

1937

ONE HUNDRED AND SEVENTEENTH
ANNUAL REPORT

OF THE

BOARD OF MANAGERS

OF

The Lehigh Coal and Navigation Company

TO THE

STOCKHOLDERS

FISCAL YEAR ENDED DECEMBER 31, 1937

NOTE:

This report is issued for the purpose of providing information to the Stockholders. It is not a representation, prospectus or circular in respect of any stock or security of any corporation, and is not furnished in connection with any sale or offer to sell or buy any stock or security now or hereafter to **be issued**, or with any preliminary negotiation for such sale, or with other business transactions.

BOARD OF MANAGERS
OF
THE LEHIGH COAL AND NAVIGATION COMPANY

CHAIRMAN OF THE BOARD
S. D. WARRINER

PRESIDENT
J. H. NUELLE

MANAGERS

Term Expires 1938

P. M. CHANDLER
WILLIAM JAY TURNER
S. D. WARRINER

Term Expires 1939

EDWARD WALTER CLARK
BENJAMIN RUSH
PARKER S. WILLIAMS

Term Expires 1940

ROBERT C. ADAMS
CLARENCE H. GEIST
WILLIAM P. GEST

Term Expires 1941

J. H. NUELLE
E. B. LEISENRING
GEORGE L. OHRSTROM

GENERAL OFFICERS

HENRY H. PEASE. *Vice-President and Secretary*
WILLIAM JAY TURNER. *General Counsel*
T. P. SCOW. *Treasurer*
F. M. FISHER. *Comptroller*
R. V. PIERCE. *Assistant Secretary*
HENRY LODGE. *Assistant Secretary*
GEORGE CRAIG. *Assistant Treasurer*
G. K. McALLISTER *Assistant Comptroller*

PHILADELPHIA, PA., February 24, 1938.

*To the Stockholders of
The Lehigh Coal and Navigation Company:—*

The Board of Managers respectfully submits the One Hundred and Seventeenth Annual Report covering the business of your Company for the fiscal year ended December 31, 1937 :

INCOME

The net income of your Company for the year 1937, accruing from its direct operations and from railroad rentals, dividends from subsidiary and other companies, and income from other sources, but not including the undistributed earnings and losses of subsidiary companies, the stock of which is owned or controlled by your Company, was \$1,225,576.06 as shown on the Income Account on page 15.

Giving effect to the earnings and losses of subsidiary companies, the consolidated net loss of your Company amounted to \$306,510.53 as shown on the Consolidated Income Account on Page 18.

For details of the financial condition of your Company, as well as the consolidated financial condition of your Company and its subsidiaries, as of December 31, 1937, together with the operating results during the year, reference is made to the following statements, which have been certified as correct by Messrs. Lybrand, Ross Bros. & Montgomery, Certified Public Accountants, as shown by their certificate on page 12:

General Balance Sheet, page 14.

Income Account, page 15.

Surplus Account, page 15.

Consolidated Balance Sheet, pages 16 and 17.

Consolidated Income Account, page **18**.

Consolidated Profit and Loss Account-Surplus from Income, page 19.

Statement of Funded Debt, page 20.

Securities Owned, page 21.

CAPITAL STOCK AND FUNDED DEBT

There were canceled 938 shares of the common capital stock of your Company without nominal or par value, previously acquired by your Company, the number of shares outstanding being reduced from 1,930,065 to 1,929,127. Of these shares, there are reserved 63

for issuance in exchange for 21 shares of the \$50.00 par value common capital stock not yet presented, 5 shares having been exchanged during the year.

Bonds issued under the Funding and Improvement Mortgage of 1898, to the amount of \$8,000.00, were called for redemption during the year. The funds for this purpose were provided by the payment to the trustee by your Company of \$8650.00, under the sinking fund provisions of the Mortgage. The bonds thus called were Series A, Nos. A **1155**, 2295 and 2628, and Series B, Nos. B 3028, 3049, 3176, 3180 and 4003. At the end of the year, the amount of Funding and Improvement Mortgage Bonds outstanding in the hands of the public and not called for redemption was \$3,492,000.00.

Bonds issued under the Consolidated Sinking Fund Mortgage of **1914**, to the amount of \$68,000.00, were called for redemption during the year. The funds for this purpose were provided by the payment to the trustee by your Company of \$59,096.07, under the sinking fund provisions of the Mortgage, together with \$7,350.00, being the proceeds from the redemption, under the sinking fund provisions, of \$7,000.00 of The Panther Valley Water Company General Mortgage Sinking Fund 6% Gold Bonds, pledged under the Consolidated Sinking Fund Mortgage. At the end of the year, the amount of Consolidated Mortgage Sinking Fund Gold Bonds outstanding in the hands of the public and not called for redemption was \$19,456,000.00.

The total amount of funded debt of your Company outstanding in the hands of the public and not called for redemption at the close of the year was \$22,948,000.00, a decrease of \$76,000.00 during the year.

A detailed statement of the funded debt of your Company appears on page 20.

In addition to the funded debt of your Company, there were outstanding in the hands of the public at the end of the year bonds, equipment trust obligations and serial notes of subsidiary companies as follows: \$7,320,000.00 bonds, \$1,312,000.00 equipment trust obligations, and \$855,000.00 serial notes, of the Lehigh and New England Railroad Company; \$500,000.00 bonds of the Wilkes-Barre and Scranton Railway Company (guaranteed principal and interest by your Company); and \$25,900.00 bonds of the Summit

Hill Water Company; making the total funded debt of your Company and its subsidiaries outstanding in the hands of the public at the end of the year, and not called for redemption, \$32,960,900.00, as shown on the Consolidated Balance Sheet on page 17, a decrease of \$140,200.00 as compared with the previous year. This decrease is due to the following retirements: \$38,000.00 Lehigh and New England Railroad Company General Mortgage 4% Bonds, Series A, under the terms of the sinking fund; \$130,000.00 Lehigh and New England Equipment Trust Certificates, Series F, Series G and Series J; \$145,000.00 Lehigh and New England Serial Notes, Issue of 1936; \$1,200.00 Summit Hill Water Company Bonds, under the terms of the sinking fund; and \$76,000.00 of bonds of your Company as noted above—offset by the issue of \$250,000.00 Equipment Trust Certificates, Series K, of the Lehigh and New England Railroad Company.

There are also outstanding \$392,000.00 General Mortgage Sinking Fund 6% Gold Bonds of The Panther Valley Water Company, a subsidiary. All of these bonds are owned by your Company and are pledged under its Consolidated Sinking Fund Mortgage of 1914.

CANALS

The Lehigh Canal was maintained, and water powers were operated throughout the year.

Canal operations for the year show a net loss of \$46,469.55, compared with a net loss of \$64,833.62 for the previous year.

Charges to operation on account of Depreciation of Canal Boats and Other Equipment amounted to \$6,002.96.

As stated in the Annual Report for 1936, the Commonwealth of Pennsylvania having advised The Delaware Division Canal Company of Pennsylvania that in its opinion the Act of 1931 was unconstitutional and the conveyance to the Commonwealth under the provisions thereof was void, proceedings were instituted in the Supreme Court of Pennsylvania by certain tax-payers of Bucks County with a view to determining the constitutionality of the Act. On May 25, 1936, that Court decided that the Act was unconstitutional and void and the title to the portion of the canal conveyed to the Commonwealth in 1931 therefore remained in The Delaware Division Canal Company of Pennsylvania.

Following this decision, the Commonwealth by its Attorney General claimed a forfeiture of the Canal Company's property, and on February 2, 1937 instituted proceedings in equity in the Court of Common Pleas of Dauphin County against the Canal Company, seeking a decree of forfeiture of the property which the Canal Company acquired in 1858 from the Commonwealth, through the Sunbury and Erie Railroad Company, under and subject to the covenants, restrictions and conditions contained in the Act of Assembly approved April 21, 1858. While testimony has been presented, the proceedings are still pending.

