

Through passenger trains and heavy freight trains are operated by modern diesel power both in and out of the electrified New Jersey suburban zone

## Today's LACKAWANNA

*Sharp reduction in fixed charges, through merger of subsidiaries, has greatly improved financial outlook*

**B**egun 100 years ago, primarily to transport coal from the mines of northeastern Pennsylvania to the markets of the eastern seaboard and of central New York state, the Delaware, Lackawanna & Western has always been one of that small group of carriers known as "anthracite" roads. It still belongs to that group; "products of mines," including coal, accounted for 53.6 per cent of its entire revenue freight tonnage in 1950.

### **Not Just Anthracite**

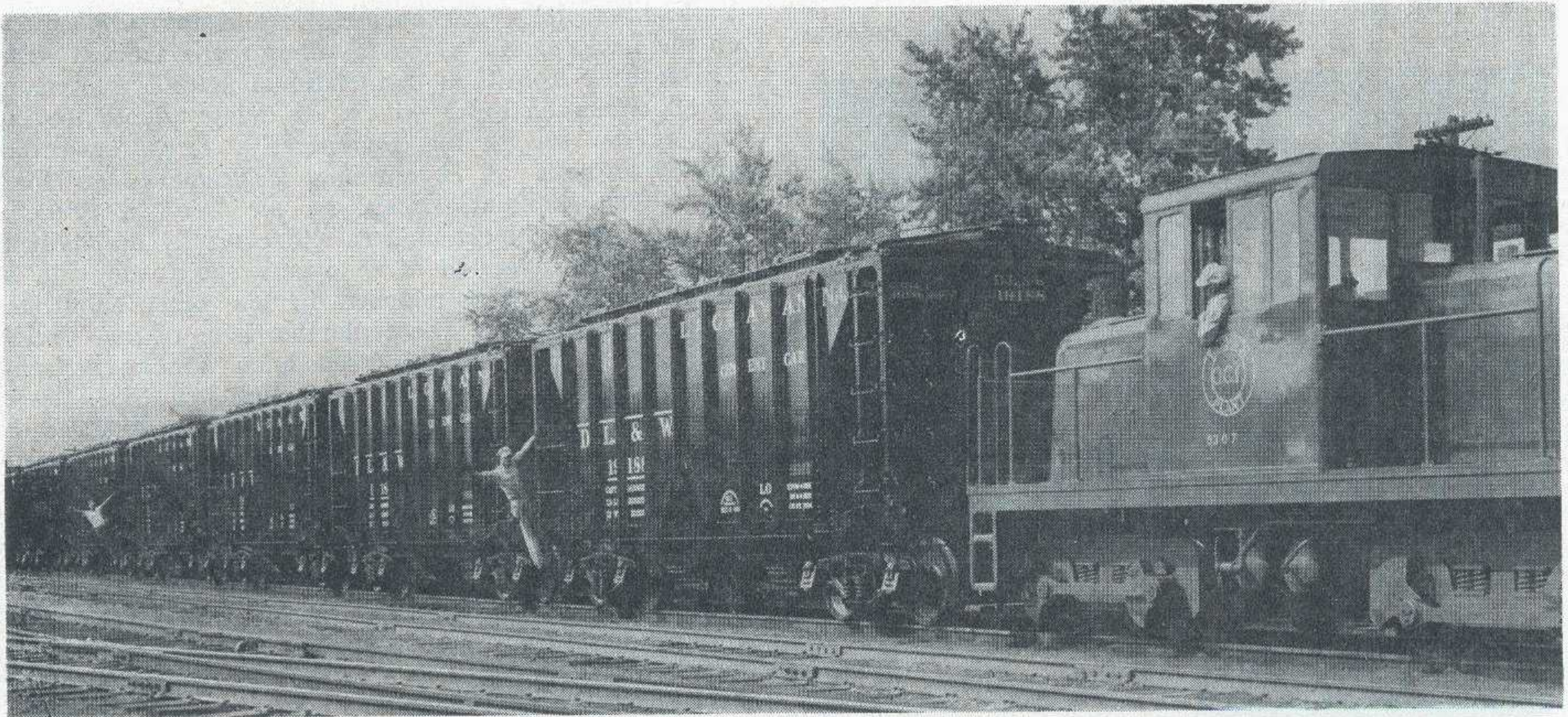
But in its century-long history it has become much more than the "anthracite" road its founders intended it to be—it has become an important carrier of general freight, including manufactured products and perishables, and of through and suburban passenger traffic. The marked difference wrought by a hundred years shows up in figures of revenue earned from various classes of traffic. In 1853, the second full year after the opening of the Liggett's Gap Rail Road, and the first year for which figures are available, coal accounted for 65 per cent of freight revenue and 53 per cent of all revenue; in 1856, when a through connection to tidewater was first established, coal produced 70 per cent of freight revenue and 58 per cent of all revenue. One hundred years later, in 1950, coal (including bituminous) represented less than 25 per cent of total freight revenue, and

