TWENTY-FIRST

ANNUAL REPORT

OF THE

Board of Directors

OF THE

Pennsylvania Railroad Co.

TO THE

STOCKHOLDERS,

February 18, 1868.

PHILADELPHIA:

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1868.
DIRECTORS
OF THE
Pennsylvania Railroad Company,
FOR 1868—1869.

BY THE STOCKHOLDERS.
J. Edgar Thomson,       Samuel T. Bodine,
Josiah Bacon,           Joseph B. Myers,
Wistar Morris,          Edward C. Knight,
Washington Butcher,     John M. Kennedy,
Alex. Nimick, Pittsburgh, John Rice.

BY THE CITY OF PHILADELPHIA.
Lewis Elkin,            William Anspach,
G. Morrison Coates.

BY THE BOARD.
Thomas A. Scott,        Herman J. Lombaert.

President,
J. Edgar Thomson.

Vice-Presidents,
Thomas A. Scott,        Herman J. Lombaert.

Treasurer,
Thomas T. Firth.

Secretary,
Edmund Smith.
ANNUAL MEETING.

Philadelphia, February 18, 1868.

The Annual Meeting of the Stockholders of the Pennsylvania Railroad Company was held at 10 o'clock, A. M., at Concert Hall.

The Hon. Morton McMichael, Mayor of Philadelphia, was called to the Chair, and Edmund Smith appointed Secretary.

The Secretary read the Annual Report of the Board of Directors for the year 1867.

On motion of Mr. Derbyshire, it was

Resolved, That the Report of the Board of Directors for the year 1867, be and the same is hereby accepted by the Stockholders, and that as usual it be published in pamphlet form for their information.

The following preamble and resolution was adopted, on motion of Mr. Derbyshire:

WHEREAS, The policy of stock dividends has again been referred to by the Board of Directors, in their Annual Report,
as one which they would prefer to avoid, if the assent thereto could be had of the City of Philadelphia; therefore

Resolved, That the Board of Directors be instructed to invite a conference with the Commissioners of the Sinking Fund of the City of Philadelphia, with a view to a change in the present financial plan of periodical stock dividends.

On motion of Theodore Cuyler, Esq., it was

Resolved, That the thanks of the Stockholders are hereby tendered to his Honor, Mayor McMichael, for the able manner in which he has presided as Chairman of this meeting.

The meeting then adjourned.

MORTON McMICHAEL,
Chairman.

EDMUND SMITH,
Secretary.
TWENTY-FIRST ANNUAL REPORT.

Office of the Pennsylvania Railroad Company,
Philadelphia, February 15, 1868.

To the Stockholders of the Pennsylvania Railroad Company.

Your Directors have the gratification to report that the business of your Railway, during the past year, has fully realized their expectations.

The following condensed statement will exhibit its earnings and expenses for 1867.

EARNINGS.

From Passengers, - - - - - $3,431,508 13
" Emigrant Passengers, - - - - - 121,653 26
" United States, collected for transportation of troops, - - - 65,240 48
" Mails, - - - - - 84,931 68
" Express matter, - - - - - 330,494 60
" General freights, - - - - - 11,832,299 67
" Miscellaneous sources, - - - - - 474,028 54

$16,340,156 36
TWENTY-FIRST ANNUAL REPORT,

Amount brought forward, - - $16,340,156 36

EXPENSES.

For conducting transportation, - - $3,517,258 83
" motive power, - - 3,252,143 37
" maintenance of cars, - - 1,528,387 82
" maintenance of road, - - 3,602,748 92
" general expenses, - - 179,760 70

12,080,299 64

Leaving net earnings for the year 1867, - - $4,259,856 72

The total amount of revenues, compared with last year, is:

1867, 1866, Decrease,
$16,340,156 36 $16,583,882 84 243,726 48

Omitting the amounts collected for transportation of United States troops in both years, the business of the road will compare as follows:

1867, 1866, Increase in 1867,
$16,274,915 88 $16,022,937 40 251,978 48

The changes in the sources of revenue, omitting United States troops, are shown below.

Decrease in emigrant passengers, - - $18,067 99
" express matter, - - 43,874 62

Amount carried forward, - - $61,942 61
Amount brought forward, - - - $61,942 61
and
Increase in regular freights, - - - $123,006 08
" " first-class passengers, - - - 185,708 07
" " United States Mails, - - - 2,201 68
" " miscellaneous, - - - 3,005 26

313,921 09

Increase as before stated, - - - $251,978 48

The gross revenues for 1867 are equal to $45,642 89 per mile of the main line of railroad.

