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Ann Arbor / Oct. '73

PROCEEDINGS —

Fourteenth Annual Meeting

Theme:

"Search For New Transportation Horizons"

October 15-16-17, 1973
Hollenden House
Cleveland, Ohio

Volume XIV • Number 1 1973

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TRANSPORTATION RESEARCH FORUM

Railroad-Based Conglomerates

Revised Reprint from

Financial Analysts Journal, May-June 1973

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THE FIRST RAILROAD-BASED conglomerate got the show on the road eleven years ago, and within the past four years, the securities of railroad holding companies have become the larger part of the rail group of shares. Rail assets of the holding companies represent over half of the assets of the industry, while about 140,000 miles of the nation's 200,000 miles of rail are under control of holding companies.

Railroad managements are as strongly for as against the holding company concept. Even among those carriers that have not created a holding company, many are involved in non-transportation activities in one form or another.

The Interstate Commerce Commission and other regulatory bodies are questioning the effect of conglomerate activity on national transportation policy. Yet the ICC in its statement entitled, "Diversification and Conglomerates" says in effect that "it is possible that affiliation (of railroads) within a large community of enterprises could be beneficial to a carrier in several ways. For example, the transportation firm might gain easier access to capital necessary to modernize, innovate and expand."

Then too, the collapse of Penn Central has focused the attention of Congress on the railroad industry and the railroad holding company concept. After a year-long investigation of the diversification activities of Penn Central as a holding company, Wright Patman, as head of the powerful House Committee on Banking and Currency, concluded that diversification contributed significantly to Penn Central's ultimate financial collapse. More recently, the general counsel for the Hartke Committee after analyzing the Penn Central collapse determined that, per se, the holding company concept was not bad; did not contribute to the collapse of Penn Central; and may have permitted the railroad to have stayed alive twelve months more than it otherwise would have. Many rail managements today believe diversification is the only route to their railroad's survival.

The heart of the controversy is whether or not the interest of shareholders can be reconciled with the public interest demands of the Interstate Commerce Act. These interests are not mutually exclusive but the question is, to what extent should shareholders' interests be considered in managing properties providing common carrier services? Actually rail managers have a dual responsibility—they are guardians of a "public trust" as well as fiduciaries for their securities holders.

**Vice President and Director, Shearson, Hammill & Co. Incorporated*

THE HOLDING COMPANY CONCEPT

Before going further, let's define the railroad-based conglomerate. Briefly, it is a group of companies engaged in a variety of not necessarily related economic activities but with a railroad as its origin and accounting for the most important part of its activities—at least in the conglomerate's early beginnings. In terms of function, the holding company may be viewed as a management structure for the purpose of generating capital and employing it in a manner designed to produce maximum returns. Said, perhaps more expressively, this marriage of railroads to multi-industries is "polygamy" consummated in an effort to find "economic bliss."

The railroads have gone the holding company route for various reasons but all have been conceived as a means of legitimately avoiding the jurisdiction of the ICC whose expertise is limited to the realm of transportation. If the railroads had been able to diversify into non-railroad businesses without having to get ICC authorization for issuing railroad stock or issuing or guaranteeing debt securities, the railroad holding company probably would not have come into being.

Also, through the holding company concept, railroads can eliminate problems caused by (1) the "Commodities Clause" of the Interstate Commerce Act which prevents a railroad from carrying commodities it owns; (2) the Mineral Leasing Act which prohibits a common carrier from dealing in coal lands with the Government. These legislative acts were factors in the Union Pacific Railroad's decision to form a holding company and influenced other rail managements too.

Although rail managers' efforts, in the first instance, have been to bypass legal restraints, their primary motivation has been financial. They have seen themselves caught in a vicious circle: they have not been able to produce adequate railroad earnings because of the regulatory climate and labor union strangulation; without earnings, capital expenditures were limited; and without satisfactory service, dependent in part on a higher level of capital expenditures, traffic and revenue growth necessary to make money could not be realized.

Over the past fifteen years, the industry's earnings from the rail operation have deteriorated to a negligible return on investment; nevertheless, many roads have survived through the development of outside sources of income. In some years, the industry as a whole has been able to stay in the black because of non-operating income. However, such income has been derived in large part from interest on short term investments, dividends, and non-recurring property sales, none of which provide the steady earnings growth or glamour inherent in a successful acquisition program.