The operations of The Delaware Division Canal Company in 1937 resulted in a net loss of \$9,965.83, compared with a net loss of \$66,921.16 in the previous year.

WATER

The operations of The Panther Valley Water Company and the Summit Hill Water Company, controlled by your Company and serving the territory between Nesquehoning and Tamaqua, including the Borough of Summit Hill, resulted in a consolidated net income of \$35,388.26, a decrease of \$275.96 as compared with the previous year.

GENERAL

The rentals received by your Company during the year from The Central Railroad Company of New Jersey for the Lehigh & Susquehanna Railroad and Branches amounted to \$2,279,040.51. In addition thereto, The Central Railroad Company of New Jersey paid your Company as rental under assignment of lease of the Wilkes-Barre and Scranton Railway \$66,606.48. Out of the latter amount your Company paid the Wilkes-Barre and Scranton Railway Company \$52,545.57 with which to pay its interest, dividends, taxes and corporate expenses.

The operations of Greenwood Corporation (the capital stock of which is owned by your Company) and its subsidiary retail companies resulted in the sale during the year of 806,885 net tons of coal, of which 684,455 were anthracite, compared with total sales during the previous year of 831,858 net tons of coal, of which 707,735 were anthracite. The number of such subsidiary companies owning or controlling retail coal yards is fifteen. These yards are situated in New York City and various other cities in anthracite consuming

territory, and provide additional outlets for the product of Lehigh Navigation Coal Company Incorporated. As a whole, however, they have been operated at a loss owing to unstable competitive conditions which have resulted in many retail dealers, particularly in Greater New York, receiving inadequate margins for their services.

The consolidated net loss of Greenwood Corporation and its subsidiaries was \$63,069.49 for the year, after provisions for reserves for depreciation and bad debts, compared with a consolidated net loss of \$149,220.44 for the previous year.

Your Company's investment in the capital stock of Greenwood Corporation amounts to \$1,250,000.00. Your Company has also made advances to that Corporation from time to time of \$2,290,785.00 (of which \$1,075,000.00 was advanced during 1937) to finance its subsidiary companies in carrying out improvements to their retail distributing yards, acquiring additional property and providing necessary operating capital.

Two dividends of 15 cents per share each, aggregating \$578,738.10, were paid during the year on the 1,929,127 shares of the common capital stock of your Company without nominal or par value.

The following dividends were received by your Company from its ownership of the several stocks mentioned:

	1937	1936		
National Power & Light Company Common.	\$420,000.00	\$420,000.00		
Lehigh and New England Railroad Company.	67,985.00	271,940.00	Decrease	\$203,955.00
Lehigh and Hudson River Railway Company.	46,820.00	46,820.00		
Wilkes-Barre and Scranton Railway Company.	25,000.00	25,000.00		
Allentown Terminal Railroad Company.	11,250.00	11,250.00		
Panther Valley Water Company.		14,000.00	Decrease	14,000.00
Greenwood Corporation.		3,125.00	Decrease	3,125.00
Glen Alden Coal Company.	1,000.00	3,000.00	Decrease	2,000.00
Lehigh and Wilkes-Barre Coal Company of New Jersey (Liquidating).	375.00	375.00		
Total.	<u>\$572,430.00</u>	<u>\$795,510.00</u>	Decrease	<u>\$223,080.00</u>

On December 7, 1937, Lehigh Navigation Coal Company (a wholly owned subsidiary of your Company) duly assigned, transferred, set over and delivered as of November 30, 1937, to Lehigh Navigation Coal Corporation, organized under the laws of the Commonwealth of Pennsylvania, all of its personal property, subject to the payment of its ascertained and stated liabilities, in exchange for and in consideration of the issuance and delivery to it of all the authorized no par capital stock of Lehigh Navigation Coal Corporation, to wit, 50,000 shares. On December 8, 1937, Lehigh Navigation Coal Company duly leased to Lehigh Navigation Coal Corporation for a term of ten years and one month from December 1, 1937, all its coal lands and mining properties, breakers, buildings, mining and other improvements appurtenant thereto situate in Carbon and Schuylkill Counties east of the Little Schuylkill River and west of the Mauch Chunk Borough Line.

Thereafter Lehigh Navigation Coal Company, pursuant to resolutions duly adopted by its directors and stockholders and by the Board of Managers of your Company, elected to dissolve in accordance with the Plan of Liquidation set forth in said resolutions, and on December 14, 1937, filed with the Department of State of the Commonwealth of Pennsylvania its Certificate of Election to Dissolve. Thereafter on December 21 and 31, 1937, Lehigh Navigation Coal Company, pursuant to said Plan of Liquidation adopted as aforesaid, distributed, assigned, transferred and conveyed to your Company, its sole stockholder, all of its remaining assets, including, *inter alia*, all its right, title and interest in and to its coal lands and mining properties, breakers, buildings, mining and other improvements appurtenant thereto and all other lands and improvements situate in Carbon and Schuylkill Counties, Pennsylvania, and elsewhere, as well as the lease to Lehigh Navigation Coal Corporation above described, together with the 50,000 shares of no par capital stock of that corporation, in complete liquidation of its affairs and in complete cancelation and redemption of all its capital stock, which was canceled and redeemed on December 31, 1937.

As of December 16, 1937, the name of Lehigh Navigation Coal Corporation was duly changed to Lehigh Navigation Coal Company Incorporated.

Additional advances were made by your Company during the year to Lehigh Navigation Coal Company, amounting to \$400,000.00, for capital expenditures, payment of taxes and current expenses, making the total advances assumed by Lehigh Navigation Coal Company Incorporated \$2,300,000.00.

Liquidation of Lehigh Navigation Coal Company has caused certain changes in the balance sheet of your Company. The asset of \$24,420,257.16 is the value of the coal lands, breakers and real estate received in liquidation. The decrease in bonds and stocks of affiliated companies is chiefly the difference between the book value of the capital stock of Lehigh Navigation Coal Company and the book value of the capital stock of Lehigh Navigation Coal Company Incorporated. The increase in advances to affiliated companies and the decrease in accounts receivable from affiliated companies is caused by a change in classification whereby temporary loans to Lehigh Navigation Coal Company of \$1,900,000 in 1935 and 1936 and \$400,000 in 1937 were made a permanent advance to Lehigh Navigation Coal Company Incorporated. The increase in depreciation reserve is the depreciation accrued on property received from Lehigh Navigation Coal Company. The decrease in surplus account is caused principally by the **loss** sustained in the dissolution of Lehigh Navigation Coal Company as shown in the statement of the Surplus Account on page 15. This amount is the loss sustained in the operation of Lehigh Navigation Coal Company during the years 1936 and 1937, after sundry adjustments.

Report showing the operations of Lehigh Navigation Coal Company (the capital stock of which was controlled by your Company) for the eleven months ended November 30, 1937, is shown on pages 23 to 29. Reports showing the operations of Lehigh Navigation Coal Company Incorporated for the month of December, 1937, and of Lehigh and New England Railroad Company for the year 1937 are shown on pages 30 to 42. The capital stocks of these companies are controlled by your Company.

The Schuylkill Water Company, all of whose capital stock was owned by your Company, was dissolved by decree of the Court of Common Pleas of Philadelphia County dated April 27, 1937, filed in the Office of the Secretary of the Commonwealth on May 7, 1937. The Schuylkill Water Company was chartered in 1882, but for many

years has owned no property and has not been engaged in any activities. Your Board of Managers therefore determined that the charter was without value, and following the dissolution of the corporation authorized the charging against surplus of the book value of the stock of and advances to the said Water Company, namely, \$6,104.02.

On February 25, 1937, Mr. J. H. Nuelle was elected a member of the Board of Managers to serve for the unexpired term of the Honorable Edward J. Fox, deceased.

In accordance with the desire of Mr. S. D. Warriner, who had served as President of your Company since July 1, 1912, to be relieved of some of his duties, he was elected Chairman of the Board, effective April 1, 1937. He was succeeded as President by Mr. J. H. Nuelle.

