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RAILROAD DIVISION

TRANSCRIPT OF TESTIMONY AND EXHIBITS INTRODUCED BY

MR. W. W. K. SPARROW

AT HEARING BEFORE THE UNITED STATES DISTRICT COURT,
FOR THE NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION,

ON JUNE 20, 1938,

IN THE MATTER OF PAYMENT OF \$250,000 PRINCIPAL AMOUNT

OF BEDFORD BELT BONDS

DUE JULY 1, 1938

W. W. K. SPARROW,

called as a witness on behalf of the trustees herein, being first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Dynes:

Q Will you please state your name for the record, Mr. Sparrow?

A W. W. K. Sparrow.

Q What is your occupation?

A Officer in charge of Finance, Accounting, and Real Estate.

Q Please state the principal amounts of the several classes of mortgage bonds outstanding on property included in the Chicago, Terre Haute and Southeastern lease on which the court in its order No. 24, dated August 27, 1935, authorized the trustees to pay interest and the annual amount of that interest.

A \$250,000 principal amount, 5 per cent Bedford Belt Railway Company first mortgage bonds maturing July 1, 1938. Annual interest, \$12,500.

\$7,287,000 principal amount 4 per cent Southern Indiana Railway Company first mortgage bonds maturing February 1, 1951. Annual interest, \$291,480.

\$8,056,000 principal amount 5 per cent first and refunding mortgage bonds, maturing December 1, 1960. Annual interest, \$402,800.

\$6,336,000 principal amount 5 per cent income mortgage bonds maturing December 1, 1960. Annual interest, \$316,800.

The total of those bonds, principal amount, is \$21,929,000 and the annual interest is \$1,023,580.

Q Mr. Sparrow, will you state whether or not those interest payments have been met in accordance with the Court's order?

A They have been met with the exception of some minor payments where the holders of coupons have not yet presented them for payment.

Q Are those payments in accordance with the lease of the Chicago, Terre Haute & Southeastern Railway and if they are, will you direct the Court's attention to the provisions of the lease?

A They are as provided for in Article 2, Section 2, of the lease.

In this connection I desire to call the Court's attention to the fact that this provision of the lease requires the payment of interest on all first and refunding mortgage gold bonds, not only outstanding at the date of the lease but issued hereafter by the lessor and there have been issued to the Milwaukee \$1,515,000 of first and refunding mortgage bonds on which no interest is being paid.

Q Does the lease require the lessee, in addition to paying the interest on these bonds, to also pay the principal as it matures and if so, will you refer the Court to the material provisions of the lease?

A Under the provisions of Article 3 of the lease, Section 1, the lease is required to make due and punctual payment of both the interest as provided in Article 2, and the principal of the bonds to which I have already referred.

Q What is the first maturity of principal?

A \$250,000 Bedford Belt Railway Company first mortgage gold bonds maturing July 1, 1938.

Q Have you a map showing the location of the property subject to the lien of the Bedford Belt mortgage?

A Yes, I have, sir.

MR. DYNES: If your Honor please, I ask that that map be marked for identification next in series of this date, and I offer it in evidence.

(Whereupon the said document so received in evidence by the Court was marked Exhibit 9, 6-20-38, and is returned herewith and made a part hereof)

MR. DYNES: It differs from that (indicating) map only in detail as to the Bedford Belt Railway Company property.

THE WITNESS: The map shows in green the owned lines of the Terre Haute which extend from a point just south of Chicago Heights, Illinois to Westport, Indiana, and in red the lines that are subject to the first lien of the Bedford Belt mortgage.

In the insert there is shown in red on a larger scale the lines of the Bedford Belt Railway which commence at a point marked "A" on the map about 0.79 of a mile from the Bedford depot and extending 4.66 miles to a point near Oolitic, Indiana.

This main line together with the side tracks as indicated in the small map of 9.34 miles make a total of 14 miles and comprise the property subject to the first lien of the Bedford Belt mortgage.

Q State if you know whether the principal maturity of the Bedford Belt bonds, to which you have referred, is the payment on which the trustees are asking authority now.

A They are the bonds on which the trustees are asking the Court's instructions in regard to the payment thereof.

Q Yes, sir. State if you know whether, if the principal amount of these bonds is paid as provided for in the lease, there are rights to be acquired by the railroad trustees and if so, what they are.

A The railroad trustees have the right to hold these bonds uncanceled in their treasury. In addition to that, as provided for in the lease, when the lessee shall have fully complied with its obligations under the lease, the trustees have the right to exchange these bonds for a like principal amount of the Terre Haute first and refunding bonds.

Q What is your documentary authority for that?

A Article 5, Section 5, Paragraph B of the lease.

MR. DYNES: There is but one lease, your Honor, and we are always referring to Exhibit 1 when we refer to the lease.

Q Will you state, if you know, the amount of stock of the Terre Haute outstanding?

A The stock certificate register of the Terre Haute shows there are 41,729.95 shares outstanding at the present time.

Q How many of those shares is the property of the trust estate?

A 40,470.95 shares.

Q Will you state, if you know, how the stock, which is the property of the trust estate, was acquired?

A Article 12, Section 1 of the lease; it was acquired under that provision of the lease at a price of \$10 a share.

Q Will you refer the Court to the provisions of the by-laws and income mortgage of the Chicago, Terre Haute & Southeastern Railway Company regarding the voting rights of income bonds?

A Article 1, Section 5 of the by-laws and Article 10 of the income mortgage provide that the holders of income bonds are entitled to one vote for each \$100 principal amount of such bonds.

Q Will you state how many votes the income bondholders would have on the basis of the amount of such bonds now outstanding in the hands of the public and how that number compares with the total number of votes of stockholders?

A The income bondholders on the basis of the bonds now outstanding in the hands of the public would have 63,360 votes and the stockholders would have 41,729.95 votes.

Q Does the trust estate own any of those voting bonds?

A The income bonds? No.

Q State what the facts are in respect of whether the trustees are maintaining separate books and accounting records of the operations of the Terre Haute Railway?

A Separate books and accounting records of the operations of the Terre Haute have been maintained since July 1, 1935.

Q Were accounting instructions issued governing the keeping of such records?

A They were.

Q Under whose directions?

A Mine.

Q Have you a copy of the instructions?

A I have.

MR. DYNES: I offer in evidence as Exhibit 10 of this day, a copy of the instructions now alluded to by the witness.

(Whereupon the said document so received in evidence by the Court, was marked Exhibit 10, 6-20-38, and is returned herewith and made a part hereof)

MR. DYNES: Q Have you prepared an exhibit, Mr. Sparrow, showing for the first two full calendar years of operation since these accounting instructions were issued and complied with, the expenses and net income to the Milwaukee after paying the Terre Haute rent?

A I have.

Q Is this (indicating) a copy of that exhibit?

A Yes, it is.

MR. DYNES: I desire to offer in evidence as Exhibit 11 of this date the exhibit just referred to by the witness.

(Whereupon the said document so received in evidence by the Court, was marked Exhibit 11, 6-20-38, and is returned herewith and made a part hereof)

MR. DYNES: Q Have you prepared a similar exhibit, Mr. Sparrow, showing results of operations for the first three months of the present year, 1938?

A I have.

Q Is this (indicating) a copy of that exhibit?

A It is.

MR. DYNES: I desire to offer that in evidence as Exhibit 12 of this date.

(Whereupon the said document so received in evidence by the Court, was marked Exhibit 12, 6-20-38, and is returned herewith and made a part hereof)

MR. PFLAUM: May I see that last exhibit, your Honor?

MR. DYNES: We will give you a copy of it.

Q Have you any comments to make on that last exhibit, Mr. Sparrow?

A I have.

Q Will you make them?

A With the leasing of the properties of the Terre Haute, its operations and accounts were consolidated with those of the Milwaukee. Because of this consolidation of accounts it was thought desirable, when the debtor filed its petition in bankruptcy, to keep, in addition to the consolidated accounts, separate books and accounting records that would show the earning value of the Terre Haute to the Milwaukee. As I have just stated, such separate books and accounting records have been kept since July 1, 1935.

I believe that the accounting instructions, which have been introduced as Exhibit 10 of this day, and the separate books and accounting records maintained in accordance with those instructions, are comprehensive and complete.

Turning now to the revenues: Line 9 of Exhibit 11 of this date shows the revenues from the commercial business, \$5,253,877 in 1936 and \$5,027,568 in 1937.

The revenues as shown from this commercial business are the revenues accruing to the Terre Haute in connection with the tariffs and divisions with other roads now in effect and which the Milwaukee now collects and includes in the consolidated accounts.

Line 12 shows the revenue credited to the Terre Haute on the haul of Milwaukee Company coal, that is coal used by the Milwaukee beyond Chicago. It does not include any haul of that coal on the Terre Haute used by the Terre Haute. \$2,106,406 in 1936 and \$1,992,009 in 1937.

In the year prior to the leasing of the Terre Haute, the Milwaukee purchased almost 70 per cent of this company coal from mines on other lines serving the Illinois and Indiana coal fields. The principal ones were the C. & E. I., Illinois Central, the Terre Haute and the Pennsylvania, and in that year it paid out to those foreign roads freight charges for the movement of this coal \$2,970,000.

THE COURT: What year was that?

THE WITNESS: The lease was entered into on July 1, 1921, and that was for the twelve months preceding.

THE COURT: You were all over this twelve or thirteen years ago.

THE WITNESS: We were.

Now, I would like to call the Court's attention to the fact that the Milwaukee is still acquiring 70 per cent of this company coal from

mines on the Terre Haute. In 1929 it was 71.94 per cent. In 1933 it was 72.78 per cent. In 1935 it was 72.02 per cent. In 1936 it was 71.73 per cent. In 1937 it was 72.63 per cent. So that although about seventeen years have elapsed since the lease was entered into, the Milwaukee is still acquiring about the same percentage of this company coal from the Indiana fields that it previously acquired in Indiana and Illinois fields from mines on lines of foreign roads instead of from mines on a line reached by its own railroad.

I desire to call the Court's attention to the fact that the revenue credited to Terre Haute for the haul of this company coal, as shown by Exhibit 11 of this date, is not paid by the Milwaukee to the Terre Haute, but it is the revenue that would accrue to the Terre Haute for the haul of this coal if it moved on commercial way bills at tariff rates.

In determining these revenues the Terre Haute is given a division of the through rate to the points on the Milwaukee to which the coal is billed. The accounting instructions, Exhibit 10 of this date, require the freight auditor to compute this revenue from the way bills for each shipment, applying tariff rates and divisions of the rates, using as destinations selected points on the Milwaukee which give the Milwaukee the most favorable divisions. This is the practice that was in effect prior to the leasing of the Terre Haute. By getting a division the Milwaukee pays less than if it paid the local rate to Chicago.

Turning now to the matter of Operating Expenses, Maintenance of Way and Structures. Except for minor items these are actual allocations for the costs incurred in maintaining the lines of the Terre Haute.

In the matter of locomotive repairs, the Milwaukee maintains for all of the locomotives owned by it and by the Terre Haute, records showing the cost of repairs made to each locomotive. Repairs are made to

locomotives both in Terre Haute and Milwaukee shops. For locomotives used on the Terre Haute it is charged with its proportion of the cost of such repairs, as included in system accounts, in the ratio that the miles run by each locomotive on Terre Haute lines are of the total miles run.

Turning now to the matter of freight train car repairs. Because of the prohibitive expense, the Milwaukee does not maintain a record of the repairs by individual freight cars. Repairs to system and foreign freight train cars are made on both Terre Haute and Milwaukee lines, and a charge is made to the Terre Haute account repairs made to its freight train cars on the basis of the system average cost per car per mile.

Depreciation charges are the charges account Terre Haute owned equipment made in accordance with the rates prescribed by the Interstate Commerce Commission and included in the operating expense accounts of the Milwaukee system.

The transportation expenses, except for minor items, are an actual allocation of the costs incurred in operating the lines of the Terre Haute.

Railway tax accruals are actual.

In the matter of equipment rents; for Milwaukee locomotives used on Terre Haute lines, the Terre Haute is charged rental based on interest at 5 per cent on the estimated reproduction cost new, depreciated 50 per cent, plus depreciation at 3 per cent on the reproduction cost new, and is credited with a similar rental charge made against the Milwaukee for Terre Haute locomotives assigned to the Milwaukee.

In the matter of freight train cars, a daily record is maintained of the count of Milwaukee owned and foreign owned cars on Terre Haute lines and of Terre Haute owned cars on the Milwaukee and other roads. The Terre Haute is credited with the standard charge between foreign roads of

\$1.00 per day for the use of its cars on Milwaukee and foreign lines. the same charge is made against the Terre Haute for all foreign cars and Milwaukee owned cars used on its lines, with the exception that no charge is made against it for any empty Milwaukee coal cars when the total system coal cars on its lines are in excess of four for each loaded car. The reason for this is that in operating the Terre Haute as a part of the system, consideration is only given to operating efficiency, and the Milwaukee, in the interest of good operation, often stores coal cars on the Terre Haute in excess of loading requirements.

Now, line 34 of Exhibit 11 of this date shows that the income of the Terre Haute, before rental, was \$2,998,588 in 1936, or 2.9 times the interest rate; \$2,854,169 in 1937, or 2.76 times the interest rate, and the net income, line 38, or gain to the Milwaukee from the operation of this property under the lease, after rental, was \$1,966,546 in 1936, and \$1,820,687 in 1937, or \$3,787,233 for the two years.

Now, because it was thought that it would be the clearest and simplest way of doing so, the net income or gain to the Milwaukee as shown in this exhibit was arrived at by allowing the Terre Haute tariff rates for the haul of Milwaukee Company coal and other material.

Now, lest this might appear to produce an artificial result because, as I have just stated already, this company coal moved on company billing and tariff rates are not charged and they are not paid by the Milwaukee or collected by the Terre Haute, but unless that would seem to produce an artificial result, I want to say it does not make any difference in the final analysis whether you allow the Terre Haute tariff rates for the haul of this company coal or nothing at all and include the cost of hauling the company coal in its operating expenses. You would arrive at exactly the same result, and I will demonstrate that.

Assume that nothing is allowed in Exhibit 11 of this date in the revenues for the haul of this company coal and assume that all the cost of hauling still remains in the expenses; on this basis the Terre Haute would be operated at a loss by the Milwaukee in 1936 of \$242,460, and in 1937 it was \$239,185, or a total loss for the two years of \$481,645.

In the same period, however, the Milwaukee would have saved the payment of freight charges of \$4,268,878 which it would have to pay had it not had the Terre Haute lease. Deducting from this saving in freight charges the loss from the operations that I have just referred to, the net gain to the Milwaukee for the two years is \$3,787,233. The same figure is arrived at by allowing a credit of tariff rates for the haul of this company material.

Now, before I leave that question as to whether the inclusion of tariff rates or no inclusion of tariff rates makes any difference in the final results, I would like to refer the Court to the report made to it by its trustees. That report was made pursuant to provisions of Section 77, Paragraph C, Sub-Section 9 of the Bankruptcy Act.

MR. BURGESS: I assume if that is in the record there is no reason for having the witness read it.

THE COURT: He may comment on it.

THE WITNESS: I am making comment on a report that has been made to the Court.

THE COURT: Of course, everything is a part of the record in this hearing. Suppose you indicate that as correct in the record.

MR. DYNES: Only a part is material to this hearing and only that part does the witness desire to make allusion to.

THE COURT: All right.

THE WITNESS: Now, the report was signed and prepared by trustees Haight and Cummings. Mr. Scandrett, as the former president of the corporation, of course did not participate.

In dealing with the question of the Terre Haute, trustees Haight and Cummings had this to say on that question of tariff rates, or whether there should be a charge for tariff rates or not. I quote.

"In considering the question of whether the Terre Haute was or was not profitable to the St. Paul it is clear that if no allowance or only a partial allowance is made in the Terre Haute revenues for the haul of the St. Paul Company's locomotive fuel, the difference between the amount allowed and the tariff rate remains in the treasury of the St. Paul Company."

I have no further comments to make on that exhibit.

Now, as to Exhibit No. 12, that shows the gain to the Milwaukee in the same manner I have described as to Exhibit 12 for the first three months ending March 31, 1938, and I have no comment to make except to state that the exhibit shows that for the first three months of 1938, the net income or gain to the Milwaukee after rental was \$415,888.

MR. DYNES: Q Are you through with your comments now, Mr. Sparrow?

A Yes.

Q At the hearing of August 26, 1935, there was introduced as Exhibit 4, a statement of the net earnings and expenses. You introduced that statement, did you not?

A I introduced Exhibit 4, yes.

Q Is this (indicating) a copy of that exhibit?

A Yes, sir.

MR. DYNES: I would like to introduce at this time, or reintroduce a

copy of that exhibit for the convenient handling of the matter in this proceeding and I offer it in evidence as Exhibit 13 of this date,

(Whereupon the said document so received in evidence by the Court, was marked Exhibit 13, 6-20-38, and is returned herewith and made a part hereof).

MR. DYNES: Q For this record will you please state the net income or gain to the Milwaukee after rental for the years 1933 and 1934?

A As shown by Exhibit 13?

Q Yes.

A \$1,925,892 in 1933 and \$1,792,760 in 1934. Those figures are again the net income or gain to the Milwaukee after rental from the operations of the leased property.

Q State if you know whether there are any additional benefits from the operation of the leased property than those indicated?

A I think there are.

Q Do you wish to make any comment as to the nature of them?

A Well, there are revenues accruing to the Milwaukee on business originating on the Terre Haute to points moving on the Milwaukee beyond Chicago, principally coal shipments from mines located on the Terre Haute.

