The Lehigh Coal and Navigation Company

ONE HUNDRED AND TWENTIETH ANNUAL REPORT

1940
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 prelimii negotiation for such sale, or with other business transactions.
THE LEHIGH COAL AND NAVIGATION COMPANY

BOARD OF MANAGERS

S. D. WARRINER, Chairman
P. M. CHANDLER
EDWARD WALTER CLARK
WAYNE JOHNSON
RALPH H. KNODE
WM. FULTON KURTZ

E. B. LEISENRING
M. MARSHALL S. MORGAN
GEORGE L. OHRSTROM
J. HENRY SCATTERGOOD
ROBERT V. WHITE
PARKER S. WILLIAMS

OFFICERS

ROBERT V. WHITE .................. President
HENRY H. PEASE .................. Vice-President and Secretary
WILLIAM JAY TURNER .......... General Counsel
T. P. SCOTT ................... Treasurer and Assistant Secretary
F. M. FISHER ..................... Comptroller
R. V. PIERCE ................... Assistant Secretary
GEORGE CRAIG .................. Assistant Treasurer
G. K. MCALLISTER ............. Assistant Comptroller
To the Stockholders of
The Lehigh Coal and Navigation Company:—

The Board of Managers respectfully submits the One Hundred and Twentieth Annual Report covering the business of your Company for the fiscal year ended December 31, 1940:

INCOME

The consolidated net income of your Company and its subsidiary companies, after depletion, depreciation, and all other charges, amounted to $1,101,853.83, as shown on the Consolidated Income Statement on page 14, compared to a net income of $18,674.27 for the previous year.

The net income of your Company for the year 1940, accruing from its direct operations and from railroad rentals, dividends from subsidiary and other companies, and income from other sources, after depletion, depreciation, and all other charges, but not including the undistributed earnings and losses of subsidiary companies, the stock of which is owned or controlled by your Company, was $970,059.53 as shown on the Income Account on page 21.

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, 1940, together with the operating results during the year, reference is made to the statements on pages 11 to 23, including the report of your Company’s auditors, Messrs. Lybrand, Ross Bros. & Montgomery, Certified Public Accountants.

FUNDED DEBT

Funding and Improvement Fifty-Year Four Per Cent. Gold Bonds of 1948, to the amount of $4,000.00, were redeemed during the year. The bonds thus redeemed were Series A, Nos. A 2099 to A 2102, both inclusive. At the end of the year, the amount of Funding and Im-
provement Mortgage Bonds outstanding in the hands of the public and not called for redemption was $3,475,000.00.

Consolidated Mortgage Sinking Fund Four and One-half Per Cent. Gold Bonds of 1954, to the amount of $181,000.00 were redeemed during the year. In addition, your Company purchased and held in its treasury at the close of the year $195,000.00 par value Consolidated Mortgage Sinking Fund Series A Bonds. 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 $18,843,000.00.

The total amount of funded debt of your Company outstanding in the hands of the public at the close of the year was $22,318,000.00, a decrease of $380,000.00.

The total amount of the outstanding funded debt of your Company and its subsidiaries in the hands of the public was $31,293,200.00, a decrease of $573,576.48 during the year. This decrease is due to the following:

(1) $822,300.00 decrease from retirement of bonds through sinking funds, retirement of Serial Notes and equipment trust obligations, and the purchase by The Lehigh Coal and Navigation Company of $195,000.00 of its Consolidated Mortgage Sinking Fund Bonds and, by the Lehigh and New England Railroad Company, of $100,000.00 of its General Mortgage Bonds, now held in the treasuries of those companies.

(2) $391,276.48 decrease from the transfer, in the accounts of the Lehigh and New England Railroad Company, under regulations issued by the Interstate Commerce Commission, to Other Deferred Liabilities of loans payable for purchases of equipment on deferred payment plan, which were previously included in Funded Debt.

(3) $640,000.00 increase in equipment trust obligations, Series L, issued in December, 1940, by the Lehigh and New England Railroad Company.
1940
The Lehigh Coal and Navigation Company

Purchases of equipment on deferred payment plan, included in the accounts of the Lehigh and New England Railroad Company under Other Deferred Liabilities, amounted to $466,314.08 at the end of the year.

A detailed statement of the funded debt outstanding of your Company and its subsidiaries appears on page 17.

CANALS

The Lehigh Canal was maintained and operated as usual throughout the year, the operation showing a net loss of $45,945.51 compared with a net loss of $38,676.10 for the previous year.

The Delaware Division Canal Company during the past ten years has been endeavoring to dispose of its canal property because transportation by canal had become obsolete. These efforts were brought to a conclusion during the year through the donation by the Company to the Commonwealth of Pennsylvania of the entire canal property, in accordance with the provisions of the Act of Assembly approved June 21, 1939. The deed to the Commonwealth, duly executed by the Canal Company, was signed by the Secretary of Forests and Waters on behalf of the Commonwealth on December 18, 1940, and on the same day the Governor noted his approval thereon.

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 combined net income of $35,665.02, a decrease of $13,084.40 as compared with the previous year. The decrease was principally caused by smaller production from the Coal Company's properties, resulting in a smaller amount of water sold, and from abnormal repairs due to the severe
weather during the early part of 1940, including measures designed to prevent in part similar damage in future years.

LEHIGH AND SUSQUEHANNA RAILROAD

The Lehigh and Susquehanna Railroad and Branches and the Wilkes-Barre and Scranton Railway continue to be operated by the Trustees of The Central Railroad Company of New Jersey appointed under Section 77 of the Bankruptcy Act.

The full rental of the Wilkes-Barre and Scranton Railway for the years 1939 and 1940 under the assignment of the lease thereof to The Central Railroad Company of New Jersey has been paid.

The annual rental for the Lehigh and Susquehanna Railroad and Branches under the Lease of 1871 and its amendments is $2,267,801.00, payable in quarterly installments of $566,950.25, in advance, plus a small additional amount to cover any increase of your Company's Pennsylvania state taxes because of improvements to the demised premises made by The Central Railroad Company of New Jersey.

During the year 1940 your Company has received from the Trustees under orders of the Court payments aggregating $1,916,950.25 or approximately $370,000.00 less than the stipulated rental for the year.

The order of the Court entered September 16, 1940, under which a payment of $566,950.25 was made on October 1, 1940, provides for similar payments on January 1 and April 1, 1941, unless the Trustees should elect to reject the lease prior to any such date of payment. The amount payable under the order on January 1, 1941, has been received.

All of the orders provide that if the Trustees adopt the Lehigh and Susquehanna lease the sums paid by them will be credited on account of the lease rental and the balance of said rental will be payable to your Company. The orders also provide that if the Trustees shall reject the lease, their liability shall be in an amount to be agreed upon or determined according to law, and that if such amount ex-
ceeds the sums paid, the Trustees shall forthwith pay the difference to your Company, but if the amount shall be less than the payments made, your Company shall forthwith return to the Trustees the amount of the deficit. On the basis of past earnings of the Lehigh and Susquehanna Railroad and Branches and detailed studies in respect thereof, it is believed that the earnings for 1940 were greater than the fixed rental.

The time within which the Trustees may affirm or disaffirm the Lehigh and Susquehanna lease and the assignment of the Wilkes-Barre and Scranton lease has been extended by order of the Court, to May 1, 1941.

Your Company has had plans prepared for continuing the operation of the leased railroads, as well as estimates of the probable earnings thereof, in the event of rejection of the leases by the Trustees. After taking into account changes in traffic routing which might take place if the leased railroads were no longer in the system of The Central Railroad Company of New Jersey, the estimates indicate that the properties would earn an amount in excess of the lease rentals.

