Company, which the Commission has required to be offered for inclusion in another railroad system.

On February 1, 1968 The New York Central Railroad Company was merged into The Pennsylvania Railroad Company and the corporate name was changed to Penn Central Company. For accounting purposes the merger has been treated as a "pooling of interests" and, consequently, the statement of consolidated earnings reflects the combined accounts of both companies and their consolidated subsidiaries for all periods presented.

The following significant subsidiaries were acquired during the years 1965 to 1969, and their earnings have been included since the respective dates of acquisition:

Arvida Corporation	51% interest acquired in July 1965; increased to 58% in 1966
Great Southwest Corporation	60% interest in common stock acquired in 1964; increased to 73% in 1965; 75% in 1966; and 82% in 1969
Macco Corporation	100% interest acquired in October 1965 (merged into Great Southwest Corporation in March 1969)
Strick Holding Company	100% interest acquired in November 1966

In 1968 the transportation company sold three subsidiaries: Strick Corporation, Transport Pool, Inc., and Pennsylvania Terminal Real Estate Company. Also in 1968, Great Southwest sold Great Southwest Warehouses Inc., a subsidiary, and Six Flags Over Georgia, a division of a subsidiary, and in 1969 sold Six Flags Over Texas, another division. Operations of the subsidiaries and divisions were included in earnings until date of disposition. In connection with the sale of the divisions, Great Southwest entered into an agreement with the new owners to manage the operations of the divisions on a fee basis related, in part, to the net earnings generated from operations.

The net assets of The New York, New Haven and Hartford Railroad Company were acquired as of December 31, 1968 for $33,600 in long-term mortgage bonds, 956,576 shares of common stock, cash, and other consideration. Assets acquired generally have been valued at estimated realizable values and appropriate recognition has been given to all liabilities assumed, including costs in connection with rehabilitation of facilities (see note 14). Results of operations include the New Haven properties from date of acquisition. Bondholders of the New Haven are litigating the terms of purchase ordered by the Interstate Commerce Commission and are seeking a substantial increase in the purchase price.

In December 1969 Penn Central's subsidiary, Great Southwest Corporation, acquired all the outstanding stock of Richardson Homes Corp. by purchase and in January 1970 acquired I. C. Deal Companies Inc. through an exchange of stock treated as a pooling of interests. Earnings of Richardson Homes are consolidated from date of acquisition; the accounts of I. C. Deal have not been included in the consolidation as of December 31, 1969 since they are not material.

(2) Investments and Advances:

Investments and advances are as follows:

	Consolidated	Transportation Company
Majority-owned subsidiaries eliminated in consolidation	$ —	$1,024,769
Unconsolidated subsidiaries:		
Lehigh Valley Railroad:		
Stock—1,475,579 shares—97%-owned	23,025	7,619
Bonds, notes and advances	26,468	24,774
Wabash Railroad:		
Common stock—595,255 shares—99%-owned (see note 15)	3,292	—
Preferred stock—132,264 shares—43%-owned	4,982	—
	57,767	32,393

PENN CENTRAL COMPANY AND CONSOLIDATED SUBSIDIARIES
PENN CENTRAL TRANSPORTATION COMPANY (COMPANY ONLY)

NOTES TO FINANCIAL STATEMENTS—(Continued)

(dollar amounts in thousands)

	Consolidated	Transportation Company
50%-owned companies (principally railroad terminal companies):		
Stocks	21,276	12,997
Bonds, notes and advances	16,656	9,146
	37,932	22,143
Affiliated companies (principally railroad connections):		
Stocks	9,911	7,183
Bonds, notes and advances	45,617	11,165
	55,528	18,348
Other:		
Norfolk and Western:		
Stock—1,191,905 shares	31,277	—
Debentures held or receivable under exchange agreement	62,400	—
Mortgage notes and contracts—real estate sales	180,103	1,154
Miscellaneous	110,704	40,231
	384,484	41,385
Total	$535,711	$1,139,038

Lehigh Valley Railroad Company

Based on unaudited financial statements, the equity in the net assets of Lehigh Valley at December 31, 1969 was $65,894. Lehigh Valley's net losses were $3,703 in 1965; $723 in 1966; $3,845 in 1967; $6,076 in 1968; and $7,147 in 1969. No dividends were paid during the five years ended December 31, 1969.

Wabash Railroad Company

The Wabash properties have been leased to Norfolk and Western Railway Company since October 1964 under a rental arrangement that provides for a fixed rental, additional rental equated to dividends declared on Norfolk and Western stock, and payment of all expenses related to operation of the properties. An agreement also provides for exchange of all the Wabash common stock for 671,692 shares of Norfolk and Western common stock by October 1970. The Norfolk and Western common shares to be acquired through this exchange are subject to the voting restriction and extended divestiture requirements as explained under Norfolk and Western Railway Company below. Unaudited net earnings of Wabash for the five years ended December 31, 1969 and dividends received from Wabash during such period were as follows:

	1965	1966	1967	1968	1969
Net earnings	$15,426	$ 6,617	$7,333	$10,204	$10,490
Dividends	14,463	12,327	9,758	8,970	9,078

50%-owned Companies

The net assets attributable to 50%-owned companies, on the basis of unaudited financial statements, exceeded the investment therein by $2,952 consolidated and by $2,216 for the transportation company at December 31, 1969. Dividends received from such companies on a consolidated basis and for the transportation company were as follows:

	1965	1966	1967	1968	1969
Consolidated	$242	$260	$436	$11,986	$461
Transportation Company	17	13	268	11,705	236

PENN CENTRAL COMPANY AND CONSOLIDATED SUBSIDIARIES
PENN CENTRAL TRANSPORTATION COMPANY (COMPANY ONLY)

NOTES TO FINANCIAL STATEMENTS—(Continued)

(dollar amounts in thousands)

Norfolk and Western Railway Company

On October 16, 1964 The Norfolk and Western-Nickel Plate-Wabash Unification Plan became effective pursuant to an order of the Interstate Commerce Commission. As ordered by the Commission, voting rights of the Norfolk and Western holdings are placed with trustees under voting agreements until completion of divestiture, which is required by October 15, 1974, as to 791,905 shares, and by October 15, 1979 as to the remaining shares in accordance with an extension of the original divestiture period approved by the Commission in 1969.

Under an April 1966 agreement with Norfolk and Western 800,000 shares of its common stock are to be exchanged in stipulated installments to June 1974 for $104,000 principal amount of Norfolk and Western 4½% debentures, convertible into Norfolk and Western common stock by any holder other than Penn Central or its affiliates. The total consideration of $104,000 received or receivable under the exchange agreement was recorded as an investment in 1966. The resulting profit is being recognized as income ratably over the term of the agreement. Profit recognized during the five years ended December 31, 1969 was none in 1965; $9,862 in 1966; $9,759 in 1967; $9,375 in 1968; and $9,142 in 1969. At December 31, 1969 there is $40,376 of profit allocable to the remaining periods under the agreement. A total of 400,000 shares has been exchanged to December 31, 1969 and of the $52,000 principal amount in debentures received therefor, $41,600 have been sold.

At December 31, 1969 the market value of Norfolk and Western common stock holdings, including shares receivable in exchange for Wabash common stock, was $144,196, a substantial portion of which is subject to pledge or other restriction. Dividends and interest received from Norfolk and Western in the aggregate were $15,555 in 1965; $15,188 in 1966; $13,771 in 1967; $12,783 in 1968; and $10,836 in 1969.

(3) Properties:

Properties consist of the following general classes:

	Consolidated	Transportation Company
Transportation properties:		
Road, structures, etc.	$4,355,011	$2,066,769
Revenue equipment (rolling stock)	2,373,688	1,662,759
	6,728,699	3,729,528
Other properties:		
Real estate companies and hotels	134,561	32,102
Miscellaneous	146,964	63,949
	281,525	96,051
Total properties	$7,010,224	$3,825,579

Transportation properties of the railroad companies are stated at valuations determined by the Interstate Commerce Commission in 1915 to 1919, with subsequent additions at cost or less. Other properties are stated at cost.

Transportation properties are generally depreciated in accordance with regulations issued and at rates approved by the Interstate Commerce Commission. As required, replacement accounting is used for certain properties, principally track structure and grading accounts. Under this method, amounts capitalized are not depreciated but replacements in kind are expensed; betterments and additions are capitalized; and retirements are charged to expense. Depreciation of other properties is provided on the straight-line method over the estimated useful lives of such assets. Depreciation expense on a consolidated basis was:

1965 (unaudited)	$127,856
1966 (unaudited)	132,475
1967 (unaudited)	134,537
1968 (audited)	136,182
1969 (audited)	133,328

PENN CENTRAL COMPANY AND CONSOLIDATED SUBSIDIARIES
PENN CENTRAL TRANSPORTATION COMPANY (COMPANY ONLY)

NOTES TO FINANCIAL STATEMENTS—(Continued)

(dollar amounts in thousands)

(4) Federal Income Taxes:

Federal income tax returns are filed on a consolidated basis for all companies owned 80% or more and no taxes were payable on such basis for the five years ended December 31, 1969.

Federal income taxes reported in the statement of consolidated earnings are comprised of:

	Current	Deferred
1965 (unaudited)	$6,509	$ —
1966 (unaudited)	1,108	900
1967 (unaudited)	(418)	542
1968 (audited)	449	1,719
1969 (audited)	635	987

Current income taxes are applicable to earnings of subsidiary and lessor companies for which separate returns are filed; deferred income taxes are applicable to non-regulated subsidiaries not includable in the consolidated income tax return.

No deferred income taxes are reflected in the accompanying financial statements for companies included in the consolidated tax return or for companies subject to Interstate Commerce Commission regulations which prohibit the reflection of such taxes in reports thereto. Deferred income taxes arise from timing differences due principally to reporting for tax purposes of: (1) depreciation on accelerated methods, (2) property sales on the installment basis, and (3) merger, casualty costs and losses, and loss on investment in long-haul passenger service facilities on the cash basis.

On a consolidated basis the deferred income taxes, if reflected as required by generally accepted accounting principles (after giving recognition to tax effect of capital gains, dividend income and maximum utilization of investment tax credits), would have had the effect of decreasing (increasing) consolidated earnings as follows:

	Earnings from Ordinary Operations		Extraordinary Items	
	Amount	Per Share	Amount	Per Share
1965 (unaudited)	$27,000	$1.18	$ (5,000)	$ (.22)
1966 (unaudited)	46,000	2.01	—	—
1967 (unaudited)	25,000	1.09	(99,000)	(4.30)
1968 (audited)	8,000	.35	—	—
1969 (audited)	(1,500)	(.06)	(22,500)	(.93)

The cumulative amount of deferred income taxes at December 31, 1969 is not considered to be material. No deferred taxes are applicable to the transportation company. In filings with the Securities and Exchange Commission deferred taxes as shown above will be reflected.

Investment tax credits of approximately $90,000 are available for carry-forward to future years.

The consolidated Federal income tax returns filed by the Pennsylvania Railroad affiliated group for the years prior to 1954 have been examined by the Internal Revenue Service and all tax liabilities have been settled. For the years 1954 through 1961 the Internal Revenue Service has proposed additional taxes of approximately $50,000, exclusive of interest, based primarily upon the assertion that certain deductions should be spread to later years to a degree inconsistent with treatment of similar items accepted by the Service in prior years. The Company and its subsidiaries have filed initial protests against the proposed deficiencies; counsel is of the opinion that these protests will be settled substantially in the Company's favor. Accordingly, no accrual has been made in the accounts for additional taxes, or interest thereon, with respect to the years 1954 to 1961. The consolidated returns for years 1962 to 1964 are under examination by field agents of the Internal Revenue Service; no deficiency for these years has been proposed.

The consolidated Federal income tax returns filed by the New York Central affiliated group for the years prior to 1956 have been examined by the Internal Revenue Service and all tax liabilities have been settled. The tax returns for subsequent years, all of which indicated no tax liability, are subject to examination by the Internal Revenue Service; however, the statute of limitations bars any deficiency assessment for the years prior to 1966, other than 1962.

PENN CENTRAL COMPANY AND CONSOLIDATED SUBSIDIARIES
PENN CENTRAL TRANSPORTATION COMPANY (COMPANY ONLY)

NOTES TO FINANCIAL STATEMENTS—(Continued)

(dollar amounts in thousands)

(5) Tax-Allocation Agreements:

The Penn Central Transportation Company statement of earnings reflects amounts receivable under tax-allocation agreements entered into between the transportation company and certain of its subsidiaries included in the consolidated income tax return. Under these agreements the subsidiaries pay to the transportation company the amount by which their tax liability is reduced or eliminated because of utilization in the consolidated return of operating losses or capital losses of other members of the group, but in no event more than 95% of the tax which would have been due if the subsidiaries had filed separate returns.

(6) Merger Reserves and Liabilities:

The merger of The New York Central Railroad Company into The Pennsylvania Railroad Company in 1968 resulted in duplication or obsolescence of certain railroad facilities and supplies and in the requirement to rehire certain otherwise surplus furloughed employes, for which appropriate valuation reserves and liabilities, aggregating $275,422, were established. Charges against these accounts were $22,466 in 1969 and $39,684 in 1968.

(7) Long-Term Debt:

At December 31, 1969 long-term debt, including debt due within one year, was as follows:

	Consolidated	Transportation Company
Bank loans, 4½% to 11⅜% due to 1984	$ 464,010	$ 436,376
Mortgage bonds and notes, 2½% to 9½% due principally to 2013	1,173,760	636,474
Collateral trust bonds and notes, 4% to 8¼% due to 1993	124,830	52,574
Railroad equipment obligations, 2¾% to 9¾% due to 1989	673,212	559,691
Real estate and other secured loans, 4⅞% to 12% due to 1999	148,850	—
Various unsecured notes, 4% to 8½% due to 1986	13,104	—
Miscellaneous obligations	41,927	6,528
Total long-term debt	$2,639,693	$1,691,643

Certain issues require annual installments of principal, in varying amounts, to the final maturity dates indicated. Payments of principal for the next five years are:

Year	Consolidated	Transportation Company
1970	$228,130	$106,058
1971	155,948	68,922
1972	172,349	112,621
1973	269,889	212,234
1974	160,240	99,759

Substantially all investments and properties included in the consolidated balance sheet and substantially all the properties of the transportation company, together with certain of its investments, principally Pennsylvania Company (a subsidiary which holds the stock of Norfolk and Western Railway Company and of the principal real estate and other non-railroad subsidiaries), have been pledged as security for loans or are otherwise restricted under indentures and loan agreements.

(8) Common Stock and Additional Paid-in Capital:

The changes in common stock and additional paid-in capital for the transportation company and for the holding company for the three years ended December 31, 1969 were as follows:

	Common Stock	Additional Paid-in Capital
Balance at December 31, 1966 (unaudited)	$228,839	$1,031,194
1967 (unaudited):		
Exercise of stock options	1,245	1,729
Miscellaneous transactions	79	364

PENN CENTRAL COMPANY AND CONSOLIDATED SUBSIDIARIES
PENN CENTRAL TRANSPORTATION COMPANY (COMPANY ONLY)

NOTES TO FINANCIAL STATEMENTS—(Continued)
(dollar amounts in thousands)

	Common Stock	Additional Paid-in Capital
1968 (audited):		
Issued to acquire additional shares of subsidiary	$ 628	$ 4,446
Issued in connection with New Haven acquisition	9,501	29,572
Exercise of stock options	559	859
Miscellaneous transactions	2	93
1969 (audited):		
Exercise of stock options	260	437
Miscellaneous transactions	24	36
Transportation Company balance	241,137	1,068,730
Exchange of $10 par value stock of transportation company for no par stock of holding company with $1 stated value	(217,023)	217,023
Exercise of stock options	2	40
Miscellaneous transactions	(4)	(171)
Balance December 31, 1969	$ 24,112	$1,285,622

Transactions in stock option plans during the three years ended December 31, 1969 were as follows:

	Number of Shares		Options Exercised	
	Restricted Plans	Qualified Plans	Price Range Per Share	Aggregate Dollar Amount
Outstanding at December 31, 1966 (unaudited)	266,620	20,950		
1967 (unaudited):				
Granted	—	—		
Exercised	(115,520)	(8,950)	$12.50 to 46.25	$2,974
Lapsed	(11,086)	(8,000)		
1968 (audited):				
Granted	—	346,500		
Exercised	(52,410)	(3,500)	12.50 to 62.94	1,418
Lapsed	(5,312)	(26,000)		
1969 (audited):				
Granted	—	163,500		
Exercised	(25,226)	(2,600)	12.79 to 57.31	740
Lapsed	(1,560)	(29,500)		
Outstanding at December 31, 1969	55,506	452,400		
Available for future grants at December 31, 1969	—	194,750		

Options outstanding at December 31, 1969 are exercisable at prices ranging from $12.50 to $77.25 per share and generally are exercisable over a four-year period, commencing one year after date of grant. No material dilution in earnings per share would have occurred if all options outstanding at December 31, 1969 had been exercised.

PENN CENTRAL COMPANY AND CONSOLIDATED SUBSIDIARIES
PENN CENTRAL TRANSPORTATION COMPANY (COMPANY ONLY)

NOTES TO FINANCIAL STATEMENTS—(Continued)

(dollar amounts in thousands)

(9) Lease Obligations:

Penn Central Transportation Company and certain other subsidiaries have obligations under long-term rail transportation equipment leases. Remaining rentals payable under these leases at December 31, 1969 are $511,669 consolidated and $627,225 for the transportation company. Annual rentals under existing leases will range during the next five years from a high of $46,638 to a low of $45,549 on a consolidated basis and from a high of $62,554 to a low of $58,326 for the transportation company. The rentals under these lease arrangements in 1969 were $43,014 consolidated and $59,175 for the transportation company. Rental obligations for miscellaneous real estate and sundry equipment are considered not to be material.

(10) Contingent Liabilities:

On a consolidated basis contingent liabilities aggregate $226,146 as of December 31, 1969 in respect of the principal of obligations issued by non-consolidated companies, principally terminal companies, in which the transportation company and other subsidiaries have an interest. Of these contingent obligations, $191,302 have been entered into jointly, or jointly and severally, with other companies.

Penn Central Transportation Company has contingent liabilities as of December 31, 1969 aggregating $437,084 as guarantor of the principal of obligations of affiliated companies. Of these contingent obligations $177,682 have been entered into jointly, or jointly and severally, with other companies.

In addition, there are other contingent liabilities but management believes these contingencies will not have a material adverse effect upon the consolidated or transportation company financial position.

(11) Pensions:

Penn Central Transportation Company and certain other consolidated subsidiaries have pension plans which provide retirement benefits for substantially all management employes and certain personnel covered by labor union agreements. It is the policy of the companies to fund pension costs accrued and substantially all of the plans are fully-funded at December 31, 1969. Pension expense was as follows:

	Consolidated	Transportation Company
1965 (unaudited)	$2,948	$2,082
1966 (unaudited)	1,866	1,266
1967 (unaudited)	2,376	1,351
1968 (audited)	1,874	1,150
1969 (audited)	2,313	1,466

(12) Loss on Investment in Long-Haul Passenger Service Facilities:

Effective January 1, 1969 the Company wrote down its investment in facilities directly related to long-haul passenger service west of Harrisburg, Pa. and Albany, N. Y. (including related mail-handling facilities and equipment) to estimated salvage value because prior operating losses make any possibility of recovery of such investment through future operations clearly remote. Proceedings are being initiated before the Interstate Commerce Commission for permission to abandon substantially all such service. As a result of the write-down, depreciation expense for the year 1969 was reduced approximately $4,500.

(13) Retroactive Adjustments:

In 1969, retained earnings were restated from amounts previously reported to reflect a retroactive charge of $9,191 consolidated and $8,818 for the transportation company for the court-ordered resettlement, including interest, of certain 1965-1968 revenues between Northern and Southern railroads.

In 1968, retained earnings were restated to reflect a net retroactive increase of $7,253 on a consolidated basis, and a net charge of $39,142 for the company. The net increase on a consolidated basis results from (1) a credit of $46,395 arising out of conformance of accounting policies with respect to deferred income taxes at time of the merger of The New York Central Railroad into The Pennsylvania Railroad Company, and (2) a net charge of $39,142 to correct retroactively certain account balances (principally accruals for injuries to persons, loss and damage freight claims and other items

relating to prior years) as a result of the first audit of the merged company and to effect uniform accounting policies and practices. Retained earnings of the transportation company were not affected by the credit relating to deferred income taxes.

As a result of these adjustments, earnings have been appropriately decreased (increased) as follows:

	Consolidated		Transportation Company
	Amount	Per Share	Amount
1965	$2,943	$.13	$3,655
1966	(105)	—	3,430
1967	2,914	.13	6,240
1968	2,484	.11	2,382

In addition, the earnings statements for 1965 to 1968 have been restated, where appropriate, to conform with classifications adopted in 1969.

In accordance with a January 29, 1970 Interstate Commerce Commission order, the method of calculating rental charges for railroad freight cars was altered retroactively to August 1, 1969, the effect of which reduced 1969 consolidated railroad expenses by $7,100 and reduced the transportation company's rent expense by $6,500.

(14) Reports to the Interstate Commerce Commission:

Financial reports filed with the Interstate Commerce Commission by Penn Central Transportation Company differ from the accompanying financial statements of the transportation company (which are in accordance with generally accepted accounting principles) in the following respects: (1) Shares issued in December 1968 in connection with the acquisition of New Haven properties have been reflected in the accompanying financial statements at $41.125 per share, the average fair market value of the stock during the period of negotiation of the acquisition agreement; whereas the Commission has ruled that such shares be valued at $87.50 per share, the value determined by the Commission. The difference in purchase price has been reflected partly as a deferred credit of $23,077 and partly as additional paid-in capital of $21,284 in reports to the Commission; whereas a liability of approximately $40,000 for rehabilitation and other costs assumed in connection with the acquisition of New Haven properties has been reflected in the accompanying financial statements, but not in reports to the Commission. In 1969, the net loss for the transportation company, as reported to shareholders, was $21,986 less than the loss reported to the Commission because of charge-offs against the liability for rehabilitation and other costs. (2) The extraordinary charge for loss on investment in long-haul passenger service facilities (see note 12) has not been reflected in reports to the Commission. Accordingly, 1969 depreciation expense in such reports was $4,500 higher. (3) The 1965-1968 revenue resettlement and interest costs, amounting to $8,818 and the net charge made in 1968 amounting to $39,142, which are treated as adjustments of prior years' earnings in the accompanying financial statements are reflected in reports filed with the Commission as extraordinary reductions of 1969 and 1968 net income. (4) During 1969 the Commission ordered the transportation company to reclassify a $21,000 gain on security sales originally included in 1968 earnings from ordinary operations to an extraordinary item in reports to the Commission.

In addition, the gain on sale of certain securities by a subsidiary of the company under an exchange agreement entered into in a prior year is being amortized to income over the term of the agreement for financial reporting purposes, but gains are being recognized in reports to the Commission as disposition of securities received in exchange occurs. The cumulative effect at December 31, 1969 is a reduction of $7,631 in earnings reported to the Commission.

(15) Subsequent Events:

In February 1970 Penn Central Company purchased all the outstanding stock of Southwestern Oil & Refining Company and Royal Petroleum Corporation through an issue of 400,000 shares of $3 cumulative preference stock convertible into two shares of common stock, or after five years, into one share of Norfolk and Western Railway Company common stock.

On March 31, 1970 the 595,255 shares of Wabash Railroad Company common stock held as an investment were exchanged for 671,692 shares of Norfolk and Western Railway Company common stock in accordance with the terms of an agreement entered into in October 1964 (see note 2). The Norfolk and Western shares were recorded as an investment at their fair market value on date of exchange, resulting in a gain of $50,989.

PENN CENTRAL COMPANY AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

(Not covered by report of independent certified public accountants)

	Year Ended December 31,	
	1968	1969
	(in thousands)	
Funds provided:		
Earnings from ordinary operations	$ 87,789	$ 4,388(a)
Add charges against earnings not requiring expenditure of funds:		
Depreciation, depletion and amortization	136,182	133,328
Provision for casualty claims, liabilities, etc., net	3,526	17,382
Earnings applicable to minority interests, less dividends	1,945	8,683
	229,442	163,781
Less item included in earnings not resulting in an increase in fund—profit recognized under Norfolk and Western Railway Company exchange agreement	9,375	9,142
Funds derived from operations	220,067	154,639
Issuances of stock in connection with:		
Acquisition of New Haven properties	39,073	—
Acquisition of additional interest in Pittsburgh and Lake Erie Railroad Company	5,074	—
Stock options plans	1,514	624
	45,661	624
Financing:		
Penn Central Transportation Company:		
Revolving credit agreement	100,000	150,000
Commercial paper	50,000	50,000
Eurodollar loan	50,000	—
Equipment obligations	75,000	75,000
New Haven obligations	54,598	—
Pennsylvania Company debentures and collateral trust bonds	—	85,000
Real estate companies, principally mortgage loans on properties acquired	90,580	243,702
Other	53,699	31,402
	473,877	635,104
Working capital decrease	56,736	—
	$796,341	$790,367
Funds used:		
Dividends paid	$ 55,400	$ 43,396
Property changes:		
Additions:		
Railroad	237,833	190,275
Non-railroad	68,025	66,593
	305,858	256,868
Less sales, retirements and other changes	150,640	16,976
	155,218	239,892
New Haven assets acquired	127,544	—
Real estate companies:		
Net increase in mortgage notes and contracts arising from real estate sales	85,999	49,492
Net increase in properties held for development or resale	14,772	34,014
	100,771	83,506
Reduction of long-term debt:		
Penn Central Transportation Company	152,341	79,302
Pennsylvania Company	11,249	14,290
Real estate companies	42,444	171,472
Debt eliminated due to sale of subsidiary	57,895	—
Other	35,565	36,701
	299,494	301,765
Expenditures charged to merger liabilities and reserves	39,684	22,466
Net increase in investments—excluding real estate mortgage notes	12,733	37,883
Miscellaneous items (net)	5,497	33,999
Working capital increase	—	27,460
	$796,341	$790,367

(a) Before extraordinary charge, not requiring expenditure of funds, of $126,000 for loss on investment in long-haul passenger facilities.

UNDERWRITING

The Underwriters named below have severally agreed to purchase from the Company the following respective principal amounts of Debentures:

Underwriter	Address	Principal Amount
The First Boston Corporation	20 Exchange Place, New York, N. Y. 10005	$10,600,000
Glore Forgan Staats Incorporated	45 Wall Street, New York, N. Y. 10005	10,600,000
Salomon Brothers & Hutzler	Sixty Wall Street, New York, N. Y. 10005	10,600,000
Adams & Peck	120 Broadway, New York, N. Y. 10005	450,000
American Securities Corporation	25 Broad Street, New York, N. Y. 10004	850,000
Bache & Co. Incorporated	36 Wall Street, New York, N. Y. 10005	1,000,000
Bacon, Whipple & Co.	135 South La Salle Street, Chicago, Ill. 60603	450,000
Robert W. Baird & Co., Incorporated	731 North Water Street, Milwaukee, Wisc. 53201	450,000
Ball, Burge & Kraus	1414 Union Commerce Bldg., Cleveland, Ohio 44115	450,000
Bear, Stearns & Co.	One Wall Street, New York, N. Y. 10005	1,000,000
A. G. Becker & Co. Incorporated	60 Broad Street, New York, N. Y. 10004	1,000,000
William Blair & Company	135 South La Salle Street, Chicago, Ill. 60603	450,000
Blyth & Co., Inc.	14 Wall Street, New York, N. Y. 10005	1,350,000
Boenning & Scattergood, Inc.	The Alison Building, Rittenhouse Square, Philadelphia, Pa. 19103	200,000
Alex. Brown & Sons	135 East Baltimore Street, Baltimore, Md. 21202	1,000,000
Butcher & Sherrerd	1500 Walnut Street, Philadelphia, Pa. 19102	850,000
Clark, Dodge & Co. Incorporated	140 Broadway, New York, N. Y. 10005	1,000,000
DeHaven & Townsend, Crouter & Bodine	1000 Pennsylvania Bldg., 1500 Chestnut Street, Philadelphia, Pa. 19102	450,000
Dick & Merle-Smith	48 Wall Street, New York, N. Y. 10005	850,000
Dillon, Read & Co. Inc.	46 William Street, New York, N. Y. 10005	1,700,000
Dominick & Dominick, Incorporated	14 Wall Street, New York, N. Y. 10005	1,000,000
Drexel Harriman Ripley, Incorporated	60 Broad Street, New York, N. Y. 10004	1,350,000
Francis I. duPont, A. C. Allyn, Inc.	One Wall Street, New York, N. Y. 10005	1,000,000
Eastman Dillon, Union Securities & Co.	One Chase Manhattan Plaza, New York, N. Y. 10005	1,350,000
Elkins, Morris, Stroud & Co.	Stock Exchange Bldg., 120 South 17th Street, Philadelphia, Pa. 19103	450,000
Equitable Securities, Morton & Co. Incorporated	Two Wall Street, New York, N. Y. 10005	1,000,000
Estabrook & Co., Inc.	80 Pine Street, New York, N. Y. 10005	850,000
First Southwest Company	Mercantile Bank Bldg., Dallas, Texas 75201	450,000
Fulton, Reid & Staples, Inc.	2100 East Ohio Bldg., Cleveland, Ohio 44114	450,000
Goldman, Sachs & Co.	55 Broad Street, New York, N. Y. 10004	1,700,000

Underwriter	Address	Principal Amount
Hallgarten & Co.	44 Wall Street, New York, N. Y. 10005	$ 1,000,000
Halsey, Stuart & Co. Inc.	123 South La Salle Street, Chicago, Ill. 60690	1,350,000
Hayden, Stone Incorporated	25 Broad Street, New York, N. Y. 10004	1,000,000
Hirsch & Co., Incorporated	25 Broad Street, New York, N. Y. 10004	850,000
Hornblower & Weeks-Hemphill, Noyes	8 Hanover Street, New York, N. Y. 10004	1,350,000
E. F. Hutton & Company Inc.	One Chase Manhattan Plaza, New York, N. Y. 10005	1,000,000
W. E. Hutton & Co.	14 Wall Street, New York, N. Y. 10005	1,000,000
The Illinois Company Incorporated	135 South La Salle Street, Chicago, Ill. 60603	200,000
Interstate Securities Corporation	221 South Tryon Street, Charlotte, N. C. 28202	450,000
Janney, Battles & E. W. Clark, Inc.	1401 Walnut Street, Philadelphia, Pa. 19102	450,000
Johnston, Lemon & Co.	Southern Bldg., Washington, D. C. 20005	450,000
Kidder, Peabody & Co. Incorporated	20 Exchange Place, New York, N. Y. 10005	1,350,000
Kormendi, Byrd Brothers & Houx, Inc.	11 Broadway, New York, N. Y. 10004	200,000
Kuhn, Loeb & Co.	40 Wall Street, New York, N. Y. 10005	1,700,000
Ladenburg, Thalmann & Co.	25 Broad Street, New York, N. Y. 10004	1,000,000
Lazard Freres & Co.	44 Wall Street, New York, N. Y. 10005	1,350,000
Lehman Brothers	One William Street, New York, N. Y. 10004	1,350,000
Loeb, Rhoades & Co.	42 Wall Street, New York, N. Y. 10005	1,350,000
Moore, Leonard & Lynch, Incorporated	Union Trust Bldg., Pittsburgh, Pa. 15219	450,000
Morgan Stanley & Co.	140 Broadway, New York, N. Y. 10005	1,700,000
F. S. Moseley & Co.	60 Broad Street, New York, N. Y. 10004	1,000,000
Mullaney, Wells & Company	135 South La Salle Street, Chicago, Ill. 60603	200,000
New York Hanseatic Corporation	60 Broad Street, New York, N. Y. 10004	850,000
The Ohio Company	51 North High Street, Columbus, Ohio 43215	450,000
Paine, Webber, Jackson & Curtis	140 Broadway, New York, N. Y. 10005	1,350,000
Pierson, Heldring & Pierson	206/214 Herengracht, Amsterdam, Holland	1,350,000
Piper, Jaffray & Hopwood Incorporated	115 South Seventh Street, Minneapolis, Minn. 55402	450,000
Prescott, Merrill, Turben & Co.	900 National City Bank Building, Cleveland, Ohio 44114	450,000
R. W. Pressprich & Co. Incorporated	80 Pine Street, New York, N. Y. 10005	1,000,000
Putnam, Coffin, Doolittle, Newburger Division of Advest Co.	115 Broadway, New York, N. Y. 10006	850,000
Reinholdt & Gardner	506 Olive Street, St. Louis, Mo. 63101	450,000
Reynolds & Co.	120 Broadway, New York, N. Y. 10005	1,000,000
The Robinson-Humphrey Company, Inc.	Two Peachtree Street, N. W., Atlanta, Ga. 30303	450,000
L. F. Rothschild & Co.	99 William Street, New York, N. Y. 10038	1,000,000

Underwriter	Address	Principal Amount
Schmidt, Roberts & Parke, Inc.	123 South Broad Street, Philadelphia, Pa. 19109	$ 200,000
Scott & Stringfellow	P. O. Box 1575, Richmond, Va. 23213	200,000
Shearson, Hammill & Co. Incorporated	14 Wall Street, New York, N. Y. 10005	1,000,000
Singer, Deane & Scribner	1045 Union Trust Bldg., Pittsburgh, Pa. 15219	450,000
Smith, Barney & Co. Incorporated	1345 Avenue of the Americas, New York, N. Y. 10019	1,350,000
F. S. Smithers & Co., Inc.	45 Wall Street, New York, N. Y. 10005	1,000,000
SoGen International Corporation	595 Madison Avenue, New York, N. Y. 10022	1,350,000
Stone & Webster Securities Corporation	90 Broad Street, New York, N. Y. 10004	1,350,000
J. S. Strauss & Co.	4650 Bank of America Center, San Francisco, Calif. 94104	200,000
Swiss American Corporation	100 Wall Street, New York, N. Y. 10005	450,000
Thomas & Company, Inc.	Porter Building, Pittsburgh, Pa. 15219	200,000
Walston & Co., Inc.	74 Wall Street, New York, N. Y. 10005	1,000,000
Wertheim & Co.	1 Chase Manhattan Plaza, New York, N. Y. 10005	1,350,000
Wheat & Co., Inc.	801 East Main Street, Richmond, Va. 23211	450,000
White, Weld & Co.	20 Broad Street, New York, N. Y. 10005	1,350,000
Dean Witter & Co. Incorporated	45 Montgomery Street, San Francisco, Calif. 94106	1,350,000
Wood, Struthers & Winthrop Inc.	20 Exchange Place, New York, N. Y. 10005	1,000,000
Yarnall, Biddle & Co.	1528 Walnut Street, Philadelphia, Pa. 19102	450,000
	Total	$100,000,000

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent, and that the Underwriters will not be obligated to purchase any of the Debentures unless all are purchased. The Company has agreed to indemnify the several Underwriters against certain civil liabilities.

The Company has been advised by The First Boston Corporation, Glore Forgan Staats Incorporated and Salomon Brothers & Hutzler, as Representatives of the Underwriters, that the Underwriters propose to offer the Debentures to the public initially at the offering price set forth on the cover page of this Circular and, through the Representatives, to certain dealers at such price less a concession of % of the principal amount of the Debentures; that the Underwriters and such dealers may allow a discount of %of such principal amount on sales to other dealers; and that the public offering price and concessions and discounts to dealers may be changed by the Representatives.

As a result of a series of transactions related to the merger of Macco Corporation with Great Southwest, a partnership which included officers of Glore Forgan Staats Incorporated acquired shares of Common Stock of Great Southwest in exchange for its previous interests in Macco Corporation. The partnership subsequently transferred the Great Southwest Common Stock to the individual members of the partnership and, as of December 31, 1969, the present officers of Glore Forgan Staats Incorporated who were included in the partnership continued to own the 385,705 shares of Great Southwest received by them through such distribution.

Charles J. Hodge, Chairman of the Executive Committee and a Director of Glore Forgan Staats Incorporated, is a Director of Great Southwest and of Arvida, subsidiaries of the Company.

Senator HARTKE. I believe I know what I am talking about here, but in the Penn Central statement, didn't they write it off?

Mr. BAKER. The Penn Central statement, consolidated for 1969, did include this figure.

Senator HARTKE. And in other words, this is an obvious discrepancy?

Mr. BAKER. Well, I think it was. I am not sure I know what you mean by that.

Senator HARTKE. The service is still going?

Mr. BAKER. The Penn Central Co. has filed with the ICC for discontinuance of passenger train service. I think it was their contention that they expected such service to be discontinued and, therefore, these facilities were not worth anything like the figures carried on the books. Therefore, they——

Senator HARTKE. So they wrote the whole thing over, even before they were discontinued?

Mr. BAKER. In large measure, that is correct, sir.

Senator HARTKE. That is fancy footwork in bookkeeping, isn't it?

Mr. BAKER. I think two things here, as I understand it, Mr. Chairman. Number one, of course it was made public in the statements, so the accounting procedure and its implications were before both the ICC and the Internal Revenue Service, who could determine what the impact of making the statement was. I think it is clear from the consolidated statements that the Penn Central Transportation Co. lost a net of $56 million, irrespective of this writeoff, and the $126 million figure was footnoted in their addition to it.

Senator COOK. Mr. Chairman, would you yield for a minute so I can put one thing into the record?

Senator HARTKE. Yes.

Senator COOK. You are taking it from the circular of the Penn Co. issued in June 1970. This is a red herring, is it not? This is subject to change and this is subject to amendment, and——

Mr. BEGGS. Yes. It is also annotated in the 1969 annual report. Effective January 1, the company wrote down the investment and facilities directly related to longhaul passenger service west of Harrisburg and Albany, including related mail-handling facilities and equipment, to estimated salvage value because prior operating losses make any possibility of recovery of such investment through future operations remote.

Proceedings are being initiated before ICC for permission to abandon substantially all such service.

Senator COOK. It goes on to say the extraordinary loss for this has not been reflected in reports before the Commission. Accordingly 1969 depreciation expense in such reports is $4.5 million higher. The only point I wanted to make is that if someone were to pick this up, by reason of the fact that it is by law what we refer to as a red herring, they are aware of the fact that the statements contained herein are subject to change, are subject to amendment. Obviously if you pick up the annual report along with it, it makes it very

clear that they have requested permission to do this, but have not been granted permission to do this. Is that not correct?

Mr. BEGGS. Yes, sir.

Senator COOK. Thank you.

Senator HARTKE. On the recent 6 percent increase, is it not true the U.S. Department of Agriculture, Department of Defense, Department of Transportation, and the General Services Administration all opposed that increase?

Secretary VOLPE. That is not entirely correct, Mr. Chairman. There were objections.

Let me have Mr. Baker respond to that because he was more involved in those proceedings than I was. My mind is fairly fresh, but I'd rather depend on his.

Mr. BAKER. If I may, Mr. Chairman, we did not oppose the increase, as such. What we did request was that certain additional information be provided, and that the Commission require that this data be furnished by the railroads.

Senator HARTKE. That is the very point I have been making all morning, the fact that we have so little information. The Department of Transportation has so little. We have been able to do some of the things that are necessary. The ICC failed to come up with information. You opposed this increase on the basis of the fact that there was not enough information available, is not that true?

Mr. BAKER. Essentially, Mr. Chairman, we requested that further information be obtained. The decision of the Commission, which was to grant an increase of five percent instead of six percent, is in large measure the kind of decision that we favored.

We have over a number of months made it clear before the Commission that we felt that additional kinds of information were very desirable for the Commission to require in these rate cases, and last November we submitted a position on that rate increase to the Commission.

Senator HARTKE. Just so there is no misinterpretation, let me read the conclusion as I have it here as filed with the ICC in *Ex Parte 265:*

"In the Department's view"—speaking of the Department of Transportation:

> In the Department's view the figures set forth by the railroads in support of the proposed increase leave unanswered questions. Prospective unit costs are no where provided; capital needs are left unspcified. Identical rate increases in all districts are proposed, notwithstanding the widely varying earning rates in various districts. The factual support for the carrier's position is weak at best.
>
> A full investigation and hearing under Section 15 is thus necessary to permit adequate development of all of the facts necessary to permit a determination of the lawfulness of the proposed increase.

You felt there was a definite lack of information, in other words?

Secretary VOLPE. We knew there were rate increases that had been previously granted. Here was another one being asked for. We did not believe, and we suggested to the Commission, that it ought not to grant a blanket percentage increase for every commodity in every part of the country. We felt it was desirable to look into the prob-

ability and, yes, the desirability of limiting those increases only to those areas where it could be justified.

We did not, however, object to the rate increase itself. Because we knew of the dangerous financial situation that many of the railroads were in, we thought they ought to go ahead with the rate increase, with the stipulation that any overcharges would be returned to the shippers after an investigation.

Senator HARTKE. Yes. The point is, I am not talking about the rate increase; I am talking about the need for investigation of the facts. I think one must always keep that in mind.

Secretary VOLPE. Yes. But I think if you read the final clause, you will find that we did indicate we felt the rate increase should not be suspended. That was in November, sir.

Senator HARTKE. What I am reading from is not the November statement, but the May 1970 statement.

Secretary VOLPE. That is correct, Mr. Chairman.

Senator HARTKE. Now, what protection is there, Mr. Secretary, in this bill for maintaining the wage structures equal to those throughout industry? In other words, when the current labor contracts expire, it may be the trustees in this reorganization would decide to lower the labor costs by slicing wages. Is that possible? Is there any guarantee in the bill that would guarantee against that?

Secretary VOLPE. The bill does not speak to this problem.

Mr. BAKER. I think, Mr. Chairman, this is consistent with the exchange on this subject yesterday. The Secretary indicated then that in the event a guarantee was made, covenants would be entered into which were demed appropriate and necessary. This, in the case of a reorganization proceeding such as with the Penn Central, would necessitate an examination of the actual situation. There is nothing in the legislation that addresses itself to the point you raise.

Senator HARTKE. Do you think there should be?

Mr. BAKER. In my personal opinion, I would think one would wish to look at such a provision very closely. I think the Secretary would be very concerned about any prospective action that would impair the earnings of any persons. I think, in all fairness, the Secretary would look at the particular situation in cooperation with the trustees to see what kinds of covenants could be writen into the guarantee to protect the employees.

Senator COOK. To the best of my knowledge, Mr. Chairman, nothing under a section 77 reorganization and nothing under any loan that the Federal Government may guarantee in this industry or any industry obviates the responsibility of management and labor to negotiate under the rules of labor-management of the NLRB or any other facility of the private or federal sector in regard to wages or compensation.

In other words, I would think neither the trustee nor the labor unions involved would want such a restriction in a loan agreement with the Federal Government. I think the machinery for negotiation is already in existence and I think we would only impair that degree of negotiation by putting some kind of restriction in this bill.

I am only passing that on, because I am of the opinion that, for instance, the New York, New Haven and Hartford never failed to be considered in any wage increases that were authorized to the rail industry at any time during its history, and that the railroads have been in and out of reorganization for years.

I do not think anything in Central of Jersey, for instance, has restricted the Brotherhood from receiving for the employees of that railroad, increases commensurate with the industry during the 3 years it has been in reorganization. So I think what we would be doing, we would be treading on ground that not only the Government might find very rough to go over but labor and management might also find difficult.

Senator HARTKE. I understand that, but the point is we are in new legislation here and circumstances still present themselves here——

Senator COOK. Mr. Chairman, may I say I honestly disagree with you in regard to the fact that we are in new legislation. I think all we are doing is preparing legislation that is increasing the funds that are available to the transportation industry and we are putting it under the Department of Transportation, unlike the previous Act of 1958, that allowed the ICC to expend loans to industries that were in trouble at that time. I think when we talk about new legislation, we may well be able to solve this same problem by increasing our appropriation of the loan fund under the 1958 Act to ICC and we might solve the same problem.

Senator HARTKE. I still think it is new, but I will not argue that.

Let me ask another question concerning this 6 percent raise in the ex parte proceeding in which the Department of Transportation did say an investigation of certain facts concerning the railroads was in order, to permit, in your words, a more complete understanding of the fact concerning these matters.

Do you still feel such an investigation is in order?

Secretary VOLPE. Yes, sir.

Senator HARTKE. You do feel that?

Secretary VOLPE. Yes, sir.

Senator HARTKE. I understand there is a roll call, Mr. Secretary. I am going to submit here—I do not think you can answer these questions anyway—some information I would like to have you submit to the committee which I think would be very helpful so we can evaluate the likelihood that the Penn Central will be able to have a sufficient cash flow in the future and its general financial condition otherwise.

In regard to traffic, I would like to find out the number of carloads received from other carriers for the year 1969-70 up to date; the traffic potential now being lost due to service problems; the number of carloads of originated traffic for the years 1969 and 1970 to date; the steps that have been accomplished and those presently underway to improve the service.

In regard to operation, the progress of the consolidation of the Penn and New York Central and New Haven properties in regard

to consolidation of the yards; consolidation of shops; consolidation of stores; and the compatability of the computer system; and the financial statement of source and application of funds, cash flow for the year 1969–70 up to date; the status of debt maturities; the outline of refinancing of maturing debt; the status of accounts payable, investments and their future plans.

I know this information is not available now, but I would like this included for the record. In general I would like to have a general statement of the railroad's financial condition as you see it.

I think also the question as to the non-transportation investments which were previously owned by the railroad, which have been transferred to the parent holding company, which would be barred by the present proceedings under bankruptcy and to what extent this has occurred during the time since the merger.

I think this is information which should have been available long before now. I am not making this at this time in any way except to request it be made a part of the record. To the extent you have any difficulties, I wish you would keep us advised.

Also, I would urgently and sincerely request on behalf of the committee that you keep us advised as to the potential and the developments in any of the other railroads which are threatening to come to the same demise as the Penn Central.

Secretary VOLPE. Mr. Chairman, we shall be very happy to provide for you and for the committee all of the information that we can gather to answer specifically your questions. If you will give those to us in writing, we will get back to the committee just as rapidly as possible, and we will keep in touch with the committee and staff with regard to future problems that may arise.

Senator HARTKE. Thank you.

Senator Cook?

Senator COOK. I would say a great deal of the information the chairman has requested is in the annual report of the Penn Central Transportation Co. which by law has to be filed with ICC as of the end of the year 1969.

Senator HARTKE. I understand it is there, Senator Cook, but I understand also there are serious questions about some of the bookkeeping procedures. I hope we will not rely simply on the railroad's assertion, but will go behind the scenes. It is certainly not up to date.

These hearings are recessed.

Thank you, Mr. Secretary, for staying with us for an unusually long period of time.

(The following information was subsequently received for the record:)

The number of carloads received by Penn Central from other carriers for 1969 was 2,546,363 and for 1970 to date (27 weeks) was 1,298,422.

To our knowledge, no corporation previously owned by the Penn Central Transportation Company has been transferred to the holding company as a result of the merger or otherwise. There have been numerous intra-company transactions but these have been between one subsidiary of Penn Central Transportation Co., and another subsidiary. Therefore, on any corporate transfers, ultimate ownership and control resided with Penn Central Transportation both before and after the transactions. The petroleum company acquisitions

were not made for cash, but on an exchange of stock and appear not to involve dissipation of Penn Central Transportation Company assets.

The Interstate Commerce Commission presently has a team of auditors examining the records of Penn Central Transportation Company, its parent Penn Central Company, and its subsidiaries including Pennsylvania Company. The Department has liaison with the Commission.

While there have been numerous complaints about Penn Central service and much said about diversion of traffic from the carrier, we cannot adequately identify the volume of traffic which has been lost due to service problems. Such a study would involve detailed interviews and surveys of all shippers using the rail and truck transportation system through which Penn Central operates.

This request and the request on the same transcript page for a general statement of the railroad financial condition involve similar matters and is interpreted to go to the company's present ability to meet current payables for wages, materials and other current payments necessary for proper functioning of the railroad. Future plans, of course, depend on the trustees and the court.

Present information indicates that the company will generate sufficient funds to meet its necessary obligations for the very immediate future. Estimates for the remainder of July indicate a marginal cash position. Future operations effects are difficult to predict since they will depend on the court and trustees whose primary and only statutory obligation is conservation of the estates assets.

The number of carloads originated by Penn Central for 1969 was 3,589,702 and for 1970 to date (27 weeks) was 1,760,913.

During 1968 and 1969, Penn Central undertook the following steps to improve its service:

1. Use of shorter and more economical routes including a net reduction in train miles operated. This program is of a continuing nature.

2. Elimination of duplicate passenger and freight train service. Elimination of duplicate passenger train service was accomplished in 1968. Elimination of duplicate freight train service continued in 1969 and will be continually under study.

3. Changes in frequency of service by addition of freight trains. This program is of a continuing nature.

4. Reduction in transit time in single line service was begun in 1968 and is of a continuing nature.

5. (a) Fifty-one freight stations and terminals were consolidated in 1968 and 54 were consolidated in 1969.

(b) Four yards were eliminated in 1968 and 2 in 1969.

6. Combining of all data processing functions, including integration of car movement data, was accomplished in 1968.

7. Construction of new yards, track connections and expansion of present facilities were undertaken in 1968.

(a) 15 track connections were started in 1968 of which 12 were completed. Work continued on 3 projects during 1969.

(b) 10 yard expansion and/or construction projects were undertaken in 1968 with none completed. Work continued in 1969.

(c) 2 signal projects were started in 1968 and 1 project was added in 1969. None completed.

(d) 7 new projects (including 2 passenger station facilities, 1 flexi-van facility and several miscellaneous facilities) were underway in 1969.

Source: Penn Central Performance and Status Report for the periods February 1, 1968–December 31, 1968, and January 1, 1969–December 31, 1969, submitted to ICC.

In the case of the New Haven, there has been extensive consolidation of operations, such as, pooling of motive power and rerouting of eastbound traffic destined to the Boston area, and consolidation of yards and shops. However, there have been no physical abandonment of yards, shops and other physical properties. The surplus facilities are standing idle. The purchase of New Haven assets has not yet been consummated.

Statement attached. Note that the figures for the second quarter of 1970 were estimated in April of 1970 and that actual results may be different, particularly, since petition for reorganization.

[Dollars in millions]

	1st quarter			2d quarter		
	Actual	Financial plan	Variance	Apr. 6, 1970, estimate	Financial plan	Variance
Source:						
Ordinary earnings	($83.4)	($53.3)	($30.1)	($53.6)	($26.5)	($27.1)
Noncash income:						
Tax allocation accrual	(1.5)	(5.3)	3.8	(7.1)	(5.8)	(1.3)
Noncash dividend	(.4)	(.5)	.1	(.5)	(.5)	
Holding company charges	(.5)		(.5)			
Profit on sale of property	(.6)	(2.5)	1.9	(2.5)	(2.5)	
Total	(86.4)	(61.6)	(24.8)	(63.7)	(35.3)	(28.4)
Other:						
Financing:						
Equipment—C.S.A.	13.6		13.6	10.1		10.1
Equipment—leasing	13.9	15.2	(1.3)	18.6	13.0	5.6
Other	58.5	56.2	2.3	86.5	57.0	19.5
Total	86.0	71.4	14.6	115.2	80.0	35.2
Proceeds from sale of property	5.3	9.4	(4.1)	11.1	11.1	
Salvage	4.6	4.0	.6	3.5	3.5	
Depreciation	23.5	23.6	(.1)	23.4	23.6	(.2)
Accrual for anticipated wage increase	18.0		18.0	6.0		6.0
Change in receivables and material	(11.6)	2.0	(13.6)	2.0	2.0	
Tax allocation receipts						
MIA—CTA				7.4	7.2	.2
Government contribution N.E.C.						
Advances from subsidiaries	3.0		3.0			
Increase in payables	21.2		21.2	2.3		2.3
Total	150.0	110.4	39.6	170.9	127.4	43.5
Total, source	63.6	48.8	14.8	107.2	92.1	15.1
Application:						
Capital program—Equipment:						
C.S.A.	13.6		13.6	10.1		10.1
Leasing	13.9	15.2	(1.3)	18.6	13.0	5.6
Other	4.9		4.9			
Total	32.4	15.2	17.2	28.7	13.0	15.7
Capital expenditures—Road	8.6	14.1	(5.5)	27.8	27.8	
New Haven: Capital		3.0	(3.0)	4.0	4.0	
Dividends						
Debt retirement	24.2	23.8	.4	41.6	35.1	6.5
Merger reserve	2.5	4.0	(1.5)	4.0	4.0	
Southern divisions	5.8		5.8			
Other	8.1	9.4	(1.3)	9.0	9.0	
Total, application	81.6	69.5	12.1	115.1	92.9	22.2
Net increase (decrease) in cash	(18.0)	(20.7)	2.7	(7.9)	(.8)	(7.1)
Beginning cash	80.3	80.3		61.5	59.6	1.9
Ending cash	62.3	59.6	2.7	53.6	58.8	(5.2)

Penn Central's petition for section 77 relief noted the following obligations as due between June 22 and July 1, 1970:

Commercial Paper: $9,795,000.

Interest and Principal on Debt: $21,900,000.

Estimate of debt maturities in the third and fourth quarters are $24.4 million and $43.3 million respectively.

Refinancing of maturing debt, since the company is under the protection of the court, will not normally be considered until a plan of reorganization has been adopted. Part of this plan would cover the refunding of debt.

Due to the possible impact on the railroad industry, creditors, bondholders and the market place, it does not appear prudent to speculate as to the possible bankruptcy or reorganization of individual railroads.

(Whereupon, at 1:15 p.m., the hearing was recessed.)

FAILING RAILROADS

WEDNESDAY, JULY 8, 1970

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met, pursuant to notice, at 2:10 p.m., in room 5110 New Senate Office Building, Hon. Vance Hartke, presiding.

Present: Senators Hartke, Pearson, and Baker.

Senator HARTKE. The committee will come to order.

This is a continuation of a hearing on the railroad loan guarantee legislation.

OPENING STATEMENT BY THE CHAIRMAN

I might point out that word has just been received that the Federal court announced a few moments ago that it refused to grant authority to the banks to take over the parent company which controls the Penn Central.

I am quite concerned about two facts which bother me at the present time. One is the fact that we are operating in an atmosphere that is in a crisis proportion and, secondarily, I want to find out exactly, if I can today, the role of the Interstate Commerce Commission in the past, what it is doing now and what, if anything, it contemplates for the future.

It is elementary that the primary concern of the Congress is not alone to continue to operate the railroad system as a service to the Nation, but also, to, at least, operate in a better fashion than which it has been operated in the past. The simple fact is that we have not had efficient service in the past. This problem remains if we are going to provide for this type of loan legislation—whether or not we are going to be pouring money down a rathole. What is there in the evidence to indicate that even if a loan were granted it is not just the first step in a series of loans which might have to be given.

I have had some conversations with people in the railroad business who have indicated to me that even though they themselves might be potential applicants for loans in the event the legislation was passed, that in their viewpoint this is not the solution but that in their opinion it will only be temporary relief.

Penn Central's financial collapse is broader in its implications than just this one railroad, because, in the first place, it has precipitated the bill which is before us at the present time.

Let me point out this committee has not been unaware of some of these problems; as a matter of fact, as the Secretary of Transportation indicated here the other day, we were forcing as fast as we could the consideration of some relief to railroads.

The second thing is we pass safety legislation which we think is very important in the field of cutting down on some of these costs which are skyrocketing all over. As of now I don't think we have any indication whatsoever of how much of the actual difficulties the railroad's financial dilemma is caused by the constant derailments and delays which are occurring because of lack of equipment which is good and railroad tracks which are really in shape to take care of the transportation needs.

We are going to have to find out, also, if the Penn Central itself is going to be one of the principal applicants since it filed under section 77; whether it is going to be one of the applicants or whether its reorganization takes it outside of the role of the potential applicant.

I think it is very unfortunate that we meet in an atmosphere of increasing crisis.

Questions raised today will indicate that we don't even know whether the Penn Central is going to be able to sell its trustee certificates. This is scare talk, but nobody is in a position to make any guarantees. Even the question whether checks of the employees will be cashed at banks is in question. We have no assurance that an employee can rest assured that he can expect his check to be cashed and this is an important matter.

The questions about Penn Central are becoming quite familiar to all of us. How can a $7 billion corporation created only 2½ years ago amidst promises of great saving and success suddenly be unable to meet its current debts? What is needed to put it back on its feet? Whether or not there has been diversion from the transportation company into the affiliated corporations? We have no source of definite information which gives us definite answers to these questions.

For that reason we have asked the Chairman of the Interstate Commerce Commission to try to give us some of these answers today.

Let me say to you, as I have said repeatedly here before, your responsibility is not merely as a referee. You are charged with the responsibility of keeping a viable transportation system for this Nation.

Now, I don't know if you recognize the awesomeness of that, but it is one which I hope you will not try to hedge on, I hope you will accept the responsibility. I am not interested in going back into the past and finding a lot of blame, although if there is blame I certainly think it should be aired.

I am interested at this moment in proceeding from this step into the future to see what can be done to make sure the agencies delegated by the Congress absolutely makes sure it supervises the conduct of railroads and its transportation system.

I would compliment the ICC for starting the investigation into the affairs of the Penn Central. The fact that you have already started to examine the situation, in my opinion, is an improvement over the past performances in matters of this sort. It usually seems we have to prod the Commission to act. So to that extent we are moving somewhat forward.

I hope you will continue to anticipate our inquiries and take action before we ask you to do it and perhaps then some of our transportation problems can be solved before they become of crisis proportion.

(The article referred to follows:)

PENN CENTRAL INVESTIGATION

(Docket No. 35291)

The Interstate Commerce Commission today instituted an investigation into all phases of the operations, accounts, and financial transactions of the Penn Central Transportation Company and its affiliates. Penn Central, which petitioned for reorganization under the bankruptcy laws on June 21, has since been operated under the jurisdiction of the Federal District Court in Philadelphia. Nevertheless, the Commission explained, as a rail carier it also remains subject to the ICC's jurisdiction.

According to ICC Chairman George M. Stafford, the Commission has been conducting a staff investigation of the Penn Central's accounting practices and financial transactions for several weeks. Institution of the formal investigation under Section 12 of the Interstate Commerce Act, the Chairman said, will allow the Commission to examine the operating practices of the railroad and will also give it access to the records of Penn Central's affiliated companies.

Chairman Stafford emphasized that the Commission's concern wtih the Penn Central situation stems in large part from its need to develop better methods for forecasting and preventing possible similar problems on other railroads. From the Penn Central's experience, the Commission expects to develop new reporting and accounting regulations which will keep it and the public better informed concerning the operating and financial practices of railroads under the control of conglomerate holding companies.

Date of Service: July 2, 1970.

ORDER

At a General Session of the Interstate Commerce Commission, held at its offices in Washington, D.C. on the 2nd day of July, 1970.

No. 35291

INVESTIGATION INTO THE MANAGEMENT OF THE BUSINESS OF THE PENN CENTRAL TRANSPORTATION COMPANY AND AFFILIATED COMPANIES

The Penn Central Transportation Company on June 21, 1970, having petitioned for reorganization under Section 77 of the Bankruptcy Act, 11 U.S.C. § 205, *et seq.*, and the Commission deeming it necessary to carry out the provisions of the Interstate Commerce Act that it inquire into and report on the management of the business, the operations, the dealings and other practices of the carrier and of persons controlling, controlled by, or under a common control with, such carier; and good cause appearing therefor:

It is ordered, That pursuant to the provisions of Section 12(1) of the Interstate Commerce Act, 49 U.S.C. § 12(1), an investigation be, and it is hereby, instituted into and concerning the management of the business, the operations, the dealings and other practices of the Penn Central Transportation Company, the Penn Central Company, the Pennsylvania Company, and other persons controlling, controlled by, or under a common control with, the carrier, with a view to the making of a report and such order or orders as may be appropriate in the circumstances;

It is further ordered, That the Penn Central Transportation Company, the Penn Central Company and the Pennsylvania Company be, and they are hereby, made respondents in this proceeding, that this Order be served on said respondents, and that notice to the public be given by posting a copy of this order in the office of the Secretary of the Commission.

It is further ordered, That the Bureau of Enforcement of this Commission be, and it is hereby directed to participate in this proceeding as a party.

And it is further ordered, That in order to expedite this investigation, depositions may be taken and subpoenas may be issued for production of records for inspection upon the request of interested parties and a showing of the relevance of such request.

By the Commission.

[SEAL]

H. NEIL GARSON,
Secretary.

Date of Service: June 26, 1970.

ORDER

At a General Session of the Interstate Commerce Commission, held at its offices in Washington, D.C. on the 26th day of June 1970.

No. 35288

INVESTIGATION INTO THE MANAGEMENT, BUSINESS INTER-RELATIONSHIPS AND TRANSACTIONS OF THE KANSAS CITY SOUTHERN RAILWAY COMPANY AND THE LOUISIANA AND ARKANSAS RAILWAY COMPANY IN RELATION TO THEIR CONTROLLING HOLDING COMPANY, KANSAS CITY SOUTHERN INDUSTRIES, INC. AND PERSONS UNDER A COMMON CONTROL WITH THE CARRIERS.

The Commission having under consideration the matter of the management, business inter-relationships and transactions, financial, accounting and other practices of The Kansas City Southern Railway Company and The Louisiana and Arkansas Railway Company in relation to their controlling holding company, Kansas City Southern Industries, Inc. and persons under common control with the two rail carriers, particularly as to whether carrier funds and assets have been used for purposes not necessary to the honest, economical, and efficient operations of such rail corporations:

It is ordered, That pursuant to the provisions of the National Transportation Policy (49 U.S.C. preceding Sec. 1), Sections 12, 13 and 15a of the Interstate Commerce Act (49 U.S.C. 12, 13, 15a) and Sections 2, 3, and 10 of the Clayton Act (15 U.S.C. 13, 14, 20) an investigation be, and it is hereby instituted upon the Commission's own motion into and concerning the management, business inter-relationships and transactions, financial, accounting and other practices of The Kansas City Southern Railway Company and The Louisiana and Arkansas Railway Company in relation to their controlling holding company, Kansas City Southern Industries, Inc. and persons under common control with the two rail carriers, particularly but not limited to whether carrier funds and assets have been used for purposes not necessary to the honest, economical, and efficient operations of such rail carriers, in order to determine whether such practices may involve violations of law administered by this Commission or may be inconsistent with The National Transportation Policy, with a view to the making of a report and such order or orders as may be appropriate upon the record;

It is further ordered, That The Kansas City Southern Railway Company, The Louisiana and Arkansas Railway Company, Kansas City Southern Industries, Inc., and the following controlled or commonly controlled companies, American-Coleman Company; Carthage Cablevision, Inc.; Horndean, Limited; Alfred Lindgren, Inc.; Mid-America Cable TV, Inc.; Mid-America Television Company, Inc.; North Baton Rouge Development Company; Pabtex, Inc.; Supervised Investors Services, Inc.; Fort Smith and Van Buren Railway Company; Kansas City Shreveport and Gulf Terminal Company; Kansas City Southern Transport Company; Kansas and Missouri Railway and Terminal Company; The Arkansas Western Railway Company; Port Arthur Canal and Dock Company; Landa Motor Lines; Louisiana, Arkansas and Texas Transportation Company; Tolmak, Inc.; Joplin-Southern Corporation; Fort Smith Enterprises, Inc.; Railway Communications, Inc.; Rice-Carden Corporation; Grasis Fabricating Company; Oretta, Inc.; Veals, Inc.; Carland, Inc.; Taxpediters, Inc.; Trans-Serve, Inc.; Shreveport Cable TV Co.; Southern Enterprises, Inc.; Southern Development Co.; Joplin Union Depot Co., be and they are hereby made respondents in this proceeding, that this order be served on said respondents, and that notice to the public be given by posting a copy of this order in the office of the Secretary of the Commission.

It is further ordered, That the Bureau of Enforcement of this Commission be, and it is hereby directed to participate in this proceeding as a party.

It is further ordered, That in order to expedite this investigation, depositions may be taken and subpoenas may be issued for production of records for inspection in advance of the hearing upon the request, with or without notice, of interested parties and a showing of the relevance of such request.

And it is further ordered, That this proceeding be assigned for hearing at Washington, D.C. at a time to be fixed.

By the Commission.

[SEAL]

N. NEIL GARSON,
Secretary.

Senator HARTKE. You know I indicated I want to be kept advised on a daily basis. You have been somewhat derelict in this matter and maybe you don't have the information to give us. But let me point out quickly in the order issued by the court just a few hours ago, in fact since noon today, they made the same order to the parent company. The court insisted it be kept informed on a daily basis because they think this is of such an important nature.

Senator PEARSON. Mr. Chairman, Thank you.

Chairman Stafford, since your last appearance before the Subcommittee on Surface Transportation the Commission has initiated two full scale investigations into the intracorporate relationships among conglomerate enterprises, including a railroad subject to the jurisdiction of the Interstate Commerce Commission. I am referring of course to the Commission's recently initiated investigation of the Kansas City Southern and the Penn Central Transportation Co.

While I believe the Commission may be subject to criticism for having delayed so long in facing up to the troublesome problems associated with such conglomerate enterprises, I also believe the Commission is to be commended for its recent actions in this field. Although I believe it would be premature to ask you for any tentative conclusions with respect to the investigation of the Penn Central Transportation Co., its parent the Penn Central Co. and its subsidiary, the Pennsylvania Co., which investigation I understand was initiated only last Thursday, I will have, together with the other members of the committee, several questions concerning the scope of that investigation and the procedures to be followed in connection therewith.

Also, I would like to urge the Commission to undertake additional investigations of conglomerate holding companies which include railroads, because it seems to me it is too late in the game for the Commission to simply audit a few companies selected at random for purposes of deciding on new reporting forms and audit procedures to be applied commencing at some date in the future.

I am pleased to see you again and I certainly look forward to your testimony today.

Senator HARTKE. Senator Baker.

Senator BAKER. Thank you very much. I am reserving my comments and questions until later.

Senator HARTKE. I might say, Mr. Chairman, Mr. Perlman is going to appear here tomorrow. I might also express my disappointment that he only plans to answer questions without having a prepared statement. I would assume that he takes judicial notice of my concern and I would hope he changes his mind before he comes tomorrow.

I am not one that says you have to be prepared in advance, but I do think there are an awful lot of people who feel there are people who are in authority owe more than just a casual report to the Congress in this regard.

If you have a statement, sir, we would be glad to hear from you first. Would you first identify the individuals from your commission staff?

STATEMENT OF HON. GEORGE M. STAFFORD, CHAIRMAN, INTERSTATE COMMERCE COMMISSION; ACCOMPANIED BY FRITZ KAHN, DEPUTY GENERAL COUNSEL; HOWARD DOMINGUS, ASSISTANT DIRECTOR, BUREAU OF ACCOUNTS; JOHN GRADY, CHIEF, FIELD SERVICE; EDWARD MARGOLIN, DIRECTOR, BUREAU OF ECONOMICS; ROBERT G. RHODES, BUREAU OF ECONOMICS; THADDEUS W. FORBES, ASSOCIATE DIRECTOR, OFFICE OF PROCEDURES; JOHN MATTRAS, OFFICE OF PROCEEDINGS; AND WILLIAM J. McCORMICK, CHIEF, SECTION OF FINANCIAL ANALYSIS, BUREAU OF ECONOMICS

Mr. STAFFORD. Yes, I would like to identify those staff officials I was requested to bring with me today.

First of all, Deputy General Counsel Fritz R. Kahn to my left here; Assistant Director Howard Domingus of the Bureau of Accounts, to my right; then John Grady, Chief of the Field Service; Ed Margolin, Director of the Bureau of Economics, to my far left; and I brought with me Assistant Director Robert S. Rhodes of the Bureau of Economics and Ted Forbes, the Associate Director of the Office of Proceedings; John Mattras, Office of Proceedings; and Bill McCormick, Chief of the Section of Financial Analysis, Bureau of Accounts.

You asked whether I had a prepared statement for today. In view of the fact that this is a continuation of a previous hearing, I felt that you were more interested in getting right to questions that you might have for us and in view of the fact that we had prepared statements to start off our hearing with, we make ourselves available right now.

Senator HARTKE. All right. Let's go to cash flow.

Mr. KAHN. Let me respond initially, Mr. Chairman, to state that I believe the Commission has previously furnished the committee with cash flow data concerning the Penn Central since its filing of a petition for receivership in the U.S. District Court for the Eastern District of Pennsylvania. We are happy to report that the court heard from the petitioner last week and that Penn Central Transportation Co. has on hand approximately $37 million. Its projections for the month of July were to the effect that it anticipated having approximately the same amount of money at the end of the month of July.

This would mean that all payroll expenditures would be met and the prospects for continued viable operation by the transportation company were optimistic.

Senator HARTKE. About the payroll, what does it run monthly, do you know?

Mr. KAHN. Approximately $20 million a week, as I understand it.

Senator HARTKE. With the cash flow on hand, they anticipate they will have the same amount of money on hand at the end of the month that they had at the beginning?

Mr. KAHN. That is right.

Senator HARTKE. After making payments for payrolls and operating expenses?

Mr. KAHN. That is right.

Senator HARTKE. So there is no problem in that regard?

Mr. KAHN. We anticipate no problem.

Mr. STAFFORD. We mailed these figures yesterday or this morning to the committee.

Senator HARTKE. What other payments besides salaries are needed to keep the Penn Central running?

Mr. KAHN. The Penn Central will have to maintain a current balance of accounts on interline settlements and loss and damage claims and the like. The railroad as a transportation enterprise will need to be maintained and operated.

Senator BAKER. May I ask a question?

Senator HARTKE. Yes. I hope you feel free anytime you have questions on this to go right ahead rather than to make a request.

Senator BAKER. Did I understand you to say current balances for interline accounts?

Mr. KAHN. Yes, that is correct. At last week's hearing before Judge Fullam in receivership court, there was a question about interline settlements, payments for which became due in the month of June, and the court was of the opinion that only for that period of time were the claims of the connecting railroads to be treated as other claims against the estate. But thereafter, those interline settlements that became payable after the company went into receivership on June 21, that those payments should be kept on a current basis.

Senator BAKER. So current operating interline charges would be remitted as a cost of administration?

Mr. KAHN. That is correct, sir.

Senator HARTKE. Do you know what they run on an average monthly?

Mr. KAHN. It is my understanding, Mr. Chairman, that Penn Central runs a deficit monthly of approximately $20 million.

Senator HARTKE. What about the per diem payment on freight cars?

Mr. KAHN. That would be similarly treated.

Senator HARTKE. Do you know what that is?

Mr. KAHN. No, sir. I do not.

Senator HARTKE. Have you made any effort to find out?

Mr. KAHN. We will furnish that for the record.

Senator HARTKE. On these things, are you going behind the scenery?

Mr. KAHN. We most certainly are.

Senator HARTKE. You are doing more than just taking the accountants' word for it?

Mr. KAHN. Definitely.

Senator HARTKE. Is the Commission aware of any—in regard to the bookkeeping procedure——

Mr. STAFFORD. Mr. Chairman, Mr. Grady here is Chief of our Field Service and is directly involved in all of our operations that we have going on now regarding Penn Central, with some 13 or 14 examiners and accountants that we have up there. Can he speak to that?

Senator HARTKE. Yes, go right ahead.

Mr. GRADY. The staff we have assigned to the examination now, sir, is about 18 people.

Senator HARTKE. You have 18 people assigned specifically to the Penn Central operation?

Mr. GRADY. Yes, we have 13 in Philadelphia, three in New Haven and two in New York. To actually supplement the cash data here, the forecast data, we receive a daily cash receipts or a daily cash balance and it is phoned in daily by our audit staff to actually check these figures here. The latest cash balance we received was as of July 6th which tied in fairly closely with the actual company's projections.

To specifically answer your question as to the scope of the audit, the scope of the audit has been expanded to cover other items not normally covered in a normal examination. We are going beyond this particular thing. The things we are going into, we are going into many of the areas here that would normally not have been examined as a result of the special investigation concerning the operations here of the Penn Central Transportation Co., the financial situation here of the Penn Central operation, the impact upon the operations of the conglomerate and what impact if any this had upon the transportation company's ability to actually maintain a viable transportation system.

Senator HARTKE. Is there a cash flow statement submitted to the creditor banks by the railroad?

Mr. GRADY. I am not too sure of that. A cash flow statement is currently under preparation which will be available on Friday of this week and it projects the cash flow from August 1st up through, I believe, December 31 of this year.

Mr. KAHN. If I may interrupt, Mr. Chairman, such a statement was introduced as evidence before the reorganization court and was available to the creditor banks as well as other parties at that time.

Senator HARTKE. From what dates, though, not August 31st of this year?

Mr. KAHN. This covered the projections for the month of July, sir.

Senator HARTKE. What I am asking is, is there furnished a cash flow statement on a daily basis now to the creditor banks?

Mr. KAHN. It is certainly being supplied to the receivership court and the ICC. I would asume the same information would be available to them.

Senator HARTKE. What I am trying to find out is if you are getting the same statement as the creditors.

Mr. KAHN. We have no doubt we are getting the same information as the creditor banks.

Senator HARTKE. What about the problems with electrical power and fuel maintenance?

Mr. KAHN. We have no difficulty there. These are current operating costs and will be treated as such in the reorganization court, as we understand it. There would be no difficulty anticipated in meeting those payments.

Senator HARTKE. All right.

Have you gone back into the cash flow operations of the Penn Central for the past 2 years?

Mr. KAHN. It is my understanding our auditors will be compiling that information as well.

Mr. GRADY. Our instructions to the staff were to make a cash flow study from the inception of the merger of the Penn Central from 1968 up to date.

Senator HARTKE. Have you gone back beyond the merger?

Mr. GRADY. No, sir.

Senator HARTKE. Do you intend to?

Mr. GRADY. It was not our first intention to do so.

Senator HARTKE. Why not? Let me draw the picture for you as to what I am driving at.

I want to find out what happened to the money. I want to find out if they had money ahead of time, if they took money and drained it off from the transportation company to make these acquisitions. I want to find out where that money went to and what caused the demise of this operation.

Mr. KAHN. The Commission certainly shares that concern, Mr. Chairman. We think a good point of departure might be with the merger of the two transportation companies and we think there is, at this point, at least, until our investigation discloses that the contrary may be the case, we think there is little value of going back beyond the date of the merger.

Senator PEARSON. Would you object to filing with the committee your instructions to the auditors in connection with your pending investigation of the Penn Central Company?

Mr. GRADY. No, I would not.

Senator PEARSON. I would ask that be done.

Mr. STAFFORD. Yes.

Senator HARTKE. All right, we will ask the Commission to do that.

In line with this, will you furnish to the committee monthly cash flow statements?

Mr. STAFFORD. Yes.

Senator HARTKE. And forecast of cash flows?

Mr. STAFFORD. Yes, we will.

Senator HARTKE. The purpose of this is frankly on this line we hope you will notify us immediately if there is any change which would indicate that the railroad could not continue operating.

Mr. KAHN. That is right.

Senator HARTKE. The fact of the matter is, I would hope you would not wait if you saw some significant change in either direction. That is, a direction which would indicate that the railroad might be required to do something in severing some of its services or curtailing some of its services or stopping them.

On the other side of the coin, I would be just as interested, and I think the committee would, if indications were that there was a sudden reversal that indicated they were moving into a better circumstance.

Mr. STAFFORD. This is one of the basic purposes of the study, as well as setting up guidelines to be used on other roads where we feel there might be a problem.

Mr. KAHN. In that connection, I think it might be worthwhile to mention that yesterday's development posed a real threat to the economic viability of the Penn Central Transportation Co., even in receivership. As you will recall, three railroads were struck and there was a threat of a retaliatory lockout.

If that had occurred, the cash flow picture would have been thrown askew and the continued viability of that enterprise would have been jeopardized. Happily, of course, the emergency procedures have been invoked.

Senator HARTKE. All that does is add to our troubles.

Mr. KAHN. Very significantly, sir.

Senator HARTKE. Yes, it is unfortunate that we have to deal with this in a transportation crisis of this proportion. The whole country could be put to a standstill overnight.

Mr. KAHN. I think the legislation you are considering is not supported by the Commission in any sense of crisis. I think the Commission is persuaded for a need of a loan guarantee program separate and apart of the immediate crisis of the Penn Central Transportation Co.

Senator BAKER. I understood that there was a request by the committee to supply a monthly statement of operating projections or cash flow projections.

Mr. STAFFORD. That is right.

Senator BAKER. One of the things that concerns me, and it might be incorporated in your monthly report to the committee, is items of deferred maintenance. Some charges can be deferred indefinitely in some categories. I am not certain, but I will guess that a good bit of ordinary routine maintenance is being deferred in order to improve the cash position.

Mr. STAFFORD. That is right.

Senator BAKER. Would you be in a position to give us some estimate at some point how much is being deferred and for how long?

Mr. KAHN. This is a very difficult thing to pin down, Senator, in that the standard of maintenance itself is a very elusive item. But certainly auditors are compiling this information, yes.

Senator HARTKE. I think Senator Baker makes a good point.

In other words, we still want to find out, if we can, I think it has been delayed much too long now. I think we should have known this. But there is no need to go behind that.

Mr. KAHN. In that connection, I think it is fair to say that the Commission recognized well before June 21st the financial difficulties in which the Penn Central Transportation Co. finds itself.

Senator HARTKE. Can you give us the time when it became evident to the Commission?

Mr. KAHN. At the time, the $100 million debenture of the Pennsylvania Co. failed to find a ready market and it became accentuated and became quite obvious when the management of the Penn Central Transportation Co. was seeking a Government guaranteed loan. It was very obvious at that point.

Senator HARTKE. Was it obvious to you before that time?

Mr. KAHN. The Commission had indications even before that, yes, sir.

Senator HARTKE. When did it have indications before that?

Mr. KAHN. The Commission report on October 29, 1969, calls attention to the fact that the Penn Central Transportation Co. was invoking short-term financing devices that were more appropriate to long-term financing; yes, sir.

Senator HARTKE. What action, if any, did you take upon that, anything?

Mr. KAHN. In view of the market conditions, the Commission in its report of October 29 approved that particular transaction because of the needs of the company.

Senator HARTKE. Did you make an investigation at that time into any of its financial operations or did you attempt to?

Mr. KAHN. The Commission had a reasonably comprehensive picture at the time it considered this particular application.

Senator HARTKE. In that October report, what type of financing was involved?

Mr. KAHN. This was authorization for, I believe, $50 million of unsecured short-term credits.

Senator HARTKE. Would this come under section 20 a (2)?

Mr. KAHN. Yes, sir, that came under section 20 a.

Senator HARTKE. In your survey at the same time you did approve of the short-term financing, correct?

Mr. KAHN. That is correct, noting, however, that the approval was reluctantly given because of the strained circumstances in the capital market.

Senator HARTKE. Did you feel if you did not grant the authority at that time that it would impair the ability of the carrier to perform its function?

Mr. KAHN. I think that is a fair conclusion to draw from that report, sir.

Senator HARTKE. Did you require at that time any statement from the company as to the good faith that they would make in this type of approach toward their financial need?

Mr. KAHN. I think at that time there was no need apparent for calling for that kind of extraordinary statement.

Senator HARTKE. Why not?

Mr. KAHN. We do not normally question the good faith of an applicant.

Senator HARTKE. Well, you had a situation develop here in which you seriously questioned whether or not the indebtedness was first compatible with the public interest, you questioned that, did you not?

Mr. KAHN. But, sir, I noted the fact that we were as much concerned by the state of the market as we were by the state of the railroad itself.

Senator HARTKE. Of course. I think we will make that report part of the record.

(Testimony resumes on p. 180.)

(The information follows:)

INTERSTATE COMMERCE COMMISSION REPORTS

FINANCE DOCKET NO. 25854

PENN CENTRAL TRANSPORTATION COMPANY NOTES

Decided October 29, 1969

Authority granted to Penn Central Transportation Company to issue its short-term unsecured promissory notes in the nature of commercial paper in aggregate principal amount not exceeding $50 million at any one time outstanding, subject to condition.

Edward A. Kaier and *Edwin K. Taylor* for applicant.

REPORT OF THE COMMISSION

DIVISION 3, COMMISSIONERS TUGGLE, DEASON, AND HARDIN

BY DIVISION 3:

The Penn Central Company (name changed to Penn Central Transportation Company on October 1, 1969), by application filed September 12, 1969, as supplemented October 2, 1969, seeks authority under section 20a of the Interstate Commerce Act to issue its short-term unsecured promissory notes in the nature of commercial paper during a period ending September 30, 1974, in aggregate total principal amount not exceeding $50 million at any one time outstanding. No objection to the application has been offered.

Applicant is a common carrier by railroad subject to part I of the Interstate Commerce Act. It was incorporated under the laws of the Commonwealth of Pennsylvania by special act dated April 13, 1846, and acts supplemental thereto, as The Pennsylvania Railroad Company and is the surviving company of a merger with The New York Central Railroad Company effective February 1, 1968. Applicant amended and restated its articles of incorporation on May 19, 1969. It operates or is authorized to do business in the States of Connecticut, Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, Massachusetts, Missouri, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Virginia, West Virginia, and in the District of Columbia.

Pursuant to resolutions of its board of directors adopted August 27, 1969, applicant proposes to borrow a presently undetermined total aggregate principal amount within a period ending September 30, 1974, from one or more banks and other lenders, and to issue and deliver in evidence thereof through Morgan Guaranty Trust Company of New York, New York, N.Y., as its issuing agent, short-term unsecured promissory notes in the nature of commercial paper, not in excess of $50 million at any one time outstanding. The notes would be dated as of the date of issue, would mature not more than 1 year from date of issue and would be issued at any time and from time to time during a period ending September 30, 1974, in any principal amount which is not less than $50,000, but in aggregate total principal amount not in excess of $50 million at any one time outstanding.

The commercial paper notes would be of two types, discount notes without interest, and nondiscount notes with interest. The discount rate or the interest rate would not exceed the highest prime rate of interest of leading commercial banks in New York City at the time of borrowing plus 1½ percent per annum. The notes would be unsecured and would be in the form set out in the application.

Although commercial paper notes are ordinarily drawn with a 270-day or less maturity, the commercial paper notes proposed to be issued by applicant will have a maturity as long as 1 year from date of issue. To this extent they will vary from the ordinary commercial paper notes.

Applicant has presently outstanding $150 million of commercial paper, consisting of $100 million authorized in Finance Docket No. 25179, on July 22, 1968, and $50 million authorized in Finance Docket No. 25570 on March 19, 1969, as modified on August 12, 1969. By second supplemental order dated September 25, 1969, in Finance Docket No. 25570, the order of March 19, 1969, was further modified so as to extend to December 31, 1970, the time within which applicant may issue the notes authorized therein. In addition, applicant has $250 million of revolving credit notes outstanding, which were authorized in Finance Docket No. 25622, on May 12, 1969. The details of these outstanding obligations are shown in appendix A.

The proceeds of the issue would be used (1) to reimburse applicant's treasury in part for past capital expenditures and matured obligations, and (2) to replenish its cash. Applicant furnished a listing of roadway and structure projects, each over $250,000 carried out in the period January 1, 1966, to August 31, 1969, which totaled $207,264,000. These, together with $90,936,000 of similar projects of less than $250,000 each indicate a total of $298,200,000 was expended for such projects during said period. Those projects together with capital expenditures for equipment during the same period amounting to $418,695,000, produce a grand total of $716,895,000 of expenditures for roadway and equipment during the period. The details of the equipment expenditures are summarized in appendix B.

Capitalizable assets as of June 30, 1969, excluding applicant's investments in affiliated companies and other investments, consisting of investments in road and equipment, less depreciation and amortization as of that date, amounting to $2,697,964,372, exceeded capitalization of $2,042,189,682 consisting of long-term debt due within 1 year $75,165,330, long-term debt due after 1 year $1,638,-516,414, capital stock $241,092,700, and premiums and assessments on capital stock $87,415,238, by $655,774,690. As of June 30, 1969, applicant's current liabilities of $500,391,914 exceeded its current assets of $452,023,797 by $48,368,117.

Applicant has been subjected to fairly heavy capital expenditures and maturities in recent years. As previously indicated, the improvement program totaled $716,895,000 for the period 1966, 1967, 1968, and the first 8 months of 1969. Debt maturities were $320,700,000 making a total of debt maturities and capital expenditures of $1,037,595,000 during the period. Details of these items are set out in appendix C together with the financing means used during the period. Of the total amount, $828,875,000 was financed through equipment trusts, conditional sales agreements, stock options, revolving credit agreements, commercial paper, Eurodollar loan, and other financing mediums, leaving a balance of $208,-720,000 not financed during the period.

According to the investment banking firm which usually handles applicant's commercial paper, unless market conditions change, there is a market for an additional $50 million of applicant's notes.

Issuance of commercial paper notes of a maturity of not more than 1 year apparently affords applicant access to a source of money at relatively favorable interest rates. Its commercial paper rate, exclusive of the ⅛ of 1 percent commission to the commercial paper dealer, at the present time ranges from 8¼ percent to 8⅝ percent per annum, whereas, the bank prime rate is 8½ percent per annum at the present time. However, applicant states that lending banks require borrowers to maintain compensating balances on deposit amounting to 15 to 20 percent of the borrowing from the bank and such requirements add to the cost of bank borrowing.

Since December 31, 1965, applicant has completed long-term financings of equipment in the amount of $332,400,000. In addition, in July 1969, The Pennsylvania Company, applicant's subsidiary, sold $35 million of long-term securities and contemplates the sale of an additional $40 million in the last quarter of the current year. Applicant alleges that it is currently intensively studying various alternatives for a long-term financing program in 1970. Market conditions, legal restrictions, cash requirements and other variables will reportedly determine applicant's decision relative to its 1970 financing program, but at present, applicant contemplates the inclusion of (a) a blanket mortgage or collateral trust, (b) additional issues of a subsidiary, and/or (c) the sale of assets.

Applicant feels that long-term financing at the present time is not feasible due to the tight money situation. Although we are sympathetic to applicant's problem. short-term financing has traditionally been relied upon to finance short-term needs and is not normally regarded as a proper source of long-term financing of capital expenditures or for refinancing of maturing long-term debt. As of June 30, 1969, applicant had a deficit working capital situation which can be expected to worsen if reliance on short-term financing is increased. The exhaustion of short-term credit to refinance maturing long-term debt or to finance long-term capital expenditures could expose a carrier to a serious crisis in the event of an economic squeeze, at which time a carrier may require short-term financing for traditional use. We are, therefore, concerned about the use of short-term financing for long-term purposes and feel that where necessary it should be resorted to cautiously.

On the whole applicant is in a strong financial condition and in view of the present tight money market and applicant's stated intent to negotiate long-term financing as soon as it is feasible, we conclude that the application should be approved, subject to a condition restricting the issuance of such notes to a period not exceeding 2 years from the date the order herein is served.

Subject to the aforesaid condition, we find that the proposed issue and sale by Penn Central Transportation Company of its short-term unsecured commercial paper promissory notes in principal amount not exceeding $50 million at any one time outstanding, as aforesaid, (a) is for lawful objects within its corporate purposes and compatible with the public interest, which are necessary and appropriate for and consistent with the proper performance by it of service to the public as a common carrier, and which will not impair its ability to perform that service, and (b) is reasonably necessary and appropriate for such purposes.

An appropriate order will be entered.

APPENDIX A

PENN CENTRAL CO. NOTE AUTHORITY AS OF OCT. 1, 1969

	Amount issued	Amount remaining to be issued	Amount outstanding
F. D. No. 24634—July 17, 1967: PRR revolving credit notes.	$15,000,000	None	None. These notes were refunded and superseded by notes issued pursuant to F. D. No. 25397.
F. D. No. 25179—Aug. 15, 1967:			
Penn Central commercial paper	100,000,000	None	$100,000,000.
Penn Central promissory notes	50,000,000	$50,000,000. This authority is reserved to refund commercial paper.	None.
F. D. No. 25397—Dec. 11, 1968: Penn Central revolving credit notes.	100,000,000	None	None. These notes were refunded and superseded by notes issued pursuant to F. D. No. 25622.
F. D. No. 22570—Mar. 20, 1969: Penn Central commercial paper.	50,000,000	None	$50,000,000.
F. D. No. 25622—May 16, 1969: Penn Central revolving credit notes.	250,000,000	$50,000,000. This authority is reserved to refund commercial paper.	$250,000,000.
Penn Central term notes	None	$300,000,000. This authority is reserved to refund up to $300,000,000 of revolving credit notes.	None.

APPENDIX B

PENN CENTRAL CO. CAPITAL EXPENDITURES—EQUIPMENT FOR THE PERIOD JAN. 1, 1966, TO AUG. 31,1969

[In thousands]

Description	1966	1967	1968	1969
Locomotives	$27,586	$34,024	$2,836	$4,889
Freight train cars	138,865	62,730	93,900	23,719
Passenger train cars	11,778	1,067	4,086	822
Floating equipment	732	490	288	
Work equipment	4,118	828	3,036	299
Miscellaneous equipment	1,163	1,223	216	
Total	184,242	100,362	104,362	29,729
Total for the period				418,695

APPENDIX C

PENN CENTRAL CO.

