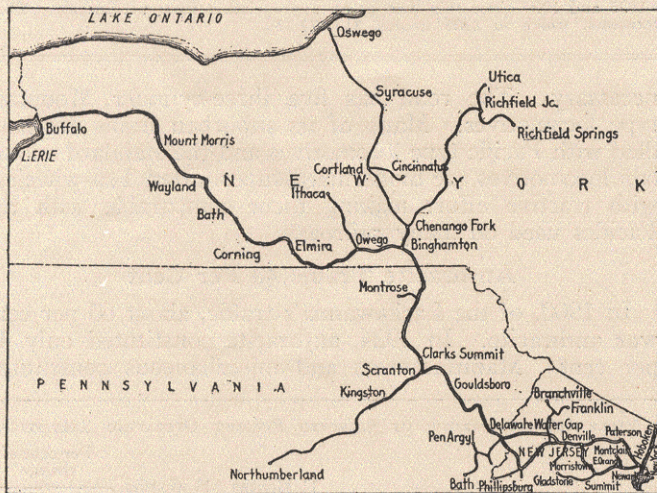


# Lackawanna Maintains Earnings

*In spite of four-month anthracite suspension in 1925 earns dividends with fair margin*

ONE of the especially interesting features of railway operation in 1925 was the manner in which the earnings of the anthracite carriers were maintained in spite of the four months suspension (figuring to the end of the year) in anthracite coal mining. In days gone by a suspension of this kind would have proved a great hardship to the carriers involved. The anthracite carriers, however, are in a strategic location in trunk line territory, forming, as they do, routes or parts of routes between the Niagara frontier on the one hand and New York, Philadelphia or New England on the other. Furthermore, their managements were skilful enough to realize this advantage many years ago and they solicited and built up a large and lucrative high grade miscellaneous traffic which they have since cultivated and expanded by means of excellent time freight schedules and in general a praiseworthy expedition of freight transportation



The Delaware, Lackawanna & Western

service. In the commercial world this would be called "merchandising," but, whatever it is, it stood the anthracite carriers in good stead when their bread and butter traffic was eliminated in the fall and winter by the inability of the operators and miners to agree on terms of keeping the mines at work. In the old days, also, the railroads owned the coal mines. They do not own them today. This may be a disadvantage from the standpoint of net earnings when the mines are operating but the railroads now do not have to bear the mining losses when the mines are idle.

## Example of New Status of Anthracite Carriers

The Delaware, Lackawanna & Western is as good an example as any of the new status of the anthracite carriers. In spite of the fact that for the last four months of the year there was no anthracite traffic, the road came through the year with net corporate income equivalent to \$8.53 a share on its outstanding 1,688,822 shares of \$50 par value stock. In 1924 the net corporate income was equivalent to \$8.67 a share and in 1923 to \$7.32 a share. More exactly the 1925 corporate income available for dividends was \$14,430,195 which compared with \$14,668,868 in

1924 and with \$12,378,001 in 1923. The Lackawanna pays regular dividends of \$6 a share, or 12 per cent, annually with extra dividends totaling \$1 a share, or a total of 14 per cent. These dividends total about \$11,821,754 annually.

## Peculiar Corporate Structure

The Lackawanna has a somewhat peculiar corporate structure. First of all, it has outstanding practically no funded debt and its annual interest charges total only