The proceeding instituted by your Company on August 25, 1939, in the United States District Court for the Eastern District of Pennsylvania to obtain a declaratory judgment whether certain questions could properly be submitted to arbitration under the Lehigh and Susquehanna lease is still pending.

GENERAL

One dividend of 30 cents per share, amounting to $578,738.10, was paid during the year on the 1,929,127 shares of the common capital stock of your Company without nominal or par value.
Your Company's investment in the capital stock of Lehigh Navigation Coal Company Incorporated amounts to $3,520,977.06. There was advanced to that corporation during the year $100,000.00, making total advances amounting to $2,725,000.00. At December 31, 1940, your Company carried as a deferred asset $2,820,603.43 representing royalty, power and other items due it by Lehigh Navigation Coal Company Incorporated, an increase during the year of $829,467.40. In recognition of the adverse conditions in the coal industry, the terms of the lease of your Company's coal properties to the Lehigh Navigation Coal Company Incorporated were made less burdensome effective January 1, 1940. The principal changes were a reduction of royalty rates and an agreement by your Company to undertake certain costs of maintaining the properties. By reference to the Lehigh Navigation Coal Company Incorporated report on page 27, it will be noted that very substantial improvement in the results of that corporation occurred during the year. Authority has been given by the Board of Managers of your Company for the expenditure of approximately $650,000 on improvements to the coal properties, which should result in substantial betterment in the coal results in the year 1942 and thereafter.

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

By order of the Board of Managers.

ROBERT V. WHITE,
President.
To the Board of Managers,
The Lehigh Coal and Navigation Company, Philadelphia.

We have examined the balance sheets of
THE LEHIGH COAL AND NAVIGATION COMPANY
AND ITS SUBSIDIARY COMPANIES
as of December 31, 1940, and the related statements of income and surplus for the year ended that date, other than those of the Lehigh and New England Railroad Company and subsidiaries, which were examined by Messrs. Haskins & Sells, whose report we have received. We have also examined the consolidated balance sheet of The Lehigh Coal and Navigation Company and its subsidiaries as of December 31, 1940, and the related statements of income and surplus for the year ended that date. In connection with these examinations, the systems of internal control and the accounting procedures of the companies were reviewed and, without making detailed audits of the transactions, the accounting records of the companies and other supporting evidence were tested, by methods and to the extent deemed appropriate, including the verification by inspection or confirmation with depositories or trustees of the cash and securities owned at December 31, 1940.

In our opinion, based upon such examinations and upon the report of the aforementioned accountants, the accompanying consolidated balance sheet of The Lehigh Coal and Navigation Company and its subsidiary companies at December 31, 1940, and the related statements of income and surplus and notes and the accompanying balance sheet at December 31, 1940, of The Lehigh Coal and Navigation Company and related statements of income and surplus and notes, present fairly; (a) the consolidated position of The Lehigh Coal and Navigation Company and its subsidiary companies at December 31, 1940, and the consolidated results of their operations for the year ended that date; and (b) in conjunction with the consolidated statements, the position of The Lehigh Coal and Navigation Company at December 31, 1940, and the results of its operations for the year ended that date, in conformity with generally accepted accounting principles and with respect to the Lehigh and New England Railroad Company, the requirements of the Interstate Commerce Commission, applied on a basis consistent with that of the preceding year.

LYBRAND, ROSS BROS. & MONTGOMERY

Philadelphia, Penna.,
February 13, 1941.
1940

The Lehigh Coal and Navigation Company

THE LEHIGH COAL AND NAVIGATION
CONSOLIDATED BALANCE

ASSETS AND OTHER DEBITS:

CURRENT ASSETS:
- Cash on hand and demand deposits in banks: $3,038,063.58
- Customers' notes and accounts receivable, less reserve of $658,709.16 for accounts doubtful of collection: 2,823,870.93
- Coal (in storage and in transit), at cost: 741,119.40
- Materials and supplies, at cost or average cost: 748,370.67
- Sundry debtors: 135,458.42

INVESTMENTS IN SECURITIES:
- Free (Note 2): $3,689,047.06
- Pledged: 222,500.00

FIXED ASSETS:
- Coal lands, mining and marketing property (leased in part): $28,996,248.39
- Railroad property (Note 1): 40,481,102.91
- Special deposits-Funds with trustee for the contract price of railroad equipment: 712,500.00
- Lehigh Canal and equipment: 2,113,268.93
- Water property (reservoirs, pumping stations, distribution systems, etc.): 3,322,321.10
- Real estate: 945,977.60

Less: Reserve for depreciation. $14,046,694.05
Less: Reserve for depletion, since December 1, 1887: 196,154.77

Deferred Accounts:
- Stripping expenses deferred: $4,002,653.42
- Less reserve for stripping expenses: 3,461,455.26
- Deferred and suspended accounts, net of reserve of $565,000 for account doubtful of collection: 1,460,832.57

Sinking Funds, Cash:
- The Lehigh Coal and Navigation Company purchased certain of its bonds at $73,331.26 each, which are held in its treasury, and credited the amount of $73,331.26 to deferred and suspended accounts.
- The liability for purchases of equipment on deferred payment plan was classified as funded debt at December 31, 1939.

Certains investments in subsidiary companies having a par value of $12,139,600, carried in the accounts of the respective companies at $8,759,002.77, eliminated in consolidation, are pledged under the funded debt.

NOTES:
1. Railroad property includes $18,965,089.67 for railroads leased to Central R. R. Company of New Jersey (now in reorganization under Section 77 of U.S. Bankruptcy Act) and other assets includes $367,940.45 due from that company. (See report of the Board of Managers.)
2. Of these investments, certain securities with a book value of $2,868,070.71, had an indicated value of $4,742,000 based on market quotations at December 31, 1940. The remaining securities included herein are not quoted.
3. The Lehigh and New England Railroad Company purchased certain of its bonds at $11,904.42 less than par, which are held in its treasury, and credited the amount of $11,904.42 to Profit and Loss (Surplus) under regulations of the Interstate Commerce Commission.
4. The Lehigh Coal and Navigation Company purchased $195,000 par value of its bonds at $73,331.26 each, which are held in its treasury, and credited the amount of $73,331.26 to deferred and suspended accounts.

C. The liability for purchases of equipment on deferred payment plan was classified as funded debt at December 31, 1939.
**COMPANY AND SUBSIDIARY COMPANIES**

**Sheet, December 31, 1940**

**LIABILITIES AND OTHER CREDITS:**

**CURRENT LIABILITIES,** exclusive of $168,433.13 payable to sinking funds in 1941:

- Audited vouchers and pay rolls .......................... $1,352,113.11
- Sundry creditors ........................................ 353,400.58
- Accrued taxes .............................................. 721,612.82
- Matured and accrued interest ............................. 599,597.45
- Compensation claims determined, due in 1941 ........ 62,155.82
- Funded debt and mortgages payable in 1941 ........ 586,584.04
- Purchases of equipment on deferred payment plan due in 1941 (Note 5) ........................................... 64,689.00

**Total Current Liabilities** ................................ $3,740,152.82

**Funded Debt,** as annexed:

- Outstanding ................................................. $46,790,800.00
  - Less treasury bonds:
    - Pledged under Workmen's Compensation Act of Pennsylvania .................. $400,000.00
    - Unpledged ............................................ 15,097,600.00
  - Less obligations due in 1941 (Payments to sinking funds due in 1941 aggregate $168,433.13) ........ 31,293,200.00

**Mortgages Payable** ............................................. $254,861.10
- Less installments due in 1941 ............................ 227,584.04
  - Total Mortgage Payable ................................. 27,277.06

**Purchases of Equipment on deferred payment plan, less $64,689.00 due in 1941 (Note 5)** ........................... 481,781.33