In the last five years those revenues have run between \$700,000 and \$800,000 per annum. Exhibit 5, which I introduced at the hearing before this Court on August 26, 1935, showed these revenues amounted to \$755,459 in 1933 and \$813,320 in 1934.

Q Why did you not include those in your figures in the exhibits?

A As a part of the gain to the Milwaukee?

Q Yes, sir.

A For the reason that although I believe that if we did not have the Terre Haute lease there would be some loss in those revenues to the Milwaukee, the amount cannot be determined and it is somewhat speculative.

Q Will you state, if you know, what the principal industries are that are served by the Bedford Belt Railway Company on which this maturity is to accrue?

A The Bedford Stone industry.

Q For what structural purposes is that product used, Mr. Sparrow?

A It has been used all over the country, all over the United States for public and commercial buildings and finer residences.

Q State if you know whether there is anything unique or unusual that accounts for the popularity of that stone.

A Well, it is my understanding that there is no other developed deposit of limestone in the United States equal in quality to the Bedford stone.

Q What are the facts, Mr. Sparrow, in respect of whether the lines subject to the Bedford Belt Railway Company mortgages are now earning interest on the bonded obligations?

A I am satisfied there are not.

Q Does your answer mean full interest?

A I am satisfied that as to the lines subject to the Bedford Belt mortgage, taking the accrued revenues and deducting expenses, they are not now earning any interest.

Q Have you made any recent investigations of the earnings of the lines subject to that mortgage to determine what their past earnings have been?

A Well, an investigation was made to determine the earnings of these lines for the years 1936 and 1937. That investigation showed that they had an operating deficit before interest in 1936 of approximately \$1,500 and about \$8,000 in 1937. It also showed that if there be taken into account the estimated income available for interest accruing to the system on the movements beyond the lines of the Bedford Belt Railway, the total

income available for interest in 1936 was about \$9,000 in excess of annual interest requirements and in 1937 about \$6,000 or approximately half the interest requirements.

Q To what do you attribute the lack of earnings?

A As a result of the depression there has been a severe decline in the number of new buildings constructed throughout the country and consequently there has been a much smaller movement of this stone.

Q Will you now state if you have records from which the revenues from the Bedford Belt Railway can be determined with respect to pre-depression years?

A The way bills prior to 1932 have been destroyed. We do, however, have the Bedford agent's records showing the finished stone shipped from mills on the Bedford Belt going back to - - well, we took them for 1929. We have them for other years.

Q Did you determine the number of carloads of finished stone?

A Yes, we made that determination and the number of carloads was 1,863.

Q How does that compare with the shipments of finished stone in the years 1936 and 1937 on which you have just commented?

A 337 in 1936 and 249 in 1937.

Q State whether you can make an estimate of the income available for interest of the Bedford Belt in the year 1929.

A We made an estimate based on the revenues per car of the Bedford Belt in 1936 and 1937, and its expenses of handling this business as determined by our studies for the two years which enabled us to make an approximate estimate of the earnings in 1929.

Q What were the approximate earnings?

A The approximate estimate showed that the income available for interest on the Bedford Belt lines in 1929 would have been \$28,000.

Q How does that compare with the interest obligation for the year?

A About 2-1/4 times.

Q Can you state the views, Mr. Sparrow, of the trustees of the debtor estate on the question of whether this property, Bedford Belt Railway Company property, should be abandoned?

A The trustees do not think the line should be abandoned, their traffic department having advised them that in its opinion it is an important piece of mileage that should be retained.

Q State, if you can, the number of Terre Haute owned units of equipment retired and not replaced as of December 31, 1937?

A 2,672 units of equipment.

Q Will you direct the Court's attention to the provisions of the Chicago, Terre Haute & Southeastern Railway Company mortgages governing the replacement of the Terre Haute owned equipment retired which is subject to the liens of those mortgages?

A Article 3, Section 7 of the first and refunding mortgage governs the replacement of equipment and I would like to read the material part of Section 7 of Article 3, which reads as follows:

"It (the Railway Company) will at all times make replacement of any and all engines, cars and other equipment described in Schedule A, and of any and all other engines, cars and other equipment at any time hereafter subject to the Southern Indiana First Mortgage as a lien prior to the lien of this indenture, which shall be or become worn out, lost, destroyed or otherwise disposed of, to such extent that at all times the efficiency and capacity of the equipment so subject to said first mortgage shall be fully kept."

Now, Article 1, Section 1, of the Southern Indiana Supplemental Mortgage and Article 3, Section 7, of the Income Mortgage also provide that replacements shall be made to such extent that at all times the efficiency and capacity of the equipment subject to the liens of those mortgages shall be fully kept up.

Q I desire to call your attention to Paragraph 5 of the petition, particularly the figure of \$7,106,149, and ask you if you desire to make any comments on that paragraph.

A I desire to state that the figure of \$7,106,149 is the estimated cost as of December 31, 1937, of acquiring new equipment having equal capacity to that of the equipment to be replaced.

Q What about equal efficiency?

A Well, new equipment acquired today would, in my opinion, have greater efficiency than equipment acquired many years ago.

Q State, if you know, how the replacement can be made at less cost than the cost of new equipment.

A By making the replacement with used or second hand equipment of equal efficiency and capacity as actually has been done since these mortgages were placed upon the property.

Q Have you given any consideration, Mr. Sparrow, to the matter of replacing the equipment in a practical and economical way with used equipment owned by the trust estate?

A I have considered the practicability of making the replacement with equipment owned by the trust estate, not subject to the lien of an equipment trust, which would have equal efficiency and capacity, the depreciated book value of which as of December 31, 1938, would be approximately \$2,173,467.

Q How could this be done?

A The plan now before the Interstate Commerce Commission filed by the institutional investors provides for the cancellation of the present mortgages and the placing of new mortgages upon the property. If this or some other plan should be adopted, which also provided for the placing of new mortgages upon the property, then it is practicable to hold out and not subject to the liens of the new mortgages sufficient equipment owned by the trust estate, not subject to the lien of any equipment trust, which would in my opinion be of equal efficiency and capacity to the equipment that has been retired and not replaced, and assign, free of liens, all right, title, and interest in the equipment to the trustees of the respective Terre Haute mortgages, and, subject to the liens of those mortgages, to the Terre Haute Corporation.

Q Mr. Sparrow, the petition on hearing states that the trustees will have money available with which to meet this maturity of \$250,000 on July 1, 1938. As officer in charge of finance, will you state the facts in your knowledge in that regard?

A I now estimate that the trust estate will have on June 30, 1938, \$5,300,000 cash.

Q What is your understanding of the trustees' recommendation with respect to this payment?

A It is the opinion of the railroad trustees that the Terre Haute lease is a valuable asset and one which should be preserved for the trust estate and that this payment should be made in accordance with Article 3 of the lease.

MR. DYNES: That, if the Court please, concludes our case unless rebuttal is necessary after cross-examination.

MR. BURGESS: I have a few questions, your Honor, that I would like to ask the witness. Before doing so, however, I will state that I entered into a stipulation with Mr. Dynes and served a copy of this stipulation

of facts on all the parties on the 10th of this month with notice that I would present it at this hearing and I should like to have that presently made a part of this record because if there is any objection I should like to interrogate the witness about the facts that are therein agreed to. Otherwise it will materially shorten the proceeding and I would like to ask that this stipulation be received in evidence as the next serial numbered exhibit which I believe is Exhibit 14.

MR. PETER: I wish to offer an objection to the reception in evidence of that part of the stipulation which is set forth under Roman numeral I, and the exhibits which are a part of that. The grounds of the objection are first, that the fact of filing the proposed plan of reorganization referred to in the exhibit to the stipulation and the proposed plan of reorganization itself are immaterial to the question presented by the trustees' petition this morning.

Secondly, that the proposed plan of reorganization has no probative effect, being a mere proposed plan and not an adopted effective plan.

Third, that the right of the Terre Haute to be paid the rental by the trustees for their use and occupation of the leased road is not a right that has to be worked out during the reorganization plan but is within the sole jurisdiction of this court.

MR. BURGESS: I might state, your Honor, so as to make the matter intelligible to the Court, that this stipulation covers two matters in general. The first matter to which Mr. Peter has been addressing himself is a stipulation as to the facts of the proceeding before the Interstate Commerce Commission, together with copies of the plan prepared by the group which I represent and the debtor's proposed modifications. That plan and modifications were filed by the Interstate Commerce Commission

in this Court on June 10th of this year pursuant to the statute. I simply present it here for convenience.

THE COURT: There is no controversy about the facts. The objection goes to the materiality.

MR. PETER: That is it, to the admissibility.

THE COURT: Well, it may be received subject to your objection.

MR. PETER: May the record show my objection goes to the whole document, then, instead of part one as I limited it in the early part of my statement?

THE COURT: As far as the facts stated in the stipulation are concerned, there is no controversy. Is that right?

MR. BURGESS: The second part, your Honor, relates to the acquisition of the stock of the Terre Haute by the Milwaukee Railroad together with the statement of the common officers and common directors.

THE COURT: I understand Mr. Peter's objection is based on the ground that the facts stated in the stipulation are immaterial.

MR. PETER: In part one. I have no objection to the matters being introduced that are found in part two of this stipulation.

THE COURT: Very well. It will be received in evidence subject to his right to argue the materiality of it.

(Whereupon the said document so received in evidence by the Court, was marked Exhibit 14, 6-20-38, and is returned herewith and made a part hereof)

CROSS-EXAMINATION

By Mr. Burgess:

Q I have here, Mr. Sparrow, the Financial and Commercial Chronicle of June 11, 1938, which shows on page 3776, that for that week the bid and asked price on Chicago, Terre Haute & Southeastern Railway Company first five per cent bonds of 1960 was 46 bid and 46-1/2 asked. May that be

agreed to as showing what the market price was as of that week?

MR. DYNES: I do not dispute that that may be the market price but I desire to make an objection to its admissibility as proof or disproof of anything at issue.

THE COURT: It may be received subject to objection.

MR. PETER: I wish to object to the offer on the ground that it is immaterial and irrelevant.

THE COURT; It may be received.

What bonds are they?

MR. BURGESS: Those are the Terre Haute bonds, your Honor, that the trustees could receive in exchange for these Bedford Belt bonds if they paid the Bedford Belt bonds off. They paid \$250,000 for the Bedford Belt bonds. They could exchange those for these \$250,000 Terre Haute bonds that are now selling in the market at a price below 50.

THE COURT: What happens if they do not pay the Bedford Belt bonds?

MR. BURGESS: Our position is that nothing will happen.

THE COURT: Well, I suppose they can foreclose.

MR. BURGESS: Who could foreclose?

THE COURT: The bondholders.

MR. BURGESS: Why, they could if they were so minded and the Court did not enjoin them from so doing, but the Court has more than ample power to say to these bondholders - -

THE COURT: Well, I do not know what the Court will do after this case has been pending for more than three years.

MR. BURGESS: Well, the plan that is now before the Commission was submitted to the Commission in January of this year. The debtor filed a modification which they recommended. The Commission held prompt hearings on that. The matter has been submitted to the Commission on briefs filed

the first of this very month and is now under consideration by the Commission and that, of course, is a matter I desire to call your attention to after the record is made up.

THE COURT: I suppose, strictly speaking, if the principal is not paid, the trustee can foreclose.

MR. BURGESS: Yes, unless the trustee is in court and can be enjoined, and the Court has such jurisdiction of this property as you say it has so that it is a part of this present proceeding. Our position is that these trustees today have the whole property of the Terre Haute in their custody.

Q Mr. Sparrow, do you have under your control the operating records and financial records of the trustees of the debtor?

A I have the accounting records and financial records; yes.

Q What do those records show as to the net railway operating income for the first four months of this present year 1938 for the system now being operated by these trustees, including the Terre Haute? I mean by net railway operating income that term as it is defined by the Interstate Commerce Commission?

A Well, I do not have those figures with me but if it will satisfy you, I will tell you what it will be for the first six months. We are practically there.

Q No, I am not interested in your prediction as to what it will be. I am interested in what it is as reported to the Court. I now hand you a document entitled Chicago, Milwaukee, St. Paul and Pacific Railway Company Financial and Accounting Departments Reports of Revenues and Expenses for the Month of April, 1938, in Comparison with the Same Month in the Preceding Year, and I ask you to state what that shows as to the net railway operating income for the period from January to and including April 1938?

A The net operating income. The net operating railway income as shown by the statement you have just handed me is \$118,032 for 1938.

Q How does that compare with 1937?

A It compares with \$2,339,701 for 1937.

Q That is, the net railway operating income of this property for the first four months of this year is approximately \$118,000?

A That is right.

Q What is the annual interest on the funded debt of the debtor? Do you recall that figure? I have here the figure of \$23,705,163. Does that correspond with your recollection?

A Well, I would not say that is the figure under the accounting rules of the Commission because when anything matures and is not paid, it becomes interest and unfunded debt. But your figures are correct, forgetting that technicality, so to speak.

Q The trustees were paying interest on some interest - -

A I would say that about 9 million dollars of that 23 million dollars is interest on the adjustment mortgage bonds.

Q That is included in the 23 million dollars?

A Yes, sir.

Q The trustees were paying some interest on their general mortgage bonds, and full interest on the Milwaukee and Northern bonds, the bonds of the subsidiary, until recently, were they not?

A That is correct.

Q And when did the trustees discontinue paying interest on the general mortgage bonds?

A I think with the end of 1936.

Q When did they discontinue paying interest on the two issues of the Milwaukee and Northern bonds?

A The first mortgage bonds we paid up to June 1st of this year and there has been no action taken by the trustees.

Q And no payment made as to the June 1st maturity of interest?

A No, not as yet on the first mortgage or the consolidated bonds. Now, I forget when the last payment was made on the consolidated bonds. It was some time last year.

MR. PETER: Your Honor, may I enter an objection to this line of inquiry on the ground that it is immaterial and irrelevant what the debtor is paying?

THE COURT: I will hear you later on the question of materiality. Most of these figures are a matter of record here in court anyway.

MR. BURGESS: I think that is correct.

THE WITNESS: Yes, we file with the court once a month the income account.

THE COURT: You are picking out something that is already before the court.

MR. BURGESS: Q Are you familiar with the report made by the Bureau of Valuation of the Interstate Commerce Commission in the Chicago, Milwaukee, St. Paul and Pacific Railroad Company reorganization on elements of value of the debtor's property, this report having been filed on April 5, 1936?

A Well, I could not say I am very familiar with it. I know what it showed as cost of reproduction new less depreciation, but I am not very familiar with it.

Q Will you say what the cost of reproduction of the Terre Haute, including its subsidiaries, was as found by the Interstate Commerce Commission for December 31, 1935? I ask you about the cost of reproduction less depreciation and the value of lands and rights.

A I do not understand the Interstate Commerce Commission made any finding as to the reproduction cost new or any other figure about the Terre

MR. BURGESS: I have this (indicating) and I can abbreviate it, your Honor. I have the testimony of Mr. Sparrow before the Interstate Commerce Commission.

THE WITNESS: I could not give you 1921 because the property became leased to the Milwaukee in July, 1921.

MR. BURGESS: Q I have your testimony before the Interstate Commerce Commission, Mr. Sparrow, in which you stated at page 139, "For the three years ended June 30, 1917, the average net railway operating income was \$944,453. For the year 1917, \$870,610." Do you know whether those figures are correct?

A Anything I stated is correct.

Q I hand you the report and ask you whether you can tell me what the net railway operating income was for that three year period ending 1917.

A Didn't you just state what my testimony was?

Q Are those figures correct?

A Yes, sir, I will admit that.

Q I presume you recommended to the trustees that this Bedford Belt maturity be paid on July 1, 1938.

A I sat in several discussions with railroad trustees and gave them my views on it.

Q Well, now neither you nor the trustees have any interest in the leasing arrangement as such, either presently or as a part of the capital structure of the reorganized company, have you?

A The only interest we have is in operating the trust estate to the best interests of the trust estate and dealing with matters that come before us in what we consider to be an equitable and just manner.

Q But, you are not at all interested in whether the reorganized company should be a consolidation of the Terre Haute with these other properties or whether this leasehold should be destroyed, are you?

A I am not interested at all. That will all be tried out by the Commission and the Court and whatever they decide will be satisfactory to me.

Q You are not interested in having the trustees affirm or disaffirm this particular lease, are you?

A I will say I have at this time quite a bit of interest in it.

Q That is, you have an interest, as I understand you, - - your thought is that if this maturity is not paid off there will be a default and thereupon certain untoward events will transpire that will injure, in your opinion, the trust estate and that is the reason you recommend the payment, is that right?

A Well, you asked me whether I or the trustees had any interest in the disaffirmance of this lease. I told you I had a great deal of interest in it.

Q You do not want it disaffirmed?

A I think it would be very costly to the trust estate.

Q On the other hand, you are not asking for any action affirmatively?

A We have asked the Court for instructions.

Q You are not interested, so long as this property is retained as a part of the trust estate, whether the reorganization company represents the consolidated company, or whether it represents the discontinuance of this 999-year lease.

A I haven't any interest in the outcome of this reorganization excepting to hope that it will be speedily accomplished and the railroad put back on its feet again.

Q And that has nothing to do with your recommendation or the decision of the trustees that this maturity should be paid off?

A Nothing at all. The only basis of the recommendation of the railroad trustees and the recommendation I made to them is in the interest of the operation of the trust estate entrusted to the care of the trustees under the jurisdiction of this court.

Q And your only reason, then, as I understand you, for recommending the payment of this maturity is that you believe that if it is not paid, a default will be created that might result in injury to the trust estate, is that right?

