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I've been working on the railroad : the saga of the Richmond, Fredericksburg and Potomac Railroad Company

C. Coleman McGehee

I'VE BEEN WORKING ON THE RAILROAD

THE SAGA OF

THE RICHMOND, FREDERICKSBURG AND POTOMAC RAILROAD COMPANY

By: C. Coleman McGehee

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Dr. W. Harrison Daniel, Thesis Director

The Richmond, Fredericksburg and Potomac Railroad Company (RF&P) is the only American railroad that has operated for over a century and a half under its original name and charter without reorganization. It is also the last remaining company in which the Commonwealth of Virginia held stock that was purchased in 1834 to encourage the development of transportation within the State.

This thesis covers the history of this company with major emphasis on the period 1955-1991. It was during this time that the RF&P was transformed from a "pure railroad" to a corporation that not only owned a strategic 113 mile railroad between Richmond, Virginia and Washington, D.C., but also became actively involved in real estate development, which has become a very important segment of the company's

business. The saga over the battle for control of this company had been going on for the last decade. This thesis covers the final contest of control between the CSX Corporation and the Commonwealth of Virginia in which the CSX gained control of the railroad and the State gained control of the company's real estate assets. A great deal of research in primary materials covering the last thirty-six years has been used by the author together with a good bit of oral history through a number of interviews with present and former employees and officials of the company. Newspapers were used extensively to cover the political side of this story. The author was a Director of RF&P and his participation in the events of the last ten years gave him a firsthand insight into the affairs of the company.

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THE RICHMOND, FREDERICKSBURG AND POTOMAC RAILROAD COMPANY

By

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PREFACE

The Richmond, Fredericksburg and Potomac Railroad Company (RF&P)[1] is a unique company in Virginia's economic and political history. As mentioned in the abstract, it is the only American railroad that has operated for over a century and a half under its original name and charter without reorganization.[2]

Much good work on the early history of the company has already been done by John B. Mordecai, former Traffic Manager of the railroad, William E. Griffin, Jr., the current Director of Personnel, and Richard E. Prince, Jr., a devotee of steam locomotion. I am indebted to these gentelmen for their assistance. My wife Caroline has been a staunch supporter of my efforts and a tireless proof reader of the numerous drafts of this thesis. To my former associate at Sovran Bank, Ms. Martha W. Casey, I offer my special thanks for her untiring work in typing this paper and the many drafts

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[1] The author uses the term RF&P consistently throughout this paper. The Richmond, Fredericksburg and Potomac Railroad Company was founded in 1834 and the RF&P Corporation was founded in 1988. He also uses the term VRS consistantly, representing the Virginia Retirement System and its predecessor the Virginia Supplemental Retirement System.

[2] John P. Mordecai, A Brief History of the Richmond, Fredericksburg and Potomac Railroad (Richmond, Childress Printing Company, 1972), p. 3.

that preceded the final product. The staff at the Virginia Historical Society, particularly Frances S. Pollard and Nelson D. Lankford, were most helpful as were the staffs at the University of Richmond Library and the Virginia State Library and Archives.

I wish to extend my appreciation to my thesis panel consisting of: Dr. W. Harrison Daniel, Thesis Director, Dr. Ernest C. Bolt and Dr. John R. Rilling. They have encouraged my study of history for the last two and one-half years since my retirement from an active business career and, thanks to them, it has been an enjoyable experience. Dr. Daniel has spent untold hours going over the drafts of this paper and his suggestions and guidance have been invaluable in its preparation.

Finally I would like to commend Frank A. Crovo, Jr. and the administrative staff of the RF&P for their assistance in providing records and documents that form the basis of this thesis. I particularly appreciate the assistance rendered by Carolyn K. Fleming and Susan H. Buffington. I have enjoyed my ten and one-half years working on the RF&P Board of Directors and my association with this fine organization.

September 1991

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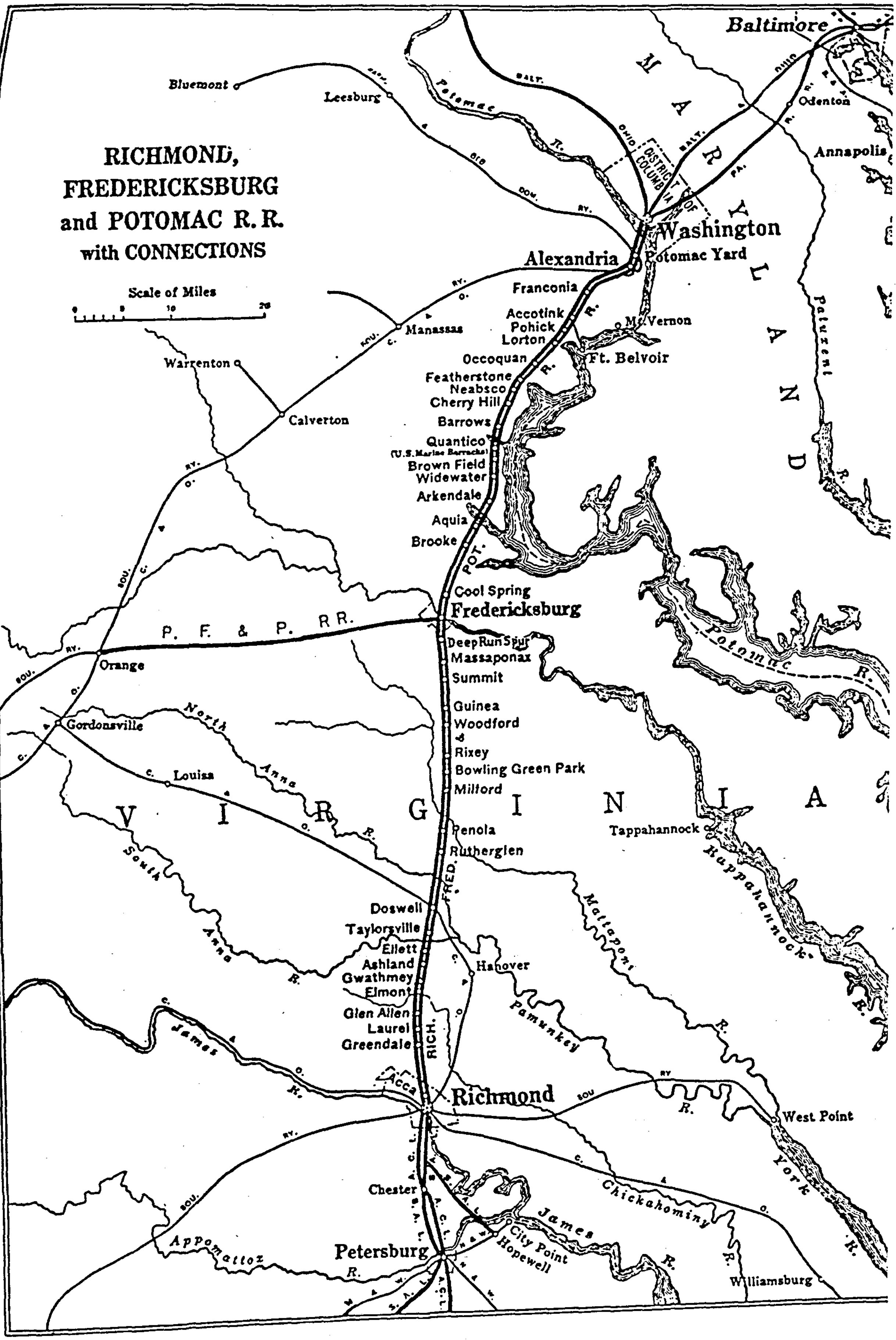

SOURCE

Richard E. Prince, The Richmond Washington Line and Related Railroads (Salt Lake City, Stanway-Wheelwright Publishing Company, 1973), p. 4.

Chapter 1

THE CREATION AND DEVELOPMENT OF THE RF&P

Introduction -- The Formative Years

In the seventeenth and early eighteenth centuries, Virginians relied on the numerous navigable rivers as the prime means of transportation and communication within the Colony. The James, the York, the Rappahannock and the Potomac Rivers were the main communication links within the Colony and to Europe. Professor Thomas J. Wertenbaker, in his book Patricians or Plebeians in Virginia (1910), describes the difficulty of cutting highways through the dense forests and bridging the many streams and rivers, and he concludes that in the seventeenth century "...boats were the most common means of travel."[1]

The American population grew. The movement to the West continued. The need for additional modes of transportation became evident. On the eve of the American Revolution the thirteen colonies had a population of approximately 2.6 million, consisting of 2.1 million whites, 540,000 blacks and

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[1] Thomas Jefferson Wertenbaker, Patricians or Plebeians in Virginia, Or the Origin and Development of the Social Classes of the Old Dominion (New York, Russell & Russell, 1910), p. 52.

50,000 or fewer Native Americans. Virginia was the largest colony with 21 percent of the total population or 546,000 people. At this time Blacks represented 45 percent of Virginia's population.[2]

In 1784 the General Assembly of Virginia encouraged the development of internal improvements within the State by subscribing to the stock of canal, turnpike and toll bridge companies. The Commonwealth also licensed private companies to build roads and to charge tolls for the use of these highways. Plank roads were in vogue but were later replaced by crushed stone.[3]

By 1789 the Kanawha and James River Canal Company completed the first section of the canal around the falls of the James River at Richmond to Westham for bateau (boat) traffic. George Washington made the original survey for this important project whose purpose was to link the James River with the Ohio River in Western Virginia. While this project helped develop the West, the need for good north-south transportation lagged behind. It was estimated that a stagecoach trip from Richmond to the new Capitol in Washington

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[2] Edwin J. Perkins, The Economy of Colonial America (New York, Columbia University Press, 1988), pp. 2-3.

[3] William E. Griffin, Jr., One Hundred and Fifty Years of History--Along the Richmond, Fredericksburg and Potomac Railroad (Richmond, Whittet & Shepperson, 1984), p. 1.

would take two days or thirty-eight hours. In 1815 a portion of the stagecoach ride was eliminated when steamboat service was inaugurated on the Potomac River from Washington, first to Aquia Creek and later to Potomac Creek. This cut the trip to twenty-four hours, since a night was spent aboard the steamboat.[4]

In 1705 an Englishman Thomas Newcomen invented a crude steam engine, and in 1774 James Watt, a Scot, produced a much improved one. They were followed by George Stephenson who in 1814 built a steam engine capable of drawing a train of loaded cars. Stephenson is known as the "father of the steam locomotive." The first known application of steam locomotion to railroad track in the United States occurred in 1825 when a small engine with an upright boiler ran on a track in Hoboken, New Jersey. In 1830 the South Carolina Railroad of Charleston is credited with being the first in the United States to provide regular scheduled steam engine service.[5] A new mode of transportation had been discovered, and the move to expand the use of the iron horse had begun.

In Virginia, the Chesterfield Railroad Company was chartered in 1828 and became Virginia's first operating railroad in 1831. The road was established to haul coal from

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[4] Ibid., p. 2.

[5] Ibid., p. 2.

Midlothian to the James River in Richmond. The small coal cars were drawn not by a locomotive, but by horses and mules on wooden rails covered with strap iron. Strap iron was later replaced by T-bar type iron rails and eventually by steel rails.[6]

Prior to the Civil War it had been the policy of the Commonwealth of Virginia to encourage transportation development by subscribing to the stock of railroads as well as other types of transportation companies. The administrative instrument for public investments in transportation in Virginia was created by the General Assembly in 1819 and was known as the Board of Public Works. From approximately 1830 to the Civil War the support of railroad development was particularly important and the Board of Public Works provided much financial support as well as "paternal and benevolent direction."[7]

The need for a better transportation system from Richmond to Washington, D. C. became apparent. In 1833 Nicholas Mills, President of the Chesterfield Railroad

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[6] Ibid., p. 3.

[7] Laurence J. O'Toole, Jr. and Robert S. Mountjoy, Regulatory Decision Making, The Virginia State Corporation Commission (Charlottesville, University of Virginia Press, 1984), pp. 34-38. The State, through its Board of Public Works, invested up to 60 percent of the equity of a number of projects in the 1830-1861 period. These were known as internal improvements.

Company, engaged Moncure Robinson to make a preliminary survey for a railroad between Richmond and Washington. This was done, and a group of organizers were formed to incorporate a new railroad company. On February 25, 1834, the General Assembly chartered the Richmond, Fredericksburg and Potomac Railroad Company. It was the sixth railroad to be chartered in Virginia. The original charter provided for a railroad from Richmond north "to the Potomac River or some creek thereof." The charter further provided authorization to issue capital stock at $100 per share up to a total capitalization of $1,000,000. Another charter provision allowed all profits from the operations to be vested in the shareholders as personal estate and exempt from all taxes. (This was revoked in 1912.)[8] In order to induce individuals to subscribe, the charter further provided that, "...the General Assembly, for a period of thirty years from the completion of the said railroad, would not allow any other railroad to be constructed between the city of Richmond and the city of Washington."[9]

On January 23, 1835, the General Assembly, through the Board of Public Works, authorized subscription to two-fifths of the capital stock of the newly chartered RF&P, but it was found that other subscribers had already purchased

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[8] As quoted in Ibid., p. 2. The Sixteenth Amendment to the Constitution of the United States was adopted on February 25, 1913, making the Federal income tax legal and enforcible.

[9] Ibid., pp. 2-3.

4,248 of the 7,000 shares offered and the state accepted the remaining 2,752 shares, 48 less than the two-fifths it was allowed.[10]

The first stockholders meeting was held on June 20, 1834, and John A. Lancaster was elected President. The first directors were: Nicholas Mills, Conway Robinson, James Bosher, Richard B. Haxall and Dr. Joseph M. Sheppard. Moncure Robinson was appointed Chief Engineer and William P. Sheppard Treasurer and Clerk. The company's headquarters were established at Eighth and Broad Streets in Richmond.[11]

At the third Annual Meeting of Stockholders on June 20, 1836, Wyndham Robertson and Gustavus A. Myers were appointed by the Board of Public Works as directors on behalf of the state.[12] The Commonwealth was represented by two directors from 1836 to 1851 and thereafter by one director, until 1970 when two directors were again appointed by the state.[13]

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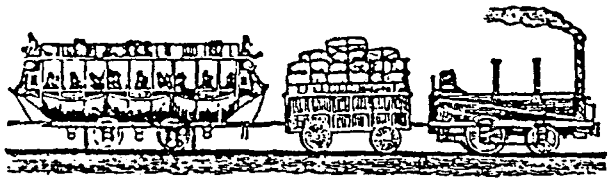
[10] John B. Mordecai, A Brief History of the Richmond, Fredericksburg and Potomac Railroad (Richmond, Childress Printing Company, 1972), p. 7.

[11] Ibid., pp. 7-8.

[12] Ibid., p. 8.

[13] Ibid., p. 81.

INLAND ROUTE



FOR NORTHERN AND SOUTHERN TRAVELLING.

The RICHMOND, FREDERICKSBURG AND POTOMAC RAIL ROAD COMPANY, in connection with the other Rail Road and Steamboat Companies on the route, have adopted the following Schedule, by which the daily Mail is now carried.

Leave,	(NORTHWARD DIRECTION.)			Arrive at			
Blakely, N. C.	at 5 o'clock,	P. M.		Petersburg, ...	at 10 o'clock,	P. M.
Petersburg, ...	" 12 "	A. M.		Richmond, ...	" 4 "	A. M.
Richmond, ...	" 4½ "	A. M.		Washington, ...	" 6 "	P. M.
Washington, ...	" 7½ "	P. M.		Baltimore, ...	" 10 "	P. M.
Baltimore, ...	" 6 "	A. M.		New York, ...	" 11 "	P. M.

Leave	(SOUTHWARD DIRECTION.)			Arrive at		
New York, ...	at 4 o'clock,	P. M.		Baltimore, ...	at 3 o'clock,	P. M.
Baltimore, ...	" 5 "	P. M.		Washington, ...	" 8 "	P. M.
Washington, ...	" 10 "	P. M.		Richmond, ...	" 2 "	P. M.
Richmond, ...	" 3 "	P. M.		Petersburg, ...	" 7 "	P. M.
Petersburg, ...	" 1½ "	A. M.		Blakely, ...	" 7 "	A. M.

The whole time required between *Blakely* and *New York*, being Northwards, 54 hours; Southwards, 57 hours. Between *New Orleans* and *New York*, Northwards, 12 days and 13 hours; Southwards, 13 days and 0 hours. Of the whole distance between Blakely and Baltimore, 126 miles is travelled upon Rail Roads, and 50 miles by Steamboat.

The Stage Travelling, which is conducted by Messrs. J. WOOLFOLK & Co. and Messrs. J. H. AVERY & Co. in the handsomest manner, being now only 67 miles, is becoming rapidly reduced by the extension of this Rail Road.

☞ Passengers are never in danger of delay, preference being given to such as enter and continue on the line.

By arrangements which this Company is making, Passengers, with their baggage, will be conveyed to and from the Depot, without charge. On the Rail Road, a coach will be especially appropriated to Northern and Southern Travellers; and in general, the Company's Agents will adopt all measures calculated to expedite and facilitate their journey.

Carriages and Horses are safely and expeditiously transported; enabling those travelling in them, with the additional use of the Potomac Steamboat, and the Petersburg Rail Road, to accomplish, without fatigue to their horses, the journey between Washington and Blakely, N. C. in two days.

☞ The Mail Train leaves Richmond at 4½ o'clock, A. M.; returning, leaves the North Anna at 12 o'clock, M. The alternate Trains for Passengers and Freight, leave the North Anna at 7 o'clock, A. M. and 4, P. M.; and Richmond at 9 o'clock, A. M. and 1, P. M.

All possible care will be taken of baggage, but it will be carried only at its owner's risk.

RAIL ROAD OFFICE, Richmond, May 30. 1836.

OLD R. F. & P. SCHEDULE

Reproduction of R. F. & P. public time table dated "Rail Road Office, Richmond, May 30, 1836" when the railroad was operating between Richmond and the North Anna River, about 25 miles.

<u>SOURCE</u>

Richard E. Prince, <u>The Richmond Washington Line and Related Railroads</u> (Salt Lake City, Stanway-Wheelwright Publishing Company, 1973), p. 7.

Construction on the new railroad began early in 1834 and by the end of the year, twenty-seven miles of road had been put under contract. In Richmond the new railroad ran from Eighth and Broad Streets west to Harrison Street and then north. As construction of the line progressed the railroad made interim arrangements with stagecoach companies to haul the railroad passengers from the farthest point of construction to the boat landing on Potomac Creek. From there they proceeded by steamboat to Washington. At that time passenger fares averaged about 6-1/2 cents per mile, and freight rates were about 10 cents per ton per mile. During the first year of operation, the RF&P owned the following: six wood burning locomotives, five small cars accommodating twenty-four passengers and three large cars for fifty passengers, two baggage cars and one car for transporting horses, twenty covered cars for produce, three cars for long timbers, twenty-four for wood and three to carry coal.[14]

The decades of the 1830s-1850s saw considerable railroad construction in the Commonwealth. South of Richmond the Petersburg Railroad provided a vital link to the South by building a line to Weldon, North Carolina and in 1838 extending this line from Petersburg to Richmond.[15] It did not connect with the RF&P until after the Civil War; in the

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[14] Griffin, 150 Years on the RF&P, pp. 5-6.

[15] Ibid., p. 6.

interim, northbound and southbound passengers were transferred by carriage between the two railroads.

On February 18, 1836, the Virginia General Assembly passed a bill approving the charter of the Louisa Railroad. The road would be built from Doswell (where it would connect with the RF&P) to Gordonsville in western Louisa County. The State purchased two-fifths of the original shares offered, and Frederick Harris was elected President. Over four hundred slaves were used in the construction of this railroad. On December 30, 1837, the first engine and three cars left Richmond at 9:00 a.m. on the RF&P tracks and arrived at Frederickshall, Louisa County, late in the afternoon. The road expanded westward to Louisa Courthouse in 1838 and to Gordonsville and Charlottesville in 1840 and 1850 respectively.

This railroad provided an important east-west link for the RF&P and increased the volume of business to the Richmond-based railroad. An extension of the Louisa Railroad from Doswell directly to Richmond was approved in 1850 due to a disagreement between officials of the RF&P and the Louisa concerning tariffs charged by the former for use of RF&P tracks. Once the link was completed, the railroad was renamed the Virginia Central Railroad, and this line was later to play an important role during the Civil War as the main supply route from Richmond to the Shenandoah Valley of Virginia--the breadbasket for General Robert E. Lee's Army of Northern Virginia. In the late nineteenth century the Virginia Central became a part of the Chesapeake and Ohio Railway System.[16]

In the meantime the RF&P was expanding northward, and on January 23, 1837, the line was completed between Richmond and Fredericksburg. Railroad engineers were searching out other steamboat landings north of Potomac Creek in order to reduce the stagecoach time between connections. They found that Aquia Creek, about three miles north of Potomac Creek, with deeper water access could accommodate larger steamboats. A decision was made that Aquia Creek would become the northern terminus of the RF&P. The extension from Fredericksburg north to Aquia Creek was completed on November 1, 1842. It provided a rail link between Richmond and Aquia Creek and thence by steamboat to Washington. The stagecoach connection was eliminated. The RF&P purchased one-half of the stock of the Washington and Fredericksburg Steamboat Company and asserted its control over the steamboat company, later renamed the Potomac Steamboat Company.[17]

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[16] Charles Wilson Turner, "The Louisa Railroad" <u>Louisa County Historical Magazine</u>, Volume 7, Number 2 (1973-1977), pp. 50-55.

[17] Griffin, <u>150 Years on the RF&P</u>, pp. 23-24.

In 1847 the General Assembly authorized Samuel F. B. Morse to erect an electro-magnetic telegraph line from Washington to North Carolina over the property of the various railroad companies. The RF&P would not agree to the expensive terms of this contract and refused permission to build the telegraph line on rail property. It was not until 1862 that the RF&P obtained telegraph service along the rail line. This installation had a profound effect on improving communications and the operating efficiency of the railroad.[18] In 1850 telegraph service was installed on the Old Telegraph Road between Richmond and Washington.

During the 1850s the RF&P continued to grow, and its chief source of revenue was passenger traffic. It was not until after the Civil War that freight traffic became the more important generator of revenue. In 1852 the railroad reported net income of $101,351, and the volume of mail service doubled. During this period it was recognized that a real need existed for an all-rail link between Richmond and Washington. The plan that evolved was to link the RF&P with the Orange and Alexandria Railroad; however, the Civil War interrupted those plans.[19]

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[18] Ibid., pp. 23-24.

[19] Mordecai, History of the RF&P, pp. 26-27.

The Civil War Years

On June 21, 1860, Peter V. Daniel, Jr. became the sixth President of the RF&P. Daniel was a lawyer by profession and had served as President of the Richmond-Petersburg Railroad for seven years. His father served with distinction as a Justice of the United States Supreme Court where he was known as a defender of states rights. According to the 1860 Annual Report, the RF&P had total assets of over two million dollars and net income of $158,508. The Railroad owned eleven locomotives, twelve tenders, sixteen passenger cars, eleven baggage cars and over one hundred box and flat cars.[20]

In April 1861 the Civil War began, and one of the first movements of the United States government was to seize the four steamboats of the Potomac Steamboat Company. As a countermeasure the Commonwealth of Virginia seized the railroad property and wharf at Aquia Creek for military purposes. These actions cut the transportation link between Richmond and Washington. The RF&P pledged its support to the Confederate government.[21]

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[20] Richmond, Fredericksburg and Potomac Railroad Company Annual Report, 1860, p. 2. Subsequently referred to as RF&P Annual Report, date and page.

[21] Mordecai, History of the RF&P, pp. 28-29.

Angus James Johnston, II in his book, Virginia Railroads in the Civil War, asserts that the Civil War was the first "war of the railroads". The Northern strategy was to control the railroads and cut off supplies to the Confederacy. Johnston points out that the last locomotive built in the South was in 1859, since the Confederate government decreed that the foundaries must produce ordnance only, and the shortage of rail equipment would play a major part in the South's defeat.[22] Johnston further substantiates his thesis of the importance of the railroads by illustrating the effect in 1862 of General Joseph E. Johnston moving his troops by railroad from the Shenandoah Valley to Manassas and how this movement turned the tide of battle to victory for the Southern forces. Likewise in the late stages of the war he points out that the loss of rail supply lines contributed to General Lee's final defeat and surrender at Appomattox on April 8, 1865.[23]

In 1861 the Confederates destroyed the wharf and rail lines from Aquia Creek to Fredericksburg. Several bridges were also destroyed. George Edgar Turner describes how the demolished 441-foot bridge over Potomac Creek was rebuilt in two weeks time under the leadership of Union

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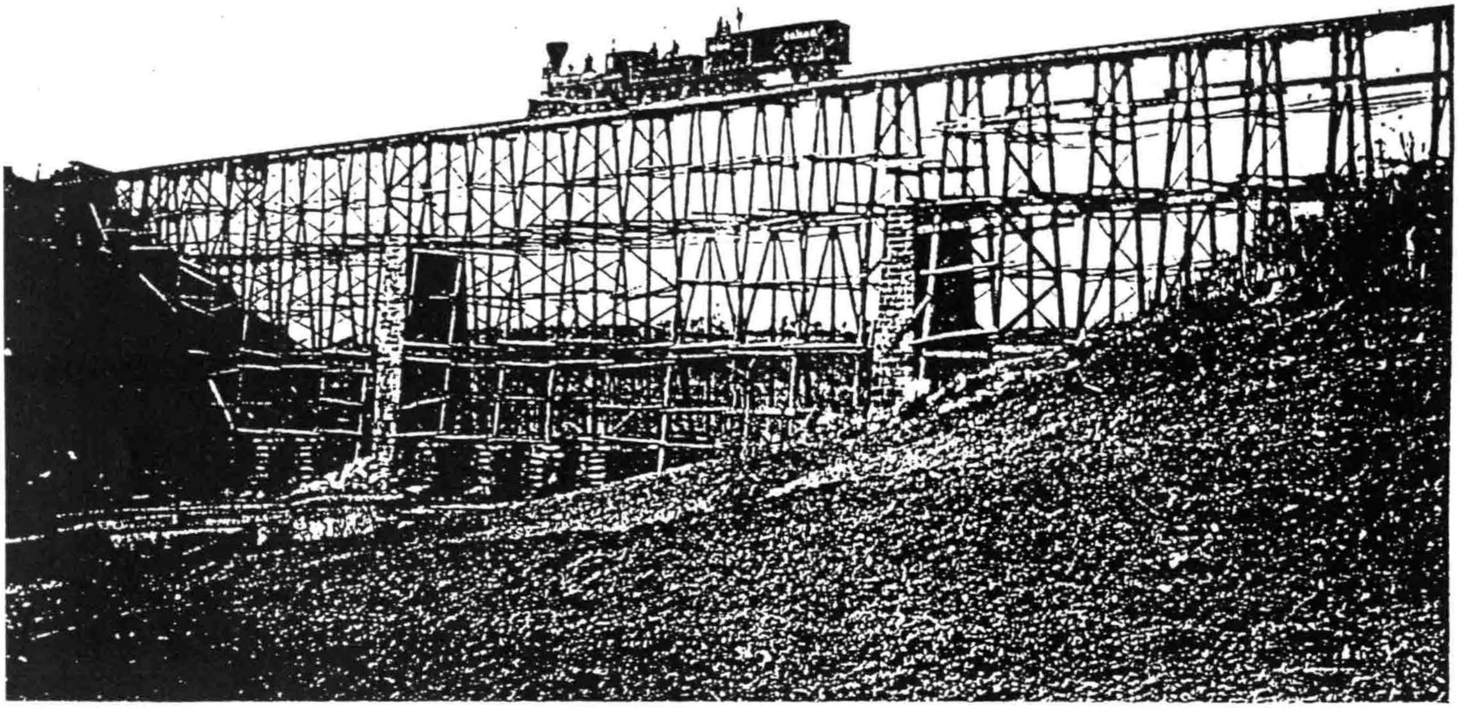
[22] Angus James Johnston, II, Virginia Railroads in the Civil War (Chapel Hill, University of North Carolina Press, 1961), Preface VI.