**Deferred Liabilities**:

- Compensation claims determined ....................... $119,187.33
- Deferred and suspended accounts (Note 4) ........... 296,666.85

**Total Deferred Liabilities** .................................. 415,754.18

**Reserve Accounts**:

- Workmen's compensation insurance .................... $98,276.30
- Taxes ....................................................... 273,033.71

**Total Reserve Accounts** .................................... 371,310.01

**Minority Interests** ........................................... 53,940.09

**Total Reserve Accounts and Minority Interests** ........ $360,241.49

**CAPITAL STOCK AND SURPLUS:**

- Capital stock, authorized 3,000,000 shares:
  - Issued:
    - 1,929,100 shares without par value .............
    - 9 shares, $50 par value ........................
      (Exchangeable for 27 shares without par value stock) ........................................... $32,152,416.67

- **Surplus:**
  - Capital, as annexed-Excess of par value of stocks and bonds of certain subsidiaries over carrying value on the books of parent company, less $177,337.78 excess of carrying value over par or stated value of other subsidiaries ...................................... $1,041,963.13
  - Appropriated under rulings of Interstate Commerce Commission ........................ 48,905.11
  - Appropriated-Sinking fund reserves ................ 93,191.40
  - Funded debt retired through income and surplus .......... 345,191.16
  - Earned surplus, as annexed (Notes 1 and 2) ........... 6,259,314.53

**Total Surplus** ................................................. 7,788,565.33

**Total Capital Stock and Surplus** ............................ 39,940,682.00

**Total Liabilities and Other Credits** ......................... $75,966,097.49
## Consolidated Income Statement
### For the year ended December 31, 1940

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross earnings</td>
<td>$23,181,585.87</td>
</tr>
<tr>
<td>Operating expenses, excluding taxes and provision for depreciation and depletion</td>
<td>20,484,147.85</td>
</tr>
<tr>
<td>Railroad rental (Note 1)</td>
<td>$2,697,438.02</td>
</tr>
<tr>
<td>Dividends</td>
<td>480,970.00</td>
</tr>
<tr>
<td>Interest</td>
<td>34,789.79</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>134,972.69</td>
</tr>
<tr>
<td>Total</td>
<td>2,996,679.12</td>
</tr>
<tr>
<td>Taxes, other than Federal income and excess-profits taxes</td>
<td>$1,462,844.53</td>
</tr>
<tr>
<td>Provision for depreciation and depletion</td>
<td>948,854.52</td>
</tr>
<tr>
<td>Interest</td>
<td>1,387,020.12</td>
</tr>
<tr>
<td>General expenses</td>
<td>319,406.18</td>
</tr>
<tr>
<td>Special provision for doubtful accounts</td>
<td>190,000.00</td>
</tr>
<tr>
<td>Income before provision for Federal income taxes</td>
<td>$1,385,991.79</td>
</tr>
<tr>
<td>Provision for Federal income taxes (Note 2)</td>
<td>281,492.71</td>
</tr>
<tr>
<td>Net income apportioned to minority interests</td>
<td>$1,104,499.08</td>
</tr>
<tr>
<td>Income of The Lehigh Coal and Navigation Company and subsidiaries</td>
<td>$1,101,853.83</td>
</tr>
</tbody>
</table>

**Notes:**

1. Represents rental for railroad properties leased to Central R. R. Company of New Jersey, which railroad is now under Section 77 of the U. S. Bankruptcy Act, and includes $367,940.45 which has not been paid. See report of the Board of Managers.

2. Provision has been computed under individual tax returns of certain subsidiary companies included in the consolidation. Counsel for The Lehigh Coal and Navigation Company has stated that in his opinion, no provision for Federal income and excess-profits taxes is required by that company for the year 1940 due to loss in investments.
**The Lehigh Coal and Navigation Company**

**AND SUBSIDIARY COMPANIES**

**Statement of Consolidated Capital Surplus**

**For the year ended December 31, 1940**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, January 1, 1940</td>
<td>$1,032,889.34</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>Surplus acquired in purchase of a subsidiary company</td>
<td>9,428.15</td>
</tr>
<tr>
<td></td>
<td><strong>$1,042,317.49</strong></td>
</tr>
<tr>
<td>Deduct:</td>
<td></td>
</tr>
<tr>
<td>Adjustment arising from change in minority interests during 1940</td>
<td>$4.36</td>
</tr>
<tr>
<td>Adjustment for bonds canceled through sinking fund</td>
<td>350.00</td>
</tr>
<tr>
<td></td>
<td><strong>354.36</strong></td>
</tr>
<tr>
<td>Balance, December 31, 1940</td>
<td><strong>$1,041,963.13</strong></td>
</tr>
</tbody>
</table>
THE LEHIGH COAL AND NAVIGATION COMPANY
AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED EARNED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1940

Balance, January 1, 1940 ........................................ $6,956,476.32
Income for the year ended December 31, 1940, as annexed .......... 1,101,853.83

Add:

Canal property of Delaware Division Canal Company of Pennsylvania:
   Restatement of property account ................................ $1,607,351.18
   Conveyance of portion of canal properties to Commonwealth of Pennsylvania ... 1,596,277.18
   _______ $11,074.00

Adjustment of reserve or taxes ................................ 200,000.00

Sundry adjustments:
   Credits ..................................................... $167,986.87
   Debits ...................................................... 93,503.69
   _______ 74,483.18

Deduct:

Loss in commercial value of investment in stripping operations .......... $1,403,373.36
Surplus appropriated for sinking fund ................................ 93,004.31
   _______ 1,496,377.67

Dividends paid .................................................. 580,293.10
   _______ $6,847,509.66

Adjustment for minority interests, etc ................................ 7,902.03
   _______ 6,259,314.53

Balance, December 31, 1940 (Notes 1 and 2 to Consolidated Balance Sheet) ........................................ $6,259,314.53
THE LEHIGH COAL AND NAVIGATION COMPANY AND SUBSIDIARY COMPANIES

STATEMENT OF FUNDED DEBT OUTSTANDING, DECEMBER 31, 1940

<table>
<thead>
<tr>
<th>Dates of Maturity</th>
<th>Rates</th>
<th>In Hands of Public</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>THE LEHIGH COAL AND NAVIGATION COMPANY:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funding and Improvement Fifty-Year Gold Bonds</td>
<td>1948 Jul 1</td>
<td>4 ¹⁄₂ pct.</td>
</tr>
<tr>
<td>Consolidated Mortgage Sinking Fund Gold Bonds</td>
<td>1954 Jan 1</td>
<td>4 ¹⁄₂ &quot;</td>
</tr>
<tr>
<td>Less amount in treasury</td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Treasury bonds aggregating $400,000 pledged under Workmen's Compensation Act of Pennsylvania</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SUMMIT HILL WATER COMPANY:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Mortgage Sinking Fund Bonds</td>
<td>1955 Jan 1</td>
<td>5 ¹⁄₂ &quot;</td>
</tr>
<tr>
<td>Less amount in treasury</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LEHIGH AND NEW ENGLAND RAILROAD COMPANY:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage Bonds:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Mortgage, Series &quot;A&quot;</td>
<td>1965 Apr 1</td>
<td>4 &quot;</td>
</tr>
<tr>
<td>Less amount in treasury</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Mortgage (not callable)</td>
<td>1945 Jul 1</td>
<td>5 &quot;</td>
</tr>
<tr>
<td>Serial Notes, Issue of 1936</td>
<td>1941 Sep 1 to 1943 Sep 1</td>
<td>Various</td>
</tr>
<tr>
<td>Equipment Trust Obligations</td>
<td>Various</td>
<td>Various</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1940

