File C. M. St. P. & P.—C. & N. W. Merger Plan

Operating economies of ten million a year claimed—no drastic curtailment of employment anticipated

A PROPOSAL to merge the Chicago, Milwaukee, St. Paul & Pacific and the Chicago & North Western, both of which are in receivership, on a basis whereby both bond and stockholders would participate, operating economies of more than $10,000,000 a year would be effected and labor would be represented on the board of directors, was filed with the Interstate Commerce Commission on October 26. The plan was originated by the protective committees for the preferred stockholders of the Milwaukee and the common stockholders of the North Western, because they felt that no plan for immediate reorganization of either road as a separate entity is feasible in view of current business conditions and the revenues of the restricted railroads, and because operating economies could be effected which would increase the average annual normal earnings of the combined companies $10,000,000 or sufficient to pay interest and dividends on a new capitalization.

Under the plan a new company would be formed to take over the present companies, including the Chicago, Terre Haute & Southeastern, the Chicago, Milwaukee & Gary, the Chicago, St. Paul, Minneapolis & Omaha, and the Escanaba, Iron Mountain & Western, through the exchange of new securities for old. The capitalization of the new company would comprise $770,987,000 of equipment obligations, bonds and preferred stock and 5,000,000 shares of common stock, as compared with $1,456,156,252 of equipment obligations, loans, bonds, preferred and common stock and interest, accrued and unpaid, of the present companies. The value of the physical properties of the present companies, according to the committees, is $728,446,507 for the Milwaukee, $503,550,385 for the North Western, $96,330,958 for the Omaha, $121,916,462 for equipment, and $1,073,344 for the Escanaba, Iron Mountain & Western, or a total of $1,451,317,656.

Savings Larger Than $10,000,000

The preliminary studies made by the committees show a saving of $10,000,000 per year. However, the report states that "they by no means include all the important economies which can be effected through consolidation. For example, no study has been made of the savings from the co-ordination of freight service, which in the opinion of the stockholders committees, would probably produce the largest single item of savings. The study of the co-ordination of passenger service has been limited to the service between Chicago and Milwaukee, and one train between Chicago and Madison. The savings from passenger traffic co-ordination between Chicago and Omaha, Chicago and the Twin Cities and Chicago and Green Bay should dwarf the savings produced from the Chicago and Milwaukee co-ordination, to say nothing of the savings from passenger co-ordination on numerous branch lines. No estimate has been made of the savings in the general offices, of savings from taxes, or of savings of interest on the cost of equipment which could be abandoned through consolidation. It is the well-considered opinion of the stockholders' committees that the savings upon complete consolidation of these two railroads would amount to many millions of dollars more than the $10,000,000."

The economies set forth by the committee and aggregating $10,000,000 are as follows:

1. Co-ordination abandonments which involve the abandonment of unimportant parallel lines, with contemplated joint use of the remaining line, should produce annual savings for both roads of $1,769,750.
2. Station and terminal co-ordinations, which constitute the use of joint station and terminal facilities, excluding the larger cities, should produce estimated annual savings of $366,406.
3. Savings from passenger train service consolidation between Chicago and Milwaukee, and one train between Chicago and Madison should produce annual savings of $640,000.
4. Savings from traffic diversion, which include diversion of North Western traffic which now goes to the Belt Railway of Chicago, diversion of North Western traffic at St. Paul, and utilization by the Milwaukee railroad of the lines of the Omaha instead of the Northern Pacific between St. Paul and Duluth would produce annual savings of $879,000.
5. Savings from the joint use of coal supplies of the two railroads located in Southern Indiana and Southern Illinois should produce annual savings of at least $1,500,000, and it is estimated that such savings may amount to as much as $2,048,267 per year.
6. Economies resulting from the co-ordination of outside agencies, consisting primarily of savings in branch offices, advertising and traffic associations, should produce annual savings of $1,300,000.
7. Consolidation of Chicago terminal and other opera-

