

They've Been Fighting for a Railroad

By ROBERT E. BEDINGFIELD

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PORTLAND, Me.—The Spence and Bucky Show—the long conflict over whether, when and how the railroads of northern New England should be merged and rationalized—has just come out of one crisis and is heading for another, the way a good soap opera should.

This show is a favorite of Boston's State Street and Portland's Congress Square. Now other financial centers of the nation are becoming interested, too. Here's how it goes:

The Protagonists

Spence is E. Spencer Miller, 69 years old, chairman, president and chief executive officer of the Maine Central Railroad. He has been running this company for 25 years, and he wants to keep on doing just that. A graduate of Dartmouth and the Harvard law school, he joined the Maine Central in 1940, became its general counsel in 1946 and president in 1952. Courtly and silver-haired, Mr. Miller dresses in pla stripes, a gold watch chain with Phi Beta Kappa key strung across his vest. In the Maine Central's Portland headquarters, a three-story brick and stone building that was constructed in the 1890's, his office has a fireplace that burns coal; the most prominent piece of furniture is a roll-top desk.

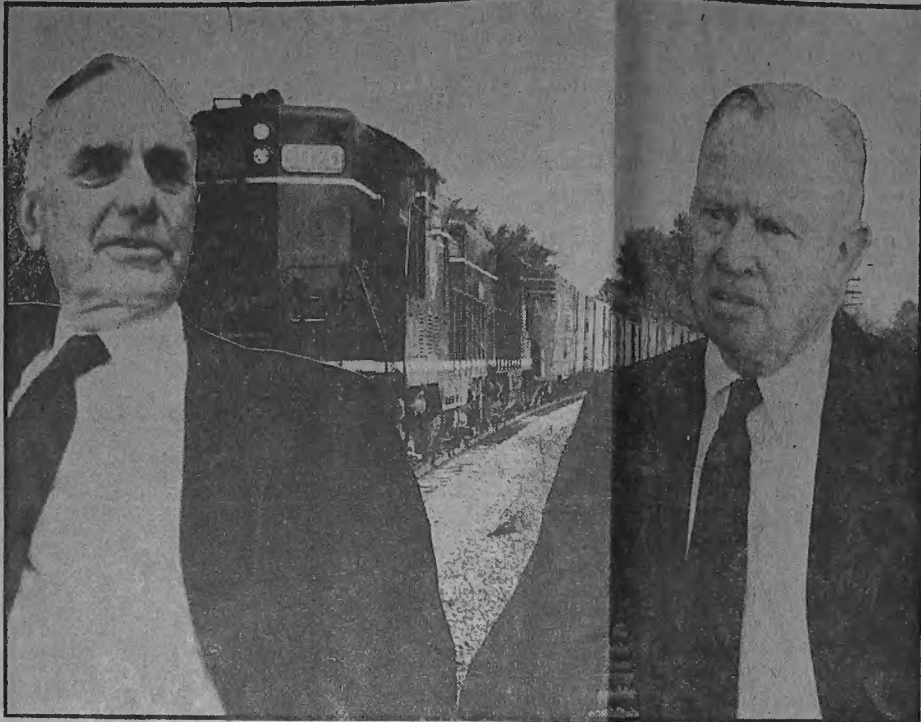
Bucky is Frederic C. Dumaine, 75, chairman of the Bangor & Aroostook Railroad's executive committee and its chief executive officer. He wants to combine the B. & A. and the Maine Central under the Amoskeag Company, the holding corporation that his family controls. (Amoskeag already owns 35 percent of all Maine Central stock but is prevented—by the Interstate Commerce Commission—from voting it.) Mr. Dumaine acquired the nickname Bucky as an aggressive athlete at prep school; he never attended college. He began his railroad career near the top as a director of the Boston & Maine Railroad in 1935, succeeded his father as president of the New Haven Railroad in 1951 and lost control in a bitter proxy battle three years later. Mr. Dumaine joined the board of the Delaware & Hudson Railroad in 1963 and became its president in 1968 but resigned in protest when the D.&H. became part of Dereco Inc., a holding company. In 1969 he became top man at the Bangor & Aroostook. He is noted for his temper—quick to flare, just as quick to subside.

Supporting roles in the Spence and Bucky Show are filled by officials at the Interstate Commerce Commission, the Government agency responsible for regulating the nation's railroads, and by judges in the Federal court system.