The Board acknowledges its appreciation of the services rendered by the officers and employees during the year.

By order of the Board of Managers.

J. H. NUELLE,
President.

1937

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The Lehigh Coal and Navigation Company

LYBRAND, ROSS BROS. & MONTGOMERY

Certified Public Accountants

PACKARD BUILDING

PHILADELPHIA

February 14, 1938.

*Mr. J. H. Nuelle, President,
The Lehigh Coal and Navigation Company,
Philadelphia.*

We have made an examination of the balance sheets of

**THE LEHIGH COAL AND NAVIGATION COMPANY
AND ITS SUBSIDIARY COMPANIES**

other than the Lehigh and New England Railroad Company and its subsidiaries as at December 31, 1937, and of the related statements of income and surplus for the year 1937. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies. We also made a general review of their accounting methods and of the operating and income accounts for the year, but we did not make detailed audits of the transactions.

The consolidated balance sheet of the Lehigh and New England Railroad Company and its subsidiaries as at December 31, 1937, and the related statements of income and profit and loss for the year 1937 were examined by Messrs. Haskins & Sells, and their certificate indicates the scope of their examination to have been equivalent to that outlined above.

On February 2, 1937, legal proceedings were instituted by the Commonwealth of Pennsylvania seeking a decree of forfeiture of the canal property of The Delaware Division Canal Company of Pennsylvania on the ground of its failure to maintain the same as a public highway or waterway. The proceedings are still pending before the court.

In our opinion, based upon such examinations, and subject to the foregoing explanations, the accompanying foreword to the financial statements, balance sheets and related statements of income and surplus and schedules, fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the position of The Lehigh Coal and Navigation Company at December 31, 1937, and the results of its operations for the year ended that date, and the consolidated position of The Lehigh Coal and Navigation Company and its Subsidiary Companies at December 31, 1937, and the results of their consolidated operations for the year ended that date.

LYBRAND, ROSS BROS. & MONTGOMERY

FOREWORD TO FINANCIAL STATEMENTS

On December 7, 1937, Lehigh Navigation Coal Company (a wholly owned subsidiary of The Lehigh Coal and Navigation Company) duly assigned, transferred, set over and delivered as of November 30, 1937, to Lehigh Navigation Coal Corporation, organized under the laws of the Commonwealth of Pennsylvania, all of its personal property, subject to the payment of its ascertained and stated liabilities, in exchange for and in consideration of the issuance and delivery to it of all the authorized no par capital stock of Lehigh Navigation Coal Corporation, to wit, 50,000 shares. On December 8, 1937, Lehigh Navigation Coal Company duly leased to Lehigh Navigation Coal Corporation for a term of ten years and one month from December 1, 1937, all its coal lands and mining properties, breakers, buildings, mining and other improvements appurtenant thereto situate in Carbon and Schuylkill Counties east of the Little Schuylkill River and west of the Mauch Chunk Borough line.

Thereafter Lehigh Navigation Coal Company, pursuant to resolutions duly adopted by its directors and stockholders and by the Board of Managers of The Lehigh Coal and Navigation Company, elected to dissolve in accordance with the Plan of Liquidation set forth in said resolutions and on December 14, 1937, filed with the Department of State of the Commonwealth of Pennsylvania its Certificate of Election to Dissolve. Thereafter on December 21, and 31, 1937, Lehigh Navigation Coal Company, pursuant to said Plan of Liquidation adopted as aforesaid, distributed, assigned, transferred and conveyed to The Lehigh Coal and Navigation Company, its sole stockholder, all of its remaining assets, including, *inter alia*, all its right, title and interest in and to its coal lands and mining properties, breakers, buildings, mining and other improvements appurtenant thereto and all other lands and improvements situate in Carbon and Schuylkill Counties, Pennsylvania, and elsewhere, as well as the lease to Lehigh Navigation Coal Corporation above described, together with the 50,000 shares of no par capital stock of that corporation, in complete liquidation of its affairs and in complete cancellation and redemption of all its capital stock, which was cancelled and redeemed on December 31, 1937.

(As of December 16, 1937, the name of Lehigh Navigation Coal Corporation was duly changed to Lehigh Navigation Coal Company Incorporated.)

THE LEHIGH COAL AND NAVIGATION COMPANY

GENERAL BALANCE SHEET, December 31, 1937.

ASSETS :		
Coal lands and mining property.....		\$24,420,257.16
Railroads, canal and other fixed assets.....		19,670,040.95
Bonds and stocks of affiliated companies.....	\$14,100,391.66	
(Includes bonds and stocks pledged aggregating \$9,210,027.80)		
Other investments (see note).....	3,516,846.37	
	17,617,238.03	
Advances to affiliated companies.....		6,246,735.48
WORKING ASSETS :		
Cash (includes \$650,700.49 time deposits).....	\$1,706,648.93	
Notes receivable.....	673.00	
Sundry debtors :		
Affiliated companies..... \$25 7,2 74.04		
Others..... 90,694.42		
	347,968.46	
Materials and supplies.....	15,917.61	
	2,071,208.00	
Suspended debit accounts.....		361,737.07
		\$70,387,216.69
LIABILITIES :		
Funded debt.....	\$37,246,000.00	
Less treasury bonds :		
Pledged..... \$400,000.00		
Unpledged..... 13,898,000.00		
	14,298,000.00	
		- \$22,948,000.00
WORKING LIABILITIES :		
Audited vouchers and pay rolls.....	\$77,952.31	
Accrued taxes.....	826,612.37	
Matured and accrued interest on funded debt...	510,147.50	
Dividends unclaimed.....	11,753.01	
Affiliated companies.....	5,799.89	
	1,432,265.08	
Suspended credit accounts.....		31,288.26
RESERVES:		
Depreciation.....	\$6,960,915.83	
Depletion, since December 1, 1937.....	6,517.48	
Uncollectable accounts.....	5,958.52	
	6,973,391.83	
		\$31,384,945.17
CAPITAL STOCK AND SURPLUS:		
Capital stock:		
1,929,064 shares, no par value.....	} \$32,152,116.67	
21 shares, \$50 par value.....		
(Exchangeable for 63 shares of no par value stock).....		
Surplus.....	6,850,154.85	
		39,002,271.52
		\$70,387,216.69

NOTE: Of these investments, certain securities aggregating \$2,868,070.71 amount to \$5,086,000 based on market quotations at December 31, 1937. The remaining securities included herein are not quoted.

The Company is guarantor of subsidiary company's bonds
aggregating \$500,000.

THE LEHIGH COAL AND NAVIGATION COMPANY
INCOME ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1937.

REVENUES:	
Railroad rentals	\$2,293,101.42
Dividends	572,430.00
Interest	112,152.69
Canal revenue	45,288.39
Miscellaneous	128,428.91
	\$3,151,401.41
EXPENSES:	
Interest	\$1,016,791.29
Taxes other than Federal income and undistributed profits taxes	292,117.70
Depreciation and depletion	63,004.02
Canal operation	91,757.94
Operating expenses	39,585.16
General expenses	172,703.88
	1,675,959.99
	\$1,475,441.42
Provision for Federal income tax	\$139,499.98
Provision for Federal undistributed profits tax	110,365.38
	249,865.36
Net income	\$1,225,576.06

THE LEHIGH COAL AND NAVIGATION COMPANY
SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1937.

