REPORT OF

ANNUAL MEETING

OF SHAREOWNERS

OF THE

ERIE RAILROAD COMPANY

New York, N. Y.

Tuesday, April 14, 1959

ERIE RAILROAD COMPANY

Midland Building

Cleveland 15, Ohio

April 27, 1959

To Erie Shareowners:

As only a small number of our 20,000 shareowners were able to be present at the annual meeting on Tuesday, April 14, we are sending you this report so that you can be informed of the discussions that took place.

It is a real pleasure to report that a total of 2,006,275 shares of the capital stock of the Company, or 78% of the total stock outstanding, were represented at the meeting either in person or by proxy. The directors and management wish to thank all shareowners who sent in their proxies for their helpfulness and cooperation. We appreciate this expression of confidence.

There were no corporate matters to bring before the meeting other than the election of five directors. The following directors, as named in the proxy statement, were elected to serve for a three-year term:

Daniel C. Borden, Business Counsellor, Pelham Manor, N. Y.

Lester R. Edwards, Vice President, Owens-Illinois Glass Company, New York, N. Y.

Paul W. Johnston, Chairman of the Board, Erie Railroad Company, Cleveland, Ohio.

Milton G. McInnes, Executive Vice President, Erie Railroad Company, Cleveland, Ohio.

Albert F. Metz, Executive Consultant, The Okonite Co., Passaic, N. J.

For your information the opening remarks I made at the meeting and the discussion that followed are included in this booklet. The actual figures for the month of March are now available and are shown on the center pages. You will note that an improvement has been made in the first quarter compared with last year. It is also encouraging that our carloadings for the first 15 days of April exceeded last year by 17½%.

I would like to direct your attention to the enclosed speech by Daniel P. Loomis dealing with labor featherbedding in the railroad industry. The problem has become so acute in view of present inflationary pressures, that some corrective action will have to be taken to eliminate these wasteful practices if the railroads are to maintain and improve their competitive position in today's transportation market. I suggest you acquaint yourselves with these facts as you will be hearing more about them later this year when the present labor contracts expire.

Sincerely,

H. W. Von Willer

President

ERIE RAILROAD COMPANY

ANNUAL MEETING PROCEEDINGS

The Annual Meeting of Shareowners of the Erie Railroad Company convened at 11:00 A.M., Tuesday, April 14, 1959 at the Company's offices, 50 Church Street, New York City, with Mr. Harry W. Von Willer, President of the Company presiding.

PRESIDENT VON WILLER: Good morning ladies and gentlemen. Welcome to the Annual Meeting of the Shareowners of the Erie Railroad Company. We are glad you could come. Before we proceed with the formal business portion of the meeting, I want to introduce to you the directors and officers of the Company who are in attendance. (All but two of the directors were present and introduced.)

It is again my pleasure to report to the meeting that for the fourth consecutive year your Company has been presented with an award by the United Shareholders of America for meritorious achievement in the field of Management-Shareholder relations. Here is the Certificate, and I would like to read the letter received from Mr. Benjamin A. Javits, President of that organization:

"On behalf of the Board of Directors, the Advisory Committee on Awards takes great pleasure in presenting this 1958-59 United Shareholders of America Annual Meeting Award to you as

President
Erie Railroad Company

for excellent Management-Shareholder relations.

"Because of your faith and optimism in America's vast potentialities in the economic area, the upward march of our economy has resumed its strength, for the benefit of all Americans.

"Moreover, we believe that continued faith and optimism will engender unlimited enthusiasm for the steady growth of America's Free Enterprise System, to which the United Shareholders of America is dedicated.

"THEREFORE because of your contribution to this growth, you merit our 1958-59 Annual Meeting Award. It is our hope that the continuance of your efforts will merit our 1959-60 Award."

Sincerely,
/sgn/ Benjamin Javits
Benjamin A. Javits
President

April 14, 1959

The polls are now open and will remain open until all shareowners present have had an opportunity to cast their ballots. Those of you who have not voted as yet for the election of Directors may do so at this time or, if you prefer, you may wait until after the discussion period at which time you may wish to ask some questions.

Copy of the Annual Report for 1958 has been mailed to all shareowners of record. I presume you have received your copy. If not, extra copies are available here for those who may desire them.

In the report we have tried to outline for you the events of the past year and what was done to meet the challenge that was presented to us. It was a difficult year and the results were not as good as we would like to have had them. But considering the depressed economic conditions that prevailed, particularly in the heavy industry section of the east, and the recovery that is now taking place, there is no reason for pessimism or discouragement on the part of anyone associated with the Erie Railroad. A troublesome year is now behind us and we can look forward to the future with confidence.

