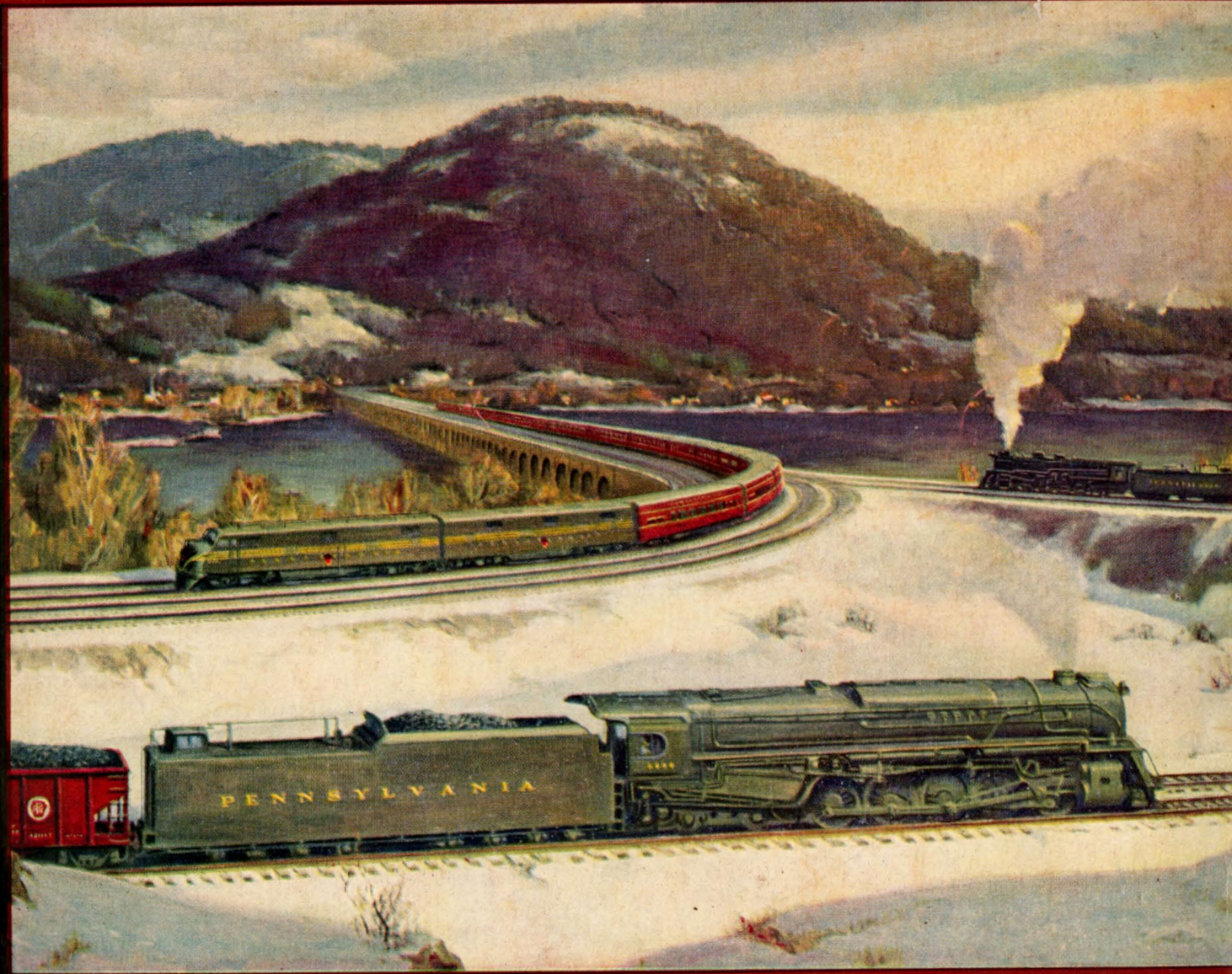
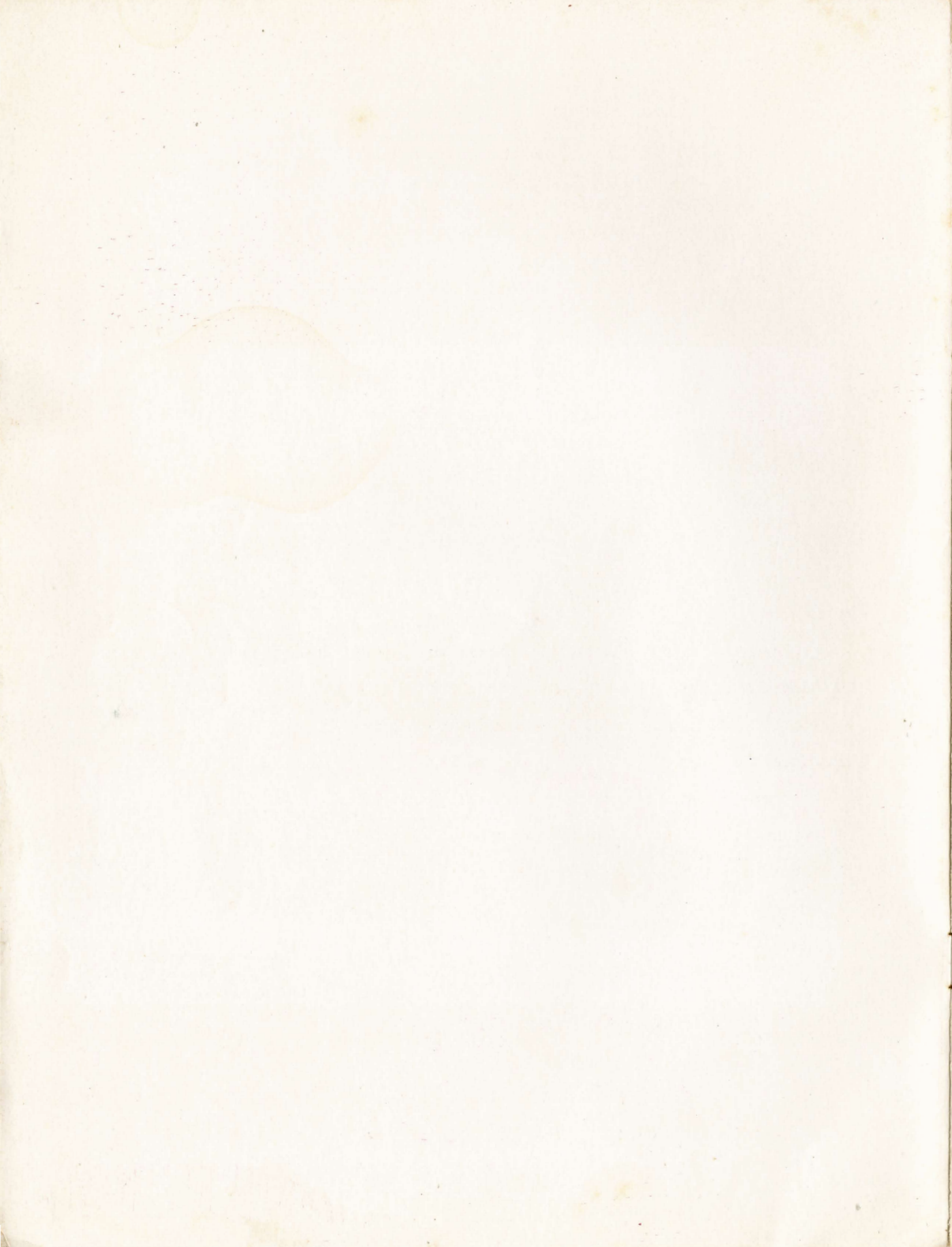


# 103<sup>rd</sup> Annual Report

FOR THE YEAR ENDED DECEMBER 31, 1949



THE PENNSYLVANIA RAILROAD COMPANY



**THE PENNSYLVANIA RAILROAD COMPANY**  
**GENERAL OFFICE**

WALTER S. FRANKLIN  
PRESIDENT

BROAD STREET STATION BUILDING  
1617 PENNSYLVANIA BOULEVARD  
PHILADELPHIA 4, PA.

March 14, 1950.

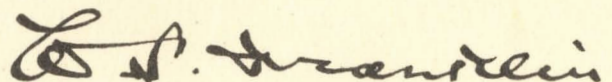
To All Employes:

In the belief that our Annual Report to the stockholders will be no less interesting to our employes, I am sending copies to you. I hope you will read the Report carefully. It reviews briefly not only the financial results for the year, which were not satisfactory, but also the conditions that caused us to have less business to handle and lower earnings.

You can readily see from this Report why the management is seeking to bring about every practical saving in costs of operating the railroad and at the same time to make our service so attractive to shippers and travelers that they will prefer to use the Pennsylvania Railroad.