More specifically, the financial reasons for going the holding company route may be summarized as follows:

1. To improve management effectiveness and accountability.

2. To improve the return on investment and on shareholder's equity. As one Eastern railroad president once said, "Why should I go for a three per cent return, when I can get 15-20 per cent elsewhere?"

3. To offset the cyclical earnings swings of the railroad operation and to develop consistent per-share earnings growth as contrasted with the negative earnings improvement immediately following a railroad merger. Also, acquisition of non-rail businesses are far less time-consuming than ICC regulated merger proceedings. What better example of the latter can be cited than the Union Pacific-Southern Pacific-Rock Island merger proposal.

4. To shelter the earnings of the acquired company with the marginal railroad's tax loss carryforward. Katy and Northwest Industries are typical examples of the benefit to stockholders of the unused tax losses.

5. To allow the capital intensive railroad to benefit from an affiliation with companies whose businesses require a minimal "plow back" of profits, but which may have a large cash flow. Again, Katy, with pre-tax earnings of $8 million had a cash flow of $12 million.

6. To insulate carrier assets from the risks of non-carrier activities. For example, Union Pacific would not have risked railroad money in its North Sea venture.

7. To effect economies, not at the *operational* level as in railroad mergers, but at the *financial and corporate* level through the creation of a broader economic base. In most cases, the holding company not only retains the management of the acquired company, but generally is interested only in companies whose management will come with the new affiliation.

THE FIRST CONGLOMERATE

The Interstate Commerce Act was designed to regulate carriers only and prohibits issuance of securities for other than transportation purposes. However, the stringent regulation of the railroads' financial activities does not apply to a company that happens merely to own a single railroad system. At least, this was the case in 1960 when the Bangor & Aroostook became the first railroad to take advantage of what might be called a loophole in the Act.

W. Gordon Robertson, then Bangor & Aroostook's president, believed his railroad was stymied in its growth opportunities because of its geographic location and competitive situation. Rather than trying to obtain ICC approval for a diversification program, Bangor & Aroostook by-passed the Commission by reorganizing. A holding company, the Bangor & Aroostook Corporation, was created out of thin air to become the parent company. Next, stockholders were offered shares of the new holding company. At the time, many financial experts believed the exchange offer would fail. Instead it was amazingly successful—with 90 per cent of the shareholders accepting the holding company's stock for the railroad's shares. Then in 1964 the Bangor & Aroostook merged with Punta Alegre, a former Cuban sugar producer, to create the Bangor Punta Alegre Sugar Corporation. Since Bangor & Aroostook Corporation was not a railroad, but merely an owner of a railroad, the Commission in a landmark decision ruled that it had no jurisdiction. Since then, most of the railroad conglomerates have followed the Bangor's route of the child creating the parent and then asking shareholders to exchange voluntarily their shares for shares of a newly created corporation.

ICC INVESTIGATION OF RAILROAD HOLDING COMPANIES

As early as the fall of 1968, the ICC ordered its staff to investigate the railroad conglomerate trend. Its first findings were not published until July 1970. Further investigations were made in 1971 and reported to the Senate's Subcommittee on Surface Transportation in mid-July. Since that time

RAILROAD-BASED HOLDING COMPANIES

Effective Date of Plan	Railroad	Parent Company	Total Railroad Assets 12/31/72 (millions)
8/21/68	Atchison, Topeka & Santa Fe	Santa Fe Industries	$1,974.8
10/13/64	Bangor & Aroostook*	Amoskeag Co.	67.7
5/ 1/64	Boston & Maine	Bomaine Corp.	215.6
1/14/72	Chic., Milw., St. Paul & Pacific	Chicago Milwaukee Corp.	652.3
4/ 1/68	Delaware & Hudson Erie Lackawanna	Dereco, Inc.***	551.8
4/25/69	Denver & Rio Grande Western	Rio Grande Industries	316.8
8/31/62	Illinois Central Gulf	Illinois Central Industries	1,251.9
1/29/62	Kansas City Southern	Kansas City Southern Ind.	256.3
8/24/67	Missouri-Kansas-Texas	Katy Industries	204.7
12/31/62	Missouri Pacific	Mississippi River Corp.**	1,085.2
10/ 1/69	Penn Central Transportation	Penn Central Co.	4,310.9
1/21/69	Seaboard Coast Line	Seaboard Coast Line Ind.	1,490.6
11/26/69	Southern Pacific	Southern Pacific Co.	2,658.5
6/17/69	Union Pacific	Union Pacific Corp.	2,212.0
6/17/71	Western Pacific	Western Pacific Industries	227.8
6/15/73	Chesapeake & Ohio Baltimore & Ohio Western Maryland	Chessie System Inc.	1,263.9 1,230.4 171.5
		Total	20,142.7
		Total Class I Roads	$32,760.0 (approx.)
		Class I Roads in a Holding Company	61.5%

*Sold to Amoskeag by Bangor Punta—original holding company.
**Investment company which owns 60% of Missouri Pacific Class A shares.
***Controlled by Norfolk & Western Railway Co. E-L in bankruptcy and thus Dereco no longer controls company.
Northwest Industries has been omitted since the railroad was sold by the Holding Company, June 1, 1972.