A If the lease is not disaffirmed and is not paid, yes. I would like to qualify that question. If you mean the lease is not disaffirmed and the payment is not made, then the only concern I would have is in another default. Now, there are two questions. One is what would happen if the lease was disaffirmed prior to July 1st and payment not made, or the lease not disaffirmed and then default occurs in payment.

Q And your recommendation is that this shall be paid off so a new event of default would not be created on July 1, 1938.

A No, not entirely that. It is the consequences of the new event of default if this payment is not made and the lease not disaffirmed.

Q And that is the reason you are making this recommendation and not for anything that has to do with the setup of the new company. Is that correct?

MR. DYNES: Just a minute. As I understand you, you are excluding from your question any element of benefit to the trust estate from the earnings during the time the trust estate holds and operates this property.

MR. BURGESS: No, I am trying to find out, Mr. Dynes, just why this witness, who is the financial officer of the trustees, has recommended this maturity be met on that date and I think he has answered the question.

Q I want to ask you this: Nothing has happened in regard to these 7 million dollars of other defaults under this lease, has there?

MR. PETER: I object to that on the ground it assumes there are 7 million dollars of defaults.

THE COURT: Well, answer the question.

THE WITNESS: Well, I will state it in this way: There has been no action taken by the trustees of any Terre Haute mortgage or by the Terre Haute itself in respect of failure to replace the equipment.

THE COURT: I understood you to say you had complied substantially with that provision.

THE WITNESS: No, we have not. No, I stated in my direct evidence, your Honor, that there were some 2600 units of Terre Haute equipment that had been retired and not replaced and that constitutes -- maybe I am undertaking to give legal opinions but, as I understand it, it constitutes a default under the mortgage but the mortgage trustees have not declared an event of default.

MR. BURGESS: Q The fact of the matter is, Mr. Sparrow, your answer says there are vacancies in equipment constituting defaults to the extent of 7 million dollars. Is that correct?

A Well, I will say it is not correct as to the liability under the mortgage. I know what it was intended to state and, as Mr. Dynes said in his opening statement, that is the estimated cost to replace equipment new and not the liability of the trust estate or the liability in the correct view of these defaults.

Q That is, it would cost 7 million dollars if the trustees were to cure these defaults by turning over new equipment to the Terre Haute. That is approximately correct, is it not?

A It would be the estimated cost as of December 31, 1937, for new equipment sufficient in capacity to fill those vacancies. That is not the liability under the mortgages or the lease.

Q Your testimony here is to the effect that in your opinion that could be cured by turning over not 7 million dollars worth of new equipment but other equipment that would have a present value of something like 2 million dollars.

A Yes.

Q That is the net of it, but there are these defaults. Now, under your consideration of these documents, this lease and mortgages, that event of default should be taken advantage of not only now, but could have been taken advantage of in the past and could be taken advantage of in the future at any time for the purpose of accelerating the entire 21 million dollars in bonds of the Terre Haute on six months' notice.

A Yes, they would have to give six months' notice.

Q And if you did not pay the Bedford Belt bonds in the amount of \$250,000 on the first day of July, 1938, it would simply be another event of default, would it not, Mr. Sparrow?

A With the very important difference that the trustees of the first and refunding bonds and the trustee of the income mortgage bonds have the right to give immediate notice that the principal of their bonds, some 15 million dollars, is due and payable and according to the advice I have received from our counsel, those bonds would then be an obligation of the trust estate.

Q So your recommendation and your conclusion has been based on these assumptions that you have now stated, is that correct?

A Well, I would not call them assumptions but they are based on those opinions.

Q Well, you believe those to be true?

A I believe them to be so.

Q Next year, 1939, you have two maturities of the Milwaukee and Northern bonds, do you not?

A Yes.

Q And they aggregate approximately 7 million dollars, do they not?

A That is correct.

Q And you are not recommending those be paid off at maturity, are you?

A Well, I do not think I will be recommending when they mature.

Q You state you have approximately 5 million dollars worth of cash in your treasury now?

A Yes.

Q In your opinion, how much cash do you need to cover working capital for this property?

A How much working capital?

Q How much cash do you need as working capital?

A Well, working capital is used so loosely --

Q Well, you testified before the Interstate Commerce Commission about it. You have an opinion.

A Well, I have an opinion of the necessary money after interest to enable the company to meet its bills for material and payrolls. I say after interest. I would say about 4 or 5 million dollars. You can get along with 3 million.

Q For how long?

A Well, if that 3 million is kept constant, you can get along continuously just to meet your payrolls and your material bills if you always have three million dollars in your bank.

Q As the financial adviser of the trustees, would it be your opinion that 3 million dollars would be adequate cash working capital to operate this trust estate?

A Under present conditions, paying nothing, practically, but payrolls, I think there is about 3 million dollars a year of interest and principal to be paid, but defining working capital as the sum necessary for the payment of interest and principal, I would say 3 million dollars. You could get along. I do not think it would be very comfortable, not a very comfortable working capital to continue under because emergencies might arise. Take the very unfortunate and bad wreck we had the other day, it may cost us considerable money.

Q An event of that kind, if you had only 3 million dollars of cash working capital, might well require you to issue trustees' certificates, might it not?

MR. DYNES: Just a minute. That calls upon this witness to state when would become mature the obligations for personal injuries.

THE COURT: The objection is sustained.

THE WITNESS: Well, I cannot tell what the claims would be. I think we can postpone in tight places the payment of vouchers and get by at times and if business did not improve we might be up against the issuing of trustees' certificates.

THE COURT: You are speculating now.

THE WITNESS: I am speculating now, yes.

MR. BURGESS: That is all.

CROSS-EXAMINATION
By Mr. Stewart:

Q Mr. Sparrow, you testified your present cash balance is approximately \$5,300,000.

A That is what I expect it to be at the end of this month. Now, that is what we call the treasurer's cash, the cash we can consider available.

Q Yes. Mr. Scandrett testified before the Interstate Commerce Commission that the cash balance in the treasury at that time was about 3 million dollars. Can you tell me what would cause that increase in the capital and the treasury of the company?

A For what period was that?

Q Well, it was before the Interstate Commerce Commission the last time he testified.

A I think he testified, I wasn't there, but I think he said it was a rough guess we would have 3 million dollars on June 30, 1938, and now we are going to have \$5,300,000 and your question is how did we do it?

Q Yes, sir.

A Good management.

Q I congratulate you. Now, may I ask whether in this present period you have in any way skimmed your maintenance of the road?

A For the first six months of this year we have not made as large expenditures as in the first six months of last year. There is nothing unusual about that. That has been the history of the Milwaukee ever since I have been with it. We sometimes take a hole in our belt, or maybe two holes, and then later on let them out.

Q Well, isn't this increase Mr. Scandrett testified to the last time really due to the fact that the railroad has been economizing and very freely economizing in its maintenance in the last few months?

A Well, it is partly that and partly the fact, I think, that we are using up material which we have had on hand, material and supplies that we have had on hand for some time, that we got some time ago.

Q I am not criticizing what you have done, Mr. Sparrow. I am only trying to elicit the facts.

A Well, I think that is one of the causes.

Q Well, it is also the fact that you are not paying interest on the Milwaukee and Northern bonds?

A No.

Q Nor on the general mortgage bonds. Now, isn't it the fact that if you proceed to make this payment, you are going to give a very great preference to these Bedford bonds over all other obligations of the Milwaukee system?

A Well, you are asking me a legal question. I will give you a curbstone opinion of a layman. I do not think it is. The Bedford is not in bankruptcy and the Milwaukee & Northern and the Milwaukee is in bankruptcy and this is a payment under a lease to a road that is not in bankruptcy. As an ordinary layman I do not see where that preference comes in.

Q Well, perhaps the fact that the lessee is in bankruptcy has some effect on this situation. If the lessee is in bankruptcy perhaps the lessor ought to be in bankruptcy too.

MR. PETER: I suggest that that is a matter of argument and not evidence.

THE WITNESS: Well, I have not been admitted to the bar yet and I cannot give an answer to that question.

MR. STEWART: Q I do not think it is necessary to have been admitted to the bar to answer that question. You have testified in regard to Exhibit 11 introduced this morning, revenues, expenses and net income from operations of Terre Haute lines. Can you tell me how those figures of operation work out if you exclude from them all the Milwaukee, or St. Paul as we call it in the city, traffic from the Terre Haute figures?

A Do you mean the company coal.

Q Well, everything connected with the St. Paul Company.

MR. PETER: We object on the ground it is purely speculative and has no bearing on the issue.

THE COURT: If you can answer, you may do so.

THE WITNESS: I hardly know what that answer is. I could tell you about it if you take the Milwaukee Company coal out but when you talk about other Milwaukee business, I don't know what you mean.

Q Well, I suppose the principal use of the Terre Haute line is that it carries coal, is that correct?

A No. I will tell you this: There is about \$1,800,000 that comes entirely from a source independent of coal. The Milwaukee, through its operations of the lease of the Terre Haute, has divisional arrangements with eastern roads which enables it to participate in the rate east of Chicago. Now, we consider that a very valuable thing. That revenue to the Terre Haute, which is included in these figures is the business that moves through junctions with these eastern roads and the Terre Haute and is the participation in that revenue east of Chicago which the Milwaukee would not have at all if it did not have the Terre Haute to make delivery at Chicago. Now, there is about \$700,000 or \$800,000 of revenue that is from business that originates on the Terre Haute other than coal. I don't know whether you would call that Milwaukee business.

Q No, I want you to tell me how this statement would work out if you excluded from it, as you suggest, the coal.

MR. DYNES: Just let me inquire, please, what light his answer to that question would throw on the issues here.

THE COURT: I do not know. I have reserved your objections on the ground of immateriality until we get these figures in the record and then we can consider whether they have anything to do with the issue before the Court. I am taking all this line of testimony subject to the objection.

MR. DYNES: Yes, sir.

THE WITNESS: I do not know, Mr. Stewart. I want to answer your question but when you ask me if I exclude the Milwaukee revenue from the Terre Haute, I am kind of stumped.

MR. STEWART: Q Well, you can tell me what the Milwaukee gets out of the Terre Haute. Now, I want to know what the Terre Haute gets out of the Milwaukee - - just the reverse.

A Well, I am just stating the revenues that accrue to the Terre Haute which the Milwaukee gets. Now, you are asking me what the Terre Haute would get if there wasn't any lease?

Q Yes, that is what I want to know.

A Oh, Lord, I don't know. I would think that business wouldn't be so good. If you were asking me the question, supposing the Terre Haute were cut loose tomorrow or next week or next month, I think after some seventeen years of operation by the Milwaukee and being left without practically any equipment or little equipment and no working capital, it would be left in a sorry situation.

Q That is what I want to know, Mr. Sparrow. I think you testified that the Bedford Belt line was 4.66 miles in length?

A That was the length of the main line tracks and then there would be other trackage which brings the total trackage to 14 miles. There was 9.44 miles of other tracks and 4.66 miles of main line.

Q And that Bedford Belt line is no part of the main line of the Terre Haute over which coal passes for the benefit of the St. Paul, is it?

A No.

MR. STEWART: That is all.

CROSS-EXAMINATION

By Mr. Peter:

Q Mr. Sparrow, first with reference to the reproduction costs new less depreciation figure, roadway and other properties as of 1935, I believe

it was about 19 million dollars plus. I am not interested in the amount. I want to ask you whether or not the property to which that figure applies includes the equipment which has been lost, destroyed, or worn out before that date and not replaced.

A Well, I do not know for certain but I would assume that the Bureau of Valuation would not include in any reproduction cost new something that was not there.

Q You were asked something about what the earnings of the Terre Haute were in 1920 and 1921. Do you recall what the condition of railroad property was in that time following the conclusion of Federal control?

A Well, I think generally speaking it was not very good.

Q It was bad for all the railroads, wasn't it?

A Well, there may have been some that were not so bad off but I know it was not good for the Milwaukee.

Q You were asked for your reasons for recommendation to the trustees of the payment to be made, or your reasons why the payment should be made by the trustees on July 1, 1938. I suppose they were the same reasons which led the trustees to pay the interest on Terre Haute bonds on June 1st, March 1st and February 1st of 1938. Is that right?

A I do not think there is any difference between the two. I think under the lease one is a rental as much as the other.

Q Are you familiar with the Bedford stone district sufficiently to say whether it is served by another railroad?

A Yes, the Monon serves it.

Q That is the only other one?

A Yes.

MR. PETER: That is all.

CROSS-EXAMINATION
By Mr. Braverman:

Q Mr. Sparrow, in your Exhibit 11, line 38, you show net income to Milwaukee after rental. There is, is there not, another figure of net income to the Milwaukee which is less than that amount?

A I did not hear you correctly. You say I show a figure of net income in line 38 to the Milwaukee after rental.

Q Yes. Now, there is another figure, is there not?

A Give me the line number.

Q Well, there is no line number of the exhibit. I suppose it would be line 40 if it were there.

A What is the figure you are talking about?

Q The figure in line 39 which was introduced before the Interstate Commerce Commission at its hearing.

A Oh, yes, I am familiar with that.

Q There would be deducted from that net income to the Milwaukee after rental, a figure of \$75,750 for the Terre Haute bonds pledged under the first and refunding mortgages for both years 1936 and 1937.

A Well, now, if you are going into that, it is necessary to state the purpose of the exhibit.

That exhibit was introduced before the Interstate Commerce Commission for the purpose of segregating as between the first and refunding mortgage and the general mortgage, the gain to the Milwaukee from the operations of the Terre Haute.

Now, in another exhibit that showed earnings of the line subject to the first and refunding mortgage exclusive of any Terre Haute, the first and refunding had been given credit for \$75,000 of interest on these bonds which are pledged with that mortgage.

Now, in this exhibit you are speaking of, in order to arrive, at our opinion, at any rate, on the proportion of this gain to the Milwaukee total, of course having given them credit for \$75,000 we deducted it in the Terre Haute exhibit. They should not have it twice.

MR. BRAVERMAN: I see. That is all.

REDIRECT EXAMINATION

By Mr. Dynes:

Q Mr. Sparrow, cross-examination questions brought out a comment by you as to a six months period of grace under the mortgages in so far as those defaults which are not defaults in the payment of principal or interest on bonds are concerned.

A That is what I said and I was referring to Article 6, Section 2, of both the first and refunding income mortgages.

Q I am just bringing that to you as the basis of another question. Before any proceedings could be taken against the trustees by the Chicago, Terre Haute & Southeastern Railway Company because of such defaults, not including defaults of payment, behind the interest or principal, I wish you would turn to page 27 and page 28, Article 9 of the petition and indicate to the Court what period of grace it provided in that petition within which the trustees or the Court could determine whether or not to disaffirm the contract, before they would be caught with the obligations that they are caught with if there is a default in the payment of bonded principal or interest.

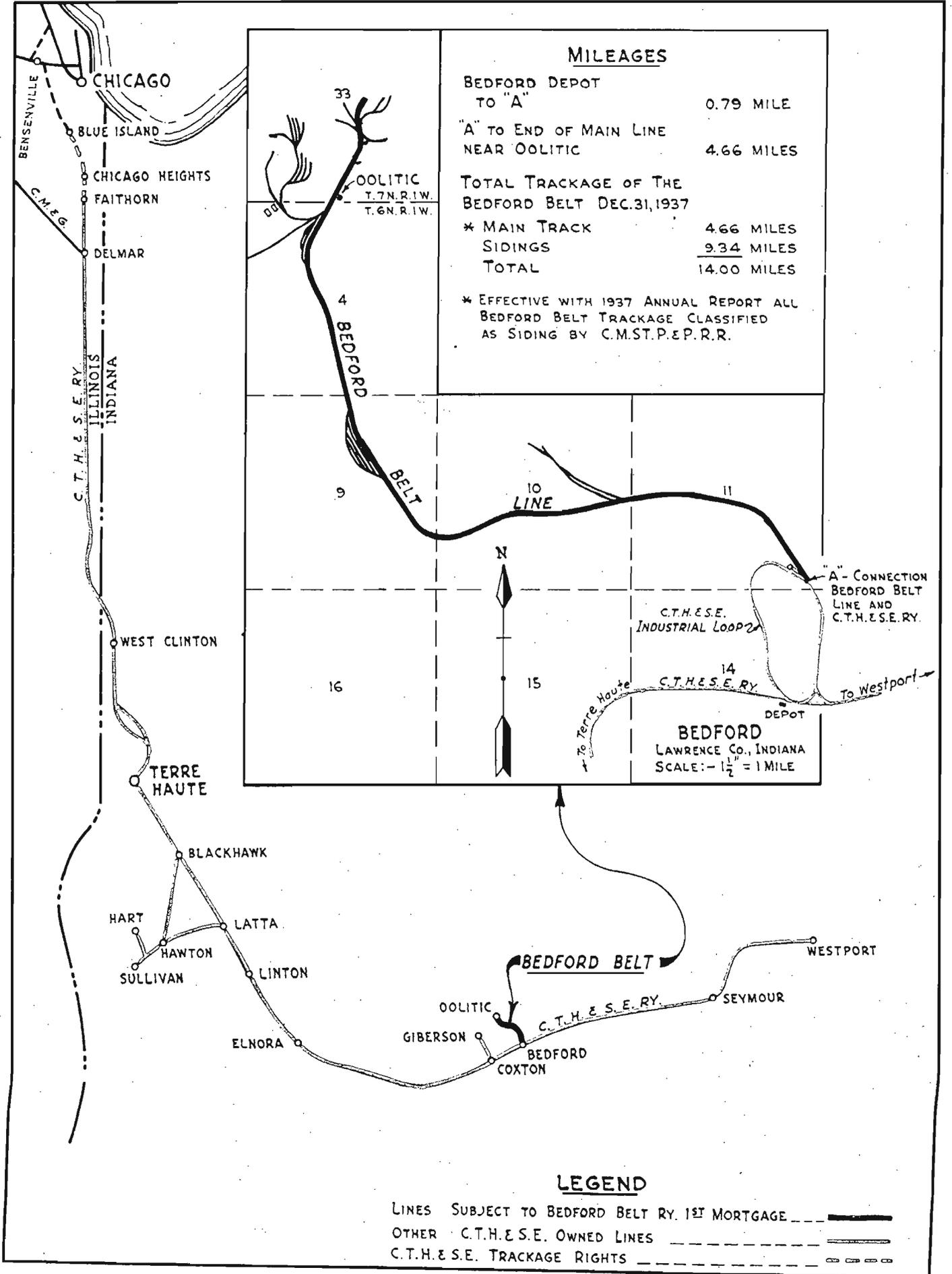
A Well, that Article 9, Section 1, provides that in case of certain defaults, should they continue for a period of sixty days, certain things will take place, but it specifies in regard to that sixty days' notice, "Provided, however, that no such written notice shall be required in any case where the lessee's default hereunder consists of or involves its

failure to abide by, keep and perform any agreement, covenant, condition or obligation contained in any of the aforementioned bonds, mortgages, deeds of trust or conditional sale agreements required by the terms hereof to be by it kept and performed.