CARLOADINGS IMPROVING

As you can see from the chart on the wall, Erie carloadings for the first quarter of this year are running well ahead of last year, although still considerably below 1957 and prior years. March showed a particularly nice increase—10.4% above last year. You will notice that each of the last four months was better than last year with the exception of January when we ran a little behind.

One reason January did not show up better was due to the loss of traffic because of the heavy snow and ice followed by thawing rains which flooded parts of our railroad, particularly at Meadville, Pa. where French Creek overflowed its banks and reached a higher flood stage than ever before in its history. It was necessary to detour trains around this area for about four days before the water receded and the ice could be cleared away.

Here is an aerial photograph showing our yards at Meadville where more than 600 freight cars were trapped by the rapidly rising water. All of these cars had to be put through our repair shop to clean out and recondition the journal boxes and air brake equipment. This repair work, together with the lost traffic, the cost of detouring trains, and other expenses incident to cleaning up after the flood cost the Erie about $1 million.

In addition to the water and ice damage at Meadville, the January floods were responsible for the flooding of the bulk of our anthracite properties in the Scranton area operated by the Pennsylvania Coal Company, resulting in a loss of 1,700 cars of coal traffic in the first quarter of this year. At present, pumping operations continue but the future of these mining operations remains questionable.

FIRST QUARTER EARNINGS

Our final figures for March are not available as yet, but we estimate there will be a net income of about $650,000. In March last year, we had a deficit of $321,000. The net income in March will help to offset losses incurred in January and February, so that while the first quarter figures will show a deficit of about $900,000, this is an improvement of $1,716,000 compared with the loss of $2,616,000 in the first quarter of 1958.

Traditionally, the volume of business we handle in the last six months of the year is greater than in the first six months. We have no reason to believe that this year will be any different even though there is some concern about the possibility of a strike in the steel industry this summer. As you know, we depend on steel production for much of our tonnage. If there is no prolonged steel strike, we expect to operate at a profit in 1959 based on our present forecast of traffic volume.

However, it should be pointed out that as additional net income becomes available, we will need to spend more money on our maintenance and repair programs in order to catch up on some of the deferred maintenance that has been created by the economy program we have had to adopt during the past 18 months. This means it is unlikely that there will be a common stock

dividend this year.

I appreciate the shareowners' desire for dividends and the resumption of dividends will continue to be one of our prime objectives. However your best interest is served by keeping the railroad properly maintained and in good operating condition so as to provide the best possible service for its customers.

CURRENT ACTIVITIES

As shareowners, I believe you will want to know the condition of the Erie at the present time, its future opportunities and what we are attempting to do to insure that it is a successful future so that dividends can be resumed without too much delay.

Fundamental to a successful operation is, of course, the rendition of a high-quality service at the lowest possible cost to the customer. Our Operating Department, under Vice President G. C. White, is dedicated to improving our train performance and providing the service that will meet the needs of our shippers and passengers as well as to attract additional traffic. Within the past two months a series of service meetings have been held at various locations, both on-line and off-line, between representatives of the Operating Department and all the members of the Sales Department to discuss ways and means of doing a better service job and increasing our revenues. As a result of such meetings some changes with respect to train operation have already been made and others are under consideration to bring about the desired results.

The recent increase in production in the steel mills has resulted in a stepped-up demand for gondola cars. When it became apparent that steel output would increase, plans were made to repair this class of equipment at our new $4 million car repair shop at Meadville. Unfortunately, just as work on these cars was getting underway, the flood and ice conditions I referred to earlier occurred at Meadville. It was necessary to interrupt our gondola program and start repairs on the 600 cars that had been submerged.

Work is in progress on equipping other gondola cars with covers and bulkheads for handling tinplate. Covers and skids are also being installed in 75 additional gondola cars for coiled steel loading. It is anticipated these cars will be available within a few weeks and we will have all of them by the end of May.

NEW EQUIPMENT

We have placed an order to purchase 200 new box cars at a cost of approximately $13,000 each, or a total of $2,600,000. These cars will be equipped with "damage free" loading devices to satisfy the requirements of our shippers for this class of equipment. The use of "damage free" equipment is especially helpful in reducing damage claims. We expect to start taking delivery of these new cars during the last week of April and we will have practically all of them by the end of May. This will materially improve our car supply. Our percentage of bad order cars is still higher than normal, but these cars will be repaired as business improves and additional funds become available.

Regular maintenance is being performed on all of our diesel locomotives so that they are constantly ready to take care of increased business activity.

