B&A: POTENTIAL PURCHASER

25 July, Chicago. RAIL WORLD ANNOUNCED NEGOTIATIONS TO BUY THE B&A. Text of the press release:

Chicago, Illinois-Edward A. Burkhardt, President and CEO of Rail World, Inc., announced that Rail World is participating in a rail investment and management consortium including Wheeling Corporation and others in ongoing negotiations over the purchase of the rail properties of the Bangor & Aroostook Railroad System (“B & A”). The Bangor & Aroostook Railroad System includes the Bangor & Aroostook Railroad, the Canadian American Railroad, the Québec Southern Railroad, the Northern Vermont Railroad, and Logistics Management Systems.

B & A’s President and CEO, Frederic W. Yocum, Jr. indicated that talks with the consortium were aimed at addressing cash flow problems and the heavy debt load that has plagued the B & A in recent years. Yocum stated “I am pleased that such an experienced and successful group of rail managers are interested in purchasing our railways. We look forward to working with them to promptly conclude a transaction that will provide for a global solution to the current difficulties and maintain vital rail services.”

Wheeling Corporation, which among other entities, owns a 680-mile regional railroad [the Wheeling and Lake Erie Railroad] based in Brewster, Ohio serving Ohio, West Virginia and Pennsylvania. Its Chairman and CEO is Larry R. Parsons, a 40-year veteran rail manager who occupied senior management positions on the Denver & Rio Grande Western, Southern Pacific, Union Pacific and Kansas City Southern railways.

Rail World is a Chicago-based rail management and investment corporation. Edward A. Burkhardt, the founder and former Chairman, President and CEO of Wisconsin Central Transportation Corporation, America’s most successful regional railroad, is its President and CEO. Prior to Wisconsin Central, Mr. Burkhardt was Vice President Transportation of Chicago & North Western Transportation Corporation. He has headed numerous bidding groups in the sale of rail properties both domestically and overseas.

Among several independent investors involved in the consortium are Jerry R. Davis, former President of Union Pacific and Southern Pacific railroads and Executive Vice President of CSX Transportation, Larry R. Parsons, Joseph J. Gonzales and others.

More on the announcement

Ed Burkhardt, reached in Basel Switzerland on 26 July, said his group has been working on the purchase for some time [see 12 January issue]. The consortium made the announcement at this time because of pressure building from the creditors, who were saying to management, ‘You can’t go on like this.’ “The B&A management wanted the creditors to know that they were doing something very proactive.”

More on the consortium

The Wheeling Corporation acts as the holding company for the Wheeling and Lake Erie Railway (WE) and some smaller subsidiaries. Burkhardt serves as a director on the Wheeling board; Larry Parsons serves as chair and chief operating officer. Parsons is considering investing as an individual, and also through the Wheeling Corporation, Burkhardt said. Joseph Gonzales, another private investor, serves as chief engineer of the WE.

How soon a conclusion

According to Burkhardt, “we’re the ones negotiating exclusively on the B&A at this point.” While a number of parties have looked at the property, IRR “can’t go off in every direction at once.” [Through his assistant Cathy Aldana, he noted that his consortium is not buying the B&A parent Iron Road Railways, but only the subsidiaries listed in the press release. The consortium will be meeting with key shippers and connecting railroads. Burkhardt expected conclusion of the negotiations in a couple of months. {ANR&P discussion with Aldana 26,July.01}]

The positions of the creditors

Burkhardt acknowledged that the B&A had many creditors and a significant amount of debt. “The consortium is putting together a plan to work with all creditor issues. We don’t know if that can be done, yet.”

The consortium has met with Bank Austria, whose
debt is entirely secured, and Progress Rail, whose debt is at least partially secured. He was unaware if other, smaller secured creditors existed.

Of course, the taxing authorities will have to be satisfied, Burkhardt said, as they can put liens against the property. Property taxes and IRS debts are outstanding.

Unsecured creditors exist also, including Helm Financial, owned “millions of dollars” per spokesperson Barbara Wilson [see 15 December 2000 issue]. Wilson on 26 July declined to comment further, except to say that the company is still litigating with the B&A. {ANR&P discussion with Burkhardt 26.Jul.2001}

Bank Austria reaction
Dieter Boehme of the bank’s Greenwich Connecticut office spoke “very positively” of the possible deal. “We’ll try to help them get there anyway we can. You couldn’t get better people than that group of guys” meaning Ed Burkhardt, who did well at the Wisconsin Central, and Larry Parsons, who bought a problem situation at WE “and straightened that out.” {ANR&P discussion 26.Jul.2001 Boehme}

Why didn’t creditors act earlier?
Some have asked why the creditors, especially the unsecured ones, did not put the B&A into bankruptcy earlier, to prevent it from selling off more assets such as access to Fraser Paper [see 27 March issue]. The B&A at this point is trying to sell two abandoned sections of track in Aroostook County [see upcoming issue].

One knowledgeable official close to one of the parties interested in the B&A said Helm or other unsecured creditors probably recognized that the firm had hardly enough assets to satisfy the secured creditors. Unsecured creditors would get nothing out of bankruptcy, and it would take longer than a purchase. {ANR&P discussion 26.Jul.2001}

ANY OTHER PARTIES INTERESTED?
In January, possible buyers included Rail America, Genesee and Wyoming, the Irving Group, and the Wheeling Corporation [see 30 January issue]. Mark Hastings of Genesee and Wyoming said on 26 July that his firm had looked at the B&A but was not engaged at this time. Rail America is no longer looking, confirmed one source. Guilford looked at the property in February {ANR&P discussion with Schmidt 22.Feb.01} but is not apparently pursuing it.

Québec Central?
As a connecting railroad just recently started, QCR might have had an interest in the Québec lines of the B&A. However, the QCR manager, Michel Champoux, said on 26 July his firm had never discussed purchasing any of the B&A.

St.Lawrence and Atlantic?
The same source reported that Emons Transportation, SLR and SLQ parent, possibly had the right to pursue the Québec properties if a buyer could not be found for the entire system. Robert Grossman, chair of Emons, declined to comment. {ANR&P discussion 26.Jul.2001}

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Atlantic Northeast Rails & Ports, nee Maine RailWatch (1994-1997) and later Atlantic RailWatch (1998-1999 - coverage expanded to southern New England with the 2 July 1998 issue), is dedicated to the preservation and extension of the regional rail network. The editor believes that publishing news on railroads and ports spotlights needed action to preserve the rail network. The publication also imbues the region with a sense of an interdependent community, employing the network to move rail and port traffic. ‘No railroad is an island, entire unto itself.’

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