Q My question deals only with the defaults in respect of equipment or things other than bonds. That is a sixty day period.

A No, excuse me, Mr. Dynes. I think the provision that applies is this one that says the lessor does not have to give any notice in case lessee's default consists of or involves its failure to keep and perform any agreement, covenant, condition or obligation contained in any of the aforementioned bonds, mortgages and so forth. Now, that would go to the equipment which is a provision of the mortgage but the mortgage itself explicitly provides that in the case of a default in bonds, the trustee does not have to give any notice. In case of default in equipment the trustees and the mortgagor has to serve notice on the Terre Haute and give it six months grace. Under the lease it seems to me to make that distinction. It says that the sixty days' notice does not apply where it is a failure of the lessee to abide by any of the agreements and conditions or obligations contained in any of the aforementioned bonds or mortgages. Now, this equipment is a condition under the mortgage, to replace it. Now, that is the way I thought it meant.

CHICAGO TERRE HAUTE & SOUTHEASTERN RAILWAY
 LINES SUBJECT TO 1ST LIEN OF THE
 BEDFORD BELT RAILWAY COMPANY FIRST MORTGAGE



CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY
Henry A. Scandrett, Walter J. Cummings, George I. Haight, Trustees

In the
DISTRICT COURT OF THE UNITED STATES
For the Northern District of Illinois
Eastern Division

RULES GOVERNING THE PREPARATION OF SEPARATE REPORTS
TO SHOW RESULT OF OPERATION

OF

CHICAGO, TERRE HAUTE AND SOUTHEASTERN RAILWAY

EFFECTIVE JULY 1, 1935

Officer in Charge of Finance and Accounting

RULES GOVERNING THE PREPARATION OF SEPARATE RECORDS
TO SHOW RESULTS OF OPERATION OF
CHICAGO, TERRE HAUTE AND SOUTHEASTERN RAILWAY
EFFECTIVE JULY 1, 1935

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RULES GOVERNING THE PREPARATION OF SEPARATE RECORDS
TO SHOW THE RESULTS OF OPERATION OF THE
CHICAGO, TERRE HAUTE AND SOUTHEASTERN RAILWAY

GENERAL PLAN

1. The following instructions, effective July 1, 1935, shall govern the method to be followed in determining the Revenues, Expenses, Income, or Profit and Loss of the Chicago, Terre Haute and Southeastern Railway: Revenue, Expenses, Income, or Profit and Loss shall be determined actually insofar as possible.
2. For the purpose of allocating Revenues, Operating Expenses, Income and Profit and Loss Accounts of the Terre Haute Division as between C.T.H.& S.E.Ry. and those sections of the Terre Haute Division not a part of the C.T.H.& S.E.Ry., the Terre Haute Division shall be divided into three districts, namely District No. 1, comprising the lines of the C.T.H.& S.E.Ry. terminating at Blue Island, Illinois; District No. 2, comprising the line Delmar to Joliet, Illinois and District No. 3, comprising the line Blue Island to Franklin Park, Illinois.
3. Prior to the operation of the CTH&SERy. by the CMStP&P, the interchange of cars between the CTH&SERy. and the CMStP&P was handled by the IHB at tariff switching rates. At the time of leasing the CTH&SERy. the CMStP&P secured trackage rights for its trains over the Indiana Harbor Belt Railroad between Blue Island and Franklin Park. The movements of cars between the CTH&SERy and CMStP&P are now handled in CMStP&P trains terminating on the north at Bensenville, which is about four miles west of Franklin Park. The expense of operation of trains over the IHB Railroad shall include the expense of such trains between Franklin Park and Bensenville for the reason that, prior to the effective date of the trackage agreement, there was a reciprocal arrangement whereby the IHB delivered cars for the CMStP&P at Bensenville and the CMStP&P delivered cars for the IHB at Norpaul, which is south of Franklin Park.
4. Each individual CMStP&P RR Co. journal entry which includes the accounting for revenue, expense, income or profit and loss shall indicate for each of such accounts stated thereon, the amount of CTH&SERy. revenue, expense, income or profit and loss included in the respective accounts. Each CMStP&P RR.Co. journal entry which does not include CTH&SE Ry. revenue, expense, income or profit and loss shall bear an imprint of a rubber stamp indicating that no such items are included. Each voucher or bill covering revenue, expense, income, profit and loss credits or charges, shall also indicate the CTH&SERy. portion of such credits or charges. An additional copy shall be made of each CMStP&P RR.Co. journal entry which includes the accounting for revenue, expense, income or profit and loss of CTH&SE Ry. The additional copy of each of the journal entries described shall be stamped:

"Record of CTH&SERy. Operations"

5. A separate ledger recording the results of operations of the CTH&SERy. shall be maintained in each accounting department office now having ledger control accounts and reporting to the general ledger, these ledgers shall be labeled "Record of CTH&SERy. Operations" followed by further description identifying the ledger to the particular office, for example:

"Record of CTH&SERy Operations-
Disbursements Ledger"

GENERAL PLAN (Continued)

6. The amounts of CTH&SERy. revenue, expense, income or profit and loss as stated on the CMStP&P RR Co. journal entries referred to in the foregoing shall be posted to the credit or debit of the appropriate revenue, expense, income or profit and loss account on the respective CTH&SERy. ledgers referred to in the preceding paragraph. There shall be no posting to any contra balance sheet account in the recording of CTH&SERy. proportion of these CMStP&PRR Co. entries on the separate ledgers of CTH&SERy. operations. The purpose of the entries being to record only the results of operations of the CTH&SERy. as a separately operated property without recording the assets and liabilities between the two companies.
7. The accounting between the Milwaukee and the CTH&SERy. recording transactions which are not included in the accounts of the Milwaukee as a system including the operations of the CTH&SERy. such as transportation over the CTH&SERy of company coal and other company freight for the Milwaukee and the interchange of equipment of both companies, shall be stated in journal entries for this separate record. These journal entries shall give a complete explanation of the transactions and include a reference to the underlying records from which the entries were prepared. They shall be posted to the credit or debit of the appropriate revenue, expense, income or profit and loss account to which such transactions would be credited or debited in the accounts of CTH&SERy. if operated as a separate company, with contra debits or credits to appropriate balance sheet accounts, the titles of which shall indicate the nature of the amounts entered to each of such accounts, for example the following:
- CMSTP&PRRCo--Transportation Charges on Milwaukee Rail-
road Coal
- CMSTP&PRRCo--Rent of Equipment--Net
8. Closing journal entries shall be prepared each month for the Comptroller accumulating and transferring all of the transactions of the month affecting revenue, expense, income and profit and loss of the CTH&SERy including the balance sheet accounts referred to in paragraph (7). The net amount of these entries shall be debited or credited as the case may be, to an account styled "CTH&SERy General Ledger Control Account."
9. The Auditor of Expenditure shall maintain a separate record of operating expenses by primary accounts of the CTH&SERy supporting the record of operating expenses stated in his separate ledger.
10. The separate record of the results of operation of the CTH&SERy. shall include the accounting for lap-over items of the period prior to July 1, 1935.
11. GENERAL LEDGER ACCOUNTS

The Comptroller shall maintain a separate general ledger in which there shall be recorded the closing journal entries prepared by each Department Auditor having ledger control accounts; in addition, there shall be recorded journal entries, prepared in the Comptroller's office, which include revenues, expenses, income, or profit and loss accounts of the CTH&SE Ry.

GENERAL PLAN (Continued)

STATEMENT SHOWING THE ASSIGNMENT OF THE ACCOUNTS OF REVENUE, EXPENSE,
INCOME AND PROFIT AND LOSS BY REPORTING OFFICES

Revenues	Account	Reporting Office
101	Freight Revenue	Freight Auditor
102	Passenger Revenue	Ticket Auditor
103	Excess Baggage Revenue	" "
100	Mail Revenue	Comptroller
107	Express Revenue	(Comptroller (Auditor of Expenditure
108	Other Passenger Train Revenue	Ticket Auditor
109	Milk Revenue	(Ticket Auditor (Freight Auditor
110	Switching Revenue	Freight Auditor
111	Special Service Train Revenue	(Ticket Auditor (Freight Auditor
133	Station, Train and Boat Privileges	(Ticket Auditor (Auditor of Expenditure
134	Parcel Room Receipts	Ticket Auditor
135	Storage-Freight	Auditor Station Accts.
136	Storage-Baggage	Ticket Auditor
137	Demurrage Revenue	Auditor Station Accts.
138	Telegraph and Telephone	(Auditor of Expenditure (Auditor Station Accts.
140	Stockyard Revenue	Auditor of Station Accts
142	Rents of Buildings and Other Property	Auditor of Expenditure
143	Miscellaneous Revenue	(Freight Auditor (Ticket Auditor (Auditor of Expenditure
151	Joint Facility - Cr.	Auditor of Expenditure
152	Joint Facility - Dr.	" " "

GENERAL PLAN (Continued)

4.

Account		Reporting Office
Operating Expenses		Auditor of Expenditure
Operating Income		
532	Railway Tax Accruals	Comptroller
533	Uncollectible Railway Revenue	Auditor Station Accts.
	Equipment Rents - Net	Car Accountant
	Joint Facility Rents - Net	Auditor of Expenditure
Other Income - Net		
510	Miscellaneous Rent Income	Auditor of Expenditure
511	Rent from Miscellaneous Non-Operating Physical Property	" " "
515	Income from Unfunded Securities and Accounts	" " "
519	Miscellaneous Income	" " "
542	Rent for Leased Roads and Equipment	(Auditor of Expenditure (Comptroller
543	Miscellaneous Rents	Auditor of Expenditure
544	Miscellaneous Tax Accruals	Comptroller
546	Interest on Funded Debt	"
547	Interest on Unfunded Debt	(Auditor of Expenditure (Auditor of Investment (& Joint Facility Accts.
551	Miscellaneous Income Charges	(" " " (Auditor of Expenditure
Profit and Loss		
605	Unrefundable Overcharges	Auditor of Expenditure
607	Miscellaneous Credits	" " "
620	Delayed Income Debits	Auditor of Investment & Joint Facility Accts.
621	Miscellaneous Debits	auditor of Expenditure

RULES GOVERNING THE PREPARATION OF SEPARATE RECORDS
TO SHOW THE RESULTS OF OPERATION OF THE
CHICAGO, TERRE HAUTE AND SOUTHEASTERN RAILWAY

COMPTROLLER'S OFFICE

The following Revenues and Income Items accounted for by the Comptroller shall be assigned to the CTH&SERy. in the following manner:

1. ACCOUNT 106 - MAIL REVENUE

The Post Office Department divides mail service into districts and Indiana is the only state of the CMStP&PRR system falling in the Fifth District. The revenue from that district shall be credited to CTH&SERy.

2. ACCOUNT 107 - EXPRESS REVENUE

Express revenue is reported by the Railway Express Agency by groups, the CTH&SERy. being the only part of the CMStP&P RR system located in the "Eastern Division Group", express revenue reported by the Railway Express Agency for the "Eastern Division Group" shall be credited to CTH&SERy.

3. ACCOUNT 532 - RAILWAY TAX ACCRUALS

Taxes applicable to the Chicago, Terre Haute and Southeastern Railway Company shall be determined actually, and on system journal entries prepared, the amounts applicable to the CTH&SERy. Co. shall be shown separately. The taxes to be considered are as follows:

I N D I A N A	I L L I N O I S	U. S. G O V E R N M E N T
Property Taxes	Franchise Taxes	Excise taxes under Title
Gross Income Taxes	Property Taxes	IX of Social Security Act.
Auto and Truck Licenses	#Unemployment	Excise taxes under
Gasoline Taxes	Compensation	Carrier's Taxing Act
Franchise Taxes	Taxes	of 1937
Unemployment Compensation		
Taxes		

4. ACCOUNT 544 - MISCELLANEOUS TAX ACCRUALS

Taxes applicable to non-operating physical property of the CTH&SERy shall be determined actually and, on system journal entries prepared, the amounts applicable to the CTH&SERy shall be shown separately.

5. ACCOUNT 542 - RENT FOR LEASED ROADS AND EQUIPMENT

System journal entries showing the accrual of interest shall separately show the accrual of interest on C.T.H. & S.E.Ry. Bonds and such amounts shall be charged to C.T.H. & S.E.Ry. Normal Income Tax assumed on C.T.H. & S.E.Ry. Bond Interest shall be assigned direct.

Effective January 1, 1936

φ Effective January 1, 1937

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RULES GOVERNING THE PREPARATION OF SEPARATE RECORDS
TO SHOW THE RESULTS OF OPERATION OF THE
CHICAGO, TERRE HAUTE AND SOUTHEASTERN RAILWAY

FREIGHT ACCOUNTING

1. The revenue from handling commercial freight, switching, miscellaneous and from the haul of CMStP&P RR company coal and other company freight, accounted for by the Freight Auditor, shall be assigned to the CTH&SERy in the following manner:

2. FREIGHT REVENUE

- (a) Revenues from local traffic shall be allocated direct.
- (b) Revenues from interline freight traffic originating or terminating on the CTH&SERy; revenues from interline freight traffic where the CTH&SERy is an intermediate carrier; revenues from the movement of CMStP&P RR company coal and other company freight from stations on the CTH&SERy to stations on the CMStP&P RR (at tariff rates); shall be allocated and credited to the CTH&SERy in accordance with the divisions hereinafter defined.
- (c) Originating and terminating switching performed by all other carriers (including CMStP&P RR) in the Chicago switching district and at all other CTH&SERy stations, in connection with CTH&SERy line-haul traffic, shall be charged to the CTH&SERy at tariff rates.
- (d) All intermediate switching performed by all other carriers in connection with CTH&SERy line-haul traffic shall be charged to the CTH&SERy at tariff rates, except intermediate switching on traffic from foreign lines where they receive line-haul revenue, in which case intermediate switching charges are absorbed by the delivering line-haul carrier.

Note: The movement of CTH&SERy traffic over the Indiana Harbor Belt RR between Blue Island and Franklin Park in CMStP&P RR trains shall not be included as an intermediate switch as the CTH&SERy is charged with a proportion of the total expense of such movements. See instructions under "Disbursement Accounting" for division of this expense.

- (e) Freight revenue shall be charged with the amount of Overcharge claims paid and with the amount of agency relief claims allowed, in the following manner:
 - (1) Overcharge claims paid in connection with shipments local to the CTH&SERy shall be assigned direct.
 - (2) A proportion of Overcharge claims paid in connection with interline shipments shall be assigned to the CTH&SERy in accordance with agreed published divisions.
 - (3) Agency relief claims allowed in connection with shipments local to the CTH&SERy shall be assigned direct.
 - (4) Agency relief claims allowed in connection with interline shipments shall be assigned in accordance with agreed published divisions.
- (f) Freight Revenue shall be charged with the expense in connection with pick-up and delivery service. (Effective January 20, 1936.)

FREIGHT ACCOUNTING (Continued)

3. DIVISIONS - GENERAL

Apply to the revenues of interline freight traffic the agreed published divisions between the CTH&SERy and other lines (including the CMStP&PRR) in effect prior to July 1, 1921, or subsequently established via gateways not opened for traffic movements prior to July 1, 1921. To revenues from movements of coal from points on the CTH&SERy via Chicago to points west thereof on CMStP&P RR lines in Illinois, Iowa, Wisconsin, Minnesota, North Dakota and South Dakota, for which there were no agreed divisions in effect prior to July 1, 1921, apply divisions furnished by the Coal Traffic Manager, which are the same as the divisions allowed the C&EI RR for movements between similar points.

4. SWITCHING REVENUE

Switching revenues of the CTH&SERy shall be reported by agents of the CTH&SERy. at the points where they are earned and allocated direct to the CTH&SERy.

5. MISCELLANEOUS REVENUE

Miscellaneous revenues such as bulkheading, weighing of cars, etc. shall be reported by agents of the CTH&SERy. and allocated direct to the CTH&SERy.