Capitalization

	New Company	C. M. St. P. & P.	C. & N. W.
Equipment Obligations	$45,987,000	$30,516,671	$14,973,000
R. F. C. and Other Loans	....	13,647,609	48,700,000
First Mortgage Bonds	80,000,000	....	....
General Mortgage Bonds Series 1	185,000,000	....	....
Income Mortgage Bonds Series A	170,000,000	....	....
Income Mortgage Bonds Series B	50,000,000	....	....
Bonds of Present Companies	....	460,619,924	311,340,000
Total Loans and Bonds	485,000,000	474,267,533	360,040,000
Interest Accrued and Unpaid	....	108,378,748	50,432,000
Preferred Stock	240,000,000	119,307,300	22,395,000
Total Loans, Bonds and Preferred Stock	770,987,000	732,470,252	447,840,000
Common Stock	5,000,000*	117,406,000	158,440,000
Grand Total	....	849,876,252	606,280,000

* Shares.

tions should produce a saving of $900,000 annually, based upon 1930 volume of business.

8. The effect of consolidation upon combined expense of maintenance of equipment is estimated to produce annual savings of $3,000,000.

Earnings Available for Interest

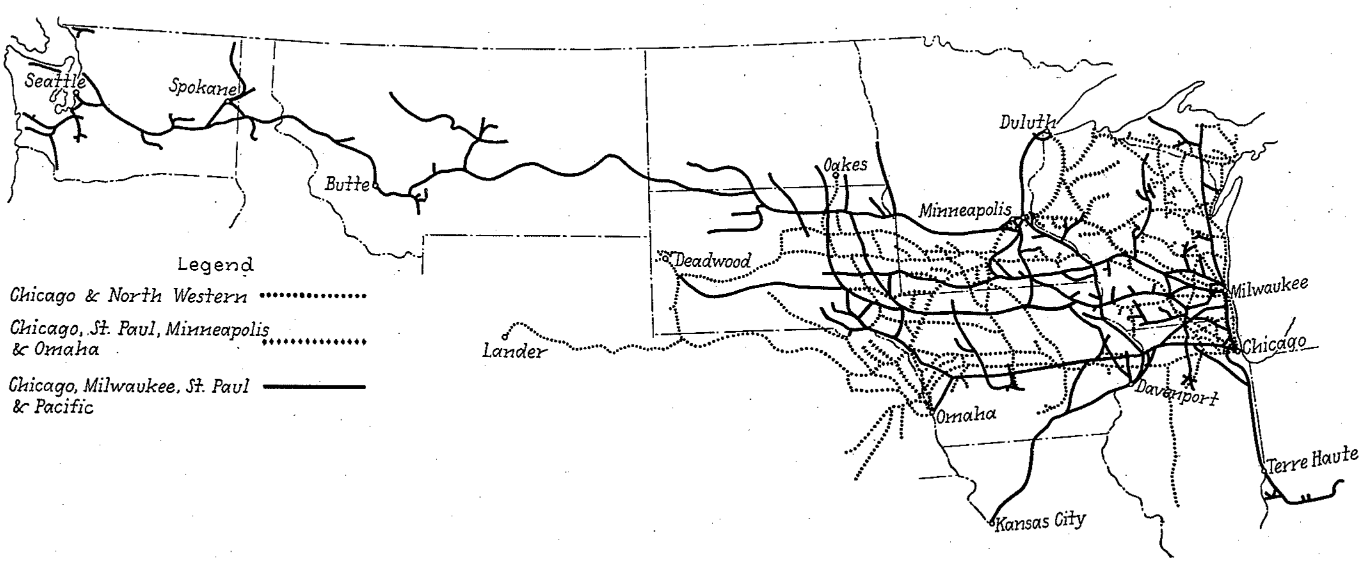
The plan is based primarily on the ability of the new company to earn. As a basis for determining the earning ability of the consolidated company, reference is made to the studies of estimated earnings made by the Group of Institutional Investors as holders of securities of the Milwaukee and by the Life Insurance Group Committee and the Mutual Savings Bank Group Committee as holders of securities of the North Western. These groups calculated that the minimum earnings of the Milwaukee would be sufficient to permit the issuance of fixed obligations having an annual interest requirement of $6,556,000. For the North Western it was calculated that the total fixed interest debt might safely carry an annual interest charge of $5,605,000. Accordingly, the committee assumed on this basis that the minimum annual earnings of the new company available for interest would be $12,100,000, exclusive of any savings from consolidation. The Institutional Investors of the Milwaukee used average normal earnings figures of $15,894,000 for the Milwaukee, and $14,325,000 for the North Western. On this basis the average normal earnings of the new company, according to the committee, should be approximately $30,000,000 a year. To this was added the $10,000,000 estimated savings from consolidation, which made the average normal earnings of the new company approximately $40,000,000.