A great deal of improvement has taken place in these two directions. I wish, therefore, to take advantage of this note to thank you and to ask for your continued cooperation in making our freight and passenger service attractive to the public and better than can be obtained elsewhere.

Sincerely yours,





# THE PENNSYLVANIA RAILROAD COMPANY

## DIRECTORS

Originally Elected	Term Expires in	Originally Elected	Term Expires in
April 10, 1929	M. W. CLEMENT . . . . . 1952 Chairman of the Board	June 24, 1942	JAMES E. GOWEN . . . . . 1951 Chairman of the Board, Girard Trust Company, Philadelphia, Pa.
Dec. 8, 1930	PIERRE S. du PONT . . . . . 1950 Director, E. I. du Pont de Nemours and Company, Wilmington, Del.	Jan. 24, 1945	PHILIP R. CLARKE . . . . . 1950 President, City National Bank and Trust Company of Chicago, Chicago, Ill.
Dec. 28, 1932	FRANKLIN D'OLIER . . . . . 1950 Director, The Prudential Insurance Company of America, Newark, N. J.	June 27, 1945	ISAAC W. ROBERTS . . . . . 1951 Manager, The Philadelphia Saving Fund Society, Philadelphia, Pa.
Jan. 10, 1934	RICHARD K. MELLON . . . . . 1953 Chairman of the Board, Mellon National Bank and Trust Company, Pittsburgh, Pa.	Dec. 18, 1946	HARRY B. HIGGINS . . . . . 1952 President, Pittsburgh Plate Glass Company, Pittsburgh, Pa.
Mar. 24, 1937	ROBERT T. McCracken . . . . . 1950 Montgomery, McCracken, Walker & Rhoads, Philadelphia, Pa.	Oct. 27, 1948	JOHN A. DIEMAND . . . . . 1953 President, Insurance Company of North America, Philadelphia, Pa.
Oct. 27, 1937	C. JARED INGERSOLL . . . . . 1952 President, Muskogee Company, Philadelphia, Pa.	Nov. 10, 1948	JOHN B. HOLLISTER . . . . . 1951 Taft, Stettinius & Hollister, Cincinnati, Ohio
Feb. 26, 1941	LEONARD T. BEALE . . . . . 1953 Chairman of the Board, The Pennsylvania Salt Manufacturing Co., Philadelphia, Pa.		

ELECTED BY THE ABOVE-NAMED DIRECTORS FOR THE  
TERM OF ONE YEAR TO SERVE AS INDICATED, PURSUANT TO THE  
LAWS OF THE COMMONWEALTH OF PENNSYLVANIA

### TERM EXPIRES IN 1950—

Dec. 1, 1938	WALTER S. FRANKLIN President and Director	Sept. 1, 1943	GEO. H. PABST, JR. Vice-President and Director
Mar. 11, 1942	J. R. DOWNES Vice-President and Director	Apr. 23, 1947	J. M. SYMES Vice-President and Director

## OFFICERS

CHAIRMAN OF THE BOARD . . . . .	M. W. CLEMENT
PRESIDENT . . . . .	WALTER S. FRANKLIN
VICE-PRESIDENT IN CHARGE OF OPERATION . . . . .	J. M. SYMES
VICE-PRESIDENT IN CHARGE OF TRAFFIC . . . . .	FRED CARPI
VICE-PRESIDENT—ASSISTANT TO PRESIDENT . . . . .	J. R. DOWNES
VICE-PRESIDENT IN CHARGE OF FINANCE . . . . .	GEO. H. PABST, JR.
VICE-PRESIDENT IN CHARGE OF REAL ESTATE AND TAXATION . . . . .	R. C. MORSE
VICE-PRESIDENT IN CHARGE OF PURCHASES, STORES AND INSURANCE . . . . .	J. C. WHITE
VICE-PRESIDENT—GENERAL COUNSEL . . . . .	JOHN DICKINSON
VICE-PRESIDENT—NEW YORK . . . . .	H. H. SEVLER
VICE-PRESIDENT, EASTERN REGION . . . . .	E. W. SMITH
VICE-PRESIDENT, CENTRAL REGION . . . . .	J. A. APPLETON
VICE-PRESIDENT, WESTERN REGION . . . . .	P. E. FEUCHT
SECRETARY . . . . .	J. TANEY WILLCOX
TREASURER . . . . .	P. D. FOX
COMPTROLLER . . . . .	ELMER HART

# THE PENNSYLVANIA RAILROAD COMPANY

## INCOME STATEMENT

	YEAR 1949	COMPARISON WITH 1948
<b>THE COMPANY EARNED DURING THE YEAR FROM:</b>		
Freight.....	\$619,091,079	D \$133,876,775
Passenger.....	149,241,889	D 11,062,116
Mail.....	29,819,107	I 4,492,338
Express.....	6,176,333	D 4,961,813
Other.....	43,882,751	D 6,363,375
	848,211,159	D 151,771,741
<b>TO THIS WAS ADDED</b> (chiefly dividends and interest on securities owned).....		
	54,905,348	I 9,945,449
Total.....	903,116,507	D 141,826,292
<b>THE COMPANY HAD TO PROVIDE FOR:</b>		
Operating Expenses.....	729,413,756	D 103,432,220
Taxes.....	61,808,287	D 21,863,847
Equipment and Joint Facility Rents.....	19,811,396	I 5,639,724
Rent for Leased Roads, interest on debt, etc.....	79,608,441	D 214,642
	890,641,880	D 119,870,985
<b>LEAVING A NET INCOME OF</b> .....	12,474,627	D 21,955,307
<b>THE COMPANY ALSO HAD TO PROVIDE FOR:</b>		
Sinking and Other Funds—Appropriations.....	1,479,678	D 245,130
Advances to leased and affiliated Companies borne by the Company.....	5,284,852	I 2,557,725
	6,764,530	I 2,312,595
<b>LEAVING A BALANCE AVAILABLE FOR DIVIDENDS AND OTHER CORPORATE PURPOSES</b> .....	5,710,097	D 24,267,902

## PROFIT AND LOSS STATEMENT

AMOUNT TO CREDIT OF PROFIT AND LOSS DECEMBER 31, 1948	\$205,722,361
ADD: Balance of income for the year.....	5,710,097
	211,432,458
DEDUCT: Dividend of 1½% paid May 2, 1949.....	\$9,875,816
Sundry Net Charges.....	123,417
	9,999,233
<b>AMOUNT TO CREDIT OF PROFIT AND LOSS DECEMBER 31, 1949</b>	201,433,225

# ONE HUNDRED AND THIRD ANNUAL REPORT

## THE PENNSYLVANIA RAILROAD COMPANY

*General Office*

BROAD STREET STATION BUILDING

PHILADELPHIA 4, PA., February 15, 1950.

### TO THE STOCKHOLDERS:

There is submitted herewith the Annual Report for 1949.

### RESULTS FOR THE YEAR

The Net Income of The Pennsylvania Railroad Company, including income from investments, and after providing a maintenance reserve of \$8,000,000 through a charge to operating expenses for freight car repairs applicable to but not performed in 1949, was \$12,474,627, as compared with \$34,429,934 in 1948 and \$7,285,125 in 1947. After making provision for sinking and other funds, and advances, there remained a balance of \$5,710,097.

A dividend of  $1\frac{1}{2}\%$  (75c per share), or \$9,875,816, was paid May 2, 1949, compared with 2% (\$1.00 per share), or \$13,167,754, paid in 1948.

The decline in earnings resulted from a lower level of business activity during the year, and a consequent drop in the volume of traffic handled—particularly in the coal and steel industries, which furnish a large part of the freight traffic handled by your railroad, where labor difficulties brought about complete cessation of production for extended periods in the latter part of 1949 that cut into our revenues to the extent of approximately \$45,000,000.

Also, your Company's income continued to be adversely affected by the unremunerative nature of several kinds of business because of non-

compensatory rates, particularly passenger, express, mail and less-than-carload freight traffic. Measures taken to adjust the rate structures applicable to these services are referred to elsewhere in this report.

While large reductions were effected in operating expenses, greatly assisted by substantial operating economies, including the progressive increase in the number of diesel-electric locomotives placed in service on your railroad, it was not possible to offset fully the loss in revenue, due to the continued increases in the already high level of wages and in costs of fuel, materials and supplies. A still higher wage level for the year resulted from the wage increases granted the employes in the latter part of 1948, continuing throughout the year 1949, and further increased costs were caused by the inauguration on September 1, 1949, of a 40-hour week for non-operating employes at the same pay as for a 48-hour week, as explained in the 1948 annual report.

Your management is fully alive to the necessity for improving net earnings and every effort is being made to accomplish that objective. As pointed out in previous reports, the continued co-operation of the public, the shippers and the governmental regulatory authorities is required to bring about the desired result.

## FUTURE OUTLOOK

Rail transportation is recognized as vitally important and absolutely essential to the country's welfare and development, and to its defense.