[23] Ibid., p. 255-256.



First USM RR bridge across Potomac Creek south of Aquia. This temporary trestle is shown as constructed by the railroad military corps in two weeks during April 1862 and also shows USM RR locomotive and box car standing at center. *National Archives*

Third USM RR Wooden bridge across Potomac Creek as completed in April 1863 and intended as a permanent military structure. *Library of Congress*

SOURCE

Richard E. Prince, The Richmond-Washington Line and Related Railroads (Salt Lake City, Stanway-Wheelwright Publishing Company, 1973), p. 14.

General Herman Haupt, the General Superintendent of the United States Military Railroad. President Lincoln visited this site on May 23, 1862, and exclaimed,

> I have seen the most remarkable structure human eyes ever rested upon. That man Haupt has built a bridge over Potomac Creek, 400 feet long and 100 feet high over which loaded trains are running every hour and upon my word, gentlemen, there is nothing in it but beanpoles and cornsticks.[24]

As a consequence of military actions the road north of Fredericksburg was controlled by the U. S. Military Railroad (USMRR) and the railroad south of the city was controlled by the RF&P and the Confederacy.

Inflation took its toll on the RF&P and other railroads in the South. Robert C. Black, III describes how the RF&P had to deal with this problem: the price of iron rails was up 1000 percent, car wheels were up 30 times their pre-war cost, boiler plate was up from 5 cents per pound to $1.00 per pound, and the cost of firewood for the engines soared. In a poignant letter to the Confederate government, Peter V. Daniel, Jr. complained that if Confederate forces

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[24] George Edgar Turner, Victory Rode the Rails (New York, The Bobbs-Merrill Company, 1953), p. 153.

continued to burn up the railroad's supply of firewood for its engines, the RF&P would have to shut down.[25]

Security of the railroad was a top priority and Black reports that initially the RF&P relied on its own guards, but when this became too expensive they called on the Confederate government for assistance.[26] There were many daring raids by Union forces on the southern railroads throughout the War. Today, in the Board of Directors Room of the RF&P, there is displayed a handwritten letter from Peter V. Daniel, Jr., dated August 1, 1863, to James A. Sedden, Confederate Secretary of War, imploring him to provide defense forces for the Virginia Central and the RF&P so that supplies could continue to be sent to General Lee, then encamped near Fredericksburg. He concludes his request, "hoping you may be able to secure to these important means of transportation the security demanded by their importance."[27]

This letter, written three weeks after the Battle of Gettysburg, indicates the turn of the tides of the war. The raids on the railroad continued, and by August 1864 the

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[25] Robert C. Black, III, The Railroads of the Confederacy (Chapel Hill, The University of North Carolina Press, 1952), pp. 214-215.

[26] Ibid., p. 56.

[27] Letter to the Honorable James A. Sedden, Secretary of War, CSA, from Peter V. Daniel, Jr., President, RF&P Railroad dated August 1, 1863.

Virginia Central and the RF&P had been practically put out of business.[28] In late 1864 and early 1865 Union forces broke through the southern defenses and destroyed the bridges over the North Anna and the South Anna Rivers. The scorched earth policy of General Philip Sheridan in the Shenandoah Valley cut off this important source of supply to General Lee's army and to Richmond.

At the end of the war in 1865 the Company faced devastating conditions. Most of its bridges were destroyed, the Aquia Creek Wharf was burned and much of the rail had been ripped up. Its equipment had been destroyed or was worn out. The largest asset in the Company's Treasury was $700,000 in bonds and currency of the Confederate States of America, by then completely worthless. Fortunately, the Railroad's headquarters at Eighth and Broad Streets was not destroyed by the devastating fire that left Richmond's business district in shambles.[29] In spite of these vicissitudes, the RF&P remained solvent after the war and the State retained its stockholdings.

One of the real tragedies of the Civil War was the discovery that Samuel Ruth, Superintendent of the RF&P, was a Union spy. He was a Pennsylvanian by birth and had served the

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[28] Black, Railroads of the Confederacy, p. 224.

[29] Mordecai, History of RF&P, pp. 33-36.

railroad as a trusted employee since 1839. He became discouraged in the fall of 1864 and, in collaberation with a saloonkeeper and a Negro courier who found it easy to slip between the lines, he bagan to sell information to the Union covering Confederate troop movements, the condition of Virginia's railroads and Confederate war plans. His treachery was discovered shortly before the fall of Richmond and he was arrested and charged with treason. Before he could be brought to trial, the Federals occupied the city and he was released and reinstated as Superintendent of the RF&P. He retained this job for four years despite the hatred of most of his associates. He was later recognized by Grant who gave him a position in the revenue services in Petersburg. He resigned in 1871 and died an unhappy and friendless man in 1872.[30] This act of treason was overlooked by several historians.

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[30] Johnston, Virginia Railroads in the Civil War, p. 228. For more on Ruth, see Angus J. Johnston, II, "Disloyalty on Confederate Railroads in Virginia," Virginia Magazine of History and Biography LXIII (October, 1955), pp. 410-426.

Reconstruction of the Railroad

The war was over, and although the Company properties had been devastated, the Company itself was intact. In order to pay for the Railroad's reconstruction a bond issue of $100,000 bearing interest at 8 percent was floated in July 1865, in Philadelphia. The irony of reconstruction is the fact that the RF&P purchased rails and fastenings, ties and bridge timbers from the U. S. War Department, those materials having been declared surplus by the Union Army. By June 1865 the lower portion of the line had been reconstructed as far as Hamilton Crossing, fifty-seven miles north of Richmond and four miles south of Fredericksburg. Stage lines were again used to fill the gap between this point and the steamboat wharf on Potomac Creek. The main line was reopened to the rebuilt Aquia Creek Wharf on September 22, 1865. In 1867 the tracks of the Richmond & Petersburg Railroad were connected to the RF&P in Richmond and also joined to the Petersburg Railroad at Petersburg. Trains were thus able to run over the three railroads between Weldon, North Carolina and Aquia Creek, Virginia, where steamboat service to Washington was once more available.[31] For the year 1867 the Railroad reported a profit of $26,823; recovery was under way.[32]

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[31] Richard E. Prince, The Richmond-Washington Line and Related Railroads (Salt Lake City, Stanway-Wheelwright Publishing Company, 1973), p. 30.

[32] RF&P Annual Report - 1867, pp. 2-3.

The dream of an all-rail connection between Richmond and Washington came to fruition during this period of railroad reconstruction. The winter of 1867-68 was a harsh one; heavy freezing caused the Potomac River to be closed to navigation for eleven weeks. The inability to operate north of Fredericksburg took its toll on rail revenues and profits. The Company received permission to extend its line northward for ten miles, and construction began. Eventually the RF&P extended its line to Quantico where it made connection with the Alexandria and Fredericksburg Railway Company controlled by the Pennsylvania Railroad. On July 18, 1872, through-train service between Richmond and Washington was inaugurated.[33] It is interesting to note that the Pennsylvania, through its subsidiaries, now controlled the roads south of Richmond and north of Quantico.

In 1871 John Moncure Robinson became President of the RF&P succeeding Daniel. After retiring, Daniel served as the railroad's Counsel until 1889. With the financing obtained in Philadelphia several years earlier, voting control of the Railroad fell into the hands of the Biddle and Robinson families. The Biddles of Philadelphia were closely aligned with the Baltimore & Ohio Railroad, a great rival of the Pennsylvania. In view of the new all-rail connection between Richmond and Washington, the RF&P decided to get out of the

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[33] Griffin, 150 Years on the RF&P, p. 18.

steamboat business and sold the Potomac Steamboat Company whose river connection tied into the B&O terminal in Washington. This decision infuriated the Philadelphia majority shareholders because of their allegiance with the B&O. They dismissed Robinson in 1878, and Judge Robert Ould of Richmond became President. Subsequently relations with the Potomac Steamboat Company were reestablished. This move displeased the Pennsylvania Railroad. To show its displeasure the Pennsylvania routed all of its southbound traffic over the Virginia Midland Railway and the C&O Railroad through Warrenton and Charlottesville. The United States Postal Service also notified the RF&P that a combination of rail/steamboat service was not acceptable to transport the U. S. mail and indicated they would withdraw their lucrative contract. All of this was too much for Ould, and he resigned in protest. In view of these pressures, the RF&P reversed its decision and got out of the steamboat business for good, in spite of the wishes of the majority shareholders in Philadelphia.[34]

The year 1881 saw the issuance of dividend obligations to all common and guaranteed shareholders. Prior to this all earnings had been reinvested in the company and the common shareholders received no dividends. The dividend obligations had no voting power but the holders were entitled

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[34] Mordecai, History of the RF&P, pp. 44-46.

to dividend payments. In 1885 voting control of the RF&P passed from the Biddle group in Philadelphia to B. F. Newcomer and W. T. Walters of Baltimore, who purchased sizable blocks of stock from the Philadelphians. These two men were active in the formation of the Atlantic Coast Line Railroad. The idea was to control the southern linkage to the RF&P.[35] During the last decade of the nineteenth century, there was considerable reorganization and expansion of the railroad industry, and many small lines were consolidated into larger railroad entities. The Southern, the Atlantic Coast Line and the Seaboard Airline were formed to provide competition in the southeast, while the Pennsylvania and the Baltimore & Ohio became fierce competitors north of Washington.[36] The RF&P maintained its identity.

In 1877 the General Assembly appointed a Railroad Commission, and the Board of Public Works was stripped of most of its function. In 1902 the Virginia Constitutional Convention met and created the State Corporation Commission to regulate utilities and railroads in the State of Virginia. Both the Railroad Commission and the Board of Public Works were eliminated. The new Constitution of Virginia (Section 176) provided that no railroad could be built parallel to the line of the RF&P. In view of this severe restriction, six

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[35] Ibid., p. 50.

[36] Ibid., p. 54.

major railroads (the Atlantic Coast Line, Baltimore & Ohio Railroad, Chesapeake & Ohio, Pennsylvania, Seaboard Air Line and the Southern Railway) formed a holding company, the Richmond-Washington Company (Rich-Wash), in which each railroad had an equal one-sixth interest. This new entity acquired a majority of the voting stock of the RF&P Railroad from Newcomer and Walters and the State retained its shares. The importance of controlling the voting stock in the railroad would become more important later. The new line was designated the Richmond-Washington Line of the RF&P. Traffic increased markedly, and the line was largely double tracked by 1905.[37] The formation of this holding company by six strong competitors is without precedence; it came about since they all felt the reality of the provision of the new Constitution as it related to the RF&P. The six railroad presidents served on the RF&P's Board of Directors.

In 1906 the giant "Gateway to the South" - the Potomac Yard - was placed in service by the Richmond-Washington Company. This yard provided for the classification and interchange of freight cars among the six participating railroads. The facility was the largest of its kind in the United States and included classification yards, a machine shop, a round house, and over a hundred miles of track. It cost $5,182,280 to build, and it covered approximately five

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[37] Ibid., p. 62.

hundred acres of land in Alexandria and Arlington, Virginia.[38] The Acca Yard was established in Richmond during this same period for a similar purpose. The RF&P operated Potomac Yard under a contractual agreement with a Board of Managers representing the owners.

With the advent of World War I in 1914 the RF&P played an important part in serving the national defense needs of the United States. The war increased traffic 175 percent, and the control of the railroad came under the U. S. Railroad Administration. The Federal Government paid the railroad $3,477,274 for war service transportation. Shortly after the end of hostilities, the handsome new Broad Street Station in Richmond was opened to the public in 1919.[39]

The RF&P Board of Directors created the new position of Vice President on February 26, 1920 and abolished the old title of Assistant to the President. At the time Norman Call was Assistant to the President, Secretary and Treasurer; he was named Vice President, Secretary and Treasurer. William H. White, who had served with great ability as President of the RF&P for nearly thirteen years, died on August 5, 1920.[40] The Board of Directors was faced with the task of naming a

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[38] Prince, The Richmond-Washington Line, pp. 63-66.

[39] Ibid., p. 51.

[40] Mordecai, History of RF&P, p. 67.

successor. A bitter fight developed and the two main candidates were Norman Call, the Vice President, and Eppa Hunton, Jr., the railroad's General Counsel. Call joined the railroad in 1906 and worked his way up through the ranks to the newly created post of Vice President. Hunton had ably served as the railroads General Counsel for six years.

Call informed the Board that White had told him that he would be his successor and that was why the title of Vice President was established. Call had the backing of Governor Westmoreland Davis, who served as a director of the RF&P representing the State's interest, and Charles E. Graham, President of the C&O Railway Company, also an RF&P director. Davis wrote a letter to Henry Walters, Chairman of the Board of the Atlantic Coast Line Railway Company and Chairman of the RF&P Nominating Committee, stating his support for Call, "...to elect Hunton would justify the oft repeated assertions that influence rather than merit secures advancement in our industrial life."[41]

Hunton was supported by Senator Carter Glass, two of the three members of the State Corporation Commission, namely William F. Rhea and Berkley D. Adams, and the State's Second Auditor, Rosewell H. Page. These men, along with strong

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[41] Westmoreland, Davis, letter to Henry Walters dated August 18, 1920, Eppa Hunton, Jr. papers.

support from the business community, wrote letters on behalf of Hunton citing his abilities to handle the broader aspects of railroad administration. The RF&P Board of Directors met in New York on September 16, 1920 and elected Hunton President. The irony of all this is that he was officially notified of his election by the Board's Secretary Norman Call! Hunton received over 125 congratulatory letters and telegrams; they represented a veritable Who's Who in Virginia at that time. Among the more notable were letters from Beverly B. Tucker, Episcopal Bishop of Virginia, and the noted author Ellen Glasgow. Hunton's election was a popular one and he served the RF&P with great distinction for almost twelve years. He had the ability to deal, as Glasgow put it, "...with the high, the low and the middle..."[42] Eppa Hunton, Jr. died on March 5, 1932 and the Henrico station was named Hunton in his honor. Norman Call was named his successor and he would serve as President until his retirement in 1955.

The 1920s were highly profitable years for the railroad. In 1920 net income was $1,034,740 and by 1925 had increased to $2,899,821.[43] The stock markets crashed in October 1929 and threw the country into the Great Depression.

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[42] Ellen Glasgow, letter to Eppa Hunton, Jr. dated September 25, 1920, Eppa Hunton, Jr. papers. I am indebted to Eppa Hunton and Anne Hopson Freeman for sharing with the author the 1920 papers and personal correspondence of Eppa Hunton, Jr.

[43] RF&P Annual Report, 1925, p. 2.

The extent of the effect of the depression on the railroad is evidenced by the fact that in 1928 net income was $2.2 million and by 1933 it had declined to $292,000.[44] Despite this dramatic reduction in the company's business, good management prevailed and the RF&P survived these hard times. The late 1930s saw a return to higher profitability.[45]

The German invasion of Poland in 1939 touched off World War II. Our nation's railroads made a tremendous contribution to the war effort. According to government figures, the railroads throughout the war period carried 97 percent of all troop movements and more than 90 percent of all war freight within the United States.[46] The unique location of the RF&P enabled it to move the great majority of war traffic north and south from camps to ports of embarkation. Traffic revenues shattered all previous records, and the peak day was reached on April 22, 1943, when 33,324 passengers were carried, exceeding the previous travel records for the months of June and August 1933. Over 9.5 million servicemen were transported during the war and by 1944 net income had risen to $4.8 million. With the end of World War II in 1945, the volume of rail traffic predictably slowed immediately. In

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[44] RF&P Annual Report, 1928, p. 2 and 1933, p. 4.

[45] Ibid., 1939, p. 7.

[46] John B. Mordecai, Richmond, Fredericksburg and Potomac Railroad in World War II (Richmond, Privately Published, 1948), p. 6.

1946 passenger traffic declined 45 percent from 1945, and net income declined to $3,376,923;[47] however, with the return of peace, the road was in sound financial condition and ready for post-war expansion.

On May 17, 1946, the labor unions called a nationwide railroad strike demanding higher wages. President Harry S. Truman, acting under emergency legislation, took over the operation of the nation's railroads, and they remained under governmental control until May 26 when they were returned to their owners. The year 1946 also saw strikes in the steel and coal industries. In the <u>1947 Annual Report</u>, President Norman Call lamented the fact that the railroad, steel and coal strikes affected the company's revenues and profits adversely. Net income declined twenty-five percent to $2,548,917. The report also mentions the purchase of ten diesel-electric locomotives to replace steam engines which were no longer economical to operate.[48] This modernization of locomotive power would continue.

On February 2, 1948, former Governor William M. Tuck was appointed a director of the railroad by the State Corporation Commission to represent the State's investment in

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[47] <u>Ibid</u>., pp. 21-23.

[48] <u>RF&P Annual Report</u>, 1947, p. 5.

the RF&P. He succeeded former Governor George C. Perry, who had served since 1935. On March 19, 1953, Dr. Douglas S. Freeman was elected a director of the railroad. Unfortunately, Dr. Freeman died on July 16, 1953 after only four months of service. That fall William M. Tuck was elected to the U. S. House of Representatives and resigned his position as director. He was succeeded by former Governor John S. Battle of Charlottesville to represent the State's interest.[49]

North Korea invaded South Korea on June 25, 1950, and again railroad freight traffic increased due to the war effort. Congress adopted the Excess Profits Tax later that year, and President Call estimated that the RF&P paid approximately $740,000 in additional taxes as a result of this legislation.[50] After the Korean War the RF&P began to experience considerable competition from the airlines, coastal shipping and the trucking industry. On June 24, 1956 President Dwight D. Eisenhower signed The Federal Highway and Revenue Act, providing funds for the interstate system. Truckers received significant benefits from this new highway system which gave them a great deal of flexibility and enabled them to deliver goods directly to customers in urban areas. Passenger use on the railroad continued to decline as more and

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[49] Ibid., 1948, p. 2.

[50] Ibid., 1951, p. 6.

more customers switched to the nation's airlines. In 1952 passenger train miles were 1,492,521. This figure declined to 979,769 miles in 1959.[51] In addition, coastal shipping between Norfolk and Baltimore reduced freight volume on the RF&P's inland route.

At this time the United States Post Office notified the RF&P that it was "experimenting" with the transportation of U. S. mail by air between Washington, D. C. and various southern points. This move reduced revenues of the railroad by approximately $50,000 in 1953. Later the company was advised that the Post Office was considering the diversion of bulk mails (Parcel Post) between Washington, Richmond and Norfolk to "over the highway" service, another blow to revenues.[52]

The company was facing an earnings dilemma. In 1946 the RF&P had operating revenues of $26,021,789, which produced net income of $3,376,922. Ten years later in 1956 the company had operating revenues of $27,130,292, which produced net income of $3,828,539, a ten-year increase of only $441,617 or approximately one percent per annum. In real terms, this represented a significant decline in earnings. Operating revenues were being depleted by a reduction in freight

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[51] Ibid., 1959, p. 4.

[52] Ibid., 1953, p. 7.

traffic, diminished passenger usage and a decline in postal mail pay. On the expense side the company was operating with outmoded work rules, and, although the number of employees had declined from approximately 3,800 in 1948 to approximately 2,100 in 1957, total payroll costs remained constant at about $12 million per annum over the period. In a word, fewer employees were receiving significantly higher pay.[53] The effect of heavy competition was being brought home in a forceful manner. It would be up to future managements to address this severe earnings problem. At a Board of Directors meeting held on December 16, 1954, Norman Call stated that he wished to retire on January 1, 1955. The Board accepted his resignation with deep regret and passed a lengthy resolution in his honor stating, "The railroad prospered under the leadership of an executive of outstanding ability."[54] The Board appointed W. Thomas Rice, the General Superintendent, as his successor. Stuart Shumate, Superintendent of Potomac Yard, was named General Superintendent of the railroad. Call's service with the RF&P spanned fifty-three years including twenty-three years as President and Director.

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[53] Ibid., 1957, p. 2.

[54] RF&P Board of Directors, Minutes dated December 16, 1954, p. 2.

Chapter 2

THE RICE - MARKS - SHUMATE YEARS, 1955-1981

• A New Era for the RF&P

The challenge facing RF&P management was quite clear: How could the company increase net income in the face of declining freight and passenger volume due to competition and ever-increasing wage rates that included cost of living provisions? This challenge was to be met by W. Thomas Rice and Stuart Shumate. Both men were Virginians, both were educated at Virginia Polytechnic Institute and both brought broad operational experience to their new assignments.

Rice was born in Hague, Virginia, in the Northern Neck section of the state near the Potomac River, on June 13, 1912. He attended Virginia Polytechnic Institute and received his Bachelor of Science degree in Civil Engineering in 1934. He joined the Engineering Department of the Pennsylvania Railroad in Elmira, New York and on September 14, 1935 he married Jaqueline Johnston of Harrisonburg, Virginia. He continued with the Pennsylvania until the outbreak of World War II. He served with distinction in the U. S. Army Transportation Corps and was awarded the Legion of Merit with Oak Leaf Cluster. After World War II ended he departed from the service with the rank of Colonel and he later attained the rank of Major General in the U. S. Army Reserve.[1]

After the War he and his wife Jacque decided they wanted to return to Virginia, and he applied to E. M. Hastings, Chief Engineer of the RF&P, for a job. His application was accepted, and he joined the RF&P as Track Supervisor on February 1, 1946. His responsibilities included the maintenance and upkeep of the track from Fredericksburg to Potomac Yard. Later that year he became Superintendent of Potomac Yard and remained in this position until he was named Superintendent of Transportation in 1949. He occupied this important post until he was named President in 1955. In a recent interview, Rice said,

> My aim at that time was to operate the railroad in a more profitable manner and to improve the operating ratio. Industry was moving to the Southeast after World War II, and I wanted to be sure that the RF&P encouraged the location of new industry along the line in order to build freight traffic and improve income.[2]

In 1956 management responded to the move to improve income by attempting to increase passenger volume through such

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[1] Richard Lee Morton, Virginia Lives, The Old Dominion's Who's Who (Hopkinsville, Kentucky, Historical Record Association, Publisher, 1964), p. 834.

[2] Interview with W. Thomas Rice, June 10, 1991.

innovative programs as theater trains to Washington and New York, Santa Claus trains to Ashland for the youngsters and promoting tours of our nation's Capitol. In 1957 ten thousand school children were transported to Washington to visit the Smithsonian Institute, the Washington Zoo and the Capitol. In addition a caboose car train, consisting of fourteen cabooses and two passenger coaches travelled to the Quantico Marine Base. A tour of the base included lunch in the Marine Mess Hall before returning to Richmond. Former Presidents Rice and Shumate credit Gene Luck of the Traffic Department with the success of these programs, and, although minimally profitable, passenger revenues increased 4.1 percent in 1956.[3]

The search for new sources of revenue to improve income continued. Rice mentioned, for the first time, in the company's 1956 Annual Report, that the railroad had begun to purchase real estate to be used as sites for developing new industries along the RF&P. Included in these purchases were 28.9 acres just north of Richmond in the Hunton area of Henrico County, 76.5 acres south of Fredericksburg in Spotsylvania County and 23.6 acres in Arlington County north of Potomac Yard.[4] The purchase of real estate for future development or resale became an on-going process.

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[3] RF&P Annual Report, 1956, p. 6.

[4] Ibid., 1955, p. 8.

The importance of Rice's 1956 announcement concerning real estate investment cannot be minimized. A new era was beginning at the RF&P. Here began the evolution in the railroad's history towards the full development of real estate as a major factor in increasing non-rail income. This movement continued for the next thirty-five years and the transition came about in this way. First, parcels of real estate were purchased for the purpose of attracting new industry along the line and thereby increasing freight volume and revenue. The next phase was to build warehouses along the line to attract customers and to provide storage for goods shipped by rail. Later, the idea of leasing railroad land to outside developers came into vogue. It required little in the way of capital investment, yet provided the railroad with a handsome return from the rental of the leased property. The next phase was for the railroad to serve as its own developer with no outside parties involved. The final phase of real estate development was that of the railroad becoming a partner with an outside developer in a joint venture on land owned by the railroad. This method provided the railroad with income from the venture and at the same time allowed the company to participate in the after-tax cash flow which by 1989 had reached the impressive figure of $14.9 million.[5] The decision to become an active participant in real estate development

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[5] Ibid., 1989, p. 3.

would have a significant impact on the future earnings of the company.