6. SPECIAL SERVICE TRAIN REVENUE (ACCOUNT CANCELLED BY INTERSTATE COMMERCE COMMISSION EFFECTIVE JANUARY 1, 1936 AND THE REVENUES FOR SUCH SERVICES ARE INCLUDED IN ACCOUNTS 101-FREIGHT REVENUE AND 102-PASSENGER REVENUE AS APPROPRIATE)

The revenues earned by the CTH&SERy for special service train movements such as the movements of circus outfits shall be secured from the original freight waybills and credited to the CTH&SERy.

7. MILK REVENUE

Should there be any milk shipments over CTH&SERy. on freight waybills, the revenue thereof shall be secured from such waybills, accumulated and credited direct to the CTH&SERy.

Accounting for Transportation over CTH&SERy. of Ties Treated at
Terre Haute Tie Treating Plant and Forwarded to CMStP&PRR.

8. The freight charges for transportation of ties to the tie treating plant at Terre Haute, Indiana, during each month shall be stated on abstracts prepared for CTH&SERy., separate abstracts for ties shipped from (a) foreign lines, (b) points on CMStP&P and (c) points on CTH&SERy. The weight of the ties and the freight charges over the CTH&SERy. to Terre Haute shall be shown at tariff rates or proportions thereof as may be appropriate. A percentage shall be determined of weight of ties from each of the sources, (a), (b) and (c) named above to the total weight of ties received in the tie treating plant during the month.

9. The total weight shall be determined of all treated ties shipped during the month from the tie treating plant to points on CMStP&PRR and this total weight shall be divided as between ties which originated on (a) foreign lines (b) CMStP&PRR and (c) CTH&SERy. in the same ratios that

FREIGHT ACCOUNT (Continued)

9. (Continued)

the weight of ties received into the tie treating plant during the same month from the respective sources (a), (b) and (c) bears to the total weight of ties received into the tie treating plant during that month. To the weight so determined of ties from each source shipped to CMStP&PRR, shall be applied a division of the tariff rate for transportation from Terre Haute to Blue Island to determine the revenue earned on the CTH&SERy.

10. The weight of all ties received in the tie treating plant and of all ties shipped from the tie treating plant to points on CMStP&PRR, during each month shall be combined in one total; also the freight charges for transportation over CTH&SERy of all ties received in the tie treating plant and all ties shipped from the tie treating plant to CMStP&PRR determined as explained in paragraphs (8) and (9) shall be combined into one total. This total of freight charges shall be divided by the total weight of ties received in the tie treating plant and of ties shipped therefrom to CMStP&PRR to determine the average freight rate per cwt. for transportation of ties over the CTH&SERy, during each month.
11. The average freight rate so determined, and as provided for in Paragraph 10 shall be applied to the total weight of treated ties shipped from the tie treating plant to points on the CMStP&PRR during each month. The result being the revenues earned by the CTH&SERy for the movement of ties to the tie treating plant and reshipped therefrom to points on the CMStP&PRR for its use. The amount of such revenues shall be credited to Account 101, "Freight Revenue", of the CTH&SERy.

Statement of method of accruing for freight revenues of
the CTH&SERy, for transportation of CMStP&PRR company
coal hauled over lines of the CTH&SERy, and used
at points on the CMStP&PRR.

12. (a) The Freight Auditor shall develop each month an average rate per ton for company coal unloaded at points on the CMStP&PRR during the current month that was received from points on the CTH&SERy. For this purpose, the Freight Auditor shall compute the freight revenue earned by the CTH&SERy, from the waybills for each shipment and applying tariff rates and divisions of the rates, using as destinations selected points which give the CMStP&PRR the most favorable division. The revenues of the CTH&SERy shall be divided by the tonnage to determine the average rate per ton earned by the CTH&SERy.
- (b) CTH&SERy proportion of coal taken at Bensenville by locomotives in service on the Terre Haute Division shall be deducted from tonnage and freight charges on coal moving over CTH&SERy, to points on CMStP&PRR before the average rate of freight charges per ton for haul is determined.
- (c) CMStP&PRR proportion of coal taken at Faithorn by locomotives in service between Faithorn and Bensenville shall be included in the tonnage and freight charges in determining the average rate of freight charges per ton for haul over CTH&SERy.

FREIGHT ACCOUNTING (Continued)

13. (a) The Auditor of Expenditure shall determine and report to the Freight Auditor each month the total tons of CMStP&PRR coal which moved over the CTH&SERy in the following manner: Determine from Forms 285, "Daily Report of Company Coal or Fuel Oil Forwarded," the total tons of coal purchased from mines on the CTH&SERy; to that total, add the CTH&SERy proportion of coal taken at Bensenville by Locomotives in service between Faithorn and Bensenville; then deduct the tons of coal consumed on the CTH&SERy, excluding the CMStP&PRR proportion of coal taken at Faithorn by locomotives in service between Faithorn and Bensenville.
- (b) To the total tons determined, as provided for in (a) above, there shall be applied the average rate developed by the Freight Auditor, the result of which represents the revenues of the CTH&SERy for the haul of CMStP&PRR coal over the CTH&SERy.

RULES GOVERNING THE PREPARATION OF SEPARATE RECORDS TO SHOW
THE RESULTS OF OPERATION OF THE
CHICAGO, TERRE HAUTE AND SOUTHEASTERN RAILWAY

PASSENGER ACCOUNTING

1. The revenue from the handling of passenger traffic accounted for by the Ticket Auditor shall be assigned to the CTH&SERy. in the following manner:

2. ACCOUNT 102 - PASSENGER REVENUE
 - (a) Shall include revenue from the sale of tickets, scrip and cash fares collected on trains.
 - (b) Passenger trains operating on the CTH&SERy. make no connection with trains on the CMStP&P RR System. All tickets destined to points local to the CTH&SERy. and accounted for on agents' Local Ticket Reports, shall be allocated direct to the CTH&SERy. All cash fares and scrip collected by conductors reported on conductors' Report of Passenger Business shall be allocated direct to the CTH&SE Ry.
 - (c) Revenue from interline tickets sold by agents on the CTH&SERy. destined to points on the line of a foreign carrier, reported on Agents' Report of Interline Ticket Sales, shall be divided according to published divisions, and the proportion accruing to the CTH&SERy. shall be allocated to CTH&SERy.
 - (d) Revenue from coupons of interline tickets of foreign carriers' issue, for passengers destined to points on and via CTH&SERy, received in train collections, shall be determined according to published divisions and allocated direct to the CTH&SERy. Any difference between the revenue so allocated, and that reported by foreign carriers on interline ticket reports to the CMStP&PRR, shall be adjusted after a period of one year and the amount of the adjustment shall be allocated to CTH&SERy.

3. ACCOUNT 103 - EXCESS BAGGAGE REVENUE
 - (a) Shall include revenue from the shipment of baggage in baggage cars,
 - (b) Revenue from shipments of baggage between points local to the CTH&SERy, and accounted for on agents' Local Baggage Reports shall be allocated direct to the CTH&SERy.
 - (c) Revenue from interline shipments originating on the line of the CTH&SERy. and destined to points on the line of a foreign carrier, reported on agents' Report of Interline Baggage Collections, shall be divided according to published divisions and the proportion accruing to the CTH&SERy. shall be so allocated.
 - (d) Revenue from interline shipments originating on the line of a foreign carrier destined to points on and via the CTH&SERy. as supported by baggage check forwarded to the Ticket Auditor by Agents and from Train Baggage-men's reports, shall be determined by applying published divisions and the proportion accruing to the CTH&SERy shall be so allocated. Any difference between the amount so allocated and that reported by foreign carriers on "Interline Baggage Report" to the CMStP&PRR shall be adjusted in the subsequent month and the amount of the adjustment shall be allocated to the CTH&SERy.

PASSENGER ACCOUNTING (Continued)

4. ACCOUNT 108-OTHER PASSENGER TRAIN REVENUE

- (a) Shall include revenue from shipments of newspapers, dogs, special baggage car movements, etc.
- (b) Revenue from traffic local to the line of the CTH&SErY and accounted for in reports of agents on the CTH&SErY, as well as statements prepared by newspaper publishers, shall be allocated direct to the CTH&SErY.
- (c) Revenue from interline traffic originating on the line of the CTH&SErY., destined to points on the line of a foreign carrier and accounted for in reports by agents of the CTH&SErY, shall be divided according to published divisions. The proportion accruing to the CTH&SErY, shall be allocated direct.
- (d) Revenue from interline traffic originating on the line of a foreign carrier, destined to points on and via the CTH&SErY, shall be taken from foreign carriers' Interline Reports, to the CMStP&P RR, and allocated to the CTH&SErY.

5. ACCOUNT 109 - MILK REVENUE

- (a) Shall include revenue from the transportation of milk and cream on basis of tariff rates.
- (b) Revenue from traffic local to the CTH&SErY, as accounted for by CTH&SErY, agents shall be allocated direct to the CTH&SErY.
- (c) Should there be any interline movements either originating or terminating on the line of the CTH&SErY, the revenue shall be divided according to published divisions, and the proportion accruing to the CTH&SErY, shall be so allocated.
- (d) Revenue from traffic originating on the line of a foreign carrier the proportion accruing to the CTH&SErY, as included in reports rendered by foreign carriers to the CMStP&P shall be allocated to the CTH&SErY.

6. ACCOUNT 111 - SPECIAL SERVICE TRAIN REVENUE (ACCOUNT CANCELED BY INTERSTATE COMMERCE COMMISSION EFFECTIVE JANUARY 1, 1936 AND THE REVENUES FOR SUCH SERVICES INCLUDED IN ACCOUNTS 101-FREIGHT REVENUE AND 102-PASSENGER REVENUE AS APPROPRIATE)

- (a) Shall include revenue from special train movements.
- (b) Revenue from traffic local to the CTH&SErY, as accounted for by CTH&SErY, agents, shall be allocated direct to the CTH&SErY.
- (c) Revenue from interline movements originating on the CTH&SErY., destined to points on the line of a foreign carrier, as accounted for on agents' reports, shall be divided according to published divisions and the proportion accruing to the CTH&SErY, shall be so allocated.
- (d) Revenue from coupons of interline tickets of foreign carriers issued to destinations on and via CTH&SErY., received in train collections, shall be determined according to published divisions and allocated direct to the CTH&SErY. Any difference between revenue so allocated and that reported by foreign carriers on interline ticket reports to the CMStP&P, shall be adjusted in the subsequent month and the amount of the adjustment shall be allocated to CTH&SErY.

PASSENGER ACCOUNTING (Continued)

7. ACCOUNT 133 - STATION, TRAIN AND BOAT PRIVILEGES (Accident Insurance Ticket sales, parcel room lockers, cup vending machines in coaches, vending and weighing machines at stations.)
8. ACCOUNT 134 - PARCEL ROOM RECEIPTS (Storage of parcels at stations)
9. ACCOUNT 136 - STORAGE BAGGAGE REVENUE (Storage of baggage at stations)

Revenue reported to the above accounts for operations at stations on CTH&SERy. shall be allocated direct to the CTH&SERy.

10. ACCOUNT 143 - MISCELLANEOUS REVENUE

Revenue from unclaimed deposits for prepaid transportation, and charges for parking and sanitation of special cars at stop-over points enroute, reported by agents of CTH&SERy. and by foreign carriers on Interline Ticket Reports to the CMStP&P RR. shall be allocated direct to the CTH&SERy.

RULES GOVERNING THE PREPARATION OF SEPARATE RECORDS
TO SHOW THE RESULTS OF OPERATION OF THE CHICAGO,
TERRE HAUTE AND SOUTHEASTERN RAILWAY

13

DISBURSEMENT ACCOUNTING

1. For the purpose of allocating Operating Revenues, Operating Expenses, Income and Profit and Loss accounts of the Terre Haute Division as between CTH&SE Ry. and those sections not a part of the CTH&SE Ry. the Terre Haute Division shall be divided into three districts, namely District No. 1, comprising the lines of the CTH&SE Ry. terminating at Blue Island, Illinois; District No. 2, comprising the line Delmar to Joliet, Illinois and District No. 3, comprising the line Blue Island to Franklin Park, Illinois.

Operating Expenses

Details of operating Expenses shall be stated on the following forms:

2. Form 516 - This form shows by primary accounts and by classes of service the charges directly assignable to and accounted for by the division.
3. Form 517 - This form shows by primary accounts and classes of service the charges directly assignable to divisions accounted for by other divisions.
4. Form 518 - This form is a recapitulation of charges on Forms 516 and 517 accounted for by the division and in addition shows distribution as between labor, material and miscellaneous.
5. Forms 516, 517 and 518 shall be prepared for District No. 1, District No. 2, and District No. 3 as though they were separately operated divisions.

Maintenance of Way and Structures

6. Charges to the primary accounts under Maintenance of Way and Structures for expenses incurred on the CTH&SE Ry., (District No. 1) shall be directly assigned as far as possible.

In addition to the directly assigned charges, the CTH&SE Ry. shall be charged as follows:

7. Account 201 - "Superintendence"
 - (a) Shall include a proportion of the local charges of the Terre Haute Division on the basis of track miles, excluding the track miles of District No. 3.
 - (b) Shall include a proportion of charges from general office payrolls and expenses distributed in the system accounts as common to Southern District, common to Lines East and common to System. The basis of apportionment shall be the ratio which track miles of the CTH&SE Ry. (District No. 1) bears to track miles in the Southern District, Lines East and System, respectively.
8. Account 212 - "Ties" - Shall include an adjustment of charges of the CTH&SE Ry. (District No. 1) for treated ties used, by the difference between the cost as charged out at the system average price and the actual cost at the Terre Haute Tie Treating Plant.

DISBURSEMENT ACCOUNTING (Continued)

9. Account 212 - "Ties" - (Cont'd)

Accounting for Transportation Charges over CMSTP&P RR of Untreated Ties shipped from Points on CMSTP&P RR to CTH&SE Ry. and Chargeable to Operating Expenses in Record of CTH&SE Ry. Operations.

- (a) The percentage of all ties moving into the tie treating plant at Terre Haute, Indiana, during the month, which originated at points on CMSTP&P RR proper (See (b) of paragraph 8, of Freight Accounting) shall be applied to the number of treated ties charged to operating expenses of CTH&SE Ry. during the same month. The weight of such ties so determined shall be computed and to this weight shall be applied the average freight rate determined by the Freight Auditor for transportation over CMSTP&P RR proper of all ties shipped by CMSTP&P RR to the tie treating plant at Terre Haute for treatment. The amount of freight charges so determined shall be charged to operating expense Acct. 212-Ties.
- (b) Freight charges for the transportation over CMSTP&P RR proper of untreated ties originating at points on the CMSTP&P RR and used in maintenance at points on the CTH&SE Ry. shall be determined and charged to Operating Expenses of the CTH&SE Ry. in the following manner: The weight of ties charged to Operating Expenses of the CTH&SE Ry. shall be determined, to which shall be applied the CMSTP&P RR proportion of the tariff rates applicable.

10. Account 247-"Telegraph and Telephone Lines" - Shall include a proportion of charges of the Superintendent of Telegraph and office force distributed in the system accounts as common to Lines East. The basis of apportionment shall be the ratio which wire miles of CTH&SE Ry. (District No. 1) bears to wire miles of Lines East.

11. Account 275-"Insurance" - Fire insurance premiums on structures on District No. 1 and fidelity bond premiums on employes engaged in Maintenance of Way and Structures on CTH&SE Ry. (District No. 1) shall be directly assigned. In addition there shall be included a proportion of amounts paid for public liability and property damage insurance on privately owned automobiles of employes, which is chargeable to this account. The apportionment shall be on the basis of the ratio of the number of automobiles used on CTH&SE Ry. (District No. 1) to the total number of automobiles of the system.

12. Account 278-"Maintaining Joint Tracks, Yards and Other Facilities-Dr." shall include a proportion of the expense for the use of the Indiana Harbor Belt Railroad tracks between Blue Island and Franklin Park (District No. 3) in the ratio that the intermediate switching charges, which would have been assumed by the CTH&SE Ry. at tariff rates had the CTH&SE Ry. been operated as a separate company, bears to the total intermediate switching charges at tariff rates that would have been made by the Indiana Harbor Belt Railroad against CTH&SE Ry and CMSTP&P RR. for cars handled between Blue Island and Franklin Park if the CMSTP&P RR did not have its trackage agreement with the Indiana Harbor Belt Railroad Company.

DISBURSEMENT ACCOUNTING (Continued)

Maintenance of Equipment

13. Charges to the primary accounts under Maintenance of Equipment for expenses incurred on the CTH&SERy. (District No.1) shall be directly assigned as far as possible.

In addition to the directly assigned charges, the CTH&SERy. shall be charged as follows:

14. Account 301 "Superintendence" -

- (a) Shall include a proportion of the charges to Account 301, of the Terre Haute Division, in the ratio that the combined locomotive and car miles of the CTH&SERy. (District No. 1) for the previous month bear to the combined locomotive and car miles of the Terre Haute Division for the previous month.
- (b) Shall include a proportion of charges to Account 301 from general office payrolls and expenses distributed in the system accounts as common to Southern District, common to Lines East and common to System, in the ratio that the combined locomotive and car miles of the CTH&SERy. (District No. 1) for the current month, bear to combined locomotive and car miles in the Southern District, Lines East and System, respectively for the current month.
- (c) Shall include a proportion of charges to Account 301, assigned to District No. 3, in the ratio that the intermediate switching charges, which would have been assumed by the CTH&SERy. at tariff rates had the CTH&SERy. been operated as a separate company, bears to the total intermediate switching charges at tariff rates that would have been made by the Indiana Harbor Belt Railroad against CTH&SERy. and CMStP&P RR. for cars handled between Blue Island and Franklin Park if the CMStP&P RR. did not have its trackage agreement with the Indiana Harbor Belt Railroad Company.

