

# Beaver Radical

PUBLISHED EVERY FRIDAY BY J. S. RUTAN. TERMS—TWO DOLLARS PER ANNUM IN ADVANCE.

VOLUME V.

BEAVER, PENN'A, FRIDAY, MARCH 21, 1873.

NUMBER 12

## The Beaver Radical.

The RADICAL is published every Friday morning at the following rates: One Year, (payable in advance), \$2.00; Six Months, 1.00; Three Months, 50; Single Copies, 5c. Papers discontinued to subscribers at the expiration of their terms of subscription at the option of the publisher, unless otherwise agreed upon. Professional or Business Cards, not exceeding 10 lines of this type, \$3.00 per annum. Advertisements of 10 lines or less, \$1.00 for one insertion, and 5 cents per line for each additional insertion. All advertisements, whether of displayed or blank space, measured by lines of this type. Advertisements by the month, quarter or year received, and liberal deductions made in proportion to length of advertisement and length of time of insertion. Special Notices inserted among local items at 10 cents per line for each insertion, unless otherwise agreed upon by the month, quarter or year. Advertisements of 5 lines or less, 50 cents for one insertion, and 5 cents per line for each additional insertion. Marriage or Death announcements published free of charge. Ordinary notices charged as advertisements, and payable in advance. Local news and matters of general interest communicated by any correspondent, with real name disclosed to the publisher, will be thankfully received. Local news solicited from every part of the county. Publication Office: In THE RADICAL BUILDING, Corner Diamond, Beaver, Pa. J. S. RUTAN, Proprietor. All communications and business letters should be addressed to SMITH CURTIS, Beaver, Pa.

## PENNSYLVANIA RAILROAD TWENTY-SIXTH ANNUAL REPORT.

OFFICE OF THE PENNSYLVANIA RAILROAD COMPANY, Philadelphia, March 10, 1873. TO THE STOCKHOLDERS OF THE PENNSYLVANIA RAILROAD COMPANY. Your Directors have much pleasure in submitting to you the following very satisfactory statement of the business of your Railways and Canals for the past year. The earnings of your Railways and Canals, between Philadelphia and Pittsburgh, were: From Passengers, \$4,022,012 30; From Freight, 3,400,000 00; From Mail, 154,914 78; From Express Matter, 44,817 87; From Miscellaneous sources, 39,433 79; Total, \$8,061,188 64. The operating expenses during the same period were: For Conducting Transportation, \$3,119,929 21; For Motive Power, 2,715,738 98; Maintenance of Cars, 238,817 18; Maintenance of Way, 1,193,943 07; Total, \$7,268,428 44. Showing a balance to the credit of Philadelphia and Erie Railroad of \$832,759 20. The number of tons of freight moved upon this line during the year was 2,028,568 tons, against 1,828,491 in 1871, 1,614,297 in 1870 and 1,302,041 in 1869, showing a steady annual increase of traffic. The average charge made per mile on freight was 1 1/100 cent per ton per mile, and the actual cost of its movement 0 9/100 cent per ton per mile, leaving a margin of profit of only one-quarter of a cent per ton per mile. The increased tonnage in 1872 over 1871 was 200,077 tons, and the increase in revenue from freight was \$277,190 61-100, and from passengers, \$61,298 53-100. The total increase of revenues for the year being \$498,489 14-100; but the expenses, chiefly owing to the destruction of the Linden bridge by fire and the unusually large amount of iron required to keep the track in good condition, has more than absorbed this increase. The net earnings of the Philadelphia and Erie Railroad have disappointed the expectations of its friends and projectors; not in the extent of its tonnage since the modification of the lease, but in the rates of freight that it has been able to command for what it carried. This line being longer from the commercial centres of the east to all important points of the west than its competitors, and traversing a sparsely populated country, with gradients unfavorable for cheap transportation, the cost of conducting its passenger business has usually exceeded the income from this branch of revenue. This year it shows a loss of \$37,933 73. In working this railway it early became apparent that the continuance of the old lease which exacted thirty per cent. of the receipts without regard to the rates of freight that could be procured, must result in the adoption of charges by the lessee that would render any participation in the lake trade at Erie, or through traffic from west of the mountains, impossible. For such business the New York and Erie Railroad Company, the chief competitor of this line charged rates that yielded it little or no profit, and the Lessee consequently had no other resort but to meet this competition, or abandon the through traffic, and rely upon the local business of the line for its support, at rates of freight which would leave a sufficient margin for profit on its transportation, to meet the terms of the leases. Before adopting the policy here indicated, which appeared to be opposed to the interest and expectations of the public, the question of a modification of the lease, to meet the difficulty thus developed, by the character of the traffic of the line, was brought before the shareholders of the Philadelphia and Erie Railroad Company, who, with great unanimity, confirmed the alterations proposed. Under the modified terms, the Lessee agreed to work the line at cost, giving to the shareholders whatever profit the enterprise might develop. This change in the lease has permitted the Pennsylvania Railroad Company to develop the resources of the country traversed, meet the interest upon its bonded indebtedness, and preserve the property to the shareholders, that they may be able to reap from their investment whatever advantage the future has in store for them, from an increase in the population and wealth of the country traversed, or that may become tributary to the line. Before the lease was entered into, the shares of the Philadelphia and Erie Railroad Company had only a nominal value, being freely offered at five per cent. of par. They are now marketable at over fifty per cent. (an increase of a thousand per cent.) clearly demonstrating that the lease has not had, as represented, a depressing influence upon the stock of the Company. The lease of this line was only offered to the Pennsylvania Railroad Company after it had been declined by the officers of the Philadelphia and Reading Railroad Company, and after all other means for raising the funds required to complete the work—that did not involve the sacrifice of the stock of the Company—had failed. The failure of this enterprise to become as once profitable, is due first, to its having been started with insufficient capital;