The whole number of passengers carried in 1866 was 2,673,568, and in 1867, 3,347,466; but the average distance travelled by each passenger, in 1867, was 37 \frac{7}{8} miles, while in the previous year it was 52 miles; showing that the increase has chiefly been in the local business of the road.

The number of tons of freight moved (including 291,314 tons of fuel and other material transported for the Company) was 4,000,538, embracing 1,680,723 tons of coal. The increase in the coal traffic is 267,542 tons, and the whole tonnage of the road exceeds that of last year 547,820 tons—nearly 16 per cent.

The results of the year, therefore, show a large increase in the business of the road, both in passengers and freights; but in consequence of reduced rates of freight, there is not a corresponding increase in gross revenues, while the continued high prices for labor and materials have prevented any material reduction of expenses.

The Canals of the Company, in conformity with the views expressed in the last Annual Report of the Board, have been sold and transferred to the Pennsylvania Canal Company, and
the shareholders are referred, for information in relation to them, to the Report of I. J. Wistar, the President, and T. T. Wierman, Chief Engineer and Superintendent.

The earnings of the Philadelphia and Erie Railroad, in 1867, were:

\[
\begin{align*}
\text{From Passengers,} & \quad - \quad - \quad - \quad - \quad \text{\$635,134 83} \\
\text{\" Troops,} & \quad - \quad - \quad - \quad - \quad \text{\$2,806 82} \\
\text{\" Freight,} & \quad - \quad - \quad - \quad - \quad \text{\$1,631,902 02} \\
\text{\" Express matter,} & \quad - \quad - \quad - \quad - \quad \text{\$28,875 10} \\
\text{\" Mails,} & \quad - \quad - \quad - \quad - \quad \text{\$18,436 08} \\
\text{\" Miscellaneous sources,} & \quad - \quad - \quad - \quad - \quad \text{\$16,605 09} \\
\hline
\text{Total,} & \quad - \quad - \quad - \quad - \quad \text{\$2,333,759 94}
\end{align*}
\]

The operating expenses during the same period were:

\[
\begin{align*}
\text{For conducting transportation,} & \quad - \quad - \quad \text{\$565,295 61} \\
\text{\" maintenance of way,} & \quad - \quad - \quad \text{\$648,359 43} \\
\text{\" motive power,} & \quad - \quad - \quad \text{\$624,772 60} \\
\text{\" maintenance of cars,} & \quad - \quad - \quad \text{\$172,445 22} \\
\hline
\text{Total,} & \quad - \quad - \quad \text{\$2,010,872 86}
\end{align*}
\]

To which add 30 per cent. payable to Philadelphia and Erie Railroad, \text{\$677,239 51} \text{\$2,688,112 37}

Showing a loss to this Company, in operating the line under the lease, of \text{\$354,352 43}

Or \text{\$75,690 89} in excess of the same item in 1866.

The whole revenue of the Pennsylvania Railroad and its branches, and the Philadelphia and Erie Railroad, is as follows, \text{\$18,673,916 30}
Amount brought forward, - - $18,673,916 30

And the expenses of operating these lines are:

Pennsylvania Railroad, - - - $12,080,299 64
Philadelphia and Erie Railroad, - - 2,010,872 86

Thirty per cent. reserved to pay interest on debt of Philadelphia and Erie Railroad Company, &c., - - - 677,239 51

14,768,412 01

Leaving the net profits from both Railways, - $3,905,504 29

From which deduct two cash dividends of 3 per cent. each, paid to shareholders in May and November last, and the taxes thereon, - - - - $1,337,668 52

Interest on bonds, &c., and taxes on same, 618,684 04

Lease of Harrisburg and Lancaster R. R., 135,274 18

Annual payment to the State of Pennsylvania, on account of purchase of main line of public works, - - - 460,000 00

This amount, carried to the credit of "Extra Dividend Fund," in conformity with a resolution approved by the shareholders at their last meeting, payable in the capital stock of the Company, - - 1,190,000 00

3,741,626 74

Surplus, - - - - $163,877 55

The net profits of the Pennsylvania Railroad Company are nearly all derived from the business of its main line. The investments held in other lines, that have heretofore proved productive, have mostly been placed in the sinking fund established for the redemption of the Second Mortgage Bonds of this Company and the Bonds of the Harrisburg and Lancaster Railroad Company, which together amount to $5,580,840.
The value of the assets in this fund, at their present market price, may be stated at $5,000,000, and are deemed ample to meet at maturity the debts for which the fund was instituted. If the Second Mortgage Bonds should be exchanged for those under the General Mortgage authorized at your last annual meeting, this fund, after the payment of the seven hundred thousand dollar mortgage upon the Harrisburg and Lancaster line, will become the property of the Company, to be disposed of in such manner as shall best promote its interest.