	1966	1967	1968	(1st 8 months) 1969
Capital expenditures:				
Road	$76,933,000	$83,428,000	$86,839,000	$51,000,000
Equipment	184,243,000	100,362,000	104,361,000	30,000,000
Total capital expenditures	261,176,000	183,790,000	191,200,000	81,000,000
Maturities	73,800,000	76,800,000	113,900,000	56,200,000
Total capital expenditures and maturities	334,976,000	260,590,000	305,100,000	137,200,000
Financing:				
Equipment trusts	44,010,000	21,675,000		
Conditional sale agreements	102,651,000	58,837,000	74,270,000	31,000,000
Stock options	2,237,000	2,974,000	1,418,000	671,000
Revolving credit agreement			100,000,000	150,000,000
Eurodollar loan			50,000,000	
Commercial paper			100,000,000	50,000,000
Other	2,312,000	1,956,000	31,900,000	2,962,000
Total financing	151,212,000	85,442,000	357,588,000	234,633,000
Excess of expenditures over financing (cumulative)	183,764,000	358,912,000	306,424,000	208,720,000

ORDER

At a Session of the Interstate Commerce Commission, Division 3, held at its office in Washington, D.C., on the 29th day of October 1969.

FINANCE DOCKET No. 25854

PENN CENTRAL TRANSPORTATION COMPANY NOTES

Investigation of the matters and things involved in this proceeding having been made, and said division, on the date hereof, having made and filed a report containing its findings of fact and conclusions thereon, which report is hereby referred to and made a part hereof:

It is ordered, That, subject to the condition prescribed in said report, Penn Central Transportation Company (formerly the Penn Central Company), be, and it is hereby, authorized to issue and sell not exceeding $50 million of its short-term unsecured commercial paper notes, at any one time outstanding, upon the terms and for the purposes stated in the report;

It is further ordered, That, except as herein authorized, said notes shall not be sold, pledged, repledged, or otherwise disposed of by the applicant unless or until so ordered or approved by this Commission;

It is further ordered, That the applicant shall report concerning the matters herein involved in conformity with the order of the Commission, by division 3,

dated May 20, 1964, as amended, respecting applications filed under section 20a of the Interstate Commerce Act (49 CFR 1115.6) ; and

It is further ordered, That nothing herein shall be construed to imply any guaranty or obligation as to said notes, or interest thereon, on the part of the United States.

By the Commission, division 3.

[SEAL] H. NEIL GARSON, *Secretary.*

Served November 6, 1969.

INTERSTATE COMMERCE COMMISSION

FINANCE DOCKET NO. 25932 [1]

PENNSYLVANIA COMPANY DEBENTURES

Decided December 18, 1969

Authority granted (1) in Finance Docket No. 25932 to Pennsylvania Company to issue and sell its 9-percent sinking fund debentures due 1994 in principal amount not exceeding $50,000,000, and (2) in Finance Docket No. 25931, to Penn Central Transportation Company to issue its long-term promissory notes in principal amount not exceeding $49,000,000, without competitive bidding.

Edward A. Kaier and *Edwin K. Taylor* for applicants.

REPORT OF THE COMMISSION

BY THE FINANCE BOARD, MEMBERS GRUTZIK, MCCORMICK, AND MATTRAS:

By application filed November 10, 1969, as last amended and supplemented December 16, 1969, in Finance Docket No. 25932, the Pennsylvania Company, (Pennsylvania Co.) a Delaware corporation, seeks authority under section 20a of the Interstate Commerce Act to issue and sell not exceeding $50,000,000 principal amount of its 9-percent sinking fund debentures due 1994, and by application filed the same date, as last amended and supplemented December 10, 1969, in Finance Docket No. 25931, Penn Central Transportation Company, (P.C.T .Co.) seeks authority under the same section of the Act to issue its long-term promissory notes in total principal amount not exceeding $50,000,000 to evidence a loan to be made to it by Pennsylvania Co. from the proceeds of sale of the said debentures. No objection to the application has been offered.

Pennsylvania Co. is a non-carrier holding company all of whose stock is owned by P.C.T. Co. It was organized under the laws of the State of Delaware on December 12, 1958, and is a successor to an older Pennsylvania corporation by the same name. In Finance Docket No. 20473, *Pennsylvania Company (Delaware)—Control-Railroad Properties of Pennsylvania Company (Pennsylvania)*, embracing Finance Docket No. 20472, *Pennsylvania Company (Delaware) Stock, Etc.*, decided March 27, 1959 (not printed in full), Pennsylvania Co. was authorized to acquire control or joint control, directly or indirectly, of the carriers of the system theretofore controlled by its predecessor by purchase of the properties of the latter and, pursuant to section 5(3) of the Act, was made subject to the provisions of section 20a(2) to (11), inclusive, and section 20(1) to (10), inclusive, of the Act.

Pursuant to action taken by its board of directors at a meeting held October 22, 1969, Pennsylvania Co. proposes to issue and sell not exceeding $50,000,000 of its 9-percent sinking fund debentures due December 1, 1994. The debentures will be convertible during the period November 1, 1970 to April 15, 1979, for shares of Norfolk and Western Railway Company (Norfolk and Western) common stock at the rate of 12.2 shares of Norfolk and Western common stock for each $1,000 principal amount of debentures. Interest will accrue on the debentures from December 1, 1969. The debentures will have the benefit of a

[1] This report also embraces Finance Docket No. 25931, *Penn Central Transportation Company Notes.*

mandatory sinking fund by which applicant Pennsylvania Co. will be required to deposit with the trustee at least one day before December 1 in each year from 1979 to 1993, inclusive, money sufficient to redeem at their principal amount plus accrued interest, 6¼ percent of the principal amount of debentures outstanding on April 15, 1979, or in lieu thereof to deliver to the trustee debentures of like amount for cancellation. The sinking fund will retire 93.75 percent of the debentures prior to their maturity. Optional sinking fund payments may also be made by applicant in any year but such payment may not exceed the amount of the mandatory payment for such year.

The debentures will be redeemable at the option of Pennsylvania Co. in whole or in part at any time on and after December 1, 1974, at redemption prices (plus accrued and unpaid interest) beginning at 110 percent of the principal amount of the debentures, reducing to 106 percent of the principal amount of the debentures on December 1, 1979, and thereafter reducing ½ of 1 percent per annum until December 1, 1991, when the redemption price will be 100 percent of the principal amount of the debentures.

The proposed debentures will be issued under and pursuant to the terms of an indenture to be dated as of December 1, 1969, between Pennsylvania Co. and Bankers Trust Company, as trustee, will be limited in aggregate principal amount to $50,000,000, will be issuable in registered form only, in denominations of $1,000 and multiples thereof, each debenture to be dated the date of its authentication, will bear interest at the rate of 9 percent per annum, payable semiannually on each June 1 and December 1, commencing June 1, 1970, and will mature as to principal on December 1, 1994.

In order to have available the necessary shares of Norfolk and Western common stock to effect conversion of the proposed debentures, Pennsylvania Co. has entered into an escrow agreement with Bankers Trust Company dated as of December 1, 1969, and pursuant thereto will deposit 540,584 shares of no par common stock of Wabash Railroad Company (Wabash) with the trustee which are to be exchanged on October 15, 1970, for 610,000 shares of common stock of Norfolk and Western, an amount sufficient to effect the conversion of all of said debentures. By agreement between Pennsylvania Co. and Norfolk and Western dated March 1, 1961, amended October 1, 1964, Pennsylvania Co. will on October 15, 1970 exchange 595,255 shares of common stock of Wabash for 671,691 shares of common stock of Norfolk and Western. The latter transaction was authorized by the Commission in the Norfolk and Western Merger case.[2] Immediately upon the effectuation of the exchange the Norfolk and Western common stock will be held pursuant to the divestiture conditions of our orders dated June 24, and October 9, 1964, in the Norfolk and Western merger proceeding and the voting rights will be subject to the three voting trust agreements established pursuant to said orders. By the Commission's supplemental report and order dated December 10, 1969, in Finance Docket No. 21510, the period of divestiture has been extended from October 15, 1974, to October 15, 1979, in respect of 1,071,692 shares of common stock of Norfolk and Western.

The debentures will be sold to a group of underwriters headed by The First Boston Corporation and Glore Forgan, Wm. R. Staats, Inc., at 98 percent of par, and will be offered to the public at 100 percent of par. The proceeds to Pennsylvania Company will amount to $49,000,000.

Pennsylvania Co.'s capitalizable assets as of June 30, 1969, were sufficient to support the proposed increase in its capitalization. Pennsylvania Co.'s net income after fixed charges and other deductions for the six month period ended June 30, 1969, amounted to $24,804,924. In recent prior years, Pennsylvania Co.'s net earnings and fixed interest coverage have been:

	Net earnings	Times fixed charges earned
1964	$38,694,000	13.5
1965	44,261,000	13.9
1966	44,326,000	14.7
1967	40,728,000	13.2
1968	46,920,000	15.4

[2] Finance Docket No. 21510, *Norfolk & Western Ry. Co. and New York C. & St. L. R. Co. Merger, Etc.*, 324 I.C.C. 1.

Pennsylvania Co. estimates the cost of issuance of the proposed debentures. exclusive of underwriters' discount, will be as follows:

Printing and engraving	$48,000
Legal fees	6,500
Trustee's fees	80,000
Listing fee, New York Stock Exchange	6,000
Miscellaneous	500
Total	141,000

P.C.T. Co. was incorporated under the laws of the Commonwealth of Pennsylvania by special act dated April 13, 1846, and acts supplemental thereto as The Pennsylvania Railroad Company. On February 1, 1968, its charter was amended pursuant to agreement of merger dated January 12, 1962, with The New York Central Railroad Company. On October 1, 1969, its name was changed to Penn Central Transportation Company pursuant to a plan of merger and reorganization dated May 15, 1969. The plan of merger and reorganization was filed in Finance Docket No. 25854, *Penn Central Transportation Company Notes*, 336 I.C.C. 1.

As mentioned above, P.C.T. Co. proposes to borrow from the Pennsylvania Co., all of the proceeds of the said debentures received by the Pennsylvania Company, which comes to $49,000,000 or $1,000,000 less than the authority requested in the application filed in Finance Docket No. 25931. The purpose of the borrowing is to provide P.C.T. Co. with cash to reimburse its treasury for prior capital expenditures and payment of debt maturities which were not refinanced and to replenish its working cash. P.C.T. Co.'s capital expenditures, maturities and financing for the years 1966, 1967, 1968 and the first nine months of 1969 are shown in detail in the Appendix hereto, which statement indicates that over the three year and nine month period its expenditures for such purposes exceeded its financing by $222,885,000.

P.C.T. Co.'s board of directors at a meeting held October 22, 1969, authorized the proposed borrowing of up to $50,000,000 from Pennsylvania Co. and the issuance of the proposed long-term promissory notes to evidence such debt. The notes will be issued to the Pennsylvania Co. in individual principal amounts not less than $1,000,000 each, and in total aggregate principal amount not exceeding $49,000,000 will be dated the date of their issuance, will bear interest at the rate of 9¼ percent per annum, payable semiannually on each May 31 and November 30, commencing May 31, 1970, be unsecured and will be payable in annual installments equal to 6¼ percent of the original principal amount of each note commencing November 30, 1979, and continuing until maturity. Such installments will amortize the notes in equal installments of principal and will provide Pennsylvania Co. with cash approximately equal to the sinking fund payments on its proposed issue of debentures.

P.C.T. Co.'s investment in road and equipment, less amortization and depreciation reserves, as of June 30, 1969, alone, amounting to $2,697,964,372 exceeds its capitalization amounting to $2,042,189,682, consisting of long-term debt due within 1-year $75,165,330, long-term debt due after 1-year $1,638,516,414, capital stock $241,092,700, and premiums and assessments on capital stock $87,415,238, by $655,774,690. The issuance of the proposed notes will not materially change this excess of capitalizable assets.

P.C.T. Co. requests that we authorize it to issue its notes without competitive bidding under exception (7) stated on page 164 of Ex Parte 158, *In Re Competitive Bidding in Sale of Securities*, 257 I.C.C. 129, because due to the nature of the transaction it is not feasible to issue the notes at competitive bidding, and it would be to applicant's interest to issue long term notes to its subsidiary as proposed herein. In view of the relationship of P.C.T. Co. to Pennsylvania Co. we see no reason to require competitive bidding in this instance. Considering the purpose of the issue and all other circumstances, we conclude that exemption from the requirement of competitive bidding is warranted.

P.C.T. Co. states that there will be no discounts, commissions, or expenses of issue other than the costs and expenses of the preparation of the application herein.

Upon consideration of all the facts recited and the circumstances involved, we are of the opinion that the authority requested with respect to the issuance of the proposed debentures by Pennsylvania Co., and the proposed issuance of notes by P.C.T. Co. without competitive bidding, in the principal amount not exceeding $49,000,000, should be granted.

We find, in Finance Docket No. 25932, that the proposed issue and sale by

Pennsylvania Company of its 9-percent sinking fund debentures due December 1, 1994, in total principal amount not exceeding $50,000,000, as aforesaid, is consistent with the proper performance of service to the public by each carrier which is under its control, that it will not impair the ability of any such carrier to perform such service, and that it is otherwise consistent with the public interest.

We further find, in Finance Docket No. 25931, that the proposed issue by the Penn Central Transportation Company of its long-term promissory notes in total principal amount not exceeding $49,000,000, as aforesaid, (a) is for lawful objects within its corporate purposes and compatible with the public interest, which are necessary and appropriate for and consistent with the proper performance by it of service to the public as a common carrier, and which will not impair its ability to perform that service, and (b) is reasonably necessary and appropriate for such purposes.

We further find, in Finance Docket No. 25931, that competitive bidding should not be required with respect to the issue by Penn Central Transportation Company of the proposed $49,000,000 of long-term promissory notes.

An appropriate order will be entered.

PENN CENTRAL TRANSPORTATION CO.

	1966	1967	1968	1969 (1st months)
Capital expenditures:				
Road	$76,933,000	$83,428,000	$86,839,000	$61,600,000
Equipment	184,243,000	100,362,000	104,361,000	40,600,000
Total, capital expenditures	261,176,000	183,790,000	191,200,000	102,200,000
Maturities	73,800,000	76,800,000	113,900,000	64,700,000
Total, capital expenditures and maturities	334,976,000	260,590,000	305,100,000	166,900,000
Financing:				
Equipment trusts	44,010,000	21,675,000		
Conditional sale agreements	102,651,000	58,837,000	74,270,000	46,800,000
Stock options	2,237,000	2,974,000	1,418,000	677,000
Revolving credit agreement			100,000,000	150,000,000
Eurodollar loan			50,000,000	
Commercial paper (see note)			100,000,000	50,000,000
Other	2,312,000	1,956,000	31,900,000	2,962,000
Total, financing	151,212,000	85,442,000	357,588,000	250,439,000
Excess of expenditures over financing (cumulative)	183,764,000	358,912,000	306,424,000	222,885,000

Note: Does not include authority granted by the Interstate Commerce Commission under Finance Docket No. 25854 to issue an additional $50,000,000, of commercial paper notes.

ORDER

At a Session of the Interstate Commerce Commission, the Finance Board, held at its office in Washington, D.C., on the 18th day of December, 1969.

FINANCE DOCKET NO. 25932

PENNSYLVANIA COMPANY DEBENTURES

FINANCE DOCKET NO. 25931

PENN CENTRAL TRANSPORTATION COMPANY NOTES

Investigation of the matters and things involved in these proceedings having been made, and said Board, on the date hereof, having made and filed a report containing its findings of fact and conclusions thereon, which report is hereby referred to and made a part hereof:

It is ordered, That (1) in Finance Docket No. 25932, Pennsylvania Company be, and it is hereby, authorized to issue not exceeding $50,000,000 principal amount of its 9-percent sinking fund debentures due December 1, 1994, upon the terms and for the purposes stated in said report, and (2) in Finance Docket No. 25931, Penn Central Transportation Company be, and it is hereby, authorized to issue without competitive bidding not exceeding $49,000,000 principal amount of its lnog-term promissory notes, upon the terms and for the purposes set forth in said report;

It is further ordered, That, except as herein authorized, said debentures and said notes shall not be sold, pledged, repledged or otherwise disposed of by Pennsylvania Company or Penn Central Transportation Company unless or until so ordered or approved by this Commission;

It is further ordered, That each applicant shall report concerning the matters herein involved in conformity with the order of the Commission, by Division 3, dated May 20, 1964, as amended, respecting applications filed under section 20a of the Interstate Commerce Act (49 CFR 1115.6); and

It is further ordered, That nothing herein shall be construed to imply any guaranty or obligation as to said debentures or notes, or interest thereon, on the part of the United States.

By the Commission, the Finance Board.

[SEAL] H. NEIL GARSON, *Secretary.*

Mr. STAFFORD. It has been called to my attention, language from this report: "on the whole applicant is in strong financial condition and in view of the present tight-money market and applicant's stated intent to negotiate long-term financing as soon as it is feasible, we conclude the application should be approved subject to accepting the issuance of such needs to a period not exceeding 2 years from the date the order is served."

Senator HARTKE. The importance of this section is not alone to make that determination in accordance with the market conditions and in accordance with the financial condition of the railroad, but also to come back and make a determination whether it is compatible with the public interest, first, and second, whether it is necessary or appropriate or consistent with the proper performance by the carrier and whether it is going to impair their ability as a carrier, isn't that true?

Mr. STAFFORD. Yes, sir.

Senator HARTKE. Did you make that determination at that time?

Mr. STAFFORD. This was part of the determination at that time.

Senator HARTKE. All right, we have to go to a vote. Was there an attempt at that time to really secure long-term financing or was it just a decision of the directors to come in with short-term financing at that time?

Mr. STAFFORD. They advised it was their intention to obtain long-term financing.

Senator HARTKE. But did they say at that time they could not obtain it?

Mr. KAHN. Which was confirmed by our staff.

Senator HARTKE. It was ascertained that they could not go to the market at that time.

Mr. KAHN. On favorable terms; yes, sir.

Senator HARTKE. What do you mean by that?

Mr. KAHN. You can always float a security issue if the interest rate is high enough.

Senator HARTKE. Well, they couldn't float one at ten and a half.

Mr. KAHN. There are some who say if they had gone higher they might have been able to float the issue.

Senator HARTKE. Well, the problem was they couldn't find buyers because of the financial condition of the company, is that true?

Mr. KAHN. At that interest rate, yes.

Senator HARTKE. Well, you are chasing yourself around the bar.

Mr. KAHN. The problem is not that simple.

Senator HARTKE. I understand that.

Mr. GRADY. I believe the Pennsylvania company financed a $50 million debenture issue in December of 1969 and in turn passed the

bulk of these funds up to the transportation company and it was the intention of the Pennsylvania company, with the $100 million debenture offer, to also pass the proceeds up there, too. I think this was the means of going into a long-term financing.

By actually using its subsidiary, the Pennsylvania company as a vehicle for financing the long-term debt they were able to do this in December of 1969. They anticipated in the springtime they would be able to come back and finance $100 million debentures.

Senator HARTKE. The point remains that at that time you saw a railroad that was in financial difficulty and was taking a procedure that you did not deem to be in the best interest of the railroad or the public generally, but you approved of the action simply because it was, in your opinion, justified that they could not have long-term financing on terms which were considered to be reasonable, is that a correct statement?

Mr. GRADY. Well, I would like to modify that somewhat and actually say that I think it was management's intent to try to go into the money market at a favorable time and use the bridge of short-term financing here until they got to the point where hopefully interest rates would go down.

If they had been able to guess right and interest rates had gone down we might have had a different situation.

Senator HARTKE. Do you think that would have prevented them from going into reorganization?

Mr. GRADY. Having to give a yes or no answer on this, it is a hard question.

Senator HARTKE. I am asking, do you think?

Mr. GRADY. My personal opinion, I think if the interest rates had gone down and the tight money had receded, I think it would not have gone into bankruptcy.

Senator BAKER. You think it might not have gone into receivership or would have postponed it?

Mr. GRADY. It would have postponed it.

Mr. STAFFORD. I think you are pretty much in line there, it may have postponed it a short time.

Senator HARTKE. Didn't it become apparent to you at all at that time that maybe legislation of the type that is now being submitted under crisis should maybe have been thought about at that time?

Mr. KAHN. The Commission has known for some time the Department of Transportation had this kind of legislation in mind; yes, sir.

Senator HARTKE. Well, what was your opinion about it?

Mr. KAHN. The Commission has favored this kind of legislation consistently, sir.

Senator HARTKE. It has favored it.

Mr. KAHN. Yes, sir. The loan program has been favored by the Commission consistently, sir.

Senator HARTKE. Has this been on the record?

Mr. KAHN. That is right.

Senator HARTKE. Well, you had the matter before you just recently.

Mr. STAFFORD. We announced our support for that loan bill, I thought it was before your committee, sir, but it might have been before one of the House committees.

Senator HARTKE. You are talking about the present bill?

Mr. STAFFORD. Yes. But we asked for a continuation of the plan of reorganization.

Senator HARTKE. This isn't the same character at all.

Mr. STAFFORD. It is basically the same thing, with different people handling the money.

Senator HARTKE. Yes. Well, this is a vote and we will have to recess.

(Recess.)

Senator PEARSON. (presiding). Mr. Chairman, picking up along the line of questions followed by the Chairman, I think we inquired into your investigation of the Pennsylvania company's application for permission to issue an additional $50 million in short-term securities in the fall of 1969.

Did you indicate what information that you required from the applicant at the time, which I gather was when the ICC first made some judgment, that trouble was on the horizon?

Mr. STAFFORD. Could I start off by making the record clear about our investigation of Penn Central?

We started this investigation on the 2d of April, shortly after we got the first quarter report for this year. The study has been going on ever since that time and I want to be sure this is part of the record.

Senator PEARSON. This relates to the issuance of securities?

Mr. STAFFORD. That is right, but actually goes to the entire financial position of the Penn Central Railroad. We had four examiners when we started, and we are now up to 18 in three cities mentioned previously going into this matter. Then when the announcement of the bankruptcy came, we formalized it by my order of the 2d of July in No. 35291.[1] In addition, our intent was to broaden it to bring in our economists, the whole works to try to bring about a full study that we could use as a basis for setting up procedures, reporting, the whole works that might be applicable to other railroads we feel have need for some watch on our part.

From this—and we announced at that time—we expect to develop new reporting regulations.

Now, as to the further activities, I wonder if Mr. Grady has any further comments on this. Mr. Grady, as chief of the field staff, has these men working under him.

Senator PEARSON. How long is it going to take to set these procedures up and complete this examination and audit?

Mr. GRADY. It is our estimate here that we hope to achieve a preliminary report in 90 days. The full extent of the investigation here is really uncertain at this time.

Senator PEARSON. In the conglomerate corporate structure of the Penn Central Co., how many separate corporations are you looking into?

Mr. GRADY. It is hard to divorce any of the corporations because of the impact that any of the transactions might have had upon the transportation company.

So I think at the scope of our audit, we are going to include the entire Penn Central group which would consist of some 220 plus companies.

---

[1] See p. 163.

Senator PEARSON. And you are going to have a preliminary report in 90 days?

Mr. GRADY. We hope to, yes, sir. Here would be the highlights as to possibly whether there have been any adverse effects as a result of investments in the transportation company in a noncarrier organization and what impact, if any, this has on the Penn Central Transportation Co.

Senator PEARSON. And your investigation, I think you testified earlier, is not going back into transactions which took place prior to the merger?

Mr. GRADY. We hadn't planned to as far as the cash flow study was concerned but of course we could give consideration, as we develop the cash flow statement from the date of merger and possibly might consider going back and seeing prior to the merger as to whether there were any substantial sums of the Pennsylvania Railroad and the Central invested in a noncarrier activity.

Senator PEARSON. Did you consider the possibility of problems with respect to cash flow, Mr. Chairman, when you approved the merger of the Pennsylvania and the New York Central railroads?

Mr. STAFFORD. Mr. Chairman, that decision was about 1 year before I went to the Commission. I would have to ask someone who was around here who was involved in the merger.

Mr. KAHN. I think the issue of cash flow had not been raised in this proceeding, and therefore the Commission's report in April of 1966 did not address itself to that.

Senator PEARSON. Well, this is a proper and very vital point of inquiry, among merger considerations is it not?

Mr. KAHN. Cash flow has become a matter of concern within recent years when the tight-money market developed.

Senator PEARSON. And when the conglomerate movement started?

Mr. KAHN. It is not at all certain what the relationship was between the conglomerate trend and cash deficiencies. Presumably profits from investments in diversified enterprises might be sufficient to overcome any cash deficiencies the carrier might experience.

Senator PEARSON. But one would assume it would flow to the soft spots, would it not?

Mr. KAHN. That is a valid assumption, yes, sir.

Senator PEARSON. What is going to be the role of the ICC in connection with the reorganization of the Penn-Central Transportation Co.?

Mr. STAFFORD. The role of the ICC in the reorganization?

Senator PEARSON. Yes.

Mr. STAFFORD. Our functions are rather limited in the reorganization. However, the court will send to the Commission the names of the three trustees we must approve or disapprove, and they will then take on the operation of it. From then on we approve or disapprove loans, and such matters that are required to continue operating the road. The same things we would normally handle.

Senator PEARSON. Section 77(d) of the Bankruptcy Act requires the Commission to hold hearings on plans for reorganization and it gives the Commission the power to change plans that are submitted for approval or to draft an entirely new plan.

Are you prepared for this particular phase of the operation?

Mr. STAFFORD. Yes.

Senator PEARSON. Do you have any set of criteria as to what should be included within a proper reorganization plan, or does this vary from case to case?

Mr. STAFFORD. I think this varies from case to case, Senator. Of course, we have had roads go under in years past. I cannot say we have helped reorganize any of them, but the whole field is not new to the history of the Commission. Our staff and facilities are already taxed to the limit right now.

For instance, right now we have, as I told you, 18 of our total of 60 auditors on this one case. That number covers the entire United States. This is our problem in all areas when you take on a big job of this kind and we are already completely taxed. But we have set up a team now in the Commission of top people——

Senator PEARSON. Will it be assigned to one of the Commission's divisions?

Mr. STAFFORD. No, sir, we will set up a special staff committee to look into and handle the matter of preparing material for this whole field right now.

By the way, we have some 5,000 carriers that those 60 auditors must cover and we have pulled 18 of them already.

Senator PEARSON. Well, how much of the assets of the transportation company are unencumbered?

Mr. GRADY. We have not been able to ascertain that yet, Senator Pearson. That is, if we believe the financial statements in the Penn Central Co. in the offering circular, Footnote 7 to the long-term debt says they all have been encumbered. It is questionable here to the point that the securities they were going to pledge as a result of the $100 million debenture issue here meant that all of them were pledged except those that were going to be used in this financing.

Senator PEARSON. So you do not know——

Mr. GRADY. Our staff is presently going over them.

Senator PEARSON. So you do not presently know what assets are available as security for loans?

Mr. GRADY. That is right. We are investigating that particular aspect of it.

Senator PEARSON. Nor are you presently able to ascertain what assets may be available to raise cash?

Mr. GRADY. I believe after we complete the review here of the encumbered assets, I think we will be able to answer that question.

Mr. KAHN. The reorganization court has already taken steps to facilitate the sale in the open market of up to $50 million of certificates. Judge Fullam will hold hearings on that on July 15 and if he enters an order the matter will be referred to the Commission and the Commission will then consider the matter.

At this point at least there does not seem to be anything on the horizon suggesting those trustee certificates cannot be sold.

Senator PEARSON. Well, I was somewhat surprised with the number of corporate entities involved. You said 207. Do you have a chart of that corporate organization?

Mr. STAFFORD. Yes, we do.

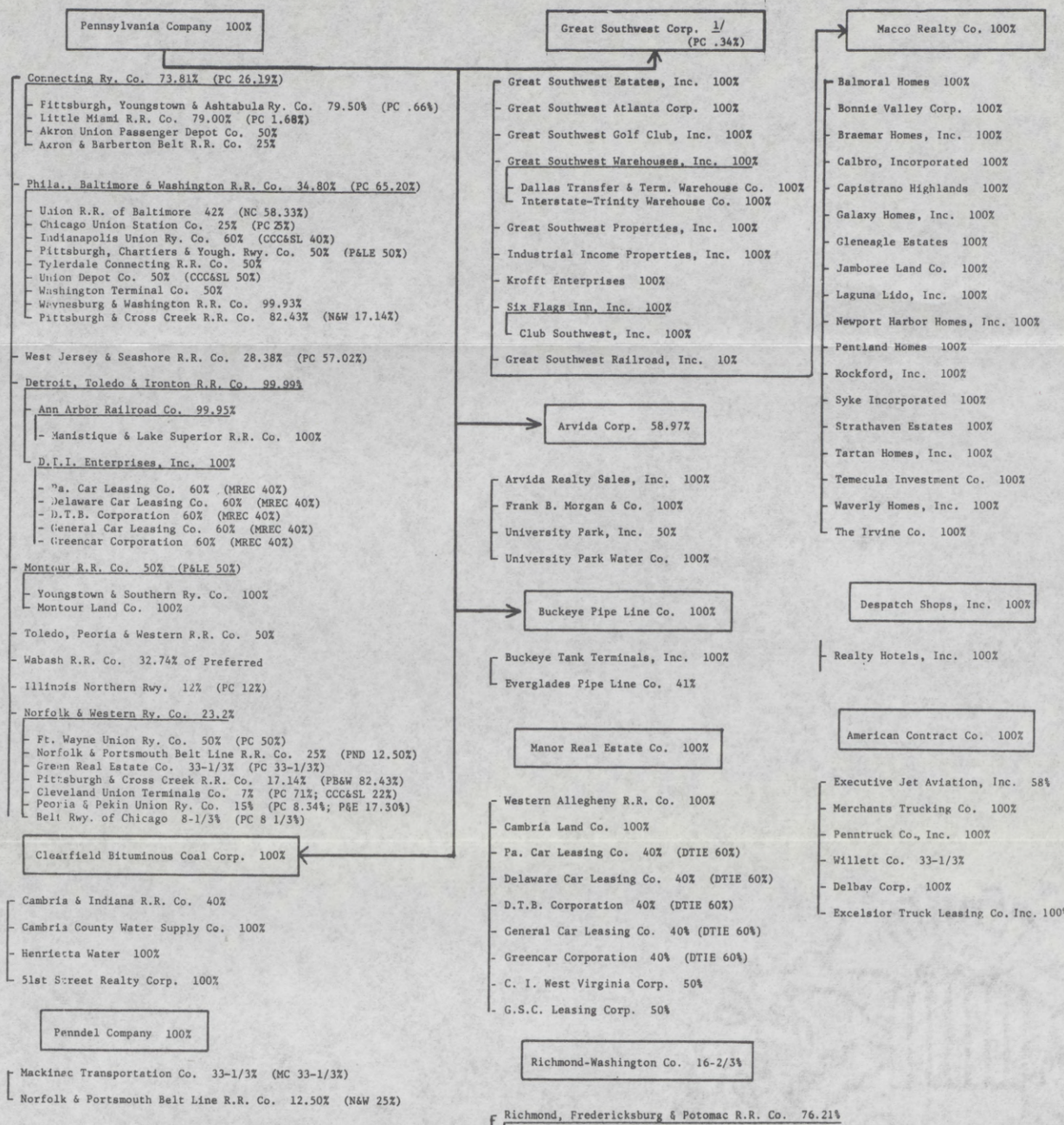
Senator PEARSON. Has it been made part of the record?

Mr. STAFFORD. I do not believe so.

Senator PEARSON. Let's do that now.

(The documents follow:)

Chart 2.



Abbreviations Used

PC - Penn Central Transportation Co.
MC - Michigan Central R.R. Co.
C Ry. - Connecting Ry. Co.
N&W - Norfolk & Western Ry. Co.
NC - Northern Central Ry. Co.
CCC&SL - Cleveland, Cincinnati, Chicago & St. Louis Ry. Co.
P&LE - Pittsburgh & Lake Erie R.R. Co.
PB&W - Philadelphia, Baltimore & Washington R.R. Co.
MCR - Mahoning Coal Railroad
NH - New York, New Haven & Hartford R.R. Co.
LV - Lehigh Valley R.R. Co.
IHB - Indiana Harbor Belt R.R. Co.
P&E - Peoria & Eastern Ry. Co.
UNJR&C - United New Jersey R.R. & Canal Co.
NY&H - New York & Harlem R.R. Co.
MREC - Manor Real Estate Co.
DTIE - D.T.I. Enterprises, Inc.
PND - Penndel Co.
AofJ - Associates of the Jersey Co.
PaCo - Pennsylvania Company

1/ Pennsylvania Co. owns 82.10% of common and 100% of "A", "B", and "C" Pref. which represents 90.1% of total stock.

NOTES: Charts indicate situation on a pro forma basis as of December 31, 1969.
Strick Corporation, and its affiliated companies, was sold to Prudential Insurance Co. of America and Lehman Brothers, December 1968. (Moody's)
Madison Square Garden Corp. now owns 100% of Madison Square Garden Center, Inc. and 80% of Two Penn Plaza. (Moody's)

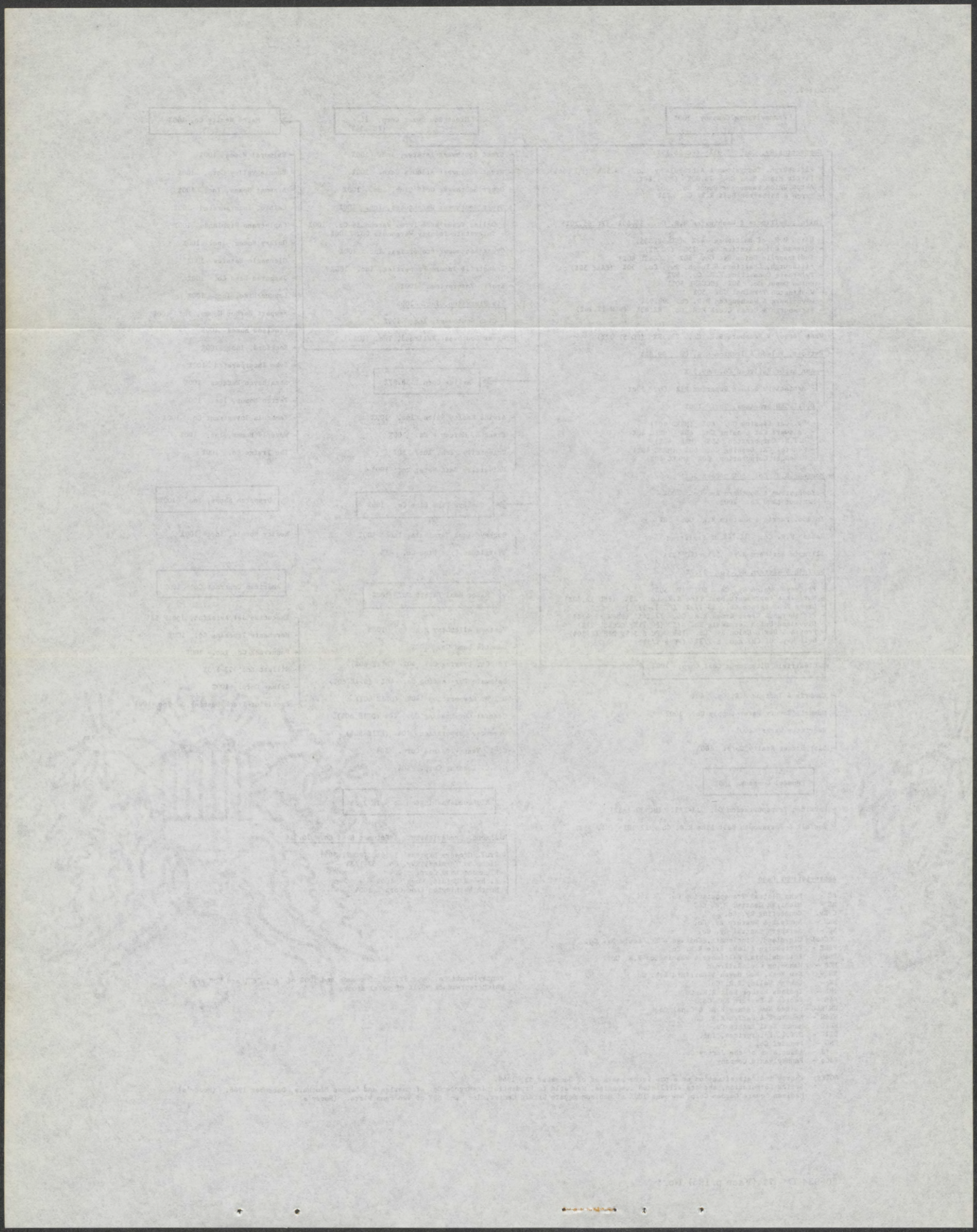


Chart 3.

Penn Central Transportation Company

Class I Line-Haul Railroads

- Lehigh Valley R.R. Co. 97.32%
  - Lehigh & Hudson River Ry. Co. 22.16% (PC 14.43%)
  - Bay Shore Connecting R.R. Co. 50%
  - [illegible]lo Creek R.R. Co. 50%
  - [illegible]n R.R. Co. 50%
  - [illegible]e River Rwy. 50% (PC 50%)
  - Niagara Jct. Rwy. Co. 25% (PC 50%)
  - Black Diamond Transport Co. 100%
  - Abalan Corp. 100%
  - Consolidated Real Estate Company 100%
  - United Real Estate Company 100%
- Pennsylvania-Reading Seashore Lines 66.64%
- Pittsburgh & Lake Erie R.R. Co. 81.06%
  - Monongahela Ry. Co. 33-1/3% (PC 33-1/3%)
  - Montour R.R. Co. 50% (PaCo 50%)
    - Youngstown & Southern Ry. Co. 100%
    - Montour Land Co. 100%
  - Pittsburgh, Chartiers & Yough. Rwy. Co. 50% (PB&W 50%)
  - Mahoning State Line R.R. Co. 92.90% (PC 2.85%)
  - Lake Erie & Eastern R.R. Co. 50% (MCR 50%)
- Illinois Terminal Railroad Co. 9.09%

Class II Line-Haul Railroads

- Baltimore & Eastern R.R. Co. 100%
- Central Indiana Ry. Co. 50% (CCC&SL 50%)
- Monongahela Ry. Co. 33-1/3% (P&LE 33-1/3%)
- New York & Long Branch R.R. Co. 50%
- New York Connecting R.R. Co. 50% (NH50%)
- Per[illegible]nia & Atlantic R.R. Co. 100%
- Lehi[illegible] Hudson River Ry. Co. 14.43% (LV 22.16%)
- Raritan River R.R. Co. 49.99%
- Stewartstown R.R. Co. of Pa. 15.77%
- Nicholas, Fayette & Greenbrier R.R. Co. 50%

Class I Motor Carriers

- Pennsylvania Truck Lines, Inc. 100%
- New York Central Transport Co. 100%
  - New York Central Transport Co., Inc. 100%

Class I Switching & Terminal Companies

- Belt Rwy. Co. of Chicago 8-1/3% (N&W 8-1/3%)
- Chicago Union Station Co. 25% (PB&W 25%)
- Cincinnati Union Terminal Co. 14-2/7% (CCC&SL 14-2/7%)
- Indiana Harbor Belt R.R. Co. 21% (MC 30%)
  - Calumet Western Ry. Co. 50% (PC 25%)
- Lakefront Dock & Terminal Co. 50%

Class II Switching & Terminal Companies

- Calumet Western Ry. Co. 25% (IHB 50%)
- Dayton Union Ry. Co. 33-1/3% (CCC&SL 33-1/3%)
- Fort Wayne Union Ry. Co. 50% (N&W 50%)
- Peoria & Pekin Union Ry. Co. 8.34% (P&E 17.30%; N&W 15%)
- Toledo Terminal R.R. Co. 32.15% (MC 10.72%)
- Wilkes-Barre Connecting R.R. Co. 50%
- Owasco River Rwy. 50% (LV 50%)
- Boston Terminal Corp. 30% (NH 70%) 1/
- Chicago River & Indiana R.R. Co. 100%
- Cleveland Union Terminals Co. 71% (CCC&SL 22%; N&W 7%)
- Detroit Terminal R.R. Co. 25% (MC 25%)
- Illinois Northern Railway 12% (PaCo 12%)

Non-Operating Railroads

- Chicago, Kalamazoo & Saginaw Ry. 40% (MC 60%)
- Hudson River Bridge at Albany 100%

Other Transportation Subsidiaries

- Canadian Pacific Car & Pass. Term. Co. Ltd. 50%
- Merchants Despatch Transportation Corp. 100%

Lessors

- Cleveland & Pittsburgh R.R. Co. 80.19%
- Connecting Ry. Co. 26.19% (PaCo 73.81%)
  - (See Pennsylvania Company, Chart 2, for subsidiaries)
- Delaware R.R. Co. 84.92%
- Erie & Pittsburgh R.R. Co. 87.36%
- Northern Central Ry. Co. 80.12%
  - Shamokin Valley & Pottsville R.R. Co. 71.27% (PC 28.73%)
  - Union R.R. of Baltimore 58.33% (PB&W 42%)
- Penna. Tunnel & Terminal R.R. Co. 100%
- Phila. & Trenton R.R. Co. 10.97% (UNJR&C 64.63%)
- Phila., Balt. & Washington R.R. Co. 65.20% (PaCo 34.80%)
  - (See Pennsylvania Company, Chart 2, for subsidiaries)
- Pittsburgh, Fort Wayne & Chicago Ry. Co. 88.50%
- Pittsburgh, Youngstown & Ashtabula Ry. Co. .66% (C Ry. 79.50%)
- Shamokin Valley & Pottsville R.R. Co. 28.73% (NC 71.27%)
- United New Jersey R.R. & Canal Co. 52.63% (AofJ 1.49%)
  - Phila. & Trenton R.R. Co. 64.63% (PC 10.97%)
  - Associates of the Jersey Co. 100%
- West Jersey & Seashore R.R. Co. 57.02% (PaCo 28.38%)
- Beech Creek R.R. Co. 79.18%
- Cleveland, Cinn., Chicago & St. Louis Ry. Co. 99.47%
  - Central Indiana Ry. Co. 50% (PC 50%)
  - Cinn. Union Term. Co. 14-2/7% (PC 14-2/7%)
  - Dayton Union Ry. Co. 33-1/3% (PC 33-1/3%)
  - Indianapolis Union Ry. Co. 40% (PB&W 60%)
  - Union Depot Co. 50% (PB&W 50%)
  - Cleveland Union Terminals Co. 22% (PC 71%)
  - Peoria & Eastern Railway Co. 50.1% (PC 29.01%)
    - Peoria & Pekin Union Ry. Co. 17.30% (PC 8.34%; N&W 15%)
  - Chicago & Harrisburg Coal Co. 100%
- Mahoning Coal R.R. Co. 80.64%
  - Lake Erie & Eastern R.R. Co. 50% (P&LE 50%)
  - Mahoning & Shenango Valley Co. 100%
- Mahoning State Line R.R. Co. 2.85% (P&LE 92.90%)
- Michigan Central R.R. 99.88%
  - Canada Southern Ry. Co. 59.44% (PC 12.07%)
    - Niagara River Bridge Co. 100%
  - Detroit Terminal R.R. Co. 25% (PC 25%)
  - Indiana Harbor Belt R.R. Co. 30% (PC 21%)
    - Calumet Western Ry. Co. 50% (PC 25%)
  - Toronto, Hamilton & Buffalo Ry. Co. 21.81% (PC 37.16%)
  - Chicago, Kalamazoo & Saginaw Ry. Co. 60% (PC 40%)
  - Detroit Manufacturers' Railroad 81.4%
  - Detroit River Tunnel Co. 100%
  - Joliet & Northern Indiana R.R. Co. 100%
- New York & Harlem R.R. Co. 94.41%
  - Beech Creek R.R. Co. .83% (PC 79.18%)
- Peoria & Eastern Railway Co. 29.01% (CCC&SL 50.1%)
  - Peoria & Pekin Union Ry. Co. 17.30% (PC 8.34%; N&W 15%)
- St. Lawrence & Adirondack Ry. Co. 100%

1/ It appears that this property was included in package deal between Trustees of New Haven and Penn Central Company.

See Chart 2 for abbreviations.

TABLE 2

CORPORATE STRUCTURE OF PENN CENTRAL TRANSPORTATION COMPANY AT DECEMBER 31, 1969

PENN CENTRAL COMPANY
(HOLDING COMPANY)

100% OWNED

PENN CENTRAL TRANSPORTATION COMPANY
(Railroad)

Non-Carrier Companies Owned	%
Cleveland Technical Center, Inc.	100%
Fruit Growers Express Co.	24%
Green Real Estate Co.	33%
Merchants Dispatch Transportation Co.	100%
N.Y. Central Development Corp.	100%
Penn Central Park, Inc.	100%
Penndiana Impt. Co.	100%
Terminal Realty Penn. Co.	100%
Western Warehousing Co.	100%

Carrier Companies Owned	%
Baltimore & Eastern R.R.	100%
Beach Creek R.R.	79%
Boston Terminal Corp.	100%
Calumet Western R.R.	75%
Canada Southern Rwy. Co.	12%
Canadian Pacific Car & Pass. Tfr.	50%
Central Indiana Rwy.	50%
Cherry Tree & Dixonville R.R.	100%
Chicago River & Indiana R.R.	100%
Chicago Union Station Co.	25%
Cleveland & Pittsburgh R.R.	28%
Cleveland Union Terminals Co.	71%
Connecting Railway Co.	26%
Dayton Union Rwy.	33%
Delaware R.R.	85%
Detroit Terminal Railway	25%
Fairport, Painesville & Eastern	50%
Fort Wayne Union Rwy.	50%
Lakeport & Dock R.R. Term.	50%
Lake Erie & Pittsburgh Rwy.	100%
Mahoning Coal R.R.	83%
New England Transportation Co.	100%
New York & Harlem R.R.	94%
New York & Long Branch R.R.	50%
New York Connecting R.R.	100%
Nicholas, Fayette & Greenbrier R.R.	50%
Niagara Junction Rwy.	50%
Pennsylvania & Atlantic R.R.	100%
Penn-Ridge S.S. Lines	67%
Pennsylvania Truck Lines, Inc.	100%
Penna. Tunnel & Terminal R.R.	100%
Peoria & Eastern Rwy. Co.	30%
Peoria & Pekin Union Rwy.	8%
Philadelphia & Trenton R.R.	11%
Pittsburgh, Ft. Wayne & Chicago Rwy.	100%
Pullman Company	19%
Railway Express Agency Holding Corp.	26%
St. Lawrence & Adirondack Rwy.	100%
Shamokin Valley & Pottsville R.R.	29%
Toledo Terminal R.R.	32%
Toronto, Hamilton & Buffalo Rwy.	37%
Union Freight Co.	50%
Waynesburg Southern R.R.	100%
West Jersey & Seashore R.R.	57%
Wilkes Barre Connecting R.R.	50%

100% OWNED

Clearfield Bituminous Coal Corp.

Company Owned	%
Cambria & Indiana R.R. Co.	40%
Fort Wayne & Jackson R.R. Co.	27%
Cambria Cty. Water Supply Co.	100%
51st Street Realty Co.	100%
Henrietta Water Supply Co.	100%

99% OWNED

Cleveland, Cincinnati, Chicago & St. Louis Railway

Company Owned	%
Central Indiana Rwy. Co.	50%
Union Depot Co.	50%
Cleveland Union Term. Co.	22%
Dayton Union Rwy. Co.	33%
Indianapolis Union Rwy. Co.	40%
Peoria & Eastern Rwy. Co.	50%
Cincinnati Union Term Co.	14%
Chicago & Harrisburg Coal Co.	100%

97% OWNED

Lehigh Valley R.R.

Company Owned	%
Bay Shore Connect. R.R. Co.	50%
Buffalo Creek R.R. Co.	50%
Ironton R.R. Co.	50%
Lehigh & Hudson River Rwy. Co.	22%
Niagara Junction Rwy. Co.	25%
Oswald River Rwy. Co.	50%

93% OWNED

Pittsburgh & Lake Erie R.R.

Company Owned	%
Pittsburgh, Chartiers & Youghiogheny Rwy. Co.	50%
Montour Realty Co.	50%
Lake Erie & Eastern R.R. Co.	50%
Monongahela Rwy. Co.	33%

100% OWNED

American Contract Company
(Owns 100% of below listed companies)

- Merchants Trucking Co.
- Penntruck Co., Inc.
- Delbay Corporation
- Excelsior Truck Ls. Co. Inc.

100% OWNED

Michigan Central Railroad

Company Owned	%
Canada Southern Rwy. Co.	59%
Detroit Manufacturers R.R.	81%
Detroit River Tunnel Co.	100%
Detroit Terminal R.R. Co.	25%
Indiana Harbor Belt R.R. Co.	30%
Mackinac Transportation Co.	33%
Toronto, Hamil. & Buffalo Rwy. Co.	22%

80% OWNED / 21% OWNED

Northern Central Railway

Company Owned	%
Shamokin Valley & Pottsville R.R. Co.	71%
Union R.R. Co. of Balt.	58%

53% OWNED

United New Jersey R.R. and Canal Co.

Company Owned	%
Phila. & Trenton R.R. Co.	65%
Associates of the Jersey Co.	100%

100% OWNED

Penndel Company

Company Owned	%
Mackinac Transp. Co.	33%
Norfolk & Portsmouth Belt R.R. Co.	13%

100% OWNED

Manor Real Estate Company

Company Owned	%
C. I. West Va. Corp.	50%
Western Allegheny R.R. Co.	100%
G.S.C. Leasing Corp.	50%

17% OWNED → Richmond-Washington Co. → 76% OWNED → Richmond, Fredericksburg & Potomac R.R. Co.

100% OWNED → Providence Produce Warehouse Co. → 100% OWNED → New England Car Co.

100% OWNED → New York Central Transport Co.

100% OWNED → Despatch Shops Inc. → 100% OWNED → Realty Hotels Inc.

100% OWNED → **PENNSYLVANIA COMPANY**
(Investment Company)

65% OWNED

Philadelphia, Baltimore & Washington R.R. Co.

Company Owned	%
Union Depot Co.	50%
Union R.R. Co.	42%
Washington Terminal Co.	50%
Waynesburg & Washington R.R. Co.	100%
Indianapolis Union Rwy. Co.	60%
Tylerdale Con. R.R. Co.	50%
Chicago Union Station Co.	25%
Pittsburgh, Chartiers & Youghiogheny Rwy. Co.	50%

35% OWNED

40% OWNED

- Delaware Car Leasing Co.
- General Car Leasing Co.
- Greencar Corp.
- Penna. Car Leasing Co.

74% OWNED

Connecting Railway Co.

Name of Company	% Owned
Akron & Barberton Belt R.R. Co.	25%
Akron Union Passenger Depot Co.	50%
Little Miami R.R. Co.	79%
Pgh., Youngstown & Ashtabula Ry. Co.	80%

Buckeye Tank Terminals, Inc. ← 100% OWNED — 41% OWNED → **Everglades Pipe Line Co.**

Buckeye Pipe Line Company (Crude oil & Refined Petroleum Products Pipelines) ← 100% OWNED

50% OWNED

Montour R.R. Co.
(Owns 100% of listed Cos.)

Youngstown & Southern RR Co.
Montour Land Co.

100% OWNED → **Manistique & Lake Superior R.R. Co.**

100% OWNED → **Ann Arbor R.R. Co.** → 100% OWNED → **Detroit, Toledo & Ironton R.R.** → 100% OWNED

100% OWNED

DTI Enterprises, Inc.
(DTI owns 60% of the listed Cos.)

58% OWNED

90% OWNED

Great Southwest Corp.
(Real Estate Development Corporation)
(Owns 100% of Listed Cos.)

- GSC Apartments Inc.
- GSC Development Corp.
- GSC Industrial Props. Inc.
- GSC Properties Inc.
- Leadership Mort. Inv. Co.
- Six Flags Inc.
- Six Flags Inn, Inc.

100% OWNED

Macco Corporation
(Real Estate)
(Owns 100% of Listed Cos.)

- Balmoral Homes, Inc.
- Bar-M-Bar Ranch Inc.
- Bonnie Valley Corp.
- Capistvano Highlands
- Castlebay Develp. Co.
- Courtyard Homes
- Custom Planning, Inc.
- Gleneagles Estates, Inc.
- Jamboree Land Co.
- Leadership Homes, Inc.
- Macco Business Props. Inc.
- Macco Distributors Inc.
- Macco Indus. Props. Inc.
- Newport Harbor Homes, Inc.
- Pentland Homes
- Rancho Santa Barbara
- Recreation Concepts, Inc.
- Richardson Homes Corp.
- Scripps-Miramer Develop. Co.
- Strathaven Estates
- Tartan Homes, Inc.
- Temecula Invest. Co.
- Waverly Homes, Inc.
- Westcliffe Advertis. Co.

Companies Owned

Companies Owned	%
Wabash RR Co.	77%
Illinois Northern Ry. Co.	12%
Pullman Co.	16%
Norfolk & Western Ry. Co.	23%
Penn Towers Inc.	40%
Toledo, Peoria & Western Ry. Co.	50%
West Jersey & Seashore RR	28%

Arvida Corporation
(Real Estate Development Corporation)
(Owns 100% of listed Cos.)

- Arvida Realty Sales, Inc.
- Frank B. Morgan & Co.
- University Park Water Co.
- Arvida Mortgage Co.

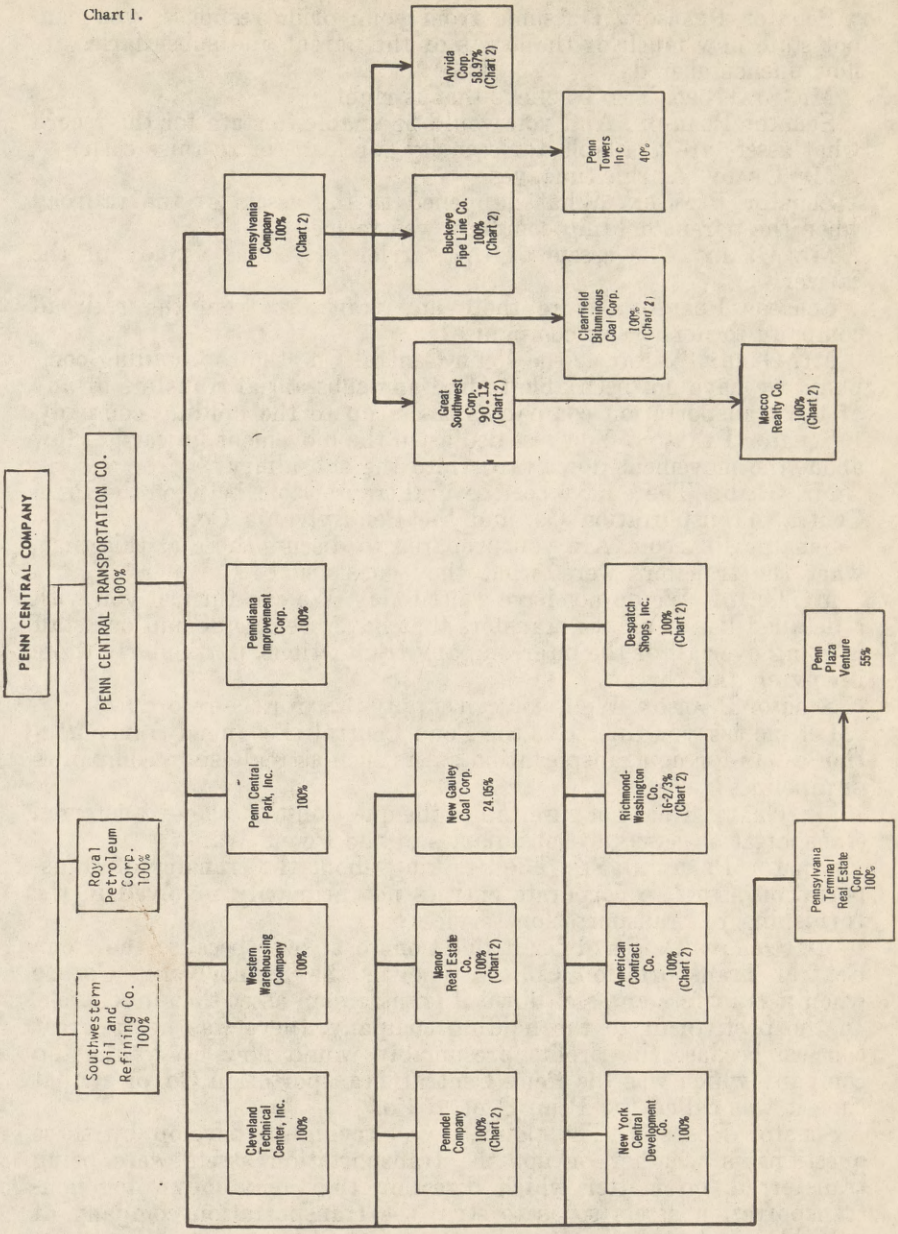
SOURCE OF INFORMATION
DECEMBER 31, 1969 REPORT FORM A, FILED WITH ICC BY PENN CENTRAL TRANSPORTATION COMPANY

CHART PREPARED BY
HOUSE BANKING AND CURRENCY COMMITTEE STAFF

50-934 O - 71 (Face p. 185) No. 3



Chart 1.


PENN CENTRAL COMPANY
PENN CENTRAL TRANSPORTATION CO. 100%
Southwestern Oil and Refining Co. 100%
Royal Petroleum Corp. 100%
Cleveland Technical Center, Inc. 100%
Western Warehousing Company 100%
Penn Central Park, Inc. 100%
Penndiana Improvement Corp. 100%
Penndel Company 100% (Chart 2)
Manor Real Estate Co. 100% (Chart 2)
New Gauley Coal Corp. 24.05%
New York Central Development Co. 100%
American Contract Co. 100% (Chart 2)
Richmond-Washington Co. 16-2/3% (Chart 2)
Despatch Shops, Inc. 100% (Chart 2)
Pennsylvania Terminal Real Estate Corp. 100%
Penn Plaza Venture 55%
Pennsylvania Company 100% (Chart 2)
Great Southwest Corp. 90.1% (Chart 2)
Arvida Corp. 58.97% (Chart 2)
Buckeye Pipe Line Co. 100% (Chart 2)
Clearfield Bituminous Coal Corp. 100% (Chart 2)
Penn Towers Inc 40%
Macco Realty Co. 100% (Chart 2)

Senator PEARSON. I assume from your prior responses you cannot state how much of the assets of the parent and subsidiaries are now unencumbered?

Mr. STAFFORD. Yes, I believe that is right.

Senator PEARSON. And you would be unable to state for the record what assets are available for security for loans or to raise cash?

Mr. GRADY. At this time, yes.

Senator PEARSON. What happened to the assets of the railroad when the parent holding company was formed?

Mr. GRADY. The assets of the carrier stayed as a part of the carrier.

Senator PEARSON. Were there any transfers from the railroad company to noncarrier companies?

Mr. GRADY. As far as the Penn Central Co., the top holding company, we have not been able to find any substantial transfers of any of the transportation company's assets up to the holding company.

Senator PEARSON. You testified as to the movement upwards. How about the movement downwards into the subsidiary?

Mr. GRADY. There have been several transactions between the Penn Central Transportation Co. and the Pennsylvania Co.

Senator PEARSON. Are you prepared to discuss those at this time, what the transfers were, what they consisted of?

Mr. GRADY. We do not have a list today. We can furnish you with a detailed list of all the transfers that have been made and our staff is going over all of the intercompany transactions, particularly those involving the carrier.

Senator PEARSON. Well, you can supply that for the record.[1]

Let me ask you this: Has the Penn Central exchanged transportation assets for nontransportation assets such as real estate companies or pipelines?

Mr. GRADY. I am not sure. As to the question that they transferred transportation assets to subsidiaries of the Pennsylvania?

Senator PEARSON. Yes. I am talking about the transfer of transportation assets to corporate entities not primarily involved in the furnishing of transportation services?

Mr. GRADY. It is a difficult question to answer because the Penn Central Transportation Co. really owns the Pennsylvania Co., so when it transfers an asset down it transfers an asset that it controls. In the past, prior to the holding company, there was not a great concern because the profits presumably would flow up to the top company which was the Penn Central Transportation Co. or at that time it was called the Penn Central Co.

Senator PEARSON. The point I was trying to develop by these questions is whether or not the transportation assets were being transferred, no matter which direction they may move, for nontransportation assets so as to strip the transportation company of valuable assets.

Mr. GRADY. I presume there has been some transfer of assets. The extent of the transfer of assets we have under study as part of the audit review here of the impact upon the intercompany actual transfers of assets between the group.

Senator PEARSON. Which corporation is in reorganization?

---

[1] See letter dated Nov. 18, 1970 in Part 3 of these hearings.

Mr. GRADY. The Penn Central Transportation Co.

Senator PEARSON. Are the assets of the other companies available to keep the railroad in operation?

Mr. KAHN. Among the principal assets of the Penn Central Transportation Co. is its 100-percent stock interest in the Penn Central Co. It remains for the court to determine the extent to which the stock interest of the Pennsylvania Co. and other companies are assets comprising the estate of the Penn Central Transportation Co. This is a matter for the court to determine.

Certainly the court's actions today, in disallowing certain of the creditor banks to take beneficial interest in the stock of Pennsylvania Co., suggests that at least for the time being the reorganization court may be treating the Pennsylvania Co. stock as an asset of the Penn Central Transportation Co. and through it the other subsidiary holdings.

Senator PEARSON. In a very general way, what is the role of the ICC in relation to a conglomerate organization such as the Penn Central? What are the limits of such organization's legal right and power to transfer assets? What is the power and the duty of the ICC to exercise its statutory oversight responsibility, generally, and, specifically, how was that power exercised in relation to Penn Central?

Mr. KAHN. The Interstate Commerce Commission's jurisdiction is certainly over carriers. It has jurisdiction over a holding company only insofar as that holding company acquires control of two or more carriers. The subsidiary companies of a carrier are not within the control of the Interstate Commerce Commission for accounting and reporting purposes unless such subsidiary companies themselves control carriers.

The Pennsylvania company has been designated by the Interstate Commerce Commission as a carrier because the Pennsylvania company controls among others in the D.T. & I., the T. P. & W. and other railroads. On the other hand, the Penn Central Co. is a parent company and has not been designated to be a carrier since it acquired only control of the Penn Central Transportation Co., a single carrier.

Senator PEARSON. Now, what is the authority of the ICC to oversee the handling of assets of a carrier company within a conglomerate such as the Penn Central Co.?

Mr. KAHN. A carrier, Senator Pearson, under the statutory scheme is free to make such investments as in its managerial discretion it seems best so long as there does not have to be a security issue.

Senator PEARSON. That is the only time the ICC gets into the picture?

Mr. KAHN. That is correct.

Senator PEARSON. When was the last opportunity for the ICC to take a look at Penn Central Co.'s situation?

Mr. KAHN. It is my understanding, sir, that the most recent reported authorization under section 20a was the one to which I earlier referred, No. 25854, dated October 29, 1969. That is the last reported one. If there were minor unreported authorizations in the interim, I do not presently have that information.

Senator PEARSON. We maybe going over some old ground now, but, what is the scope of inquiry by the ICC into the financial structure of a carrier corporation at the time authority is sought from the Commission for the issuance of securities? What is the scope of that inquiry, how wide is it, how deep is it? What are the possibilities at such a point in time and such a point of responsibility of discerning a situation that should be regulated?

Mr. GRADY. I am not sure I understand the question.

Senator PEARSON. At the time the ICC exercises the authority, duty, and responsibility to look into the financial structure of a carrier corporation in connection with the issuance of securities, what is the nature of the investigation at that time? Is it extensive enough to detect impending financial troubles so as to prevent a situation like Penn Central in the future?

Mr. STAFFORD. First, of course, Senator, our primary interest is the public service and therefore, we are interested in being assured that this is necessary for the continued viable service that we expect from the road. As long as it is within a reasonable level of cost, we generally permit this to go on through, as long as we are assured that it is in the public interest to continue the operation of the road.

Senator PEARSON. What is the nature of the record of that October 1969 proceeding?

Mr. MATTRAS. My name is John Mattras and I worked on that proceeding.

We of course have regulations that prescribe the type of information they are to furnish us in the first instance. When we feel that information is not sufficient we ask for additional information and I am sure we had it here.

I might say I was so concerned with this before it was even sent to the Commission that I do recall a conference with the general counsel of the Penn Central and at that conference I expressed my apprehension over the fact that they were using short-term financing in part to refinance long-term debt.

Senator PEARSON. Is that an unusual procedure?

Mr. MATTRAS. Yes, sir, and I told them so.

Are you referring to the conference with him?

Senator PEARSON. No, I am referring to the issuance of short-term securities, to refinance or refund long-term obligations.

Mr. MATTRAS. This, in my judgement, is imprudent financing in general. I qualify that. You are faced with a market situation. This is not limited to Penn Central, many other industries found themselves in the same predicament. The Penn Central told us that the market conditions did not permit at that time long-term financing but that they were undertaking, in a number of ways, the possibility of longer term financing, that this is what they contemplated and were in fact working on and the Commission's report covers this point.

Now, we asked for a lot of data, much of which is in the report, on the financial situation as of that time. We scrutinized this.

Now, our predicament was this. The Commission's report covers the situation as to working capital, which we pinpointed very clearly. We say, if I may quote, "applicant feels that long-term financing at the present time is not feasible due to the tight money

situation. Although we are sympathetic to the applicant's problems"——

Senator PEARSON. Are you reading from the report and order issued in the 1969 proceeding?

Mr. MATTRAS. That is right "Although we are sympathetic to applicant's problem, short-term financing has traditionally been relied upon to finance short term needs and is not normally regarded as a proper source for long-term financing of capital expenditures or for refinancing of maturing long-term debt. As of June 30, 1969, applicant had a deficit working capital situation which can be expected to worsen if reliance on short-term financing is increased. The exhaustion of short-term credit to refinance maturing long-term debt or to finance long-term capital expenditures could expose a carrier to serious crisis in the event of an economic squeeze, at which time a carrier may require short-term financing for traditional use. We are, therefore, concerned about the use of short-term financing for long term purposes and feel that where necessary it should be resorted to cautiously.

On the whole applicant is in a strong financial condition and in view of the present tight money market and applicant's stated intent to negotiate long-term financing as soon as it is feasible, we conclude that the application should be approved, subject to a condition restricting the issuance of such notes to a period not exceeding 2 years from the date the order herein is served."

Senator PEARSON. Was the condition of the market in October of 1969 the only reason cited for the issuance of short term obligations?

Mr. MATTRAS. Sir, that was the primary reason. They indicated that they were—of course, the record shows that their working capital was not what they wanted. We state that in here. But the company's position was serious and the market condition was tight.

Senator PEARSON. I thought you stated in the report that you made a judgment and determination that the company's financial position was strong.

Mr. MATTRAS. Yes, I am getting to that. Their working capital position was not strong and we said that, but we said their overall position was strong. At that time, one must remember that Penn Central had tremendous assets.

In the right market conditions, assuming there was no recession, many of those assets could be spun off at good prices. Some of them may be encumbered, but still their value normally is far greater than what the encumbrance would be. It was in the term of the overall situation that the Commission felt they could—or I felt, the Commission might have felt, that they could overcome this working capital problem within a short time and we put on a 2-year limitation to make sure they were going to do something about extending this debt.

Senator PEARSON. But you would not look at the situation again as a Commission for 2 years, isn't that so?

Mr. MATTRAS. We put a 2-year limit on these notes, but if they come to us again, we look at it or if our accounting people inform us we look at it. We did not anticipate the tremendous losses they were going to have early this year, nor did we see the fact that they wouldn't be able to raise money in the market.

The banks who put the money into this had confidence in the railroad. I was told I was an excessive pessimist to second guess the banks who were putting their money into this. This was the general feeling of the general counsel.

But, at that time, the feeling was not that the Penn Central was on the verge of bankruptcy. We wouldn't want to make that decision on any railroad, because it would terribly affect the market.

So, it was in the light of this overall picture that we made the finding that the overall condition was strong.

Senator PEARSON. That is difficult for a layman to understand. You see a flag waving such a danger signal and then you reach a judgment that the overall financial condition is strong. I can understand it in economic terms—long time liabilities versus——

Mr. MATTRAS. The Penn Central may still emerge as a profitable company if they can convert those long-term assets at reasonable prices. I might state that the Chrysler Corp., just had short-term financing to meet long term needs. There are long- and short-term assets, but the short-term assets have to be there for you to survive and benefit from the assets. There are two different types of assets here, you see.

Senator PEARSON. Let me understand this. The reason for some of these hearings is for this committee to understand the role of the ICC and to make some recommendations, if necessary, as to what additional powers you need or should have to prevent a recurrence of situations such as the Penn Central.

Once your order was issued and approval given for the issuance of short-term obligations, limited to 2 years in term, the ICC would not again look at the financial structure of the Penn Central before they came back on their own for authority for another issuance even under the findings made and the conditions set forth in the report and order granting approval. Is that what you are saying?

Mr. MATTRAS. Sir, I don't believe this is true. Of course, in that proceeding, we handle each proceeding as it comes, but I think the Bureau accountants regularly check these corporations so they would let us know.

Mr. GRADY. That is right, the Penn Central is checked annually, and to supplement that, there is a quarterly report of the financial condition of the transportation company.

Senator PEARSON. Mr. Chairman, I have here quite a series of questions and I am going to suggest that we submit them to you. I am not even going to try to organize them at this state to present to you, but staff will do that and submit them to you.

We will give you these questions and ask you to prepare the answers to them which will be made a part of the record.

Senator PEARSON. These hearings are to be continued tomorrow morning at 10 o'clock. So, I will adjourn this hearing until then.

(Whereupon, at 4:30 p.m., the hearing was recessed, to reconvene at 10 a.m., Wednesday, July 22, 1970.)

(The following questions and answers thereto were subsequently received for the record:)

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C., July 21, 1970.

Hon. GEORGE M. STAFFORD,
Chairman, Interstate Commerce Commission,
Washington, D.C.

DEAR CHAIRMAN STAFFORD: I was not able to ask you all of the questions I had in mind during the hearings of the Senate Commerce Committee on the Rail Loan Legislation on July 8, 1970.

The remaining questions are enclosed and I would appreciate receiving your answers for the record of the hearing.

Sincerely yours,

VANCE HARTKE,
Chairman, Surface Transportation Subcommittee.

AUGUST 14, 1970.

Hon. VANCE HARTKE,
Chairman, Subcommittee on Surface Transportation,
Senate Commerce Committee,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: Thank you for your letter of July 21, 1970, enclosing a list of questions to be answered for the record of hearings before the Subcommittee on Surface Transportation, July 8, 1970.

The questions and answers are attached in the order you listed.

We are pleased to be able to furnish this information, and trust it will be satisfactory.

Sincerely yours,

GEORGE M. STAFFORD,
Chairman.

Question 1. I understand that only Penn Central Transportation Company is in reorganization. Are the assets of Penn Central Company and Pennsylvania Company insulated from the reorganization? Are they available to keep the railroad in operation? Are they available to pay the debts of the Transportation Company?

Answer. The purpose of a reorganization under section 77 of the Bankruptcy Act, under which the Penn Central Transportation Company has petitioned, is to marshall all of the assets of the debtor to make them available for distribution in settlement of the claims of the creditors in a manner found to be fair and equitable by the Interstate Commerce Commission and the reorganization court. While the matter is not altogether free from doubt, it would appear that the stock of the Pennsylvania Company, being among the assets of the Penn Central Transportation Company, would be available to satisfy the claims against the railroad, and, of course, through the Pennsylvania Company, the other properties directly or indirectly held by it should similarly be available. Whether such is the case will need to be determined by the reorganization court, the Honorable John P. Fullam of the United States District Court for the Eastern District of Pennsylvania.

As for the Penn Central Company, the holding company which controls the railroad, it is doubtful that it or its assets are within the reach of the reorganization court. However, apart from the railroad and the companies it holds, the holding company evidently has no assets other than the Southwestern Oil and Gas Company and Royal Petroleum Company, the acquisition of which is being challenged in the courts.

The assets of the railroad, including its holdings of the stock of the Pennsylvania Company, heretofore have been pledged or otherwise encumbered by the railroad and, accordingly, probably are unavailable for the payment of current operating expenses.

Question 2. What are the powers of the ICC to prevent or remedy diversion of assets from a carrier?

Answer. The Interstate Commerce Commission has some authority under section 1 (18) of the Act to control diversion of any carrier property used for transportation purposes, inasmuch as the carrier must seek authority from the Commission prior to abandoning any lines or property so used. However, the Commission under existing law has no authority over the sale or conveyance of non-transportation assets of a carrier otherwise subject to its jurisdiction.

Question 3. What procedures do you follow and what reports do you require to keep yourself informed about carrier assets so that you can determine whether or not diversion is occurring? If you do not keep yourself so informed at present, what plans do you have to keep yourself informed in the future?

Answer. Our field program provides for an examination of all large railroads and motor carriers on an annual basis. These examinations include a detailed review of all material transactions between the carriers and their affiliated companies. Prior to 1969 all carriers were required to submit certain data with respect to payments for services, and in 1969, the motor carrier annual reports were revised to provide for detail reporting of payments and receipts recorded from transactions with affiliated companies. Similar reporting requirements are currently under consideration for rail carriers.

Question 4. At page 8 and 9 of the Bureau of Accounts Special Review of Railroad Conglomerates, March 11, 1969, is a list of questionable practices which I think are so important that I would like to take a moment and read them into the Records

IV. Summary of Questionable Practices

The review of railroad holding companies disclosed a number of questionable practices including:

1. Intercompany dividends detrimental to financial welfare of railroad.

a. Railroad required to pay dividend of common stock of its subsidiary consisting primarily of real estate and marketable securities which had a book cost of $20 million and an appraisal value of $45 million.

b. Holding company liquidated loans to the extent of about $900,000 by requiring railroad to declare special dividends.

c. Holding company lent cash to railroad to pay dividends to holding company.

d. Holding company exercises control over railroad dividends to maintain its (holding company) dividend policy.

2. Sales of carrier real estate ($65 million in past nine years) for the purpose of generating cash and profits necessary to establish a holding company and maintenance of the holding company's dividend policy.

3. Intercompany sales and transfers of railroad assets without adequate compensation to railroad, such as sales of air rights, sales and transfers of real estate and transfers of marketable securities at less their appraised or market value.

4. No reimbursements by the holding company or affiliates in consolidated tax returns for use of carrier tax benefits resulting from accelerated depreciation methods, investment tax credits and net operating losses. However, one carrier has been required to pay holding company about $1.4 million for holding company loss contributions on a consolidated tax return, including a year in which no tax was actually paid.

5. Intercompany leasing arrangements whereby carrier is required to finance the property to be leased, pay rental charges in excess of authorized depreciation plus a profit and rental charges in advance. This results in a carrier paying considerably more than if the property were owned and yet the carrier enjoys none of the benefits available in a normal lease arrangement such as conservation of capital.

6. Advances were made by railroad to holding companies and affiliates at no interest cost or at rates below market.

7. Use of railroad's credit by holding company without adequate compensation.

8. Officers and administrative salaries and expenses applicable to the holding company have been included as a cost of railroad operations. Arbitrary management services have been billed by a holding company to its railroad subsidiary.

9. Insufficient details in carrier records to support intercompany transactions, such as leasing, management services and transfers of assets.

10. Access to records was limited—staff was unable to review noncarrier records.

11. Diversion of carrier resources without just compensation has an adverse impact on minority stockholders.

To what extent have the above practices occurred in the Penn Central? Who pays the salaries of the Chairman of the Board of the holding company? The railroad? Is there any allocation between the corporations?

How about administrative costs of the holding company?

Answer. The questionable practices disclosed in the Bureau of Accounts Special Review of Railroad Conglomerates, dated March 11, 1969, are included in our audit program for Penn Central. The investigation is currently in progress and we will advise of our findings when it is completed, with a preliminary report due, as you were informed at the hearings, in about 90 days.

The officers and administrative salaries and expenses of Penn Central Company are paid by the transportation subsidiary, Penn Central Transportation Company. Direct expenses applicable to the holding company are subsequently rebilled to the holding company in total. Seventy-five percent of the salaries and administrative expenses of the following former officers were subsequently billed to the holding company:

Chairman of the Board (S. Saunders)
Chairman of the Finance Committee (D. Bevan)
Vice President, Public Relations and Advertising (W. Lashley)
Vice President-Finance (J. O'Herron)

Question 5. At page 34 of the Bureau of Accounts report is a list of potential questionable practices—at page 36 you describe "Distortion of carrier income"—do you have an example—has the Penn Central engaged in this practice?

Answer. This item is also currently under investigation by our audit staff as explained in answer to the preceding question.

Question 6. Sec. 10 of the Clayton Act prohibits a carrier from dealing with another company having a common director, president, manager or selling or purchasing agent except by competitive bidding. Sec. 10 requires reports to be filed with the ICC of any such transactions and provides fines and jail sentences for violation.

It would seem that the Penn Central must have a considerable number of dealings between companies with common directors.

Do you investigate to satisfy yourself that Sec. 10 has been complied with?

Are reports filed? Has the Penn Central filed reports?

How do you enforce Sec. 10? How many cases have you certified to the Attorney General for prosecution?

Answer. Our audit procedures include a general review of carrier compliance with provisions of the Clayton Antitrust Act. Carriers purchasing material or services amounting to more than $50,000 per year from companies having a common director, president, manager, or selling or purchasing agent are required to file reports detailing the transactions and bids requested in connection therewith. Penn Central Transportation Company files reports required by this Section. It filed 11 reports in 1968, 11 in 1969, and 9 to date in 1970.

The Commission is looking into the possibility of violations of this Section by Penn Central in its dealings with banks.

Violations of this Section are normally discovered under the audit procedures, and are submitted to the Commission's Bureau of Enforcement. If additional information should be necessary, as is often the case, the Bureau conducts a field investigation to obtain the complete facts and evidence available. When this is concluded, the file is referred to the Department of Justice, Antitrust Division, for prosecution. Since January 1, 1967, seven cases have been referred to the Department.

Question 7. Sec. 1(8) of the ICC act prohibits transportation of certain articles mined, produced, manufactured or owned by the carrier. Do you know of any violations of this clause? Because of all of its diverse companies and businsses, a company like the Penn Central would have a difficult time not violating this section—wouldn't it?

Answer. We have been able to find only three proceedings during the period November 3, 1958, to July 31, 1970, in which the question of the commodities clause was raised as an issue. These cases are:

1. *Florida East Coast Ry. Company Reorganization*, decided November 3, 1958, 307 I.C.C. 5, 18.

2. *St. Mary's R. Co., Construction*, decided August 4, 1960, 312 I.C.C. 178, 179.

3. *Texas & Pacific Ry. Co.-Control-Kansas, Oklahoma & Gulf Ry. Co., et al.* decided June 22, 1964, 324 I.C.C. 309, 323, 324.

In all three cases, the Commission found that no violation of the commodities clause was involved. However, the commodities clause has been emasculated by the decisions of the Supreme Court in *United States* v. *Elgin, J.&E. Ry.* 298. U.S. 492 (1936) and *United States* v. *South Buffalo R. Co.*, 333 U.S. 771 (1948).

Question 8. The Bureau of Economics Report on Project No. 46, March 1969, at page 5, states that parent company should be required to submit lists of its directors, officers, and directors and officers of all affiliates—why is this recommendation important?

Answer. At the present time relatively few of the parent holding companies are subject to the reporting requirements of the Commission. Thus, the Commission, from its own records, has little or no information about these non-reporting parent companies and their respective non-reporting subsidiaries and affiliates. The Bureau believes the Commission should know the identity of the officers and directors of these non-reporting companies as well as what interlocks might exist with other companies. While the Bureau recognizes that a control or community of interest situation is not necessarily indicated when two or more companies have common directors, the situation is one which must be considered, in their opinion, in order to determine its effect upon the regulated carrier.

Question 9. Sec. 20a(12) makes it unlawful for a person to be an officer or director without an order of the Commission showing that neither the public nor private interest would be adversely affected thereby.

What criteria do you use in approving directors and officers?

How do you determine whether the private or public interest is adversely affected?

Do you approve all officers and directors that are proposed?

How many have you rejected?

Answer. Actually, section 20a(12) makes it unlawful for an individual to be an officer or director in more than *one carrier*[1] without Commission authority. An individual may therefore become an officer or director of a carrier or of a carrier and one or more noncarriers without violating the provisions of section 20a(12).

In an application under section 20a(12), the applicant has the burden of proof on the following criteria:[2]

(1) Neither public nor private interests will suffer through the interlocking directorate;

(2) the absence of competition between the carriers involved;

(3) even in the absence of direct competition of parallel tracks, if either carrier has an election as between the other carrier and another road or roads as to routing of traffic at interchange points, public and private interests will be assumed to be adversely affected by an interlocking directorate;

(4) no existing or prospective conflicts between the interests of the respective carriers. For example, if there are prospective negotiations between the carriers in question for consolidation of their properties, no person, regardless of his high character, should "be asked or permitted to sit on both sides of the table";

(5) the interlocking position "will not tend to accomplish or effectuate the control or management in a common interest of the carriers" and "will not tend to interfere with the independence of those carriers;" and

(6) no person should be permitted to serve as officer or director of more than one such railroad or system, except in special circumstances, because of the importance of maintaining complete independence and impartiality

[1] The term carrier is defined under Section (1)(3)(a) of Part 1 of the Interstate Commerce Act, generally embrasing pipe-line companies, express car companies, sleeping car companies, and railroads.

[2] The criteria are set out and discussed in detail in *Chesapeake & O. Ry. Co. Purchase*, 271 I.C.C. 5, 17.

between major railroad companies or systems and the possibility of competition and conflict of interest between such railroads or systems.

In light of these criteria, if an individual is already an officer or director of a railroad, his application for authority to hold a similar position with another railroad or railroad system will be usually summarily denied. However, there have been some exceptions made. For example, where the two unrelated railroads involved are small carriers located in widely separated sections of the country, such as Texas and Maine, and there is no connection between the two and no possibility of their competing for traffic, an individual with some special skill will be approved by the Commission to hold a position of officer or director of both railroads. There have also been a few instances where an unprofitable branch line has been abandoned by a railroad and then acquired by a group of local shippers or a municipality and operated as an independent railroad. In such cases, the Commission has approved the holding by an officer of the abandoning railroad of an office in the new railroad in order to aid the new owners in establishing their carrier operation. The president of the former New York Central was also permitted to serve as director of the Reading after New York Central's interest in the latter was sold to Baltimore & Ohio. This permission was granted in order that New York Central's interest in maintaining an important route into New York City from the South would not be adversely affected by the sale.

Furthermore, an application would usually be approved if the carriers involved are all members of the same system and operated under common control. Under such circumstances, it is to the economic advantage of a railroad system to permit its officers and directors to serve in several capacities rather than requiring each separate position to be filled by a different person. Indeed, such construction of the statute has been codified in the Commission's regulations—See question 13.

Numerous applications filed under section 20a(12) have been denied by the Commission since this section was enacted in 1920, but the total would be difficult to ascertain since our finance dockets are not segregated as to the type of action involved. However, we have been able to establish the most recent denials between the period October, 1968, and the date of this letter, and attached for your information are the orders in these five proceedings. We hope this information will be sufficient for your purposes.

Question 10. Do you think the interlocking directorates of the Penn Central and a large number of banks are in the public interest?

Answer. Presumably banks require representation upon a railroad's board as a condition to granting a loan in order to safeguard their investments. If a bank is unable to have representation upon a board it possibly could become reluctant to advance the funds a carrier requires for equipment and other capital expenditures. If this were the case, the public could suffer because the carrier's ability to furnish needed transportation would be placed in jeopardy, and that clearly would not be in the public interest. Therefore, such interlocking directorates as in the case of Penn Central may well have been in the public interest by providing funds not otherwise available. However, the Commission is looking into the possibility of violations of Section 10 of the Clayton Act by Penn Central in its dealing with banks.

As we pointed out in answer to a previous question, an individual may be an officer or director of a carrier and one or more noncarriers, such as banks, without violating the Interstate Commerce Act, because Section 20a(12) does not apply in such circumstances. A problem arises, in our opinion, when such individual, who is director of a carrier, is an officer of a bank or a partner in a law firm, for example, and at the same time another officer or partner of the same organization is a director of another railroad. In this manner, the prohibition of section 20a(12) is circumvented, and the spirit of the law, if not the letter, is violated.

This is a matter on which the Commission has previously expressed concern to the Congress and recommended legislation to correct it in the following manner:

That section 20a(12) be amended so as * * * * *

"(b) to make it clear that the prohibition against the holding 'by any person' of the position of officer or director of more than one carrier applies to the holding of such positions by different members, officers, employees, or directors of the same firm, co-partnership, corporation, associa-

tion, or joint stock association, or to the representation of a person on the board of directors of more than one carrier through an agent or nominee."

This recommendation was presented initially to the 87th Congress, and S. 2558 was introduced to reflect it, but no other action was taken. Thereupon, the recommendation was renewed before the 89th Congress, and S. 1150 and H.R. 5241 were introduced in response to it. Hearings were held before Subcommittees of both the House and Senate Commerce Committees, and on May 27, 1965, H.R. 5241 passed the House. However, no further action was taken by the Senate Subcommittee on Surface Transportation.

List of persons' applications denied since October, 1968 requesting authority under section 20a(12) of the act to hold positions with more than 1 carrier subject to Part I of the act:

James Boyd, Finance Docket No. 25093
Howard A. Newman, Finance Docket No. 26180
Abraham M. Buchman, Finance Docket No. 25647
Thomas Mellon Evans, Finance Docket No. 25628
John N. Kiefer, Jr., Finance Docket No. 25689

Reason for denial: That it had not been shown that neither the public nor private interests would be adversely affected by authorizing the interlocking directorate.

F-9506 *Served November 6, 1968*

INTERSTATE COMMERCE COMMISSION

FINANCE DOCKET NO. 25093

APPLICATION OF JAMES BOYD UNDER SECTION 20A(12)

OF THE INTERSTATE COMMERCE ACT

Decided October 24, 1968

On reconsideration, order of the Commission, Commissioner Tuggle, dated July 18, 1968, affirmed, and application of James Boyd for authority under section 20a(12) of the Interstate Commerce Act to hold the position of director with the Soo Line Railroad Company in addition to the position of president of the Copper Range Company, a noncarrier which controls the Copper Range Railroad Company, a carrier subject to part I of the act, denied.

W. H. Parsons for applicant.

REPORT OF THE COMMISSION ON RECONSIDERATION

DIVISION 3, ACTING AS AN APPELLATE DIVISION,

COMMISSIONERS TUGGLE, BUSH, AND DEASON

BY DIVISION 3:

By order dated July 18, 1968, in this proceeding the application of James Boyd for authority under section 20a(12) of the act to hold the position of director with the Soo Line Railroad Company (Soo Line), while holding the position of president of the Copper Range Company (Copper Range), a noncarrier which controls the Copper Range Railroad Company (CRRC), a carrier subject to part I of the act, was denied.

By order of division 3 dated September 17, 1968, a petition for leave to intervene filed by the Soo Line was granted and the proceeding was reopened for reconsideration.

Applicant is currently a director and president of Copper Range, a noncarrier engaged principally in metallurgical processing, and owns 12,027 shares of its outstanding common stock which represents less than 1 percent of the total outstanding shares.

Copper Range, in turn, owns 88.91 percent (16,892.5 shares) of the outstanding common stock and 91.98 percent of the preferred stock of CRRC, a carrier subject to part I of the act. On April 8, 1968, applicant resigned as director of CRRC (a position held since June 5, 1960), chairman of its board of directors, and as a member of the executive committee of the board of directors. Mr. Boyd presently holds no official position with said company, although he does own 10 qualifying shares of its common stock. One month later, on May 9, 1968, the instant application was filed applying for authority to assume the position of director of the Soo Line. Applicant owns 100 shares of common stock in Soo Line.

CRRC operates approximately 90 miles of railroad located in the geographical area served by the Soo Line, also a carrier subject to part I of the act. In 1967, CRRC handled approximately 8,126 carloads and had gross revenues of $279,832. CRRC interchanges with the Chicago, Milwaukee, St. Paul and Pacific Railroad Company (Milwaukee) at McKeever, Mich., and with the Soo Line at Houghton, Mich. Carload traffic moving to and from the territories served by CRRC frequently moves by either the Soo Line or the Milwaukee railroad. In 1966, CRRC interchanged 333 carloads with the Soo Line and 1,986 carloads with the Milwaukee road. Neither CRRC or Soo Line own any stock or securities of the other.

On petition for reconsideration, Soo Line requests (1) that the Commission dismiss the application because the authority sought under section 20a(12) is not required and, in the alternative, Soo Line requests (2) that the application be granted because applicant has shown that public or private interests would not be adversely affected.

Discussion and Conclusion

Section 20a(12) provides in part as follows: "After December 31, 1921, it shall be unlawful for any person to hold the position of officer or director *of more than one carrier*, unless such holding shall have been authorized by order of the Commission, upon due showing, in form and manner prescribed by the Commission, that neither public nor private interests will be adversely affected thereby." [Emphasis supplied.]

The authority sought by applicant herein requires the approval of this Commission pursuant to section 20a(12).

Soo Line contends that authorization of the Commission is not required under section 20a(12) for applicant to hold the position of director of Soo Line while holding the position of president of Copper Range Company because the latter is not a carrier, and thus, applicant would be a director or officer of only one carrier. It points out that the term "carrier" is defined in section 20a(1) and the definition contained therein does not include a noncarrier which controls a carrier. Section 5 of the act, on the other hand, distinguishes between carriers and noncarriers which control one or more carriers. Had Congress intended the requirements of section 20a(12) to apply to noncarriers the Soo Line contends that this intent would have been expressly set forth in section 20a(12) as it was in section 5. Having failed to so provide, the Soo Line concludes Congress did not intend the requirements of section 20a(12) to apply to noncarriers.