The Lehigh Coal and Navigation Company

THE LEHIGH COAL AND
GENERAL BALANCE SHEET

ASSETS AND OTHER DEBITS:

**Current Assets:**
- Cash on hand and demand deposits in banks. $1,131,785.58
- Sundry debtors. 73,965.97
- Materials and supplies. 17,329.19
- Subsidiary companies. 22,558.22

\[ \text{Total Current Assets: } 1,245,638.96 \]

**Investments** (Notes 1, 2 and 3):
- Bonds and stocks of subsidiary and affiliated companies. $14,302,378.08
  (Includes bonds and stocks aggregating $8,908,064.27 pledged under the funded debt)
- Loans to subsidiary companies. 6,423,910.48

\[ \text{Total Investments: } 20,726,288.56 \]

\[ \text{Less reserve for shrinkage in value of investments in subsidiary companies. } 1,500,000.00 \]

\[ \text{Other investments: } 19,226,288.56 \]

**Fixed Assets:**
- Coal lands and mining property (leased in part to Lehigh Navigation Coal Company Incorporated, and subleased in part). $22,948,001.23
- Lehigh & Susquehanna Railroad (Note 2). 16,069,409.14
- Lehigh Canal and equipment. 2,113,268.93
- Other fixed assets (Note 4). 937,873.61

\[ \text{Less: Reserve for depreciation. } 7,750,278.76 \]
\[ \text{Reserve for depletion since Dec. 1, 1937. } 196,154.77 \]
\[ \text{Total Fixed Assets: } 34,122,119.38 \]

**Deferred Accounts:**
- Due from subsidiary companies for expenses, royalties, etc. (Note 1). $2,840,728.43
- Less reserve for accounts due from subsidiary companies. 630,000.00
- Suspended debit accounts. 2,210,728.43

\[ \text{Suspended debit accounts: } 323,338.85 \]

\[ \text{Total Deferred Accounts: } 2,534,067.28 \]

**Other Assets (less reserve of $7,213.32)**
- <Note 2>. 629,196.91

\[ \text{Total Other Assets: } 61,268,260.78 \]

See accompanying notes, 1 to 5, inclusive, which are an integral part of this balance sheet.
NAVIGATION COMPANY

YEAT, DECEMBER 31, 1940

LIABILITIES AND OTHER CREDITS:

CURRENT LIABILITIES, exclusive of $82,828.82 payable to sinking funds in 1941:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audited vouchers and pay rolls</td>
<td>$80,329.41</td>
</tr>
<tr>
<td>Accrued taxes</td>
<td>172,876.94</td>
</tr>
<tr>
<td>Matured and accrued interest on funded debt</td>
<td>497,402.50</td>
</tr>
<tr>
<td>Dividends unclaimed</td>
<td>35,666.19</td>
</tr>
<tr>
<td>Sundry creditors</td>
<td>13,244.23</td>
</tr>
<tr>
<td>Affiliated companies</td>
<td>46,232.39</td>
</tr>
</tbody>
</table>

SUM: $843,751.66

FUNDED DEBT, as annexed:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding</td>
<td>$36,811,000.00</td>
</tr>
<tr>
<td>Less treasury bonds</td>
<td></td>
</tr>
<tr>
<td>Pledged under Workmen’s Compensation</td>
<td>$400,000.00</td>
</tr>
<tr>
<td>Unpledged</td>
<td>14,093,000.00</td>
</tr>
</tbody>
</table>

(Payments to sinking funds due in 1941, aggregate $82,828.82)

SUM: 14,493,000.00

DDeferred Credits (Note 5) .............................. 101,411.05

RESERVE FOR TAXES........................................ 273,033.71

SUM: $23,536,196.42

CAPITAL STOCK AND SURPLUS:

Capital Stock, authorized 3,000,000 shares:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued</td>
<td></td>
</tr>
<tr>
<td>1,929,100 shares without par value</td>
<td></td>
</tr>
<tr>
<td>9 shares, $50 par value</td>
<td>$321,521,166.67</td>
</tr>
<tr>
<td>(Exchangeable for 27 shares, without par value)</td>
<td></td>
</tr>
<tr>
<td>Earned surplus, as annexed (Notes 1, 2 and 3)</td>
<td>5,579,947.69</td>
</tr>
</tbody>
</table>

SUM: $37,732,064.36

SUM: $61,268,260.78
THE LEHIGH COAL AND NAVIGATION COMPANY

NOTES TO GENERAL BALANCE SHEET
DECEMBER 31, 1940

1. Bonds, stocks and loans, subsidiary and affiliated companies, includes the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock of Lehigh Navigation Coal Company Incorporated (Stated value, including $1,722,499.07 capital surplus, $3,172,949.07)</td>
<td>$3,520,977.06</td>
</tr>
<tr>
<td>Loans to Lehigh Navigation Coal Company Incorporated</td>
<td>2,725,000.00</td>
</tr>
<tr>
<td>Stock of Greenwood Corporation (Stated value $1,250,000)</td>
<td>1,250,000.00</td>
</tr>
<tr>
<td>Loans to Greenwood Corporation</td>
<td>2,240,785.00</td>
</tr>
</tbody>
</table>

| Total                                                        | $9,736,762.06*  |

*In addition to this amount, deferred accounts on the accompanying balance sheet include $2,820,603.43 due from Lehigh Navigation Coal Company Incorporated (before inter-company adjustment of $634.06).

At December 31, 1940, Lehigh Navigation Coal Company Incorporated, on a consolidated basis, reports an accumulated deficit of $3,357,038.35 and Greenwood Corporation, on a consolidated basis, reports an accumulated deficit of $2,076,440.41. The Company's equity in the net assets of all subsidiaries as shown by their books of account as of December 31, 1940, is computed at approximately $1,750,000 in excess of the amount at which the investments therein are carried by the parent company net of reserves aggregating $2,130,000 for shrinkage in values of investments in and amounts due from subsidiary companies.

Giving effect to the reinstatement of a write-down of an investment of prior years, it would appear that reserves aggregating approximately $4,230,000 would be required to provide for shrinkage in value of investments in and amounts due from subsidiary companies referred to above. Of this amount, $2,130,000 has been provided in the accounts. For the reason that at December 31, 1940, there is an apparent appreciation on securities estimated at $1,875,000 as referred to in Note 3, the management deems it unnecessary to make a further provision for shrinkage in value of its investments in and amounts due from subsidiaries.

2. Bonds and stocks of subsidiary and affiliated companies include securities amounting to $2,777,100 issued by railroad companies whose lines are leased to Central RR Company of New Jersey of which $2,263,491.12 are pledged. Loans to subsidiary companies include $347,043.83 loaned to companies whose lines are leased to Central RR Company of New Jersey and Other Assets include $367,940.45 due from Central RR Company of New Jersey (in reorganization).

The Lehigh & Susquehanna Railroad, carried in the accompanying balance sheet at $16,069,409.14, is leased to the Central RR Company of New Jersey, now in process of reorganization under Section 77 of the U.S. Bankruptcy Act. See report of the Board of Managers.

3. Other investments, $3,510,949.69, include certain securities with a book value of $2,868,070.71, which had an indicated value of $4,742,000 based on market quotations at December 31, 1940. The remaining securities included therein are not quoted.

