

Forty-Fifth Annual Report.

OFFICE OF THE PENNSYLVANIA RAILROAD COMPANY, PHILADELPHIA, March 1, 1892.

The Board of Directors submit herewith their report for the year 1891.

MAIN LINE AND BRANCHES, PHILADELPHIA TO PITTSBURGH.

Earnings	\$41,110,519 85
Expenses	35,294,105 81
Net earnings	\$5,816,414 04
Add interest from investments (in cash), also for use of equipment and from other items	5,383,480 44
Total	\$11,200,894 48
Deduct rental paid on bonded debt, State tax on dividends and other items	8,961,461 24
Net income Pennsylvania Railroad Division	\$2,239,433 24

PHILADELPHIA TO NEW YORK AND BRANCHES.

Earnings	\$18,956,992 11
Expenses	14,855,788 69
Net earnings	\$4,101,203 42
Add interest from investments and rents	457,416 28
Total	\$4,558,619 70
Deduct payments on account of dividends, interest, rentals, etc.	2,764,555 63
Net loss under the lease of United New Jersey Railroad and Canal Company's property	\$1,794,064 07
Balance	\$11,969,978 81

PHILADELPHIA AND ERIE RAILROAD AND BRANCHES.

Earnings	\$7,220,799 85
Expenses	4,759,259 28
Net earnings	\$2,461,540 57
Deduct payments on account of rentals	2,573,214 24
Loss on Philadelphia and Erie Railroad Division, including branches operated in connection therewith	9,134 74
Balance	\$11,971,842 07

From this balance of income for the year, the following amounts have been deducted, viz:

PAYMENT TO BE MADE FOR THE PURCHASE OF SECURITIES GUARANTEED BY THE PENNSYLVANIA RAILROAD COMPANY	\$8,023 43
PENNSYLVANIA RAILROAD COMPANY'S CONSOLIDATED MORTGAGE BONDS, sinking fund account	324,780 00
ALLEGHENY VALLEY RAILROAD COMPANY.	
Payments on account of guaranty of principal and interest of bonds	274,061 69
EXTRAORDINARY REPAIRS.	
Amount expended in straightening and revising lines and grades, and for other purposes not properly chargeable to capital account	1,510,758 09
Balance	\$2,908,222 19
Out of which was paid a dividend of 6 per cent	\$ 2,763,619 28
Amount transferred to credit of profit and loss for the year 1891	\$ 144,602 91
To which add amount received in settlement of sundry accounts	49,618 06
Add amount to credit of profit and loss December 31, 1890	\$ 2,017,841 04
Balance to credit of profit and loss December 31, 1891	\$24,334,834 33

The foregoing statements show a net income of \$11,971,842 07. After deducting the amounts properly chargeable thereto, there is a balance for the year of \$2,908,222 19. Out of this there were paid dividends of six per cent, being an increase in the amount distributed to the shareholders of \$1,253,724 50, as compared with 1890, and a balance of \$2,264,497 69 was transferred to the credit of profit and loss, making the aggregate thereof at the end of the year \$24,334,834 33.

The above results may be considered quite satisfactory, in view of the depressed condition of the mining and manufacturing interests, upon the prosperity of which the revenues of your company so largely depend. The dividends declared, amounting to about seven and a half millions of dollars, exceeding, both in rate and amount, those paid by any of the large railway systems traversing the same territory occupied by your lines. While the lines west of Pittsburgh, for the same reasons show a decreased volume of tonnage, their net results are better than for 1890, both the Pennsylvania Company and the newly consolidated Pittsburg, Cincinnati, Chicago and St. Louis Railway Company showing an increased surplus over all liabilities, and the latter company, in the first year of its operation, being able to pay a dividend on its preferred stock.

SINKING FUNDS.

Under the provisions of the consolidated mortgage of the company, \$324,780 were set apart on the first day of July last, out of the net income, as a sinking fund for the redemption of the outstanding bonds secured by that mortgage. None of the bonds could be purchased under the terms of the Trust, and the amount was placed to the credit of the trustees for investment under the terms of the mortgage. There are \$2,532,833 21 in cash and securities in the fund for the redemption of these bonds.

