

PLAINTIFF'S
EXHIBIT

AB-315

Railroad Conglomerates & Other Corporate Structures

Report to Congress, as Directed by
Section 903 of the Railroad Revitalization
and Regulatory Reform Act of 1976



Interstate Commerce Commission

February 5, 1977

SCF-ABEX-2010

While centralized cash management programs may yield some benefits to the holding company group, the potential for abuse also exists. Commission surveillance of such arrangements is necessary to assure that railroad subsidiaries are receiving their proportionate share of benefits from them.

Purchases/Sales of Materials, Supplies and Services

Some railroads, such as UP, ATSF, and ICG, are affiliated with companies whose products and business services are purchased totally by the carriers. Other subsidiaries and affiliates supply services and products to carriers only as a convenience and not as part of their business line.

With the notable exception of ICG, most of the railroads are supplying or purchasing services and products from companies formerly owned by the railroads and which paid dividends to the railroads from their profits. For example, ATSF previously purchased services and leased trailers from Santa Fe Trail Transportation Company, leased office space from Standard Office Building, and purchased products from a subsidiary of Chanslor-Western. In 1966, 1967, and 1968, ATSF received dividends from these companies aggregating \$6,500,000, \$7,300,000, and \$6,800,000, respectively. When it became evident the companies were going to be transferred to the holding company, the dividends dropped to \$134,796 and zero in 1969 and were eliminated entirely in 1970. Chanslor-Western returned its investment of \$125,000 in a railroad property as a dividend to ATSF in 1970 prior to its transfer to the holding company.

ATSF supplies services to Kirby Lumber Corp., an affiliate, at cost, but purchases lumber products from Kirby at list prices. During the 3-year period, 1973-1975, ATSF's purchases from Kirby have aggregated \$889,000, while it has received \$151,000 for its services to Kirby Standard Office Building, a former subsidiary of ATSF, leases office space

to ATSF on the basis of floor space occupied. During the same 3-year period, ATSF has paid \$2,427,000 for its portion of the space occupied. Viewed at arms'-length, the charges are not unreasonable, but the railroad is paying for something it previously owned, with no return.

A similar situation exists at UP. From 1973 to 1975 inclusive, UP paid Champlin Petroleum Company, a former subsidiary, \$21,788,000 for diesel fuel and lubricants. The profits from these purchases now benefit the holding company.

Two of ICI's subsidiaries, Abex Corp and Chandeysson Electric Co., are manufacturers of products for the railroad industry. Chandeysson, ICI's first major acquisition, was financed by ICRR with a \$4,000,000 loan which was later repaid. Chandeysson sells motors, generators, and carbon brushes to ICG and rebuilds and repairs traction equipment and generators. After ICI purchased Abex, Chandeysson became a subsidiary of Abex, which manufactures brake shoes, wheels, journal bearings, and other products for the railroad industry.

Bidding procedures used in Abex and Chandeysson sales to ICG are currently under review by the Commission. During the 3-year period, 1973-1975, such sales aggregated \$15,485,000.

Southern Pacific Company, while removing its noncarrier subsidiaries from railroad ownership, apparently still needs its railroad personnel to manage certain of its nonrail subsidiaries as well as the holding company itself. During the 4-year period, 1972-1975, SPCO and its pipeline, land, and communications companies paid SPTCO \$7,565,000 for administrative, legal, financial, and clerical services. Of this amount, \$2,209,000 was billed to the holding company alone.