The legislative history and intent of section 20a(12) have been previously discussed. See *Chesapeake & O. Ry. Co. Purchase*, 271 I.C.C. 5, 18-21. Suffice it to say here that the legislators were concerned with the situation wherein the same men "managed different corporations." House Report 681 to accompany H.R. 16586 63d Congress, 2d Session (Congressional Record, volume 51, page 9598 June 1, 1914). Section 20a(12) was enacted to protect public and private interests by preventing the operation of one carrier for the benefit of another which in the past had often resulted in a lessening of competition and unfair competitive advantage.

Whether the management of different corporations or carriers (or one's ability to influence the operation of one carrier for the benefit of another) is

direct, as in the case of an interlocking directorate, or indirect is immaterial. It is not the form or manner in which such management or influence is exercised, but the fact of such management or influence that was sought to be regulated. In the instant case, Mr. Boyd, as president and director of Copper Range Company which, in turn, owns approximately 90 percent of the outstanding stock of CRRC is able to control the actions of CRRC, as effectively as when he was director and officer of said carrier. If he is allowed to become a Soo Line director, he would be in a position to affect the operation of the Copper Range Railroad for the benefit of Soo Line.

The strict construction of section 20a(12) urged by Soo Line could, in effect, render the statute a nullity. The statute could be evaded simply by interposing a noncarrier corporation between the individual and the carrier, as in the instant case. In such circumstances, we are of the opinion that the spirit and intent of the statute are entitled to great weight. A statute should not be interpreted so restrictively as to thwart the purpose of the Congress in adopting it. Rather, the statute must be construed in such a way as to effectuate its basic purpose. See *North American Van Lines, Inc.* v. *United States*, 240 F. Supp. 464, 467 (1965). Accordingly, we are of the opinion and so hold, that the term carrier in section 20a(12) includes a noncarrier which controls a carrier and that the application herein is subject to our jurisdiction under section 20a(12).

Applicant has not made the required showing under the statute "that neither public nor private interests will be adversely affected" by his assuming the position for which authority is sought herein.

Soo Line contends that applicant has shown that neither public nor private interests will be adversely affected because CRRC is a small carrier whose operations are not a significant factor in the national transportation system. Additionally, it contends that the traffic interchanged by CRRC with Soo Line and with Milwaukee constituted an insignificant portion of the traffic of those two carriers. Cases are cited by the Soo Line wherein denial of applications for interlocking directorates have involved major carriers. As noted by intervener, CRRC is not a major carrier nor an important part of any railroad system.

The act affords no specific tests to be applied in determining whether public or private interests will be adversely affected. However, the criteria which an applicant under section 20a(12) must affirmatively satisfy has been outlined in *Chesapeake and O. Ry. Co. Purchase*, *supra*, pages 17 and 18. Five factors are discussed therein, all of which must be satisfied. In the instant case applicant has not made the required showing with respect to three factors.

First, if either carrier has an election as between another carrier and another road or roads, as to the routing of traffic at interchange points, public and private interests will be adversely affected. *In re Rand*, 175 I.C.C. 587, 588, *In re Boatner*, 257 I.C.C. 369, 372. CRRC presently has an election between the Soo Line and the Milwaukee as to the routing of its traffic. As noted, CRRC interchanged 333 carloads with Soo Line and nearly 2,000 carloads with Milwaukee in 1966. As director of Soo Line and, at the same time, president and director of Copper Range, which controls CRRC, Mr. Boyd would be in a position to facilitate a larger interchange with Soo Line to the detriment of Milwaukee and to affect the operation of CRRC for the benefit of Soo Line.

The fact that CRRC is a small carrier and that the traffic interchanged by it constituted a small portion of the total traffic of Soo Line and Milwaukee is not determinative. While a number of previous cases denying interlocking relationships have concerned major carriers (for example, where major carriers were assigned to different systems), many of these proposals involved the Commission's plan for the consolidation of railroads. *Consolidation of Railroads*, 159 I.C.C. 522 (1929) which was later repealed by the Transportation Act of 1940.

Secondly, because of the importance of maintaining complete independence and impartiality between established railroad systems and because of the possibility of conflict of interests, a person should not be permitted to serve as officer or director of more than one such railroad or system except in special circumstances. We have held that "* * * to make an exception in favor of an applicant, there must be a strong and convincing showing that it should be

made." *In re Coverdale*, 252 I.C.C. 672, 675. Applicant has not presented evidence herein of such special circumstances.

Finally, applicant must show that the interlocking positions will not tend to accomplish or effectuate the control or management in common interest of the carriers and will not tend to interfere with the independence of those carriers. Applicant has not made such a showing. On the contrary, it appears that the mere representation of applicant on the board of Soo Line would tend to destroy the present neutrality and independence between Soo Line and CRRC. Applicant has not (and, in fact, cannot) shown lack of a tendency toward some destruction of the independent nature of the two lines.

By the provisions of section 5 of the Interstate Commerce Act, as amended, by the Transportation Act of 1940, Congress has manifested an intent that the independence of established systems shall be preserved unless the Commission authorizes specific changes pursuant to those provisions. Under the provisions of section 5(4) it is unlawful unless authorized by the Commission, to effectuate the control or management in a common interest of any two or more carriers, "however such result is attained, whether directly or *indirectly*, by use of common directors, officers, or stockholders, a holding or investment company or companies, a voting trust or trusts, *or in any other manner whatsoever*." [Emphasis supplied.]

Section 5(2) is specific as to the nature of transactions this Commission may approve. As here pertinent, section 5(2) confers no authority to approve management in a common interest through the use of common directors or officers unless coupled with control. *New York, C. & St. L. R. Co. Control*, 295 I.C.C. 131, 141; *Chesapeake and O. Ry. Co. Purchase*, *supra*, page 17. Applicant's proposal herein is tantamount to requesting the Commission to sanction a violation of section 5(4). The immediacy or remoteness of the parent to the proposal by itself cannot destroy the statutory intent for the parent's position can easily be self determined and created, cf., *Alleghany Corp* v. *Breswick & Co.*, 353 U. S. 151, 169.

We are unable to find that applicant has made due showing, in the form and manner prescribed by us, that neither public nor private interests will be adversely affected by his holding a directorship with the Soo Line Railroad Company, while continuing to hold the position of president and director of the Copper Range Company.

An appropriate order will be entered.

ORDER

At a Session of the Interstate Commerce Commission, Division 3, Acting as an Appellate Division, held at its office in Washington, D. C., on the 24th day of October 1968.

FINANCE DOCKET NO. 25093

APPLICATION OF JAMES BOYD UNDER SECTION 20A(12)

OF THE INTERSTATE COMMERCE ACT

Upon consideration of the record in the above-entitled proceeding, including the petition by Soo Line Railroad Company, intervenor, filed August 19, 1968, seeking leave to intervene and seeking reconsideration of the order of the Commission, Commissioner Tuggle, dated July 18, 1968, denying the application of James Boyd to serve as a director of the Soo Line Railroad Company and the Copper Range Company, the order of September 17, 1968, granting the petition for intervention of the Soo Line Railroad Company and reopening the proceeding for reconsideration, and division 3, acting in an appellate capacity, having made and filed its report on reconsideration, which report is hereby made a part hereof:

It is ordered, That said petition for reconsideration be, and it is hereby, denied; and

It is further ordered, That this order shall be effective on the date hereof.

By the Commission, Division 3, Acting as an Appellate Division.

[SEAL] H. NEIL GARSON,
Secretary.

Service Date: June 10, 1970.

ORDER

INTERSTATE COMMERCE COMMISSION

FINANCE DOCKET NO. 26180

APPLICATION OF HOWARD A. NEWMAN UNDER SECTION 20A(12)

OF THE INTERSTATE COMMERCE ACT

Present: Kenneth H. Tuggle, Commissioner, to whom the above-entitled matter has been assigned for action.

It appearing, That by application filed April 29, 1970, Howard A. Newman seeks authority under section 20a(12) of the Interstate Commerce Act to hold the position of Director with The Western Pacific Railroad Company, a carrier subject to part I of the act, while holding the position of Director and member of the Executive Committee with Northwest Industries, Inc., a non-carrier which controls the Chicago and North Western Railway Company, a carrier subject to part I of the act;

It further appearing, That by petition filed April 29, 1970, applicant seeks dismissal of the above-mentioned application for lack of jurisdiction;

It further appearing, That Northwest Industries, Inc. is a carrier within the meaning of section 20a(12) of the act (see *Boyd Application under Section 20a(12)*, 333 I.C.C. 815); and that the authority sought herein is within the scope of that section; and

It further appearing, That such interlocking directorate may result in the Chicago and North Western Railway Company and The Western Pacific Railroad Company being operated in a common interest; and that it has not been shown that neither the public nor private interests would not be adversely affected by authorizing the requested interlocking directorate;

It is ordered, That the petition to dismiss the application for lack of jurisdiction be, and it is hereby, denied; and

It is further ordered, That the application of Howard A. Newman for authority to hold the position of Director with The Western Pacific Railroad Company be, and it is hereby, denied.

Dated at Washington, D. C., this 8th day of June, 1970.

By the Commission, Commissioner Tuggle.

[SEAL]

H. NEIL GARSON,
Secretary.

Service Date: June 15, 1970.

ORDER

At a Session of the Interstate Commerce Commission, Division 3, acting as an Appellate Division, held at its office in Washington, D.C., on the 15th day of June, 1970.

FINANCE DOCKET NO. 26180

APPLICATION OF HOWARD A. NEWMAN UNDER SECTION 20A(12) OF THE

INTERSTATE COMMERCE ACT

Upon consideration of the record in the above-entitled proceeding, including the petition filed June 12, 1970, on behalf of applicant seeking reconsideration of the order of June 8, 1970, by Commissioner Kenneth H. Tuggle denying the application of Howard A. Newman for authority to hold the position of director with the Western Pacific Railroad Company and the petition to dismiss the application for lack of jurisdiction; and

It appearing, That the petition sets forth no facts or arguments not previously considered in the proceeding, that the order of June 8, 1970, adequately discusses the issues involved and properly disposes of them, and that no basis for its reconsideration or dismissal of the application has been presented:

It is ordered, That the petition be, and it is hereby, denied.

By the Commission, Division 3, acting as an Appellate Division.

[SEAL]

H. NEIL GARSON,
Secretary.

Service Date: May 7, 1969.

ORDER

INTERSTATE COMMERCE COMMISSION

FINANCE DOCKET No. 25647

APPLICATION OF ABRAHAM M. BUCHMAN, UNDER SECTION 20A(12)

OF THE INTERSTATE COMMERCE ACT

Present: Kenneth H. Tuggle, Commissioner, to whom the above-entitled matter has been assigned for action.

It appearing, That by application filed April 23, 1969, Abraham M. Buchman seeks under section 20a(12) of the Interstate Commerce Act authority to hold the position of Director with the Monon Railroad, while holding the position of Director of Missouri-Kansas-Texas Railroad Company;

It further appearing, That the Monon Railroad and Missouri-Kansas-Texas Railroad Company are not affiliated by stock holdings in one another or in any other manner;

It further appearing, That under the provisions of the act, applicant herein has the burden of making an affirmative showing, sufficient to convince the Commission beyond doubt, that neither public nor private interests will suffer by his assuming the position for which he herein seeks authority; In *re Astor*, 193 I.C.C. 528; In *re Boatner*, 257 I.C.C. 369; and

It further appearing, That no showing has been made sufficient to convince the Commission that neither public nor private interest will be adversely affected by the proposed assumption by applicant of the position of Director with the Monon Railroad:

It is ordered, That the application of Abraham M. Buchman for authority to hold the position of Director with the Monon Railroad be, and it is hereby, denied.

Dated at Washington, D.C., this 30th day of April, 1969.

By the Commision, Commissioner Tuggle.

[SEAL]

H. NEIL GARSON,
Secretary.

Service Date: May 5, 1969.

ORDER

INTERSTATE COMMERCE COMMISSION

FINANCE DOCKET No. 25628

IN THE MATTER OF THE APPLICATION OF THOMAS MELLON EVANS UNDER

SECTION 20A(12) OF THE INTERSTATE COMMERCE ACT

Present: Kenneth H. Tuggle, Commissioner, to whom the above-entitled matter has been assigned for action.

It appearing, That by application filed April 14, 1969, Thomas Mellon Evans seeks under section 20a(12) of the Interstate Commerce Act authority to hold the position of Director with the Southern Pacific Company, a railroad, while holding the position of Director of Pittsburgh & Lake Erie Railroad Company;

It further appearing, That the Southern Pacific Company and Pittsburgh & Lake Erie Railroad Company are not affiliated by stock holdings in one another or in any other manner;

It further appearing, That under the provisions of the act, applicant herein has the burden of making an affirmative showing, sufficient to convince the Commission beyond doubt, that neither public nor private interests will suffer by his assuming the position for which he herein seeks authority; In *re Astor*, 193 I.C.C. 528; In *re Boatner*, 257 I.C.C. 369; and

It further appearing, That no showing has been made sufficient to convince the Commission that neither public nor private interests will be adversely affected by the proposed assumption by applicant of the position of Director with the Southern Pacific Company:

It is ordered, That the application of Thomas Mellon Evans for authority to hold the position of Director with the Southern Pacific Company be, and it is hereby, denied.

Dated at Washington, D.C., this 25th day of April, 1969.

By the Commission, Commissioner Tuggle.

[SEAL]

H. NEIL GARSON,
Secretary.

Service Date: October 3, 1969

ORDER

INTERSTATE COMMERCE COMMISSION

FINANCE DOCKET NO. 25689

APPLICATION OF JOHN N. KIEFER, JR., UNDER SECTION 20A(12)

OF THE INTERSTATE COMMERCE ACT

Present: Kenneth H. Tuggle, Commissioner, to whom the above-entitled matter has been assigned for action.

It appearing, That by application filed May 19, 1969, John N. Kiefer, Jr., seeks authority under section 20a(12) of the Interstate Commerce Act to hold the position of Director with the Livonia, Avon & Lakeville Railroad Corporation, while holding the position of Vice President, General Manager of the Genesee and Wyoming Railroad Company;

It further appearing, That the Livonia, Avon & Lakevile Railroad Corporation and the Genesee and Wyoming Railroad are not affiliated by stock holdings in one another or in any other manner;

It further appearing, That under the provisions of the act, applicant herein has the burden of making an affirmative showing, sufficient to convince the Commission beyond doubt, that neither public nor private interests will suffer by his assuming the position for which he herein seeks authority; In *re Astor*, 193 I.C.C. 528; In *re Boatner*, 257 I.C.C. 369; and

It further appearing, That no showing has been made sufficient to convince the Commission that neither public nor private interests will be adversely affected by the proposed assumption by applicant of the position of Director with the Livonia, Avon & Lakeville Railroad Corporation:

It is ordered, That the application of John N. Kiefer, Jr., for authority to in one another or in any other manner;
hold the position of Director with the Livonia, Avon & Lakeville Railroad Corporation be, and it is hereby, denied.

Dated at Washington, D.C., this 24th day of September, 1969.

By the Commission, Commissioner Tuggle.

[SEAL]

H. NEIL GARSON,
Secretary.

Question 11. Do you think that interlocking directorates with banks, along with the banks' substantial holdings of Penn Central stock in their trust departments and loans to the Penn Central, might give them practical control over the railroad?

Answer. It is conceivable that control of a railroad might be achieved by a bank or group of banks where sufficient representation is acquired on the railroad's board of directors. Even if voting control is not achieved, a bank or banks could acquire a voice in the railroad's management in order to protect the funds which it has advanced to the railroad. As of this time, we have no knowledge that such was the situation in the case of the Penn Central Transportation Company.

Question 12. Would banks tend to operate the railroad for the public's interest or the banks?

Answer. In any corporation, the group acquiring control will tend to operate the corporation in a manner to protect its own interest. Otherwise there would be no point in acquiring control. The Commission believes railroad management should be retained firmly in the hands of transportation interests rather than being subject to the influence of outside interests, but the law as presently framed does not empower the Commission to control this.

Question 13. Does the ICC have a new rule on interlocking directorates? What is it? What is its justification?

Answer. Briefly, the revised regulations eliminate the necessity for an application under section 20a(12) when the interlocking positions would be part of a system operated under common control or management pursued under authority previously granted by the Commission under section 5 of the Interstate Commerce Act.

The primary justification for the revision is to reduce the "expensive paperwork burden on the carriers involved and our staffs," which in this case serves "no current regulatory purpose" due to the prerequisite of section 5 authority and other reports and records available.

Attached is a copy of this report, *Revised Regulations Governing Officers*, 336 I.C.C. 679, decided May 1, 1970, for your information and further details.

Served May 13, 1970

F–9584

INTERSTATE COMMERCE COMMISSION

Ex Parte No. 260

REVISED REGULATIONS GOVERNING INTERLOCKING OFFICERS

Decided May 1, 1970

Regulations relating to interlocking officers and directors of carriers by railroad revised with respect to positions with railroads lawfully operated under common control and jointly used terminal properties. Appropriate order entered.

William M. Moloney, C. C. Kimball, Hollis G. Duensing, W. J. McDonald, Jr., and *F. L. Sigloh* for proponents.

Report of the Commission

BY THE COMMISSION:

The existing regulations relating to authorizations of interlocking officers and directors of two or more carriers,[1] 49 CFR § 1112 (reproduced as appendix A to this report), date largely from 1921 and were last amended by an order dated December 1, 1931.

By petition filed July 22, 1969, the Association of American Railroads (Association) proposes an amendment (see appendix B) which would make the regulations inapplicable to persons holding or proposing to hold the position of officer or director of more than one carrier when such carriers are lawfully operated under common control or management pursuant to approval and authorization granted by the Commission under section 5 of the Interstate Commerce Act.

In a notice of proposed rulemaking and order served December 5, 1969, pursuant to the Administrative Procedure Act (5 U.S.C. § 553 and § 559), and sections 12, 17, and 20a(12) of the Interstate Commerce Act, the Commission stated that it had under consideration the amendment proposed by the Association, and that in lieu of applications presently required and individual orders of authorization for the holding of such positions, the Commission proposed to issue a blanket authorization upon a finding of general applicability, pursuant to section 20a(12), that neither public nor private interests will be adversely affected thereby.

The notice, published in the Federal Register on December 9, 1969 (34 F.R. 19471–19472), described the bases for the proposal, set forth the proposed rule

---

[1] Common carriers by railroad. Excluded are street, suburban, or interurban electric railways which are not operated as a part of a general steam railroad system of transportation. Sleeping car companies are included, but such companies are of no moment, since the last, The Pullman Company, canceled its tariffs effective December 31, 1968.

(reproduced as appendix C), and named common carriers by railroad as respondents. Persons desiring to participate in the proceeding were invited to submit statements, including proposals for broadening or limiting the proposed rule.

Responses to the notice were received from the Association, the Union Pacific Railroad Company, and Boise Cascade Corporation, all in favor of eliminating applications in the particular circumstances under consideration. The responses are summarized in appendix D to this report.

In general, the Association questions the need for a blanket authorization insofar as the "supremacy" clause of section 5(11) of the act operates to eliminate the requirements of section 20a(12). Union Pacific asks that the proposed rule be broadened to exempt positions with older affiliates of long-estabilshed systems acquired before authorizations under section 5 were required. Listed in appendix D are five terminal railroads in which Union Pacific or a subsidiary lawfully holds shares, acquired between 1882 and 1912, the properties of which are operated or used jointly with other railroad owners.

Reasons for the Proposed Rule

As here pertinent, section 20a(12), the first sentence, reads:

"After December 31, 1921, it shall be unlawful for any person to hold the position of officer or director of more than one carrier, unless such holding shall have been authorized by order of the Commisison, upon due showing, in form and manner prescribed by the Commission, that neither public nor private interests will be adversely affected thereby." [2]

The regulations implementing this section require a voluminous and detailed application by each affected person desiring to hold a position as officer or director with more than one rail carrier. Approval is granted as a matter of course for service as officer or director of two or more carriers within an established system, it being considered that the finding contemplated by the statute properly may be made under such circumstances.

During the years 1966 through 1969, inclusive, 796 interlocking applications were filed, about 99 percent of which involved positions within established systems. One railroad alone filed applications on behalf of 111 persons in 1968 following completion of a merger authorized under section 5.

A typical application seeks authority for an individual to hold specified positions with named carriers in a single system, and general authority to hold a directorship and other positions with the named carriers, subsidiaries, and affiliates, including terminal companies the properties of which are operated or used by the specified carriers, either separately or jointly with other carriers. A typical order of authorization finds that neither public nor private interests will be adversely affected thereby, authorizes the individual to hold the specified positions, and grants the general authority sought, requiring a written notice before the applicant may accept or enter upon the performance of duties in any position covered by the general authority.

Bases of the Proposed Rule

Authority to adopt the rule proposed by the Association is to be found in paragraph (11) of section 5 of the act, as it has read since 1940:

"The authority conferred by this section shall be exclusive and plenary * * *; and any carriers or other corporations, and their officers and employees and any other persons, participating in a transaction approved or authorized under the provisions of this section shall be and they are hereby relieved from the operation of the antitrust laws and of all other restraints, limitations, and prohibitions of law, Federal, State, or municipal, insofar as may be necessary to enable them to carry into effect the transaction so approved or provided for in accordance with the terms and conditions, if any, imposed by the Commission, and to hold, maintain, and operate any properties and exercise any control or franchises acquired through such transaction." [3]

---

[2] The statutory history of section 20a(12) and some early experience under it are set forth in *Sharfman, The Interstate Commerce Commission*, part I, pages 116–117, 193–195; part II, page 359; part III–A, pages 25–27, 388–404; and part IV, pages 286–287; see also *Chesapeake & O. Ry. Co. Purchase*, 271 I.C.C. 5, 17–21.

[3] The provision relieving carriers from operation of the antitrust laws and other restraints or prohibitions, State or Federal, to enable them to do anything authorized or required by an order under section 5 first appeared in the Transportation Act of 1920.

The provisions of section 5(11) are self-executing, and there is no need for the Commission expressly to declare what relief from other restrictions an authorization under section 5 carries with it. *Chicago, St. P., M. & O. Ry. Co. Lease*, 295 I.C.C. 696.

The Interstate Commerce Act, as amended June 16, 1933 (48 Stat. 218), neither prohibits nor makes unlawful acquisitions effected before that date otherwise than pursuant to authority granted under section 5. Consequently, if the rule were limited as proposed by the Association to authorizations previously granted under section 5, a considerable administrative burden would remain with respect to the older established systems and affiliated terminal railroads, as exemplified by the Union Pacific system, subsidiary, lessor, and affiliated lines.

A precedent for the broader rule sought by the Union Pacific covering relationships lawful but unrelated to authorizations under section 5 is to be found in three of our recent decisions: *Removal of Truckload Lot Restrictions*, 106 M.C.C. 455 (1968); *Motor Service on Interstate Highways—Passengers*, 110 M.C.C. 514 (1969); and *Restrictions on Service by Motor Common Carriers*, 111 M.C.C. 151 (1970). Common to each of these decisions is the determination that resolution of the respective problems posed necessarily should be accomplished by means of a general rule rather than by individual treatment on a case-by-case basis. Courts are increasingly recognizing the validity and necessity of administrative agencies replacing individual, repetitive, adjudicatory proceedings with substantive, general rule-making. In *Regular Common Carrier Conference* v. *United States*, 307 F. Supp.941 (D.C., 1969), which affirmed *Removal of Truckload Lot Restrictions*, *supra*, the court said:

"Flexibility in agency proceedings is imperative so that an agency may carry out its policies in the most intelligent, expeditious and efficient manner possible, consistent with the requirements of due process." [Footnote omitted.]

PURPOSE

In considering the various responses to the notice of proposed rulemaking, comments and suggestions were requested from interested parties by letter dated March 10, 1970, on proposals "to eliminate all but not more than the presently routine-type applications and orders of authorization under section 20a(12)." The responses were favorable to the objectives, and the rule set forth in our findings evolved from such proposals. So stated, it is agreed that the rule shall not be interpreted to cover anything more than the routine-type situations.

DISCUSSION AND CONCLUSIONS

We are of the opinion that the existing regulations should be modified to the extent set forth in our findings. When carriers are lawfully operated under common control or management pursuant to approval and authority of the Commission previously granted under section 5 of the act, the "supremacy" clause of paragraph (11) of that section makes any authorization to their officers or directors—individually or generally—to exercise such control unnecessary.

Applications and individual orders of authorization to hold interlocking positions with carriers in a lawfully established system cast an unnecessary and expensive paperwork burden on the carriers involved and our staff. We know of no current regulatory purpose served thereby. We have ample records of the intercorporate relationships between railroads, their lessors, proprietary companies, and switching and terminal companies. Our Bureau of Accounts compiles and publishes tables showing such relationships at the end of each year, and changes during the year.[4]

The paperwork burden will be substantially lightened by the rule here adopted, and a blanket authorization will be granted to the extent that lawful control of the carriers involved is unrelated to an authorization under section 5.

[4] Transport Statistics in the United States, part I, sections C and D. For the year ended December 31, 1968, the tables were compiled from reports filed by 362 line-haul railroads (75 of which were class I and 287 were class II), 129 lessors to such railroads, 50 proprietary and other companies and 197 switching and terminal railroads. A high percentage of the companies listed in the tables were system, subsidiary, and affiliated lines.

We find that part 1112 of subchapter B, chapter X of title 49 of the Code of Federal Regulations, should be modified by the addition of new sections as follows:

§1112.9 *Common Control.*

It shall not be necessary for any person to secure an order of authorization under the foregoing provisions to hold the position of officer or director of two or more carriers, if such carriers are operated under common control or management, either

(a) pursuant to approval and authority of the Commission granted under section 5 of the act, or

(b) pursuant to a controlling, controlled, or common control relationship which has existed between such carriers since before June 16, 1933.

§1112.10 *Jointly used Terminal Properties.*

Any person holding the position of officer or director of a carrier is hereby relieved from the foregoing provisions to the extent that he may also hold a directorship and any other position to which he may be elected or appointed with a terminal railroad the properties of which are operated or used by such carrier jointly with other carriers.

We further find that neither public nor private interests will be adversely affected by any person holding the position of officer or director of more than one carrier within the rule so adopted; and that such holding shall be authorized by the order entered herein.

An appropriate order will be entered.

APPENDIX A

Part 1112—Interlocking Officers

Sec.

1112.1 Meaning of term "carrier."
1112.2 Application of regulations.
1112.3 Order of authorization.
1112.4 Application for order.
1112.5 Contents of application.
1112.6 Subscription and verification of application.
1112.7 Number of copies; form and style.
1112.8 General authority.

AUTHORITY: The provisions of this part 1112 issued under sec. 12, 24 Stat. 383, as amended; sec. 439, 41 Stat. 494, as amended; 49 U.S.C. 12, 20a.

SOURCE: The provisions of this part 1112 appear at 32 F.R. 20095, Dec. 20, 1967, unless otherwise noted.

§1112.1 *Meaning of term "carrier."*

The term "carrier" is used in this part as it is defined in section 20a(1) of the Interstate Commerce Act.

§1112.2 *Application of regulations.*

The regulations in this part apply to any person authorized by or undertaking for each of two or more carriers to perform the duties, or any of the duties, ordinarily performed by a director, president, vice president, secretary, treasurer, general counsel, general solicitor, general attorney, comptroller, general auditor, general manager, freight traffic manager, passenger traffic manager, chief engineer, general superintendent, general land and tax agent, or chief purchasing agent of a carrier.

§1112.3 *Order of authorization.*

An order of authorization will be granted only upon application therefor as hereinafter provided in this part.

§1112.4 *Application for order.*

An application for such an order may be made by any person in his own behalf.

§1112.5 *Contents of application.*

Each application shall state the following:

(a) The full name, occupation, business address, place of residence, and post office address of the applicant.

(b) A specification of every carrier of which the applicant holds stock, bonds, or notes, individually, as trustee, or otherwise; and the amount of and accurately describe the securities, owned or held by him, of each carrier for which he seeks authority to act. Whenever it is contemplated that the applicant will represent on the board of directors of any carrier securities other than those owned by him, the application shall describe such securities, state the character of representation, the name of the beneficial owner or owners, and the general nature of the business conducted by such owner or owners.

(c) Each and every position with any carrier:

Which is held by the applicant at the time of the application; and which he seeks authority to hold, together with the date and manner of his election or appointment thereto and, if he has entered upon the performance of his duties in any such position, the nature of the duties so performed and the date when he first entered upon their performance. (An order authorizing a person to hold the position of director of a carrier will be construed as sufficient to authorize him to serve also as chairman of its board of directors or as a member or chairman of any committee or committees of such board; and, therefore, when authority is sought to hold the position of director, the applicant need not request authority to serve in any of such other capacities.)

(d) As to each carrier covered by the requested authorization, whether it is an operating carrier, a lessor company, or any other corporation organized for the purpose of engaging in transportation by railroad subject to the act. If any such carrier neither operates nor owns any railroad, transportation by which is subject to the act, there shall be filed with the application, as a part thereof, a copy of such carrier's charter or certificate or articles of incorporation, with amendments to date. When such copy has once been filed with the Commission, reference thereto, with amendments, if any, will suffice.

(e) Thereafter a full statement of pertinent facts relative to any carrier which does not make annual reports to the Commission, authorization for a position with which is sought.

(f) Full information as to the relationship, operating, financial, competitive, or otherwise, existing between the carriers covered by the requested authorization.

(g) Specify every corporation—industrial, financial, or miscellaneous—of which the applicant is an officer or director, and the general character of the business conducted by such corporation.

(h) The reasons, fully, why the granting of the authority sought will not affect adversely either public or private interests.

(i) Whether or not any other application for authority has been made in behalf of the applicant and, if so, shall show the date and finance docket number thereof, by who made, and the action thereon, if any.

(j) When application has been made in behalf of any person, a subsequent application by him need not repeat any statement contained in the previous application but may incorporate the same by appropriate reference.

§1112.6 *Suscription and verification of application.*

The original application shall be signed by the individual applicant, and shall be verified under oath in substantially the following form:

State of _____ SS.
County of _____,
_____ make _____ oath and say _____ that _____ hold _____ no position as officer or director of any carrier or other corporation except as indicated in the foregoing application, and that all of the statements contained therein are true and correct to the best of _____ knowledge and belief.

_____
(Signature of applicant)

Subscribed and sworn to before me, a _____ in and for the State and county above named, this _____ day of _____ of, 19____.

[SEAL]

My commission expires _____.

§1112.7 *Number of copies; form and style.*

The original application and six copies thereof shall be filed with the Commission. Each copy shall bear the dates and signatures that appear on the original and shall be complete in itself, but the signatures in the copies may

be stamped or typed and the notarial seal may be omitted. The application shall be submitted in typewritten or printed form, on paper not more than 8½ inches wide and not more than 12 inches long, with a left-hand margin of 1½ inches, and if typewritten, the impression must be on only one side of the paper, and must be double spaced.

§1112.8 *General authority.*

Any person, who has been or shall hereafter be authorized to hold positions with a carrier or with a company or companies subsidiary thereto or affiliated therewith, may include in any application made by him pursuant to the foregoing regulations in this part a request for an order authorizing him to hold generally, in addition to the positions so specifically authorized, a directorship or any office or offices with the first-mentioned carrier and all companies subsidiary thereto or affiliated therewith, or the properties of which are operated or used by the carrier, either separately or jointly, with other carriers. Like general authority may be applied for by the first-mentioned carrier in behalf of any person or persons to whom such specific authority has heretofore been granted: *Provided*, That such general authority may not be applied for by such carrier when the person for whom authority is desired holds a position or positions with any carrier or carriers not subsidiary to or not affiliated with the first-mentioned carrier, or the properties of which are not operated or used by the first-mentioned carrier, either separately or jointly with other carriers. Every carrier application shall be verified by an executive officer having knowledge of the facts.

APPENDIX B

Amendment proposed by the Association of American Railroads

That 49 CFR §1112 be amended by the addition of a new paragraph to be numbered §1112.9 reading as follows:

§1112.9 *Common control.*—Notwithstanding the provisions of the foregoing regulations, it shall not be necessary for any person to secure the prior approval of the Commission to held the position of officer or director of two or more carriers when such carriers are lawfully operated under common control or management pursuant to approval and authority of the Commission previously granted under section 5 of the Interstate Commerce Act.

APPENDIX C

Notice of proposed rulemaking

PROPOSED NEW SECTION: APPROVAL OF SYSTEMS OF AFFILIATED CARRIERS

Notwithstanding the provisions of the foregoing regulations, but subject to the other provisions of this section:

(a) It shall not be necessary for any person to secure the prior approval of the Commission to hold the position of officer or director of two or more carriers when such carriers are lawfully operated under common control or management pursuant to approval and authority of the Commission previously granted under section 5 of the Interstate Commerce Act; and such relationships are specifically authorized upon a general finding that neither the public nor private interests will be adversely affected thereby.

(b) The authorization herein granted shall be automatically canceled with respect to any position held in any carrier which at any time ceases to be an affiliated carrier, without notice thereof by the Commission either to the interlocking officer or director or to the carrier, each of whom shall notify the Commission of said cessation. In the event of such cancellation, the interlocking officer or director shall immediately cease and desist from acting in that capacity with respect to the carrier which has ceased to be an affiliated carrier until such time as appropriate authorization is obtained pursuant to this part.

APPENDIX D

Proponents

1. *Association of American Railroads*, the membership of which includes substantially all class I railroads subject to the Commission's jurisdiction, encourages the adoption of any regulation which would eliminate the filing of applications in the particular circumstances under consideration. In its petition seeking institution of this proceeding it relied on the supremacy clause of section 5(11) of the act to override the requirements of section 20a(12). It believes if reliance is placed on that clause, there would be no need to make any finding as to public or private interests, and the granting of a "blanket authorization" would be superfluous. It is not clear whether the Commission is proposing to adopt the new regulation by an exercise solely of its power under section 20a(12) and its general rulemaking powers or whether it is also relying to some degree on section 5(11).

Referring to appendix C, the portion of paragraph (a) following the semicolon is considered to be misleading and unnecessary. It is ambiguous as to when the general finding as to public and private interests is to be made. If a general finding is necessary, it would more appropriately be recited solely in the report emanating from this proceeding. See, for example, the finding of public convenience and necessity on a national scale in *Motor Service on Interstate Highways—Passengers*, 110 M.C.C. 514. Additionally, the provisions of paragraph (b) are redundant and unnecessary, particularly if reliance is placed on the section 5(11) argument. When and if a carrier ceases to be an affiliated carrier, then the approved common control or management likewise lapses and with it the relief granted by section 5(11) as to the interlock.

2. *Union Pacific Railroad Company*, a common carrier by railroad subject to part I of the Interstate Commerce Act, submits that the proposals, as drafted, would not give recognition (i) to lawful control or management arrangements not specifically approved or authorized by the Commission or (ii) to joint control arrangements of terminal companies not within the purview of section 5. Specifically, in the first instance, Union Pacific refers to control or management arrangements which are lawful but nevertheless antedate the enactment of the Transportation Act of 1920 (making it *permissible* for one carrier to seek Commission approval to control another carrier, or purchase, lease, or contract to operate the properties or any part thereof of another carrier) or the enactment of the Emergency Transportation Act of 1933 (making Commission approval *requisite* to any such control, purchase, lease, or contract). In the second instance, Union Pacific refers to joint control of terminal railroad companies which does not vest control in any single carrier and consequently is arguably not within the purview of section 5. Listed are five carriers in which Union Pacific or a subsidiary lawfully holds shares without approval or authorization under section 5; Portland Terminal Railroad Company, 40 percent, acquired in 1882; St. Joseph Terminal Railroad Company, 50 percent, acquired in 1887; Ogden Union Railway & Depot Company, 50 percent, acquired in 1888; Kansas City Terminal Railway Company, 8.33 percent, acquired in 1906; and Denver Union Terminal Railway Company, 16.67 percent, acquired in 1912. Under the proposal, Commission approval would be required with respect to carriers of the aforementioned character and the resultant administrative burden would remain.

Referring to appendixes B and C, Union Pacific proposes that the phrase "pursuant to approval and authority of the Commission previously granted under section 5 of the Interstate Commerce Act" be deleted and that the phrase "or where one or more carriers is a terminal railroad company operated under lawful joint control of two or more carriers" be inserted in its place.

3. *Boise Cascade Corporation*, a noncarrier, has received authority under section 5 for common control of three class II rail carriers, namely, California Western Railroad, Minnesota, Dakota & Western Railway Company, and Valley & Siletz Railroad Company. It has had occasion to submit many applications for interlocking officers and directors and feels that when the Commission has granted approval for common control under section 5, this should be sufficient

to warrant automatic approval of common officers and directors. It feels the Commission has too many more pressing items, without cluttering its docket with proceedings of this type. Elimination of such applications would save its legal people a good deal of time.

TITLE 49—TRANSPORTATION

CHAPTER X—INTERSTATE COMMERCE COMMISSION

SUBCHAPTER B—PRACTICE AND PROCEDURE

PART 1112—INTERLOCKING OFFICERS

ORDER

At a General Session of the Interstate Commerce Commission, held at its office in Washington, D.C., on the 1st day of May 1970.

EX PARTE NO. 260

REVISED REGULATIONS GOVERNING INTERLOCKING OFFICERS

It appearing, That the Commission, on November 20, 1969, issued a notice of proposed rulemaking in this proceeding, under authority of sections 4 and 12 of the Administrative Procedure Act. (5 U.S.C. 553 and 559) and sections 12, 17, and 20a(12) of the Interstate Commerce Act, for the purpose of considering whether a rule proposed by the Association of American Railroads, making the existing regulations inapplicable to persons holding or proposing to hold certain interlocking positions, should be adopted and supplemented by a blanket authorization for the holding of such positions;

It further appearing, That notice to all interested parties was given through publication of said notice in the Federal Register of December 9, 1969 (34 F.R. 19471–19472), and interested parties were invited to submit views and suggestions regarding the proposed rule; and

It further appearing, That various parties submitted views and suggestions, and the Commission has considered such responses and, on the date hereof, has made and filed its report setting forth its conclusions and findings and its reasons therefor, which report is hereby referred to and made a part hereof:

It is ordered, That part 1112 of chapter X of title 49 of the Code of Federal Regulations be, and it is hereby, amended by adding the following numbered new sections:

§1112.9 *Common control.*

It shall not be necessary for any person to secure an order of authorization under the foregoing provisions to hold the position of officer or director of two or more carriers, if such carriers are operated under common control or management, either

(a) pursuant to approval and authority of the Commission granted under section 5 of the act, or

(b) pursuant to a controlling, controlled, or common control relationship which has existed between such carriers since before June 16, 1933.

§1112.10 *Jointly used terminal properties.*

Any person holding the position of officer or director of a carrier is hereby relieved from the foregoing provisions to the extent that he may also hold a directorship and any other position to which he may be elected or appointed with a terminal railroad the properties of which are operated or used by such carrier jointly with other carriers.

(Secs. 12, 17, and 20a, 24 Stat. 383, 40 Stat. 270, and 41 Stat. 494, all as amended; 49 U.S.C. 12, 17, and 20a; 5 U.S.C. 553 and 559.)

It is further ordered, That persons holding the position of officer or director of a carrier be, and they are hereby, authorized to hold any directorship or other position to which they may be elected or appointed with more than one carrier, within the scope of section 20a(12) of the Interstate Commerce Act, when such carriers are lawfully operated under common control or management, or where one or more carriers is a terminal railroad company operated under lawful joint control of two or more carriers.

It is further ordered, That this order shall be effective on the date it is served; and

It is further ordered, That notice of this order shall be given to the general public by depositing a copy thereof in the office of the Secretary of the Interstate Commerce Commission, Washington, D. C., and by filing a copy thereof with the Director of the Federal Register.

By the Commission.

[SEAL]

H. NEIL GARSON,
Secretary.

Question 14. Recommendation 6 at page 5 of the Bureau of Economics report is very interesting: "Develop and apply criteria on the level of dividend payments, loans, advances, and sales or transfers of assets from the transportation company to the parent holding company or to any company affiliated with either the transportation company or the holding company.

"The sixth recommendation would go far in eliminating the attractiveness of affiliated companies as a device for transferring assets or income from the transport company. The need for its implementation is therefore stressed."

Can this be done under existing law?

Answer. No, the Commission presently lacks such authority. Whether our existing authority under the Interstate Commerce Act to require carriers to maintain accounts and to render reports should be augmented by additional jurisdiction to control financial transactions, affecting their ability to render service to the public, is presently under study and we will inform you further on this matter.

Question 15. In these reports there is repeated reference to the "single established carrier system" concept. (See page 5 Bureau of Accounts) This is important because if the systems concept were dropped, the ICC would automatically have authority to check the records of the parents company and affiliates.

Does the ICC plan to review its policy? If not, precisely why not?

Answer. The Commission is presently reviewing the need for legislation in this area. In the absence of legislation, it is very uncertain whether a change in the "single established carrier system" concept would be upheld in the courts, since the matter was an issue before the Supreme Court in *Allegany Corp.* v. *Breswick,* 353 U.S. 151 (161–165). While the matter is not free from doubt, the action of the Supreme Court in not deciding the issue may bar us from changing the concept, particularly with respect to holding companies that have already acquired control of a single system in reliance thereon. Moreover, changing that concept would still leave outside the jurisdiction of this Commission instances where holding companies heretofore have acquired control of a single carrier, because under the present law the accounting and reporting requirements can be imposed only in connection with the authorization of acquisition of control.

Question 16. These reports appear to have some very excellent information in them. They propose some action which could be very beneficial, it would seem, to the health of the railroads. The report was completed in March of 1969—why has it taken 15 months for the ICC to take any action?

Answer. The Commission gave consideration to the recommendations of the staff ad hoc committee on conglomerate mergers in the interim since the preliminary report was rendered in March 1969. Indeed, the comprehensive investigation of the Kansas City Southern Railway and its affiliated companies ordered by the Commission in June was an outgrowth of that study, and the institution of additional proceedings is contemplated by the Commission. Further advice concerning the staff report was expected to be given by the Commission in connection with pending bills affecting transportation conglomerates, but hearings on these were not scheduled by either the Senate or House Committees in the meantime.

Question 17. What do you see as the purpose of Sec. 20a(a)(2) Interstate Commerce Act? Isn't it to make sure that carriers remain in a good enough state of financial health to serve the public?

Answer. Section 20(a)(2) of the Interstate Commerce Act requires a finding that a proposed securities transaction is for some lawful object within the carrier's corporate purposes, that it is compatible with the proper performance by it of service to the public and will not impair its ability to perform that service, and that the transaction is reasonably necessary and appropriate

for such purpose. In passing on section 20a applications the Commission seeks to carry out the purposes of the Act by a variety of means such as the barring of securities issued for non-carrier purposes, and the imposition of dividend restrictions when the carrier's financial condition appears to warrant it.

The Commission's authority in this respect cannot assure that carriers will remain in good health, since this frequently depends on economic circumstances beyond the control of this Commission and the carrier itself. However, the Commission seeks to do what it can to assure good financial practices in the given circumstances confronting the carrier at the time the application is submitted. There are instances where carriers seek to engage in financing at a time when they are in a weak financial condition. If there is an indication that the problem may be overcome in a reasonable time, such application is approved subject to such conditions as appear necessary or prudent, since the alternative may be bankruptcy, which we desire to prevent if at all practicable because of the adverse consequences to the industry, in particular, and the economy, in general.

Question 18. The collapse of the Penn Central was brought on by its inability to sell an issue of bonds earlier this year.

a. Did you approve that proposed bond issue?

b. What information did you require from them?

c. Did the application alert you to the Penn Central's problems?

d. Did you expect that they would be unable to sell the issue?

e. What are your criteria for approving an issue of securities?

Answer. a. The Commission did not approve the proposed bond issue referred to.

b. Applicant had not submitted all replies required by the Commission's regulations, and therefore the application was not processed.

c. The application did raise concern, but since it was not complete a full analysis was not possible.

d. The feasibility of floating proposed securities is initially explored by the carrier and the financial community, and the carrier is required to advise the Commission as to whom the proposed securities would be issued. The incomplete information furnished with the application did not indicate that applicant would have difficulty selling such bonds.

e. The criteria for approving an issue of securities is in part covered in the answer to Question 16. Of primary concern is the preservation of the financial health of the carrier to the extent possible so as to preserve, maintain and improve the carrier's service to the public. The Commission is likewise concerned in such a proceeding with the protection of the investing public where such issues are involved to assure that the latter have full information as to the nature of the transaction.

Attached is a copy of the Commission's regulations regarding section 20a and 214 applications by both rail and motor carriers for authority to issue securities. The Commission frequently seeks additional information by direct correspondence when there appears to be a need for further information.

TITLE 49—TRANSPORTATION

CHAPTER I—INTERSTATE COMMERCE COMMISSION

SUBCHAPTER A—GENERAL RULES AND REGULATIONS

PART 51—GENERAL REQUIREMENTS

PART 56—ISSUANCE OF SECURITIES, ASSUMPTION OF OBLIGATIONS, AND FILING OF CERTIFICATES AND REPORTS

ORDER

At a Session of the Interstate Commerce Commission, Division 3, held at its office in Washington, D.C., on the 19th day of August, A.D. 1965.

The matter of applications, designated Forms BF-6 and BF-7, under sections 20a and 214 of the Interstate Commerce Act for authority to issue securities or to assume obligation or liability in respect of the securities of others, and report, designated Form BF-23, of securities issued or obligations assumed (49 CFR, Part 56), prescribed by order entered May 20, 1964 (29 F. R. 11127),

and rules and regulations governing the filing and handling of applications and reports (49 CFR, Part 51), prescribed by order also entered May 20, 1964 (29 F.R. 11126), being under further consideration, and the changes to be effectuated by this order being minor procedural changes not requiring rule-making procedure under section 4(a) of the Administrative Procedure Act, 5 U.S.C. 1003(a); and good cause appearing therefor:

It is ordered, That the certificates of service of application Forms BF-6 and BF-7 and the schedule and general instructions for report Form BF-23 be, and they are hereby, revised as set forth in the appendix hereto.

It is further ordered, That section 51.8 *Notice to interested persons* be, and it is hereby, revoked.

It is further ordered, That section 56.3 be, and it is hereby, amended to read as follows:

§ 56.3 *Procedure; applications, certificates, and reports.*

(a) The application shall be filed sufficiently in advance of the date of the proposed issue or assumption to give the Commission reasonable time, not less than 30 days, for the notices and investigation required by law.

(b) The governor of each state upon whom a copy of the application is served, or other appropriate regulatory authority to which the matter is referred, is requested to notify the Commission within 15 days if it is desired to make any representations or to be heard in the matter.

(c) Protests or petitions for leave to intervene may be filed by persons interested in the applications within 15 days after the filing thereof or prior to or at the time the application is called for hearing, if a hearing is ordered, but not afterward, except for good cause shown, the practice in regard to such petitions and answers thereto to be governed as nearly as may be by the Commission's General Rules of Practice.

(d) Public hearing will not be ordered unless good cause therefor is shown or unless the Commission deems a hearing desirable.

(e) The rules and regulations prescribed in Part 51 of this chapter shall govern the execution, filing, and disposition of the application, the filing of certificates of notification, and the making of special reports.

It is further ordered, That paragraph (a) of section 56.6 be, and it is hereby, amended to read as follows:

§ 56.6 *Reports of securities issued or obligations assumed.*

(a) Within 30 days after the initial date of issue of any security or assumption of any obligation or liability authorized, a report showing the issue or assumption shall be filed with the Commission in Form BF–23, as revised. An interim report shall be made concurrently with any subsequent application for additional authority filed under sections 20a or 214, showing the action theretofore taken, and any balance previously authorized but not disposed of, in the same form; otherwise no interim report is required. A final report shall be made upon the completion of the issue or assumption, and may be made in lieu of the initial report within the 30-day period following the initial action.

It is further ordered, That this order shall become effective on October 15, 1965; and

It is further ordered, That notice of this order shall be given to the general public by depositing a copy in the Office of the Secretary of the Commission and by filing a copy with the Director, Office of the Federal Register.

(Secs. 12, 17, 24 Stat. 383, as amended, 385, as amended; sec. 20a, 41 Stat. 494, as amended; secs. 204, 205, 214, 49 Stat. 546, as amended, 548, as amended, 557, as amended; 49 U.S.C. 12, 17, 20a, 304, 305 and 314.)

By the Commission, Division 3.

[SEAL]

H. NEIL GARSON,
Secretary.

APPENDIX

Revisions of Forms BF–6, BF–7, and BF–23

Form BF–6, Application under sections 20a or 214, Interstate Commerce Act, for authority to issue securities, or to assume obligation or liability in respect of securities of another.

CERTIFICATE OF SERVICE

[Revised]

certifies that upon the day of , 19 , a copy of the foregoing application was mailed or delivered in person to the Governor of each State in which the applicant operates or is authorized to do business, or in the case of holding companies, of each State in which the applicant is incorporated or authorized to do business, as follows:

It is also certified that the Governor of each such State has been advised that, if it is desired to make any representations, or to be heard in the matter, he or another appropriate authority of his State should notify the Commission within 15 days.

(Signature)

(Date)

Form BF–7, Special application for authority to sell securities without competitive bidding.

CERTIFICATE OF SERVICE

[Revised]

certifies that upon the day of , 19 , a copy of the foregoing application was mailed or delivered in person to the Governor of each State in which the applicant operates or is authorized to do business, as follows:

It is also certified that the Governor of each such State has been advised that, if it is desired to make any representations or to be heard in the matter, he or another appropriate authority of his State should notify the Commission within 15 days.

(Signature)

(Date)

Form BF–23, Special report under section 20a (10), Interstate Commerce Act: Issuance of securities or assumption of obligations.

SCHEDULE

[Revised]

Description (or name) of securities issued or assumed. Give particulars pertinent to the securities issued or obligations or liability assumed, and the purposes of the issue or assumption and authority therefor, in form and detail required respecting securities issued or assumed, and changes therein, in schedules 218, 228 and 229 of railroad annual report Form A, schedules 670, 690, and 695 of railroad annual report Form C, or schedules 2300, 2330, 2360, 2700, 2700–A, 2700–B, 2710, 2710–A and 2710–B of motor carrier annual report Form A, identified by numbers and letters corresponding to the schedules and lettered columns used therein, as appropriate. The amount of the net proceeds and the purposes to which the proceeds were applied must be shown.

GENERAL INSTRUCTIONS

[Revised]

Use of Form BF–23. * * * * *

(b) *Interim report.* Concurrently with any subsequent application for additional authority filed under sections 20a or 214, a report showing the action theretofore taken, and any balance previously authorized but not disposed of, shall be made in the same form; otherwise, no interim report is required.

TITLE 49—TRANSPORTATION

CHAPTER I—INTERSTATE COMMERCE COMMISSION

SUBCHAPTER A—GENERAL RULES AND REGULATIONS

PART 56—ISSUANCE OF SECURITIES, ASSUMPTION OF OBLIGATIONS, AND FILING OF CERTIFICATES AND REPORTS

ORDER

At a Session of the Interstate Commerce Commission, Division 3, held at its office in Washington, D.C., on the 20th day of May, A.D. 1964.

There being under consideration the matter of applications under sections 20a or 214 of the Interstate Commerce Act for authority to issue securities or to assume obligation or liability in respect of the securities of others, and the filing of certificates of notification and reports relating to such issue and assumption (49 C.F.R., Part 56); and good cause therefor appearing:

It is ordered, That 49 CFR, Part 56, be, and it is hereby, revised to read as follows:

Part 56 Issuance of Securities, Assumption of Obligations, and Filing of Certificates and Reports

Sec.

56.1 Application form.
56.2 Definitions.
56.3 Procedure; applications, certificates, and reports.
56.4 Disposal of pledged or treasury securities.
56.5 Issuance of short-term notes.
56.6 Reports of securities issued or obligations assumed.
56.25 Applications for authority to sell securities without competitive bidding.

§ 56.1 *Application form.*

All carriers and other persons subject to sections 20a and 214 of the Act making application for authority (a) to nominally issue securities, (b) to sell, pledge, repledge, or otherwise dispose of securities nominally issued or assumed or nominally outstanding, (c) to actually issue securities, or (d) to assume any obligation or liability as lessor, lessee, guarantor, endorser, surety, or otherwise in respect of the securities of any other person, natural or artificial, actually outstanding, shall make such application substantially in the form of application designated Form BF–6.

§ 56.2 *Definitions.*

(a) The term "carrier" includes a common carrier by railroad (except a street, suburban, or interurban electric railway which is not operated as a part of a general steam railroad system of transportation) which is subject to part I of the act, a common or contract carrier by motor vehicle subject to part II, a corporation organized for the purpose of engaging in transportation as any such carrier, and a sleeping-car company which is subject to part I.

(b) The term "holding company" means a person which is not a carrier, but which is authorized by an order entered under section 5(2) of the Act to control a carrier or carriers and, as provided in section 5(3), is to be considered a carrier subject to the provisions of sections 20a or 214.

(c) The term "securities" is used herein as it is defined in section 20a (1) of the Act.

(d) The terms "nominally issued," "nominally outstanding," "actually issued," and "actually outstanding" are used herein as they are defined by the Commission for purposes of the uniform system of accounts and annual reports of railroads and motor carriers.

§ 56.3 *Procedure; applications, certificates, and reports.*

The rules and regulations prescribed in Part 51 of this chapter shall govern the execution, filing, and disposition of the application, the filing of certificates of notification, and the making of special reports.

§ 56.4 *Disposal of pledged or treasury securities.*

(a) Certificates of notification required by paragraph (5) of section 20a of the Act to be filed with the Commission within 10 days after the sale, pledge, repledge, or other disposition of securities theretofore pledged or held unencumbered in the treasury of the carrier, shall be filed substantially in the form designated as Form BF–21.

(b) As used in paragraph (5) of section 20a, securities described as "pledged or held unencumbered in the treasury of the carrier" are securities theretofore nominally issued, or reacquired and held in the treasury of the carrier, except securities held by trustees in sinking or other funds.

§ 56.5 *Issuance of short-term notes.*

(a) Certificates of notification required by paragraph (9) of section 20a of the Act to be filed with the Commission within 10 days after the making of short-term notes within the limits within which such notes may be issued without authorization, shall be filed substantially in the form designated as Form BF–22.

(b) The term "short-term notes" means notes maturing not more than two years after the date thereof.

(c) The limits within which short-term notes may be issued without authorization are those specified in paragraph (9) of section 20a and in the proviso of section 214.

(d) Carriers or corporations within the exemptions provided in section 214 are not required to file certificates of notification.

§ 56.6 *Reports of securities issued or obligations assumed.*

(a) Within 30 days after the initial date of issue of any security or assumption of any obligation or liability authorized, a report showing the issue or assumption shall be filed with the Commission in Form BF–23. An interim report shall be made concurrently with any subsequent application for additional authority filed under sections 20a or 214, showing the action theretofore taken, and any balance previously authorized but not disposed of, in the same form. A final report shall be made upon the completion of the issue or assumption, and may be made in lieu of the initial report within the 30-day period following the initial action.

(b) On or before March 31 of the year following the year to which it relates, the respondent shall report in and as a part of its Annual Report Form to the Commission, concerning the securities issued and obligations assumed during such year.

COMPETITIVE BIDDING EXEMPTION

§ 56.25 *Applications for authority to sell securities without competitive bidding.*

(a) Special application for exemption from the competitive bidding requirement shall be made in the form designated as Form BF–7 only when for any reason it is not practicable to include the request for exemption in an application filed in Form BF–6, pursuant to the instructions (§ 56.1–56.3) respecting applications filled under section 20a.

(b) The requirement that, with certain specified exceptions, all classes of railroad securities other than equipment, issued under authority granted pursuant to the provisions of section 20a of the Act to be offered for sale at competitive bidding, or its equivalent, set forth in the Commission's report in Ex Parte 158, *In Re Competitive Bidding in the Sale of Securities*, 257 I.C.C. 129, decided May 8, 1944, and modified by findings in *Atlantic Coast Line R. Co. Competitive Bidding Exemption*, 282 I.C.C. 513 decided June 18, 1952, and further modified by supplemental report in Ex Parte 158, *Ibid.*, 307 I.C.C. 1, decided August 14, 1958, with respect to securities issued or proposed to be issued incident to a loan guaranteed under the provisions of part V of the Act, is published in an appendix to this section.

(c) The rules and regulations prescribed in Part 51 of this chapter shall govern the execution, filing, and disposition of the application.

APPENDIX TO § 56.25

Pertinent conclusions and the requirement of the Commission in its report of May 8, 1944, in Ex Parte 158, "In the Matter of Competitive Bidding in the Sale of Securities under section 20a of the Interstate Commerce Act," are as follows:

We find that for the proper administration, execution, and enforcement of section 20a of the Interstate Commerce Act we should require as a condition to our approval of the sale of railroad securities issued under the provisions of that section that such securities be offered for sale at competitive bidding, or at what we have heretofore considered tantamount thereto, viz., upon invitation of bids for the purchase thereof. Proposals received in response to such invitation should be opened only at such time and place as is specified in the invitation, and the duly authorized representative of any person making any such proposal should be permitted to be present at the opening of such proposals, and to examine each proposal submitted. If the right be reserved in the advertisement or invitation for bids, the railroad proposing the issue may properly reject all bids and call for new bids or seek such relief as the facts and circumstances may warrant.

We further find that such requirement should apply to all classes of railroad securities other than equipment, as to which no change in the present practice is contemplated, except the following:

(1) Common and preferred stocks;

(2) Securities sold or otherwise issued pro rata to existing holders of securities of the issuing company pursuant to any preemptive right or privilege or in exchange for or extension of outstanding securities, or in connection with any liquidation, reorganization, or financial adjustment;

(3) Any note or other security maturing in not more than 3 years;

(4) Securities sold or otherwise issued when the total issue does not exceed $1,000,000, principal amount;

(5) Securities of any railroad company issued in exchange for the securities or properties of any other railroad company acquired pursuant to authority granted under the provisions of section 5(2) of the act, and any securities of such other company to be acquired by any other person pursuant to such authority;

(6) Securities sold or otherwise issued to a railroad company by any of its subsidiary companies pursuant to authority granted under section 20a of the act where such securities are not to be sold by the parent company, but are to be held subject to our further order; and

(7) Any securities as to which we shall find, upon due showing by a railroad company, either upon application under the provisions of section 20a or upon special application preliminary to the filing of such appliction under section 20a, that sale at competitive bidding should not be required.

Applications under section 20a to sell securities without competitive bidding on the ground that such securities come within one of the foregoing specific exemptions should include a statement of facts relied upon to show that the exemption applies. Special applications for exemption from the competitive biding requirement may be made pursuant to such special instructions as may hereafter be issued.

We further find that for the present no formal rule or regulations requiring the sale of railroad securities at competitive bidding should be promulgated. Railroads applying after June 30, 1944, for authority to issue securities under the provisions of section 20a will be expected to observe these findings.

The foregoing requirement was modified by the Commission's report of June 18, 1952, in Finance Docket No. 17748, *Atlantic Coast Line R. Co. Competitive Bidding Exemption*, 282 I.C.C. 513, as follows:

"It will hereafter be our policy to deny any application for exemption from our competitive bidding requirement when competitive bidding is prima facie required and the applicant has, before obtaining the required exemption from us, entered into any discussions or any negotiations with respect to the terms of sale with any prospective purchaser of its securities. Our competitive bidding requirement is modified to this extent."[1]

The foregoing requirements were further modified by the Commission's supplemental report of August 14, 1958, in Ex Parte 158, (1) to except securities sold or otherwise issued in connection with a loan guaranteed under the provisions of part V of the Interstate Commerce Act from the general requirement set forth in the prior report thereof of May 8, 1944, that railroad securities be offered for sale at competitive bidding or upon invitation of bids for the purchase thereof, and (2) to make the policy expressed in Finance

[1] This is not to be construed as prohibiting preliminary discussion of an exploratory nature with prospective purchasers dealing with the availability of money, the general condition of the market for railroad securities and similar matters, or the making of such inquiries or investigation as may be required to determine the probability that two or more bids will be received if a proposed issue is offered at competitive bidding.

Docket No. 17748, *Atlantic Coast Line R. Co. Competitive Bidding Exemption, supra*, inapplicable to applications for exemption from the Commission's competitive bidding requirements by an applicant which in good faith, and under the belief that a guaranty may or will be required by the Commission in order for it to obtain the needed financing upon reasonable terms, has entered upon discussions or negotiations with respect to the terms of sale with a prospective purchaser of its securities.

(Sec. 12, 24 Stat. 383, as amended; sec. 20a, 41 Stat. 494, as amended; secs. 204, 205, 214, 49 Stat. 546, as amended, 548, as amended, 557, as amended; 49 U.S.C. 12, 20a, 304, 305, and 314.)

It is further ordered, That the order of August 9, 1946, by the Commission, Division 4, as amended, be, and it is hereby, superseded by this order;

It is further ordered, That this order shall become effective on October 1, 1964; and

It is further ordered, That notice of this order shall be given to the general public by depositing a copy in the Office of the Secretary of the Commission and by filing a copy with the Director, Office of the Federal Register.

By the Commission, Division 3.

[SEAL] HAROLD D. MCCOY,
Secretary.

TITLE 49—TRANSPORTATION

CHAPTER I—INTERSTATE COMMERCE COMMISSION

SUBCHAPTER A—GENERAL RULES AND REGULATIONS

PARTS 51–59—CONSOLIDATION, FINANCE, AND REORGANIZATION

ORDER

At a Session of the Interstate Commerce Commission, Division 3, held at its office in Washington, D.C., on the 20th day of May, A.D. 1964.

There being under consideration rules and regulations governing the filing and handling of applications and reports prescribed, or to be prescribed, under the following parts:

PARTS 52–59: CONSOLIDATION, FINANCE, AND REORGANIZATION

52 Railroad consolidation procedure.
53 Interlocking officers.
54 Guaranty of loans to carriers by railroad.
55 Alteration or modification of securities and the provisions of instruments, and filing of certificates and reports.
56 Issuance of securities, assumption of obligations, and filing of certificates and reports.
57 Recordation of documents.
58 Reorganization of railroads.
59 Corporate reorganization of carriers and corporations.

It is ordered, That the table of contents heading of 49 CFR Parts 52–59: Consolidation, Finance, and Reorganization be, and it is hereby, amended to include Part 51 as follows:

PARTS 51–59: CONSOLIDATION, FINANCE, AND REORGANIZATION

It is further ordered, That 49 CFR be, and it is hereby, amended by adding a new Part 51 under the heading Parts 51–59: Consolidation, Finance, and Reorganization as follows:

PARTS 51–59: CONSOLIDATION, FINANCE, AND REORGANIZATION

PART 51—GENERAL REQUIREMENTS

Sec.
51.1 Scope and applicability of rules and regulations.
51.2 Definitions of terms used in the rules and regulations.
51.3 Use of prescribed form.
51.4 Information required; unknown or not available.

51.5 Typographical specifications.
51.6 Execution.
51.7 Filing; number of copies; service.
51.8 Notice to interested persons.
51.9 Additional information.
51.10 Incorporation by reference.
51.11 Waiver of rules.
51.20 List of forms.

§ 51.1 *Scope and applicability of rules and regulations.*

(a) These rules and regulations govern the filing and handling of applications and reports, as prescribed in Parts 52 to 59, inclusive, except that any provision in such part covering the same subject matter as any such rule shall be controlling unless otherwise specifically provided herein.

(b) These rules and regulations shall apply to applications and reports under the enumerated parts at such time as the Commission may designate as to each part.

§ 51.2 *Definitions of terms used in the rules and regulations.*

(a) The term "applicant" means a person filing an application.

(b) The term "respondent" means a person filing a report required by the Interstate Commerce Act or the rules and regulations.

(c) Unless otherwise specifically provided, the terms used in the rules and regulations have the meanings defined in the Act.

§ 51.3 *Use of prescribed form.*

The prescribed form is to be used as a guide in the preparation of the application or report. Each application required to be served as provided in § 51.7 shall include a caption clearly and concisely describing the applicant or applicants and the authority sought. Other parts of the application and reports shall contain full and complete responses. Each part shall contain all of the item numbers and headings, but the text of any item may be omitted if all of the information required by such item is clearly set forth thereunder or in exhibits attached or referred to under the respective item number and heading. Where an item is not applicable, the application or report shall so state.

§ 51.4 *Information required; unknown or not available.*

All information required must be given unless neither known nor available to the applicant or respondent. In such case, however, specific statement to such effect shall be made in the application or report in lieu of the omitted material, setting forth the reasons why the information is neither known nor available.

§ 51.5 *Typographical specifications.*

The application or report shall be submitted in typewritten or similar form specified in § 1.15 of this chapter, on paper approximately 8½ inches wide and not more than 13 inches long, with a lefthand margin of 1½ inches and, if typewritten, the impression must be on only one side of the paper. Exhibits may be in any convenient size but shall be folded to conform to the size of the application or report.

§ 51.6 *Execution.*

The original application or report shall bear the date of execution and be signed with ink by or on behalf of each applicant or respondent. Execution shall be by the applicant or respondent if an individual, by all partners if a partnership, unless satisfactory evidence is furnished of the authority of a partner to bind the partnership, and, if a corporation, an association or other similar form of organization, by its president or other executive officer having knowledge of the matters therein set forth. Each person signing the application or report shall also sign a certificate showing, among other things, that such person has knowledge of the matters therein set forth and is duly authorized to verify and file the application or report. A false statement in an application or report is punishable under section 35 of the Criminal Code, 18 U.S.C. 1001. Additional signatures and certificates shall be furnished as directed by the Commission.

§ 51.7 *Filing; number of copies; service.*

(a) The original and six copies of each application shall be filed with the Secretary, Interstate Commerce Commission, Washington, D.C. 20423.

(b) Copies of each application shall be served in the manner and upon the persons specified in the prescribed form or instructions. Proof of service of copies of the application shall be made in connection with and as part of the original application filed with the Commission.

(c) Each report shall be filed in duplicate with the Secretary of the Commission. No service of copies is required.

(d) Each copy shall conform in all respects to the original and, except as otherwise specifically provided, shall be complete in itself, but the signature in the copies may be stamped or typed.

§ 51.8 *Notice to interested persons.*

The Commission will give notice of the filing of applications under sections 5(2), 20a except (12), 20b, and 214 by publication of a summary of the authority sought in the FEDERAL REGISTER. The summary will be prepared principally from the caption, and it shall be the responsibility of applicant promptly to advise the Commission if the summary does not properly describe the authority sought. Such notice will specify the time, not less than 15 days, within which protests may be filed as provided in § 1.40 of this chapter.

§ 51.9 *Additional information.*

The applicant or respondent shall submit such additional information to support its application or report as the Commission may require.

§ 51.10 *Incorporation by reference.*

(a) If any required document shall have been previously filed in connection with another proceeding, it will be sufficient to refer to the docket number under which previously filed, provided that any change or changes which have occurred in any such document subsequent to the previous filing thereof shall be shown in an exhibit identified to correspond with the specific required exhibit.

(b) Except as in any form of application or report otherwise specifically provided, income statements, balance sheets or supporting detail for items therein may not be incorporated by referenec to annual or quarterly reports filed with the Commission or to other proceedings.

§ 51.11 *Waiver of rules.*

If unusual difficulties arise in, or undue burden would result from, the furnishing of the information required in or in connection with any application or report, the Commission may, upon appropriate showing, modify such requirement.

§ 51.20 *List of forms.*

(a) Application forms:

BF–6, Application under section 20a or 214, Interstate Commerce Act, for authority to issue securities, or to assume obligation or liability in respect of securities of another.

BF–7, Special application for authority to sell securities without competitive bidding.

(b) Report forms:

BF–21, Certificate of notification under section 20a(5), Interstate Commerce Act: Disposal of pledged or treasury securities.

BF–22, Certificate of notification under section 20a(9), Interstate Commerce Act: Issuance of short-term notes.

BF–23, Special report under section 20a(10), Interstate Commerce Act: Issuance of securities or assumption of obligations.

It is further ordered, That this order shall become effective with respect to applications and reports filed under Part 56, Issuance of Securities, Assumption of Obligations, and Filing of Certificates and Reports, on and after October 1, 1964; and

It is further ordered, That notice of this order shall be given to the general public by depositing a copy in the Office of the Secretary of the Commission and by filing a copy with the Director, Office of the Federal Register.

(Secs. 12, 17, 24 Stat. 383, as amended, 385, as amended; secs. 204, 205, 49 Stat. 546, as amended, 548, as amended; secs. 304, 316, 54 Stat. 933, 946; secs. 403, 417, 56 Stat. 285, 297, as amended; 49 U.S.C. 12, 17, 304, 305, 904, 916, 1003, 1017.)

By the Commission, Division 3.

[SEAL]

HAROLD D. MCCOY,
Secretary.

Form BF–6

Form approved.
Budget Bureau No. 60–R250.5

Before the

INTERSTATE COMMERCE COMMISSION

Washington, D.C.

APPLICATION UNDER SECTIONS 20A OR 214, INTERSTATE COMMERCE ACT, FOR AUTHORITY TO ISSUE SECURITIES, OR TO ASSUME OBLIGATION OR LIABILITY IN RESPECT OF SECURITIES OF ANOTHER PERSON

(Read General Instructions on page 8)

FINANCE DOCKET

No.

CAPTION

In the matter of application of:

A. State full and correct name and business address of applicant.

B. State whether applicant is a carrier by railroad, a common or contract carrier by motor vehicle, a corporation organized for the purpose of engaging in transportation as any such carrier, a sleeping-car company, or a holding company, as defined in the General Instructions, subject to the securities provisions, as provided in section 5(3) of the Act. Motor Carriers: State leading docket number.

C. Describe briefly the securities proposed to be issued or obligation or liability proposed to be assumed.

D. List the states in which the applicant carrier operates or is authorized to do business, or the applicant holding company is incorporated or authorized to do business.

E. Refer to related Finance proceedings, if any, pending (by Docket Number) or to be filed.

F. Furnish name, title and business address of the person to whom correspondence with respect to the application should be addressed.

To the Interstate Commerce Commission, Washington, D.C.

The following statements and information, identified by numbers and letters corresponding to those used herein, are submitted by applicant in support of the authority sought:

Item 1. General information respecting applicant.

(a) Date and State of incorporation, or other organization.

(1) If applicant is incorporated or organized under the laws of, or authorized to operate in, more than one State, give all pertinent facts as to such incorporation or organization.

(2) If authorization to a new, reorganized, or consolidated corporation which is not in existence is sought, name the jurisdiction under the laws of which the corporation would be organized, reorganized, or consolidated.

(3) If applicant is a trustee, receiver, assignee, or other fiduciary, name the court, if any, under the direction of which applicant is acting, and state the nature of the proceeding, if any, in which the applicant was appointed.

(b) Subject to the rule regarding incorporation by reference, file with the

original application, but not with the copies, one or more of the following documents as may be appropriate:

(1) Copy of charter or articles of incorporation, with amendments to date, duly certified by the appropriate public officer; and copy of bylaws, with amendments to date.

(2) If applicant is not a corporation, copy of articles of agreement, or association, or trust agreement, evidencing organization.

(3) If applicant is a trustee, receiver, assignee, or other fiduciary, copy of duly certified order of the court, or instrument of appointment.

Item 2. Financial statements.

(a) Applicant's general balance sheet as of the latest practicable date.

(b) If applicant is a carrier by motor vehicle, a corporation organized for the purpose of engaging in transportation as such carrier, or a motor-carrier holding company, and the value (fair market value as of date of issue, or par value, whichever is greater) of its capital stock outstanding as of the date of said balance sheet alone does not exceed $1,000,000, furnish a statement showing as of said date the extent to which its liabilities other than capital stock are or are not represented by notes or other securities, and description thereof.

(c) Applicant's income and profit and loss statement for the last calendar year, unless such copy is on file with the Commission in its annual report or another proceeding to which reference is made, and a copy of such statement for the current calendar year to the latest available date.

Item 3. General description of the securities with respect to which the application is made.

(a) If the application covers the issue of stock, the description should include:

(1) The kind and class of stock, (2) the number of shares authorized, outstanding and to be issued, (3) par value of each share and/or stated value, if having no par value, (4) amount, (5) voting rights, (6) preferences, (7) conversion privileges, (8) call provisions, (9) liquidation rights, and (10) whether it is assessable.

(b) If the application covers the issue of securities other than stock, the description should include:

(1) Full title of the securities, (2) title and date of the indenture, if any, under which the securities are to be issued and the name of the trustee or trustees under the indenture, (3) principal amount authorized, previously issued, and proposed to be issued under the indenture, (4) denominations of the securities to be issued, (5) date of the securities, (6) interest rate or rates, (7) interest payment dates, (8) date or dates of maturities, with amounts maturing on each date, if maturing serially, and (9) reference to provisions of the indenture, if any, under which the securities will be issued, permitting the proposed issue of securities thereunder, and relating to sinking funds, redemption features, and conversion rights.

(c) Specimens, or forms where specimens are not available, of all securities with respect to which the application is made.

(d) In case of the issue or assumption of bonds or evidences of indebtedness, a copy of the mortgage or indenture by which secured or proposed to be secured.

Item 4. Purposes of the proposed issue or assumption, and uses of the proceeds.

Statement showing with respect to one or more of the purposes specified below, the amount of the net proceeds intended to be used for such purpose, also:

(a) *The acquisition of property other than equipment:* A statement containing—

(1) A general description of the character, size, and location of the property, and the name and address of the person from whom it is to be acquired; and

(2) The actual or estimated costs to applicant of acquisition of the property, classified by Interstate Commerce Commission primary accounts; full terms of the contract, if any has been made, for such acquisition; and data necessary for a determination of the reasonableness of such costs.

(b) *The acquisition of equipment:* A statement containing—

(1) A full description of the equipment by type or design of unit, size, capacity, builder, year built, and name and address of the person from whom it is to be acquired.

(2) The unit prices paid or to be paid free on board builder's plant; whether the equipment was purchased through competitive bidding; and, if the unit prices shown are not the lowest bids received, the reason for accepting a higher bid.

(c) *The construction, completion, extension, or improvement of facilities, or additions and betterments thereto by a common carrier by railroad* (accomplished expenditures or expenditures not yet made): A statement showing—

(1) The period covered by the expenditures.

(2) The purposes of the expenditures.

(3) The amount of proposed expenditures or expenditures made but not yet capitalized and credits by reason of retirements within the period.

(4) The distribution of the total cost by the primary accounts of the Commission's classification of investment in road and equipment.

(d) *The discharge or refunding of existing obligations* (including notes maturing not more than two years after the date thereof, issued under paragraph (9) of section 20a or the $200,000 exemption applicable to such notes under section 214): A statement containing a full description, together with terms and conditions (including discounts and commissions, counsel fees, and all other expenses) of sale or other disposition of such existing obligations.

(e) *The reimbursement of money expended from income or from other monies in the treasury of the applicant* (including proceeds of notes maturing and issued as described in the preceding paragraph), *not yet capitalized:* A statement showing—

(1) The period covered by the total disbursement.

(2) The purposes of the disbursements.

(3) The amount of disbursements (gross capital charge) and all credits to capital account within the period.

(4) The primary accounts of the Commission's classification to which the disbursements or retirements were charged or credited.

(f) *Other purposes:* A statement containing complete details of the purposes of the proposed issue or assumption.

Item 5. The facts and circumstances on which the applicant relies.

(a) If the applicant is a carrier or corporation organized for the purpose of engaging in transportation as a carrier——

To establish that the proposed issue or assumption (1) is for some lawful object within its corporate purposes, and compatible with the public interest, which is necessary or appropriate for or consistent with the proper performance by the carrier of service to the public as a common (or motor contract) carrier, and which will not impair its ability to perform that service, and (2) is reasonably necessary and appropriate for such purpose.

(b) If the applicant is a non-carrier person, which is authorized by an order entered under section 5(2) of the Act to control a carrier or carriers—

To establish that the proposed issue or assumption is consistent with the proper performance of its service to the public by each carrier which is under the control of such person, and will not impair the ability of any such carrier to perform such service, and is otherwise consistent with the public interest.

(c) If the application is filed with respect to a class of railroad securities as to which competitive bidding is prima facie required,[1] and exemption from such requirement is sought—

To show that competitive bidding should not be required in the sale or other disposition of the proposed securities, including a statement that applicant has not entered into any discussion or any negotiations with respect to the terms of sale with any prospective purchaser of its securities.

(d) If the application is to sell railroad securities without competitive bidding on the ground that such securities come within one of the specific exemptions—

To show that the exemption applies

Item 6. Terms of sale or other disposition, and estimate of expenses.

(a) At what price or prices, rate or rates, and upon what terms and conditions it is proposed to sell or otherwise dispose of the securities.

---

[1] Pertinent conclusions and the requirements are set forth in the Commission's report, *In Re Competitive Bidding in Sale of Securities*, 257 I.C.C. 129, as modified by findings in *Atlantic Coast Line R. Co. Competitive Bidding Exemption*, 282 I.C.C. 513, and further modified *In Re Competitive Bidding in Sale of Securities*, 307 I.C.C. 1.

(b) An estimate of the expenses to be incurred by applicant in connection with such sale or other disposition, itemized to show—

(1) The commissions to be paid, discounts to be allowed, and the total of commissions and discounts.

(2) Legal expenses, accounting expenses, engineering expenses, expenses for certification, expenses for authentication, other expenses, and the total expenses. Where the amounts of the items grouped under "other expenses" are relatively substantial, they should also be itemized under that general item.

(3) The grand total of commissions, discounts, and expenses.

Item 7. Contracts, underwritings, and other arrangements.

How and to whom, and by or through whom, it is proposed to issue the securities, with details of all contracts, underwritings, and other arrangements made or proposed to be made in connection with the issue.

Item 8. Resolutions and other authorizations.

(a) Copies of all resolutions of directors authorizing the proposed issue of securities or the proposed assumption of obligation or liability for which authority is requested.

(b) If the charter or bylaws require approval by stockholders, copies of resolutions of stockholders, authorizing such issue or assumption, all such resolutions of stockholders to be accompanied by sufficient transcripts of the minutes of their meetings to show the number of shares voted for and against the resolutions, and the number of share-votes required to adopt the resolution.

(c) Copies of resolutions of stockholders or directors, or duly authorized committee thereof, authenticated by a proper executive officer of applicant, designating by name and for that purpose the executive officer by whom the application is signed, verified, and filed on behalf of the applicant.

(d) If applicant is an association or other organization except a corporation, documentary evidence showing authorization of the proposed issue or assumption and designation of the individual signing, verifying, and filing on behalf of applicant; and

(e) If applicant is a trustee, receiver, assignee, or other fiduciary, a certified copy of the order, if any, of the court having jurisdiction, authorizing the proposed issue or assumption, and the filing of the application.

Item 9. Opinion of counsel.

That the issue or assumption with respect to which the application is made meets the requirements of the law as set forth in Item 5, and will be legally authorized and valid if approved by the Commission, with specific reference to any specially pertinent provisions of charter or articles of incorporation or association.

Wherefore, Applicant prays that the Commission enter an order under sections 20a or 214 of the Interstate Commerce Act authorizing the proposed issue or assumption as described in the application.

Dated this __ day of _____, 19__.

_____

By_____

Title _____

OATH

County of _____SS:

State of _____

_____, being duly sworn, states that he is the

(Name of official)

_____ of _____; that he is au-

(Title of official) (Name of applicant)

thorized on the part of said applicant to sign and file with the Interstate Commerce Commission this application and exhibits attached thereto; that he has carefully examined all of the statements contained in such application and the exhibits attached thereto and made a part thereof; that he has knowledge of the matters set forth therein and that all such statements made and matters set forth therein are true and correct to the best of his knowledge, information, and belief.

_____

(Signature of affiant)

Subscribed and sworn to before me, a _____ in and for the State and county above named, this __ day of _____, 19__.

[SEAL] _____.

My commission expires _____.

CERTIFICATE OF SERVICE

_____certifies that upon the_____day of_____, 19____, a copy of the foregoing application was mailed or delivered in person to the Governor and Public Service Commission or other appropriate authority of each State in which the applicant operates or is authorized to do business, or in the case of holding companies, of each State in which the applicant is incorporated or authorized to do business, as follows:

_____

_____

_____

(Signature)

_____

(Date)

GENERAL INSTRUCTIONS

1. *Use of Form BF-6.* All carriers and other persons subject to sections 20a and 214 of the Interstate Commerce Act making application for authority (a) to nominally issue securities, (b) to sell, pledge, repledge, or otherwise dispose of securities nominally issued or assumed or nominally outstanding, (c) to actually issue securities, or (d) to assume any obligation or liability as lessor, lessee, guarantor, endorser, surety, or otherwise in respect of the securities of any other person, natural or artificial, actually outstanding, shall make such application substantially in the form of application designated Form BF–6.

2. *Definitions.* (a) The term "carrier" includes a common carrier by railroad (except a street, suburban, or interurban electric railway which is not operated as a part of a general steam railroad system of transportation) which is subject to part I of the Act, a common or contract carrier by motor vehicle subject to part II, a corporation organized for the purpose of engaging in transportation as any such carrier, and a sleeping-car company which is subject to part I.

(b) The term "holding company" means a person which is not a carrier, but which is authorized by an order entered under section 5(2) of the Act to control a carrier or carriers and, as provided in section 5(3), is to be considered a carrier subject to the provisions of sections 20a or 214.

(d) The terms "nominally issued", "nominally outstanding", "actually issued" and "actually outstanding" are used herein as they are defined for purposes of Railroad and Motor Carrier Uniform Systems of Accounts and Annual Reports.

3. *Application of general rules and regulations.* Before undertaking the preparation of the application, reference should be made to the rules and regulations governing the filing of applications under sections 20a and 214, and list of forms, published in the Code of Federal Regulations as Title 49, Part 51.

Form BF–7

Form approved.
Budget Bureau No. 60–R215.2

Before the

INTERSTATE COMMERCE COMMISSION

Washington, D.C.

SPECIAL APPLICATION FOR AUTHORITY TO SELL SECURITIES WITHOUT COMPETITIVE BIDDING

(Read General Instructions on page 3)

FINANCE DOCKET

No.

CAPTION

In the matter of application of:

A. Name of applicant.

B. Brief description of the securities in respect of which exemption from the competitive bidding requirements is requested, and the uses of the proceeds.

C. States in which applicant operates or proposes to operate.

D. Related Finance proceedings, if any. (Give docket number, if known)

E. Name, title, and business address of the person to whom correspondence in respect of the application should be addressed.

To the Interstate Commerce Commission,
Washington, D.C.

The following statements and information are submitted by applicant in support of its request for exemption from the competitive bidding requirement:

1. Date of organization and State(s) under the laws of which the applicant was organized and received its present charter(s).

2. General description and amount of the securities in respect of which exemption is sought.

3. Purpose and uses of the proposed issue and the proceeds thereof.

4. The facts and circumstances relied upon by applicant to show that competitive bidding should not be required in the sale or other disposition of the proposed securities, including a statement that applicant has not entered into any discussions or any negotiations with respect to the terms of sale with any prospective purchaser of its securities.

5. Why the special application is necessary.

Wherefore, Applicant prays that the Commission find that the sale of the described securities at competitive bidding should not be required.

Dated this _____day of _____,19__.

_____
By _____
Title _____

OATH

County of _____ SS:
State of _____,

_____, being duly sworn, states that he is the
(Name of official)

_____ of _____;
(Title of official) (Name of applicant)

that he is authorized on the part of said applicant to sign and file with the Interstate Commerce Commission this application; that he has carefully examined all of the statements contained in such application; that he has knowledge of the matters set forth therein and that all such statements made and matters set forth therein are true and correct to the best of his knowledge, information and belief.

_____
(Signature of affiant)

Subscribed and sworn to before me, a _____in and for the State and county above named, this _____ day of_____19__.

[SEAL] _____.

My commission expires _____.

CERTIFICATE OF SERVICE

_____ certifies that upon the _____ day of _____ 19____, a copy of the foregoing application was mailed or delivered in person to the Governor and Public Service Commission or other appropriate authority in each of the following States in which the applicant operates or is authorized to do business:

_____
_____

_____
(Signature)

_____
(Date)

GENERAL INSTRUCTIONS

1. *Use of Form BF–7.* This form should be used in making application for exemption from the competitive bidding requirement only when for any reason it is not practicable to include the request for exemption in an application filed in Form BF–6 for authority under section 20a of the Interstate Commerce Act to issue securities.

2. *Competitive Bidding Requirement.* The requirement that, with certain specified exceptions, all classes of railroad securities other than equipment, issued under authority granted pursuant to the provisions of section 20a of the Act be offered for sale at competitive bidding, or its equivalent, set forth in the Commission's report in Ex Parte 158, *In Re Competitive Bidding in the Sale of Securities*, 257 I.C.C. 129, decided May 8, 1944, and modified by findings in *Atlantic Coast Line R. Co. Competitive Bidding Exemption*, 282 I.C.C. 513, decided June 18, 1952, and further modified by supplemental report in Ex Parte 158, *Ibid.*, 307 I.C.C. 1, decided August 14, 1958, with respect to securities issued or proposed to be issued incident to a loan guaranteed under the provisions of part V of the Act, is published in the Code of Federal Regulations as an appendix to Title 49, Sec. 56.25.

3. *Application of General Rules and Regulations.* Before undertaking the preparation of the application, reference should be made to the rules and regulations governing the filing of applications under section 20a and related matters, and list of forms, published in the Code of Federal Regulations as Title 49, Part 51.

CERTIFICATE OF NOTIFICATION UNDER SECTION 20a(5), INTERSTATE COMMERCE ACT

(Read General Instructions on page 3)

DISPOSAL OF PLEDGED OR TREASURY SECURITIES

Finance Docket No. _____

TITLE OF PROCEEDING IN WHICH DISPOSAL OF THE SECURITIES WAS AUTHORIZED

_____ _____
(Date of order of authorization) (Date of this certificate of notification)

To the Interstate Commerce Commission, Washington, D.C.:

The undersigned hereby certifies that within the 10 days next preceding the date hereof—

_____
(Name of respondent)

has sold, pledged, repledged, or otherwise disposed of securities theretofore held unencumbered in its treasury or pledged, as set forth and described below:

1. *Description (or name) of the pledged or treasury securities disposed of:*

(a) Give particulars pertinent to the securities sold, pledged, repledged, or otherwise disposed of during the period covered by the certificate, in form and detail required respecting securities nominally issued, or reacquired after actual issue, and held in special funds or in the treasury of respondent or pledged, and changes therein, in schedules 218, 228, and 229 of railroad annual report Form A, schedules 670, 690 and 695 of railroad annual report Form C, or schedules 2300, 2330, 2360, 2700, 2700–A, 2700–B, 2710, 2710–A and 2710–B of motor carrier annual report Form A, identified by numbers and letters corresponding to the schedules and lettered columns used therein, as appropriate.

(b) With respect to securities pledged or repledged, give date of pledge and total amount pledged (par value or principal amount, and number of shares, if stock) and describe the obligation for which pledged, including name of holder, amount of obligation, and date of maturity.

2. *Journal entries to record the disposal of pledged or treasury securities.*

Furnish statement showing amounts received, discounts allowed, and expenditures made, by dates, or to be made, in connection with the sale, pledge, repledge, or other disposition of each issue (or reissue) of capital stock, bonds, or other evidence of long-term debt, theretofore held by or for respondent and covered by the certificate, indicating the account number and title to which each item has been, or is to be, debited or credited.

_____
(Name of respondent)

By _____

Title _____

OATH

County of _____ *ss:*

State of _____

_____, being duly sworn, states that he is
(Name of official)

the _____ of _____;
(Title of official) (Name of respondent)

that he is authorized by said respondent to execute and file with the Interstate Commerce Commission this certificate of notification and to verify the facts and statements contained in said certificate; that he has carefully examined all of such statements contained in the certificate; that he has knowledge of such matters set forth therein and that all such statements made and such matters set forth therein are true and correct to the best of his knowledge, information, and belief.

_____
(Signature of affiant)

Subscribed and sworn to before me, a _____
in and for the State and county above named, this ____ day of _____, 19__.

_____

[SEAL]
My commission expires _____.

GENERAL INSTRUCTIONS

Use of Form BF–21. Certificates of notification required by paragraph (5) of section 20a of the Interstate Commerce Act, to be filed within 10 days after the sale, pledge, repledge, or other disposition of securities theretofore pledged or held unencumbered in the treasury of the carrier, shall be filed substantially in the form designated as Form BF–21.

Definition. As used in paragraph (5) of section 20a, securities described as "pledged or held unencumbered in the treasury of the carrier" are securities theretofore nominally issued, or reacquired and held in the treasury of the carrier, except securities held by trustees in sinking or other funds.

Application of general rules and regulations. Before undertaking the preparation of the report, reference should be made to the rules and regulations governing the filing of applications and reports under section 20a and list of forms, published in the Code of Federal Regulations as Title 49, Part 51.

CERTIFICATE OF NOTIFICATION UNDER SECTION 20a(9), INTERSTATE COMMERCE ACT

(Read General Instructions on page 3)

ISSUANCE OF SHORT-TERM NOTES

Date _____ 19__.