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From Passengers	\$4,022,012 30
Freight	3,400,000 00
Express Matter	44,817 87
Mails	154,914 78
Miscellaneous sources	39,433 79
Total	\$8,061,188 64

Total (nearly \$13,000 per mile of road) \$3,980,753 87

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This change in the lease has permitted the Pennsylvania Railroad Company to develop the resources of the country traversed, meet the interest upon its bonded indebtedness, and preserve the property to the shareholders, that they may be able to reap from their investment whatever advantage the future has in store for them, from an increase in the population and wealth of the country traversed, or that may become tributary to the line.

Before the lease was entered into, the shares of the Philadelphia and Erie Railroad Company had only a nominal value, being freely offered at five per cent. of par. They are now marketable at over fifty per cent. (an increase of a thousand per cent.) clearly demonstrating that the lease has not had, as represented, a depressing influence upon the stock of the Company.

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The failure of this enterprise to become as once profitable, is due first, to its having been started with insufficient capital;

second, that it was located without reference to the capabilities of the country it was to traverse, to yield a sufficient traffic for its support. Instead of crossing the valuable coal deposits of the Allegheny Mountains it passed north of them, and in doing so avoided also the still more important oil deposits of northwestern Pennsylvania—the existence of which was then unknown—being influenced in the adoption of the present route by two insignificant local subscriptions; thirdly, by commencing and continuing the work of construction at both ends, when the means of the Company were insufficient for the execution of any considerable portion of either end—a policy which has ruined many other extended enterprises, and by the temporary adoption of which by the Pennsylvania Railroad Company, the early success of that enterprise was jeopardized; fourthly, from its financial sacrifices incurred to secure an early opening of the road, through which mainly its cost with a single track has amounted to \$75,744.00 per mile; while that of the Pennsylvania Railroad, with a double track throughout, and a third track for a portion of the distance, traversing a vastly more rugged country, was but \$71,900.00. In strong contrast with this policy, it may be stated that all financial sacrifices made during the construction of the Pennsylvania Railroad, as well as the interests that had been paid to the shareholders and others until the railway was finished to Pittsburgh, were charged directly to the expense account, until returned from the net revenues of the railway, instead of, as in the Philadelphia and Erie, and many other cases, having been charged to the cost of construction.

The only way, it is believed, by which the stock of the Philadelphia and Erie Railroad Company can be made profitable, is the employment of more capital to open up the resources of the country naturally tributary to it; this is now being done, and it is hoped will finally enable it to earn dividends to its shareholders.

The earnings of the United Railroads of New Jersey, and the Philadelphia and Trenton Railroad, excluding those of the Belvidere, Delaware Railroad and Flemington Branch were, in 1872:

From Passengers	\$1,673,312 32
Freight	3,263,293 86
Express Matter	238,554 96
Mails	45,433 00
Miscellaneous sources	144,580 47
Total	\$5,365,174 61

EXPENSES. For Conducting Transportation, \$2,755,890 75; For Motive Power, 1,695,098 62; Maintenance of Cars, 379,837 17; Maintenance of Road, 1,224,077 03; General Expenses, 50,735 21; Total, \$6,005,166 78.