less than 19 per cent of all revenue. "Other freight," meantime, which produced less than 25 per cent of total revenue in 1856, accounted for nearly 60 per cent in 1950.

Behind this change in the road's traffic are several factors. One, of course, is the decline in the relative importance of anthracite for home heating. But others are not far to seek—growth of population and industry in the territory served; the railroad's own extension, on the east to the industrial area of northern New Jersey and the world port of New York, and on the north and west to such industrial centers as Utica, Syracuse and Buffalo; establishment of through routes, via Buffalo, with connecting western carriers; and, perhaps especially, the emphasis which recent and present management places on service to shippers.

The Lackawanna is said to have been the first eastern railroad to establish, originally in connection with the Wabash and later with the Nickel Plate, through car lines between New York and important midwestern cities, for perishable freight (especially meat) and for merchandise and l.c.l. Today, the Lackawanna and its Nickel Plate and Wabash connections are two of the lines offering second morning delivery on l.c.l. freight between New York and Chicago—a comparatively new service which typifies the efforts the road has constantly made to meet the desires of shippers, and which have

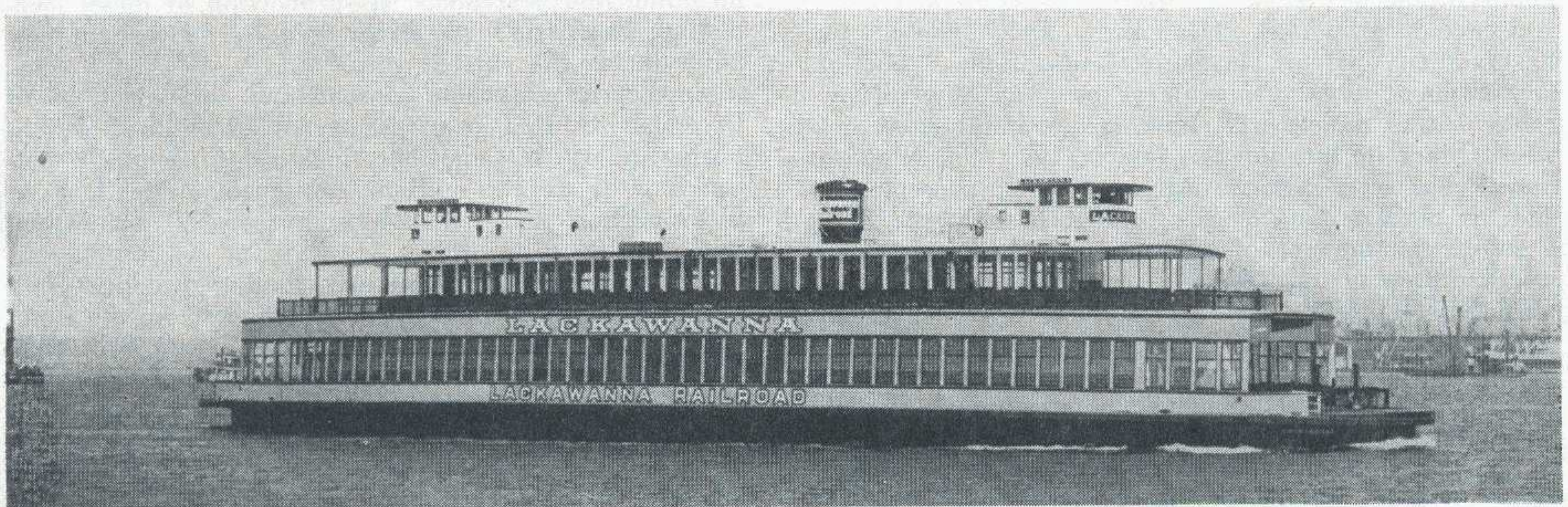




Like other progressive railroads, the Lackawanna is steadily improving its freight car inventory. These covered hopper cars were recently built by the American Car & Foundry Co.