TABLE I—INCOME ACCOUNT

	1925	1924	Increase or decrease
<b>Revenues:</b>			
From transportation of anth. coal	\$17,757,554	\$23,576,425	—\$5,818,872
From transportation of merchandise	42,091,064	39,874,878	2,216,186
From transportation of passengers	13,628,673	13,600,454	28,219
Total, inc. other	\$83,635,056	\$86,727,184	—\$3,092,127
<b>Expenses:</b>			
Maintenance of way and structures	\$8,331,770	\$7,745,720	\$586,050
Maintenance of equipment	17,262,144	18,699,630	—1,437,487
Transportation expenses	32,707,387	34,091,817	—1,384,430
Total, inc. other	\$62,390,610	\$64,485,909	—\$2,095,299
Net revenue from operation	\$21,244,447	\$22,241,275	—\$996,828
Taxes	6,832,653	6,900,102	—67,449
Railway operating income	\$14,402,022	\$15,328,663	—\$926,641
Equipment rents—net cr.	388,174	451,707	—63,533
Joint facility rents—net cr.	143,803	145,592	—1,789
Net railway operating income	\$14,933,998	\$15,925,962	—\$991,963
<b>Non-operating income:</b>			
Dividend income	1,508,662	505,566	1,003,096
Income from funded securities	4,017,898	4,050,105	—32,207
Total, inc. other	\$6,076,553	\$5,140,339	\$936,214
Gross income	\$21,010,552	\$21,066,301	—\$55,749
<b>Deductions from gross income:</b>			
Rent for leased roads	\$6,533,523	\$6,315,905	\$217,618
Interest on funded debt	5,856	14,856	—9,000
Interest on unfunded debt	40,978	38,377	2,601
Total deductions from gross income	\$6,580,357	\$6,397,433	\$182,924
Net income	\$14,430,195	\$14,668,868	—\$238,673
<b>Disposition of net income:</b>			
Dividends declared	\$11,821,754	\$11,821,754	—
Investment in physical property	914,876	569,808	345,068
Total appropriations	\$12,736,630	\$12,391,563	\$345,068
Surplus for year carried to profit and loss	\$1,693,564	\$2,277,306	—\$583,742

about \$6,000. On the other hand, it pays out each year about \$6,500,000 in the form of rents for leased roads. This follows because the company owns only a small portion of the mileage which it operates. The mileage operated totals 983. Of this the owned mileage totals only 235 or less than one-quarter. This is all in Pennsylvania and includes most of the Lackawanna mileage in that state. All of the extensive mileage in New Jersey and New York is leased. The leased mileage totals 733 and there are about 14 miles operated under trackage rights. The leased lines make up a long list of individual companies, some large and some, in the New York suburban district, quite small. These several companies have outstanding some \$119,000,000 of stocks or bonds of which the Lackawanna owns about \$31,000,000. The parent company guarantees interest and dividends on a large proportion of the subsidiary company securities. The result is that while it is true that the Lackawanna has no funded debt, the subsidiary companies have a very fair amount of it and instead of paying interest on its own



bonds the Lackawanna pays indirectly much interest each year in the form of the rentals for the leased roads.

The Lackawanna owned and operated its own coal mines until 1921 when they were disposed of as a result of an adverse United States Supreme Court decision, finding violation of the Hepburn Act. The procedure was to establish the Glen Alden Coal Company. This company's stock consisted of 846,000 shares of no par value and Lackawanna stockholders were given the right to subscribe for it share for share at \$5 a share. Glen Alden stock pays dividends at an annual rate of 7 per cent and is now selling on the New York Curb Market at \$160 a share. The coal mines were turned over to the new coal company in consideration of \$40,000,000 four per cent

the completion of the four-tracking of its main freight line and suburban passenger line through Boonton, N. J.

One of the road's handicaps is its heavy grades. Even its suburban passenger territory—the Lackawanna has a heavy commuter traffic—has grades of 1½ per cent. East and west out of Scranton it also has 1½ per cent grades as also grades equally severe against westbound traffic in the Poconos east of Scranton. Up to within a few years ago the road had no great amount of large motive power. In recent years there has been a marked change in this respect. Whereas formerly four, five or six locomotives were required to handle heavy coal trains up the grades out of Scranton, today, only two of the larger locomotives, including usually one a Mikado with a booster, are