Through large expenditures, very good progress was made during the year 1949 towards improving the freight and passenger services, as set forth in some detail later in the report.

No one disputes the relatively very heavy taxes paid by the railroads. These are real taxes resulting in the railroads contributing liberally to the support of schools, highways, counties, towns, cities and states. Payments of taxes by the railroads for these governmental activities may be fully justified, but the vital question is, whether or not the railroads' competitors—the waterways, the large over-the-road trucks and the airways—carry their proper proportion of the same tax burden and pay their proper share for the use of their rights of way.

The railroads do not want any subsidy. The public will obtain the best results from private operation. Regulatory practices must be changed to meet more expeditiously the presentations made by the railroads, so that under efficient and economical management a fair return may be earned. The interests of the public and the owners of the railroads demand adequate earnings in order to provide the service needed to meet today's requirements.

Your management made substantial progress in the control of expenses, particularly during the last six months of 1949, notwithstanding the intermittent work stoppages in important industries. It is expected that better earnings can be produced if industrial output becomes stabilized on a reasonably high level.

## ROAD AND EQUIPMENT PROPERTY

### Road

In a year marked by sharp declines in the volume of traffic and interrupted by industrial strikes, three major betterments in fixed properties were progressed.

In Philadelphia, important advances were made in a project that will ultimately bring about the abandonment of Broad Street Station and the so-called "Chinese Wall," and make possible the concentration of mid-city passenger business in the Pennsylvania Station (30th Street) and Broad Street Suburban Station. The abandonments will make room for the construction of Pennsylvania Boulevard and will open for commercial development a central city area west of City Hall. During 1949 progress was made on the construction of additional platforms at 30th Street Station to accommodate certain trains now terminating and originating in Broad Street Station.

The City of Philadelphia is converting the Market Street elevated transit line into a subway beneath the Schuylkill River and through 30th Street Station, which will provide a direct connection between your Company's passenger facilities and the important business and residential portions of the city.

To the extent that economic conditions warranted, reconstruction of yard and station facilities at Pittsburgh has been under way. These improvements will include adequate platforms for through east-west passenger trains and generally provide a greater freedom of train movement through this important terminal.

Rapid progress has been made on construction of facilities which will eliminate the five tunnel restrictions on the line between Pittsburgh, Pa., and Columbus, Ohio. This work, when completed, will effect substantial operating economies.

## Equipment Program

The post-war equipment program, consisting of new diesel and also new electric locomotives, including supporting facilities, new and modernized freight and passenger cars, involves a total expenditure of \$325,000,000, of which \$229,500,000 have been spent. Of the total program, \$212,000,000, or 65.2%, are to provide freight locomotives and cars and auxiliary facilities.



## Diesel Power

During the past year, your Company carried forward its post-war diesel locomotive program. At the end of the year, it had in operation diesel electric power consisting of 63 passenger, 82 freight, and 449 switching locomotives. Additional orders, totaling \$38,899,000, were placed during the year. This will bring your Company's total ownership of all types of diesel power to 68 passenger, 110 freight, and 642 switching locomotives, with an aggregate horsepower of 1,433,490, the largest of any railroad.

The dollar investment incident to diesel locomotive use is greater than for any other single undertaking in the history of your Company. The cost:

68 diesel-electric passenger locomotives . . . . .	\$32,203,000
110 diesel-electric freight locomotives . . . . .	61,774,000
642 diesel-electric switching locomotives . . . . .	60,083,000
Repair and fueling facilities	16,100,000
Total . . . . .	170,160,000

During the year, our operating expenses were materially reduced through the use of diesel-electrics, thus confirming fully the expectations of your Board of Directors in authorizing substantial sums for their acquisition. The greater tractive effort and almost continuous availability of the 594 diesel-electrics in service at the close of the year was a large factor in enabling your Company to retire 1,628 steam locomotives. Many of these steam locomotives were formerly required for pusher or helper service now rendered unnecessary because of powerful diesel-electrics. In yard work, fewer locomotives are needed as the diesel-electrics do not spend much time on turntables, in round houses or at fuel and water stations. They consume fuel only when working, and require no attention during idle periods, including the long week-end shut-down caused by the 40-hour week generally in effect in other than the railroad industry.

## HIGHLIGHT STATISTICS

1949 COMPARED WITH 1948-1947

	1949	1948	1947
<b>OPERATING REVENUES AND OTHER INCOME</b> <i>(Millions of Dollars)</i>	903.1	1,044.9	956.9
<b>OPERATING EXPENSES AND OTHER CHARGES</b> <i>(Millions of Dollars)</i>	890.6	1,010.5	949.6
<b>NET INCOME</b> <i>(Millions of Dollars)</i>	12.5	34.4	7.3
<b>DIVIDENDS PAID</b> <i>(Millions of Dollars)</i>	9.9	13.2	6.6
<b>DIVIDENDS PAID PER SHARE</b>	\$0.75	\$1.00	\$0.50
<b>OPERATING RATIO</b> <i>(Per cent Operating Expenses to Operating Revenues)</i>	85.99	83.29	87.45
<b>RETURN EARNED ON INVESTMENT</b>	1.25%	2.37%	1.13%
<b>REVENUE TON MILES</b> <i>(Millions)</i>	44,867	57,950	61,382
<b>AVERAGE REVENUE PER TON MILE</b> <i>(Cents)</i>	1.380	1.299	1.084
<b>PASSENGER MILES</b> <i>(Millions)</i>	5,049	6,034	6,784
<b>AVERAGE REVENUE PER PASSENGER MILE</b> <i>(Cents)</i>	2.956	2.657	2.349
<b>AVERAGE NUMBER OF EMPLOYES</b>	116,743	138,020	148,521
<b>TOTAL WAGES</b> <i>(Millions of Dollars)</i>	457	522	493
<b>AVERAGE ANNUAL WAGE PER EMPLOYEE</b> <i>(Dollars)</i>	3,912	3,781	3,321

### **Electrified Operation**

Most of your Company's electrified freight operation is handled in trains drawn by general purpose electric locomotives. To obtain the economies resulting from the application of recent advances in the electro-mechanical field, your Company has ordered four new electric locomotives costing \$2,940,000, specifically designed for heavy freight service.

### **Sleeping Cars**

Aside from a few units ordered for joint service with connecting railroads, 211 sleeping cars ordered at the end of the war have been placed in service. This \$28,014,000 investment has enabled your Company to provide an improved sleeping car service. Our principal east-west through trains are now equipped with these splendid new cars and drawn throughout the entire distance by smooth electric power, viz., by electric motors along the eastern seaboard between New York and Harrisburg and Washington and westward beyond Baltimore and Harrisburg by diesel generated electricity.

### **Dining Cars**

The dining car service has been greatly improved by the post-war addition of 16 twin-unit diners (32 cars) and 6 single-unit diners, costing \$5,263,000. The twin-unit diners mark an extraordinary advance in the art of catering to the traveling public. One entire car is devoted to dining space. The companion car contains the kitchen, refrigeration and storage facilities, together with separate dormitory quarters for the dining car personnel, thus establishing a two car service unit staffed with personnel covering the entire run of the train. This has helped to develop a sense of responsibility and esprit de corps in the dining car organization which is reflected in more courteous and generally pleasing service to the public.

### **Coaches**

There have been acquired 118 new coaches at

a cost of \$11,357,000, which has permitted your Company to provide new equipment in its overnight coach service between New York and Chicago, and between New York and St. Louis, and between Washington and these cities. New coaches have also been added to its more important daylight trains. The relatively modern pre-war cars thus released from principal trains have been reassigned to other services.

As rapidly as finances permit, older coaches are being completely renovated presenting an appearance not distinguishable from that of a new car. Renovation of 127 cars has been completed at a cost of over \$7,400,000 and many additional cars are programmed for like treatment at a substantial cost.

Provision must also be made for the continuing high volume of commuter traffic which is overtaxing our complement of electrically operated suburban type passenger cars. Beginning in April, there will be placed in service the first of 50 cars to be renovated and allocated to this service.

### **Freight Cars**

On the freight side, our post-war program consisted of 6,600 new and 17,000 modernized or rehabilitated freight cars. Of the new cars, 2,100 are box, 300 covered hoppers, 4,000 gondolas and 200 cabin cars, at a total cost of approximately \$35,700,000. Of this number, 4,374 new cars were completed at an expenditure of \$22,890,000, leaving 2,226 on order, which will cost approximately \$12,810,000. Of the cars to be rehabilitated, 11,414 have been completed at a cost of \$27,323,000.

## **FREIGHT, PASSENGER AND EXPRESS RATES, AND MAIL PAY**

As a result of the increases in rates, fares and charges authorized since 1940, it is estimated that the revenue of your Company has been increased about 58% on an annual basis. In the same period, the annual operating costs of your Company have increased about 96% as a result of increased wage rates, payroll taxes and material prices, together with the 40-hour week for

non-operating employes effective September 1, 1949, and additional vacations with pay to operating employes effective July 1, 1949.