The Setting

America has many ailing railroads, and New England's freight-hauling lines are among them. Transporting Maine potatoes use to be lucrative, but highway truckers have taken over. As for manufactured products in New England, 81.9 percent more of this tonnage is moved by nonrail carriers than in 1967 (according to the latest transportation census, taken in 1972). Railroads are supposed to have a transportation advantage, but this begins to fall only after 400 miles or so—and New England runs are 200 miles or less.

The Maine Central, one of the two railroads featured in the Spence and Bucky Show, operates 908 miles of track in Maine, New Hampshire and Vermont. It is an originating and terminating carrier—taking on shipments at their source and unloading them at their destination. It also handles much overhead traffic, relayed from and to other railroads. Lumber,



E. Spencer Miller (left) of the Maine Central; Frederic C. Dumaine of the Bangor and Aroostook.

wood products, pulp and paper account for more than 60 percent of the Maine Central's tonnage.

The Bangor & Aroostook, the other railroad in this drama, operates 541 miles of track in northeastern Maine, reaching to the Canadian border. It is 99 percent owned by the Amoskeag Company. The B.&A. is principally an originating carrier and the wood-and-paper category makes up more than 70 percent of its tonnage.

The Action

As the last episode began, the Maine Central was in the midst of a cliff-hanger, facing the possibility of bankruptcy. The railroad had \$12 million of first mortgage bonds coming due, and several of Wall Street's shrewdest analysts of railway securities shook their heads—they could see no way "Spence" Miller could re-fund them.

But re-fund them he did. Early last month, through a private sale, the railroad placed \$10 million of new bonds, notes and equipment trust certificates. This, together with \$2 million from the railroad's limited cash reserves, meant a rescue.

And, adding to Mr. Miller's triumph, the conditions of the re-funding contain some significant small print. A clause that applies to \$5.5 million of the new debt states that, if there is a "merger or consolidation" involving the Maine Central in the next 14 years, the new securities become redeemable at once. The clause bolsters Mr. Miller's defenses against a take-over effort and thus does no damage to his prospects for continued employment.

He asserts that he did not ask for the clause himself—that it was requested by the New York Life Insurance Company, which held \$2 million of the railroad's old debt and has taken on \$8 million of the new securities. Once New York Life came in, the big paper producers in Maine's north woods apparently persuaded their bankers to go along with the new debt package. The paper mills, interested in getting their wares to market, want to have as

many separate railroads as possible operating in their area.

So Mr. Miller is the winner of the moment—which, of course, has not stopped "Bucky" Dumaine from coming out swinging for the next round. Concealing any discomfiture he may have felt at his foe's wriggling out of the re-funding crisis, Mr. Dumaine promptly set the stage for the next crisis: He ordered his lawyers to file a motion with the Interstate Commerce Commission to dismiss a complaint by the Maine Central, a complaint that has been around for a while.

The Amoskeag Company bought the Bangor & Aroostook Railroad (from the Bangor Punta Corporation) in 1969. Ever since then, Amoskeag's Maine Central shares, which it started accumulating in 1965, have been held by an independent voting trust. This is intended to keep Amoskeag, a diversified company, from controlling a second railroad. Any corporation controlling one railroad may not control another without I.C.C. sanction.

Since 1974 the Maine Central has had its complaint, alleging that Amoskeag is illegally controlling the railroad, before the I.C.C. Also since 1974 Amoskeag has had a request before the I.C.C. that it be allowed to vote its 35 percent holding of Maine Central stock. Now, in his newest move, Mr. Dumaine reasons that the "hands off until 1991" clause in the Maine Central's re-funding shows that Amoskeag exercises no influence in that railroad's affairs.

Both sides in the Miller-Dumaine feud filed formal final petitions with the I.C.C. Friday, seeking dismissal of each other's motions. David H. Allard, the I.C.C.'s administrative law judge in the case, has promised them an early decision. So that's the way things stand right now.

Mr. Dumaine asserts that control of the Maine Central by Amoskeag would be a good thing for railroading. He advocates an eventual affiliation of northern New England's three major lines—the Bangor & Aroostook, the Maine Central and the Boston & Maine. This would result in operating savings, he estimates, of at least \$3 million a year.