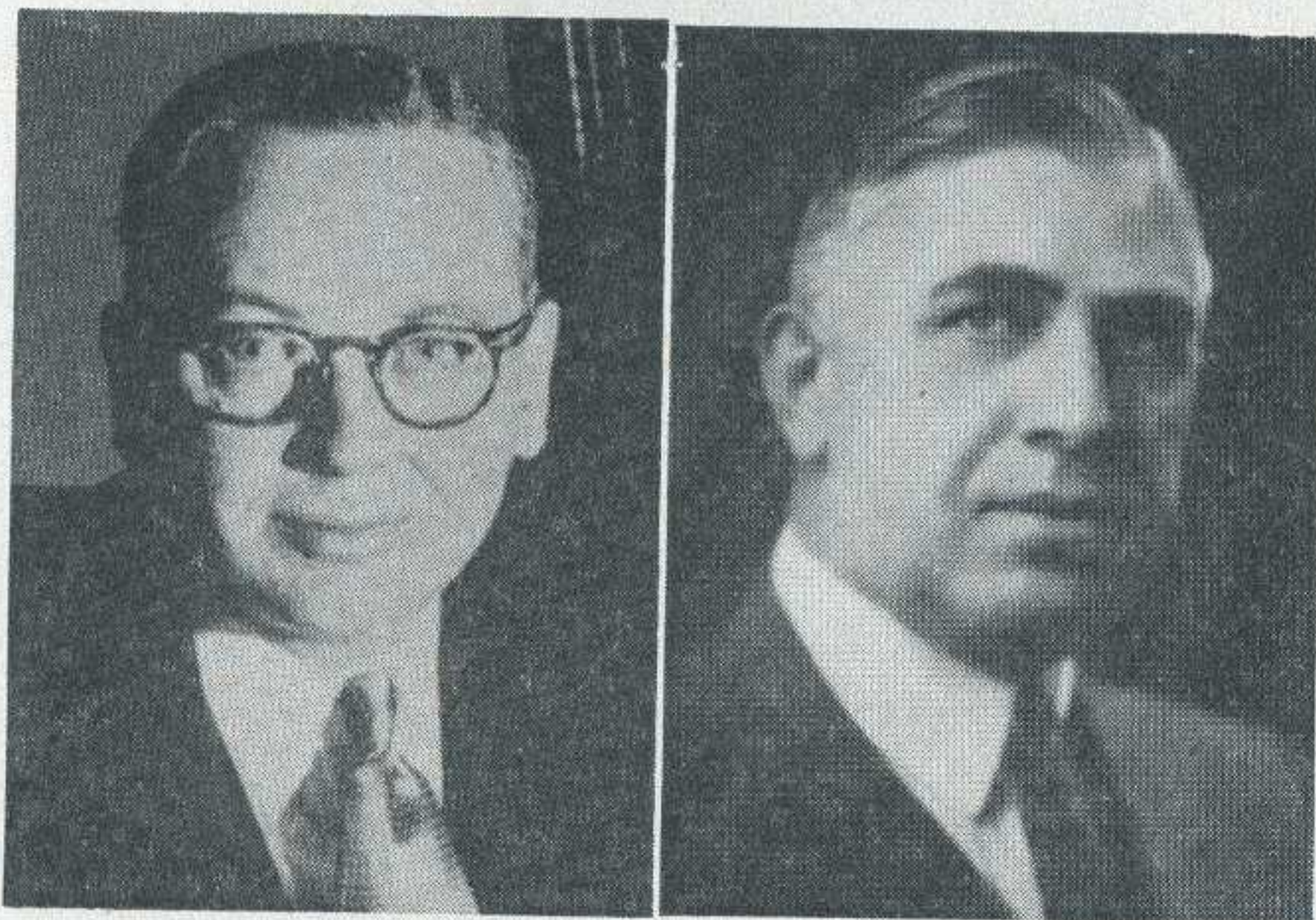
Attractive new equipment, like this club-lounge car, is a big reason for the popularity of the Lackawanna's two-year-old New York-Buffalo streamliner, "Phoebe Snow"



To carry its passengers across the Hudson river from Hoboken to New York the Lackawanna operates nine ferryboats. The one shown here was recently converted to diesel operation



## They Run the Lackawanna Today



Left, above—Perry M. Shoemaker, vice-president, operations; right, above—Clyde F. Farmer, vice-president, traffic; left—David I. Mackie, vice-president and general counsel

A picture of William White, president of the Lackawanna since 1941, appears on page 8.

enabled it to compete successfully for through traffic against much larger roads having through routes on their own rails.