Other methods were used to improve efficiency as well as improving income. Safety was being stressed within the company, and in 1955 there were only 30 injuries compared to 221 in 1946, a remarkable reduction. Of first importance was the health of the employee and his family, also a safety conscious organization gained through improved productivity and smaller medical and injury claims. John J. Newbauer, Jr., a retired President of the RF&P, recounts the dangerous nature of railroad work in Potomac Yard. Under the two hump system a yard locomotive would push the cars over the hump at great speed. The car riders, or brakemen, would ride these cars down the track to the properly classified rail line where they would crash into the standing cars with great force. If the brakeman was not careful, he could be crushed by the two cars or thrown off on impact. Loading the refrigerator cars with fifty pounds of block ice also accounted for a number of injuries, since one had to get under the car to fill the lower ice boxes.[6] Classes were given to supervisory personnel to teach them how to obey safety rules and how to prevent accidents. They in turn would hold sessions with employees reporting to them and, as a result, the entire workforce was

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[6] Interview with John J. Newbauer, Jr., September 12, 1991.

covered. The first "RF&P Family Night Safety Meeting" was held in August and attracted a total attendance of 600 employees and members of their families. The Safety Program was combined with entertainment and became a popular annual affair on the RF&P. In 1955 the railroad received the E. H. Harriman Memorial Safety Award from the American Museum of History.[7]

Rice was committed to the idea of improving efficiency through the modernization of the railroad. This was done by moving from steam to diesel-electric locomotives and by the installation of Central Traffic Control (CTC), which allowed the road to close four control stations along the line, with the attendant reduction in personnel. These control stations or towers controlled all of the traffic within "the block"--usually approximately twenty-five miles. The new electronic CTC system located in Richmond covered the entire 113 miles of the RF&P. In World War II the Army developed the walkie-talkie radio and used it to great advantage. Rice put this new technology to work for the RF&P. The railroad was able to communicate better and reduce the number of men on train crews. Welded rail track was installed along the line adding to the efficiency of ground crews and a further reduction in personnel. There was a good deal of union opposition to these modernization measures, since they

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[7] RF&P Annual Report, 1956, p. 21.

reduced jobs; however, management prevailed and, as a consequence, the road's operating ratio improved considerably. This ratio of total operating expenses to total operating revenues decreased from 70.3 in 1954 to 67.1 in 1955.[8]

In 1957 the RF&P purchased 23.6 acres in Arlington, Virginia, just north of Potomac Yard. The site contained an outdoor drive-in theater, but Rice felt its proximity to the nearby railroad would make it an ideal warehouse location. The price was approximately $40,000 per acre. When he brought it to the Board of Directors[9] for approval, one of the directors exclaimed that this was almost $1.00 per square foot and too expensive and, as a result, a decision on this matter was deferred. Rice brought the real estate purchase up again at the next Board meeting. He recalls that, after much negative discussion, Howard E. Simpson, President of the Baltimore & Ohio said, "We have looked at this property also and, if you don't let Tom buy it, the B&O will." Suddenly all

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[8] Ibid., 1955, p. 4.

[9] Ibid., 1956, p. 1. At that time the Presidents of the Seaboard Airline Railroad Company, Atlantic Coast Line Railroad Company, Pennsylvania Railroad Company, Southern Railway Company, Baltimore & Ohio Railroad Company and the Chesapeake & Ohio Railway Company all represented their interest in the Richmond-Washington Company. There were two "outside" Directors (one representin the State of Virginia). Rice was on the Board as President of the RF&P.

opposition faded away and the Board approved the purchase unanimously.[10]

The April 18, 1957 Board meeting minutes contains the following statement:

> The President informed the Board that he had been offered a parcel of land lying between the main line and the industrial line of the railroad and fronting U. S. Highway #1 in Arlington, Virginia containing 23.6 acres that if purchased a narrow strip along the main line right-of-way will be used for railroad purposes and that the balance be used for industrial development purposes. The Board authorized an expenditure of up to $700,000 for the property.[11]

At a subsequent Board meeting the Board authorized an expenditure of up to $850,000 and the property was purchased.[12] Warehouses were promptly built on this property and were later torn down in 1964 to make way for the huge new Crystal City development.

On June 20, 1957 Tom Rice submitted his resignation as President of the RF&P to the Board of Directors effective August 1, 1957,in order to become President of the much larger

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[10] Interview with W. Thomas Rice.

[11] <u>RF&P Board of Directors, Minutes</u>, April 18, 1957, p. 2.

[12] <u>Ibid</u>., May 16, 1957, p. 2.

Atlantic Coast Line Railroad Company.[13] He would continue his membership on the Board of Directors of the RF&P as the Richmond-Washington Company representative of the ACL. His short service of about two and one-half years as Chief Executive Officer had been most productive. Net income had increased from $3.2 million in 1954 to $3.8 million in 1955, the operating ratio had improved dramatically as a result of the moves made to modernize the road during his administration; and he had worked diligently to find new sources of income for the RF&P. Rice was succeeded by Wirt P. Marks, Jr., who had served as General Counsel for the railroad for a number of years. Stuart Shumate was named Vice President and General Manager.

In the 1957 Annual Report Marks gave an account of his efforts to continue to build freight traffic by noting that nineteen new companies had located along the line during the year; however, due to the recession there was a continued slowdown in passenger and freight traffic, and net income declined to $3.1 million.[14] The railroad celebrated its 125th Anniversary in 1959 and on May 25 former President Norman Call died. Rice described him as a "gracious gentleman," and although he had little railroad operating

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[13] Ibid., April 18, 1957, p. 1.

[14] RF&P Annual Report, 1957, p. 4.

experience, he had directed the company through the Great Depression, World War II and the Korean War.[15]

One of the innovations in 1959 was the introduction of trailer-on-flat-car service (TOFC), commonly know as "piggy-back" service. Highway trailers could be hoisted aboard a flat car and shipped very efficiently to distant points. The charge for the service was very competitive with the truckers, and the railroad offered faster delivery. This was particularly important to the shipper of perishables, and, as we shall see, the dramatic growth of piggy-back traffic made a significant contribution to future earnings.[16]

During the year agreement was reached with the Seaboard Airline Railroad permitting it to buy into the Richmond Terminal Company, a subsidiary of the RF&P and owner of the Broad Street Station, thereby allowing this road the use of the station for passenger service. Prior to this the Seaboard had used the Main Street Station for passenger service.

At year end Marks reported that the City of Alexandria had increased the assessment of the company's land to $2,843,492, an increase of 320 percent over the prior year.

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[15] Ibid., 1959, p. 4.

[16] Ibid., 1959, p. 5.

Higher real estate values in Northern Virginia were beginning to be recognized. He also noted an improvement in the operating ratio from 66.9 in 1958 to 66.5 in 1959.[17]

In May 1960, the Trailer Train Company was organized by the nations railroads to secure and maintain a pool of special-purpose flat cars for moving highway truck trailers by rail. The RF&P joined this group, since it would enable the company to secure flat car equipment in the most economical manner and permit its participation in the fast growing volume of piggy-back business. During the year 2,722 loaded piggy-back cars were handled over the line, compared with 272 cars in 1959. By 1983 this figure had risen to 138,222. Trailer Train not only hauled truck trailers, but special cars were adapted to handle the shipment of automobiles as well. Bi-level and tri-level cars were used for this purpose.[18] Because of tunnel heights, tri-level automobile traffic was restricted north of Baltimore.

During the year 1960 an announcement was made of plans to develop a large industrial park of about 500 acres on the land then occupied by the steam engine house and shop facilities in Richmond. The move to diesel engines required new facilities closer to the main line. This was the

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[17] Ibid., 1959, p. 4.

[18] Ibid., 1960, p. 3.

beginning of the development of the Bryan Park Industrial Park property adjacent to the west side of Acca Yard, and it would play an important part in future real estate development in this area. Ralston Purina and the Solite Corporation were among the first to locate in this large industrial park.[19]

On September 15, 1960 the RF&P exchanged 24,500 shares of capital stock of the old Richmond Greyhound Lines, for 183,750 shares of common stock of The Greyhound Corporation. On October 28, 1960 Greyhound paid a 10 percent stock dividend, giving the RF&P 18,375 additional shares and bringing its total equity to 202,125 shares with a cost basis of $252,000. The receipt of the Greyhound Corporation stock ended RF&P's venture in the bus business.[20] An interesting story of how the RF&P and Greyhound got together is recounted by Tom Rice and John B. Mordecai. Rice says that for some years the railroad had wanted to provide passenger service from Richmond to Washington for those who could not afford the high rail passenger rates.[21] Mordecai confirms this in his history of the RF&P. Mordecai reports that on July 2, 1928 the RF&P organized the Suburban Motor Coach Company to operate passenger buses between Richmond and Ashland; this allowed the road to discontinue the expensive short-haul steam service.

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[19] Ibid., 1960, p. 9.

[20] RF&P Annual Report, 1968, p. 8.

[21] Interview with W. Thomas Rice, June 10, 1991.

Following the improvement of U. S. Route 1, a competitor group established Richmond-Washington Motor Coaches, Inc. to run between Richmond and Washington. The railroad created the RF&P Transportation Company on January 9, 1929 to compete on the Richmond Washington route. The RF&P operation was successful and took a good bit of business away from the competition. Richmond-Washington then sold its bus line to the Greyhound Corporation. Greyhound then approached the RF&P, and after several months of negotiations, the RF&P agreed to a merger of its bus line with a new corporation to be called Richmond-Greyhound Lines, Inc. The capital stock was apportioned 49 percent to RF&P and 51 percent to Greyhound Corporation. On November 31, 1931 the Richmond-Greyhound Lines extended its service from Richmond to Norfolk. This background explains how the railroad came into possession of the Greyhound Corporation common stock.[22]

In the spring of 1960 Marks suffered a massive stroke. A review of the Board Minutes of this period indicate that he did not attend a Board meeting after March 17, 1960. He was unable to preside at the company Annual Meeting held in April of that year.[23] Rice presided at the Annual Meeting and subsequent RF&P Board meetings. After fifteen years of

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[22] Mordecai, History of the RF&P, pp. 70-71.

[23] Annual Meeting of Shareholders of RF&P Railroad, Minutes, April 18, 1960, p. 1.

service, Marks submitted his resignation to the Board of Directors, due to ill health, effective December 31, 1960. Stuart Shumate was named President and Director to succeed Marks effective January 1, 1961.[24]

[24] RF&P Board of Directors, Minutes, December 15, 1960, p. 1.

• <u>Shumate's Twenty Years of Leadership</u>

Shumate was born in Calverton, Virginia, near Warrenton. He attended VPI where he received the Bachelor of Science degree in Civil Engineering. Upon graduation he joined the Pennsylvania Railroad in Columbus, Ohio. On May 6, 1943 he married Mary Abbott Kossuch in Wheeling, West Virginia. He served with distinction in World War II, and at the war's end he retired from the service with the rank of Major. He returned to the Pennsylvania after the War, but in 1946 he was persuaded to return to Virginia by his longtime friend, Tom Rice. His first position with RF&P was that of Track Supervisor. His rise was rapid: Supervisor in 1946, Superintendent of Potomac Yard in 1950, General Superintendent in 1955, Vice President and General Manager in 1957 and President in 1961. He would serve as the company's Chief Executive Officer for the next twenty years.

In his first Annual Report in 1961 Shumate stated that, "...new sources of revenue are constantly being sought through the intensified activities of our Traffic and Industrial Development Department."[25] The function of the Traffic and Industrial Development Department was to build rail traffic volume and revenue. Shumate recounts how he brought in William E. Turner from the Chessie Line to help

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[25] RF&P Annual Report, 1961, p. 2.

"invigorate" this new program. Turner would make regular calls on customers and prospects (unheard of in that day) and would try to get them to move their business to the RF&P. Shumate would go with Turner on some of these trips, and later they convinced United Parcel Service to switch to RF&P's piggy-back service. This move became significant both in terms of volume and in terms of profitability.[26]

In December 1961 Urchie B. Ellis, Esq., joined the RF&P and established the company's first Law Department. Ellis was a fourth generation railroader, having served in a legal capacity with the Illinois Central and the Atlantic Coast Line. In a recent interview he reflected back to the myriad of legal matters that confronted the railroad. Competition was stiff and the preparation of tariffs and rates was the secret to obtaining new business. Different factors would affect a tariff decision. He recounted one known as "Koshering." Meat was produced in the Midwest and would be blessed by the local rabbi as "being Kosher." The meat would then be shipped to New York for Hebrew consumption. Under Hebrew law the meat needed to be blessed again in two days. In order to meet this deadline, the train had to stop in Ohio and the local Rabbi would come out and inspect the meat. If it met with his approval he would bless the meat and the train would resume its trip to New York. This layover was factored

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[26] Interview with Stuart Shumate, June 7, 1991.

into the tariff schedule of this train and was known as "Koshering." Meat that did not meet these deadlines were sold to gentile butchers in New York.[27]

The year 1962 was an eventful one for the RF&P. Rental income from leasing of warehouses and other real estate amounted to $437,876, an increase of 18.09 percent over 1961. Development of the new Bryan Park Industrial Park included several sales and leases. In addition the company leased 8.6 acres to the Mt. Vernon Corporation in Richmond for the purpose of constructing 216 apartments. Industrial Development and real estate activities were receiving more of management's time and attention.

Cash balances at the RF&P had improved, and shareholders were invited to tender any or all shares to the company with some limitations. As a result 26,880 shares were purchased at a price of $111.79 per share; these shares were retired to the company treasury. With fewer shares outstanding on the same amount of net income, the per share earnings would increase. While this offer was a common occurrence in industry, it was a first for the RF&P.

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[27] Interview with Urchie B. Ellis, Esq., September 12, 1991.

Additional steps were taken to modernize the line and its facilities; the new shop building in Richmond was completed at a cost of $1,800,000. This facility, spanning nearly four acres, combined under one roof modern equipment for maintaining, servicing and repairing diesel locomotives, freight and passenger cars and the supporting stores department units. In the servicing area five locomotives could receive water and fuel in fifteen minutes. It was one of the most modern in the country. A sign of the times was the demolition in 1962 of the coal tipple located at Acca Yard. The tipple, once used to fuel steam engines, was a symbol of a past age. Its demise brought into sharp focus the emergence of a new era for the RF&P.[28]

The Board of Directors at its November, 1963 meeting received a report from the President covering the plans of the Washington Brick and Terra Cotta Company and others to construct office buildings on land adjacent to the RF&P in Arlington. The total estimated cost of this project was $50 million and would consist of six buildings, two of which were already underway. Gross annual revenue was expected to exceed $6 million. Access to Jefferson Davis Highway was hampered by the industrial trackage on the old RF&P main line. Negotiations took place and the Board authorized an expenditure of $55,600 to remove the old tracks provided that

[28] RF&P Annual Report, 1962, p. 8.

the railroad would exchange part of the old line right-of-way for an equal amount of property owned by Terra Cotta near the present main line. In consideration the developers would grant the railroad 5.1 percent of net cashflow of the project with a minimum net rental of $7,200 per annum. This new project was to be named Crystal Plaza.[29]

The Annual Report for 1964 carried a paragraph that later proved to be one of the greatest understatements ever made:

> By way of an exchange of land and lease arrangements, the RF&P secured a fixed rental income as well as a participation in the cash flow generated by a large office-operated building complex known as Crystal Plaza to be constructed in a rapidly growing area of Arlington County.[30]

This marked the beginning of the Crystal City development. Shumate recalls how this came about. In 1962 Robert H. Smith, President of the Charles E. Smith Company, a distinguished Washington real estate firm, approached him with the idea of buying a small parcel of land in what is now known as Crystal City in Arlington, Virginia. Shumate suggested that the railroad would consider leasing or exchanging the

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[29] RF&P Board of Directors, Minutes, November 19, 1963, p. 3.

[30] Ibid., 1964, p. 7.

land with him but would not sell it. Smith finally agreed to this approach and thus opened a relationship that has continued over the years. Smith then went to work and had his development group design a much larger project known as Crystal Plaza. RF&P leased the thirty-five acres of land to Smith and he developed it. The railroad received a fixed income from the developer-leasee and in later years would enjoy substantial cash flows from this and other Crystal projects. Construction commenced in 1964.[31]

Shumate advised the Board that the company had received a favorable ruling from the Internal Revenue Service on the exchange of Greyhound stock for RF&P stock.[32] Consequently in 1964 the company offered its shareholders an exchange of Greyhound Corporation common stock for shares of RF&P stock on a ratio of 3-1/4 Greyhound shares for each RF&P share tendered. The offer also included a cash equivalent option for the guaranteed stock. As a result 88,181 shares of Greyhound stock were distributed to RF&P shareholders and 29,751 shares of RF&P stock, of all classes, were retired to the Treasury of the company. This move had the effect of reducing the outstanding stock of the RF&P to 376,502 shares

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[31] Interview with Stuart Shumate, June 7, 1991.

[32] RF&P Board of Directors, Minutes, January 16, 1964, p. 1.

in 1964 compared to 406,253 shares in 1963.[33] Shumate recalls that the Greyhound stock had increased in value and he wanted to use this leverage to purchase RF&P stock which would have the effect of reducing the number of RF&P shares outstanding and thereby improve per share earnings since no cash was involved.[34]

During this period the company purchased from the Federal Government the 27.8 mile Dahlgren Branch Line Railroad. This railroad spur was built by the Federal Government to serve the U. S. Navy Testing Facility located on the Potomac River at Dahlgren, Virginia. The branch line had been declared surplus by the U. S. government and the RF&P felt this area would provide good locations for industry. It connected with the RF&P just north of Fredericksburg. Shumate relates that the deep water available from the Potomac River could be used to good advantage for shippers and he hoped that this line would be used to pick up some of the river traffic. The Solite Corporation had a location at Sealston near Dahlgren, and later 60 or 70 carloads of aggregate sand and gravel were shipped nightly to the firm's plant located near the 14th Street Bridge in Arlington on land leased from the RF&P. Negotiations were held with the U. S. Government and the Board authorized an expenditure of up to $700,000. The

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[33] RF&P Annual Report, 1964, p. 7.

[34] Interview with Stuart Shumate, June 7, 1991.

RF&P purchased the property for $605,101.[35] This proved to be a good investment and its cost was recaptured quickly.[36]

The Washington Metropolitan Area Transit Authority (WMATA) was chartered by Congress on November 6, 1966 with the responsibility to, "Plan, develop and finance transit facilities in the Washington Metropolitan Area Transit zone which includes a portion of the area served by the RF&P."[37] This announcement set the stage for further development in the Northern Virginia and Suburban Maryland areas. This Metro Authority would eventually obtain a right-of-way by condemnation of RF&P land as it expanded its route system from Washington south.

The five-building project known as Crystal Plaza was completed in 1967 and was a huge success. Occupancy increased to the 90 percent level very quickly. As a result another lease contract was executed with the Smith interests for a 13 acre tract of land adjacent to Crystal Plaza to be known as Crystal Mall. Four office buildings and one motel were planned for this development at a cost of $30,000,000. As in the prior arrangement, the lessor received a fixed rental income and also participated in the cash flow generated by the

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[35] RF&P Board Minutes, July 16, 1964, p. 2.

[36] Ibid.

[37] RF&P Annual Report, 1966, p. 13.

project. It is interesting to note that total rental income for leasing, warehousing and other real estate had risen to 10 percent of net income or $623,774 in 1967 compared with $370,811 or 5 percent in 1961.[38] Real estate development was becoming an important source of income for the RF&P.

Another sign of the times was the closing of the re-icing facility located in Potomac Yard in August, 1967. Before modern refrigeration was available the railroad cars carrying perishable goods were "iced down" about every three or four hundred miles. This was an active operation at Potomac Yard for many years. Faster shipment of perishables and the rapid decline of ice bunker-type refrigerator cars made this necessary. On the legislative front the truckers were attempting to gain approval on the use of double trailers over Virginia highways. The railroad industry fought this movement and was successful in defeating this legislation at that time due in large part to the State's close affiliation with the RF&P. The truckers finally attained their goals in 1983 after very persistent lobbying on their part.[39]

In August, 1969 the railroad suffered severe damage from flood waters in the Four Mile Run area on the border of Arlington and Alexandria. Track and roadbeds were washed

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[38] Ibid., 1967, pp. 6-9.

[39] Ibid., 1983, p. 8.

away. Urbanization of the adjacent areas caused this flooding, since the drain areas were reduced considerably. With much hard work new roadbeds were installed and new track was laid within several days causing a minimum of delay to through traffic.[40]

The U. S. Army Corps of Engineers was assigned the responsibility to bring the persistent flooding of Four Mile Run under control. The estimated cost of the project was $20.5 million and would be financed by the Federal Government, the two localities and business interests adjacent to the project. (The RF&P had built a railroad bridge over Four Mile Run.) The RF&P's portion of cost for this project was $1.5 million; however, the cash portion was reduced by granting an easement to the Corps of 7.7 acres valued at $113,000.[41] By 1973 the costs had escalated to $50 million due to inflation and changes of design. Congress became most agitated and required additional assessments from the participants. RF&P's share was increased from $1.5 million to $3.5 million; however the 7.7 acres had appreciated in value to $606,000, thus reducing the cash payment. The Board of Directors approved making the additional payment to the Corps.[42] In 1980 the State of Virginia Highway Department condemed 45,442 square

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[40] Ibid., 1969, p. 5.

[41] RF&P Board of Directors, Minutes, July 30, 1971, p. 2.

[42] Ibid., August 29, 1973, p. 3.

feet of RF&P land for construction of a highway bridge over Four Mile Run. The RF&P received $250,000 or $5.00 per square foot.[43] The project was now essentially complete and today Four Mile Run no longer presents a threat to the railroad or the community.

During the year 1969 agreement was reached with the Seaboard Coast Line Railroad Company to share the use of RF&P's Acca Yard facility on a joint basis. Although improvements to accommodate the move cost approximately $600,000, it proved to be a good investment for the RF&P by making more efficient use of this modern facility. The RF&P was able to spread its high fixed costs of operating Acca Yard over a larger base. It added additional income by way of its compensation agreement with the SCL. It should also be noted that the Tax Reform Act of 1969 repealed the Investment Tax Credit which hurt most capital intensive industries, since it reduced accelerated depreciation on new investments.[44]

The year 1970 was an eventful one for America's railroad industry. The collapse of the Penn-Central Transportation Company sent reverberations throughout the country and the Northeast. Much of RF&P's traffic originated in the Northeast and was served by the Pennsylvania. This

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[43] Ibid., June 27, 1980, p. 4.

[44] Ibid., 1969, pp. 7-12.

event caused a good deal of concern and led to a reduction in operating revenues. A number of smaller roads in the Northeast sought protection under the Bankruptcy Act in order to reorganize without the constant pressure from their suppliers and creditors.

For some years the Richmond Metropolitan Authority of Richmond (RMA) and the Virginia Highway Department had been negotiating with RF&P management to obtain property right-of-way along the North/South Beltline in the western section of the city. The RMA and the Highway Department wanted to construct an expressway along both sides of the tracks of the RF&P's James River Branch. This line connected Acca Yard to the bridge over the James River where it connected with the SCL south. Agreement was finally reached and the Powhite Parkway/I-195 became a reality. Looking back on this decision Shumate recalls that it was a double advantage for the railroad. In the first place, the sale of the property provided cash for the company on land that was not easy to develop and, secondly, the Authority lowered the roadbed and improved the drainage system thereby reducing the maintenance costs on this section of the line. In addition all grade crossings on the Beltline were eliminated.[45]

[45] Interview with Stuart Shumate, June 7, 1991.

October 30, 1970 President Richard M. Nixon signed the bill creating the National Railroad Passenger Corporation (Railpax - later Amtrak). Under this arrangement railroads could join this organization and would be relieved of the entire responsibility to provide inter-city passenger service. Joining was not mandatory but for those railroads that did not join, they would be required to operate all of their existing passenger trains until at least January 1, 1975. This created a strong incentive for railroads to get out of the passenger business. This national government corporation was given the name Amtrak in 1971, and on May 1 the RF&P withdrew from the passenger business. It was necessary to write-off, as an extraordinary charge, a net amount of $2,043,038.[46] Shumate says this was a good solution for most railroads. In the case of the RF&P, passenger traffic had declined dramatically, as measured by 214,805,950 passenger train miles in 1954 declining to 467,440 passenger miles in 1970.[47] The Interstate Commerce Commission (ICC) was reluctant to allow railroads to reduce passenger service. He estimates that it was costing the RF&P about $2 million a year to maintain passenger service and, although the eventual charge-off was equivalent to about $5.64 per share, the longer-range benefits

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[46] RF&P Annual Report, 1971, pp. 6-8.

[47] Ibid., 1970, p. 4.

were quite beneficial for the RF&P.[48] Today Amtrak offers the only rail passenger service in the United States.

The Auto Train Corporation, a private company, was formed in 1970 to provide service from Lorton, Virginia near Alexandria to Sanford, Florida. The Seaboard and RF&P provided the rail service for this new private firm which would use specially designed trains that would simultaneously transport automobiles and their occupants over long distance. Auto Train would provide the equipment and the two railroads would furnish the crews and physically operate the trains over their lines. For this the RF&P was compensated by the Auto Train Corporation.[49] The recession of 1980-82 was felt by the railroad industry as freight shipments declined. In the summer of 1980 the Auto Train Company declared bankruptcy necessitating a $1.2 million write-off of pre-bankruptcy receivables.[50] This company was later reorganized and today is owned by Amtrak.

In 1970 the Honorable Edward E. Lane, Chairman of the House of Delegates' Appropriations Committee was appointed the state representative to the RF&P Board of Directors; he succeeded John Battle. The state also appointed E. Otto N.

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[48] Interview with Stuart Shumate, June 7, 1991.

[49] RF&P Annual Report, 1970, pp. 14-15.

[50] Ibid., 1980, p. 5.

Williams, President of Virginia Bottled Gas Corporation, as a second representative on the Railroad Board. The RF&P Board at its June, 1971 meeting received a report from the President asking for approval of leasing thirty-nine acres of land to the Fairchild Development Group in the area known as Potomac Center adjacent to Potomac Yard. Preliminary plans called for the construction of a multi-million dollar office/motel/ apartment building complex including three levels of underground parking. In order to gain access to the George Washington Parkway, Fairchild exchanged land with the Department of Interior in Fairfax County; Interior granted access to the highway. The Board approved the RF&P's participation in this new project.[51] After eight years of fruitless negotiations with Fairchild and environmental suits brought by citizen groups, the RF&P dissolved the Potomac Center partnership in 1979.

At year's end Stuart Shumate had completed ten years of leadership; therefore, it is appropriate to review the decade under his leadership. In 1961 the RF&P reported operating revenues of $23.4 million and net earnings of $8.02 per share, compared with operating revenues of $25.2 million and earnings of $10.76 per share in 1971. In 1961 dividends were $4.75 per share and they increased to $8.75 per share in 1971. Employees had been reduced from 1,777 in 1961 to 1,253

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[51] RF&P Board of Directors, Minutes, June 4, 1971, p. 4.

in 1971, attesting to the continued effort to make the company more efficient and to modernize the railroad and its equipment. The important operating ratio also showed improvement and declined to 58.3 in 1971 from 67.0 in 1961.[52]

A number of new organizations were formed in this decade that would affect the railroad for years to come, such as: WMATA, Railpax and Amtrak. Significant progress was made in the field of real estate development. In Richmond the Mount Vernon Apartment project, the Bryan Park Industrial Park of 500 acres and the Interstate I-195 (Beltline) project with the RMA and the Virginia Highway Department were well underway. The most significant real estate projects were the completion of the Crystal Plaza and Crystal Mall properties in Arlington, Virginia. The purchase of land for future development and investment continued and at 1971 year-end, 4,100 acres were available for this purpose. Real estate income for the year totaled almost a million dollars, or about four percent of total revenues, signifying its importance to the company's earnings stream. This decade was an important one for the RF&P and its future.