15. Account 308 "Steam Locomotive Repairs" -

- (a) Running Repairs - Shall include a charge determined by multiplying the average cost per locomotive mile of the Terre Haute Division for the previous month by the locomotive miles run on District No. 1 during the current month.
- (b) Classified Repairs - Shall include a proportion of the amount charged to the Terre Haute Division for each locomotive repaired, in the ratio that the mileage made on the CTH&SERy. (District No. 1) during the current month by locomotives in the same service as the locomotive receiving classified repairs, (freight, passenger or switching as the case may be) bears to the total mileage made by locomotives in the same service on the Terre Haute Division.
- (c) Repairs, General - Repairs general to locomotives represents adjustments of Account 308 "Locomotive Repairs", which cannot be assigned to individual locomotives, such as scrap sales adjustments, inventory adjustments and reclamation adjustments. Allocation to divisions is on the basis of the ratio of locomotive miles by divisions to the locomotive miles for the system. A proportion of these adjustments shall be allocated to CTH&SERy. (District No. 1) on the same basis.

DISBURSEMENT ACCOUNTING (Continued)

Maintenance of Equipment

15. Account 308 "Steam Locomotive Repairs" - (Continued)

(d) There shall also be assigned a proportion of repairs to locomotives operated between Bensenville and Blue Island to be determined as follows:

(1) Running and General Repairs - There shall be assigned to District No. 3 a charge determined by multiplying the average cost per locomotive mile of the Terre Haute Division for the previous month by the locomotive miles run on District No. 3 during the current month.

(2) Classified Repairs - There shall be assigned to District No. 3 a proportion of the amount of classified repairs to freight locomotives of the Terre Haute Division in the ratio that the freight locomotive miles run on District No. 3 bears to the total freight locomotive miles run on the Terre Haute Division.

(3) The expense of Running, Classified and General repairs assigned to District No. 3 shall be apportioned and a charge made to the CTH&SErY. (District No. 1) in the ratio that the intermediate switching charges which would be assumed by the CTH&SErY. at tariff rates had the CTH&SErY. been operated as a separate company, bears to the total intermediate switching charges at tariff rates that would have been made by the Indiana Harbor Belt Railroad against CTH&SErY. and CMStP&P RR. for cars handled between Blue Island and Franklin Park if CMStP&P RR. did not have its trackage agreement with the Indiana Harbor Belt Railroad Company.

16. Account 314, "Freight Train Car Repairs," shall include the expense of repairing CTH&SErY.-owned freight cars, determined by applying to such cars the system average cost per car per month.

17. Account 317 "Passenger Train Car Repairs" - Passenger train car repairs incurred on the CTH&SErY. shall be assigned direct. CTH&SErY. shall also be charged with the general repairs of passenger train cars as follows:

(a) A proportion of general repairs made at Milwaukee to gas-electric motor cars operated on District No. 1 in the ratio that miles run on District No. 1 between shoppings bears to the total miles run between shoppings.

(b) A proportion of general repairs made at Milwaukee Shops to passenger cars operating on District No. 1 in the ratio that days operated on District No. 1 between shoppings bears to the total days operated between shoppings.

18. Account 326 "Work Equipment Repairs" - Work equipment repairs shall be charged a portion of system repairs based on the ratio that the CTH&SErY. Maintenance of Way and Structures expense bears to the System Maintenance of Way and Structures expense.

19. Account 329 "Equipment Retirements" - The cost of dismantling CTH&SErY. equipment other than freight or work cars shall be assigned direct. The cost of dismantling freight and work cars shall be determined by multiplying the average cost of dismantling system freight and work cars, as developed for each point, by the number of CTH&SErY. cars dismantled.

20. Account 331 "Depreciation" - The charges to CTH&SErY. shall be the depreciation accruals for CTH&SErY. equipment now in service.

Maintenance of Equipment

21. Account 333 "Insurance" - Cost of fidelity bonds on employes engaged in Maintenance of Equipment on CTH&SE Ry. (District No. 1) shall be directly assigned. In addition there shall be included a proportion of insurance premiums paid for fire insurance on equipment. The apportionment shall be in the ratio that the combined locomotive and car miles of CTH&SE Ry (District #1) bear to the total locomotive and car miles of the system. There shall also be included a proportion of amounts paid for public liability and property damage insurance on privately owned automobiles of employes engaged in maintenance of equipment on CTH&SE Ry. The apportionment shall be on the basis of the ratio of the number of automobiles used on CTH&SE Ry. to the total number of automobiles of the system.
22. Account 334 "Stationery and Printing" - Shall include a proportion of charges assigned to District No. 3 in accordance with the ratio developed, as provided for in Account 301, "Superintendence," sub-paragraph (c).
23. Credits for Work Equipment -
- Credit the various equipment repair accounts of CTH&SE Ry. for use of equipment in work train service, based on rates specified in Comptroller's Circular No. 41 "Rates to be used for use of equipment in construction and maintenance".

Traffic Expenses

24. Account 351 "Superintendence" - Freight
 Account 352 "Outside Agencies" - Freight
 Account 357 "Insurance" - Freight
 Account 358 "Stationery and Printing" - Freight
 A proportion of the charges in these accounts shall be included for the CTH&SE Ry. (District no. 1). The basis of apportionment shall be the ratio which train mile-freight of the previous month of District No. 1 bears to train miles-freight of the System.
25. Account 353 "Advertising" - No charges shall be included in this account for the CTH&SE Ry. (District No. 1)
26. Account 354 "Traffic Associations" - Amounts paid to the Official Classification Committee, Trunk Line Association and Central Freight Association distributed to Account 354-Freight shall be charged the CTH&SE Ry. (District No. 1). In addition a proportion of the amounts paid the Illinois Freight Association distributed to Account 354-Freight shall be included in the charges for the CTH&SE Ry. (District No. 1). The apportionment shall be in the ratio that road miles of District No. 1 in Illinois bears to the system road miles in the State of Illinois.
27. Account 356 "Industrial and Immigration Bureaus" - No charges shall be included in this account for the CTH&SE Ry. (District No. 1).
28. Account 359 "Other Expenses" - The charges to the CTH&SE Ry. (District No. 1) for charges in this account shall be those directly assignable to the CTH&SE Ry.

DISBURSEMENT ACCOUNTING (Continued)Transportation Expenses

29. Charges to the primary accounts under Transportation Expenses incurred on the CTH&SERy. (District No. 1), except those mentioned below, shall be directly assigned.
30. Account 371 - "Superintendence"
- (a) Shall include a proportion of the local charges of the Terre Haute Division on the basis of train miles for the previous month.
 - (b) Shall include a proportion of charges from general office payrolls and expense distributed in the system accounts as common to Southern District, common to Lines East, and common to System. The basis of apportionment shall be the ratio which train miles of District No. 1 bears to train miles, including yard switching locomotive miles of terminal divisions, in the Southern District, Lines East and System, respectively.
 - (c) Shall include a proportion of charges to Account 371, assigned to District No. 3, in the ratio that the intermediate switching charges, which would have been assumed by the CTH&SERy at tariff rates had the CTH&SERy been operated as a separate company, bears to the total intermediate switching charges at tariff rates that would have been made by the Indiana Harbor Belt Railroad against CTH&SERy and CMStP&P RR for cars handled between Blue Island and Franklin Park if the CMStP&P RR did not have its trackage agreement with the Indiana Harbor Belt Railroad Company.
31. Account 372 - "Dispatching Trains" - shall include a proportion of the local charges of the Terre Haute Division in the ratio that the train miles on District No. 1 for the previous month bears to the train miles of the Terre Haute Division for the previous month, excluding District No. 3.
32. Account 373 - "Station Employees" - shall include a proportion of the expense at Union Street, Galewood and Division St. Stations, Chicago, and of the expense of the Chicago Railroad Freight Collection Association at Chicago. The proportion shall be in the ratio that the number of carload waybills for CTH&SERy is to the total number of waybills handled at each station, determined by the Auditor of Station Accounts by making periodical counts of the waybills handled at each of the stations.
33. Account 374 "Weighing, Inspection and Demurrage Bureaus" - The charges to this account for the CTH&SERy. (District No. 1) shall include amounts paid to the Central Freight Association. In addition there shall be included a proportion of the expense from the Western Weighing and Inspection Bureau for demurrage inspection in the ratio that the miles of road CTH&SERy. bears to the total miles of road for the system.

DISBURSEMENT ACCOUNTING (Continued)

34. Acct. 392 - "Train Enginemen"
 Acct. 394 - "Train Fuel"
 Acct. 397 - "Water for Train Locomotives"
 Acct. 398 - "Lubricents for Train Locomotives"
 Acct. 399 - "Other Supplies for Train Locomotives"
 Acct. 400 - "Enginehouse Expense-Train"
 Acct. 401 - "Trainmen"

- (a) A proportion of the expenses charged to the above accounts for trains operating between Bensenville and Blue Island and between West Clinton and Joliet, shall be charged to CTH&SERy (District No. 1) on the basis of locomotive miles, except Account 401, "Trainmen," which shall be apportioned on the basis of train miles.
- (b) A proportion of the charges assignable to District No. 3 on the above bases shall be charged to the CTH&SERy (District No. 1), in the ratio that the intermediate switching charges, which would have been assumed by the CTH&SERy at tariff rates had the CTH&SERy been operated as a separate company, bears to the total intermediate switching charges at tariff rates that would have been made by the Indiana Harbor Belt Railroad against CTH&SERy and CMSTP&PRR for cars handled between Blue Island and Franklin Park if the CMSTP&PRR did not have its trackage agreement with the Indiana Harbor Belt Railroad Company.
35. Account 402 "Train Supplies and Expenses" - Shall include a proportion of the cost of reclaiming waste at Milwaukee in the ratio that freight train car miles of District No.1 for the previous month bears to the total freight car miles of the system for the previous month.
36. Account 407 "Telegraph and Telephone Operation" - Shall include a proportion of charges of the Superintendent of Telegraph and office force distributed in the System accounts as common to Lines East, in the ratio that wire miles of District No. 1 bears to wire miles of Lines East.
37. Account 412 "Operating Joint Tracks and Facilities - Dr.," shall include a proportion of the expense for the use of the Indiana Harbor Belt Railroad tracks between Blue Island and Franklin Park (District No. 3) in the ratio that the intermediate switching charges, which would have been assumed by the CTH&SERy at tariff rates had the CTH&SERy been operated as an independent company, bears to the total intermediate switching charges at tariff rates that would have been made by the Indiana Harbor Belt Railroad against CTH&SERy and CMSTP&PRR for cars handled between Blue Island and Franklin Park if the CMSTP&PRR did not have its trackage agreement with the Indiana Harbor Belt Railroad Company.
38. Account 414 "Insurance" - Insurance premiums paid on contents of buildings and warehouses on the CTH&SERy (District No. 1) and fidelity bond premiums for employes engaged in transportation service on District No. 1 shall be directly assigned. In addition there shall be included the following charges:
- (a) A proportion of premiums paid on contents of cars after eliminating charges for those policies which are known not to be applicable to District No. 1. The apportionment shall be the ratio that freight revenues of CTH&SERy (District No. 1) for the latest month available bears to the freight revenue of the System for the same period.

DISBURSEMENT ACCOUNTING (Continued)

- (b) A proportion of premiums of fidelity bonds of officers and employes of the general offices distributed in the system accounts as common to Lines East and common to System. The apportionment shall be the ratio which train miles of CTH&SERy (District No. 1) bears to train miles, including yard switching locomotive miles of terminal divisions on Lines East and System, respectively.
- (c) A proportion of amounts paid for public liability and property damage insurance on privately owned automobiles of employes, which is chargeable to this account, in the ratio of the number of automobiles used on District No. 1 to the total number of automobiles of the system.
39. Account 418 "Loss and Damage-Freight" - The charges to this account for the CTH&SERy. (District No. 1) where localized shall be assigned direct. Charges not directly assignable shall be prorated to District No. 1 on the basis of road miles between origin and destination of shipments.
40. Charges made to accounts of CTH&SERy for fuel at the average system price shall be adjusted as follows:
- (a) For locomotive fuel, an adjustment shall be made for the difference between the cost as charged at the average system price and the mine price cost, plus actual handling at coal chutes on the CTH&SERy.
- (b) For fuel other than locomotive fuel, an adjustment shall be made for the difference between the amounts determined, using the average system price and the mine price cost on the CTH&SERy.
41. Account 410 - "Stationery and Printing"
 " 411 - "Other Expenses"
 " 415 - "Clearing Wrecks"
 " 416 - "Damage to Property"
 " 420 - "Injuries to Persons"

A proportion of the expenses charged to the above accounts and assigned to District No. 3 shall be charged to CTH&SERy. (District No. 1) in the ratio that the intermediate switching charges, which would have been assumed by the CTH&SERy at tariff rates had the CTH&SERy been operated as a separate company, bears to the total intermediate switching charges at tariff rates that would have been made by the Indiana Harbor Belt Railroad against CTH&SERy and CMSTP&P for cars handled between Blue Island and Franklin Park if the CMSTP&P did not have its trackage agreement with the Indiana Harbor Belt Railroad Company.

Miscellaneous Operations

42. Account 441 - "Dining and Buffet Service"
 " 442 - "Hotels and Restaurants"
 " 443 - "Grain Elevators"
 " 444 - "Stockyards"
 " 445 - "Producing Power Sold"
 " 446 - "Other Miscellaneous Operations"

There shall be no charges in these accounts assignable to the CTH&SERy. (District No. 1) as there are no such operations on that line.

DISBURSEMENT ACCOUNTING (Continued)General Expenses

43. Account 451 - "Salaries and Expenses of General Officers"
 " 452 - "Salaries and Expenses of Clerks and Attendants"
 " 453 - "General Office Supplies and Expenses"
 " 455 - "Insurance"
 " 459 - "Valuation Expenses"
 " 460 - "Other Expenses"
44. Charges to the CTH&SE Ry. (District No. 1) for these accounts shall be a proportion of the charges distributed in the system accounts as common to Southern District, common to Lines East and common to System, excluding charges to these accounts for salaries, personal and office expenses of the Secretary, CMStP&P RR Co. (see Acct. 542-Rent for Leased Roads and Equipment Page 23). The basis of apportionment shall be the ratio that train miles of CTH&SE Ry. (District No. 1) bears to train miles, including yard switching locomotive miles of terminal divisions, in the Southern District, Lines East and System, respectively.
45. Account 454 "Law Expenses" - Charges to this account for Solicitor, State of Indiana, shall be directly assigned to CTH&SE Ry. (District No. 1). In addition, a proportion of charges from general office payrolls and expenses for those offices whose activities are common to Lines East and common to System shall be included. The basis of apportionment shall be the ratio which train miles of District No. 1 bears to train miles, including yard switching locomotive miles of terminal divisions, of Lines East and System, respectively.
46. Account 457 "Pensions" - Assign directly to the CTH&SE Ry. District No. 1 amounts paid superannuated employes whose active service was for the CTH&SE Ry.
47. Account 458 "Stationery and Printing" - Stationery and printing furnished the office of Solicitor, State of Indiana, shall be charged direct to the CTH&SE Ry. (District No. 1). In addition, there shall be allocated to District No. 1 a proportion of charges distributed in the system accounts as common to Southern District, common to Lines East and common to System after deduction of directly assigned charges and of charges to this account for stationery and printing furnished the Secretary, CMStP&P RR Co. The basis of apportionment shall be the ratio which train miles of CTH&SE Ry. (District No. 1) for the previous month bears to train miles, including yard switching locomotive miles of terminal divisions, in the Southern District, Lines East and System respectively.
48. Assign directly to the appropriate general accounts the charges for services of W. F. Peter and clerical force, charges for directors' fees and other corporate expenses reported to Account 542 "Rent for Leased Roads and Equipment" in the CMStP&P RR Co. accounts.
49. Account 461 - "General Joint Facilities-Dr."
 " 462 - "General Joint Facilities-Cr."
 The distribution to these accounts of amounts incurred on the CTH&SE Ry. (District No. 1) shall be directly assigned.

DISBURSEMENT ACCOUNTING (Continued)50. Transportation for Investment-Cr.

To this account shall be credited allowances, at the rate in effect, representing the expense to the CTH&SErY. (District No. 1) of transporting, on transportation trains over the lines of the CTH&SErY. men engaged in and material for construction work chargeable to Investment of the CTH&SErY.

51. Unadjusted Inventory Differences

The CTH&SErY. (District No. 1) shall be charged a proportion of the annual inventory difference. The basis of allocation to all accounts except Account 308, "Steam Locomotive Repairs," and to Account 314, "Freight Train Car Repairs," shall be in the ratio that the material issues to Operating Expense accounts of the CTH&SErY. for the period between annual inventories, bears to the total material issues of the system for the same period. The charges to Account 308, "Steam Locomotive Repairs," and to Account 314, "Freight Train Car Repairs," shall be in the ratio that the charges to these accounts of the CTH&SErY. (excluding material price adjustments, transportation charges and obsolete material adjustments) for the period between annual inventories, bears to the charges of the system for the same period.

52. Material and Stationery Store Expense Adjustment

The CTH&SErY. (District No. 1) shall be charged a proportion of the balances carried in the accounts Material Store Expense and Stationery Store Expense at the end of each year. The basis of allocation shall be the same as shown for "Unadjusted Inventory Differences."

