1962 Annual Report

The John Bull · 1831

The Tioga · 1848

The Class P (D11a) · 1883

The Class G4a · 1899

The Class K4s · 1914

The GG1 · Passenger and Freight · 1934

The Class EP 40 · Passenger Diesel · 1945

The E44 · Freight · 1960

The SF 25 · All Purpose · 1962
DIRECTORS

Richard K. Mellon .................................................. Chairman of the Board, Mellon National Bank and Trust Company, Pittsburgh
C. Jared Ingersoll .................................................... Chairman of the Board, Muskogee Company, Philadelphia
James E. Gowen ...................................................... Former Chairman of the Board, Girard Trust Corn Exchange Bank, Philadelphia
Philip R. Clarke ....................................................... Chairman of Executive Committee, Montgomery Ward & Co., Inc., Chicago
James M. Symes ...................................................... Chairman of the Board, The Pennsylvania Railroad Company, Philadelphia
John B. Hollister ....................................................... Partner, Taft, Stettinius & Hollister, Cincinnati
Joseph H. Thompson ................................................ Chairman of the Board, Hanna Mining Company, Cleveland
R. G. Rinecliffe ....................................................... Chairman of the Board, Philadelphia Electric Company, Philadelphia
Otto N. Frenzel ....................................................... President, Merchants National Bank and Trust Company, Indianapolis
William L. Day ....................................................... Chairman of the Board, The First Pennsylvania Banking and Trust Co., Philadelphia
Gaylord P. Harnwell ................................................ President, University of Pennsylvania, Philadelphia
Thomas L. Perkins .................................................... Partner, Perkins, Daniels, McCormack & Collins, New York
Edward J. Hanley .................................................... Chairman of the Board and President, Allegheny Ludlum Steel Corporation, Pittsburgh
Allen J. Greenough .................................................. President, The Pennsylvania Railroad Company, Philadelphia
Howard Butcher, III ................................................ Partner, Butcher & Sherrerd, Philadelphia
Fred Carpi ............................................................... Vice President, Sales, The Pennsylvania Railroad Company, Philadelphia
David C. Bevan ....................................................... Vice President, Finance, The Pennsylvania Railroad Company, Philadelphia
James P. Newell ....................................................... Vice President, Operations, The Pennsylvania Railroad Company, Philadelphia

SYSTEM OFFICERS

James M. Symes .................................................. Chairman of the Board
Allen J. Greenough ................................................ President
James P. Newell .................................................... Vice President, Operations
Fred Carpi ............................................................... Vice President, Sales
David C. Bevan ....................................................... Vice President, Finance
Walter W. Patchell ................................................ Vice President, Special Services
J. Benton Jones ....................................................... Vice President, Purchases and Real Estate
John B. Prizer ....................................................... Vice President and General Counsel
James W. Oram .................................................... Vice President, Public and Employee Relations
Guy W. Knight ....................................................... Vice President, Labor Relations
Park M. Roeper ....................................................... Vice President, Transportation and Maintenance
Bayard H. Roberts ................................................ Secretary
William R. Gerstnecker ........................................... Treasurer
William S. Cook ................................................... Comptroller

REGIONAL OFFICERS

George C. Vaughan ................................................ Regional Manager, New York Region
Howard C. Kohout ................................................ Regional Manager, Philadelphia Region
George M. Smith ................................................ Regional Manager, Chesapeake Region
Christy G. Magruder ............................................. Regional Manager, Northern Region
Morton S. Smith .................................................... Vice President and Regional Manager, Pittsburgh Region
Herbert M. Phillips ................................................ Regional Manager, Lake Region
Harold H. Vaughn ................................................ Regional Manager, Buckeye Region
Henry W. Large .................................................... Vice President and Regional Manager, Northwestern Region
Harold P. Morgan ................................................ Regional Manager, Southwestern Region

COVER shows some examples of PRR power over the years. The John Bull, oldest locomotive preserved in the U.S. today, was built in England for the Camden & Amboy Railroad, now part of the Pennsylvania.
THE PENNSYLVANIA RAILROAD COMPANY

116th
ANNUAL REPORT
for the year ended
December 31, 1962

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## HIGHLIGHTS

For The Pennsylvania Railroad Company and Consolidated System

<table>
<thead>
<tr>
<th></th>
<th>1962</th>
<th>1961</th>
<th>1960</th>
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</thead>
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<tr>
<td></td>
<td>P.R.R. Co.</td>
<td>Consolidated</td>
<td>P.R.R. Co.</td>
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<tr>
<td>Revenue from Operations</td>
<td>$850,655,325</td>
<td>$866,509,810</td>
<td>$820,141,440</td>
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<tr>
<td>Other Income</td>
<td>27,069,515</td>
<td>39,955,302</td>
<td>33,478,658</td>
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<tr>
<td>Gross Income</td>
<td>877,724,840</td>
<td>906,465,112</td>
<td>853,620,098</td>
</tr>
<tr>
<td>Expenses and Other Charges</td>
<td>880,934,725</td>
<td>893,965,112</td>
<td>850,104,512</td>
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<tr>
<td>Net Income</td>
<td>(Def.) 3,209,885</td>
<td>12,500,166</td>
<td>3,515,866</td>
</tr>
<tr>
<td>Times Fixed Charges Earned</td>
<td>0.92</td>
<td>1.34</td>
<td>1.09</td>
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<tr>
<td>Return on Investment</td>
<td>0.80%</td>
<td>0.85%</td>
<td>0.78%</td>
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<tr>
<td>Depreciation Charges</td>
<td>$53,123,833</td>
<td>$55,962,301</td>
<td>$53,542,301</td>
</tr>
<tr>
<td>Working Capital</td>
<td>35,200,462</td>
<td>57,049,568</td>
<td>38,262,892</td>
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<tr>
<td>Long Term Debt Due Within One Year</td>
<td>44,320,304</td>
<td>51,566,823</td>
<td>45,734,488</td>
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<tr>
<td>Long Term Debt Due After One Year</td>
<td>529,175,646</td>
<td>748,963,915</td>
<td>551,832,944</td>
</tr>
<tr>
<td>Capital Expenditures (Note N)</td>
<td>49,154,393</td>
<td>54,488,298</td>
<td>48,235,242</td>
</tr>
</tbody>
</table>

### PER SHARE OF P.R.R. CO. STOCK (Note E)

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>(Def.) $0.24</td>
<td>$0.93</td>
<td>$0.27</td>
<td>$0.94</td>
<td>(Def.) $0.59</td>
<td>$0.09</td>
</tr>
<tr>
<td>Dividends Paid</td>
<td>$0.25</td>
<td>$0.25</td>
<td>$0.25</td>
<td>$0.25</td>
<td>$0.25</td>
<td>$0.25</td>
</tr>
<tr>
<td>Taxes</td>
<td>$4.83</td>
<td>$5.10</td>
<td>$4.99</td>
<td>$5.20</td>
<td>$5.37</td>
<td>$5.60</td>
</tr>
<tr>
<td>Net Worth—Book Value</td>
<td>$102.99</td>
<td>$130.21</td>
<td>$105.41</td>
<td>$132.87</td>
<td>$105.78</td>
<td>$132.83</td>
</tr>
</tbody>
</table>

Consolidated System figures include results for The Pennsylvania Railroad Company, its leased lines, and certain companies whose stock is owned 100%. For explanation see Page 28.

See notes, Pages 32 and 33
LETTER FROM
THE CHAIRMAN OF THE BOARD
AND THE PRESIDENT

February 27, 1963

The tight squeeze between revenues and costs persisted in 1962. Although the pickup in the Company's business that marked the latter half of 1961 carried over into the first three months of the following year, there was a leveling out in the second quarter. Thereafter, heavy industry—which generates much of the demand for rail transportation—failed to regain momentum, except for the production of automobiles.

Operating revenues of $850.7 million were up $30.5 million over the previous year, but costs increased also, and income from sources other than operation of the railroad was down. The final outcome was a deficit of $3.2 million for 1962. Despite these obviously unsatisfactory results, a 7.5 percent increase in freight volume was handled with an increase of only 3.1 percent in operating expenses, including a rise of nearly $9 million in wage and benefit costs. It was only the third time in its 116-year history that the Pennsylvania Railroad has operated at a loss. The consolidated system, which includes the railroad and its leased lines as well as companies whose stock is owned 100 percent, and which has never shown a loss, earned a profit in 1962 of $12.5 million.

In voting the 25-cent dividend paid in December, the directors were mindful of the meager returns received by the shareholders on their investment over the past four years. The board believed the dividend justified on the basis of earnings of prior years.

Outlook for 1963

The outlook for the months immediately ahead contains little prospect of any considerable improvement over the disappointing results of last year. Unfortunately, much of the current moderate growth in business volume generally is in products or services which involve little need for rail transportation—electronics, missiles, health, cosmetics, advertising, entertainment, and so on. On the other hand, steel demand and production continue well below capacity levels, and there appears to be little pressure to accumulate or expand inventories of this commodity which is so important to our Company.

Clearly, the forces which many had expected would start and sustain an industrial expansion running through the 1960's are not yet effective. If tax reductions are achieved in 1963, and if these and other measures are successful in stimulating the heavy industry sector of the economy, the outlook for rail traffic would, of course, be much improved. As welcome as this would be, it is obvious that any modest increase in revenues would be partially offset by the cost of handling the additional business and,
for a while at least, by some reduction in the deferred maintenance.

Looking farther ahead, there are factors other than economic which could substantially better the situation of all railroads in coming years. These include mergers designed to reduce costs and improve service, thus enabling the railroads to do more business and handle it more efficiently; federal financial participation in contracts to preserve and improve public transportation in metropolitan areas, thus following the principle of public support pioneered in Philadelphia by agreements between the railroads and the city; modernization of outmoded work rules which require the industry to pay out hundreds of millions of dollars a year for "work" not needed and sometimes not even done; and reform of government promotion and regulation of transportation to allow the rails to compete on a free-enterprise basis with subsidized commercial users of government-provided highways, airways and waterways. If these improvements can be achieved, the long-term future of the industry and particularly of your Company will be considerably brighter than the immediate outlook would indicate.

Proposal to Merge With New York Central

While we are hopeful that they can be achieved—and there are signs of progress—your management is giving primary attention to the most important move we can make at this time to strengthen the Company, restore its earning power, and place it in the best possible position to capitalize on future opportunities. We refer to the proposal to merge the Pennsylvania and the New York Central railroads which you endorsed overwhelmingly at the last annual meeting. A report on progress of this merger proposal is presented immediately following this letter.