The trustees of the sinking fund for the redemption of the Trust certificates issued for the purchase of the shares of the capital stock of the Philadelphia, Wilmington and Baltimore Railroad Company were able to purchase only \$5,000 of these securities during the past year at the limit fixed in the Trust agreement. The total amount of these certificates purchased and cancelled to December 31, 1891, is \$2,091,000, leaving outstanding \$7,909,000. Under the provisions of the four per cent mortgage Trust Loan, there was paid to the trustee during 1891 for the sinking fund, the sum of \$144,830. The trustee was able to obtain \$41,000 of the bonds at the price fixed in the lease; of the balance, \$3,300, together with \$7,800 44 remaining from 1890, were invested in equipment under the terms of the contract, and the sum of \$388 75 remains in the hands of the trustee for future investment.

There are now in the sinking fund, for the redemption of the obligations of the various companies forming the United New Jersey Railroad and Canal Company, securities of the par value of \$4,343,000, and a cash balance, uninvested by the trustees, of \$91,318 21, making an aggregate of \$4,434,318 21.

FUNDED DEBT.

The funded debt, including mortgages on real estate and ground-rents, is \$77,080,126 33, a decrease of \$217,000 during the year, explained as follows:

Philadelphia, Wilmington and Baltimore Railroad, stock trust certificates redeemed	\$ 6,000 00
Equipment trust gold bonds	141,000 00
Mortgages and ground-rents paid	70,000 00
Total	\$217,000 00

CAPITAL STOCK.

The amount of capital stock outstanding at the close of the year was \$126,771,200, an increase of \$3,689,150, due to the conversion into capital stock of that amount of scrip issued on account of the dividend on May 29, 1891.

SECURITIES.

During the year there was an increase in the cost of securities of \$1,416,047 53, and an increase in the par value thereof of \$3,325,912 17.

The entire cost of the securities of other corporations now held by your Company is \$114,390,781 78, and the direct revenue received therefrom was \$4,832,181 09, which continues to be in excess of the interest on your funded debt.

CAR TRUSTS (not included in above statement of funded debt.)

Further provision was made during the year under the Car Trust system, for the equipment of your lines, by the issue of \$1,031,000 Car Trust certificates, bearing 4 per cent interest. Under this authority 1,000 hopper gondolas have been added to the equipment of the Main Line for special service in connection with the Susquehanna Coal Company, and 925 box cars furnished to the Pennsylvania Company.

The 50,922 cars placed on your lines east and west of Pittsburgh, including those sub-leased to affiliated lines through the system of Car Trust, represent a cost of \$28,437,000 00.

Total amount of certificates redeemed to December 31, 1891:—

In full payment for 20,784 cars	\$11,337,000 00
In partial payment for 30,138 cars	7,475,000 00
Total	\$18,812,000 00
Balance of certificates outstanding December 31, 1891	\$7,645,000 00

There has been expended for construction, equipment, and real estate as follows:—

United Pennsylvania Railroad and branches	\$4,888,805 02
United Railroads of New Jersey	188,550 15
Philadelphia and Trenton Railroad	57,420 41
And for improvements and extensions on branch and auxiliary lines operated by the company	2,325,742 14
Total	\$7,470,518 29
On account of these advances there has been received from those companies, in cash	1,002,859 68
Total amount expended on capital account in 1891	\$6,467,658 61

On account of those advances to branch and auxiliary lines there have been received in securities of those companies, \$94,883 19.

There were used in construction and repairs, on the Main Line, 39,078 tons of steel rails, and 1,333,136 ties; on the United Railroads of New Jersey Division, 7,220 tons of steel, and 262,474 ties; on the Philadelphia and Erie Railroad Division, 4,276 tons of steel, and 267,702 ties—making a total of 52,574 tons of steel, and 1,663,312 ties.

There were built at Altoona, and your other shops east of Pittsburgh and Erie, for the Main Line and other roads, in your interest, on capital and repair account, 177 locomotives, 89 passenger cars, 29 baggage, express, and mail cars, 2,250 freight cars, 6 refrigerator cars, and 394 cabin and maintenance of way cars.

The percentage of operating expenses to earnings on all lines east of Pittsburgh and Erie was 68.14 for 1891, and 67.94 for 1890, showing an increase for the year 1891 of .20 per cent.