4. Includes real estate and real estate improvements aggregating $908,869.61 not used in operations.

5. The company purchased $195,000 par value of its bonds below par which are held in its treasury. The amount of $73,331.26 representing the difference between the par value and the cost of the bonds was credited to deferred credits.
## THE LEHIGH COAL AND NAVIGATION COMPANY

### INCOME ACCOUNT

**FOR THE YEAR ENDED DECEMBER 31, 1940**

<table>
<thead>
<tr>
<th>REVENUES:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Railroad rental (Note 1).</td>
<td>$2,345,946.64</td>
</tr>
<tr>
<td>Less expenses.</td>
<td>50,000.00</td>
</tr>
<tr>
<td>Dividends:</td>
<td></td>
</tr>
<tr>
<td>Subsidiary companies.</td>
<td>$636,865.00</td>
</tr>
<tr>
<td>Others.</td>
<td>480,970.00</td>
</tr>
<tr>
<td>Interest:</td>
<td></td>
</tr>
<tr>
<td>Subsidiary companies.</td>
<td>$94,410.33</td>
</tr>
<tr>
<td>Others.</td>
<td>3,689.87</td>
</tr>
<tr>
<td>Coal royalties.</td>
<td>63,140.50</td>
</tr>
<tr>
<td>Canal revenues.</td>
<td>47,356.85</td>
</tr>
<tr>
<td>Miscellaneous including $63,985.04 profit on real estate sold.</td>
<td>269,475.19</td>
</tr>
<tr>
<td></td>
<td>$3,891,854.38</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENSES:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>$998,467.87</td>
</tr>
<tr>
<td>Taxes other than Federal income tax.</td>
<td>846,986.36</td>
</tr>
<tr>
<td>Provision for depreciation and depletion.</td>
<td>467,959.35</td>
</tr>
<tr>
<td>Canal operation.</td>
<td>93,302.36</td>
</tr>
<tr>
<td>Operating expenses.</td>
<td>257,438.48</td>
</tr>
<tr>
<td>General expenses.</td>
<td>197,640.43</td>
</tr>
<tr>
<td>Special provision for extraordinary expenses.</td>
<td>60,000.00</td>
</tr>
<tr>
<td></td>
<td>2,921,794.85</td>
</tr>
</tbody>
</table>

Net income (Note 2).                             | $970,059.53 |

The net income as stated above does not include subsidiary losses aggregating $293,873.32 (including royalties of $158,021.23 payable to the parent company, but not recorded by it as income) and profits aggregating $904,511.39 (of which $636,865 is included as dividends in the above income account) for the year 1940.

**Notes:**

1. Represents rental for railroad properties leased to Central R. R. Company of New Jersey, which railroad is now under Section 77 of the U. S. Bankruptcy Act, and includes $367,940.45 which has not been paid. See report of the Board of Managers.

2. Counsel for the company has stated that in his opinion, no provision for Federal income and excess-profits taxes is required for the year 1940 due to loss in investments.
The Lehigh Coal and Navigation Company

THE LEHIGH COAL AND NAVIGATION COMPANY
EARNED SURPLUS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 1940

Balance, January 1, 1940 ........................................... $6,722,135.74

Add:
Net income for the year ended December 31, 1940, as annexed .................. $970,059.53
Adjustment of reserve for taxes ..................................... 200,000.00
Sundry adjustments:
Credits .............................................................. $99,678.00
Debits .............................................................. 17,065.68

Total ........................................................................ 82,612.32

Deduct:
Investment in Delaware Division Canal Company of Pennsylvania stock and accounts receivable written off (Charge in 1939 of $386,909.51 to reserve for shrinkage in value of investments in subsidiary companies canceled in 1940). .................................................. $412,748.44

Loss in commercial value of investment in stripping operations .......................... 1,403,373.36

Total ................................................................. 1,816,121.80

DIVIDEND:
1940, December 20, $.30 per share on 1,929,127 shares ....................... 578,738.10

Balance, December 31, 1940 (Notes 1, 2 and 3 to balance sheet) .................. $5,579,947.69

THE LEHIGH COAL AND NAVIGATION COMPANY

DIVIDENDS RECEIVED

DURING THE YEARS ENDED DECEMBER 31, 1940
AND 1939, RESPECTIVELY

<table>
<thead>
<tr>
<th>Company</th>
<th>1940</th>
<th>1939</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allentown Terminal Railroad Company.</td>
<td>$11,250.00</td>
<td>$11,250.00</td>
</tr>
<tr>
<td>Glen Alden Coal Company</td>
<td>2,500.00</td>
<td>500.00 Increase</td>
</tr>
<tr>
<td>Lehigh and Hudson River Railway Company.</td>
<td>46,820.00</td>
<td>46,820.00</td>
</tr>
<tr>
<td>Lehigh and New England Railroad Company.</td>
<td>611,865.00</td>
<td>475,895.00 Increase</td>
</tr>
<tr>
<td>Lehigh and Wilkes-Barre Coal Company of New Jersey, Common</td>
<td>400.00</td>
<td>137.50 Increase</td>
</tr>
<tr>
<td>National Power &amp; Light Company, Common.</td>
<td>420,000.00</td>
<td>420,000.00</td>
</tr>
</tbody>
</table>
| Summit Hill Water Company.                      | 2,475.00 Decrease | 2,475.00
| Wilkes-Barre and Scranton Railway Company.      | 25,000.00     | 25,000.00|

$1,117,835.00 $982,077.50 Increase $135,757.50
THE LEHIGH COAL AND NAVIGATION COMPANY

Securities Owned, December 31, 1940

Bonds and Stocks of Subsidiary and Affiliated Companies:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds and Stocks of Subsidiary and Affiliated Companies:</td>
<td></td>
</tr>
<tr>
<td>3,000 shs. Capital stock Allentown Iron Company, par value per share $41.60</td>
<td>$4,796.93</td>
</tr>
<tr>
<td>*4,500  &quot; Capital stock Allentown Terminal Railroad Company, par value per share $50</td>
<td>225,000.00</td>
</tr>
<tr>
<td>200  &quot; Capital stock Blue Ridge Real Estate Company (10 pct. paid), par value per share $50</td>
<td>1,000.00</td>
</tr>
<tr>
<td>*32,069   &quot; Capital stock Delaware Division Canal Company of Pennsylvania, par value per share $50</td>
<td></td>
</tr>
<tr>
<td>25,000  &quot; Capital stock Greenwood Corporation, no par value</td>
<td>1,250,000.00</td>
</tr>
<tr>
<td>50,000  &quot; Capital stock Lehigh Navigation Coal Company, no par value</td>
<td>3,520,977.06</td>
</tr>
<tr>
<td>*135,970   &quot; Capital stock Lehigh &amp; New England Railroad Company, par value per share $50</td>
<td>5,597,699.09</td>
</tr>
<tr>
<td>100  &quot; Capital stock Monroe Water Supply Company (10 pct. paid), par value per share $50</td>
<td>500.00</td>
</tr>
<tr>
<td>*28,372   &quot; Capital stock Nesquehoning Valley Railroad Company, par value per share $100</td>
<td>1,422,100.00</td>
</tr>
<tr>
<td>&quot;7,000       &quot; Capital stock Panther Valley Water Company, par value per share $50</td>
<td>700,000.00</td>
</tr>
<tr>
<td>2,475  &quot; Capital stock Summit Hill Water Company, par value per share $10</td>
<td>98,805.00</td>
</tr>
<tr>
<td>&quot;2,600       &quot; Capital stock Tresckow Railroad Company, par value per share $50</td>
<td>130,000.00</td>
</tr>
<tr>
<td>*10,000     &quot; Capital stock Wilkes-Barre &amp; Scranton Railway Company, par value per share $50</td>
<td>500,000.00</td>
</tr>
<tr>
<td>*$370,000   Par value Panther Valley Water Company general mortgage sinking fund 6 pct. gold bonds, due 1943</td>
<td>351,500.00</td>
</tr>
<tr>
<td>500,000 Par value Wilkes-Barre &amp; Scranton Railway Company first mortgage 4½ pct. gold bonds extended to May 1, 1948</td>
<td>500,000.00</td>
</tr>
<tr>
<td><strong>$14,302,378.08</strong></td>
<td></td>
</tr>
</tbody>
</table>