Meantime, if and when the reforms in outmoded work rules recommended by the Commission appointed by the President of the United States are put in effect, it will remove one of the chief handicaps that have beset your Company in effecting lower operating costs.

While aggressively seeking to bring about the fundamental changes necessary to maintain the soundness and assure the future prosperity of your Company, your management has also in the past year continued its broad efforts to build business by better service to customers and to operate more efficiently. As you will find explained in the pages of this annual report, new freight services were added and others were speeded up and improved. TrucTrain, our highway-trailer-on-flat-car service, again showed encouraging growth. Our equipment fleet was upgraded and we continued to replace older locomotives, on which maintenance costs were high, with efficient high-speed units. Again there was some progress in obtaining public support of suburban services which are essential to metropolitan areas.

One of the most encouraging developments for the long-term future occurred last April when for the first time a President of the United States sent a major message to Congress on transportation, personally urging changes to correct federal laws and regulations which now deny equal competitive opportunity to rail carriers. Although bills implementing the President's program did not progress beyond the Congressional hearing stage last year, the President has requested that the present Congress act promptly and favorably on this program. We urge that all stockholders join us in asking our respective representatives in Congress to provide aid for urban public transportation, reasonable and adequate user charges for commercial use of publicly financed transportation facilities, and greater freedom for railroads to set minimum rates. Action on these measures would be in your own interest. It would also be a major contribution to our nation's well-being and security.

Chairman

President
Mergers

Essential Moves to Restore Earning Power to Railroads in the East

As emphasized in last year’s annual report, the management of your Company has consistently taken a position in favor of railroad mergers. This position rests on the firm belief that mergers offer railroads in the East the best opportunity to restore earning power by direct action, and to improve their position until needed changes can be achieved in national transportation policy. Mergers will permit important economies through the unification of facilities, and thus enable railroads to compete more effectively with highway, water and air transport. These economies must be achieved if the lines are to adjust to the changes that have occurred, and if they are to remain a sound and contributing segment of the transportation industry. For all these reasons, railroad mergers are in the best interests of all concerned—stockholders, shippers, employees and the general public.

The Pennsylvania-New York Central is one of three proposals in the East to consolidate the nation's railroads into fewer integrated but competitive systems. Another is the proposal to merge the Norfolk & Western Railway Company and the New York, Chicago and St. Louis Railroad Company (Nickel Plate). This plan, which was reported to you last year, involves lease of the Wabash, which we control. The third major proposal in the East—the application of the Chesapeake & Ohio to acquire control of the Baltimore & Ohio—was approved by the Interstate Commerce Commission on last December 31. If this action foreshadows realignment of the hard-pressed Eastern roads through approval of the other pending merger applications, the decision in the C.&O.-B.&O. case would be an historic landmark for the railroad industry and for the country.

What Our Merger Would Accomplish

Applications for approval of the Pennsylvania-New York Central merger were filed early in the year with the Interstate Commerce Commission and public hearings before Commission examiners began in August. Officers of both lines, affected shippers and experts in various fields presented the case for merger. Their testimony spelled out in detail the purposes and plan of operation, and made it clear that the merger would improve service; that it would enable the Company to compete more effectively with subsidized carriers and handle traffic more profitably, thereby halting the erosion in the business of the combined railroads and restoring their ability to provide steady employment and pay a fair return on their investment to the shareholders.

More than 100 witnesses representing major shippers and receivers of freight and trade and business associations have testified in support of the merger. Over 150 parties have intervened in the proceedings, both in support of the merger and in opposition to it, as well as, in many cases, to protect their interests as they may appear.

Much of the opposition has been by spokesmen for labor unions whose objections have been based on misinterpretation of both the purposes of the merger and the details of operation of the merged company. Objections have been raised on behalf of a number of communities and other governmental bodies.
as a result of the union activities. It is hoped that, as the objectives and the proposed plan of operation are better understood it will be clear to all that the merger will benefit not only railroad customers and shareholders, but employees as well, and the communities and states whose business and industry depend on strong rail systems able to support and contribute to economic growth.

**Merits of Mergers Widely Recognized**

Your Company will, of course, continue to exert every effort toward bringing about this desirable merger. The overwhelming approval of the merger agreement by shareholders of the two companies, and the strong support by business groups and the press, are good indications that the merits of our merger proposal and of railroad mergers generally are widely recognized and accepted. These facts give us reason to hope that the Commission will act favorably and soon on the merger of the Pennsylvania and the New York Central.

**Lehigh Valley Control Approved**

As reported to you last year, application was filed with the Interstate Commerce Commission for authority to control the Lehigh Valley through an exchange of stock at the ratio of one share of Pennsylvania Railroad stock for each 2¾ shares of Lehigh Valley Railroad Company stock. The Commission approved the application in April, and at the end of 1962 a total of 284,334 shares of Pennsylvania Railroad Company stock had been issued in exchange for 675,291 shares of Lehigh Valley stock, increasing the percentage of outstanding Lehigh Valley stock owned to 89.1 percent, as contrasted with 44.4 percent immediately preceding the exchange offer. Since the end of the year our ownership has been increased to 90 percent through additional exchanges.

**FINANCIAL REVIEW**

**Company Revenues and Volume Were Up, But So Were Costs**

Although the first few months of 1962 produced substantially higher freight revenues than the same period of the preceding year, this improvement was reversed in the last half. For the year as a whole freight revenues totaled $35.5 million more than in 1961. Passenger revenues decreased almost $6 million, and there was a small gain in revenues from all other operations—mail, express, dining car service, switching and other charges. Total revenues amounted to $850.7 million.

Traffic volume as measured by ton miles increased by 7.5 percent during the year, but we were able to handle this larger volume with fewer employees, the work force numbering 64,041 at the end of the year as compared with 67,056 at the close of 1961. Despite this lower level of employment, however, increased wage rates and higher health and welfare benefits sent payroll costs up almost $9 million. Notwithstanding this increase and a higher level of maintenance of fixed property and rolling stock, operating expenses were held to a rise of only 3 percent.
Taxes showed a slight increase for the year. Railroad retirement and unemployment insurance taxes were substantially higher because of a rise in rates. On the other hand, state and local government taxes declined although still amounting to $29.1 million, equivalent to $2.17 per share of stock.

These increased costs offset the year’s higher revenues so that net income from railway operations amounted to about the same as in 1961. Because of lower income from other sources, the Company sustained a deficit for the year of $3.2 million as compared with net income of $3.5 million the year before. Income from these other sources decreased principally because of reduced dividends received from our wholly-owned subsidiary, the Pennsylvania Company, and a decrease of $1.7 million in profits from sales of real estate. Last year Pennsylvania Company paid an extra dividend because of one it received from the Wabash Railroad Company arising out of a non-recurring tax refund to that company.

Capital improvements totaled $49.2 million during the year. Of this amount $29 million was spent for additional equipment, $6.8 million for improvements to equipment and $13.4 million for additions and improvements to roadway and structures. Of the total outlay, $29.1 million was financed, primarily through conditional sales contracts for the purchase of equipment.

SOURCE AND APPLICATION OF FUNDS FOR 1962 Shown below is a chart which indicates the Company’s principal sources of funds for the year and the major items for which its funds were used. As will be noted, expenditures for additions and improvements to properties, retirement of debt and dividends, together with the deficit in net income, exceeded the sources of funds, such as depreciation, equipment financing, sales of property and decrease in investments, by $3.1 million, resulting in a decrease of that amount in working capital. A standby credit of $50 million is continuing to be maintained against emergencies.

### Table: Source and Application of Funds for 1962 (in millions)

<table>
<thead>
<tr>
<th>Source</th>
<th>Application</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>Deficit in Net Income</td>
<td>$3.2</td>
</tr>
<tr>
<td>Financing (Primarily for Equipment)</td>
<td>Additions and Improvements to Properties*</td>
<td>$49.2</td>
</tr>
<tr>
<td>Sales of Property and Decrease in Investments*</td>
<td>Retirement of Debt*</td>
<td>$59.8</td>
</tr>
<tr>
<td>Miscellaneous Items (net)</td>
<td>Dividends</td>
<td>$3.4</td>
</tr>
<tr>
<td>Decrease in Working Capital</td>
<td></td>
<td>$3.1</td>
</tr>
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</table>

**TOTAL** $115.6

*includes leased lines
### SOURCE AND APPLICATION OF FUNDS, 1953-1962

Shown above in chart form is a source and application of funds statement for the years 1953-1962 inclusive, from which it will be noted that the 10-year period has resulted in a total decrease of $115.7 million in working capital. As can be seen, we have to some degree been liquidating assets to provide funds to meet our needs.

### Consolidated System Earned Profit, Debt Reduced

Although the Pennsylvania Railroad operated at a loss for the year, the consolidated Pennsylvania system (as explained on page 28) had a net income of $12.5 million in 1962. This compares with net income of $12.3 million on the same basis in 1961. A consolidated income and balance sheet are shown on pages 29, 30 and 31.

Debt of the consolidated system was reduced by $34.7 million during 1962. This brought total debt reduction in the past 10 years to $316 million, or 28 percent of the peak debt of $1,116 million owed on December 31, 1952.

Although $27.6 million was borrowed to finance equipment purchases during the year, equipment obligations paid totaled $44.1 million, resulting in a net reduction in equipment debt of $16.5 million.

Bonded debt was reduced $18.2 million. Of the original issue of $125 million Pennsylvania Railroad General Mortgage Series “A” Bonds due in 1965, $64 million have been reacquired, reducing the amount outstanding on December 31 to $61 million.

Lease obligations as reflected on the chart on the opposite page were reduced during the year by $7.9 million.
Continuing Program of Debt Reduction

The chart below shows the reduction in funded debt since its peak at the end of 1952 and also indicates the trend in our lease obligations, which are not reflected as debt on the balance sheet but which have been mentioned in previous annual reports. These arise from two sources: (1) the obligations under long-term leases to pay annual rentals sufficient to meet dividends on leased line stocks outstanding in the hands of the public, which have been capitalized on a 5 percent basis, and (2) future rental obligations covering the cost of equipment acquired under leases. It will be noted that as a result of an extensive equipment improvement program in 1959 and 1960, total lease obligations increased substantially. However, there has been a reduction over the past two years, and this downward trend is expected to continue.