"There must be unification" of the three systems, Mr. Dumaine said in a recent interview. "They belong together. It's got to happen. We can't any longer have two or three end-to-end railroads fighting for a part of a division of rates on shipments going to railroads in other parts of the country. Three little railroads don't need three presidents." In railroading jargon, "end-to-end" lines like the ones in New England are separate entities that form a continuous chain, in contrast to parallel lines. Each separate link in the chain gets only a portion of the total freight fee for a long haul—hence the "division of rates."

Mr. Miller, however, vigorously opposes any move that would weaken his role as head of the Maine Central. The other day he discussed his philosophy concerning railway mergers.

"I don't favor mergers of railroads," he said, "because every single one of them has been a disappointment in that they resulted either in bankruptcy or the combined earning subsequent to merger were less than the combined roads prior to merger or the high-drawn prognostications of efficiency and savings never, never materialized."

"My feeling is that the concept of a merger of a few lines to compete with other lines just aggravates the situation. It does nothing to solve the car service problems or the standardization of engineering or the labor problems of the industry."

"I think if we're going to avoid Uncle Sam eventually controlling all the railroads (through nationalization) as has been done by France, Italy, Germany and Great Britain, then we have to have a private corporation controlling all of them—an amalgamation of all the United States railroads into one national corporation like the Bell Telephone System."

Mr. Miller's re-funding coup removes any possibility that his railroad may have to turn to Amoskeag's credit resources to stay out of bankruptcy.

As for coping with the Maine Cen-

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tral's debt-acceleration provision—that's the 14-year clause—Mr. Dumaine offers a ready answer: If Amoskeag's financial strength were to reinforce the Maine Central's earning power, any holder of a Maine Central bond or note would be happy to hang onto it and keep drawing the 9½ percent interest specified in the new re-funding. But if anyone actually demanded immediate redemption of its principal, Mr. Dumaine adds, Amoskeag has enough credit to pay him off.

Neither Spence nor Bucky has missed a trick in their long duel. Their conflicting moves on Amoskeag's ownership of Maine Central shares were filed with the Interstate Commerce Commission in April 1974 shortly after Mr. Miller told Maine Central stockholders at their annual meeting:

"We view control of a railroad by a holding company as undesirable. We view control of a railroad by a holding company which is also a conglomerate as doubly undesirable. And we view as even more undesirable the holding in common control of two railroads by a holding company and a conglomerate with a built-in potential to—let us say—'maneuver.'"

Never one to remain on the defensive, Mr. Miller went into Federal District Court in Washington early in 1975 to complain that the I.C.C. had not met requirements of the National Environmental Policy Act so that a detailed impact report might be prepared as part of Amoskeag's application for control of its Maine Central stock.

The I.C.C.'s staff issued a draft report on Nov. 24, 1976, saying there would be no any environmental impact. On March 24, 1977, the court ordered Amoskeag to file a report anyway. It was filed May 16. The Maine Central protested its content on June 3. Amoskeag answered the protest on June 23. On Aug. 12 the full I.C.C. decided the report was adequate.

Meanwhile, nearly two years had gone by with no action on the merits of Amoskeag's application to control the stock.

There is yet another dispute between the two railroads, also involving the

Interstate Commerce Commission and the courts. It dates back to 1969, shortly after Amoskeag acquired the Bangor & Aroostook. That railroad has only two major interchange points with other railroads. One is with the Maine Central on the outskirts of Bangor; the other is with the Canadian Pacific Railroad at Brownville Junction, 47 miles north of Bangor.

After Amoskeag bought the B.&A. stock, Mr. Dumaine met with executives of the Canadian Pacific. The outcome of the meeting was a five-year contract in which Bangor & Aroostook agreed to increase its traffic interchange with Canadian Pacific (at the expense of Maine Central) up to a "hoped for" increase of 24,000 cars a year over the 1969 level.

When Mr. Miller learned of this deal, he warned Mr. Dumaine that he might have an antitrust suit on his hand. In 1973 the I.C.C. finally began an investigation into the legality of the routing agreement. An I.C.C. administrative law judge found the Bangor & Aroostook guilty of illegally diverting traffic from the Maine Central and its connecting link, the Boston & Maine. He ordered the Bangor & Aroostook to pay \$2.3 million in damages.