### A Passenger Carrier, Too

In passenger business, too, the road has held up its end, by offering direct connecting service west of Buffalo, despite the handicap of being obliged to maintain somewhat slower schedules than those provided by such competing routes as the New York Central and the Pennsylvania.

Between New York (Hoboken) and Buffalo, the Lackawanna operates, in the "Phoebe Snow," one of the nation's newest streamliners over a short-mileage route that is replete with both scenic and historic interest. Since its introduction late in 1949, the "Phoebe Snow" has won a high degree of public acceptance, and has, Lackawanna officers believe, brought the road a substantial amount of extra "party" business which would otherwise have gone to competing carriers. Behind this, they say, is the expressed desire of many such organized groups to ride on the "Phoebe Snow," either in extra cars on the regular train or in special trains made up of similar equipment and running on similar schedules.

The Lackawanna is likewise—perhaps unfortunately for it—one of New York's big commuter roads, with a daily average of some 35,000 local passengers from Morris and Essex county towns into Newark and New

York. Financially, this business is a losing proposition on the Lackawanna, as on all other roads saddled with it. But aside from their constitutional inability, common to all commuters everywhere, of being unable to see any reason for paying remunerative fares, only the most querulous of Lackawanna commuters can find cause for complaint. Except on the Boonton branch, they ride in relatively modern and carefully maintained electric trains operated at an overall speed and with a frequency of service matched in few other suburban passenger operations. The September issue of the Official Guide, for example, shows 34 scheduled Monday-through-Friday trains from Morristown to Hoboken (30 miles), and 36 in the opposite direction, with running times of from 45 to slightly over 60 minutes. Quite a contrast, that, with the days of 1840, when the Morris & Essex ran two trains a day between Morristown and New York; when the journey took three hours one way, or six hours round trip; and when Vincent B. King, a pioneer Morristown commuter, is said to have made his entire daily journey standing in the aisle as a precaution against being impaled by a strap iron rail "snakeheading" through the car floor.

### Traffic, Equipment, Investment

In 1950, the Lackawanna's freight business involved a total of nearly 24.5 million revenue tons, carried an average distance of 168 miles, for a total of some 4,117 million revenue ton-miles, at an average revenue of 1.57 cents. It required over 3.2 million freight-train miles and just under 3.9 million freight locomotive-miles. In passenger service, it carried almost 19.5 million revenue passengers, traveling an average distance of 22.8 miles, for a total of 443.1 million revenue passenger-miles, at an average revenue per mile of 2.22 cents. It required 2 million steam or diesel passenger train-miles, 1.8 million electric passenger train-miles, and 2.3 million passenger locomotive-miles.

To handle this traffic, the Lackawanna operates 966 miles of first main track (951 owned and 15 used under trackage rights); 595 miles of second, third and fourth main track; and 848 miles of yard tracks and sidings. At the end of 1950 it had in service 124 steam and 35 diesel road locomotives, 54 steam and 54 diesel switchers, and 141 electric motor cars for suburban passenger service. It had 16,409 freight-train cars; 142 trailer cars for use in electrified suburban territory; 225 other passenger-carrying cars; and 275 non-passenger-carrying passenger-train cars. It had 518 units of company service equipment and 189 units of marine equipment, including nine ferryboats. Its proportion of diesel locomotives has been further increased by delivery of new units during the current year.

Net depreciated value of road and equipment, as of December 31, 1950, was just over \$259 million; capitalization, as of the same date, included funded debt outstanding of \$113.9 million, equipment obligations of \$19.7 million, and 1,688,240 shares of \$50 par capital stock.

The track and equipment was used to produce gross revenues of \$82,343,568—second highest in the company's history—at a total operating expense of \$63,995,304—third highest in company history. After deduction of taxes—over \$9 million—and equipment and joint facility rents, net railway operating income was \$9,047,985; income available for fixed charges was slightly higher; net income, after fixed and contingent charges of \$5,579,892, was \$3,842,749, or \$2.28 per share.