During the past two years our programmed track work, including rail renewal, tie renewals, ballast cleaning, tamping, etc., has been considerably curtailed. In spite of such curtailments our track is still well maintained and reflects the advantages from the use of mechanized equipment and also the advantages that accrue from the rail grinding operation. Were it not for the grinding of rail and the use of mechanized equipment in our maintenance program, we would have had to incur considerably greater expenditures than have been made during the past few years and our expenses during the coming working season would also have been considerably higher. We are continuing to make purchases of mechanized equipment where the savings in labor justifies such purchases. This reduction in expenses to increase earnings cannot be continued indefinitely, however, and within the next few years our expenditures for track maintenance work must necessarily be increased.

C.T.C. INSTALLATIONS

We have previously reported progress that is being made in reducing multiple track territory to single track by the installation of Centralized Traffic Control signalling. We expect to begin work very shortly on the third stage on the Marion Division between Bippus, Ind., and Akron, Ind., as this territory is scheduled for new rail in 1959. We also have under study the installation of C.T.C. and single tracking on the Mahoning Division between Phalanx and Solon, Ohio. It is contemplated that this work will be undertaken within the next couple of years when heavy rail

and tie renewals become necessary. Such projects improve our earnings through reduction in expenses.

During the summer of 1956 our facilities for placing ore in storage at North Randall near Cleveland were destroyed during a windstorm. Since that time, because of lack of activity in the steel mills, there was no necessity for storing additional ore at that location. It now appears that there will be some requirement for storage of ore during the coming season by reason of the increased activity in the mills and also by the possibility of a strike of the steel workers. We are therefore proceeding with the rehabilitation of a portion of the ore storage facility so that we will be in a position to take care of this traffic when offered.

REDUCING COMMUTER LOSSES

On January 17th certain reductions were made in local train service on the New York Division between Suffern and Port Jervis and effective March 28th further reductions in local service were made between Hoboken and Port Jervis. It is anticipated that these reductions will produce savings approximating $450,000 per year. We presently have under study the matter of further reductions in local service on trains that are poorly patronized and every effort will be made to bring about further reductions. The matter will be progressed as rapidly as possible and the expediency with which such further reductions can be effected will depend largely upon the attitude of the New Jersey Public Utility Commission. Finding ways to reduce the losses in operating suburban service, which are now running about $2 million annually, is still one of our most challenging problems.

FREIGHT TRAFFIC

The major problem facing Erie and all other Eastern railroads is the need for additional freight tonnage. All of you are familiar with the inroads made by our competition in the last ten years whereby railroad participation in the inter-city ton miles has decreased from 65% of the total in 1947 to 47% in 1957. This represents a loss of more than 1½% per year. To reverse this trend requires some bold steps and in my opinion the two main steps are; realistic pricing, and furnishing quality service.

Due to the very nature of the railroad industry —it being a national transportation agency—both quality service and realistic pricing demand complete cooperation among carriers. Railroads have been working diligently toward improving their service . . . but much remains to be done.

Last year, for the first time in the history of American railroads, regional market research groups were established to develop the fundamental basic data needed to make proper pricing decisions. Research trained men, using modern marketing techniques and basic economic data, have developed cost factors to provide the information necessary to help solve our competitive pricing problems. We are now before the Interstate Commerce Commission in hearings on a general Paint Rate Case based on this type of research. If the new 1958 transportation legislation means what we think it does, and we get the right decision from the Commission, we are well on our way to increasing the railroads' participation in the country's increasing production.

PIGGY-BACK

I just completed testifying before the Commission on April 10th in the hearing on the so-called Plan III Piggy-Back Rate Case. These rates are now in effect in the East and are under investigation by the Commission. Plan III Piggy-Back provides for the handling of shippers' trailers (two trailers to a car with a 70,000 lb. payload) with the rail carrier performing the line haul transportation only or a loading ramp to an unloading ramp service.

One of the bright spots in Erie's 1958 performance was the increase in over-all piggy-back service which showed an increase of 72% in gross revenue. We expect this traffic increase will continue in 1959. The growth of this traffic in recent years is indicated by the following:

In 1957 over 1956 we had an increase of 91%; in 1958 over 1957 it was 72%, and an estimate for this year shows an increase of 59%. Actually from the standpoint of our business in March, I am inclined to feel that our estimate of 59% for this year is low.

INDUSTRIAL DEVELOPMENT

Industrial development, which is of prime importance to Erie, is stepping up after a lull in 1957 and 1958. The latest plant to locate on our line is that of the Merchants Refrigerating Co. of New York. On March 23, 1959, they closed title for 25 acres of land at Secaucus, N. J., with construction to follow promptly. This firm's traffic, consisting principally of frozen foods, should approach 1800 cars per year, with an estimated traffic value of $400,000 per year.