The Crystal City complex continued to expand. In October of 1972 the RF&P announced a third Crystal project to be known as Crystal Square. This $50 million office/apartment

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[52] RF&P Annual Report, 1961, p. 11.

complex would be built on fifteen acres of railroad land adjacent to Crystal Plaza/Crystal Mall and, as in prior transactions, the company would receive a minimum rental per acre and participate in the net cash flow generated by the project. Shumate said that the cordial relations between the Charles E. Smith Company and the railroad continued.[53]

In 1974 the Commonwealth of Virginia purchased seventeen acres of RF&P land adjacent to the Broad Street Station for the expansion of the Division of Motor Vehicles (DMV).[54] This had particular significance in that the following year Amtrak decided to move its passenger facility from Broad Street Station to Greendale on the northern outskirts of Richmond. This prompted the RF&P and the Seaboard to offer the station and 52.8 acres of land to the State. At this time the Commonwealth was looking for a place to locate the new Science Museum of Virginia. The two transactions fit together perfectly. This land was adjacent to the DMV property and the station would be converted into the new Science Museum. The State paid $5 million for the property and this allowed the RF&P to move and construct a modern headquarters facility on Laburnum Avenue adjacent to Acca Yard. With the sale of the Broad Street Station

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53 Ibid, 1971, p. 7.

54 Ibid., 1974, p. 7.

completed, its owner, the Richmond Terminal Railway Company, was liquidated.[55]

In looking back on this development Shumate credits Governor Linwood Holton for this concept and as one of those business deals where everyone is a winner. The State moved its DMV to a very accessible location, and the Broad Street Station, designed by the noted architect John Russell Pope, would be converted into the new Science Museum of Virginia. It allowed the RF&P to dispose of a large and expensive-to-operate property and allowed the railroad to build new facilities adjacent to Acca Yard, which would add to the efficiency as the administrative headquarters of the company.[56] In 1975 the Board authorized the relocation of the company headquarters and approved $2 million for construction of the new building.[57] By 1976 the advantages of discontinuing passenger service became apparent in the company's earnings. Additional income from real estate operations continued to grow at an ever increasing pace. Earnings per share had climbed to $26.61 and dividends of $15.00 per share were paid--an all-time high.[58]

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[55] Ibid., 1975, p. 7.

[56] Interview with Stuart Shumate, June 7, 1991.

[57] RF&P Board of Directors, Minutes, May 30, 1975, p. 3.

[58] RF&P Annual Report, 1976, p. 4.

The Railroad Revitalization and Regulatory Reform Act of 1976 created a Federal Railroad Corporation (Conrail) which took over six bankrupt railroads, primarily located in the Northeast, with large amounts of Federal funding. The Act also allowed Amtrak to purchase and operate the trackage in the Washington-New York-Boston corridor. This legislation had a salutory effect on the RF&P, since Conrail continued as a major connection at Potomac Yard. Conrail also arranged for the Delaware and Hudson Railway Company (D&H) to gain access to Potomac Yard via Conrail's facilities. This provided an additional customer for the RF&P and the D&H sent a good amount of freight through Potomac Yard.

During the year Erwin H. Will, Jr., President of Capitoline Investments, Inc., was appointed to the RF&P Board of Directors, replacing E. Otto N. Williams as one of the Commonwealth's representatives.

The RF&P had been negotiating with WMATA since 1967 concerning the location of its transit route, and happily these long negotiations paid off handsomely for the railroad. In 1970 the two organizations agreed on a route over property owned by the RF&P.[59] During 1976-1977 the Authority paid the RF&P $2.3 million for this property and construction began. Of major significance and importance was the opening in mid-

[59] Ibid., 1976, p. 10.

1977 of the WMATA Transit Station in Crystal Square linking that development with the National Airport and the governmental and commercial centers in downtown Washington, D.C.[60] The location of a Metro station generally enhances the value of the surrounding property.

In January 1978 Shumate reported to the Board that during 1977 Amtrak paid the RF&P $525,000, representing incentive payments for on-time performance of better than 92 percent.[61] The importance of other income became apparent in the company's 1978 Annual Report highlights section when, for the first time, Other Income (including real estate income) was reported as a seperate listing. Pre-tax earnings from railway operations were reported at $13.1 million and other income was reported at $4.9 million.[62] The strategy of seeking other sources of income to supplement freight revenues was beginning to bear fruit in a meaningful way. There were other factors contributing to an overall increase in revenues. Piggy-back (TOFC) traffic had risen to a level that represented 20 percent of freight volume.

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[60] Ibid, 1977, p. 7.

[61] RF&P Board of Directors, Minutes, January 20, 1978, p. 3.

[62] Ibid., 1978, p. 4.

In 1978 a fifty acre parcel of real estate was carved out of the Bryan Park Industrial Park in Richmond to create Dabney Center. This property would be developed by the RF&P's own real estate staff and would become a combination office/warehouse development. A marketing survey revealed a shortage of warehouse space in the Richmond area, and this project was initiated to meet this need.

The RF&P received 2,982 shares of the newly organized Penn Central Corporation in satisfaction of the company's claim of $400,000 against the now defunct Penn Central Railroad. Penn Central had been reorganized and its Arvida real estate project in Florida had prospered. The company was settling debts by issuing Penn Central shares in lieu of cash to RF&P and other creditors.

In late 1978 the managements of Chessie Systems, Inc. and Seaboard Coast Line Industries, Inc. announced plans to merge. This announcement would have a profound affect on the RF&P. These two large and profitable railroad systems met geographically end to end. The Chessie System stretched from Newport News, Virginia to the Chicago/Detroit/Cleveland areas, whereas the SCL stretched from Richmond south to Florida. In addition Chessie had absorbed the B&O with its extension from Baltimore to the Ohio Valley. The amalgamation of these two companies should increase the overall profitability of the new

CSX operation through greater north/south usage and more efficient use of equipment and facilities.

Tom Rice tells the story of how the name CSX was chosen. At that time Rice was Chairman Emeritus of the SCL. In March, 1980 he had lunch at the Commonwealth Club in Richmond with Hays T. Watkins, Chairman of the Chessie System. The merger of the Chessie and the SCL was awaiting ICC approval. They needed a name for the new company. After much talk Watkins suggested they come up with a three letter name, since it would fit nicely on the quote board of the New York Stock Exchange. He suggested the letter C representing Chessie and Rice suggested the letter S representing the SCL. They spent some time on the third letter, and they finally agreed on the letter X since it was a completely neutral letter; thus, CSX was born.[63]

The Chessie and Seaboard each owned 40 percent of the common stock of Richmond-Washington Company, which in turn owned 62.7 percent of the voting stock of the RF&P. In essence the new corporation would control the voting stock of the RF&P and it would indirectly become a majority owned affiliate of CSX. This merger was approved by the Interstate

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[63] Interview with W. Thomas Rice, June 10, 1991.

Commerce Commission on September 25, 1980 and CSX became a reality.[64]

Income from real estate continued to grow and in 1979 income from Crystal City alone reached $1.5 million, or 50 percent of the total rental income received. An exciting event during the year occurred when it was announced that the RF&P and the Charles E. Smith Companies would form a joint venture and develop a two million square foot office/apartment/condominium adjacent to the other Crystal properties, to be known as Crystal Park, formerly called Airport City. It would contain nine high-rise buildings located on fifty acres of RF&P land. Six lanes of railroad track would have to be relocated approximately 1,000 yards to the east in order to make the land available for development. This was the largest joint venture investment ever made by the company at that time.[65]

Due to the fuel shortage in 1979, the price of diesel oil went from 40.8 cents per gallon to 75.4 cents per gallon--a 43 percent increase. Freight traffic originating with Conrail continued to decline.[66] It appeared that Conrail seemed to be more interested in the east/west segment

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[64] RF&P Annual Report, 1980, p. 11.

[65] Ibid., 1979, p. 4.

[66] Ibid., 1979, p. 3.

of their business rather than the north/south portion, which was so important to the RF&P. Longer east/west hauls represent the more profitable segment of the freight business, and both Rice and Shumate confirm that this factor probably played a large part in Conrail's decision to give priority to east/west freight traffic.

It was during this time that a private corporation was formed as a result of the invention of the "Roadrailer." This bi-modal corporation developed a highway/rail trailer equipped with a dual set of wheels, one with rubber tires for highway travel and the other with steel flanges to be used on rail. The idea was to do away with the flat car and the necessity to load and unload the piggy-back trailers, thereby providing operating economies to the railroad. The RF&P and Seaboard ran several experimental runs between Alexandria, Virginia and Jacksonville, Florida.[67] Shumate says the economies over TOFC service were never realized.

The author was elected to the Board of Directors of the RF&P in April 1981 and participated actively in the affairs of the railroad for the next ten years. Stuart Shumate retired on May 1, 1981 after serving the RF&P as its President for twenty years. He was succeeded by John J. Newbauer. During Shumate's term of office per share earnings

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[67] Ibid., 1980, p. 7.

had risen from $8.02 in 1961 to $46.35 in 1981, and dividends had increased from $4.75 per share in 1961 to $25.50 per share in 1981, an impressive figure. Freight revenues continued to be the heart of the railroad's business, and in 1981 railway operations contributed $20.1 million towards consolidated pre-tax earnings of $30.2 million, or 66 percent. In spite of this, complete reliance on freight revenues was changing dramatically.

The Crystal City development had become a reality with three major projects completed, namely: Crystal Plaza, Crystal Mall and Crystal Square. Plans had been announced for the gigantic Crystal Park development and 5 million dollars was spent to relocate track to the east of Crystal City. Dabney Center in Richmond was created and had begun construction of an office/warehouse facility and the Bryan Park Industrial Park in Richmond continued to attract industry. Real estate development and investment, as a means of increasing income, had become an art under Shumate's leadership and gross rental income had reached $4.2 million in 1981.

Newbauer, the new RF&P President, paid tribute to Shumate in his first Annual Report to shareholders:

> Having served as RF&P's President for twenty years, Mr. Shumate's vision and vigor gave RF&P outstanding leadership during a period of time that saw elements of the rail industry socked by financial problems. It is a fitting tribute to his stewardship of our collective interests to note that this company is leaner, stronger and more profitable than any other time in the memory of those of us who are active in it today.[68]

Frank A. Crovo, Jr., then Vice President-Finance, was high in his praise of Shumate and said that, "One of his most important characteristics was that his office door was always open and he was always accessible."[69]

In looking back Shumate recalls his service by saying:

> It was a unique opportunity to serve as President during this time. The RF&P was a small company and the employees took great pride in "their railroad." If tracks were washed out or wrecks occurred, they would work long and hard to get it operating again. It was a pleasure to work with this fine family of people during those years. At that time our freight business was 80% off line and 20% on line, and we had to find other sources of income. Real estate development seemed like a natural, given our advantageous location near Washington, D. C.[70]

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68 Ibid., 1981, p. 9.

69 Interview with Frank A. Crovo, Jr., August 2, 1991.

70 Interview with Stuart Shumate, June 7, 1991.

Rice had set a new tone for the company back in 1955. Shumate engineered the idea of actively pursuing real estate development as a means of improving income. He was bottom line oriented and, during his twenty year tenure, he implemented a number of strategies to improve earnings per share, such as purchase of the company's shares and exchanging Greyhound stock for RF&P stock. The new era along the RF&P was now in full swing.

Chapter 3

THE NEWBAUER - BEADLES - CROVO YEARS, 1981-1991

Newbauer, a Chicagoian by birth, was first employed by the RF&P as a messenger in Potomac Yard on April 19, 1942, upon graduating from high school. He served in the Navy in the Pacific in World War II. After the War was over, he returned to the RF&P. He moved to Richmond in 1955 when he became Supervisor of Safety. He was named Assistant Treasurer and Assistant Corporate Secretary in 1959 and Treasurer, Corporate Secretary and Assistant to the President in 1967 and was elected to the position of Vice President-Administration in 1975.[1] In a recent interview, Crovo said that, "Newbauer was Shumate's strong right arm, since he was most knowledgable about the details and affairs of the railroad. If you wanted to get something done, it was wise to get Newbauer's approval first."[2]

CSX now controlled the RF&P. This was confirmed by the Interstate Commerce Commission in its 1980 decision permitting the merger of the Chessie System, Inc. and Seaboard

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[1] News Release, RF&P Railroad Company, March 13, 1981.

[2] Interview with Frank A. Crovo, Jr., August 2, 1991.

Coast Line Industries, Inc.[3] Newbauer stated that a number of benefits accrued to the RF&P as a result of this merger such as planning, marketing and operational activities; he also expected to capitalize upon CSX's "Single System Service" in the North-South corridor of the Eastern Seaboard.[4]

In 1982 the Commonwealth appointed two new representatives to the RF&P Board: the Honorable Richard M. Bagley, Chairman of the House Appropriations Committee and President of Bagley Investment Corporation, and Charles B. Walker, Chairman of the Virginia Supplemental Retirement System and then Vice President of Ethyl Corporation. Under an arrangement with the General Assembly in 1970, the RF&P stock owned by the State of Virginia was contributed to the Virginia Retirement System with the proviso that the VRS could not sell the RF&P stock without its approval. Hereafter, the Trustees of VRS would name the State's representative to the Board of Directors of the RF&P. This appointing power was formerly exercised by the State Corporation Commission.

The track removal to facilitate the new Crystal Park joint venture was completed in 1982 at a cost of $5 million. Due to the downturn in economic conditions the construction of

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[3] <u>U. S. Interstate Commerce Commission, Finance Docket No. 28905</u> (Sub. #1 September 23, 1980).

[4] <u>RF&P Annual Report</u>, 1981, p. 8.

the $300 million project was deferred until the following year. At the same time rental income from real estate properties reached a new high of $4.7 million. Of this approximately $3 million, representing 64 percent, came from the Crystal City projects in Arlington.[5]

Closer affiliation with CSX paid off in several respects. RF&P joined with other railroad companies, which were affiliates or subsidiaries of CSX, to provide MCI Telecommunications Corporation the right to use approximately 4,000 miles of right-of-way for installation of buried fibre-optic telecommunications and data processing cable and related equipment. This provided the railroad with an additional source of revenue through a one-time payment of $8,000 per mile.[6] In addition the RF&P joined CSX in establishing a new all-perishable piggy-back train between Orlando, Florida and Wilmington, Delaware. These refrigerated trailers were off-loaded in Wilmington and then proceeded by highway to the large consumer markets in the Northeast including Philadelphia, New York and Boston.[7]

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[5] Ibid., 1982, p. 5.

[6] RF&P Board of Directors, Minutes, December 17, 1982, p. 3.

[7] RF&P Annual Report, 1982, p. 7.

The company celebrated its 150th Anniversary in 1984 and its financial results through the end of 1983 were impressive. Net income of $16.7 million produced earnings of $46.61 per share and the company paid cash dividends of $25.50 per share. Real estate activities now represented 41 percent of the company's net income compared with 30 percent in 1979. The operating ratio was 65.74, which placed the RF&P in the top quartile of operating railroad companies in the United States. During this year construction started on the Crystal Park Joint Venture. Upon completion this project would have nine high rise buildings covering two million square feet of office and apartment space.[8]

The RF&P has a long history of supporting the communities that it serves. In 1836 the railroad purchased substantial forest land north of Richmond in what is now known as Ashland, to provide a good wood supply for its steam engines. Later the railroad laid out a townsite and in 1858 the Town of Ashland was born. In 1983 and in recognition of this 125th Anniversary, the RF&P donated its landmark railroad station to the town of Ashland.[9] The company has been a good corporate citizen over the years.

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[8] Ibid., 1983, p. 7.

[9] RF&P Board of Directors, Minutes, September 30, 1983, p. 4.

Some say that RF&P means: "Relatives and Friends Preferred." When applying for a job it always helped to have a relative or friend already on board. This was the family nature of the railroad. Labor relations were most important at the RF&P, and the railroad was an industry leader in reducing crew size. Crovo, Beadles and Griffin all attest to the fact that RF&P Railroaders never struck the RF&P directly. They did participate in nationwide strikes called by the Brotherhoods from time to time, but they never called a strike against the RF&P. This is a compliment to both labor and management.

In the 1983 Annual Report President Newbauer lays great emphasis on the close connection between RF&P and CSX when he reports:

> Deregulation, more than any other single factor, created an environment of radical change in transportation...even the most casual observer now recognizes as being dominated by a few giant transportation and natural resource companies among which is CSX Corporation. Our corporate dependency upon owner-connections is older than any person living today and in today's transportation markets such relationships are more important than ever before...geography, 150 years of railroad development and corporate evolution place RF&P naturally and strategically within the CSX network of rail routes. Out company's relationship with CSX affords significant opportunities for further improvement and greater efficiency in coordinated operations.[10]

[10] RF&P Annual Report, 1983, p. 9.

This statement by Newbauer is illustrative of the movement towards a closer affiliation and a greater dependence on CSX. In spite of CSX's voting control, the two companies had two separate Boards of Directors and two different sets of shareholders. The semi-independence of the RF&P prevailed. At that time CSX was the most important freight connection for the RF&P. It was estimated that CSX accounted for approximately 85 percent of RF&P's off-line freight volume. Conrail was the next important supplier of rail traffic.

As previously mentioned, Conrail had been established, and largely funded, by the U. S. Congress to deal with the railroad debacle in the Northeast and Mid-west. The legislation establishing Conrail provided a mandatory sale of the company once it broke even. In 1985 this matter was handled through the U. S. Department of Transportation and bids were sought. Numerous bids were received, and the then Secretary of Transportation the Honorable Elizabeth Hanford Dole[11] accepted the bid of the Norfolk Southern in the amount of $1.1 billion. The U. S. Senate ratified her decision. The RF&P, CSX and other railroads strongly opposed this approval, since it would have meant a further reduction of traffic through Potomac Yard, since presumably the Southern would

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[11] Who's Who in America, 46th Edition, 1990-91, Vol. 1 (Wilmett, Illinois, MacMillian Directory Division, 1991), p. 849. Dole was U. S. Secretary of Transportation 1983-1987. She currently serves as President of the American Red Cross.

shift the Conrail southbound traffic to its Hagerstown, Maryland Yard. Although approved by the Senate, this proposal was defeated by the U. S. House of Representatives in late 1986, much to the delight of CSX, RF&P and others. As a result Congress approved legislation requiring a public offering of Conrail stock.[12] This was accomplished in 1986 and the stock is actively traded on the New York Stock Exchange today under the trading symbol CRR.

In January 1985 Newbauer advised the Board of his plans to retire on May 1, 1985. Richard L. Beadles was designated his successor. At its April meeting the Board paid tribute to Newbauer by passing a resolution stated in part,

> Having served with distinction for forty-three years, the Board wishes to acknowledge his broad experience in the various phases of railroad transportation. Combined with a warm personality it made his association with his fellow Directors one of respect and friendship.[13]

Beadles became President of the RF&P on May 1, 1985. He was a veteran of twenty-five years of service on the RF&P. In the summer, during his college days, he worked part-time

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[12] Conrail Privitization Act Public Law, Title IV, pp. 4001-4052 (October 21, 1986).

[13] RF&P Board of Directors, Minutes, April 19, 1985, p. 4.

for the Seaboard and the RF&P. In a recent interview Beadles said that the romance of railroading was "in my bones," and he was reading Railroad Age Magazine while his classmates were reading Esquire. His part-time job experience paid off and he was employed as a Yard Clerk on the RF&P after graduating with a degree in Business Administration from Virginia Commonwealth University (then Richmond Professional Institute) in 1960. He worked with Bill Turner in sales covering rates and routes and later in the transportation section under James D. Doswell the Trainmaster. He was transferred to Administration and became a staff assistant to Newbauer. It was here that he began to work closely with Shumate in the real estate end of the business. Beadles described Shumate as an innovative leader who wanted to bring new ideas into the ingrained bureaucracy of the railroad business at that time.[14]

In 1985 for the first time, Other Income (mostly real estate) exceeded Rail Income. According to the company's 1985 Annual Report, pre-tax earnings from rail transportation were $17.5 million and pre-tax earnings from non-transportation sources came to $19.3 million. Good progress was made in developing Crystal Park. The first office building containing 450,000 square feet of floor space was completed and leased during the year. A second office building containing approximately 490,000 square feet was

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[14] Interview with Richard L. Beadles, September 6, 1991.

nearing completion and plans were being made for a third office building. In addition a residential building containing 180 condominium units was completed during the year and sales were being made; a second high rise residential building was under way. The new Interstate Center in Richmond was under construction and preliminary leasing results were favorable. A fourth office/warehouse was completed and leased in Dabney Center in Richmond. Plans were being made to construct three more buildings in this highly successful industrial/real estate complex. Other Income was further improved by signing a fibre optic contract with Light-Net Corporation, a subsidiary of New England Telephone and CSX Communications. This allowed Light-Net to lay fibre telecommunications lines along the RF&P right-of-way.[15]

Beadles shares an amusing incident on the railroad back in the mid-sixties. A circus train was coming through Richmond and a carload of elephants ran into trouble. It seemed that all of the elephants shifted to the rear of the car and this tremendous weight lifted the car right off the trucks (wheels). The train stopped and the elephants were herded off the car while the train moved to a secondary track in order to keep the main line clear. The elephant car was repaired overnight and the elephants were loaded back on the car and resumed their journey. Fortunately no one was hurt.

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[15] RF&P Annual Report, 1985, p. 26.

President Beadles submitted his 1986-89 Business Plan to the Board of Directors at its December 1985 meeting and Director Walker suggested that it would be desirable for a committee of the Board to be created to work with the administration on future plans and strategies for the company. A special Planning Committee was created for this purpose.[16] One of the railroad's largest capital expenditures occurred in 1986 when the President advised the Board that due to poor soil conditions and a more costly structure, the replacement of the Quantico Creek Bridge would now cost $8.9 million for a single track configuration. The Board gave its approval.[17]

Beadles tendered his resignation as President effective July 1, 1986 in order to accept the position as President of CSX Realty, a subsidiary of CSX Corporation. At its September 1986 meeting, the Board passed a resolution in honor of Beadles stating in part,

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[16] RF&P Board of Directors, Minutes, December 20, 1985, p. 3.

[17] Ibid., February 28, 1986, p. 3.

> ...expressing our sincere appreciation for his unselfish service he has rendered and the contributions he has made during his service as president.[18]

He was succeeded by Frank A. Crovo, Jr., who had previously served as Vice President-Finance and Administration. Crovo was a graduate of Notre Dame University and served seven years in public accounting before joining the RF&P in 1957.

The Honorable Hunter B. Andrews, Chairman of the Virginia Senate Finance Committee, was named one of the Commonwealth's representatives on the RF&P Board in 1986, replacing Richard M. Bagley who resigned from the General Assembly. Charles B. Walker continued to serve as the State's other representative. During 1986 the company announced the formation of a joint real estate venture with the Savage-Fogarty Company of Alexandria. In reporting this to the September Board meeting, Crovo stated that this thirty-eight acre parcel was the old Potomac Center property adjacent to Potomac Yard and would now be called Potomac Green. The preliminary plan called for the development of two million square feet of commercial/office/retail/hotel and residential space. It would take about ten years to build out. The Board

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[18] Ibid., September 19, 1986, p. 4.

approved the sum of $500,000 to be spent in developing a detailed master plan.[19]

The sale of real property owned by the RF&P continued, and during this year generated $10.9 million in revenue. The most significant sale was approximately three miles of RF&P right of way in Northern Virginia to WMATA for $6.8 million. The market for condominiums was not as strong as originally anticipated, although 95 percent of the condominiums in the first residential unit of Crystal Park were sold. As a result of the slowdown in the condominium market, a decision was made to build 520 apartments in the remaining residential buildings in Crystal Park.[20]

Over the years the company had operated profitably. The steady contribution of rail income together with the ever increasing earnings from real estate coupled with good management brought this about and excess cash had built up. The Board of Directors gave a great deal of time and consideration to the happy problem of excess cash. A perusal of the 1987 year-end balance sheet reveals that cash and equivalents, plus adding a special dividend that was declared but not yet paid, came to $98.2 million or 39 percent of total assets. In view of this the Board of Directors felt that some

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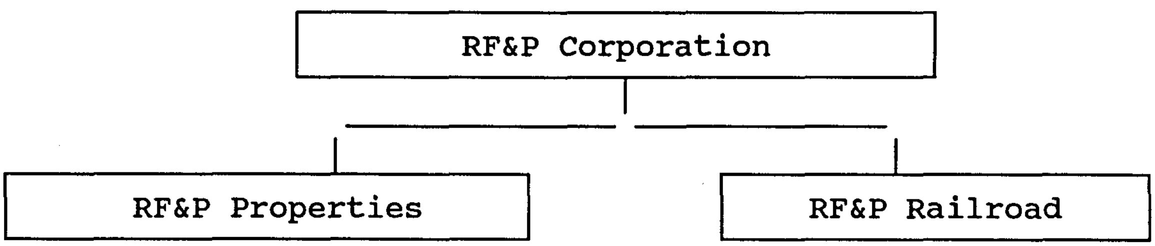
[19] Ibid., September 19, 1986, p. 4.

[20] RF&P Annual Report, 1986, p. 4.

of this excess cash should be distributed to shareholders. Accordingly, a one-time special dividend of $50 cash per share was declared in December 1987 to be payable on February 1, 1988.[21]

In view of the important part now played by real estate activities, the Board of Directors in 1988, after a good bit of thought and discussion, decided to recommend the restructure of the company by the formation of a holding company with two subsidiaries. One subsidiary would devote its attention to railroad activities and the other subsidiary would concentrate on real estate activities:



To create the holding company, the Board further recommended an exchange of stock on the basis of fifty shares of RF&P Corporation for one share of RF&P Railroad. For instance, if a shareholder owned 500 shares of RF&P Railroad, he would receive 25,000 shares of the new RF&P Corporation. This was a milestone in the RF&P's long history, and the

[21] RF&P Board of Directors, Minutes, December 12, 1987, p. 3.

holding company and the 50 for 1 split was approved overwhelmingly by the shareholders at the company Annual Meeting held in April 1988. It acknowledged the transition from a purely railroad company to a company that had two missions: the railroad and real estate investment. The rail properties were transferred to the railroad subsidiary and the majority of the real estate assets were transferred to the properties subsidiary.

During the year the Virginia General Assembly repealed the Virginia Caboose Law;[22] thus, another colorful, but expensive, reminder of a by-gone age of railroading disappeared. In 1988 there was a $6 million charge against earnings for estimated cleanup costs in connection with a creosote contamination site in Spotsylvania County. The RF&P leased this site to another company from 1937 to 1976 at which time the leasee purchased the property from the railroad. Although the RF&P did not own the property, nor was it responsible for the contamination, Federal laws provide that if the company directly responsible cannot afford to pay for the cleanup, then anyone associated with the land is legally liable. Since the RF&P once owned the land and because "the Environmental Protection Agency determined that the responsible party was not financially able to pay for the cleanup, the EPA turned to the former landowner for payment

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[22] <u>House Bill 185, Repeal the Caboose Law</u>, (July 1, 1988).

citing Federal statutes."[23] In the writer's view there is no equity, based on responsibility, in this type of unfair legislation.