Leaving Net Earnings in 1872, \$2,360,080 02

The earnings of the Belvidere, Delaware Railroad, sixty-eight miles in length, and Flemington Branch of twelve miles, were in 1872:

From Passengers	\$154,479 88
Mails	4,319 26
Express Matter	3,787 31
General Freight	490,459 85
Miscellaneous sources	2,357 45
Total	\$664,393 75

EXPENSES. For Conducting Transportation, \$125,906 60; For Motive Power, 146,454 90; For Maintenance of Cars, 44,840 60; For Maintenance of Road, 193,349 89; Total, \$515,551 99.

Showing a balance to credit of Belvidere Railroad for 1872 of \$148,861 70

The earnings of the Delaware and Raritan Canal in 1872 were:

From Tolls	\$938,823 06
Steam Towing	607,059 99
Miscellaneous	19,719 19
Total	\$1,565,602 24

EXPENSES. For maintenance of Canal, \$278,930 53; For Canal Operation, including drawdowns of \$109,449 80; For Steam Towing accounts, \$43,718 27; Total, \$372,098 60.

Leaving Net Earnings in 1872, \$1,193,503 64. After deducting drawdowns allowed to shippers in 1872, and also in 1871, the actual revenues from the Delaware and Raritan Canal, were in 1872, \$1,150,150 44; and they were in 1871, \$1,290,736 84.

Showing an increase of \$134,419 66. The earnings of the Philadelphia and Trenton and the United Railroads of New Jersey, Belvidere, Delaware Railroad, and Flemington Branch, and Delaware and Raritan Canal in 1872 were:

From United Railroads of New Jersey	\$5,005,166 78
From Belvidere, Delaware Railroad, and Flemington Branch, including net earnings (148,861 70)	654,233 18
From Canal	1,019,677 45
Total Net Earnings of Railroad and Canal in 1872	\$6,689,077 41

The Gross Receipts from these works in 1871 were \$9,529,157 07, and those for 1872, \$9,982,481 96.

An increase of \$453,324 89. The amount required to pay interest on Bonds and Dividends to the shareholders of the United New Jersey Railroads and Canal, under the lease, in 1872, was \$3,292,587 34. To which add the interest of seven per cent. upon the average estimated amount of additional capital

employed in conducting the business of the Road, \$1,740,890 95, six months' interest on loan in operating road in 1871, \$529,588 25, one year, seven per cent., 63,116 67. Total, \$2,333,575 17.

From which deduct the amount contributed to the State Fund from the earnings of the Railways in 1872, \$119,929 09. Total, \$2,213,646 08.

Amount of debt contracted by the Pennsylvania Railroad Company in 1872, 140,586 12. Amount of interest on investment, 171,639 52. Total, 312,225 64.

Balance forward, \$2,903,917 11. From which deduct net earnings of Railways and Canals, 2,769,677 77. Leaving a deficit in 1872, 134,239 34. And deficit carried over up to January 1, 1873, 960,838 33.

The total deficit up to Jan. 1, 1873, was \$1,154,537 67. In considering this statement it will be recollected that no charge has been made against the business of the New Jersey Railroad for the use of the cars of the Pennsylvania Railroad Company engaged in the through traffic over those railroads, or for any part of the general expense account incurred for the management of the whole of the works of your Company, which should be distributed in due proportion among its own and leased lines.

On the completion of the extensive improvements commenced at and near Jersey City, and the construction of the additional works contemplated along the line, it is believed that the cost of moving and handling freights and passengers will be so materially reduced that we shall be able not only to meet the terms of the lease from the profits of the works, but to gradually extinguish the large deficit that has accumulated. Without the additional facilities already provided, the increase of the business of the past year could not have been disposed of at all; and the proper working of the line is still greatly embarrassed for want of the additional facilities which are now being provided.

As far as however, as this deficit now amounts to, it is never returned from the proceeds of these works—its creation was not intended for the accommodation of the rapidly increasing traffic of our line from the west, destined to New York and the east, the small profits upon the transportation of which were not considered by the lessors of these railways and canals of sufficient importance to induce them to incur the heavy terminal expenditures required for its prompt and economical delivery.

The number of passengers carried over the United Railroads of New Jersey in 1872, was 7,580,795, and the average distance travelled by each passenger was 31 3/100 miles.

The number of tons of freight moved was 2,586,304 tons, including 55,792 tons of bituminous coal for shipment at South Amboy and 78,027 tons of material transported for the Company's use.