TABLE II—DELAWARE, LACKAWANNA & WESTERN OPERATING RESULTS, SELECTED ITEMS, 1916 TO 1925

Year	Revenue ton miles	Revenue passenger miles	Revenue per ton mile, cents	Total operating revenues	Total operating expenses	Net operating revenues	Operating ratio	Net railway operating income	Net after charges	Additions and betterments. Charged to Income*
1916 . . . .	5,263,263,000	548,805,000	.72	51,580,899	31,940,974	19,639,925	62.0	16,200,148	16,200,148	1,701,967
1917 . . . .	5,591,043,000	585,179,000	.75	57,211,224	37,676,488	19,534,736	65.86	16,971,381	15,370,197	1,785,612
1918 . . . .	5,574,774,000	604,648,000	.90	68,740,076	49,925,685	18,814,392	72.63	16,011,656	12,834,052	1,458,323
1919 . . . .	4,830,066,000	643,254,000	1.07	71,824,047	56,065,251	15,758,796	78.06	11,947,364	16,072,200	869,556
1920 . . . .	5,166,315,000	698,359,000	1.17	83,340,062	73,898,430	9,441,632	88.60	6,104,886	13,675,109	2,509,679
1921 . . . .	4,454,206,000	656,098,000	1.43	85,977,815	67,872,058	18,105,757	78.94	12,997,084	19,158,403	1,105,555
1922 . . . .	3,851,276,000	652,062,000	1.34	74,622,344	63,671,647	10,950,697	85.33	6,669,022	10,475,929	732,537
1923 . . . .	4,852,526,000	667,290,000	1.32	88,236,974	69,467,853	18,769,120	78.73	13,442,543	12,378,001	503,136
1924 . . . .	4,809,172,000	660,826,000	1.32	86,727,184	64,485,909	22,241,275	74.35	15,925,962	14,668,868	569,808
1925 . . . .	4,587,677,000	670,930,000	1.30	83,659,738	62,390,610	21,244,447	74.7	14,892,121	14,430,195	914,876

\*In its 1925 annual report, the Lackawanna has changed its income account so that the "Additions and Betterments Charged to Income," are no longer stated, as formerly, as a deduction from gross income. The figures for 1925 and 1924 show this item as an appropriation from net income. These charges include only a small proportion of all the charges for additions and betterments, which in 1925 totaled \$11,973,150.

bonds secured by a mortgage on the coal lands. A sinking fund was established providing for annual payments of \$1,500,000, beginning in 1926. The Lackawanna used to report on its coal operations a substantial annual profit after all expenditures for improvements. The amount averaged about 3½ million annually but in 1919 it was 5 million and in 1920, the last year before the segregation, it was 6½ million. The Lackawanna had established the Delaware, Lackawanna Coal Sales Company in 1909 as a coal selling agency to conform with the so-called commodities clause. This company was absorbed by the Glen Alden Company in 1925.

In 1921 the Lackawanna issued a 100 per cent stock dividend to capitalize surplus earnings invested in the property in past years. Prior to this change in the capital structure, the company's regular dividends were at the rate of 10 per cent with an extra 10 per cent, or a total of 20 per cent annually. The present 14 per cent dividends would total 28 per cent on the former capitalization.

#### Nearly \$200,000,000 Improvements Paid from Income

The Lackawanna is, of course, known as a very wealthy railroad. It has, for instance, been able to spend enormous sums for realinement, including notably \$12,000,000 on the 40-mile cut-off between Clark's Summit, Pa., and Hallstead and \$11,000,000 on the cut-off between Port Morris, N. J., and the Delaware river. In the past 25 years it has spent nearly \$200,000,000 for additions, all of which, except for the Hallstead cut-off (financed through sale of stock at par), was paid from income. Practically all grade crossings in the New Jersey suburban zone have been eliminated. The road is noted for its excellent track structure, its unusually excellent stations and the well kept appearance generally of its roadway, buildings, motive power and equipment. The standard of track construction is I05 lb. rail, creosoted ties, screw spikes, with all ties plated and rock ballast. Lately, the road has laid considerable 120 lb. rail. The road always has some important improvement under way. After completion of its two cut-offs it turned its attention to the rebuilding of its suburban lines. The work at present under way is

necessary. The road has five three-cylinder Mountain type locomotives. Many of its suburban trains are handled with Pacific type locomotives and the standard suburban locomotives are modernized superheated Ten-wheelers with tractive effort making them comparable with the Pacifics used on many railroads.