THE PENNSYLVANIA RAILROAD SYSTEM (CONSOLIDATED BASIS)
FUNDED DEBT AND LEASE OBLIGATIONS PUBLICLY HELD

<table>
<thead>
<tr>
<th></th>
<th>12/31/52</th>
<th>12/31/62</th>
<th>Decrease</th>
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<tr>
<td>Bonded Debt</td>
<td>$765.3</td>
<td>$563.6</td>
<td>$201.7</td>
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<tr>
<td>Equipment Obligations</td>
<td>350.7</td>
<td>236.9</td>
<td>113.8</td>
</tr>
<tr>
<td>Funded Debt</td>
<td>$1,116.0</td>
<td>$800.5</td>
<td>$315.5</td>
</tr>
<tr>
<td>Lease Obligations</td>
<td>134.8</td>
<td>291.2</td>
<td>Inc. 156.4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$1,250.8</td>
<td>$1,091.7</td>
<td>$159.1</td>
</tr>
</tbody>
</table>
FREIGHT SERVICES

New Trains, Faster Schedules to Meet the Needs of our Customers

The Company in 1962 continued to make improvements in freight services, schedules and equipment—all designed to better our performance in meeting the transportation needs of customers.

For example, a new train was established to operate from Chicago to the New York area to improve service between the West, the Southwest and New England. Carrying the symbol AST-2 and named the Astronaut, this high-speed freight makes connection with the Yankee Jet, operated in conjunction with the New Haven and the Lehigh and Hudson River railroads via the Poughkeepsie Bridge route. The combination provides fast, dependable delivery of meats, perishables and other products from the Chicago and East St. Louis gateways to New England points.

A joint through freight service was established by your Company and the Louisville & Nashville Railroad via the Cincinnati gateway linking New York, Philadelphia and other Eastern Seaboard cities with New Orleans, Mobile, Montgomery, Birmingham and Nashville. These trains, known as the Dixie Jets, have improved arrival times at various points by two to as much as 27 hours.

High standards of dependable service were set during 1962 by the Pennsylvania’s fleet of fast freight trains, one of which is shown below.
TrucTrain Service

TrucTrain, our highway-trailer-on-flat-car service, became bigger, faster and better able to serve more customers in 1962. As shown by the chart on this page, revenues from this business increased by more than 37 percent over the preceding year. Schedules were speeded through new, fast freight services instituted during the year. For example, later closing time at East St. Louis was provided for receipt of trailers for the New York area when transit time for that run was reduced an hour and 15 minutes.

New TrucTrain terminals were established at Trenton, N. J., and Lancaster, Pa., bringing the total to 31, and new or expanded facilities were built at Kearny, N. J., Baltimore, Philadelphia, Cleveland, Columbus, Chicago and East St. Louis.

The Pennsylvania added 308 40-foot vans to its trailer fleet during the year, increasing the total to 1,435 units.

As an example of large-scale use of TrucTrain service, three round trips, or six special trains a week, were instituted between Cleveland and Kearny for a single motor carrier. TrucTrain also moved 26 special trains of containers and equipment for one manufacturer from the Cleveland area to Port Newark, N. J.

Virtually all phases of trailer-on-flat-car services by railroads are the subject of an investigation presently being conducted by the Interstate Commerce Commission (in Ex Parte 230). Certain proposed regulations could hamper future developments, but it is hoped that the rules finally adopted will recognize that continued growth is vital to this modern railroad service.
Transportation of Automobiles

Hauling of assembled automobiles in bi-level and adjustable multi-level rack cars continued to grow rapidly. In 1962 the Pennsylvania handled 11,704 car-loads of this business, and revenues amounted to $4.8 million.

Coal

National production of coal increased 4.2 percent during the year, and rose 5 percent at mines served directly by your railroad. However, our total coal revenue was up only ¼ of 1 percent, due principally to declines in tonnage received from connecting lines.

The Pennsylvania continued to research all possible means of reducing present rail charges for carrying coal, in order to make sure that we retain the volume to sustain our operations. Among these is a proposal for trainload rates on solid trains originating at mines selected by the customer and moving non-stop from an assembly point to one destination.

Our purpose is to counter three growing threats to our future coal traffic. One of these is the increased dumping of cheap foreign residual oil at East Coast steam plants. In Eastern railroad territory such dumping is now displacing 38 million tons of coal a year, causing an annual loss of $150 million in railroad revenues, an annual loss of $170 million to the coal industry, and the disappearance of 13,000 jobs in the railroad industry alone. The Pennsylvania Railroad is a member of the National Coal Policy Conference, which is working to persuade the federal government to check and reduce this growingly destructive practice that is causing so much distress in two already depressed industries.

A second threat to our coal traffic is so-called “coal by wire”—proposed extra high-voltage transmission lines from mine mouth generating plants to areas where there is a heavy demand for electricity. Your railroad believes it can demonstrate that coal by rail is cheaper than the proposed “coal by wire.”

Finally, there is pressure for federal and state legislation to grant the right of eminent domain for coal pipelines to carry a mixture of water and pulverized coal from a few major mines to a few large consumers. We are opposing such special-privilege legislation as not justified economically and as needlessly destructive of present business and jobs.

Waterborne Traffic

An increase of more than 20 percent in import ore traffic through North Atlantic and lake ports together with a rise in outbound coal, particularly export, more
than offset a decrease in general cargo and grain. Over-all, our waterborne traffic increased approximately 10 percent as compared to 1961.

**Freight Rates**

The continuing profit squeeze on business generally has resulted in mounting pressure within industry to reduce transportation costs. This has frequently made it necessary to consider new rates on a lower basis or an adjustment of existing rates downward in order to hold traffic. Private carriage has continued to grow and presents one of the most difficult forms of competition.

We are actively and aggressively shaping our pricing structure to generate the greatest volume of traffic at rates above the cost of performing the service. This program includes the entire field of TrucTrain rates, pricing to encourage use of large-capacity cars, and plans to meet competition on traffic moving in conventional equipment wherever the economics permit.

**Industrial Development**

Industrial development activities showed slightly better results in 1962 than in the preceding year. A total of 201 new industries and 60 plant expansions were located on our railroad during the year.

As an example of the continuing program the Company conducts to build rail traffic for the future, PRR specialists spearheaded a project which located extensive beds of salt—basic item in many industrial processes—between Marietta and Omal, Ohio, along the Ohio River. Working with civic and business leaders of the Marietta area, the Company helped obtain a federal grant under the Area Redevelopment Act. Pennsylvania Railroad geologists then served as technical consultants in drilling a 6,500-foot well and obtaining test borings which indicate a salt bed nearly 115 feet thick. With terminals at both Marietta and Omal, your Company is in an advantageous position to serve what could become one of the major industrial centers of the nation. To that end, we have been buying or obtaining options on land in the area to assure its availability to future rail customers. An engineering report on the site is now being prepared for presentation to the chemical industry.

At the end of 1962, the Company owned 10,932 acres of land particularly suited for future industrial development.

Company geologists work as technical consultants in drilling well to locate vast salt deposits in Ohio. With terminals at Marietta and Omal, PRR is in advantageous position to serve area where salt may attract new industry. Dust samples blown up from the drill bit are studied carefully for clues to "profile" of earth strata below.
SOME INDUSTRIAL DEVELOPMENTS ON THE PRR IN 1962


In number of products processed, General Foods Corporation's new facility at Dover, Delaware, will be the company's largest.

Louisville Cement Company plant at Logansport, Indiana, for manufacture of Portland cement, will have capacity of million barrels per year.

Steam electric generating plant of Potomac Electric Power Company at Chalk Point, Maryland, will house two 335,000 KW units.

Site at Arden, Pennsylvania, was chosen by Greif Brothers Cooperage Corporation for warehouse to handle corrugated board made in Ohio.
McCrory Corporation regional office and distribution warehouse will have electronic data processing inventory control system. It will be located at York, Pennsylvania.

Cheesebrough-Pond's new warehouse located at Monticello, Indiana, will serve as company's Midwestern distribution center.

A site at Holland, New York, was selected by Fisher Price Toys, Inc., for this plant where plastic products will be manufactured.

Rubbermaid, Inc., facility at Wooster, Ohio, will include warehouse and offices as well as plant for making polyethylene items.

A location at Harrison, New Jersey, was chosen by Remco Industries, Inc., for this plant which will be used for manufacture of toys.
PASSENGER SERVICES

Some Progress, But an Old Problem Remains

Stockholders are aware that passenger-carrying railroads lose money on their once-profitable passenger business, and have been doing so since the close of World War II. The loss for 1962 was $37.9 million. Because of rising costs and the continuing decline in passenger revenues, this represents a sharp increase over the preceding year's loss of $29.5 million, although it is far below the peak loss of $71.7 million in 1951.

Contributing to these annual losses throughout the rail passenger business are the heavy taxes which the railroads must pay on their wholly-owned facilities in contrast to the extensive tax-free facilities provided at government expense for automobile and air travel.

The year 1962, however, did see one favorable development in this area. The 10 percent "wartime" tax on railroad passenger tickets was repealed effective November 16, and many railroads, including the Pennsylvania, were permitted to increase fares by an amount equal to this tax. This happened too late to influence results materially for 1962, but it is expected to raise revenues about $6.5 million above levels that would otherwise prevail in 1963, and to do so without added cost to our customers.

Promotion of New York-Washington Service

During the year further efforts were made to increase use of our New York-Washington line by reducing the price of weekend round-trip coach tickets between principal stations by one-third. Over a quarter-million such tickets were sold, resulting in revenues of $1.4 million. During the summer and fall months we also offered package tours to New York and Washington. A further example of our efforts to preserve this valuable service was the increase in the number of through trains between Washington, New York and Boston, operated in conjunction with the New Haven.

Public Support of Suburban Service

The year again saw encouraging progress in financial support of commuter and suburban services by government agencies. Suburban service on three lines in the Philadelphia area was continued under contract with the Passenger Service Improvement Corporation of Philadelphia whereby the Company received payment of more than $1 million to help meet operating expenses. By the end of next summer, 38 new stainless steel air-conditioned electric suburban coaches, provided on lease by the City of Philadelphia, will be operated in this service.

Late in the year suburban service on our entire Philadelphia-Trenton line instituted reduced fares and additional train service under a new contract with the Southeastern Pennsylvania Transportation Compact (SEAPACT), a regional agency composed of representatives of three counties and the City of Philadelphia. This contract is part of a demonstration project aided by matching grants from the Federal Housing and Home Finance Agency and provides payments of more than $1.6 million to the Company during the next three years.
Improved suburban service on Philadelphia-Trenton line grew out of pact with city and county governments.