Another important industrial development is the recent acquisition by Owens-Illinois Glass Co. of 72 acres in North Bergen, N. J., where they will build a distribution warehouse and, in addition, have ample room for future development. This location, while adjacent to the West Shore Railroad and the N.Y.S. & W. Railroad, will be served by Erie. We were quite fortunate to have

the help of our Director Lester Edwards, who is a Vice President of Owens-Illinois, in the selection of this site.

The business level in the Erie area is up sharply as a result of increased activity in the heavy goods industry—particularly iron and steel and automotive. Some of the iron and steel activity undoubtedly is caused by the build-up of inventory due to the expected labor trouble in July, but a good portion of the output is being consumed currently.

In addition, the forecasts for industrial production for the country as a whole in the second and fourth quarters are encouraging. With this anticipated production, coupled with proper adjustments in pricing and our sales efforts channeled to produce maximum results, we should surpass our present estimates for the year.

MERGER STUDIES

I know you are all interested in the status of the merger studies between the Erie, DL&W and D&H Railroads. I think probably most of you have read your morning papers and have seen the announcements of yesterday's developments. At 4:00 P.M. yesterday afternoon, following a joint meeting of the three merger committees which ended at noon, the following press releases were issued to the newspapers—there were two of them—the first read:

"The presidents of the Erie; Delaware, Lackawanna and Western; and Delaware and Hudson Companies announced today that merger negotiations between the three companies have been terminated by the merger committees of the three boards of directors with much regret.

"In view of the economies possible by merger it was sincerely hoped by all concerned that a merger could be consummated and every effort possible had been made to successfully conclude such a merger. However, under present conditions it has not been possible to find a basis for a merger that would be equitable to the shareowners of the three companies."

Before I pass on to the second of the press releases, I want to be sure that everyone here understands that a very definite and sincere effort was made by the three companies to arrive at a basis on which a merger could be planned.

The merger committees in addition to their own work projects, had hired First Boston Corp. as a financial consultant but it was the conclusion of all three companies as well as First Boston Corp. that we had taken on an impossible job on which to reach an agreement. For that reason it was decided at this time to break off further negotiations on the three railroad merger.

ERIE RAILROAD COMPANY

INCOME STATEMENT FOR THREE MONTHS PERIOD ENDED MARCH 31, 1959, COMPARED WITH CORRESPONDING PERIOD OF 1958.

	1959	1958	Increase or decrease Per Cent
Amounts Received:			
Freight	$33,644,416	$32,611,826	+ 3.17
Passenger	1,617,568	1,613,950	+ .22
Mail, express and miscellaneous	3,018,293	2,415,573	+ 24.95
All other income	622,834	556,746	+ 11.87
Total amount received	38,903,111	37,198,095	+ 4.58
Amounts Spent:			
Maintaining tracks and buildings	3,807,781	3,999,250	— 4.79
Maintaining cars and locomotives	6,227,138	5,846,291	+ 6.51
Sales expenses	1,113,819	1,136,553	— 2.00
Operating trains, stations and yards	18,841,902	18,581,555	+ 1.40
General expenses	2,220,540	2,227,346	— .31
Taxes	3,376,292	3,277,405	+ 3.02
Rental of equipment and facilities	2,198,823	2,644,673	— 16.86
Interest on debt, etc.	2,061,439	2,100,708	— 1.87
Total amount spent	39,847,734	39,813,781	+ .09
Net profit	(944,623)	(2,615,686)	—
Per share of Common Stock	($.45)	($1.13)	—

( ) Denotes red figure.

Following that release the second press release was issued which read:

"The Erie and the Delaware, Lackawanna and Western Railroads announced that potentialities for a merger of the two companies justify the instituting of immediate negotiations. Coordinations planned or in effect and other close geographical relationships indicate the opportunity for both improvements in service and large economies."

Now in order to get that rolling, the two merger committees, one of the Erie and one of the D.L.&W. will meet in Cleveland some time next week. Frankly, it is my view, in which I think the other members of the merger committee join, that having most of the basic data already compiled in the studies that were made originally by William Wyer and Company and by First Boston, it becomes simply a job of picking out the pertinent facts that have to do with the D.L.&W. and the Erie and putting them together and coming up with an answer which I hope can be done.