EXHIBIT I

there have been no significant developments though the investigation is probably continuing.

Significantly and most importantly, the Commission, in all its findings, concluded that little, if any, of the railroad's conglomerate activities were illegal and that in most instances they, the ICC, had no authority to act.

A review of the 1970 study suggests that the Commission's chief concern about diversification is "disinvestment" at the railroad's expense. By "disinvestment," the Commissioners mean the withdrawal of capital from the physical plant and the resultant depletion of rail assets. This, they believe, could lead to a breakdown in transportation service, thus creating a "public interest" problem. They interpret "disinvestment" as meaning such activities as using carrier cash to pay excess dividends or using carrier credit for loans for non-carrier purposes; undermaintenance of rail facilities; curtailment of capital expenditures on the railroad plant; dissipation of working capital through excess dividends; and disinvestment of income producing property.

William Johnson, president of Illinois Central Industries, in a speech before the National Association of Regulatory Utility Commissioners, ably refuted both the idea that "diversification" means "disinvestment" in railroading and that "disinvestment" is accomplished by "diversifiers" in devious ways as implied in the Commission's investigations.

Even though Illinois Central became a holding company as long ago as 1962, it did not begin a vigorous diversification program until 1968 after management changes had occurred. Since then, the new management team has acquired twelve non-rail companies in return for an outlay of $388 million, based on the when-issued value of stock offered, plus cash transactions.

Concurrently with these acquisitions, Illinois Central Industries acquired or committed itself to acquire eight small railroads plus the Gulf, Mobile & Ohio Railroad. For the Gulf stock, Illinois Central Industries made a direct investment of $13.9 million and agreed as the purchase price to an issue of first convertible preferred stock having a market value for Industries common of $111 million.

In the five-year period, 1968-1972, Illinois Central made capital investments of $377 million on its railroad property or an annual average of $75 million. During the three years prior to its diversification activities, capital outlays for the railroad averaged only $54 million annually. In other words, since diversification began, Illinois Central Industries has invested 39 per cent more in the railroad than the railroad previously had invested in its plant on its own. In addition, substantially larger sums are being spent on maintenance of way and equipment than formerly.

In 1972, capital expenditures for all Illinois Central Industries' companies were $106 million of which $84 million were for the railroad subsidiaries. This sum far exceeds the railroad's own internal cash generation of $55 million in 1972.

In 1972, the railroad accounted for 43 per cent of gross sales of the holding company but generated only 30 per cent of pretax operating profits after deduction of railroad fixed charges. Stated [illegible]y, the railroad is

CAPITAL EXPENDITURES
Segregated Between Railroad and All Other

	1971 (000)	% of Total	1972 (000)	% of Total
Illinois Central Industries				
Transportation (ICG)	n.a.*	n.a.	$ 84,000	78.6%
Other	n.a.	n.a.	22,934	21.2
Total	n.a.	n.a.	$106,934	100.0%
Kansas City Southern Industries				
Transportation	$ 2,231	23.4%	$ 13,208	60.5%
Other	7,314	76.6	8,627	39.5
Total	$ 9,545	100.0%	$ 21,835	100.0%
Katy Industries**				
Transportation—MKT	$ 5,497	52.5%	$ 3,365	33.5%
Other—Katy Industries	4,983	47.5	6,691	66.5
Total	$ 10,480	100.0%	$ 10,056	100.0%
Rio Grande Industries				
Transportation	$ 13,171	89.6%	$ 21,226	89.7%
Other	1,534	10.4	2,426	10.3
Total	$ 14,705	100.0%	$ 23,652	100.0%
Santa Fe Industries				
Transportation	$ 89,843	72.9%	$ 88,801	74.2%
Other	33,441	27.1	30,931	25.8
Total	$123,284	100.0%	$119,732	100.0%
Southern Pacific Company				
Transportation	$136,515	83.6%	$219,696	89.5%
Other	26,662	16.4	25,864	10.5
Total	$163,177	100.0%	$245,560	100.0%
Union Pacific Corporation				
Transportation	$127,119	71.1%	$114,005	76.0%
Other	51,567	28.9	35,945	24.0
Total	$178,686	100.0%	$149,950	100.0%

*GM & O not acquired until 1972.
**Not strictly comparable with other holding companies as KT investment in M-K-T Railroad was written down to $1.00.