In September the New York Port Authority took over the operation of the Hudson & Manhattan Railroad Company and temporary arrangements have been made to extend the terms of the Pennsylvania Railroad-Hudson & Manhattan joint service agreement. It is hoped that eventually the Authority will assume permanent responsibility for this service, which has been rendered unprofitable by the Authority's construction of bridges and tunnels for rival highway traffic.

On December 3, the New Jersey Legislature voted to permit the state highway commissioner to use up to $3 million in public funds toward consolidating passenger service on the North Jersey coast now operated by the Pennsylvania and Central Railroad of New Jersey. Contracts with the state for continued operation of suburban services were renewed for 1962-1963 and will provide about $1.8 million in payments to your railroad.

In April the Interstate Commerce Commission denied the petition of the Pennsylvania Railroad and the Pennsylvania-Reading Seashore Lines to discontinue all passenger train service in southern New Jersey. A contract was then obtained between the Pennsylvania-Reading Seashore Lines and the State of New Jersey providing for payment by the state of approximately $197,000 for the fiscal year 1962-63 to help defray costs of operation of certain trains.

In the Pittsburgh area, where the Pennsylvania filed a similar request to discontinue all suburban passenger service, the Commission granted some relief by permitting the discontinuance of nine suburban trains, leaving 21 in the continued operation.
IMPROVING THE RAILROAD

More Powerful Locomotives; Equipment
Upgraded; Roadway and Construction Projects

In 1962 the Pennsylvania hauled heavier trainloads of freight than ever before in its history, with no reduction in speeds. To increase efficiency still further, the Company added significant strength to its locomotive fleet of high-horsepower units capable of pulling the heavier loads at sustained speeds.

Delivery of 4,400-horsepower electric locomotives for freight service—costing nearly half a million dollars each—continued at the rate of two a month, and by the end of the year 53 of the 66 ordered were delivered. Delivery was completed on 44 diesel-electrics—which cost almost half as much as the more powerful electric locomotives—and these also were placed in freight service. Of these, 29 are 2,500-horsepower and 15 are 2,400-horsepower. An additional 52 diesel-electric freight locomotives have been ordered; the first of these was delivered in March and all will be received and placed in service in 1963.

These modern and more powerful locomotives will improve freight service operation and will permit the retirement, now under way, of 90 electric and 123 diesel-electric locomotives which were becoming costly to maintain.

Freight Car Program

During the year, 2,776 open-top hopper cars and 50 flat cars were built in Company shops. In addition, 1,700 freight cars were rehabilitated, of which 700 were box cars.
Cushion underframe of this 70-ton box car gives maximum protection to shipments in transit. Company shops will build 500 of this type as part of 1963 car program.

Car program in 1962 concentrated heavily on hopper cars to handle increase in bulk commodity traffic. A total of 2,776 were constructed during year at PRR shops.

Racks were installed on 39 85-foot Trailer Train flat cars for handling automobiles, making a total of 307 such cars in this service.

Construction of 500 70-ton box cars with cushion underframes and 300 70-ton hopper cars was programmed for Company shops in 1963. Also, 2,650 box cars and 3,600 hopper cars are scheduled for rehabilitation, in addition to which heavy repairs will be given to 1,650 box cars and 1,000 miscellaneous freight cars. Fifty box cars will be converted to stock cars.

**Passenger Car Program**

Fifty stainless-steel roomette cars no longer required in sleeping car service will be renovated and remodeled into modern Congressional-type coaches with reclining seats for use principally in New York-Washington service. In addition, the following passenger equipment will be rehabilitated: 24 coaches, 6 single-unit diners and 3 double-unit diners, and 150 mail and express cars.

A total of 235 cars used in passenger service were repaired and refurbished in 1962. These included 30 coaches, 48 multiple-unit cars used in suburban service, 18 parlor cars and 16 diners.

**Improvements to Roadway and Property**

Ninety-eight miles of new rail and 150 miles of good relay rail were installed in main tracks during the year. A total of 696,000 new cross ties was installed. (In this connection, it is interesting to note that the current cost of a new cross tie and installation is $6.50, and a mile of new rail, in place, costs more than $53,000.) The program of retiring unneeded facilities was continued, resulting in recovery of 5,000 tons of usable rail and 19,000 cross ties. A total of 238 miles of track was retired during the year.

Mechanized track gangs renewed ties in 800 miles of track and 2,900 miles were resurfaced and realigned. Seventy-four pieces of new maintenance machinery were acquired.

Continuous welded rail was laid in 55 miles of track.

Automatic crossing protection was installed at 40 highway grade crossings during the year.

Centralized Traffic Control was completed on the Chautauqua Branch between Oil City, Pa., and Brocton, N. Y., a distance of 86.3 miles, and an addi-
One of the major construction projects completed during 1962 was the facility shown above at York, Pennsylvania, for handling the increasing traffic in new automobiles.

This 64-car "integral" train hauls gravel in Ohio. Such trains assigned to a regular, fast-turnaround run, hauling a single commodity, assure dependable, economical service.

tional 55 miles of C. T. C. was installed at various locations over the system. Three automatic interlockings were placed in service.

Further improvements were made in communication facilities by installing radio trainphones at six locations and automatic private branch telephone exchanges that permit expansion of our direct dialing systems.

The following major construction projects were started or completed in 1962: Freight handling conveyor at 37th Street freight station, New York; automobile unloading facility at York, Pa., a second facility at Baltimore, and expansion of one at Kearny, N. J.; mail bag sortation system at 30th Street Station, Philadelphia; new TrucTrain terminals at Lancaster, Pa., and Trenton, N. J., and enlargement or relocation of similar facilities at Kearny, Philadelphia, Chicago, Columbus and St. Louis; six miles of track to serve new generating plant at Chalk Point, Md.; trainmen’s welfare building at Altoona, Pa.; new loop track to permit continuous loading of unit coal train at Tunnelton, Pa.; six miles of track to serve new coal mine near Trinway, Ohio.

Improvements in Methods and Procedures

During the year a Department of Industrial Engineering was established in the Operating Department. It will seek greater efficiency and economies through improvement in organization, methods and techniques in many activities of the Company.

The Purchases and Stores Department installed a new system for controlling inventory and re-ordering supplies. Based on modern concepts in material management, and using computers, it will be in full operation in 1963.

LABOR RELATIONS

Step-by-Step Progress Toward
Modernizing Work Rules

Following a 13-month study of outmoded work rules, the Commission appointed by the President of the United States recommended a series of changes in February, 1962. On balance, the report was a good one and, if implemented, would go far toward eliminating wasteful practices which impose an artificial burden on railroads and adversely affect their ability to compete. The railroads accepted
the recommendations of the Commission in their entirety; the unions completely rejected them. Following fruitless attempts to negotiate a settlement, a proposal to arbitrate the matter was accepted by the railroads; again the unions refused.

After the Mediation Board advised that all practical methods provided for adjusting the dispute had been exhausted, the railroads moved to put the work rule changes into effect. The unions filed a complaint in the Federal Court at Chicago alleging the changes would be in violation of the Railway Labor Act. The court found no possible violation and dismissed the complaint, but granted the unions' request for an injunction pending appeal to the Court of Appeals. In a unanimous decision in November, the Court of Appeals affirmed the District Court's dismissal of the complaint. The unions filed a petition for a writ of certiorari with the United States Supreme Court. On March 4, 1963, that court unanimously affirmed the lower courts' decision dismissing the unions' complaint. When the Supreme Court's order becomes effective the railroads will be free to move to put the rules changes into effect. If the unions threaten to strike, it is expected the President will appoint an Emergency Board.

The management of your Company, in conjunction with other railroads, intends to continue to press toward modernization of work rules.

**Other Negotiations**

In June a Presidential Commission recommended gradual reduction of railroad tugboat crews, with liberal financial allowances for men adversely affected. The matter is presently being negotiated with the assistance of the National Mediation Board.

Another Presidential Commission recommended changes in work rules and job tenure of lighter captains employed by railroads in New York harbor, again with generous financial provisions for men adversely affected. These recommendations are also being negotiated with the assistance of the National Mediation Board.

Demands by certain non-operating unions for a wage increase of 25 cents an hour and a 6-month notice of job abolishment were reduced by a Presidential Emergency Board to a 5-working-day notice and raises of 4 cents an hour effective February 1, 1962, and of 2½ percent effective May 1, 1962. An agreement was reached on the basis of the Board's recommendations for a wage increase to non-operating employes totaling approximately 10 cents an hour.

**EMPLOYEE RELATIONS**

**Training to Improve Performance of Personnel and Supervision**

Emphasis was again placed on improving managerial performance and training. Among projects for this purpose were the following:

- Approximately 20 officers attended seminars for executive development at nine universities and the American Management Association. Study concentrated on top management areas, particularly finance, marketing, and industrial relations.
• With freight sales personnel serving as instructors, an intensive sales training program was inaugurated during the year.
• Training in a new and growing area of our business began with a TrucTrain sales course for New York Region employes.
• The program to train Yard Masters was continued.
• A series of training meetings began efforts to improve the effectiveness of Maintenance of Equipment supervisors.
• Plans were developed for a sustained drive aimed at better orientation of new supervisors.
• A pilot project aimed at upgrading craft skills is under way. It begins with electricians and is being carried out in cooperation with the School District of Philadelphia.

Freight Loss and Damage Prevention
During 1962, the campaign to control loss and damage of freight was intensified and promoted through a slogan contest among employes. The program also made use of posters, displays, and on-the-ground meetings, many of them addressed by shippers. Improved employe performance is already apparent, and the campaign will be continued through 1963.

Scholarships
Twenty-nine children of employes won scholarships in 1962, making a grand total of 220 sons and daughters of PRR personnel who have received financial help from the various scholarship funds administered by the railroad.

Recruitment of College Graduates
During 1962 the Company continued the program of having its representatives visit colleges for the purpose of attracting talented young men into the service of the railroad.

Communications
In connection with merger activities of the Company every effort has been made to keep the employes, including supervisors, informed as to the status of the merger proceedings and the possible effects on the future of the Company, as well as on the employes themselves.

Safety
Wide participation in programs of safety education again enabled the railroad to reduce the personal injury rate. On the basis of man-hours worked, it was 13 percent under the previous year.