The shareholders are referred to the statement of the Treasurer annexed to this report, for an exhibit of the condition of the Company at the close of the year. In comparing it with former statements, it will be seen that the cost of the railroad from Harrisburg to Pittsburgh stands upon the books of the Company at about the same sum ($13,540,950) that it did in 1854, the year that it was opened as a continuous single track railway between those cities. Since that time there has been added upon this portion of the railway, except three miles, a second track throughout, with shops, sidings, depots, &c., sufficient to accommodate more than five times the traffic that was then moved, the cost of which, if carried to construction account, would have swelled it to over $20,000,000.

A second track has also been added to the Harrisburg and Lancaster portion of the line between Columbia and Middletown, a distance of 19 miles, which has likewise been charged to expense account. The Philadelphia and Columbia Railroad, purchased of the State in a dilapidated condition, has had its superstructure renewed, and all of its wooden bridges east of Lancaster removed and new iron structures substituted, while
the purchase money has at the same time been reduced from $6,500,000; its cost, to $5,375,000.

The construction account upon the whole line of double track from West Philadelphia to Pittsburgh, 355 miles, and a single track between Dillerville and Middletown, via Mount Joy, of 25 miles, including branches to Indiana and to Hollidaysburg, of 27 miles, is but $20,799,233—a sum so small, compared with the cost of building such a work at this time, that no rival line—if there was a favorable route for one—could be constructed with any prospect of deriving a profit from the investment. This policy has been adopted by the Board, that reasonable rates of transportation may be maintained and at the same time satisfactory dividends continued to the shareholders. The Board is aware that this is not in accordance with the practice pursued by railway companies generally, particularly those of Great Britain, where their share and debt capital have increased to such enormous proportions compared with their revenues that dividends to ordinary shareholders have become the exception, while to maintain their revenues at the present standard, even with the advantages of cheap labor and materials for maintaining and operating their railways, the rates for travel and general freight are largely in excess of those charged by this Company.

The practice of dividing the whole apparent net profits of the Company, which has been the rule in Great Britain, has also had the disadvantage, by an exhibit of large dividends, on their completion of stimulating the construction of rival lines, thus increasing the railway capital that the traffic of the region is expected to meet, in an effort to secure a fair re-
The securities created under the financial plan adopted at your last meeting to provide for the future wants of the Company, have been prepared, and will be issued from time to time, in exchange for its existing mortgage bonds, and in like amounts as the share capital of the Company is increased—to provide for the demands of the railway for additional facilities for the accommodation, movement or protection of its traffic. This plan contemplates the continuance of semi-annual cash dividends of three per cent., free from United States and State taxes—the remainder of the net profits of the year to be carried to an extra dividend fund, to be divided in shares whenever it is sufficient to justify a dividend of five per cent. upon the capital stock. Under the operations of this arrangement dividends of eleven per cent. were paid in 1867, and the same rate may be expected in 1868.

The Board, as stated in their last annual report, would have preferred and would still prefer to increase the capital stock of the Company by a general distribution of it at par among the shareholders in proportion to the interest of each, but the alleged legal inability of Philadelphia to meet her share of this increase led to the adoption of the present plan, which it is believed will be found sufficient to meet the objects of the Company and the requirements of its charter.

As the policy of investing funds of the Company in feeders to the main line in and out of the State has been frequently adversely commented upon, the Board will again remind the shareholders that the investments made outside of Pennsylva-
nia were expressly authorized and directed by themselves, with
the full concurrence of the Directors, except in the subscription
to the Marietta and Cincinnati line.

The wisdom of these investments, in view of the then isola­
tion of the Pennsylvania Railroad at its western terminus, has
been fully vindicated by the beneficial effect that the construc­
tion of the avenues thus facilitated with the trade centres of the
West have had upon the revenues of the Company and the pros­
perity of Philadelphia. The Board only exceeded the express
authority of the shareholders, by a laborious but successful effort,
to save the funds— as far as advisable—that they had directed
to be so invested.

The expenditures upon lines within the State—as explained
in previous reports— was one of the conditions of a contract
with the Commonwealth, by which the Company was relieved
from the onerous burthens of a special tonnage tax, which
dwarfed its usefulness and prevented its railway from develop­
ing the resources of the interior.