Out of this, the company paid its common stockhold-



ers a dividend of 25 cents per share—the third of that amount to be paid since 1931. The 25-cent disbursement, however, was actually comparatively generous—because the company's bond indentures require that, until its fixed and contingent interest charges are reduced to \$4 million per year, 60 per cent of its available net income (after certain deductions), plus a sum equal to the amount of any dividend paid, must be paid into a general sinking fund for retirement of debt. After complying with these indenture requirements, the company's 1950 net income available for dividends or other corporate purposes was only \$609,850, or 36 cents per share of stock.

### Merger of Subsidiaries

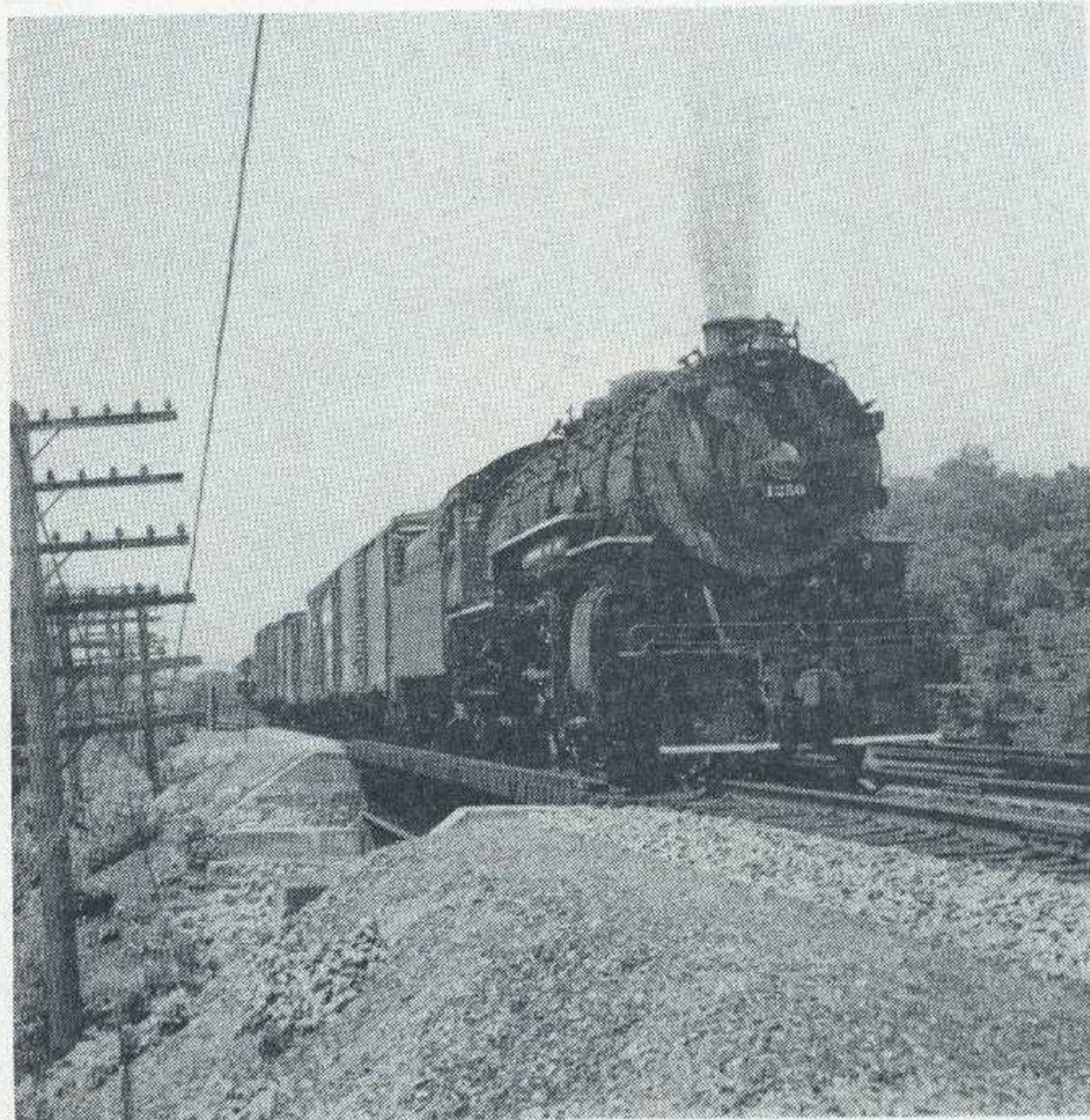
Fixed and contingent charges of \$4 million would have been covered anywhere from 1-1/6 to 3-1/7 times by net income available in all but two of the past 20 years. But actual fixed (and contingent) charges in those 20 years have varied from less than \$5.6 million in 1948, 1949, and 1950 to over \$8.4 million in 1933. Those actual charges have been covered in only 11 of the past 20 years, and in two of those only by narrow margins.