Work Force Declined
At the end of 1962, the Company had 64,041 employes in the work force. The average for the year was 66,515, which represented a decline from the average of 67,242 in 1961.
Increase in Railroad Retirement and Unemployment Taxes

On January 1, 1962, the Railroad Retirement Tax rate went up from 6 3/4 percent to 7 1/4 percent, and the Unemployment Insurance rate from 3 3/4 percent to 4 percent. The Company and the employees each pay the former tax, while the Company alone pays the latter. This resulted in an increased tax burden upon the Company during the year despite the lower level of employment.

REAL ESTATE

More Productive Use of Property and Passenger Station Facilities

Profitable utilization of space over tracks in large cities, through lease or sale of air rights to developers, and conversion of outmoded passenger station facilities to more productive use continued as major activities during 1962.

Plans were progressed so that work is expected to start in 1963 on Pennsylvania Station, New York. Office and station facilities will be relocated and modernized preparatory to construction above the station of the $100 million sports and entertainment center comprising a new Madison Square Garden, auxiliary arena, twin office buildings and other commercial components mentioned in last year's annual report.

Two new buildings are now scheduled for construction in Penn Center, Philadelphia. One is the 18-story office building of the International Business Machines Corporation, reported to you last year, and the other a 20-story office building to go up on property leased to 4 Penn Center Plaza, Inc.

Rentals from leases of railroad property, and from concessions at stations and on trains, brought in $15.9 million in 1962. This was an increase of $300,000 over the previous year.

Sales of property for industrial use which will produce freight revenue in the future totaled $2.5 million, while $9 million worth of excess property no longer needed for railroad use was sold.
LEGAL DEVELOPMENTS

Divisions Ruling in Midwestern Case
Increases PRR Share of Revenues

As previously reported, three proceedings before the Interstate Commerce Commission involve efforts by your Company, together with other Eastern lines, to increase their share of freight rates on traffic between the East and Far West, the East and Midwest, and the East and South. The Far Western case is awaiting decision by the Commission; the Southern case is awaiting a recommended report by the examiners who heard the proceeding. In the Midwestern case, the Commission on May 7, 1962, prescribed new divisions which should increase your Company's share of revenues by about $500,000 a year. Opposing railroads sued to reverse this Commission decision, which became effective on December 23 when the Federal Court refused to delay the increase in divisions pending the outcome of the suit.

Import Iron Ore Rates

This litigation involves rate relationships on import iron ore moving from major East Coast ports to steel plants west of Pittsburgh. The Interstate Commerce Commission has approved parity rates from Philadelphia and Baltimore, and declined parity rates from New York. Baltimore interests, seeking a rate differential in favor of their port, appealed the decision to the Federal Court in Baltimore; New York interests appealed the New York ruling to the Federal Court there. The two courts returned the litigation to the Commission for further hearing and reconsideration.

Riss Suit

In litigation since 1954, this suit has finally been settled in a manner entirely satisfactory to your Company. It involved a claim that the Pennsylvania and other railroads had violated the antitrust laws in the course of transporting explosives for the United States Government. The suit was brought to a close by the refusal of the United States Supreme Court to review a decision in favor of the railroads.

LEGISLATIVE DEVELOPMENTS

President of the United States Emphasizes Need to Reform Transportation Policy

As indicated in the Chairman's and President's letter which opens this report, 1962 was notable for the fact that President Kennedy personally and in very strong language urged upon Congress the need to reform federal transport regulation to allow equal competitive opportunity for all carriers. Among the most important recommendations were: (1) the railroads should be given the same freedom to set minimum rates that motor carriers have when hauling agricul-
tural commodities, and that water carriers have when hauling bulk commodities; (2) reasonable and adequate user charges should be levied for commercial use of publicly financed transportation facilities; and (3) a long-range program of federal aid should be provided in the field of urban public transportation. The need for these and other reforms has long been emphasized by the management of the Pennsylvania, with the generous support of stockholders, customers, the press, and the general public. While the recommendations of the administration were not acted upon by Congress at the last session, the President is again urging action by Congress in the 1963 session.

As explained in the section on passenger services, the year 1962 saw the long-deferred repeal of the World War II tax on passenger fares.

The 1962 Session of Congress considered, but fortunately did not pass, two items of legislation which would have adversely affected the Pennsylvania and other railroads. One of these proposed laws would have forestalled for some time Interstate Commerce Commission approval of such mergers as that of your railroad with the New York Central. The other measure would have conferred special federal privileges on coal-carrying pipelines designed to divert important coal traffic from railroads and other common carriers.

**ORGANIZATION CHANGES**

Harry L. Nancarrow, Assistant Vice President, Special Services, retired in January, 1962, after serving the Company with loyalty and distinction for more than 41 years. Eugene L. Hofmann was appointed to succeed him.

John A. Schwab, Vice President, Baltimore-Washington, died on June 16, 1962. His untimely death was a severe loss to the Company.

B. J. Viviano was appointed Assistant Vice President, Washington, under the Vice President and General Counsel, effective December 1. Mr. Viviano was formerly Vice President, Traffic, for the Lehigh Valley Railroad Company.

Hugh J. Ward, Comptroller, after having completed almost 45 years of outstanding service, retired at the end of December. William S. Cook, who was previously employed by the General Electric Company, was appointed to succeed Mr. Ward.

Earle R. Comer, General Manager, Passenger Sales, retired on December 31 after an able and loyal career of more than 42 years, most of which was in the Passenger Traffic Department. John B. Dorrance, Jr., was appointed to succeed him.

**ANNUAL MEETING**

The Annual Meeting of the stockholders will be held in the Drake Hotel, 1512 Spruce Street, Philadelphia, Pa., on Tuesday afternoon, May 7, 1963, at two o'clock, Daylight Saving Time.

* * *

The complete Annual Report of the Company includes a series of statistical tables which are not included in this copy. If you wish a copy of that Report please address your request to the Secretary, The Pennsylvania Railroad Company, Six Penn Center Plaza, Philadelphia 4, Pa.
THE PENNSYLVANIA

CONDENSED INCOME STATEMENT

THE COMPANY HAD OPERATING REVENUES FROM:

Transportation of Freight
Transportation of Passengers
Handling of Mail
Handling of Express
Other Operations

$649,451,025
93,164,417
47,959,010
10,363,999
49,716,874

$613,918,447
99,138,710
47,980,977
10,100,811
49,002,425

Increase or Decrease
$35,532,578
D 5,974,293
D 21,967
I 263,118
I 714,449

THERE WAS DEDUCTED

Operating Expenses
Federal Income Taxes (Note A)
Payroll Taxes
Other Taxes
Equipment and Joint Facility Rents

692,499,296
1,124,552
30,979,294
29,133,766
73,990,974

671,843,640
1,112,678
33,988,029
30,581,000
64,783,108

Increase or Decrease
1,656,656
11,874
1,190,360
D 1,362,234
D 9,905,240

LEAVING NET RAILWAY OPERATING INCOME OF

29,155,182
2,086,667
27,069,515
44,978,928
8,055,047

35,550,182
2,071,524
33,478,658
51,311,843
6,964,462

Increase or Decrease
D 6,394,000
15,143
D 6,409,143
D 6,332,715
I 1,050,585

MISCELLANEOUS CHARGES WERE

36,923,881
44,347,181

D 7,423,300

LEAVING A BALANCE AVAILABLE FOR FIXED CHARGES

FIXED CHARGES

Leased Lines Rental (after deducting Income from Leased Lines Securities held)
Interest on Funded Debt
Other

16,792,270
23,217,745
123,751

17,121,095
23,561,290
149,210

Increase or Decrease
D 328,825
D 343,545
D 25,459

LEAVING A NET INCOME OF

(Deficit) 3,209,885

(Deficit) 3,515,586

Increase or Decrease
D 697,801
D 6,725,471

Times Fixed Charges Earned:

Before Federal Income Taxes
0.95
1.11

After Federal Income Taxes
0.92
1.09

NET INCOME PER SHARE OF STOCK (Note E)

(Deficit) $0.24
$0.27

See notes, Pages 32 and 33

CONDENSED STATEMENT OF RETAINED INCOME

BALANCE, JANUARY 1

$719,063,336

Add: Net Income for the Year
(Deficit) 3,209,885
20,307,294

$723,913,888
3,515,586
4,602,407

Increase or Decrease
D $4,850,552
D 6,725,471
D 15,704,887

Deduct: Dividends Paid
Other Credits (Note C)

3,362,269
20,163,626

3,291,939
9,676,606

Increase or Decrease
I 4,128,884
I 15,704,887
I 10,487,020

BALANCE, DECEMBER 31

712,634,830
719,063,336

D 6,428,506

See notes, Pages 32 and 33
## RAILROAD COMPANY

### CONDENSED BALANCE SHEET

#### ASSETS

**CURRENT ASSETS:**
(cash, temporary cash investments, material and supplies, accounts receivable, etc.)

<table>
<thead>
<tr>
<th>December 31, 1962</th>
<th>December 31, 1961</th>
<th>Increase or Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>$177,465,195</td>
<td>$196,846,623</td>
<td>D $19,381,428</td>
</tr>
</tbody>
</table>

**SPECIAL FUNDS:**
(insurance, sinking and other funds)

| 57,891,710 | 45,734,538 | I 12,157,172 |

**INVESTMENTS:** (Note F)

| In Affiliated Companies (stocks, bonds and notes and advances) | 867,963,963 | 857,586,960 | I 10,405,013 |
| In Other Companies (stocks, bonds, notes and advances)       | 6,189,243  | 9,467,112   | D 3,277,869  |
| Total                                                        | 874,153,206| 867,056,062| I 12,157,144|

**PROPERTIES:**

| Transportation Property and Equipment                        | 1,688,816,883| 1,917,914,696| D 29,097,813 |
| Less: Accrued Depreciation                                    | 688,022,265  | 697,199,218  | D 9,176,953  |
| Accrued Amortization of Defense Projects                      | 47,299,451   | 47,501,274   | D 201,823    |
| Net Investment in Transportation Property and Equipment       | 735,622,076  | 744,700,492  | D 9,078,416  |
| Miscellaneous Physical Property                               | 1,153,494,897| 1,173,214,204| D 19,719,307 |
| Total                                                        | 1,159,248,009| 1,189,338,020| D 20,090,023|

**OTHER ASSETS:**
(including items in process of adjustment)

| 39,267,834 | 31,224,258 | I 8,043,576 |
| Total       | 2,318,025,954| 2,330,170,083| D 12,144,129|