The average charge per net ton per mile, upon freights during the year, was 2 5/100 cents, and per passenger 2 5/100 cents per mile.

The actual cost of operating the Philadelphia and Trenton and the United Railroads of New Jersey, in 1872, was 72 6/100 per cent. of its receipts, which high rates is mostly due to the want of facilities at the terminal of the road for handling economically the large traffic of the line.

The number of tons of freight moved on the Belvidere Delaware Railroad, and Flemington Branch, was 914,883 tons, of which 842,749 tons was anthracite coal.

The average charge per net ton per mile upon the freight carried over these lines in 1872, was 1 1/100 cent, and the cost of moving it was but 0 8/100 cent per ton per mile, reflecting much credit upon the General Superintendent, F. W. Jackson, Esq., and the Superintendent in immediate charge, Mr. John A. Anderson, for the efficient and economical management of the line.

As the accounts of the business of these railways have not heretofore been entered in the form and the detail with which those of the Pennsylvania Railroad Company have been kept we have no reliable data for comparing the results of the business of 1872 with those of previous years.

The Lease of the New Jersey improvements, between Philadelphia and New York, includes, also, the Delaware and Raritan Canal—the water line between those cities. This work is under the charge of General I. J. Wistar, as General Superintendent, in place of John G. Stevens, Esq., elected General President of the several Companies in New Jersey whose lines you have leased. This canal, though its coal tonnage fell off materially in 1872, has yielded, however, an increase in its net profit over the previous year of over \$134,000.

With the lease of the New Jersey Railroads and Canals this Company also received property represented by shares

in and bonds of Branch Railroads, Street Railroads, Turnpikes, Bridges and Ferries over the Delaware and Hudson rivers, amounting at par to \$5,714,444 25, valued at the time of their delivery at \$4,065,225 45, and believed to be now worth about that sum. These securities yielded in 1872 a net revenue of \$171,629 92 but they cannot be sold without injury to the general interest of the Company. This leaves the means necessary to make the improvements so urgently demanded for the accommodation of the large and increasing business of these railroads at Philadelphia, Jersey City and along the line, to be obtained from other sources. These improvements, consisting of additional tracks for passing trains, sidings at the terminal shops, engine houses, passenger stations, warehouses, wharves and stock-yards, the construction of which could not be longer delayed, have been commenced and will be prosecuted with vigor. Their completion will require a heavy outlay which, if it had been incurred some years since, would at this time have added materially to the revenues of the Company, and to a greater extent have diminished the expenses of managing its business.

The live stock traffic of the Pennsylvania Railroad Company destined to Jersey City, New York and points in the East, for want of facilities for its accommodation at Jersey City, has for many years been forced to leave the Pennsylvania Railroad at Harrisburg, 108 miles west of Philadelphia, and reach New York over the east Pennsylvania and New Jersey Central Railroads, thus losing the profit of its transportation for about 200 miles out of 450 miles between Pittsburgh and New York.

The New Jersey Central Railroad Company, in consequence, it is supposed, of the crowded condition of its line, has recently demanded specific rates for the transportation of live stock over its railway, instead of its share of the rates obtainable in competition with other routes as heretofore. To meet this movement and restore the traffic to its natural and profitable channel, it is under the necessity of once incurring a heavy expenditure which ought to have been made some years since by the New Jersey Companies.

The estimated expenditure for all these works during 1872, 1873 and 1874, including the rebuilding of the Trenton and Brunswick bridges with iron, has been estimated at \$5,250,000. To meet this sum the Joint Railroad Company of New Jersey have delivered to us of their General Mortgage Bonds \$3,000,000, the interest upon which will have to be added to the annual payments to be made under the lease.

The revenue of all the lines operated by your Company in 1872, between Pittsburgh and Jersey City, and the amounts paid for their working expenses, interest on debts and dividends to shareholders, are as follows:

RECEIPTS.	
From the Pennsylvania Railroad and Branches	\$32,012,535 27
Philadelphia & Erie Railroad	2,980,732 87
United Railroads of New Jersey	8,268,236 30
Belvidere Delaware Railroad, including the Flemington Branch	664,393 18
Delaware & Raritan Canal	1,544,006 24
Dividends on stock in Pennsylvania Company, from April 1 to October 1, 1872	210,000 00
Total	\$35,688,503 36

EXPENSES. Of the Penn'a Railroad and Branches, \$18,764,673 09; Of the Philadelphia and Erie Railroad, including net earnings, 3,880,762 87; Of the United Railroads of New Jersey, 6,005,166 78; Of the Belvidere Delaware Railroad, and the Flemington Branch, including net earnings, 664,393 18; Of the Delaware and Raritan Canal, 1,019,677 45; Total, \$25,439,023 41.