To the Interstate Commerce Commission, Washington, D.C.:

The undersigned hereby certifies that within the 10 days next preceding the above date

_____
(Name of respondent)

has issued notes maturing not more than two years after the date thereof, herein referred to as short-term notes, as set forth and described below:

1. *Description and amount of short-term notes issued.*

Give date and principal amount of each note, maturities, rate of interest, name of payee, and security, if any, therefor. If respondent pledged its own stock, bonds, or other securities as such collateral, reference shall be made to the order of the Commission authorizing such pledge, and certificates of notification in Form BF–21 shall be filed.

2. *Purposes and uses of the issue and the proceeds thereof.*

Describe the purposes in detail of each note and proposed disposition of proceeds.

3. *Terms of sale or other disposition.*

State price at which, and the terms under which, each note was sold or otherwise disposed of.

4. *Contracts, underwritings and other arrangements.*

State how an by whom, or through whom, issued.

5. *Limit within which notes were legally issued.*

The total amount of respondent's securities actually outstanding on the date of the note or notes covered by the certificate was as follows:

(a) Capital stock (par value)_____$_____
(b) Long-term debt (par value)_____ _____
(c) Securities not included above, including securities without par value at fair market values as of date of issue, but excluding short-term notes_____ _____
(d) Total of (a) through (c)_____ _____
(e) Five (5) percentum of (d)_____ _____
(f) Short-term notes, including notes covered by this certificate_____ _____
(g) If short-term notes (f) exceeded limit within which notes could legally be issued (e), enter amount of over-issue (void notes)_____ _____

_____
(Name of respondent)

By_____
Title_____

OATH

County of_____ *ss:*
State of_____

_____, being duly sworn, states that he
(Name of official)

is the _____ of _____;
(Title of official) (Name of respondent)

that he is authorized by said respondent to execute and file with the Interstate Commerce Commission this certificate of notification and to verify the facts and statements contained in said certificate; that he has carefully examined all of such statements contained in the certificate; that he has knowledge of such matters set forth therein and that all such statements made and such matters set forth therein are true and correct to the best of his knowledge, information, and belief.

_____
(Signature of affiant)

Subscribed and sworn to before me, a _____ in and for the State and county above named, this_____ day of _____, 19____.

(SEAL)

_____

My commission expires _____.

GENERAL INSTRUCTIONS

Use of Form BF–22. Certificates of notification required by paragraph (9) of section 20a of the Interstate Commerce Act, to be filed with the Commission within 10 days after the making of short-term notes within the limits within which such notes may be issued without authorization, shall be filed substantially in the form designated as Form BF–22.

Definitions. The term "short-term notes" means notes maturing not more than two years after the date thereof.

Limitations. The limits within which short-term notes may be issued without authorization are those specified in paragraph (9) of section 20a and in the proviso of section 214.

Exemptions. Carriers or corporations within the exemptions provided in section 214 are not required to file certificates of notification under section 20a(9).

Application of general rules and regulations. Before undertaking the preparation of the report, reference should be made to the rules and regulations governing the filing of applications and reports under sections 20a and 214, and list of forms, published in the Code of Federal Regulations as Title 49, Part 51.

SPECIAL REPORT UNDER SECTION 20a(10), INTERSTATE COMMERCE ACT

(Read General Instructions on page 3)

ISSUANCE OF SECURITIES OR ASSUMPTION OF OBLIGATIONS

Title of proceeding in which the issue or assumption was authorized

Finance Docket No_____

_____
(Date of order of authorization)

_____
(Date of completion, if completed)

_____
(Date of initial issue or assumption)

_____
(Date of report)

INITIAL, INTERIM, OR FINAL (STATE WHICH) REPORT

To the Interstate Commerce Commission, Washington, D.C.:

The undersigned hereby certifies that, under the authorization in the above-entitled proceeding—

(Name of respondent)

has issued securities or assumed obligations or liability in respect of securities, as set forth below:

SUMMARY [1]

	Principal Shares
1. Total principal amount (and number of shares, if stock authorized)	
2. Total disposed of to date:	
(a) Initial report (schedule)	
(b) Interim report (schedule)	
(c) Annual reports:	
Intitial year (____)	
Intermediate years (____)	
Completion year (____)	
(d) Total and final report (schedule)	
3. Balance not disposed of: (State whether authorization should be revoked). (Yes) (No)	

SCHEDULE

Description (or name) of securities issued or assumed. Give particulars pertinent to the securities issued or obligations or liability assumed, and the purposes of the issue or assumption and authority therefor, in form and detail required respecting securities issued or assumed, and changes therein, in schedules 218, 228 and 229 of railroad annual report Form A, schedules 670, 690, and 695 of railroad annual report Form C, or schedules 2300, 2330, 2360, 2700, 2700–A, 2700–B, 2710, 2710–A and 2710–B of motor carrier annual report Form A, identified by numbers and letters corresponding to the schedules and lettered columns used therein, as appropriate.

(Name of respondent)

By_____

Title_____

OATH

County of_____ SS:

State of_____

_____, being duly sworn, states that he is the

(Name of official)

_____ of _____;

(Title of officela) (Name of respondent)

that he is authorized by said respondent to execute and file with the Interstate Commerce Commission this report and to verify the facts and statements contained in said report and schedules attached; that he has carefully examined all of such statements contained in the report and schedules; that he has knowledge of such matters set forth therein and that all such statements made and such matters set forth therein are true and correct to the best of his knowledge, information, and belief.

(Signature of affiant)

Subscribed and sworn to before me, a_____ in and for the State and county above named, this_____ day of_____ 19__.

[SEAL]

My Commission expires_____.

[1] The entries in the summary should be consistent with those in the indicated supporting schedule.

GENERAL INSTRUCTIONS

Use of Form BF–23. (a) *Initial report.* Within 30 days after the initial date of issue of any securities or assumption of any obligation or liability authorized under sections 20a or 214, a report showing the action taken under such authority shall be filed with the Commission in Form BF–23.

(b) *Interim report.* Concurrently with any subsequent application for additional authority filed under sections 20a or 214 a report showing the action theretofore taken, and any balance previously authorized but not disposed of, shall be made in the same form.

(c) *Final report.* Within 30 days after the completion of the issue or assumption, a final report shall be made in the same form. Such report may be made in lieu of the initial report within the 30-day period following the initial date of issue or assumption.

Application of general rules and regulations. Before undertaking the preparation of the report, reference should be made to the rules and regulations governing the filing of applications and reports under section 20a, and list of forms, published in the Code of Federal Regulations as Title 49, Part 51.

Question 19. What are your criteria for approving or designing a reorganization plan under the bankruptcy law?

Answer. The criteria for approving or designing a reorganization plan under the Bankruptcy Act are set forth therein. In general, a hearing is held at which time the views of all interested parties are obtained including witnesses representing the public, such as State and local governments, labor representatives, as well as shippers, creditors and stockholders.

Each railroad in reorganization has certain problems unique to itself. The plan of reorganization approved by the Commission is of course subject to approval of the reorganization court. The main objective is to preserve essential public service by bringing about the emergence of a healthy and viable railroad.

Historically, railroad bankruptcies have been the result of overcapitalization, which in most instances could be overcome by reducing the debt structure to manageable proportions. However, there have been instances in recent years where railroads in reorganization were unable to cover operating expenses, in which case reorganization plans in the traditional manner were not feasible. One such situation was the New Haven which had reached a point where the reorganization court indicated it would have to consider ceasing operations and liquidating the assets for lack of operating funds. The Commission sought to avoid that contingency by requiring the inclusion of the New Haven in the Penn Central as a condition of the merger of the latter. In the absence of such a merger application the Commission lacks authority to compel an arrangement of this nature.

In 1956, for instance, no feasible plan could be worked out for the reorganization of the New York, Ontario & Western Railroad, the trustee was dismissed by the court, and a receiver was appointed who proceeded to dissolve that carrier and sell its assets. In such instance, even the elimination of all debt would not permit the railroad to continue to function and the property rights of creditors cannot be entirely extinguished to cover operating costs when no possibility of a viable operation in the future is feasible.

Question 20. Sec. 77(c) of the Bankruptcy Act requires ICC approval of trustees in the reorganization. What are your criteria for approval? Who would you reject?

Answer. Attached is a copy of the Commission's regulations stipulating the type of information the Commission requires and deems necessary in considering the approval of trustees appointed by the reorganization court. In general, the Commission considers the parties' character, ability, qualifications and possible conflict of interests, if any.

INTERSTATE COMMERCE COMMISSION,
Washington, D.C., April 2, 1953.

The Commission having exhausted its supply of copies of its orders dated October 23, 1935, and October 17, 1946, approving and prescribing special rules of procedure governing applications, under section 77(p) of the Uniform Bank-

ruptcy Act, as amended, for authority to solicit, use, employ, or act under or pursuant to, proxies, authorizations, or deposit agreements, in or in connection with reorganization or receivership proceedings, and of its order of November 5, 1935, approving and prescribing special rules of procedure governing ratification, under section 77 (c) (1) of said Act, of appointment as trustee, it is deemed advisable to reproduce on attached sheets the full text of the above-mentioned orders, comprising 49 CFR 58 (1949 Edition, Code of Federal Regulations).

GEORGE W. LAIRD,
Acting Secretary.

PART 58—REORGANIZATION OF RAILROADS

SPECIAL RULES OF PROCEDURE

Sec.
58.1 "Person" and "railroad corporation."
58.2 "The debtor."
58.3 "The security."
58.4 "Affiliated interests."
58.5 "Connection."
58.6 Authority to solicit.
58.7 Granting of order of authorization.
58.8 Applicant desiring to act for more than one issue of securities.
58.9 Contents of application.
58.10 Application by other than an individual.
58.11 Filing of exhibits.
58.12 Procedure governing application.

RATIFICATION OF APPOINTMENT AS TRUSTEE

58.51 Filing of petition.
58.52 Petition under oath.
58.53 Number of copies.
58.54 Form; notice accompanying petition.
58.55 Consideration of petition.

AUTHORITY: §§ 58.1 to 58.55 issued under sec. 12, 24 Stat. 383, as amended; 49 U.S.C. 12. Interpret or apply sec. 1, 47 Stat. 1474, as amended; 11 U.S.C. 205.

SPECIAL RULES OF PROCEDURE

SOURCE: §§ 58.1 to 58.12 contained in regulations governing applications for authority to solicit, use, employ, or act under or pursuant to, proxies, authorizations, or deposit agreements, in or in connection with reorganization or receivership proceedings, ICC, Oct. 23, 1935, except as noted following section affected.

§ 58.1 *"Person" and "railroad corporation."* The terms "person" and "railroad corporation" are used in §§ 58.1–58.12 as they are defined in section 77 (m) of the Bankruptcy Act.

§ 58.2 *"The debtor."* The term "the debtor" as used in §§ 58.1–58.12 means any railroad corporation by or against which proceedings have been instituted and are pending under section 77 of the Bankruptcy Act, or against which receivership proceedings have been instituted and are pending in any State or Federal Court, being the proceedings in connection with which the applicant proposes to act.

§ 58.3 *"The security."* The term "the security" as used in §§ 58.1–58.12 means any security for which the applicant proposes to act or the deposit of which he expects to solicit and to which the application relates.

§ 58.4 *"Affiliated interests."* The term "affiliated interests" as used in §§ 58.1–58.12 means any person (a) by which the person designated is employed; (b) of which he is an officer, director, trustee, stockholder, or partner; (c) in which he has a direct or indirect pecuniary interest; (d) which he controls, whether by stock ownership, lease, agency, or otherwise; or (e) by which he is controlled in any manner whatsoever.

§ 58.5 *"Connection."* The term "connection" as used in §§ 58.1–58.12 means the prior or present relationships as employee, director, stockholder, trustee, partner, creditor, debtor, or attorney at law.

§ 58.6 *Authority to solicit.* Any person seeking authority (a) to solicit, or permit the use of his name to solicit, from any creditor or shareholder of a railroad corporation by or against which proceedings under section 77 of the Bankruptcy Act, or against which receivership proceedings have been instituted and are pending, any proxy, or authorization to represent or act for such creditor or stockholder in such proceedings or in any matters relating to such proceedings, or (b) to solicit the deposit by any such creditor or shareholder of his claim against or interest in such railroad corporation, or any instrument evidencing the same, under any agreement authorizing such representation or action for such depositor, or to act under such agreement, or (c) to use, employ, or act under or pursuant to any such proxy, authorization, or deposit agreement, which has been solicited or obtained prior to the institution of such proceedings, shall make application for authority, and such application shall, unless otherwise authorized by the Commission, be filed sufficiently in advance of the date of such proposed solicitation, use, employment, or action, to give the Commission reasonable time, not less than 30 days, for the consideration and hearing required by law.

§ 58.7 *Granting of order of authorization.* An order of authorization will be granted only upon application therefor as provided in §§ 58.1–58.12.

§ 58.8 *Applicant desiring to act for more than one issue of securities.* Where the applicant desires authority to act for more than one issue of securities, the information required in §§ 58.1–58.12 other than that required in § 58.9 (a), (b), (c), shall be supplied for each issue.

§ 58.9 *Contents of application.* Each applicant shall show, in the following order:

(a) Full name and address of the applicant.

(b) (1) If the application is by an individual who proposes to act as a member of a protective committee, partnership, association, or other unincorporated organization, the name and address of such committee, partnership, association, or organization, with date when he became a member.

(2) If the application is by a protective committee, partnership, association, or other unincorporated organization, the names and addresses of the individual members thereof and of the secretary and counsel, if any, with date of organization, and dates when each individual became a member, or secretary, or counsel, designating which members, if any, are officers of the organization.

(3) If the application is by a corporation or a joint-stock company, the names and addresses of the officers and directors of the applicant and the names and addresses of the 20 stockholders of the applicant who, at the date of the application, if known, or if not known, who at the date of the latest closing of the stock book or compilation of list of stockholders of the applicant (if within 1 year prior to the date of the application) had the highest voting powers in the applicant, together with names and addresses of counsel, if any, the date of incorporation, and the dates on which each officer and director was elected or appointed.

(c) Principal occupations, for the last 10 years prior to the date of the application, of the applicant, if an individual, of each member, the secretary, and counsel, if the applicant is a committee, partnership, association, or other unincorporated organization, and of each officer, director, and principal stockholder (not more than 20) if applicant is a corporaton or joint-stock company.

(d) Nature of the authority sought, i.e., whether to solicit, use, employ, or act under or pursuant to proxies or authorizations to represent any member or shareholder of the debtor, or to solicit the deposit by such member or stockholder of his claim against, or interest in, such debtor under a deposit agreement, or to act for depositors under such agreement.

(e) Whether the applicant made such solicitation, or used, employed, or acted under or pursuant to, such proxies, authorizations, or deposit agreements prior to the date of the application.

(f) (1) The name of the security.

(2) Date of default, if any, in the security.

(3) Principal amount or number of shares of the security presently outstanding.

(g) (1) Name of the railroad corporation originally issuing the security.

(2) Names of the person currently obligated to meet the principal and interest of the security.

(3) Names of all parties involved in any controversy with respect to the obligation to meet the principal and interest of the security.

(h) (1) Name and title of the proceedings in or in connection with which the committee proposes to act.

(2) The court having jurisdiction in such proceedings.

(3) The nature of such proceedings.

(i) The name or names of the debtor or debtors.

(j) (1) The manner in which the applicant proposes to make such solicitation, or to use, employ, or act under or pursuant to, such proxies, authorizations, or deposit agreements.

(2) The name and address of the persons, if known, to be employed or compensated directly or indirectly by the applicant, to solicit proxies or authorizations to represent holders of the security or to solicit the deposit of the security.

(3) The rates of compensation to be paid to the persons to be so employed.

(4) The maximum amount estimated to be required to pay each person so employed as advances for or in reimbursement of expenses.

(5) The rate of compensation to be charged by the applicant for his services.

(6) The maximum amount estimated to be required in reimbursement of the applicants expenses.

(k) Arrangements contemplated by the applicant to obtain funds for financing his operations before his expenses are approved by the court and the Commission.

(l) Names and addresses of other persons, including committees or other organizations in process of formation, known to the applicant, who represent, propose to represent, or have sought to represent, the security.

(m) Names and addresses of the original underwriters of the security.

(n) Any present and prior connection of the applicant and each of the affiliated interests of the applicant with:

(1) The original issuer of the security and each of its affiliated interests.

(2) The debtor and each of its affiliated interests.

(3) The person who originally sold or underwrote or participated in the selling or underwriting of the security.

(4) The trustee of the debtor and of the original issuer.

(5) The trustee of the instrument, if any, under and pursuant to which the security was issued.

(6) The depositary under the proposed agreement, if any, under which the security is to be deposited.

(7) Any other person acting for any securities of the original issuer or of the debtor.

(o) The number of shares of each class of stock, and the principal amount of each class of bonds, notes, certificates, or other obligations, direct or indirect, of the debtor and of each of its affiliated interests, owned by the applicant, any of his affiliated interests, and any member of his immediate family on or about the date of the application.

(p) Whether the applicant, any of his affiliated interests, or any of his immediate family, have, within 6 months prior to the date of the application, purchased or sold any securities or other obligations of the debtor or of any of its affiliated interests.

(q) The names of any depositaries with which the applicant has arranged or proposes to arrange for the deposit of the securities, and the terms and provisions of all contracts and agreements entered into by the applicant and by any of its affiliated interests, with such depositaries.

(r) The terms and provisions of all contracts and agreements entered into by the applicant and by each of his affiliated interests with any other person, including its own members and officers, if the applicant is a committee, or its own officers, directors, or principal stockholders, if it is a corporation, representing or seeking to represent any creditor or stockholder of the debtor, whether such representation is to be as an individual, a committee, an association, an unincorporated organization, a corporation, or a joint-stock company, or as a member, officer, director, or principal stockholder, of the applicant or of any other person.

§ 58.10 *Application by other than an individual.* If the application is by any person other than an individual, the applicant shall, in addition to furnishing the information as to itself required by § 58.9 (n)–(r) attach to said application a statement or statements under oath by each of its members, its secretary, and counsel, or by each of its officers, directors, and principal stockholders (not more than 20), as may be appropriate, setting forth for each individual

so connected with the applicant such information as to his connections, securities, ownership, purchase and sale of securities, and terms and provisions of contracts, as is required of the applicant by said paragraphs: *Provided, however*, That such individuals need not include in such statement or statements information that would duplicate information furnished by the applicant where such information is not peculiarly within the knowledge of such individuals.

§ 58.11 *Filing of exhibits.* There shall be filed with the original application and with each copy thereof, as a part thereof, or in such other manner as the Commission, through appropriate agency, may authorize, the following exhibits:

(a) A copy of the proxy, authorization, or deposit agreement under which the applicant proposes to act.

(b) A copy of the applicant's charter or articles of incorporation, with amendments to date, attested by proper public authority, if the applicant is a corporation or joint-stock company, and of any contract or agreement by which the applicant was formed, if the applicant is a committee, partnership, association, or other unincorporated organization, except that when such copy has been once filed with an application, reference thereto, with subsequent amendments, if any, will suffice.

(c) A copy of any bylaws, adopted or proposed to be adopted, with amendments, if any, to date, to govern the affairs of the applicant, except that where such copy has been once filed with an application, reference thereto with subsequent amendments, if any, will suffice.

§ 58.12 *Procedure governing application.* The following procedure shall govern the execution, filing and disposition of the application:

(a) The original application shall be signed by the applicant or on his behalf by a duly authorized agent having knowledge of the matters set forth, and shall be verified in the manner provided by § 1.17 of this chapter.

(b) The original application and six copies thereof shall be filed as provided in § 1.4 (b) of this chapter. Each copy shall be complete in itself with copies of all attachments, and shall bear the dates and signatures that appear in the original but the signatures in the copies may be stamped or typed and notarial seal may be omitted.

[11 F.R. 12798]

RATIFICATION OF APPOINTMENT AS TRUSTEE

SOURCE: §§ 58.51 to 58.55 contained in Procedure for Ratification of appointment as Trustee, I.C.C., Nov. 5, 1935, except as noted following section affected.

§ 58.51 *Filing of petition.* The appointee seeking such ratification shall file with the Commission a petition reciting the proceedings in court pertaining to the appointment, asking that the appointment be ratified, and giving the following information with respect to the appointee:

(a) Date and place of birth.

(b) Education.

(c) All past principal occupations and period covered by each.

(d) All present occupations and intentions with respect to continuation thereof during service as trustee.

(e) Whether or not the appointee, within 1 year of the date of his appointment, has been an officer, director, or employee of the debtor corporation, any subsidiary corporation, or any holding company connected therewith.

(f) All present business relations, connections, or affiliations, of any character, either direct or indirect, with any individuals, partnerships, associations, corporations, or other organization, and all such relations, connections, or affiliations of such individuals, corporations, or organizations, with the debtor or any of its affiliated interests.

(g) The names and addresses of all persons, partnerships, associations, corporations or other organizations in which the appointee or any member of his immediate family has a financial interest, direct or indirect, beneficial, contingent, or otherwise, together with a description of the nature of such interest, showing whether it is evidenced by stock certificates, notes, bonds, or other securities.

(h) The names and addresses of all persons, partnerships, associations, corporations or other organizations to which the appointee is under financial obligation, direct or indirect, fixed, contingent or otherwise, in excess of $4,000 to any one person or concern, together with a description of the nature of such financial obligation, showing whether it is evidenced by book entries, notes, or otherwise.

§ 58.52 *Petition under oath.* The original petition shall be made under oath, and shall be signed by the petitioner.

§ 58.53 *Number of copies.* The original petition and six copies thereof for the use of the Commission shall be filed with the Secretary of the Commission, Washington, D.C. Each copy shall bear the dates and signatures that appear in the original and shall be complete in itself, but the signatures in the copies may be stamped or typed, and the notarial seal may be omitted. Additional copies shall be furnished as directed by the Commission.

§ 58.54 *Form; notice accompanying petition.* Petitions and statements filed by or on behalf of appointees seeking ratification of appointments as trustee shall conform to §§ 1.15 and 1.16 of this chapter, and must be accompanied by notice showing service upon all parties who appeared in court in opposition to the appointment.

[11 F.R. 12798]

§ 58.55 *Consideration of petition.* Upon receipt of such petition in due form, and upon receipt from the clerk of the court of a copy of the order of the court appointing the person by or on whose behalf said petition is filed trustee of the debtor's property together with a copy of any petition or petitions and other pleadings presented to the court, and of a transcript, if any, of the proceedings in court, pertaining to such appointment, the Commission will proceed to consider the petition, or will order a hearing, if a hearing shall be deemed necessary, and after such hearing will proceed to consider the petition.

Question 21. Will you submit to the Committee the application made by the Penn Central and the information required by the Commission relating to the financing approved by the Commission in its report of October 29, 1969?

Answer. Attached is the application of the Penn Central in Finance Docket No. 25854, a copy of a letter sent by the Commission requesting additional information and supplementary information furnished in reply thereto, as well as a copy of the Commission's report, dated October 29, 1969.

F–9555 *Served November 6, 1969*

INTERSTATE COMMERCE COMMISSION

REPORTS

FINANCE DOCKET NO. 25854

PENN CENTRAL TRANSPORTATION COMPANY NOTES

Decided October 29, 1969

Authority granted to Penn Central Transportation Company to issue its short-term unsecured promissory notes in the nature of commercial paper in aggregate principal amount not exceeding $50 million at any one time outstanding, subject to condition.

Edward A. Kaier and *Edwin K. Taylor* for applicant.

REPORT OF THE COMMISSION

DIVISION 3, COMMISSIONERS TUGGLE, DEASON, AND HARDIN

BY DIVISION 3:

The Penn Central Company (name changed to Penn Central Transportation Company on October 1, 1969) by application filed September 12, 1969, as supplemented October 2, 1969, seeks authority under section 20a of the Interstate Commerce Act to issue its short-term unsecured promissory notes in the nature of commercial paper during a period ending September 30, 1974, in

aggregate total principal amount not exceeding $50 million at any one time outstanding. No objection to the application has been offered.

Applicant is a common carrier by railroad subject to part I of the Interstate Commerce Act. It was incorporated under the laws of the Commonwealth of Pennsylvania by special act dated April 13, 1846, and acts supplemental thereto, as The Pennsylvania Railroad Company and is the surviving company of a merger with The New York Central Railroad Company effective February 1, 1968. Applicant amended and restated its articles of incorporation on May 19, 1969. It operates or is authorized to do business in the States of Connecticut, Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, Massachusetts, Missouri, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Virginia, West Virginia, and in the District of Columbia.

Pursuant to resolutions of its board of directors adopted August 27, 1969, applicant proposes to borrow a presently undetermined total aggregate principal amount within a period ending September 30, 1974, from one or more banks and other lenders, and to issue and deliver in evidence thereof through Morgan Guaranty Trust Company of New York, New York, N.Y., as its issuing agent, short-term unsecured promissory notes in the nature of commercial paper, not in excess of $50 million at any one time outstanding. The notes would be dated as of the date of issue, would mature not more than 1 year from date of issue and would be issued at any time and from time to time during a period ending September 30, 1974, in any principal amount which is not less than $50,000, but in aggregate total principal amount not in excess of $50 million at any one time outstanding.

The commercial paper notes would be of two types, discount notes without interest, and nondiscount notes with interest. The discount rate or the interest rate would not exceed the highest prime rate of interest of leading commercial banks in New York City at the time of borrowing plus 1½ percent per annum. The notes would be unsecured and would be in the form set out in the application.

Although commercial paper notes are ordinarily drawn with a 270-day or less maturity, the commercial paper notes proposed to be issued by applicant will have a maturity as long as 1 year from date of issue. To this extent they will vary from the ordinary commercial paper notes.

Applicant has presently outstanding $150 million of commercial paper, consisting of $100 million authorized in Finance Docket No. 25179, on July 22, 1968, and $50 million authorized in Finance Docket No. 25570 on March 19, 1969, as modified on August 12, 1969. By second supplemental order dated September 25, 1969, in Finance Docket No. 25570, the order of March 19, 1969, was further modified so as to extend to December 31, 1970, the time within which applicant may issue the notes authorized therein. In addition, applicant has $250 million of revolving credit notes outstanding, which were authorized in Finance Docket No. 25622, on May 12, 1969. The details of these outstanding obligations are shown in appendix A.

The proceeds of the issue would be used (1) to reimburse applicant's treasury in part for past capital expenditures and matured obligations, and (2) to replenish its cash. Applicant furnished a listing of roadway and structure projects, each over $250,000 carried out in the period January 1, 1966, to August 31, 1969, which totaled $207,264,000. These, together with $90,936,000 of similar projects of less than $250,000 each indicate a total of $298,200,000 was expended for such projects during said period. Those projects together with capital expenditures for equipment during the same period amounting to $418,695,000, produce a grand total of $716,895,000 of expenditures for roadway and equipment during the period. The details of the equipment expenditures are summarized in appendix B.

Capitalizable assets as of June 30, 1969, excluding applicant's investments in affiliated companies and other investments, consisting of investments in road and equipment, less depreciation and amortization as of that date, amounting to $2,697,964,372, exceeded capitalization of $2,042,189,682, consisting of long-term debt due within 1 year $75,165,330, long-term debt due after 1 year $1,638,516,414, capital stock $241,092,700, and premiums and assessments on capital stock $87,415,238, by $655,774,690. As of June 30, 1969, applicant's current liabilities of $500,391,914 exceeded its current assets of $452,023,797 by $48,368,117.

Applicant has been subjected to fairly heavy capital expenditures and maturities in recent years. As previously indicated, the improvement program totaled $716,895,000 for the period 1966, 1967, 1968, and the first 8 months of 1969. Debt maturities were $320,700,000 making a total of debt maturities and capital expenditures of $1,037,595,000 during the period. Details of these items are set out in appendix C together with the financing means used during the period. Of the total amount, $828,875,000 was financed through equipment trusts, conditional sales agreements, stock options, revolving credit agreements, commercial paper, Eurodollar loan, and other financing mediums, leaving a balance of $208,720,000 not financed during the period.

According to the investment banking firm which usually handles applicant's commercial paper, unless market conditions change, there is a market for an additional $50 million of applicant's notes.

Issuance of commercial paper notes of a maturity of not more than 1 year apparently affords applicant access to a source of money at relatively favorable interest rates. Its commercial paper rate, exclusive of the ⅛ of 1 percent commission to the commercial paper dealer, at the present time ranges from 8¼ percent to 8⅝ percent per annum, whereas, the bank prime rate is 8½ percent per annum at the present time. However, applicant states that lending banks require borrowers to maintain compensating balances on deposit amounting to 15 to 20 percent of the borrowing from the bank and such requirements add to the cost of bank borrowing.

Since December 31, 1965, applicant has completed long-term financings of equipment in the amount of $332,400,000. In addition, in July 1969, The Pennsylvania Company, applicant's subsidiary, sold $35 million of long-term securities and contemplates the sale of an additional $40 million in the last quarter of the current year. Applicant alleges that it is currently intensively studying various alternatives for a long-term financing program in 1970. Market conditions, legal restrictions, cash requirements and other variables will reportedly determine applicant's decision relative to its 1970 financing program, but at present, applicant contemplates the inclusion of (a) a blanket mortgage or collateral trust, (b) additional issues of a subsidiary, and/or (c) the sale of assets.

Applicant feels that long-term financing at the present time is not feasible due to the tight money situation. Although we are sympathetic to applicant's problem, short-term financing has traditionally been relied upon to finance short-term needs and is not normally regarded as a proper source for long-term financing of capital expenditures or for refinancing of maturing long-term debt. As of June 30, 1969, applicant had a deficit working capital situation which can be expected to worsen if reliance on short-term financing is increased. The exhaustion of short-term credit to refinance maturing long-term debt or to finance long-term capital expenditures could expose a carrier to a serious crisis in the event of an economic squeeze, at which time a carrier may require short-term financing for traditional use. We are, therefore, concerned about the use of short-term financing for long-term purposes and feel that where necessary it should be resorted to cautiously.

On the whole applicant is in a strong financial condition and in view of the present tight money market and applicant's stated intent to negotiate long-term financing as soon as it is feasible, we conclude that the application should be approved, subject to a condition restricting the issuance of such notes to a period not exceeding 2 years from the date the order herein is served.

Subject to the aforesaid condition, we find that the proposed issue and sale by Penn Central Transportation Company of its short-term unsecured commercial paper promissory notes in principal amount not exceeding $50 million at any one time outstanding, as aforesaid, (a) is for lawful objects within its corporate purposes and compatible with the public interest, which are necessary and appropriate for and consistent with the proper performance by it of service to the public as a common carrier, and which will not impair its ability to perform that service, and (b) is reasonably necessary and appropriate for such purposes.

An appropriate order will be entered.

APPENDIX A

PENN CENTRAL CO. NOTE AUTHORITY AS OF OCT. 1, 1969

	Amount issued	Amount remaining to be issued	Amount outstanding
Finance docket No. 24634–July 17, 1967: PRR revolving credit notes.	$15,000,000	None	None. These notes were refunded and superseded by notes issued pursuant to Finance docket No. 25397.
Finance docket No. 25179—Aug. 15, 1967:			
Penn Central commercial paper	100,000,000	None	$100,000,000.
Penn Central promissory notes	50,000,000	$50,000,000. This authority is reserved to refund commercial paper.	None.
Finance docket No. 25397—Dec. 11, 1968: Penn Central revolving credit notes.	100,000,000	None	None. These notes were refunded and superseded by notes issued pursuant to Finance docket No. 25622.
Finance docket No. 25570—Mar. 20, 1969: Penn Central commercial paper.	50,000,000	None	$50,000,000.
Finance docket No. 25622—May 16, 1969: Penn Central revolving credit notes.	250,000,000	$50,000,000. This authority is reserved to refund commercial paper.	$250,000,000.
Penn Central term notes	None	$300,000,000. This authority is reserved to refund up to $300,000,000 of revolving credit notes.	None.

APPENDIX B

PENN CENTRAL CO. CAPITAL EXPENDITURES—EQUIPMENT FOR THE PERIOD JAN. 1, 1966, TO AUG. 31, 1969

[Amount in thousands]

Description	1966	1967	1968	1969
Locomotives	$27,586	$34,024	$2,836	$4,889
Freight train cars	138,865	62,730	93,900	23,719
Passenger train cars	11,778	1,067	4,086	822
Floating equipment	732	490	288	
Work equipment	4,118	828	3,036	299
Miscellaneous equipment	1,163	1,223	216	
Total	184,242	100,362	104,362	29,729
Total for the period				418,695

APPENDIX C

PENN CENTRAL CO.

	1966	1967	1968	1st 8 months 1969
Capital expenditures:				
Road	$76,933,000	$83,428,000	$86,839,000	$51,000,000
Equipment	184,243,000	100,326,000	104,361,000	30,000,000
Total capital expenditures	261,176,000	183,790,000	191,200,000	81,000,000
Maturities	73,800,000	76,800,000	113,900,000	56,200,000
Total capital expenditures and maturities	334,976,000	260,590,000	305,100,000	137,200,000
Financing:				
Equipment trusts	44,010,000	21,675,000		
Conditional sale agreements	102,651,000	58,837,000	74,270,000	31,000,000
Stock options	2,237,000	2,974,000	1,418,000	671,000
Revolving credit agreement			100,000,000	150,000,000
Eurodollar loan			50,000,000	
Commercial paper			100,000,000	50,000,000
Other	2,312,000	1,956,000	31,900,000	2,962,000
Total financing	151,212,000	85,442,000	357,588,000	234,633,000
Excess of expenditures over financing (cumulative)	183,764,000	358,912,000	306,424,000	208,720,000

ORDER

At a Session of the Interstate Commerce Commission, Division 3, held at its office in Washington, D.C., on the 29th day of October 1969.

FINANCE DOCKET No. 25854

PENN CENTRAL TRANSPORTATION COMPANY NOTES

Investigation of the matters and things involved in this proceeding having been made, and said division, on the date hereof, having made and filed a report containing its findings of fact and conclusions thereon, which report is hereby referred to and made a part hereof:

It is ordered, That, subject to the condition prescribed in said report, Penn Central Transportation Company (formerly the Penn Central Company), be and it is hereby, authorized to issue and sell not exceeding $50 million of its short-term unsecured commercial paper notes, at any one time outstanding, upon the terms and for the purposes stated in the report;

It is further ordered, That except as herein authorized, said notes shall not be sold, pledged, repledged, or otherwise disposed of by the applicant unless or until so ordered or approved by this Commission;

It is further ordered, That the applicant shall report concerning the matters herein involved in conformity with the order of the Commission, by division 3, dated May 20, 1964, as amended, respecting applications filed under section 20a of the Interstate Commerce Act (49 CFR 1115.6); and

It is further ordered, That nothing herein shall be construed to imply any guaranty or obligation as to said notes, or interest thereon, on the part of the United States.

By the Commission, division 3.

[SEAL]

H. NEIL GARSON,
Secretary.

Before the

INTERSTATE COMMERCE COMMISSION

Washington, D.C.

APPLICATION OF PENN CENTRAL COMPANY UNDER SECTION 20A OF THE INTERSTATE COMMERCE ACT FOR AUTHORITY TO ISSUE UP TO $50,000,000 OF COMMERCIAL PAPER NOTES.

FINANCE DOCKET NO.

In the Matter of Application of:

A. Penn Central Company, 1844 Transportation Center, Six Penn Center Plaza, Philadelphia, Pensylvania 19104.

B. Penn Central Company (hereinafter sometimes called "Applicant") is a common carrier by railroad.

C. Applicant seeks authority under section 20a of the Interstate Commerce Act to issue from time to time promissory notes in the nature of commercial paper in an aggregate principal amount not exceeding $50,000,000 at any one time outstanding.

D. Applicant operates, or is authorized to do business, in the States of Connecticut, Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, Massachusetts, Missouri, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Virginia, West Virginia and in the District of Columbia.

E. None.

F. The name, title and business address of the person to whom correspondence with respect to this application should be addressed is: Edwin K. Taylor, General Attorney, Penn Central Company, 1138 Six Penn Center Plaza, Philadelphia, Pa. 19104.

To the Interstate Commerce Commission, Washington, D.C.

The following statements and information are submitted by Applicant in support of the authority sought:

Item 1. General information respecting applicant.

(a) (1) Applicant was incorporated under the laws of the Commonwealth of Pennsylvania by special act dated April 13, 1846, and acts supplemental thereto as The Pennsylvania Railroad Company and is the surviving company of a merger with The New York Central Railroad Company effective February 1, 1968. Applicant amended and restated its articles of incorporation on May 19, 1969.

(2) Not applicable.

(3) Not applicable.

(b) (1) The articles of incorporation of Applicant, as amended and restated, and also Applicant's by-laws, were filed with the Commission in finance docket no. 25762.

(2) Not applicable.

(3) Not applicable.

Item 2. Financial statements.

(a) General balance sheet of Applicant as of June 30, 1969, the latest practicable date, is attached hereto as exhibit 1.

(b) Not applicable.

(c) Statement of income and retained income of Applicant for the first six months of 1969, the latest available period, is attached hereto as exhibit 2. Applicant's income and retained income statement for the year 1968 is on file with the Commission in its annual report.

Item 3. General description of the securities with respect to which the application is made.

(a) Not applicable.

(b) The terms of the securities proposed to be issued are as follows:

(1) The securities to be issued are unsecured promissory notes of Applicant. Commercial paper normally consists of promissory notes maturing in 270 days, or less. Since the proposed notes may have a maturity as long as one year from the date of their issue, they will, if maturing in more than 270 days, not fall within the standard definition of commercial paper.

(2) Not applicable. No indenture will be used.

(3) The total principal amount of notes to be issued during the period mentioned in (5) below may exceed $50,000,000; but not more than $50,000,000 principal amount of notes will be outstanding at any one time.

(4) The notes will be issued in any principal amount which is not less than $50,000.

(5) The notes will be dated the date of their issuance and may be issued at any time and from time to time. Applicant proposes that it be authorized to issue such notes during the period ending September 30, 1974.

(6) Two types of commercial paper notes are in general use; and authority is requested in this application to issue commercial paper notes of either or both types. The first type is sold at a discount and does not bear interest. The form of this type of note is attached hereto as exhibit 4–A. The second type of commercial paper note bears interest; and the form of this type of note is attached hereto as exhibit 4–B. Normally, the discount rate, or interest rate, as the case may be, is less than the prime rate of interest of commercial banks at the time of issuance; however, occasionally it has been somewhat higher. In view of the unusual money market conditions which presently exist, and in order to allow for sudden fluctuations in the discount rate or interest rate, Applicant desires to have authority to issue commercial paper notes at a discount rate, or interest rate, not in excess of the highest prime rate of interest charged by leading commercial banks in New York City at the time of borrowing, plus 1½% per annum.

(7) One type of commercial paper notes will not bear interest. The other type of commercial paper will bear interest payable at maturity.

(8) The notes will mature not more than one year from the date of their issue. New notes may be issued in place of maturing notes.

(9) Not applicable. No indenture will be used.

(c) The commercial paper notes will be in substantially the forms attached hereto as exhibit 4–A and exhibit 4–B.

Item 4. Purpose of the proposed issue or assumption and uses of proceeds.

(a)–(e) Not applicable.

(f) The proceeds of sale of the commercial paper notes will be used to reimburse the treasury of Applicant in part for past capital expenditures and matured debt obligations and to replenish its cash. As set forth in exhibit 5 attached hereto, Applicant's capital expenditures and debt maturities (exclusive of revolving credit notes and commercial paper, which are included in the sources of funds hereinafter referred to) amounted to $1,032,000,000 for the period from January 1, 1966 to August 31, 1969. $848,000,000 of the foregoing cash requirement has been provided as set forth in exhibit 5 hereto, leaving a balance of $184,000,000 which has not been financed.[1]

Item 5. The facts and circumstances on which applicant relies.

(a) Applicant is a corporation organized for the purpose of engaging in transportation as a carrier. The facts and circumstances on which Applicant relies to establish that the proposed issue, (1) is for some lawful object within its corporate purposes, and compatible with the public interest, which is necessary or appropriate for or consistent with the proper performance by Applicant of service to the public as a common carrier, and which will not impair its ability to perform that service, and (2) is reasonably necessary and appropriate for said purpose, are as follows:

Approval of this application will enable Applicant to obtain funds to reimburse Applicant's treasury in part for past capital expenditures and debt maturities and to replenish its treasury.

Applicant will, by issuing commercial paper notes of a maturity of not more than one year, find access to a source of money at relatively favorable interest rates. Applicant's commercial paper rates[2] (the discount rate on its commercial paper) at the present time range from 8¼% to 8⅝%. The bank prime rate of interest is 8½% per annum. In addition, lending banks require the borrower to maintain compensating balances amounting to 15%–20% of the borrowing from the bank. This requirement in effect adds to the cost of bank borrowings and makes such borrowings more expensive than commercial paper borrowing.

Issuance of bonds is not feasible at this time due to the weakness of the market for railroad bonds.

Under these circumstances, the issuance of Applicant's commercial paper notes is the best method available to it for borrowing money.

Applicant presently has outstanding $150,000,000 of commercial paper, consisting of $100,000,000 authorized in finance docket no. 25179 and $50,000,000 authorized in finance docket no. 25570. There is presently pending before the Commission a petition of Applicant to modify its order in finance docket 25570 to extend until December 31, 1970 the authority therein contained for issuance of commercial paper. As set forth in Applicant's application in finance docket 25179, $100,000,000 of its commercial paper is backed up by a $50,000,000 line of credit with a group of banks; and as set forth in Applicant's application in finance docket 25570, $50,000,000 of Applicant's commercial paper is backed up by banks' commitments under Applicant's credit agreement dated as of April 1, 1969.[3] Assuming the issuance of the commercial paper described in this Application, Applicant will have outstanding $200,000,000 of commercial paper backed up by loan commitments of banks in the amount of $100,000,000. Such loan commitments provide reasonable assurance that Applicant will be able to meet such of its commercial paper maturities as it may not be able to refund by new issues of commercial paper or by issuance of other securities or pay out of cash in its treasury.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

---

[1] The foregoing balance does not take into consideration $50,000,000 of credit notes remaining to be issued pursuant to Commission authorization in *Penn Central Company Notes*, finance docket 25622; but since such notes are earmarked to refund commercial paper which is included in arriving at the figure of $848,000,000, inclusion of such notes would not affect the foregoing figure.

[2] These rates do not include the ⅛ of 1% commission of the commercial paper dealer referred to in item 6 hereof.

[3] See *Penn Central Co. Notes*, f.d. no. 25622.

Item 6. Terms of sale or other disposition and estimate of expenses.

The commercial paper notes which do not bear interest will be sold to one or more commercial paper dealers who will purchase the notes at a rate of discount governed by the then current market conditions. The commercial paper notes which do bear interest will be sold by commercial paper dealers as agents for the Applicant. The discount in one case, and the rate of interest in the other case, will not exceed the commercial bank prime rate of interest plus 1½% per annum. However, it is expected that the discount or interest rate on the commercial paper notes will not exceed more than slightly, and usually will be less than, the bank prime rate of interest.

The commercial paper notes which do not bear interest will be resold by the dealer at a mark-up which will represent its gross profit. The dealer will incur the expenses of distribution. The interest bearing commercial paper notes will be sold at face amount, and Applicant will pay to the commercial paper dealer a commission of ⅛ of 1% of their face amount. The expenses of Applicant in connection with the sale, exclusive of discount, or the ⅛ of 1% commission, will be nominal.

Item 7. Contracts, underwritings, and other arrangements.

The commercial paper notes will be issued by Applicant through Morgan Guaranty Trust Company of New York, New York, as issuing agent. Such agent will, when notes are to be issued, complete them as to their terms, countersign them and deliver them against receipt of payment for them. Such notes will be payable at the offices of Morgan Guaranty Trust Company of New York. No compensation will be paid for this service. A copy of the agreement to be entered into with said agent is attached hereto as exhibit 6.

Item 8. Resolutions and other authorizations.

(a) Resolutions of the board of directors of Applicant authorizing the issuance of notes are attached hereto as exhibit 3.

(b) Not applicable. Stockholders' approval is not necessary.

(c) Resolutions of the board of directors of Applicant authorizing the filing of this application are included in exhibit 3 hereto.

(d) Not applicable.

(e) Not applicable.

Item 9. Opinion of counsel.

Opinion of Applicant's counsel that the issuance of its promissory notes proposed herein meets the requirements of the law as set forth in item 5 hereof and will be legally authorized and valid if approved by the Commission is attached hereto as exhibit 7.

Wherefore, Applicant requests the Commission to enter an order under section 20a of the Interstate Commerce Act authorizing the proposed issue by Applicant from time to time of promissory notes in the nature of commercial paper in an aggregate principal amount not exceeding $50,000,000 at any one time outstanding, as described in this application.

PENN CENTRAL COMPANY,
By J. H. SHAFFER,
Treasurer.

SEPTEMBER 11, 1969.
EDWARD A. KAIER,
EDWIN K. TAYLOR,
1138 Six Penn Center Plaza,
Philadelphia, Pa. 19104.
Counsel for Applicant.

COUNTY OF PHILADELPHIA,
STATE OF PENNSYLVANIA, SS.

J. H. Shaffer, being duly sworn, states that he is Treasurer of Penn Central Company; that he is authorized on the part of said Applicant to sign and file with the Interstate Commerce Commission this application and the exhibits attached thereto; that he has carefully examined all of the statements contained in such application and the exhibits attached thereto and made a part thereof; that he has knowledge of the matters set forth therein and that all such statements made and matters set forth therein are true and correct to the best of his knowledge, information and belief.

J. H. SHAFFER.

Subscribed and sworn to before me, a notary public in and for the state and county above named, this 11th day of September, 1969.

CHARLES E. CASSEL, JR.,
Notary Public, Philadelphia, Philadelphia Co.

My Commission Expires July 10, 1971.

LIST OF EXHIBITS TO THE APPLICATION

Exhibit 1: General balance sheet of Penn Central Company as of June 30, 1969.

Exhibit 2: Statement of income and retained income of Penn Central Company for the first six months of 1969.

Exhibit 3: Resolutions of the board of directors authorizing the issuance of $50,000,000 of notes; and the filing of this application with the Interstate Commerce Commission.

Exhibit 4–A: Form of short term notes (commercial paper).

Exhibit 4–B: Form of short term notes (commercial paper).

Exhibit 5: Capital expenditures, debt maturities and financing of Applicant.

Exhibit 6: Agency agreement with Morgan Guaranty Trust Company of New York.

Exhibit 7: Opinion of counsel for Applicant.

EXHIBIT 1.—*Penn Central Co. general balance sheet, June 30, 1969*

ASSETS

	Current assets:	
701	Cash	$50, 308, 245
702	Temporary cash investments	500
703	Special deposits	7, 052, 762
704	Loans and notes receivable	3, 954, 692
706	Net balance receivable from agents and conductors	88, 937, 480
707	Miscellaneous accounts receivable	56, 372, 128
708	Interest and dividends receivable	15, 894, 530
709	Accrued accounts receivable	135, 285, 816
710	Working fund advances	1, 419, 053
711	Prepayments	2, 246, 113
712	Material and supplies	83, 420, 406
713	Other current assets	7, 132, 072
	Total, current assets	452, 023, 797
	Special funds:	
715	Sinking funds	286, 112
716	Capital and other reserve funds (excludes company's issues $6,435,039)	5, 840, 049
717	Insurance and other funds	11, 762, 860
	Total, special funds	17, 889, 021
	Investments:	
721	Investments in affiliated companies	1, 153, 849, 338
722	Other investments	45, 916, 143
	Total, investments	1, 199, 765, 481
	Properties:	
731	Road and equipment property:	
	Road	1, 676, 184, 451
	Equipment	1, 711, 054, 105
	Other property accounts	(15, 443, 324)
	Total	3, 371, 795, 232

732	Improvements on leased property:	
	Road	$262, 117, 605
	Equipment	3, 579, 170
	General expenditures	4, 854, 626
		270, 551, 401
	Total, transportation property	3, 642, 346, 633
735	Accrued depreciation—Road and equipment	(901, 683, 316)
736	Amortization of defense projects—Road and equipment	(42, 698, 945)
	Recorded depreciation and amortization	(944, 382, 261)
	Total, transportation property less recorded depreciation and amortization	2, 697, 964, 372
737	Miscellaneous physical property	90, 175, 638
738	Accrued depreciation—Miscellaneous physical property	(40, 559, 660)
	Miscellaneous physical property less recorded depreciation	49, 615, 978
	Total, properties less recorded depreciation and amortization	2, 747, 580, 350
	Other assets and deferred charges:	
741	Other assets	28, 543, 134
742	Unamortized discount on long-term debt	1, 450, 520
743	Other deferred charges	243, 091, 065
	Total, other assets and deferred charges	273, 084, 719
	Total, assets	4, 690, 343, 368

LIABILITIES AND SHAREHOLDERS' EQUITY

	Current liabilities:	
751	Loans and notes payable	120, 619, 537
752	Traffic and car service balances—Credit	2, 153, 359
753	Audited accounts and wages payable	47, 404, 958
754	Miscellaneous accounts payable	23, 739, 114
755	Interest matured unpaid	7, 303, 038
756	Dividends matured unpaid	27, 920
757	Unmatured interest accrued	13, 962, 597
758	Unmatured dividends declared	14, 675, 112
759	Accrued accounts payable	223, 284, 755
760	Federal income taxes accrued	516, 750
761	Other taxes accrued	33, 423, 852
763	Other current liabilities	13, 280, 922
	Total liabilities	500, 391, 914
	Long-term debt due within 1 year:	
764	Equipment obligations and other debt	75, 165, 330
	Long-term debt due after 1 year:	
765	Funded debt unmatured:	
	Total issued	1, 314, 832, 217
	Held by or for company	292, 049, 450
	Total	1, 022, 782, 767
766	Equipment obligations:	
	Total issued	479, 125, 157
	Held by or for company	4, 619, 578
	Total	474, 505, 579

769	Amounts payable to affiliated companies	$141, 228, 068
	Total, long-term debt due after 1 year	1, 638, 516, 414
	Reserves:	
771	Pension and welfare reserves	7, 102, 063
772	Insurance reserves	17, 435, 754
774	Casualty and other reserves	167, 529, 835
	Total, reserves	192, 067, 652
	Other liabilities and deferred credits:	
782	Other liabilities	29, 358, 712
783	Unamortized premium on long-term debt	79, 576
784	Other deferred credits	76, 956, 925
785	Accrued depreciation—Leased property	181, 294, 614
	Total, other liabilities and deferred credits	287, 689, 827
	Shareholders' equity:	
791	Capital stock issued	241, 092, 700
	Capital surplus:	
794	Premiums and assessments on capital stock	87, 415, 238
795	Paid-in surplus	1, 002, 372, 913
	Total, capital surplus	1, 089, 788, 151
	Retained income:	
797	Retained income—Appropriated	850, 000
798	Retained income—Unappropriated	664, 781, 380
	Total, retained income	665, 631, 380
	Total, shareholders' equity	1, 996, 512, 231
	Total, liabilities and shareholders' equity	4, 690, 343, 368

EXHIBIT 2.—*Penn Central Co. income accounts and statement of retained income—unappropriated for the 6 months ended June 30, 1969*

ORDINARY ITEMS

	Railway operating income:	
501	Railway operating revenues	$823, 902, 167
531	Railway operating expenses	688, 095, 082
	Net revenue from railway operations	135, 807, 085
532	Railway tax accruals	57, 555, 581
	Railway operating income	78, 251, 504
	Rent income:	
504	Rent from locomotives	303, 897
505	Rent from passenger train cars	291, 828
506	Rent from floating equipment	13, 225
507	Rent from work equipment	32, 418
508	Joint facility rent income	3, 577, 582
	Total, rent income	4, 218, 950
	Rents payable:	
536	Hire of freight cars—Debit balance	77, 449, 401
537	Rent for locomotives	10, 543, 625
538	Rent for passenger train cars	5, 614, 749

539	Rent for floating equipment	$144, 401
540	Rent for work equipment	81, 785
541	Joint facility rents	6, 222, 248
	Total, rents payable	100, 056, 209
	Net, rents	(95, 837, 259)
	Net, railway operating income	(17, 585, 755)
	Other income:	
502	Revenue from miscellaneous operations	127, 693
509	Income from lease of road and equipment	138, 622
510	Miscellaneous rent income	5, 713, 353
511	Income from nonoperating property	11, 439, 299
512	Separately operated properties—Profit	3, 687
513	Dividend income	33, 963, 939
514	Interest income	1, 917, 019
516	Income from sinking and other reserve funds	351, 963
517	Release of premiums on funded debt	2, 567
519	Miscellaneous income	4, 710, 330
	Total, other income	58, 368, 472
	Total income	40, 782, 717
	Miscellaneous deductions from income:	
534	Expenses of miscellaneous operations	21, 162
535	Taxes on miscellaneous operating property	27, 607
543	Miscellaneous rents	507, 197
544	Miscellaneous tax accruals	745, 198
545	Separately operated properties—Loss	1, 889, 993
549	Maintenance of investment organization	696, 564
550	Income transferred to other companies	160, 912
551	Miscellaneous income charges	1, 504, 920
	Total, miscellaneous deductions	5, 553, 553
	Income available for fixed charges	35, 229, 164
	Fixed charges:	
542	Rent for leased roads and equipment	13, 092, 873
546	Interest on funded debt; fixed interest not in default	39, 089, 018
547	Interest on unfunded debt	3, 885, 704
548	Amortization of discount on funded debt	180, 395
	Total, fixed charges	56, 247, 990
	Balance of income transferred to retained income—unappropriated	(21, 018, 826)
	Retained income—unappropriated:	
601	Credit balance at beginning of year	728, 624, 581
622	Appropriations released	572, 000
	Total	729, 196, 581
612	Debit balance transferred from income	21, 018, 826
623	Dividends	43, 396, 375
	Total	64, 415, 201
	Credit balance at end of period	664, 781, 380

EXHIBIT 3

PENN CENTRAL COMPANY,
OFFICE OF THE SECRETARY,
General Office, Philadelphia.

I hereby certify that the following is a true and correct copy, from the minutes, of action taken at a meeting of the Board of Directors of Penn Central Company, held at the General Office of the Company in the City of New York, on August 27th, 1969:

Resolved that the Chairman of the Board, the President, the Chairman of the Finance Committee, any Vice President, the Treasurer or any Assistant Vice President is authorized, in the name and on behalf of the Company, from time to time to execute, either manually or by facsimile signature, and to deliver short term promissory notes of the Company (herein called "commercial paper") of any maturity or maturities of not more than twelve months from the date of issuance thereof and in any principal amount or amounts, provided that the aggregate principal amount of such commercial paper at any one time outstanding shall not exceed $50,000,000., said notes to be sold at such discounts (or to bear such interest rate or rates) not in excess of one and one half per cent over the prime rate at the time of their issuance, to be in such forms, to bear such maturity dates, and to be issued in such amounts (subject to the foregoing limitations), as may be approved by the officer executing the same, the execution of any commercial paper by any of the foregoing officers to be conclusive evidence of his approval thereof; and that the authority hereby granted to execute and deliver commercial paper shall expire on September 30th, 1974.

Resolved that the foregoing officers, or any of them, are authorized, from time to time in the name and on behalf of the Company, (1) to execute and deliver agreements with one or more banks or trust companies in New York, New York, or Philadelphia, Pennsylvania, or both, providing for the safekeeping, completion, countersignature and/or delivery of the above authorized commercial paper, and (2) to execute and deliver agreements with such persons, firms or corporations as may be appropriate for the sale of the above-authorized commercial paper, said agreements to be in such forms and to contain such terms and provisions as may be approved by the officer executing the same, such execution by said officer to be conclusive evidence of his approval thereof.

Resolved that Stuart T. Saunders, Chairman of the Board, A. E. Perlman, President, David C. Bevan, Chairman of the Finance Committee, Jonathan O'Herron, Vice President, J. H. Shaffer, Treasurer, J. E. Dermond, Assistant Vice President or R. W. Loder, Assistant Vice President, is authorized to sign, verify and file from time to time, in the name and on behalf of the Company, such petitions or applications to the Interstate Commerce Commission, or to any other governmental agency or commission, if any, as may be necessary or appropriate to effectuate the issue or sale of the above-authorized commercial paper.

Resolved that the foregoing officers, and other appropriate officers of the Company, are severally authorized, in the name and on behalf of the Company and under its corporate seal or otherwise, to execute and deliver, or to cause to be executed and delivered, any and all instruments, contracts, agreements, documents and papers, including supplements and amendments, and to do or to cause to be done all such acts and things, including the payment of the costs and expenses of the issuance and sale of such commercial paper, as may be necessary or appropriate to effectuate any borrowings by the issuance of commercial paper, and including the making of any changes in the terms and conditions hereinbefore authorized for the issue and sale of commercial paper by the Company which may from time to time be required by the Interstate Commerce Commission.

W. A. HARING,
Assistant Secretary.

SEPTEMBER 10, 1969.

Exhibit 4–A

(Form of Commercial Paper Notes)

PENN CENTRAL COMPANY

Philadelphia, Pennsylvania

$_____ No._____
Date_____

On _____, Penn Central Company promises to pay to the order of _____ Dollars Payable at Morgan Guaranty Trust Company of New York, 23 Wall Street, New York, N.Y. Value received. Not valid unless countersigned by Morgan Guaranty Trust Company of New York, as issuing agent.

PENN CENTRAL COMPANY,

Countersigned for authentication only: By_____
(Authorized Signature)

Morgan Guaranty Trust Company of New York, as issuing agent,

By _____
(Authorized Signature)

Exhibit 4–B

(Form of Commercial Paper Notes)

PENN CENTRAL COMPANY

Philadelphia, Pennsylvania

$_____ Date_____

For value received, Penn Central Company promises to pay to the order of _____

Dollars with interest of $_____, $_____.

Payable at Morgan Guaranty Trust Company of New York, 23 Wall Street, New York, N.Y. Not valid unless countersigned by Morgan Guaranty Trust Company, of New York, as issuing agent.

Countersigned for authentication only: PENN CENTRAL COMPANY,
By_____
(Authorized Signature)

Morgan Guaranty Trust Company of New York, as issuing agent,

By_____
(Authorized Signature)

EXHIBIT 5.—PENN CENTRAL CO.

	1966	1967	1968	1st 8 months 1969
Capital expenditures:				
Road	$76,933,000	$83,428,000	$86,839,000	$51,000,000
Equipment	184,243,000	100,362,000	104,361,000	30,000,000
Total, capital expenditures	261,176,000	183,790,000	191,200,000	81,000,000
Maturities	72,900,000	76,800,000	113,900,000	51,200,000
Total, capital expenditures and maturities	334,076,000	260,590,000	305,100,000	132,200,000
Financing:				
Equipment trusts	44,010,000	21,675,000	4,800,000	
Conditional sale agreements	102,652,000	58,837,000	93,200,000	26,000,000
Stock options	2,237,000	2,974,000	1,418,000	671,000
Revolving credit agreement			100,000,000	150,000,000
Eurodollar loan			50,000,000	
Commercial paper			100,000,000	50,000,000
Other	2,312,000	1,956,000	31,900,000	2,962,000
Total, financing	151,211,000	85,442,000	381,318,000	229,633,000
Excess of expenditures over financing (cumulative)	182,865,000	358,013,000	281,795,000	184,362,000

EXHIBIT 6

PENN CENTRAL,
SIX PENN CENTER,
Philadelphia, Pa.

Morgan Guaranty Trust Co. of New York,
23 Wall Street,
New York, N.Y.

DEAR SIRS: We hereby request you to act, on the following terms and conditions, as the depository for those promissory notes of this corporation which we deliver to you from time to time hereunder.

1. When the notes are delivered to you, they will be in bearer form but the amount, date of issue, place of payment and maturity date will be blank and each note will have been signed in the name and on behalf of this corporation by at least one of our following named officers:

2. Upon receipt of telephone or written instructions from any one of the officers named above, or from any other person authorized in writing by any one of said officers to give such instructions, you are to withdraw the necessary note(s) from safekeeping and in accordance with the instructions given you are to,

(a) complete each note as to amount, date of issue, maturity date, place of payment and amount of interest if it is an interest bearing note; and

(b) countersign each note by any one of your officers or employees designated by you for that purpose; and

(c) deliver the note(s) to the designated consignee(s) against receipt of payment or as otherwise specified in such instructions. If you are instructed to deliver a note by mail, you are, unless otherwise directed, to strike the word "Bearer," insert as payee the name of the purchaser's bank of deposit (of which we shall advise you) and then effect delivery by registered mail, uninsured.

You shall incur no liability to us in acting upon telephone instructions which the recipient thereof believed in good faith to have been given by an authorized person.

Funds received in payment for the notes are to be credited to our account on your books. All notes payable at your office and presented for payment at maturity are to be paid by you and charged to our account.

We understand that when you are instructed to deliver a note against payment, the delivery and the receipt of payment are not completed simultaneously. You advise that pursuant to the custom prevailing in your commercial paper market, you deliver the note at the purchaser's office and take back the purchaser's receipt for the delivery. Later the same day and after the purchaser has verified the delivery against his contracts, payment to you is then effected by a credit to your account at the Federal Reserve Bank of New York or by the delivery to you of a check payable to your order drawn by another member bank on such Federal Reserve Bank or by a check drawn by the purchaser on you and payable to your order. If payment is made by check your messenger picks up the check at the purchaser's office and if it is drawn on you it is entered for certification in Federal Funds. However, the check is not certified until the purchaser has obtained and made available to you Federal Funds to cover the certification and you advise that such Funds may not be made available to you until late in the day. In the event we instruct you to transfer the proceeds of a sale to another bank, we understand that the transfer is made by wire in Federal Funds through the Federal Reserve Bank of New York and must be effected prior to a certain time of day depending on the destination of the funds. In order to meet the deadline for wire transfers and to assure the availability of the funds to us on the date of delivery of the note to the purchaser, you advise that it is often necessary for you to effect the transfer prior to the receipt by you of the proceeds of the sale. Accordingly, if you make such a transfer of funds before you receive the proceeds of the sale in immediately available funds, it is understood that such transfer shall represent an advance by you to us to be repaid from the proceeds of sale or by us in the event such proceeds are not received by you.

All communications, by telephone or otherwise, relating to the completion, delivery or payment of the notes are to be directed to your Loan Department.

Any of the foregoing instructions given to you by telephone will be confirmed the same day by us in writing signed by at least one of those persons authorized to give you instructions as above provided. You have advised us that the individuals in your Loan Department who will administer this arrangement, are L. A. Martella, E. McGill, F. Teague and D. Dick. We shall send additional supplies of notes when required to your *Loan Department* and for purposes of your internal control a copy of our letter of transmittal will be sent under separate cover to your *Auditing Department.*

This agreement may be terminated at any time by either of us by written notice to the other but such termination shall not affect our respective liabilities hereunder arising prior to such termination.

If this proposed arrangement is acceptable to you, will you please execute the acceptance on the attached copy of this letter and return it to us.

EXHIBIT 7

PENN CENTRAL COMPANY,
1138 Six Penn Center Plaza,
Philadelphia, Pa., September 11, 1969.

THE INTERSTATE COMMERCE COMMISSSION,
Washington, D.C.

DEAR SIRS: I have examined the accompanying application of Penn Central Company for authority to issue commercial paper type promissory notes in a principal amount not exceeding $50,000,000 at any one time outstanding. I am of the opinion that the issuance of such notes as proposed in the foregoing application:

a. is for a lawful object within the corporate purposes of Penn Central Company and compatible with the public interest, which is necessary or appropriate for or consistent with the proper performance by such carrier of service to the public as a common carrier and which will not impair its ability to perform that service;

b. is reasonably necessary and appropriate for such purposes; and

c. will be legally authorized and valid if approved by the Commission.

Very truly yours,

EDWIN K. TAYLOR,
General Attorney.

CERTIFICATE OF SERVICE

Edwin K. Taylor hereby certifies that upon the 12th day of September, 1969, a copy of the foregoing application was mailed to the Governor of each State in which the Applicant operates or is authorized to do business as follows:

Copies were mailed to the Governors of the following states: Connecticut, Delaware, Illinois, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Missouri, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Virginia and West Virginia.

The Governor of each such state has been advised that if it is desired to make any representations or to be heard in the matter, he or other appropriate authority of his state should notify the Commission within fifteen days.

PENN CENTRAL,
Philadelphia, Pa., October 21, 1969.

Re: I.C.C. Finance Docket No. 25854—Application of Penn Central Company under section 20a of the Interstate Commerce Act for authority to issue up to $50,000,000 of commercial paper notes.

HON. H. NEIL GARSON,
Secretary, Interstates Commerce Commission,
Washington, D.C.

DEAR MR. GARSON: Subsequent to the filing of the above application with the Interstate Commerce Commission on September 12, 1969, the applicant, Penn Central Company, changed its name to Penn Central Transportation Company. Such change of name was effective on October 1, 1969, and any order issued in the case should refer to the new name of the applicant.

There is attached to this letter for filing with the Interstate Commerce Commission in Finance Docket 25854 a copy of the articles of merger and certificate of merger filed in the Office of the Secretary of the Commonwealth of Pennsylvania and certified by such office. This document evidences the change in the corporate name of Penn Central Company to Penn Central Transportation Company.

Sincerely yours,

EDWIN K. TAYLOR,
General Attorney—Corporate and Finance.

ARTICLES OF MERGER OF PENN CENTRAL COMPANY, A PENNSYLVANIA CORPORATION AND PCT COMPANY, A PENNSYLVANIA CORPORATION

To: DEPARTMENT OF STATE,
Commonwealth of Pennsylvania.

Pursuant to Section 903 of the Pennsylvania Business Corporation Law, Act of May 5, 1933, P.L. 364, Penn Central Company, a Pennsylvania corporation, and PCT Company, a Pennsylvania corporation, do hereby execute these Articles of Merger:

1. The surviving corporation shall be Penn Central Company, a Pennsylvania corporation, whose name shall be changed upon the effectiveness of the merger to Penn Central Transportation Company, and the registered office of Penn Central Transportation Company is Six Penn Center Plaza, Philadelphia, Pennsylvania 19104.

2. The other party to the merger is PCT Company, a Pennsylvania corporation with its registered office at Six Penn Center Plaza, Philadelphia, Pennsylvania 19104.

3. Pursuant to resolutions adopted by the Boards of Directors of Penn Central Company and PCT Company, the Plan of Merger, referred to in paragraph 4 below, was submitted to stockholders of the respective corporartions for their approval and adoption. At a meeting of stockholders of Penn Central Company held on May 13, 1969, holders of more than a majority of the issued and outstanding shares of capital stock of Penn Central Company approved and adopted the Plan of Merger in accordance with Section 902 of the Business Corporation Law of Pennsylvania. By informal action dated May 14, 1969, the sole stockholder of PCT Company approved and adopted the Plan of Merger in accordance with Section 902 of the Business Corporation Law of Pennsylvania.

4. The Plan of Merger dated May 15, 1969, between Penn Central Company and PCT Company is attached hereto and incorporated herein by reference.

5. The Plan of Merger shall become effective at 12:01 A.M. on October 1, 1969.

In witness whereof, the parties to the Plan of Merger have caused these Articles of Merger to be executed under the seal of each corporation and signed by two duly authorized officers of each corporation this 24th day of September, 1969.

PLAN OF MERGER AND REORGANIZATION

This is a plan of merger and reorganization, dated May 15, 1969 between PCT COMPANY ("PCT") and PENN CENTRAL COMPANY ("Railroad"), both Pennsylvania corporations, and is joined in by PENN CENTRAL HOLDING COMPANY ("Holding Company"), a Pennsylvania corporation, to evidence, in consideration of its rights under this Plan, its agreement to the issue and exchange of its stock and its other obligations under the terms of this Plan.

The Boards of Directors of PCT, Railroad and Holding Company deem this Plan to be in the best interests of their respective corporations and stockholders and have duly approved its execution.

Accordingly, PCT, Railroad and Holding Company agree as follows:

1. *Method and Effect of Merger; Effective Date*—PCT will merge into Railroad pursuant to the provisions of the Pennsylvania Business Corporation Law on the terms and subject to the conditions and requirements hereinafter stated. Without any limitation on the effect of the merger as provided by law, all the rights, powers, privileges, immunities, franchises and property, real, personal and mixed of PCT will, without further act or deed, be transferred to and vested in Railroad which will be the surviving corporation in the merger.

Railroad will thenceforth be responsible for all of the liabilities and obligations of PCT. The merger will take effect on the date and at the time provided in articles of merger filed in the office of the Secretary of the Commonwealth of Pennsylvania ("Effective Date").

2. *Conversion of Shares Through Exchange; Record Holders; Option and Purchase Rights*—

(a) The manner by which this Plan will convert the shares of each of the corporations which are parties thereto will be through the exchange of shares provided for herein.

(b) The holders of the shares of stock of PCT and Railroad, respectively, will, by reason of the merger, receive in exchange for such shares the following:

(i) each holder of record of outstanding shares of capital stock of Railroad on the Effective Date will receive in exchange therefor the same number of shares of common stock of Holding Company;

(ii) Holding Company, as the holder of all of the outstanding stock of PCT on the Effective Date, will receive in exchange therefor all of the outstanding shares of capital stock of Railroad on the Effective Date; and

(iii) all shares of outstanding stock of PCT will cease to exist on the Effective Date and Holding Company as the holder of such shares will not be entitled to any consideration in respect thereof other than the outstanding shares of Railroad; provided, however, that Railroad shall reimburse Holding Company in the full amount of the investment made by Holding Company in stock of PCT.

(c) No other stock, securities, cash or property will be allocated to stockholders of PCT, Railroad or Holding Company or to any other person, firm or corporation by reason of the merger in respect of stock held prior to the merger.

(d) Prior to the Effective Date, PCT will not issue or dispose of additional shares of stock other than to Holding Company and Holding Company will not transfer or otherwise dispose of any stock of PCT other than to PCT.

(e) By reason of the exchange of capital stock of Railroad for common stock of Holding Company effected by the merger, each holder of record of outstanding shares of capital stock of Railroad on the Effective Date will, without further action, become the holder of record on that date of the same number of shares of common stock of Holding Company and Holding Company will, without further action, become the holder of record on that date of all of the shares of capital stock of Railroad outstanding on the Effective Date. The records of Railroad with respect to the registered holders of its capital stock outstanding immediately prior to the merger will on the Effective Date become the stock ledger of Holding Company with respect to the shares of common stock of Holding Company exchanged therefor.

(f) On the Effective Date, options and agreements to purchase shares of capital stock of Railroad shall be converted in the merger and reorganization into options and agreements to purchase from time to time on and after the Effective Date, and subject to the terms and conditions of such options or agreements, the same number of shares of common stock of Holding Company as the number of shares of capital stock of Railroad which were then subject to purchase from time to time under such options and agreements.

(g) In the event that the Effective Date occurs after the declaration by Railroad of a dividend on its capital stock but prior to the payment date thereof, Railroad will pay on such payment date the amount of such dividend to the holders of record of Railroad entitled thereto as of the record date of Railroad for the payment of such dividend if such record date is prior to the Effective Date. If such record date occurs on or after the Effective Date, it will be the intention of the board of directors of Holding Company to pay to the holders of record of its common stock at the close of business on the same date as the record date of Railroad a dividend in the same amount per share as the dividend declared by Railroad.

3. *Exchange of Share Certificates*—

(a) Outstanding certificates representing shares of capital stock of Railroad may but need not be exchanged by the holders thereof, after the Effective Date, for new certificates for the appropriate number of shares bearing the name of Holding Company. Until so exchanged, each certificate nominally representing shares of capital stock of Railroad will be deemed for all corporate

purposes, after the Effective Date, to evidence ownership of the same number of shares of common stock of Holding Company.

(b) On the Effective Date, Railroad will deliver to Holding Company a certificate evidencing the aggregate number of shares of capital stock of Railroad outstanding on that date which have been received by Holding Company in the exchange for its common stock effected by the merger.

4. *Concerning Railroad*—

(a) On the Effective Date the articles of incorporation of Railroad will be amended to change its name to "Penn Central Transportation Company."

(b) The By-laws of Railroad in effect on the Effective Date will continue to be its By-laws until changed pursuant to law.

(c) The directors of Railroad on the Effective Date will continue as its directors for their respective terms of office and until their successors have been elected and qualified pursuant to law.

5. *Concerning Holding Company*—

(a) The articles of incorporation of Holding Company are set forth in Exhibit 1. annexed hereto and, on the Effective Date, will be amended to change its name to "Penn Central Company."

(b) The By-laws of Holding Company in effect on the Effective Date will continue to be its By-laws until changed pursuant to law.

(c) The directors of Holding Company on the Effective Date will continue as its directors for their respective terms of office and until their successors have been elected and qualified pursuant to law.

6. *Conditions to Plan; Selection of Effective Date*—

(a) The consummation of this Plan will be subject to the conditions that:

(i) this Plan will have been approved by the shareholders of Railroad, PCT and Holding Company respectively;

(ii) Railroad will have received a ruling, satisfactory to it and its counsel, from Internal Revenue Service, or an opinion of counsel satisfactory to it, to the effect that neither gain nor loss will be recognized for Federal income tax purposes to Railroad, PCT, Holding Company or the shareholders of Railroad by reason of the consummation of this Plan and as to such other matters as Railroad may deem advisable; and

(iii) It will have been determined, by appropriate proceedings it deemed advisable, that no regulatory approval or authorization is required for consummation of this Plan or that all regulatory approvals and authorizations that may be found necessary have been obtained.

(b) If all of the conditions to this Plan have been satisfied, the Effective Date will be selected by the boards of directors of PCT and Railroad.

7. *Termination of Plan*—At any time prior to the Effective Date, this Plan may be terminated for any reason by a majority vote of the boards of directors of Railroad, PCT and Holding Company, respectively.

8. *Modification of Plan*—At any time and from time to time prior to the Effective Date, this Plan, if not previously terminated, may be amended or supplemented in any manner by a majority vote of the board of directors of each of Railroad, PCT and Holding Company, except that no change may be made in the share-for-share exchange ratio provided in this Plan without approval thereof by the shareholders of Railroad, PCT and Holding Company, respectively.

COMMONWEALTH OF PENNSYLVANIA

DEPARTMENT OF STATE CORPORATION BUREAU

Articles of Incorporation

In compliance with the requirements of the Business Corporation Law, approved the 5th day of May, A.D. 1933, P.L. 364, as amended, the undersigned, all of whom are of full age desiring that they may be incorporated as a business corporation, do hereby certify:

FIRST. The name of the corporation is Penn Central Holding Company.

SECOND. The location and post office address of its initial registered office in this Commonwealth is Transportation Center, Six Penn Center Plaza, Philadelphia County, Philadelphia 19104.

THIRD. The purpose or purposes of the corporation which shall be organized under this Act are to have unlimited power to engage in and to do any

lawful act concerning any or all lawful business for which business corporations may be incorporated, including but not limited to manufacturing, processing, research and development.

FOURTH. The term of its existence is perpetual.

FIFTH. The aggregate number of shares which the corporation shall have authority to issue is 125,000,000 shares, divided into two classes consisting of 25,000,000 shares of Preference Stock without par value (hereafter called "Preference Stock") and 100,000,000 shares of Common Stock without par value (hereafter called "Common Stock").

Preference Stock

1. *Issue in Series.* Preference Stock may be issued from time to time in one or more series, each such series to have the terms stated herein and in the resolution of the board of directors providing for its issue. All shares of any one series of Preference Stock shall be identical, but shares of different series of Preference Stock need not be identical or rank equally except insofar as provided by law or herein.

2. *Creation of Series.* The board of directors shall have authority by resolution to cause to be created one or more series of Preference Stock, and to determine and fix with respect to each series prior to the issuance of any shares of the series to which such resolution relates:

(a) The distinctive designation of the series and the number of shares which shall constitute the series, which number may be increased or decreased (but not below the number of shares then outstanding) from time to time by action of the board of directors;

(b) The dividend rate and the times of payment of dividends on the shares of the series, whether dividends shall be cumulative, and, if so, from what date or dates;

(c) The price or prices at which, and the terms and conditions on which, the shares of the series may be redeemed at the option of the corporation;

(d) Whether or not the shares of the series shall be entitled to the benefit of a retirement or sinking fund to be applied to the purchase or redemption of such shares and, if so entitled, the amount of such fund and the terms and provisions relative to the operation thereof;

(e) Whether or not the shares of the series shall be convertible into, or exchangeable for, any other shares of stock of the corporation or other securities, and if so convertible or exchangeable, the conversion price or prices, or the rates of exchange, and any adjustments thereof, at which such conversion or exchange may be made, and any other terms and conditions of such conversion or exchange;

(f) The rights of the shares of the series in the event of voluntary or involuntary liquidation, dissolution or winding up of the corporation;

(g) Whether or not the shares of the series shall have priority over or parity with or be junior to the shares of any other series or class in any respect or shall be entitled to the benefit of limitations restricting the issuance of shares of any other series or class having priority over or being on a parity with the shares of such series in any respect, or restricting the payment of dividends on or the making of other distributions in respect of shares of any other series or class ranking junior to the shares of the series as to dividends or assets, or restricting the purchase or redemption of the shares of any such junior series or class, and the terms of any such restriction, or any other restriction with respect to shares of any other series or class ranking junior to the shares of the series in any respect;

(h) Whether the series shall have voting rights, in addition to any voting rights provided by law, and if so, the terms of such voting rights; and

(i) Any other preferences, qualifications, privileges, options and other relative or special rights and limitations of that series.

3. *Preference on Liquidation.* In the event of the voluntary or involuntary liquidation, dissolution or winding up of the corporation, holders of each series of Preference Stock shall be entitled to receive the amount fixed for such series plus, in the case of any series on which dividends shall have been determined by the board of directors to be cumulative, an amount equal to all dividends accumulated and unpaid thereon to the date of final distribution whether or not earned or declared. If the assets of the corporation are not

sufficient to pay such amounts in full, holders of all shares of Preference Stock shall participate in the distribution of assets ratably in proportion to the full amounts to which they are entitled or in such order of priority if any, as shall have been fixed in the resolution or resolutions providing for the issue of series of Preference Stock. Neither the merger nor consolidation of the corporation into or with any other corporation, nor a sale, transfer or lease of all or part of its assets, shall be deemed a liquidation, dissolution or winding up of the corporation within the meaning of this paragraph.

4. *Redemption.* The corporation at the option of the board of directors may redeem all or part of the shares of any series of Preference Stock on the terms and conditions fixed for such series. In case of the redemption of less than all outstanding shares of any series of Preference Stock, the shares to be redeemed shall be selected by lot or in such other manner as the board of directors determines.

5. *Voting Rights.* Except as otherwise required by law or as otherwise determined by the board of directors as to the shares of any series of Preference Stock prior to the issuance of any such shares, the holders of Preference Stock shall have no voting rights and shall not be entitled to any notice of any meeting of shareholders.

Common Stock

6. *Dividends.* Holders of Common Stock shall be entitled to receive such dividends as may be declared by the board of directors, except that the corporation will not declare, pay or set apart for payment any dividend on shares of Common Stock (other than dividends payable in Common Stock), or directly or indirectly make any distribution on, redeem, purchase or otherwise acquire any such shares, if at the time of such action the corporation is in default with respect to any dividend due and payable on or any sinking or purchase fund requirement relating to any shares of Preference Stock, provided that the provisions of this paragraph shall not prevent the payment of any dividend within sixty days after the declaration thereof if such declaration, when made, complied with the provisions hereof.

7. *Distribution of Assets.* In the event of the voluntary or involuntary liquidation, dissolution or winding up of the corporation, holders of Common Stock shall be entitled to receive pro rata all of the remaining assets of the corporation available for distribution to its shareholders after all amounts to which the holders of Preference Stock are entitled have been paid or set aside in cash for payment.

8. *Voting Rights.* Holders of Common Stock shall have general rights to vote for all purposes, as provided by law.

SIXTH. The Corporation may indemnify each director, officer, employee or agent of the corporation and each person who is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, to the extent permitted by law, as may be provided in the bylaws of the corporation as the same may be amended from time to time.

SEVENTH. The names and addresses of each of the first directors, who shall serve until the first annual meeting, are: Stuart T. Saunders, Six Penn Center Plaza, Phila., Pa. 19104; Alfred E. Perlman, Room 3201, 230 Park Ave., New York, N.Y. 10017; and David C. Bevan, Six Penn Center Plaza, Phila., Pa.19104.

EIGHTH. The names and addresses of each of the incorporators and the number and class of shares subscribed by each are: Stuart T. Saunders, Six Penn Center Plaza, Phila., Pa. 19104, 1 share—Common; Alfred E. Perlman, Room 3201, 230 Park Ave., New York, N.Y. 10017, 1 share—Common; and David C. Bevan, Six Penn Center Plaza, Phila., Pa. 19104, 1 share—Common.

IN TESTIMONY WHEREOF, the incorporators have signed and sealed these Articles of Incorporation this 26 day of March, 1969.

[SEAL] STUART T. SAUNDERS
[SEAL] ALFRED E. PERLMAN
[SEAL] DAVID C. BEVAN

Approved and filed in the Department of State on the 1st day of April A.D. 1969.

JOSEPH J. KELLEY, Jr.,
Secretary of the Commonwealth.

Filed in the Department of State on the 1st day of October, A.D. 1969.

COMMONWEALTH OF PENNSYLVANIA

To All To Whom These Presents Shall Come, Greeting:

Whereas, under the terms of the Business Corporation Law, approved May 5, 1933, P. L. 364, as amended, the Department of State is authorized and required to issue a

CERTIFICATE OF MERGER

evidencing the merger of one or more corporations into one of such corporations under the provisions of that law:

And whereas, The stipulations and conditions of that law relating to the merger of such corporations have been fully complied with by PCT COMPANY, and PENN CENTRAL COMPANY.

Therefore, know ye, That subject to the Constitution of this Commonwealth, and under the authority of the Business Corporation Law, approved May 5, 1933, P. L. 364, as amended, I DO BY THESE PRESENTS, which I have caused to be sealed with the Great Seal of the Commonwealth, merge the above named PCT COMPANY into and with PENN CENTRAL COMPANY, which name is hereby changed to

PENN CENTRAL TRANSPORTATION COMPANY

which shall continue to be invested with and have and enjoy all the powers privileges and franchises incident to a domestic business corporation, and be subject to all the duties, requirements and restrictions specified and enjoined in and by the Business Corporation Law and all other applicable laws of this Commonwealth.

Given under my Hand and the Great Seal of the Commonwealth, at the City of Harrisburg, this 1st day of October in the year of our Lord one thousand nine hundred and sixty-nine and of the Commonwealth the one hundred and ninety-fourth.

COMMONWEALTH OF PENNSYLVANIA

to all to whom these presents shall come, greeting:

IN RE: 'Penn Central Company' now "PENN CENTRAL TRANSPORTATION COMPANY"

I, JOSEPH J. KELLEY, JR., Secretary of the Commonwealth of the Commonwealth of Pennsylvania do hereby certify that the foregoing and annexed is a true and correct photocopy of Articles of Merger and Certificate of Merger which appear of record in this Department.

IN TESTIMONY WHEREOF, I have hereunto set my hand and caused the seal of the Secretary's Office to be affixed, the day and year above written.

SEPTEMBER 19, 1969.

Mr. EDWIN K. TAYLOR
Penn Central Company Legal Department 1138 Six Penn Center Plaza Philadelphia, Pennsylvania 19104.

DEAR MR. TAYLOR: This has reference to the application of Penn Central Company in Finance Docket No. 25854 for approval under section 20a of the issuance of commercial paper notes not exceeding $50,000,000 and the petition in Finance Docket No. 25570 for extension of time respecting the issuance of securities approved therein.

A review of applicant's section 20a authority approved in the period 1967, 1968, and to date in 1969 reveals what appears to be a shift in the type of financing from long-term debt to short-term paper. Exhibit 5 in Finance Docket No. 25854 illustrates the progress of this trend in the indicated period. The applications for authority in the recent past pertaining to short-term financing, including the above-cited proceedings, are based, in general, on the advantage in interest rates to be achieved by such methods. Such an advantage is acknowledged to be a strong factor in financial planning but the increasing size of the near term maturities thus created focuses attention upon the adequacy of the planning relative to refunding such substantial short-term maturities. In order to provide support for the extension of time requested in Finance Docket No. 25570 and for the additional short-term authority requested in Finance Docket No. 25854, it is requested that applicant furnish a full statement of its short-term and long-term financing plans, together with a

breakdown of the use of authority granted for short-term financing, i.e., the details involved in Exhibit No. 5, Finance Docket No. 25854, specifically (a) the authority and amount of securities issued under each grant of authority involved, (b) the name and amount of abligations and securities redeemed, and (c) a listing of major capital expenditures.

In Finance Docket No. 25622, applicant proposed to use a portion of the proceeds to be obtained from the notes proposed to be issued therein to refinance the notes authorized in Finance Docket No. 25570. The present proposed extension of the authority in Finance Docket No. 25570 suggests that the authority requested and granted in Finance Docket No. 25622 was in part premature and a complete picture of applicant's financing plans at this time is necessary and requested.

It is requested that an original and five copies of any documents submitted be furnished.

Sincerely yours,

RICHARD BLOCK, Jr.,
Assistant Deputy Director, Section of Opinions.

PENN CENTRAL TRANSPORTATION CO.,
Philadelphia, Pa. 19104, October 1, 1969.

RICHARD BLOCK, Jr., Esq.
Assistant Deputy Director
Section of Opinions
Interstate Commerce Commission
Washington, D.C. 20423

Dear Sir: This letter is in response to your letter of September 19, 1969 in connection with the application filed in the name of Penn Central Company to issue up to $50 million of commercial paper notes (finance docket 25854). On October 1, 1969 the corporate name of the applicant in finance docket 25854 was changed to Penn Central Transportation Company and another corporation named Penn Central Company acquired all the outstanding stock of Penn Central Transportation Company. The details of this transaction were furnished to the Commission in finance docket 25660. Although the attached schedules carry the name Penn Central Company, the data relates to what is now Penn Central Transportation Company.

Penn Central Transportation Company's petition in finance docket 25854 included an exhibit (Exhibit 5) which listed the Company's capital expenditures, maturities and financing for the period 1966 through the first eight months of 1969. This exhibit has been revised to correct certain errors, and the revised Exhibit 5 is attached to this letter. In connection with the exhibit, we submit detailed information as follows:

Schedule No. 1: Capital Expenditures, Equipment—January 1, 1966–August 31, 1969.

Schedule No. 2: Capital Expenditures, Roadway and Structures—January 1, 1966–August 31, 1969.

Schedule No. 3: Funded Debt Maturities—January 1, 1966–August 31, 1969.

Schedule No. 4: Equipment Trust and Conditional Sale Maturities—January 1, 1966–August 31, 1969.

Schedule No. 5: Securities issued, remaining to be issued and outstanding under Commission authorizations—January 1, 1966–August 31, 1969.

Schedule No. 6: Conditional Sale Agreements—January 1, 1966–August 31, 1969.

In addition, there is attached as Schedule No. 7, on an estimated basis, the maturities for the last four months of 1969 and the years 1970 and 1971.

The major premises underlying Penn Central Transportation Company's present and future financing plans can be summarized as follows:

(1) At the present time, Penn Central Transportation Company has outstanding $400 million of short term obligations issued pursuant to authorizations of the Commission, consisting of $250 million of revolving credit notes and $150 million of commercial paper notes. The maximum amount of revolving credit notes and commercial paper notes which it may have outstanding is limited by the terms of a credit agreement dated April 1, 1969 to $450 million. This agreement was submitted to the Commission in finance docket 25622. It is significant to note that on January 1, 1971, all outstanding revolving credit notes can be refunded pursuant to the terms of the foregoing credit agreement

into a term loan (Term Notes) that will mature in five consecutive annual installments commencing January 1, 1972. It is submitted that an aggregate of $450 million* in short term maturities, of which $300 million can be refunded into a term loan, pursuant to an existing agreement and an authorization heretofore granted by the Commission, is not excessive when related to Penn Central Transportation Company's assets of approximately $4.5 billion.

(2) Penn Central Transportation Company's commercial paper notes are sold to the investment banking firm of Goldman, Sachs & Co., which resells the notes primarily to corporations and other investors who have portfolios of short term investments. This firm has indicated that unless market conditions change there is a good market for an additional $50 million of the Company's notes, and has expressed the opinion that an aggregate of $200 million of such notes outstanding is not excessive for a company of the size of Penn Central Transportation Company.

(3) Bank lines of credit for $100 million have been exclusively committed to refund maturing commercial paper notes of Penn Central Transportation Company if at any time market conditions prevent the sale of commercial paper notes to meet maturities of such notes. In addition, Penn Central Transportation Company and its subsidiaries have assets which can be liquidated to cover maturing commercial paper notes.

(4) Although the railroad industry has not as yet issued commercial paper notes extensively for financing, this type of instrument has become an accepted and significant method for raising cash for many major United States corporations. The total amount of commercial paper notes outstanding currently is approximately $28 billion.

(5) Since December 31, 1965, Penn Central Transportation Company has completed long term financings of equipment in the amount of $332.4 million. In addition, Pennsylvania Company, a subsidiary of Penn Central Transportation Company, has sold $35 million in long term securities in July, 1969; and it is contemplated that an additional $40 million of long term securities will be issued in the last quarter of 1969.

(6) Penn Central Transportation Company is currently intensively studying various alternates for a long term financing program in 1970. The type and amount of securities to be sold next year will depend on a number of variables, such as, market conditions, legal restrictions, cash requirements, etc. It is anticipated that the 1970 financing program will include:

(a) a blanket mortgage or collateral trust,

(b) additional security issues of a subsidiary of Penn Central Transportation Company, and/or

(c) the sale of assets.