THE PITTSBURGH DISPATCH TUESDAY, MARCH 1, 1892

Pennsylvania Company and the Pittsburg, Cincinnati, Chicago and St. Louis Railway Company:

The total earnings of the Pennsylvania Company on lines operated directly by it were	\$21,105,577 71
Expenses	12,556,465 09
Leaving net earnings	\$8,549,112 62
From this deduct:	
Rental, interest and liabilities of all kinds chargeable thereto	6,724,634 93
Net profit on Pennsylvania Company's lines	\$1,824,477 69
The total earnings of the Pittsburg, Cincinnati, Chicago and St. Louis Railway Company on lines operated directly by it were	\$17,878,699 84
Expenses	13,005,935 17
Leaving net earnings	\$4,872,764 67
Rental, interest and liabilities of all kinds chargeable thereto	3,683,901 79
Net profit on Pittsburg, Cincinnati, Chicago and St. Louis Railway Company's lines	\$1,188,862 88
Net profit on lines west of Pittsburgh for 1891	\$ 2,616,821 24
Net profit on lines west of Pittsburgh for 1890	1,700,513 92
Comparative increase on lines west of Pittsburgh for 1891	\$ 916,307 32

The other lines west of Pittsburgh, on account of which your Company has assumed direct obligations, or in which it is largely interested through ownership of securities, but which are operated through their own organizations, are, the St. Louis, Vandalia and Terre Haute Railroad; Grand Rapids and Indiana Road, and roads operated through its organization; East St. Louis and Carondelet Railway; Cincinnati and Muskingum Valley Railway; and the Waynesburg and Washington Railroad.

The aggregate gross earnings of these roads were	\$5,225,678 21
Expenses	3,910,017 87
Net earnings	\$1,315,660 34
Deduct rental, interest, etc	1,550,789 77
Profit	\$ 64,870 57

Of this profit your Company, under existing contracts, is entitled to which, added to the profit shown in the above statement, is \$46,348 98.

Leaves a net profit on all lines west of Pittsburgh for 1891 of \$2,663,119 56.

Showing a comparative increase for 1891, compared with 1890, of \$ 906,607 76.

The amount expended during the year on capital account on the lines west of Pittsburgh was \$2,663,119 56.

The main items of betterment expenditure on your western lines were in the construction of second, third and fourth tracks and sidings, the extension of yard facilities, the erection of bridges and viaducts, the improvement of the docks at the lake ports, the purchase of real estate at the termini of the various divisions, and additions to your equipment. The funds for these purposes were largely advanced by your company.

These lines have now reached a point where the volume of their traffic requires a large extension of double track, especially in view of the exceptional demands that will be made in connection with the Exposition at Chicago in 1893. It will probably be necessary to expend on this work, and on additional power and equipment during the current year between six and seven millions of dollars.

There were used in construction and repairs on the northwestern lines operated directly in your interest 9,435 tons of new steel rails, and on the southwestern lines 10,223 tons, making an aggregate of 20,458 tons.

SINKING FUNDS.

There have been redeemed through the sinking fund \$1,830,000 of the issue of \$3,200,000 of the Pennsylvania Company's six per cent bonds, secured by Pittsburg, Fort-Wayne and Chicago Railway Company stock as collateral, leaving the amount outstanding \$1,370,000. No further redemptions could be made of the four and a half per cent bonds under the \$20,000,000 mortgage of the various divisions, so that the amount outstanding at the close of the year was \$19,467,000.

The report made by the trustees of the sinking funds of the first and second mortgages of the Pittsburg, Fort-Wayne and Chicago Railway Company shows that the regular annual payment of \$104,100 was made thereto. They redeemed during the year \$124,300 of the first mortgage and \$107,000 of the second mortgage bonds, making the total amount redeemed to December 31, 1891:

First mortgage bonds	\$1,500,000 00
Second mortgage bonds	2,411,000 00
Total	\$3,911,000 00

With a balance in cash in the hands of the trustees, uninvested, December 31, 1891: On account of first mortgage sinking fund \$247,547 05; On account of second mortgage sinking fund \$29,728 79; Total \$277,275 84.

The further amount of \$175,549 32 was added to the sinking funds provided for the redemption of the existing mortgages of the Cleveland and Pittsburg Railroad Company, in addition to the amounts contributed directly to other sinking funds by the individual companies.