The committees made no attempt to make allocations of the new securities to the holders of existing securities for two reasons: First, they admit that unless their suggestions of capital structure are acceptable they are not certain in their own minds as to just how this allocation should be made; second, at the present time the primary problems presented by the plan are those of consolidation and determination of a sound capital structure for the consolidated enterprise.

However, in providing for an aggregate of approximately 5,000,000 shares of common stock, issuable at the time the reorganization is consummated, the committees have in mind that at least 2,000,000 shares should be distributed to the owners of the capital stock of the two railroad systems, or at least 40 per cent of the total number of shares of common stock to be issued at the time of the reorganization. This 40 per cent would be distributed one-half to the holders of capital stock of the Milwaukee, and the other one-half to the holders of capital stock of the North Western. While the committees do not provide for a specific allocation of such common stock as between the holders of the present preferred stock and common stock of the respective railroad systems, it is their purpose at some later date to suggest a specific allocation.

Management

The new company would be managed by a board of directors consisting of fifteen members, who would be elected by the holders of the preferred and common stock. It is suggested that a nominating committee serve to nominate the first board of directors. Members of this nominating committee would be appointed as follows: Two members by the Institutional Investors holding Milwaukee securities, one member by the Life Insurance Group Committee of the North Western, one member by the Mutual Savings Bank Group Committee of the North Western, one member representing labor to be selected by the labor organizations of the two railroads, one member by the board of directors of the Milwaukee, one member of the board of directors of the North Western, one member by the Preferred Stockholders' Committee of the Milwaukee, and one member by the Common Stockholders' Committee of the North Western.



Not less than eight directors would have residences in Chicago or any point west. At least one member of the board would represent the company's employees, one member would represent industrial shippers, one member would represent agricultural shippers and not more than three officers would be board members. The board of directors would elect such officers as they in their discretion would determine.

Labor

The committees "have great sympathy with the position of labor and hope that consolidation of the two railroads may be effected with as little disarrangement of employment as possible." They contend that during the last ten years comparatively few new employees have been hired by either road; that at the present time employment is at a comparatively low rate; lapse of time will automatically necessitate the retirement of a number of the present employees of both railroads; and that in working out the consolidation any reduction in the number of men employed can be made out of those men who would normally be retired over the period of the next five to ten years.

Accordingly, the committee argues, it would follow that with an improvement in business and the necessity for rehiring employees now unemployed, it is entirely possible that the consolidation will be completed without any reduction in the number of employees of the new company as compared to those now employed by the two companies. In addition, operation of the Dismissal Wage Agreement, it is contended, which provides incomes to those employees who must of necessity be released through abandonment and co-ordination, will serve to reduce the hardship, if any, to be imposed upon labor by this plan.

Those employees who will continue to serve the new company will have the security of positions in a company whose financial stability will be unquestioned, according to the committee.

Applied for Reorganization in 1935

Both roads petitioned the federal district court in Chicago for authority to reorganize under section 77 of the amended Federal Bankruptcy Law in 1935, the North Western filing its petition on June 28 and the Milwaukee on June 29. The difficulties of the North Western, according to a statement by the directors, were attributed to a combination of causes. 1, the long continued depression; 2, four years of unprecedented drought in agricultural regions; 3, the great growth of unregulated and subsidized competitive forms of transportation; 4, high taxes imposed on railroads by state and local assessing bodies; 5, restoration of the 10 per cent wage decrease plus increases in the cost of materials and supplies due to the application of the codes in 1934.

