They've Been Fighting for a Railroad

By ROBERT E. BEDINGFIELD

PORTLAND, Me.—The Spence and Bucky Show—the long conflict over the Bangor & Aroostook Railroad whose tradesmen of northern New England should be to the railroad merging movement—has just come out of one of its periodic, if not always regular, rounds. Another week, another way a good, old story should be told.

This show is a favorite of Boston's State Street and Portland's Congress Street, but for some reason no other railroad financier. So let's see what the situation is becoming interesting, and what it's going to be.

The Principal

Spencer Miller, 60-year-old chairman and president of the Maine Central Railroad, is the principal of the Spence. He has been running that company for 25 years, and he's been trying to keep on doing just that. A graduate of Dartmouth and the Harvard law school, he joined the Maine Central in 1944, became its president in 1952, and has been president and chief executive officer of the company ever since. He is domiciled in Portland, a three-story brick and stone building that was constructed in the 1840's. His office has a fireplace that burns coal; the most important piece of furniture is a roll-top desk.

Bucky is Frederic C. Dumaine, 75-year-old chairman of the Bangor & Aroostook Railroad's executive committee and its chief executive officer. He wants to combine the Bangor & Aroostook with the Maine Central under the Amoskeag Company, a holding corporation that his family controls. (Amoskeag already owns 35 percent of all Maine Central stock but has never attempted to acquire any of it) —by the Interstate Commerce Commission—from voting on the company's matters.

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

The Setting

America has many ailing railroads, and New England's freight-hauling lines are among them. Transporting Maine potatoes to the marketplace, highway trucks have taken over. As the Bangor & Aroostook's management has acknowledged, with 1,912 miles of track in northeastern Maine, reaching to the Canadian border, it is 98 percent owned by the Amoskeag Company. The B.&A. is principally an originating carrier and the wood-and-paper category makes up more than 70 percent of its tonnage.

The Action

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

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

And, adding to Mr. Miller's triumph, the conditions of the re-funding calls are not significant small print. A clause that applies to $5.5 million of the new debt states that, if there is a "merger or consolidation" and has taken over "51 percent of its assets," the Amoskeag in the next 14 years will have to pay the new securities more than twice its face value. The clause bothers Mr. Miller, but he hopes it's a defense against a take-over effort and thus does no damage to his prospects for continued employment.

Mr. Miller asserts that he did not ask for the clause himself—that was requisitioned by the New York Life Insurance Company, which held 2 million of the railroad's old debt and has taken over $5 million of the new securities. Once New York Life came in, the big producers in Maine's north woods, apparently persuaded the bankers to go along with the new debt package. The paper mills, interested in getting their wares to market, wanted to have as many separate railroads as possible operating in their area.

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

The Amoskeag Company bought the Bangor & Aroostook Railroad (from the Bangor Puna Corporation) in 1909. Ever since then, Amoskeag's Maine Central shares, which it started accumulating in 1965, have been held by an independent voting trust. This is intended to keep Amoskeag, a diversified company, from controlling a second railroad. Any corporation controlling one railroad may not control another without I.C.C. sanction.

The Maine Central has had its complaint, alleging that Amoskeag is illegally controlling the railroad, before the I.C.C. Also since 1974, Amoskeag has had a request before the I.C.C. that it be allowed to vote its 51 percent holding of Maine Central stock.

Now, in its newest move, Mr. Dumaine for several reasons: reasons that the "hands off until 1980" clause in the Maine Central's refunding shows that Amoskeag exercises no influence in that railroad's affairs.

Both sides in the Miller-Dumaine argument signed an agreement in June, the I.C.C. Friday, seeking dismissal of each other's motions. David H. Hume, the I.C.C.'s administrative law judge, in the case, has promised them an early decision, but stood firm right now.

Mr. Dumaine asserts that control of the Maine Central by Amoskeag would be a good thing for railroading, Mr. Miller vocates an eventual affiliation of Maine Central with the Bangor & Aroostook, the three systems, Mr. Dumaine said in a meeting with the Interstate Commerce Commission, are separate entities which form a continuous chain, in contrast to parallel lines. Each separate link in the chain gets only a portion of the total freight traffic for a long haul, hence the "division of rate." Mr. Miller, however, vigorously opposes any move that would weaken his role as head of the Maine Central. The other day he discussed his philosophy concerning railway mergers.

"I don't favor mergers of railways," he said, "because every single one of these has been a disappointment. If they resulted either in bankruptcy or the combined earning power, they respectively" was less. "The combined roads prior to merger or the high-proportioned efficiencies and savings have never materialized.

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

"If I think we're going to avoid under-capacity and over-capacity and the other problems of the industry, then we have a new philosophy controlling all of them," he said, "so we shall be working for a united American railroad system, each railroader has a stake in it and the railroaders of the country like the telephone system."

Mr. Miller's re-funding coup means any possibility that his railroad may have to turn to Amoskeag's credit resources to stay out of bankruptcy. For coping with the Maine Central's financial needs, Mr. Miller has been the leading force behind the formation of the Bangor & Aroostook Railroad's new credit trust, which was set up by the federal government to provide working capital for railroads. Mr. Miller has been the leading force behind this trust, which was set up by the federal government to provide working capital for railroads.
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The Bangor & Aroostook grossed $112 million in the first seven months of this year, or less than half the Maine Central's revenues of $23.5 million. The B.A. operated at a net loss of $397,000 in the seven months ended July 31. But the trend of its traffic, like that of the Maine Central, has been up for several weeks.

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

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

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

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

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

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

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

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