	Debit	Credit
Balance, January 1, 1937		\$8,284,605.27
Net income for the year ended December 31, 1937		1,225,576.06
Sundry accounts adjusted	\$22,785.66	
Loss sustained by reason of dissolution of the following wholly owned subsidiaries :		
Lehigh Navigation Coal Co.	2,052,398.70	
Schuylkill Water Co.	6,104.02	
DIVIDENDS:		
1937 May 29, \$.15 per share on 1,929,127 shares.	\$289,369.05	
Nov. 30, \$.15 per share on 1,929,127 shares.	289,369.05	
	578,738.10	
Total dividends year 1937		578,738.10
Balance, surplus from income December 31, 1937	6,850,154.85	
	\$9,510,181.33	\$9,510,181.33
Balance brought forward, January 1, 1938		\$6,850,154.85

THE LEHIGH COAL AND NAVIGATION

CONSOLIDATED BALANCE

ASSETS :		
Coal lands, mining and marketing property.		\$3 1,503,589.27
Canal property.		3,737,764.78
Railroad property.		40,891,620.66
Waterproperty.		3,187,290.91
Real estate.		943,679.24
INVESTMENTS (see note):		
Free.	\$3,580,146.37	
Pledged.	222,500.00	
		<u>3,802,646.37</u>
WORKING ASSETS:		
Cash (includes \$650,700.49 time deposits).	3,005,422.64	
Customers' notes and accounts receivable, less reserve.	2,518,048.59	
Coal (in storage and in transit).	1,342,981.01	
Material and supplies.	824,870.37	
Sundry debtors.	539,752.21	
Working funds.	61,675.25	
		<u>8,292,750.07</u>
DEFERRED AND SUSPENDED ACCOUNTS.		1,251,871.68
SINKING FUND ASSETS.		9,585.82

\$93,620,798.80

NOTE: Of these investments, certain securities aggregating \$2,868,070.71 amount to \$5,086,000, based on market quotations at December 31, 1937. The remaining securities included herein are not quoted.

COMPANY and SUBSIDIARY COMPANIES

SHEET, DECEMBER 31, 1937.

LIABILITIES:		
FUNDED DEBT		\$47,258,900.00
Less treasury bonds :		
Pledged.	\$400,000.00	
Unpledged.	13,898,000.00	
	-	14,298,000.00
MORTGAGE PAYABLE		\$32,960,900.00
		260,625 .00
WORKING LIABILITIES:		
Audited vouchers and pay rolls.	1,426,269.62	
Sundry creditors.	44,580.65	
Accrued taxes.	1,128,978.60	
Matured and accrued interest.	623,315.77	
	-----	3,223,144.64
DEFERRED AND SUSPENDED ACCOUNTS		401,636.96
RESERVES:		
Depletion, since December 1, 1937	6517.48	
Depreciation.	13,075,134.94	
Workmen's compensation insurance.	286,043.88	
Amortization of stripping costs.	111,199.15	
	-	13,478,895.45
MINORITY INTERESTS		45,110.22

		\$50,370,312.27

CAPITAL STOCK AND SURPLUS:

Capital stock, authorized 3,000,000 shares:

Issued :		
1,929,064 shares, no par value.	}	\$32,152,116.67
21 shares, \$50 par value.		
(Exchangeable for 63 shares of no par value stock)		

SURPLUS:

Capital-Represents net excess of par values of stocks and bonds of subsidiary companies over amount at which carried on the books of the parent company, net of goodwill of certain other subsidiaries eliminated.	\$2,402,520.03	
appropriated under rulings of Inter- state Commerce Commission	51,621.56	
Appropriated-Sinking fund re- serves.	47,880.21	
Funded debt retired through in- come and surplus.	159,903.81	
Profit and loss--Surplus from income.	8,436,444.25	
	-	11,098,369.86

		43,250,486.53

		\$93,620,798.80

**THE LEHIGH COAL AND NAVIGATION COMPANY
AND SUBSIDIARY COMPANIES**

CONSOLIDATED INCOME ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1937.

Gross earnings.		\$20,324,599.60
Operating expenses, including provision for workmen's compensation and uncollectable accounts.		19,488,386.73
		<u>\$836,212.87</u>
Railroad rental.	\$2,345,646.99	
Dividends.	479,445.00	
Interest.	29,138.72	
Miscellaneous.	102,989.96	
		<u>2,957,220.67</u>
		<u>\$3,793,433.54</u>
Taxes, other than Federal income and undistributed profits taxes.	\$1,249,397.38	
Depreciation and depletion.	840,593.19	
Interest.	1,424,834.02	
General expenses.	286,386.53	
		<u>3,801,211.12</u>
Loss before provision for Federal income and undistributed profits taxes.		\$7,777.58
Provision for Federal income tax.		178,664.75*
		<u>\$186,442.33</u>
Provision for Federal undistributed profits taxes.		118,191.98*
		<u>\$304,634.31</u>
Net income apportioned to minority interests.		1,876.22
		<u>\$306,510.53</u>

* Provision computed under individual tax returns of certain companies included in the consolidation.

THE LEHIGH COAL AND NAVIGATION COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT- SURPLUS FROM INCOME
FOR THE YEAR ENDED DECEMBER 31, 1937.

Balance, January 1, 1937	\$9,626,871.33
Loss for the year ended December 31, 1937, as annexed.	306,510.53
	<u>\$9,320,360.80</u>
Assets written off or abandoned..	\$351,139.56
Surplus appropriated for sinking fund.	47,331.39
	<u>\$398,473.95</u>
Sundry adjustments, net.	54,451.50
	<u>344,022.45</u>
	<u>\$8,976,338.35</u>
Dividends paid..	578,753.10
	<u>\$8,397,585.25</u>
Adjustment for minority interests, &c.....	38,857.00
Balance, December 31, 1937..	<u>\$8,436,442.25</u>

THE LEHIGH COAL AND NAVIGATION COMPANY
STATEMENT OF FUNDED DEBT, DECEMBER 31, 1937.

	<i>Dates of Maturity</i>	<i>Rates</i>	<i>Payable</i>	<i>Interest</i>	
				<i>Accrued during the Year</i>	<i>Principal</i>
Funding and Improvement Fifty-Year Gold Bonds:					
Series A, Coupon.....	1948 Jul 1	4 pct.	Jan 1, Jul 1	\$139,840.00	\$3,492,000.00
Series B, Coupon.....	" 1	4 pct.	Jan 1, Jul 1		
Consolidated Mortgage Sinking Fund Gold Bonds:					
Series A, Coupon and Registered.....	1954 Jan 1	4½ pct.	Jan 1, Jul 1	876,914.00	13,664,000.00
Series C, Coupon and Registered.....	" 1	4½ pct.	Jan 1, Jul 1		
Total interest accrued during year.....				\$1,016,754.00	
Total funded debt outstanding in the hands of the public, December 31, 1937.....					\$22,948,000.00
Amount of Company's securities in treasury:					
Consolidated Mortgage Sinking Fund Gold Bonds:					
Series A.....				2,325,000.00*	
Series B.....				3,390,000.00	
Series C.....				858,300.00	
Total Company's securities in treasury.....					14,298,000.00
Total funded debt, per general balance sheet, page 14.....					\$37,246,000.00

* Treasury bonds aggregating \$400,000 are pledged.

THE LEHIGH COAL AND NAVIGATION COMPANY

SECURITIES OWNED, December 31, 1937.

	3,000 shs.	Capital stock Allentown Iron Company, par value per share \$41.60
*4,500	"	Capital stock Allentown Terminal Railroad Company, par value per share \$50
	200	" Capital stock Blue Ridge Real Estate Company (10 pct. paid), par value per share \$50
*32,069	"	Capital stock Delaware Division Canal Company of Pennsylvania, par value per share \$50
	2,000	" Capital stock Glen Alden Coal Company, no par value
	25,000	" Capital stock Greenwood Corporation, no par value
	50,000	" Capital stock Lehigh Navigation Coal Company Incorporated, no par value
	9,364	" Capital stock Lehigh & Hudson River Railway Company, par value per share \$100
*135,970	"	Capital stock Lehigh & New England Railroad Company, par value per share \$50
	500	" Capital stock Lehigh & Wilkes-Barre Coal Company of New Jersey, no par value
	100	" Capital stock Monroe Water Supply Company (10 pct. paid), par value per share \$50
	700,000	" Capital stock National Power & Light Company common, no par value
*28,372	"	Capital stock Nesquehoning Valley Railroad Company, par value per share \$50
*7,000	"	Capital stock Panther Valley Water Company, par value per share \$100
	2,475	" Capital stock Summit Hill Water Company, par value per share \$10
*2,600	"	Capital stock Tresckow Railroad Company, par value per share \$50
*10,000	"	Capital stock Wilkes-Barre & Scranton Railway Company, par value per share \$50
*\$392,000		Par value Panther Valley Water Company General Mortgage Sinking Fund 6 pct. Gold Bonds, due 1943

Mortgages and miscellaneous securities

Book value of the above \$17,617,238.03

* Pledged, with the exception of qualifying shares, under the mortgages of The Lehigh Coal and Navigation Company.