These expenditures have resulted in the construction of the
Pittsburgh and Steubenville Railroad, the West Pennsylvania
Railroad, the Ebensburg and Cresson Railroad, the Tyrone
and Clearfield Railroad, the Bald Eagle Valley Railroad, the
Mifflin and Centre County Railroad to Milroy, and the exten­
sion of the Broad Top Railroad to Dallas. All of these works
are valuable feeders to the main line, and in the aggregate will
pay an interest upon the amounts now charged against them.

The Tyrone and Clearfield Railroad at present terminates at
Phillipsburg. During the past year the road-bed has been.
graded to the town of Clearfield, and the track will be laid upon it in the ensuing spring and summer.

That portion of the railway between Pittsburgh and Columbus, Ohio, extending from Pittsburgh to the Ohio river, across the State of West Virginia—in consequence of its great cost and long delay in its construction—became involved in inextricable financial difficulty, to free it from which it was sold under a decree of the Supreme Court. Arrangements are now being made to consolidate it with the Steubenville and Indiana Railroad, under the name of the Pittsburgh, Cincinnati and St. Louis Railway Company, with a view to make but one corporation between Pittsburgh and Columbus. In this line the Pennsylvania Railroad Company has a large interest in its shares, and we entertain the belief that its revenues will at once pay an interest upon the amount now charged to that account. The chief motive, however, in incurring this expenditure was, as already mentioned, the advantage it afforded to this Company in securing the freight and travel to and from the South-West, for which we had previously no independent connection. The line is now in full operation, and in this respect has met our expectations, gaining for the traveller a saving of several hours in his journey from Philadelphia and New York to Cincinnati, over any other route.

The Philadelphia and Erie Railroad has been operated since February 1, 1862, by this Company, under a lease, at a heavy annual loss, which has to that extent reduced the profits of the main line. This loss is largely due to the unfinished character of the new portion of the work, and the decayed condition of the bridges, &c., upon the older parts of the
line. In addition to these causes, it may be added that the line traverses a country which produces articles for transportation that can only be moved at low rates of freight—rates which, at the existing high prices for labor and materials, do not afford a sufficient margin of profit to meet the interest upon the debt of the Company and the cost of operating the railway. This object can only be secured—if the causes of the high cost of operating railways should continue—by a largely increased traffic, to obtain which increased material outlays are required.

The Philadelphia and Erie Railroad Company, under the lease, is obliged to furnish the money to meet the expenditures for this object, but as it is without means or available credit, it devolves upon this Company to supply the deficiency or continue an unprofitable arrangement. As neither the public advantage nor the permanent interest of this Company will justify the latter alternative, the Board with a view to apply the expenditures mentioned, in a manner that will best promote the objects in view, has purchased and converted obligations that have accrued against that Company, into its capital stock to the extent of 31,636 shares of Common, and 48,000 of Preferred, amounting in all, at par, to nearly $4,000,000—sufficient to determine the future mode of managing the affairs of the Company.

This line and the Pennsylvania Railroad occupy the only routes within this Commonwealth, upon which a railway for through business can be built, and yield a reasonable return upon the capital that may be expended in its construction. Upon all other routes, several additional mountain summits will
be encountered, besides the increased cost hereafter of constructing such a work. With this knowledge, we may safely make outlays for the development of their traffic. The extent to which this can be done by a judicious enlargement of the field of operations of the Philadelphia and Erie line may be appreciated by referring to the history of our own railroad, which was only opened as a continuous railway in connection with the State road, between Philadelphia and Columbia, on the 15th of February, 1854—at which date the Eastern and Western Divisions of what was originally the Pennsylvania Railroad were united, avoiding the ten inclined planes, operated by stationary power, which had previously lifted the traffic over the Alleghanies. The revenues of this Company, from the whole line, from Philadelphia to Pittsburgh, during 1854, the first year of its operation as a continuous line, were $3,512,295. In 1867, between the same points—with addition of the local business of the State railroad—they were $16,583,000, an increase of nearly five-fold in money and much larger in tonnage.

It is true the Pennsylvania Railroad traversed a country that had been partially developed by the State improvements, and a large local traffic became immediately available, but at that time the through business was of inconsiderable extent. It has since vastly increased by the rapid growth of the West, both in population and wealth, and is capable of still greater development by the introduction of rates of freight that will successfully compete with those charged upon the lakes and the New York canals.

A line possessing a large mixed traffic, such as commanded by the Pennsylvania Railroad, cannot fully meet this requirement
without the construction of a third track throughout its length, by which trains can be moved at a low rate of speed without serious interruption to the traffic that will pay for the cost of a more rapid movement. Instead of a third track upon the Pennsylvania Railroad to meet this demand, as originally suggested, it has been proposed that the line of the Philadelphia and Erie Railroad, as far as practicable, be taken for such a thoroughfare. This line will cross the summit between the eastern and western waters where the elevation is but 1450 feet above tide, which may be overcome by gradients not exceeding a rise of a half of a foot in one hundred feet, passing through a region abounding in the best bituminous coal for fuel.