LEGISLATIVE PROGRAM

Now moving over to the field of national matters affecting the railroad industry, I want to take this occasion to thank the shareowners for their help and support in writing their Congressmen last year which resulted in the passage of the Transportation Act of 1958. While this legislation will be helpful in the long run, it is only a first step in correcting the regulatory inequities that exist in the nation's transportation policy. Many more major problems are still to be resolved. Through the Association of American Railroads the industry has determined upon six areas that are most urgently in need of attention by Congress. They are contained in the booklet "The Urgent Six," which has been placed on your chairs. I suggest you read it. Briefly the six problems the railroads regard as most serious are:

1. Railroads still are required to help pay for highways, airways, airfields, and waterways, but do not have the same opportunity as other taxpayers to use these facilities for a business purpose.
2. Fully self-supporting, tax-paying railroads still are unfairly handicapped by having to meet competition that is tax-supported.
3. A 10 per cent travel tax imposed in World War II to discourage use of public carriers continues—14 years after the war—to do just that.
4. Railroads must continue to bear the full cost of unemployment insurance benefits for employes that far exceed benefits under programs covering other workers.

5. Railroads still are deprived of equal opportunity to share in transporting agricultural commodities, which when transported by motor carrier are exempt from regulation by the Interstate Commerce Commission.
6. Vitally needed modernization of railroads continues to be frustrated by unsound policies governing depreciation of plant and equipment.

The Senate is being urged to consider these subjects in the study they will make of transportation matters as called for by Senate Resolution 29. We will keep you advised of their progress.

FEATHERBEDDING

Another area that is long overdue for correction is the need to revise archaic and wasteful work rules and practices known as "featherbedding" which have grown up in the railroad industry over many years. No industry no matter how prosperous (and the railroad industry certainly is not) can long afford to pay for unproductive work on such wide-spread scale as exists in railroading today. It is estimated these outmoded work rules are costing the railroad industry over $500 million annually. For instance, diesel locomotives must still be manned by firemen, although there are no fires to tend; extra brakemen must be carried on the payroll although they handle no brakes, and in some cases duplicate payments must be made in order to get one job done.

I.C.C. Commissioner Walrath recently had some pertinent comments to make in connection with this subject. He said, "If both management and labor will now satisfy the public that they intend in good faith to eliminate waste, giving value received for every one of the billions of dollars it costs shippers for those services, I predict that State and Federal legislators, regulatory agencies, and shippers of all sorts, will, with renewed vigor, continue to investigate and help correct inequities wherever they are to be found."

With spiralling payroll costs which now consume 60 cents out of every dollar the railroads take in, management is forced to take a hard look at these wasteful practices, although we know we can anticipate strong opposition from the railroad unions. To give you a better understanding of the far reaching effects of featherbedding practices and how they limit our ability to compete, I suggest you read the speech made by Mr. D. P. Loomis, President of the Association of American Railroads, called, "Clear Track or Crisis?," copies of which are available here. Because of the importance of this problem, a copy of Mr. Loomis' talk will be mailed to all shareowners together with a report of today's meeting. The railroads' goal is simple and reasonable; A fair day's work for a fair day's pay.

PAYROLL COSTS

The present wage contract which all the railroads entered into with the labor unions three years ago expires on October 31st of this year. During this period wage rates have increased 37 cents an hour. As you may have noticed from the chart on the wall which is reproduced from the one on Page 8 of the Annual Report, the average payroll cost per employee is now $6,149 a year compared with $4,727 in 1954 which represents an increase of 30%. This increase is a direct cause for the steady decline in the number of railroad employes over the past number of years. Apparently there is to be no let-up in wage demands as several of the unions have already filed notice of further wage increases to be effective at the expiration of the present contract.

Another item of possible added expense is the legislation now being sponsored in Congress by the railroad brotherhoods which would sharply raise railroad taxes for employe retirement and unemployment benefits.

Railroads already pay 6¼% of employe's wages up to $350 a month for retirement and 3% for unemployment insurance, or a total of 9¼%. As you know, these taxes are more than twice as high as the tax paid under Social Security by other industries, including other forms of transportation that compete with us for business.

The legislation backed by labor would increase the tax differential even more as contributions for retirement payments would increase to 6¾% for the first three years and to 7¼% for the next three years, and the way is left open for further tax adjustments in 1965 and thereafter. Unemployment taxes would also increase with a possibility of a 3½% monthly payment by the railroads. The railroads are doing everything they can to defeat this legislation.

These are some of the constant pressures which reflect on our cost of doing business and, of course, drain off our earnings. Nevertheless, we will continue to direct our attention toward improving service and increasing the efficiency and economy of operation. On this road to recovery we intend to leave nothing undone to regain our place as a dividend-paying railroad.

I am sure you have some questions you would like to ask. If so, I will be glad to answer them.

Question Period

SHAREOWNER: On your industrial development how aggressive have you been during the past year and what do you prophesy for this year?

How many companies have you actually succeeded in locating along your lines?