**ANNUAL REPORT OF
LEHIGH NAVIGATION COAL COMPANY**

On December 7, 1937, Lehigh Navigation Coal Company (a wholly owned subsidiary of The Lehigh Coal and Navigation Company) duly assigned, transferred, set over and delivered as of November 30, 1937, to Lehigh Navigation Coal Corporation, organized under the laws of the Commonwealth of Pennsylvania, all of its personal property, subject to the payment of its ascertained and stated liabilities, in exchange for and in consideration of the issuance and delivery to it of all the authorized no par capital stock of Lehigh Navigation Coal Corporation, to wit, 50,000 shares. On December 8, 1937, Lehigh Navigation Coal Company duly leased to Lehigh Navigation Coal Corporation for a term of ten years and one month from December 1, 1937, all its coal lands and mining properties, breakers, buildings, mining and other improvements appurtenant thereto situate in Carbon and Schuylkill Counties east of the Little Schuylkill River and west of the Mauch Chunk Borough line.

Thereafter Lehigh Navigation Coal Company, pursuant to resolutions duly adopted by its directors and stockholders and by the Board of Managers of The Lehigh Coal and Navigation Company, elected to dissolve in accordance with the Plan of Liquidation set forth in said resolutions, and on December 14, 1937, filed with the Department of State of the Commonwealth of Pennsylvania its Certificate of Election to Dissolve. Thereafter on December 21 and 31, 1937, Lehigh Navigation Coal Company, pursuant to said Plan of Liquidation adopted as aforesaid, distributed, assigned, transferred and conveyed to The Lehigh Coal and Navigation Company, its sole stockholder, all of its remaining assets, including, *inter alia*, all its right, title and interest in and to its coal lands and mining properties, breakers, buildings, mining and other improvements appurtenant thereto and all other lands and improvements situate in Carbon and Schuylkill Counties, Pennsylvania, and elsewhere, as well as the lease to Lehigh Navigation Coal Corporation above described, together with the 50,000 shares of no par capital stock of that corporation, in complete liquidation of its affairs and in complete cancelation and redemption of all its capital stock, which was canceled and redeemed on December 31, 1937.

As of December 16, 1937, the name of Lehigh Navigation Coal Corporation was duly changed to Lehigh Navigation Coal Company Incorporated.

The results of the operations of Lehigh Navigation Coal Company for that part of the year 1937 ending November 30th, after deduction of charges for taxes, depletion and depreciation, show a net loss of \$1,789,706.50, as compared with a net loss of \$759,530.80 in the previous year. This increase in net loss was due to decreased sales and to higher labor costs arising from the seven hour day and social security taxes, as detailed hereafter, as well as lower prices realized for the coal sold. The period was a very unsatisfactory one for the Anthracite Industry as a whole as well as for this Company. In January and February the weather was mild and the demand light. In March prices broke sharply to very low levels and increased but slightly above these levels during the remainder of the year. The weather in the last few months of the year was somewhat more seasonable, but the increase in sales which then occurred was not sufficient to make up the deficiency of the early months or to bring about a material increase in prices. Had the Company received from the sale of its product throughout the period the same average prices as prevailed in 1936, the loss above stated would have been reduced to approximately \$983,000, despite the decreased sales and material increases in the cost of production.

The Income and Deficit Accounts of the Company for the eleven months ended November 30, 1937, will be found on page 29. These statements have been certified as correct by Messrs. Lybrand, Ross Bros. & Montgomery, Certified Public Accountants, as shown by their certificate on page 28.

The production of commercial anthracite by the Company for the period January 1st to November 30th was 2,223,886 net tons, a decrease, as compared with the same period of the previous year, of approximately 12.6 per cent. There were sold during the same period 2,174,771 net tons, a decrease, as compared with the corresponding period of 1936, of approximately 14.8 per cent. The production from the Company's lands by lessees was **107,010** net tons, a decrease of 10.8 per cent. These decreases were largely due to the abnormal conditions prevailing in the early months of the year.

Bootleg mining of coal from the lands of the companies in the Southern Anthracite Field continued but at a diminished rate due to the fact that New York, New Jersey and Maryland prohibited by legislative enactments the transportation of stolen coal into their territories. The Commission appointed by Governor Earle to study the bootleg problem as well as other problems of the Anthracite Industry has thus far failed to advance any practical solution of the bootleg problem.

On January 1st, under the provisions of the social security laws, the taxes imposed on this Company for old age pensions and unemployment insurance were largely increased and amounted for the year to approximately three per cent. of the payroll, with the result that the cost of mining in 1937 was increased by these taxes approximately nine cents per ton, or six cents per ton more than in 1936.

On May 1st, under the terms of the general agreement with the United Mine Workers of America, the eight hour day previously in effect in the Industry was replaced by a seven hour day. Wages to the mine workers were continued at the same daily rate under the seven hour day as were previously paid under the eight hour day, resulting in materially increased costs.

There were numerous labor disturbances throughout the year, many of which arose from conflicting interpretations of the provisions of the agreement relating to the seven hour day. These culminated in a long strike at all the operations of the Company, extending from July 12th to August 20th. Later, on October 5th, a unique strike occurred at Coaldale No. 8 Colliery when the miners on the lowest level of the mine, instead of complying with the prescribed procedure for adjustment of disputes, decided to remain in the mine until their demands were granted. After some of the miners had been brought from the mine on account of sickness, the miners at the other collieries quit work in sympathy with the strikers. Shortly thereafter this strike was settled by intervention of the Governor of Pennsylvania, who succeeded in persuading the miners to leave the mine and to compose their grievance by negotiation. After these disturbances, a large number of the employees seemed to realize that a more cooperative spirit must be shown to insure successful operation of the Company's mines.

In November, an agreement was made with the United Mine Workers of America extending the existing agreement, which would have expired April 30, 1938, for another year, or until April 30, 1939. This extension was deemed advisable in order to avoid a possible interruption to operations after April 30, 1938, which would have hindered the efforts of the Industry to regain its markets.

The State Legislature, during the year, passed a new Workmen's Compensation Act, effective January 1, 1938, as well as an Act providing for compensation to workmen suffering from occupational diseases. Compensation provisions for injured workmen under prior Acts were liberal and a heavy burden upon the employer, especially in the Anthracite Industry where the payroll is a large proportion of the total cost. It was estimated that this legislation would triple this Company's compensation costs. As the Act provided that an employer could accept the Act or reject it by giving sixty days' notice to its employees, this Company rejected the Act as of November 1st, serving due notice upon each of its employees and filing evidence of having done so with the proper State authorities. This Company has always favored liberal compensation for injured employees, but the new Act increased costs to such an extent that compliance with it was deemed impossible.

In July, the Supreme Court of Pennsylvania sustained the appeal of this Company from the valuations set by the lower court on the coal lands in Mauch Chunk Township, and fixed revised values thereon approximately fifty per cent. less than the assessment originally made by the County Commissioners. In line with this decision of the Supreme Court, the Carbon County Court rendered a decision in the Borough of Summit Hill appeal reducing the assessed valuation of the coal lands located therein. A reduction along similar lines in the assessed valuation of the coal lands in the Borough of Lansford was then negotiated with the Carbon County Commissioners.