A road built to accommodate the object contemplated must be located and constructed with a view to secure the lowest possible cost of movement of trains, and its locomotives and cars adapted to the business they are intended to move and the speed they will travel. Instead of changing locomotives at the end of each day's service as at present, the trains under this system will be provided with double crews, alternating their time upon duty until their destination is completed and the return trip accomplished. The speed of the freight trains should not exceed an average of six miles per hour.

As through travel and general merchandise will seek lines where the movement is more rapid, a railway operated upon this principle can only be introduced with advantage to the community and profit to its shareholders, where the traffic that it will command is very large. The profits upon the capital invested in such a line must be realized from a small margin
over cost upon a very large tonnage to be moved. But few, if any, locations at present afford a business sufficient to justify the construction of a railway specially operated upon this principle and one between the east and west will be sufficient to meet the public demand for many years. In New York the Erie Canal fulfils the objects of such a work not only for that State but for through tonnage between the east and the west. No route in Pennsylvania or elsewhere between the sea board and the West affords equal facilities for the introduction of this system as the line occupied by the eastern portion of the Philadelphia and Erie Railroad, where a basis for it may be laid with confidence as to its affording favorable results. A Railroad operated upon this plan will ultimately be extended to the Mississippi river across the table lands of Ohio, Indiana and Illinois, south of the great lakes, which when the tonnage is sufficient to justify its construction, will afford a medium of transportation at all seasons of the year, as cheap and more expeditious than via the lakes and Erie Canal, without materially interfering with the profits of existing lines. The general introduction of this system of railways to supersede the present lines can only end in a disastrous failure wherever tried.

The present system of operating railways is adapted to the wants of the Country, and is the only one applicable to lines of mixed or moderate traffic, or that could now be profitably introduced into regions where new railways are required.

The preponderance of east-bound traffic upon all of the trunk lines must always give a preference to the faster lines for western shipments, while the financial value of expedition and the necessity for it in the conveyance of live stock must continue such traffic with the lines operated under the present system.
Since your last meeting the Board has received, with regret, the resignation of H. H. Houston, Esq., as General Freight Agent of this Company, a position which he has held since the organization of the Transportation Department, performing at all times its delicate duties, with much credit to himself and fidelity to the Company. In his successor, Stephen B. Kingston, the Board feel satisfied they have secured the services of a gentleman well qualified by long experience and sound judgment, to administer the important duties assigned to him.

The Board has also received the resignation of R. E. Ricker, Esq., Superintendent of Motive Power and Machinery, who left the service of this Company to assume the more responsible position of General Superintendent of the New Jersey Central Railroad Company. To fill the vacancy thus caused, A. J. Cassatt, Esq., has been selected—a gentleman who has been engaged in the service of the Company since the commencement of his professional career.

In conclusion the Board desires to acknowledge the efficient manner in which the business of the Company has been conducted by the officers and employees, generally, during the past year.

By order of the Board,

J. EDGAR THOMSON,

President.
**GENERAL ACCOUNT.**

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<th>Dr.</th>
<th>Cr.</th>
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<tbody>
<tr>
<td>To Capital Stock</td>
<td>By Balance standing on Books of Company for the Construction of the Railroad between Harrisburg and Pittsburgh, including Branches to Indiana and Hollidaysburg, (in all 276 miles), also for cost of Stations, Warehouses, Shops and Shop Machinery, on the whole road from Philadelphia to Pittsburgh.</td>
</tr>
<tr>
<td>First Mortgage six per cent. Bonds</td>
<td>Balance standing on the Books of the Company for the purchase of the Philadelphia and Columbia Railroad.</td>
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<tr>
<td>Second</td>
<td>4,590,840</td>
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<tr>
<td>General</td>
<td>69,000</td>
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<td>E. &amp; O. E.—PHILADELPHIA, December 31st, 1867.</td>
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<td>Thoas T. Firth, Treasurer.</td>
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<tr>
<td>Lease of State upon the Public Works sold to the Company, bearing five per cent. interest</td>
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<td>Short Bonds, or Debentures, six per cent.</td>
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<tr>
<td>Mortgages and Ground Rents, six per cent.</td>
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<td>Bills and Accounts payable, including Dividends due to Stockholders, unpaid</td>
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<td>Extra Dividend Fund</td>
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<td>Contingent Fund</td>
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