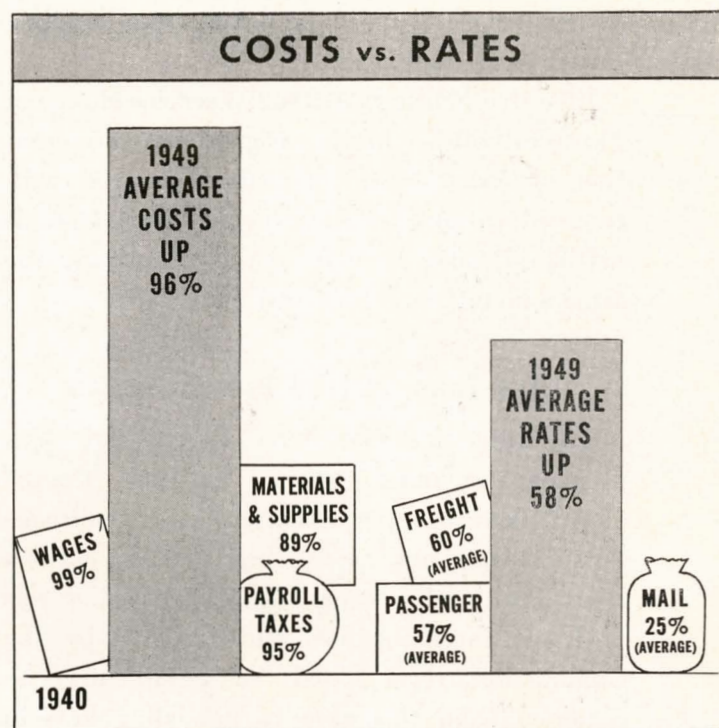
### General Freight Rate Increases

In the matter of increased freight rates, which had been initiated through a petition filed October 1, 1948 (Ex Parte 168), and supplemented and amended on October 12, 1948, the Interstate Commerce Commission granted an interim increase on December 29, 1948, of approximately 5.8%, generally effective January 11, 1949. The final decision in this case was announced on August 11, 1949, at which time the rates were further increased to provide for a total average increase for your Company of about 9.6% in freight rates and charges, inclusive of the interim increase. This increase was generally made effective on September 1, 1949, and, on the basis of the traffic volume anticipated during 1950, it is estimated will increase the revenue of your Company about \$58,000,000 on an annual basis.

### Passenger Fares

Continuing its efforts to establish basic passenger fares at a level which will help to reduce the substantial deficits from passenger service operations, your Company joined with other eastern railroads in filing a petition with the Interstate Commerce Commission on June 3, 1949, to increase basic one-way coach and first-class fares 12.5%, or from 3.0c to 3.375c per mile in coaches, and from 4.0c to 4.5c per mile for first-class tickets. The petition also provided for a similar upward adjustment in the reduced round-trip fares for distances over 225 miles, making the round-trip coach fare for distances beyond 500 miles 2.565c per mile and the round-trip fares in Pullman cars beyond 700 miles 4.05c per mile.

In a decision dated November 8, 1949, the Commission granted the increases sought by the eastern roads and the new fares generally became effective November 28, 1949. They are estimated



to add about \$7,900,000 to the anticipated 1950 passenger revenue.

Our basic passenger fares today, however, are lower on the average than they were in 1930. Throughout the 10-year period from 1921 to 1930 the average yield per passenger mile (which is what the passenger actually pays) on the Pennsylvania Railroad, excluding commutation, was 3.55c. During that period the basic fare was 3.6c in coaches and 4.0c per mile (including surcharge) in Pullmans. Including the recent 12.5% increase, the average fare on our railroad is now approximately 3.45c per mile, this low average resulting from the reduced round-trip fares available for distances beyond 225 miles.

In view of the heavy losses resulting from commutation service and the fact that there has been but one general increase in commutation fares in the past 29 years (averaging about 25% in 1947), your Company is now engaged in an effort to obtain an average increase in these fares of approximately 22%. When and if the program is approved by the regulatory bodies, it is estimated that it will increase commutation revenues approximately \$1,300,000 per year based upon anticipated 1950 volume, which will, however,

be insufficient to meet the deficit from handling this class of traffic.

Effective February 1, 1949, a service charge of \$1 was established for the assignment and reservation of coach seats on trains operated with reserved seat coaches. Revenue therefrom approximated \$750,000 in 1949, and substantially the same amount should be realized in 1950.

### **Less-Than-Carload Freight Rates**

The Interstate Commerce Commission in a decision announced October 19, 1948 (Docket 29770), denied the petition of the eastern railroads for substantial increases in their less-than-carload rates. Petition for reopening this proceeding was filed on March 2, 1949, and accepted by the Commission. It is hoped that results may be obtained from this case to partially alleviate the high cost burden incident to handling this class of traffic.

### **Railway Express Rates**

On June 29, 1949, the Railway Express Agency, because of continued increases in operating costs, petitioned the Interstate Commerce Commission to grant a further increase of 10% in express rates and charges. This proceeding was docketed as Ex Parte 169. Hearings were completed on September 9, 1949 and a decision in the case is now awaited. A joint proposed report was issued by two Interstate Commerce Commission examiners on January 6, 1950, recommending approval.

Your Company, together with other railroads operating in the eastern part of the country, has also petitioned the Interstate Commerce Commission for a reapportionment of the earnings of the Railway Express Agency, which would increase the express revenue of those railroads. Further radical changes in charges and in practices of the Railway Express Agency are necessary to bring about a profitable operation.

### **Railway Mail Pay**

The application filed with the Interstate Commerce Commission for account of the railroads,

including your Company, on February 19, 1947, as supplemented and amended on June 24, 1948, and March 24, 1949, seeking an over-all increase of 80% in rates of compensation for transportation of the United States Mail is still pending before that body. Since March 24, 1949, costs have continued to increase, particularly with the establishment of the 40-hour week on September 1, 1949. As a consequence, a further amendment to the original application was filed December 30, 1949, bringing the over-all increase being sought to 95%. Intermittent hearings have been held on the application and extensive cost studies undertaken.

The only relief so far granted the railroads by the Commission was an interim increase of 25%, retroactive to February 19, 1947. This is the only increase in mail pay rates since 1928.

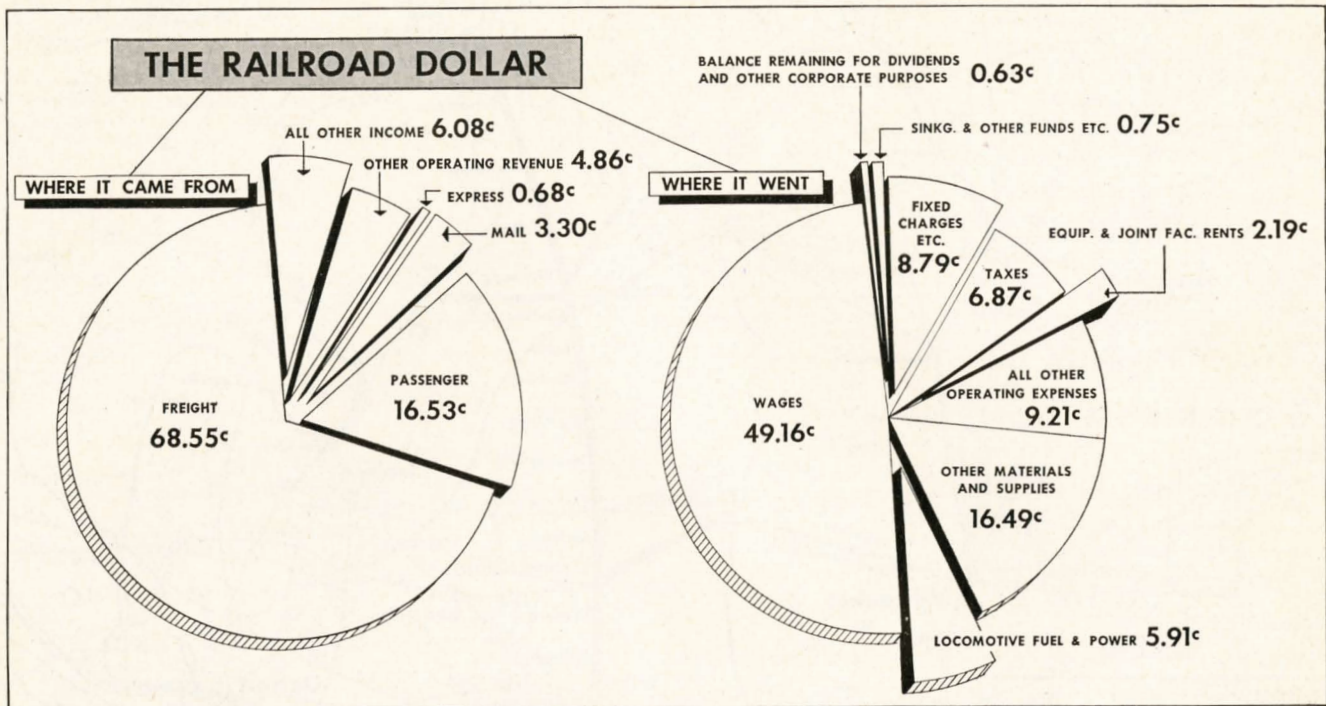
The loss to your Company from handling United States mail traffic in 1949 approximated \$20,000,000.