Under the terms of the lease, the Cleveland and Pittsburg Railroad Company authorized a new issue of \$10,000,000 general mortgage bonds to provide for the payment of maturing and other outstanding obligations, and the amounts due from time to time for betterment expenditures. In pursuance of this arrangement, an issue of \$3,000,000 of these bonds, bearing four and one-half per cent interest, was made on January 15, 1892, and sold on satisfactory terms; a portion of the proceeds being used to pay off the \$1,104,804 68 of prior lien six per cent bonds maturing at that date, and to retire \$1,010,000 of their seven per cent construction and equipment bonds.

The earnings of the Grand Rapids and Indiana Railroad Company were insufficient to meet the interest on its funded debt and provide for the necessary betterment expenditures during the year, and it was deemed expedient for your company, under its guaranty of \$4,000,000 of the first mortgage bond to purchase \$275,389 of the coupons thereof, which amount it is expected will be refunded to your company.

It will be remembered that in pursuance of the guaranty of these bonds the power to vote a majority of the stock of that road is vested in your company, until their maturity, October 1, 1895; but the Grand Rapids and Indiana Railroad Company having, in connection with the owners of the lands that form an additional security therefor, offered to the holders of the seven per cent bonds to extend them for 50 years, from July 1, 1891, at the rate of four and one-half per cent per annum, proposed to permit the voting control of the stock to remain with your company, as above stated, until the maturity of the extended bonds, provided your company would guarantee the principal and interest thereof, amounting to \$5,375,000. Believing this arrangement to be to your interest, an agreement to the above effect was entered into March 18, 1891, and \$952,000 of these bonds had been so extended at the close of the year. There are yet outstanding \$3,029,000 of the guaranteed, \$458,000 of the unguaranteed land-grant, and \$936,000 of the ex-land grant seven per cent first mortgage bonds of this company.

The land department made sales of 19,447 acres of farm land, and 1975 acres of pine land, for the aggregate price of \$191,093 96, being an average price of \$8 22 per acre, and in addition thereto received from the sale of timber rights on a large body of land \$161,600. The amount sold to the close of the year, after deducting cancelled contracts, was \$42,069 98, and the aggregate price received therefor was \$7,159,027 74, an average of \$13 21 per acre.

The assets on hand December 31, 1891, applicable to the redemption of the first mortgage land-grant bonds were:

Cash in the hands of the trustees	\$ 779,035 99
Cash in the hands of cashier	7,783 25
Bills and accounts receivable in hands of trustees	418,215 41
Bills receivable and securities in hands of trustees	813,679 44
Total	\$2,018,714 19

SUMMARY OF LINES OWNED, CONTROLLED AND OPERATED EAST AND WEST OF PITTSBURGH.

LINES EAST OF PITTSBURGH AND ERIE.	1891.		1890.		TOTAL.
	TONS.	PER CENT.	TONS.	PER CENT.	
Gross earnings from traffic	\$9,004,228 75	44.210,283 76	\$18,254,612 51	88,257,731 09	\$45,258,841 26
Expenses, including rentals, dividends, etc.	6,250,222 02	29,503,878 13	91,819,660 15	61,089,488 21	\$9,913,576 56
Net earnings	\$2,754,006 73	14,646,405 63	\$9,434,952 36	27,168,242 88	\$14,330,014 41

FREIGHT TRAFFIC.

LINES EAST OF PITTSBURGH AND ERIE.	1891.		1890.		TOTAL.
	TONS.	PER CENT.	TONS.	PER CENT.	
Lines east of Pittsburgh and Erie	92,458,515	8,553,328,000	92,884,202	8,921,674,720	185,342,717
Lines west of Pittsburgh	37,558,064	3,722,331,801	44,833,623	4,131,759,228	82,391,687
Totals	129,996,579	12,275,714,707	137,717,825	13,053,433,948	267,714,404

PASSENGER TRAFFIC.