During the year a joint venture between RF&P and CSX Realty was announced, namely the development of fifty acres of land in the Westfields Business Park in western Fairfax County, Virginia. The company also announced its planned development of the Crossroads Business Park, a 240 acre site just south of Fredericksburg, Virginia in Spotsylvania County.

Employment at the RF&P had declined steadily. It hit an all time high of 4,306 in 1946 and had declined to 455 in 1991.[24] Potomac Yard, affectionately referred to as "Pot Yard," had gone through an evolution, since its creation in 1908, from that of a very busy rail classification yard to one that was quieter and less robust. One measure of this decline is in the number of employees on hand. In 1946 600 individuals were employed at Potomac Yard, compared to less than 50 in 1991. How did this come about? As previously mentioned, the Southern had switched the major part of its business away from Potomac Yard, thereby reducing freight volume. Through train service further reduced the need for a large classification center. Over the years management had

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[23] RF&P Annual Report, 1988, p. 6.

[24] RF&P Corporation Employment Totals (Appendix E).

taken a number of steps to increase efficiency in the Yard. An electronic system was installed which allowed the Yard to go from a cumbersome two hump system to a modern one hump electronic system, thereby reducing the need for computers and personnel at Potomac Yard. The reicing station had been closed and the need for the coal tipple and its supports passed with the move from steam to diesel engines shortly after World War II. As a result Potomac Yard has been downsized significantly, all under the capable management and direction of John F. McGinley, its Superintendent. Track and buildings were removed and approximately 320 acres of land will be made available for future development. A railroad corridor 120 feet wide will be retained. In the past Conrail had operated electric engines in Potomac Yard and points north. As a result a large catenary of electric poles and wires were located in the Yard. Conrail ceased using electric engines in 1985 and, therefore, the catenary in Potomac Yard no longer served a useful purpose. The Board at its June 1986 meeting approved the expenditure of $200,000 to remove the catenary facilities in Potomac Yard.[25]

In view of the large amount of developable land that had become available through the downsizing of Potomac Yard and in order to plan for the future of this potentially

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[25] RF&P Board of Directors, Minutes, June 20, 1986, p. 6.

valuable property, in 1987 RF&P and CSX Realty formed a joint venture named: Alexandria 20/20:

> The name Alexandria 20/20 was chosen to highlight both the timeframe in which the evolutionary development of the Yard will occur and the perfect vision required for it to be developed to the highest urban land use standards.[26]

Alexandria 20/20 "envisions that Potomac Yard will be converted into a mixed use development including commercial and residential areas."[27] Management has been meeting with citizens groups on a regular basis to secure their input and support in the future development of this property. Further clearance of Potomac Yard continues.

During the last few years considerable time and effort has been devoted to the future development of the "Hunton Property," a 445 acre parcel located at the I-295 and Route 33 intersection in the Glen Allen area of Henrico County, Virginia. This large property has been assembled over a period of years and in 1991 received a favorable decision for commercial zoning from the county.[28] The property is

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[26] RF&P Annual Report, 1988, p. 8.

[27] Ibid., 1989, p. 6.

[28] Richmond Times-Dispatch, March 15, 1991, p. 8.

well located and should provide a good investment return in the future.

For some time transportation planners have studied ways and means of handling the huge commuter traffic that comes and goes into Washington, D. C. on a daily basis. The Washington Metro (WMATA) has made a valuable contribution in reducing this traffic, but its lines to the South only go out about twelve or thirteen miles from the District. A new private organization, the Virginia Railway Express (VRE), was formed to provide commuter rail service (over RF&P lines) between Fredericksburg, Virginia and Washington, D. C. With four of the eight proposed station stops adjacent to major RF&P land holdings, this new transportation vehicle should enhance the future value of RF&P properties along the line. The ultra-modern commuter train is being manufactured by a Japanese firm Mitsui USA and its Brazilian contractor Mafersa. It is expected that this commuter service will become available in the spring of 1992 and provide service between Washington, Manassas and Fredericksburg. The RF&P will be compensated for track usage by VRE.[29]

Dabney Center in Richmond celebrated its Tenth Anniversary in 1990 with the completion of the tenth office/ warehouse in this location. The other 9 buildings were 93

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[29] Ibid., August 7, 1991, p. 16.

percent leased. During the year the last of the 9 buildings comprising Crystal Park was completed. This project, located on forty-one acres of land, consists of over 2.2 million square feet of residential and office space. The project was leased in excess of 96 percent at year end. The RF&P had become an important real estate development company with a number of projects in Northern Virginia, Fredericksburg and Richmond.

The primary thrust of this thesis has been to trace the history and development of the RF&P from a "pure railroad" in 1955, to a company that has developed a strong real estate presence as well. Today the company owns approximately 5,000 acres of land in the strategic Richmond-Washington corridor that is available for future sale or development. This is in addition to the land used for railroad purposes. The corporation also owns an interest in ten million square feet of office/hotel/residential and office/warehouse space.[30] From a financial standpoint the company's 1990 Annual Report states that pre-tax net revenues from rail transportation were $16.1 million and pre-tax net revenues from real estate were $17.9 million. Real estate earnings of the company have surpassed rail earnings in three of the last five years.[31]

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[30] "The Three RF&P's" Glen Allen Community Report, Fall 1990 (Richmond, RF&P Corporation, 1990), p. 4.

[31] RF&P Annual Report, 1990, p. 1.

The year 1990 was dominated by two major events. On February 20, 1990 the proposed merger of RF&P Corporation into the CSX Corporation was announced. This proposal was terminated on March 23, 1990. On September 14, 1990 the Virginia Retirement System and CSX Corporation announced a proposed restructuring of the company. Both of these transactions are quite complex, and in the next two Chapters of this paper the writer will endeavor to describe these transactions, since they have had a profound effect on the future of the RF&P Corporation.

Chapter 4

THE CSX MERGER OFFER

After almost ten years of discussions, on February 20, 1990 RF&P Corporation and CSX Corporation announced a Definitive Merger Agreement which provided for the merger of RF&P into CSX. The RF&P shareholder was offered one share of CSX common stock for each share of RF&P stock held, or as an alternative $34.50 in cash for each share. Only one month after its announcement, this proposal was summarily terminated. As the timing surrounding this offer would indicate, intriguing circumstances occurred before the offer was made and clearly intriguing circumstances followed its abrupt termination.

Equity structure and attendant voting control were central issues to any proposed merger between CSX and RF&P. First the equity structure[1]:

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[1] RF&P Annual Report, 1989, p. 21.

NOTE: The author actively participated in the discussions and negotiations contained in the next two chapters. A good amount of primary material comes from the author's notes and his recollections over the last three years; therefore, some portions of the narrative are not documented.

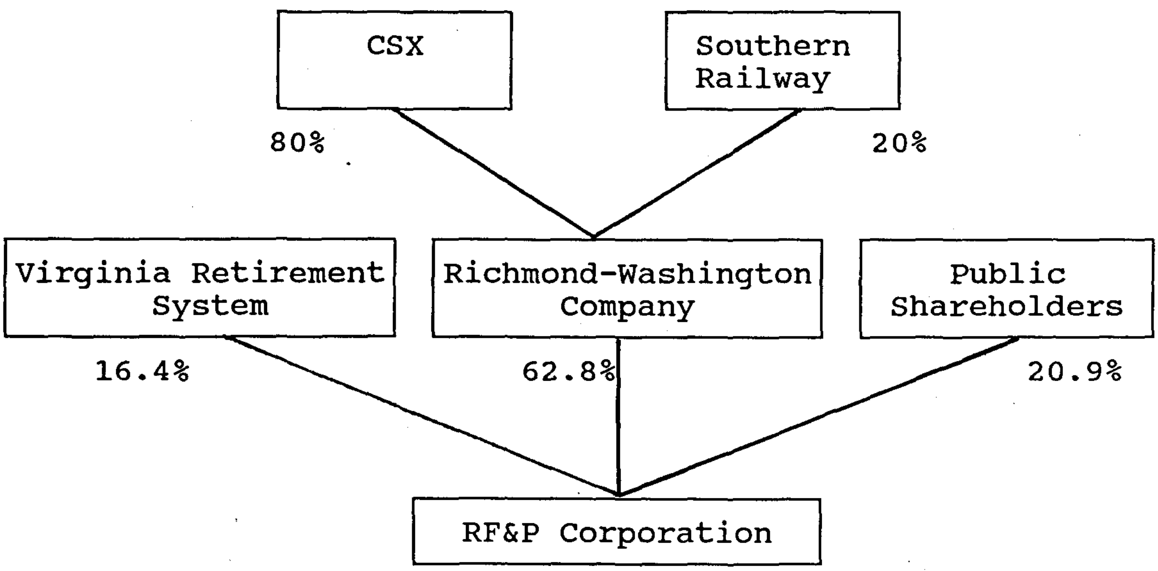
RF&P Corporation
Shareholders Equity
December 31, 1989

Common stock - (voting)	2,610,750	Shares
7% Guaranteed Stock - (voting)	727,501	
6% Guaranteed Stock - (voting)	19,650	
Dividend Obligations - (non-voting)	14,275,550	
Total Equity	17,633,451	Shares

The complexity of having four classes of equity is apparent; the dividend obligations were non-voting.

The voting power was held by the common shareholders and the 6% and 7% Guaranteed shareholders. A diagram illustrating the ownership of the voting stock follows:

12-31-89[2]



[2] RF&P Corporation Memorandum dated December 31, 1989.

As illustrated above, CSX, through its 80 percent ownership of Richmond-Washington Company, controlled directly or indirectly 62.8 percent of the RF&P's voting stock. The Richmond-Washington Company was formed in 1903 by six major railroads each owning an equal interest in the majority of the voting stock which Richmond-Washington purchased from Messrs. Newcomer and Walters of Baltimore (see p. 21). Over the years a number of railroad mergers took place: The B&O was merged into the C&O in 1987. In 1946 the Atlantic Coast Line Railroad and the Seaboard Airline Railway Company merged to form the Seaboard Coast Line. In 1970 the Pennsylvania Railroad dropped out by way of bankruptcy, and in 1982 the Norfolk & Western Railroad and the Southern Railway merged to form the Norfolk Southern Corporation. This left three participating owners of Richmond-Washington Company -- the Chessie owning 40 percent, the Seaboard owning 40 percent and the Southern owning 20 percent. In November 1980 the Chessie System and Seaboard Coast Line merged to form CSX. Thus, of the two remaining members CSX and Southern, CSX, with 80 percent, obtained voting control of the Richmond-Washington Company which in turn owned 62.8 percent of the outstanding voting stock of the RF&P. In its order approving the merger of Chessie and Seaboard, the Interstate Commerce Commission approved the controlling position of CSX over RF&P.

Another complication arose whereas under Virginia law a plan of merger or statutory share exchange must be approved by each shareholder voting group by more than two-thirds of all votes entitled to be cast by that voting group. In addition any class or series of such class must be treated as a separate voting group if the shares of that group are to be exchanged.[3] Under these rules each class of stock was permitted to vote on this merger including the dividend obligations.

RF&P Corporation
Share Ownership[4]

12-31-89

	Total Outstanding	CSX Including Rich-Wash		VRS		Public Shareholder	
		Shares	Percent	Shares	Percent	Shares	Percent
Voting	3,357,901	2,104,200	62.8%	550,400	16.4%	703,301	20.9%
Non-Voting	14,275,550	4,727,750	33.1%	4,276,650	30.0%	5,271,150	36.9%
Total	17,633,451	6,831,950	38.7%	4,827,050	27.4%	5,974,451	33.9%

As illustrated above CSX controls 62.8 percent of the <u>voting</u> stock and 38.7 percent of the total of all classes. It also illustrates how pivotal the VRS vote was to the proposed merger.

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[3] <u>Code of Virginia</u> 13.1-718E and 13.1-718 F(2).

[4] Source: RF&P Corporation

The 113-mile RF&P Railroad connects the former Chessie System to the North and with the former Seaboard System to the South. CSX considered this an operating and marketing impediment as CSX was unable to control fully the costs of utilizing the connection between its two main systems and could not respond to the needs of its customers in handling traffic in the most efficient manner. RF&P on the other hand had limited access to markets and was largely dependent on CSX for its business. For these reasons CSX and RF&P began to study the possibility of combining the two railroad operations.[5]

In 1983 CSX sought to acquire, in a privately negotiated transaction, the RF&P shares owned or controlled by Norfolk-Southern Corporation and the VRS. Because CSX did not reach an agreement with Norfolk-Southern, CSX did not engage in negotiations with VRS.[6] In 1985 CSX again attempted to pursue a transaction to increase control of either RF&P or its railroad assets and engaged Wheat, First Securities, Inc., a Richmond based investment firm, to assist with the transaction.[7]

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[5] "Letter to Shareholders, RF&P Corporation signed by Frank A. Crovo, Jr.," dated April 12, 1990, p. 2.

[6] Ibid., p. 4.

[7] Ibid.

At the December 1985 RF&P Board meeting, President Richard L. Beadles presented the company's Strategic Business Plan for 1986-1989. The plan consisted of three major parts: railroad transportation activities, real estate activities, and financial activities. After considerable discussion of the plan, it was decided that the Board ought to become more involved in the planning process, particularly as it related to the financial aspects. Accordingly, a Planning Committee of the Board was created and held its first meeting on March 14, 1986.[8]

The Planning Committee was composed of Chairman Charles B. Walker, Executive Vice President and Chief Financial Officer of Ethyl Corporation; C. Coleman McGehee, then Chairman of Sovran Bank, N.A.; Hays T. Watkins, then Chairman and Chief Executive Officer of CSX Corporation; and Richard L. Beadles, then President of RF&P. Walker's broad financial background and previous service with the State prepared him well for this assignment. In June 1986 Watkins and Beadles resigned from the Planning Committee to avoid a possible conflict of interest. They were replaced by Harold T. Hall, then President and Chief Operating Officer of Norfolk-Southern Corporation, and Frank A. Crovo, Jr., the newly elected President of RF&P. In the fall of 1987 Senator

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[8] RF&P Board of Directors, Minutes, December 20, 1985, p. 3.

Hunter B. Andrews was appointed to the Planning Committee, having recently been appointed to the RF&P Board of Directors by the Trustees of the Virginia Retirement System (VRS). Hall was replaced in June 1988 by Edward A. Burwell, Executive Vice President of Norfolk-Southern, and he in turn was replaced in 1990 by John D. Turbyfill, Executive Vice President-Finance, Norfolk-Southern Corporation. The chronology of these appointments is important, since after July 1, 1986, the Planning Committee was composed of Directors who were not and had not at any time been employed by CSX Corporation.[9]

At its first meeting the Planning Committee discussed its function and how it should proceed. It became evident that the Committee needed to know more about the component parts of the RF&P organization: railroad, real estate and finance. The Committee directed management to prepare a five-year projection on these entities from the standpoint of asset value and earnings value. Beadles responded to this request on April 11, 1986. In his report it was acknowledged that it was feasible to separate the railroad and the real estate assets. It also became clear that the future fortune of the railroad probably could be better served by associating with a larger transportation company and that the shareholders would best be served if the RF&P incorporated

[9] Crovo, Letter to Shareholders, April 12, 1990, pp. 7-10.

its railroad operations into a larger rail network, thus enabling RF&P to focus on its real estate holdings.[10]

In July 1986 the Committee changed its focus from being a Planning Committee to being a Special Finance Committee of the Board that would consider ways to combine the railroad assets of the RF&P with CSX. The Committee engaged the law firm of Mays & Valentine as special counsel. The firm was ably represented by F. Claiborne Johnston, Jr., Esq., and Bruce V. Thomas, Esq. The Committee also engaged the investment banking firm of Dillon Read, Inc., and it was represented by Sanford N. Pensler.

In the fall of 1986 Wheat, First Securities on behalf of CSX and Dillon Read on behalf of the Special Finance Committee each valued the railroad assets of the RF&P based on different assumptions, primarily in the area of discount rates on valuations. Specifically, Wheat's initial estimate was to value the rail assets in a range from $72 million to $90 million, while Dillon's preliminary estimates of value ranged from $103.7 million to $147.6 million. At the September 1986 Board Meeting, CSX, based in part on the Wheat report, expressed a willingness to acquire RF&P's railroad assets

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[10] <u>RF&P Planning Committee, Minutes</u>, April 14, 1986, p. 4.

(excluding Potomac Yard) for $90 million.[11] A press release was issued following the meeting on September 19, 1986 and mentioned that an independent committee of the Board would review the offer and make a recommendation that would be in the best interest of the public shareholders.

The Special Finance Committee met on October 8, November 11, December 18, 1986 and January 8, 1987 to consider in detail the analysis prepared by Dillon. Dillon's evaluation was still considerably higher than that of Wheat's, due in large measure to the latter using a 15 percent discount rate. The Special Finance Committee, based in part on Dillon's preliminary valuation estimate, advised CSX that it was not willing to consider the sale of RF&P's rail assets at the price suggested by CSX ($90 million). CSX and the Special Finance Committee agreed to attempt to reconcile the differences in the preliminary valuations of their respective financial advisors. Attempts to reach an agreement on valuation were unsuccessful, and in January 1987, the Special Finance Committee terminated discussions with CSX regarding a sale of RF&P's rail assets.[12]

The Special Finance Committee continued with its work relating to the financial side of the company. At its

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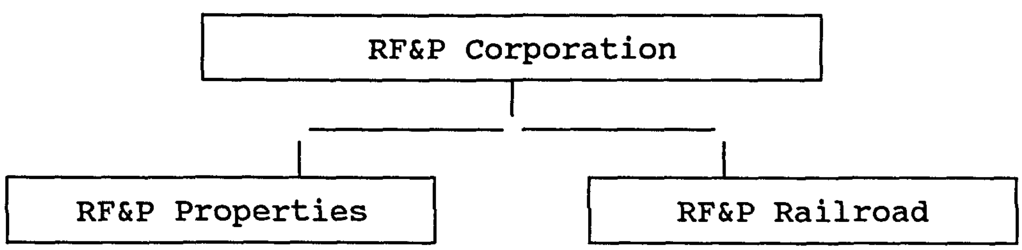
[11] Crovo, Letter to Shareholders, April 12, 1990, p. 5.

[12] Ibid., p. 6.

meeting in September 1987 it discussed the desirability of a restructuring of the company because of the clear delineation between the railroad assets and the real estate assets. It was proposed that a holding company be formed with a railroad subsidiary and a real estate subsidiary. The Committee also considered the high cash balances that were available. It also noted that the company's stock price had escalated dramatically in the last two years.[13]

In December 1987 the Special Finance Committee recommended, and the Board approved, the declaration of a one-time extra cash dividend of $50 per share. The Committee also recommended a plan to restructure the organization by forming a holding company -- RF&P Corporation.



The holding company would be formed by means of an exchange of stock on the basis of 50 shares of RF&P Corporation for 1 share of RF&P Railroad. It was also noted that RF&P stock had

[13] RF&P Special Finance Committee, Minutes, September 18, 1987, p. 2.

reached a high of $1,350 bid.[14] The shareholders approved the restructuring at the company's Annual Meeting in April 1988. The Committee met several times in 1988-89 to discuss other possibilities of leveraging the railroad assets of the company by: a formal lease agreement, a joint venture of the real estate assets or the development of a management contract for the railroad portion of the company, all with CSX.

The matter of leasing the railroad for a long period of time was discussed throughout 1988. The advantage to RF&P would be that it would receive substantial income and allow RF&P to devote its energies to the real estate field. The advantage to CSX would be that it would gain control of the railroad and could bring about operating efficiencies that were desirable. "Primarily because of disagreements over escalation factors and computation of the amount of the lease payments, no agreement was reached between CSX and RF&P."[15]

The Special Committee, as part of its analysis, began to review and evaluate the development potential of the real estate holdings in Northern Virginia. It came to the Committee's attention that CSX was also investigating ways of maximizing the value of its own real estate assets. The

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[14] RF&P Board of Directors, Minutes, December 18, 1987, pp. 3-4.

[15] Crovo, Letter to Shareholders, April 12, 1990, p. 5.

Special Committee suggested to CSX that the feasibility of forming a joint venture be explored by combining real estate portfolios. The two groups then began an analysis of the financial and other aspects of forming a joint real estate venture.[16]

It was during this period that CSX brought forward another proposal by which RF&P and CSX might combine their operations to achieve increased operating efficiencies and to enhance shareholder value in both companies. Under this arrangement CSX would acquire RF&P's railroad assets in exchange for a portion of CSX's interest in RF&P, and certain real estate parcels of each company would be contributed to a joint real estate venture. RF&P shareholders who did not wish to retain their shares would be offered an opportunity to sell their RF&P shares through a cash tender offer. At its October 1989 meeting the Special Finance Committee approved the concept of the real estate joint venture but could not see its way clear to endorse the railroad or tender offer portions of this plan. Based in part on the advice of its financial advisor, the Committee determined that the cash flows from the proposed joint venture might not support those who did not tender and that the estimated trading values of RF&P stock after the transaction would be highly speculative. CSX was unwilling to consider the joint venture without the

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[16] <u>RF&P Special Committee, Minutes</u>, June 26, 1989, p. 4.

simultaneous sale or exchange of RF&P's railroad assets. Again an impasse was reached in the negotiations.[17]

At its November 1989 meeting the Committee discussed the possibility of working out a management contract or a railroad operating agreement with CSX. This approach would guarantee regular income and allow the RF&P to devote its main attention to the development of its real estate assets. No progress was made on this matter.[18]

In late 1989 the Committee advised CSX that a more attractive method of combining RF&P and CSX operations was a merger type transaction in which shareholders would be permitted to exchange their RF&P shares for CSX shares on a tax-free basis. Both parties agreed to direct their legal and investment advisors to pursue this possibility.[19]

At its January 1990 meeting the Committee received a report from its investment advisors, Dillon Read, that Morgan Stanley, investment advisors to CSX, believed that the

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[17] Crovo, Letter to Shareholders, April 12, 1990, p. 6.

[18] RF&P Special Finance Committee, Minutes, April 12, 1990, p. 6.

[19] Crovo, Letter to Shareholders, April 12, 1990, p. 6. Note: An exchange of RF&P shares for CSX shares would not create a capital gain tax transaction for the RF&P shareholders. They would apply their RF&P cost value to the CSX stock received. They would not be taxed on the difference between cost and market value.

RF&P stock price already reflected a takeover premium; however, they were inclined to recommend to CSX that they offer $30 per share for RF&P, subject to 50 percent of the RF&P shares being converted into CSX shares and 50 percent in cash. The Committee considered the proposal and, after further discussions with Dillon, determined that this offer was unacceptable because the price was too low.[20]

Discussions continued, and on January 15, 1990 the Special Finance Committee advised CSX that it would consider a cash election merger in which RF&P shareholders would have a choice of receiving either $35 in cash or one share of CSX stock for each share held. CSX in turn informed the Committee that the price of $35 was unacceptable. Negotiations continued, and there was an indication that CSX might consider paying $34 per share. On February 16, 1990, the Committee indicated that it would accept a proposal of $34.50 cash or one share of CSX stock (CSX stock was trading at $34.50 on February 16, 1990) subject only to the requirement that sufficient RF&P shares be converted into CSX shares to preserve the tax-free nature of the transaction. Discussions continued, and on February 19, 1990 a Definitive Agreement between RF&P and CSX was approved by the parties. The Committee based its conclusion on the oral opinion of Dillon

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[20] RF&P Special Committee Minutes, January 19, 1990, p. 3. Note: RF&P stock was bid $27.75 on December 31, 1989, compared to $32.50 per share in the prior year.

that the merger was fair and in the best interest of RF&P shareholders.[21] The price of $34.50 represented a 27 percent increase in current market price and a 40 percent increase in the dividend for RF&P shareholders. In addition, at $34.50 the stock would be selling at about three times the stated book value of RF&P common.

The State of Virginia, through the Virginia Retirement System (VRS), owned 16.4 percent of the voting stock of the RF&P. It was essential that the State approve the merger. Under the provisions of Virginia law at that time, the General Assembly had to approve the sale or tender of the RF&P stock. This approval would require emergency legislation from the General Assembly, which was then in session.

At the RF&P Board meeting held on the afternoon of February 19, 1990, the merger was approved, and it was agreed that as a matter of courtesy Governor L. Douglas Wilder should be advised of this transaction prior to the issuance of a press release later in the day. Accordingly Directors Walker, then Chairman of the VRS, Andrews, then Chairman of the Senate Finance Committee, and Ball, Chairman of the House Appropriations Committee, were selected to call on the Governor and advise him of the transaction. Wilder, a Democrat, had been

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[21] Crovo, Letter to Stockholders, April 12, 1990, p. 7.

elected in November 1989 as Virginia's, and the nation's, first black governor. He had served as Lieutenant Governor in the previous administration.

The three directors proceeded to call on the Governor in his office. Walker, in a recent interview, described the meeting as quite harmonious. He said the Governor had with him Robert F. Schultz, his State budget advisor, and Walter A. MacFarlane, his legal advisor. Walker said that after pleasantries were exchanged, he opened the meeting by presenting the Governor with the 1989 Annual Report of the VRS, which had just been published. The Governor seemed pleased with the investment results which showed an increase in the market value of the fund over the prior year. Andrews then presented the merger proposal of CSX. He spent a considerable amount of time going over the history and background of the long negotiations between the various parties. Both he and Ball recommended that the State approve the offer after proper evaluation. Walker says he recommended that the VRS do its own independent evaluation of the merger. Andrews and Ball pointed out that the deadline for filing bills had passed; however, the Governor could submit emergency legislation to grant approval. The Governor asked them to send him the papers that would be needed, since it sounded to him like a reasonable proposition. This concluded the meeting.[22]

On February 20, 1990 the proposed merger was announced. In the news release, "Hays T. Watkins, Chairman and Chief Executive Officer of CSX, and Frank A. Crovo, Jr., President and Chief Executive Officer of RF&P, hailed the merger agreement as a major achievement which advantageously serves the long-term interests of the stockholders and customers of both companies."[23] The initial reaction in the press was favorable, and officials from VRS indicated that following evaluating the proposal, they would make a voting decision. After a week's time, some began to question the merger. George T. Williamson, an investment banker from Richmond, in an article in the Richmond Times-Dispatch contended that the RF&P was being sold too cheaply.[24] Hunter A. Hogan, Jr., a Norfolk commercial real estate broker, commented in The Virginian Pilot, "The CSX deal is really one of the biggest ripoffs...and I've been in business a long time...that I've ever seen."[25]

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[22] Personal interview with Charles B. Walker, Jr., August 22, 1991.

[23] As quoted in "News Release" of CSX Corporation and RF&P Corporation, dated February 20, 1990.

[24] Richmond Times-Dispatch, February 26, 1990, p. 1.

[25] The Virginian Pilot (Norfolk), March 1, 1990, p. 2.