It is hoped that a final decision can be obtained in 1950 or early in 1951.

## **REVENUES AND EXPENSES**

The operating revenues of your Company were \$151,771,741, or 15.2%, less than in 1948, due principally to a decrease of \$133,876,775, or 17.8%, in freight revenue, reflecting the falling off in freight traffic resulting from the recession in business and from labor disturbances in some of the major industries. Passenger traffic also continued its post-war decline, the revenue therefrom decreasing \$11,062,116, or 6.9%. Revenue from mail traffic increased \$4,492,338, or 17.7%. Express revenue decreased \$4,961,813, or 44.5%, and all other operating revenues decreased \$6,363,375, or 12.7%.

While unit costs of fuel, materials, supplies and wages continued at high levels throughout the year, operating expenses decreased \$103,432,220, or 12.4%, compared with 1948, after providing for the reserve of \$8,000,000 for deferred repairs to freight cars, mentioned previously in this report. This decrease in operating expenses was made



possible by constant and aggressive efforts to offset the decline in traffic, and greater economy and efficiency in operations. The principal decreases were: \$10,597,197, or 9.1%, in Maintenance of Way and Structures expenses; \$21,512,387, or 10.2%, in Maintenance of Equipment expenses, and \$67,223,590, or 14.9%, in Transportation expenses.

Depreciation and amortization charges aggregating \$44,948,770 were charged to operating expenses, compared with \$43,250,408 in 1948.

The rental paid leased roads aggregated \$46,768,038, of which \$31,087,010 were returned to System Companies and Funds as dividends and interest on securities owned.

The operating ratio, which is the percentage of operating revenues required to pay operating expenses, was 85.99% in 1949, compared with 83.29% in 1948 and with 87.45% in 1947. It is recognized that the operating ratio is high, and constant pressure is being applied to reduce it.

### TAXES

Federal and various state and local corporate and property taxes for the year 1949 amounted to \$35,783,684, a decrease of \$19,016,181 compared with 1948, due principally to a decrease in

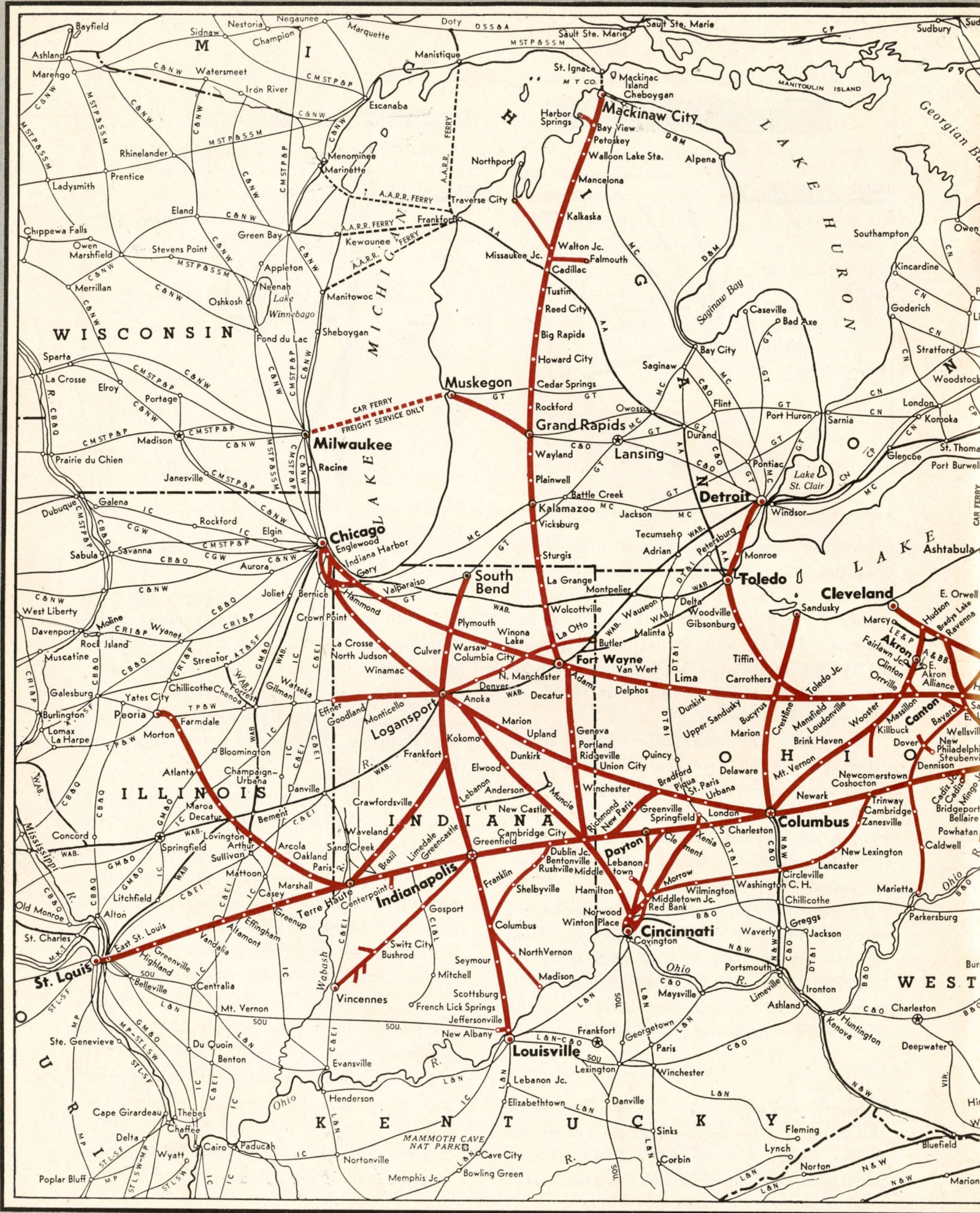
taxable income, and tax adjustment covering prior years.

Unemployment Insurance taxes decreased \$291,740 and Railroad Retirement taxes decreased \$2,555,926, both due to decreased employment, offset, in part, principally by higher wage levels.

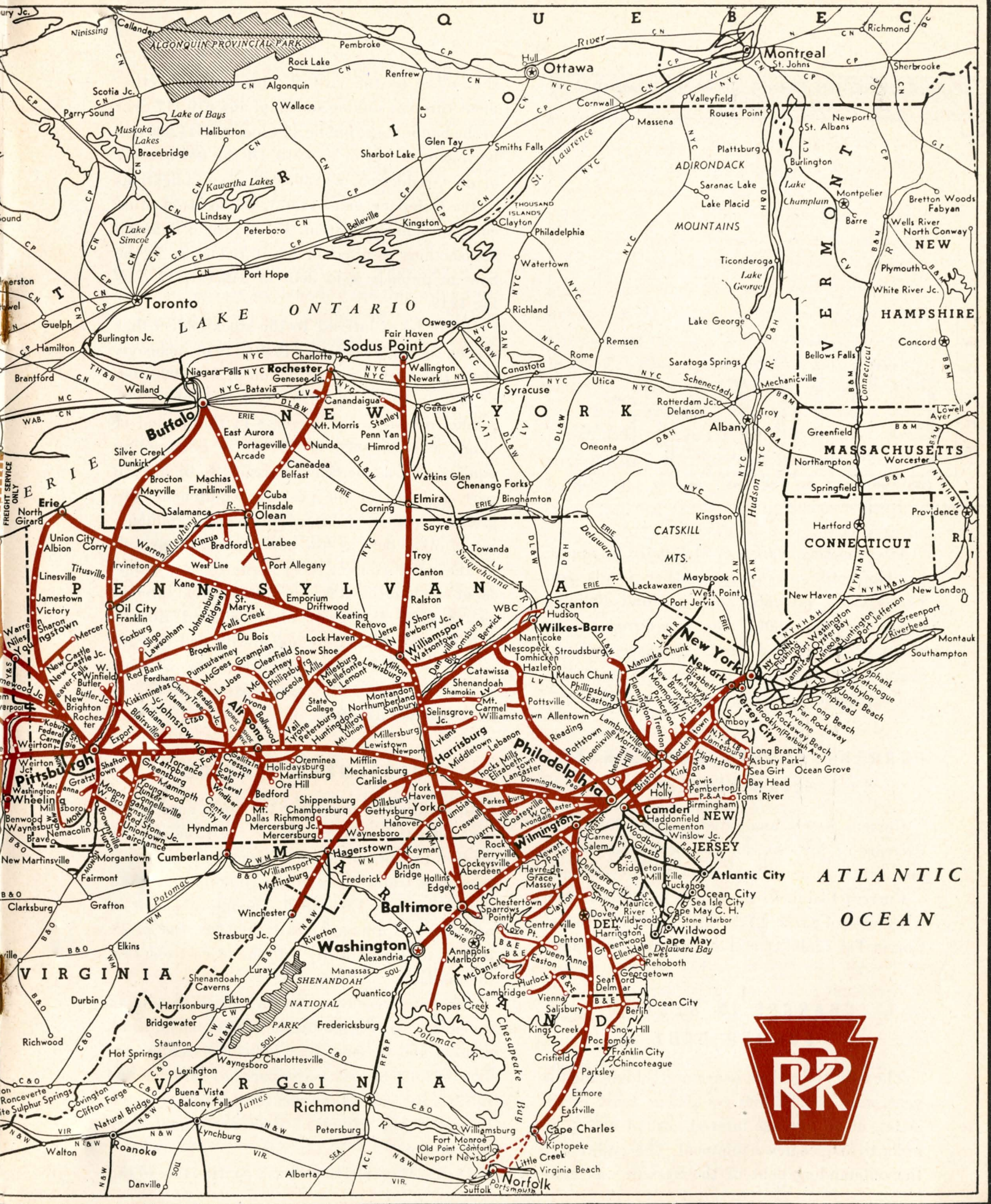
Railway taxes, plus Unemployment Insurance and Railroad Retirement taxes, aggregated \$61,808,287.