It is little wonder, then, that one of the primary objectives of President William White's present administration has been to reduce such charges to a safe, workable basis. The bond indenture provision outlined above indicates that the goal has not yet been fully reached, but remarkable progress has been achieved; 1950 charges, fixed and contingent, of \$5,579,892, were some 34 per cent below the 1933 high of \$8,442,854, and 27 per cent under the 1941 figure of \$7,629,324.

Most of this reduction has been accomplished by acquiring outright, and dissolving, the multitude of leased or partially owned lines of which, until recently, the system was largely composed—as is shown in the historical review beginning on page 70. Agreements with many of these companies called for guaranteed dividends on their stock—in some cases as high as 7 per cent and in one as high as 12—or guaranteed rentals at figures reasonable enough when the leases were made, but no longer justified under present regulatory and competitive conditions. Also, aside from the expense of maintaining so many separate corporations, the leases and rental agreements involved heavy tax payments. One obvious answer to the fixed charge problem, therefore, was to absorb these leased lines. This program, completed in 1945, 1946 and 1947, involved merger with the parent Delaware, Lackawanna & Western Railroad Company of the following subsidiary companies:

- Cayuga & Susquehanna Railroad Co.;
- Chester Railroad Company;
- Erie & Central New York Railroad Co.;
- Greene Railroad Company;
- Hoboken Ferry Company;
- Lackawanna Railroad Company of New Jersey;
- Morris & Essex Railroad Co.;
- Morris & Essex Extension Railroad Co.;
- New York, Lackawanna & Western Railway Co.;
- New York, Lackawanna & Western Railway Co. of Pennsylvania;
- Newark & Bloomfield Railroad Co.;
- Oswego & Syracuse Railroad Co.;
- Passaic & Delaware Railroad Co. (Gladstone branch);
- Passaic & Delaware Extension Railroad Co.;
- Sussex Railroad Company;
- Syracuse, Binghamton & New York Railroad Co.;
- Utica, Chenango & Susquehanna Valley Railroad Co.;
- Valley Railroad Company; and
- Warren Railroad Company.

Last year, the Lackawanna took an initial step toward meeting a 1955 maturity of \$19,356,000 of Morris &



On the Lackawanna, as on other railroads, steam power is being replaced by diesel

Essex Construction bonds, by giving holders thereof a chance to exchange these bonds for cash and Pennsylvania Division Refunding Mortgage & Collateral Trust bonds maturing in 1985. Holders of more than 58 per cent of the M. & E. bonds took advantage of the offer, reducing the 1955 maturity to \$8,006,000. Otherwise, the Lackawanna has no important bond maturities prior to 1973. Equipment trust and conditional sales agreement maturities are, and for the next few years will remain, comparatively heavy in relation to equipment depreciation charges, but do not appear to offer any very difficult problem.

### What About the Future?

Net income in 1951 is expected to reflect a federal income tax refund, for 1942, of about \$2.1 million. The Lackawanna may also profit from anticipated dividends on Nickel Plate common stock, of which it will own 330,000 shares after the 5-for-1 split just authorized by the Interstate Commerce Commission (*Railway Age*, October 1, page 144).

But for the longer term, the outlook for the Lackawanna, as it heads into its second century, is clouded by the same factors that darken the horizon for the entire railroad industry—excessive regulation; competition from other less severely regulated, and subsidized, agencies of transportation; and wage, material and tax costs which have risen much more rapidly and to a much higher level than rates or fares. The necessity of continuing to provide a vast quantity of unremunerative short-haul commutation service is, and for the foreseeable future is likely to remain, an added burden. The uncertainties connected with those factors, all beyond company control, make prediction difficult.

But—on the favorable side—its physical condition is, as it always has been, excellent. Its financial condition appears better than for many years past. And its management is ably carrying on the service-minded tradition that has made, and kept, the Delaware, Lackawanna & Western one of America's great railroads.