The difficulties confronting the Milwaukee were to some degree a continuation of those that existed prior to 1927 when the Chicago, Milwaukee, St. Paul & Pacific was incorporated to take over the properties of the Chicago, Milwaukee & St. Paul under foreclosure. At that time the fixed charges of the company were reduced to what was thought to be a level corresponding to traffic at that time. Since 1928, however, the business of the company has decreased so that from 1930 to 1935 it failed to earn its fixed charges.

The North Western operates 8,364 miles of lines in Illinois, Wisconsin, Michigan, Iowa, Minnesota, South Dakota, North Dakota, Nebraska, and Wyoming. The Milwaukee operates 11,161 miles of lines in Illinois, Indiana, Iowa, Idaho, Michigan, Minnesota, Missouri, Nebraska, Montana, North Dakota, South Dakota, Wisconsin and Washington.

An association of Czechoslovakian railway car manufacturers has recently been formed by six large manufacturing concerns. The association will divide both domestic and foreign railway car orders on an agreed basis and will attempt to standardize production. The agreement is to remain in force for ten years and will be supervised by the Control Office of Czechoslovak Railway Car Manufacturers, Prague. Dr. H. Ringhoffer, of the Ringhoffer-Tatra Works, has been elected as the first manager.

Passenger Traffic Officers Hold Annual Meeting

A NATIONAL railroad week to stimulate interest in railroads and travel was endorsed by members of the American Association of Passenger Traffic Officers at its annual meeting at Chicago on October 26 and 27. As a result, a committee was appointed to work with territorial committees in formulating a definite plan which can be submitted to the railroads through the Association of American Railroads. J. W. Switzer, general passenger agent of the New York Central, in suggesting a national railroad week, called attention to a lack of railroad consciousness due to an increasing use of private automobiles, contending that a national railroad week would be an effective means of telling the public what the railroads mean to them and are doing for them. With 25,000,000 passenger automobiles averaging 11,000 miles per year there is an opportunity for the railroads to recapture passenger revenue of a substantial amount, he said. Among the suggestions for possible inclusion in a program for a railroad week were bargain rates, low round-trip coach rates, a rate for two persons traveling together, an advertising program, exhibits, essay contests, plant inspections, and special events of a "ballyhoo" nature to stimulate public enthusiasm.

The principal speakers at the meeting, over which President O. P. Bartlett, passenger traffic manager of the Southern Pacific, presided, were Fred W. Sargent, president of the Chicago and North Western, and William M. Jeffers, president of the Union Pacific, who addressed the members at a banquet. Mr. Sargent commended the passenger departments of the railroads for their accomplishments in merchandising railroad passenger service during recent years. He also called attention to the general railroad problem, emphasizing the necessity for an about-face in the attitude of the public towards the railroads, the need for relief from restricted control and the need for a free hand to compete for all kinds of traffic.

Mr. Jeffers criticized complicated passenger tariffs and advocated a simplified rate structure. As a result, a committee was appointed to study passenger tariffs with a view to their simplification. Mr. Jeffers also advocated mass passenger transportation which could only be induced, he said, by fares low enough to encourage travel.

Officers elected for the ensuing year are, president, James W. Switzer, general passenger agent of the New York Central; vice-president, C. C. Bonter, passenger traffic manager of the Canada Steamship Lines, Ltd.; and secretary, re-elected, B. D. Branch, general passenger agent of the Central of New Jersey.

New Equipment Secures Passengers

A discussion of recent developments in equipment showed that modern equipment has stimulated traffic. It also disclosed a new trend in travel wants. Patronage of the Broadway Limited of the Pennsylvania and the Twentieth Century Limited of the New York Central have increased materially since the trains were re-equipped, that of the Century increasing 61 per cent. Present earnings of the Rockets of the Chicago, Rock Island & Pacific indicate that the trains will be paid for within three years. The cost of operating these trains is 56 cents a mile. Another recent development in equipment is the rebuilding of the cars of the Capitol Limited of the Baltimore & Ohio so that their outward appearance will emulate streamlined trains and their interiors will be replaced with modern fixtures.

A trend in travel requirements was indicated in the