### LIABILITIES

#### CURRENT LIABILITIES:
(traffic balances, wages, taxes, interest, other accounts payable, etc.)

| $142,254,733 | $158,583,731 | D $16,318,998 |

#### LONG-TERM DEBT DUE WITHIN ONE YEAR

| 44,320,304 | 45,734,488 | D 1,414,184 |

#### LONG-TERM DEBT DUE AFTER ONE YEAR:

| Bonded Debt                   | 333,941,000 | 341,577,000 | D 7,636,000 |
| Equipment Trusts              | 42,057,000  | 86,192,000  | D 13,935,000 |
| Equipment—Conditional Sale Agreements | 151,449,582 | 154,056,191 | D 2,606,629 |
| Miscellaneous Obligations      | 1,128,084   | 7,127,144   | D 6,999,060 |
| Total                          | 629,175,646 | 551,832,944 | D 22,342,702 |

#### INSURANCE, PENSION AND WELFARE RESERVES

| 29,904,384 | 16,064,203 | I 13,840,181 |

#### OTHER LIABILITIES:
(accrued depreciation—leased property, deferred credits and items in process of adjustment)

| 186,925,118 | 169,924,834 | I 17,000,284 |

### SHAREHOLDERS' EQUITY

| Capital Stock—(Note E)       | 134,520,680 | 131,677,540 | I 2,843,140 |
| Capital Surplus (paid-in, premium on capital stock, other) | 538,280,059 | 537,289,007 | I 1,001,052 |
| Retained Income:              |             |             |             |
| Appropriated (funded debt retired, and sinking fund reserves) | 24,680,000 | 24,680,000 |             |
| Unappropriated                | 687,854,830 | 694,383,336 | D 6,528,506 |
| Retained Income               | 712,534,830 | 719,063,336 | D 6,528,506 |
| Shareholders' Equity          | 1,385,433,769| 1,388,029,883| D 2,596,114 |
| Total                         | 2,318,025,954| 2,330,170,083| D 12,144,129|

Your Company has contingent liabilities (not included as liabilities in the foregoing balance sheet) aggregating $598,370,834 as of December 31, 1962 by endorsement as guarantor or by agreement, including agreements to make advances, in respect of the principal of obligations, and of interest thereon, of companies in which your Company has an interest. $295,657,324 of these contingent obligations have been entered into jointly or jointly and severally with other companies. Pennsylvania Railroad System owns $67,234,010 of obligations for which it has sole contingent liability. (See Note L.)

See notes, Pages 32 and 33
ON THE PAGES IMMEDIATELY FOLLOWING are financial statements for the Pennsylvania Railroad System which consolidate income and balance sheet figures of (1) The Pennsylvania Railroad Company, (2) companies whose stock was owned 100 percent, directly or indirectly, for the entire year, excepting The Long Island Railroad Company and (3) companies operated under agreements, principally long-term leases, and the West Jersey and Seashore Railroad Company, the lease of which was assigned to the Pennsylvania-Reading Seashore Lines in 1933 with a guarantee of rental.

Following these consolidated statements are pages containing explanatory notes which refer to both The Pennsylvania Railroad Company financial statements and to the consolidated system statements. Among other things these notes contain information relating to the equity of The Pennsylvania Railroad Company in the net assets and undistributed net income of companies in which the Pennsylvania Railroad has a substantial investment but whose financial statements are not included in the consolidated system statements.
# PENNSYLVANIA RAILROAD SYSTEM

## CONDENSED CONSOLIDATED INCOME STATEMENT

### Income:

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</thead>
<tbody>
<tr>
<td>Railway operating revenues</td>
<td>$851,058,396</td>
<td>$820,614,648</td>
<td>$844,139,943</td>
<td>$888,198,422</td>
<td>$844,778,988</td>
</tr>
<tr>
<td>Revenues from miscellaneous operations</td>
<td>15,451,414</td>
<td>14,978,350</td>
<td>14,445,745</td>
<td>14,047,985</td>
<td>15,578,932</td>
</tr>
<tr>
<td>Dividend income</td>
<td>22,634,488</td>
<td>23,494,827</td>
<td>19,171,505</td>
<td>18,564,974</td>
<td>18,065,033</td>
</tr>
<tr>
<td>Other (Note B)</td>
<td>17,320,814</td>
<td>16,263,826</td>
<td>23,570,284</td>
<td>12,504,214</td>
<td>26,404,010</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>906,465,112</strong></td>
<td><strong>875,351,651</strong></td>
<td><strong>901,327,477</strong></td>
<td><strong>934,075,595</strong></td>
<td><strong>904,826,963</strong></td>
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### Operating Charges and Other Deductions:

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<tbody>
<tr>
<td>Railway operating expenses</td>
<td>693,203,429</td>
<td>672,763,153</td>
<td>700,103,893</td>
<td>730,106,337</td>
<td>717,482,900</td>
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<tr>
<td>Equipment and joint facility rents (net)</td>
<td>73,779,046</td>
<td>64,616,809</td>
<td>69,105,814</td>
<td>58,029,537</td>
<td>50,846,464</td>
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<tr>
<td>Expenses of miscellaneous operations and other deductions</td>
<td>21,487,769</td>
<td>19,483,530</td>
<td>19,475,629</td>
<td>19,032,853</td>
<td>19,122,569</td>
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<tr>
<td>Provision for taxes:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Federal income (Note A)</td>
<td>877,434</td>
<td>1,112,698</td>
<td>1,191,989</td>
<td>1,106,898</td>
<td>1,122,639</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>36,435,989</td>
<td>34,265,526</td>
<td>37,491,763</td>
<td>35,726,978</td>
<td>30,995,070</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>31,283,727</td>
<td>33,094,813</td>
<td>35,100,319</td>
<td>35,242,753</td>
<td>35,686,653</td>
</tr>
<tr>
<td><strong>Total Operating Charges and Other Deductions</strong></td>
<td><strong>857,087,394</strong></td>
<td><strong>825,336,529</strong></td>
<td><strong>862,469,407</strong></td>
<td><strong>879,245,356</strong></td>
<td><strong>864,369,295</strong></td>
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### Income available for fixed charges and other corporate purposes:

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</thead>
<tbody>
<tr>
<td>Income available for fixed charges and other corporate purposes</td>
<td>49,377,718</td>
<td>50,015,122</td>
<td>38,858,070</td>
<td>54,830,239</td>
<td>50,468,658</td>
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### Fixed Charges:

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</thead>
<tbody>
<tr>
<td>Leased Lines Rental (after deducting income from leased lines securities held)—(Note G)</td>
<td>12,412,021</td>
<td>12,713,460</td>
<td>12,848,594</td>
<td>13,187,039</td>
<td>13,312,996</td>
</tr>
<tr>
<td>Interest on funded debt (other than included in leased lines rental)</td>
<td>24,247,713</td>
<td>24,685,178</td>
<td>24,570,326</td>
<td>24,716,500</td>
<td>25,085,249</td>
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<tr>
<td>Other</td>
<td>217,818</td>
<td>282,809</td>
<td>295,344</td>
<td>372,246</td>
<td>312,004</td>
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<tr>
<td><strong>NET INCOME</strong></td>
<td><strong>12,500,166</strong></td>
<td><strong>12,333,675</strong></td>
<td><strong>11,143,806</strong></td>
<td><strong>16,654,454</strong></td>
<td><strong>11,758,419</strong></td>
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</tbody>
</table>

### Times Fixed Charges Earned:

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</thead>
<tbody>
<tr>
<td>Before Federal income taxes</td>
<td>1.36</td>
<td>1.36</td>
<td>1.06</td>
<td>1.47</td>
<td>1.33</td>
</tr>
<tr>
<td>After Federal income taxes</td>
<td>1.34</td>
<td>1.33</td>
<td>1.03</td>
<td>1.44</td>
<td>1.30</td>
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### NET INCOME PER SHARE OF PRR CO. STOCK (Note E)

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<tbody>
<tr>
<td>$0.93</td>
<td>$0.94</td>
<td>$0.90</td>
<td>$1.26</td>
<td>$0.89</td>
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### CONDENSED CONSOLIDATED STATEMENT OF RETAINED INCOME

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<tbody>
<tr>
<td><strong>BALANCE, JANUARY 1</strong></td>
<td>$987,182,632</td>
<td>$986,439,702</td>
<td>$1,000,122,897</td>
<td>$1,008,237,135</td>
<td>$1,003,669,134</td>
</tr>
<tr>
<td><strong>Add: Net Income for the Year</strong></td>
<td>12,500,166</td>
<td>12,333,675</td>
<td>1,143,806</td>
<td>16,654,454</td>
<td>11,758,419</td>
</tr>
<tr>
<td><strong>Other Credits</strong></td>
<td>10,078,468</td>
<td>748,019</td>
<td>1,839,031</td>
<td>1,942,755</td>
<td>3,713,353</td>
</tr>
<tr>
<td><strong>Other Debits (Note D)</strong></td>
<td>20,374,350</td>
<td>9,046,825</td>
<td>13,374,093</td>
<td>23,419,508</td>
<td>7,611,832</td>
</tr>
<tr>
<td><strong>BALANCE, DECEMBER 31</strong></td>
<td>986,024,625</td>
<td>987,182,632</td>
<td>986,439,702</td>
<td>1,000,122,897</td>
<td>1,008,237,135</td>
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*See notes, Pages 32 and 33*
## PENNSYLVANIA
### CONDENSED CONSOLIDATED