The full commission reduced the damage award to \$263,000. The day its order was released the Bangor & Aroostook, the Maine Central and the Boston & Maine all filed separate petitions for a review of the case with the United States Court of Appeals in Boston.

The Bangor & Aroostook owes only \$427,000 of bonded debt. All of this debt is held by the Amoskeag Company, the railroad's corporate parent. (Amoskeag also owns Fieldcrest Mills and Fanny Farmer Candy Shops, among other enterprises.) Meanwhile, the Maine Central, an independent entity, has approached the brink in its financial operations.

Last February the Maine Central told the I.C.C. that a certain commission order, if carried out by the railroad, would force it into bankruptcy. This was an order to correct the diversion during 1975-76 of \$2.6 million from a segregated Maine Central fund to pay rentals on boxcars that had

been leased between 1970 and 1975. After receiving the bankruptcy warning, the I.C.C. modified its order by telling the railroad it could wait to repay the \$2.6 million until it had regained "financial stability."

To come up with the \$2 million cash outlay that is part of its \$12 million re-funding, the Maine Central had to get the I.C.C.'s approval to withdraw that sum from still another segregated fund—one that had been earmarked by the commission for "delayed" capital improvements.

At the Maine Central's annual meeting last April, Mr. Miller predicted that the company's net income for all 1977 would be about \$1.5 million. He is sticking with that estimate even though earnings in the first seven months of this year were less than \$203,000.

"Our revenue ton-miles [one ton moved one mile] for August were 10.6 percent ahead of a year ago and showed a steady increase during the month," he said. "In the last week of August revenue ton-miles ran 17.5 percent ahead."

"For the first time this year, we are showing a heavy upswing in loadings off-line in our highest revenue traffic—namely paper. Until recently the increases in loadings had been in local traffic such as pulpwood and wood fiber, where our per-car revenue is less attractive."

Mr. Miller said that the Maine Central's 4,500 freight cars (including 500 boxcars purchased a year ago) was in top condition, with only 5.5 percent of its cars in "bad order"—undergoing or in need of repairs—compared with 12.8 percent of the industry nationwide and 22.1 percent for all railroads operating in the East. Two years ago, he pointed out, the Maine Central bought 10 diesel locomotives, increasing its fleet of these to 75. "By downgrading some of the older locomotives for yard service, we won't have any need for new motive power for a decade," he said.

The Bangor & Aroostook's situation looks like this: The railroad has paid off more than \$6 million of bonded debt since 1970, while investing more than \$14 million in new equipment and improvements to its right of way. It

has a capital expenditure program of \$4.75 million running into 1978, which includes its rebuilding of 100 boxcars and 187 wood wreck as well as 20 wood chip cars. Of its overall fleet of 4,800 freight cars, 6.8 percent are in bad order. Of its fleet of 45 diesel locomotives, nine have been leased to Conrail.

The Bangor & Aroostook grossed \$11.2 million in the first seven months of this year, or less than half the Maine Central's revenues of \$23.6 million. The B.&A. operated at a net loss of \$887,000 in the seven months ended July 31. But the trend of its traffic, like that of the Maine Central, has been up for several weeks.

Walter E. Travis, the Bangor & Aroostook's 53-year-old president and chief operating officer, told an interviewer he thought his railroad would "about break even for the year" despite the seven-month deficit. "Part of the loss is due to our hanging on to a pretty extensive road and equipment maintenance program," he said, "as well as having \$500,000 for derailment expenditures."

Spending for equipment maintenance at the Bangor & Aroostook ran to \$3.9 million in the first seven months of 1977, up from \$2.7 million in the year-earlier period, while spending for maintenance of way rose to \$3.9 million from \$3.3 million.

"We hung on to the stepped-up maintenance programs through September," Mr. Travis said. "Then we will go into a profit situation in the last quarter which should carry on into the first half of 1978."

These are the kind of statistics that railway analysts devour. Such figures also represent grist in the continuing contest between Spence and Bucky. Neither railroader shows any sign of slowing down.

Mr. Miller was recently asked, "Does the Maine Central have a compulsory retirement age?"

"No," the 69-year-old executive replied.

Then, in an allusion to the 14-year anti-merger clause in his railroad's re-funding plan, he was asked, "Do you really expect to be around in 1991?"

"I won't say anything more," he responded.