Other Investments:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,000 shs. Capital stock Glen Alden Coal Company, no par value</td>
<td>$8,750.00</td>
</tr>
<tr>
<td>9,364  &quot; Capital stock Lehigh &amp; Hudson River Railway Company, par v&amp;e per share $100</td>
<td>627,691.94</td>
</tr>
<tr>
<td>500  &quot; Capital stock Lehigh &amp; Wilkes-Barre Coal Company of New Jersey, no par value</td>
<td>1.00</td>
</tr>
<tr>
<td>700,000  &quot; Capital stock National Power &amp; Light Company common, no par value</td>
<td>2,859,320.71</td>
</tr>
<tr>
<td>Mortgages</td>
<td>15,186.04</td>
</tr>
<tr>
<td><strong>$3,510,949.69</strong></td>
<td></td>
</tr>
<tr>
<td><strong>$17,813,327.77</strong></td>
<td></td>
</tr>
</tbody>
</table>

* Pledged, with the exception of qualifying shares, under the mortgages of The Lehigh Coal and Navigation Company.
Use OLD COMPANY’S Anthracite

Recommend it to others...

You and Your Company Will Benefit

**Anthracite**, when used in the modern way, meets all the public’s exacting requirements. It is an investment in comfort, convenience, and economy.

**Comfort**: Burned with modern equipment, anthracite gives more even, uniform heat throughout the house than any other fuel.

**Convenience**: Your present hand-fired furnace can be controlled automatically by a thermostat located in the living quarters of the home. Additional convenience may be enjoyed by the use of a mechanical stoker which takes coal from the storage bin, burns it at the rate necessary to maintain even temperature in the home, and removes and deposits the ashes in a covered container.

**Economy**: Many thousands of satisfied users are burning anthracite, the safe and efficient fuel, in modernized heating systems at a lower cost than other fuels.

The Old Company dealer in your neighborhood will be glad to show you how to obtain maximum satisfaction from your present heating equipment, or to advise you how to modernize it.

Our nearest office can refer you to an Old Company dealer.

MAIN OFFICE:
FIDELITY- PHILADELPHIA TRUST BUILDING
Philadelphia, Pa. Phone: KINgsley 2610

BRANCH AND SALES OFFICES:
143 LIBERTY STREET, NEW YORK, N. Y. Barclay 7-0484
THIRD NATIONAL BANK BUILDING, SPRINGFIELD, MASS. Springfield 4-5697

J. W. DYKSTRA & CO. Hammond Building, Detroit, Mich. Cadillac 5554
SHIPPERS FUEL CORP. 111 W. Washington St, Chicago, Ill. Randolph 8282
GEORGE HALL CORP. 502-504 Riverside Ave., Ogdensburg, N. Y. Ogdensburg 60
THE CENTRAL WEST COAL CO. Brunson Building, Columbus, Ohio. Adams 1295
EMPIRE-HANNA COAL CO., LTD., 805 C.P.R. Building, Toronto, Ontario. Adelaide 3346
VIPOND-TOLHURST COAL CO., LTD., 845 Querbes Ave., Outremont, Montreal, Quebec
T. S. MITCHELL & CO., LTD., 78-80 Wellington St. North, Sherbrooke, Quebec
PENNSYLVANIA ANTHRACITE COAL

It lasts longer!
ANNUAL REPORT OF  
LEHIGH NAVIGATION COAL COMPANY INCORPORATED

The results of the operations of Lehigh Navigation Coal Company Incorporated for the year 1940, after deduction for interest, taxes, other fixed charges, and royalties, show a net loss of $206,425.39, as compared with a net loss of $1,673,450.88 in the previous year. This improvement is in spite of a small decrease in production and sales, and is due to several factors, including reduction in royalty and interest payable, lower costs generally, and higher average income per ton of coal sold.

The Balance Sheet as at December 31, 1940, and the related Income and Deficit Accounts of Lehigh Navigation Coal Company Incorporated, together with the report of the Company’s auditors, Messrs. Lybrand, Ross Bros. & Montgomery, Certified Public Accountants, will be found on pages 31 to 34.

The production of commercial anthracite by the Company for the year was 2,423,620 net tons, a decrease, as compared with 1939, of 178,448 net tons, or 6.86 per cent. There was sold of the Company’s coal during the year 2,468,539 net tons, a decrease, as compared with 1939, of 222,387 net tons, or 8.26 per cent. The production of anthracite from the Company’s lands by lessees was 631,192 net tons, an increase, as compared with 1939, of 82,552 net tons. The total production by the Company and its lessees was 3,054,812 net tons, a decrease of 95,896 net tons, or 3.04 per cent., as compared with the previous year’s production. The production of anthracite by the Industry as a whole is estimated to be about 3 per cent. less than in 1939.

In recognition of the adverse conditions in the Industry, The Lehigh Coal and Navigation Company, effective January 1, 1940, made the terms of the lease of its coal properties to this Company less burdensome. The principal changes were a reduction of royalty rates and an agreement by the lessor to undertake certain costs of maintaining the properties.
The Lehigh Coal and Navigation Company, after a thorough engineering investigation, completed in September, decided to make certain improvements to its coal properties under lease to this Company. These improvements consist of a drainage tunnel at Tamaqua Colliery, further consolidation of Tamaqua and Greenwood Collieries, and, at Coaldale Colliery, either a new boiler plant or complete electrification of the colliery. The first two of these projects have been started, but the third is undergoing further study. These improvements after completion will result in a material reduction in operating costs.

The Company at the beginning of the year adopted a publicity plan whereby it hopes to keep the public and employees in the mining communities fully informed of its problems and policies. This plan appears to have been helpful.

In order to provide a future supply of trained men to fill vacancies in the supervisory force, a plan was initiated to grant scholarships each year at some prominent mining school to two young men from the mining region, with the understanding that during vacations and after graduation they will acquire necessary practical experience by accepting employment in the Company’s mines.

In cooperation with the National Defense Program, the Lansford Shops were made available for training a group of young men in the use of machine tools.

Temperatures during the year were, on the average, colder than in the preceding year and the rainfall was heavier, but delays to operation due to storms, floods, and similar occurrences, were not abnormal. The only unusual handicap to operations was a mine fire at Greenwood Colliery in May which was under control before the end of the year after a considerable expenditure of time and money.

The Company suffered a severe loss in May in the death of Mr. T. D. Lewis, General Superintendent of the Company since 1930. Mr. Evan Evans, Acting General Superintendent, was appointed General Superintendent to fill the vacancy and, as of December 26, 1940, was elected Vice President and General Manager.
The Board acknowledges its appreciation of the services rendered by the officers and employees during the year.

By order of the Board of Directors,

J. B. WARRINER,
President.

PHILADELPHIA, PA.
February 27, 1941.
To the Board of Directors,
Lehigh Navigation Coal Company Incorporated,
Philadelphia.

We have examined the balance sheet of
Lehigh Navigation Coal Company Incorporated
as of December 31, 1940, and the statements of income and deficit
for the year then ended, have reviewed the system of internal con-
trol and the accounting procedures of the company and, without
making a detailed audit of the transactions, have examined or tested
accounting records of the company and other supporting evidence,
by methods and to the extent we deemed appropriate.

In our opinion, the accompanying balance sheet and related
statements of income and deficit present fairly the position of the
Lehigh Navigation Coal Company Incorporated at December 31,
1940, and the results of its operations for the year then ended, in
conformity with generally accepted accounting principles applied on
a basis consistent with that of the preceding year.