### NET RESULT

The percentage of return earned by your Company upon its investment in transportation property as measured by Net Railway Operating Income (operating revenues, less amounts required to pay operating expenses, including the charge thereto of the \$8,000,000 maintenance reserve previously referred to, taxes, equipment and joint facility rents) was only 1.25% in 1949, compared with 2.37% in 1948 and with 1.13% in 1947. As pointed out in the 1948 annual report, the amount earned upon the investment has been entirely inadequate for many years, having exceeded 5% in only one year (1942—5.35%) since 1929. In 1946, it was less than 1%.



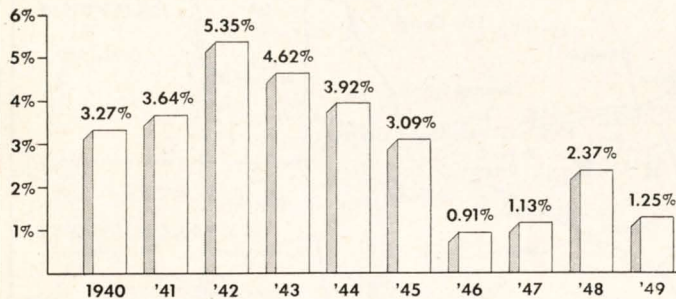
# PENNSYLVANIA RAILROAD



**AD AND CONNECTIONS**

## RATE OF RETURN EARNED UPON INVESTMENT IN TRANSPORTATION PROPERTY

SCALE



After meeting charges of \$1,479,678 for appropriations to sinking and other funds and \$5,284,852 of advances to leased and affiliated companies, \$5,710,097 was transferred to the credit of Profit and Loss. That account was charged with the dividend of \$9,875,816 (1½%), and with sundry net items aggregating \$123,417.

### CURRENT ASSETS AND CURRENT LIABILITIES

Current Assets amounted to \$283,201,219, a decrease of \$76,040,768, due principally to decreases in Cash and Temporary Cash Investments.

Current Liabilities amounted to \$136,011,440, a decrease of \$57,529,129, due mainly to a reduction in Tax Liability and other current accounts.

### CHANGES IN SYSTEM FUNDED DEBT

The only obligations issued and sold during the year were \$38,385,000 equipment trust certificates, at an average interest cost of 2.53%, in order to finance new equipment. This addition to the outstanding debt of the System was more

than offset by the maturity, purchase, or retirement through sinking funds, of \$64,670,417 debt in the hands of the public, of which \$7,844,000 had been acquired prior to 1949. Of the \$64,670,417 of debt reduction, \$20,599,417 were obligations of the Company and \$44,071,000 bonds of other companies in the System. These various financial transactions resulted in a net reduction in the System publicly held debt of \$18,441,417 during 1949.

It will be of interest to the stockholders that during the ten-year period 1940 to 1949, inclusive, there has been a net reduction of \$103,000,000, or 9%, in the debt of the System held by the public, despite a net increase in this period of about \$126,000,000, or 197%, in outstanding equipment trust certificates, issued to finance, in part, the cost of the post-war equipment program. As a result of this reduction and of refinancing of other debt at lower interest rates, as well as the lower coupon rates borne by the equipment trust certificates issued, the annual interest charges of the System decreased nearly \$10,000,000, or 21%, compared with such charges as of December 31, 1939, when the average interest rate was 4.21% as compared with 3.67% on December 31, 1949.

### PASSENGER SERVICE

In addition to providing the finest equipment ever offered to the public by the Company, a greater proportion of the Company's principal passenger trains operated on time in 1949 than during any year since 1940. The improvement in on-time performance clearly reflects the great power and reliability of the diesel-electric locomotive.

Passenger service revenues (which consist of revenue from transportation of passengers, mail, express and revenue from allied services) were \$201,963,079 in 1949 as compared to \$216,289,344 in 1948. Increased passenger fares almost counterbalanced the effect of decreased passenger patronage.

During the year, there was a continuance of the



policy of eliminating unprofitable passenger service whenever and wherever the approval of regulatory authorities was obtainable. This elimination amounted to an average of 11,043 train miles per day which reduced our passenger train miles in 1949 to 40,254,000, compared with 44,217,000 in the previous year. Passenger service revenue per train mile was \$5.02 in 1949 as contrasted with \$4.89 in 1948, and while increased passenger fares were largely responsible for this improvement, the elimination of unprofitable train miles made a substantial contribution to the result.

In 1949, your Company incurred a deficit of \$49,430,743 from passenger service operations. Much of this deficit was from the handling of commuter passengers, express and United States mail.

During the war, an excise tax of 15% was established by the government on the transportation of persons. A principal function of this tax was to discourage travel on the then overcrowded passenger carriers. The necessity of such curtailment has long ceased to exist, but the 15% tax remains. It is unquestionably a factor in the declining volume of passenger travel and should be repealed.

## LABOR

The year 1949 was marked by instability of employment in the railroad industry, due primarily to developments in labor relations both within and without the industry.

The year began auspiciously with favorable prospects, but business did not develop as expected, and the volume of traffic fell off to a greater degree than had been anticipated. The decline in traffic was aggravated by intermittent stoppages of coal mining throughout the year. This was further accentuated by a strike in the steel industry lasting the full month of October and extending partially into November. Reflecting the resultant fluctuations in volume of traffic, reductions in forces were made. A 40-hour week for non-operating groups was superim-

posed upon this unstable employment situation, effective September 1, 1949, which was equivalent to a 20% hourly wage increase, making mandatory further and drastic reductions in forces to keep expenses somewhat in line with reduced revenues.

This action came from the findings of a Presidential Emergency Board, and imposed upon this 7-day industry a 5-day work week. The non-operating employes involved were required to make no counterbalancing concessions. The consequence of this action coming at a time of declining business and sharpened competition from other forms of transportation, accelerated the reduction in employment to the disadvantage of railroad employes generally. It also handicapped management in its efforts to maintain and improve the property and to a considerable extent nullified steps already taken to increase operating efficiency by heavy investments in plant and equipment.

It was not until the end of the year that improvement in the general economy, following settlement of the steel strike and resumption of partial production in the coal industry, bettered the employment situation on the railroad. It is hoped that in the ensuing year still further improvement will occur.