PRESIDENT VON WILLER: Last year 59 new companies established plants on our line; in addition, there were about 13 companies which expanded their present facilities. These represent a potential yearly revenue of $1,600,000. I think we have an excellent Industrial Development Department. They are frequently called upon by companies seeking a site for a plant or planning to expand present facilities for information which will be helpful to them in arriving at a decision. Such information generally relates to the available labor supply, tax rates, the availability of utilities such as gas, water, electricity and sewer system, and our people have such information available.

SHAREOWNER: How many of the freight cars have ball bearings? Are you using ball bearings? I see a lot of railroads are putting ball bearings in the journal.

PRESIDENT VON WILLER: I think your question has to do with roller bearings.

SHAREOWNER: That is what I meant.

PRESIDENT VON WILLER: It is our practice to equip special-device cars with roller bearings such as flat cars in piggy-back service and covered hoppers. Up to the present time, however, we have not established any general program for equipping freight cars used in regular service. I think it is fortunate, however, in our transportation system in the United States that we have a national car supply and cars are freely interchangeable among all of the railroads. I feel quite sure that some day the railroads will get some kind of a system whereby all new cars will be equipped with roller bearings.

SHAREOWNER: All passenger coaches use them?

PRESIDENT VON WILLER: Yes.

SHAREOWNER: May I ask one more question? Does the company still own a lot of property in the meadows of Jersey, that acreage over there?

PRESIDENT VON WILLER: We own some property. I don't know whether you could say it is a lot. To the extent that property in the meadows is developed for industrial location—and there is a lot of work that needs to be done—we are working with the companies who are trying to get it in shape so that it can be used for industrial development.

For instance we cooperated very closely in the location and development of the 1,000-acre Lincoln Industrial Park at Secaucus where the new Merchants Refrigerated Warehouse just located, which I referred to earlier. There is another industrial park at East Rutherford in which we are active where General Tire and Rubber Co. located last year.

SHAREOWNER: I have heard that the Lackawanna sale of Nickel Plate stock has influenced the merger studies adversely. Is that one of the reasons or just a rumor?

PRESIDENT VON WILLER: That very definitely is not one of the reasons. The sale of the Nickel Plate stock by the Lackawanna Railroad had no bearing on the break-off in the negotiations at all.

SHAREOWNER: I am not an orator and I just cannot retain my thoughts so I have written them down. But that magazine which you gave us I believe will answer some of the questions.

One of my main pet peeves is "featherbedding" and you answered it pretty well.

I certainly believe in an honest day's pay for a worker for an honest day's work in return but it seems to me that the railroads have gotten to be sort of a charitable institution.

Now in regard to "featherbedding" practices – and I believe now if ever is the time for us stockholders to be straightened out; if I am wrong I will take my defeat gracefully—the word "featherbedding" at one time meant sort of a luxury. Now since I have investments in several railroads the word "featherbedding" takes on an obnoxious meaning. I was under the impression that all these labor-saving devices such as the diesel engine and other automations were brought into being to economize but I fail to see where they do.

Do you mean to tell me that the legislators up on Capitol Hill cannot see the forest from the trees? How much longer can the railroad industry be pushed up against the wall?

Now the 3% tax relief on freight shipments was a little help but it is like throwing a bone to the dog to pacify it and writing representatives seems to me is not the panacea. Would they like us to behave like agitators, parade around the White House, in order for them to really sit up and take notice? We are not cut out for that sort of protesting. But surely there must be a Solomon's head somewhere to decide the fate of the railroads.

PRESIDENT VON WILLER: I think you should have been sitting up here and made the speech I made about "featherbedding." You did very well.

Actually as I said before, the railroads are a national transportation agency and in order to get a national view on matters such as this takes a determined effort on the part of everyone concerned which I think we have now.

SHAREOWNER: I am keenly interested in hearing your comments on Plan III piggy-back.

It has come to my attention as a shipper that some of the other Eastern railroads provide trailers for their shipping public. I have made inquiry to your railroad. This service is not afforded. Is there some reason for that?

PRESIDENT VON WILLER: Yes, there is. I am glad you brought it up and it is a very good reason as we see it. One of the factors in the movement of piggy-back is the rental cost of the trailer and if we spread our cost or create greater cost to us by assembling a supply of trailers, which are leased to a shipper on a trip basis, either we make less money out of the piggy-back haul or we have to raise our rates accordingly to take care of it.

One of the features of the Commission investigation of the Plan III is just what you are talking about. A few of our friendly rail competitors have been leasing trailers on a trip basis. What I think is going to happen eventually is that some national trailer agency having no connection with the railroads will hold out to the users of Plan III, a lease basis where he can lease the trailers in a westbound direction and if he has no corresponding load eastbound, can turn the trailers back in to the owner, who will in turn lease them to someone else. Something like renting an automobile through Hertz or Avis.