### ASSETS

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<tr>
<td><strong>CURRENT ASSETS:</strong></td>
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<tr>
<td>Cash</td>
<td>$67,895,182</td>
<td>$62,940,811</td>
<td>$64,740,363</td>
<td>$87,169,091</td>
<td>$73,725,548</td>
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<tr>
<td>Temporary cash investments (principally at cost)</td>
<td>$18,399,452</td>
<td>$26,161,189</td>
<td>$25,876,077</td>
<td>$21,530,279</td>
<td>$32,394,002</td>
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<tr>
<td>Accounts receivable</td>
<td>$35,647,953</td>
<td>$40,841,363</td>
<td>$37,308,468</td>
<td>$41,623,012</td>
<td>$44,773,500</td>
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<tr>
<td>Material and supplies</td>
<td>$51,090,131</td>
<td>$54,558,437</td>
<td>$56,792,620</td>
<td>$52,092,770</td>
<td>$53,788,857</td>
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<tr>
<td>Other</td>
<td>$27,333,321</td>
<td>$30,896,564</td>
<td>$26,101,481</td>
<td>$33,308,542</td>
<td>$30,272,763</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>$200,768,067</td>
<td>$215,398,364</td>
<td>$210,819,009</td>
<td>$235,683,694</td>
<td>$234,954,670</td>
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<tbody>
<tr>
<td><strong>SPECIAL FUNDS:</strong></td>
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<tr>
<td>Capital and sinking funds</td>
<td>$37,038,638</td>
<td>$25,967,861</td>
<td>$5,886,071</td>
<td>$10,697,958</td>
<td>$11,683,180</td>
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<tr>
<td>Other</td>
<td>$13,043,527</td>
<td>$12,404,733</td>
<td>$10,922,460</td>
<td>$10,484,021</td>
<td>$11,184,271</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>$50,082,165</td>
<td>$38,372,594</td>
<td>$16,808,531</td>
<td>$21,181,979</td>
<td>$22,867,451</td>
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<tbody>
<tr>
<td><strong>INVESTMENTS AND ADVANCES</strong></td>
<td></td>
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<tr>
<td>(at cost or less): (Note F)</td>
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<tr>
<td>Affiliated Companies (Note H)</td>
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</tr>
<tr>
<td>Investments</td>
<td>$204,157,131</td>
<td>$179,013,392</td>
<td>$180,279,023</td>
<td>$174,914,105</td>
<td>$170,875,179</td>
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<tr>
<td>Advances</td>
<td>$16,674,777</td>
<td>$17,603,421</td>
<td>$17,163,666</td>
<td>$18,114,026</td>
<td>$20,873,039</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>$221,031,908</td>
<td>$196,616,813</td>
<td>$197,442,989</td>
<td>$193,028,131</td>
<td>$191,748,218</td>
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<tr>
<td>Other Companies (Note I)</td>
<td>$65,513,973</td>
<td>$109,790,997</td>
<td>$114,180,698</td>
<td>$112,844,576</td>
<td>$112,693,282</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$306,545,881</td>
<td>$306,407,810</td>
<td>$311,623,687</td>
<td>$305,872,707</td>
<td>$304,441,500</td>
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<thead>
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</thead>
<tbody>
<tr>
<td><strong>PROPERTIES</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Railway transportation property</td>
<td>$3,134,142,563</td>
<td>$3,166,684,617</td>
<td>$3,179,070,903</td>
<td>$3,185,498,479</td>
<td>$3,225,399,736</td>
</tr>
<tr>
<td>Other Property</td>
<td>$93,892,953</td>
<td>$95,879,207</td>
<td>$92,012,283</td>
<td>$87,041,040</td>
<td>$89,039,158</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$3,228,035,516</td>
<td>$3,262,563,824</td>
<td>$3,271,083,186</td>
<td>$3,272,539,519</td>
<td>$3,314,438,894</td>
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</tbody>
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<tbody>
<tr>
<td><strong>LESS:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued depreciation, amortization and depletion:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Railway transportation property</td>
<td>$960,502,140</td>
<td>$965,229,032</td>
<td>$955,040,310</td>
<td>$935,128,647</td>
<td>$925,006,652</td>
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<tr>
<td>Other property</td>
<td>$18,104,792</td>
<td>$17,501,422</td>
<td>$14,203,787</td>
<td>$12,625,776</td>
<td>$11,144,784</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>$978,606,932</td>
<td>$982,730,454</td>
<td>$969,244,097</td>
<td>$947,754,423</td>
<td>$936,151,436</td>
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</thead>
<tbody>
<tr>
<td><strong>Net investment in property and equipment</strong></td>
<td>$2,249,428,584</td>
<td>$2,279,833,370</td>
<td>$2,301,839,089</td>
<td>$2,324,785,096</td>
<td>$2,378,287,458</td>
</tr>
</tbody>
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</thead>
<tbody>
<tr>
<td><strong>OTHER ASSETS:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(including items in process of adjustment)</td>
<td>$39,899,003</td>
<td>$33,474,609</td>
<td>$32,115,308</td>
<td>$35,029,471</td>
<td>$22,481,080</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$2,846,321,672</td>
<td>$2,873,486,747</td>
<td>$2,873,205,624</td>
<td>$2,923,152,947</td>
<td>$2,963,032,159</td>
</tr>
</tbody>
</table>

*See notes, Pages 32 and 33*
# Railroad System Balance Sheet as of December 31

## Liabilities

<table>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities:</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts and wages payable</td>
<td>$90,119,683</td>
<td>$96,506,995</td>
<td>$82,175,885</td>
<td>$87,136,210</td>
<td>$85,196,663</td>
</tr>
<tr>
<td>Tax liabilities</td>
<td>32,150,369</td>
<td>42,599,990</td>
<td>42,543,605</td>
<td>43,122,913</td>
<td>39,410,934</td>
</tr>
<tr>
<td>Other</td>
<td>21,046,419</td>
<td>24,147,570</td>
<td>26,451,389</td>
<td>26,026,404</td>
<td>30,070,384</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>143,316,471</td>
<td>163,254,555</td>
<td>151,170,879</td>
<td>156,294,527</td>
<td>154,676,981</td>
</tr>
</tbody>
</table>

| **Long-Term Debt Due Within One Year** |          |          |          |          |          |

| **Long-Term Debt Due After One Year:** |          |          |          |          |          |
| Pennsylvania Railroad Company |          |          |          |          |          |
| Bonds of leased lines         | 479,261,545 | 500,910,943 | 518,464,072 | 533,918,695 | 594,277,047 |
| Subsidiary companies (other than leased lines) | 203,935,718 | 208,015,037 | 215,977,987 | 217,768,487 | 227,428,087 |
| **Total**                     | 748,863,915 | 778,431,802 | 806,442,059 | 851,686,182 | 821,705,134 |

| **Deferred Liabilities and Unadjusted Credits** (principally insurance reserves and items in process of adjustment) |          |          |          |          |          |
|                                                                                   | 67,241,460 | 41,163,313 | 35,625,526 | 37,101,952 | 39,559,203 |

| **Publicly Held Interests in Equity of Consolidated Companies Other Than the Pennsylvania Railroad Company:** |          |          |          |          |          |
| Preferred stock                   | 23,761,751 | 23,804,551 | 23,808,551 | 23,869,451 | 24,030,501 |
| Common stock                      | 31,116,929 | 31,589,029 | 31,633,579 | 31,877,244 | 32,367,644 |
| Retained Income and Capital Surplus | 28,785,558 | 28,884,115 | 26,820,426 | 28,865,143 | 29,092,546 |
| **Total**                         | 83,664,218 | 84,277,695 | 84,262,556 | 84,611,838 | 85,490,691 |

## Pennsylvania Railroad Co. Shareholders' Equity

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<tr>
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<tbody>
<tr>
<td>Capital Stock—(Note E)</td>
<td>134,520,880</td>
<td>131,677,540</td>
<td>131,677,540</td>
<td>131,677,540</td>
<td>131,677,540</td>
</tr>
<tr>
<td>Capital Surplus (paid-in, premium on capital stock, other)</td>
<td>579,907,902</td>
<td>579,784,634</td>
<td>579,779,446</td>
<td>579,730,613</td>
<td>579,609,028</td>
</tr>
<tr>
<td>Retained Income:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriated (funded debt retired, and sinking fund reserves)</td>
<td>25,761,777</td>
<td>25,753,024</td>
<td>24,322,266</td>
<td>24,309,130</td>
<td>22,851,887</td>
</tr>
<tr>
<td>Unappropriated</td>
<td>960,262,847</td>
<td>961,429,608</td>
<td>962,117,436</td>
<td>979,813,767</td>
<td>985,385,248</td>
</tr>
<tr>
<td>Retained Income</td>
<td>986,024,625</td>
<td>987,182,632</td>
<td>986,439,702</td>
<td>1,000,122,897</td>
<td>1,008,237,135</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,846,321,572</td>
<td>2,873,466,747</td>
<td>2,873,205,624</td>
<td>2,923,152,947</td>
<td>2,963,032,159</td>
</tr>
</tbody>
</table>

Net amount by which System equity in net assets (at date of acquisition) of companies consolidated exceeds the related investment therein:

|                      | 51,115,478 | 50,944,193 | 51,151,304 | 51,149,398 | 51,155,300 |
| Shareholders' Equity  | 1,751,568,785 | 1,749,588,999 | 1,749,047,992 | 1,762,680,448 | 1,770,579,003 |
| **Total**             | 2,802,684,263 | 2,799,533,192 | 2,799,199,396 | 2,814,829,840 | 2,821,734,303 |

For Contingent Items—see Note L.
Note A: Federal income tax accrals for the years 1958, 1959, 1960, 1961 and 1962 represent the portion of leased lines rentals allocable to Federal income taxes of those lessor companies for which separate income tax returns are required. No income taxes were accrued for The Pennsylvania Railroad Company in the years 1958, 1959, 1960, 1961 or 1962. The Federal income tax accrals for 1962 do not reflect any benefit under the guidelines set forth by Revenue Procedure 62-21, or the investment tax credit authorized by the Revenue Act of 1962.

During 1958, the major portion of deductions for accelerated amortization of emergency facilities (principally equipment) under certificates of necessity was terminated. To the extent that such deductions accrued in 1958 prior to termination or were continued in 1958, 1959, 1960, 1961 and 1962, there was no current reduction in Federal income tax accrals.

Note B: Other Income for 1958 includes $13,493,197 retroactive credit adjustment of U.S. Mail Pay for the period July 3, 1956 to December 31, 1957 and $3,181,882 adjustment in Rental account reduction of Federal income taxes of certain lessor companies for prior years.


Note E: Par value of capital stock is $10 per share. Of 17,400,000 shares authorized 13,167,754 shares had been issued and were outstanding on December 31, 1958 to 1961, inclusive, and 13,452,088 shares on December 31, 1962. All per share figures have been based on shares outstanding at the close of the respective years.

Under the Restricted Stock Option Plan for key employees of the Company and its subsidiaries, approved by the Stockholders at the 1957 Annual Meeting, on January 1, 1962, there were 376,200 shares issuable under outstanding options and 282,187 unoptioned shares available for the granting of options. During 1962, options for a total of 11,200 shares expired and, therefore, on December 31, 1962, there were 365,000 shares issuable under outstanding options and 293,387 unoptioned shares available for the granting of options. No options were either granted or exercised during 1962 and there was no change in the exercise price, viz., $21.00 per share under all options except one for 1,000 shares as to which the exercise price was $19.00 per share.