We will be glad to amplify the data and information furnished to you with this letter. A verification is attached to this letter.

Sincerely yours,

JONATHAN O'HERRON,
Vice President.

COUNTY OF PHILADELPHIA,
State of Pennsylvania, SS.

Jonathan O'Herron, being duly sworn, states that he is a Vice President of Penn Central Transportation Company; that he is authorized on the part of said Company to sign and file with the Interstate Commerce Commission the foregoing letter and the exhibit and the schedules attached thereto and made a part thereof; that he has knowledge of the matters set forth therein and that all such statements made and matters set forth therein are true and correct to the best of his knowledge, information and belief.

JONATHAN O'HERRON

Subscribed and sworn to before me, a notary public in and for the state and county above named, this 2nd day of October, 1969.

CHARLES E. CASSEL, Jr.
Notary Public, Philadelphia, Philadelphia County

My Commission Expires July 10, 1971.

---

* This amount includes $50 million of commercial paper notes proposed in the pending application in finance docket 25854.

Exhibit 5 (revised)

PENN CENTRAL CO.

	1966	1967	1968	(1st 8 Months) 1969
Capital expenditures:				
Road	$76,933,000	$83,428,000	$86,839,000	$51,000,000
Equipment	184,243,000	100,362,000	104,361,000	30,000,000
Total, capital expenditures	261,176,000	183,790,000	191,200,000	81,000,000
Maturities	73,800,000	76,800,000	113,900,000	56,200,000
Total, capital expenditures and maturities	334,976,000	260,590,000	305,100,000	137,200,000
Financing:				
Equipment trusts	44,010,000	21,675,000		
Conditional sale agreements	102,651,000	58,837,000	74,270,000	31,000,000
Stock options	2,237,000	2,974,000	1,418,000	671,000
Revolving credit agreement			100,000,000	150,000,000
Eurodollar loan			50,000,000	
Commercial paper			100,000,000	50,000,000
Other	2,312,000	1,956,000	31,900,000	2,962,000
Total, financing	151,212,000	85,442,000	357,588,000	234,633,000
Excess of expenditures over financing (cumulative)	183,764,000	358,912,000	306,424,000	208,991,000

Schedule No. 1

PENN CENTRAL CO. CAPITAL EXPENDITURES—EQUIPMENT FOR THE PERIOD JAN. 1, 1966 TO AUG. 31, 1969

[Amount in thousands]

Description	1966	1967	1968	1969
Locomotives	27,586	34,024	2,836	4,889
Freight train cars	138,865	62,730	93,900	23,719
Passenger train cars	11,778	1,067	4,086	822
Floating equipment	732	490	288	
Work equipment	4,118	828	3,036	299
Miscellaneous equipment	1,163	1,223	216	
Total	184,242	100,362	104,362	29,729

Schedule No. 2

PENN CENTRAL CO. CAPITAL EXPENDITURES—ROADWAY AND STRUCTURES FOR THE PERIOD JAN. 1, 1966 TO AUG. 31, 1969

[Amount in thousands]

Location and description (projects $250,000 and over)	1966	1967	1968	1969 (8 months)
System: Purchase roadway machines	$1,141	$768	$3,571	$816
West of Buffalo: Modernize communication system	1,431	78	34	
Various: Track betterment programs	9,777	12,886	11,464	3,452
Portage, Ind.: Relocate M.L., construct new yard A/C Bethlehem Steel	1,783	2,067	319	
Pine To "JN," Indiana: Signal changes A/C M.L. relocation	141			
Glen Echo, Ohio: New yard and multilevel facility A/C intal.-Harvester	349			
Dickinson, W. Va.: Modernize yard	444			
Detroit, Mich.: Construct tracks, receiving yard	945			
Warren, Mich.: Expand Sterling yard	185	119	4	
West Detroit, Mich.: Consolidate interlockers	88	475	43	
Englewood, Ill.: Construct flexivan facility	539	58	54	
Cleveland, Ohio: CTC—Berea to Branch No. 1	42	346	110	49
Kalamazoo, Mich.: Expand Botsford yard	248	159	25	
Kalamazoo, Mich.: Construct new yard for Fisher Body	213	209	10	
Cleveland, Ohio: Changes A/C Cleveland Rapid Transit	13	171	48	
Fairlane, Ohio: Construct controlled siding			248	555
River Rouge, Mich.: Reconstruct yard		31	732	676
Columbus, Ohio: Construct new classification yard			1,897	10,093
Avon, Ind.: Expand Big Four yard		2	1,597	1,477
Cincinnati, Ohio: Expand Sharonville yard			502	935
Indianapolis, to Cincinnati: Install CTC		305	38	
Toledo, Ohio: Expand Stanley yard		3	840	1,318
Columbus to Cincinnati: Install CTC			1,762	662

Location and description (projects $250,000 and over)	1966	1967	1968	1969 (8 months)
Utica, Mich.: Construct 2d MT			$5	$453
Lansing, Mich.: Expand South Lansing yard				8
Terre Haute, Ind.: Construct connections with P.R.R.			284	187
Wheelock, Ohio: Construction of motor yard	$610			
Macedonia, Ohio: Extension to Chrysler yard	260			
Carrolltown, Pa.: Facility to serve Bornes & Tucker Coal Co., Lancshire, Mine No. 20	385			
Verona, Pa.: Replacement of 9 lamping machines with 6 automatic tampers	399			
Lock Haven, Pa.: Weigh-in motion scale		$352		
Ashtabula, Ohio: Coal hauling facilities		4,150	4,491	
Powhatan, Ohio: Extension Captina track		526	3,379	352
Lordstown, Ohio: 2 yard tracks—wye track		357		
Manager, General accounting: Purchase 2d-hand computer equipment		399		
Conway, Pa.: Hevi Car Kit System			251	
Middletown, Ohio: Yard to serve Armco Steel Co	480	584		
North Madison to Bethlehem, Ind.: Real estate		286		
Anoka, Ind.: Install traffic control system, Logansport to Bradford, Ohio			292	548
Chicago, Ill.: New facilities at 55th St. yard				326
Philadelphia, Pa.: UG Bridges 297, 302, 326, 363	380			
Metuchen, N.J.: Additional set-off trucks (step 1)		316	5	
Woodbridge Township, N.J.: Federal Warehouse facilities		327		
Philadelphia, Pa.: West Philadelphia HL Bridges 3, 103, 363		372		
Newark-Doremus, N.J.: Unloading facilities		531	379	
Brandywine: Lothair upgrade tracks		405	477	
Philadelphia, Pa.: Involved sale of land to trustees of University of Pennsylvania for which we purchase Hajoca Bldg		300		
Morrisville, Pa.: Retarders				406
Buffalo, N.Y., to Lock Haven, Pa.: CTC			2,487	337
Various: Northeast corridor project	7,542	14,425	9,182	4,213
New York, N.Y.: Concourse Village, Mott Haven yard	618			
New York, N Y.: Penn Station	12,671	4,308	2,697	776
Various: Raise bridge and increase tunnel clearances	3,578			
Selkirk: Construct new class yard	358	10,707	19,851	4,586
New York, N.Y.: Communications computer		562		
North Bergan: Expand flexivan facilities		604	33	
Various: Raising bridges		330		
Rensselaer: New passenger station			586	1,252
Lackawanna: Reconstruct Seneca yard			2,113	889
New York, N.Y.: Freight handling facilities				950
Total, projects $250,000 and over	44,620	57,518	69,810	35,316
Total, projects under $250,000	32,313	25,910	17,029	15,684
Grand total, all projects	76,933	83,428	86,839	51,000

Schedule 3

PENN CENTRAL CO. MATURITIES

	1966	1967	1968	1st 8 months 1969
Funded debt:				
N.Y.C. coll. tr. 6 percent bonds due Apr. 1, 1980		$1,000,000	$1,000,000	$1,000,000
N.Y.C. coll. tr. 6 percent bonds due Apr. 15, 1990	$400,000	400,000	400,000	400,000
N.Y.C. coll. tr. 5 percent notes due July 1, 1974	3,300,000	3,300,000	3,300,000	3,300,000
P.R.R. genl. mtg. 4¼ percent "E" due July 1, 1984	250,000	250,000	250,000	250,000
P.R.R. genl. mtg. 3½ percent "F" due Jan. 1, 1985	600,000	600,000	600,000	600,000
P.R.R. genl. mtg. 3 percent "G" due May 1, 1985	572,000	572,000	572,000	572,000
First National City Bank loan agmt. 4½ percent dated May 6, 1965	3,000,000	2,400,000	2,400,000	
Chemical Bank loan—due Dec. 31, 1967	900,000	5,100,000		
P.R.R. genl. mtg. 4½ percent "B" due Dec. 1, 1968			42,185,000	
Penn Central 6½ percent coll. tr. due Apr. 15, 1993				364,000
Miscellaneous obligations	2,911,582	3,180,000	4,677,382	2,260,858
Total funded debt maturities	11,933,582	16,802,000	55,384,382	8,746,858
Equipment debt:				
Equipment trusts	11,913,000	13,940,000	14,126,000	11,679,960
Conditional sales contracts	49,871,376	46,022,553	44,359,635	35,743,595
Total	61,784,376	59,962,553	58,485,635	47,423,555
Total maturities	73,817,958	76,764,553	113,870,017	56,170,413

Schedule No. 4

EQUIPMENT TRUSTS AND CONDITIONAL SALE MATURITIES 1966

21B. FUNDED DEBT AND OTHER OBLIGATIONS

Line No.	Name and character of obligation	Nominal date of issue	Date of maturity	Interest Provisions: Rate percent per annum (nominal year)	Interest Provisions: Date due	Does Obligation Provide For—(Answer "Yes" or "No"): Conversion	Does Obligation Provide For—(Answer "Yes" or "No"): Call prior to maturity, other than for sinking fund	Does Obligation Provide For—(Answer "Yes" or "No"): Sinking fund	Is Other Property Lease or Pledged or Leasehold Benefit to Lien of the Obligation? (Answer "Yes" or "No"): First lien	Is Other Property Lease or Pledged or Leasehold Benefit to Lien of the Obligation? (Answer "Yes" or "No"): Junior to First Lien	Approximate Number of Miles of Line Directly Subject to—	
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
1	754-765 - Funded Debt Unmatured											
2	1(A) General Mortgage "A"	5/1/15	5/1/65	4-1/2	5/1 12/1	No	No	No				
3	" " "B"	12/1/18	12/1/68	5	6/1 12/1	"	"	"				
4	" " "D"	4/1/21	4/1/81	4-1/4	4/1 10/1	"	"	"				
5	" " "E"	7/1/24	7/1/84	4-1/4	1/1 7/1	"	"	Yes	Yes	Yes	2,636	
6	" " "G"	1/25/45	1/1/75	3-1/2	1/1 7/1	"	Yes	"				
7	" " "H"	5/1/45	5/1/95	3	5/1 11/1	"	"	"				
8	" " "I"	6/20/50	6/1/26	2-1/4	6/1 10/1	"	"	No				
9	" " "J"	9/27/50	8/1/75	2-1/4	8/1 10/1	"	"	"				
10	Total 1(A)											
11	2(A) N.Y.S.& W.R.R., Henry K. Norton											
12	Trustee, Ind. Sec. Trs. Etc.	12/20/50	1/1/72	4	1/1 7/1	No	Yes	Yes	No	No		25
13	Total 2(A)											
14	3 Real Estate Mortgages and Ground Rents											
15	1st Natl. Bank St. L.C.S.A.	10/1/63	12/12/63	8/15/73	Various	2/15 8/15	No	Yes	No	Yes	No	
16	1st Natl. City Bk. N.Y. Loan	6/5/62	Various	1/30/62	Various	1/31 4/30	"	"	"	"	"	
17						7/31 10/31						
18	1st Natl. Bank, Agnes, O. Loan Agree.	4/1/63	12/10/63	5	9/20/71	Various	9/20					
19	Speaker Sortation Sys. L.S.A.	2/2/62	Various	7/15/62	4.65	1/15 7/15	"	"	"	"	"	
20	Ohio Natl. Bk. of Cols., O. Loan Agree.		Various	Various	Various	Various	"	"	"	"	"	
21	1st Natl. Bk. of Pgh. Loan Agree.		5/15/64	5	12/1/69	4½	6/1 12/1	No	Yes	No	Yes	No
22	1st Natl. City Bank, N.Y.		5/5/65	5	Various	4½	Various	"	"	"	"	"
23	1st N. Y. City Bank, N.Y.		7/13/65	4.70/65	4½	Various	"	"	"	"	"	
24	Indiana Natl. Bk., Indpls., Ind.		4/24/64	5	3/15/70	4½	Various	"	"	"	"	
25	Railway Maintenance Corp.		12/1/64	5	1/15/70	4½	1/15 7/15	"	"	"	"	"
26	Union Natl. Bank of Pgh.		12/1/65	5	12/1/70	4½	6/1 12/1	"	"	"	"	"
27	Total 3(A)											
28	Total 1(A), 2(A) and 3											
29	754-765 - Equipment Obligations											
30	4(A) Equipment Trust Ctfs. "Z"		5/4/50	5	4/1/65	2½	4/1 10/1	No	No	No	Yes	No
31	" " "AA"		10/2/50	5	4/1/65	2½	4/1 10/1	"	"	"	"	"
32	" " "AAA"		3/5/53	5	3/1/68	3	3/1 9/1	"	"	"	"	"
33	" " "BBB"		12/10/53	5	3/1/68	3-1/8	3/1 9/1	"	"	"	"	"
34	" " "CCC"		3/2/54	5	2/1/69	2-3/4	2/1 8/1	"	"	"	"	"
35	" " "DDD"		2/1/55	5	2/1/70	2-3/4	2/1 8/1	"	"	"	"	"
36	" " "EEE"		10/10/55	5	11/1/70	3-1/8	5/1 11/1	"	"	"	"	"
37	" " "FFF"		12/20/55	5	1/1/71	3-1/4	1/1 7/1	"	"	"	"	"
38	" " "GGG"		4/1/56	5	4/1/71	3-1/8	4/1 10/1	"	"	"	"	"
39	" " "HHH"		5/15/56	5	4/1/71	3-3/4	4/1 10/1	"	"	"	"	"
40	" " "III"		1/3/57	5	1/1/72	3-1/8	1/1 7/1	"	"	"	"	"
41	" " "JJJ"		4/2/57	5	4/1/72	3-3/4	4/1 10/1	"	"	"	"	"
42	" " "KKK"		6/12/57	5	6/1/72	4-1/4	6/1 12/1	"	"	"	"	"
43	Total 4(A)											
44												
45												
46												

237A PENNSYLVANIA RAILROAD FORM - A 1965

218. FUNDED DEBT AND OTHER OBLIGATIONS

Line No.	Name and character of obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Interest Provisions: Rate percent per annum (current year) (d)	Interest Provisions: Dates due (e)	Does Obligation Provide For— (Answer "Yes" or "No"): Conversion (f)	Call prior to maturity, other than for sinking fund (g)	Sinking fund (h)	Is Other Property (Real or Personal or Leasehold) Subject to Lien of the Obligation? (Answer "Yes" or "No"): First lien (i)	Junior to first lien (j)	Approximate Number of Miles of Line Directly Subject To—: First lien (k)	Junior to first lien (l)
1	A(C) CONDITIONAL SALE AGREEMENTS											
2	FIRST NATIONAL CITY BANK OF N.Y.	10/1/50	S 1/1/67	3	1/1 7/1	NO	YES	NO	YES	NO		
3	" " " " " "	12/1/50	"	VARIOUS	" "	"	"	"	"	"		
4	" " " " " "	1/1/51	"	3	" "	"	"	"	"	"		
5	" " " " " "	6/15/51	S 7/1/67	3-3/8	" "	"	"	"	"	"		
6	" " " " " "	4/15/55	S 8/1/65	3	2/1 8/1	"	"	"	"	"		
7	" " " " " "	5/19/55	S 1/15/66	3-1/4	1/15 4/15	"	"	"	"	"		
8					7/15 10/15							
9	PHILA. NATIONAL BANK	3/1/52	S 10/1/68	3-1/2	4/1 10/1	"	"	"	"	"		
10	CHEMICAL BK. N.Y. TRUST CO.	5/2/57	S 11/1/72	5	5/1 1/1	"	"	"	"	"		
11	IRVING TRUST CO. N.Y.	12/1/57	S 2/1/69	5-1/4	2/1 8/1	"	"	"	"	"		
12	BOWERY SAVINGS BK. N.Y.	3/26/58	S 3/26/73	4.43	3/26 5/26	"	"	"	"	"		
13	HARRIS TR. & SAV. BK., CHICAGO, ILL.	4/1/58	S 4/1/73	4-1/2	4/1 10/1	"	"	"	"	"		
14	" " " " " "	7/15/58	S 7/15/63	4-1/2	1/15 7/15	"	"	"	"	"		
15	FIDELITY-PHILA. TRUST CO.	7/1/58	S 5/1/73	VARIOUS	5/1 11/1	"	"	"	"	"		
16	GIRARD TRUST BANK, PHILA.	12/1/58	S 11/1/58	VARIOUS	5/1 11/1	"	"	"	"	"		
17	" " " "	4/15/59	S 5/1/70	"	" "	"	"	"	"	"		
18	FIDELITY-PHILA. TR. CO. ACT. FOR											
19	FIRST NATL. BK., CHEM. & IRVING											
20	TRUST CO., N.Y.	1/15/59	S 8/1/68	VARIOUS	2/1 8/1	"	"	"	"	"		
21	MELLON NATL. BK. & TR. CO.	11/2/59	S 12/1/74	5-1/2	6/1 12/1	"	"	"	"	"		
22	IRVING TRUST CO., N.Y.	2/15/60	S 8/1/70	VARIOUS	2/1 8/1	"	"	"	"	"		
23	PROVIDENT NATIONAL BANK	1/15/61	S 9/1/71	VARIOUS	3/1 9/1	"	"	"	"	"		
24	FIDELITY PHILA. TRUST CO.	11/15/51	S 8/1/72	VARIOUS	2/1 8/1	"	"	"	"	"		
25	NATIONAL CITY BANK, CLEVELAND	12/1/61	S 1/1/67	4.65	1/1 7/1	"	"	"	"	"		
26	NATIONAL BANK OF DETROIT	12/1/61	S 1/1/67	4.65	1/1 7/1	"	"	"	"	"		
27	PITTSBURGH NATIONAL BANK	2/27/62	S 1/1/67	4.65	1/1 7/1	"	"	"	"	"		
28	NORTHERN TRUST CO. CHICAGO	6/8/62	S 2/15/67	4.65	8/15 2/15	"	"	"	"	"		
29	MANUFACTURERS & TRADERS TR. CO.	8/3/62	S 5/15/67	4.65	11/15 5/15	"	"	"	"	"		
30	PITTSBURGH NATIONAL BANK	10/4/62	S 5/1/67	4.65	11/1 5/1	"	"	"	"	"		
31	HARRISBURG NATIONAL BANK	11/30/62	S 10/15/67	4.65	4/15 10/15	"	"	"	"	"		
32	MANUFACTURERS HANOVER TRUST CO.	2/14/63	S 12/15/77	4.60 4.15	6/15 12/15	"	"	"	"	"		
33	MORGAN GUARANTY TRUST CO.	3/14/63	S 12/15/77	" "	6/15 12/15	"	"	"	"	"		
34	MELLON NATL. BANK & TR. CO.	6/9/63	S 6/15/78	" "	6/15 12/15	"	"	"	"	"		
35	MANUFACTURERS HANOVER TR. CO.	9/5/63	S 9/15/73	VARIOUS	3/15 9/15	"	"	"	"	"		
36	FIRST NATIONAL CITY BK. N.Y.	11/30/64	S 9/1/79	VARIOUS	3/1 9/1	"	"	"	"	"		
37	INDIANA NATIONAL BANK	4/24/64	VARIOUS	4.50	VARIOUS	"	"	"	"	"		
38	CLEVELAND TRUST CO.	10/23/64	S 9/15/69	4.50	3/15 9/15	"	"	"	"	"		
39	FIRST NATIONAL CITY BANK, N.Y.	10/1/64	S 3/15/80	4.50	9/15 3/15	"	"	"	"	"		
40	INDIANA NATIONAL BANK, INDPLS.	10/15/64	S 10/15/79	4.75	4/15 10/15	"	"	"	"	"		
41	FIDELITY PHILA. TRUST CO.	12/1/64	S 1/15/80	4.60	7/15 1/15	"	"	"	"	"		
42	CLEVELAND TRUST CO.	12/15/64	S 12/15/69	4.50	6/15 12/15	"	"	"	"	"		
43	FIRST NATIONAL BANK, ST. LOUIS	2/5/65	S 2/15/70	4.50	2/15 8/15	"	"	"	"	"		
44	CONTINENTAL ILL., NATL. BK. & TR. CO.	3/14/65	S 5/15/70	4.50	5/15 11/15	"	"	"	"	"		
45	GIRARD TRUST BANK	4/15/65	S 6/15/80	4.75	6/15 12/15	"	"	"	"	"		
46	NATIONAL CITY BK. OF CLEVELAND	5/3/65	S 8/15/70	4.50	2/15 8/15	"	"	"	"	"		
47	FIDELITY PHILA. TRUST CO.	6/1/65	S 4/1/80	4.50	4/1	"	"	"	"	"		
48	FIRST NATIONAL CITY BANK N.Y.	7/1/65	S 7/15/73	4.50	1/15	"	"	"	"	"		
49	TRENTON TRUST CO.	7/1/65	S 8/1/80	4.70	2/1 8/1	"	"	"	"	"		
50	BANKERS TRUST CO. N.Y.	7/30/65	S 8/15/80	4.50	2/15 8/15	"	"	"	"	"		
51	FIRST NATIONAL CITY BK. N.Y.	9/1/65	S 11/15/73	4.50	5/15 11/15	"	"	"	"	"		
52												
53												
54												
55												
56						GRAND TOTAL		x x x x	x x x x	x x x x x	x x x x x	

RAILROAD CORPORATIONS—OPERATING—A.

EQUIPMENT TRUSTS AND CONDITIONAL SALES 1966 MATURITIES 237B

218. FUNDED DEBT AND OTHER OBLIGATIONS—Continued

Total amount nominally and actually issued (m) $	Amount Nominally Issued and—: Held in special funds or in treasury or pledged (Identify pledged securities by symbol "P"; matured by symbol "M") (n) $	Canceled (o) $	Total amount actually issued (p) $	Amount Reacquired and—: Canceled through sinking fund or otherwise canceled (Identify canceled through sinking fund by symbol "S") (q) $	Held in special funds or in treasury or pledged (Identify pledged securities by symbol "P"; matured by symbol "M") (r) $	Total Amount Actually Outstanding: Unmatured (accounts 764, 766, and 767) (s) $	Unmatured (account 764) (t) $	Matured and no provision made for payment (account 768) (u) $	Line No.
									1
83 706 000			83 706 000	80 382 123			3 323 877		2
32 166 000			32 166 000	29 882 193		467 995	1 815 812		3
10 386 000			10 386 000	9 506 000		187 600	692 400		4
40 043 700			40 043 700	35 909 190		1 464 930	2 669 580		5
6 214 060			6 214 060	6 214 060					6
3 092 840			3 092 840	3 092 840					7
									8
50 472 000			50 472 000	44 832 141	62 038	2 804 665	2 773 156		9
10 200 000			10 200 000	5 440 000		4 030 000	680 000		10
5 750 000			5 750 000	4 312 500		862 500	575 000		11
2 000 000			2 000 000	1 146 664		746 669	106 667		12
3 454 000			3 454 000	1 950 000		1 270 000	234 000		13
6 910 027			6 910 027	4 970 000		1 230 027	710 000		14
5 092 005			5 092 005	2 546 002		2 206 536	339 467		15
6 009 636			6 009 636	4 375 000		1 009 636	625 000		16
25 000 000			25 000 000	15 168 000		7 332 000	2 500 000		17
									18
									19
3 852 183			3 852 183	2 730 000		702 183	420 000		20
9 530 362			9 530 362	3 770 362		5 120 000	640 000		21
19 000 000			19 000 000	10 292 561		6 807 039	1 900 000		22
28 550 000			28 550 000	12 593 053		13 101 949	2 854 998		23
24 425 000			24 425 000	7 327 500		14 655 000	2 442 500		24
1 009 050			1 009 050	706 335		100 905	201 810		25
1 160 950			1 160 950	812 665		116 095	232 190		26
542 500			542 500	379 750		54 250	108 500		27
819 577			819 577	573 704		81 958	163 915		28
417 500			417 500	292 250		41 750	83 500		29
281 413			281 413	197 109		28 101	56 203		30
421 650			421 650	252 990		84 330	84 330		31
2 933 423			2 933 423	505 762		2 225 356	202 305		32
4 645 363			4 645 363	800 925		3 524 068	320 370		33
8 719 953			8 719 953	1 453 325		6 685 298	581 330		34
10 169 550			10 169 550	2 015 192		7 135 063	1 019 295		35
40 200 000			40 200 000	3 454 403		34 120 912	2 624 685		36
1 262 413			1 262 413	126 241		883 689	252 483		37
804 654			804 654	160 931		482 792	160 931		38
24 454 904			24 454 904	815 164		22 009 413	1 630 327		39
1 480 863			1 480 863	98 724		1 283 415	98 724		40
20 246 925			20 246 925	674 897		18 222 233	1 349 795		41
584 230			584 230	116 846		350 538	116 846		42
456 460			456 460	45 646		319 522	91 292		43
787 480			787 480	78 748		551 236	157 496		44
19 161 458			19 161 458	638 715		17 245 312	1 277 431		45
1 310 395			1 310 395			1 048 316	262 079		46
30 000 000			30 000 000			28 000 000	2 000 000		47
10 000 000			10 000 000			8 750 000	1 250 000		48
9 063 376			9 063 376			8 459 151	604 225		49
2 863 350			2 863 350			2 672 460	190 890		50
3 843 547			3 843 547			3 363 104	480 443		51
									52
									53
									54
									55
									56

RAILROAD CORPORATIONS—OPERATING—A.

EQUIPMENT TRUSTS AND CONDITIONAL SALES 1966 MATURITIES

218. FUNDED DEBT AND OTHER OBLIGATIONS

Line No.	Name and character of obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Interest Provisions: Rate percent per annum (nominal year) (d)	Interest Provisions: Dates due (e)	Does Obligation Provide For—: Conversion (f)	Does Obligation Provide For—: Call prior to maturity, and for sinking fund (g)	Does Obligation Provide For—: Sinking fund (h)	Is Other Property (Real or Personal or Leasehold) Subject to Lien Thereof: Declaration (Answer "Yes" or "No"): First lien (i)	Is Other Property (Real or Personal or Leasehold) Subject to Lien Thereof: Declaration (Answer "Yes" or "No"): Junior to first lien (j)	Approximate Number of Miles of Line Directly Subject To—: First lien (k)	Approximate Number of Miles of Line Directly Subject To—: Junior to first lien (l)
1	4(C) CONDITIONAL SALE AGREEMENTS											
2	BANKERS TRUST CO., N.Y.	10/1/65	4/15/80	4.50	4/15 10/15	No	Yes	No	Yes	No		
3	PITTSBURGH NATL. BK.	12/15/65	VARIOUS	4½	VARIOUS	"	"	"	"	"		
4												
5	TOTAL 4(C)											
6												
7	TOTAL 4											
8–36												
37	GRAND TOTAL			XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

218. FUNDED DEBT AND OTHER OBLIGATIONS—Continued

Line No.	Amount Nominally Issued and—: Total amount nominally issued (ma)	Amount Nominally Issued and—: Held in special funds of issuing or pledged (directly pledged or through sinking fund held by symbol "Sf") (mb)	Amount Nominally Issued and—: Canceled (n)	Total amount actually issued (p)	Amount Reacquired and—: Canceled through sinking fund or otherwise (directly canceled or through sinking fund by symbol "Sf") (q)	Amount Reacquired and—: Held in special funds of issuing or pledged (directly pledged or through sinking fund by symbol "Sf") (r)	Total Amount Actually Outstanding: Unmatured (amounts 764, 765, and 767) (s)	Total Amount Actually Outstanding: Matured (amount 766) (t)	Total Amount Actually Outstanding: Matured and no provision made for payment (amount 768) (u)	Line No.
1										1
2	11 999 975			11 999 975			11 199 977	799 998		2
3	157 409			157 409			157 400			3
4										4
5	585 652 172			43 652 172	39 613 099		3 039 243	41 773 873		5
6										6
7	600 605 172			600 605 172	378 827 011		477 038 356	571 773	45 858 850	7
8–36										8–36
37	2191 858 029	16 000 000		1875 858 029	560 065 655	12 759 038	542 184 406	32 888 930		37

21A. FUNDED DEBT AND OTHER OBLIGATIONS

Line No.	Name and character of obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Interest Provisions: Rate per annum (current year) (d)	Interest Provisions: Dates due (e)	Does Obligation Provide For—(Answer "Yes" or "No"): Conversion (f)	Call prior to maturity: Wholly (g)	Call prior to maturity: In part (h)	Is Other Property (Real or Personal) Leased or Assigned Subject to Lien of the Obligation (Answer "Yes" or "No"): First lien (i)	Junior to first lien (j)	Approximate Number of Miles of Line Directly Subject to—: First lien (k)	Junior to first lien (l)
1	FUNDED DEBT UNMATURED											
2	(1) MORTGAGE BONDS: (c)											
3	Boston & Albany RR.-Impvt.	8-1-28	8-1-78	4½	Feb-Aug	No	Yes	No				
4	Carthage & Adirondack Ry-1st	12-1-52	12-1-81	4	June-Dec	No	No	No	Yes	No	46	
5	Kanawha & Mich.Ry.-1st	4-1-50	4-1-90	4	Apr-Oct	No	No	No	Yes	No	208	
6	Lake Shore & Mich.So.RR-Gold	6-1-97	6-1-97	3½	June-Dec	No	No	No	Yes	No	904	
7	Mohawk & Malone Ry-1st	7-1-92	9-1-91	4	Mar-Sept	No	No	No	Yes	No	128	
8	Mohawk & Malone Ry-Conv.	3-1-02	3-1-02	3½	Mar-Sept	No	No	No	No	Yes		128
9	New Jersey Junction RR-1st	6-30-86	2-1-56	4	Feb-Aug	No	No	No	Yes	No	4	
10	New York & Putnam RR-1st Cons.	12-15-94	10-1-93	4	Apr-Oct	No	No	No	Yes	No	28	
11	Sturgis Goshen & St.L.RR-1st	12-1-69	12-1-69	3	June-Dec	No	No	No	Yes	No	17	
12	West Shore RR - 1st	1-1-86	1-1-2361	4	Jan-July	No	No	No	Yes	No	297	
13	NYC & HR RR Co.-Gold	7-1-97	7-1-97	3½	Jan-July	No	No	No	Yes	No	175	592
14	NYC & HR RR Co.Lake Shore Coll	2-1-98	2-1-98	3½	Feb-Aug	No	No	No	Yes	Yes		
15	NYC & HR RR Co.Mich Cent. Coll	2-1-98	2-1-98	3½	Feb-Aug	No	No	No	Yes	Yes		
16	NYC & HR RR Co.Ser."A"-REG	10-1-13	10-1-2013	4½	Apr-Oct	No	Yes	No	Yes	Yes		
17	NYC RR Co.Series "A" - REG	4-1-51									894	2 697
18	NYC RR Co.Series "B" - REG	10-1-20	10-1-13	6		No	No	No	Yes	Yes		
19	NYC RR Co.Series "C" - REG	4-1-22	10-1-13	5	Apr-Oct	No	Yes	No	Yes	Yes		
20	NYC RR Co.Series "A"-Cons.	Various	2-1-98	4	Feb-Aug	Yes	No	No	No	Yes	4	2 671
21	NYC RR Co.Series "C"-Cons.	4-30-34	2-1-98	4	Feb-Aug	No	No	Yes	No	Yes	4	1 767
22												
23												
24												
25	(2) COLLATERAL TRUST BONDS AND NOTES: (c)											
26	NYC RR Co.-Coll.Trust Bonds	4-25-45	4-15-90	6	Apr-Oct	No	Yes	Yes	Yes	Yes		
27	NYC RR Co.-Coll.Trust Bonds	4-1-53	4-1-30	6	Apr-Oct	No	Yes	Yes	Yes	Yes		
28	NYC RR Co.-Coll.Trust Bonds	1-1-55	1-1-80	5½	Jan-July	No	Yes	Yes	Yes	Yes		
29	NYC RR Co.-Coll.Trust Bonds	1-1-55	1-1-80	5½	Jan-July	No	Yes	Yes	Yes	Yes		
30	NYC RR Co.-Coll.Trust Notes	12-15-59	7-1-74	5	Jan-July	No	Yes	No	Yes	Yes		
31												
32												
33												
34	NOTE: Ø - Sinking Fund to be effective and operative only when any of the bonds shall be actually outstanding.											
35												
36	EQUIPMENT OBLIGATIONS											
37	(a) EQUIPMENT TRUST CERTIFICATES											
38	1st 1950	11-1-50	1-1-65	2½	Note 3	No	No	No	Yes	No		
39	2nd 1950	6-15-50	6-15-65	2½	Note 8	No	No	No	Yes	No		
40	3rd 1950	11-15-50	11-15-65	2½	Note 7	No	No	No	Yes	No		
41	1st 1951	1-1-51	1-1-66	2½	Note 3	No	No	No	Yes	No		
42	2nd 1951	12-1-51	12-1-66	3-3/8	Note 8	No	No	No	Yes	No		
43	1st 1952	2-1-52	2-1-67	2-3/8	Note 4	No	No	No	Yes	No		
44	2nd 1952	5-15-52	5-15-67	3-1/8	Note 7	No	No	No	Yes	No		
45	3rd 1952	6-15-52	6-15-67	2½	Note 4	No	No	No	Yes	No		
46	1st 1953	1-1-53	1-1-68	3-1/8	Note 3	No	No	No	Yes	No		
47	2nd 1953	9-15-53	9-15-68	3-5/8	Note 5	No	No	No	Yes	No		
48	1st 1955	9-15-55	9-15-70	3-5/8	Note 5	No	No	No	Yes	No		
49	1st 1957	1-1-57	1-1-72	4½	Note 3	No	No	No	Yes	No		
50	1st 1957	4-1-57	4-1-72	4-2/5	Note 6	No	No	No	Yes	No		
51	3rd 1957	9-15-57	9-15-77	5	Note 5	No	No	No	Yes	No		
52	1st 1960	6-1-60	6-1-75	5½	Note 8	No	No	No	Yes	No		
53	1st 1961	2-15-61	2-15-76	4½	Note 4	No	No	No	Yes	No		
54	2nd 1961	6-1-61	6-1-76	4-7/8	Note 8	No	No	No	Yes	No		
55									Grand Total			

21A. FUNDED DEBT AND OTHER OBLIGATIONS—Continued

Line No.	Total amount nominally and actually issued (m)	Amount Nominally Issued and—: Held in special funds of the treasury or pledged (Classify pledged securities by symbol "P", matured by symbol "M") (n)	Amount Nominally Issued and—: Canceled (o)	Total amount actually issued (p)	Amount Reacquired and—: Canceled through sinking funds or otherwise canceled (Classify canceled through sinking fund by symbol "S") (q)	Amount Reacquired and—: Held in special funds of the treasury or pledged (Classify pledged securities by symbol "P", matured by symbol "M") (r)	Total Amount Actually Outstanding: Unmatured (accounts 765, 766, and 767) (s)	Total Amount Actually Outstanding: Unmatured (account 764) (t)	Total Amount Actually Outstanding: Matured and on previous date for payment (account 768) (u)	Line No.
	$	$	$	$	$	$	$	$	$	
1										1
2										2
3	5 700 000			5 700 000		653 000	5 047 000			3
4	1 100 000			1 100 000	3 000	224 000	873 000			4
5	2 469 000			2 469 000	669 000	236 000	1 564 000			5
6	50 000 000			50 000 000		1 009 000	48 991 000			6
7	2 500 000			2 500 000		950 000 PP	1 550 000			7
8	3 900 000			3 900 000		825 000	3 075 000			8
9	2 000 000		300 000	1 700 000	277 000	164 000	1 259 000			9
10	4 025 000			4 025 000	2 171 000	7 000	1 847 000			10
11	322 000			322 000	215 000	84 000	23 000			11
12	50 000 000			50 000 000	14 657 500		35 342 500			12
13	100 000 000	6 000 000 PP		94 000 000	13 366 000	4 000	80 630 000			13
14	90 578 400			90 578 400	9 540 400	3 712 000	17 326 000			14
15	19 336 000			19 336 000		1 551 000	17 785 000			15
16	60 000 000		20 000 000	40 000 000	18 581 000	429 000	95 990 000			16
17	75 000 000			75 000 000						17
18	38 494 000	4 494 000	34 000 000							18
19	260 000 000	167 180 000 PP	7 820 000	85 000 000	21 006 000	2 000	63 992 000			19
20	69 540 000			69 540 000	410 000	1 210 000	67 920 000			20
21	48 000 000	48 000 000 PP								21
22										22
23	882 964 400	225 674 000	62 120 000	595 170 400	140 895 900	11 060 000	443 214 500			23
24										24
25										25
26	9 800 000			9 800 000		100	9 399 900	400 000		26
27	33 216 300			33 216 300	10 000 000	1 523 050	21 693 250			27
28	926 375			926 375	250 000	192 550	483 825			28
29	370 800			370 800	100 000	97 200	173 600			29
30	40 000 000			40 000 000	9 900 000		26 800 000	3 300 000		30
31										31
32	84 313 475			84 313 475	20 250 000	1 812 900	58 550 575	3 700 000		32
33	PP - Partially pledged (See page 237E for detail)									33
34										34
35										35
36										36
37										37
38										38
39	9 600 000			9 600 000						39
40	11 100 000			11 100 000	11 100 000					40
41	4 800 000			4 800 000	4 800 000					41
42	7 500 000			7 500 000	7 000 000			500 000		42
43	8 100 000			8 100 000	7 560 000			540 000		43
44	8 850 000			8 850 000	7 670 000		590 000	590 000		44
45	5 220 000			5 220 000	4 529 000		348 000	343 000		45
46	8 475 000			8 475 000	7 345 000		565 000	565 000		46
47	11 625 000			11 625 000	9 320 000		1 550 000	755 000		47
48	9 375 000			9 375 000	7 500 000		1 250 000	625 000		48
49	7 500 000			7 500 000	5 000 000		2 000 000	500 000		49
50	8 055 000			8 055 000	4 296 000		3 222 000	537 000		50
51	3 825 000			3 825 000	2 040 000		1 530 000	255 000		51
52	3 555 000			3 555 000	1 896 000		1 422 000	237 000		52
53	4 590 000			4 590 000	1 530 000		2 754 000	306 000		53
54	3 825 000			3 825 000	1 020 000		2 545 000	250 000		54
55	4 155 000			4 155 000	1 147 000		2 731 000	277 000		55

(Continued on page 237B)

218. FUNDED DEBT AND OTHER OBLIGATIONS

Line No.	Name and character of obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Interest Provisions: Rate percent per annum (current year) (d)	Interest Provisions: Dates due (e)	Does Obligation Provide For—(Answer "Yes" or "No"): Conversion (f)	Does Obligation Provide For—(Answer "Yes" or "No"): Call prior to maturity, other than for sinking fund (g)	Does Obligation Provide For—(Answer "Yes" or "No"): Sinking fund (h)	Is Other Property Pledged as Security on Leasehold (Answer "Yes" or "No"): First lien (i)	Is Other Property Pledged as Security on Leasehold (Answer "Yes" or "No"): Junior to first lien (j)	Approximate Number of Miles of Line Directly Subject to—: First lien (k)	Approximate Number of Miles of Line Directly Subject to—: Junior to first lien (l)
1	EQUIPMENT OBLIGATIONS - "Contd"											
2	1st 1963	6-15-63	6-15-78	4½	Note 8	No	No	No	Yes	No		
3	2nd 1963	12-15-63	12-15-78	4-3/8	Note 8	No	No	No	Yes	No		
4	1st 1964	4-1-64	4-1-79	4½	Note 6	No	No	No	Yes	No		
5	2nd 1964	8-15-64	8-15-79	4½	Note 4	No	No	No	Yes	No		
6	3rd 1964	12-15-64	12-15-79	4-3/8	Note 8	No	No	No	Yes	No		
7	1st 1965	3-15-65	3-15-80	4-3/8	Note 5	No	No	No	Yes	No		
8	2nd 1965	6-15-65	6-15-80	4-3/8	Note 8	No	No	No	Yes	No		
9	3rd 1965	11-1-65	11-1-80	4-5/8	Note 7	No	No	No	Yes	No		
10												
11	Total Equipment Trust Certificates											
12												
13	(c) CONDITIONAL OR DEFERRED PAYMENT CONTRACTS											
14	First National City Bank	5-1-50	5-1-65	2.84	Note 2	No	No	No	Yes	No		
15	Morgan Guaranty Tr.Co.of NY	4-1-51	4-1-67	Var.	Note 6	No	No	No	Yes	No		
16	Manufacturers Hanover Tr.Co.	2-1-56	2-1-66	3.575	Note 2	No	No	No	Yes	No		
17	Bankers Trust Co.	3-15-56	3-15-66	3.375	Note 5	No	No	No	Yes	No		
18	Manufacturers Hanover Tr.Co.	9-1-56	9-1-66	3.825	Note 5	No	No	No	Yes	No		
19	Manufacturers Hanover Tr.Co.	11-1-56	11-1-66	4.075	Note 7	No	No	No	Yes	No		
20	Irving Trust Company	1-1-57	1-1-67	4½	Note 3	No	No	No	Yes	No		
21	Mellon Natl.Bk.& Tr.Co.	6-1-57	4-1-67	4½	Note 1	No	No	No	Yes	No		
22	Chemical Bk.New York Tr.Co.	8-1-57	8-1-67	4½	Note 4	No	No	No	Yes	No		
23	Marine Midland Trust Co.	2-1-59	2-1-69	4.95	Note 4	No	No	No	Yes	No		
24	Central Natl. Bk.of Cleve.	8-1-59	8-1-69	4.9	Note 5	No	No	No	Yes	No		
25	Pittsburgh National Bank	2-15-60	2-15-70	5½	Note 4	No	No	No	Yes	No		
26	John Hancock Mutual Life Ins.	5-1-60	5-1-75	5½	Note 7	No	No	No	Yes	No		
27	Irving Trust Company	9-1-61	9-1-76	5¼	Note 5	No	No	No	Yes	No		
28	American Natl.Bk.& Tr.-Chic.	2-15-62	2-15-67	5.	Note 4	No	No	No	Yes	No		
29	Mellon Natl.Bk & Tr.Co.	4-1-62	4-1-72	5.1	Note 6	No	No	No	Yes	No		
30	Manufacturers Hanover Tr.Co.	6-1-62	7-1-72	5	Note 1	No	No	No	Yes	No		
31	Manufacturers Hanover Tr.Co.	10-1-62	11-1-72	3½	Note 7	No	No	No	Yes	No		
32	Manufacturers Hanover Tr.Co.	12-15-62	12-15-72	5	Note 8	No	No	No	Yes	No		
33	Manufacturers Hanover Tr.Co.	1-15-64	1-15-74	5	Note 4	No	No	No	Yes	No		
34	Chase Manhattan Bank	3-15-64	3-15-74	4.66	Note 5	No	No	No	Yes	No		
35	Irving Trust Company	4-15-64	4-15-74	4.7	Note 6	No	No	No	Yes	No		
36	Manufacturers Hanover Tr.Co.	5-1-64	5-1-74	5	Note 7	No	No	No	Yes	No		
37	National Bank of Detroit	5-15-64	5-15-74	4.66	Note 7	No	No	No	Yes	No		
38	Chemical Bank New York Tr.	6-15-64	6-15-74	4.6	Note 8	No	No	No	Yes	No		
39	Irving Trust Company	10-15-64	10-15-74	4.66	Note 6	No	No	No	Yes	No		
40	Bankers Trust Company	12-15-64	12-15-74	4.6	Note 8	No	No	No	Yes	No		
41	Chase Manhattan Bank	2-1-65	2-1-75	4.6	Note 4	No	No	No	Yes	No		
42	Morgan Guaranty Trust Co.	2-1-65	2-1-75	4.6	Note 4	No	No	No	Yes	No		
43	Morgan Guaranty Trust Co.	3-1-65	3-1-75	4.6	Note 5	No	No	No	Yes	No		
44	Bankers Trust Company	5-15-65	5-15-75	4.6	Note 7	No	No	No	Yes	No		
45	Chase Manhattan Bank	6-15-65	6-15-75	4.6	Note 8	No	No	No	Yes	No		
46	Morgan Guaranty Trust Co.	6-15-65	6-15-75	4.6	Note 8	No	No	No	Yes	No		
47												
48	Total Conditional or Deferred Payment Contracts											
49												
50												
51												
52												
53												
54												
55	GRAND TOTAL	XXXX	XXXX	XXXXX	XXXXX							

218. FUNDED DEBT AND OTHER OBLIGATIONS—Continued

Line No.	Total amount nominally and actually issued (m)	Amount Nominally Issued and—: Held in special funds or in treasury or pledged (Identify pledged securities by symbol "P", matured by symbol "M") (n)	Amount Nominally Issued and—: Canceled (o)	Total amount actually issued (p)	Amount Reacquired and—: Canceled through sinking fund or otherwise canceled (Identify canceled through sinking fund by symbol "S") (q)	Amount Reacquired and—: Held in special funds or in treasury or pledged (Identify pledged securities by symbol "P", matured by symbol "M") (r)	Total Amount Actually Outstanding: Unmatured (accounts 764, 765, and 768) (s)	Total Amount Actually Outstanding: Unmatured (account 766) (t)	Total Amount Actually Outstanding: Matured and on presentation made for payment (account 768) (u)	Line No.
	$	$	$	$	$	$	$	$	$	
1	4 275 000			4 275 000	855 000		3 420 000			1
2	3 600 000			3 600 000	720 000		2 880 000			2
3	5 175 000			5 175 000	690 000		4 485 000			3
4	4 200 000			4 200 000	560 000		3 640 000			4
5	6 300 000			6 300 000	840 000		5 460 000			5
6	4 500 000			4 500 000			4 200 000	300 000		6
7	5 520 000			5 520 000			5 152 000	368 000		7
8	5 175 000			5 175 000	690 000		4 485 000			8
9	(*)									9
10	158 895 000			158 895 000	97 718 000		54 229 000	6 948 000		10
11										11
12										12
13	4 468 800			4 468 800	4 468 800					13
14	104 330 636			104 330 636	99 672 249		529 822	4 128 565		14
15	9 225 000			9 225 000	8 768 077			456 923		15
16	10 955 244			10 955 244	10 416 298			538 946		16
17	9 966 004			9 966 004	9 064 911			901 093		17
18	10 017 680			10 017 680	9 235 521			782 159		18
19	32 203 471			32 203 471	30 598 638		1 604 833			19
20	1 670 563			1 670 563	1 630 918	39 645				20
21	5 000 000			5 000 000	4 010 394	989 606				21
22	2 975 000			2 975 000	2 010 936	964 064				22
23	2 300 000			2 300 000	1 449 349	850 651				23
24	3 584 622			3 584 622	1 802 206	1 782 416				24
25	3 140 460			3 140 460	46 384		2 780 030	314 046		25
26	3 500 000			3 500 000	329 860		2 878 473	291 667		26
27	1 065 000			1 065 000	745 500	319 500				27
28	3 466 364			3 466 364	1 991 324		1 475 040			28
29	3 671 652	2 569 986	1 101 666							29
30	1 260 000	882 000	378 000							30
31	1 795 550	1 254 817	540 733							31
32	1 620 880	1 377 748	243 132							32
33	9 156 361			9 156 361	2 826 490		6 329 871			33
34	5 246 049			5 246 049	1 105 000		4 141 049			34
35	1 230 104	1 045 586	184 516							35
36	3 407 562			3 407 562	1 019 989		2 387 573			36
37	5 418 535			5 418 535	1 297 492		4 121 043			37
38	2 106 497			2 106 497	440 250		1 666 247			38
39	3 862 288			3 862 288	325 888		3 143 467	392 933		39
40	7 300 603			7 300 603	1 125 569		6 175 034			40
41	2 951 279			2 951 279	120 536		2 669 549	361 194		41
42	4 096 044			4 096 044	808 144		3 287 900			42
43	1 300 019			1 300 019	216 541		1 083 478			43
44	1 718 792			1 718 792	294 063		1 424 729			44
45	1 825 800			1 825 800	303 084		1 522 716			45
46	(*)									46
47	265 836 859	7 130 139	2 448 047	256 258 673	196 124 411	4 945 882	47 020 854	8 167 526		47

(*) See notes page 237F)

	(*)									
1392	009 734	232 804	139 64	568 047	109 637 568	454 868	311 17	818 782	603 014	929 18 815 526

215. FUNDED DEBT AND OTHER OBLIGATIONS

Line No.	Name and character of obligation	Nominal date of issue	Date of maturity	Interest Provisions: Rate per annum (or nominal rate)	Interest Provisions: Dates due	Does Obligation Include Item (Answer "Yes" or "No"): Conversion privilege	Does Obligation Include Item (Answer "Yes" or "No"): Call prior to maturity, other than for sinking fund	Does Obligation Include Item (Answer "Yes" or "No"): Sinking fund	Is Funded Property Pledged as Security for Obligation (Answer "Yes" or "No"): Equipment obligations	Is Funded Property Pledged as Security for Obligation (Answer "Yes" or "No"): Factor to find face	Approximate Number of Miles of Line Directly Subject to—: First lien	Approximate Number of Miles of Line Directly Subject to—: Factor to find line
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
1	754-764 - FUNDED DEBT UNMATURED											
2	4(A) GENERAL MORTGAGE "B"	12/1/88	12/1/88	5	6/1 12/1	NO	NO	NO	)			
3	" " "D"	4/1/21	4/1/21	4½	4/1 10/1	"	"	"	)			
4	" " "E"	7/1/24	7/1/24	4½	1/1 7/1	"	"	YES	) YES	YES	2,618	
5	" " "F"	1/20/65	1/1/65	3-1/8	1/1 7/1	"	YES	"	)			
6	" " "G"	5/1/25	5/1/25	3	5/1 11/1	"	"	"				
7	" " "H"	6/23/50	4/1/65	4½	4/1 10/1	"	"	NO	)			
8	" " "I"	6/1/10	4/1/65	4½	4/1 10/1	"	"	"				
9	TOTAL 4(A)											
10	5(A) N.Y.S.L.V.R.R., HENRY K. NORTON, TR.COR.VICE.SEC.TR.CTFS.	12/20/00	1/1/73	4	1/1 7/1	NO	YES	YES	NO	NO	25	
11	TOTAL 5(A)											
12	5 REAL ESTATE MORTGAGES AND OBLIGATIONS											
13	RENTS											
14	1ST NATL.BANK ST.L.C.S.A.	12/12/63	6/15/13	VARIOUS	2/15 8/15	NO	YES	NO	YES	NO		
15	1ST NATL.CITY BK.N.Y.LOAN	6/5/62	VARIOUS	5	VARIOUS	VARIOUS	"	"	"	"		
16	1ST NATL.BANK, AKRON, O. LOAN			4.1/250/67								
17	-AGREE.	12/19/63	5/30/71	VARIOUS	4.20							
18	SPEAKER SYNDICATE SYS.C.S.A.	1/2/58	VARIOUS	4.65	1/15 7/15	"	"	"	"	"		
19	OHIO NATL.BK. OF COLS., O.											
20	LOAN AGREE.	VARIOUS	VARIOUS	VARIOUS	VARIOUS	"	"	"	"	"		
21	1ST NATL.BK. OF MD. C.S.A.	5/15/64	5/15/89	4½	6/1 12/1	NO	YES	NO	YES	NO		
22	1ST NATL. CITY BANK, N.Y.	5/1/63	1/30/68	4½	VARIOUS	"	"	"	"	"		
23	1ST NATL. CITY BANK, N.Y.LOAN	7/13/63	4/30/65	4½	VARIOUS	"	"	"	"	"		
24	INDIANA NATL.BK., INDPLS., IND.	4/24/64	5 3/15/70	4½	VARIOUS	"	"	"	"	"		
25	RAILWAY MAINTENANCE CORP.	12/1/54	5 1/15/70	4½	1/15 7/15	"	"	"	"	"		
26	UNION NATL. BANK OF PGH.	12/1/65	5 12/1/70	4½	6/1 12/1	"	"	"	"	"		
27	CHEMICAL BK. N.Y. TRUST											
28	PROMISSORY NOTE	4/1/56	12/31/63	5½	MONTHLY	NO	YES	NO	YES	NO		
29	FIRST & NEIGHBORS NATL.BK.	1/15/65	12/15/70	5	6/1 12/1	"	"	"	"	"		
30	1ST NATL.CITY BANK N.Y.	6/23/55	10/30/68	VARIOUS	VARIOUS	"	"	"	"	"		
31	1ST NATL.BANK OF CHICAGO	9/1/65	1/15/72	6	1/15 7/15	"	"	"	"	"		
32	TOTAL 5(A)											
33	TOTAL 4(A), 5(A) AND 5											
34	754-764 - EQUIPMENT OBLIGATIONS											
35	4(A) EQUIPMENT TRUST CTFS. "AAA"	3/5/53	5 3/1/68	3	3/1 9/1	NO	NO	NO	YES	NO		
36	" " " "AAM"	12/10/53	5 3/1/68	3-1/8	3/1 9/1	"	"	"	"	"		
37	" " " "BBB"	3/2/54	5 3/1/69	3-3/4	3/1 9/1	"	"	"	"	"		
38	" " " "CCC"	2/1/55	5 2/1/70	3-3/4	2/1 8/1	"	"	"	"	"		
39	" " " "DDD"	10/10/55	5 11/1/70	3-1/8	5/1 11/1	"	"	"	"	"		
40	" " " "EEE"	12/20/55	5 1/1/71	3-1/4	1/1 7/1	"	"	"	"	"		
41	" " " "FFF"	4/1/56	5 4/1/71	3-1/8	4/1 10/1	"	"	"	"	"		
42	" " " "GGG"	5/15/56	5 4/1/71	3-3/4	4/1 10/1	"	"	"	"	"		
43	" " " "HHH"	1/3/57	5 1/1/72	4-1/8	1/1 7/1	"	"	"	"	"		
44	" " " "III"	4/2/57	5 4/1/72	3-3/4	4/1 10/1	"	"	"	"	"		
45	" " " "JJJ"	6/13/57	5 6/1/72	4-1/4	6/1 12/1	"	"	"	"	"		
46	" " " "KKK"	10/1/65	10/1/80	5-1/4	4/1 10/1	"	"	"	"	"		
47	" " " "LLL"	2/1/61	2/1/81	5-1/4	2/1 8/1	"	"	"	"	"		
48	TOTAL 4(A)											

GRAND TOTAL

Railroad Corporations—Operating—A.

215. FUNDED DEBT AND OTHER OBLIGATIONS—Continued

Total Amount Nominally Issued and—	Amount Nominally Issued and— (Identical with Company Reported Amount)	Amount Nominally Issued and— (Held by or for Company)	Total Amount Outstanding— (Reported Elsewhere in This Schedule)	Total Amount Outstanding— (Held by or for Company)	Total Amount Outstanding— (Nominally Issued by Company)	Total Amount Outstanding— (Reported Elsewhere in This Schedule)	Total Amount Outstanding— (Held by or for Company)	Total Amount Outstanding— (Nominally Issued by Company)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
50 000 000			50 000 000	$ 7 365 000	42 635 000			
50 000 000			50 000 000		44 041 000			
50 000 000			50 000 000	$ 7 933 000	35 524 000			259 000
60 000 000			60 000 000	$ 12 671 000	46 650 000			500 000
57 170 000			57 170 000	$ 11 503 000	43 774 000			572 000
44 000 000			44 000 000	$ 33 000 000	4 000 000			
16 000 000	16 000 000							
327 170 000	16 000 000		311 170 000	72 703 000	217 124 000			1 422 000
1 200 000			1 200 000	1 055 000	145 000			
1 200 000			1 200 000	1 055 000	145 000			
175 247			175 247	171 359	3 888			
398 788			398 788	119 637	279 278			39 879
655 646			655 646	552 302				65 344
520 025			520 025	210 031	240 025			70 000
740 346			740 346	552 759				147 587
2 260 747			2 260 747	918 558	850 000			452 149
659 070			659 070	349 070	340 000			170 000
50 000 000			50 000 000	12 400 000	35 200 000			2 400 000
479 539			479 539	269 605	256			209 934
235 650			235 650	71 058	118 592			47 272
745 023			745 023	223 597	328 512			169 004
705 456			705 456	141 293	423 880			141 293
6 000 000			6 000 000	900 000				5 100 000
559 228			559 228	79 845	239 537			79 845
631 681			631 681	69 173	246 749			315 941
1 215 232			1 215 232		1 093 709			121 523
68 275 249			68 275 249	17 537 352	30 416 816			9 521 874
326 695 249	16 000 000		328 695 249	90 695 352	19 911 000	256 755 816		10 043 874
4 800 000			4 800 000	4 160 000	25 000	300 000		315 000
4 230 000			4 230 000	3 665 000		282 000		282 000
5 265 000			5 265 000	4 212 000		702 000		351 000
6 810 000			6 810 000	4 994 000	46 000	1 337 000		433 000
7 955 000			7 955 000	5 844 000		1 593 000		531 000
11 355 000			11 355 000	7 730 000	85 000	3 005 000		721 000
7 350 000			7 350 000	5 292 000	61 000	1 703 000		504 000
6 873 000			6 873 000	4 749 000	35 000	1 654 000		444 000
9 300 000			9 300 000	5 850 000	140 000	2 650 000		660 000
4 950 000			4 950 000	3 135 000	20 000	1 465 000		330 000
5 450 000			5 450 000	3 477 000	4 000	1 643 000		366 000
10 410 000			10 410 000	694 000		9 002 000		694 000
12 002 000			12 002 000			11 203 000		819 000
97 268 000			97 268 000	53 874 000	473 000	36 525 000		7 171 000

Railroad Corporations—Operating—A.

218. FUNDED DEBT AND OTHER OBLIGATIONS

Line No.	Name and character of obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Interest Provisions: Rate percent per annum (current year) (d)	Interest Provisions: Dates due (e)	Does obligation provide for— (Answer "Yes" or "No"): Conversion (f)	Call prior to maturity, other than for sinking fund (g)	Sinking fund (h)	Is other property (real or personal or leasehold) subject to lien of the obligation? (Answer "Yes" or "No"): First lien (i)	Junior to first lien (j)	Approximate number of miles of line directly subject to—: First lien (k)	Junior to first lien (l)
1	4(c) Conditional Sale Agreements											
2	First National City Bank of N.Y.	10/1/50	S 1/1/67	3	1/1 7/1	No	Yes	No	Yes	No		
3	" " " " "	12/1/50	"	Various	" "	"	"	"	"	"		
4	" " " " "	1/1/51	"	3	" "	"	"	"	"	"		
5	" " " " "	6/15/51	S 7/1/67	3-3/8	" "	"	"	"	"	"		
6	Phila. National Bank	3/1/52	S 10/1/58	3-1/2	4/1 10/1	"	"	"	"	"		
7	Chemical Bk. N.Y. Trust Co.	9/2/57	S 11/1/72	5	5/1 1/1	"	"	"	"	"		
8	Irving Trust Co. N.Y.	12/1/57	S 2/1/69	5-1/4	2/1 8/1	"	"	"	"	"		
9	Bowery Savings Bk. N.Y.	3/25/58	S 3/26/73	4.43	3/25 9/26	"	"	"	"	"		
10	Harris Tr. & Sav. Bk., Chgo. Ill.	4/1/58	S 4/1/73	4-1/2	4/1 10/1	"	"	"	"	"		
11	" " " " " "	7/15/58	S 7/15/69	4-1/2	1/15 7/15	"	"	"	"	"		
12	Fidelity-Phila. Trust Co.	7/1/58	S 5/1/73	Various	5/1 11/1	"	"	"	"	"		
13	Girard Trust Bank, Phila.	12/1/58	S 11/1/68	Various	" "	"	"	"	"	"		
14	" " " "	4/15/59	S 5/1/70	"	" "	"	"	"	"	"		
15	Fidelity-Phila. Tr. Co. Agt. for											
16	First Natl. Bk., Chgo & Irving											
17	Trust Co., N.Y.	1/15/59	S 8/1/69	Various	2/1 8/1	"	"	"	"	"		
18	Mellon Natl. Bk. & Tr. Co.	11/2/59	S 12/1/74	5-1/2	6/1 12/1	"	"	"	"	"		
19	Irving Trust Co., N.Y.	2/15/60	S 8/1/70	Various	2/1 8/1	"	"	"	"	"		
20	Provident National Bank	1/15/61	S 9/1/71	Various	3/1 9/1	"	"	"	"	"		
21	Fidelity Phila. Trust Co.	11/15/61	S 8/1/72	"	2/1 8/1	"	"	"	"	"		
22	National City Bank, Cleveland	12/1/61	S 1/1/67	4.65	1/1 7/1	"	"	"	"	"		
23	National Bank of Detroit	12/1/61	S 1/1/67	4.65	1/1 7/1	"	"	"	"	"		
24	Pittsburgh National Bank	2/27/62	S 1/1/67	4.55	1/1 7/1	"	"	"	"	"		
25	Northern Trust Co. Chicago	8/3/62	S 2/15/67	4.65	8/15 2/15	"	"	"	"	"		
26	Manufacturers & Traders Tr. Co.	8/3/62	S 5/15/67	4.55	11/15 5/15	"	"	"	"	"		
27	Pittsburgh National Bank	10/4/62	S 5/1/67	4.65	11/1 5/1	"	"	"	"	"		
28	Harrisburg National Bank	11/30/62	S 10/15/67	4.65	4/15 10/15	"	"	"	"	"		
29	Manufacturers Hanover Trust Co.	2/14/63	S 12/15/77	4.60 4.15	6/15 12/15	"	"	"	"	"		
30	Morgan Guaranty Trust Co.	3/14/63	S 12/15/77	" "	6/15 12/15	"	"	"	"	"		
31	Mellon Natl. Bank & Tr. Co.	6/3/63	S 6/15/78	" "	6/15 12/15	"	"	"	"	"		
32	Manufacturers Hanover Tr. Co.	9/5/63	S 9/15/73	Various	3/15 9/15	"	"	"	"	"		
33	First National City Bk. N.Y.	4/1/64	S 9/1/79	Various	3/1 9/1	"	"	"	"	"		
34	Indiana National Bank	4/24/64	Various	4.50	Various	"	"	"	"	"		
35	Cleveland Trust Co.	10/23/64	S 9/15/69	4.50	3/15 9/15	"	"	"	"	"		
36	First National City Bank, N.Y.	10/1/64	S 3/15/80	4.50	9/15 3/15	"	"	"	"	"		
37	Indiana National Bank, Indpls.	10/15/64	S 10/15/79	4.75	4/15 10/15	"	"	"	"	"		
38	Fidelity Phila. Trust Co.	12/1/64	S 1/15/80	4.50	7/15 1/15	"	"	"	"	"		
39	Cleveland Trust Co.	12/15/64	S 12/15/69	4.50	6/15 12/15	"	"	"	"	"		
40	First National Bank, St. Louis	2/3/65	S 2/15/70	4.50	2/15 8/15	"	"	"	"	"		
41	Continental Ill., Natl. Bk. & Tr. Co.	3/14/65	S 5/15/70	4.50	5/15 11/15	"	"	"	"	"		
42	Girard Trust Bank	4/15/65	S 6/15/80	4.75	6/15 12/15	"	"	"	"	"		
43	National City Bk. of Cleveland	5/3/65	S 8/15/70	4.50	2/15 8/15	"	"	"	"	"		
44	Fidelity Phila. Trust Co.	6/1/65	S 4/1/80	4.50	4/1	"	"	"	"	"		
45	First National City Bank, N.Y.	7/1/65	S 7/15/73	4.50	1/15	"	"	"	"	"		
46	Trenton Trust Co.	7/1/65	S 8/1/80	4.70	2/1 8/1	"	"	"	"	"		
47	Bankers Trust Co. N.Y.	7/30/65	S 8/15/80	4.50	2/15 8/15	"	"	"	"	"		
48	First National City Bk. N.Y.	9/1/65	S 11/15/73	4.50	5/15 11/15	"	"	"	"	"		
56							Grand Total		x x x x	x x x x	x x x x x	x x x x x

218. FUNDED DEBT AND OTHER OBLIGATIONS—Continued

Amount nominally issued and—: Total amount nominally and actually issued (m)	Held in special funds or in treasury or pledged (Identify pledged securities by symbol "P"; matured by symbol "M") (n)	Canceled (o)	Total amount actually issued (p)	Amount reacquired and—: Canceled through sinking fund or otherwise canceled (Identify canceled through sinking fund by symbol "S") (q)	Held in special funds or in treasury or pledged (Identify pledged securities by symbol "P"; matured by symbol "M") (r)	Total amount actually outstanding: Unmatured (accounts 765, 766, and 767) (s)	Unmatured (account 764) (t)	Matured and no provision made for payment (account 768) (u)	Line No.
$	$	$	$	$	$	$	$	$	
									1
83 706 000			83 706 000	83 706 000					2
32 166 000			32 166 000	31 743 852			422 148		3
10 386 000			10 386 000	10 198 400			187 600		4
40 043 700			40 043 700	38 578 770			1 464 930		5
50 472 000			50 472 000	47 636 141	31 194	448 208	2 356 457		6
10 200 000			10 200 000	6 120 000		3 420 000	660 000		7
5 750 000			5 750 000	4 887 500		287 500	575 000		8
2 000 000			2 000 000	1 253 331		640 002	106 667		9
3 454 000			3 454 000	2 184 000		1 036 000	234 000		10
6 910 027			6 910 027	5 749 784		450 243	710 000		11
5 092 005			5 092 005	2 885 469		1 867 069	339 467		12
6 009 636			6 009 636	5 000 000		384 636	625 000		13
25 000 000			25 000 000	17 668 000		4 832 000	2 500 000		14
									15
									16
3 852 183			3 852 183	3 150 000		282 183	420 000		17
9 530 362			9 530 362	4 410 362		4 480 000	640 000		18
19 000 000			19 000 000	12 192 961		4 907 039	1 900 000		19
28 550 000			28 550 000	15 590 111		10 104 891	2 854 998		20
24 425 000			24 425 000	9 770 000		12 212 500	2 442 500		21
1 009 050			1 009 050	908 145			100 905		22
1 160 950			1 160 950	1 044 855			116 095		23
542 500			542 500	488 250			54 250		24
819 577			819 577	737 619			81 958		25
417 500			417 500	375 750			41 750		26
281 413			281 413	253 312			28 101		27
421 650			421 650	337 320			84 330		28
2 933 423			2 933 423	708 067		2 023 051	202 305		29
4 645 363			4 645 363	1 121 294		3 203 699	320 370		30
8 719 953			8 719 953	2 034 655		6 103 968	581 330		31
10 169 550			10 169 550	3 034 487		6 115 768	1 019 295		32
40 200 000			40 200 000	6 079 088		31 496 227	2 624 685		33
1 262 413			1 262 413	378 724		631 206	252 483		34
804 654			804 654	321 862		321 861	160 931		35
24 454 904			24 454 904	2 445 481		20 379 086	1 630 327		36
1 480 863			1 480 863	197 448		1 184 691	98 724		37
20 246 925			20 246 925	2 024 692		16 872 438	1 349 795		38
584 230			584 230	233 692		233 692	116 846		39
456 460			456 460	136 938		228 230	91 292		40
787 480			787 480	236 244		393 740	157 496		41
19 161 458			19 161 458	1 916 145		15 967 882	1 277 431		42
1 310 395			1 310 395	262 079		786 237	262 079		43
30 000 000			30 000 000	2 000 000		26 000 000	2 000 000		44
10 000 000			10 000 000	1 250 000		7 500 000	1 250 000		45
9 995 456			9 995 456	666 371		8 662 714	666 371		46
2 863 350			2 863 350	190 890		2 481 570	190 890		47
8 850 000			8 850 000	1 106 250		6 637 500	1 106 [illegible]		48

218. FUNDED DEBT AND OTHER OBLIGATIONS

Line No.	Name and character of obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Interest Provisions: Rate percent per annum (interest year) (d)	Interest Provisions: Dates due (e)	Does Obligation Provide For—(Answer "Yes" or "No"): Conversion (f)	Call prior to maturity, other than for sinking fund (g)	Sinking fund (h)	Is Other Property (Real or Personal or Both) Subject to Lien of the Obligation? (Answer "Yes" or "No"): First Lien (i)	Junior to first lien (j)	Approximate Number of Miles of Line Directly Subject to—: First Lien (k)	Junior to first lien (l)
1	4(C) CONDITIONAL SALE AGREEMENTS											
2	BANKERS TRUST CO., N.Y.	10/1/65	4/15/80	4.50	4/15 10/15	NO	YES	NO	YES	NO		
3	PITTSBURGH NATL. BK.	12/15/65	VARIOUS	4½	VARIOUS	"	"	"	"	"		
4	PITTSBURGH NATL. BANK	1/2/66	1/15/71	4.50	7/15 1/15	"	"	"	"	"		
5	IRVING TRUST CO., N.Y.	4/15/66	5/15/71	5-1/8	11/15 5/15	"	"	"	"	"		
6	FIRST NATL. CITY BANK N.Y.	5/1/66	2/15/86	5-3/4	2/15 8/15	"	"	"	"	"		
7	GIRARD TRUST BANK, PHILA., PA.	7/1/66	7/1/68	5-7/8	1/1 7/1	"	"	"	"	"		
8	NORTHERN TRUST CO., CHICAGO, ILL.	9/1/65	9/1/71	6	3/1 9/1	"	"	"	"	"		
9	CHEMICAL BANK-N.Y. TRUST CO.	11/15/66	3/31/75	VARIOUS	3/31 9/30	"	"	"	"	"		
10	" " " " "	11/15/66	3/31/69	"	3/31 9/30	"	"	"	"	"		
11												
12	TOTAL 4(C)											
13												
14	TOTAL A											
15												
16												
17												

21B. FUNDED DEBT AND OTHER OBLIGATIONS

Line No.	Name and character of obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Interest Provisions: Rate per annum (if fixed) (d)	Interest Provisions: Dates due (e)	Dues Obligation Payable Form—(Answer "Yes" or "No"): Con-version (f)	Call prior to maturity for sinking fund (g)	Sinking fund (h)	Is Other Property (Real or Personal or Both) Subject to Lien of the Organization Leased "Yes" or "No"? First Lien (i)	Junior to first lien (j)	Approximate Number of Miles of Line Property Subject to—: First lien (k)	Junior to first lien (l)
1	FUNDED DEBT UNMATURED											
2	(1) MORTGAGE BONDS: (a)											
3	Boston & Albany RR.-Segmts.	8-1-28	8-1-78	4½	Feb-Aug	No	Yes	No				
4	Catskill & Tannersville RR.-1st	12-1-92	12-1-81	4	June-Dec	No	No	No	Yes	No	46	
5	Detroit & Mackinac Ry.-1st	4-1-90	4-1-50	4	Apr-Oct	No	No	No	Yes	No	199	
6	Lake Shore & Mich. So. RR.-Gold	6-1-97	6-1-97	3½	June-Dec	No	No	No	Yes	No	903	
7	Malone & Malone Ry.-1st	7-1-97	9-1-91	4	Mar-Sept	No	No	No	Yes	No	126	
8	Mohawk & Malone Ry.-Cons.	3-1-02	3-1-02	3½	Mar-Sept	No	No	No	No	Yes		126
9	New Jersey Junction RR.-1st	6-30-69	2-1-86	4	Feb-Aug	No	No	No	Yes	No	4	
10	New York & Putnam RR.-1st Con.	4-15-84	10-1-93	4	Apr-Oct	No	No	No	Yes	No	28	
11	Sturgis Goshen & St. L. RR.-1st	12-1-88	12-1-88	3	June-Dec	No	No	No	Yes	No	17	
12	West Shore RR.-1st	1-1-26	1-1-2361	4	Jan-July	No	No	No	Yes	No	297	
13	NYC & H RR Co.-Gold	7-1-97	7-1-97	3½	Jan-July	No	No	No	Yes	No	1 158	591
14	NYC & HR RR Co.-Lake Shore	Coll	2-1-98	2-1-98	3½	Feb-Aug	No	No	No	Yes	Yes	
15	NYC & HR RR Co.-Mich. Cent.	Coll	2-1-98	2-1-98	3½	Feb-Aug	No	No	No	Yes	Yes	
16	NYC & HR RR Co.-Ser. A-R&I	10-1-13	10-1-2013	4½	Apr-Oct	No	Yes	No	Yes	Yes		
17	NYC RR Co.-Series "A"-R&I	4-1-31									891	2 677
18	NYC RR Co.-Series "B" - R&I	10-1-20	10-1-13	6		No	No	No	Yes	Yes		
19	NYC RR Co.-Series "C" - R&I	4-1-22	10-1-13	5	Apr-Oct	No	Yes	No	Yes	Yes		
20	NYC RR Co.-Series "A"-Cons.	Various	2-1-98	4	Feb-Aug	No	No	No	No	Yes	4	2 652
21	NYC RR Co.-Series "C"-Cons.	4-30-34	2-1-98	4	Feb-Aug	No	No	Yes	No	Yes	4	1 749
22												
23												
24												
25	(2) COLLATERAL TRUST BONDS AND NOTES: (a)											
26	NYC RR Co.-Coll. Trust Bonds	4-15-63	4-15-90	6	Apr-Oct	No	Yes	Yes	Yes	Yes		
27	NYC RR Co.-Coll. Trust Bonds	4-1-55	4-1-80	6	Apr-Oct	No	Yes	Yes	Yes	Yes		
28	NYC RR Co.-Coll. Trust Bonds	1-1-55	1-1-80	5½	Jan-July	No	Yes	Yes	Yes	Yes		
29	NYC RR Co.-Coll. Trust Bonds	1-1-55	1-1-80	5½	Jan-July	No	Yes	Yes	Yes	Yes		
30	NYC RR Co.-Coll. Trust Notes	10-15-59	7-1-74	5	Jan-July	No	Yes	No	Yes	Yes		
31												
32												
33	NOTE: 6 - Sinking Fund to be effective and operative only when any of the bonds shall be actually outstanding.											
34												
35												
36	EQUIPMENT OBLIGATIONS:											
37	(3) EQUIPMENT TRUST CERTIFICATES											
38	1st 1951	1-1-51	1-1-66	2½	Note 3	No	No	No	Yes	No		
39	2nd 1951	12-1-51	12-1-66	3-3/8	Note 8	No	No	No	Yes	No		
40	1st 1952	2-1-52	2-1-67	3-3/8	Note 4	No	No	No	Yes	No		
41	2nd 1952	5-15-52	5-15-67	3-1/8	Note 7	No	No	No	Yes	No		
42	3rd 1952	8-15-52	8-15-67	3½	Note 4	No	No	No	Yes	No		
43	1st 1953	1-1-53	1-1-68	3-1/8	Note 3	No	No	No	Yes	No		
44	2nd 1953	3-15-53	3-15-68	3-5/8	Note 5	No	No	No	Yes	No		
45	1st 1955	9-15-55	9-15-70	3-5/8	Note 5	No	No	No	Yes	No		
46	1st 1957	1-1-57	1-1-72	4½	Note 3	No	No	No	Yes	No		
47	2nd 1957	4-1-57	4-1-72	4-3/8	Note 6	No	No	No	Yes	No		
48	3rd 1957	9-16-57	9-1f-72	5	Note 5	No	No	No	Yes	No		
49	1st 1960	6-1-60	6-1-75	5½	Note 8	No	No	No	Yes	No		
50	1st 1961	2-15-61	2-15-76	4½	Note 4	No	No	No	Yes	No		
51	2nd 1961	6-1-61	6-1-76	4-7/8	Note 8	No	No	No	Yes	No		
52	1st 1963	6-15-63	6-15-78	4½	Note 8	No	No	No	Yes	No		
53	2nd 1963	12-15-63	12-15-78	4-3/8	Note 8	No	No	No	Yes	No		
54	1st 1964	4-1-64	4-1-79	4½	Note 6	No	No	No	Yes	No		

(Continued on page 237A)

GRAND TOTAL

21B. FUNDED DEBT AND OTHER OBLIGATIONS—Continued

Line No.	Total amount nominally and actually issued (m)	Amount Nominally Issued and—: Held in special funds in treasury of corporation (Identify pledged securities by symbol "P", pledged to trustee "PT") (n)	Amount Nominally Issued and—: Canceled (o)	Amount Reacquired and—: Total amount actually issued (p)	Amount Reacquired and—: Canceled through sinking funds or otherwise (Identify canceled through sinking fund by symbol "SF") (q)	Amount Reacquired and—: Held in special funds in treasury of carrier (Identify pledged securities by symbol "P", pledged to trustee "PT") (r)	Total Amount Actually Outstanding: Contained (account 764, 765, and 767) (s)	Total Amount Actually Outstanding: Contained (account 766) (t)	Total Amount Actually Outstanding: Matured and on presentation made for payment (account 769) (u)	Line No.
1										
2										
3	5 703 000			5 700 000		659 000	5041 000			
4	1 100 000			1 100 000	3 000	227 000	870 000			
5	2 469 000			2 469 000	689 000	229 000	1551 000			
6	50 000 000			50 000 000		1205 000	F248735 000			
7	2 500 000			2 500 000		950 000	PP 1550 000			
8	3 900 000			3 900 000		831 000	3069 000			
9	2 000 000		300 000	1 700 000	312 000	191 000	1197 000			
10	4 025 000			4 025 000	2250 000	9 000	1766 000			
11	322 000			322 000	224 000	94 000	4 000			
12	50 000 000			50 000 000	15127 500		34872 500			
13	100 000 000	6 000 000 PP		94 000 000	13497 000	49 000	80454 000			
14	90 578 400			90 578 400	69540 400	3712 000	17326 000			
15	19 336 000			19 336 000		1551 000	17785 000			
16	60 000 000		20 000 000	40 000 000	18581 000	429 000	95390 000			
17	75 000 000			75 000 000						
18	38 494 000	4 494 000	34 000 000							
19	260 000 000	166 980 000 PP	7 820 000	85 260 000	21006 000	902 000	63392 000			
20	69 540 000			69 540 000	410 000	1210 000	67920 000			
21	48 000 000	48 000 000 PP								
22										
23										
24										
25										
26										
27	9 800 000			9 800 000	400 000	100	8999 900		400 000	
28	33 216 300			33 216 300	11000 000	543 550	20672 750		1 000 000	
29	926 375			926 375	275 000	174 675	476 700			
30	370 800			370 800	110 000	87 200	173 600			
31	40 000 000			40 000 000	13200 000		23500 000		3 300 000	
32										
33										
34	84 313 475			84 313 475	24985 000	805 525	53822 950		4 700 000	

PP - Partially pledged (See page 237E for detail)

35										
36										
37										
38	7 500 000			7 500 000	7500 000					
39	8 100 000			8 100 000	8100 000					
40	8 850 000			8 850 000	8260 000					
41	5 220 000			5 220 000	4872 000					
42	8 475 000			8 475 000	7910 000					
43	11 625 000			11 625 000	10075 000		775 000		775 000	
44	9 375 000			9 375 000	8125 000		625 000		625 000	
45	7 500 000			7 500 000	5500 000		1500 000		500 000	
46	8 053 000			8 053 000	7433 000		2685 000		537 000	
47	3 825 000			3 825 000	2295 000		1275 000		255 000	
48	3 555 000			3 555 000	2133 000		1185 000		237 000	
49	4 590 000			4 590 000	1836 000		2448 000		306 000	
50	3 825 000			3 825 000	1280 000		2295 000		250 000	
51	4 155 000			4 155 000	1424 000		2458 000		273 000	
52	4 275 000			4 275 000	855 000		3135 000		285 000	
53	3 600 000			3 600 000	720 000		2640 000		240 000	
54	5 175 000			1 175 000	690 000		4140 000		345 000	

(Continued on page 237B)

218. FUNDED DEBT AND OTHER OBLIGATIONS

Line No.	Name and character of obligation	Nominal date of issue	Date of maturity	Interest Provisions: Rate per annum (fixed) or basis	Interest Provisions: Dates due	Does Obligation Provide For—: Conversion	Does Obligation Provide For—: Call prior to maturity, other than for sinking fund	Does Obligation Provide For—: Sinking fund	Is Other Property (Real or Personal) Security for Less Than Entire Obligation? (Answer "Yes" or "No"): First lien	Is Other Property (Real or Personal) Security for Less Than Entire Obligation? (Answer "Yes" or "No"): Junior to first lien	Authorized but Unissued Balance of Issue Pledged or Held Uniquely Secure To—: First lien	Authorized but Unissued Balance of Issue Pledged or Held Uniquely Secure To—: Junior to first lien
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
1	EQUIPMENT OBLIGATIONS "Contd"											
2	2nd 1964	8-15-64	8-15-79	4½	Note 4	No	No	No	Yes	No		
3	3rd 1964	12-15-64	12-15-79	4-3/8	Note 8	No	No	No	Yes	No		
4	1st 1965	3-15-65	3-15-80	4-3/8	Note 5	No	No	No	Yes	No		
5	2nd 1965	6-15-65	6-15-80	4-3/8	Note 8	No	No	No	Yes	No		
6	3rd 1965	11-1-65	11-1-80	4-5/8	Note 7	No	No	No	Yes	No		
7	1st 1966	2-15-66	2-15-81	4½	Note 4	No	No	No	Yes	No		
8	2nd 1966	8-15-66	8-15-81	5-3/8	Note 8	No	No	No	Yes	No		
9	3rd 1966	11-1-66	11-1-81	5-7/8	Note 7	No	No	No	Yes	No		
10												
11												
12												
13	(c) CONDITIONAL OR DEFERRED PAYMENT CONTRACTS:											
14	Morgan Guaranty Tr.Co.of N	4-1-51	4-1-67	Var.	Note 6	No	No	No	Yes	No		
15	Manufacturers Han.Trust Co	2-1-56	2-1-66	3.575	Note 2	No	No	No	Yes	No		
16	Bankers Trust Co.	3-15-56	3-15-66	3.575	Note 5	No	No	No	Yes	No		
17	Manufacturers Han.Trust Co	9-1-56	9-1-66	3.825	Note 5	No	No	No	Yes	No		
18	Manufacturers Han.Trust Co	11-1-56	11-1-66	4.075	Note 7	No	No	No	Yes	No		
19	Irving Trust Co.	1-1-57	1-1-67	4½	Note 3	No	No	No	Yes	No		
20	Mellon Natl.Bk.& Tr. Co.	6-1-57	6-1-67	4½	Note 1	No	No	No	Yes	No		
21	Chemical Bk.New York Tr.Co	8-1-57	8-1-67	4½	Note 4	No	No	No	Yes	No		
22	Natine Nakland Trust Co.	2-1-59	2-1-69	4.95	Note 4	No	No	No	Yes	No		
23	Central Natl.Bk.of Cleve.	8-1-59	8-1-69	4.9	Note 5	No	No	No	Yes	No		
24	Fiftcbank National Bank	2-15-60	2-15-70	5½	Note 4	No	No	No	Yes	No		
25	John Hancock Mutual Life In	5-1-60	5-1-75	5½	Note 7	No	No	No	Yes	No		
26	Irving Trust Company	9-1-61	9-1-76	5½	Note 5	No	No	No	Yes	No		
27	American Natl.Bk.& Tr.Co-C	2-15-62	2-15-87	5	Note 4	No	No	No	Yes	No		
28	Mellon Natl.Bk.& Tr.Co.	4-1-62	4-1-72	5.1	Note 6	No	No	No	Yes	No		
29	Manufacturers Hanover Tr.Co.	8-1-62	7-1-77	5	Note 1	No	No	No	Yes	No		
30	Manufacturers Hanover Tr.Co	10-1-62	11-1-72	5½	Note 7	No	No	No	Yes	No		
31	Manufacturers Hanover Tr.Co	12-15-62	12-15-77	5	Note 8	No	No	No	Yes	No		
32	Manufacturers Hanover Tr.Co	1-15-64	1-15-74	5	Note 4	No	No	No	Yes	No		
33	Chase Manhattan Bank	3-15-64	3-15-74	4.66	Note 5	No	No	No	Yes	No		
34	Irving Trust Company	4-15-64	4-15-74	4.7	Note 6	No	No	No	Yes	No		
35	Manufacturers Hanover Tr.Co	5-1-64	5-1-74	5	Note 7	No	No	No	Yes	No		
36	National Bank of Detroit	5-15-64	5-15-74	4.66	Note 7	No	No	No	Yes	No		
37	Chemical Bank New York Tr.	6-15-64	6-15-74	4.6	Note 8	No	No	No	Yes	No		
38	Irving Trust Company	10-15-64	10-15-74	4.66	Note 6	No	No	No	Yes	No		
39	Bankers Trust Company	12-15-64	12-15-74	4.6	Note 8	No	No	No	Yes	No		
40	Chase Manhattan Bank	2-1-65	2-1-75	4.6	Note 4	No	No	No	Yes	No		
41	Morgan Guaranty Trust Co.	2-1-65	2-1-75	4.6	Note 4	No	No	No	Yes	No		
42	Morgan Guaranty Trust Co.	3-1-65	3-1-75	4.6	Note 5	No	No	No	Yes	No		
43	Bankers Trust Company	5-15-65	5-15-75	4.6	Note 7	No	No	No	Yes	No		
44	Chase Manhattan Bank	6-15-65	6-15-75	4.5	Note 8	No	No	No	Yes	No		
45	Morgan Guaranty Trust Co.	6-15-65	6-15-75	4.6	Note 8	No	No	No	Yes	No		
46	Manufacturers Han.Trust Co.	5-15-66	5-15-76	5½	Note 7	No	No	No	Yes	No		
47												
48												
49												
50	NOTES: 1 - Jan., Apr., July and Oct. 5 - Mar. and Sept.											
51	2 - Feb., May, Aug. and Nov. 6 - Apr. and Oct.											
52	3 - Jan. and July 7 - May and Nov.											
53	4 - Feb. and Aug. 8 - June and Dec.											
54												
55												
56												