On February 27 a bombshell hit the public; the Richmond Times-Dispatch reported that Governor Wilder had forced Charles Walker to resign as Chairman of the VRS, since he felt there was a conflict of interest by his serving as both a VRS Trustee and a RF&P Director.[26] Subsequently, and according to the press, the Attorney General of Virginia, Mary Sue Terry, rendered an opinion that no conflict of interest was involved in Walker serving on both Boards. An article appearing in the The Richmond News Leader covering Walker's resignation suggested that, "The resignation ...as Chairman of the VRS may have less to do with merging railroads than with politics and settling old scores." The article continued by quoting a one-time aide to former Governor Gerald L. Baliles, "...that Walker and Wilder's Chief of Staff, J. T. Shropshire, did not get along." Shropshire said he and Walker, "...have not been close friends over the years and that they generally have come down on opposite sides in political issues."[27]

In the meantime much misleading information was being published concerning the value of RF&P's Northern Virginia real estate. The reporters did not distinguish between outright fee ownership and a subordinated ground lessor relationship. For instance, a property might be appraised or assessed at $250 million, whereas RF&P's interest

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[26] Richmond Times-Dispatch, February 27, 1990, p. 1.

[27] The Richmond News Leader, February 28, 1990, p. 7.

as a ground lessor might be $80 million. One typical example of misleading reporting was an article that appeared in the Richmond Times-Dispatch stating that the total assessment of RF&P's real estate was $730.4 million.[28] This was corrected several days later by Crovo in a news release stating that the correct figure was $537 million.[29] All of this was extremely confusing to the public.

On March 15, 1990 Governor Wilder appointed a Richmond attorney, Jacqueline G. Epps, Esq., as Chairperson of the VRS, succeeding Walker. Epps, a native of Buffalo, New York and a member of the Richmond law firm of Morris & Morris, had been active earlier in Wilder's successful gubernatorial campaign. That afternoon The Richmond News Leader dropped another bombshell, that "...the Trustees of VRS voted today to remove Senator Hunter B. Andrews and Delegate Robert B. Ball as the State's representatives on the Board of the RF&P Corporation." They were replaced by Ms. Epps and Mark T. Finn, a Virginia Beach investment advisor and President of Delta Financial, Inc. Finn served seven years on the VRS Investment Advisory Committee and currently served as its Chairman.[30] The Richmond Times-Dispatch reported that the "...dumping of the two powerful legislators came a few weeks

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[28] Ibid., March 1, 1990, p. 1.

[29] "News Release," RF&P Corporation, March 2, 1990.

[30] The Richmond News Leader, March 15, 1990, p. 1.

after...Wilder raised questions about their ethics and fairness of the deal that would combine two Richmond based railroad and realty companies." The article further states that Walter A. McFarlane, the head of Wilder's policy office, attended the meeting of the VRS Board in which Andrews and Ball were fired. "It is unusual for such a representative of the Governor to attend the Board's meeting."[31]

On March 20, 1990 CSX requested the Special Finance Committee of the Board of Directors of RF&P Corporation to agree to mutually terminate the RF&P/CSX Merger Agreement that had been announced on February 20. The Washington Post reported that the uproar over the merger offer and the firing of the two State representatives were cited as reasons for this decision. Chairman Hays T. Watkins of CSX was quoted as saying that, "The merger plan has been the subject of substantial amounts of misinformation and...the likelihood of the Retirement System and the General Assembly favorably ratifying it (the merger) is in serious question."[32]

The Special Finance Committee met on March 23, 1990 to consider the request of CSX. In spite of much public criticism, the Committee felt that the merger proposal was still a good one and fair value for the minority shareholders.

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[31] Richmond Times-Dispatch, March 16, 1990, p. 1.

[32] The Washington Post, March 21, 1990, p. 12.

The members agreed it provided an opportunity for RF&P shareholders to exchange their shares on a tax-free basis and that there were premiums both on market value and dividend payout. The Committee recommended that the merger not be terminated since, among other things, it would give the VRS additional time to study the proposal. At a Board meeting later in the day the two new Directors, Epps and Finn, were named members of the Special Finance Committee replacing Andrews and Ball. At this point the Board went into recess, and the reconstituted Special Committee met with its two new members. The Committee was advised by the VRS representatives that the two new members would vote with CSX to terminate the merger and, if the proposed merger were to continue and based in part on advice from their investment advisor, that the VRS would vote against the merger since it considered the price too low. It became apparent, from a practical standpoint, that the merger was doomed. The Board reconvened, and the Special Finance Committee members, based on this new information, joined with other Board members and voted to terminate the merger.[33] This was reported by the Richmond Times-Dispatch the next day.[34] The Wall Street Journal

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[33] RF&P Special Committee, Minutes, March 23, 1990, pp. 1-4.

[34] Richmond Times-Dispatch, March 24, 1990, p. 1.

reported that RF&P's long-term outlook was promising in spite of CSX's withdrawal of the merger bid.[35]

On April 12, 1990 Crovo sent a letter to RF&P shareholders tracing in some detail the negotiations that took place with CSX over a five-year period. Much of this material has been covered in this paper. It explained the various transactions including a presentation of how the Special Finance Committee arrived at a price that it could recommend as fair to the minority shareholders. It distinguished between the myth of misinformation that had been published and the reality of the appraisals of the Northern Virginia real estate. It did much to clarify the background of the proposed transaction which had been terminated.[36]

RF&P held its Annual Shareholders Meeting on May 21, 1990 at the Science Museum of Virginia; over 200 stockholders attended. The meeting was a lively one and sparked many complaints by shareholders on matters pertaining to fairness of the offer, CSX control of the voting stock of the company and the valuation of Northern Virginia real estate. It had previously been reported that $3.9 million had been spent on the failed merger with CSX.[37] Crovo concluded that, "While

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[35] Wall Street Journal, March 26, 1990, p. 2.

[36] Crovo, Letter to Shareholders, April 12, 1990.

[37] Richmond Times-Dispatch, April 21, 1990, p. 7.

none of the operations were affected...I know that the company as a whole suffered somewhat, particularly in terms of employee morale." He assured the shareholders that, "All of us have refocused our energies towards the profitable and efficient operation of our railroad and real estate operations."[38]

Why did this merger fail? A number of issues led to the merger's demise. The most important factor was Governor Wilder's negative reaction to the proposal. The merger needed the approval of the Commonwealth of Virginia, and the General Assembly of Virginia had to vote on the matter. Apparently Wilder felt that he was being rushed into a quick decision in the waning days of the General Assembly session. This led to his firing Walker from the Chairmanship of the VRS and the subsequent removal of two prominent legislators, Andrews and Ball, as the State's representatives on the RF&P Board of Directors. The decision created deep political wounds.[39]

A second factor was the extensive amount of misinformation concerning the true value of RF&P's real estate. How does one evaluate a piece of property, on a pre-tax or an after-tax basis? How does one evaluate a property for its future sales value, and what sort of discount should be

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[38] Ibid., May 22, 1990, p. 8.

[39] Richmond Times-Dispatch, March 25, 1990, p. 22.

applied to come up with today's present value? If the property is to be developed in the future, how long would it take to gain true investment value -- five years or twenty years? How many of the properties are owned in fee simple? How many are joint ventures? How many are operating under a subordinated ground lessor arrangement? What about the environmental concerns? A railroad yard is not the cleanest of properties. All of these are complex questions, but the lack of a full understanding of these issues brought about considerable misinformation concerning today's value of RF&P's real estate.

A third major factor was the loyalty of the individual RF&P shareholder. A typical remark of a shareholder was: "My grandaddy inherited his RF&P stock from his daddy and he told me never sell it."[40] The cost basis for many individual owners was quite low, and one of the big advantages of the merger was that the shareholder could exchange one share of RF&P stock on a tax-free basis for one share of CSX, a much larger company with growth potential.[41] This advantage, however, was lost in the rhetoric of the moment.

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[40] Ibid., p. 22.

[41] Ibid., August 17, 1991, p. 11.
Note: CSX stock closed at $54.50 on October 28, 1991.

In the final analysis, the public shareholders were reluctant to face the reality of changed conditions at the RF&P. Gone were the days when six railroads controlled the RF&P through the Richmond-Washington Company. This changed in 1980 when CSX gained 80 percent voting control of Rich-Wash. As Crovo stated in an interview after the merger was terminated, "Our fortune in railroading is, and will continue to be, tied to CSX...not only do they have voting control, but 85 percent of RF&P's rail revenues come from traffic handled by CSX."[42] The Commonwealth of Virginia had, in the past, been a strong supporter of the RF&P, from the protective language in the Charter of 1834 all the way through to the Board of Public Works, the creation of the State Corporation Commission in 1902 and its appointments to the Board of Directors. All of this changed with the firing of Walker, Andrews and Ball. The State had moved from the position of a passive shareholder to that of a pro-active shareholder. A consideration of its more active role in the affairs of the RF&P will be covered in the next chapter.

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[42] Ibid., April 15, 1990, p. 16.

Chapter 5

THE VIRGINIA RETIREMENT SYSTEM (VRS) OFFER

As previously noted the VRS decided to take a more active role in the affairs of the RF&P and on August 6, 1990 announced that it had acquired an additional 1.27 million shares of RF&P stock, most of it from Norfolk Southern. Mark T. Finn, Chairman of the Investment Advisory Committee for VRS, said "...the price paid to Norfolk Southern...was $34.50 per share...however, the average price paid by VRS to others was less than $34.50 per share...since a substantial number of shares were bought in the open market at a lower cost."[1] This announcement created much interest in the financial press. The Washington Post said, "Finn's announcement is the latest twist in the financial and political drama over the future of the RF&P." The article goes on to point out that, "CSX also has been purchasing stock in the open market since the earlier offer failed."[2] The press also mentioned that the new acquisition would increase VRS's ownership to approximately 27 percent of total shares outstanding.

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[1] Richmond Times-Dispatch, August 7, 1991, p. 1.
NOTE: The Tender Offer reveals that 143,600 shares were purchased by VRS between May 11, 1990 and August 6, 1990 at prices ranging from $30 per share to $32.50 per share.

[2] The Washington Post, August 8, 1991, p. 17.
Note: RF&P stock quoted $31.75 on August 8, 1990.

A special meeting of the Board of Directors of RF&P Corporation was held on September 14, 1990. At this meeting, a transaction, inaugurated by VRS, was proposed whereby CSX would acquire RF&P's rail assets for $135 million in exchange for a portion of its RF&P shares and VRS would acquire CSX's remaining shares for $35.00 per share. In addition VRS proposed a self-tender (purchase) of 1 million shares held by the public shareholders at a price of $35.00 per share. Approximately 6 million shares were held by public shareholders. This transaction would be subject to approval by the Boards of Directors of CSX and RF&P and by the Trustees of VRS but would not require Virginia General Assembly or individual stockholder approval, since the transaction would not be a merger or a sale of State owned stock. CSX would own the rail assets and would no longer be a RF&P stockholder. VRS would retain the real estate assets and would become a real estate development company and the dominant shareholder.[3] The reason for a more active role in the affairs of the RF&P now became apparent. VRS wanted RF&P's real estate assets for the investment portfolio of the State's Pension Fund.

After much discussion in the Board meeting, it became apparent that a Special Committee would have to be formed to evaluate the proposition. This presented a problem, since C. Coleman McGehee was considered the only independent

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[3] <u>RF&P Annual Report</u>, 1990, p. 5.

Director on the Board and he stated that he would not take on this assignment single handed. It was then suggested that the Board be enlarged from twelve to fourteen and that two additional independent directors be named. McGehee was appointed Chairman of a Special Nominating Committee to select two new independent directors. The other director members of the Committee were Mark G. Aron, Senior Vice President, Law and Public Affairs, CSX Corporation, and Jacqueline G. Epps.[4]

The Nominating Committee met four times over the next two weeks and considered ten individual names. Personal calls were made on a number of the candidates. At its final meeting on September 27, 1990, and after reviewing the qualifications of all the candidates, the Committee unanimously selected John W. Rosenblum and Edward Villanueva as those best qualified. Each was contacted and agreed to serve if elected. Rosenblum is Dean of the Darden Graduate School of Business Administration at the University of Virginia. He is a Cum Laude graduate of Brown University where he was a member of Phi Beta Kappa. He received an MBA with honors from Harvard University where he taught before coming to Virginia in 1979. Villanueva is a financial advisor and received his undergraduate and graduate degrees from Columbia University. He is the former President of Richfoods,

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[4] RF&P Board of Directors, Minutes, September 14, 1990, p. 2.

Inc. and prior to this served twenty years as Chief Financial Officer of Circuit City Stores, Inc.[5] Both men have a solid background in financial affairs.

The Nominating Committee made its recommendations to the Board of Directors of the RF&P at a called meeting held September 27, 1990. The candidates were unanimously elected. The Board then established a Special Committee consisting of McGehee, Chairman, Rosenblum and Villanueva to evaluate the proposal of VRS and CSX. The Committee's charge was to study the overall fairness to shareholders of the proposed transaction and negotiate the terms of a proposed agreement among the parties, placing special emphasis on protecting the interests of the minority shareholders of RF&P and the welfare of its employees.[6]

The Special Committee held its first meeting on October 2, 1990, and the main discussion centered on the selection of counsel and investment bankers. RF&P's counsel, David R. Johnson, Esq., who had been invited, was most helpful in this process. Within the next ten days the Committee interviewed three highly qualified firms and selected Hunton & Williams of Richmond, Virginia. The team from Hunton &

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[5] RF&P Nominating Committee, Minutes, September 27, 1990, p. 1.

[6] RF&P Board of Directors, Minutes, September 27, 1990, p. 2.

Williams consisted of: Joseph C. Carter, Jr., Esq., Allen C. Goolsby, Esq., and C. Porter Vaughan, III, Esq.[7]

At its first meeting with its own counsel, the Committee stated its desire to engage a superior investment banking firm to represent the Committee in this matter and to start an immediate search. Counsel advised the Committee on a list of procedures that should be followed, including confidentiality and preservation of the Committee's independence. McGehee, as Chairman, was selected as spokesman, and the Committee requested VRS and CSX to provide a written document covering the provisions of the proposed transaction.[8]

In a subsequent meeting the Committee received an indepth briefing from management on the makeup of RF&P's assets and toured Acca Yard, Potomac Yard, Crystal City, Dabney Center and other properties. Later meetings devoted a considerable amount of Committee time to interviewing five investment banking firms with special emphasis being placed on each firm's experience in railroad and real estate matters. The Committee wanted to be assured that no conflict of interest existed between the investment banker and VRS or CSX.

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[7] RF&P Special Committee, Minutes, October 10, 1990, p. 1.

[8] Ibid., October 11, 1990, pp. 1-2.

As a result of this process and the presentations made, the firm of Goldman Sachs & Company of New York was selected as the Committee's investment banker. The Goldman team consisted of Messrs. Arthur J. Reimers, Sean M. Healy and Mark F. Dzialga. All had a number of years of experience in the mergers and acquisitions field, as well as real estate expertise.

During the fall of 1990 the Special Committee, its counsel and Goldman concentrated on an evaluation of the VRS offer. The Committee learned that VRS had selected as its counsel Morris Orens, Esq. of New York and had engaged Paine, Webber, Incorporation as its investment advisor. Following its evaluation of the VRS proposal and a review with management of the company's business, prospects, financial condition and other information considered relevant, Goldman presented its assessment to the Special Committee and concluded that it could not recommend the VRS proposal.[9] The principal objection to the VRS proposal was that it would only permit 16.7 percent of the publicly held shares to be cashed out in the Tender Offer meaning that the remaining shareholders would have to remain in. The Special Committee was concerned because real estate companies normally trade on the basis of the market value of the real estate held in the

[9] U. S. Securities and Exchange Commission, Schedule 14-D-9, RF&P Corporation, August 30, 1991, p. 14.

portfolio. In light of the substantial discount from appraised value that the market was placing on the securities of publicly traded real estate based companies, the likely trading value of the company, in which most public shareholders would continue to hold an interest after the closing of the VRS proposal, would trade at a substantial discount from the current market price.[10]

On December 21, 1990 the RF&P Board of Directors accepted the Special Committee's decision not to recommend the VRS proposal. The Board requested the Committee to continue discussions with VRS and CSX to determine if some alternative transaction could be developed that could be recommended to the shareholders.[11] The Richmond Times-Dispatch reported that in spite of the modifications required by the Special Committee negotiations were continuing and the deal was "very much alive."[12]

The Board at this juncture was hopeful that an acceptable recommendation could be presented by late first quarter of 1991. In order to confirm the value of RF&P's real estate assets the Special Committee engaged the nationally

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[10] Ibid., p. 15.

[11] RF&P Board of Directors, Minutes, December 21, 1990, p. 2.

[12] Richmond Times-Dispatch, December 22, 1990, p. 7.

known firm of Landauer Associates, Inc. of New York to appraise the seven largest properties owned by the RF&P including: Potomac Yard, Potomac Green, Crystal City (3 parcels), Dabney Center and the Arlington industrial area. A year earlier the Special Finance Committee, in evaluating the real estate value for the CSX merger, had engaged the firm of Joseph J. Blake to appraise all of RF&P's real estate holdings. The year 1990 had been a devastating one in the Washington, D. C. real estate market. The Washington Post estimated that over 50 million square feet of commercial and residential space was available for sale or lease in the District and in the suburbs of Virginia and Maryland. As a result owners were unable to increase rentals to keep up with rising costs and inflation. A number of well known developers could not meet their commitments and had to declare bankruptcy. Undeveloped land plunged in value. It was the most severe drop in real estate values in this area since the 1930s.[13] The controversy surrounding the value of Northern Virginia real estate was one of the main reasons that led to the termination of the earlier CSX merger proposal, and in this climate the Committee wanted values confirmed.

Political implications resulting from the offer hit the press again in late 1990. The Daily Progress published an article quoting Richmond investment banker Joseph Antrim as

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[13] The Washington Post, April 23, 1990, p. 18.

saying, "We are going to have a real estate company run by a bunch of politicians...my concern would be that in general politicians or political bodies haven't proven themselves to be the best real estate operators."[14] The next day the same newspaper quoted two state legislators, Senators Joseph Gartlan, (D) Fairfax, and George F. Allen, (R) Earlysville, as saying that, "The VRS Board is more political in 1990 than during the previous eight years." They further stated that "Governor Wilder lowered the State's contribution to the pension fund by about $199 million by figuring less conservative rates of return." Gartlan went on to say that the "...one specific political action in this whole debacle was the abrupt dismissal of Jay Shropshire's political enemy Charley Walker and the dismissal of Senator Andrews and Bob Ball." Ms. Epps said of the earlier deal, "(It) was shot down in March because the VRS felt the merger greatly undervalued the real estate." As to the charge of politicizing the VRS Board, she countered by saying, "This Board was political long before this Governor arrived on the scene." Finn added, "...I really am not in the loop of the political games." The article concluded, "Walker accused Finn of being a pawn of the Governor."[15] Old political disagreements continued to suface when Shropshire stated that, "...last year's stock sale

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[14] The Daily Progress (Charlottesville), December 30, 1990, p. A1.

[15] Ibid., December 31, 1990, p. A1.

proposal might have turned out totally different if other people had been involved."[16]

The General Assembly of Virginia convened in Richmond on January 9, 1991 when Governor L. Douglas Wilder delivered his first State of the Commonwealth Address. In his remarks he proposed that the VRS be given complete control over the RF&P stock it held and for this privilege should pay the State $22.8 million. This figure was arrived at by multiplying the number of State RF&P shares held by VRS by the difference between the VRS cost basis of $28.00 per share and $34.50 per share, i.e. $6.50. At that time Virginia faced a $1.9 billion budget deficit, and this $22.8 million could have been used to reduce this gap. The Richmond Times-Dispatch quoted VRS Chairperson Epps as saying, "This is a good opportunity to make this proposal to the General Assembly ...the State gets the benefit of any appreciation in the stock." She later said, "I have no idea how the members of the legislature will react to it."[17] The Special Committee, which had not been advised of this proposal prior to the Governor's announcement to the General Assembly, came to the conclusion that this move by VRS could complicate future negotiations.

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[16] The Virginian Pilot (Norfolk), January 20, 1991, p. 16.

[17] Richmond Times-Dispatch, January 10, 1991, p. 16.

A good deal of comment followed the Governor's suggestion. Senator Hunter Andrews said, "What I don't understand is that last year the same price was not acceptable...and they proposed it this time." Senator Dudley J. Emick, Jr., in the same article, said, "If it was wrong when Hunter was going to sell it, it's got to be wrong when Wilder is going to sell it." He was followed by House Majority Leader Thomas W. Moss, Jr., who introduced the bill covering the transaction and said, "We've got a bottom line. You can rest assured it's going to be more than what they offered."[18]

The General Assembly had a most unusual arrangement with the VRS covering the RF&P stock contributed to the VRS in 1970. Under State law[19] the State general fund benefited from any price increase. The legislature could buy the stock at cost value from VRS and sell it back to the retirement system at the higher price. The State benefited, but the VRS could not share in the market appreciation. Under this arrangement, from 1986 through 1990 VRS paid the Commonwealth \$89.6 million.[20] Perhaps the most bizarre aspect of this transaction was the fact that the Governor's proposal would

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[18] Ibid., January 27, 1991, p. 1.

[19] General Assembly of Virginia, HB 678, 1970.

[20] Tender Offer, VRS to purchase shares of RF&P at \$39.00 per share through its subsidiary System Holdings, Inc. (SHI), August 30, 1991, p. 9.

have to go before the Senate Finance Committee chaired by Andrews and the House Appropriations Committee chaired by Ball, the very same two legislators who had been fired from the RF&P Board by the Trustees of the VRS in March of 1990. Interesting times lay ahead.

When the RF&P bill came before the House Committee in January 1991, the price was raised from $34.50 to $38.21. This figure was the price at the high end of a range of values set forth by Dillon Read in their recommendation to the Special Finance Committee on the aborted CSX merger proposal the previous year. The Senate Finance Committee decided to add $5 per share and a price of $43.21 per share was announced. The matter then went into conference negotiations, and after much discussion the conference Committee arrived at a figure of $48.21 per share! This would have provided approximately $70.9 million to the Commonwealth and reduced the budget deficit accordingly. Wilder criticized the lawmaker's decision saying, "That price ($48.21) is too high."[21] Epps, Chairperson of the VRS Board of Trustees, backed him, saying, "The new price has no rational basis...we think it's arbitrary and we'll do whatever we can to oppose the $48.21 share price."[22]

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[21] The Washington Post, February 22, 1991, p. 17.

[22] Roanoke Times and World News, March 1, 1991, p. 7.

To better understand the arbitrary $48.21 price, in a letter to counsel for the Special Committee the Majority Leader of the Virginia Senate (Andrews) explained that the General Assembly had reached the $48.21 value using two components, (1) $38.21 per share, representing the highest price the financial advisor to the Special Finance Committee had placed on the value of the shares in its opinion to the Special Finance Committee of February 1990, and (2) $10.00 per share, representing the separate value assigned by the General Assembly to the release of the Commonwealth's interest in and control over the shares. Prior to receipt of this letter, the Special Committee had received a range of values from Goldman Sachs for the special rights the Commonwealth had in the shares owned by VRS. The $10.00 per share option valuation was consistent with Goldman Sachs's estimate of a possible value for the Commonwealth's special rights.[23] The Governor had an opportunity to veto this section of the budget bill, but he chose not to do so. He told reporters that he was willing to go along with charging the State retirement system an additional $48 million (at a stock price of $48.21 per share) because he believed the system would not be hurt by the deal. Had Wilder tried to overturn the legislative action on higher the stock price, the General Assembly could have faced a $48 million deficit in the budget.[24]

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[23] SEC, Schedule 14-D-9, August 30, 1991, p. 32.

[24] The Richmond News Leader, March 26, 1991, p. 8.

On March 1, 1991 the RF&P announced that it was postponing the company's Annual Meeting normally held in April. The delay was recommended by the Special Committee in order to permit more consideration of the corporate restructuring plan.[25]

The Special Committee continued its work, and on March 7, 1991 Goldman briefed the Committee on discussions held with VRS and reported that VRS was proposing to amend its proposal and make an offer <u>for any and all shares</u> for a cash price of $35.00 per share. This was a major breakthrough, since one of the Committee's objectives was to insure that all of the minority shareholders had an opportunity to tender any or all shares. Goldman was asked to continue negotiations with VRS in order to obtain a higher price per share.[26]

Landauer presented its real estate appraisal to the Special Committee, and it is interesting to compare their evaluation with that of Blake who appraised the property as of December 31, 1989:

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[25] <u>RF&P Board of Directors, Minutes</u>, March 1, 1991.

[26] <u>SEC, Schedule 14-D-9</u>, p. 21.

Blake Appraisal

	Free-and-Clear Market Value	Market Value of Company's Ownership Interest
Crystal Square	$350,800,000	$111,200,000
Crystal Mall	232,500,000	57,500,000
Crystal Park	506,900,000	59,000,000
Dabney Center/Westwood	22,300,000	22,300,000
Arlington Industrial Area	49,000,000	49,000,000
Potomac Greens	29,400,000	29,400,000
Potomac Yard	73,500,000	73,500,000
All Other Properties	105,980,000	105,980,000
Total Value of Company's Interest		$507,880,000

In addition, Blake suggested that the above value of the company's interests in such assets should be discounted for contingencies and uncertainties associated with the ownership of a portfolio of undeveloped properties and for possible environmental liability and title defects. The table below reflects the results of applying the low and high ends of the ranges believed by the Special Finance Committee's financial advisor to be reasonable to apply the above value:

		Base Case	Sensitivity Case
Less:	Portfolio Discount	$(59,010,000)	$(82,610,000)
Less:	Environmental & Title Discount	(11,800,000)	(35,400,000)
		$437,070,000	$389,870,000[27]

[27] NOTE: The base case is the low end of the sensitivity range and the sensitivity case represents the high end of the range of discounts to appraised value. Portfolio discount takes into account the bulk sale of all of the property at one time. Environmental discounts covers the cost of clean up before property can be developed.

Blake's appraisal report (a copy of which is filed as Exhibit 10 to this Statement) was subject to underlying assumptions and limiting conditions as described more fully in their report. That report and the detailed appraisals, which set forth such assumptions and limitations, are available for inspection and copying at the principal offices of the company during regular business hours by any interested public shareholder or his or her designated representative. A complete reading of those assumptions and limiting conditions is required for a full understanding of the resulting opinions of value.[28]

Landauer Appraisal. The Special Committee retained Landauer to appraise selected real estate holdings of the company that the Special Committee considered as the company's principal real estate holdings (a copy of Landauer's appraisals are filed as an exhibit to this Statement). As a result of their analyses and conclusions, it was opinion that the free-and-clear market values and the corresponding market values of the company's mortgaged leasehold estates in those selected assets, subject to tenant leases, as of December 31, 1990 were as follows:

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[28] Ibid., pp. 23-24.