Note F: $24,956,000 par value Pennsylvania Railroad Company investments are pledged under indentures. $59,790,925 par value of investments of other system companies are so pledged. Of the aggregate par value of $84,746,925 of investments pledged, $28,739,150 represent system securities which have been eliminated in consolidated figures. See also Notes H and I concerning pledged securities.

Note G: Summary of Net Rental Paid to Publicly Held Interests

<table>
<thead>
<tr>
<th>Year</th>
<th>1959</th>
<th>1960</th>
<th>1961</th>
<th>1962</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends on stocks of leased lines</td>
<td>$7,236,060</td>
<td>$7,265,976</td>
<td>$7,261,495</td>
<td>$7,280,914</td>
</tr>
<tr>
<td>Interest on funded debt of leased lines</td>
<td>$11,529,796</td>
<td>$11,947,090</td>
<td>$11,975,987</td>
<td>$12,079,796</td>
</tr>
<tr>
<td>Other</td>
<td>$8,962,115</td>
<td>$9,386,928</td>
<td>$9,477,386</td>
<td>$9,169,183</td>
</tr>
<tr>
<td>Deduct—to Income from leased lines securities owned</td>
<td>$10,879,937</td>
<td>$10,912,620</td>
<td>$10,327,080</td>
<td>$9,654,988</td>
</tr>
<tr>
<td>Net rental paid to publicly held interests</td>
<td>$12,412,021</td>
<td>$12,713,460</td>
<td>$12,848,594</td>
<td>$13,187,029</td>
</tr>
</tbody>
</table>

Note H: The amounts shown in the condensed consolidated Balance Sheet for Investments and Advances—Affiliated Companies, include the following investments in companies whose properties are operated by their own organizations:

The Long Island Rail Road Company

The Long Island Rail Road Company (the capital stock of which is owned 100 per cent. by the System) qualified on August 12, 1954, as a railroad redevelopment corporation under Chapter 824 of the laws of New York of 1954, and its indebtedness was adjusted. The stock is included in Investments at $47,639,171. No dividends were received from The Long Island Rail Road Company since 1953. The railroad reported Net Income under the Redevelopment Statute as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>1961</th>
<th>1962</th>
<th>1963</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$2,289,024</td>
<td>$2,289,024</td>
<td>$3,055,000</td>
</tr>
</tbody>
</table>

However, if full interest charges were accrued all years, except year 1962, would have resulted in Deficits.

The System purchased during years 1955 and 1956 from The Long Island Rail Road Company $5,500,000 par value Long Island Rail Road Company General Mortgage 5% Serial Bonds, Series A and B, maturing January 1, 1958 to 1966 inclusive, in connection with its Equipment Program under the Redevelopment Corporation Plan. $3,055,000 par value was repaid to December 31, 1962.

As a result of the adjustments of indebtedness of The Long Island Rail Road Company, the System received on August 12, 1954, $39,930,000 principal amount Long Island Rail Road Company General Mortgage 4 1/2% Bonds, Series D, due August 12, 1968 to 1979, inclusive, with interest at 3 per cent. per annum, payable in annual installments from year 1962, options for a total of 11,200 shares earned, until maturity. No interest is being currently accrued and charged against these bonds. Interest accruing during the redevelopment period is payable thereafter, if earned, until maturity. No interest is being currently accrued and charged against income on the books of The Long Island Rail Road Company.
In addition to other claims, the System had a claim aggregating $14,061,118 at August 11, 1954 (not recorded as income), for unpaid interest since December 31, 1948 (at a rate of 3 per cent. per annum) on preferred stock, and for unpaid interest (at a rate of 6 per cent. per annum) on the above mentioned Refunding Mortgage and Unified Mortgage Bonds since their date of maturity. As a result of the adjustments of indebtedness of The Long Island Railroad Company, the System received a non-interest bearing Interest Certificate, for $9,507,482, payable in annual installments from year 1980 to 2003, inclusive, out of available Net Income, if earned, until maturity of last installment, after which the obligation ceases. The Certificate represents interest at 4 per cent. per annum from March 1, 1949 to August 11, 1954, inclusive, on the Refunding Mortgage and Unified Mortgage Bonds, $8,700,412, and unpaid coupons and registered interest due March 1, 1949, and prior thereto, held by the System, $807,070. No provision was made in the adjustments of indebtedness covering unpaid interest on the advances.

**Wabash Railroad Company**

The System investment in Wabash Railroad Company is represented by slightly more than 99 per cent. interest in common stock at December 31, 1958 to December 31, 1960, inclusive, and by 99.50 per cent. interest at December 31, 1961 and December 31, 1962 and by 62.12 per cent. interest in preferred stock at December 31 of each year. The stocks are included in Investments at approximately $14,500,000 at December 31, 1958 and December 31, 1959, and $14,600,000 at December 31, 1960 to December 31, 1962, inclusive.

52,875 shares of preferred stock were pledged at December 31, 1962, with Trustee of a collateral trust indenture of Pennsylvania Company. (See Notes J and K.)

**Detroit, Toledo and Ironton Railroad Company**

Detroit, Toledo and Ironton Railroad Company capital stock, of a par value of $20,000,000, representing 81.52 per cent. ownership is included in System investments at cost of $21,100,000 at December 31, of each year.

60,782 shares of stock were pledged at December 31, 1962 with Trustee of a collateral trust indenture of Pennsylvania Company. The Wabash Railroad Company also owned $4,532,900 par value Detroit, Toledo and Ironton Railroad Company capital stock, representing 18.47 per cent. of the outstanding stock at December 31, of each year. (See Notes J and K.)

**Lehigh Valley Railroad Company**


Funded debt of Lehigh Valley Railroad Company in principal amount of $3,482,000, at a cost of $957,165, was owned by the System at December 31, 1958 to December 31, 1961, inclusive, and principal amount of $6,868,500 at a cost of $2,296,745 was owned by the System at December 31, 1962. (See Notes J and K.)

** Norfolk and Western Railway Company**

The System investment in Norfolk and Western Railway Company is represented by 57.96 per cent. interest in 4% preferred stock at December 31, 1958 and December 31, 1959, 58.90 per cent. interest at December 31, 1960, 54.36 per cent. interest at December 31, 1961, and by 39.55 per cent. interest at December 31, 1962; by 4.19 per cent. interest in 6% cumulative preferred stock at December 31, 1960, and by 15.51 per cent. interest at December 31, 1961 and December 31, 1962; by 42.61 per cent. interest in common stock at December 31, 1958, 32.62 per cent. interest at December 31, 1959 (due to the merger of the Virginian Railway Company into Norfolk and Western Railway Company, effective December 1, 1959), 32.59 per cent. interest at December 31, 1960, 32.53 per cent. interest at December 31, 1961, and by 32.49 per cent. interest at December 31, 1962. The stocks are included in Investments at a cost of: 4% preferred—$10,490,439 at December 31, 1958 and December 31, 1959, $10,280,693 at December 31, 1960, $9,071,597 at December 31, 1961, and $4,843,944 at December 31, 1962; 6% preferred—$236,944 at December 31, 1960, and $926,036 at December 31, 1961 and December 31, 1962; and common—$62,987,317 at each December 31.

1,757,683 shares of common stock were pledged at December 31, 1962 with Trustees of collateral trust indentures of Pennsylvania Company. (See Notes J and K.)

**Note J:** Dividend Income of the System includes amounts received from the Wabash Railroad Company; Detroit, Toledo and Ironton Railroad Company; Lehigh Valley Railroad Company and Norfolk and Western Railway Company, as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Wabash</th>
<th>D. &amp; T. &amp; I.</th>
<th>L. V.</th>
<th>N. &amp; W.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963</td>
<td>$5,928,575</td>
<td>$7,713,790</td>
<td>$2,356,870</td>
<td>$2,949,023</td>
</tr>
<tr>
<td>1961</td>
<td>$7,853,575</td>
<td>$9,607,500</td>
<td>$3,000,000</td>
<td>$3,751,157</td>
</tr>
<tr>
<td>1960</td>
<td>$9,071,597</td>
<td>$10,000,000</td>
<td>$3,000,000</td>
<td>$4,500,000</td>
</tr>
</tbody>
</table>

**Note K:** Equity in undistributed Net Income and Net Assets of the Wabash Railroad Company; Detroit, Toledo and Ironton Railroad Company; Lehigh Valley Railroad Company and Norfolk and Western Railway Company, as indicated by the financial reports of those Companies, is summarized as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Wabash</th>
<th>D. &amp; T. &amp; I.</th>
<th>L. V.</th>
<th>N. &amp; W.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962</td>
<td>$17,18 $12,39</td>
<td>$12,32</td>
<td>$12,62</td>
<td>$12,96</td>
</tr>
<tr>
<td>1961</td>
<td>$14,18</td>
<td>$12,11</td>
<td>$12,14</td>
<td>$12,28</td>
</tr>
<tr>
<td>1960</td>
<td>$11,45</td>
<td>$9,96</td>
<td>$9,78</td>
<td>$9,43</td>
</tr>
</tbody>
</table>

**Note L:** The System has contingent liabilities (not included as liabilities in the Balance Sheet) aggregating $299,784,324 as of December 31, 1962, in respect of the principal of obligations issued by non-consolidated companies, including terminal companies, in which the System has an interest. $299,152,324 of these contingent obligations have been entered into jointly or jointly and severally with other companies.

In addition there are other contingent liabilities, indeterminate in amount, of the System companies, in respect to taxes, personal injuries and property damage, and other matters.

**Note M:** The System has certain obligations under long term equipment leases. The remaining rentals payable under these leases, representing amortization of the lessees’ cost of the equipment, amount to $210,300,000. Of the foregoing amount $13,797,000 is attributable to equipment leased in 1962. Total rentals in 1962 for all equipment acquired under these lease arrangements amounted to $29,200,000. Additional equipment value at $6,645,000 will be received during 1963 under leases already in effect.

**Note N:** The amounts shown under P.R.R. Co. include expenditures by P.R.R. capitalized on Lessor Company books. The 1960 figures for both Company and Consolidated exclude $19,000,000 representing 109 Diesel locomotives and 32 Passenger cars acquired by P.R.R. Co. during the year from Pennsylvania Company, wholly owned subsidiary.
CHARLES H. RISENGREIN, CUSTODIAN FOR
CHARLES H. RISENGREIN, JR., A MINOR, UNDER
P.L. 1955 CHAP. 139 OF THE LAWS OF N.J.
440 WILLOW DRIVE, RAYNWOOD SQUARE,
RIVERTON, NEW JERSEY.