EXHIBIT A

producing less than 45¢ of every revenue dollar, only 30¢ of every pretax profit dollar, but got almost 80% of every dollar of new investment. This, says President Johnson, is hardly "disinvestment."

Exhibit II gives you an outline of the various areas investigated by the ICC in their railroad conglomerate studies. While the areas of investigation are too complex to enumerate, you may be interested in some of the findings. In the case of the transcontinental rails, the Agency found that substantial dividends consisting of non-rail assets were passed up to the new parent company. It noted that Union Pacific Railroad, following the creation of its parent holding company and the acquisition of 100 per cent of the railroad shares, declared a dividend to its parent of non-transportation assets having an estimated fair market value of $480 million. In their accounts, the Union Pacific gave recognition to the fair value of the dividend.

Similar dividends, but at book cost rather than current value, were made by Santa Fe and Southern Pacific. Southern Pacific transferred assets through the dividend route, which had a net book value of $17 million, but which the ICC staff auditors conservatively estimated to have a market value of $150 million. Such assets in the three years prior to the transfer had contributed to Southern Pacific railroad earnings an average of over $20 million annually (pretax), a sum more than half of present consolidated railroad fixed charges.

Santa Fe Industries also paid itself a $20 million dividend consisting of its investments in subsidiary companies. Of these subsidiaries, one was valued at $13 million, but actually had property worth over $110 million. The transfer also took from the railroad about $8 million of annual non-operating income.

These transactions suggest that all classes of railroad securities holders do not necessarily benefit equally from the holding company setup. For example, the transfer of the non-rail assets to the corporation takes away some part of the railroad's non-operating income, thus lessening the protection for interest on the railroad's debt.

The ICC study commented on the fact that both Katy Industries and Northwest Industries were using their respective railroad tax losses to shelter profits of newly acquired non-rail companies and that neither company had indicated any intention of reimbursing the railroad at some later date. Further, the Commissioners noted that if the assets of the Chicago & North Western Railway should be sold to its employees the tax benefits would be lost forever by the railroad. On the other hand Northwest Industries, through the sale of the railroad assets, would be creating a new $225 million tax loss carryforward for itself as the transaction is priced below the book value of the assets.

Significantly, in the recent prospectuses of both Western Pacific Industries and Chicago Milwaukee Corporation, it is specifically stated that their respective holding companies intend to compensate the railroad for any tax benefits which become unavailable to the railroad as a result of having been used by members of the consolidated group.

Finally, in the case of Kansas City Southern, Illinois Central, and Northwest Industries, it should be noted that the Commissioners did unearth what they chose to call some "financial manipulations and questionable practices." For details, the ICC document "Conglomerate Merger Studies," dated July 1, 1970, is recommended.

LEGISLATIVE PROPOSALS RESULTING FROM INVESTIGATIONS BY ICC AND CONGRESS

The ICC has sought to explain its inaction in the Penn Central case prior to bankruptcy by pointing to alleged gaps in the Interstate Commerce Act. Now that the horse has been stolen, the Commissioners in 1972 proposed strict new legislative amendments to that Act designed to enlarge their powers over railroad holding companies. The proposed legislation (S-2630), was introduced by U.S. Senator Magnuson of the State of Washington. It would arm the ICC with broad authority to oversee the acquisition and control of carriers by non-carriers and the common control of carrier and non-carrier enterprises. Specifically, ICC approval would be required for a non-carrier to acquire control of a single Class I road. Also, the ICC would have authority to maintain general surveillance over carrier related activities of existing and new railroad-based conglomerates. This would be accomplished by authorizing the ICC to require a controlling non-carrier to submit the voluminous financial and other reports now required of carriers and to regulate the manner in which the non-carrier maintained its accounts. ICC authority would also be imposed over the issuance of securities or assumption of debt by the non-carrier.