The Company not being satisfied with the assessments made by the County Commissioners in Schuylkill County, has appealed therefrom, and the proceedings in these appeals are now pending.

Many economies were put into effect during the year, but these were offset in part by higher labor costs due to the seven hour day

and social security taxes, as detailed above. The properties of the Company were fully maintained throughout the year and the necessary development work carried on.

Borrowings during the year to meet expenses increased by \$400,000 to \$2,300,000.

Mr. G. W. Seiler, General Sales Manager, resigned on April 15th and was succeeded by Mr. W. L. Banta.

Anthracite Industries, Incorporated, the formation of which was reported last year, continued to promote for the Industry the development and sales of modern anthracite burning equipment. Material progress has been made in acquainting the public with modern developments in the use of Anthracite.

Respectfully submitted,

J. B. WARRINER,
President.

LYBRAND, ROSS BROS. & MONTGOMERY

*Certified Public Accountants***PACKARD BUILDING****PHILADELPHIA**

February 14, 1938.

*Mr. J. B. Warriner, President,
Lehigh Navigation Coal Co.,
Philadelphia.*

We have made an examination of the accounts of

LEHIGH NAVIGATION COAL C O .

and of the statements of income and deficit for the eleven months ended November 30, 1937, as at which date the Company's assets, net of its liabilities, were surrendered in exchange for its capital stock and the Company dissolved. In connection therewith, we examined or tested accounting records of the Company and other supporting evidence and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting methods and of the operating and income accounts for the period, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying statements of income and deficit fairly present, in accordance with accepted principles of accounting consistently maintained by the Company during the period under review, the results of its operation for the eleven months ended November 30, 1937.

LYBRAND, ROSS BROS. & MONTGOMERY

LEHIGH NAVIGATION COAL CO.

INCOME ACCOUNT

FOR THE ELEVEN MONTHS ENDED NOVEMBER 30, 1937.

Coal: Revenue (including sales to affiliated companies)		\$10,091,465.43
Expenses.	\$10,790,580.98	
Property taxes	450,641.25	
Depletion.	49,492.58	
Depreciation.	368,635.39	
		<u>11,659,350.20</u>
Loss before general expenses and fixed charges.		\$1,567,884.77
General expenses and fixed charges:		
General administrative expenses.	\$70,790.92	
General taxes.	63633.42	
Sinking fund assumed in purchase of property from prior owners.	59,236.24	
Interest expense.	28,161.15	
		<u>221,821.73</u>
Loss for the eleven months ended November 30, 1937, carried to deficit account.		<u>\$1,789,706.50</u>

LEHIGH NAVIGATION COAL CO.

DEFICIT ACCOUNT

FOR THE ELEVEN MONTHS ENDED NOVEMBER 30, 1937.

	Debit	Credit
Deficit brought forward, January 1, 1937.	\$749,098.80	
Loss for the eleven months ended November 30, 1937, as annexed.	1,789,706.50	
Sundry adjustments, net.		\$311,247.87
Amounts charged to liquidation account in con- nection with complete liquidation of Company		<u>2,227,557.43</u>
	<u>\$2,538,805.30</u>	<u>\$2,538,805.30</u>

**ANNUAL REPORT OF
LEHIGH NAVIGATION COAL COMPANY
INCORPORATED**

This Company, which was incorporated November 30, 1937, under the laws of the Commonwealth of Pennsylvania, as Lehigh Navigation Coal Corporation, acquired from Lehigh Navigation Coal Company, as of November 30, 1937, all the current assets and personal property of that Company, subject to the payment of its ascertained and stated liabilities, in exchange for and in consideration of the issuance and delivery to it of all the authorized no par capital stock of this Company, to wit, 50,000 shares.

On December 8, 1937, Lehigh Navigation Coal Company, as of December 1, 1937, leased to Lehigh Navigation Coal Corporation, for a term ending December 31, 1947, all its coal lands and mining properties, breakers, buildings, mining and other improvements appurtenant thereto situate in Carbon and Schuylkill Counties east of the Little Schuylkill River and west of the Mauch Chunk Borough line, and upon liquidation of Lehigh Navigation Coal Company the interest of that Company as lessor was assigned to The Lehigh Coal and Navigation Company.

As of December 16, 1937, the name of Lehigh Navigation Coal Corporation was duly changed to Lehigh Navigation Coal Company Incorporated.

The results of the operations of this Company for the month of December, after deduction of fixed charges and royalties, show a net loss of \$15,129.66. This loss was due principally to prevailing low prices. Had these prices been equal to those received by Lehigh Navigation Coal Company in the month of December, 1936, a profit of \$78806.59 would have been realized.

Production of commercial anthracite by this Company for the month of December was 285,062 net tons. There were sold during the same month 269,158 net tons. The production from the lands of this Company and from the lands of The Lehigh Coal and Navigation Company by lessees during the same period was 10,871 net tons.

Respectfully submitted,

J. B. WARRINER,
President.

LYBRAND, ROSS BROS. & MONTGOMERY

Certified Public Accountants

**PACKARD BUILDING
PHILADELPHIA**

February 14, 1938.

*Mr. J. B. Warriner, President,
Lehigh Navigation Coal Company Incorporated,
Philadelphia.*

We have made an examination of the balance sheet of
LEHIGH NAVIGATION COAL COMPANY INCORPORATED

as at December 31, 1937, and of the related statements of income and capital surplus for the month of December, 1937. In connection therewith, we examined or tested accounting records of the Company and other supporting evidence and obtained information and explanations from officers and employees of the Company. We also made a general review of the accounting methods and of the operating and income accounts for the period, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying balance sheet and related statements of income and capital surplus fairly present its position at December 31, 1937, and the results of its operations for the month ended that date.

LYBRAND, ROSS BROS. & MONTGOMERY

1937

32 *Lehigh Navigation Coal Company Incorporated*

LEHIGH NAVIGATION COAL COMPANY INCORPORATED

BALANCE SHEET, DECEMBER **31, 1937.**

ASSETS :

Plant, coal mining and marketing property..... \$4,052,359.93

INVESTMENTS:

Capital stock of and advances to wholly owned subsidiaries.....	\$453,038.13	
Other.....	20,100.00	
		473,138.13

WORKING ASSETS:

Cash.....	\$307,086.31	
Customers' accounts and loans receivable.....	\$1,437,103.80	
Less Reserve for accounts doubtful of collection.	314,262.14	
		1,122,841.66
Sundry debtors.	81,601.66	
Coal stock.....	965,593.71	
Materials and supplies.	393,998.38	
Accounts receivable, subsidiary and affiliated companies.....	1,229,165.47	
		4,100,287.19
SUSPENDED DEBIT ACCOUNTS.		569,718.34
		\$9,195,503.59

LIABILITIES:

WORKING LIABILITIES:

Audited vouchers and pay rolls.	\$685,626.95	
Accounts payable, affiliated companies.	263,295.45	
Sundry creditors.	1,980.58	
Accrued taxes.	147,730.23	
		\$1,098,633.21

ADVANCES FROM AFFILIATED COMPANY. 2,300,000.00

SUSPENDED CREDIT ACCOUNTS. 220,225.99

RESERVE ACCOUNTS:

Shrinkage in value of investments.	\$348,038.13	
Depreciation.	1,752,469.92	
Workmen's compensation insurance reserve. . .	207,117.78	
Amortization of stripping cost.	111,199.15	
		2,418,824.98
		\$6,037,684.18

CAPITAL:

Capital stock, 50,000 shares, without par value.	\$3,000,500.00	
Capital surplus, as annexed.	172,449.07	
		\$3,172,949.07
Deficit for month of December, 1937, as annexed..	15,129.66	
		3,157,819.41
		\$9,195,503.59

LEHIGH NAVIGATION COAL COMPANY INCORPORATED

CAPITAL SURPLUS

DECEMBER 31, 1937.