LINES EAST OF PITTSBURGH AND ERIE.	1891.		1890.		TOTAL.
	NUMBER OF PASSENGERS.	NUMBER OF PASSENGERS OWN MILE.	NUMBER OF PASSENGERS.	NUMBER OF PASSENGERS OWN MILE.	
Lines east of Pittsburgh and Erie	68,884,033	1,391,891,849	66,199,732	1,171,328,701	135,083,765
Lines west of Pittsburgh	15,850,944	441,911,353	17,912,708	468,205,044	33,763,652
Totals	84,734,977	1,833,803,202	84,112,440	1,639,533,745	168,800,417

The aggregate amount of new steel rails used in construction and repairs in 1891 on all lines owned, controlled and operated by your company east and west of Pittsburgh was 92,694 tons.

There has been paid the Managers of the Trust created October 9, 1873, to December 31, 1891, the sum of \$4,199,192 88, the income therefrom amounts to \$3,609,663 12, and securities have been purchased amounting to \$7,085,000, yielding an interest of 6.08 per cent for the year. There was appropriated to that Trust for the year 1891 the sum of \$98,622 42.

In pursuance of the powers conferred by the provisions of the Trust the Managers were authorized by the Board of Directors, April 8, 1891, "whenever, in their judgment, it should be to the interests of the Company so to do, to exchange any of the securities held from time to time in the Trust for other securities, the principal and interest or dividend upon which is guaranteed by this Company; and also from time to time to sell and dispose of any securities so held in the Trust, provided that the proceeds thereof shall be invested in the purchase of other securities guaranteed as aforesaid by this Company." This modification was found essential to the successful working of the Trust, from the fact that loans held by it were falling due, and the moneys re-

ceived therefor had necessarily to be invested in other guaranteed securities. The assets of the Insurance Fund on hand at the end of the year were \$2,789,517 35, being an increase over the previous year of \$364,126 34.

There was contributed to the Employees' Relief Fund by your Company and affiliated lines during the year \$76,190 91 for operating expenses, and in addition thereto the sum of \$20,061 60 for extra benefits to members of the Fund whose disability had continued over fifty-two weeks, and who were, therefore, no longer entitled to regular benefits from the Fund. The amount contributed by the employees was \$495,910 26, and the receipts from interest were \$4,801 37, which, with the contributions by the companies, as stated above, \$98,242 41, made a total of \$596,954 04. This, added to the balance on hand at the beginning of the year, \$144,388 85, aggregated \$741,342 89. Of this amount there was paid to the families of employees in death benefits, and for sickness and accidents, the sum of \$530,182 82, for expenses \$76,190 91, leaving a balance of \$135,179 16 with which to adjust outstanding claims. The number of persons receiving death benefits was 370, making an

average in each case of \$623 71. There were 27,200 members of the Fund at the close of the year. The great benefits arising from this fund are shown in the fact that in 1891, including the expenses of administration, a total of \$60,000 per month for the purpose of relieving the suffering necessarily arising from accident, sickness and death among the employees who have availed themselves of its provisions.

The Employees' Relief Fund continues to show its value to your employees in affording them a safe depository for a portion of their earnings. The number of depositors has increased during the year from 2,590 to 3,155; the amount of deposits received during 1891 was \$378,201, and the balance, at the close of the year, was \$865,366 49. Of this amount, \$800,000 have been securely invested in four per cent bonds.

The amount expended during the year upon the Main Line between New York and Pittsburgh, and charged to Capital Account was \$5,044,576 08, the principal items which were the equipment, third and fourth track, and additional yard facilities, principally at Altoona and Wall's. The improvements at the latter point were brought into use during the year, and, in connection with the immediate vicinity of Pittsburgh, have tended materially to remove the difficulties heretofore existing in the movement of traffic through that city.

During the year the equipment of your lines has been increased by the addition of 54 locomotives, 70 passenger, 3 postal, and 1,500 freight cars, in addition to those provided through your Car Trust system. All freight cars are now provided with the most improved safety appliances, in the way of automatic couplers and air-brakes, and your entire rolling stock will be so equipped as rapidly as the general interests of the Company will permit. Arrangements were also perfected through which one thousand additional box cars were furnished for service on the Philadelphia and Erie Railroad, for the purpose of stimulating the movement of grain and merchandise between Erie and Philadelphia.

With the view of further developing the trade through Erie, your Western lines have largely increased their facilities for the handling of those lines of coal at that port, and it is hoped that advantage will be taken of these improvements by those interested in the commercial prosperity of this city.