218. FUNDED DEBT AND OTHER OBLIGATIONS

Line No.	Nature of Obligation (a)	Nominal Amount Authorized (b)	Date of Issue (c)	Interest Provisions: Rate % (d)	Interest Provisions: Dates Due (e)	Does Obligation Provide for—(Answer "Yes" or "No"): Conversion (f)	Does Obligation Provide for—(Answer "Yes" or "No"): Call prior to Maturity for Sinking Fund (g)	Does Obligation Provide for—(Answer "Yes" or "No"): Sinking Fund (h)	Is Other Property (Real or Personal) or Lease Subject to Lien of this Obligation? (Answer "Yes" or "No"): Priority (i)	Is Other Property (Real or Personal) or Lease Subject to Lien of this Obligation? (Answer "Yes" or "No"): Junior to Priority (j)	Approximate Number of Miles of Line Directly Subject to—: First Lien (k)	Approximate Number of Miles of Line Directly Subject to—: Junior to First Lien (l)
1	1. GENERAL FUNDED DEBT UNMATURED											
2	1(a) GENERAL 5 PERCENT MTGE. "PRR"	12/1/15	12/1/50	5	6/1 12/1	NO	NO	NO				
3	" " "PCR"	4/1/21	4/1/21	4½	4/1 10/1	"	"	"				
4	" " "PE"	7/1/24	7/1/64	4½	1/1 7/1	"	"	YES	YES	YES	2,593	
5	" " "PN"	1/20/45	1/1/83	3-1/8	1/1 7/1	"	YES	"				
6	" " "PCR"	5/1/45	5/1/85	3	5/1 11/1	"	"	"				
7	" " "PRR"	6/20/45	4/1/65	4½	4/1 10/1	"	"	NO				
8	" " "PC"	5/15/50	4/1/85	4½	4/1 10/1	"	"	"				
9	TOTAL 1 (A)											
10	2(A) N.Y.S.L.E.R.R. PERRY K. ADDED											
11	TR. CERT. VTG. SER. TR. CTFS.	12/20/50	1/1/53	4	1/1 7/1	NO	YES	YES	NO	NO		35
12	TOTAL 2 (A)											
13	3 REAL ESTATE MORTGAGES AND GROUND RENTS											
14	1ST NATL. BANK ETC. U.C.S.A.	12/2/23	12/15/73	VARIOUS	2/15 8/15	NO	YES	NO	YES	NO		
15	1ST NATL. CITY BK. N.Y. LOAN	E/5/26	1/1/27	VARIOUS	VARIOUS	"	"	"	"	"		
16	1ST NATL. BANK, AKRON, O. LOAN ASSGD.	4/1/53	12/20/53	5	6/20 12/20	9/20						
17	SECURITY SAVINGS & TR. CO. U.S.A.	1/2/52	VARIOUS	4½	1/15 7/15	"	"	"	"	"		
18	OHIO NATL. BK. OF COLS., O. LOAN ASSGD.	5/1/54	5/15/57	4½	VARIOUS	"	"	"	"	"		
19	1ST NATL. BANK ETC. U.C.S.A.	5/15/54	5/15/69	4½	E/5 11/15	NO	YES	NO	YES	NO		
20	1ST NATL. CITY BANK, N.Y.	5/1/55	12/31/70	4½	VARIOUS	"	"	"	"	"		
21	1ST NATL. CITY BANK, N.Y. LOAN	7/12/55	1/31/58	4½	VARIOUS	"	"	"	"	"		
22	INDIANA NATIONAL BANK, INDPLS., IND.	4/24/56	8/15/70	4½	VARIOUS	"	"	"	"	"		
23	RAILWAY MAINTENANCE CORP.	12/1/56	1/15/77	4½	1/15 7/15	"	"	"	"	"		
24	UNION NATL. BANK OF PITTS.	12/31/56	8/15/71	4½	2/1 8/1	"	"	"	"	"		
25	CHEMICAL BK. N.Y. TRUST											
26	PROMISSORY NOTE	4/1/65	12/31/67	5¢	MONTHLY	NO	YES	NO	YES	NO		
27	FIRST & NOTHARTS NATL. BK.	1/15/65	12/15/70	5	6/1 12/1	"	"	"	"	"		
28	1ST. NATL. CITY BANK N.Y.	6/20/65	4/5/70	VARIOUS	VARIOUS	"	"	"	"	"		
29	1ST NATL. BANK OF CHICAGO	5/1/65	1/15/72	6	1/15 7/15	"	"	"	"	"		
30	CHEMICAL BANK N.Y. TRUST											
31	PROMISSORY NOTE	4/1/67	8/1/69	VARIOUS	MONTHLY	"	"	"	"	"		
32	1ST NAT. CITY BANK N.Y.	5/1/72	1/31/72	"	VARIOUS	"	"	"	"	"		
33	" " " " "	5/1/55	8/31/72	VARIOUS	VARIOUS	"	"	"	"	"		
34	MARINE MIDLAND TR. CO. OF WEST N.Y.	VARIOUS	1/1/77	"	MONTHLY	"	"	"	"	"		
35	WESTERN STEVEDORING CO.	1/15/66	6/1/71	4½	MONTHLY	"	"	"	"	"		
36	TOTAL (5)											
37	TOTAL 1(A), 2(A) AND 5											
38												
39	4(A) EQUIPMENT OBLIGATIONS											
40	4(A) EQUIPMENT TRUST CTFS. "PRR"	3/5/63	3/1/88	3	3/1 9/1	NO	NO	NO	YES	NO		
41	" " " "PRR"	12/20/50	3/1/80	3-1/8	3/1 9/1	"	"	"	"	"		
42	" " " "PCR"	3/2/54	2/1/69	2-3/4	2/1 8/1	"	"	"	"	"		
43	" " " "PCR"	2/1/55	2/1/70	2-3/4	2/1 8/1	"	"	"	"	"		
44	" " " "PCR"	12/20/55	1/1/70	3-1/8	1/1 7/1	"	"	"	"	"		
45	" " " "PRR"	12/20/55	1/1/71	3-1/4	1/1 7/1	"	"	"	"	"		
46	" " " "PRR"	4/1/56	4/1/71	3-1/8	4/1 10/1	"	"	"	"	"		
47	" " " "PRR"	9/15/56	4/1/71	3-3/4	4/1 10/1	"	"	"	"	"		
48	" " " "PCR"	1/3/57	1/1/72	4-1/8	1/1 7/1	"	"	"	"	"		
49	" " " "PCR"	4/2/57	4/1/72	3-3/4	4/1 10/1	"	"	"	"	"		
50	" " " "PRR"	6/13/57	6/1/72	4-1/4	6/1 12/1	"	"	"	"	"		
51	" " " "PC"	10/1/62	10/1/82	5-1/4	4/1 10/1	"	"	"	"	"		
52	" " " "PCR"	2/1/66	2/1/81	5-1/4	2/1 8/1	"	"	"	"	"		
53	TOTAL 4(A)											

GRAND TOTAL

218. FUNDED DEBT AND OTHER OBLIGATIONS—Continued

Line No.	Total amount nominally issued (g)	Amount Nominally Issued and—: Held in special funds of the issuer (Identify pledged securities in a footnote) (h)	Amount Nominally Issued and—: Otherwise (i)	Total amount actually issued (j)	Amount Reacquired and—: Canceled through investment funds of the issuer (Identify pledged securities in a footnote) (k)	Amount Reacquired and—: Held in special funds of the issuer (Identify pledged securities in a footnote) (l)	Total Amount Actually Outstanding: Unmatured (Accounts 765, 766, and 767) (m)	Total Amount Actually Outstanding: Matured (Account 768) (n)	Total Amount Actually Outstanding: Matured and no provision made for payment (Account 768) (o)	Line No.
1										1
2	50 000 000			50 000 000	$ 7 365 000	450 000	42 185 000			2
3	50 000 000			50 000 000		5 939 000	44 061 000			3
4	50 000 000			50 000 000	$ 8 291 000	5 211 000	36 248 000	250 000		4
5	60 000 000			60 000 000	$13 358 000		46 042 000	600 000		5
6	57 130 000			57 130 000	$12 152 000	1 172 000	43 234 000	572 000		6
7	44 000 000			44 000 000	$33 600 000	7 000 000	4 000 000			7
8	16 000 000	16 000 000								8
9	327 130 000	16 000 000		311 130 000	74 155 000	19 792 000	215 750 000	1 422 000		9
10										10
11	1 200 000			1 200 000	$ 1 078 500		85 000			11
12	1 200 000			1 200 000	1 115 000		85 000			12
13										13
14	175 017			175 017	172 139		2 878			14
15	328 768			328 768	159 516		169 354	53 873		15
16	835 646			835 646	495 646					16
17										17
18	500 025			500 025	230 000		170 025	70 000		18
19	740 346			740 346	740 346					19
20										20
21	2 255 747			2 255 747	1 370 747		534 000	351 000		21
22	650 097			650 000	510 000		170 000	170 000		22
23	50 000 000			50 000 000	14 200 000		32 800 000	2 400 000		23
24	499 550			499 550	491 714			8 236		24
25	236 650			236 650	118 450		71 058	47 342		25
26	745 093			745 093	372 511		223 507	149 035		26
27	765 455			765 455	282 566		282 587	141 293		27
28										28
29	6 000 000			6 000 000	6 000 000					29
30	359 228			359 228	159 691		159 691	79 845		30
31	847 516			847 516	454 719		38 212	354 585		31
32	1 795 745			1 795 745	170 575		1 257 021	359 149		32
33										33
34	4 350 000			4 350 000	2 400 000		1 950 000			34
35	146 435			146 435	13 306		59 511	73 218		35
36	15 000 000			15 000 000			15 000 000			36
37	787 712			787 712	72 215		636 717	78 780		37
38	225 610			225 610	90 666		185 644			38
39	87 581 154			87 581 154	29 513 127		53 740 645	4 327 382		39
40	515 612 154	16 000 000		379 911 154	104 794 127	19 792 000	259 575 645	5 749 382		40
41										41
42	4 800 000			4 800 000	4 480 000	20 000		300 000		42
43	4 250 000			4 250 000	3 940 000			310 000		43
44	5 265 000			5 265 000	4 563 000		351 000	351 000		44
45	6 810 000			6 810 000	5 448 000	25 000	500 000	429 000		45
46	7 965 000			7 965 000	6 372 000		1 022 000	531 000		46
47	11 595 000			11 595 000	8 503 000	87 000	2 287 000	718 000		47
48	7 500 000			7 500 000	5 796 000	61 000	1 230 000	473 000		48
49	6 673 000			6 673 000	5 214 000	5 000	1 185 000	469 000		49
50	9 500 000			9 500 000	6 510 000	140 000	2 060 000	590 000		50
51	4 550 000			4 550 000	3 465 000	20 000	1 135 000	330 000		51
52	5 490 000			5 490 000	3 843 000	4 000	1 277 000	366 000		52
53	10 410 000			10 410 000	1 360 000		8 328 000	694 000		53
54	12 000 000			12 000 000	800 000		10 400 000	800 000		54
55	97 248 000			97 248 000	63 330 000	362 000	30 223 000	6 333 000		55

218. FUNDED DEBT AND OTHER OBLIGATIONS

Line No.	Name and character of obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Interest Provisions: Rate percent per annum (nominal rate) (d)	Interest Provisions: Dates due (e)	Does Obligation Provide For— (Answer "Yes" or "No"): Conversion (f)	Does Obligation Provide For— (Answer "Yes" or "No"): Call prior to maturity, other than for sinking fund (g)	Does Obligation Provide For— (Answer "Yes" or "No"): Sinking fund (h)	Is Other Property (Real or Personal or Leasehold) Subject to Lien of the Obligation? (Answer "Yes" or "No"): First lien (i)	Is Other Property (Real or Personal or Leasehold) Subject to Lien of the Obligation? (Answer "Yes" or "No"): Junior to first lien (j)	Approximate Number of Miles Line Directly or Indirectly Subject to—: First lien (k)	Approximate Number of Miles Line Directly or Indirectly Subject to—: Junior to first lien (l)
1	4(C) CONDITIONAL SALE AGREEMENTS											
2	FIRST NATIONAL CITY BANK OF N.Y.	12/1/50	$ 1/1/67	VARIOUS	1/1 7/1	No	YES	No	YES	No		
3	" " " " "	1/1/51	"	3	" "	"	"	"	"	"		
4	" " " " "	6/15/51	$ 7/1/67	3-3/8	" "	"	"	"	"	"		
5	PHILA. NATIONAL BANK	5/1/52	$ 10/1/68	VARIOUS	4/1 10/1	"	"	"	"	"		
6	CHEMICAL BK.N.Y. TRUST CO.	9/2/57	$ 11/1/72	VARIOUS	5/1 11/1	"	"	"	"	"		
7	IRVING TRUST CO., N.Y.	12/1/57	$ 2/1/68	VARIOUS	2/1 8/1	"	"	"	"	"		
8	BOWERY SAVINGS BK., N.Y.	3/25/58	$ 3/25/73	3.43	3/26 9/26	"	"	"	"	"		
9	HARRIS TR.&SAV.BK., CHGO.,ILL.	4/1/58	$ 4/1/73	VARIOUS	4/1 10/1	"	"	"	"	"		
10	" " " " "	7/15/58	$ 7/15/68	VARIOUS	1/15 7/15	"	"	"	"	"		
11	FIDELITY-PHILA. TRUST CO.	7/1/58	$ 5/1/73	VARIOUS	5/1 11/1	"	"	"	"	"		
12	GIRARD TRUST, BANK, PHILA.	12/1/58	$ 11/1/68	VARIOUS	" "	"	"	"	"	"		
13	" " " " "	4/15/59	$ 5/1/79	"	" "	"	"	"	"	"		
14	FIDELITY-PHILA. TR. CO. AGT. FOR											
15	FIRST NATL. BK., CHGO. & IRVING											
16	TRUST CO., N.Y.	1/15/59	$ 8/1/68	VARIOUS	2/1 8/1	"	"	"	"	"		
17	MELLON NATL. BK.& TR.CO.	11/2/59	$ 12/1/74	VARIOUS	6/1 12/1	"	"	"	"	"		
18	IRVING TRUST CO., N.Y.	2/15/60	$ 8/1/73	VARIOUS	2/1 8/1	"	"	"	"	"		
19	PROVIDENT NATIONAL BANK	1/15/61	$ 3/1/71	VARIOUS	3/1 9/1	"	"	"	"	"		
20	FIDELITY PHILA. TRUST CO.	11/15/61	$ 8/1/72	VARIOUS	2/1 8/1	"	"	"	"	"		
21	NATIONAL CITY BANK, CLEVELAND	12/1/61	$ 1/1/67	4.65	1/1 7/1	"	"	"	"	"		
22	NATIONAL BANK OF DETROIT	12/1/61	$ 1/1/67	4.65	1/1 7/1	"	"	"	"	"		
23	PITTSBURGH NATIONAL BANK	2/27/62	$ 1/1/67	4.65	1/1 7/1	"	"	"	"	"		
24	NORTHERN TRUST CO. CHICAGO	6/8/62	$ 2/15/67	4.65	8/15 2/15	"	"	"	"	"		
25	MANUFACTURERS & TRADERS TR. CO.	8/3/62	$ 5/15/87	4.65	11/15 5/15	"	"	"	"	"		
26	PITTSBURGH NATIONAL BANK	10/4/62	$ 5/1/67	4.65	11/1 5/1	"	"	"	"	"		
27	HARRISBURG NATIONAL BANK	11/30/62	$ 11/15/77	4.65	5/15 11/15	"	"	"	"	"		
28	MANUFACTURERS HANOVER TRUST CO.	5/31/62	$ 12/15/77	VARIOUS	6/15 12/15	"	"	"	"	"		
29	MORGAN GUARANTY TRUST CO.	9/14/62	$ 6/15/78	VARIOUS	6/15 12/15	"	"	"	"	"		
30	MELLON NATL. BANK & TR. CO.	3/1/63	$ 6/15/78	VARIOUS	6/15 12/15	"	"	"	"	"		
31	MANUFACTURERS HANOVER TR. CO.	6/15/63	$ 9/15/73	VARIOUS	3/15 9/15	"	"	"	"	"		
32	FIRST NATIONAL CITY BK. N.Y.	4/1/64	$ 9/1/79	VARIOUS	3/1 9/1	"	"	"	"	"		
33	INDIANA NATIONAL BANK	4/24/64	$ 3/15/70	4%	VARIOUS	"	"	"	"	"		
34	CLEVELAND TRUST CO.	10/23/64	$ 9/15/69	4%	3/15 9/15	"	"	"	"	"		
35	FIRST NATIONAL CITY BANK, N.Y.	10/1/64	$ 3/15/80	VARIOUS	5/15 3/15	"	"	"	"	"		
36	INDIANA NATIONAL BANK, INDPLS.	12/15/64	$12/15/79	4-3/4	6/15 12/15	"	"	"	"	"		
37	FIDELITY PHILA. TRUST CO.	12/1/64	$ 1/15/80	VARIOUS	7/15 1/15	"	"	"	"	"		
38	CLEVELAND TRUST CO.	12/15/64	$12/15/69	4-1/2	6/15 12/15	"	"	"	"	"		
39	FIRST NATIONAL BANK, ST. LOUIS	2/15/65	$ 2/15/70	4-1/2	2/15 8/15	"	"	"	"	"		
40	CONTINENTAL ILL., NATL.BK.&TR.CO.	3/15/65	$ 5/15/70	4-1/2	5/15 11/15	"	"	"	"	"		
41	GIRARD TRUST BANK	4/15/65	$ 5/15/00	4-3/4	6/15 12/15	"	"	"	"	"		
42	NATIONAL CITY BK. OF CLEVELAND	5/15/65	$ 8/15/70	4-1/2	2/15 8/15	"	"	"	"	"		
43	FIDELITY PHILA. TRUST CO.	6/1/65	$ 4/1/70	VARIOUS	4/1	"	"	"	"	"		
44	FIRST NATIONAL CITY BANK, N.Y.	7/1/65	$ 7/1/73	VARIOUS	1/15	"	"	"	"	"		
45	TRENTON TRUST CO.	7/1/65	$ 5/1/00	4.70	2/1 8/1	"	"	"	"	"		
46	BANKERS TRUST CO. N.Y.	7/30/65	$ 8/15/00	VARIOUS	2/15 8/15	"	"	"	"	"		
47	FIRST NATIONAL CITY BK. N.Y.	9/1/65	$11/15/73	VARIOUS	5/15 11/15	"	"	"	"	"		
48												
49												
50												

21A. FUNDED DEBT AND OTHER OBLIGATIONS

Line No	Name and character of obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Interest Provisions: Rate per cent per annum (nearest 1/8th) (d)	Interest Provisions: Dates due (e)	Dollar Obligation Pledge For—(Answer "Yes" or "No"): Conversion (f)	Dollar Obligation Pledge For—(Answer "Yes" or "No"): Call prior to maturity, other than for sinking fund (g)	Dollar Obligation Pledge For—(Answer "Yes" or "No"): Sinking fund (h)	Is Other Property (Real or Personal or Leasehold) Subject to Lien of the Obligation? (Answer "Yes" or "No"): First lien (i)	Is Other Property (Real or Personal or Leasehold) Subject to Lien of the Obligation? (Answer "Yes" or "No"): Junior to first lien (j)	Approximate Number of Miles of Line Directly Subject to—: First lien (k)	Approximate Number of Miles of Line Directly Subject to—: Junior to first lien (l)
1	4(C) CONDITIONAL SALE AGREEMENTS											
2	BANKERS TRUST CO., N.Y.	10/1/65	S 10/15/73	4.60	4/15 10/15	179	YES	179	YES	NO		
3	PITTSBURGH NATL. BK.	12/15/65	S 11/15/70	4½	VARIOUS	*	*	*	*	*		
4	PITTSBURGH NATL. BANK	1/2/66	S 1/15/71	4½	7/15 7/15	*	*	*	*	*		
5	IRVING TRUST CO., N.Y.	4/15/66	S 5/15/71	5-1/3	11/15 5/15	*	*	*	*	*		
6	FIRST NATL. CITY BANK N.Y.	5/1/66	S 2/15/86	5-3/4	2/15 8/15	*	*	*	*	*		
7	GIRARD TRUST BANK, PHILA., PA.	7/1/66	S 7/1/86	5-7/8	1/1 7/1	*	*	*	*	*		
8	NORTHERN TRUST CO., CHICAGO, ILL.	9/1/66	S 9/1/71	6	3/1 9/1	*	*	*	*	*		
9	CHEMICAL BANK-N.Y. TRUST CO.	11/15/65	S 3/31/75	VARIOUS	3/31 9/30	*	*	*	*	*		
10	" " "	11/15/65	S 3/31/65	"	3/31 9/30	*	*	*	*	*		
11	NATIONAL BANK OF DETROIT	9/1/66	S 11/15/72	6	5/15 11/15	*	*	*	*	*		
12	BANKERS TRUST CO., N.Y.	1/3/67	S 1/1/72	6	1/1 7/1	*	*	*	*	*		
13	FIDELITY-PHILA. TRUST CO.	1/3/67	S 2/1/82	6¼	2/1 8/1	*	*	*	*	*		
14	PROVIDENT NATL. BANK	3/1/67	S 4/1/82	6	4/1 10/1	*	*	*	*	*		
15	NORTHERN TRUST CO.	9/15/67	S 9/15/72	5-3/4	3/15 9/15	*	*	*	*	*		
16	PHILA. NATL. BANK	12/1/67	S 2/1/82	7	2/1 8/1	*	*	*	*	*		
17												
18	TOTAL 4(C)											
19												
20	TOTAL 4											
21												
22												
23												
24												
25												
26												
27												
28												
29												
30												
31												
32												
33												
34												
35												
36											GRAND TOTAL	

21A. FUNDED DEBT AND OTHER OBLIGATIONS—Continued

Line No	Total amount nominally and actually issued (1a)	Amount Nominally Issued and—: Held in special funds of or in treasury of carrier (amount pledged shown in parenthesis) symbol "*" matured by symbol "M" (1n)	Amount Nominally Issued and—: Canceled (1o)	Total amount actually issued (1p)	Amount Reacquired and—: Canceled through sinking funds or otherwise (amount pledged shown in parenthesis) symbol "*" matured by symbol "M" (1q)	Amount Reacquired and—: Held in special funds or in treasury of carrier (amount pledged shown in parenthesis) symbol "*" matured by symbol "M" (1r)	Total Amount Actually Outstanding: Held in special funds or in treasury of carrier (amount pledged shown in parenthesis) symbol "*" matured by symbol "M" (1s)	Total Amount Actually Outstanding: Nominally issued (amount pledged shown in parenthesis) symbol "*" (1t)	Total Amount Actually Outstanding: Actually issued (amount pledged shown in parenthesis) symbol "*" (1u)
1									
2	11 552 975			11 552 975	2 700 637		9 016 021	759 697	
3	650 000			650 000	216 667		433 333	144 445	
4	768 553			768 553	218 557		354 275	145 711	
5	1 475 000			1 475 000	442 500		737 500	295 000	
6	52 265 000		52 265 000				52 265 000		
7	19 759 000		19 759 000		597 500		17 775 000	597 500	
8	765 638		765 638		153 128		459 383	153 127	
9	16 920 000		16 920 000				16 920 000		
10	5 000 000		5 000 000	1 375 000			555 000	2 750 000	
11	279 200		279 200				223 360	55 840	
12	1 021 997		1 021 997	102 200			715 398	204 399	
13	22 145 000		22 145 000				20 668 667	1 476 333	
14	12 150 000		12 150 000				11 340 000	810 000	
15	750 000		750 000				600 000	150 000	
16	14 400 000		14 400 000				13 440 000	960 000	
17									
18	646 800 793		1645 600 793	223 555 853		4 935 319	469 052	37 772 493	
19									
20	714 343 793		714 343 793	223 555 853		4 935 319	661 052	44 105 493	
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									
32									
33									
34									
35									
36	1159 559 947 16 000 000		1143 559 947	454 579 358	20 152	935 519	255 697	43 854 875	

21B. FUNDED DEBT AND OTHER OBLIGATIONS

Line No.	Name and character of obligation	Nominal date of issue	Date of maturity	Interest Provisions — Rate (percent per annum (nominal rate))	Interest Provisions — Dates due	Does Obligation Have Sinking Fund—(Answer "Yes" or "No") Conversion	Sinking fund (Answer "Yes" or "No")	Is Issue Publicly Offered, Privately Placed, or Exchanged Directly or Indirectly for Stock or Other Securities of the Respondent? (Answer "Yes" or "No") First line	Junior to 1st Lien	Approximate Number of Miles of Line Underlying Security — First line	Junior to 1st Lien
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1	FUNDED DEBT UNMATURED										
2	(1) MORTGAGE BONDS: (a)										
3	Boston & Albany RR.-Improv.	8-1-28	8-1-78	4½	Feb-Aug	No	Yes	No			
4	Carthage & Adirondack Ry.-1st	12-1-92	12-1-81	4	Jun-Dec	No	No	No	Yes	No	46
5	Kanawha & Michigan-1st	4-1-90	4-1-90	4	Apr-Oct	No	No	No	Yes	No	186
6	Lake Shore & Mich.So.RR-Gold	6-1-97	6-1-97	5½	June-Dec	No	No	No	Yes	No	903
7	Mohawk & Malone Ry.-1st	7-1-22	9-1-91	4	Mar-Sept	No	No	No	Yes	No	126
8	Mohawk & Malone Ry.-Cons.	3-1-02	3-1-02	3½	Mar-Sept	No	No	No	No	Yes	126
9	New Jersey Junction RR-1st	6-30-86	2-1-86	4	Feb-Aug	No	No	No	Yes	No	4
10	New York & Putnam RR-1st Cons	1-15-54	10-1-93	4	Apr-Oct	No	Yes	No	Yes	No	28
11	Utuca & Chenango & St.L.RR-1st	12-1-69	12-1-89	3	June-Dec	No	No	No	Yes	No	17
12	West Shore RR - 1st	1-1-86	1-1-2361	4	Jan-July	No	No	No	Yes	No	297
13	NYC & NE RR Co.-Gold	7-1-97	7-1-97	3½	Jan-July	No	No	No	Yes	No	1 159 592
14	NYC & HR RR Co.-Lake Shore	Coll	2-1-98	3½	Feb-Aug	No	No	No	Yes	Yes	
15	NYC & HR RR Co.-Mich.Cent.Co	Coll	2-1-98	3½	Feb-Aug	No	No	No	Yes	Yes	
16	NYC & HR RR Co.-Ser.A-R&I	10-1-13	10-1-2013	4½	Apr-Oct	No	Yes	No	Yes	Yes	
17	NYC RR Co.-Series "A"-R&I	4-1-11									853 2 679
18	NYC RR Co.-Series "B" - R&I	10-1-20	10-1-13	6		No	No	No	Yes	Yes	
19	NYC RR Co.Series "C" - R&I	4-1-22	10-1-13	5	Apr-Oct	No	Yes	No	Yes	Yes	
20	NYC RR Co.Series "A"-Cons.	Various	2-1-98	4	Feb-Aug	No	No	No	No	Yes	4 2 654
21	NYC RR Co.Series "C"-Cons.	4-30-34	2-1-98	4	Feb-Aug	No	No	Yes	No	Yes	4 1 751
22											
23											
24											
25	(2) COLLATERAL TRUST BONDS AND NOTES: (a)										
26	NYC RR.Co.-Coll.Trust Bonds	4-15-65	4-15-90	6	Apr-Oct	No	Yes	Yes	Yes	Yes	
27	NYC RR Co.-Coll.Trust Bonds	4-1-55	4-1-80	6	Apr-Oct	No	Yes	Yes	Yes	Yes	
28	NYC RR.Co.-Coll.Trust Bonds	1-1-55	1-1-80	5½	Jan-July	No	Yes	Yes	Yes	Yes	
29	NYC RR Co.-Coll.Trust Bonds	1-1-55	1-1-80	5½	Jan-July	No	Yes	Yes	Yes	Yes	
30	NYC RR Co.-Coll.Trust Notes	10-15-59	7-1-74	5	Jan-July	No	Yes	No	Yes	Yes	
31											
32											
33	NOTE: # - Sinking Fund to be effective and operative only when any of the bonds shall be actually outstanding.										
34											
35											
36	EQUIPMENT OBLIGATIONS:										
37	(3) EQUIPMENT TRUST CERTIFICATES										
38	1st 1952	2-1-52	2-1-67	3-3/8	Note 4	No	No	No	Yes	No	
39	2nd 1952	5-15-52	5-15-67	3-1/8	Note 7	No	No	No	Yes	No	
40	3rd 1952	8-15-52	8-15-67	3¼	Note 4	No	No	No	Yes	No	
41	1st 1953	1-1-53	1-1-68	3-1/8	Note 3	No	No	No	Yes	No	
42	2nd 1953	3-15-53	3-15-68	3-5/8	Note 5	No	No	No	Yes	No	
43	1st 1955	9-15-55	9-15-70	3-5/8	Note 5	No	No	No	Yes	No	
44	1st 1957	1-1-57	1-1-72	4¼	Note 3	No	No	No	Yes	No	
45	2nd 1957	4-1-57	4-1-72	4-3/8	Note 6	No	No	No	Yes	No	
46	3rd 1957	9-16-57	9-16-72	5	Note 5	No	No	No	Yes	No	
47	1st 1960	6-1-60	6-1-75	5¼	Note 8	No	No	No	Yes	No	
48	1st 1961	2-15-61	2-15-76	4¼	Note 4	Yes	No	No	Yes	No	
49	2nd 1961	6-1-61	6-1-76	4-7/8	Note 8	No	No	No	Yes	No	
50	1st 1963	6-15-63	6-15-78	4¼	Note 8	No	No	No	Yes	No	
51	2nd 1963	12-15-63	12-15-78	4-3/8	Note 8	No	No	No	Yes	No	
52	1st 1956	4-1-64	4-1-79	4¼	Note 6	No	No	No	Yes	No	
53	2nd 1964	8-15-64	8-15-79	4½	Note 4	No	No	No	Yes	No	
54	3rd 1964	12-15-64	12-15-79	4-3/8	Note 8	No	No	No	Yes	No	
55	(Contd. on page 237A)									GRAND TOTAL	

21B. FUNDED DEBT AND OTHER OBLIGATIONS—Continued

Line No.	Total amount nominally and actually issued	Amount Nominally Issued and— Held as special funds or in treasury or pledged (identify pledged securities by symbol "P" matured by symbol "M")	Canceled	Total amount actually issued	Amount Reacquired and— Canceled through sinking fund or otherwise canceled	Held as special funds or in treasury or pledged (identify pledged securities by symbol "P" matured by symbol "M")	Total Amount Actually Outstanding — Unmatured (amounts 7th, 8th, and 9th)	Matured (amount 7th)	Matured and no provision made for payment (amount 9th)
	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)
1	5 700 000			5 700 000		559 000	5 041 000		
2	1 100 000			1 100 000	3 000	228 000	869 000		
3	2 469 000			2 469 000	761 000	157 000	1 551 000		
4	50 000 000			50 000 000		1 242 000	48 758 000		
5	2 500 000			2 500 000		950 000	1 550 000		
6	3 900 000			3 900 000		831 000	3 069 000		
7	2 000 000		390 000	1 700 000	371 000	150 000	1 179 000		
8	4 025 000			4 025 000	2 371 000	9 000	1 645 000		
9	322 000			322 000	242 000	76 000	4 000		
10	50 000 000			50 000 000	16 028 500		33 971 500		
11	100 000 000	6 000 000		94 000 000	13 542 000	4 000	80 454 000		
12	90 578 400			90 578 400	69 540 400	3 712 000	17 326 000		
13	19 336 000			19 336 000	1 551 000	17 785 000			
14	60 000 000		20 000 000	40 000 000	18 341 000	4 629 000	95 990 000		
15	75 000 000			75 000 000					
16	38 494 000	4 494 000	34 000 000						
17	260 000 000	166 780 000	27 820 000	85 400 000	21 006 000	402 000	63 992 000		
18	69 540 000			69 540 000	410 000	1 210 000	67 920 000		
19	48 000 000	48 000 000	PP						
20									
21									
22									
23	882 964 400	225 274 000	62 120 000	595 570 400	142 855 900	11 810 000	441 096 500		
24									
25									
26	9 800 000			9 800 000	800 000	100	8 599 900	600 000	
27	33 216 300			33 216 300	12 000 000	100	20 216 200	1 000 000	
28	326 375			326 375	300 000	158 925	467 450		
29	370 800			370 800	120 000	78 200	172 600		
30	40 000 000			40 000 000	16 500 000		20 200 000	3 300 000	
31									
32									
33	84 313 475			84 313 475	29 720 000	837 325	49 656 150	4 700 000	
34		PP - Partially pledged (See page 237E for detail)							
35									
36									
37									
38	8 850 000			8 850 000	8 850 000				
39	5 220 000			5 220 000	5 220 000				
40	8 475 000			8 475 000	8 475 000				
41	11 625 000			11 625 000	10 850 000			775 000	
42	9 375 000			9 375 000	8 750 000			625 000	
43	7 500 000			7 500 000	6 000 000		1 000 000	500 000	
44	8 055 000			8 055 000	5 370 000		2 148 000	537 000	
45	3 825 000			3 825 000	2 550 000		1 020 000	255 000	
46	3 555 000			3 555 000	2 370 000		948 000	237 000	
47	4 590 000			4 590 000	2 142 000		2 142 000	306 000	
48	3 825 000			3 825 000	1 530 000		2 040 000	255 000	
49	4 155 000			4 155 000	1 697 000		2 183 000	275 000	
50	4 275 000			4 275 000	1 140 000		2 850 000	285 000	
51	3 600 000			3 600 000	960 000		2 400 000	240 000	
52	5 175 000			5 175 000	1 035 000		3 795 000	345 000	
53	4 200 000			4 200 000	840 000		3 080 000	280 000	
54	6 300 000			6 300 000	1 260 000		4 620 000	420 000	
55									

237A NEW YORK CENTRAL FORM - A 1967 NYCA67

218. FUNDED DEBT AND OTHER OBLIGATIONS

Line No.	Name and character of obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Interest Provisions / Rate per annum (nearest year) (d)	Dates due (e)	Does Obligation Provide For—(Answer "Yes" or "No") Conversion (f)	Call prior to maturity; also for sinking fund (g)	Sinking fund (h)	Is Gross Property (Real or Personal or Leaseholds Subject to Lien of the Obligation? (Answer "Yes" or "No") First lien (i)	Junior to first lien (j)	Approximate Number or Major or Long Interest Numbers Pledged To— First lien (k)	Junior to first lien (l)
1	EQUIPMENT OBLIGATIONS "Contd"											
2	1st 1965	3-15-65	3-15-80	4-3/8	Note 5	No	No	No	Yes	No		
3	2nd 1965	6-15-65	6-15-80	4-3/8	Note 8	No	No	No	Yes	No		
4	3rd 1965	11-1-65	11-1-80	4-5/8	Note 7	No	No	No	Yes	No		
5	1st 1966	2-15-66	2-15-81	4-3/4	Note 4	No	No	No	Yes	No		
6	2nd 1966	6-15-66	6-15-81	5-3/8	Note 8	No	No	No	Yes	No		
7	3rd 1966	11-1-66	11-1-81	5-7/8	Note 7	No	No	No	Yes	No		
8	1st 1967	3-1-67	3-1-82	5	Note 5	No	No	No	Yes	No		
9	2nd 1967	6-15-67	6-15-82	5-3/4	Note 8	No	No	No	Yes	No		
10	3rd 1967	9-15-67	9-15-82	6-1/4	Note 5	No	No	No	Yes	No		
11												
12												
13												
14												
15	(c) CONDITIONAL OR DEFERRED PAYMENT CONTRACTS:											
16	Morgan Guaranty Tr.Co.of NY	4-1-51	4-1-67	Var.	Note 6	No	No	No	Yes	No		
17	Irving Trust Co.	1-1-57	1-1-67	4½	Note 3	No	No	No	Yes	No		
18	Chemical Bk.New York Tr.Co	8-1-57	8-1-67	4½	Note 4	No	No	No	Yes	No		
19	Marine Midland Trust Co.	2-1-59	2-1-69	4.95	Note 4	No	No	No	Yes	No		
20	Central Natl.Bk.of Cleve.	8-1-59	8-1-69	4.9	Note 5	No	No	No	Yes	No		
21	Pittsburgh National Bank	2-15-60	2-15-70	5¼	Note 4	No	No	No	Yes	No		
22	John Hancock Mutual Life Ins.	5-1-60	5-1-75	5¾	Note 7	No	No	No	Yes	No		
23	Irving Trust Company	9-1-61	9-1-76	5¼	Note 5	No	No	No	Yes	No		
24	Mellon Natl.Bk & Tr.Co.	4-1-62	4-1-72	5.1	Note 6	No	No	No	Yes	No		
25	Mfrs. Hanover Trust Co.	6-1-62	7-1-72	5	Note 1	No	No	No	Yes	No		
26	" " " "	10-1-62	11-1-72	3¼	Note 7	No	No	No	Yes	No		
27	" " " "	12-15-62	12-15-72	5	Note 8	No	No	No	Yes	No		
28	" " " "	1-15-64	1-15-74	5	Note 4	No	No	No	Yes	No		
29	Chase Manhatten Bank	3-15-64	3-15-74	4.66	Note 5	No	No	No	Yes	No		
30	Irving Trust Company	4-15-64	4-15-74	4.7	Note 6	No	No	No	Yes	No		
31	Mfrs. Hanover Tr.Co.	5-1-64	5-1-74	5	Note 7	No	No	No	Yes	No		
32	National Bank of Detroit	5-15-64	5-15-74	4.6	Note 7	No	No	No	Yes	No		
33	Chemical Bank New York Tr.	6-15-64	6-15-74	4.6	Note 8	No	No	No	Yes	No		
34	Irving Trust Company	10-15-64	10-15-74	4.66	Note 6	No	No	No	Yes	No		
35	Bankers Trust Company	12-15-64	12-15-74	4.6	Note 8	No	No	No	Yes	No		
36	Chase Manhatten Bank	2-1-65	2-1-75	4.6	Note 4	No	No	No	Yes	No		
37	Morgan Guaranty Trust Co.	2-1-65	2-1-75	4.6	Note 4	No	No	No	Yes	No		
38	" " " "	3-1-65	3-1-75	4.6	Note 5	No	No	No	Yes	No		
39	Bankers Trust Company	5-15-65	5-15-75	4.6	Note 7	No	No	No	Yes	No		
40	Chase Manhatten Bank	6-15-65	6-15-75	4.6	Note 8	No	No	No	Yes	No		
41	Morgan Guaranty Trust Co.	6-15-65	6-15-75	4.6	Note 8	No	No	No	Yes	No		
42	Mfrs. Hanover Trust Co.	5-15-66	5-15-76	5¾	Note 7	No	No	No	Yes	No		
43	Central Natl.Bk of Cleveland	1-1-67	1-1-77	6.2	Note 3	No	No	No	Yes	No		
44	Cleveland Trust Company	3-15-67	9-15-77	6.1875	Note 5	No	No	No	Yes	No		
45												
46												
47												

218. FUNDED DEBT AND OTHER OBLIGATIONS - Continued

Line No.	Name and character of obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Interest provisions: Rate percent per annum (current year) (d)	Interest provisions: Dates due (e)	Does obligation provide for— (Answer "Yes" or "No"): Conversion (f)	Call prior to maturity, other than for sinking fund (g)	Sinking fund (h)	Is other property (real or personal or leasehold) subject to lien of the obligation? (Answer "Yes" or "No"): First lien (i)	Junior to first lien (j)	Approximate number of miles of line directly subject to—: First lien (k)	Junior to first lien (l)	Amount nominally issued and—: Total amount nominally and actually issued (m)	Held in special funds or in treasury or pledged (Identify pledged securities by symbol "P"; matured by symbol "M") (n)	Canceled (o)	Total amount actually issued (p)	Amount reacquired and—: Canceled through sinking fund or otherwise canceled (Identify canceled through sinking fund by symbol "S") (q)	Held in special funds or in treasury or pledged (Identify pledged securities by symbol "P"; matured by symbol "M") (r)	Total amount actually outstanding: Unmatured (accounts 765, 766, and 767) (s)	Unmatured (account 764) (t)	Matured and no provision made for payment (account 768) (u)
1	4a) Equipment Trust Certificates Cont'd:																				
2	(NH) - 1955 No. 1	1/1/55	S 1/1/70	3	1/1 7/1	No	No	No	Yes	No			446 000)	Assumed		446 000			223 000	223 000	
3	1956 " 1	7/1/56	S 7/1/71	4-5/8	1/1 7/1	"	"	"	"	"			450 000)	from		450 000			300 000	150 000	
4	1956 " 2	7/1/56	S 5/1/71	5-1/8	5/1 11/1	"	"	"	"	"			543 000)	New Haven		543 000			362 000	181 000	
5	1960 " 1	2/1/60	S 6/1/75	5-1/2	6/1 12/1	"	"	"	"	"			3 807 720)	RR		3 807 720			3 263 760	543 960	
6													242 044 720			242044 720	125851 000	281 000	100132 760	[illegible] → 11,679.9	
7																					
8	4c) Conditional Sale Agreements:																				
9	Philadelphia Natl. Bank	3/1/52	S 10/1/68	Various	4/1 10/1	No	Yes	No	Yes	No			50472 000			50 472 000	50 472 000				
10	~~Chemical Bank N.Y. Trust Co.~~	~~9/3/57~~	~~S 11/1/72~~	"	~~5/1 11/1~~	"	"	"	"	"			~~10200 000~~			~~10 200 000~~	~~7 400 000~~		~~2 040 000~~	~~600 000~~	
11	Irving Trust Co.	12/1/57	S 2/1/68	"	2/1 8/1	"	"	"	"	"			5750 000			5 750 000	5 750 000				
12	Bowery Savings Bank	3/26/58	S 3/26/73	4.43	3/26 9/26	"	"	"	"	"			2000 000			2 000 000	1 466 665		426 668	106 667	
13	Harris Trust &Sav.Bk.Chgo.	4/1/58	S 4/1/73	Various	4/1 10/1	"	"	"	"	"			3454 000			3 454 000	2 629 000		575 000	250 000	
14	Fidelity-Phil.Trust Co.	7/1/58	S 5/1/73	"	5/1 11/1	"	"	"	"	"			5092 005			5 092 005	3 564 403		1 188 135	339 467	
15	Harris Trust &Sav.Bk.,Chgo	7/15/58	S 7/15/73	"	1/15 7/15	"	"	"	"	"			6910 027			6 910 027	6 910 027				
16	Girard Trust Bk.,Phila.	12/1/58	S 11/1/68	"	5/1 11/1	"	"	"	"	"			6009 636			6 009 636	6 009 636				
17	Fidelity-Phil. Trust Co.	1/15/59	S 8/1/68	"	2/1 8/1	"	"	"	"	"			3852 183			3 852 183	3 852 183				
18	Marine Midland TrustCo.,NY	2/1/59	S 2/1/69	4.95	2/1 8/1	"	"	"	"	"			2975 000			2 975 000	2 660 151	314 849			
19	Girard Trust Bank	4/15/59	S 5/1/70	Various	5/1 11/1	"	"	"	"	"			25000 000			25 000 000	22 668 000		541 000	1 791 000	
20	Central Natl.Bk.,Cleveland	8/1/59	S 8/1/69	4.9	2/1 8/1	"	"	"	"	"			2300 000			2 300 000	2 016 450	283 550			
21	~~Mellon Natl. Bk. & Tr. Co.~~	~~11/2/59~~	~~S 12/1/74~~	~~Various~~	~~6/1 12/1~~	"	"	"	"	"			[illegible]			[illegible]	[illegible]		~~3 200 000~~	~~640 000~~	
22	Irving Trust Co., N.Y.	2/15/60	S 8/1/70	"	2/1 8/1	"	"	"	"	"			19000 000			19 000 000	15 992 961		1 107 039	1 900 000	
23	Pittsburgh Natl.Bank	2/15/60	S 2/15/70	5½	2/1 8/1	"	"	"	"	"			3584 622			3 584 622	2 832 652	751 970			
24	John Hancock Mut.Life Ins.	5/1/60	S 5/1/75	5-3/4	5/1 11/1	"	"	"	"	"			3140 000			3 140 000	1 073 517		1 752 437	314 046	
25	~~Provident Natl.Bank~~	~~1/15/61~~	~~S 9/1/71~~	~~Various~~	~~3/1 9/1~~	"	"	"	"	"			~~28550 000~~			~~28 550 000~~	~~21 300 107~~		~~4 394 895~~	~~2 854 998~~	
26	~~Irving Trust Co., N.Y.~~	~~9/1/61~~	~~S 9/1/76~~	~~5½~~	~~3/1 9/1~~	"	"	"	"	"			~~3500 000~~			~~3 500 000~~	~~1 281 072~~		~~1 927 261~~	~~291 667~~	
27	Fidelity-Phila.TrustCo.	11/15/61	S 8/1/72	Various	2/1 8/1	"	"	"	"	"			24425 000			24 425 000	14 655 000		7 327 500	2 442 500	
28	Mellon Natl. Bk. & Tr. Co.	4/1/62	S 4/1/72	5.1	4/1 10/1	"	"	"	"	"			3466 364			3 466 364	2 355 791		793 930	316 643	
29	Mfrs. Hanover Trust Co.	6/1/62	S 7/1/72	5	1/1,4/1,7/1,10/1	"	"	"	"	"			3671 652	1 468 563	2 203 089	-					
30	~~Morgan Guaranty Tr.Co.,NY~~	~~9/14/62~~	~~S 12/15/77~~	~~Various~~	~~6/15 12/15~~	"	"	"	"	"			~~4645 363~~			~~4 645 363~~	~~1 762 034~~		~~2 562 959~~	~~320 370~~	
31	~~Mfrs. Hanover Trust Co.~~	~~9/27/62~~	~~S 12/15/77~~	"	~~6/15 12/15~~	"	"	"	"	"			~~2933 423~~			~~2 933 423~~	~~1 112 678~~		~~1 618 440~~	~~202 305~~	
32	"	10/1/62	S 11/1/72	3½	5/1 11/1	"	"	"	"	"			1260 000	476 910	783 090	-					
33	"	12/15/62	S 12/15/72	5	6/15 12/15	"	"	"	"	"			1795 550	697 324	1 098 226	-					
34	Mellon Natl. Bk.&Tr.Co.	3/1/63	S 6/15/78	Various	6/15 12/15	"	"	"	"	"			8719 953			8 719 953	3 197 316		4 941 307	581 330	
35	~~Mfrs. Hanover Trust Co.~~	~~6/15/63~~	~~S 9/15/73~~	"	~~3/15 9/15~~	"	"	"	"	"			~~10169 550~~			~~10 169 550~~	~~5 073 076~~		~~4 077 179~~	~~1 019 295~~	
36	"	1/15/64	S 1/15/74	5	1/15 7/15	"	"	"	"	"			1620 880	891 484	729 396	-					
37	Chase Manhattan Bank,NY	3/15/64	S 3/15/74	4.66	3/15 9/15	"	"	"	"	"			9156 361			9 156 361	4 910 578		3 352 279	893 504	
38	~~First Natl. City Bank,NY~~	~~4/1/64~~	~~S 9/1/79~~	~~Various~~	~~3/1 9/1~~	"	"	"	"	"			~~40200 000~~			~~40 200 000~~	~~11 928 460~~		~~26 246 855~~	~~2 624 685~~	
39	Irving Trust Co.	4/15/64	S 4/15/74	4.7	4/15 10/15	"	"	"	"	"			5246 049			5 246 049	2 209 280		2 484 629	552 140	
40	Indiana Natl. Bank, Indpls	4/24/64	S 3/15/70	4½	Various	"	"	"	"	"			1262 413			1 262 413	883 689		126 241	252 483	
41	Mfrs. Hanover Trust Co.	5/1/64	S 5/1/74	5	5/1 11/1	"	"	"	"	"			1230 104	676 557	553 547	-					
42	Natl. Bank of Detroit	5/15/64	S 5/15/74	4.6	5/15 11/15	"	"	"	"	"			3407 562			3 407 562	1 771 797		1 259 861	375 904	
43	Chem.Bank N.Y.Trust Co.	6/15/64	S 6/15/74	4.6	6/15 12/15	"	"	"	"	"			5418 535			5 418 535	2 526 387		2 366 303	525 845	
44	~~Cleveland Trust Co.~~	~~9/1/64~~	~~S 9/15/69~~	~~4½~~	~~3/15 9/15~~	"	"	"	"	"			~~804 654~~			~~804 654~~	~~643 723~~			~~160 931~~	
45	First Natl.City Bank,NY	10/1/64	S 3/15/80	Various	3/15 9/15	"	"	"	"	"			24454 904			24 454 904	5 706 144		17 118 433	1 630 327	
46	~~Indiana Natl. Bank~~	~~10/15/64~~	~~S 10/15/79~~	~~4-3/4~~	~~4/15 10/15~~	"	"	"	"	"			~~1480 863~~			~~1 480 863~~	~~394 897~~		~~987 242~~	~~98 724~~	
47	~~Irving Trust Co.~~	~~10/15/64~~	~~S 10/15/74~~	~~4.66~~	~~4/15 10/15~~	"	"	"	"	"			~~2106 497~~			~~2 106 497~~	~~881 627~~		~~1 004 182~~	~~220 688~~	
48	Fidelity-Phila.Trust Co.	12/1/64	S 1/15/80	Various	1/15 7/15	"	"	"	"	"			20246 925			20 246 925	4 724 282		14 172 848	1 349 795	
49	~~Bankers Trust Co.,N.Y.~~	~~12/15/64~~	~~S 12/15/74~~	~~4.6~~	~~6/15 12/15~~	"	"	"	"	"			~~4560 250~~			~~4 560 250~~	~~1 740 008~~		~~2 356 868~~	~~471 374~~	
50	~~Cleveland Trust Co.~~	~~12/15/64~~	~~S 12/15/69~~	~~4½~~	~~6/15 12/15~~	"	"	"	"	"			~~584 230~~			~~584 230~~	~~467 384~~			~~116 846~~	
51	Chase Manhattan Bank	2/1/65	S 2/1/75	4.6	2/1 8/1	"	"	"	"	"			7300 603			7 300 603	2 813 812		3 655 619	831 172	
52	Morgan Guaranty Trust Co.	2/1/65	S 2/1/75	4.6	2/1 8/1	"	"	"	"	"			2951 279			2 951 279	1 204 118		1 385 967	361 194	
53	First Natl.Bank, St.Louis	2/5/65	S 2/15/70	4½	2/15 8/15	"	"	"	"	"			456 460			456 460	319 522		45 646	91 292	
54	Morgan Guaranty Trust Co.	3/1/65	S 3/1/75	4.6	3/1 9/1	"	"	"	"	"			4096 044			4 096 044	1 581 768		2 127 464	386 812	
55	Continental Ill.Nat.Bk.&Tr. Co.	3/15/65	S 5/15/70	4½	5/15 11/15	"	"	"	"	"			787 480			787 480	551 236		78 748	157 496	
56					Grand Total																

Continued on pages 237I & 237J

EQUIPMENT TRUSTS AND CONDITIONAL SALES (FIRST 8 MONTHS) 1969 MATURITIES

21B. FUNDED DEBT AND OTHER OBLIGATIONS- Continued

Line No.	Name and character of obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Interest Provisions: Rate percent per annum (nominal year) (d)	Interest Provisions: Dates due (e)	Does Obligation Provide For—(Answer "Yes" or "No"): Conversion (f)	Does Obligation Provide For—(Answer "Yes" or "No"): Call prior to maturity, other than for making fund (g)	Does Obligation Provide For—(Answer "Yes" or "No"): Sinking fund (h)	Is Owner Property (Real or Personal or Leasehold) Subject to Lien of the Obligation? (Answer "Yes" or "No"): First lien (i)	Is Owner Property (Real or Personal or Leasehold) Subject to Lien of the Obligation? (Answer "Yes" or "No"): Junior to first lien (j)	Approximate Number of Miles of Line Directly Subject to—: First lien (k)	Approximate Number of Miles of Line Directly Subject to—: Junior to first lien (l)
1	3) Miscellaneous Obligations Cont'd:											
2	1st Nat.Bank of Chicago	9/1/66	1/15/72	6	1/15 7/15	No	Yes	No	Yes	No		
3	Chem.Bk.N.Y. Trust Co.	4/1/67	2/1/69	Various	Monthly	"	"	"	"	"		
4	1st Nat.City Bank, N.Y.	5/1/67	1/30/70	"	Various	"	"	"	"	"		
5	Marine Mid.Tr. of West, N.Y.	11/4/67	1/1/77	"	Monthly	"	"	"	"	"		
6	Western Stevedoring Co.	9/13/66	6/1/71	5½	"	"	"	"	"	"		
7	Central Penn Nat. Bank	7/1/68	7/1/73	Various	1/1 7/1	"	"	"	"	"		
8	1st Nat. Bank of Chicago	4/10/68	6/1/73	"	Various	"	"	"	"	"		
9	Eurodollar Credit&Agrmts.	11/14/68	10/31/73	"	"	"	"	"	"	"		
10	Revolving Credit Notes	Various	12/30/70	"	"	"	"	"	"	"		
11	Commercial Paper Notes	"	Various	Various	Various	"	"	"	"	Yes		
12	Pettibone Mulliken Corp.)											
13	Equilease Co.(Div.of Eltra Corp.))	Assumed from New Haven RR										
14	2nd Nat'l Bank of N.H.)											
15												
16	4a) Equipment Trust Certificates:											
17	(PRR) - Series AA	3/5/63	S 3/1/68	3	3/1 9/1	No	No	No	Yes	No		
18	" AA	12/10/53	S 3/1/68	3-1/8	3/1 9/1	"	"	"	"	"		
19	" BB	3/2/54	S 2/1/69	2-3/4	2/1 8/1	"	"	"	"	"		
20	" CC	2/1/55	S 2/1/70	2-3/4	2/1 8/1	"	"	"	"	"		
21	" DD	12/20/55	S 12/1/70	3-1/8	6/1 12/1	"	"	"	"	"		
22	" EE	12/20/55	S 1/1/71	3-1/4	1/1 7/1	"	"	"	"	"		
23	" FF	4/1/56	S 4/1/71	3-1/8	4/1 10/1	"	"	"	"	"		
24	" GG	9/15/56	S 4/1/71	3-3/4	4/1 10/1	"	"	"	"	"		
25	" HH	1/3/57	S 1/1/72	4-1/8	1/1 7/1	"	"	"	"	"		
26	" II	4/2/57	S 4/1/72	3-3/4	4/1 10/1	"	"	"	"	"		
27	" A	6/13/57	S 6/1/72	4-1/4	6/1 12/1	"	"	"	"	"		
28	" B	10/1/69	S 10/1/80	5-1/4	4/1 10/1							
29	(NYC) - 1st 1953	2/1/66	S 2/1/81	5-1/4	2/1 8/1	"	"	"	"	"		
30	2nd "	1/1/53	S 1/1/68	3-1/8	1/1 7/1	"	"	"	"	"		
31	1st 1952	3/15/53	S 3/15/68	3-5/8	3/15 9/15	"	"	"	"	"		
32	1st 1957	7/1/52	S 7/1/77	3-3/8	7/1 1/1	"	"	"	"	"		
33	2nd "	1/1/57	S 1/1/72	4-3/4	1/1 7/1	"	"	"	"	"		
34	3rd "	4/1/57	S 4/1/72	4-3/8	4/1 10/1	"	"	"	"	"		
35	1st 1960	9/16/57	S 9/16/72	5	3/15 9/15	"	"	"	"	"		
36	1st 1961	6/1/60	S 6/1/75	5-1/4	6/1 12/1	"	"	"	"	"		
37	2nd "	2/15/61	S 2/15/76	4-3/4	2/15 8/15	"	"	"	"	"		
38	1st 1963	6/1/61	S 6/1/76	4-7/8	6/1 12/1	"	"	"	"	"		
39	2nd "	6/15/63	S 6/15/78	4-1/4	6/15 12/15	"	"	"	"	"		
40	1st 1964	12/15/63	S 12/15/78	4-3/8	6/15 12/15							
41	2nd 1964	4/1/64	S 4/1/79	4½	4/1 10/1	"	"	"	"	"		
42	1st "	8/15/64	S 8/15/79	4½	2/15 8/15	"	"	"	"	"		
43	2nd "	12/15/64	S 12/15/79	4-3/8	6/15 12/15							
44	1st 1965	3/15/65	S 3/15/80	4-3/8	3/15 9/15	"	"	"	"	"		
45	2nd "	6/15/65	S 6/15/80	4-3/8	6/15 12/15	"	"	"	"	"		
46	3rd "	11/1/65	S 11/1/80	4-5/8	5/1 11/1	"	"	"	"	"		
47	1st 1966	2/15/66	S 2/15/81	4-3/4	2/15 8/15	"	"	"	"	"		
48	2nd "	6/15/66	S 6/15/81	5-3/8	6/15 12/15	"	"	"	"	"		
49	3rd "	11/1/66	S 11/1/81	5-7/8	5/1 11/1	"	"	"	"	"		
50	1st 1967	3/1/67	S 3/1/82	5	3/1 9/1	"	"	"	"	"		
51	2nd "	6/15/67	S 6/15/82	5-3/4	6/15 12/15	"	"	"	"	"		
52	3rd "	9/15/67	S 9/15/82	6-1/4	3/15 9/15							
53	(NH) 1954 No.1	1/1/54	S 1/1/69	Various	1/1 7/1	"	"	"	"	"		
54	1954 " 2	10/1/54	S 10/1/69	2	4/1 10/1							
55												
56												
57												

218. FUNDED DEBT AND OTHER OBLIGATIONS - Continued

Line No.	Name and character of obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Interest provisions: Rate percent per annum (current year) (d)	Interest provisions: Dates due (e)	Does obligation provide for— (Answer "Yes" or "No"): Conversion (f)	Call prior to maturity, other than for sinking fund (g)	Sinking fund (h)	Is other property (real or personal or leasehold) subject to lien of the obligation? (Answer "Yes" or "No"): First lien (i)	Junior to first lien (j)	Approximate number of miles of line directly subject to—: First lien (k)	Junior to first lien (l)
1	4c) Conditional Sale Agreements Cont'd:											
2	Girard Trust Co.	4/15/65	S 5/15/80	4-3/4	5/15 11/15	No	Yes	No	Yes	No		
3	Natl. City Bk. of Cleve.	5/3/65	S 8/15/70	4½	2/15 8/15	"	"	"	"	"		
4	Bankers Trust Co.	5/15/65	S 5/15/75	4.6	5/15 11/15	"	"	"	"	"		
5	Fidelity-Phila.Trust Co.	6/1/65	S 4/1/80	Various	4/1	"	"	"	"	"		
6	Chase Manhattan Bank	6/15/65	S 6/15/75	4.6	6/15 12/15	"	"	"	"	"		
7	Morgan Guaranty Trust Co.	6/15/65	S 6/15/75	4.6	6/15 12/15	"	"	"	"	"		
8	First Natl.City Bk.,N.Y.	7/1/65	S 7/15/73	Various	1/15	"	"	"	"	"		
9	Trenton Trust Co.	7/1/65	S 8/1/80	4.70	2/1 8/1	"	"	"	"	"		
10	Bankers Trust Co.	7/30/65	S 8/15/80	Various	2/15 8/15	"	"	"	"	"		
11	~~First Natl. City Bk.,N.Y.~~	~~9/1/65~~	~~S 11/15/73~~	~~"~~	~~5/15 11/15~~	~~"~~	~~"~~	~~"~~	~~"~~	~~"~~		
12	~~Bankers Trust Co.~~	~~10/1/65~~	~~S 10/15/80~~	~~"~~	~~4/15 10/15~~	~~"~~	~~"~~	~~"~~	~~"~~	~~"~~		
13	~~Pittsburgh Natl. Bank~~	~~12/15/65~~	~~S 11/15/70~~	~~4½~~	~~Various~~	~~"~~	~~"~~	~~"~~	~~"~~	~~"~~		
14	"	1/2/66	S 1/15/71	4½	1/15 7/15	"	"	"	"	"		
15	Irving Trust Co.	4/15/66	S 5/15/71	5-1/8	5/15 11/15	"	"	"	"	"		
16	First Natl.City Bk.,N.Y.	5/1/66	S 2/15/86	5-3/4	2/15 8/15	"	"	"	"	"		
17	Mfrs. Hanover Trust Co.	5/15/66	S 5/15/76	5½	5/15 11/15	"	"	"	"	"		
18	Girard Trust Co.	7/1/66	S 7/1/86	5-7/8	1/1 7/1	"	"	"	"	"		
19	~~Northern Tr.Co., Chgo.~~	~~9/1/66~~	~~S 9/1/71~~	~~6~~	~~3/1 9/1~~	~~"~~	~~"~~	~~"~~	~~"~~	~~"~~		
20	~~Natl.Bank of Detroit~~	~~9/1/66~~	~~S 11/15/72~~	~~6~~	~~5/15 11/15~~	~~"~~	~~"~~	~~"~~	~~"~~	~~"~~		
21	Chemical Bank N.Y.TrustCo.	11/15/66	S 3/31/75	Various	3/31 9/30	"	"	"	"	"		
22	"	11/15/66	S 3/31/69	"	3/31 9/30	"	"	"	"	"		
23	Central Natl.Bk.of Cleve.	1/1/67	S 1/1/77	6.2	1/1 7/1	"	"	"	"	"		
24	Bankers Trust Co.	1/3/67	S 1/1/72	6	1/1 7/1	"	"	"	"	"		
25	Fidelity-Phila.Trust Co.	1/3/67	S 2/1/82	6½	2/1 8/1	"	"	"	"	"		
26	Provident Natl.Bank	3/1/67	S 4/1/82	6	4/1 10/1	"	"	"	"	"		
27	Cleveland Trust Co.	3/15/67	S 3/15/77	6.1875	3/15 9/15	"	"	"	"	"		
28	~~Northern Trust Co.~~	~~9/15/67~~	~~S 9/15/72~~	~~5-3/4~~	~~3/15 9/15~~	~~"~~	~~"~~	~~"~~	~~"~~	~~"~~		
29	Philadelphia Natl. Bank	12/1/67	S 2/1/82	7	2/1 8/1	"	"	"	"	"		
30	Natl. Bank of Detroit	1/1/68	S 1/1/78	6½	1/1 7/1	"	"	"	"	"		
31	First Pa.Bkg.&Trust Co.	2/1/68	S 1/1/83	7	1/1 7/1	"	"	"	"	"		
32	National Bank of Detroit	2/1/68	S 2/15/73	6-7/8	2/15 8/15	"	"	"	"	"		
33	Bankers Trust Co.	2/15/68	S 5/1/76	Various	5/1 11/1	"	"	"	"	"		
34	Girard Trust Co.	5/15/68	S 6/15/83	7½	6/15 12/15	"	"	"	"	"		
35	Northern Trust Co.	6/15/68	S 7/1/76	Various	1/1 7/1	"	"	"	"	"		
36	~~Provident Natl. Bank~~	~~7/15/68~~	~~S 8/15/68~~	~~7½~~	~~2/15 8/15~~	~~"~~	~~"~~	~~"~~	~~"~~	~~"~~		
37	Bowery Savings Bank	7/1/57	S 8/24/71	6	6/24 12/24	"	"	"	"	"		
38	Marine Midland Trust Co.	7/1/57	S 8/1/71	6	2/1 8/1	"	"	"	"	"		
39	General Motors Corp.	9/15/59	S 6/30/72	5½	6/30 12/31	"	"	"	"	"		
40	~~1st Natl.City Bank, N.Y.~~	~~10/1/64~~	~~S 12/15/79~~	~~5~~	~~Quarterly~~	~~"~~	~~"~~	~~"~~	~~"~~	~~"~~		
41	~~Mellon Natl. Bank~~	~~10/1/64~~	~~S 12/1/79~~	~~5~~	~~"~~	~~"~~	~~"~~	~~"~~	~~"~~	~~"~~		
42	Mellon Natl. Bank	10/1/64	S 1/1/80	5	"	"	"	"	"	"		
43	~~General Electric Co.~~	~~10/1/65~~	~~S 12/1/80~~	~~4-7/8~~	~~"~~	~~"~~	~~"~~	~~"~~	~~"~~	~~"~~		
	Grand Total											

218. FUNDED DEBT AND OTHER OBLIGATIONS—Continued

Line No.	Total amount nominally and actually issued (m)	Amount nominally issued and—: Held in special funds or in treasury or pledged (Identify pledged securities by symbol "P"; matured by symbol "M") (n)	Canceled (o)	Total amount actually issued (p)	Amount reacquired and—: Canceled through sinking fund or otherwise canceled (Identify canceled through sinking fund by symbol "S") (q)	Held in special funds or in treasury or pledged (Identify pledged securities by symbol "P"; matured by symbol "M") (r)	Total amount actually outstanding: Unmatured (accounts 764, 766, and 767) (s)	Unmatured (account 764) (t)	Matured and no provision made for payment (account 768) (u)
1	$	$	$	$	$	$	$	$	$
2	19 161 458			19 161 458	4 471 006		13 413 021	1 277 431	
3	1 310 395			1 310 395	786 237		262 079	262 079	
4	1 300 019			1 300 019	552 826		581 262	165 931	
5	30 000 000			30 000 000	6 000 000		22 000 000	2 000 000	
6	1 718 792			1 718 792	686 146		836 604	196 042	
7	1 825 800			1 825 800	707 196		916 548	202 056	
8	10 000 000			10 000 000	3 750 000		5 000 000	1 250 000	
9	9 995 456			9 995 456	1 999 112		7 329 982	666 362	
10	2 863 350			2 863 350	572 670		2 099 790	190 890	
11	~~8 850 000~~			~~8 850 000~~	~~3 318 750~~		~~4 425 000~~	~~1 106 250~~	
12	~~11 999 975~~			~~11 999 975~~	~~2 953 925~~		~~8 292 213~~	~~753 837~~	
13	~~650 000~~			~~650 000~~	~~361 112~~		~~144 444~~	~~144 444~~	
14	728 553			728 553	364 276		218 566	145 711	
15	1 475 000			1 475 000	737 500		442 500	295 000	
16	52 265 000			52 265 000			52 265 000		
17	2 832 450	2 040 765	791 685	-					
18	19 750 000			19 750 000	1 975 000		16 787 500	987 500	
19	~~765 638~~			~~765 638~~	~~306 255~~		~~306 255~~	~~153 128~~	
20	~~879 480~~			~~879 480~~	~~97 720~~		~~586 320~~	~~195 440~~	
21	16 920 000			16 920 000			15 125 000	1 795 000	
22	5 080 000			5 080 000	4 125 000			955 000	
23	2 096 840			2 096 840	304 300		1 581 653	210 887	
24	1 021 997			1 021 997	306 599		510 999	204 399	
25	22 145 000			22 145 000	1 648 979		19 057 222	1 438 799	
26	12 150 000			12 150 000	810 000		10 530 000	810 000	
27	2 398 643			2 398 643	341 939		1 814 739	241 965	
28	~~750 000~~			~~750 000~~	~~150 000~~		~~450 000~~	~~150 000~~	
29	14 400 000			14 400 000	960 000		12 480 000	960 000	
30	3 209 598			3 209 598	163 811		2 725 178	320 609	
31	7 950 000			7 950 000	123 465		7 304 766	521 769	
32	1 567 705			1 567 705	156 771		1 097 393	313 541	
33	15 700 000			15 700 000	1 515 523		12 221 977	1 962 500	
34	20 000 000			20 000 000			18 666 667	1 333 333	
35	4 442 950			4 442 950			3 387 581	555 369	
36	~~20 000 000~~			~~20 000 000~~			~~19 000 000~~	~~1 000 000~~	
37	200 000)			200 000			120 000	80 000	
38	788 571)			788 571			525 714	262 857	
39	2 258 734)			2 258 734			1 613 386	645 348	
40	~~1 226 779)~~ ~~Assumed From~~			~~1 226 779~~			~~1 115 254~~	~~111 525~~	
41	~~719 316)~~ ~~New Haven RR.~~			~~719 316~~			~~655 916~~	~~63 400~~	
42	490 444)			490 444			446 844	43 600	
43	~~2 311 270)~~			~~2 311 270~~			~~2 118 664~~	~~[illegible] 606~~	
44	725 985 996	6 251 603	6 159 033	713 575 360	276 709 911	1 350 369	386 196 972	~~49 318 [illegible]~~ → 35,743,595.	
Grand Total	2 747 152 417	247 525 603	68 279 033	2 431 347 781	893 068 441	53 953 694	1 407 609 859	76 715 787	

Railroad Corporations—Operating—A.

Schedule No. 5

SECURITIES ISSUED, REMAINING TO BE ISSUED, AND OUTSTANDING UNDER PENN CENTRAL CO. AUTHORIZATIONS FROM THE INTERSTATE COMMERCE COMMISSION, FROM JAN. 1, 1966 TO AUG. 31, 1969

ICC authority	Amount issued	Amount remaining to be issued (Aug. 31, 1969)	Amount outstanding (Aug. 31, 1969)
1966 equipment trusts:			
Finance docket No. 23973, Feb. 3, 1966, N.Y.C. equipment trust of 1966	$7,200,000	None	$5,280,000
Finance docket No. 24014, Feb. 7, 1966, P.R.R. equipment trust, series A	10,410,000	None	8,318,000
Finance docket No. 24124, May 18, 1966, P.R.R. equipment trust, series B	12,000,000	None	9,600,000
Finance docket No. 24135, June 1, 1966, N.Y.C. 2d equipment trust of 1966	7,200,000	None	5,800,000
Finance docket No. 24335, Oct. 27, 1966, N.Y.C. 3d equipment trust of 1966	7,200,000	None	6,000,000
Total	44,010,000		34,998,000
1967 equipment trusts:			
Finance docket No. 24442, Feb. 8, 1967, N.Y.C. equipment trust of 1967	7,275,000	None	6,305,000
Finance docket No. 24594, June 8, 1967, N.Y.C. 2d equipment trust of 1967	7,200,000	None	6,240,000
Finance docket No. 24707, Sept. 1, 1967, N.Y.C. 3d equipment trust of 1967	7,200,000	None	6,240,000
Total	21,675,000		18,785,000

Note 1: The above schedule does not include shares of stock of Penn Central Co. issued as follows: 1966—62,830 shares; 1967—91,780 shares; 1968—66,910 shares; and 1969 (8 months)—24,614 shares, pursuant to stock option plans of the Pennsylvania RR. Co. authorized in finance dockets 19910 and 23145 and pursuant to stock option and stock purchase plans of the New York Central RR. Col. assumed by Penn Central Co. in finance docket 21990.

Note 2: The above schedule does not include (1) shares of stock and bonds issued to the trustee of the New York, New Haven & Hartford RR. Co., debtor in reorganization, in payment for its properties pursuant to finance dockets 21990 and 24361, (2) bonds of said debtor which were assumed in said dockets, (3) $35,000,000 principal amount of collateral trust bonds issued by Pennsylvania Co., a subsidiary of Penn Central Co., pursuant to finance docket 25712, and (4) shares of stock and collateral trust bonds of Penn Central Co. issued in exchange for stock of the Pittsburgh & Lake Erie RR. Co. pursuant to finance docket 25114.

Other ICC authorities	Amount issued	Amount remaining to be issued	Amount outstanding
Finance docket No. 24634, July 17, 1967, P.R.R. revolving credit notes.	$15,000,000	None	None. These notes were refunded and superseded by notes issued pursuant to finance docket No. 25397.
Finance docket No. 25179, Aug. 15, 1967:			
Penn Central commercial paper	100,000,000	None	$100,000,000.
Penn Central promissory notes	50,000,000	$50,000,000. This authority is reserved to refund commercial paper.	None.
Finance docket No. 25397, Dec. 11, 1968, Penn Central revolving credit notes.	100,000,000	None	None. These notes were refunded and superseded by notes issued pursuant to finance docket No. 25622
Finance docket No. 25570, Mar. 20, 1969, Penn Central commercial paper.	50,000,000	None	$50,000,000.
Finance docket No. 25622, May 16, 1969, Penn Central revolving credit notes.	250,000,000	$50,000,000. This authority is reserved to refund commercial paper.	$250,000,000.
Penn Central term notes	None	$300,000,000. This authority is reserved to refund up to $300,000,000 of revolving credit notes.	None.

Note 1: The above schedule does not include shares of stock of Penn Central Co. issued as follows: 1966—62,830 shares; 1967—91,780 shares; 1968—66,910 shares; and 1969 (8 months)—24,614 shares, pursuant to stock option plans of the Pennsylvania RR. Co. authorized in finance dockets 19910 and 23145 and pursuant to stock option and stock purchase plans of the New York Central RR. Co. assumed by Penn Central Co. in finance docket 21990.

Note 2: The above schedule does not include (1) shares of stock and bonds issued to the trustee of the New York, New Haven & Hartford RR. Co., debtor in reorganization, in payment for its properties pursuant to finance dockets 21990 and 24361, (2) bonds of said debtor which were assumed in said dockets, (3) $35,000,000 principal amount of collateral trust bonds issued by Pennsylvania Co., a subsidiary of Penn Central Co., pursuant to finance docket 25712, and (4) shares of stock and collateral trust bonds of Penn Central Co. issued in exchange for stock of the Pittsburgh & Lake Erie RR. Co. pursuant to finance docket 25114.

Schedule No. 6

PENN CENTRAL CO. CONDITIONAL SALES AGREEMENTS, JAN. 1, 1966–AUG. 31, 1969

Date issued	Assignee	Amount
1966		
Jan. 2	Pittsburgh National Bank	$728,553
Apr. 15	Irving Trust Co	1,475,000
May 1	First National City Bank	52,265,000
May 15	Manufacturers Hanover Trust Co	2,832,450
July 1	Girard Trust Bank	19,750,000
Sept. 1	Northern Trust Co	765,638
Sept. 1	National Bank of Detroit	879,480
Nov. 15	Chemical Bank	16,920,000
Nov. 15	do	5,080,000
	Misscellaneous	1,595,000
	Total	102,651,121
1967		
Jan. 1	Central National Bank of Cleveland	2,096,840
Jan. 3	Bankers Trust Co	1,021,997
Jan. 3	Fidelity Bank	22,145,000
Mar. 1	Provident National Bank	12,150,000
Mar. 15	Cleveland Trust Co	2,398,643
Sept. 15	Northern Trust Co	750,000
Dec. 1	Philadelphia National Bank	14,400,000
	Miscellaneous	3,875,000
	Total	58,837,480
1968		
Jan. 1	National Bank of Detroit	3,209,598
Feb. 1	First Pennsylvania Banking & Trust Co	7,950,000
Feb. 1	National Bank of Detroit	1,567,705
Feb. 15	Bankers Trust Co	15,700,000
May 15	Girard Trust Bank	20,000,000
June 15	Northern Trust Co	4,442,950
July 15	Provident National Bank	20,000,000
	Miscellaneous	1,400,000
	Total	74,270,253
1969		
Feb. 15	Manufacturers & Traders Trust Co	655,000
Feb. 15	Central-Penn National Bank	12,000,000
Apr. 1	Second National Bank of New Haven	1,530,000
May 15	First Pennsylvania Banking & Trust Co	10,700,000
Aug. 1	Mellon National Bank & Trust Co	15,840,000
	Total	31,095,000

Schedule 7

PENN CENTRAL CO. MATURITIES

	Last 4 months 1969	1970 (estimated)	1971 (estimated)
Funded debt:			
N.Y.C. coll. tr. 6 percent bonds due April 1, 1980		$1,000,000	$1,000,000
N.Y.C. coll. tr. 6 percent bonds due April 15, 1990		400,000	400,000
N.Y.C. coll. tr. 5 percent notes due July 1, 1974		3,300,000	3,300,000
P.R.R. Genl. Mtg. 4¼ percent "E" due July 1, 1984		250,000	250,000
P.R.R. Genl. Mtg. 3⅛ percent "F" due January 1, 1985		600,000	600,000
P.R.R. Genl. Mtg. 3 percent "G" due May 1, 1985		572,000	572,000
First National City Bank loan agmt. 4½ percent dated May 6, 1965, due December 31, 1970	$2,240,000	30,400,000	
Penn Central 6½ percent coll. tr. due April 15, 1993		348,000	333,000
P.C.C. & St. L. 5 percent series "A" due May 1, 1970		18,567,000	
Miscellaneous obligations	631,131	2,082,000	1,591,000
Total funded debt maturities	2,871,131	57,519,000	8,046,000
Equipment debt:			
Equipment trusts	6,511,000	14,403,960	12,695,960
Conditional sales contracts[1]	15,424,513	54,032,628	54,453,834
Total equipment debt maturities	21,935,513	68,436,588	67,149,794
Total maturities	24,806,644	125,955,588	75,195,794

[1] Conditional sales maturities in 1970 and 1971 reflect estimated equipment financing of $97,540,000 in 1969 and $100,000,000 in 1970.

INTERSTATE COMMERCE COMMISSION,
Washington, D.C., July 31, 1970.

HON. WINSTON L. PROUTY,
U.S. Senate,
Washington, D.C. 20510.

DEAR SENATOR PROUTY: This is in reply to your request following recent hearings before the Subcommittee on Surface Transportation, at which the Commission appeared July 8, 1970, to supply various information for the record.

The questions and answers follow in the order presented, with a joint response to the first two:

Question. 1 Does the Commission intend to extensively audit the accounts of railroads which form a part of a conglomerate enterprise?

Question. 2 Could you develop figures to submit to this Committee as to the appropriation and manpower which would be required by the Commission to undertake an individual audit in depth of each conglomerate corporation having as a subsidiary a railroad subject to your jurisdiction?

Answer. The audit program of the Bureau of Accounts contemplates an annual examination of those railroads which form a part of a conglomerate enterprise. However, we do not contemplate making an in-depth audit of each conglomerate corporation which has a railroad subsidiary subject to our jurisdiction. For example, the United States Steel Corporation owns several railroads but no audit of this Corporation is planned. However, in connection with the examination of those railroads owned by U.S. Steel or others in like circumstances, we do intend to examine any and all transactions that might have occurred between the regulated railroad and its parent. The scope of our special conglomerage audit in this regard has been previously provided to the Committee.

With respect to the Bureau's needs for additional auditors to cope with the conglomerate situation, we feel that an additional 20 auditors and accountants in grades ranging from GS-12 through GS-15 would suffice. This would require an appropriation of $380,000 annually. At present, there are 8 professional vacancies in our field staff. Coupled with the 20 positions mentioned above, we believe this to be the maximum number we could immediately absorb in an orderly orientation and training program.

The foregoing represents only the Bureau of Accounts' immediate requirements. In considering staff needs for the future, other matters must be considered. For instance, if many conglomerate examinations should develop into Section 12(1) investigations such as those of Penn Central and Kansas City Southern Industries, the needs will be much greater than our present staff even though it should be augmented by the 20 positions mentioned above.

If additional personnel are necessary, we will request them at the appropriate time.

Question. 3 In your opinion, or if you prefer, in the opinion of your General Counsel, would additional legislation be necessary to enable the ICC to undertake such a project? If so, how soon can the Commission present draft legislation giving it such additional authority as it deems necessary?

Answer. It is the view of the General Counsel that legislation would be required for the Commission to subject non-carrier holding companies to the reporting and accounting requirements of the Interstate Commerce Act. However, this matter is presently under study by the General Counsel and others. As soon as their consideration is complete and the Commission has sufficient information on which to base a decision, we shall be pleased to inform you further on this matter.

Question. 4 Inasmuch as all of the loan guarantee legislation which we are considering is patterned after the 1958 Act which was administered by your Commission, can you give us an opinion as to the success of that 1958 legislation? Are you in a position to summarize briefly for the record the Commission's experience under that legislation?

Answer. With respect to Part V of the Interstate Commerce Act, it is our view based on experience to date that the loan program has been successful. Loans have been made to 14 railroads in the total aggregate amount of $243,972,360, and as of June 30, 1970, $165,344,568 remains outstanding. Full repayment of all such loans is not scheduled to occur until 1978.

These loans, as you know, were made to railroads in difficult financial circumstances. We are convinced that some railroads which are viable today would have been in bankruptcy were it not for the assistance of Part V loans. Avoiding the adverse effect which the bankruptcy of many railroads would have had on the railroad industry in particular, and the national economy in general, is itself, in our opinion, a valuable contribution of the loan program.

In addition to reimbursing certain railroads for additions and betterments made from their own funds after January 1, 1957, and thus greatly assisted their working capital positions, Part V loans facilitated the purchase of a substantial amount of carrier equipment and the construction of carrier facilities which directly benefited the shipping public. As an illustration, the Missouri-Kansas-Texas Railroad Company used the major portions of its Part V loan proceeds to rehabilitate its main lines, which in the early sixties had one of the highest incidence of accidents. As a result, service was improved and customer confidence restored. Another illustration is a loan to the Norfolk Southern Railway Company, a portion of which was used to construct a line of railroad in Beaufort County, N.C., to serve a new phosphate industry in that area. The present profitable operation of this railroad is largely due to increased traffic from the new line. Improvements due to these loans therefore directly benefited the public as well as the railroads involved.

Attached hereto is a history of the guaranteed loan program under Part V covering the period through 1965, setting forth in detail the purpose for which the various Part V loans were authorized. Also attached are statistical summaries regarding Part V loans through June 30, 1970.

If we may be of further assistance in this matter, I would be pleased to hear from you.

Sincerely yours,

GEORGE M. STAFFORD,
Chairman.

FAILING RAILROADS

WEDNESDAY, JULY 22, 1970

U.S. SENATE
COMMITTEE ON COMMERCE
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 5110 New Senate Office Building, Hon. Vance Hartke, presiding.

Present: Senators Hartke, Pastore, Hart, Scott, Pearson, and Baker.

Senator HARTKE. The hearing will come to order.

These hearings are a continuation of the committee's inquiry into the financial collapse of the Penn Central.

The first witness we will hear this morning will be Senator Javits. Following him, Stuart T. Saunders, the former chairman of the board of the Penn Central Co. is here to present his views on how this gigantic corporation reached its present state of affairs.

At 2 p.m. tomorrow the committee will hear testimony of the present management represented by Mr. Paul A. Gorman, who is chariman of the board, and Jonothan O'Herron, the executive director of finance. We will hear from Alfred Perlman, former president, next Wednesday, and those arrangements are to be finalized sometime today.

Senator Javits.

STATEMENT OF HON. JACOB JAVITS, U.S. SENATOR FROM NEW YORK

Senator JAVITS. Thank you very much, Mr. Chairman. I wish to thank my colleagues for their cooperation with the time stringencies that all of us are under.

Mr. Chairman, I testify as one of the authors of 4014 which is a bill referred to the committee introduced by Congressman Reid in the House of Representatives, and by me here. It seeks $750 million in guarantee authority with respect to the operations of rail carriers.

My bill, as introduced in the Senate, differs materially from that introduced by the administration, Mr. Chairman, in the following respects: (1) The loan guarantee authority in my bill is specifically made available to a railroad in reorganization; (2) The money which is raised as a result of the guarantee must be used "soley for railroad transportation purposes"; (3) There is an opportunity for the guaranteeing authority to insure in a continuing way that the purposes for which the guarantee was made are being carried out.

50-934—71—pt. 1——19

Finally, and very importantly, Mr. Chairman, the bill provides for a joint congressional committee to be known as the Joint Congressional Committee on Railroads, with Members from the House and Senate. The function of the committee would be to chart a course for the railroad industry of the country, and in making its proposals, Mr. Chairman, I have in mind that the committee would be able to act with a completely free hand.

As a matter of fact, we have a rather unique system of private ownership in the United States. Whereas in previous days you heard the greatest expressions of alarm and concern if anybody talked about nationalizing the railroads—indeed, governments in other countries have come and gone on that issue—I think today, the complex of our society is so enormous, the amount in the private sector is so great, notwithstanding the concerns of many that the government is in too much, that it may be the railroads can no longer be owned privately.

The fact is that government employment at every conceivable level, State, Federal, municipal, is only 10 percent or less of the aggregate employed population, and even if the 5 percent in the Armed Forces are included in government employ, one still must find that 85 percent of our society is still in private hands.

Now, this is very appreciable. If that 85 percent were reduced 1 percentage point because we simply could not run efficient and effective railroads any other way, I do not think that would change the character of the American society.

I am not making a plea for it, but I am making a plea for an untrammeled joint committee in Congress which will really chart an honest course for the people.

Mr. Chairman, I am looking at Senators who, like myself, know that the people want to be told the truth and that the days of Pablum are over. If the railroads cannot be run except with Government help or even Government direction, we must have the courage to explain it. The people would still prefer the railroads to run than to have some illusory private interest in them preserved and grass grow on the tracks.

Senator PASTORE. This commission that you are suggesting, would that be an investigatory commission or would it be a commission to actually run the railroads?

Senator JAVITS. No. It would be a joint committee of the Congress to chart a plan as to what we ought to do about the railroad situation in a permanent way.

Senator PASTORE. Do you not think this committee is competent enough to do it? The point I am making, I am not trying to reflect on your suggestion at all, but it seems to me that every time we have a problem we either have to appoint a joint committee of Congress or we have to appoint a commission, and we know the problem. The problem today is that the railroads are rather archaic because of the outworn equipment that they have, and much of this is as a result of the fact that they have not been sufficiently patronized and they do need federal help. There is no question about it at all.

Now, you have given two alternatives and I am inclined to go along with you on the question. You are either going to have some

kind of Government help or you have got to nationalize this thing because it is not a paying thing, and eventually, it could be done.

I am wondering if we are not belaboring the fact about finding out what is wrong rather than to devote more of our time in remedying what we know is wrong.

Senators JAVITS. I do not think there is a member of the Senate I respect more than my colleague from Rhode Island, and I would like to make a considered reply, if I may.

In the first place, the joint committee that we have in mind in this bill would, and I quote page 8, line 24, "make recommendations for the solutions of such problems, wit: the financial and other problems of the Nation's carriers. I have no design for a joint invesigaing committee, only for a committee which will—

Senator PASTORE. Would it be an ad hoc committee?

Senator JAVITS. It would be strictly an ad hoc committee. Now, the reason for a committee or a commission is this: nobody has ever invented a substitute for human brains or concentration. Hence, when you want to zero in on a problem you must either do it yourself or have an expert group such as this Commerce Committee, both the Senate and the House Committees, or some high-level blue ribbon group do it.

I suggest the last. The reason is the following: (1) There is an emergency: (2) Both committees are fabulously busy; (3) You can get into hassles between the Houses when you are dealing with some massive plan as this would be, and the thing could thus dribble away in some kind of political argument. In view of the emergency, we must take this "blue-ribbon approach.

Emergencies are not bad; they are good. The fact that Penn Central is going through the wringer I think is great because it is going to squeeze a lot of the water out of its securities.

It is going to wake the Nation up to the fact that there is no automaticity about private operation, and it will bring some solutions from the Congress because the people will take no less.

All I suggest is a technique for utilizing the emergency for our benefit in order to bring about some high-level plan of a comprehensive character.

I am not without experience in this, Mr. Chairman. I am the ranking member of the Labor Committee, and on more than one occasion—and one of those occasions cost one Senator his seat—we have had the very unpleasant task of keeping the wheels rolling rather than stop because of the strike.

For many, many years the railroads, being the central regulated industry, were the whipping boy for every new idea and every new concept and every regulatory trend everybody could think of. It is one of the things which has resulted in the by no means incidental —and I hasten to point out without proper complaint by the railroads—eucrustation of barnacles on the whole operation of railroads which has built up over the years.

This is the reason I am making this suggestion most respectfully to the Committee. The time has come, in my judgment, when you simply must rationalize the rail system of the United States, utilizing this emergency as the railroad system is not used up, by any means.

As the Senator knows, to take a very homely example, I am probably the best customer of the New York-Washington airplane run. I would more than gladly ride the trains. I have tried the new train on a number of occasions, but instead of speeding it up they slowed it down. And we all know that there is no lack of patronage for railroads, even passenger patronage, as Ben Heineman has certainly shown in the area around Chicago. But we are strangling in big cities like New York and Philadelphia and others such as Indianopolis, the place of the Chairman, where I was the other day. All of us are strangling because we are on rubber instead of iron.

Senator PASTORE. I am not questioning the Senator's interest in this matter. As a matter of fact, he knows how I feel about him as well. What I am saying is this: That this committee has been very much involved and very much concerned about this problem. I think we understand the problem and we are holding hearings on these bills.

I am afraid if we get into creating a new joint committee you are going to get into jurisdictional problems. Naturally, ordinarily, committees are jealous about their jurisdiction. You are going to get this argument about whether you need it anyway, but if you do need it it is going to take some time.

This emergency is so immediate we ought to begin doing something about it. We have had the Secretary of Transportation here and we have had messages from the White House. We have had Senator Hartke, who is Chairman of this subcommittee, who has gone into this problem in some detail. I think we know the problem. I think the committee is ready and willing and able and capable of doing something about it. We are not so overtaxed with work that we cannot take care of this emergency. That is the point I wanted to make.

Senator JAVITS. The bill we have submitted contemplates exactly what the Senator states because it is in two parts. (1) We are seeking action, to wit, by the loan guarantee route; and (2) We are seeking a permanent or a broad national plan into which the railroad business may fit.

The time may have come for the railroad business to be a joint enterprise of government and private enterprise. This is not impossible. We are doing it in Comsat. We have got another corporation waiting to be staffed called the Overseas Private Investment Corporation. We may do more and more of it. Indeed, I think Comsat came out of this very same committee.

Senator PASTORE. And I managed the bill on the floor and it was the first time we broke a filibuster in 27 years.

Senator JAVITS. I believe in that concept, I might say to Senator Pastore, and I said so at the time. I have been responsible for a number of the initiatives on this joint-enterprise front.

The only thing I am pleading for is the twofold approach, to wit, immediate action, which you must have to deal with the emergency; and greater rationalization with respect to the railroads, and I have suggested a technique for getting it.

In answer to the jurisdictional question, Mr. Chairman, may I say that like the Joint Economic Committee or the Committee on Nutri-

tion and Human Needs, of which I am a ranking member, or the Committee on Equal Educational Opportunity, these are all ad hoc committees. They make their recommendations to the legislative committees but they are backed by testimony and a great deal of public notice.

There is an urgency about implementing what they have recommended which is greater than if we rely upon the normal legislative process.

Mr. Chairman, there is no need to emphasize before this committee the critical importance of the rails, and I believe I have testified to the particular areas in which I have any expertise or ideas and I thank the Chairman very much.

I ask unanimous consent, Mr. Chairman, that my statement as issued may be made part of the record.

Senator HARTKE. Senator Pastore, do you have any more questions?

Senator PASTORE. No.

Senator Hartke. Senator Pearson.

Senator PEARSON. Senator Javits, I recognize your proposal as being directed toward service and the problems of the employees rather than concentrating on the financial problems involved in this, but at the risk of this being a simple question, tell me, Senator, as an expert in banking—he has to be if he comes from New York—why are not the banks, the usual institutions, capable or willing to lend money to a corporation such as the Penn Central today? Why is the loan guarantee necessary?

Senator JAVITS. The banks were unwilling to lend to Penn Central before it went into 77(b), I believe, because Penn Central had too much water in it, and the transportation assets were not adequate security for a loan. Nor could they see a cash flow which would get their money back in any reasonable period of time. Therefore, they refused the loan and they would rather see the railroad go into bankruptcy. Not that they are callous to the public importance of such a large enterprise going into bankruptcy in this country; if the decision had been more marginal I believe they would have made it affirmatively.

I do not subscribe to the view that they are unknowing about the consequences to the general economy of a Penn Central failure, but in any case, that was a banking decision.

As to the reason for a guarantee now that they are in reorganization. Creditors of Penn Central are in the hands of the court. To be sure, the certification made by the trustees gives the loan made to the trustees priority over all other indebtedness. (There is still some argument as to whether it has some priority over taxes, but even then, it is very likely that the court has the power constitutionally to give priority over taxes for so-called trustee certificates.)

But this is a very sterile loan for the banks in terms of the fact that they are in the hands of the court. Nobody knows what claims may occur on the part of people who have dealt with the railroad. The court giveth and taketh away. At a time when money is very scarce and when there are lots of other good customers who would be continuing customers, not trustees in bankruptcy, waiting to lend money to, it is likely that when you add some risks to the unattrac-

tive character of the borrower in terms of a continuing relationship, the bank would say "We are not interested."