Actually I think that this is a job for a trailer supplier to do and not a job for the railroad.

SHAREOWNER: In the interim you are willing to penalize yourself the loss of this traffic until such time as the Commission rules that there should be a rental agency rather than a division or subsidiary of an Eastern rail carrier?

PRESIDENT VON WILLER: Unsound as that may seem to you, I think it is excellent judgment at this particular time. In my cross-examination last Friday, they particularly stayed away from that because they knew we did not do it.

SHAREOWNER: I know that.

PRESIDENT VON WILLER: I would think if there is any one part of the whole plan which might get it defeated would be the trip leasing of trailers, which as you will remember the railroads have complained about for years because that is the way the trucker was getting his equipment.

SHAREOWNER: Is it not highly relevant to go into a Plan IV rather than III, which I think the Erie would be happy to see in existence?

PRESIDENT VON WILLER: I would be happy to put Plan IV into effect. I suppose when you say "Plan IV," you are talking about the plan where the shipper not only supplies the trailers, but also supplies the cars.

SHAREOWNER: That is right.

PRESIDENT VON WILLER: The only place where I know that is in existence at the present time is from Chicago to transcontinental territory.

SHAREOWNER: Assuming that the Erie and Lackawanna effect an amicable merger, will you please mention some of the basic immediate advantages both physical and economic that that would effect?

PRESIDENT VON WILLER: If you are familiar with the geographical setup of the Lackawanna and the Erie from Buffalo east, you will recall they largely parallel each other.

Actually we have under way at the present time between Binghamton and Corning, New York, a coordination project with the Lackawanna whereby the Lackawanna gives up 75 miles of track and uses Erie's track. This will save about $1 million.

Many things can be done by coordination, but under a merger many more things can be done. For instance the 75 mile project that is being done this year can be increased by many miles in other areas. Certain lines would not have to be used at all.

As an example in the New Jersey commuter area where we practically parallel the Lackawanna, some extreme savings could be made. In addition you must remember that every mile of track takes X-dollars of maintenance per year and for every mile you discontinue you make a saving. Of course there are savings in any merger in so far as the overhead costs are concerned, the cost of supervision, accounting and things of that sort. Other advantages are the pooling of power, shops and freight yards.

SHAREOWNER: I understand in your previous merger talks with the other two roads it was advised at this time that the merger would not be satisfactory. But did these discussions bring out the point that it might be quite satisfactory to merge the two roads, ours and the Lackawanna?

PRESIDENT VON WILLER: No, nothing of that sort was brought out because at that time we were engaged in a three-way merger and you cannot ride one horse on one side and one on the other. So up until now all that the three railroads have been doing is trying to work out the three-way merger. As of yesterday, we are now working with the Lackawanna in trying to work that out on a two railroad basis.

SHAREOWNER: What will the effect of the development of the St. Lawrence Seaway be on the railroad's business and also what steps are the railroads taking to adjust themselves to this new form of transportation?

PRESIDENT VON WILLER: In my opinion

the St. Lawrence Seaway will have some effect on the Eastern railroads, mostly on bulk commodity traffic. I think that the two commodities which would be most likely to be diverted to water movement via the lake ports are iron ore and grain.

Presently the Eastern Traffic Executives are trying to come up with a rate proposal on grain which will meet the competitive situation that they think they will find when the Seaway starts operation. Grain rates are probably the most touchy rates in the United States in that they are hooked up with all your primary markets, your intermediate markets and destination markets and rates are made in relationship one with the other. So when you pick out export rates and change them you have a complicated situation. The traffic men are working on it.

SHAREOWNER: I was going to ask you, Mr. Chairman, some of the railroads are selling their stations, their old depots. Has the Erie?

PRESIDENT VON WILLER: Do you know anybody who wants to buy one? Three times in the last five years we have gone over every piece of property we own to find out if it was salable and that includes the station. If you find anybody who wants to buy a station have him call me and reverse the charges.

SHAREOWNER: I would like to know the disposition of the National Carloading Corporation. Has that been sold?

PRESIDENT VON WILLER: The National Carloading Corporation was sold in January to the Chanslor-Western Oil and Development Company, a wholly owned subsidiary of the Santa Fe Railroad.

SHAREOWNER: You warned us in your report that maintenance is not being kept up as it had been in the past and eventually we are going to be hit with a terrific bill. Am I correct in recollecting that there is a reserve for maintenance of over nine million dollars? Does that appear in the financial report?