In the Magnuson bill, the bombshell proposal would permit the Commission to inquire into carrier-affiliate transactions and, if found necessary, to require prior Commission approval. Short of due process, it appears that there would be virtually no limit to the steps that the Commission could take to punish carriers and controlling non-carriers for transactions which the Commission found "may result in an impairment of the operations of the carrier or its ability to respond to the needs of the public."

A companion bombshell would give the ICC authority to direct cessation of acts by the controlling non-carrier which would impair or threaten to impair the ability of the affected carrier to provide adequate service to the public. The ICC would even have the power to require divestiture of control in order that the carrier could perform its transportation service properly. Significantly, hearings on the bill were never held and in 1973 no legislation relating to this matter has been proposed.

The ICC was not alone in recommending legislation. While criticizing the ICC for inaction and ineptitude, Representative Patman in his report on the Penn Central collapse urged enactment of numerous legislative proposals, which would strangle the initiative and creativity of railroad holding company managers. The most devastating proposal was one recommending that regulated transportation companies be restricted to investments in transportation related fields, just as banks and utility companies are now restricted in relation to their respective areas.

These proposals make one wonder if Washington didn't overreact to the Penn Central debacle in this particular area. The troubles of one large carrier should not condemn all the rest to pay the piper. Basically a concept is only as good as the people who implement it, and there are always abuses. Ironically, the ICC investigations and subsequent legislative recommendations only served to accelerate the movement of the rails into holding companies.

PRESENT STATUS OF RAILROAD HOLDING COMPANIES

First, all the major Class I roads interested in conglomerating have gone the holding company route. The managements of those roads not now involved in conglomerating appear firmly opposed to the concept and are committed to making money primarily through railroading. Such important roads include Southern, Norfolk & Western, and Frisco. Also, Burlington Northern has elected *not* to become a holding company, but it plans to diversify aggressively through capitalizing on natural resources and land it already owns. It is, in effect, a rail conglomerate without a parent holding company.

AREAS INVESTIGATED BY ICC

1. DIVIDENDS TO PARENT COMPANY
   a. excessive cash dividends deplete working capital
   b. disinvestment of non-transportation assets

2. BORROWINGS
   a. loans by affiliate at high interest cost
   b. loans by carrier to affiliate at low or no cost
   c. loans by affiliate to carrier to permit carrier to declare dividends
   d. using railroad credit and/or encumbering carrier assets to finance borrowings—passing funds on to affiliates

3. TAXES
   a. allocation agreements benefiting non-rail members of consolidated group
   b. sale of carrier property with tax benefit to affiliates

4. PROPERTY TRANFERS
   a. transfer of non-transportation properties to affiliates at low or no cost
   b. sale of affiliate property to carrier at excessive profit
   c. assigning low yield investments or high debt cost to carrier

5. FEES FOR MANAGEMENT SERVICES, RENTALS, ETC.

6. ALLOCATION OF COMPENSATION OF COMMON OFFICERS AND DIRECTORS

7. EVASION OF COMMODITIES CLAUSE

8. RECORD KEEPING AND INSPECTION RIGHTS

Source: ICC Conglomerate Merger Studies, July 1, 1970

EXHIBIT II

Second, the railroad holding company picture cannot be painted with a broad brush. Each company was formed for its own reasons and has a story of its own. There are, however, two very distinct categories of railroad holding companies:

1. The prosperous land-grant transcontinental carriers, which have taken a new direction as a means of expanding and financing their primary businesses in transportation, natural resources, and land development. A glance at Exhibit III shows how important their transportation function continues to be in relation to the whole, even though their other sources of income are also substantial.

2. The fairly prosperous, tax paying railroads, whose managements have deliberately found a vehicle for new departures into conceptually unrelated or conglomerate lines of business. Such companies include Rio Grande Industries, Illinois Central Industries, Kansas City Southern, and possibly Seaboard Coast Line Industries, though the last company is almost entirely rail-oriented at this time.

A sub-division of this group would include the "have-not" railroads, i.e., the holding companies based on marginal carriers such as Missouri-Kansas-Texas Railroad, Chicago & North Western Railway, Penn Central, Boston & Maine, the Milwaukee Railroad, and Western Pacific Railroad. Though the last two companies have done little as conglomerates, and Penn Central Transportation Company and Boston & Maine are in bankruptcy, the conglomerate railroad success stories are to be found principally in this group—notably Northwest Industries and Katy Industries.

Third, the financing of acquisition programs may shift from using as currency the stock of the holding company in payment of the acquisition price to public offerings of stock or warrants, as in the case of the successful stock and warrants offering of Western Pacific Industries. Capital funds raised in this way for non-rail acquisition purposes may allay some of the fears of the ICC about "disinvestment."