Lybrand, Ross Bros. & Montgomery

Philadelphia, Penna.
February 13, 1941.
LEHIGH NAVIGATION COAL

BALANCE SHEET,

ASSETS AND OTHER DEBITS:

CURRENT ASSETS:
Cash on hand and demand deposits in banks...... $368,759.66
Customers' accounts and notes receivable...... $1,379,974.21
Less reserve for accounts doubtful of collection...... 447,916.18
Sundry debtors........................................... 932,058.03
Coal stock, at cost........................................ 18,128.20
Materials and supplies, at cost.......................... 352,919.56
Accounts receivable, affiliated companies........... 272,577.69

INVESTMENTS:
Capital stock of and advances to wholly owned subsidiaries...... $453,038.13
Less reserve for shrinkage in value of investments........... 348,038.13
Other....................................................... 17,300.00

FIXED ASSETS:
Plant, coal mining and marketing property.................. $3,833,878.22
(Principally located on lands leased from The Lehigh Coal and Navigation Company)
Less reserve for depreciation.............................. 1,528,542.51

DEFERRED ACCOUNTS:
Accounts receivable, subsidiary and affiliated companies (Note 1)...... $1,877,113.70
Stripping expenses deferred.................................. $4,002,653.42
Less reserve for stripping expenses......................... 3,461,455.26
Other advances and accounts receivable........................ $812,709.05
Less reserve for accounts doubtful of collection.............. 565,000.00
Suspended debit accounts.................................... 247,709.05

OTHER ASSETS........................................... 110,605.80

$1,989,258.93

NOTE 1: Includes $1,796,534.42 due from subsidiaries of Greenwood Corporation.
No provision for possible losses from these accounts has been made as they are eliminated in the consolidated statements of The Lehigh Coal and Navigation Company and subsidiary companies.
COMPANY INCORPORATED

DECEMBER 31, 1940

LIABILITIES AND OTHER CREDITS:

CURRENT LIABILITIES:
Notes payable due in 1941:
  For insurance........................................ $18,778.25
  Purchases of equipment on deferred payment plan........................................... 21,375.00
  Audited vouchers and pay rolls.......................................................... 561,427.53
  Accounts payable, affiliated companies.................................................. 33,379.64
  Sundry creditors................................................................. 208,172.33
  Accrued taxes................................................................. 91,174.57
  Compensation claims determined, payable in 1941.................................. 62,155.82

Accounts payable, for expenses, royalties, etc.,
  The Lehigh Coal and Navigation Company........................................... $2,819,969.37

Advances,
  The Lehigh Coal and Navigation Company........................................... 2,725,000.00

Purchases of equipment on deferred payment plan,
  less $21,375.00 due in 1941.................................................. 58,781.25

Notes payable for insurance, less $18,778.25 due in 1941.................. 26,933.90

DEFERRED LIABILITIES:
Royalties payable, affiliated company........................................... $169,940.14
Compensation claims determined.................................................. 110,921.38
Suspended credit accounts.......................................................... 2,480.95

RESERVE ACCOUNT:
Workmen's compensation insurance reserve........................................ 56,235.39

CAPITAL:
Capital stock,
  50,000 shares, without par value............................................. $3,000,500.00
Capital surplus................................................................. 172,449.07

Deficit, as annexed............................................................... 2,869,592.71

$3,172,949.07

303,356.36

$7,270,081.88
LEHIGH NAVIGATION COAL COMPANY INCORPORATED

INCOME ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 1940

Coal: Revenue (including sales to affiliated companies) (Note 1) $11,835,977.53
Expenses........................................ $11,381,794.80
Depreciation................................. 112,845.31
Special provision for accounts doubtful of collection................. 190,000.00

11,684,640.11

Profit before general expenses, taxes and interest........... $151,337.42

General expenses, taxes and interest:
General and administrative expenses......................... $77,442.11
Taxes........................................... 279,085.98
Interest expense.................................. 1,234.72

357,762.81

Loss for the year ended December 31, 1940 (Note 2) $206,425.39

Notes: 1. Includes sales amounting to $99,664.75 to subsidiary companies and $1,837,941.14 to subsidiary companies of Greenwood Corporation (an affiliated corporation).

2. The decrease in loss for 1940 as compared with 1939 is due in part to increased average realization per ton of coal sold and in part to the terms of the lease effected as of January 1, 1940.

DEFICIT ACCOUNT

Deficit, January 1, 1940........................................ $2,697,526.76
Loss for year ended December 31, 1940, as annexed............. 206,425.39

$2,903,952.15

Cancellation of amount accrued in connection with litigation..... 34,359.44

Deficit, December 31, 1940.................................... $2,869,592.71
The Lehigh and New England Railroad Company serves the famous OLD COMPANY’S LEHIGH anthracite mines and the heavy productive industrial and agricultural area of the Valley of the Lehigh.

Originating commodities consist principally of anthracite, cement, zinc products, steel, slate, and alfalfa.

Passing-over traffic consists principally of bituminous coal from northern producing fields and anthracite from Lehigh, Schuylkill, and Wyoming Regions to destinations in New England, Northern New Jersey, and Eastern New York.

Your Railroad Company interchanges freight traffic directly with ten Eastern Trunk Lines and at eighteen different junction points. Through these valuable connections fast service is provided to Boston, New York, Philadelphia, Baltimore, Washington, and other large consuming centers.

MAIN OFFICE:


C. F. KELLER, General Traffic Manager, Bethlehem, Pa.
H. L. ALBERT, General Freight Agent, Bethlehem, Pa.
J. S. MOWBRAY, General Agent, Hartford, Conn.
G. A. ANDERSON, Commercial Agent, Boston, Mass.
ANNUAL REPORT OF
LEHIGH AND NEW ENGLAND RAILROAD COMPANY

The Net Income after taxes and all other charges of the Lehigh and New England Railroad Company for the year 1940 was $844,043.06, a decrease of $17,684.06, as compared with the previous year.

The Net Income before taxes showed an increase of $130,786.93, but the Tax Accruals for the year 1940 totaled $500,009.42, an increase of $148,470.99, as compared with the previous year.

The Consolidated Balance Sheet and the Statement of Income and Profit and Loss of this Company as of December 31, 1940, together with Certificate of Messrs. Haskins & Sells, Certified Public Accountants, will be found on pages 41 to 46.

The following statement shows the revenue freight traffic during the year 1940 as compared with 1939:

<table>
<thead>
<tr>
<th></th>
<th>1940</th>
<th>1939</th>
<th>Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anthracite</td>
<td>3,950,379</td>
<td>4,170,959</td>
<td>Decrease 220,580</td>
</tr>
<tr>
<td>Bituminous Coal</td>
<td>1,493,197</td>
<td>1,375,405</td>
<td>Increase 117,792</td>
</tr>
<tr>
<td>Cement</td>
<td>1,603,535</td>
<td>1,428,624</td>
<td>Increase 174,911</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>773,826</td>
<td>698,824</td>
<td>Increase 75,002</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,820,937</td>
<td>7,673,812</td>
<td>Increase 147,125</td>
</tr>
</tbody>
</table>

The Ratio of Expenses to Revenues for the year 1940 was 62.8, the lowest the Company has enjoyed since 1917. There have been but three other Operating Ratios under 73.3 during the past twenty years, one having been 65.3 in 1926, one 69.6 in 1927, and the other 64.5 in 1939.

Seventy-five (75) special body, hatchway roof, hopper bottom, steel cars, 140,000 pounds capacity, were purchased to enable the Company to handle properly its cement tonnage.

An order was placed with the Pressed Steel Car Company December 3, 1940, for three hundred (300) steel hopper cars, 100,000 pounds capacity, to be delivered in February, 1941.
There was completed and placed in service on July 1, 1940, a modification of interlocking at Lansford, Pa., involving installation of electric switch machines and color-light signals, remotely controlled by coded system from train dispatcher’s office at Arlington, Pa., 3.52 miles distant, in lieu of electro-pneumatic switch machines and signals controlled from yard office.