PRESIDENT VON WILLER: You are incorrect on two bases. First, you stated that we warned that maintenance costs were going to be increased tremendously. I think this is what I said, that as income increased there would be greater expenditures for maintenance. It would come out of earnings. Secondly, there is no reserve to take care of maintenance. At some time in the future the deferred maintenance work must be done but I did not say that the amount would be huge.

SHAREOWNER: There is no reserve? I could not see why it should not be done right along. If a reserve why is it not used?

PRESIDENT VON WILLER: There isn't any reserve.

SHAREOWNER: I have three short questions or comments to make. I have forgotten now whether last year or the year before I inquired what effect the St. Lawrence Seaway would have on the business of the Erie and I was informed at that time you did not think that it would affect it. I understand there is a strong likelihood that it will.

PRESIDENT VON WILLER: I don't remember the specific question and I would doubt that I had made that kind of an answer. I think what I would have said at that particular time was that the tolls had not been established on the St. Lawrence and until the tolls were established, it was difficult to tell what effect it would have on our tonnage, although it would have some effect. If I didn't, I should have stated it that way.

SHAREOWNER: I have forgotten just what you said the percentage of increase in carloadings were or have been this year.

PRESIDENT VON WILLER: 10.4% in March and for the first 9 days in April it was 18.9%.

SHAREOWNER: 18.9%?

PRESIDENT VON WILLER: That is right.

SHAREOWNER: I read just a couple of days ago that it was slightly in excess of 14%.

PRESIDENT VON WILLER: That is about right for the national average of all railroads.

SHAREOWNER: One more question, you say it is quite unlikely that any dividends will be paid in '59?

PRESIDENT VON WILLER: That is only my view. Dividends are declared by our Board of Directors and not by the President, but as you remember the statement I made in my opening remarks was that as earnings increase certain things that we need to do for the future protection of the property would undoubtedly be done. The available money would be spent for that purpose instead of dividends.

SHAREOWNER: Then if business increases, there might be a token dividend paid later this year?

PRESIDENT VON WILLER: I still stick to what I said, it is extremely unlikely.

SHAREOWNER: If the merger with the railroad you mentioned does not go through and you agree that some coordination or cooperation, whatever you call it, with the other railroad is feasible to save expenses, like using each other's track, do you need I.C.C. approval for that?

PRESIDENT VON WILLER: You do need I.C.C. approval for coordination, yes.

SHAREOWNER: To use each other's tracks?

PRESIDENT VON WILLER: Yes, but it is not difficult to get if you have a good case to present that is in the public interest.

SHAREOWNER: Then the question is if the merger does not go through, would your railroad look to coordination with another railroad in order to reduce expenses.

PRESIDENT VON WILLER: Let me say it this way, regardless of whether the merger goes through or not, we are constantly looking at every other railroad to see where coordination can be worked out that would produce savings without impairing service.

SHAREOWNER: You stated earlier that you could not foresee selling any of the Erie stations. I had in mind the biggest one in Jersey City. Surely that is salable. As a shipping pier that is ideal, perfect.

PRESIDENT VON WILLER: The question was asked about the sale of a station. Now actually the sale of that property is something else. What will have to be done is to tear it down and to develop some industry that wants it as an industrial development location. That has been worked on for about five years.

SHAREOWNER: Are there any plans?

PRESIDENT VON WILLER: Oh, yes. We have been working on it for five years. We have a number of industries that are interested in it but presently we still have operations there. The New York, Susquehanna and Western are still running their commuter trains into the Jersey City station.

SHAREOWNER: The Pennsylvania Railroad has handled our perishable traffic on their piers for the last few years. Is that a coordination?

PRESIDENT VON WILLER: That is a coordination, one of the activities we brought about, a combination of Erie's and Pennsylvania's perishable operations, so we both use the same piers and split the cost on a tonnage basis.

SHAREOWNER: For the past several years it has been mentioned about the anticipated savings which result in coordination in Hoboken. Isn't it true that those anticipated savings were not realized at Hoboken, especially in view of the fact that you lost the local mail service which was brought about I understand through the poor handling at Hoboken?

PRESIDENT VON WILLER: Your understanding is wrong; the local mail service was not lost due to poor handling. It was lost due to a decision by the Postmaster General to put as much mail as possible on the highways within a radius of 50 to 75 miles. Actually the savings that have resulted in our coordination with the Lackawanna in their Hoboken terminal have been substantial and have only been less than what we anticipated to the extent that we are paying employe dismissal wages under the Washington Agreement which payments will gradually be eliminated which will increase the savings.

If that covers generally all the questions you have and everyone has voted, I will entertain a motion to declare the polls closed and have the Inspectors report on the results of the election of Directors.

(After hearing the report of the Inspectors of Election, the meeting was adjourned at 12:28 P.M.)