Summary of Landauer's Appraisal Values

	Free-and-Clear Market Value	Market Value of Company's Ownership Interest
Crystal Square	$270,000,000	$85,000,000
Crystal Mall	170,000,000	63,000,000
Crystal Park	470,000,000	69,000,000
Dabney Center/Westwood	18,000,000	18,000,000
Arlington Industrial Area	12,000,000	12,000,000
Potomac Green	10,000,000	10,000,000
Potomac Yard	67,000,000	67,000,000
	$1,017,000,000	$324,000,000

Landauer's valuations of the selected property assets incorporated neither a premium nor a discount with regard to a bulk sale of the assets and were based on the premise that the asset would be disposed of in an orderly manner, allowing a sufficient time period for a typical disposition. The values are gross estimates and do not include deductions for selling costs, legal fees, unquantified environmental-related costs, tax liabilities or other realization costs.

Timing and Assumptions Underlying Appraisal Reports. It is critical to note that the Blake and Landauer appraisals were completed as of different dates. The two appraisals rely on significantly different market conditions, underlying assumptions and in some cases valuation methodology. Several of these assumptions including the amount of property level debt, market rents, desired investor returns, environmental issues, portfolio discounts and pending lawsuits greatly affect the value conclusions. The Special Committee suggests that all interested parties read complete versions of both the Blake and Landauer appraisal reports before drawing any conclusions. Landauer was aware of the existence of an appraisal of some of the same property interests by Blake. However, Landauer did not know the results of Blake's analysis or its value conclusions until Landauer had completed its own, entirely independent analyses and value conclusions.[29] The main differences were due to the Arlington Industrial Area because of environmental problems and Potomac Green because of certain legal problems.

On March 25, 1991, as a result of further negotiations between Goldman for the Special Committee and Paine, Webber and others for VRS, VRS proposed a self-tender by the company to be funded by them for any and all of the publicly held shares at a price of $36.00 per share. The funding to cover this Tender Offer was approximately $225 million. The VRS had total assets of approximately $12 billion; therefore, an additional arrangement for financing the offer was not necessary. The Committee discussed the new offer in some detail and requested that both Goldman and Hunton & Williams deliver to representatives of VRS a proposal

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[29] Ibid., pp. 24-25.
Note: Information on real estate appraisals printed in toto from SEC, Schedule 14-D-9 dated August 30, 1991.

for an alternative transaction designed to achieve greater value for the public shareholders. This proposal contemplated a cash Tender Offer for any and all shares at $39.00 per share, or the option of remaining shareholders of the company. In response VRS indicated that it might be willing to increase its price to $37.00 per share, but that environmental tests of certain targeted sites in Potomac Yard would be required prior to purchase of any shares.[30]

Much of April and May were devoted to negotiations between VRS and CSX pertaining to the Asset Purchase Agreement between them. The main area of contention was Potomac Yard. In the final agreement CSX was granted a perpetual easement for a 120 foot rail corridor through the Yard to provide for the movement of its trains, and VRS agreed to pay for the relocation of the rail corridor to the eastern portion of the Yard in order to make a larger part of the Yard available for development by VRS. Much time was spent in making surveys of the proposed relocation of the corridor and the affect it would have on the speed of trains travelling along the rail corridor. As part of the deal, CSX obtained the RF&P's General Office building and certain real property surrounding it.[31] Negotiations were tense and detailed and ranged from the complexity of dividing Potomac Yard to the decision of who

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[30] Ibid., p. 22.

[31] Ibid., pp. 10-11.

would receive the RF&P's presidents car Number One and the twelve Washington Redskin football tickets (VRS retained them both).

In late April an article appeared in The Richmond News Leader indicating that the transaction possibly faced a constitutional test. A. E. Dick Howard, a Professor of Law at the University of Virginia and the acknowledged expert on the Virginia Constitution stated that a section of the State Constitution makes it difficult--if not impossible--for the State and its agencies to own private companies. He said he had not been asked to look specifically at whether the retirement system ownership of RF&P might violate that provision and could not give an opinion on the case without conducting extensive research. The State Constitution does allow the retirement system to invest in private and publicly traded companies. "Whether you could move so far as to be the outright owner, or the defacto owner raises a nicer question. I simply don't know how a court would rule on that."[32] Early on the Special Committee had indicated to VRS that it would require an opinion from the Attorney General of the Commonwealth of Virginia as to the legality of VRS's ownership of a publicly held company. In line with this request:

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[32] The Richmond News Leader, April 19, 1991, p. 8.

> VRS has received an opinion of the Attorney General of the Commonwealth of Virginia to the effect that (i) the acquisition of control of the company (RF&P) is not prohibited by Article X}10 of the Constitution of Virginia which limits the ability of government bodies to engage in certain transactions, and (ii) under Article X}11 of the Constitution of Virginia, VRS may transfer to SHI any and all of the shares held by VRS.[33]

Based on this opinion, the Special Committee continued its evaluation of the transaction.

In early June, and after extended discussions, the Special Committee proposed to VRS that it would support an offer for any and all shares at a price of $40.50 per share with environmental testing, with the understanding that VRS would have to proceed with the offer unless estimated cleanup costs of the targeted sites exceeded an agreed amount. As an alternative a price of $39.00 per share would be paid without environmental testing. VRS indicated that it would be willing to offer $38.00 per share if environmental testing was required. After extensive discussions with the Special Committee, Goldman Sachs informed VRS that the Committee would recommend a Tender Offer for any and all shares at $39.00 with environmental testing. Goldman was instructed to advise VRS

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[33] Tender Offer, August 30, 1991, p. 26.
NOTE: Systems Holdings, Inc. (SHI) is a corporation wholly owned by Virginia Retirement System.

that the Special Committee could not recommend a price below $39.00 a share. When it became apparent that VRS would not go above $38.00 a share, the Special Committee recommended that the Board of Directors of the RF&P not pay the third quarterly dividend of $.30 if the Tender Offer for all shares at $39.00 proceeded in an expeditious manner. When VRS agreed with that approach CSX representatives were so advised, and on June 18, 1991 the Special Committee publicly announced that it would recommend such a transaction to the company's Board of Directors. On June 21, 1991 the Board approved the revised transaction, subject to negotiation of definitive agreements. The Board of Directors also accepted the recommendation not to declare the regular quarterly dividend on the company's shares with the right to declare the dividend later if the transaction did not proceed promptly.[34]

Negotiations had been in progress since September of 1990, and VRS waited until the last moment to complete its due diligence concerning satisfactory environmental testing. This delayed the final closing. The Committee's rationale on the price/dividend issue was that RF&P shareholders would be better off accepting $39.00 without the dividend than $38.00 plus the $.30 dividend for a total of $38.30. The dividend

[34] SEC, Schedule 14-D-9, pp. 22-23.
NOTE: 'Due Diligence' is a business term that requires a purchaser to make an indepth review of the property or assets being purchased in order to provide 'Due Diligence' to its own Board of Directors and stockholders.

was due to be paid on August 1, and it was the hope of the Special Committee that if the process moved along promptly the stockholder would receive $39.00 per share cash in late September or early October 1991. The curtailment of the dividend caused many angry calls from shareholders who did not understand the reason for the deferral. Also, it should be pointed out that VRS and CSX also did not receive the third quarterly dividend. Another important part of the negotiations at this stage was getting CSX to agree to hold firm to the price of $35.00 per share for those shares to be purchased by VRS. CSX agreed to the original plan and said it would accept the price of $35.00, provided the price paid to public shareholders did not exceed $39.00 per share.

The Board of Directors approved the recommendation of the Special Committee, and the initial public reaction was positive. George T. Williamson, Richmond investment advisor, said, "The deal appears to be fair but not generous." "I'm happy," said Larry B. Slipow, a Virginia Beach lawyer and a small RF&P shareholder. "$39.00 is better than $35.00, but its not as good as $48.00." However, the deal failed to satisfy everyone. Hunter A. Hogan, a Norfolk real estate consultant and RF&P shareholder, said, "I don't think you can come along and pay the State $48.00 and 'say you poor stockholders who don't own much. We're only going to give you $39.00'....I don't know how they make that distinction."

David J. Winters, a securities analyst for Mutual Series Fund, Inc. of Short Hills, New Jersey which owns 5 percent of one class of RF&P stock, said, "I don't see any difference between stock owned by this company and stock owned by the State. It's the same stock; we should be treated the same way."[35]

In reply to these criticisms, McGehee, Chairman of the RF&P Special Committee, in an interview with Ed Crews, Richmond Times-Dispatch staff writer, said the $48 price reflected the 157 year old special relationship between the State and the railroad and the special rights attached to the stock held by the State. The State has owned shares in the RF&P since it was chartered in 1834, at which time it had invested in various development projects to improve Virginia's transportation network. As a result of this ownership, the State appoints two members to the RF&P Board of Directors; they are not elected by the shareholders. In 1970 the State transferred 3.5 million RF&P shares to VRS as part of its annual contribution for employee benefits. This transfer carried a provision that is central to understanding the $48 per share figure. First, the General Assembly provided that the RF&P stock could not be sold by VRS without the General Assembly's approval. Second, the General Assembly retained the right to purchase at any time this block of stock from VRS at the value at which it was contributed to VRS and to sell it

[35] The Richmond News Leader, June 18, 1991, p. 1.

back to VRS later at its then current market value. This buy-sell arrangement is repeatable, and since 1986 the VRS has paid the Commonwealth $89.6 million pursuant to this arrangement. McGehee further pointed out that the State will not receive $48 per share, since it has previously received the base price of $28 (VRS cost basis) under the buy-sell arrangement between the State and VRS. It will receive an additional $20.21 per share for a total of $48.21--worth about $70.9 million for the 3.5 million State owned shares. It is also important to note, said McGehee, "that the $48.00 per share figure was mandated by legislation, not by negotiations, meaning that VRS never had the opportunity to work toward a lower figure." He concluded that the special "buy-sell" rights attached to the 3.5 million shares held by the State does give it added value, which logically should be reflected in its price.[36]

The latter part of June and the month of July were spent in perfecting the definitive agreements among the parties. The goal was to seek Board adoption of these agreements by August 10, 1991, so that the Tender Offer could be issued promptly thereafter.

In July negotiations between the Special Committee, VRS and CSX on employee benefits were delayed. The RF&P

[36] Richmond Times-Dispatch, June 29, 1991, p. 2.

Thrift Plan had invested part of its assets in Mutual Benefit Life Insurance Company Guaranteed Investment Contracts (GIC's). Mutual sought protection in July of the New Jersey insurance Commissioner after suffering a 6 month loss of $17.8 million, and it had seen its total capital decline from $561 million to $451 million at the end of 1990.[37] Cash withdrawals under the plan had been frozen, and this affected a number of RF&P employees. After much discussion and negotiations:

> The company agreed to provide funds necessary to insure that the company's Thrift Plan has funds needed to pay benefits (based on assumed interest at the contract termination interest rate for any portion of the Mutual Benefit Contract not purchased by the company) due to retirement, death or other termination of employment (but not for other purposes such as participant loans, investment transfers or hardship withdrawals unless otherwise determined by the company) either by advancing funds to the Thrift Plan, by purchasing the Mutual Benefit Contract (or some portion thereof) from the Thrift Plan or by some combination of the foregoing as determined by the company.[38]

The employees were assured protection under other employee benefits, including the adoption of an involuntary severance plan (which RF&P did not have) granting one month of severance

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[37] The Wall Street Journal, July 12, 1991, p. 1.

[38] SEC, Schedule 14-D-9, p. 5.

pay for each year of service with a maximum of one year of severance pay and an agreement to pay a 1991 bonus based on the 1990 level of $450,000.

Some further slippage in the original schedule came about as a result of the incredibly complicated matter of legally dividing Potomac Yard between VRS and CSX. It simply took more time than originally expected. As a result, the participants worked nights and weekends to move the process along.

Another matter that delayed the issuance of the Tender Offer was the environmental testing of Potomac Yard. A consultant conducted environmental tests on seven sites approved by VRS within the Yard. Based on these tests the estimated costs of cleaning up those sites was $13,500,000. "The seven sites were selected with the purpose of trying to get a sense of any potential environmental costs associated with the development of Potomac Yard. These estimated costs...are not necessarily indicative of potential total environmental cleanup costs for Potomac Yard as a whole."[39]

The tempo was picking up to meet a new deadline of late August. The Committee took an active part in these final deliberations, with eight meetings between July 17 and

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[39] Ibid., p. 10.

August 28. It received innumerable drafts of the Tender Offer and the SEC Form 14-D-9, the Asset Purchase Agreement and the Stock Purchase Agreement. The Committee invited Messrs. Crovo, Tuberville and Walker, the other non-aligned Directors, to three sessions so they could be properly briefed on the final terms of the transaction. At a meeting on July 31, Turbeville advised the Special Committee that Norfolk Southern would not accept the $35 per share offer to Richmond-Washington shareholders (CSX and Southern). His position was that Southern, as a minority shareholder of the Richmond-Washington Company, should be treated as other minority shareholders and should receive $39 per share for the roughly 400,000 shares owned by them. The Committee felt this matter needed to be addressed by CSX and VRS, and after negotiating with these parties, the Stock Purchase Agreement provides for the payment of "$39.00 per share for shares representing Norfolk Southern Corporation's 20 percent interest in Rich-Wash."[40]

A marathon session of the Committee took place on August 27, 1991 lasting from 3:00 p.m. until 11:00 p.m. At 9:00 p.m. pizza and beer were brought in to sustain the members. Goldman Sachs spent considerable time with the Committee reviewing the financial analysis and details of the transaction, including the evaluation of the railroad and the

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[40] Ibid., p. 11.

real estate. In conclusion and "when added together, the value yielded by this analysis implied a total pre-tax range for the company of between $540 million and $700 million, or $30.62 to $39.20 per share. Goldman gave the Committee an oral opinion that the price of $39.00 to the public shareholders was fair."[41] Goldman did a fine job of representing the Committee as its investment banker, particularly in the area of financial analysis and strategy.

Representatives of Hunton & Williams led a discussion of the procedural and substantive responsibilities of RF&P's Special Committee and pointed out that the Committee had met over thirty times since September 1990 and had a perfect attendance record. This certainly testifies to the seriousness of the member's response to its charge of protecting the minority shareholders and assuring equitable treatment for RF&P employees. Counsel then reviewed and evaluated the applicable law governing special committees and the process of satisfying the standards applying to such law. In summary, C. Porter Vaughan, III of Hunton & Williams opined that the Special Committee had satisfied its legal obligations to the company and its shareholders. Hunton & Williams had provided active and capable counsel to the Committee and had kept communications among the parties open during the entire process.

[41] Ibid., pp. 27-28.

The Committee had selected excellent counsel and investment bankers, and it may be worthwhile to note the individual contributions of its members during this 12 month assignment. John Rosenblum with his scholarly and academic background brought an intellectual outlook that was invaluable. He looked on the many problems the Committee faced with a macro view. He had the great ability to focus on the important core of a problem rather than on some tangent that was irrelevant. Edward Villanueva with his strong financial background brought a different, but very important, perspective to the Committee. His detailed analysis of the various financial questions that came before the group was outstanding. He constantly pushed the investment bankers and counsel "to get it down on a piece of paper so we can consider it." This became almost a byword of the Committee. These two different men complimented one another through their combined strengths. Coleman McGehee's assignment as Chairman was to work closely with counsel and the investment bankers, to coordinate the work of the Committee and to keep the members's eyes on its main responsibilities to the public shareholder and the welfare of the RF&P employees. As spokesman for the Special Committee, he communicated the Committee's progress to the press, the public and RF&P shareholders. The three men and their advisors worked well together as a team.

A tribute must be paid to the many loyal employees of the RF&P. They had been under constant pressure for 5 years, never knowing what the next day would bring. The intensity of the pressure had been particularly fierce in the last 24 months as a result of the CSX merger attempt and the long negotiations in the VRS restructure. President Frank Crovo and his executive staff maintained a steady course while the winds of change swirled around the RF&P ship. They showed great diligence and loyalty during this difficult time.

The many hard months of analysis and review were about to bear fruit. The Board of Directors of RF&P met at 8:30 a.m. on August 28, 1991. All members of the Board were present. Chairman of the Board Crovo opened the meeting and asked McGehee to present the recommendation of the Special Committee. McGehee made a few short remarks prior to requesting Allen C. Goolsby, Esq., counsel to the Committee, to make the report. Goolsby presented a 7 page resolution to the Board covering: the appointment of the independent Special Committee, the history of the transaction, the covenants in the Asset Purchase Agreement, the Stock Sale Agreement, the Tender Offer, and the Special Committee's reply in the form of SEC Schedule 14D-9. The Committee strongly urged the shareholders to tender their shares for a number of reasons: After closing it is doubtful that the stock would be listed and, therefore, the trading market would be limited;

without the railroad earnings the trading price of the stock could decline at a substantial discount to the offering price; currently real estate development companies are selling at low prices relative to asset value; the surviving company will be a real estate development company; and finally, the shareholders lack of information on how the VRS will run the company. The recommendation was dependent on the approval of all transactions and their integration as a whole. There were an additional set of administrative resolutions. Goolsby made an extremely fine and cogent presentation, and at the end there were only two minor questions. McGehee then moved for the adoption of the Committee's recommendation to tender as contained in the master resolution, and the Board voted unanimously to accept the recommendation. The Board meeting had lasted 40 minutes and, after voting to adjourn, the Board members just sat there for a brief second in absolute silence. They had witnessed the end of an era for the RF&P!

The press release prepared after the meeting stated that the RF&P Board had approved the Definitive Agreement. "C. Coleman McGehee said, 'The Special Committee had worked tirelessly to assure that any transaction involving RF&P serve the best interest of the RF&P public shareholders.'"[42] Jacqueline G. Epps, Chair of the VRS, said, "The VRS is enormously pleased that this unique transaction is now

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[42] News Release, RF&P, August 28, 1991.

approaching completion...we are adding significant long-term value to our State's pension fund." John W. Snow, Chairman and CEO of CSX, said, "CSX's acquisition of the 113 mile rail line between Richmond and Alexandria will allow us to bring the CSX family of transportation companies together through this important link between the northern and southern boundaries of our rail network." Shortly after the Board meeting a letter went out to all employees explaining the transaction and the employee benefit package.

Perhaps Ed Crews and Molly Gore, staff writers for the Richmond Times-Dispatch said it best in their headline and article:

> **RF&P Board Drives Golden Spike:**
>
> Directors of RF&P yesterday gave final approval to a deal that will see the 157 year old corporation shed its rail assets and become a real estate company. The Board's decision virtually ensures the multimillion transaction will happen. It also hastens the end of one of the most intense, long-running and acrimonious corporate dramas in modern Virginia history.[43]

Forty-three thousand pages of documents were filed with the Securities and Exchange Commission on the morning of August 30, 1991. The Tender Offer was sent to stockholders

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[43] Richmond Times-Dispatch, August 29, 1991, p. 1.

later that day and over the weekend. Accompanying the Tender Offer was the 58 page SEC Schedule 14D-9 setting forth the Special Committee's recommendation that all shares be tendered for reasons previously stated. The offer was open for 20 business days unless extended at the request of the Special Committee. This issue was now before the shareholders.

Mergers and reorganizations are expensive. A brief review of the fees and expenses paid over the last two years is illustrative. The proposed merger with CSX cost the company $3.8 million and was charged to the company's 1990 first quarter earnings. This merger was terminated on March 23, 1990, only one month after it was announced.[44] Negotiations covering the VRS tender offer lasted approximately 13 months. According to official documents filed, which contained the fees and expenses of the RF&P, CSX and VRS, the grand total came to $8.2 million! The following figures are presented by organizational segments:

Fees and Expenses of RF&P:

Accounting and Appraisal Fees	$ 230,000
Information Agent	2,000
Investment Banking Fees & Expenses	2,100,000
Legal Fees (Counsel for Company $400,000 Counsel for Special Committees $550,000)	950,000
Printing and Mailing Costs	5,000
Environmental Analysis	240,000
Miscellaneous	6,000
	$3,605,000[45]

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[44] RF&P Annual Report, 1990, p. 16.

[45] SEC Schedule 14 D-9, 1991, pp. 13-14.

Fees and Expenses of CSX:

Legal Fees	$ 600,000
Investment Banking Fees and Expenses	1,000,000
Miscellaneous	10,000
	$1,610,000[46]

Fees and Expenses of SHI, Subsidiary of VRS:

Investment Bankers	$2,200,000
Legal Fees	300,000
Filing Fees	46,600
Printing and Mailing Costs	35,000
Depository Fees	16,600
Appraisals	300,000
Miscellaneous	50,000
Total	$2,947,600[47]

The above does not take into account the many hours spent by management and staff in preparing information for the offer. VRS further stated that because of the time involved in negotiating the Asset Purchase Agreement on behalf of the company, it intends following the consummation of the Offer to ask the company to pay the expenses of its investment banking firm and counsel related to the Asset Purchase Agreement on behalf of the company. "Neither the Special Committee nor the current Board of Directors of the company has addressed the appropriateness of any such payment."[48]

[46] Ibid., p. 14.

[47] VRS Tender Offer, 1991, pp. 30-31.

[48] SEC Schedule 14D-9, 1991, p. 14.

Mergers always create much anxiety among the employees and this transaction is no exception. The Special Committee was able to negotiate an 18 month guaranteed continuance of present employee benefits. After that time employees will come under the CSX plan or a comparable VRS plan. On August 30, 1991, there were 455 employees.[49] As a result of the culmination of the Tender Offer, 22 employees remained with RF&P Corporation and the remaining 433 employees were transferred to CSX Corporation. Those remaining with the Corporation were the senior Administrative Staff and the Real Estate Department. The employees transferred to CSX were largely railroad operating people and approximately 250 administrative clerks, accounting personnel and secretaries. Prior to the consummation of the transaction, the Special Committee negotiated a voluntary service package that would assure all employees a year's severance pay. Prior to that the RF&P did not have a voluntary severance package. The 17 senior officers were covered by a seperate severance plan that was inaugurated in early 1990, well before the VRS offer. Frank A Crovo, Jr., President and Chief Executive Officer, announced his plans to take early retirement under this plan effective December 31, 1991. The Richmond Times-Dispatch[50] reported that 120 RF&P clerks had been offered a voluntary severance package. This was an effort to mesh the 433 RF&P

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[49] RF&P Employment Totals - Appendix D.

[50] Richmond Times-Dispatch, December 6, 1991, p. 8.

employees into CSX and avoid duplication of positions. Each employee who took advantage of this offer received 360 days pay. The Transportation and Communications International Union approved this package on September 24. As further evidence of the merger, CSX announced plans to increase the distance RF&P locomotive engines will travel during a workday, and this will have the effect of reducing its operation at the Fulton Yard in Richmond and increasing its operation at RF&P's Acca Yard. It appears that most of the railroad employees will be retained by CSX to continue the operation of its newly acquired 113 mile segment. There will be a reduction in force in the clerical staff, while everyone was not guaranteed a job after consummation of the Tender Offer, the Special Committee endeavored to see to it that if an employee was released or if he/she left voluntarily, they would be properly protected for at least one year.

In the meantime the firm of Georgeson and Company of New York was engaged as Solicitation Agent for this transaction. The duty of the Solicitation Agent was to contact shareholders and urge them to tender their shares in line with the Special Committee's recommendation. Georgeson was represented by Ms. Maria Weisensee and she made her first report to the Committee on September 16. At that time 1,034,362 shares or approximately 18 percent had been tendered. A general review of Tender Offers indicates that the great majority of the shares would be tendered during the week prior to September 27, the date of the Tender's expiration. Georgeson made its second report on September 23 and at that time 2,364,000 shares or 40 percent of the shares had been tendered. The offer expired at midnight on the 27th. The Committee met at 7:30 a.m. on Saturday, September 28 and Georgeson reported that 5,778,494 shares or 96.7 percent had been tendered! This strong response validated the acceptance of the recommendation of the Special Committee. The Committee spent considerable time discussing whether the offer should be extended. On the one hand, those who had tendered early were anxious to receive their $39 per share in cash. On the other hand, the Committee wanted to be sure that every public shareholder had an ample opportunity to tender. In view of the high initial response, the Committee agreed to recommend a short extension. This should give all stockholders additional time to tender and the extension would allow the participating parties to complete administrative matters prior to closing. The VRS accepted the Committee's recommendation and, prior to the stock market opening on Monday, September 30, issued a release stating that the tender would be extended until 6:00 p.m. Wednesday, October 9. The announcement made it clear that this would be the final extension of the tender offer.

On September 24, 1991 a legal action was filed by 2 shareholders, Allan R. Kahn and Hunter A. Hogan, Jr., against VRS, SHI, CSX and RF&P in the United States District Court for the Eastern District of Virginia on behalf of themselves and a purported Class of shareholders of the company. The complaint alleges, among other things, that (1) VRS, SHI, CSX and the company violated various provisions of the Securities Exchange Act of 1934 by paying the Commonwealth of Virginia and CSX more than $39 for their respective shares, and (2) CSX and VRS violated their fiduciary duties to the public shareholders by causing a series of transactions calculated to result in a coercive and unfair Tender Offer and to effectively strip the company of its assets. "The Special Committee reviewed the complaint and determined that it had already considered the issues raised therein."[51] VRS issued a statement saying that, "VRS, SHI, CSX and RF&P believe that this complaint will not hinder consummation of the Tender Offer...and based on a review of the allegations in the complaint believe that the suit is without merit."[52] The Special Committee reaffirmed its strong recommendation that all shareholders should tender their RF&P shares.

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[51] Letter to Shareholders from C. Coleman McGehee, Chairman of the Special Committee, dated September 30, 1991.

[52] Press Release, VRS dated September 26, 1991.

On October 2, 1991 Arlington County placed a $1.6 million lien on the bank accounts of the RF&P for a disputed tax bill. "If the full lien is collected, it probably would be the largest in Virginia's history," Arlington Treasurer Francis X. O'Leary said.[53] The County's claim arose out of a dispute on the method of assessment of railroad property in Arlington County and Alexandria, Virginia. In July the U. S. Circuit Court of Appeals upheld a ruling that a State tax formula undervalued railroad property for the last seven years. "The railroad appealed this ruling to the Virginia Tax Commissioner on the basis that the assessment is erroneous," said Susan H. Buffington, an RF&P attorney.[54] This matter came as no surprise to the railroad officials, since they had been negotiating with the County for some time. The following day the Arlington County Circuit Court granted RF&P a temporary injunction to lift the lien placed on its bank accounts by the County's Treasurer O'Leary.

The Special Committee met for the last time at 5:00 p.m. on Wednesday, October 9, 1991. The Committee was informed by Georgeson that 98.6 percent of the shares had been tendered as of midnight October 8. They expected additional shares would be tendered prior to the closing at 6:00 p.m. on October 9. Fewer than 100 shareholders decided to remain as

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[53] Richmond Times-Dispatch, October 3, 1991, p. C-4.