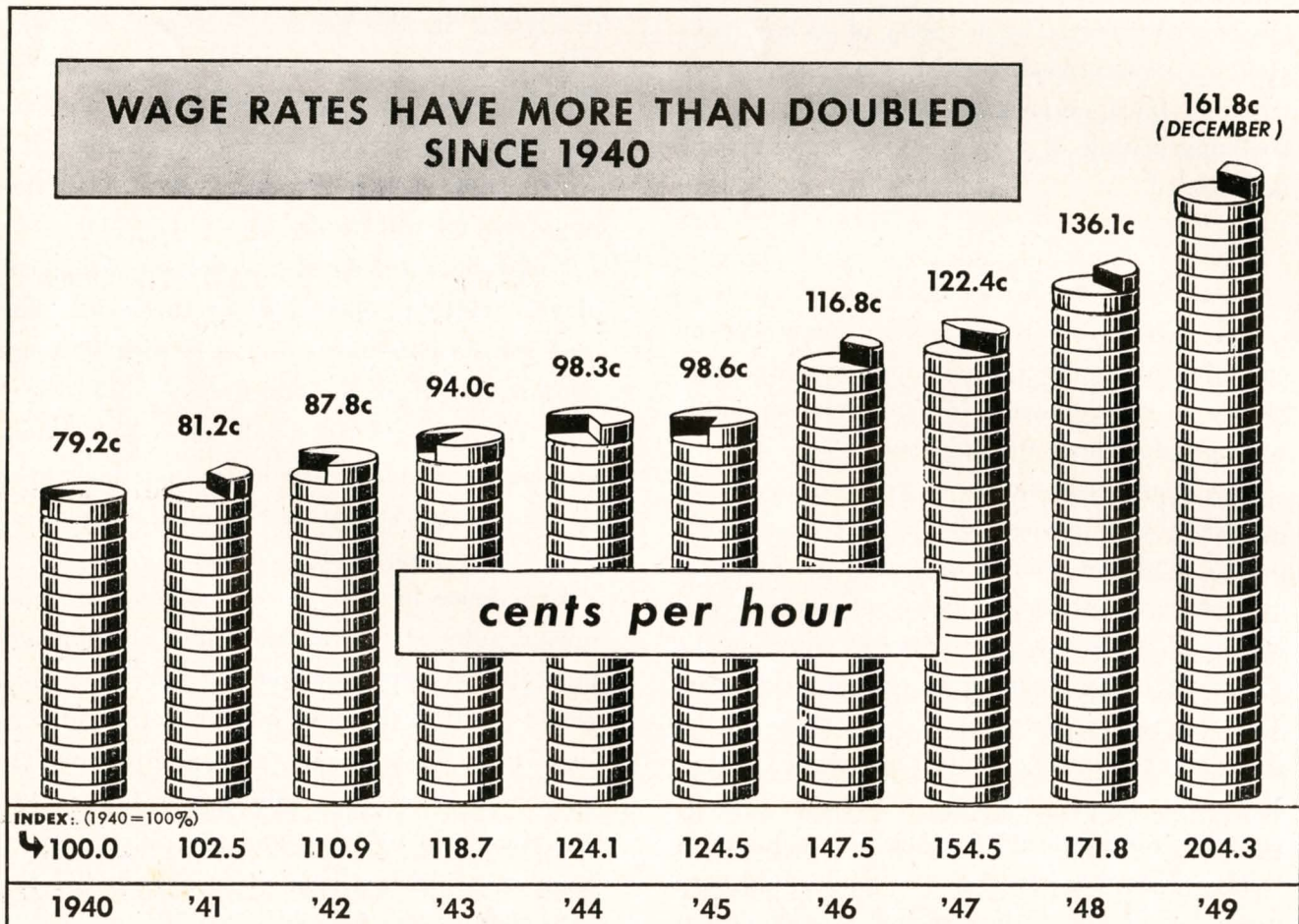
Following the lead of the non-operating employes, certain operating brotherhoods filed requests for a 40-hour work week with 48 hours' pay for yard trainmen and firemen, and for certain changes in rules, all of which would impose additional very heavy burdens upon the Company. At the year's end these requests were still in process of handling.

Experience in 1949 re-emphasized the strong mutual interests of railroad labor and management in developing a degree of cooperation which would result in the most benefit to the industry, its owners, the public it serves, and the men and women in its employ. Discussions toward that end were held by labor and the railroad executives in September, and it is anticipated that further talks will be held.

## Long Island Rail Road

In last year's report, it was pointed out that, because of the special circumstances surrounding the Long Island Rail Road that road had been forced to operate at continuing and increasing annual deficits, and that your Company would no longer support the Long Island with advances to cover those deficits. As a result of this situation, the Board of Directors of The Long Island Rail Road Company found it necessary to authorize its application for legal relief in the courts. Pursuant to that authorization, a petition was filed by The Long Island Rail Road Company in the United States District Court for the Eastern District of New York, on March 1, 1949, seeking reorganization under the provisions of the Federal Bankruptcy Laws. On March 2, the Federal Court approved the petition and thereby inaugurated proceedings for the reorganization of the Long Island Rail Road. The road is now in the

hands of Messrs. David E. Smucker and Hunter L. Delatour, Trustees appointed by the Federal Court and confirmed by the Interstate Commerce Commission, and is being operated by those Trustees in accordance with the applicable provisions of the law. Your Company, and its wholly-owned subsidiary, The American Contract and Trust Company, which owns practically all the outstanding bonds of The Long Island Rail Road Company, have filed with the Trustees proofs of claim, for the purpose of establishing the legal validity and amounts of their claims against the Long Island. Further proceedings with respect to these proofs of claim, and with respect to other phases of the reorganization of the Long Island, will take place in the Federal Court and before the Interstate Commerce Commission, in the coming months; and every effort will be made in these proceedings to protect your Company's interests in the Long Island Rail Road, as its principal creditor and stockholder.



## LEGISLATION

During the last session of Congress, bills known as H.R. 378 and S. 238 were introduced which would extend the jurisdiction of the Interstate Commerce Commission to enable it to prescribe operating rules for the railroads. Your Company is strongly of the belief that the assignment to the Commission of jurisdiction in this field would be equivalent to assigning to it an important part of the managerial functions of the Company. Members of the Interstate Commerce Commission who testified before Congressional Committees on these bills expressed doubt as to the wisdom of enlarging the Commission's powers to the extent proposed in these bills. Enactment of the bills would be harmful from the standpoint not only of your Company but of the other railroads of the country.

Under the authority of Senate Resolution 50, the Senate Committee on Interstate and Foreign Commerce has instituted an investigation in the field of transportation generally, in which it is expected that the problems confronting the railroads of the country will be reviewed. This is a matter of first importance to your Company, as well as to the other railroads, in view of the fact that many of the problems with which your Company is confronted, and which are shared by it with other railroads, are problems which should be capable of solution by appropriate governmental action. This is particularly true, for example, with respect to the unfair conditions of competition facing the railroads as a result of governmental subsidies to other forms of transportation, such as waterway, highway and air transportation, and the comparative freedom of those forms of transportation from the regulatory restrictions to which the railroads are subject. It is also true with respect to the unduly heavy tax burden laid upon the railroads as a result of the taxing policies of both the Federal and the State Governments. It is anticipated that the railroads' position on these matters will be presented to the Senate Committee as forcefully as possible, when an appropriate opportunity is offered.

## LITIGATION

Reference was made in the annual reports for the last three years to the anti-trust suits brought by the State of Georgia and by the Federal Government. Both of these suits are still pending. The report of the Special Master in the Georgia suit has not yet been published; and in the Government's suit against the Western Railroads and the Association of American Railroads and its directors, the trial on the merits has yet to be reached.

Reference was also made in last year's report to the Federal Government's complaints against the railroads, in the so-called "Government Reparations Cases." Hearings have been held by the Interstate Commerce Commission in some of these cases, during the course of the year, and additional hearings are anticipated in the near future. These claims are regarded by your Company as being entirely unjustified, and as presenting a serious threat to the railroads of the country and their ability to continue to provide adequate transportation service. Accordingly, your Company, along with the other railroads of the nation, is vigorously opposing these claims.

## DETROIT, TOLEDO AND IRONTON RAILROAD COMPANY

During the year, your Company, along with its wholly-owned subsidiary, the Pennsylvania Company, and also the Wabash Railroad Company, applied to the Interstate Commerce Commission for permission to acquire the stock of the Detroit, Toledo and Ironton Railroad Company in accordance with a purchase agreement with the Pennroad Corporation, the present owner of that stock. The Detroit, Toledo and Ironton Railroad Company operates a railroad which serves principally an important portion of the Detroit industrial area, as well as Toledo, Ironton and intermediate points in Ohio. It interchanges a substantial volume of traffic with your Company and the Wabash Railroad, and is an important source of traffic for both railroads. Its

ownership by your Company and the Wabash is desirable in view of their existing interchange of traffic with the Detroit, Toledo and Ironton.

Following hearings and argument, an Examiner of the Interstate Commerce Commission has recommended approval of the proposed acquisition. It is anticipated that a final decision with respect to this application will be rendered by the Interstate Commerce Commission during the current year.

### **MODIFICATION OF LEASES**

In last year's annual report reference was made to the fact that certain technical provisions of the Federal income tax laws result in imposing tax burdens on your Company which are inequitable. Among these are the provisions governing depreciation of physical property owned by the leased lines.