Capital surplus representing excess of ledger values of assets acquired from Lehigh Navigation Coal Company over stated value of Lehigh Navigation Coal Company Incorporated, capital stock issued and outstanding.	\$520,477.06
Adjustment of sinking fund payable.	10.14
	<u>\$520,487.20</u>
Reserved for shrinkage in value of investments.	348,038.13
Capital surplus, December 31, 1937.	<u><u>\$172,449.07</u></u>

LEHIGH NAVIGATION COAL COMPANY INCORPORATED

INCOME ACCOUNT

FOR THE MONTH OF DECEMBER, 1937.

Coal: Revenue (including sales to affiliated companies).	\$1,266,131.34
Expenses	\$1,233,219.77
Depreciation.	10,378.11
	<u>1,243,597.88</u>
Income before general expenses and fixed charges.	\$22,533.46
General expenses and fixed charges:	
General and administrative expenses.	\$7,292.22
Taxes.	27,400.06
Interest expense.	2,970.84
	<u>37,663.12</u>
Loss for the month of December, 1937.	<u><u>\$15,129.66</u></u>

**ANNUAL REPORT OF
LEHIGH AND NEW ENGLAND RAILROAD COMPANY**

The Net Income of the Lehigh and New England Railroad Company for the year 1937 was \$382,943.85, a decrease of \$14,916.63 as compared with previous year.

The Consolidated Balance Sheet and the Statements of Income and Profit and Loss of this Company as of December 31, 1937, together with Certificate of Messrs. Haskins & Sells, Certified Public Accountants, will be found on pages 37 to 42.

The following statement shows the Revenue Freight Traffic during the year as compared with 1936:

	1937 Net Tons	1936 Net Tons		Net Tons
Anthracite Coal.	3,185,488	2,940,264	Increase	245,224
Bituminous Coal.	1,404,211	1,562,176	Decrease	157,965
Cement.	1,320,359	1,314,237	Increase	6,122
Miscellaneous.	801,893	753,759	Increase	48,134
Total.	6,711,951	6,570,436	Increase	141,515

Tons of revenue freight show a small increase. Railway Operating Revenues, however, decreased \$273,389.43, due largely to the elimination of the emergency charges on December 31, 1936, and to an increase in the number of tons of unprepared anthracite coal which moves on very low rates.

Bonds issued under the General Mortgage of the Company, dated April 1, 1935, to the amount of \$38,000.00 were retired during the year under the sinking fund provisions of the Mortgage, leaving \$6,320,000.00 outstanding in the hands of the public.

With the approval of the Interstate Commerce Commission, \$250,000.00 Lehigh and New England Equipment Trust Certificates, Series K, dated July 15, 1937, were issued by The Pennsylvania Company for Insurances on Lives and Granting Annuities, Trustee under equipment trust agreement and lease created for the acquisition of 75 special body, hatchway roof, hopper bottom steel cars, 140,000 pounds capacity, and 5 all steel, 8-wheel caboose cars. The certificates are guaranteed, principal and interest, by the Lehigh and New England Railroad Company. They mature in instalments of \$25,000.00 on July 15 in each year from 1938 to 1947, inclusive, and the dividend rate thereon is 3% per annum.

The entire issue was offered by public advertisement and sold to the highest bidder at 102.962.

These cars were purchased in order to enable the Railroad Company properly to handle its cement business and to replace old equipment that is being retired, and so furnish adequate and satisfactory transportation to the public.

Equipment retired during the year consisted of 148 steel hopper, 22 box, 7 bulk cement, 2 flat, 1 drop end gondola, 1 fixed end gondola, 1 wood and 1 steel underframe caboose cars.

The Penn Bangor Branch at Wind Gap, Pa., 3576 ft. long, was retired and removed during the year, as the slate quarries served by this track have been abandoned.

With these exceptions, the property and equipment of the Company were fully maintained.

A dividend of 50 cents per share was paid during the year on the 136,000 shares of capital stock outstanding, amounting to \$68,000.00.

Effective April 1, 1937, Mr. S. D. Warriner resigned the office of President which he had held since July 1, **1912**, and was elected Chairman of the Board. He was succeeded as President by Mr. J. H. Nuelle.

Mr. Rollin H. Wilbur, Vice-President and General Manager, retired on November 1, 1937, after thirty years of loyal and efficient service.

Respectfully submitted,

J. H. NUELLE,

President.

1937

Lehigh and New England Railroad Company

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HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

67 BROAD STREET
NEW YORK

ACCOUNTANTS' CERTIFICATE

Lehigh and New England Railroad Company:

We have made an examination of the consolidated balance sheet of Lehigh and New England Railroad Company and its subsidiaries, Campbell Hall Connecting Railroad Company and Pochuck Railroad Company, as of December 31, 1937, and of the statements of income and profit and loss of the Lehigh and New England Railroad Company for the year 1937. In connection therewith, we examined or tested accounting records of the companies (which consistently have been kept in accordance with the classification of accounts prescribed by the Interstate Commerce Commission) and other supporting evidence. Such examination included the verification, by inspection or confirmation of depositaries or trustees, of the cash and securities owned at December 31, 1937. We also made a general review of the operating and income accounts for the year.

In our opinion, based upon such examination and taking investments in affiliated and other companies at the values stated, the accompanying consolidated balance sheet of the Company and subsidiaries, and statements of income and profit and loss fairly present the financial condition at December 31, 1937, and the results of operations for the year ended that date.

HASKINS & SELLS

NEW YORK,

January 26, 1938.

LEHIGH AND NEW ENGL
AND SUBSIDIA
CONSOLIDATED GENERAL BALAN

ASSETS

INVESTMENTS--

Road and equipment:

Road	\$14,804,722.90
Equipment	6,875,006.39
General expenditures	246,601.70

Total road and equipment

\$21,926,330.99

Sinking funds-general mortgage bonds

1,018.45

Miscellaneous physical property

36,545.49

Investments in affiliated companies:

Stocks	\$100.00
Advances	40,940.64

Total investments in affiliated companies.

41,040.64

Other investments:

Stocks	\$5,500.00
Bonds	5,000.00
Advances	113,675.14

Total other investments

124,175.14

Total investments

\$22,129,110.71

CURRENT ASSETS:

Cash	\$704,354.70
Traffic and car-service balances receivable	177,567.52
Net balance receivable from agents and conductors	34,224.34
Miscellaneous accounts receivable	24,908.99
Material and supplies	400,073.81
Interest and dividends receivable	306.34
Other current assets	26.12

Total current assets

1,341,461.82

DEFERRED ASSETS:

Working fund advances	\$3,000.00
Insurance and other funds (Deposit-State Industrial Commission, New York)	20,196.88
Other deferred assets	8,352.00

Total deferred assets

31,548.88

UNADJUSTED DEBITS:

Rents and insurance premiums paid in advance ..	\$464.70
Discount on funded debt	126,165.02
Other unadjusted debits	77,095.89

Total unadjusted debits

203,725.61

Total

\$23,705,847.02

AND RAILROAD COMPANY
RY COMPANIES

CE SHEET, DECEMBER 31, 1937

LIABILITIES

CAPITAL STOCK:

Lehigh and New England Railroad Company.	\$6,800,000.00	
Campbell Hall Connecting Railroad Company— minority interest.	3,100.00	
Total capital stock.		\$6,803,100.00

GOVERNMENTAL GRANTS—Grants in aid of construction. 18,987.24

FUNDED DEBT UNMATURED:

Mortgage bonds.	\$7,320,000.00	
Equipment obligations.	1,312,000.00	
Serial notes, issue of 1936.	855,000.00	
Total funded debt unmatured.		9,487,000.00

CURRENT LIABILITIES:

Traffic and car-service balances payable.	\$214,123.49	
Audited accounts and wages payable.	199,542.31	
Miscellaneous accounts payable.	25.22	
Interest matured unpaid.	25,375.00	
Unmatured interest accrued.	81,620.52	
Other current liabilities.	19,010.77	
Total current liabilities.		539,697.31

DEFERRED LIABILITIES—OTHER. 20,506.04

UNADJUSTED CREDITS:

Tax liability (including companies' estimate of Federal taxes).	\$105,865.17	
Premium on funded debt.	17,093.50	
Insurance and casualty reserves.	68,549.30	
Accrued depreciation-equipment.	3,095,711.35	
Other unadjusted credits.	49,517.64	
Total unadjusted credits.		3,336,736.96

CORPORATE SURPLUS:

Additions to property through income and surplus.	\$51,621.56	
Funded debt retired through income and surplus.	82,138.54	
Sinking fund reserves.	39,312.84	
Total appropriated surplus.	\$173,072.94	
Capital surplus.	*566,899.00	
Profit and loss balance.	2,759,847.53	
Total corporate surplus.		3,499,819.47
Total.		<u>\$23,705,847.02</u>

NOTES: *Represents excess of par value of securities of subsidiary companies over the value carried on the books of the Lehigh and New England Railroad Company.