Finally—referring back to the duality of railroad management responsibility—the conglomerate holding company trend has been a successful effort in protecting shareholders' equity. An outstanding example is Illinois Central Industries. In 1965 its return on shareholders' equity was 2.4%; at the end of 1972 the return had increased to 6.1%. If the equity and earnings of the railroad were excluded, the after-tax return on the non-rail equity was 22% in 1972. Looking at the "have-not" railroads, the shareholders of Katy Industries and Northwest Industries are certainly much better off now than they would be if they were still shareholders of the former railroad companies.

WHERE DO HOLDING COMPANIES GO FROM HERE?

The sale of the assets of the Chicago and North Western Railway by Northwest Industries may be the forerunner of similar action by other holding companies. However, there will be a difference. Future railroad spin-offs may be for the purpose of consolidating the railroad subsidiary with another railroad or another railroad holding company subsidiary. In short, while

SEGREGATION OF REVENUES AND INCOME BETWEEN RAILROAD AND OTHER SOURCES

	1972		1972	
	Revenues (000)	% of Total Revenues	Pretax Inc. Avail. for FC (2) (000)	% of Total
Burlington Northern, Inc.				
Transportation	$1,097,990	91.5%	$ 54,535	51.7%
Other	101,420	8.5	50,893	48.3
Total	$1,199,410	100.0%	$105,428	100.0%
Illinois Central Industries				
Transportation	$ 412,374(1)	42.9%	$ 37,970	38.1%
Other	548,317	57.1	61,614	61.9
Total	$ 960,691	100.0%	$ 99,584	100.0%
Kansas City Southern Railway				
Transportation(3)	$ 106,415	76.6%	$ 13,894	85.5%
Other	32,506	23.4	2,350	14.5
Total	$ 138,921	100.0%	$ 16,244	100.0%
Rio Grande Industries				
Transportation(3)	$ 112,671	79.4%	$ 29,419	92.5%
Other	29,356	20.6	2,369	7.5
Total	$ 142,027	100.0%	$ 31,788	100.0%
Santa Fe Industries				
Transportation(3)	$ 831,695	85.5%	$113,991	74.7%
Other	141,146	14.5	38,708	25.3
Total	$ 972,841	100.0%	$152,699	100.0%
Southern Pacific Company				
Transportation(3)	$1,290,868	89.1%	$176,120	83.8%
Other	158,521	10.9	34,069	16.2
Total	$1,449,389	100.0%	$210,189	100.0%
Union Pacific Corporation				
Transportation(3)	$ 769,623	70.3%	$166,370	85.8%
Other	324,774	29.7	27,628	14.2
Total	$1,094,397	100.0%	$193,998	100.0%

(1) Includes GM&O from date of merger August 10, 1972
(2) Based on GAAP accounting practices
(3) Railroad subsidiary based on Form A

EXHIBIT III

it appears currently that the railroad merger movement has been supplanted by the conglomerate movement, I doubt if we have seen an end to railroad consolidations.

The second phase of railroad merger activity will be contingent on developments within the Western District—namely the ultimate outcome of the Union Pacific-Southern Pacific proposal for Rock Island. Also, it is well-known that Southern Pacific and Santa Fe both wanted Western Pacific several years ago; and finally the small Missouri-Kansas-Texas Railroad eventually must find a railroad home.

In the Southern District, Seaboard Coast Line Industries is the largest carrier with about $1 billion of revenues. Southern Railway is second in size with $724 million and Illinois Central-Gulf ranks behind Southern, with $475 million. Theoretically, acquisition of Illinois Central by Southern would be a next logical move. It would result in two evenly balanced rail systems in the Southern District and leave William Johnson free to continue his imaginative acquisition program.

In the Eastern District, the physical restructuring of Penn Central Transportation Company must come before any financial reorganization. This, in turn, may lead to acquisition of some segments of the system by other more profitable Southern, Eastern or even Western District railroads. In New England, a new railroad holding company might be created as the parent of the Bangor & Aroostook, Maine Central, the bankrupt Boston & Maine, and even the New Haven, Delaware and Hudson, and Erie Lackawanna.

In short, there will be further changes in the railroad map. Long term, if this country is to have a profitable and viable transportation system, our nation's railroads must be consolidated into major, evenly balanced transcontinental carriers and evenly balanced competitive North-South carriers.