#### Anthracite Traffic 40 Per Cent

In 1900, of the Lackawanna's traffic, about 60 per cent was anthracite. In 1924, anthracite constituted only 40 per cent. Manufacturers and miscellaneous constituted

TABLE III—COMPARISON OF SELECTED FREIGHT OPERATING STATISTICS

	11 Months 1925	11 Months 1920	Per cent of change	
			Inc.	Dec.
Mileage operated . . . . .	993	956	..	..
Gross ton-miles (thousands) . . . . .	\$10,528,763	\$9,786,195	7.5	..
Net ton-miles (thousands) . . . . .	4,639,983	4,095,493	..	5.4
Freight train-miles (thousands) . . . . .	6,141	5,779	6.2	..
Freight locomotive-miles (thousands) . . . . .	8,136	8,555	..	4.8
Freight car-miles (thousands) . . . . .	273,921	242,983	12.7	..
Freight train-hours . . . . .	514,261	549,795	..	6.4
Tons of coal consumed by freight locos. . . . .	1,006,852	1,049,107	..	4.6
Car miles per day . . . . .	32.5	29.1	11.5	..
Net tons per loaded car . . . . .	24.3	28.8	..	15.6
Per cent loaded to total car-miles . . . . .	69.8	70.2	..	0.5
Net ton-miles per car-day . . . . .	551	588	..	6.3
Freight cars per train . . . . .	45.6	43.2	5.6	..
Gross tons per train . . . . .	1,715	1,693	1.3	..
Net tons per train . . . . .	756	849	..	10.9
Train speed, miles per train-hour . . . . .	11.9	11.5	3.5	..
Gross ton-miles per train-hour . . . . .	20,474	17,800	15.0	..
Net ton-miles per train-hour . . . . .	9,023	8,922	1.3	..
Lb. coal per 1,000 gross ton-miles . . . . .	162	..	..	..
Loco. miles per loco. day . . . . .	68.7	69.1	..	0.5
Per cent freight locos. unserviceable . . . . .	16.9	19.8	..	2.9
Per cent freight cars unserviceable . . . . .	3.5	5.2	..	1.7

25 per cent and products of agriculture made up about 10 per cent. The last named include the variety of such products grown principally in New York state but the road also secures a fair proportion of the grain moving from Buffalo to New York. In this connection it is of interest that in spite of a large grain traffic, the Lackawanna has no grain elevator in New York harbor. It uses, instead, barges and canal boats and calls upon the



services of the portable grain elevators with which New York harbor is plentifully supplied.

The Lackawanna in 1925 moved  $4\frac{1}{2}$  per cent less traffic than in 1924, but its anthracite traffic decreased  $22\frac{1}{2}$  per cent. This means that it moved less traffic than in 1923, and less also than in 1916, 1917, 1918 or in 1920. Its tonnage of manufactures and miscellaneous traffic in 1925 exceeded that in 1924 by about 9 per cent. The 1925 gross revenues were 3.5 per cent less than in 1924. There was a decrease of about 3.2 per cent in total operating expenses. Maintenance of way expenses increased 7.6 per cent; maintenance of equipment expenses decreased 7.7 per cent and transportation expenses 4.1 per cent. The 1925 transportation rates or ratio of transportation expenses to total operating revenues, was 39.1 per cent which seems rather high and the operating ratio was 74.6 per cent, which seems very fair.

Analysis of the Lackawanna's earnings from railroad operations or its operating statistics as reported in recent years does not produce anything particularly spectacular. Thus the net railway operating income or net after equipment and joint facility rents in 1925 was \$14,933,998. This compared with \$15,925,962 in 1924 which was the best year since 1918. But the Lackawanna's standard return for operations during federal control or average annual net railway operating income for the three years ended June 30, 1917, was \$15,749,497. This means that in 1925 the Lackawanna did not equal its pre-war net earnings from railroad operations and that, inasmuch as the property investment is now much larger, the rate of return on the investment was less; at least the Lackawanna does not seem to be in any danger of having any of its net earnings recaptured under the terms of Section 15-a.

#### Operating Statistics Inconclusive

This same lack of spectacular change is reflected in the operating statistics. In Table III, a comparison is made of the figures for the first 11 months of 1925—the latest at present available—with those of the first 11 months of 1920. The table shows a decrease of 5.4 per cent in net ton-miles but increases of 12.7 per cent in freight car-miles and of 6.2 per cent in freight train-miles. There were, however, decreases in locomotive miles and freight train hours. It is disconcerting to notice the decrease of 10.9 per cent in net ton-miles and the increase of only 1.3 per cent in net ton-miles per train-hour. The evidence, in short, is inconclusive and no doubt reflects in no uncertain manner, the four months' loss of the coal traffic.