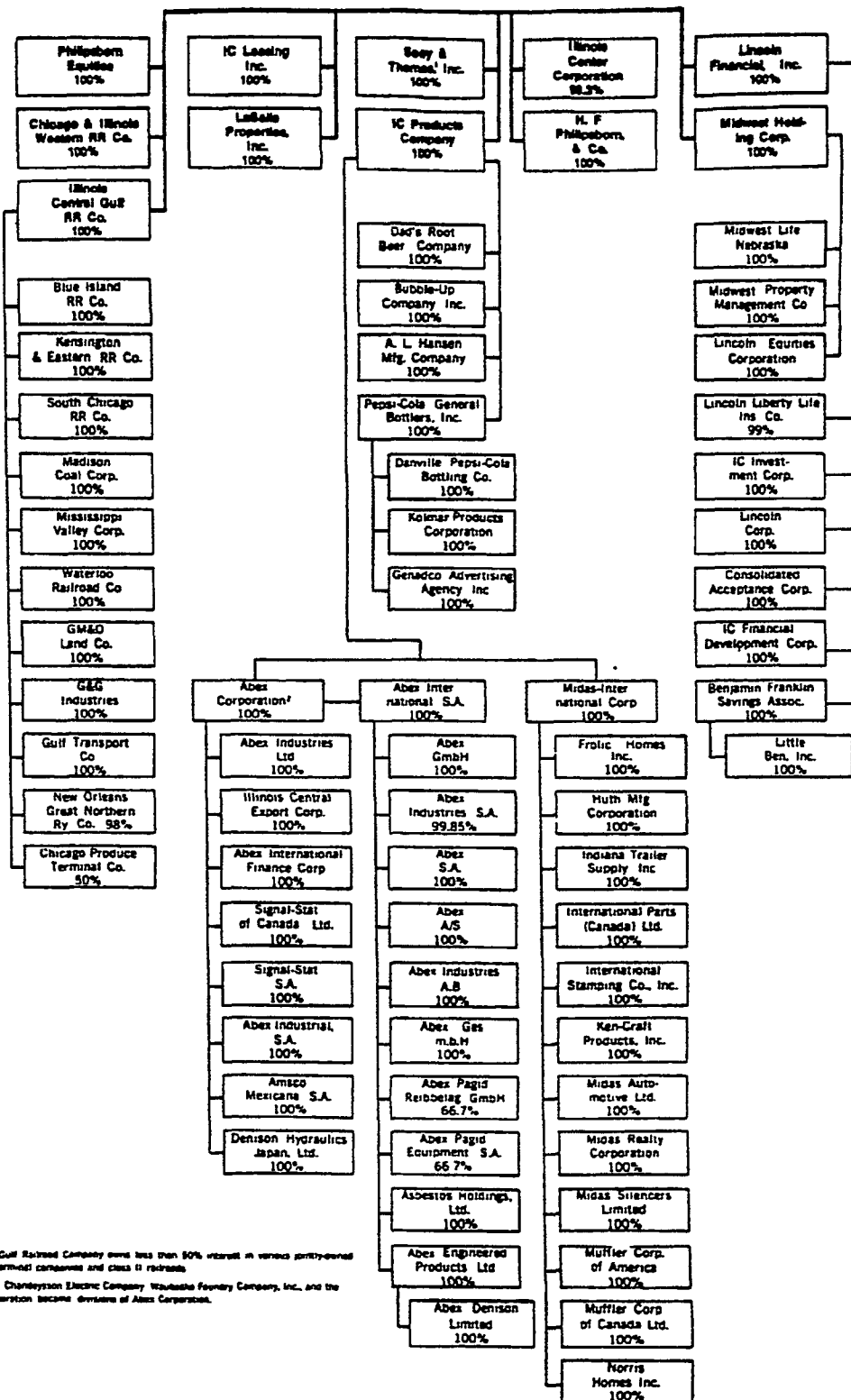
Separation of Assets

The holding company structure has facilitated major removal of valuable noncarrier operating

Union
Pacific
Corp

16.9%

IC INDUSTRIES, INC.



*Illinois Central Gulf Railroad Company owns less than 50% interest in various jointly-owned switching and terminal companies and class II railroads.

*December 1974 Chanderlyson Electric Company, Waukegan Foundry Company, Inc., and the Signal-Stat Corporation became divisions of Abex Corporation.