Now, if it came to a matter of the operation of the road, actual operation in extremis, it may be that you would get a bailout coalition of banks. It may be, but it is too risky and there is too much at stake. Furthermore, it really does not cost the United States anything to guarantee them.

I would like to turn the question around. Why *not* guarantee the loan? If we charge them a 1½ percent of the premium, we should not lose money. Anybody that studies the record knows that in every guarantee plan offered by the United States, from the $100 billion plus that we have always made money. We have never lost money on guarantees.

The idea that our people who are managing these things, Secretary Volpe or whoever it may be, is going to be imprudent and deal only with his pals and have some corrupt, inside deals, we all know is nonsense in the fishbowl in which we live today. He has 100 people looking over his shoulder and 10,000 newspapermen, and he is not that insensitive.

So, I think the question ought to be turned around. This railroad has to operate. There is difficulty in getting liquid money in order to operate it, and the U.S. guarantee is now in the hands of the United States—it is essentially a facility of the United States, when you get right down to cases. Why should we not give them the guarantee in order to get the wheels moving?

Senator PEARSON. Thank you, Senator.

Senator HARTKE. Senator Scott.

Senator SCOTT. Senator Javits, you speak of rationalizing the system. Does that concept include, in your mind, the possibility of nationalizing the system?

Senator JAVITS. It does. I do not think you can shrink from it. It is as essential to run the railroads as it is to have the Army, Navy, and Air Force. If the railroads can only roll on that basis and serve the people as they should be served, we cannot shrink from it. There is nothing doctrinaire about freedom except its loss.

Senator SCOTT. Do you regard nationalization as a last resort, or as a very real possibility in the near future?

Senator JAVITS. I regard it as a last resort because the nationalization also can be very corrupt and very wasteful. Argentina was literally destroyed by the cost of operating its railroads and its dictator, Peron, used the railroads as a patronage trough, with the most ghastly results.

On the other hand, there are systems in Europe which are nationalized and which run admirably. So there is no iron rule about it. We may make a terrible bust of it.

On the other hand, as Senator Pastore says, you are always hearing the Japanese system bragged about. It is a tremendous attraction, a tremendous facility, and very successful.

Senator SCOTT. In Japan, the predominant railroads are probably above the world's standards. At the same time, they cost the Japanese Government subsidies of over $1 million a day. The formerly good railroads in Great Britain are now, to put it mildly, extricable.

On the other hand, as you say, some nationalized systems in Europe are working out on the whole quite well.

So the problem is not automatic or simplistic in any sense.

Senator JAVITS. Not at all. I would lean towards a business-Government partnership. I think more and more you can get the best of both worlds in that way. You can get the efficiency and incentive of business operation and you can get the backup of Government to keep the thing going and give it that degree of liquidity which apparently it cannot attain in the private enterprise system alone. I see nothing in that that should scare us.

Senator SCOTT. In other words, Government aid, if it can be worked out, is preferable to Government ownership?

Senator JAVITS. I would say yes, but I think that where the Government aids the Government also cannot be kept at arm's length and it has the right to get right in there on the board and to see what is going on. I do not think there is anything wrong about the Government making money as a partner. I do not see anything wrong with that at all.

Senator SCOTT. The thought is acceptable.

Senator JAVITS. Yes.

Senator SCOTT. The railroads now are really the only transportation system which does not receive substantial Government assistance with the exception of the Rail Passenger Act, if passed——

Senator JAVITS. And that is hung up, as we all know, including the urban mass transit.

Senator SCOTT. That is hung up, as usual, with the other body which is going to take about a 4-week vacation.

Thank you, Senator.

Senator HARTKE. Senator Pastore.

Senator Pastore. That is the point I was making.

Senator HARTKE. Well, we are not going to chastise anybody this morning I do not believe.

Senator BAKER. I arrived late and I apologize for that, but I am sure Senator Javits has done his usual splendid job in this situation and I will read his statement.

Senator HARTKE. Senator Pastore.

Senator PASTORE. Do you not think, Senator Javits, we might even have to go further than guaranteed loans?

Senator JAVITS. We may. I believe the guarantee technique will work because I think that when you make the guarantee dependent upon the national interest factor, for there is a national interest factor cranked into top level business decisions today, in my judgment——

Senator PASTORE. But the point is that many of these railroads of today are in financial difficulty. Now, when you borrow money, no matter at what rate you borrow it, you have to pay at least the principal back, and the question is whether or not the cash return will be sufficient enough to give you the maintenance that you need efficiently, and at the same time, empower you or make you capable of paying back the loan.

Now, if you start out with a very depressed financial condition, the question I raise is, you said that we never lose any money on these guaranteed loans—that is true. But we have never really got

into it in this situation with the railroads, and I am afraid that short of nationalization, which, of course, to me is a dirty word unless you really need it, I think myself that the Government will have to do quite a bit if we are going to maintain this system of transportation. My section of the country would die without the railroad. We would die without the railroad. There is no question at all about it. When you realize that 20 percent of all the freight that is fed into the railroad system of this country, nationally speaking, comes from Penn Central, it makes it quite important that you do something about it.

But it is true that a lot of people are quite reluctant and restrained in this matter because of some of the abuses that have crept in, not only on the part of the matters that we have had to discuss at the time that we passed the resolution on the railroad strike but also with reference to management.

I brought out here the other day, here is the Penn Central on the verge of bankruptcy, and yet they have decreed $144,000 a year as a pension fund to Mr. Saunders. Now, where does this money come from? Who is paying for it? I hope we do not have to subsidize that kind of abuse.

I think what we have to do is clean up the railroads first and then give them what they need, but we have got to clean them up first.

Senator JAVITS. Unhappily, for all of us, we have to do both at the same time, because the road has to continue to operate. With a $20 million a week payroll you have got a problem probably the day after tomorrow, and that is all I am talking about.

Senator HARTKE. Senator Javits, before you leave, I do think that we ought not leave in the record that we have never lost any money on the guaranteed loans. Even under this provision, under the 1958 law, there were several loans which were in default and I think that at this place I will insert those into the record, because it leaves a false impression that this has been totally without default. [1] Some of the loans have been paid back and there are a number of loans in different areas which have been paid back, but, as is true of practically every loan in any operation, you do not get all 100 percent and it has not been so for the Government.

Senator JAVITS. There is no question about it. When I say lose money, I am speaking of the overall operation. We lose money in individual FHA operations, but I am talking about the overall guarantee operation of the Federal Government across the board, and you have to be actuarial about it.

On the whole, the Federal Government has not lost money on the guarantee technique. That is all I was pointing out.

Senator HARTKE. Let me say I think it amounts to about $6 million under the 1958 act.

Senator JAVITS. If we lost $6 million under the 1958 act, we have made $150 million in the FHA. You run a business. That is really what business the Government is in when you run a guarantee.

Senator HARTKE. I just wanted to make that clear.

Senator SCOTT. May I offer into the record the article from the Time Magazine of July 6, 1970, "The Case For and Against Nationalization."

---

[1] See p. 33.

Senator HARTKE. Fine. That will be part of the record at this time along with Senator Javits' full statement.

(The article and statement follow:)

[From Time July 6, 1970]

THE CASE FOR—AND AGAINST—NATIONALIZATION

Several years ago, Louis Armand, former head of the French national railways, lunched with seven U.S. railroad presidents. At that time, he recalls, "I remarked that sooner or later they would have to face up to the question of nationalizing American railroads. They all roared with laughter." Last week, in the midst of the Penn Central's financial fiasco, no one was laughing at the idea any more. Transportation Secretary John Volpe warned Congress that if the Administration's bill to guarantee loans for railroads fails to pass, and other roads fall into bankruptcy, the only alternative would be for the Government to nationalize the rails. The Transport Workers Union has already called for nationalization. Said James A. Schultz, vice president of the Association of American Railroads: "The country has got to have railroads. So you either have nationalization or Government participation and help."

Nationalization has its attractions. The U.S. is almost the only industrialized nation without it. Stalled and stymied by high operating costs, local taxes, labor featherbedding and Government regulation, 21 of the nation's major railroads ran in the red last year. Though the Government's past policies have often hurt the railroads, Washington seems to be the only power that has the potential, at least, of building a rational, balanced national rail system.

Compartments for Cardinals. That is just what has been done abroad. Americans who travel overseas marvel at the swift, efficient and inexpensive nationalized railroad service they encounter. In France, the Paris-Marseille-Riviera express made 182 trips in a three-month period last winter and was late a total of one minute and a half. Japan's 125-m.p.h. "bullet train" between Tokyo and Osaka is the technological wonder of the Eastern World.

But there are some curves in the track. The foreign systems follow a cost-be-damned philosophy and lose staggering sums. The Japanese railroads lose $1,000,000 a day. Many of the overseas systems are operated partly as make-work projects and are featherbedded to an extent that would shock even a U.S. rail unionist.

Foreign lines court popularity by keeping fares low. On the Italian railroads, 80% of the passengers ride at reduced rates or pay nothing at all; full fares are paid only by tourists and the few odd souls who do not fit into any of the categories in the eleven-column, fine-print list of those entitled to "special" rates. In the Italian railway hierarchy, cardinals rate free private compartments; judges and most government officials get free seats; bishops, crippled people and journalists qualify for 20% to 70% fare reductions.

$60 billion for openers. In the U.S., the costs of nationalization would be enormous. The current estimate is that the Government would have to pay $60 billion merely to buy the railroads. Then Washington would still face the tremendous task of running the roads effectively. With rare exceptions, such as the Tennessee Valley Authority, the record of Government management of business-type enterprises is, if anything, even less impressive than that of private management of the railroads.

If railroads were nationalized as the Post Office is, says University of Chicago Economist George Stigler, "the same political forces, the same million employees would be running things through Congress." Stigler foresees an even greater danger: federal juggling of freight rates could confer great boons on some areas and penalize others. "If you subsidize freight rates in the Pacific Northwest," says Stigler, "that means their lumber industry booms. Every section of the country that has powerful political representation will seek favors in the rate structure."

Yet the Government has an obligation to help the railroads. The U.S. needs what is by far its most heavily used form of intercity transportation, and besides, Washington is largely to blame for the sad state of the railroads. The Government has refused to permit roads to drop unprofitable lines, dragged its heels in approving sensible mergers or rate increases and subsidized the railroads' competitors by ladling out money for highway, airport and canal con-

struction. "At present, the railroads have the worst of all possible worlds," says Ben Heineman, president of the North Western road's parent company. "The managements have the responsibility for running them, but Government has all the authority. I used to say that as a chief executive of a railroad I was able to make an important decision: I could decide whether to paint our freight cars red or green."

Fortunately the Government is now examining with sympathy some relatively radical proposals to improve rail service. One that interests the Department of Transportation is for the Government to buy stretches of track for nominal prices and make "federal rail highways" out of them. Trains would pay tolls, as trucks do on turnpikes, but any company could use the highways and travel anywhere along the system. The Federal Government would relieve the railroads of the cost of maintaining those stretches of track, and the highway concept would permit more flexibility and efficiency in rail operations. A Seaboard Coast Line train heading north, for example, would no longer have to change crews and engines at Washington, where its line now terminates; it could carry cargo straight from Florida to New York. An electric utility, if it desired, could run its own trains to the coal fields.

Much more than this would be needed to build an efficient, economic rail system. Short of full nationalization, the Government could:

Take over passenger service. Railroad men are convinced that passenger service can never make a profit, and private enterprise simply cannot operate on that basis. The Senate already has passed a bill to create Railpax, a public corporation that would run the passenger service of any road that wanted to give it up. No improvement in passenger service can ever be expected from private railroad officials who regard that service as a despised orphan that they would like to be rid of. Railpax would at least put passengers in the care of a public corporation dedicated solely to serving them. With the Government's authority behind it, Railpax also would have a chance to drop some of the trains that few people ride. In addition, Washington would do well to encourage creation of metropolitan-area bodies to take over and run commuter services and to plan coordinated areawide systems.

Reduce regulation of freight. Railroads should be set free to charge any freight rates they wish, subject only to minimum supervision to guard against blatant discrimination. The present structure of rate regulation is a hangover from the 19th century, when railroads were big, rich monopolists. Today, intense competition from trucks, airlines, barges, pipelines—and the pressure of large shippers who often have much more financial clout than the railroads—can be trusted to "regulate" rates.

Introduce a national transport policy. Such a policy should equalize subsidies and taxes among various forms of transportation and let the most efficient form prevail. A first priority should be removal of the legal barriers to creation of integrated transportation companies that could own railroads, airlines and truck lines, and move goods and people in the most economic manner. The fragmentation of transport today is costly. A shipper should be free to turn his goods over to, say, the Land-Sea-Air Transport Co., rather than having to negotiate separately with airlines, railroads, truckers.

What the railroads need is much less Government involvement in freight operations and much more Government involvement in passenger operations. That may seem like an odd coupling, but it would be far more sensible than the country's present inequitable transportation policies, which have led to delays, debts and delinquencies.

STATEMENT OF HON. JACOB JAVITS, U.S. SENATOR FROM NEW YORK

Mr. Chairman, I would like to thank you for this opportunity to appear before your Committee to discuss legislation to extend emergency financial assistance to our nation's railroads. In doing so I would like also to commend the Committee for holding these hearings. I am aware of the chairman's interest in railroad matters, since it is this Committee which reported out and passed through the Senate S. 3706, the National Rail Passenger Bill. That bill constitutes the most important piece of rail legislation in many years, and should go a long way toward alleviating some of the structural problems being faced by railroads today.

In the meantime, however, the problems are legion, and simply will not wait for Congress to enact the complicated legislation which is required to help ensure the development of a national transportation system this country needs so urgently. In fact, the application of the Penn Central Railroad for reorganization under the bankruptcy laws—which sparked these hearings—illustrates the far-reaching damage which can be done when we continue to defer action in the face of a growing though complicated crisis.

For Penn Central's problems, and those of the rail industry, have been chronicled in hearing records and the press for years. As long ago as 1961, the Doyle Report, which was commissioned by this Committee, outlined the "strong indications of trouble ahead in the not too distant future," with regard to railroad finances. The same report made recommendations to Congress aimed at rationalizing rail transportation,—at bringing rail transportation legislation into the sixties.

We are now in the seventies, and few of the Doyle Report recommendations have been implemented. On the other hand, the "strong indications of trouble ahead," to which the Report referred are now upon us, not only with the Penn Central crisis but also with the many side effects which this crisis has caused. How long are we to wait to enact a transportation program for the seventies when it is already at least ten years behind the times?

The unfinished priority work before the Congress is obviously immense. The railroads need help. Testimony which this Committee has received on the capital structure of the railroads, their earnings trends, their operating costs and their capital needs paints a picture of a scarcely viable though absolutely essential institution.

Nevertheless, the National Rail Passenger Bill, the Rail Safety Bill, the Urban Mass Transit Bill, and S. 2289 which would prevent discriminatory taxation of rail properties by states and municipalities are all awaiting action in the House. Each of these measures were examined and/or specifically recommended in the Doyle Report. Each would help substantially to correct fundamental bottlenecks in the rail industry which have been recognized for years and now, of course, take on extra importance.

This is the background for the legislation before you today, and the spirit in which Representative Reid and myself introduced identical bills (with Senator Goodell as cosponsor of the Senate bill) in the Congress on June 23rd, to provide emergency loan guarantee authority and to establish a Joint Congressional Committee on Railroads.

S. 4014 is a two-part bill which recognizes the emergency nature of the current rail crisis, but realizes that we must at the same time take a long-range and comprehensive look at our rail transportation needs.

Title I would give the Secretary of Transportation emergency loan guarantee authority of $750 million to assist financially troubled railroads in maintaining essential transportation operations. It is identical to the Administration bill (S. 4010), with three significant exceptions.

First, our bill would not bar a railroad which is in court and in reorganization from obtaining a loan guarantee so long as all other conditions in the bill are complied with (§ 103(a)(3)). While I understand that the Administration bill intends the same effect, it is silent on this subject; our bill would dispel any confusion on this score.

Second, our bill would specifically require that any loan guaranteed pursuant to Title I be used for railroad transportation purposes. In this regard, it also would authorize the Secretary to prescribe such other terms and conditions as he deems appropriate to assure that the purpose of the Act is met (§ 103(a)). One aim of these additional terms and conditions would be to ensure that corporate funds freed as a result of the guaranteed loan also be applied to railroad purposes only. The reason the bill would give discretion to the Secretary to prescribe these extra terms and conditions directly is to allow him the leeway which might be required according to the variations of the individual case. However, I want the record to show clearly that the purpose of this bill —as well as the Administration bill, I trust—is inconsistent with guaranteed loan which merely frees funds of the borrowing railroad for non-railroad purposes.

The third difference between Title I of our bill and S. 4010 concerns the Secretary's visitation powers after the guarantee is made. The Administration bill, in section 6, would direct the Secretary to consult as necessary with the

rail carrier concerning any matter which may bear upon the ability of such carrier to repay; our bill would extend this consultation to include ensuring that the purpose of Title I is being carried out. As I have explained above, the consultation could legitimately deal with the purposes to which guaranteed loans, as well as funds freed by such loans, are put.

Title II of the bill would establish a Joint Congressional Committee on Railroads, to conduct a comprehensive investigation of the financial and other problems of the nation's rail carriers and to make recommendations for solutions before September 30 of this year. Such an investigation is necessary first to enable us in Congress to consider railroad problems in their totality; second, to produce recommendations of a weight sufficient to gain broad support in the Congress. Members of this Committee, as well as the Banking and Currency and the Labor and Public Welfare Committees would, I believe, be willing to sit on this Joint Committee with their House counterparts. The intent of the September 30 deadline is to give the Committee approximately 90 days within which to do its work.

A comprehensive approach, cutting across jurisdictional lines, is especially important. The Doyle Report pointed out that most of the problems of the transportation industry "interlock to a degree that should forbid tinkering in isolated areas and which requires a broad program approach." A recent Wall Street Journal editorial, which I would like at this point to introduce into the record of this hearing, points out persuasively that much more than loan guarantees is required; rather, a "broad scale attack on the problems" of rail carriers.

[From the Wall Street Journal, July 22, 1970]

REVIEW AND OUTLOOK—BAILING OUT THE PENN CENTRAL

No one was entirely happy with the Government's plan to guarantee sizable loans to the Penn Central Transportation Co., and perhaps the Administration was correct in withdrawing from its promise for the time being. In the circumstances, though, some such action now seems inevitable.

Under the bankruptcy petition the company filed yesterday, it will continue to provide vital rail services during the reorganization period. The court-appointed trustees will presumably still need substantial Federal help.

In the current uncertain economic climate, no one can say for sure what the impact of the bankruptcy of so large a corporation will be. The Administration's original aid plan was obviously aimed at preventing damage to Penn Central's suppliers and customers, as well as to its stockholders.

A large part of the company's trouble stemmed from its own mismanagement. There is no guarantee that a new management will be any better, but a change was clearly in order. Even with the best of management, however, the Government will have to take a number of other steps if it wants to keep other railroads from going the way of the Penn Central.

The first step involves the railroads' abysmal labor relations. Earlier this year the Administration proposed a major overhaul of the Railway Labor Act, whose complex provisions in recent years have done little to promote labor peace.

Perhaps some of the provisions of the overhaul are arguable, but Congress has seemed to prefer to try to forget the whole matter. Yet the problem simply will not go away. The many railroad unions are coming in for new contracts all the time, and any dispute carries the real danger of a national rail shutdown.

The Administration also has proposed a corporation to take over vital rail passenger service, most of which is a money-losing proposition for the railroads. For months before the Penn Central crisis came to a head, the company had been trying to discontinue most of its long-haul passenger service.

It's pretty pointless to argue now over who or what should be blamed for the rail passenger troubles; there's plenty of blame to go around. Rail management deserves a share, along with the growing availability of highway and airline alternatives.

At the moment the fact is that the nation does need some rail passenger trains; they're still the most economical means of transporting large numbers of people from place to place. Someone must do a careful, conscientious job of deciding what service is really essential, giving no weight to such matters as local civic pride and the pleas of rail buffs, some of whom haven't ridden long-distance passenger trains in years.

A Federally sponsored system is an imperfect answer, especially with no more funds than appear to be available. But it's no answer, either, to expect the railroads to go on subsidizing passenger service with other earnings which, as in Penn Central's case, may disappear.

If the Government should do more in the passenger area, it also should do less in freight. Nearly a decade ago President John F. Kennedy proposed a major relaxation of railroad freight rate regulation, but the idea was sidetracked by opposition from barge lines and other rail competitors.

The opponents of greater rate freedom still argue that railroads hold vast monopolistic power that must be curbed by the rate-fixing activities of the Interstate Commerce Commission. That notion seems especially silly in the light of the current troubles of the Penn Central. In any case, the antitrust statutes should suffice to curb any railroad that did manage to act monopolistically.

Emergency financial aid to the Penn Central could, as some of the critics claim, set a precedent for similar help in even more questionable cases. For that reason it's probably desirable to set up more systematic procedures to consider requests for aid, as Senator William Proxmire urged last week.

Helping out the Penn Central or any other large corporation, moreover, fuzzes the line between private and public enterprise. If, in the case of the railroads, the nation wants to avoid obliterating the line altogether, it's going to have to launch a broader attack on the problems than it has up to now.

And the solution to those problems requires much more than loan guarantees.

What this bill says in effect is that we should act immediately—because we do face a crisis of liquidity in the rail industry—but that we should then step back and take a broad look at the causes of the present situation.

Mr. Chairman, this bill is not intended to bail out poorly managed corporations, and the distinction must be made between a loan guarantee which is essential to preserve operation in the public interest and any measure to compensate for managerial bungling, or water in the capitalization. The fact that the Penn Central has sought relief under a Bankruptcy Act is not in itself a cause for intercession by the Federal Government. What I do deplore, however, is a railroad bankruptcy situation unaccompanied by assurances that the government has the power to keep the bankrupt carrier's essential operations going or to prevent other, better managed, more credit-worthy carriers from going the same route. Absence of this power has all but guaranteed declining service on rail carriers to date. Absence of this power could also have an effect far beyond the rail carriers themselves.

The Penn Central crisis already has left its mark on short-term borrowing generally, and upon all borrowing by corporations with less than top credit ratings. It has sparked rumors of a general "liquidity crisis" affecting American business as a whole. Also, it has damaged the American competitive spirit, which traditionally has been motivated primarily by the expectation of profit rather than the fear of loss. The role of a loan guarantee program in this setting—with proper safeguards to the taxpayer—would be to restore confidence in the viability of our valuable national assets, assets which we cannot afford to have wasted.

Let me close by describing more specifically what could happen if we really neglect our rail assets.

The railroads are the nation's biggest hauler of freight, carrying 41 percent of intercity traffic, and they are major movers of raw materials to supply industry. For example, they deliver over 70 percent of the coal tonnage upon which the majority of electric utilities and manufacturers of iron, steel and clay products depend.

The economies of many regions are linked to rail transportation. Many products which are the backbone of area economies can compete in today's marketplace only so long as rail transportation is available. For example, railroads ship over 90 percent of the lumber and wood products from the Pacific states and 74 percent of the grain production in the North Central states. If we neglect our rail assets, these and other regions would be burdened with higher consumer costs or an inability to send goods to market at competitive prices.

Railroads carry much of the nation's export traffic to dockside. Without modern and efficient rail service, this nation's export sales and its balance of payments would be seriously damaged.

Over 500,000 commuters rely on the railroads each day in five of the nation's largest metropolitan areas.

The needs for rail transportation are growing, a fact which carries important implications for the necessity of maintaining railroads' ability to borrow for capital improvements. Forecasts show that by 1980 the railroads will handle nearly one-third more freight traffic than they do today—moving over one trillion ton miles per year.

To fill the future demands of the American economy, the demands of our transportation system—and this means our rail system as well—must not be neglected. These demands require a system which can meet present needs, and can modernize itself as technology points to improved ways to transport goods. Title I of our bill will help to avoid stoppage due to financial troubles in our rail carriers; Title II points the way towards essential Congressional initiatives to improve our rail assets. I urge this Committee to report favorably on S. 4014.

Senator HARTKE. Mr. Saunders. Senator Pastore, you have a chance here to talk to the man that you just referred to, but before that, we will ask him to proceed with his statement.

Senator PASTORE. I am not an F.B.I. agent. I just raised the question and I hope Mr. Saunders will answer it.

Mr. SAUNDERS. I would like to answer that question at the proper time, and I would like to comment because the facts are not correct.

Senator PASTORE. That is what appeared in the newspaper.

Mr. SAUNDERS. Yes, sir, that has been in the newspaper.

Senator PASTORE. All right. Now, you explain it.

Mr. SAUNDERS. Later on?

Senator PASTORE. Yes, all right.

Mr. SAUNDERS. I would be glad to respond to any question that you have.

Senator HARTKE. Thank you. You may proceed with your statement.

STATEMENT OF STUART T. SAUNDERS, FORMER CHAIRMAN OF THE BOARD, PENN CENTRAL CO., PHILADELPHIA, PA.

Mr. SAUNDERS. Mr. Chairman and members of the committee, I am Stuart T. Saunders, of 40 West Ardmore Avenue, Ardmore, Pa. I appear here today in suport of legislation which authorizes Government-guranteed loans to railroads.

I started in the railroad business 31 years ago in April 1939, as assistant general solicitor for the Norfolk & Western Railway and was in this business continuously up to June 8, 1970.

For the first 10 years I spent the major part of my time in the law department of the Norfolk & Western, but for the past 21 years I have been working mainly on management and executive affairs for the railroads for which I was employed. I have served as chief executive officer of railroads for the past 12 years. For over 5 years I was president and chief executive of the Norfolk & Western and, if I may say so, it was one of the most successfully operated railroads in this country. I was chairman and chief executive officer of the Pennsylvania Railroad Co. and its successor, the Penn Central for about 7 years.

I would like to state I did not seek the job as chairman of the board of the Pennsylvania Railroad. A committee of its board of directors approached me and asked me to take the job. May I also say that nothing in this statement is to be construed as an attempt on my part to escape any responsibility or to blame anyone.

While I support this proposed legislation, I must say in all candor that it represents only one step which must be taken to keep the railroads operating under private enterprise. Such loans, in themselves, are only temporary medication which prolong the life of the patient but do not cure him. The basic problems of the railroad industry have been under study since last fall by a group of railroad chief executives and a staff of railroad experts under the direction of former Senator George Smathers. I was a member of that group and participated in the study.

This study throughly analyzes the problems which have placed a number of railroads in a precarious financial position and offers a comprehensive program of remedies for dealing with them. I subscribe to its recommendations. Since copies of this report have, I understand, been given to all members of this committee, I think it unnecessary for me to repeat the recommendations here.

I would like to give you some of the reasons why the Penn Central Transportation Co., in my opinion, was forced into reorganization under section 77 and to state what was done up to June 8, 1970, the date I retired as chairman, to avoid this. Many of the reasons for this reorganization were beyond our control and by and large they involve problems not of mismanagement but problems which were unmanageable.

First, let me outline the magnitude of the problems with which we were confronted. The railroad industry has been an ailing industry for many years. Not only have the Pennsylvania, the New York Central, and the New Haven, as separate railroads, and the merged Penn Central been beset with the problems of this ailing industry but in most cases they suffered from these problems much more acutely and they also had other problems which were not common to the industry generally.

The railroad industry and the Penn Central in particular have been hit very hard by the recession, inflation, tight money, and high-interest rates.

I stated in our Annual Report to Stockholders for 1969 that inflation had cost the Penn Central approximately $100 million in that year alone, and that there were other major adverse factors.

First was the spiraling cost of operating the railroad. In 1969, our level of labor costs increased 7 percent, or $74 million. Mind you, the total labor bill on the Penn Central alone is about $1 billion a year or approximately 60 cents out of every revenue dollar that we take goes for labor, and as I said, we had a 7 percent increase or $74 million, which was on top of a 9 percent increase in labor costs in 1968, or $90 million. And in 1970, there is every indication that this trend will continue. Our material costs also rose 5 percent in 1969, or $9 million.

Likewise in 1969, our fixed charges, which are mainly interest costs, increased by $34.8 million and in the first quarter of 1970, they were up an additional $9 million, or at an annual rate of about $36 million.

A second factor in producing this tragedy was the recession. The railroads are among the first to feel the impact of down-turns in the economy and this is especially true of the Penn Central because of

its heavy dependence on automobile, steel, and general merchandise traffic. The recession cost the Penn Central many millions of dollars in 1969 and this has continued in 1970 in terms of both revenues and earnings.

A third factor contributing significantly to this crisis is the inadequacy of revenues which Penn Central receives for its services and the time lag involved in getting freight rate increases. The impact of these items on Penn Central runs into many millions of dollars annually and, of course, correspondingly affects its earnings.

Most people do not realize how far freight rates charged by the railroads are out of line and how little they offset the effects of inflation and steadily mounting operating costs. The fact is that even with the freight rate increases which have been granted in the past several years, including the most recent one on June 9 of this year, freight revenues per ton-mile are actually lower than they were in 1958 on the American railroads, and it is true on the Penn Central. On the other hand, during the same time Penn Central's labor cost per hour worked has risen 65 percent.

I must say that the railroads themselves are in good part responsible for failing to secure adequate increases in their charges. But, this failure was not the fault of management of Penn Central.

As you no doubt know, generally speaking, freight rates are not within the control of individual railroads. There must be agreement on joint rates which exist throughout the country and on the level of competitive rates. As a practical matter, therefore, it has generally been necessary to make freight rate increases on a national basis. It is possible to make increases on a limited basis regionally, but they involve so many problems that it is not realistic, particularly without the cooperation of railroads in other territories to increase interterritorial rates. From time to time Penn Central did give consideration to a regional approach but due to conditions prevailing at the time we concluded that such an approach would not be effective, especially because of the delay that would be involved.

Even now, with the Penn Central in reorganization, it would be preferable to have a national approach but if that cannot be done, a regional basis might be feasible under current conditions, assuming the cooperation of lines in other territories in increasing joint rates to the East.

To indicate what I am talking about, permit me to cite what happened to the proposed 6 percent increase filed with the Interstate Commerce Commission on March 3, 1970. For months prior to that time, Penn Central tried to persuade the railroads to file an application for an increase with the Commission and for a long time certain key railroads would not even discuss any increase. Finally, they agreed to consider it and Penn Central, along with a number of other railroads wanted to ask for a 12 percent increase, which would not have brought it back up much above the 1958 level, which would have meant over $150 million annually to Penn Central, and practically all of this would be net income for Penn Central as it pays no Federal income taxes because of large losses on its railroad operations. A number of railroads, however, would not go along with a 12 percent proposal and the industry finally ended up with a 6 percent

proposal of which something under 5 percent was tentatively authorized by the Commission as of June 9, or less than half of what Penn Central had originally advocated.

In addition to the inadequacy of the freight rate increase which was requested, and the several months consumed by the railroads trying to decide what increase they would seek, several more months were consumed by the Commission in processing the case for decision. Time lags like this are very costly to the railroads. Each month of delay of say a 6 percent increase deprives Penn Central of about $7 million in revenues.

Senator PASTORE. May I interrupt you for a question. Why would the other railroads be reluctant to go for the increase that you suggested?

Mr. SAUNDERS. Well, as I say later in my statement, I am not speaking critically of these railroads. They have different competitive problems and their financial conditions are different. But let me point out several things to you, Senator, and I do come to it in my statement.

The level of prosperity or earnings in the railroad industry varies very widely. Generally speaking, the railroads in the South are the most prosperous railroads in the country with the exception of say the Norfolk & Western, which is considered an Eastern railroad, and perhaps the C. & O. The Western railroads are relatively more profitable than the Eastern railroads.

The Eastern railroads have for decades been the unprofitable railroads, as you know. This is due primarily to a number of factors. First, is the passenger loss. If we had the same passenger operating deficit that the Southern Pacific has, our earnings, on the freight would compare very favorably with it.

Our freight operating ratio of the Pennsylvania last year was about 78 percent. Now, the freight operating ratio of the Great Northern was even greater than that. I have them here now.

Pennsylvania was 78.9 percent. The C. & O. Railroad, which is regarded as a relatively prosperous railroad, their freight operating ration was 78.8, just about one point difference. As I say, the Northern Pacific was 80.

So when you take out this passenger deficit that we have to deal with, we compare quite favorably.

Then, there are other factors.

Senator BAKER. Before you leave that, while you have the figures there, could you tell me what Southern's operating ratio was for freight, since I noticed in the newspaper the other day that Southern's first quarter earnings were the highest in 1969?

Mr. SAUNDERS. I do not have this other one, but it runs around 68 or 69 percent. But as contrasted, Senator Baker, the Southern Railroad's passenger deficit will run less than $7 million. Ours is $104 million. This is on the fully allocated basis. That makes a tremendous difference.

Senator HARTKE. Mr. Saunders, just to be fully aware of what we are talking about, there is quite a dispute as to whether or not the fully allocated basis loss is a true loss or not. The Interstate Commission disagrees with the railroad industry basically on that, is that not true?

Mr. SAUNDERS. Let me say in response to that, Senator, the figures that I have been quoting are on the same basis.

Senator HARTKE. Yes, I understand. In other words, you are comparing——

Mr. SAUNDERS. When I say $104 million, that is on a fully allocated basis. Now, the Commission made a study last year and on the basis of which the Commission came up last year with really an out-of-pocket relative to that—we lost $67 million, around that figure.

Senator HARTKE. That is right.

Mr. SAUNDERS. So you can take it however you want to, and I come to that later in my statement, but this factor is important.

There is one other point that I would like to make in connection with what Senator Pastore said.

Other problems that are peculiar to the Eastern railroads and not to the railroads in the South and West are; first, the Eastern railroads have much shorter hauls, relatively. We have much higher terminal costs and that is where you lose your money basically in operating a railroad, in terminal costs. And we have high costs at the ports, the Port of New York, the Port of Boston, the Port of Philadelphia, the Port of Baltimore. These are the most expensive ports relatively in the country.

These high operating costs, these heavy labor costs, short hauls—our labor ratio on the Pennsylvania, as I pointed out a minute ago, is about 59. Well, the Norfolk & Western I worked on before I came was around 35.

The Southern Railroad you were talking about is way below the 59. This is where your money is. When 59 cents out of every dollar goes for labor, plus these built-in operating problems that you have with shorthauls, heavy terminal costs, heavy port costs, these are some of the factors. I will point out others to you, but these are some of the factors that the management of Penn Central has to contend with.

You come to work every morning and you are faced with them and you cannot brush them away.

Now, if I may, I will return to my statement and I think I will answer some more of your questions.

Senator PEARSON. Mr. Chairman.

Senator HARTKE. Senator Pearson.

Senator PEARSON. Mr. Saunders, the fact that most of the railroads in the country that come before the ICC come in a joint application for freight rates is really a matter of practice rather than legal requirement. As a matter of fact, any railroad can come in at any time on an individual petition and ask for an increase in freight rates; is that not correct?

Mr. SAUNDERS. Theoretically, yes, but practically, you cannot do it. I mean, for instance, Penn Central, which has 20 percent of the business of this country, a major part of that is interterritorial business. It is just impractical to increase rates on an individual basis—I mean, of any consequence.

There are certain isolated cases, yes, but even the Commission will tell you they cannot be done on any broad scale, Besides, you have got other problems, too—this is a very real problem—as between re-

gions. You will drive industry out of your region and it has happened in the East to some extent, but the freight rates are not basically the fault. But you cannot put the industries in the Eastern part of the United States at a disadvantage with the West or the South.

If our freight rates are 10 or 20 percent higher than they are in the South and West, you are not going to keep industries in the East. You will destroy the economy.

So this is not just an individual thing that you can do. It cannot be done realistically on any substantial basis.

Senator PASTORE. That would not essentially be the problem of the Pennsylvania. I agree with you, you cannot do it for that reason because we are in enough trouble in New England as it is now because of this lack of competitiveness on freight rates to begin with.

But I would like to know further why you were reluctant to ask for what you thought you should ask to keep yourselves solvent.

Mr. SAUNDERS. Well, we did not take——

Senator PASTORE. It was not to preserve industry. It was to preserve the railroad. I know that industry would be hurt.

Mr. SAUNDERS. That is true. It was not that.

Senator PASTORE. I would be the first one to maybe object to your 12-percent request. There is no question about that. But I would like to know from you why the Pennsylvania asked for one-half of the amount that it thought that it should have in order to stay solvent. You did not deliberately go into bankruptcy.

Mr. SAUNDERS. Of course, we did not. In the first place, Senator, we did not think we could get it. In the second place, as I tried to explain, it cannot be done realistically.

There is no way that the Pennsylvania can go in and ask for a 12 percent across-the-board increase if the other railroads, certainly in the territory, do not join; and it is really almost impractical to do it for the rest unless the railroads in the rest of the country join.

Furthermore, it would result in prolonged hearings and time loss, and we figure that rather we'd go for six and try to get them to come along quickly and get that 6 percent and then go back for more. That was the judgment we had to make.

Senator PASTORE. I think you have answered the question.

Mr. SAUNDERS. That, sir, as I say, the case which I just cited about the time lag and its costs $7 million a month for each 6 percent increase, a delay of 1 month costs the Pennsylvania $7 million in revenues and that is net income to us.

The case which I have just cited is not an isolated one. This same pattern has been involved in every freight rate increase proposed in the past 3 years and has cost the Penn Central well over $125 million.

I am not speaking critically of the actions of certain railroads in delaying freight rate proposals or the size thereof. A number of railroads have different financial and competitive considerations and, of course, their individual decisions are controlled by such matter. I may not agree with their judgment but that is the basis for it.

Freight rate increases are never granted retroactively but it has been the practice for many years to make retroactive increases in

wages in the railroad industry. For example, in 1969 the wage increases granted during the year totaled some 7 percent and were retroactive to January 1, 1969. They amounted to $74 million on the Penn Central, but no freight rate adjustment was made effective until 10½ months later which meant that Penn Central actually received only $7.6 million from the rate increase last year to apply towards a full year of increased operating costs, and this runs into almost $200 million.

This situation has been going on for years and is taking place again in 1970. Thus, in the first quarter of this year Penn Central had to provide approximately $25 million for increased wage costs with no compensating freight rate adjustments. We finally got 5 percent on June 9 and that will nothing like cover what our wage increases are.

I respectfully suggest that your committee should give consideration to this problem. Some way must be found whereby the railroads can increase their charges promptly to meet rising wage and other operating costs. That is what is done by industry generally.

Senator PASTORE. I want the Chairman's permission to ask a further question before the completion of the whole statement.

Senator HARTKE. It is perfectly all right with me. I do not think there is any question, Mr. Saunders,—I hope you do not have any plans for an early departure because I do not think this train is going to run that fast.

Senator PASTORE. I am going to leave about 11 but I will be back.

Senator HARTKE. We may be here until 7 or 8 tonight.

Senator PASTORE. You keep saying increased wage costs. Would you say—you are not implying that railroad workers are being paid out of proportion with other industry?

Mr. SAUNDERS. No, sir, that is not my—I am just stating what the facts are.

Senator PASTORE. I just wanted the record to show that.

Mr. SAUNDERS. I am making no comment on that, one way or the other. I am stating just facts as they have occurred.

Senator PASTORE. These are natural wage increases that have taken place in all other industries over this period of time; is that correct?

Mr. SAUNDERS. That is correct.

Senator PASTORE. The railroad workers are not being overpaid?

Mr. SAUNDERS. I am not arguing that. I am just stating what the increases have been.

Senator PASTORE. As I say, the other industries automatically or practically automatically increase their charges with the increased wage cost, but we have this tremendous time lag.

Another factor in bringing about Penn Central's financial crisis is its passenger deficit.

This is an intolerable burden. Penn Central has 35 percent of all the passenger service in this country and 64 percent of it in the East. Even though the transportation company effected economies of $29.2 million in passenger operations during 1969, it still had a passenger deficit of $104.8 million on a fully-allocated basis and some $60 million on an out-of-pocket basis. No management, I submit, can

cope with the problem of starting out each month with a loss of $5 to $8 million, depending on how you calculate it.

This passenger deficit problem has also been greatly aggravated by the fact that the U.S. Post Office Department has diverted a very substantial portion of mail to the air and highways which reduced Penn Central revenues since 1967 by $24 million annually or some 30 percent even though the volume of all U.S. mail increased greatly during that time.

Not only did Penn Central suffer a big loss of revenue, but it had either to carry approximately 1,000 employees on its payroll who were engaged in handling mail or give them severance pay. A large part of Penn Central's investment in equipment for handling mail, likewise, became worthless.

Besides the economies which were accomplished in our passenger service last year of $29.2 million, we have pending applications for abandonment of 46 trains. These discontinuances would mean out-of-pocket savings to the Penn Central of approximately $23 million on an annual basis. In an effort to deal with this problem, Penn Central has been following a two-pronged approach. Its position is that either we should be permitted to discontinue trains of this type because of the heavy losses which their operations entail, or if it is found that they should be continued in the public interest and cannot pay their own way, then the deficit should be met by Government aid of the type provided in the Railpax legislation.

With regard to commuter service, we have been working for over a year with State authorities in New York and Connecticut on arrangements whereby portions of the New Haven Railroad, and the Harlem and Hudson Divisions of the old New York Central Railroad, would be acquired by the transportation authorities in those States and would be operated on a nonloss basis by Penn Central for their account. I think this is quite interesting in connection with what Senator Javits was talking about.

Such arrangements would be mutually advantageous to the traveling public and the Penn Central. These arrangements would make it possible for the States, with Federal aid, to invest over $125 million in new equipment and facilities for commuter service. This is the only way by which the public can receive the type of commuter transportation that is needed in these areas.

Discussions have also been initiated, looking to similar arrangements for commuter service in New Jersey, Philadelphia, and Boston areas.

I mention these arrangements to show what Penn Central has done in order to try to deal with this passenger deficit problem. While considerable progress has been made, practically none of them has as yet come to fruition. These programs if effected, of course, will be highly beneficial, but will by no means solve Penn Central's overall problems.

Senator Pastore, did you say that you were leaving at 11? Because I want to answer your question about my pension.

Senator PASTORE. I will come back.

Mr. SAUNDERS. It is not in my statement but I want to explain it to you.

Senator HARTKE. I think that maybe we ought to cover that one point that you raised initially, Senator Pastore, at this time.

Senator PASTORE. Would you like to do it? I think the public ought to be reassured as to the facts. I have received many comments on it.

Mr. SAUNDERS. That is quite all right.

Senator PASTORE. I am going from the newspaper report when the railroad was sinking. Of course, the people were asking why they were looking for Government money because of a feud between two gentlemen in the Penn Central, when one man is retired with a pension of $144,000 a year.

Mr. SAUNDERS. Did you say a feud?

Senator PASTORE. That is right, between you and Mr. Perlman.

Mr. SAUNDERS. All right.

Senator PASTORE. All right. Cover it.

Mr. SAUNDERS. Let me say with regard to my pension, as I pointed out in my statement, I started in the railroad business in 1939. And I worked for the Norfolk & Western Railroad until 1963.

When I was approached by the committee of the Pennsylvania to come to—of the board to come to them; and I had served for about a year on the board of the Penn Central because the Pennsylvania had a substantial stock interest in Norfolk & Western, we of course discussed my salary and my pension.

I made no contract with reference to my salary because basically I don't believe in contracts, but I did make a contract with reference to my pension. And as is customary in the railroad industry and as found by the court in connection with certain cases in the New Haven reorganization, it is customary in the railroad industry that a person leaving one railroad industry to go to another that he takes his years of service. He receives credit for his years of service with his prior employer for his pension, with his new employer.

Otherwise nobody would leave; you couldn't afford to do that.

So my contract provided that I should receive credit for my service with the Norfolk & Western Railway.

Later the Pennsylvania and Penn Central—in computing my pension for the years that I spent with the Norfolk & Western Railroad. This was computed based upon that contract and there was our interim pension plan, or a plan of the Penn Central Railroad which was a plan adopted by New York Central and Pennsylvania in 1962 and by the Penn Central whereby I am entitled to a pension, having retired at the age of 60, of $114,000.

That is what I am entitled to. Not $144,000.

Senator PASTORE. OK, $114,000.

Mr. SAUNDERS. Because the $144,000 assumes I would work until age 65 and that I would receive my full salary until 65 whereas I retired at 60.

Now, going a step further, I say that based upon my contract and the interim pension plan which has been applied without exception in over 1,300 cases since 1962 to officers retiring in cases similar to mine.

I am entitled to a pension of $114,000.

Going one step further, my wife, if I live until next July—until

July 16, my birthday—my wife will get a pension of $7,800 a year. If I die after July of next year she shall get nothing.

Now, I have a right to adjust that until August 7, 1970, to provide something for my wife, which I intend to do, but that will have to reduce whatever pension I receive because of that.

I don't know what the figure would be, but this whole matter of what my pension will be is under the jurisdiction of the court.

Judge Fullam has issued an order that no person for the time being shall receive annual compensation for the—in the form of pension or any other type of compensation of that sort in excess of $50,000 a year. This order is to remain in effect for 60 days, from July 10 the date of the order—not more than 60 days; that's the way it is stated. And during this time it is contemplated that the trustees and the court will decide what my pension will be, based upon the facts which I have outlined.

Senator PASTORE. Is your pension connected alone to the railroad aspect, or without the other complex of the pension plan?

Mr. SAUNDERS. With everything.

Senator PASTORE. With everything?

Mr. SAUNDERS. Yes, sir.

Senator PASTORE. And this compensation comes solely from the railroad?

Mr. SAUNDERS. No, sir, my pension comes from two or three sources. In the first place, we have what we call out supplemental pension plan and that portion comes out of the supplemental pension fund which is a trust fund. The rest of it comes out of the transportation company, and I will of course point out later that all of the subsidiary companies feed money into the transportation company so when you say "Where does a certain dollar come from", you can't tell. It may have come from the railroad operations, it may have come out of the Pennsylvania Co., it may come out of the dividends from Buckeye or something of that sort.

Senator PASTORE. Now, where does the money that supports this pension for the officers of the company come from?

Mr. SAUNDERS. Well, originally the pension plan—the supplemental pension plan was a contributory plan, contributory by employees, and by the company, and in some degrees it's still contributory. But with improvement of earnings of the supplemental pension plan over the years—some $300 million is now in this supplemental pension plan—the earnings of it were such that it enabled us to do away with officer contributions, and still not increase the company contribution.

And let me point out this to you, Senator, on the Penn Central there are 83,000 people on pension, over 83,000. About 15,000 of them are under our supplemental pension plan. The total cost last year of pensions to the Penn Central Co. was $1,400,000. This is all, I mean that's for all of these people I am talking about.

So this is a really insignificant factor. But it is of course a very important, sensitive factor as far as employees are concerned.

And let me say this to you, too, and this was found by the court in connection with the New Haven reorganization; the court found that—in saying that Mr. Tate who came from the Nashville-Chatta-

nooga Railroad that he should receive benefits of his service with that railroad with the New Haven—they said unless the company will honor contracts of this sort, you will not get anybody to work for it. You have got to have integrity with regard to your pension plans and your pension contracts.

Now, these are the facts, sir.

Senator PASTORE. Well, the thing is this, the employees do not decide what the size of their pension is going to be.

Mr. SAUNDERS. No, it's all computed according to a formula, and this formula is spelled out.

Senator PASTORE. But the formula that dictated your pension size was decided upon by the officers of the company.

Mr. SAUNDERS. No.

Senator PASTORE. By whom then?

Mr. SAUNDERS. In the same way that all of—the pension plan is formulated and approved by the board of directors.

Senator PASTORE. That is what I am talking about.

Mr. SAUNDERS. Also the stockholders. That I am sure of. And it also has to have the approval of the Internal Revenue Service and this formula, there is no change in the formula as applied to my case, it's uniformly applied to officers and my supplemental pension and interim pension, the portion of that is uniformly applied to the 15,000 people that are under the supplemental pension plan and those under the interim pension plan.

I would like to say one other word, talking about my salary and so forth, the president or chairman of the board I think he is called——

Senator PASTORE. Yes.

Mr. SAUNDERS (continuing). The president of Pennsylvania Railroad in 1930 received a salary of $150,000 a year and he took home $121,000.

Of my salary last year I took home $85,000 or $36,000 less than the president of the Pennsylvania Railroad alone in 1930 which was about half the parent company's size and had nothing like the problems that we have to deal with today.

Another thing that I think is significant, a survey of nine of the leading railroads in this country made of the compensation paid to their top officers, and I am talking about the officers as defined by the Interstate Commerce Commission—shows that the officer compensation on the Penn Central is relatively lower than any comparable major railroad in this country. It's .09 percent. And the other railroads which I have mentioned, it runs from two to six times as high on a relative basis. And we are willing to submit, match it up with any industry or any railroad of comparable size and it will show in favor of the Penn Central.

Senator PASTORE. Well, the point I am making is that in this time with prices of today, with the railroads looking to the Government for help, and we being responsible for the taxpayer's money—a serious question arises on these very extravagant pension allotments and these high salaries to certain executives of the railroads at a time when this ship is actually sinking.

Mr. SAUNDERS. These are all fixed, have been years ago, sir. The pension compensation.

Senator PASTORE. I know they were fixed many years ago, but this pension that you are receiving was decreed only in June.

Mr. SAUNDERS. I don't know what it is going to be yet.

Senator PASTORE. That is what—that's when you quit?

Mr. SAUNDERS. I mean the plan. It was established pursuant to a plan that had been followed without exception in 15,000 cases with reference to the supplemental plan and over 1,300 cases in the, under the interim plan.

Senator PASTORE. So that the cost of it can't be, or you couldn't receive over $50,000.

Mr. SAUNDERS. Not,—no, it hasn't decreed that.

Senator PASTORE. That's what I am saying.

Mr. SAUNDERS. But the court will determine what the pension will be.

Senator PASTORE. Well, would you mind saying what your salary was? What was your salary?

Mr. SAUNDERS. Last year my salary was $225,000.

Senator PASTORE. More than the President of the United States.

Mr. SAUNDERS. Well, a lot less than a lot of corporation executives and as I pointed out it was far less then than the president of the Pennsylvania Railroad in 1930 on a relative basis. Let me say this to you, sir, I offered this job to a number of people—didn't offer it but tried to get them to consider it and they wouldn't consider it for $250,000. I did that last year and we finally got a new president whom we are paying $250,000.

Senator PASTORE. You didn't ask any Senators, did you?

Mr. SAUNDERS. I don't think I should respond to that question.

Senator PASTORE. You have answered my question, Mr. Saunders. You've answered it.

Mr. SAUNDERS. Thank you.

Senator HARTKE. You may proceed.

Does anyone have any further questions at this time?

Senator BAKER. Mr. Chairman, I have one or two things I would like to cover.

Senator HARTKE. I did want to have Mr. Saunders complete his statement. I did this out of deference to Senator Pastore and I don't want to unduly interrupt Mr. Saunders in his presentation.

Senator BAKER. All right, if you want to do that.

Senator HARTKE. I would like for him to complete his statement at this time.

All right, let us proceed then, Mr. Saunders.

Mr. SAUNDERS. If that's all right.

Senator HARTKE. Unless you wanted to proceed at this time.

Senator BAKER. I do want to put in one or two things and we can come back to them later.

Senator HARTKE. All right, Senator Baker.

Senator BAKER. Can you tell me how many people are employed by the Pennsylvania Railroad that have a vested pension right?

Mr. SAUNDERS. I don't know that. I can't give you the figures.

Senator BAKER. Can you give me an approximation?

Mr. SAUNDERS. I will get it for you. I can furnish it to you, but I think it's very difficult to answer because it depends on your service,

and your age and things of that sort. I don't know if the figure is available or not.

Senator BAKER. I wonder, as a matter of fact, aren't most of the employees of the Pennsylvania Central entitled to some sort of pension or other?

Mr. SAUNDERS. Of course you have railroad retirement and of course as I said, I'll get you the figure on how many we have under our pension.[1]

Senator BAKER. Virtually all of the employees of the Penn Central are entitled to some vested right in a pension plan is that right?

Mr. SAUNDERS. You have two things; you have the labor agreement employees, and they have their pension under the railroad retirement and so forth.

Then we have our nonagreement, what we call, people not covered by the labor agreement.

We have the supplemental pension plan and that is——

Senator BAKER. The only point I am working toward and I will stop and we will go back to it in a minute, is that in reorganization, if the corporation as such is reorganized out of existence, then your pension and employees pensions and everybody's pension is a thing of the past?

Mr. SAUNDERS. No, that's not true. As far as all of the employees covered under the supplemental pension which is a very large number, that is a trust fund, and those funds are segregated and they are not assets of the company. Those pensions are protected and the pensions of all of your rank and file people, whatever they may be, they are protected.

There are only a relatively few pensions that are subject to what you might call contract that are under the jurisdiction of the bankruptcy court. It's a handful of people. I don't know how many—100 possibly.

Senator BAKER. Where are these pension funds entrusted?

Mr. SAUNDERS. They are in a segregated fund in the Girard Bank.

Senator BAKER. These are in the name of Penn Central, is that right?

Mr. SAUNDERS. No, in the name of trustees. These are not assets of the company at all.

Senator BAKER. I'll get back to the subject later.

Thank you, Mr. Chairman.

Senator HARTKE. All right, you may proceed.

Mr. SAUNDERS. All right.

I finished through the part where I was discussing the commuter service and so forth.

Another factor that played a major part in Penn Central's financial condition, especially its cash problems was its heavy merger startup costs. Between February 1, 1968, the date of the merger, and then December 31, 1969, these costs are amounting—amounted to a net of $193,023,657, after taking into account merger savings of $73,922,807 which were realized during that time. Now, these are tremendous sums.

---

[1] See letter dated Sept. 3, 1970, in Part 3.

Among the principal items of these costs were employee severance and protection payments and transfer and relocation costs which totalled $64,718,216.

There are also expenditures of $121,162,000 for property improvements which were necessary to implement the merger, of which $75 million were for yard projects. We have built and enlarged 10 classification yards, combined 35 key terminals, and completed virtually all important rail connections throughout the system.

Most of the merger connected projects of this sort have now been completed.

While these expenditures will pay handsome dividends in later years, they reduced Penn Central's cash and many of them had a sharp impact on railroad operating expenses and financial results.

Senator HARTKE. Mr. Saunders, Senator Scott does have to leave, too, and would like permission to ask a question or two at this point.

Mr. SAUNDERS. Surely.

Senator SCOTT. Mr. Saunders, I have two questions at this time.

I personally welcome your appearance here. You are a personal friend and I regard that as a matter of considerable pride to me and I would like the record to show it.

Mr. SAUNDERS. Thank you.

Senator SCOTT. From your discussion of the role of Penn Central's passenger deficit, I assume you would view enactment of S. 3706 now pending before the House as a matter of almost as much urgency as passage of this loan guarantee legislation.

Would you explain your position on that score, and any effect which failure to enact that legislation speedily could have on the Penn Central?

Mr. SAUNDERS. Well, I think it's a highly important item; I can't overemphasize the urgency of the situation of passage of that bill, Senator.

The fact is, as you perhaps noticed in the morning paper, the Penn Central has asked the Interstate Commerce Commission for permission to abandon immediately 24 of the 34 train applications that they have pending because of their short cash position. So it seems to me that the situation is at a critical stage; that the railroad PAX bill ought to be enacted at the earliest possible moment and in order to take care of any interim emergencies, or certainly on a standby basis, that the legislation with reference to guaranteed loans should also be passed.

I think both of them are highly important at this time sir.

Senator SCOTT. You have referred to Penn Central's problems as being somewhat unique. Isn't it a fact that one of the principal problems is that it simply costs more to operate a railroad in the northeastern part of the United States than in other regions of the country, and if that is the case would you explain briefly why that is?

Mr. SAUNDERS. Yes, sir, that is true.

The reasons are—many of them I will outline.

One of course is the heavy passenger deficit operation. Another is the short-haul situation. Revenues on freight that we handle is relatively less. We have more terminals, higher terminal costs and we

have greater competition, but we have a concentration of competition from trucks which you have in all areas; but especially in the eastern part of the United States.

We have competition of the St. Lawrence Seaway and other waterways.

All of these factors are built in factors that we have to deal with in operating the Pennsylvania, that make it an unusually costly operation.

Now, I mentioned earlier the cost of the ports. Another basic problem here is the problem of divisions. The freight rate divisions. I think and have felt for years and we have had litigation going on this a number of years now, that the freight rate divisions between the eastern and western carriers on the one hand or eastern and southern on the other hand, do not reflect the respective operating costs. The eastern railroads are not getting the proper divisions out of these freight rates and this runs into many millions of dollars.

Senator SCOTT. I have just one last question: would it be detrimental, in your opinion, to tie the loan guarantees proposed under the bill we are considering, to upgrading of roadbeds and/or the purchase of additional equipment as proposed in the Astro Report?

Mr. SAUNDERS. I think that would be a mistake under present circumstances, Senator, because I think the situation on certain railroads is not just acquisition of equipment or upgrading of roadbeds —it's their cash position.

Senator SCOTT. All right.

Senator HARTKE. You may proceed, sir.

Senator BAKER. Can I ask one question?

Senator HARTKE. Yes, Senator Baker.

Senator BAKER. In connection with the questions put by Senator Scott, would you tell me, Mr. Saunders, how the greatest cost of operations of the northeastern United States reflects in the ratemaking, if at all?

Mr. SAUNDERS. Well, it's reflected in two ways, of course, as I have said earlier, Senator Baker we have tried to go on a national basis wherever we can because we think that that is the most expeditious and most practical way to do it. But even when you go on a national basis, and say you can have a 6-percent increase, it doesn't really mean you get that. It doesn't mean it's 6 percent in all territories. You have what are known as holdouts, or flagouts. In other words, the southern railroads may say, "Well, we can't increase the rate on chemicals this much, or on paper products this much." So, instead of applying the 6 percent, they may put 4 percent or 3 percent on.

Similarly, railroads like the Norfolk & Western or Chesapeake & Ohio are heavy carriers of coal, and the Commission will put a 15-percent holddown on that, and they may say, "We can't go for that much.' So you have variations with the various carriers in the territories which reflect competitive conditions.

Senator BAKER. Don't they have to have permission to charge less just as they have to have permission to charge more?

Mr. SAUNDERS. You can make reductions. Of course, you can go complain about it and say, "These are unreasonable" and they would then be subject to investigation.

Senator BAKER. I'll abbreviate this because I don't want to unduly interrupt your statement, but the point I am driving for is whether or not there is a basic difference in the cost of transporting say a ton of freight "x" miles in the south, versus a ton of the same freight in the northeast?

Mr. SAUNDERS. That is true.

Senator BAKER. To reflect the difference in cost of operation of the railroad. Is there such a difference?

Mr. SAUNDERS. There is a difference in cost.

Senator BAKER. But to show that it doesn't fairly represent the cost?

Mr. SAUNDERS. The freight rate you say?

Senator BAKER. Yes.

Mr. SAUNDERS. It's supposed to. It depends on what you are talking about. If you are talking about freight moving interterritorial, in other words, South into the East, or East into the South, the division of rates are supposed to reflect the cost: but they don't do it. That's my point.

Now, as to rates moving intraterritory, you may move a ton of coal cheaper in the South than you do in the East. But the rates, if it's not interterritory, the cost in the South would be cheaper.

Senator BAKER. Wasn't there once a freight differential that made it more expensive to ship freight from the South to the East than from the East to the South?

Mr. SAUNDERS. There have been——

Senator BAKER. How long has it been since they were eliminated?

Mr. SAUNDER. I can't answer that. There may be some now, but I don't know. There have been in the past, yes.

Senator BAKER. Thank you, Mr. Chairman.

Senator HARTKE. You may proceed, sir.

Mr. SAUNDERS. Thank you.

The fact is that between February 1, 1968, and March 15, 1970—that was the merger period—Penn Central reduced the number of its employees by 8,410 and approximately 500 of them were officers and supervisory employees. The reduction of one employee means an average saving of more than $11,000 after the first year following severance. Thus reducing employment by 8,410 means recurring savings on an annual basis of more than $90 million.

While not a part of merger start-up costs, it should be pointed out that during 1968 and 1969 the Transportation Co. spent $600 million on railroad equipment and facilities or about 20 percent of the total amount invested by the entire railroad industry.

Finally, the requirement that Penn Central include the New Haven into its merged system imposed additional financial burdens on Penn Central. The New Haven had a deficit of $22,300,000 in 1968, which was the year prior to its inclusion in Penn Central.

All told, these various factors aggregate several hundred millions of dollars and would have made a tremendous difference in Penn Central's financial results.

These, sirs, are some of the problems with which the management of the Penn Central had to contend, and many of them involved factors over which the management had little or no control. I, of

course, do not claim that the management's record is perfect but I can assure you that they were thoroughly dedicated to their task, that they worked diligently, and to use President Truman's expression, they did the best they knew how.

I repeat that in light of the problems which I have enumerated, the situation on the Penn Central was not one of mismanagement but one of unmanageability.

I would like now, Mr. Chairman, to discuss what was done to bring the Penn Central problems to the attention of the appropriate governmental officials and others, and what management tried to do about them.

For a long time I have been discussing these matters not only with the Interstate Commerce Commission, appropriate committees of Congress and governmental officials, but I have also discussed them publicly on many occasions.

On September 25, 1969, I appeared before the Senate Commerce Committee on support of S. 2750 which had been introduced by Senator Hartke for the purpose of providing Federal Aid to rail passenger service.

Senator HARTKE. I might comment upon that just for the record at this point.

Although it is delayed in the House, the delay was occasioned really by the fact that we could not obtain from the administration a clear cut proposal from them.

Mr. SAUNDERS. That's true.

Senator HARTKE. And I am somewhat surprised that if there was this type of communication about the severity of which you have indicated was communicated to the Department of Transportation, I wonder why they didn't act with more dispatch at that time.

You will recall that the hearings were held in September of 1969 and at that time we were informed that the Department of Transportation would have a final proposal to us by not later than the end of the year or January 1, 1970. They reaffirmed that in December.

In January they came to us and postponed the decision until February and from February until March until finally this committee fearing that no action was going to be taken enacted a bill of our own.

At that time we were finally able to develop a combined program which had the unified endorsement of all members of the committee, a unanimous decision.

And even through it has not passed the House of Representatives I do not think that all the blame belongs on them although I would hope the House of Representatives would consider it in light of the statements which have been made.

I am anticipating your statement for the moment.

I don't know if you want to elaborate on it. I would like for you to where you refer to the March meeting in which you indicate that you had discussions with Secretary Volpe; whether this was really a discussion or whether it was just mentioned. And I think there is quite a bit of difference between just mentioning the financial condition of the Penn Central or whether there was a real forceful presentation of your dire dilemma, if you anticipated it at that time.

Mr. SAUNDERS. Yes, sir. I recall the history that you have recited and it was according to my recollection.

During the course of the hearing the following colloquy took place between Senator Cannon and myself:

Senator CANNON:

Having listened to his testimony [that is Mr. Reginald Whitman, Railroad Administrator, U.S. Department of Transportation] would you feel that the study that he is covering would be of help in trying to get at some of the root problems of this issue? I note that some of your recommendations generally cover some of the areas that appear to be covered in the study.

I replied:

Well, I think the study will be helpful, but let me say this: In the first place, as Senator Allott said, this matter has been studied to death. . . . I don't think that there is an appreciation of sense of urgency involved in this thing. I think you have to look at it from a short range standpoint and [from] a long range standpoint. The study will be fine from a long range standpoint. But I think that what this Committee, if I may say so respectfully, and what the Department of Transportation must realize is that this house is on fire now, and it has been on fire for some time . . .

* * * * * * *

Senator CANNON:

Well, you make a very persuasive case. I may say that you indicate the house is burning down.

I replied:

It is afire . . .What has to be done is this patient has got to have an infusion now. And further infusions in a long-range program.

Further comment in that hearing by me:

. . . Let me say this to you, that I don't think there is sufficient appreciation of the dire situation in the railroad industry. I am not talking about passenger trains alone, I am talking about the railroads generally. The railroad industry of this country is sick. And it is sick because they can't make enough money to live on.

The railroads of this country last year had a rate of return of 2.4 percent, about half of what a government bond pays. [of course Penn Central is far below that.] Now, AT&T is making over 7, around 8 percent now, rate of return. And they are presenting a case to the Federal Communications Commission saying they have to have 8½ to 9 percent after taxes in order to live and modernize. . . . There is no industry in this country that can live on a 2½ percent return. Or can modernize. This passenger situation is only one of the symptoms. The whole situation is deteriorating. . . . We don't have the financial resources to do the job we ought to do. The passenger situation is only one segment of it. . . .

And then this colloquy also took place between you Senator Hartke, and me, Mr. Chairman:

Senator HARTKE:

I have been out on these roadbeds myself and I am not an expert in engineering, but it doesn't take an expert to know they are in bad shape.

To which I replied:

They are not in the condition that they ought to be. The railroads of this country are being starved to death, we haven't got the money to put into the property we ought to.

And then on November 12, 1969, I testified before the Subcommittee on Transportation and Aeronautics of the House Committee on Interstate and Foreign Commerce to this effect:

. . . You have before you, in my judgment, a two-pronged problem. The first is the urgency for immediate relief, even if it is short term and stop gap. Our problem cannot wait another year or even another few months.

This house is on fire, and we cannot sit around and talk about the best way to put it out while it burns completely down. Time is of the essence.

. . . I respectfully submit that there is not sufficient understanding of the plight of the railroad industry. Passenger service is only the most obvious symptom of the perilous condition of our industry.

My statement to this committee—that is to the House committee—was printed and a copy of that printed statement was sent to every member of Congress and the editorial page editors of leading newspapers.

On February 24, 1970, Mr. Paul A. Gorman, then our president, who is now chairman and president, and Mr. Jonathan O'Herron, then our vice president, Finance, and I met with members of the Interstate Commerce Commission and certain members of their staff.

We went over in detail our 1968 and 1969 financial results for the consolidated and Transportation companies, the source and application of funds for 1969, our projections for 1970 and our financial plans for 1970.

During February and prior to March 13, 1970, I had at least three meetings with Secretary Volpe in which our problems were mentioned. On March 13, 1970, Mr. Gorman, Mr. O'Herron, and I had a full discussion of our problems with Secretary Volpe and his top aides and made substantially the same presentation that we had made on February 24 to the members of the Interstate Commerce Commission.

Secretary Volpe and his aides agreed that we should——

But as I said, Senator, in response to your inquiry, these were not just discussions. We had charts, figures, we gave him our full financial results. We had slides: we spent several hours discussing these financial results of 1968, 1969, and our projections for 1970.

At the meeting we had with the Interstate Commerce Commission and also the meeting with the Secretary of Transportation, Secretary Volpe and his top aides in March, we had all this.

Later I will detail what else we did.

Secretary Volpe and his aides agreed that we should get in touch with them again as soon as we had a better picture of Penn Central's financial results for the first quarter of 1970.

There was no discussion with Secretary Volpe at that time about a government-guaranteed loan as Penn Central's financial department believed then that it would be able to meet the company's needs through private financing.

As soon as figures regarding Penn Central's first quarter earnings for 1970 were available, I sought a further engagement with Secretary Volpe and his top aides and this meeting was held on April 30, 1970. And we had a full discussion with him and his aides as to further development of the critical situation of the Penn Central cash position.

Secretary Volpe stated that he would discuss our financial problems with other governmental officials and especially with Secretary Kennedy of the Treasury Department.

Secretary Volpe arranged appointments for me to see Secretary Kennedy at which time I explained the problems with which the Penn Central was faced.

For some time our financial people had been working on a $100 million debenture issue by Pennsylvania Co., and they planned to market the issue during the latter part of May. On May 28, however, our financial officers and their underwriting group concluded that the sale of this issue should be postponed and on that date Penn Central Co. made a public announcement to that effect.

The company also was exploring other methods of financing. One of the alternatives considered was a government-guaranteed loan, and many discussions and conferences were held with the governmental officials in that regard. As a result of these, a plan was developed for a government-guaranteed loan of $200 million, which was under the Defense Production Act of 1950.

We were given reason to believe that such a loan could be arranged and it was only at the last moment, namely on June 19, 1970, that Penn Central was advised that this would not be done, 2 days before it was to go into effect.

Inasmuch as I retired on June 8, I am not in a position to discuss anything that occurred after that time.

There is one other matter then which I would like to discuss.

It is the unfounded claim that assets of Penn Central Transportation Co. have been funneled into nonrailroad activities. There is absolutely no basis for such a claim. The truth is just the opposite. Moreover, the impression has been created that this diversification on the part of Penn Central has taken place in relatively recent years. This likewise is wholly unfounded.

The Pennsylvania Railroad Co. was chartered under the laws of Pennsylvania in April, 1846, and that company operated all the lines of the railroad and held its investments until April 7, 1870, when the Pennsylvania Co. was incorporated under the laws of Pennsylvania, over 100 years ago.

Immediately prior to that time the Pennsylvania Railroad had acquired some 3000 miles of lines of railroad in the Pittsburgh, Chicago, and St. Louis area.

The board of the Pennsylvania Railroad Co. decided to place its lines in two separate companies operating what were known as the "lines east" of Pittsburgh and the "lines west" of Pittsburgh. The Pennsylvania Railroad was to operate the lines east of Pittsburgh, and the Pennsylvania Co. those west of Pittsburgh.

As consideration for the transfer of the lines and their assets west of Pittsburgh, the Pennsylvania Co. issued all of its capital stock to the Pennsylvania Railroad having a par value at that time of some $8 million, and to this day Penn Central Transportation Co. holds all of the equity stock of Pennsylvania Co.

During the period 1870 to 1917, the Pennsylvania Co. acquired stock in a number of other railroads as investments. During the latter part of the 19 century and shortly thereafter, this company acquired substantial holdings in the Norfolk & Western Railway and investments in other railroads.

The Pennsylvania Co. during this period owned as much as 43 percent of the Norfolk & Western Railway. And today it has approximately 2.2 million shares of Norfolk & Western stock or about 17 percent of all of its outstanding stock.

In the latter part of 1917, the board of the Pennsylvania Railroad decided that all of the operating lines of both companies should be

placed in the Pennsylvania Railroad. This was done with the hope that improved operating efficiency would result. Thereafter, the Pennsylvania Railroad became primarily the operating company and the Pennsylvania Co. an investment company. That was in 1917.

In the years that followed the Pennsylvania Co., continuing in its role as an investment company, acquired 100 percent of the stock of the Detroit, Toledo & Ironton and Ann Arbor Railroads, over 99 percent of the Wabash Railroad, and a controlling interest in the Lehigh Valley Railroad. Today it still holds all of these investments, except those of the Wabash which were exchanged earlier this year for Norfolk & Western stock pursuant to the order of the Interstate Commerce Commission.

On December 12, 1958, the Pennsylvania Co. was reincorporated under the laws of the State of Delaware for tax reasons. The holdings and operations of the investment company were continued the same as they had been prior to this reincorporation.

Beginning in January, 1963, some 10 months before I came to the Pennsylvania Railroad, the Pennsylvania Co. started acquiring substantial holdings in the Buckeye Pipe Line Co., which operates some 7,000 miles of pipelines in the eastern part of the United States, and within a relatively short period thereafter the Pennsylvania had acquired all of the stock of Buckeye.

During 1964, 1965 and 1966 the Pennsylvania Co. acquired controlling interest in Arvida Corp., Great Southwest Corp., and Macco Corp., and it still holds those investments.

The Pennsylvania Railroad has also had for approximately 100 years Manor Realty Co. and American Contract Co., which are and always have been investment companies. The latter company—that is American Contract—was incorporated in 1871 and Manor Realty in 1870. These companies were used to acquire securities, real estate for developing industrial sites, coal lands, and interests in trucking lines which supplemented railroad operations. These companies are still in existence and have held substantial investments of the type which—type described through the years.

From the foregoing it is clear that the Pennsylvania Railroad has had major investment companies for approximately 100 years. The notion, therefore, that the Pennsylvania only started diversifying through investment companies in recent years is wholly unfounded.

This has been the historical function of these investment companies. They have always been used to support and supplement the railroad operations through dividends, advances, development of industrial sites, and use of their credit as a basis for financing.

Similarly, on the New York Central nonrailroad activities have over the years poured millions of dollars into sustaining the railroad operations of that company.

Let me read in that connection what the Interstate Commerce Commission said in approving the merger of the Pennsylvania and New York Central railroads.

> Applicants' managements [that is Pennsylvania Central and New York Central] have made such non-transportation investments to offset the low rate of return on investments in transportation property and because such action was dictated by the experience of business recession since World War II and at which time applicants income from nontransportation investments made the difference between loss and profit.

In the case of New York Central such other income was possibly the final bulwark against insolvency.

That was back in 1966.

As I say, the New York Central has a Realty Hotel Corporation, for example, which was a wholly owned subsidiary of the New York Central, and is now a wholly owned subsidiary of Penn Central, acquired five large hotels in the Grand Central Terminal area of New York City beginning in the 1930's. In addition, the railroad had substantial air rights in this area on which have been developed office buildings such as the Pan Am, Union Carbide, American Tobacco and others. These properties produce millions of dollars in net income each year, which flowed directly into the New York Central, and since the merger, into the Penn Central. In total, in 1969 the income from these properties benefited the transportation company by more than $20 million which funds were all used for railroad purposes.

This, however, is only a small part of the total contribution made by these nonrailroad activities to the Penn Central Transportation Co. Last year the transportation company received $137 million from these nonrailroad activities in the form of dividends, real estate operations, and tax allocation payments from subsidiaries, and in 1968 it received a comparable amount.

Moreover, the investments of these nonrailroad activities have been used to raise millions of dollars for railroad operations, that is, financing. To be specific, these subsidiaries and affiliates raised $84 million for the transportation company in 1969, and the credit of the Pennsylvania Company was used to borrow $200 million from the banks in 1969 and $100 million in 1968. This was using transportation company credit and to borrow $200 million in 1969; $100 million in 1968, all of which was used for railroad purposes.

In March and April of this year the Penn Central Co. borrowed $59 million which was transferred to the transportation company for railroad purposes.

Mr. Chairman, Jonathan O'Herron, executive vice president in charge of finance for the transportation company is scheduled to appear before you on Thursday, July 23. He is familiar with the financial relationships between the transportation company and its subsidiaries and I am sure he can furnish you any detail that you wish.

In this connection it should also be remembered that since 1963 the transportation company has invested $1,600 million in railroad equipment and roadway facilities.

If I may say in conclusion, I have given my all to this railroad and regardless of what may happen, I am still hopeful that the merger will succeed and that Penn Central can be made a viable and vibrant part of the American economy. This, however, cannot be done without the support of the Congress and the regulatory authorities at all levels.

I want to thank you, Mr. Chairman, and thank you all for your invitation to appear before this committee and for your patient attention, and I will be glad to answer any questions you might have.

Senator HARTKE. Thank you, Mr. Saunders. For your information at the present time, the court has appointed the trustees for the Penn Central, they have been notified; former Secretary of Labor

Willard Wirtz; former professor of transportation, at Harvard, Mr. George R. Baker; the president of Chicago Rock Island Railroad, Mr. Langdon; and the president of Wannemaker's Department Store Mr. Richard C. Bond. I would like you to know they have been notified at this time.

Mr. Saunders, the essence of what you have said here and the essence of your statement is that this merged railroad including the New Haven was unmanageable?

Mr. SAUNDERS. Yes, sir.

Senator HARTKE. Is that right?

Mr. SAUNDERS. I say in large part, yes, sir. The major portion. I don't say the whole—I say the problems with which we were presented were in the main principally unmanageable. I don't want to say everything was unmanageable. That's not true.

Some of this may have been our own responsibility. There is no question about that, and I am not trying to shirk anything of that nature. We had the problems to cope with, the management did, that just could not be dealt with, or met in a viable operation under the conditions with which we were faced.

Senator HARTKE. Am I wrong in saying that the essence of your statement is, and the conclusion at least which you wanted to give to us—is that the merged operation was unmanageable?

Mr. SAUNDERS. Well, I would think that it's not only the merged operation. I think these same problems, they were just accentuated—except with the startup costs of the merger of course—but these problems have existed on both of these railroads for many, many years.

Senator HARTKE. I understand that. What I am trying to come back to is this merged operation now—it is under an appeal for reorganization under section 77 of the Bankruptcy Act.

Now, what I am trying to find out is exactly the thrust of your statement today.

Mr. SAUNDERS. Well, I am saying that these are problems we had to deal with and under the circumstances they presented conditions which were unmanageable and made it impossible to operate the properties on a break-even basis—the transportation company on anything approaching a break-even basis. And I say further that most of these problems are still here, except for the merger startup costs and they are very significant; but under current conditions it never will be a profitable operation.

Senator HARTKE. Well, let's put that in abeyance for a moment. As to what is going to happen in the future, let's hold that because it is now in the courts.

But the point of it is that these problems, as presented and the difficulties of the Penn Central and its financial collapse were due to unmanageable features of the merged operations, is that in effect the correct substance of your statement?

Mr. SAUNDERS. I think—I don't go that far. I say that they were a primary contributing factor. I don't say they were the only things. These were the factors that really broke our back. There were other problems, of course.

Senator HARTKE. Well, when did this inkling develop that this was an unmanageable operation? At the time of the merger application? Was it presented at that time, Mr. Saunders?

Mr. SAUNDERS. No.

Senator HARTKE. Was it anticipated at that time or not?

Mr. SAUNDERS. No.

Senator HARTKE. When did you——

Mr. SAUNDERS. How could we——

Senator HARTKE. When did you first develop this type of an outlook?

Mr. SAUNDERS. Let me add to what I said; the first thing I said was inflation. Nobody knew about inflation. I didn't know what it was going to be in March.

The recession is another one of the problems that I referred to. That is something that nobody could foresee at the time of the merger.

These things have involved hundreds of millions of dollars.

Senator HARTKE. Well, this doesn't deal with management itself. In other words, what I am trying to determine here at this moment is that—

Mr. SAUNDERS. Management itself, sir, didn't create this, but it deals with the results that were produced. That is the amount of traffic in the economy, the wage increases of 7 percent; 9 percent. These are factors of life that you have got to live with and they affect your financial results and your earnings, and your cash position.

Senator HARTKE. Well, we can go through the 7 percent and the 9 percent and we can also offset that with the 20 percent increase in rates that was——

Mr. SAUNDERS. Oh no, you can't.

Senator HARTKE. Just a minute, Mr. Saunders. I mean we can play all games with these figures, just like it appears that the Interstate Commerce Commission has indicated that sometimes a railroad industry has played all games with its bookkeeping. And we will try to unravel part of this if we can.

But what I am trying to determine at this moment simply is, in other words what the thrust is of your statement, whether you are blaming this artificially created recession we have, the inflation which we have, high interest rates which we have, and the tight money, if that is the thrust of the difficulty or whether you are blaming the fact that this merged operation was unmanageable. Unmanageable as an operation.

Mr. SAUNDERS. I have not said that the merged operation was unmanageable. I have said that the problems that management had to deal with, the problems which I have listed were unmanageability. I have not characterized the merger as unmanageable. I have said that the problems that I have listed here presented problems not of mismanagement, but of unmanageability.

Senator HARTKE. Yes.

Well, this is a self-serving declaration, you realize that——

Mr. SAUNDERS. Of course it is. You are asking me what I have said in my statement.

Senator HARTKE. And I don't ask you to plead mismanagement. I am not asking you to do that.

Mr. SAUNDERS. I accept what you say there.

Senator HARTKE. All right.

The point is that I am trying to determine whether and when you determined that this was an unmanageable operation?

Mr. SAUNDERS. I haven't said it was an unmanageable operation. I have said that the problems which I have mentioned were problems not of mismanagement but problems of unmanageability. It's quite a difference in what you are saying.

Senator HARTKE. In the entire court proceedings, and in the applications before the Commission, and in the entire court proceedings, including those which were brought by the stockholders of the New Haven, all through that time, did you at any time present any of these factors as a problem as far as the merger was concerned?

Mr. SAUNDERS. Well, let me say—refresh your memory, Mr. Chairman, if I may—the hearings on the New York Central-Penn Central merger took place in 1962 to 1964.

Senator HARTKE. That's right.

Mr. SAUNDERS. Nobody knew anything about inflation or recession at that time. Of course we knew about the passenger deficit that was existing; that was all discussed. Extensive testimony was presented before the Commission as to the impossibility of the Pennsylvania and the New York Central continuing to operate as separate properties. The uneconomics of it and that the merger was—it was approved if you will read the decision there, in part, on the basis that this was necessary to merge these two properties in order to meet the competitive competition from other railroads and from other forms of transportation in the east.

And you say, "Were these presented to the court?" The litigation took place in court. There were two appeals to the Supreme Court. There was extensive hearings in the Circuit Court of Appeals for the Second Circuit. There were several years—except for the last decision of the Supreme Court—prior to the time that the merger was actually approved. And a lot of these problems—yes, a lot of them were discussed and a lot were not because they weren't in existence.

Senator HARTKE. Yes, but the Court held that at that time the Commission—I will read it; I am reading from the Court decision——

Mr. SAUNDERS. Which court?

Senator HARTKE. I am reading now from the conclusion of the Court which is the same conclusion reached in the merger case.

Mr. SAUNDERS. But which decision?

Senator HARTKE. The Supreme Court. I am reading from the inclusion case of the Court which is the same as the merger case.

This is the Supreme Court decision which was delivered January 15, 1968.

Mr. SAUNDERS. Oh, yes. I am familiar with that.

Senator HARTKE. By Justice Fortas.

Mr. SAUNDERS. That's right.

Senator HARTKE. Giving the opinion of the Court.

The Commission carefully considered the implication of the fact that the Pennsylvania and New York Central as individuals have operated at a profit and that there are reasonably good prospects for continuation of such operation.

Mr. SAUNDERS. Well, that is true only in part, and I don't know—well,——

Senator HARTKE. I am reading from page 9.

Mr. SAUNDERS. That's all right; but I would like to read the whole decision because the fact is that the Pennsylvania and the

New York Central did show a profit in 1966 on overall operations, railroad operations. And I think they showed a small profit in 1967.

Now, you say that the Penn Central last year lost $200 million. Now, that is stripping out everything. That is barebone railroad operations. But it's taking out sale of real estate that is ordinarily made of railroad properties, profits on that are taken out.

Dividends from properties the railroad owns are taken out. It's taking the barebone operations and that is not the basis on which any other railroad in this country reports its earnings. But if you take that basis or practically any other basis, the Penn Central and New York Central haven't made any money in more than only 2 years in over 15. The records will show they have lost money heavily and they have been cannibalizing themselves to death, selling off real estate and being subsidized by their nonrailroad operations, or investments.

Senator HARTKE. Well, there is no—these questions were not raised during the hearings on the merger, were they?

Mr. SAUNDERS. Yes, they were. Yes, sir. You read the record. It's all in the record.

Senator HARTKE. I understand the details, sir, but the fact was not made—the conclusion was made on two basis.

Mr. SAUNDERS. The thrust, one of the thrusts before the——

Senator HARTKE. Mr. Saunders, just a minute. The reason that the New Haven was included in this operation, according to the Commission's findings, which was affirmed by the court was simply the Commission emphasized that the merger would enable the unified company—in the terms and words of the Commission—and I am reading from the court decision on page 10:

* * * to accelerate investments in transportation property and continue to modernize plant and equipment and provide more and better service.

That was a quote from 327 I.C.C. 475 and 501.

Then the court goes on to say, pointing out that only by permitting the merger:

* * * would it be possible for the Penn Central to come to the rescue of the New Haven as we shall describe.

Then in the court's decision just handed down on June 29, 1970, they reemphasized this whole point. The whole purpose of making the inclusion of the New Haven a condition of the merger was to "* * * require the Penn Central, which, in being permitted to merge—," and that's the essence of it "* * * in being permitted to merge * * *"

You weren't forced to merge.

Mr. SAUNDERS. That's right.

Senator HARTKE. This was upon petition of the New York Central and the Pennsylvania Railroad.

Mr. SAUNDERS. That's right.

Senator HARTKE.

* * * being permitted to merge was granted this opportunity; whereas, granted for you to fully realize from the economic benefits to take over and operate a helplessly sick but still needed railroad which it could well afford to do.

Mr. SAUNDERS. That's correct.

Senator HARTKE. It is part of the price that——

Mr. SAUNDERS. It seemed that way to us at the time.

Senator HARTKE.

* * * It is part of the price Penn Central is called upon to pay for the right to merge. The right to merge was granted, the merger has taken place and the price should be paid.

Now, I am all—I am only saying in substance to you, when did you anticipate that you could not carry the burden of an additional burden of the New Haven? When did you anticipate that you had such an unmanageable operation? When was this first coming to the attention of the management, sir?

And is it not true, is it not true that as far as the New York Central was concerned through all of this time up until the actual time of the merger, it was paying off its obligations; it was actually in no sharp difficulty on cash.

Mr. SAUNDERS. That was——

Senator HARTKE. Just a minute. I understand what you are going to read from. But the fact of it is it was paying off its obligations and was in no difficulty on cash and it was only until really when you took a healthy New York Central and put it together with the sick Penn Railroad system and incusion of a very desperately sick New Haven that we got into this financial bind we are into for the Penn Central today, which is now sort of giving a creeping fear to all of the railroad industry throughout the nation?

Mr. SAUNDER:. If I may say so, Senator, your statement is absolutely incorrect.

Senator HARTKE. All right.

Mr. SAUNDERS. Some people on the New York Central will disagree with me——

Senator HARTKE. I think that they will, too, and I hope we have them here.

Mr. SAUNDERS. (continuing) As to whether the New York Central was making a profit. But I'll submit to you that you can take any impartial group of accountants or any financial experts and let them review the records and they will justify my statement that neither the New York Central nor the Penn Central had made any money of any consequence in the last 10 years.

Senator HARTKE. Who will be the principal disagreeing individual?

Mr. SAUNDERS. I think Mr. Perlman.

Senator HARTKE. I think that's right, and I am sorry that I had to cancel those hearings.

Mr. SAUNDERS. Let me say this in that respect. Mr. Perlman, and I,—I don't know that he would, but I think he probably will. I have no basic disagreements with Mr. Perlman. That is just a matter of argument what the facts are. Mr. Perlman and I have—I have the highest regards for him and I think he is an excellent operating man and I have no great difficulty in getting along with him. We don't want rubber stamps or men that don't have convictions at the top of this railroad. We had disagreements and that is natural. But they weren't of any critical nature and Mr. Perlman had complete authority to do whatever he wanted to do and he is an excellent railroad man.

If anyone says—and I don't know who it would be—that they can demonstrate, that either the Penn Central or New York Central made any substantial money on railroad operations without their outside income in any year—except 1966 and 1967, maybe 1965—I don't think they can.

Senator HARTKE. Isn't it true that the Penn Central basically was meeting—New York Central was meeting its obligations and had sufficient cash on hand to continue operating while Pennsylvania was having difficulty?

Mr. SAUNDERS. No, no, Pennsylvania was in no worse cash position than the New York Central at the time of the merger. As I read you earlier in my testimony the Commission stated that with reference to the New York Central that their outside income saved them from bankruptcy.

Senator HARTKE. I will come to that outside income in just a moment. But that decision to merge, was that not a managerial decision?

Mr. SAUNDERS. I suppose it was. It was made before I came. I didn't initiate this merger.

Senator HARTKE. I understand that.

Mr. SAUNDERS. It was started 2 or 3 years before I came to Pennsylvania.

Senator HARTKE. I understand that but it was a managerial decision, right?

Mr. SAUNDERS. I assume so. What do you mean? The board of directors approved it; and approved by the stockholders.

Senator HARTKE. Yes. All right, I understand.

What I wanted to do, you see, when we asked you to come here, we really had hoped that we could talk to you about the operation of several affiliated corporations of the Penn Central System.

In line with that we wrote to Mr. Gorman, and we requested a copy of the annual reports of the affiliated corporations of the system for the year 1969. I was, and still am, amazed to learn that that publication is not available. That's what they tell us.

Mr. SAUNDERS. What publication?

Senator HARTKE. The publication of the annual reports of the affiliated corporations for the system for 1969.

Mr. SAUNDERS. Of course I can't speak because I didn't reply to your letter.

Senator HARTKE. I understand.

Mr. SAUNDERS. I don't think I should say. I think though that it is in the process of being furnished.

Senator HARTKE. It's at the printers or something.

Mr. SAUNDERS. I don't know. I can't comment.

Senator HARTKE. But you were there until what date?

Mr. SAUNDERS. June 8th.

Senator HARTKE. June 8th; this is July 22nd, right?

Mr. SAUNDERS. Right.

Senator HARTKE. All right. Now, it's been more than 6 months at least, and it was even 5 months when you left, right?

Mr. SAUNDERS. Well, this is the usual time.

Senator HARTKE. It's been that long since the close of their fiscal year, right?

Mr. SAUNDERS. I assume that's true, yes. I don't know. I don't know anything about it to be perfectly frank. I don't know.

I do know this, that normally it takes 4 or 5 months before we get our annual reports out; usually around the 1st of April. That is for the company as a whole.

Senator HARTKE. You didn't have these in June? Now it's July 22nd. Let me ask you a question; How can management manage without financial reports?

Mr. SAUNDERS. We have the financial reports. We have the quarterly reports and daily—almost monthly records from these subsidiaries, and they put out annual reports to their stockholders. They have all been circulated back months ago.

Senator HARTKE. Let me ask you since I don't have the 1969 reports; you were there in 1968, were you not?

Mr. SAUNDERS. Yes.

Senator HARTKE. All right. Let me ask some questions about that. You are familiar with the DTB Corp.?

Mr. SAUNDERS. The who?