Net profits for the year upon all the lines operated by the Company, \$11,257,479 95.

From which deduct dividends declared in May and November (each 5 per cent.) with the taxes paid thereon, \$4,711,497 90.

Interest paid by the Company, after deducting interest and dividends received, 434,145 25.

Paid for the lease of the Harrisburg and Lancaster Railroad, and Annual payment to the State of Pennsylvania on account of interest and principle due upon the purchase of the works between Pittsburgh and Philadelphia, 460,000 00.

Dividends and interest paid on account of the United Railroads and Canals of New Jersey in 1872 (\$2,392,857 84) after deducting interest received from investments transferred with the lease (\$171,629 92) showing an outlay in operating them under the lease, in excess of their net receipts of \$24,389 34. Total, \$3,121,367 12. Balance, \$8,136,112 83.

This balance represents the net results of the operations of your several lines of railway in Pennsylvania and New Jersey for the year 1872, and they are thus stated, that you may fully understand the value of your property, nothing having been entered to the expense account except the regular transportation charges against the business of the Company. In former years, the expense account was increased annually by considerable payment that might have been charged to construction account, which had they been divided as profits, would to that extent have increased the present indebtedness of the Company.

The Pennsylvania Railroad Company has also a large amount of property that is at present practically unproductive, such as a controlling interest in 23,134 acres of Anthracite coal lands, stock in the Pennsylvania Canal, and in Railroads, the profits of which in a short time will add largely to its net revenues, but which at present are small, and have been devoted to their improvement.

It will be seen from the preceding statement, that the surplus net profits of the Company in 1872, without including those from the sources alluded to, were sufficient to have paid a dividend at ten per cent. upon an additional capital stock of nearly \$24,000,000, and there is every reason to believe from the daily indications of the future business of the Company, that without further outlays the profits of 1873 would be equally satisfactory. But as it is the duty as well as the interest of the Company to meet the legitimate demands of the public for increased transportation facilities, the means necessary for that object must be provided. The amount required in 1873 for additional tracks, equipment, shops, wharves, depots, &c., &c., to meet the demands from the increasing tonnage of the Company and its existing obligations is estimated at \$22,000,000.

The increase of the tonnage of 1871 over 1870 was 23 1/3 per cent., and in 1872 over 1871 was 19 3/10 per cent. upon this increased amount. This rate could have been further increased by the possession of additional rolling stock.

The amount of rolling stock, &c., added in 1872, though deemed ample to meet the wants of the public, proved inadequate to that object. A further increase of equipment involves also large extensions of third track, sidings, warehouses, and all other facilities that a railroad requires, the business of which is already crowding all of its departments. To raise the means desired to provide for this anticipated increase of traffic, your Directors have concluded that inasmuch as the surplus profits of the year were largely in excess of the amount required to pay the usual dividend on its existing capital, the most acceptable mode of raising the sum would be by a distribution of an additional number of shares to the extent of 2 1/2 per cent. of their present holdings, ratable among all of the Stockholders whose names may stand upon the books of the Company on the first day of April next, one half to be paid in between the 1st and 24th of May, and the remainder (50 per cent.) to be called for on sixty days' notice, in instalments not exceeding 25 per cent. at any one time.

The increase of the tonnage of the Pennsylvania Railroad was chiefly due to the local traffic of the line. This increase of traffic, not however in so great a ratio, will it is believed continue for some years to come. To meet these annual requirements for additional funds, the Directors have thought it best to adopt a revised financial plan, and with that view they have procured an Act of the Legislature authorizing an increase of the Capital Stock of the Company one hundred per cent. with the privilege of raising by bonds, to be secured by mortgage, an equal amount. A certified copy of said act is submitted to you with this report for your action.

An application for an Act to increase the Capital of the Company, and its mortgage indebtedness in 1869, elicited such strong objections in consequence of its apparent magnitude, from those who could not appreciate the extent and rapidity with which the traffic of the Company would increase, that it was thought expedient to cut down the amount asked for to \$5,000,000, an amount which has already proved to be wholly inadequate to the requirements of the Company. It has therefore been thought advisable to discontinue the sale of the present general mortgage bonds at the sum of \$30,000,000, and provide by an additional general mortgage an amount sufficient to meet the future necessities of the Company.

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