## Railway Labor Bill Up in House

WASHINGTON, D. C.

CONSIDERATION of the railway labor bill was begun in the House on February 24 with the expectation that it might be passed on the following day. It had been expected to take up the bill on Tuesday but it was delayed until the following day by conference reports and it was made an order for Thursday and thereafter until finished.

The labor bill was reported to the House from the committee on interstate commerce on February 19, with the amendments adopted by the committee on February 17, after the bill had been reintroduced in the new form as H. R. 9463. A unanimous consent agreement was reached to devote two days to the consideration of the bill, half the time to be controlled by Chairman Parker of the committee and the other half by Representative Barkley, ranking Democratic member of the committee,

although Mr. Barkley was also in favor of the bill. No record vote was taken by the committee as no one offered to vote against a favorable report. On February 20 the Senate committee voted to report out the bill in the form in which it had been amended by the House committee.

The report of the House committee was written by Representative Cooper of Ohio, himself a former locomotive engineer, who said in part:

During the hearings conducted by the committee it was conceded by all concerned that the enactment of this agreement into law would impose upon the parties to the agreement the moral obligation to settle their differences in the manner provided by law, so as to insure to the public continuity and efficiency of interstate transportation service, and to protect the public from the injuries and losses consequent upon any impairment or interruption of interstate commerce through failures of managers and employees to settle peaceably their controversies. There are also legal obligations which would be accepted by and imposed upon the parties by the proposed law that afford further guaranties of improved and continuous transportation service and protection of the public interest therein.

The principal point impressed upon the committee during the hearings was the desirability of giving the managers and employees of this most important national industry the aid and cooperation of the legislative, executive, and judicial power of the government in the settlement of industrial controversies by the means which practical men, who have devoted their lives to this industry, believe are best adapted to maintain satisfactory relations between employers and employees.

The committee has held extended hearings giving ample opportunity to the proponents and opponents of the bill to present their views. Representatives of various associations of manufacturers presented suggestions for a few amendments which were given careful consideration.

A board of mediation is created composed of five members appointed by the President by and with the advice and consent of the Senate, with the duty to intervene at the request of either party or on its own motion in any unsettled dispute, whether it be a dispute not decided in conference or by the appropriate adjustment board or a dispute over changes in rates of pay, rules or working conditions or any other dispute not settled in conference.

If the board of mediation is unable to bring about a settlement, it is required to seek to induce the parties to submit the controversy to arbitration.

Boards of arbitration are provided for when the parties consent to arbitrate. The provisions of an arbitration agreement, the methods of selecting arbitrators, and the arbitration procedure are written in detail in the text of the bill. The bill provides that an arbitration award shall be made the judgment of the court, which judgment shall be final and conclusive on the parties.

In the event that a dispute is not settled under the foregoing provisions of the bill, it is provided that the board of mediation, if in its judgment the dispute threatens substantially to interrupt interstate commerce, shall notify the President, who is thereupon authorized, in his discretion, to create a board to investigate and report to the President within 30 days from the date of its creation. It is also provided that after the creation of such a board and for 30 days after it has made its report to the President, no change except by agreement shall be made by the parties to the controversy in the conditions out of which the dispute arose.

The proponents of this bill have assured the committee of their conviction that the methods for voluntary settlement of disputes with the aid of government mediators are so well adapted to insure the adjustment of differences, either through conference, mediation, or arbitration, that it should be seldom, if ever, necessary for the President to exercise the power conferred upon him to appoint an emergency board. The records of the success of mediation and arbitration under the Erdman and Newlands acts considerably justify this conviction, which is also supported by the obvious good faith, the spirit of fair play, and of genuine regard for the public interest which characterized the negotiations of the parties and their presentations before the committee.

If, however, the full expectations of the proponents of the bill are not realized, and controversy threatens the interruption of interstate commerce, there is assurance of the protection of the public interest in this bill greater than has ever been offered in previous legislation. The President is empowered to create a board of outstanding representatives of the public who can investigate, with the aid of the permanent board of mediation, the Interstate Commerce Commission, the Department of Labor, and all other agencies of government, and bring to bear upon the parties the pressure of the highest governmental authority either to adjust their differences by voluntary agreement or to consent