[54] Ibid., October 3, 1991, p. C-4.

shareholders of the newly restructured RF&P Corporation. The Committee voted not to extend the Tender Offer in view of the high response to the Committee's recommendation. VRS indicated that if the Tender was not extended, it would begin to send out the checks for the Tender within the next few days. The Committee members, having completed their function, submitted their letters of resignation as Board members as did the remaining directors of RF&P Corporation in order to make way for the new Board which was appointed by VRS after consummation of the transaction. The new Directors were: Jacqueline G. Epps, Chairperson of VRS; Mark T. Finn, Trustee of VRS; C. Michael Gooden, Chairman of the Board and Chief Executive Officer of Integrated Systems Analysis, Inc.; Charles W. Hurt, M.D., Real Estate Developer and Investor; Irving Joel, Chairman of VATEX Incorporated; Morris Orens, Esq., Attorney at Law; and Rory Riggs, Investment Banker and Financial Advisor.

On October 10 VRS announced that 5.9 million shares or 99.4 percent of the publicly held shares had been tendered for $39 per share.[55] RF&P Corporation announced that it had consummated the sale of substantially all of its railroad assets and certain other assets to RF&P Railway Company, a subsidiary of CSX in exchange for 3,857,143 RF&P shares and the assumption of certain liabilities. Simultaneously with

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[55] Richmond Times-Dispatch, October 10, 1991, p. B-2.

the closing of the asset sale, the VRS purchased 2,974,807 RF&P shares from subsidiaries of CSX at $35 per share. As a result CSX no longer held any shares of RF&P. VRS now became the dominant shareholder owning approximately 99 percent of the outstanding shares. Frank A. Crovo, Jr., President of RF&P Corporation, stated, "Today's closing is the result of several years of negotiations. With the closing behind us...we intend to focus all our energy towards realizing the best use of our valuable real estate assets."[56] On October 18, 1991 VRS announced that it had decided to buy the remaining 120,000 shares from the public shareholders at $39.00 per share. VRS now holds more than 99 percent of RF&P stock, and State law allows the fund to purchase these shares because it now owns 90 percent of each class of RF&P stock. Morris Orens noted that the stock is no longer listed on the Over The Counter Market.[57]

This saga of the RF&P has concluded; however, the RF&P name will remain. The surviving company will be the RF&P Corporation and will become a real estate development company controlled by the VRS. CSX has gained the rail assets and named its new subsidiary RF&P Railway, which will continue the operation of RF&P Railroad.

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[56] Press Release, RF&P Corporation, October 10, 1991.

[57] Richmond Times-Dispatch, October 18, 1991, p. 7.

EPILOGUE

The history of the RF&P from 1834 to 1955 was that of a proud and distinguished railroad company operating a strategic 113 mile rail line between Richmond, Virginia and Washington, D.C. Virtually all east coast and north-south railroad traffic passed over this line. From the end of World War II in 1945 until 1955 the earnings of the company were essentially flat, and ways had to be found to increase income. A brief summary of events since 1955 is in order.

W. Thomas Rice became President in 1955, and he ushered in a new era for the RF&P. He did much to modernize the line, such as accelerating the move towards the use of diesel power for the locomotive fleet, increasing control and safety capabilities by the installation of the Central Traffic Control (CTC) system and using portable radios to reduce manpower and operate the trains more efficiently. Passenger traffic had declined and Rice fostered the idea of increasing this traffic by running Santa Claus trains for the youngsters, Redskin football trains, theater trains and caboose trains. More importantly, Rice purchased 23 acres of land in Arlington, Virginia for the purpose of locating warehouses to serve the railroad's customers. This important piece of land later became the location of the valuable Crystal City real estate project.

Stuart Shumate was elected President in 1961, and during his 20 years of leadership, he transformed a pure railroad transportation company into a company that developed a strong real estate arm as well. Shumate was bottom line oriented, and he took several steps to reduce the number of shares outstanding and thus increase per share earnings by purchasing company stock on the open market and exchanging Greyhound stock for RF&P stock. During his tenure income from real estate activities grew year by year and eventually represented more than 50 percent of the corporation's earnings. Shumate was largely responsible for this change in the earnings mix. These 20 years were a period of rapid change within the rail industry. It was a period that marked the failure of the Penn Central, much rail consolidation and the introduction of Amtrak, Conrail and WMATA.

In November 1980 the Chessie System merged with the Seaboard Coast Line Railroad to form CSX. With this merger CSX gained voting control of 80 percent of the stock of the Richmond-Washington Company, which in turn owned 62.8 percent of the <u>voting</u> stock of the RF&P. Although CSX had gained voting control, it still did not own the RF&P, and in 1983 it began to explore ways of gaining operational control. In view of the close relationship between CSX and RF&P, a number of alternatives were considered during the 1983-1989 period, none of which were acceptable to all parties. Among these were:

a long-term lease of the rail property, a joint venture of the real estate, a management contract, and the outright purchase of the rail assets. In 1988 the company was restructured to form a holding company (RF&P Corporation) with a railroad subsidiary and a real estate subsidiary. This move gave recognition to the importance real estate had achieved in the company's operation.

In February 1990 CSX proposed to acquire RF&P Corporation under a merger agreement that provided for the exchange of one share of CSX stock for each share of RF&P, or, as an alternative, $34.50 in cash.[1] The stock swap represented a tax free exchange. The Commonwealth of Virginia, a large RF&P shareholder, opposed this merger and fired Charles B. Walker who had served both as Chairman of the VRS and as a State designated member of the RF&P Board of Directors. In addition the VRS removed State Senator Hunter B. Andrews and Delegate Robert B. Ball, the two State representatives on the RF&P Board of Directors. They were replaced by two Trustees of the VRS, the Chairperson, Ms. Jacqueline G. Epps and Mark T. Finn. These moves touched off a tremendous political and financial furor within the State, resulting in CSX withdrawing its merger offer in March 1990.

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[1] In February 1990 CSX stock was selling for $34.50 per share. On October 28, 1991 CSX stock closed at $54.50 per share.

Epps and Finn had the support of Governor L. Douglas Wilder who had opposed the merger.

Subsequently, VRS took a more active role in the affairs of the RF&P. During the summer of 1990 VRS purchased an additional 1.27 million shares of RF&P stock, bringing its total holdings to 27 percent of all RF&P shares outstanding. In September 1990 VRS made a restructuring proposal to the RF&P Board of Directors that called for the sale of RF&P's rail assets to CSX for $135 million. CSX would purchase the railroad through an exchange of some of its RF&P shares at $35 per share. In addition it would sell its remaining RF&P shares to VRS for $35 per share and no longer be an RF&P shareholder. The RF&P would conduct a self-tender for approximately one million shares held by the public at $35 per share. The public owned approximately 6 million shares.

A Special Committee of the RF&P Board of Directors, consisting of three independent directors, was appointed to evaluate the VRS proposal. In December 1990 the Committee advised the Board that it could not recommend the VRS proposal in its present form. The Committee's main concern was that 84 percent of the public shareholders would remain as shareholders of a newly structured real estate company. After six months of intense negotiations the Special Committee on June 18, 1991 recommended a proposal to sell the rail assets to CSX for $135 million and allow all public shareholders to tender any or all of their shares at a price of $39 per share, a $4 per share improvement over the September 1990 proposal. This proposal was accepted by the Board of Directors of the RF&P, CSX and VRS and the Tender Offer commenced on August 30, 1991. It concluded on October 10, 1991 with 99.4 percent of public shares tendered.

An epilogue by its very nature provides time for reflection. In May 1990 I selected The Saga of the RF&P as my thesis topic. My plan was to write something original that would require considerable research from primary sources with the hope that my paper would make a contribution to the history of Virginia. Much had been written about the early years of the RF&P, but surprisingly little has been written about the history of the railroad since 1955. I elected to concentrate on these 36 years that encompass the period when the company moved from a pure railroad to one with considerable real estate assets that by 1991 accounted for more than 50 percent of the company's earnings. Little did I realize, at the time, what a multitude of events would occur that would lead to the demise of the RF&P as we knew it. To my surprise, I found myself describing the final chapter of the life and history of this proud and courageous Virginia company.

In conclusion, my observation, after many months of study and research is that 3 major events combined to bring about the company's downfall.

First is the change in voting status and control that came about in 1980 when the Chessie System and the Seaboard Coast Line merged to form CSX. Prior to this control of the RF&P rested in the Richmond-Washington Company. In 1955 the RF&P Board of Directors consisted of six railroad presidents, with one director representing the Commonwealth of Virginia, one outside director and the president of the RF&P. Each of the six railroads owned an equal amount of Richmond-Washington Company stock. As a result, control was diffused among the several owners. Due to a series of rail mergers and the bankruptcy of the Penn Central, control of the Richmond-Washington Company passed to CSX in 1980. While CSX gained voting control of the RF&P, it did not have ownership or operational control of the railroad. RF&P had its own Board of Directors and shareholders and CSX had its own Board of Directors and shareholders. The two companies had different responsibilities and different agendas. This created a real challenge for RF&P and CSX managers. The semi-independence status of the RF&P was a constant irritant between the two parties, although RF&P acknowledged the control factor.

Second, in 1990 the Commonwealth of Virginia through its Virginia Retirement System (VRS) became an active and agressive shareholder of the RF&P when it became apparent that its strategy was to acquire RF&P's real estate assets for the State's pension fund. Some questioned the propriety of the State's role in managing a private company. The RF&P Board of Directors was composed of two dominating shareholders with widely differing agendas and objectives, thus resulting in a contentious situation.

Third, there had been a great deal of consolidation of America's railroad industry during the last three decades prior to 1991, making it difficult for smaller lines to compete. A good example of said consolidation may be seen in the board membership of the Richmond-Washington Company. In 1955 there were six railroads represented. In August 1991 there were only two survivors, CSX and Norfolk Southern. Consolidation has been the by-word in American business for some time, particularly in the areas of banking, investment banking, trucking, life insurance and the retail and airline businesses. With CSX exercising voting control and providing 85 percent of RF&P's rail traffic, consolidation was almost inevitable.

The saga of the RF&P has come to an end. This proud and valiant company operated under its original 1834 charter for 157 years, and it served the Commonwealth, the stockholders and its employees well. It forged an important rail link between Richmond and Washington that will continue, although under different circumstances. This railroad was used by both the Union and the Confederacy during the Civil War and was one of the few Southern roads to survive that tragic conflict. Its service to our country in World Wars I and II was exemplary, and it survived the Great Depression of the early 1930's. Indeed the RF&P has made a significant contribution to Virginia's economic and cultural history.

During the last three years the company has captured the interest of the press, the public and its shareholders and, as a result, has created more reportable data than any other business venture in Virginia during this period. This is testimony to the integrity and importance of this fine Virginia company. One can only hope that the successors to the managers of the "Old RF&P" will continue its pursuit of excellence in both railroading and real estate as they face the challenges of the future that lie ahead.

APPENDIX

A. Presidents Richmond, Fredericksburg and Potomac Railroad Company

B. Map of Crystal City, Arlington, Virginia

C. RF&P's Real Estate

D. RF&P Employment Totals

E. Cross Roads Business Park, Fredericksburg, Virginia

APPENDIX A

PRESIDENTS

RICHMOND, FREDERICKSBURG AND POTOMAC RAILROAD COMPANY

1.	John A. Lancaster	President - 1834-1836
2.	Conway Robinson	President - 1836-1838
3.	Joseph M. Sheppard	President - 1838-1840
4.	Moncure Robinson	President - 1840-1847 Chief Engineer - 1834-1839
5.	Edwin Robinson	President - 1847-1860
6.	Peter V. Daniel, Jr.	President - 1860-1871 Counsel - 1871-1889
7.	John M. Robinson	President - 1871-1878
8.	Robert Ould	President - 1878-1881
9.	Joseph P. Brinton	President - 1881-1889
10.	Edmund T. D. Myers	President - 1889-1905 General Superintendent - 1870-1901 Engineer - 1865-1868
11.	William J. Leake	President - 1905-1906
12.	William H. White	President - 1906-1920
13.	Eppa Hunton, Jr.	President - 1920-1932 General Counsel - 1914-1920
14.	Norman Call	President - 1932-1954 Vice President and Secretary - 1920-1932 Assistant to the President and Secretary - 1916-1920 Secretary - 1910-1916 Secretary to the President - 1901-1910
15.	W. Thomas Rice	President - 1955-1957 Superintendent Transportation - 1949-1955 Superintendent Potomac Yard - 1946-1949
16.	Wirt P. Marks, Jr.	President - 1957-1960 General Counsel - 1955-1957 Assistant General Counsel - 1945-1955

17. Stuart Shumate — President - 1961-1981
Vice President and General Manager - 1957-1961
General Superintendent - 1955-1957
Superintendent Potomac Yard - 1950-1955
Supervisor - 1946-1950
Supervisor of Track - 1946-1946

18. John J. Newbauer, Jr. — President - 1981-1985
Vice President-Administration - 1975-1981
Assistant to President,
Secretary and Treasurer - 1967-1975
Administrative Assistant to President,
Assistant Secretary and Assistant Treasurer - 1961-1967
Assistant Secretary and Assistant Treasurer - 1959-1961
Staff Assistant - 1957-1959
Supervisor of Safety - 1955-1957

19. Richard L. Beadles — President - 1985-1986
Vice President-Executive Department - 1981-1985
Director of Real Estate and Marketing - 1973-1981
Executive Assistant-Staff - 1967-1973
Staff Assistant - 1966-1967

20. Frank A. Crovo, Jr.

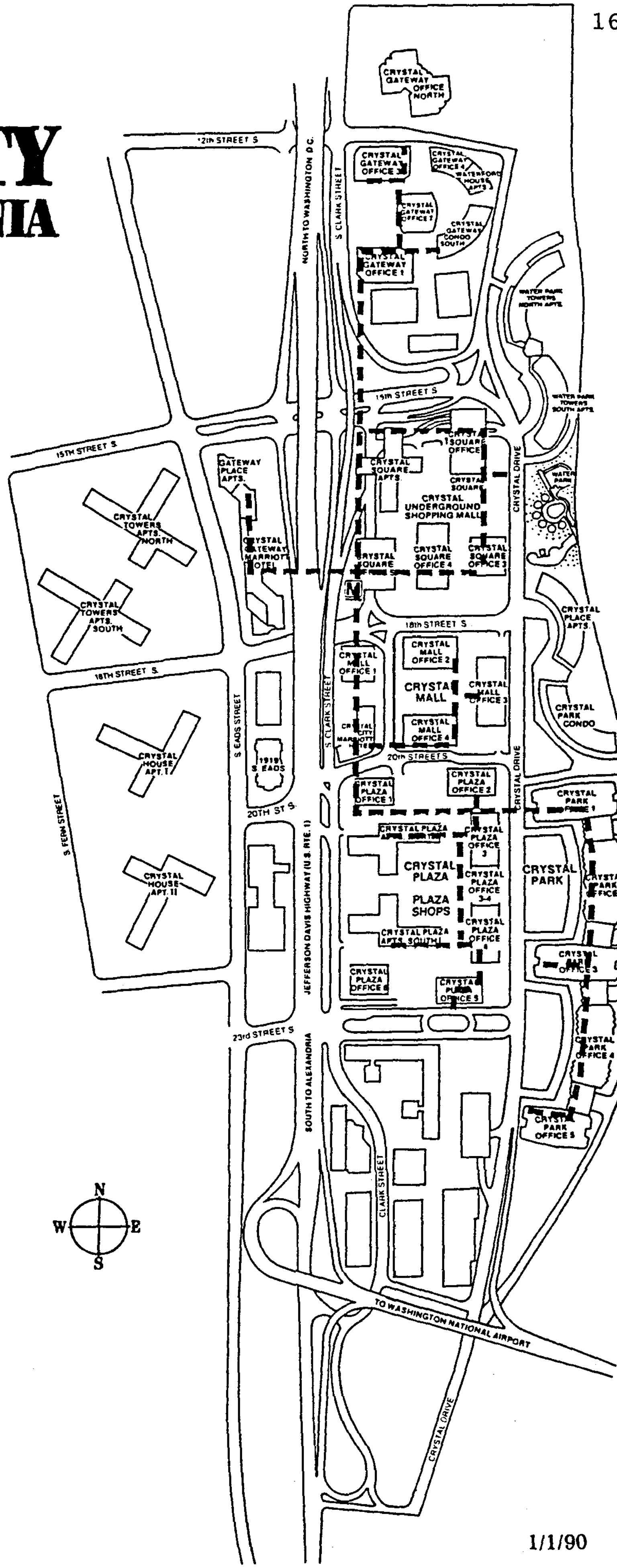
<u>RF&P Corporation</u>
President and Chief Executive Officer - 1988-1991

<u>RF&P Railroad</u>
President - 1986-1991
Vice President-Finance and Administration - 1985-1986
Comptroller and Chief Financial Officer - 1983-1985
Comptroller - 1969-1983
Assistant Comptroller - 1966-1969
Auditor-Taxes and General Accounting - 1963-1966
Tax Accountant - 1959-1963
Special Accountant - 1957-1959

APPENDIX B

CRYSTAL CITY
ARLINGTON, VIRGINIA

- ☐ COMPLETED PROJECTS
  - 7,360,000 Sq. Ft. Office Space
  - 300,000 Sq. Ft. Retail—150 Stores
  - 3,800 Apartments/Condominiums
  - 1000 Hotel Rooms
- ■ CLIMATE CONTROLLED PEDESTRIAN WALKWAY



DEVELOPED, CONSTRUCTED, LEASED AND MANAGED BY

SMITH

Charles E. Smith Companies

2121 Crystal Drive, Arlington, Virginia 22202
Phone: 703/769-5000

1/1/90

APPENDIX C

RF&P'S REAL ESTATE

PROPERTY NO.	NAME	PARTNERSHIP ENTITY	RF&P'S INTEREST	PROPERTY INFORMATION: APPROX. TOTAL RF&P ACRES	IMPROVEMENTS	APPROX. TOTAL IMPROVED AREA	YEAR BUILT	LEASE TERM
Crystal City Properties:								
1.	Crystal Square Site Arlington, VA	Ball Associates Partnerships	Subordinated Ground Lessor	15.02	4 Office Bldgs. 1 Apt.Bldg. Crystal Underground	1,239,000 NRA 378 Apts. 150,500 NRA	1975-80	10/1/1972- 9/30/2062
2.	Crystal Plaza Site Arlington, VA	Plaza Associates	Subordinated Ground Lessor	1.79	6 Office Bldgs. Retail 2 Apt. Bldgs.	1,089,025 NRA 99,000 NRA 536 Apts.	1964-85	1/1963- 12/2000 Option Thru 2042
3.	Crystal Mall Site	Clarke Associates	Subordinated Ground Lessor	9.49	4 Office Bldgs. Marriott Hotel Retail	1,020,000 NRA 340 Keys 30,000 NRA	1968-70	7/1/1967- 6/30/2057
4.	Crystal Park Partnership and Site Arlington, VA	Crystal Park Partnerships	50% Limited Partnership Interest and Subordinated Ground Lease	40.22	4 Office Bldgs. Retail 1 Office Bldg. (Early 1990) Health Club Restaurant	1,684,000 NRA 37,656 NRA 600,000 NRA	1984-90	5/11/1982- 5/10/2081
5.	Crystal Place Apartments Partnership Arlington, VA	Park Rental Associates Partnerships	50% Limited Partnership Interest in Land and Improvements	7.58	3 Apt. Bldgs.	540 Apts.	1987-89	N/A

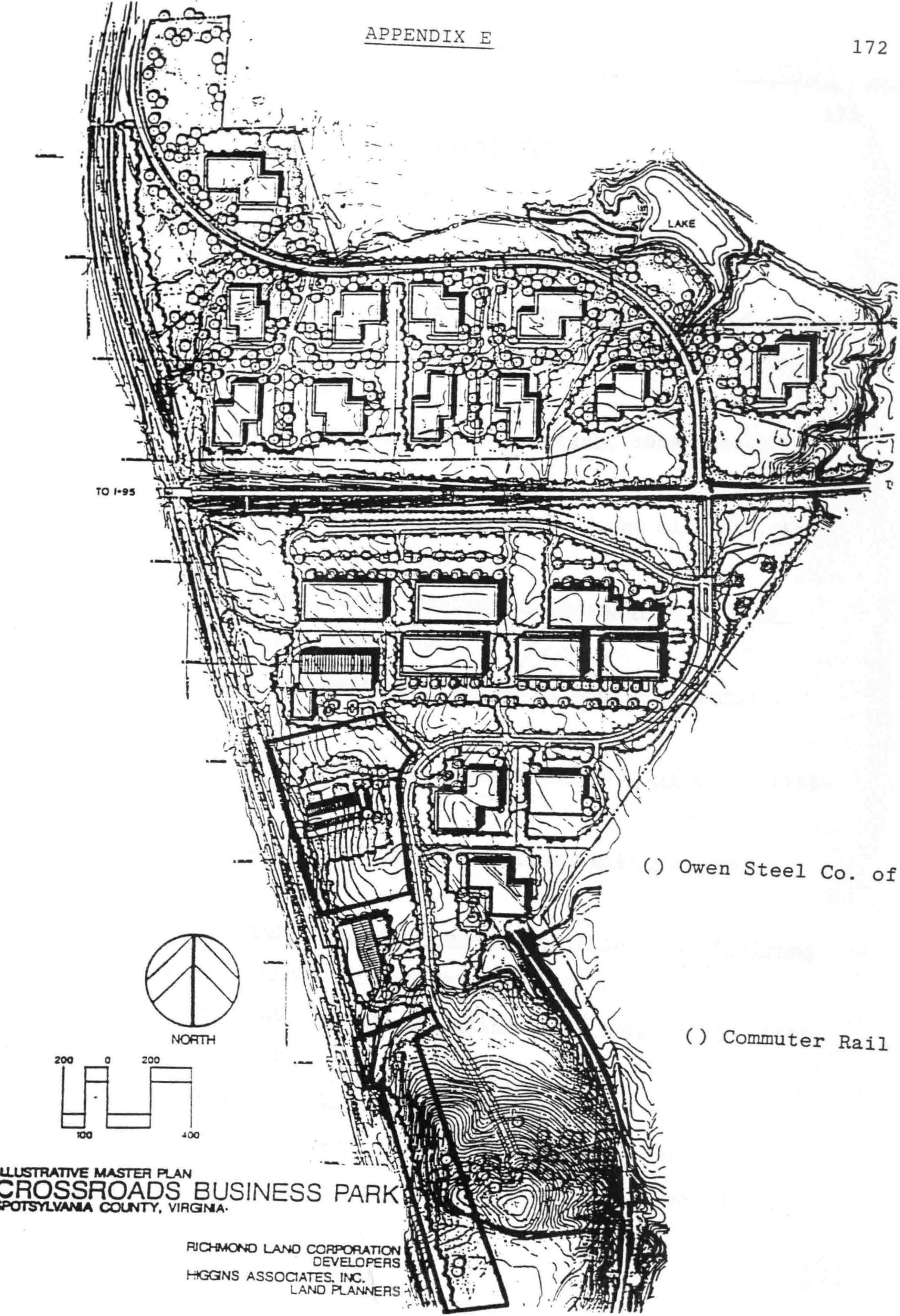
APPENDIX D

RF&P CORPORATION AND SUBSIDIARIES
Employment Totals - Years 1920 Through 1991

Year	RF&P	Rich Term Ry Co	Total	Year	RF&P	Rich Term Ry Co	Total
1920	3,779	133	3,912	1956	2,618	129	2,747
1921	3,420	108	3,528	1957	2,442	121	2,563
1922	3,355	102	3,457	1958	2,036	108	2,144
1923	3,699	103	3,802	1959	1,918	109	2,027
1924	3,788	110	3,898	1960	1,861	111	1,972
1925	3,863	110	3,973	1961	1,777	103	1,880
1926	4,084	112	4,196	1962	1,692	91	1,783
1927	3,978	111	4,089	1963	1,609	90	1,699
1928	3,830	109	3,939	1964	1,562	82	1,644
1929	3,885	110	3,995	1965	1,500	79	1,579
1930	3,729	109	3,838	1966	1,461	72	1,533
1931	3,261	103	3,364	1967	1,334	69	1,403
1932	2,727	89	2,816	1968	1,210	58	1,268
1933	2,560	88	2,648	1969	1,212	53	1,265
1934	2,500	83	2,583	1970	1,289	50	1,339
1935	2,489	83	2,572	1971	1,253	39	1,292
1936	2,496	83	2,579	1972	1,255	32	1,287
1937	2,584	95	2,679	1973	1,247	28	1,275
1938	2,361	83	2,444	1974	1,243	28	1,271
1939	2,367	83	2,450	1975	1,093	28	1,121
1940	2,528	87	2,615	1976	1,032	--	1,032
1941	2,749	95	2,844	1977	1,043	--	1,043
1942	3,418	112	3,530	1978	1,043	--	1,043
1943	3,840	141	3,981	1979	1,004	--	1,004
1944	4,143	146	4,289	1980	961	--	961
1945	4,079	144	4,223	1981	911	--	911
1946	4,160	146	4,306	1982	848	--	848
1947	3,858	139	3,997	1983	816	--	816
1948	3,678	136	3,814	1984	810	--	810
1949	3,329	140	3,469	1985	805	--	805
1950	2,978	146	3,124	1986	738	--	738
1951	3,071	148	3,219	1987	702	--	702
1952	3,059	150	3,209	1988	664	--	664
1953	3,033	150	3,183	1989	595	--	595
1954	2,981	143	3,124	1990	516	--	516
1955	2,850	139	2,989	1991	455	--	455

Notes:

- Employment totals represent the middle-of-month average yearly employment as reported to the ICC and SCC with the exception of 1991 which reflects employment as of 7/1/91.
- Richmond Terminal Railway Company ceased operations effective 3/26/76.
- Employment total for Richmond Terminal Company for 1974 was omitted and 1975 indicates 63 employees (which appears to be in error). As a result 28 is shown for 1974 and 1975.
- RF&P totals include RF&P Corporation, RF&P Railroad, and RF&P Properties employees.



() Owen Steel Co. of V.

() Commuter Rail Y.

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Ellis, Urchie B., September 12, 1991, Retired Counsel, RF&P Railroad.

Epps, Jacqueline G., 1990-1991, Chairperson, VRS.

Finn, Mark T., 1990-1991, Trustee, VRS.

Fleming, Carolyn K., 1986-1991, Corporate Secretary, RF&P.

Goolsby, Allen C., III, 1990-1991, Attorney, Hunton & Williams.

Griffin, William E., Jr., 1989-1991, Director of Personnel & Labor Relations, RF&P Railroad.

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Louthan, Charles M., 1989-1991, Director of Real Estate, RF&P Railroad.

Newbauer, John J., Jr., September 12, 1991, President, RF&P, 1981-1985.

Rice, W. Thomas, June 10, 1991, President, RF&P, 1955-1957.

Shumate, Stuart, June 7, 1991, President, RF&P, 1961-1981.

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