Senator HARTKE. The DTB Corp.

Mr. SAUNDERS. What is that?

Senator HARTKE. They are in the business of owning and leasing tugboats. Are you familiar with that operation?

Mr. SAUNDERS. I guess—I don't know.

Senator HARTKE. You are not familiar?

Mr. SAUNDERS. I can't say offhand. I would have to see the reports.

Senator HARTKE. But you——

Mr. SAUNDERS. They have 175 different subsidiaries.

Senator HARTKE. I understand.

Mr. SAUNDERS. Or 200.

Senator HARTKE. Is that one of the reasons they were so unmanageable?

Mr. SAUNDERS. No, I don't think so. Let me see what you are talking about.

Senator HARTKE. Not a very large firm. Assets of about $2 million.

Mr. SAUNDERS. That's right, yes. I am familiar with that to some extent.

Senator HARTKE. Net income 1968 was $14,000.

Mr. SAUNDERS. $14,000 total. Revenues were $255,000.

Senator HARTKE. Net income less than 1 percent?

Mr. SAUNDERS. $14,000.

Senator HARTKE. That is net income, and it less than 1 percent, is that right, Mr. Saunders?

Mr. SAUNDERS. Yes, I would say so.

Senator HARTKE. Is it worthwhile to run a business like that for you?

Mr. SAUNDERS. We have some businesses that don't make any money. Sure we would like to get rid of them but we can't. We are getting rid of—I don't say we got rid of all of them but with 175 different corporations of course they don't all make money.

The worst one is the transporation company which is a terrific——

Senator HARTKE. What about the DTI Enterprises? Are you familiar with that? A real estate corporation?

Mr. SAUNDERS. Yes, I am familiar with that.
Senator HARTKE. All right, assets around $4 million.
Mr. SAUNDERS. $4,126,000.
Senator HARTKE. Lost $45,000 in 1968, is that right, Mr. Saunders?
Mr. SAUNDERS. That's right. That's a company that operates in connection with D.T. & I. Railroad, Industrial development properties and things like that.
Senator HARTKE. It was profitable in years before 1968, what happened?
Mr. SAUNDERS. Well, I think probably it was a slow down in the economy. You see this basically is a company for industrial development, development of sites.
Senator HARTKE. Industrial development where?
Mr. SAUNDERS. In connection with the railroad.
Senator HARTKE. I know, but where?
Mr. SAUNDERS. Around Detroit.
Senator HARTKE. Around Detroit?
Mr. SAUNDERS. Yes.
Senator HARTKE. Are you familiar with the general car leasing?
Mr. SAUNDERS. Yes.
Senator HARTKE. Assets around $10 million, right?
Mr. SAUNDERS. I think that's right. I can't remember all of these in my head.
Senator HARTKE. All right.
Mr. SAUNDERS. Yes, sir, assets $10,116,000.
Senator HARTKE. That is 1968. We still don't have 1969.
Mr. SAUNDERS. That's right.
Senator HARTKE. I don't know how you figure your plans if you don't have the figures available.
Mr. SAUNDERS. I don't think the assets—these are things which are continually reviewed.
Senator HARTKE. Pardon me?
Mr. SAUNDERS. These are things which are continually reviewed by various people in management. The fact they haven't been put in one book doesn't mean the figures are not available.
Senator HARTKE. Well, we asked Mr. Gorman for them. Is there any reason he would have hidden them from us?
Mr. SAUNDERS. You ask him. I don't know. I can't speak for him.
Senator HARTKE. On general car leasing, you had profits of less than 1.5 percent, right?
Mr. SAUNDERS. Right. Net income—it was $142,000 as the net income in 1969.
Senator HARTKE. Profits were about 1.5 percent, right?
Mr. SAUNDERS. No, the total income was $1,278,000, it would be more than that.
Senator HARTKE. I am not talking about income; I said profits.
Mr. SAUNDERS. Well, your net income is say $142,000 out of a gross sales, gross income of $1.2 million say.
Senator HARTKE. I understand that. But on your investment of $10 million——
Mr. SAUNDERS. Right.
Senator HARTKE. (continuing) About 1.5 percent.

Mr. SAUNDERS. On the investment of $10 million.

Senator HARTKE. That's not much of an investment is it either?

Mr. SAUNDERS. Well, there again, you can go through these isolated companies, of course, and find that. One of the things that we have been told to do and we are trying to do, and in the process of doing—the Commission ordered us to get rid of as many of these subsidiary companies as we could; and a lot of them have been gotten rid of. We have reduced the number by, I say, 60 or 80 in the last 2 years. But in the process we got a lot more from the New Haven, so we are about where we started with 170 now. But we are in the process of combining as rapidly as we can. We have to be getting Commission approval of most of these things and it takes time. Not only just the mechanical work, but it's getting the Commission approval to merge these companies.

Senator HARTKE. Now you do——

Mr. SAUNDERS. I don't want to say to you that every one of these companies is right or wrong.

Senator HARTKE. I understand.

You are familiar with the Great Southwest Corp.?

Mr. SAUNDERS. Oh, yes.

Senator HARTKE. What about it?

Mr. SAUNDERS. What do you mean, what about it?

Senator HARTKE. It has assets of what, $75 million?

Mr. SAUNDERS. Oh, no.

Senator HARTKE. Net loss of $330,000 in 1968, is that right?

Mr. SAUNDERS. No, that's not right.

Senator HARTKE. That's not right?

Mr. SAUNDERS. No, sir. 1968?

Senator HARTKE. Right. You see, I don't have 1969. If I had that we would be glad to go into 1969. Adn this is 1970 now. What I am talking about is the——

Mr. SAUNDERS. Don't you—haven't you——

Senator HARTKE. We have all what you have, yes. I am asking questions on this information that I have.

Mr. SAUNDERS. If you would look——

Senator HARTKE. From your 1968 reports.

Mr. SAUNDERS. If you look——

Senator HARTKE. All I want now is to find out so we don't have disagreements on the facts of these companies.

Mr. SAUNDERS. You say you don't have figures with reference to 1968?

Senator HARTKE. No, 1969 I said.

Mr. SAUNDERS. Well, 1969, you have it. If you look at your annual reports to stockholders, the supplemental on page 22 you have them.

Senator HARTKE. What does it show? What was your situation there? Loss?

Mr. SAUNDERS. No.

Senator HARTKE. Profit?

Mr. SAUNDERS. It shows that in 1968 we had—in 1969 net earnings for the year were $27,425,000; and for 1969, $39,700,000. They were up about 20, more like 30 percent. You have those figures before you.

Senator HARTKE. You have your annual reports of affiliated corporations, for 1968; are you familiar with that?

Mr. SAUNDERS. Yes, sir.

Senator HARTKE. And do you see on page 77, I think it is—Is that right? You have the Great Southwest Corp. on page 77.

Mr. SAUNDERS. Yes.

Senator HARTKE. Does it show a loss of $330,473.00 for 1968?

Mr. SAUNDERS. This—See, the Great Southwest, it has a number of subsidiary companies. This only includes a part of it. If you look at the annual report to stockholders, and what reflects there through earnings, the Great Southwest Corp. and consolidated subsidiaries—and the figures that I gave you are the consolidated earnings and they are the only things that count. This is just one individual segment of the company. And also, I think another thing that you have to take into account. Macco Corp. I was merged into Great Southwest Corp. in 1969. Macco Corp. is by far a larger corporation than Great Southwest and the figures which I have showed here—stated to you which are stated in the annual report for 1969 include Macco Corp. And the 1968 is restated to include them, for comparative purposes.

So the truth is that Great Southwest Corp. on a consolidated basis, in 1969 earned as I stated $27,425,000 and in 1969, $39,700,000.

Senator HARTKE. But we are not talking about Macco. We are talking about the Great Southwest.

Mr. SAUNDERS. Great Southwest Corp.—Macco Corp. is incorporated, or merged into Great Southwest.

Senator HARTKE. Well, in your combined statement, I mean this is part of your bookkeeping operation. All I am doing is trying to figure out the——

Mr. SAUNDERS. This is nothing more than an internal management report.

Senator HARTKE. I understand that.

Is Great Southwest in financial difficulty now? You are familiar with the story in the Wall Street Journal today I suppose?

Mr. SAUNDERS. No, I am not.

Senator HARTKE. July 22, 1970, page 15, "Great Southwest Faces Problems of Liquidity."

Mr. SAUNDERS. I can't speak after June 8th, because I have had nothing to do with it since then. I don't know what the condition is today.

Senator HARTKE. What was their situation as far as liquidity was concerned prior to the time you left them?

Mr. SAUNDERS. At the time that I left or prior to the time that I left, they had some problems but we thought they could be solved.

Senator HARTKE. Problems of liquidity?

Mr. SAUNDERS. Yes, I think they did, yes.

Senator HARTKE. Cash has been a problem as far as your whole corporation is concerned for sometime, is that correct?

Mr. SAUNDERS. What do you mean "for the whole corporation."?

Senator HARTKE. Penn Central Corp., especially transportation company, and the whole operation.

Mr. SAUNDERS. We have—yes, it's been true of all of the company.

Not all segments, but true of the company as an entity.

Senator HARTKE. Do you have available cash in the holding company?

Mr. SAUNDERS. How's that?

Senator HARTKE. Do you have plenty of available cash in the holding company?

Mr. SAUNDERS. No, I would say not.

Please, Mr. Chairman, I do not want to speak as of now because I don't know. I can talk only as of June 8th.

Senator HARTKE. Let's then go through a couple more, and then I have a question.

Do you want to comment on the system's investment in Capistrano Highlands?

Mr. SAUNDERS. That is nothing but a subsidiary of Macco Corp.

Senator HARTKE. Losses to the extent of $740,000.

Mr. SAUNDERS. Macco Corp. is a corporation that has some 40,000 acres of land in California. Very fine property. And they have any number of——

Senator HARTKE. Very fine property, right?

Mr. SAUNDER. Yes.

Senator HARTKE. Yes. All right.

Mr. SAUNDERS. And they have been very fine investments and this is one of them. I don't know how many companies of this sort they have for development of subdivisions or certain areas and they will have—I don't know, maybe 50 of them. Maybe. I don't know.

Senator HARTKE. I understand, but we are not talking about Macco. What about Great Southwest Golf Club, Inc? Assets of $2 million and $120,000 loss in 1968.

Mr. SAUNDERS. Well, it started up about that time, and it's a subsidiary of Great Southwest Corp. which made in that year as I said, 1968 overall, $27,000,000.

Now, you can go through and pick out individual companies, and find this.

Senator HARTKE. Just one moment. Let me continue.

You're in control of all these corporations? You were, is that right?

Mr. SAUNDERS. In this sense; I was a chief executive officer of Penn Central Transportation Co. and then Penn Central Holding—Penn Central Co., rather. Now, you say Great Southwest Corp. Great Southwest Corp. has its own president, chairman of the board; it has it's own directors.

Senator HARTKE. I understand that. But you were the holding company for this, is that right?

Mr. SAUNDERS. That's right.

Senator HARTKE. Now L-A-G-U-N-A, now how do you pronounce that?

Mr. SAUNDERS. The Laguna.

Senator HARTKE. Laguna? They had assets of $2 million; and a loss of $286,000.

Pent Land Home, assets $26.8 million; losses of $142,000. Another one here, total of $5 million assets; losses of $187,000.

Now, as the chief executive officer of the Pennsylvania company, why didn't you sell off some of these less profitable businesses to raise cash? All these that I have been talking of.

Mr. SAUNDERS. These interests are all a part of Great Southwest Corp.

Senator HARTKE. You needed cash in hand, I think, more than those losses, right?

Mr. SAUNDERS. But if we were going to sell anything, what we ought to sell is Great Southwest Corp., not these little nits and lice.

Senator HARTKE. Pardon me?

Mr. SAUNDERS. I say we should have sold the Great Southwest Corp., if you are talking about selling something; it should have been that, rather than talking about a little company of $100,000 or $200,000 or $1 million. That wouldn't have solved our problem; they are nits and lice in this whole picture.

Senator HARTKE. But these corporations I mentioned, you know all of these that I have talked about here, isn't it true that if you would have sold these assets you could have supported the transportation company.

Mr. SAUNDERS. No.

Senator HARTKE. You could not have?

Mr. SAUNDERS. I don't think—not in later days.

Senator HARTKE. Let me ask you this; in other words can you say these assets supported the transportation company or the transportation company supported these assets? Can you answer that?

Mr. SAUNDERS. These assets supported the transportation company.

Senator HARTKE. These assets did.

Mr. SAUNDERS. Yes.

Senator HARTKE. And they produced enough—how much cash did they produce?

Mr. SAUNDERS. Well, as I pointed out to you, I can't give you the—Mr. O'Herron could give them more accurately.

They produced a tremendous amount of cash, as I pointed out. We received $137 million, not all cash, but a great portion of it, from these subsidiaries in 1969.

In 1968 we received a comparable amount and we also used these subsidiaries to borrow hundreds of millions of dollars—$84 million through these subsidiaries in 1969, all for the transportation company.

Senator HARTKE. But the loss operations you had, you made no efforts to get rid of them?

Mr. SAUNDERS. Well, these are all a part of the large corporation. Of course they were development companies. You are talking about a loss within that corporation, maybe it's called Capistrano, which started in 1968 operating building subdivisions. The first year it wouldn't make any money, the next year maybe $10 million would come in. Maybe $1 million. You can't go through and pick out a company and say, "Why don't you sell that one?"

Senator HARTKE. Let me read to you from the circular you circulated when you tried to raise the $100 million, in May of this year, dated May 12th, page 12:

> Great Southwest records sales of land and buildings in year of sale and generally takes a full sales price into income, even though, in many instances, a substantial portion of the sales price is payable over an extended period of time. It may not include personal liability of the purchaser so that the collection of the total purchase price may be dependent upon the successful develop-

ment of the property. Substantial portions of Great Southwest real estate sales in 1968 and 1969 are in this category and were made to a limited number of individuals.

Can you tell us who they were?

Mr. SAUNDERS. No, I can't.

Senator HARTKE. Can you find out?

Mr. SAUNDERS. Be glad to try to find out. As a matter of fact I now am out of management, Mr. Chairman, and I think you should ask the present management for that information.

Senator HARTKE. Were you working during the 1968 and 1969 years?

Mr. SAUNDERS. I have no right to ask the management now, to ask the present management to give me this information at this time.

Senator HARTKE. Mr. Saunders, you were president of this corporation at the time this circular was issued?

Mr. SAUNDERS. That's true. And I am not trying to avoid anything but you asked me to furnish names of people. I don't know if I can get them or not. I think you ought to ask the present management.[1]

Senator HARTKE. I will ask you to furnish them, if you can.

Then I quote from the statement:

The Tax Reform Act of 1969 and other recent tax rules have made investments in properties of this type less attractive to individuals, and for this and other reasons including general economic conditions and difficulty in obtaining mortgage financing there can be no assurances that such sales will continue. In the past Great Southwest has been able to make substantial real estate sales by accepting the prepayment of several years interest. However, by reason of a November 1968 release of the Internal Revenue Service limiting the deductibility of prepaid interest, the number of prepaid interest transactions may decrease substantially and Great Southwest sales may be adversely affected thereby.

Now, what does this all mean? What does this mean in the statement itself? Does it mean that the real estate because of the recent tax rules, will no longer be able to play a major role in the activities of the corporation?

Mr. SAUNDERS. It means that in certain instances the practice will have to be changed and it may affect the company to some degree, yes, but it doesn't mean they won't be able to carry on profitably.

I can not comment on the effects of that, because this is a recent thing and—that's all I care to say.

Senator HARTKE. Well, the sum and essence of the Wall Street Journal article is that there was a letter directed by the senior vice president of the First National City Bank, allegedly by Mr. Robert B. Graham, to a number of banks in the form of a communication, in substance saying that the Great Southwest Corp. was finding itself in a money pinch because of the railroad's recent application to reorganize under the Bankruptcy Act.

Was this to be anticipated?

Mr. SAUNDERS. No.

Senator HARTKE. No. Could it have been anticipated?

[1] See letter dated Sept. 3, 1970, in Part 3.

Mr. SAUNDERS. I don't think so, no. I think the great problem in the Great Southwest Corp. is the decline in the housing market, the really tremendous problem there.

Also the tight-money market. I think those are the basic problems of it.

It has very valuable properties.

Senator HARTKE. The point you have made repeatedly, Mr. Saunders, is the fact that these corporations like the Great Southwest Corp., were needed to keep the railroad transportation business going, isn't that true?

Mr. SAUNDERS. That's true.

Senator HARTKE. Isn't that the point you have been hitting at quite hard here today?

Mr. SAUNDERS. I think you can——

Senator HARTKE. Wait just a minute now. Isn't that just the point that you have made repeatedly?

Mr. SAUNDERS. I am trying to say the point I have made.

Senator HARTKE. Just a minute. I understand that.

Mr. SAUNDERS. Let me answer your question.

Senator HARTKE. Just a minute now. I was very patient with you, and I listened to your whole statement and I didn't ask any questions because of the fact I wanted you to try to present your case as coherently as you could, and as well as you could; and the thrust of that statement basically—and the questioning since—has been that these real estate operations and these investments were needed in order to keep the transportation company going. Has that not been a very central part of your statement here today?

Mr. SAUNDERS. That is true. But if I may say this——

Senator HARTKE. All right, you go ahead.

Mr. SAUNDERS. I didn't say Great Southwest—I didn't say any particular company, and you singled out one. What I am talking about are our overall investments in all these companies, and you can pick out one or two and say "They didn't do well"; "Maybe that's not doing well right now"; but the overall thrust of it is that—for instance our realty, hotels in New York: our investments in Norfolk & Western; investments in Buckeye; our investments in Arvida; our investments in D.T. & I.; our investments in P. & L.E.; you got to take the composite. You can't say, "Look what Great Southwest is doing. They're in trouble now."

That's but one aspect of it. But it's not the answer, Senator.

Senator HARTKE. But these corporations that were losing money, you made no effort to dispose of them or have your subsidiaries so dispose of them?

Mr. SAUNDERS. What corporation subsidiaries are you talking about? Over all, last year, up to the time here that I retired——

Senator HARTKE. Let me see——

Mr. SAUNDERS (continuing). The complete——

Senator HARTKE. Let me see if we can get the thrust of this. You're telling me that these other assets outside the transportation company are of tremendous value even today and are of such sufficient strength that maybe they could have sustained this $100 million offering?

Mr. SAUNDERS. I think that—yes. Let me answer you this way. I think that the $100 million—and it was the judgment of our financial people including Solomon Bros, and Hutzler, First Boston Corp.—that the $100 million debenture issue of the Pennsylvania Co. was a sound investment.

Now, what destroyed or undermined the $100 million issue was the poor earnings of the transportation company in the first quarter of this year. When a report of $100 million loss in transportation company for the first quarter of the year came out, it torpedoed the $100 million debenture issue.

The $100 million issue in my judgment was perfectly sound and it was based upon credit and earnings of these subsidiaries that we are talking about. And this brought on a crisis in the commercial paper market, particularly as far as Penn Central was concerned. Your Dow Jones average has gone down to 200 points or more. That has depressed the value of the collateral that we had for security which we—which in turn deprived us of the right to borrow the amount of money we might have been able to otherwise. The increasing cost of interest rates, also.

These are the things that entered into this crisis.

Senator HARTKE. But in March you were making your plea on the basis of the same complaints of lack of ability to continue to operate profitably, to the Department of Transportation and yet you came forward with this offering.

Mr. SAUNDERS. We didn't come forward with it. It was canceled; or postponed because it couldn't be sold.

Senator HARTKE. At what rate of interest?

Mr. SAUNDERS. It never was fixed.

Senator HARTKE. Well, it was certainly thought of——

Mr. SAUNDERS. About 10.5 percent. But it was not fixed, Senator.

Senator HARTKE. All right.

That's all the questions I have on affiliated industries at this moment. ment.

Senator Pearson?

Senator PEARSON. No, Mr. Chairman.

Senator HARTKE. Senator Hart?

Senator HART. I have no questions on affiliated industries.

Senator HARTKE. If you want to ask him questions on something else, go ahead, if you want to, I have taken quite a lot of time.

Senator HART. I have a comment to make about the appointment of the trustees.

I had—I respectfully suggested to the court and the Interstate Commerce Commission that in the designation of trustees that they seek to find—and I put it in quotes—a "consumer" to sit in that group. Now, unless the president of Wanamaker Stores falls in there I don't think anybody in that group is a consumer of the passenger service of the Pennsylvania Railroad.

It occurred to me that that kind of voice in the management of this reorganized structure would have been very worthwhile as an experiment. Would you have any reaction to that suggestion, Mr. Saunders?

Mr. SAUNDERS. I think it was wise for me not to cover it.

Thank you, sir.

Senator HART. By implication I think you don't agree.

Mr. SAUNDERS. I don't make comment one way or the other, Senator.

Senator HART. Now, I will raise the subject that is close to the nerves of the subcommittee Chairman and I. We both come from the Great Lakes Basin.

Mr. SAUNDERS. Yes, sir.

Senator HART. Some few years ago a special Subcommittee of this Commerce Committee studied the Great Lakes, the St. Lawrence Seaway—you named that as one of the competitive markets or factors that faced your railroad.

We came to the conclusion that the Pennsylvania and New York Central had a fixed policy of attempting almost to embargo certain regions of this country by its freight rate practices.

Very specifically, among the to us seemingly difficult to understand freight rate differentials were these two:

The movement of heavy machinery from Indianapolis to the Port of Toledo was at $1.14 a hundredweight; movement to any North Atlantic Port was $1.03 a hundred weight;

Agricultural implements, manufactured in Battle Creek, Mich. moved to the Port of Muskegon—that's on Lake Michigan and the seaway—a distance of 99 miles carried a rate of $0.72 a hundredweight; Battle Creek to any North Atlantic port, a distance of 690 miles, was at the same rate.

Is this your method of fighting the competition of the St. Lawrence Seaway?

Mr. SAUNDERS. No, I don't think—I don't know what year you are referring to with those rates.

Senator HART. That would have been 1967? Was that the year?

It was in the sixties.

Mr. SAUNDERS. I don't say that—I am not familiar with those rates, sir. But I don't know when you say—I don't know what you mean by "fighting the St. Lawrence Seaway."

Of course we try to make rates——

Senator HART. Well, rates like that do not encourage use of the seaway, do they?

Mr. SAUNDERS. From what you say, that may be true. I don't know. I just don't know about that.

Senator HART. If you were a shipper you would think it an unrewarded experiment?

Mr. SAUNDERS. I probably would. I am not really familiar with what you are talking about. I don't feel competent to comment.

Senator HART. I hope somebody in that set of trustees is familiar with it.

Mr. SAUNDERS. Well,——

Senator HART. That's all right.

The second point that was developed in those hearings which we in the Great Lakes Basin had difficulty in understanding was that the movement of military cargo—this is where Uncle Sam and the taxpayer picks up the freight—literally—under section 22 of the

ICC Act, railroads have cut rates to east coast ports far below the short haul to the Great Lakes ports.

To us that seemed to add up only then to the fact that a railroad doing that in order to take cargo away from the seaway was moving greater volume at a loss. It's certainly no way for a carrier to make money. It is a way to hurt the seaway.

Mr. SAUNDERS. I don't think it's anything of that sort. Certainly an unconscious occurrence as far as I know. We have made rates, I know, to try to get the long haul business because on the basis that we would make more money than we would on the short haul.

Senator HART. Still with all of your years of railroad experience in the east, in Norfolk & Western and now with Pennsylvania——

Mr. SAUNDERS. Norfolk & Western is not an eastern railroad. Wasn't when I was there. It was basically an east-west; but it now is the——

Senator HART. What port is the terminal of the Norfolk & Western?

Mr. SAUNDERS. Norfolk. Basically Norfolk.

Senator HART. Your experience has been through ports, and you described the high cost of these ports as one of the factors in your real troubles.

Mr. SAUNDERS. Yes, that's right.

Senator HART. Why wouldn't you have sought to encourage the use of a Great Lakes port with the possibility that it might be a lower cost port?

Mr. SAUNDERS. This is a matter of continuing study; as a matter of fact within the last 6 months I have had several meetings with Mr. Knight, who is the director of the port of Toledo—our people before I left the railroad, were working with him on ways and means of developing more traffic through the port of Toledo and this has been a running matter—a matter of continuing consideration for many years and it's still under consideration. I don't say that everything has been done or what ought to be done has been done but these points you are making are certainly valid points and I think that those are the points that the railroad has to consider and act upon.

Senator HART. Well, now that the railroad is in a sense a public charge, I would hope that the trustees will indeed give consideration to the national interests in evaluating rate practices with respect to the east coast ports as against the Great Lakes Basin.

It's altogether possible that the long effort by eastern railroads to punish the St. Lawrence Seaway may have contributed to some of your problems.

Mr. SAUNDERS. You may be right, but I am not conscious of anything of that sort.

Senator HARTKE. We are going to adjourn for lunch in just a moment but let me say this, I take it from the essence of what you have said, Mr. Saunders, that the situtation, as far as the Pennsylvania Railroad is concerned, is unmanageable and those factors outside of its control give little hope to anticipate changes in the future to alleviate the necessity for long-time, big-term changes. Any loan then which would be extended either to the Penn Central under a loan authority as requested by Senator Javits, or which was origi-

nally requested in the bill, would only be pouring more money down a rathole?

Mr. SAUNDERS. No, sir, I did not say that.

Senator HARTKE. You did not?

Mr. SAUNDERS. All I——

Senator HARTKE. All right, let's have that clarification before you enjoy your lunch.

Mr. SAUNDERS. I didn't say that the Penn Central was unmanageable. I said that many of the problems with which we are confronted were unmanageable, unmanagability, and not mismanagement.

I did not say or even intend to suggest that the problems of the Penn Central can not be solved. I said in the concluding part of my statement that I hoped it would be made a vibrant and viable railroad, and I could name for you a number of things that I think can be done immediately, ought to be done immediately.

Of course nothing moves very fast.

But if this Railpax legislation were enacted that would be $35 million for the Penn Central. If the Penn Central could get a reasonable freight rate increase—which would amount to many millions of dollars, if it were permitted to abandon certain unnecessary track, there is tremendous savings in that. These merger costs which were so expensive are largely behind it now. If we can have an improvement in the economy——

Senator HARTKE. Mr. Saunders, let me say that you are one of those who were one of the first to join in a rapid number of big business people to encourage tight money policy.

Mr. SAUNDERS. No, sir.

Senator HARTKE. Oh, yes, sir. Oh, yes, sir.

Mr. SAUNDERS. I never——

Senator HARTKE. In the last Administration.

Mr. SAUNDERS. What is that?

Senator HARTKE. Yes, sir, in the last administration you were——

Mr. SAUNDERS. I don't know how you put tight money in there.

Senator HARTKE. You implicated that a slowing down of the economy and the way to bring down inflation was to go ahead with a tight money policy.

I am not going to argue that with you. You were one of the first to endorse that type of policy; but I am not going to argue with you on that.

Mr. SAUNDERS. What are you referring to?

Senator HARTKE. Under President Johnson. I am not decrying it. I am saying you did endorse that policy, and now you are complaining about the policy that you previously endorsed.

Now, about the only statements repeated by you in your statement and presented by yourself are these—

> Many of the reasons for this reorganization were beyond our control and by and large they involve problems not of mismanagement but problems which were unmanageable.

Mr. SAUNDERS. Yes.

Senator HARTKE. And then you say—in order to emphasize this and its importance, and which I emphasize to you today. On page 11, you say that:

> . . . in light of the problems which I have enumerated, the situation on the Penn Central was not one of mismanagement but one of unmanageability.

Basically, none of those circumstances are going to be changed in the near future, the problems which you mentioned in your statement show no immediate prospects for change? That is the recession, the inflation, the tight money, or the high interest rates?

There is not going to be a substantial improvement in those in the next few months.

The railroad people tell me that because the Penn Central collapsed that this has had an infectious operation on other railroads and made it difficult for them to obtain cash, even though their conditions are not of similar nature.

In other words, it's something which is bigger than just the one corporation because it's such a tremendously important segment of our whole transportation industry. I cannot see from what you have said today that there would be any reason for us to anticipate that is we pass legislation which would permit the Penn Central to be one of the primary recipients of any loan, that we would not have the same basic problems, the same losses, the same unmanageability—if that is the term to be used, and the same difficulties in the long run.

In other words——

Mr. SAUNDERS. I agree with that.

Senator HARTKE. Do you agree with that?

Mr. SAUNDERS. I agree that just passing this bill is not going to solve——

Senator HARTKE. Under this particular situation, for the U.S. taxpayers to really underwrite unlimited financial losses of this character, it certainly should be looked into with more than just passing interest?

Mr. SAUNDERS. You have to do more than pass this legislation. If that is all you are going to do you shouldn't pass it.

Senator HARTKE. Senator Hart?

Senator HART. This may be a figure you would provide later for the record, but——

Mr. SAUNDERS. All right.

Senator HART. And I will be on the floor this afternoon, so I would like to put this in now: you cite as one of the major factors the merger startup costs.

Mr. SAUNDERS. Yes, sir.

Senator HART. In the 22 months between February 1968, the date of the merger and December 31, 1969, these costs amount to a net of $193 million after taking into account merger savings of $74 million.

Mr. SAUNDERS. Yes, sir.

Senator HART. Could you tell us what the projected startup costs were as you planned and went into the merger at that time?

Mr. SAUNDERS. I can tell you first what the figures were that were presented to the Interstate Commerce Commission in the hearings. I can provide that for the record.

They were far less than what was anticipated.

In other words, the merger startup costs were greater, greatly in excess of what was projected before the Commission.

On the other hand the savings that have been accrued from the merger are larger than were anticipated, but the net effect is substantially larger than was presented in the report to the Commission.

I'll be glad to furnish that for the record.[1]

Senator HARTKE. All right, the hearing will recess until 2 o'clock.

(Whereupon, the hearing was recessed at 12:40 p.m., to reconvene at 2 p.m., this same day.)

AFTERNOON SESSION

Senator HARTKE. The hearing will come to order again.

Mr. Saunders, in your statement this morning you said in substance that as far as the transportation company was concerned that it benefited a great deal as a result of the money which was paid to the transportation company by the affiliate companies.

Mr. SAUNDERS. Yes, sir.

Senator HARTKE. In other words, that they supported the railroad.

Mr. SAUNDERS. Well, I said in substance, that is right, yes, sir.

Senator HARTKE. In order to substantiate that, is it possible for you to provide for the committee the amount of money that flowed from these individual companies and at the same time the money which flowed between the companies?

Mr. SAUNDERS. Yes, sir. If I may suggest, Mr. Chairman, Mr. O'Herron who will testify, is directly in charge of this. I will be glad to try but it would be better to get it from him. He has access to the official records. I don't I think I can furnish most of it working with him.

He can furnish it much better than I can, but I will try to do it.

Senator HARTKE. When was the Penn Central Co., formed?

Mr. SAUNDERS. This is a little confusing. The first Penn Central company was formed about the time of the merger, with the merger coming into effect. February, 1968. That was the parent company at that time. There was no Penn Central Transportation Co. at that time.

Now on October 1, 1969, the Penn Central Co.—the legal detail I don't have exactly in my mind, but it was either reincorporated or the Penn Central Co. became the holding company or the parent company and the Penn Central Transportation Co. became what was the old Penn Central Co., namely operating the railroad and the investments of the old Penn Central Co.

So today the Penn Central Co., which was organized—the one in existence today was organized October 1, 1969, and the Penn Central Transportation Co. was organized at the same time.

Senator HARTKE. And the Penn Central Co. is a holding company device?

Mr. SAUNDERS. It is the parent company. You call it a holding company. I suppose that is correct. It is the parent company that holds all of the stock of the Penn Central Transportation Co. and

[1] Mr. Saunders was not able to provide the information at the time of printing. The ICC has partially developed the information (see ICC letter of Nov. 18, 1970 to Senator Hartke). (See also the letter from Jonathan O' Herron in Part 3.)

the Penn Central Transportation Co. holds the stock of practically all the subsidiaries. Not all, but—

Senator HARTKE. Has controlling interest in the subsidiaries at least?

Mr. SAUNDERS. Yes.

Senator HARTKE. Owns some of them outright.

Mr. SAUNDERS. Oh, yes. For instance, it owns Pennsylvania company outright, all the equity stock. There is a little preferred stock. There is one exception to what I said. In the Penn Central holding company there are two companies that were acquired this year. The Southwestern Oil & Refining Co. and the Royal Petroleum Corp. They are owned by the holding company and not through the Penn Central Transportation Co. That is the only exception I know of.

Senator HARTKE. What is the reasoning behind the holding company device? In other words, what advantage does the holding company provide as far as the railroad operation is concerned? As a result of controlling its financial structure? A result is that it no longer really controls its own destiny.

Mr. SAUNDERS. The reason for the incorporation of the holding company, which was conceived sometime ago, was to enable the holding company to diversify more easily into nonrailroad transportation activities. That hasn't taken place, but that was one of the reasons for it. By virtue of the holding company, we at first, when we filed the charter to organize the holding company, we asked the Interstate Commerce Commission to take jurisdiction of both the holding company and the transportation company. The Commission found that they had no jurisdiction under the law to take over the holding company.

Senator HARTKE. As a result any securities issued by the holding company are not subject to the ICC control, isn't that likewise true?

Mr. SAUNDERS. That is true.

Senator HARTKE. And that provides a device, since the ICC made the determination it didn't have the authority—it provides a device whereby as far as securities are concerned that it can issue securities without going through and having ICC approval.

Mr. SAUNDERS. That is correct.

Senator HARTKE. Which do affect the transportation company.

Mr. SAUNDERS. Let me finish my answer, if I may. The ICC—and this is one of the reasons we asked them to take jurisdiction, but they would not do it, but they are subject to the control of the SEC.

Senator HARTKE. Yes, I understand that.

Mr. SAUNDERS. So you are regulated by the SEC.

Senator HARTKE. Different regulations.

Mr. SAUNDERS. But all securities issued by the transportation company are still controlled by the ICC.

Senator HARTKE. That is right. Now as a result of this, you have a situation where you say you have 175 different separate corporate entities under the umbrella of the Penn Central Company; is that right?

Mr. SAUNDERS. Relatively, yes, sir.

Senator HARTKE. Doesn't this complicate your corporate structure? You were the head of that organization, right?

Mr. SAUNDERS. Right.

Senator HARTKE. Doesn't that complicate your corporate structure?

Mr. SAUNDERS. We didn't think so. I don't think it does. As a matter of fact it simplifies it. The fact is, it is more expeditious to operate really under the SEC than under the ICC so far as issuance of securities is concerned.

Senator HARTKE. I understand that. That is what I said a moment ago. In other words, the issuing of securities is far easier as far as the Penn Central was concerned although it controlled the destiny of the Penn Central Transportation Co.

Mr. SAUNDERS. It did in the sense that it was the parent company. Both had boards of directors and so forth.

As far as the direction is concerned, it is one and the same. It is no different from what it was before. Whatever is decided by one company would be decided by the other.

Senator HARTKE. The net result was the same except the jurisdictional question of control under ICC and for the benefit of the public was not the same.

Mr. SAUNDERS. It wasn't the same. I don't think the public was damaged.

Senator HARTKE. The difference between ICC jurisdictional authority and the SEC is that the ICC is concerned with the question of providing the transportation facility?

Mr. SAUNDERS. That is right.

Senator HARTKE. To the Nation in the public interest.

Mr. SAUNDERS. That is right.

Senator HARTKE. The SEC is to provide for regulation of the security itself for the financial people who are buying the security without regard to the operation of the corporation itself.

Mr. SAUNDERS. Well, I think that is a correct statement. Let me add this: This change in no way affected the capacity or the effectiveness of the ICC regulation of the Penn Central Transportation Co., and didn't in any way harm the transportation company or its ability to perform transportation service.

Senator HARTKE. Well, that may be a matter of opinion.

Mr. SAUNDERS. That is a fact as far as the operation of this Penn Central is concerned.

Senator HARTKE. One of the requirements that the ICC specified in agreeing to the merger is that you should simplify the organizational structure?

Mr. SAUNDERS. That is right.

Senator HARTKE. Was this a simplification to expanded and acquire additional management requirements?

Mr. SAUNDERS. It certainly didn't complicate the situation any. It would, we felt, improve our ability to do financing for the transportation company. That was one of the reasons we did it.

Senator HARTKE. What percentage of your time as a director in both these corporations and as chief corporate officer of both these corporate entities did you devote to the Penn Central Co. and what percentage of your time did you devote to the Penn Central Transportation Co.?

Mr. SAUNDERS. I can't answer that exactly, but I would say far and away, the great proportion of my time was devoted to the transportation company. I would say over 80 percent or more. Maybe even higher than that. The transportation company was the principal problem we had. I did devote some time to the other, but my principal time was devoted to the transportation company.

Senator HARTKE. What about other officers of the corporation? The Penn Central Corp. and the Penn Central Transportation Co.?

Mr. SAUNDERS. That is true of all the officers, the president, for instance, of the Penn Central Transportation Co., devoted all his time—I would say 99 percent—up until just recently.

Senator HARTKE. That was who?

Mr. SAUNDERS. Mr. Perlman and then Mr. Gorman. Mr. Gorman recently has been devoting more and more time, but still the great bulk of his time far and away devoted to the transportation company.

Senator HARTKE. Who paid for that time? Penn Central Co. or Penn Central Transportation Co.?

Mr. SAUNDERS. We have been working on this, in order that the Penn Central would not be bearing the burden of the other companies, we have been for some time allocating the cost of time of the law department, secretary's office, president's office, the chairman of the board's office, the financial department, making charges against holding companies and subsidiaries for the time of our officers—so the transportation earnings wouldn't be understated at the expense of these other companies. We did this further too—the time that our accounting department spends on these subsidiaries—I don't say we do it in every instance, but in a great majority we assess these companies, like Great Southwest, for the cost of what our accounting department does, and I wasn't satisfied that we were charging as much, and I kept on pushing this, and I would have pushed it if I had stayed in.

It is neither here nor there now, but this is a thing I have been working on for a long time, to accomplish the very thing we are talking about. Let me cite you another thing we did in order to make sure these subsidiaries didn't get a free ride or something of that sort. We made what is known as tax allocation agreements with, say Great Southwest Corp., with Arvida Corp., because those companies have minority interests. Great Southwest has a 10-percent minority interest in it. 90–10. Arvida has a 58–42 percent minority interest.

Now those minority stockholders, they were getting the benefit of Penn Central Transportation Co.'s tax losses,—we charged those companies the equivalent of what they were saving in taxes because of the Penn Central Transportation Co.'s tax shelter.

These tax allocations benefited the transportation company by about $20 million a year.

Senator HARTKE. Was this the main purpose of the holding company operation, to provide a tax shelter for these other corporations?

Mr. SAUNDERS. That had nothing to do with it. This was true even before the holding company.

Senator HARTKE. The whole Penn Central operation, was it a financial operation or mainly interested in transportation? Was it really interested in providing a financial shelter for the great losses accumulated by the Penn Central Transportation Co. to be drained off and thereby provide a tax shelter for these other corporations? Was that the principal reason for the holding company?

Mr. SAUNDERS. No, sir. It was not the cause at all. As a matter of fact, the holding company made no difference whatever. It had no bearing on it. We had—the Pennsylvania Co., which is owned by the Penn Central Transportation Co., it is a holding company in a sense. It is an investment company.

Senator HARTKE. But it didn't have the gains upon which to flow these losses; is that right?

Mr. SAUNDERS. All these earnings are consolidated. This was done before the holding company, so from a tax shelter or financing point it had no bearing. We believed that it would enable us to finance but it had nothing to do with taxes or anything of that sort.

Senator HARTKE. Did the Penn Central Holding Co.—did the Penn Central Co. itself have employees of its own?

Mr. SAUNDERS. The Penn Central——

Senator HARTKE. The Penn Central Co. Not the transportation company.

Mr. SAUNDERS. You are talking about the one since October?

Senator HARTKE. The one which was the holding company of the Penn Central transportation.

Mr. SAUNDERS. To my knowledge it has no employees of its own. It may have one or two, but I do not know of any.

Senator HARTKE. In other words, the whole operation of that was in turn borne by the transportation company?

Mr. SAUNDERS. It was borne—the officers of the transportation company also ran—the principal officers—the holding company.

Senator HARTKE. I understand that, but the whole operation here of the Penn Central Co., as far as it was concerned, its operation and its expenses were really borne by the Penn Central transportation company?

Mr. SAUNDERS. They were miniscule. Absolutely nothing. In the first place they had no staff of any consequence. The only holdings it had was the oil companies which it acquired in February of this year. It is really a shell.

Senator HARTKE. It is a shell.

Mr. SAUNDERS. It had no operations of any consequence as such.

Senator HARTKE. What did the transportation company get in return for providing these services and this shell for this financial shelter and this tax shelter that was being provided?

Mr. SAUNDERS. The tax shelter was there before. It is the same. It doesn't change the tax shelter one iota. As I explained to you earlier, we were charging the holding company, to the extent it had any assets, for the time our officers devoted to this corporation. I do not say we did everyting we should have, but that was in the mill. That was being done. It has been for some time.

Senator HARTKE. What did the transportation company receive in return for that, though?

Mr. SAUNDERS. Well, on a consolidated basis—they got the money back for the time. They received payments from the holding company into the transportation company for the time of these officers. We only started this fairly recently but it has been working for 4–5 months. This thing only developed last October and up until the acquisition of these oil companies in February the holding company had nothing. It has practically nothing today.

Senator HARTKE. I want to proceed to the sale of the stock question. The Wall Street Journal did report that many of the officers of the Penn Central sold substantial quantities of their personal holdings of common stock.

Mr. SAUNDERS. Yes, sir.

Senator HARTKE. During the years 1969 and 1970. Also reported that you were not a seller but a buyer.

Mr. SAUNDERS. That is in part true. I would be glad to explain.

Surely. Today I own about 45,000 shares of Penn Central stock which—I acquired not of this prior to the merger in—I acquired them in 1963—no, I acquired most of this stock I think in 1966 and 1967, which was prior to the merger. We have what is known as the company thrift plan which has now been discontinued, but it is open to all nonagreement employees whereby they can buy company stock, and put aside up to 5 percent of their salary and could buy company stock at the market price and the company puts up 50 cents for each dollar and puts in government savings bonds. By virtue of that I had been buying—I guess I bought a few hundred shares during the last couple of years right up until the plan was discontinued recently—up until the time I left.

Basically I bought all of my stock, which I still hold, in the 1966–67 period at a price—I bought 26,000 shares at $21.75 a share and I bought 20,700 shares at $24.50 a share.

Now, I have held, with the exception of one small sale back in 1967—relatively small sale—May 1967, almost a year before the merger, I have held all this stock except I have given a little of it away to charity, to satisfy charitable contributions I made. But I have got basically all the stock. I have not sold a share of stock within two and a half years. And I felt it was my responsibility as the chief executive officer of this company not to sell it. I did not sell it. By virtue of that, I have taken hundreds of thousands of dollars of losses.

I borrowed over $1 million to buy the stock and I still owe for it. I paid last year $99,000 in interest carrying loans. I could have sold out at one time for a profit of over $4 million on this stock but I did not do it. I have not sold a penny of it except for one minor transaction.

Senator PEARSON. Are these purchases under a stock option agreement?

Mr. SAUNDERS. Yes, sir. I held these shares. I have got them today. I still have the bank loans, or I still owe this money. I have got an actual loss of over $700,000 and I could have cashed in at one time for some $4 million.

Senator HARTKE. I think that is commendable. What about the other officers?

Mr. SAUNDERS. All I know about that is what I read in the newspapers. I do get these SEC reports and I noticed—I knew they were selling. But we did establish a policy that no officer should sell without consulting with the corporate general counsel in New York.

I am not going into the details of what they did because I do not know other than what I have seen. I have not discussed it with the officers. If they asked me for advice I would tell them to talk to the general counsel.

Senator HARTKE. The report of Mr. Bevan, vice president in charge of finance, reportedly sold 300,000 shares January 6.

Mr. SAUNDERS. That could not be true. He did not have——

Senator HARTKE. Pardon me. I meant 3,000.

Mr. SAUNDERS. All right.

Senator PEARSON. That is reportable under SEC?

Mr. SAUNDERS. Yes, sir.

Senator HARTKE. Were you aware of these activities?

Mr. SAUNDERS. Some of it I was aware of but I did not learn about any of them until after the fact. Some considerable time after the fact.

Senator HARTKE. Can you give us any reason why you held on to yours and they disposed of theirs? Were they more pessimistic than you?

Mr. SAUNDERS. I stated to you I felt it was my responsibility as chief executive officer of this company not to sell the stock. I felt I should hold it. I held it. I had faith in the company. Certainly I did. But that was not the primary reason I did it. It was because of my—maybe this is self-serving—my sense of what I regard as integrity and responsibility as chief executive officer not to sell and I would not.

Senator HARTKE. According to these reports it shows here January 6, 1969, that Mr. Bevan sold 3,000 shares and Mr. Gerstnecker——

Mr. SAUNDERS. They sold a lot more than that.

Senator HARTKE. The price was in the 60 to 70 range according to the stock chart I have here. Then during April–June quarter, 1969, Mr. Bevan and Mr. Gerstnecker were joined in their selling by another officer, Mr. Roberts, and in the July–September 1969 quarter five additional officers—namely Mr. Haslett, Mr. Knight, Mr. Patten, Mr. Smucker, and Mr. Warner—became sellers of Penn Central Shares. By September the price per share had dropped below 40. It appears that the market and many of your fellow officers were anticipating a dismal financial future for the Penn Central Co.

Mr. SAUNDERS. I do not know what they thought, but I do not think that is necessarily true, Senator. You must realize that most of these people are not rich people, I mean in the sense of great wealth, and they borrowed money and had to repay it. Banks will call their loans.

I know in Mr. Roberts' case he had to go to the hospital. He had to pay hospital bills.

There are personal things involved. You cannot just say categorically that they lost faith in the company. A lot of them did not sell all their stock. They had personal needs. Bank requirements to meet and things of that sort. I have myself. I mean these are living prob-

lems. I am no man of wealth. I have my whole fortune practically in this stock. And it is worth very little as you know now. I still owe the money. And I will pay it back if I can.

Senator HARTKE. In 1969 Penn Central Co., paid dividends of $43 million; is that right?

Mr. SAUNDERS. Yes, sir.

Senator HARTKE. That was just a year before they filed for a petition under chapter 77?

Mr. SAUNDERS. That is right. Roughly that.

Senator HARTKE. Did you at that time favor the payment of those dividends?

Mr. SAUNDERS. Yes. Let me explain to you if I may what happened in that regard.

Senator HARTKE. Yes.

Mr. SAUNDERS. There were three declarations of dividends in 1969. The first was on February 26, 1969, of 60 cents. The second was on May 13, 1969, of 60 cents. The third was on June 25, 1969, of 60 cents. A total of roughly $43 million as you say.

Now at the time these dividends were declared, our finance committee and our board of directors, they actually declared the dividends, we made very thorough studies of our earnings situation, of all of our financial aspects, and we concluded that there was a reasonable basis to believe that we would earn on a consolidated basis the dividends which were declared—as a matter of fact, in the first half of 1969, on a consolidated basis, (and that is the basis on which we pay dividends, not on railroad earnings or losses) we were $25 million in the black. The projection of earnings for the third quarter, at the time we declared the third dividend, was a profit of $15 million. Actually that didn't turn out as well as we had thought but—as late as August of last year, our financial projections were that we would show on a consolidated basis a profit of $53 million. If that had occurred we would have exceeded the dividends that were declared and paid by over $11 million.

Let me say this further: For the 5 years preceding 1969, the dividends paid by the New York Central and the Pennsylvania separately and then by the Penn Central Co. that the average payout was 57 percent—57 percent for the 5 years preceding. That is not high or any company. It is approaching the high side but not out of reason. At the time these dividends were declared in 1969, the finance committee and our board, I think, I am sure, and I did, had reason to believe that we would earn those dividends in 1969. When this matter of the recession going deeper than we thought, our business fell off more than we expected, you must appreciate what you are talking about in this company. The consolidated—on a consolidated basis——

Senator HARTKE. Let's put this straight.

The amount according to your report on a consolidated basis for the Penn Central Transportation Co., showed an identical amount for cash dividends.

Mr. SAUNDERS. That is right. No difference there. $43 million—$43.4 million, I think.

Senator HARTKE. In other words, you say on a consolidated basis but it dealt with the Transportation Co. too.

Mr. SAUNDERS. Consolidated includes everything.

Senator HARTKE. I understand that but out of the Transportation Company, so the dividend payment of $42 million——

Mr. SAUNDERS. Well, you can put it how you want to but the consolidated earnings——

Senator HARTKE. I am not putting it how I want to. I am putting it the way you put it.

Mr. SAUNDERS. On the basis of consolidated earnings, that is all of your earnings.

Senator HARTKE. I understand that. On the basis of all your earnings but I am also saying that in your Penn Central Transportation Co., with your—and on your Penn Central Co., and consolidated subsidiaries, your consolidated return, you show an identical cash payment for dividends of $43 million.

Mr. SAUNDERS. I think that is true, yes.

Senator HARTKE. So it came out of the Transportation Co., primarily.

Mr. SAUNDERS. No, it didn't—well, you can put it that way if you want to.

Senator HARTKE. Let's not put it the way I want to. It is the way you put it. All I am doing is reading out of your report. I don't want to argue with you. I want to keep the record clear.

Mr. SAUNDERS. I am trying to straighten it out. The fact is that the dividends that we paid were actually paid out of consolidated earnings. Just like in 1968, we paid out $55 million of dividends and on a consolidated basis we had earnings of $91 million which were restated because of the Southern Division case to $87.8 million or approximately $88 million. We paid $55 million out of $88 million of consolidated earnings in 1968.

Now the railroad had a loss of $5 million in 1968 on the basis of—but the dividends actually come out of the consolidated earnings,

Senator HARTKE. Yes, I understand what you are saying. But they also come out of the transportation company's income.

Mr. SAUNDERS. Well, everything comes——

Senator HARTKE. All right.

Mr. SAUNDERS. One way or the other.

Senator HARTKE. When you came back to 1969 you had a loss of $121 million for the consolidated—for the Penn Central Co.; is that right?

Mr. SAUNDERS. No.

Senator HARTKE. No?

Mr. SAUNDERS. We had a loss for the transportation company in 1969.

Senator HARTKE. Yes.

Mr. SAUNDERS. For the transportation company we had a loss of $56 million.

Senator HARTKE. For the company. Not the transportation company.

Mr. SAUNDERS. What is your figure?

Senator HARTKE. $121 million.

Mr. SAUNDERS. I don't know what that figure is.

Senator HARTKE. Shown on your—are we using the same books? It would be nice if we would. It would help a bit.

Mr. SAUNDERS. Can you show me where it is?

Senator HARTKE. The annual report.

Mr. SAUNDERS. Yes. Supplemental to the annual report? Which one? Supplement or annual report?

Senator HARTKE. Annual report 1969.

Mr. SAUNDERS. Yes. Go ahead.

Senator HARTKE. Page 16.

It shows there according to that report that you lost $121,612. Excuse me. $121,612,000. Is that right?

I am on page 16. The statement of consolidated earnings.

Mr. SAUNDERS. Yes, but what is confusing you there, Senator, is you can see right above that $121 million you have an extra writeoff of—actually actual earnings were four million three. You have to take this extraordinary loss of $126 million which was simply a bookkeeping or accounting transaction. What we did was this—this was on the advice of our certified public accountants: We recognized that we had dead assets in our passenger facilities of $126 million, money which we would never recover, so we wrote this loss off. That is the way—it was not an actual loss in the sense of other than writing it out of your assets. It was a charge against, if you want to call it that, that is where you get your $121 million.

Senator HARTKE. Let's just look at it this way and keep with your books there and you tell me how I want to do it now this time. You show about $4,388,000 of profit.

Mr. SAUNDERS. That is correct.

Senator HARTKE. And you declared a $43 million dividend.

Mr. SAUNDERS. That is correct.

Senator HARTKE. And you already knew you were short of cash?

Mr. SAUNDERS. We have been short of cash for 10 years I guess. I have never known the Pennsylvania Railroad when it didn't have—

Senator HARTKE. You declared the dividend on the fact you had another $400 million in loans and credits and agreements and commercial paper and revolving loans.

Mr. SAUNDERS. We reviewed all that and felt this was manageable.

Senator HARTKE. In 1969 you didn't think you had much trouble, right?

Mr. SAUNDERS. We didn't think we were going to have trouble such as we did or we wouldn't have done it. As soon as we got any inkling this was going to happen we stopped paying dividends. In retrospect, this is a matter of judgment, Senator. In retrospect, maybe the third dividend that we declared last year of $14 million, maybe that is debatable. We may have made an error of judgment. I am not trying to say we are perfect. It was a close decision. But certainly none of the other dividends were and they were—an exercise of what we regarded as business judgment.

Let me point this out to you too: You must realize the size and magnitude of things you are talking about here. This company on a consolidated basis has revenues roughly of $10 million a day.

Senator HARTKE. I understand.

Mr. SAUNDERS. So a difference—that is 4 days for the dividends. A difference of 1½ percent in your revenues or 1½ percent in your

costs over 6 or 8 months period is the difference. Nobody can—at least we don't have, I didn't have—the foresight and I don't think anybody does, to forecast these things on such a tight basis as that.

Senator HARTKE. Mr. Saunders, with all due respect, and I understand what you are trying to explain, but in all due respect, I mean, you people were aware—the Commission had alerted you, if nothing else, if you couldn't see it from inside your own operation, they alerted you in 1966 to this problem, didn't they?

Let me read to you from the Commissioner's report on page 61 on the question of working capital. When they talked about the merger the hearing examiners discussed your working capital and they concluded that the current position of both roads was inadequate on page 500 of the report, "It is plain that these carriers had been operating from a working capital position generally considered to be too short of normal requirements."

Why in the face of that would you declare $43 million worth of dividends in 1969? I mean your situation—even your own annual reports showed deficits and deteriorating working capital position since 1967. These short-term obligations that you had since 1966, the deficit ran an incredible rate of $27 million in 1966; $75 million in 1967; $376 million in 1968; $526 million—I don't think you can plead that lack of information or lack of warning in this regard existed.

Let me say to you this is a very serious problem as far as this member of the committee sees it as to whether or not there were really unmanageable considerations or whether this was really a management failure to provide and keep the necessary cash on hand to make sure that you had—that you kept a transportation facility going. This was not an ordinary corporation which you might have been able to look at in different terms. This was a special operation, a special privilege. As the court said you had been granted an opportunity to provide a service to the people and it appears from what was said here that you had adequate warning on the basis of your own reports plus that from the ICC to have alerted you to the fact that those dividends certainly placed the corporation into serious financial jeopardy.

Mr. SAUNDERS. What your statement completely ignores, Mr. Chairman, is that the earnings, that the dividends are not declared on the basis of railroad earnings or the railroads working capital. They are declared on the basis of consolidated earnings and on that basis they were justified.

Senator PEARSON. How long had it been since you declared a dividend?

Mr. SAUNDERS. It has been—since we—last June a year ago is the last one we declared, so it is about a year since we declared. We passed the fourth quarter of last year and first quarter of this year.

Senator PEARSON. While the Chairman is checking his notes let me ask you just a very general question. You made the point—and everybody just has to understand it and realize it—that the economic conditions of this country were part of your problem, in the slowdown in the economy intentionally done by the administration to halt inflation. You spoke of the tight money market, high interest

rates, and so forth. This was imposed upon all industry. Railroads uniformly suffered. What was it about the Penn Central that made it more vulmerable to this hardship than other railroads throughout the country?

Mr. SAUNDERS. Well, there are a number of factors, Senator. The first one, sir, is the passenger loss. No other railroad in this country—I do not know of any other industry that has as big a share of the biggest money-losing business in this country as the Penn Central does in passenger business. It is unfortunately true.

We start out, as I told you this morning, every month with a $5 to $8 million loss on passenger business for this railroad. No other railroad in this country, and I do not know of any other industry that starts out each month with that kind of loss.

In the second place, these merger startup costs that I talked to you about, it is like opening a new plant. You have a period that you have to go through to settle down and you have all sorts of unusual costs. On the Penn Central, these, in the 22-month period we are talking about here, this amounted to $193 million and most of it was cash; $193 million which were—a large part was an impact on earnings. This was after we had achieved $76 million in merger savings. These are the things that——

Senator PEARSON. You achieved that kind of saving in merger savings?

Mr. SAUNDERS. Yes, sir. But still we had startup costs, and they are still running but they are running off now.

Senator PEARSON. Where did you make that saving? Your labor cost didn't drop off.

Mr. SAUNDERS. Yes, they did. We got rid of 8,400 people in that period. The goal is to get rid of 4,500 to 6,000 this year.

Now, there is one thing about this labor cost you have to keep in mind. That is the reason, the impact of these savings——

Senator PEARSON. Where else did you make savings?

Mr. SAUNDERS. Let me say this because I think it is important, the impact of these savings do not occur in the first year for this reason: we paid out $64 million in severance pay, and they get a year's severance pay so you do not get the benefit of getting rid of that man for a year afterward. You are a year behind time.

Pardon me, what was the rest——

Senator PEARSON. I wanted to know where else you made savings in addition to cutting labor costs.

Mr. SAUNDERS. Consolidation of yards. Tremendous savings there. Operating trains over better grades like over the New York Central line in certain areas or over the old Pennsylvania line in other areas. We combined some 35 terminals. We made great savings in per diem. Our per diem costs are down—that is charges we pay other railroads for rental of their cars and vice versa. These resulted from increased efficiency in the use of cars. We achieved, will achieve now I would say $20 million a year savings in that regard.

Senator PEARSON. Suppose the Pennsylvania and the New York Central had not merged? Where would those companies be today?

Mr. SAUNDERS. I cannot answer that, but I think they would be———

Senator PEARSON. Would you have two cases in the bankruptcy court rather than one?

Mr. SAUNDERS. I cannot say definitely that, but I think they would have been there sooner probably. I am not sure of that. I cannot make a categorical statement. I think that is speculation I cannot make. I would not want to be——

Senator PEARSON. But the problems were very similar between the two?

Mr. SAUNDERS. The basic concept of the merger was sound. I think it is still sound. I think the things that you have mentioned, the turndown in the economy, inflation, tight money and so forth, plus the other factors that we had to deal with, namely, merger start-up costs, passenger deficit, and other costs due to just getting the plant in operation, things of that sort. And you also have personnel problems in putting two organizations of this sort together. You cannot pretend that you can take two companies that have been competitors for a hundred years roughly and that it will all be milk and honey the next day. We had problems. Of course we did. It takes time to work these out. All of them have not been worked out yet by any means.

Basically the concept of this merger was sound and it would have worked I think except for the recession that came on and this tight-money market. It was only marginal that we did not get the money anyway. I think the Government made a terrible mistake in not advancing the money because this railroad could have been saved.

Senator PEARSON. Let me move on to another sort of general concept.

Mr. SAUNDERS. Yes, sir.

Senator PEARSON. I cannot figure out whether or not there is over-regulation or under-regulation. I know what your reaction will be. But apparently the ICC does both. They overregulate in some areas and under-regulate in others. But there has been a great deal of talk here about mismanagement. I am not interested in that except as it bears on the role the Government has to play in regulating a railroad or utility. Would you comment on this regulation problem or any aspect of it? Either we do too little or we do too much or that which we do we take too long. I do not know how we can solve this.

Mr. SAUNDERS. I think it is a combination of all the circumstances you have talked about. I think that the problems of this industry have been underestimated for years by governmental agencies. I am not speaking critically, but it is a fact.

I think the great delay in getting help on this passenger situation, the great delay in permitting us to make freight rates on a more realistic basis. The regulatory procedures we have now are far too time-consuming. Some way has to be found to permit us to make adjustments quickly.

For example, it has been suggested that the railroads be given a right to make a 6 percent automatic increase a year. As long as inflation goes on they certainly ought to have that right. The Commission can always review it and set it aside.

But the problem is we cannot get anything done. These time lags of running into hundreds of millions of dollars between the time

that our costs increase and the time we get anything approaching a compensating adjustment.

Senator PEARSON. That may be true, but I have the view, and correct me or comment if you wish, that in addition to the redtape, the bureaucracies of the Government, and the interrelationship of railroads and how they jointly and voluntarily set about to solve their problems, all of these factors place an awful burden for the individual railroad. I come from the Middle West and we think of railroads in terms of the boxcar shortage problem. But that is just a dramatic example of how it—the railroads, all together, acting voluntarily, have done a rather miserable job to solve their own problems.

Mr. SAUNDERS. I agree. I think that is true. I think the railroads—I do not want to overstate it, but the railroads have, I think you can go too far, but I think the railroads and railroad management——

Senator PEARSON. We're not talking about individual management now. But when you all get together you cannot get anything done.

Mr. SAUNDERS. We could never get a concerted viewpoint on the passenger situation until a year ago. The railroads in various sections of the country have such different interests economically, competitively, and you just cannot get agreement on so many basic principles.

Fortunately I think within the last year there has been a definite change in that regard. I think the report that has been presented to you informally, the ASTRO report of Senator Smathers, represents a very constructive step. As I said in my statement, I think it contains a lot of recommendations that this committee should give very serious attention to at an early date because things of this sort that are discussed in there are not taken—it goes far beyond any Government guaranteed loan—this industry is going to die. That is all there is to it.

Senator HARTKE. Back on this question of the dividends.

The question of the dividends of $43 million paid out in 1969 is reflected in the consolidated return and in the Transportation return as identical, right?

Mr. SAUNDERS. That is my understanding, yes, sir.

Senator HARTKE. You previously stated as far as all intents and purposes are concerned the so-called Penn Central Co. is a shell operation which consolidates these others but has complete control and for all intents and purposes is the same as the Penn Central Transportation Co.

Mr. SAUNDERS. Well, that is practically true. That is true since October 1 of last year.

Senator HARTKE. What I am coming back to is—then whenever I raise the question about why with all these difficulties your answer basically is that the dividend was paid out on the basis of the consolidated return—on the consolidated Penn Central Co., earnings.

Mr. SAUNDERS. That is right.

Senator HARTKE. Now the fact remains that this shortage of cash——that is a problem which precipitated the chapter 77 proceedings; is that true?

Mr. SAUNDERS. Shortage of cash, yes. Liquidity problem.

Senator HARTKE. That was a precipitating cause.

Now the point remained that that shortage of cash didn't exist alone in the transporation company but existed in the parent company, in the holding company too, did it not?

Mr. SAUNDERS. Maybe to some degree but——

Senator HARTKE. Not just to some degree. To a major degree.

Mr. SAUNDERS. We don't——

Senator HARTKE. Just a moment. Let's get either agreement or disagreement on that. That is all I want to do.

MR. SAUNDERS. Sometimes it did. Sometimes it didn't. For instance, Buckeye pipeline——

Senator HARTKE. On the basis of the totality of the approach toward the consolidated return they had the same basic problems on cash.

Mr. SAUNDERS. At that time Great Southwest had no problem. Arvida has no problem today.

Senator HARTKE. I understand some of them didn't.

Mr. SAUNDERS. Major companies. Pennsylvania Co. which is the largest company of all had no problem at that time when these dividends were declared.

Senator HARTKE. Well, in 1969 you had earnings from ordinary operations of $4 million, isn't that true, in the consolidated return?

Mr. SAUNDERS. That is on the railroad. No.

Senator HARTKE. I am reading from your statement.

Mr. SAUNDERS. Oh, yes, that is true. That is correct, yes, sir.

Senator HARTKE. I thought so.

Mr. SAUNDERS. That is right.

Senator HARTKE. The rest of this occurs by virtue of the peculiar laws which we have, whether right or wrong, on amortization, depreciation and depletion.

Mr. SAUNDERS. We haven't got depletion.

Senator HARTKE. You listed it there.

Mr. SAUNDERS. There may be a little in Buckeye. I don't know.

Senator HARTKE. I didn't list it. It wasn't I who put it in. I just want you to know. It is in your return. All I am coming back to is the very simple fact that 1969, in spite of that, when you needed working capital, when you reduced your working capital to $27 million, you paid out $43.4 million in cash dividends.

Mr. SAUNDERS. That is as of the end of the year. The working capital situation.

Senator HARTKE. But this is the whole problem. To come in here and plead that you didn't know or didn't anticipate, that it was not foreseeable, to me is just really unbelievable. That is the point.

All right. I am not going to ask you——

Mr. SAUNDERS. I stated my position with regards to that.

Senator HARTKE. Did you do anything really to improve your working capital situation for the transporation company other than to take what you could from the consolidated operations?

Mr. SAUNDERS. Well, we—I don't know what you mean.

Senator HARTKE. Did you make a massive effort to dispose of the loss companies which you had or to bring in cash by disposal of

some of these overriding corporations which could have provided you with the cash? You just made a statement that if you got the loan for $200 million—is that the one you refer to?

Mr. SAUNDERS. Yes.

Senator HARTKE. If you got that this wouldn't have happened. I am looking at it not in relation to the financial operation of the Penn Central Co. but the responsibility I think which is this committee's and the Congress' that we are interested in it as a transportation company in which you receive special privilege to operate a transportation facility in the United States. The biggest one in the whole United States.

Mr. SAUNDERS. We received a special privilege to operate a passenger business too which cost us $70 to $80 million a year loss.

Senator HARTKE. I am not arguing but you received that privilege and that was one of the conditions of merger. If you didn't want to accept it you could walk out.

Mr. SAUNDERS. No, you can't walk out. You have to continue to perform the public service——

Senator HARTKE. But the New Haven inclusion that was a condition of the merger and if you didn't want to accept that condition—at no time did you object to that being included. The only objection to the inclusion on the Penn Central situation that I can find in the record, and you can correct me if I am wrong, through all the hearings, and I think I read all the court decdsions on it, read all the briefs, but the only reference I find is to the financial people, the stockholders—the bondholders basically and those people who were claiming the credits. They were the only people who objected basically to any part of the inclusion of the New Haven.

Mr. SAUNDERS. I don't know what the basis of their objections would be. It was, as far as the Penn Central was concerned, the merger was concerned, either you took the New Haven or had no merger.

Senator HARTKE. That is right. That was a condition upon which you accepted it.

Mr. SAUNDERS. That is right.

Senator HARTKE. You know you had those problems, those things you talked about. You knew the New Haven was in trouble financially. You knew it had a deficit in its operation for passenger service. This wasn't something new. You knew you had a shortage of cash. You knew this all in——

Mr. SAUNDERS. We always had a shortage of cash.

Senator HARTKE. Yet you declared a $43 million dividend.

Mr. SAUNDERS. The $43 million was based upon consolidated earnings and what we regarded as judgment at this time. We may have been mistaken about the third quarter as I said to you earlier. I think that is a matter—nobody can make perfect decisions—every decision perfectly. It wouldn't have changed this picture one iota. We would have been right in——

Senator HARTKE. $43 million in cash.

Mr. SAUNDERS. It wouldn't have changed it. Our needs were far greater than that. It wouldn't have changed it at all. That wouldn't have changed the situation. It wouldn't have saved it. No, sir.

Senator HARTKE. How much would it take to save it?

Mr. SAUNDERS. We talked about $200 million.

Senator HARTKE. How long would that have saved it for?

Mr. SAUNDERS. I think, with increase in freight rates, if your passenger legislation had been passed and so forth, the other things had been made, I think it could have been worked out. If it didn't, we wouldn't have asked for it. What would we gain by asking for $200 million and just quit.

Senator HARTKE. I thought we agreed before lunch that even if this legislation of the guaranty loans were provided, that to provide this for the Penn Central Transportation Co. at this time would not provide any——

Mr. SAUNDERS. That is not what we are talking about. We are talking now about a loan before the reorganization. You are talking about it now that we are in reorganization. They are wholly different things.

Senator HARTKE. It may be better for the operation of the transportation company.

Mr. SAUNDERS. Well——

Senator HARTKE. It might be difficult for the banks.

Mr. SAUNDERS. That is true. It may be that—I say this: I think the railroad could have been turned around but I think also that—you just can't talk about breaking even. If this company is ever going to do anything it has to make about a 6 percent return.

Senator HARTKE. Let's come back to this. You say on page 13 you have a 2.4 percent return.

Mr. SAUNDERS. For the industry as a whole. For the Penn Central it wasn't anything.

Senator HARTKE. How accurate is this figure?

Mr. SAUNDERS. 2.4 for the railroad industry is accurate.

Senator HARTKE. When is the last time you had a realistic assessment of the assets of the Penn Central Transportation Co.

Mr. SAUNDERS. I don't know what you mean by realistic assessment.

Senator HARTKE. Market value. In other words——

Mr. SAUNDERS. I don't know how you appraise a railroad. Of course you had years of valuation proceedings before the Interstate Commerce Commission and no one ever agreed on anything. On our subsidiaries it is based on book value.

Senator HARTKE. 1840 book value? 1840?

Mr. SAUNDERS. Not 1840. I am talking about—I am not talking about the railroad. I am talking about our investments in the Pennsylvania company. They are based on book value. The book value as of the end of 1969 in the Pennsylvania company alone was $1,400 million. The market value, it has gone down but it is still considerably above those figures.

Senator PEARSON. Did anyone make a record on the new trust certificate default? Have you discussed that?

Senator HARTKE. No.

Senator PEARSON. Let me ask you about that. It is indicated that a default on the New Haven trust certificates would make it very difficult for Penn Central to issue similar certificates.

Mr. SAUNDERS. That occurred on July 1. I went out of office on June 8. I don't know about it. I read the newspapers but I am not in a position to discuss that.

Senator PEARSON. I was referring to the New Haven Railroad announcement that it would have to default on $12.5 million of trustee certificates that are outstanding. Some financial observers believed that the default on such certificates by the New Haven would make bankers less willing to invest in similar instruments for the Pennsylvania Central. I don't push you for a further response but that was the background.

Mr. SAUNDERS. I read that myself but I don't know the details of it since I left the office as chairman.

Senator HARTKE. Are you familiar, Mr. Saunders, with an organization called Equity Research Associates?

Mr. SAUNDERS. I know something about it generally. I know it is an analyst firm.

Senator HARTKE. I am reading from a January 2, 1969, report, page 10. It talks about the Penn Central. It said it wouldn't spend a dollar unless it is pretty sure of getting back at least $1.35, preferably by nightfall. Actually, eventually returning only 35 percent is frowned upon. "A plus" capital projects are those which will return at least 100 percent in a year. "A" projects will return at least 50 percent. "B" projects returning 35 to 50. No "C" projects in the current scheme of things. Is that a fair assessment?

Mr. SAUNDERS. No, I don't think that is quite fair. These people—it is funny how outsiders know so much more about your business than you do. I don't think that is an accurate statement. We did try to—we had a shortage of cash. We had to cut our capital expenditures. We naturally picked out the projects which had the highest projected rate of returns and concentrated on those. We couldn't even spend all the money we needed to on those.

Senator HARTKE. Do you expect to get that type of return? In other words 100 percent return in a year? Not do anything less than 35 percent return in a year? When you talked about 2.4 percent as an overall average I wondered.

Mr. SAUNDERS. I have been in this business 30 years, and I have had the operating departments submit authorizations to me, AFE, as we call them in the Penn Central, that show 100 percent return; 40 percent return; 50 percent return. If we got the returns that those authorizations showed, the banks wouldn't hold the money. My experience has been that it doesn't happen. I don't believe it when I see them. I don't believe all that stuff you are reading there. It is just not true.

The money, you couldn't put the money in the bank if we got those returns—the banks wouldn't hold it.

Senator HARTKE. In regard to the merger efficiencies, how much do you say you saved in that.

Mr. SAUNDERS. I said about 70-odd million. I have forgotten the exact figure; $73 million I think. In the 22-month period, $73 million.

Senator HARTKE. When the examiners recommended certain things that had to be done in order to accommodate some of these necessary

savings, some of the things they said, for example, that you should make 44 connections—I don't know if you know about this or not, but they said you should make 44 connections primarily between yards to achieve economies, upgrade the track of seven lines, install traffic control on six lines, construct or modify nine maintenance facilities, construct modern yards, et cetera. Do you know if any of those projects were undertaken? How many?

Mr. SAUNDERS. I can't give the detail of every one, but practically all of them have been completed.

Senator HARTKE. All of the work completed?

Mr. SAUNDERS. I would say the great bulk of the merger implementing projects have been completed. We spend $121 million on these projects in a 22-month period.

Senator HARTKE. Is the Selkirk Yard completed?

Mr. SAUNDERS. We have spent roughly $37 million on Selkirk. There is some more work that ought to be done there, but we held it up because we didn't have the money. I would say maybe $5 or $6 million more ought to be spent.

Senator HARTKE. Could you have deferred some of the activities in order to—some of the other activities that you were involved in in the nonrailroad businesses, could you have deferred those and made sure that you could have accomplished more in some of these consolidation efforts in the transportation field?

Mr. SAUNDERS. I don't know of any; no, sir. I don't say there are none, but I don't know of any. I am sure there are no major ones.

Senator HARTKE. I don't want to touch a sore nerve, but during the early part of 1969 it appears there was reference made to replacing Mr. Perlman at that time. Were you aware of those claims?

Mr. SAUNDERS. Mr. Perlman, when the merger occurred, was over 65 years of age. He had to recognize that he had a contract to stay on for 3 years, and we wanted him to stay on for a good period of time because he knew much more about the New York Central than any of the Pennsylvania people; my point is that Mr. Perlman is not a New York Central man originally. He came from the Denver Rio Grande. I am not a Pennsylvania man originally. I came from Norfolk & Western Railroad. This has a lot to do with a lot of this talk about fighting between us. Mr. Perlman and I agreed at the outset of the merger that we would put the best man in every job that we thought was best qualified for it regardless of whether he was a Penn Central or New York Central man.

We followed that policy. I don't know of any exception to it.

Senator HARTKE. Let me just ask you: Was the decision made there in regard to hiring Mr. Gorman——

Mr. SAUNDERS. Well, now you asked me in the early part of 1969—before that Mr. Pearlman and I had talked about his successor on a number of occasions, because he had to retire at the latest, the first of December of this year. We discussed various people in the railroad industry and also within our organization. And we also contacted one or two people outside of our railroad with reference to someone coming in to succeed him. Then nothing developed out of that and then I did initiate, with the knowledge of a number of our directors, plans to try to find a successor for Mr. Perlman, recogniz-

ing that the time for his retirement was growing closer all the time and I didn't want to go down to the deadline without somebody to replace him.

Last February, for instance, January of 1969, I had very extensive negotiations with one of the leading railroad presidents in this country with reference to coming to the Penn Central to take over the duties of the president's job. After considerable consideration he decided not to do it.

Then I talked to other people. I talked to any number of people about recommendations for possible successors to Mr. Perlman. Finally, after making a wide search, I concluded that Mr. Gorman was the best man to succeed Mr. Perlman and at the time Mr. Gorman came with us, just a year until Mr. Perlman's retirement.

Mr. Gorman had an outstanding record in industry. I felt he could bring a viewpoint to us in techniques of industrial management that I thought were needed in the railroad industry, and for that reason I recommended his employment. The board accepted it. I had great confidence in Mr. Gorman. That was the reason for it.

Senator HARTKE. He has not had a railroad background?

Mr. SAUNDERS. No sir; I think that may be beneficial to him. We need fresh viewpoints in this industry.

Senator HARTKE. Why was the decision to hire Mr. Gorman not publicly revealed until several weeks after it had been really done?

Mr. SAUNDERS. I think Mr. Gorman ought to explain that. I will say this: I think it was primarily personal, that he wanted to tell his own organization that he was leaving. He didn't want them to read it in the newspaper.

Senator HARTKE. When Mr. Perlman was president, who made the decisions in the Penn Central really?

Mr. SAUNDERS. When Mr. Perlman was president he was in charge of railroad operations and he had all the authority he needed. He may not agree completely with this, but he was given responsibility—I certainly conferred.

I gave him all the responsibility he needed to run the railroad. Mr. Perlman may have some exceptions to what I have said but the basic fact is—and I think this business of trying to draw disagreements and over emphasis—this thing of disagreement between me and Mr. Perlman is a bunch of tommyrot.

Of course, we had disagreements and things of that sort, but basically that is not the reason for this failure. Mr. Perlman went out 7 months ago. Mr. Gorman has been in since.

Senator HARTKE. What about Mr. Bevan? He was chief financial officer and chairman of the finance committee; isn't that correct?

Mr. SAUNDERS. Yes.

Senator HARTKE. Did he report to you or Mr. Perlman?

Mr. SAUNDERS. He reported to me.

Senator HARTKE. What was his area of responsibility?

Mr. SAUNDERS. He was in charge of the financing and all the financial problems of the railroad, and he also had a great deal of work to do with the subsidiaries.

Senator HARTKE. What I am trying to find out, he was a member of the board, was he not? Not technically, right?

Mr. SAUNDERS. He was off and on. He was a member at one time. He was a member of the Pennsylvania Railroad Board. When the merger took place he didn't become a member of the board, but later on he did become one.

Senator HARTKE. Was he primarily responsible for making the major financial decisions as far as the Penn Central Transportation Co. was concerned and the Penn Central Co., both?

Mr. SAUNDERS. That was his basic responsibility. Of course, he reported to me and he also reported to the board. I want to make this clear. Mr. Perlman was a member of the board at all times. Mr. Bevin was for a good part of the time. He always attended all the board meetings. They made their own reports to the board—Mr. Perlman made them on railroad operations. He was free to say anything he wanted to say. Mr. Bevan made his reports on financial operations. He was free to say anything he wanted to say.

The finance committee, both of them were members of the finance committee. They were members of all—when Mr. Bevan was a member of the board they were members of all of the important committees of the board. I had no authority to hire and fire—I mean to fire—and hire too as far as that goes—that rested with the board so far as top officers were concerned. I had no right to discharge Mr. Bevan or Mr. Perlman.

Senator HARTKE. We are not talking about hiring and firing. I am going back now to the financial operations. With regard to Mr. Bevan, he had a dual capacity. One with Penn Central Corp. One with Penn Central Transportation Corp. Penn Central Corp. basically is a financial structure; right?

Mr. SAUNDERS. Well, since October.

Senator HARTKE. Yes.

Mr. SAUNDERS. But you are correct basically in what you say, that is right.

Senator HARTKE. And Penn Central Transportation Co. basically is committed to providing in the public interest transportation?

Mr. SAUNDERS. Yes.

Senator HARTKE. Who made the decisions as to which was paramount? That is, the public interest for the transportation company or the preservation of the financial structure of the Penn Central Corp.?

Mr. SAUNDERS. It was a dual decision. Mr. Bevan, of course, had the financial responsibility—basically—I mean initially. Mr. Perlman had the railroad responsibility. This was all—it finally had to be approved by the board.

Senator HARTKE. What if Mr. Perlman would come in and say he needed $20 million for some type of operations project, maybe to improve a yard or something that kind and that the savings would amount to 40 percent of the investment?

Mr. SAUNDERS. That is right.

Senator HARTKE. Who would make the decision in such a case?

Mr. SAUNDERS. He would make recommendations to me. I would pass them along to the board. We would discuss with Mr. Bevan how it would be financed and the board would decide whether or not they should be authorized.

Senator HARTKE. Wasn't there at the same time though as far as Mr. Bevan was concerned that problem of whether or not that money could better be used for financial investment in some type of operation to acquire some other company?

Mr. SAUNDERS. No, sir; the decisions that Mr. Bevan had to make with regard to investment in other companies didn't involved transportation company money at all. It involved moneys of—I mean with minor exceptions. It involved moneys of the Pennsylvania company. It involved moneys of Manor Realty Co. It involved moneys of American Contract.

Senator HARTKE. Yes, I understand what you are saying, but I don't think really that can carry much water because you constantly draw this distinction between the consolidated operation of the Penn Central Co. and the transportation company and at the same time recognizing that it really is a shell operation. All I am still driving at is that we have here a transportation company which is under reorganization and the rest of the Penn Central Co. is not.

Mr. SAUNDERS. That is right.

Senator HARTKE. You see, what I am really trying to find out is who made that basic decision? If there was a conflict as to how that money was to be used——

Mr. SAUNDERS. There was no conflict—no transportation money of substance was used for any purpose except for transportation purposes. There was no question about how that would be used. There was no money to take out of the transportation company to use for other purposes, with minor exceptions.

The money came out of the Pennsylvania company, basically out of earnings that they had generated, investments that had been made, 50, 70, 10 years ago, and so on.

Senator HARTKE. Have any acquisitions been made since the merger?

Mr. SAUNDERS. Only one—two I mean—outright acquisitions. Great Southwestern Oil and the Royal Petroleum, they were made, not with any cash. They were made by the Penn Central Co., the holding company, in February of this year, issuing 700,000—400,000 shares of preferred stock which is convertible into two shares of Penn Central Co. stock or one share after 5 years in N. & W. stock. No cash whatever. Those two were the only acquisitions since the merger. I want to correct—there is one further transaction. I don't know when this occurred. Mr. O'Herron can straighten it out for you. In connection with the development of air rights over Penn Central Station in New York. Madison Square Garden. There were $6 million of funds involved in there that might be said to have come out of the railroad, but basically it is in conjunction with development of the air rights over—and in conjunction with the construction of—a part of construction of the Pennsylvania Station. It has been a handsome thing. It is really a part of railroad operations to develop the air rights over your station. So I don't think you can consider that as a diversification.

Senator HARTKE. But the fact remains that basically as far as the Penn Central Co., which was organized as the holding company in October of 1969, basically all of the assets of that holding company

were acquired by virtue of the fact that the Penn Central Transportation Co. prior to that time provided for the necessary base to make those acquisitions, isn't that true?

Mr. SAUNDERS. No, that is not true. It depends on how you put it. The acquisitions that you are talking about, these nondiversified acquisitions, weren't made by the railroad company as such.

Senator HARTKE. I understand.

Mr. SAUNDERS. Or basically with railroad money in any recent years.

Senator HARTKE. They were made with the assets of the transportation company.

Mr. SAUNDERS. No, sir; they were assets of Penn company. For instance, as I outlined in my statement, Pennsylvania company was organized in 1870 and has been an investment company for many decades. At the time it was organized it gave $8 million worth of stock to the Pennsylvania Railroad.

Senator HARTKE. I understand.

Mr. SAUNDERS. The Penn Central still is the only equity owner of that company.

Senator HARTKE. I understand that.

Mr. SAUNDERS. It is these earnings basically in companies of that sort. Manor, which is 100 years old. American Contract.

Senator HARTKE. Southwest Corp.?

Mr. SAUNDERS. To acquire these other companies. Basically that is true.

Senator HARTKE. Now in regard to the freight rates, you mentioned to Senator Pearson a few moments ago how difficult it was, and I have not certainly spared the ICC as far as their activities are concerned in our hearings here, but the point still remains you had in less than a 9-month period of time a 11-percent increase in freight rates.

Mr. SAUNDERS. Well, I don't want to argue the figures too closely, but I would say after you take into account holddowns and——

Senator HARTKE. What?

Mr. SAUNDERS. The increases not put into effect and also you have to take this into account too, that you will have—you have 11-percent increase. You will have a 10-percent erosion in your business. You lose that much business because of these increases, something like that. You don't get 11 percent. You get something less than 11 percent. But the freight-rate increases you are talking about, as I pointed out to you this morning, even with the freight-rate increase which was allowed on June 9, we are still no higher in our level of charges than we were in 1958, although our wage costs have gone up over 65 percent in that time.

Also, what you talk about fails to take into account these time lags. Our wages going up and 10½ months later we get an inadequate adjustment in freight rates. This costs us a tremendous amount of money.

Senator PEARSON. Some of these freight rates were so-called holdouts?

Mr. SAUNDERS. Holddowns.

Senator PEARSON. You didn't implement them. You didn't put them into effect?

Mr. SAUNDERS. This is what railroads will do: Instead of making it a 5-percent increase they might make it 4 or something like that. Or they might—they can't stand the competition. They lose too much business by taking the full increase. That is what it amounts to.

Senator PEARSON. But you get the authorization and then implement them in consideration of what it will do to your business.

Mr. SAUNDERS. That is right.

Senator PEARSON. Isn't the authorization based upon the actual need?

Mr. SAUNDERS. Yes, I would say it is but some carriers may feel for competitive reasons after they have been authorized they can't afford to take them.

Senator PEARSON. What was the holddown in relation to the 11 percent the chairman mentioned? Can you give me a general answer?

Mr. SAUNDERS. Holddowns are what the Commission imposes.

Senator PEARSON. They say implement it in these stages.

Mr. SAUNDERS. We ask for, say, a 10-percent increase on coal rates. That might mean as much as 20 cents a ton. The Commission says you can't increase it more than 15 cents. That is a holddown. A flagout is after the authorizations have been granted, a carrier will say we are not going to go along with that increase in our territory or we won't go along with but so much. That is a flagout.

Senator PEARSON. The reason I press the point is that it has been made rather vigorously that the failure to have the necessary freight rates if one of the principal causes of the financial difficulty.

Mr. SAUNDERS. That is true. What I cited is true of railroads generally. Penn Central, we had practically no flagouts. We just take them all. I don't say we haven't had any but nothing of any consequence.

Senator PEARSON. But that has been the history in the last 2 or 3 years. You had the authorization, you implemented it.

Mr. SAUNDERS. That is right. We wanted more. That is what we have been trying to get the industry to go along with it. We thought we should have asked for more.

Senator PEARSON. But you can't get the industry to go along with you on these joint applications.

Mr. SAUNDERS. That is right. We have not been able to get them to go along with as much as we thought we ought to get or as soon.

Senator HARTKE. Yet since 1967 you had a 20-percent increase in rates.

Mr. SAUNDERS. Whatever it is.

Senator HARTKE. As far as you are concerned most of that has been put into effect.

Mr. SAUNDERS. Yes.

Senator HARTKE. And as far as you are concerned you say some of it has been lost, you lost revenue because of the fact that you lost some business as a result of that.

Mr. SAUNDERS. That is right.

Senator HARTKE. Isn't that true?

Mr. SAUNDERS. That is true.

Senator HARTKE. The shippers are complaining that you are raising them too high.

Mr. SAUNDERS. Well, it is like taxes. Whoever says you ought to——

Senator HARTKE. They are a problem, too.

Mr. SAUNDERS. I talked to shippers. I made a speech in Pittsburgh over a year ago and I said to them, I told them that every rate increase we have you are down there in Washington opposing it. We had some 600 of you different organizations counsel there opposing it. I said you ought to be supporting it. I told them——

Senator HARTKE. You might as well be. You get all you ask for anyway.

Mr. SAUNDERS. We haven't, but we didn't get all we thought we ought to ask for.

Senator HARTKE. Haven't you got all you asked for right now?

Mr. SAUNDERS. We asked for 6 percent in the last rate increase and got less than 5. That is on a tentative basis.

Senator HARTKE. You lost 1 percent. I am sorry.

Mr. SAUNDERS. It is more than that. Considerably less than 5; 4½ or less. I told the shippers, I said to them you ought to be supporting this increase. I told the Department of Transportation the same thing. Instead of going over there and filing a weak statement like they did in the last one, they should be supporting these freight rate increases. In one breath the shippers say we ought to give better service and car supply and in the next breath they turn around and say you can't increase their charges, but everyone increases their charges to us. They don't take that into account.

Senator PEARSON. Just like constituents.

Mr. SAUNDERS. That is right.

Senator HARTKE. On the passenger services, if I am correct, in your quarterly report for the first quarter of this year, you sustained losses other than passenger losses?

Mr. SAUNDERS. Oh, yes.

Senator HARTKE. The fact of the matter is that you lost around, according to your report, $62 million in the first quarter.

Mr. SAUNDERS. Yes.

Senator HARTKE. About $20 million was passenger losses.

Mr. SAUNDERS. $35 million.

Senator HARTKE. That is on the fully allocated basis.

Mr. SAUNDERS. That is right. I could name other increased costs if you would like.

Senator HARTKE. I think that would be helpful.

Mr. SAUNDERS. We had a $9 million increase in our fixed charges, that increased interest and so forth, increased borrowing. During the latter part of January and early February we had the worst storm of this century. Particularly in the northeastern section of this country. It was worse than any strike we had. For 3 weeks or over 3 weeks the Penn Central was paralyzed over a great portion of its railroad. We couldn't get a car through Selkirk yard for days. As I say, it was worse than a strike. You have to expect bad weather every year but the unprecedented bad weather we had in the first quarter of this year cost Penn Central at least $20 million.

When you take into account your increased wage costs, your passenger loss, increased charges, it largely offsets the $62 million you talk about.

Senator HARTKE. It looks like I came to the end of the day for you.

Well let me say to you, Mr. Saunders, they always told me to take a Philadelphia lawyer—I am not from Philadelphia and you are, right outside—

Mr. SAUNDERS. I am not a real Philadelphia lawyer.

Senator HARTKE. Thank you. That is all.

Let me say before we conclude the hearings today, that I had a verbal request from the representative of Mr. Gorman not to hold the hearings tomorrow afternoon in view of the fact that, as I understand, he has been requested to appear with the new trustees. Those hearings will continue to remain scheduled subject to cancellation if we receive official request for them to be placed over. I don't see any point in moving with just a financial officer without the president who is responsible for the decisions or conducting those hearings separately. Unless we can have both we will not have either. But the hearings will continue to remain scheduled subject to cancellation by the Chair upon an official request for continuance.

The hearing is recessed.

(Whereupon, at 3:37 p.m. the committee was adjourned.)