In the absence of legislative relief, your Board of Directors proposed modifications in the leases between your Company and certain other railroad companies included in the Pennsylvania Railroad System, which would provide for current accounting with respect to depreciation, amortization and certain retirements. A detailed explanation of this proposal was set forth in the proxy statement dated June 15, 1949, mailed to each stockholder.

A special meeting of the stockholders was held on September 20, 1949, for the sole purpose of considering and acting upon supplementary agreements embodying the proposed modifications. At such meeting the agreements were submitted to a stock vote and approved. The supplementary agreements were approved by the stockholders of the lessor companies involved and subsequently by the Interstate Commerce Commission; thereupon they became effective for the year 1949 and subsequent years. The modifications made by these supplementary agreements will effectuate a current reduction in Federal income taxes, thereby increasing the net income of your Company.

### **PUBLIC RELATIONS**

Recognizing the influence of public opinion, both in determining public policy toward the railroads as a regulated industry and in attracting passengers and shippers in competition with other transportation agencies, your Company engages in two forms of public relations' activities. It supports the joint programs carried on respectively by the Association of American Railroads and the Eastern Railroad Presidents Conference and it carries on its own public relations' activities addressed to its stockholders, its employes and the public it serves.

Through their cooperative efforts in this field, the railroads seek to keep people informed about railroad affairs generally, about specific questions that the railroads consider important in the public interest, and about progress that is being made to meet the public's continuing needs for railroad transportation services.

In your Company's own public relations' activities, the essential purposes are: to enlist the interest and cooperation of its employes in maintaining high standards of service to the shippers and passengers who use the railroad; to provide the best in equipment, reliability, convenience and safety of service and to keep the public fully informed, so as to retain present customers and to attract new ones.

### **STOCKHOLDERS**

On December 31, 1949, the stock of the Company (13,167,754 shares) was owned by 199,850 stockholders, who come from all walks in life, and who reside in every State in the Nation and in 42 foreign countries. The average holding was 65.9 shares.

Your Company continued to receive many helpful communications from its stockholders during the year, for which we are deeply appreciative. We hope for a continuance of such interest in the Company's problems and support of the management's efforts to advance their interest during the troublesome period through which we are passing.

## RELIEF DEPARTMENT

The Pennsylvania Railroad Voluntary Relief Department had a membership of 164,432 active, disabled and retired employes on December 31, 1949, and distributed \$4,960,218 during the year in payment of death and disability benefits.

The operating expenses of the Department have been paid by the Company since its inception.

## EMPLOYE COOPERATIVE ASSOCIATIONS

There are two cooperative associations managed by and for the benefit of the employes.

1. The Mutual Beneficial Association, which has been in existence since 1914. Over \$10,427,000 of insurance is carried in the Association for the benefit of its members and their families, and nearly \$3,614,000 have been paid in benefits since its organization.

The Mutual Magazine, a monthly publication of interest to the employes, is published by this Association.

2. The Employes Mutual Provident and Loan Association, which was established in 1923. The amount in its saving fund to the credit of its members was nearly \$22,600,000 on December 31, 1949.

## WOMEN'S AID

This is an organization composed of the families of employes of the Pennsylvania

Railroad, and was established many years ago to assist railroad people in time of need.



Its activities extend to all parts of the System, the funds required for carrying on the work being raised by dues, voluntary contributions and social affairs conducted for that purpose.

## SERVICE BUTTONS

Fifty-year Service Gold Buttons were awarded during the year to 210 employes in recognition of a lifetime of service with the Company. Since 1928, when this practice was established, the fifty-year button has been awarded to 3,845 employes.



In addition, a new plan was inaugurated during the year by awarding silver or bronze buttons to all employes who have served twenty-five or more years in the service of your railroad, similar in form to the Fifty-year Service Gold Buttons.

The presentation of these buttons was made in December, 1949, at which time 10,386 employes, each with 40 to 50 years of service, received the silver button, and 44,239 employes, each with 25 to 40 years of service, received the bronze button.

Your Company is justly proud of the many employes who have served the Company so faithfully for so many years.

The stockholders can exert a most potent influence on public opinion and governmental policy to the end of preserving and improving the economic position of the railroad industry.

## EMPLOYE RELATIONS

Favorable employe relations, essential to the success of any business, are measurable in terms of loyalty and enthusiasm for the employing company. This response is not easily obtained during periods of rapid labor turnover such as existed during the war and, to a great extent, after the war. However, with labor becoming

more stabilized in the industry, plus the use of new tools and equipment as a result of heavy capital expenditures, there has been a notable improvement in morale on the part of employes that has been beneficial to management and to labor.

In a further effort to promote greater employe interest in the Company's affairs, regional and divisional officers are closely reviewing local operations and developing a wider acquaintance with employes under their jurisdiction. The results have been encouraging, especially as manifested by more solicitude and courtesy toward the traveling and shipping public, the avoidance of

injury to persons and property damage and a greater employe interest in the welfare of the Company.

As the result of an intensified drive by management and the cooperation of the employes to reduce injuries, 1949 showed a reduction of more than 20% under the record of 1948.

The officers of your Company are endeavoring through every possible medium of persuasion and education to invite greater employe interest and cooperation in the affairs of your Company.

### **ORGANIZATION CHANGES**

During the year, the Board of Directors created the office of Chairman of the Board, and, effective

June 16, 1949, M. W. Clement was elected to that office, after having served as President of the Company since April 24, 1935, and Walter S. Franklin, who, as Executive Vice-President since April 1, 1947, had been assisting the President in the over-all management of the Company's affairs, was elected President.

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Copy of Statistical Statement will be furnished upon request.

By Order of the Board.

*Walter S. Franklin*  
President

GENERAL BALANCE SHEET OF  
The Pennsylvania Railroad Company

DECEMBER 31, 1949

COMPARISON  
WITH  
DECEMBER 31,  
1948

ASSETS

Investments:

Investment in Road and Equipment Property.....	\$1,598,023,207	I	\$30,979,452
Improvements on Leased Property.....	149,440,097	D	1,086,725
Donations and Grants.....	Cr. 2,644,022	D Cr.	6,237
Investment in Transportation Property.....	1,744,819,282	I	29,898,964
Accrued Depreciation—Road and Equipment.....	Cr. 563,651,773	D Cr.	5,981,787
Accrued Amortization of Defense Projects.....	Cr. 71,434,475	I Cr.	786,937

Investment in Transportation Property less recorded depreciation and amortization.....

1,104,733,034 I 35,093,814

Sinking Funds.....	715	I	80
Pittsburgh, Cincinnati, Chicago & St. Louis Railroad Company Consolidated Mortgage Sinking Fund Reserve.....	7,604,962	I	1,024,351
Capital and Other Reserve Funds.....	4,514,834	D	19,158,662
Maintenance Funds.....	8,000,000	I	8,000,000
Miscellaneous Physical Property.....	4,528,066	I	285,153
Investments in Affiliated Companies..... (Stocks, bonds, notes and advances)	663,156,616	I	21,070,959
Other Investments..... (Stocks, bonds, notes and advances)	31,969,076	I	431,788
Current Assets..... (Cash, fund for taxes and contingencies, material and supplies, accounts receivable, etc.)	283,201,219	D	76,040,768
Deferred Assets..... (Insurance and other funds, etc.)	162,810,598	I	8,175,678
Unadjusted Debits..... (Miscellaneous items in process of adjustment)	9,053,278	D	4,888,748
Total.....	<u>2,279,572,398</u>	D	<u>26,006,355</u>

LIABILITIES

Capital Stock (par value \$50. per share).....	658,387,700		
Premium realized on capital stock from January 1, 1909.....	10,148,229		
Funded Debt of The Pennsylvania Railroad Company.....	500,781,500	D	2,625,000
Funded Debt of Acquired Companies Assumed by The Pennsylvania Railroad Company.....	3,578,000		
Other Funded Debt Assumed.....	7,819,000		
Equipment Trust Obligations.....	181,168,000	I	20,886,000
Mortgages and Ground Rents Payable.....	64,350	D	110,417
Current Liabilities..... (Traffic balances, wages, taxes, interest, other accounts payable, etc.)	136,011,440	D	57,529,129
Deferred Liabilities.....	2,052,414	I	487,708
Leased and Affiliated Companies—Construction.....	1,133,608	I	117,682
Accrued Depreciation—Leased Property.....	126,139,970	I	722,643
Unadjusted Credits..... (Casualty reserves, maintenance reserves, etc.)	25,598,643	I	7,857,363

Surplus:

Additions to Property and Funded Debt Retired Through Income and Surplus.....	272,809,858	I	6,687,038
Sinking and Miscellaneous Fund Reserves.....	152,446,461	I	1,788,893
Profit and Loss.....	201,433,225	D	4,289,136
Total.....	<u>2,279,572,398</u>	D	<u>26,006,355</u>