No provision, other than in corporate surplus, is made in the above Consolidated General Balance Sheet for \$38,294.39 (representing 10% of net income for the year ended December 31, 1937) to be paid into the general mortgage sinking fund on March 1, 1938.

Certain investments in subsidiary companies, having a par value of \$638,750.00 and a carrying value of \$73,438.50, eliminated in consolidation, are pledged under the general mortgage securing the Company's 4% bonds.

LEHIGH AND NEW ENGLAND RAILROAD COMPANY**STATEMENT OF INCOME**FOR THE YEARS ENDED DECEMBER **31, 1937 AND 1936**, AND COMPARISON

Year ended December 31

	1937	1936	Increase Decrease
RAILWAY OPERATING INCOME :			
Railway operating revenues :			
Freight.	\$3,660,789.62	\$3,928,202.64	\$267,413.02
Passenger.	1,591.26	3,168.44	1,577.18
All other transportation.	11,179.22	16,743.47	5,564.25
Incidental.	15,641.13	14,476.11	1,165.02
Total railway operating revenues.	\$3,689,201.23	\$3,962,590.66	\$273,389.43
Railway operating expenses :			
Maintenance of way and structures.	\$380,225.19	\$419,244.60	\$39,019.41
Maintenance of equipment.	839,710.92	864,108.85	24,397.93
Traffic.	80,279.21	75,444.21	4,835.00
Transportation.	1,349,837.92	1,393,171.49	43,333.57
General.	185,468.79	181,689.05	3,779.74
Transportation for investment— Credit.	119.97	44.21	75.76
Total railway operating expenses.	\$2,835,402.06	\$2,933,613.99	\$98,211.93
Ratio of operating expenses to operating revenues.	76.86%	74.03%	2.83%
Net revenue from railway operations.	\$853,799.17	\$1,028,976.67	\$175,177.50
Railway tax accruals (including Company's estimate of Federal taxes).	\$162,240.68	\$227,031.41	\$64,790.73
RAILWAY OPERATING INCOME	\$691,558.49	\$801,945.26	\$110,386.77
RENT INCOME :			
Hire of freight cars-Credit balance.	\$173,290.21	\$125,458.14	\$47,832.07
Rent from locomotives.	2,386.56	3,074.80	688.24
Rent from work equipment.	908.57	781.62	126.95
Joint facility rent income.	1,496.29	2,016.44	520.15
Total rent income.	\$178,081.63	\$131,331.00	\$46,750.63
RENTS PAYABLE :			
Rent for locomotives.	\$495.00	\$495.00	\$495.00
Rent for work equipment.	130.54	130.54	130.54
Joint facility rents.	114,777.90	\$125,963.50	11,185.60
Total rents payable.	\$115,403.44	\$125,963.50	\$10,560.06
Net rents-Credit.	\$62,678.19	\$5,367.50	\$57,310.69
NET RAILWAY OPERATING INCOME— (Forward).	\$754,236.68	\$807,312.76	\$53,076.08

LEHIGH AND NEW ENGLAND RAILROAD COMPANY

STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 1937 AND 1936, AND COMPARISON

	Year ended December 31		Increase Decrease
	1937	1936	
NET RAILWAY OPERATING INCOME— (Forward).....	\$754,236.68	\$807,312.76	\$53,076.08
OTHER INCOME:			
Miscellaneous rent income.....	\$13,064.01	\$11,910.22	\$1,153.79
Miscellaneous non-operating physical property.....	2,422.01	2,220.59	201.42
Income from funded securities.....	6,173.98	190.36	5,983.62
Income from unfunded securities and accounts.....	2,928.62	7,040.72	4,112.10
Income from sinking and other reserve funds.....	705.46	709.43	3.97
Release of premiums on funded debt..	2,479.86	1,056.18	1,423.68
Miscellaneous income.....	4,052.28	3,715.90	336.38
Total other income.....	\$31,826.22	\$26,843.40	\$4,982.82
TOTAL INCOME.....	\$786,062.90	\$834,156.16	\$48,093.26
MISCELLANEOUS DEDUCTIONS FROM IN- COME:			
Miscellaneous rents.....	\$38.00	\$43.00	\$5.00
Miscellaneous tax accruals.....	526.92	539.02	12.10
Miscellaneous income charges.....	24,459.55	38,251.98	13,792.43
Total miscellaneous deductions from income.....	\$25,024.47	\$38,834.00	\$13,809.53
INCOME AVAILABLE FOR FIXED CHARGES	\$761,038.43	\$795,322.16	\$34,283.73
FIXED CHARGES:			
Interest on funded debt—Fixed in- terest.....	\$372,786.56	\$390,488.72	\$17,702.16
Interest on unfunded debt.....	511.15	1,248.84	737.69
Amortization of discount on funded debt.....	4,796.87	5,724.12	927.25
Total fixed charges.....	\$378,094.58	\$397,461.68	\$19,367.10
NET INCOME.....	\$382,943.85	\$397,860.48	\$14,916.63
DISPOSITION OF NET INCOME:			
Income applied to sinking and other reserve funds.....	\$38,294.39	\$39,786.05	\$1,491.66
INCOME BALANCE TRANSFERRED TO PROFIT AND LOSS.....	\$344,649.46	\$358,074.43	\$13,424.97

LEHIGH AND NEW ENGLAND RAILROAD COMPANY

STATEMENT OF PROFIT AND LOSS

FOR THE YEAR ENDED DECEMBER 31, 1937

CREDITS :

Credit balance, January 1, 1937.....		\$2,645,539.57	
Credit balance transferred from income		344,649.46	
Credits from retired road and equipment-road.		25.00	
Donations :			
Contributions for portion of cost of side tracks. . . .	\$830.62		
Less :			
Reclassification of contributions made by the State of Pennsylvania and County of Schuylkill toward the construction of property during the years 1930 to 1936, inclusive. . . .	\$18,987.24		
Adjustment of donation applicable to 1936.....	69.06	19,056.30	18,225.68
Miscellaneous credits.			87.50
Total.			\$2,972,025.85

DEBITS :

Dividend appropriations of surplus	\$68,000.00		
Surplus appropriated for investment in physical property.....	18,225.68		
Debt discount extinguished through surplus— Documentary stamps on obligations issued during the year.....	250.00		
Debits from retired road and equipment-road: Retirements, current year.	\$24,534.82		
Adjustment of retirements, prior years. . . .	2,260.72	26,795.54	
Miscellaneous debits :			
Redemption premium, expense, and unextin- guished discount on \$38,000.00 principal amount of general mortgage 4% series "A" bonds re- d e e m e d.....	1,813.47		
Uncollectible accounts written off.	300.85		
Debits from replacing arch bars with cast steel side frames on 800 freight-train cars.	133,209.18		
Construction projects abandoned.....	34.96		

Total..... 212,178.32

CREDIT BALANCE, DECEMBER 31, 1937..... \$2,759,847.53