53. Obsolete Material and Other Miscellaneous Adjustments

The CTH&SErY. (District No. 1) shall be charged a proportion of charges from obsolete material and other unusual adjustments not named in the foregoing, which cannot be directly allocated. The basis of allocation shall be as provided for Accounts 308, "Locomotive Repairs", 314 "Freight Train Car Repairs" under "Unadjusted Inventory Differences", using ratios developed for those accounts.

54. Freight Charges on Material Transported Over Lines of the C.M.St.P.& P.R.R.Co. to the C.T.H.& S.E.Ry. (District No. 1)

The Freight Auditor shall develop, based on the storehouse source of material, the freight charges at tariff rates for material transported over the lines of the CMStP&P RR Co. for use on the CTH&SErY. (District No. 1.) These charges shall be allocated by the Auditor of Expenditure to Operating Expenses, Investment and other accounts on the basis of material issues to the accounts affected. The allocation shall be, as far as possible, to the accounts appropriate for the use of the material.

Operating Revenue, Income and Profit and Loss Accounts55. Operating Revenues

Account 107 - "Express"
 " 133 - "Station, Train and Boat Privileges"
 " 138 - "Telegraph and Telephone"
 " 142 - "Rents of Buildings and Other Property"
 " 143 - "Miscellaneous"
 " 151 - "Joint Facility-Cr."
 " 152 - "Joint Facility-Dr."

Amounts reported to these accounts applicable to the CTH&SErY. (District No. 1) shall be localized.

DISBURSEMENT ACCOUNTING (Continued)56. Income Accounts

- Account 508 - "Joint Facility Rent Income"
 " 510 - "Miscellaneous Rent Income"
 " 511 - "Miscellaneous Non-Operating Physical Property"
 " 515 - "Income from Unfunded Securities and Accounts"
 " 519 - "Miscellaneous Income"
 " 541 - "Joint Facility Rents"
 " 542 - "Rent for Leased Roads and Equipment"
 " 543 - "Miscellaneous Rents"
 " 547 - "Interest on Unfunded Debt"
 " 551 - "Miscellaneous Income Charges"

Amounts reported to these accounts applicable to the CTH&SERV. (District No.1) shall be localized.

57. Account 541 "Joint Facility Rents" - Shall include a proportion of the charges for the use of the Indiana Harbor Belt Railroad Tracks between Franklin Park and Blue Island in the ratio that the intermediate switching charges, which would have been assumed by the CTH&SERV. at tariff rates had the CTH&SERV. been operated as a separate company, bears to the total intermediate switching charges at tariff rates that would have been made by the Indiana Harbor Belt Railroad against CTH&SERV. and CMSTP&P RR for cars handled between Blue Island and Franklin Park if the CMSTP&P RR did not have its trackage agreement with the Indiana Harbor Belt Railroad Company
58. Account 542 "Rent for Leased Roads and Equipment" - Charges reported to this account, in the accounts of the CMSTP&P RR.Co. representing services of W. F. Peter, Secretary, CTH&SERV.Co. and his clerical help, charges for directors' fees, franchise taxes, etc., shall be re-distributed to the appropriate operating expense and tax accounts of the CTH&SERV. (District No. 1) which would be charged if the CTH&SERV. were operated as a separate railroad.
59. Account 543 "Miscellaneous Rents" - Charge to the CTH&SERV. (District No. 1) the rental on miscellaneous equipment and roadway machines owned by the CMSTP&P RR Co. and used on the CTH&SERV. at the rental rates specified in Comptroller's circular No. 41 and supplements thereof.

60. Profit and Loss

- Account 605 - "Unrefundable Overcharges" (Prior to January 1, 1930)
 " 607 - "Miscellaneous Credits"
 " 621 - "Miscellaneous Debits"

Amounts reported to these accounts applicable to the CTH&SERV. (District No.1) shall be localized.

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RULES GOVERNING THE PREPARATION OF SEPARATE RECORDS TO SHOW
THE RESULTS OF OPERATION OF THE
CHICAGO, TERRE HAUTE AND SOUTHEASTERN RAILWAY

HIRE OF EQUIPMENT ACCOUNTS

1. CAR RECORDS

A separate car record shall be maintained to show CMStP&P, foreign and private line cars on CTH&SE. The CTH&SE cars shall be grouped separately from the Milwaukee Railroad cars in the system car record books. This record, in addition to showing the movement of cars on the CTH&SE, shall show the car movements on the CMStP&P and movements between foreign lines, from which the detention on the CTH&SE, the CMStP&P or on foreign railroads shall be determined.

2. INTERCHANGE

To establish a basis of interchange of cars moving between the CTH&SE and the CMStP&P the following shall govern: Cars shall be considered delivered by the CTH&SE to the CMStP&P on arrival at Blue Island and from the CMStP&P to the CTH&SE on arrival at Blue Island by having the conductors show on wheel reports the time of arrival at Blue Island in each direction. Cars arriving Delmar over CTH&SE for movement via Gary line, or cars arriving Delmar over the Gary line for movement via the CTH&SE, shall be considered interchanged on the date of arrival at Delmar.

3. PER DIEM

Hire of freight cars for CTH&SE shall include:

Debits:

- (a) Foreign cars on CTH&SE - all classes - at \$1.00 per day
- (b) Milwaukee cars on CTH&SE - all classes including cabooses, at \$1.00 per day.
- (c) Mileage of private cars on CTH&SE at tariff rates
- (d) Reclaims - account all cars handled for the CTH&SE in terminal or intermediate switching service.

Credits:

- (e) For CTH&SE cars except box cars, on foreign roads, at \$1.00 per day.
- (f) For CTH&SE box cars - average as allowed by foreign lines.
- (g) For CTH&SE cars (including ore and box cars assigned to CTH&SE) on Milwaukee - all classes including cabooses \$1.00 per day
- (h) Reclaims account cars handled for foreign roads by CTH&SE in terminal switching service.
- (i) For Milwaukee empty coal cars on CTH&SE in excess of requirements. Empty coal cars - CTH&SE and Milwaukee on line daily in excess of four times the daily loading shall be considered excess Milwaukee cars on CTH&SE and CTH&SE allowed a credit therefor of \$1.00 per car per day.

4. PER DIEM REPORTS

Regular per diem reports shall be prepared of per diem between CMStP&P RR and CTH&SE, which, with per diem reports received from and submitted to foreign lines, shall be used in determining Hire of Freight Cars, as provided for in Paragraph 3, PER DIEM.

5. RENTS FOR AND FROM WORK EQUIPMENT

- (a) Rental shall be charged CTH&SE for CMStP&P work equipment used on the CTH&SE and there shall be a credit of rental to the CTH&SE for CTH&SE work equipment used on the CMStP&P.
- (b) The charges and credits shall be at the rental rate (Account 507) provided in Table 3-A Comptroller's Circular 41-Revised. No charge shall be made for equipment when not in use.

HIRE OF EQUIPMENT ACCOUNT (Continued)

6. RENTS FOR AND FROM PASSENGER TRAIN CARS INCLUDING GAS ELECTRIC OR MOTOR CARS

- (a) Rental shall be charged CTH&SERy. for CMStP&P RR. passenger equipment used by the CTH&SERy. and likewise there shall be credited to the CTH&SERy. for CTH&SERy. passenger equipment used by the CMStP&P RR.
- (b) The rate to be charged and credited the CTH&SERy. shall be determined by the Auditor of Investment and Joint Facility Accounts by applying interest at 5% on 55% of the reproduction cost new (reproduction cost new, less 10% salvage, divided by two, plus salvage,) and depreciation at $2\frac{1}{2}\%$ (straight line basis) on the reproduction cost new.

7. REFUND OF SWITCHING CHARGES

Under code of rules of the General Managers' Association of Chicago governing settlement of intermediate switching charges between railroads within the Chicago district, the road haul carrier is responsible to the switching carrier for such intermediate switching charges it incurred in returning empty cars to the road haul carrier or returning cars to the home road. The CTH&SERy. shall be charged as follows:

- (a) A check shall be made to determine which of the cars handled by the CMStP&P RR. for the CTH&SERy. in switching service were delivered home via belt lines at Chicago, and a charge shall be made against the CTH&SERy. for such intermediate charges paid by the CMStP&P RR.
- (b) A charge shall be made against the CTH&SERy. to cover refund of switching charges paid to other roads on cars delivered by the CTH&SERy. to other lines in terminal switching service, which, after being made empty, are delivered to the home road or returned empty through an intermediate carrier to the CTH&SERy.

Note: The movement of CTH&SERy. traffic over the Indiana Harbor Belt Railroad between Blue Island and Franklin Park in CMStP&P RR. trains shall not be included as an intermediate switching charge, as the CTH&SERy. is charged with a proportion of the total expense of such movements. See instructions under "Disbursement Accounting" for division of this expense.

8. LOCOMOTIVE RENTALS

Rental shall be charged CTH&SERy. for CMStP&P locomotives used on its lines and it shall be credited with the rental of CTH&SERy. locomotives used by the CMStP&P RR., determined as follows:

- (a) Determine monthly the light weight pounds of the locomotives owned by the CTH&SERy. including the five class F-6 locomotives in exclusive service on the CMStP&P RR., to which apply appropriate rates per pound to produce reproduction cost new.
- (b) Determine monthly the light weight pounds of all locomotives assigned to the Terre Haute Division, excluding CMStP&P locomotives in white lead. To this, add the light weight pounds of Milwaukee, Dubuque-Illinois, and Chicago Terminal Divisions assigned locomotives used on the CTH&SERy. (District No. 1) (See Note No. 1), and deduct the light weight pounds of Terre Haute Division assigned locomotives used between Blue Island and Bensenville, between Delmar and Joliet, and on other operating divisions (See Note No. 2). To this result apply appropriate rates per pound to produce reproduction cost new.

HIRE OF EQUIPMENT ACCOUNT (Continued)Note 1

The light weight pounds of Milwaukee, Dubuque-Illinois, and Chicago Terminal Divisions assigned locomotives used on CTH&SE RY (District No. 1) shall be determined by taking a percentage of the light weight pounds of each of such locomotives in the ratio that the miles of each locomotive made south of Blue Island bears to the total miles made by the locomotive during the current month. Idle time in excess of one day, and shopping time shall be excluded from the light weight pounds before the percentage is applied to determine the light weight pounds of these locomotives used on CTH&SE RY. (District No. 1).

Note 2

The light weight pounds of Terre Haute Division assigned locomotives used between Blue Island and Bensenville, between Delmar and Joliet and on other operating divisions, shall be determined by apportioning to such lines the light weight pounds in the ratio that the miles made by each locomotive on the respective lines bears to the total miles made by the locomotive during the current month.

- (c) The difference between the reproduction cost new of (b) over (a) shall represent the reproduction cost new of locomotives rented to the CTH&SE RY. A monthly charge shall be made to Account 537, "Rent for Locomotives," by applying interest at 5% on 55% of the reproduction cost new of locomotives rented to CTH&SE RY (reproduction cost new, less 10% salvage, divided by 2, plus salvage), and depreciation at 3% (straight line basis) on the reproduction cost new.
- (d) The CTH&SE RY shall be charged a proportion of the rental for the use of locomotives between Blue Island and Bensenville. To the light weight pounds developed for the use of Terre Haute Division assigned locomotives between Blue Island and Bensenville in accordance with Note 2, add the light weight pounds of Milwaukee, Dubuque-Illinois, and Chicago Terminal Divisions assigned locomotives used between Blue Island and Bensenville (see Note No. 3). To this result apply appropriate rates per pound to produce reproduction cost new, then compute rental as prescribed in paragraph (c), and apportion the amount thus determined for the use of locomotives between Blue Island and Bensenville in the ratio that the intermediate switching charges, which would have been assumed by the CTH&SE at tariff rates had the CTH&SE RY been operated as a separate company, bears to the total intermediate switching charges at tariff rates that would have been made by the Indiana Harbor Belt Railroad Company against CTH&SE RY and CMSTP&P RR Co. for cars handled between Franklin Park and Blue Island if the CMSTP&P did not have its present trackage agreement with the Indiana Harbor Belt Railroad Company.

Note 3

The light weight pounds of Milwaukee, Dubuque-Illinois, and Chicago Terminal Divisions assigned locomotives used between Blue Island and Bensenville shall be determined by taking a percentage of the light weight pounds of each of such locomotives in the ratio that the miles of each locomotive made between Blue Island and Bensenville bears to the total miles made by the locomotive during the current month. Idle time in excess of one day, and shopping time, shall be excluded from the light weight pounds before the percentage is applied to determine the light weight pounds of these locomotives used south of Blue Island.

RULES GOVERNING THE PREPARATION OF SEPARATE RECORDS TO SHOW THE RESULTS
OF THE OPERATION OF THE CHICAGO, TERRE HAUTE & SOUTHEASTERN RAILWAY

STATION ACCOUNTING

1. The following revenue and income items accounted for by the Auditor of Station Accounts shall be assigned to the CTH&SERy in the following manner:

2. ACCOUNT 135 - STORAGE REVENUE - FREIGHT

This account shall include the revenue from the storage of freight reported by agents of CTH&SERy on Forms 1364, "Storage Report."

3. ACCOUNT 137 - DEMURRAGE REVENUE

This account shall include the revenue from the detention of cars incident to loading, unloading, reconsigning and stops in transit, at tariff rates for demurrage, and as reported by agents of CTH&SERy, on Forms 1362, "Abstract of Demurrage and Trackage Storage."

4. ACCOUNT 138 - TELEGRAPH AND TELEPHONE REVENUE

This account shall include revenue reported by agents of CTH&SERy as "Telegraph Receipts - Western Union" and allocated direct to CTH&SERy. The Western Union Telegraph Company's proportion of such receipts paid by monthly voucher, issued by Superintendent of Telegraph, shall be charged to CTH&SERy.

5. ACCOUNT 140 - STOCKYARD REVENUE

There are no railroad operated stockyards on the CTH&SERy, consequently there will be nothing to report for the CTH&SERy under this account.

6. ACCOUNT 533 - UNCOLLECTIBLE RAILWAY REVENUES

The segregation of this account will be determined without regard to division of revenue and solely on the basis of whose obligation it would be to collect the charges under separate operation. Amounts charged to this account representing uncollectible items in the station accounts of CTH&SERy, or transferred to the account "Sundry Persons Uncollected", shall be recorded and charged to CTH&SERy. Prepaid forwarded charges for traffic originating at Chicago station and inbound collect charges for traffic terminating at Chicago stations forwarded or received via the CTH&SERy which are uncollectible and charged to this account will likewise be recorded and charged to CTH&SERy.
(THIS ACCOUNT WAS CANCELLED BY THE INTERSTATE COMMERCE COMMISSION EFFECTIVE JANUARY 1, 1936, AND THE REVENUES FORMERLY CHARGED TO THIS ACCOUNT ORDERED CHARGED TO THE APPROPRIATE REVENUE ACCOUNTS.)

RULES GOVERNING THE PREPARATION OF SEPARATE RECORDS TO SHOW THE RESULTS
OF THE OPERATION OF THE CHICAGO, TERRE HAUTE & SOUTHEASTERN RAILWAY

INVESTMENT ACCOUNTING

1. The Auditor of Investment and Joint Facility Accounts shall allocate direct to the CTH&SE Ry. all items of Income and Profit and Loss for transactions effecting the CTH&SE Ry.

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY
Henry A. Scandrett, Walter J. Cummings, George I. Haight, Trustees

In the
DISTRICT COURT OF THE UNITED STATES
For the Northern District of Illinois
Eastern Division

REVENUES, EXPENSES AND NET INCOME FROM OPERATIONS OF TERRE HAUTE LINES FOR
YEARS 1936 AND 1937 AS DISCLOSED BY THE SEPARATE BOOKS AND ACCOUNTING
RECORDS MAINTAINED BY THE TRUSTEES SINCE JULY 1, 1935

Line No.	Items	Year 1936	Year 1937
1	<u>Railway Operating Revenues:</u>		
2	Freight - Commercial	\$ 5,180,222	\$ 4,946,702
3	Passenger	12,922	9,709
4	Excess Baggage	1	2
5	Mail	9,564	9,334
6	Express	1,392	1,501
7	All Other Transportation	41,922	50,421
8	Incidental and Joint Facility - Credit	7,854	9,899
9	Sub-Total Revenue Traffic	5,253,877	5,027,568
10	# Freight Revenue for Haul of Milwaukee Company		
11	Material at Tariff Rates:		
12	Coal	2,106,406	1,992,009
13	Other than Company Coal	102,600	67,863
14	Total Railway Operating Revenues	7,462,883	7,087,440
15	<u>Railway Operating Expenses:</u>		
16	Maintenance of Way and Structures	980,023	842,509
17	Maintenance of Equipment	817,853	778,556
18	Traffic	52,017	55,976
19	Transportation	1,292,067	1,315,896
20	General	83,708	96,634
21	Transportation for Investment - Credit	ϕ 4,040	ϕ 8,246
22	Total Railway Operating Expenses	3,221,628	3,081,325
23	<u>Income Items:</u>		
24	Railway Tax Accruals:		
25	Ordinary Taxes	220,744	141,871
26	Railroad Retirement Excise Tax	51,302	1,663
27	Social Security Unemployment Tax	17,284	39,426
28	Total Railway Tax Accruals	289,330	182,960
29	Equipment Rents - Net Debit	846,479	862,052
30	Joint Facility Rents - Net Debit	112,261	117,320
31	Total Income Items - Debit	1,248,070	1,162,332
32	Net Railway Operating Income	2,993,185	2,843,783
33	Other Income - Net	5,403	10,386
34	Income before Milwaukee Rental	2,998,588	2,854,169
35	Milwaukee Rental - Interest on Terre Haute bonds out-		
36	standing (excluding interest on \$1,515,000 of bonds		
37	owned by Milwaukee) and Terre Haute Corporate expenses.	1,032,042	1,033,482
38	Net Income to Milwaukee after Rental	\$ 1,966,546	\$ 1,820,687

Tons of Milwaukee Coal Hauled 2,049,747 2,019,181

ϕ Denotes Red Figures

Officer in charge of Finance and Accounting,
Chicago, Ill., May 10, 1938.