The portion of the amount expended in the last annual report was completed during the year, and a portion thereof opened for traffic about the middle of the summer, but the entire line was not in use until January 1st of the present year. As the principal portion of the line constructed under the charter of your Company, all but \$100,000 of the amount expended thereon has been charged to the construction account of the Main Line. It is seen no reason to change the opinion expressed in the last annual report as to the great value of this road, and steps have been taken to connect it with the Chestnut Hill Branch, as it is believed that such an extension will be to the interest of your Company.

There was also expended in the construction of branch and auxiliary lines the sum of \$2,325,742 14, of which amount \$1,002,859 68 were reimbursed to your Company in cash. One of the items of this outlay was the work upon the Pittsburg, Virginia and Charleston Railway, in which your Company is so largely interested, for the purpose of enabling it not only to better accommodate its rapidly increasing local traffic, but also to secure the prompt movement of through traffic between the Main Line and the Lines west of Pittsburgh.

The McKeesport and Bessemer Railroad was completed during the year, and is now in active operation. It connects your system of lines a direct connection with the large manufacturing industries in the town of McKeesport, and will prove a valuable addition to your property.

The Erie and Cresson Railroad, having been sold and reorganized, was, on August 6, 1891, merged and consolidated into the Cambria and Clearfield Railroad Company. This line was projected to develop the territory of the Erie and Cresson Railway in mountain coal fields, and a large amount was expended during the past year in the construction of its main line and branches which are expected to secure a valuable bituminous coal and miscellaneous traffic for your system.

The total amount expended for the above purposes on the lines east of Pittsburgh and Erie, as shown in the statement on a previous page, was \$6,369,318 54, which was not as large as that expended in 1890 for similar purposes. During the coming year, however, it is expected that the outlays east of Pittsburgh and Erie will not be so great as in the past year, but as it was believed that the through business of your Company would require a material increase of box-car equipment, contracts have been made for the delivery thereof in the spring of 1892. The capital required for the lines west of Pittsburgh will be materially greater, as those properties have reached a point where the volume of their traffic will require large outlays for double track and increased equipment.

The Bedford and Bridgeport Railroad, having been sold under foreclosure of its mortgage, on March 26, 1891, was reorganized under the title of The Bedford and Bridgeport Railway Company, on May 5, 1891.

The Frankford and Holmesburg Railroad, which had been sold on November 5, 1890, was reorganized under the title of the Bustleton Railroad Company, January 15, 1891.

During the year large expenditures were made in the elevation of the tracks and the reconstruction of the passenger station in Jersey City. These tracks are now in use, providing all the necessary streets in that city, and the station will be completed during the present year, when both the public and the Company should realize the benefits resulting from this outlay, in the prompt and safe movement of the large passenger traffic handled at that point.

The work of completing the four-track system through the city of Trenton, which necessitated the widening of a number of large bridges over your road, as well as of the Trenton and Delaware rivers, and the building of a new passenger station, has also been vigorously prosecuted, and will be finished during the coming year.

In order to save unnecessary accounting and inspection in connection with the freight equipment of your system and secure its more efficient movement, the expenses of repairing have been pooled since the 1st of August, 1891. Under this arrangement the cost of maintenance of such rolling stock on your own and affiliated lines, east and west of Pittsburgh, aggregating 123,340 cars, is consolidated, and apportioned among the various lines according to the mileage of the equipment. While it may, perhaps, be necessary hereafter to modify some of the details of the arrangement, there is no doubt that the system will ultimately conduce to the economical results in the maintenance of your equipment.

The protracted litigation in connection with the Allegheny Valley Railroad, which has extended over a period of seven years, was finally brought to a close by a final Decree of the Supreme Court of the State of Pennsylvania, on February 15, 1891, by which judgment obtained on the coupons of the \$10,000,000 Low-Grade Division mortgage, which had been purchased by your Company under its guaranty. A reorganization was effected on February 15, 1891, under the name of the Allegheny Valley Railway Company. This sale was made in pursuance of an amicable agreement entered into between the parties in interest, under which the new company is to have \$20,000,000 of fifty-year four per cent bonds, guaranteed, principal and interest, by the Pennsylvania Railroad Company. Of these bonds a sufficient amount will be retained by the Trustees to meet the present