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY
Henry A. Scandrett, Walter J. Cummings, George I. Haight, Trustees

In the
DISTRICT COURT OF THE UNITED STATES
For the Northern District of Illinois
Eastern Division

REVENUES, EXPENSES AND NET INCOME FROM OPERATIONS OF TERRE HAUTE LINES FOR
THREE MONTHS ENDED MARCH 31, 1938, AS DISCLOSED BY THE SEPARATE BOOKS
AND ACCOUNTING RECORDS MAINTAINED BY THE TRUSTEES SINCE JULY 1, 1935

Line No.	Items	Three months ended March 31, 1938
1	<u>Railway Operating Revenues:</u>	
2	Freight - Commercial	\$ 1,222,621
3	Passenger	1,539
4	Mail	2,205
5	Express	140
6	All Other Transportation	6,380
7	Incidental and Joint Facility - Credit	1,416
8	Sub-Total Revenue Traffic	1,234,301
9	# Freight Revenue for Haul of Milwaukee Company	
10	Material at Tariff Rates:	
11	Coal	373,456
12	Other than Company Coal	13,044
13	Total Railway Operating Revenues	1,620,801
14	<u>Railway Operating Expenses:</u>	
15	Maintenance of Way and Structures	121,821
16	Maintenance of Equipment	162,053
17	Traffic	17,060
18	Transportation	320,218
19	General	24,302
20	Transportation for Investment - Credit	ϕ 781
21	Total Railway Operating Expenses	644,673
22	<u>Income Items:</u>	
23	Railway Tax Accruals:	
24	Ordinary Taxes	44,445
25	Railroad Retirement Excise Tax	12,862
26	Social Security Unemployment Tax	13,024
27	Total Railway Tax Accruals	70,331
28	Equipment Rents - Net Debit	204,045
29	Joint Facility Rents -Net Debit	27,565
30	Total Income Items - Debit	301,941
31	Net Railway Operating Income	674,187
32	Other Income - Net	1,873
33	Income before Milwaukee Rental	676,060
34	Milwaukee Rental - Interest on Terre Haute bonds out-	
35	standing (excluding interest on \$1,515,000 of bonds	
36	owned by Milwaukee) and Terre Haute Corporate	
37	expenses	260,172
38	Net Income to Milwaukee after Rental	\$ 415,888

Tons of Milwaukee Coal Hauled 359,092
ϕ Denotes Red Figure

Officer in Charge of Finance and Accounting
Chicago, Illinois, June 3, 1938

EXHIBIT NO. 4
(Exhibit No. 4
in Aug. 26, 1935
Proceedings)

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY

In The
DISTRICT COURT OF THE UNITED STATES
For the Northern District of Illinois
Eastern Division

In the Matter of
Petition of Chicago, Milwaukee, St. Paul
and Pacific Railroad Company, Debtor, for
authority to pay rental obligations aris-
ing under its lease of railroad properties
of Chicago, Terre Haute and Southeastern
Railway Company.

REVENUES, EXPENSES AND NET INCOME OF TERRE HAUTE
LINES FOR YEARS 1933 AND 1934

Office of Vice President,
Finance and Accounting,
August 17, 1935.

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY
In The
District Court of the United States
for the Northern District of Illinois - Eastern Division.
In the matter of - Petition for authority to pay rental obligations
arising under lease of the railroad properties of
Chicago, Terre Haute and Southeastern Railway Company

REVENUES, EXPENSES AND NET INCOME OF TERRE HAUTE
LINES FOR YEARS 1933 AND 1934

Items	1933	1934
<u>Railway Operating Revenues</u>		
Freight	\$4,593,376	\$4,380,523
Passenger	14,955	19,071
Mail	9,979	9,814
Express	1,880	1,574
All Other Transportation	160,785	184,542
Incidental & Joint Facility - Cr.	3,563	5,059
Sub-total Revenue Traffic	4,784,538	4,600,583
# Freight Revenue for haul of Milwaukee coal at tariff rates	1,664,125	1,741,701
Total Railway Operating Revenues	6,448,663	6,342,284
<u>Railway Operating Expenses</u>		
Maintenance of Way & Structures	588,333	778,210
Maintenance of Equipment	750,262	693,092
Traffic	63,351	58,514
Transportation	1,114,980	1,170,649
General	84,018	79,962
Transportation for Investment - Cr.	1,491	3,244
Total Railway Operating Expenses	2,599,453	2,777,183
<u>Income Items</u>		
Railway Tax Accruals	187,610	201,712
Uncollectible Railway Revenues	7	332
Equipment Rents - Net Dr.	565,936	401,380
Joint Facility Rents - Net Dr.	144,092	145,931
Total Income Items	897,645	749,355
Net Railway Operating Income	2,951,565	2,815,746
Other Income - Net	10,447	11,236
Net Income Available for Fixed Charges	2,962,012	2,826,982
Rental paid by Milwaukee	1,036,120	1,034,222
Net Income to Milwaukee after rental	\$1,925,892	\$1,792,760

Tons of Milwaukee Coal hauled 1,610,963 1,626,238

METHOD USED IN ARRIVING AT EARNINGS OF CHICAGO, TERRE HAUTE
AND SOUTHEASTERN RAILWAY COMPANY FOR YEARS 1933 AND 1934.

* * * * *

RAILWAY OPERATING REVENUES

	<u>1933</u>	<u>1934</u>
<u>Freight Revenues:</u>	\$6,257,501	\$6,122,224

An analysis was made for two representative months, April and November, of all shipments, including Milwaukee company coal, originating or terminating on or moving over the Terre Haute lines, from which the total freight charges and the Terre Haute's proportion thereof were determined. In allocating the revenues, other than revenues local to the Terre Haute, the Terre Haute was given the same divisions as were in effect when it was a separately operated company, with the exception that in the case of coal shipments to points north and west of Chicago where divisions had not been established by the Terre Haute the applicable divisions in effect with the Chicago & Eastern Illinois Railway Company were applied.

All intermediate and terminal switching charges* which the Terre Haute as a separately operated property would be required to absorb were deducted from Terre Haute revenues, excepting the Indiana Harbor Belt charge on Terre Haute business moved in Terre Haute trains over the Indiana Harbor Belt. The Terre Haute lines, including trackage rights over the Baltimore & Ohio Chicago Terminal Railroad, end at Blue Island. The Milwaukee has trackage rights over the Indiana Harbor Belt in connection with its operation of the leased lines of the Terre Haute from Franklin Park to Blue Island. As the terminus of the Terre Haute operating division is the Milwaukee's Bensenville Yard, Terre Haute trains run through to that point, and all expense of operation is included in the Terre Haute division expenses. Therefore, the Terre Haute terminus for the purpose of this study, which is a separation of earnings, is considered to be the Bensenville Yard.

The revenues for the Terre Haute ascertained for the months of April and

* Intermediate switching charges in Chicago Switching District are \$5.40 per loaded car and \$2.70 per empty car, except for perishables where rate is \$10.50 per loaded car with free empty return. Terminal Switching charges in Chicago District are per cwt. (minimum 60,000 lbs.), 1-1/2c for coal and 2c for other commodities except grain for which it is \$4.95 per car.

November were expanded to a full year on the following basis:

For Milwaukee company coal the revenue per ton for the two months was applied to the total tonnage for the year; for revenues, other than company coal, reports are made to each State of the freight revenues earned within the State. In the State of Indiana the only mileage operated by the Milwaukee is that of the Terre Haute, so that the freight earnings for that State are the earnings of the Terre Haute within that State. The total freight revenues for the Terre Haute, exclusive of revenue from Milwaukee company coal for the months of April and November for the years 1933 and 1934, as determined by the direct analysis, was found to be 2.72 times these freight revenues for the same two months within the State of Indiana as included in the annual reports to that State. The full year's freight revenues, exclusive of revenue from Milwaukee company coal, were determined by applying this factor to the total freight revenues as reported to the State of Indiana for the year, on the assumption that the ratio of the total Terre Haute revenues to the revenues of that line in the State of Indiana for the full year would bear the same relationship as for the two months, April and November.

<u>Passenger, Mail and</u>	<u>1933</u>	<u>1934</u>
<u>Express Revenues:</u>	\$26,814	\$30,459

Passenger train service is performed only in the State of Indiana, and our Ticket Auditor's office has a complete record of the revenues derived from this service. Mail and express service is also performed only in the State of Indiana, and Terre Haute lines in Indiana are in separate accounting divisions of the U.S. R.P.O. Dept. and the Railway Express Agency. Consequently, our Supervisor of Mail and Express has a complete record of the mail and express earnings of the Terre Haute.

<u>All Other Transpor-</u>	<u>1933</u>	<u>1934</u>
<u>tation Revenues:</u>	\$160,785	\$184,542

Principally switching revenues, with some small revenues from excess baggage

milk and special train service. All of these items were ascertained in full for each year, with the exception of switching revenue for intermediate switching of cars handled for the Milwaukee southbound from Bensenville to Blue Island, which under separate operation would be absorbed by the Milwaukee. The Terre Haute Division ends at Bensenville, and as there has been included in the Terre Haute expenses all train costs and the Indiana Harbor Belt trackage charge* on all cars moving in road haul from the Milwaukee to the Terre Haute, including return of empties received loaded from the Terre Haute for road haul, the switching charge on which the Milwaukee would be required to absorb under separate operation, the Milwaukee has been charged and the Terre Haute has been credited with intermediate switching on a cost basis in lieu of the tariff charge. This credit to the Terre Haute for the intermediate switching of these cars on a cost basis is estimated at \$2.71 per loaded car and \$2.26 per empty car for 1933, and \$2.65 per loaded car and \$2.20 per empty car for 1934, which compares with the Indiana Harbor Belt tariff charges of \$5.40 per loaded car and \$2.70 per empty car. These credits were ascertained for the two months, April and November, and expanded to a full year in the ratio that the freight revenues for the two months were to the full year.

<u>Incidental and Joint</u>	<u>1933</u>	<u>1934</u>
<u>Facility Revenues:</u>	\$3,563	\$5,059

Demurrage, telephone and telegraph, storage freight, rents of buildings, joint facility-Cr. and miscellaneous. Ascertained in full for each year.

RAILWAY OPERATING EXPENSES

<u>Maintenance of</u>	<u>1933</u>	<u>1934</u>
<u>Way Expenses:</u>	\$588,333	\$778,210

The Terre Haute division expenses include all maintenance of way and structures expenditures of the Terre Haute lines, 37.5 miles of the Gary line extending from Delmar to Joliet, and a proper proportion of the Indiana Harbor Belt

* \$1.00 per car loaded or empty after April 1, 1933 and \$1.25 per car prior thereto.

trackage charge for the use of its line between Blue Island and Franklin Park, required under the accounting rules of the Interstate Commerce Commission to be charged to Maintenance of Way and Structures. If, therefore, there is eliminated from these expenditures the maintenance of way and structures expenses of the 37.5 miles of the Gary, we have the maintenance of way and structures expenses for the Terre Haute operation. The maintenance expenses for the 37.5 miles of the Gary were determined from division records for the two months, April and November, and their percentage of the total maintenance expenditures of the Terre Haute division for the same two months. This percentage of the total maintenance expenses of the Terre Haute division for the year was deducted in arriving at the full year's expenses for the Terre Haute operations.

<u>Transportation</u>	<u>1933</u>	<u>1934</u>
<u>Expenses:</u>	\$1,114,980	\$1,170,649

The Terre Haute division expenses include all transportation expenses of the Terre Haute lines, including the operation from Blue Island to Bensenville and operation over the Gary line from Delmar to Joliet. In arriving at the transportation expenses of the Terre Haute division for the year, the expenses in connection with the Gary operation were eliminated in the same manner as described for maintenance of way and structures.

<u>Maintenance of</u>	<u>1933</u>	<u>1934</u>
<u>Equipment Expenses:</u>	\$750,262	\$693,092

Repairs to locomotives in use on the Terre Haute were allocated direct; depreciation and retirement charges are apportionments of system charges upon the basis of locomotive miles. Freight car repairs, depreciation and retirement charges were determined by applying to Terre Haute ownership the system average expenses per car for these items. Other maintenance of equipment expenses are as charged to the Terre Haute Division accounts, after clearing any such expenses applicable to the Gary line.

<u>General and Traf-</u>	<u>1933</u>	<u>1934</u>
<u>fic Expenses:</u>	\$147,369	\$138,476

General and Traffic Expenses are apportioned to operating divisions upon the basis of the combined train and yard switching locomotive miles.

INCOME ITEMS

<u>Taxes, Uncollectible Railway Rev-</u>	<u>1933</u>	<u>1934</u>
<u>enues and Joint Facility Rents:</u>	\$331,709	\$347,975

Taxes are the taxes assessed against the Terre Haute lines. Uncollectible railway revenues are the uncollectible revenues at stations on the Terre Haute lines. Joint facility rents are the net of the joint facility amounts paid and received for such joint facilities used in the Terre Haute operation, including a proper proportion of the Indiana Harbor Belt trackage charge which is chargeable to Joint Facility Rents under the accounting rules of the Interstate Commerce Commission.

<u>EQUIPMENT RENTS</u>	<u>1933</u>	<u>1934</u>
	\$565,936	\$401,380

Locomotive Rental:

The Terre Haute was charged an interest rental of 5% on the depreciated cost new of the tractive effort of the locomotives assigned to and used in Terre Haute operations in excess of its ownership. Interest rental only was charged as the Terre Haute operating expenses include repairs, depreciation and retirement charges for the locomotives used on its lines.

Freight Car Per Diem:

Determined on the basis of ownership as if the Terre Haute was a separately operated railroad. The Terre Haute was credited with the standard per diem rate of \$1.00 per day for its owned cars on foreign lines and on the Milwaukee System, and was debited at the same rate for all foreign cars, including Milwaukee

cars on its lines, except for excess Milwaukee empty coal cars stored on the Terre Haute. In charging the Terre Haute for Milwaukee empty coal cars, all cars in excess of four times the average daily loading were considered surplus. This ratio was determined by our Superintendent of Transportation and takes into consideration a reasonable time for return empty movement, cleaning, distribution in field, spotting at the mine and loading. The figures so determined for the two months, April and November in each of the years 1933 and 1934, were expanded to a full year on the basis of the operating ratios obtaining in the two months.

Private Car Mileage:

Rental for private car mileage is the proportion of System payments applicable to the Terre Haute, including the mileage made between Blue Island and Bensenville. For the two months studied, April and November in each of the years 1933 and 1934, the figures were expanded to a full year on the basis of the operating ratios obtaining in the two months.

	<u>1933</u>	<u>1934</u>
<u>Other Income - Net:</u>	\$10,447	\$11,236

Mainly rent from buildings and land leased to industries: Ascertained in full for each of the years.

	<u>1933</u>	<u>1934</u>
<u>Rental Paid by Milwaukee Under Lease:</u>	\$1,036,120	\$1,034,222

Under the provisions of the lease and the accounting rules of the Interstate Commerce Commission the amounts charged in Milwaukee accounts to Account 542 - Rent for Leased Roads, are (a) interest on Chicago, Terre Haute and South-eastern Railway Company bonds outstanding, and (b) corporate expenses of Chicago,

Terre Haute and Southeastern Railway Company, which for the two years 1933 and 1934 were as follows:

TERRE HAUTE RENTAL AS CHARGED IN ACCOUNTS AND AS PAID

Items in Rental	1933	1934
INTEREST.		
# On bonds outstanding in hands of public	\$1,023,580	\$1,023,580
* On \$1,515,000 principal amount of First and Refunding bonds owned by C.M.St.P.& P. and pledged under its 1st and Ref. Mtge.	75,750	75,750
Total Interest	\$1,099,330	\$1,099,330
OTHER EXPENSES		
Salary of Secretary	\$ 2,250	\$ 2,281
" " Clerk	162	164
" " Stenographer	162	164
Personal Expenses of Secretary	28	10
Directors Fees	110	80
Trustees Fees	815	815
Normal Income Tax on Bond Interest - First & Ref. and Income Bonds	5,295	6,969
Fee of First National Bank of Chicago - as Paying Agent for bond interest	3,592	-
Miscellaneous	126	159
Total Other Expenses	\$ 12,540	\$ 10,642
TOTAL RENT AS CHARGED TO ACCT. 542	\$1,111,870	\$1,109,972
* Less Credit to Acct. 514 - Income from funded securities	75,750	75,750
TOTAL RENT AS PAID	\$1,036,120	\$1,034,222

BONDS OUTSTANDING IN HANDS OF PUBLIC AS OF JUNE 30, 1935

Mortgages	Principal Amounts	Annual Interest			First Lien Mileage	
		Rate	Amount	Due Dates	Road	Total All Tracks
Bedford Belt	\$ 250,000	5%	\$ 12,500	Jan. 1 & July 1	4.66	15.66
Southern Indiana	7,287,000	4%	291,480	Feb. 1 & Aug. 1	240.92	424.90
First & Refunding	8,056,000	5%	402,800	June 1 & Dec. 1	115.17	183.60
Income	6,336,000	5%	316,800	Mar. 1 & Sept.1	-	-
Totals	\$21,929,000		\$1,023,580		360.75	624.16