Equipment retired during the year consisted of two (2) locomotives, one hundred fifty-eight (158) steel hopper and twenty-eight (28) bulk cement cars.

The property has been fully maintained during the year 1940.

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

By order of the Board of Directors.

W. H. EDWARDS,
Vice-President and General Manager.

BETHLEHEM, PA.,
February 27, 1941.
Lehigh and New England Railroad Company:

We have examined 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, 1940, and the statements of income and profit and loss of the Lehigh and New England Railroad Company for the year ended that date, have reviewed the system of internal control and the accounting procedures of the companies and have examined or tested their accounting records (which consistently have been kept in accordance with the classification of accounts prescribed by the Interstate Commerce Commission) and other supporting evidence by methods and to the extent we deemed appropriate. Such examination included the verification, by count or confirmation from depositaries or trustees, of the cash and securities owned on December 31, 1940.

In our opinion, the accompanying consolidated balance sheet of the Company and its subsidiaries, and the statements of income and profit and loss of the Company, fairly present, in accordance with the requirements of the Interstate Commerce Commission, the financial condition at December 31, 1940, and the results of operations for the year ended that date.

Haskins & Sells

New York, January 21, 1941.
LEHIGH AND NEW ENGLAND RAILROAD COMPANY

CONSOLIDATED GENERAL BALANCE SHEET

INVESTMENTS:

Road and equipment:
- Road: $14,016,266.34
- Equipment: 7,269,030.20
- General expenditures: 230,716.70

Total road and equipment: $21,516,013.24

Sinking funds-general mortgage bonds: 778.03
Deposits in lieu of mortgaged property sold: 5,000.00
Miscellaneous physical property: 37,107.99
Investments in affiliated companies-advances: 35,101.99

Other investments:
- Stocks: $5,500.00
- Bonds: 4,475.00
- Advances: 82,073.45

Total other investments: 92,048.45

Total investments: $21,686,049.70

CURRENT ASSETS:

Cash: $1,146,501.84
Special deposits-Funds with trustee for the contract price of Series "L" equipment: 712,500.00
Traffic and car-service balances receivable: 208,155.22
Net balance receivable from agents and conductors: 83,881.93
Miscellaneous accounts receivable: 28,296.98
Material and supplies: 438,276.47
Interest and dividends receivable: 191.89
Other current assets: 22.44

Total current assets: 2,617,826.77

DEFERRED ASSETS:

Working fund advances: $3,000.00
Insurance and other funds (Deposit-State Industrial Commission, New York): 20,196.88
Other deferred assets: 21,299.59

Total deferred assets: 44,496.47

UNADJUSTED DEBITS:

Rents and insurance premiums paid in advance: $460.34
Discount on funded debt: 107,108.69
Other unadjusted debits: 48,057.02
Securities issued or assumed-unpledged (Mortgage bonds—$100,000.00):

Total unadjusted debits: 155,626.05

Total: $24,503,998.99
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... 90,304.01

FUNDED DEBT UNMATURED:
Mortgage bonds (less in treasury, $100,000.00)... $7,046,000.00
Equipment obligations... $1,487,000.00
Serial notes, issue of 1936... $420,000.00
Total funded debt unmatured... $8,953,000.00

CURRENT LIABILITIES:
Traffic and car-service balances payable... $346,391.75
Audited accounts and wages payable... $146,375.62
Miscellaneous accounts payable... $12,468.43
Interest matured unpaid... $26,450.00
Unmatured interest accrued... $72,823.96
Other current liabilities... $39,916.23
Total current liabilities... $644,425.99

DEFERRED LIABILITIES:
Purchases of equipment on deferred payment plan... $466,314.08
Other deferred liabilities... $9,079.35
Total deferred liabilities... $475,393.23

UNADJUSTED CREDITS:
Tax liability (including Companies' estimate of Federal taxes)... $388,849.19
Premium on funded debt... $31,447.48
Insurance and casualty reserves... $40,000.00
Accrued depreciation—equipment... $3,509,687.15
Other unadjusted credits... $57,555.55
Total unadjusted credits... $4,027,539.37

CORPORATE SURPLUS:
Additions to property through income and surplus... $48,905.11
Funded debt retired through income and surplus... $240,625.89
Sinking fund reserves... $85,182.34
Total appropriated surplus... $374,713.34
Profit and loss balance... $3,135,523.05
Total corporate surplus... $3,510,236.39
Total... $24,503,998.99

NOTES:
No provision, other than in corporate surplus, is made in the above Consolidated General Balance Sheet for $84,404.31 (representing 10% of net income for the year ended December 31, 1940) to be paid into the General Mortgage Sinking Fund on March 1, 1941. 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 Lehigh and New England Railroad Company's 4% bonds. The liability for purchases of equipment on deferred payment plan was classified as equipment obligations, under funded debt unmatured at December 31, 1939. Material and supplies are stated at book value as of December 31, 1940; a physical inventory was taken as of September 30, 1940 by the accounting department of the Company and adjusted as of that date, the quantities thereof being valued at average or latest cost.
Lehigh and New England Railroad Company

LEHIGH AND NEW ENGLAND RAILROAD COMPANY
STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1940 AND 1939, AND COMPARISON

<table>
<thead>
<tr>
<th>Year ended December 31</th>
<th>1940</th>
<th>1939</th>
<th>Increase</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Railway Operating Income:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Railway operating revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freight</td>
<td>$4,396,534.64</td>
<td>$4,256,219.05</td>
<td>$140,315.59</td>
<td></td>
</tr>
<tr>
<td>All other transportation</td>
<td>14,776.92</td>
<td>13,611.68</td>
<td>1,165.24</td>
<td></td>
</tr>
<tr>
<td>Incidental</td>
<td>15,717.65</td>
<td>16,821.45</td>
<td>1,103.80</td>
<td></td>
</tr>
<tr>
<td>Total railway operating revenues</td>
<td>$4,427,029.21</td>
<td>$4,286,652.18</td>
<td>$140,377.03</td>
<td></td>
</tr>
<tr>
<td>Railway operating expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance of way and structures</td>
<td>$371,237.99</td>
<td>$456,158.16</td>
<td>$84,920.17</td>
<td></td>
</tr>
<tr>
<td>Maintenance of equipment</td>
<td>762,387.85</td>
<td>717,483.47</td>
<td>44,904.38</td>
<td></td>
</tr>
<tr>
<td>Traffic</td>
<td>84,023.82</td>
<td>80,348.83</td>
<td>3,674.99</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>1,377,657.63</td>
<td>1,328,051.94</td>
<td>49,605.69</td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>184,257.21</td>
<td>184,091.39</td>
<td>165.82</td>
<td></td>
</tr>
<tr>
<td>Transportation for investment—Credit</td>
<td>114.00</td>
<td>115.90</td>
<td>1.90</td>
<td></td>
</tr>
<tr>
<td>Total railway operating expenses</td>
<td>$2,779,450.50</td>
<td>$2,766,017.89</td>
<td>$13,432.61</td>
<td></td>
</tr>
<tr>
<td>Ratio of operating expenses to operating revenues</td>
<td>62.78%</td>
<td>64.52%</td>
<td>1.74%</td>
<td></td>
</tr>
<tr>
<td>Net revenue from railway operations</td>
<td>$1,647,578.71</td>
<td>$1,520,634.29</td>
<td>$126,944.42</td>
<td></td>
</tr>
<tr>
<td>Railway tax accruals (including Company's estimate of Federal taxes)</td>
<td>500,009.42</td>
<td>351,538.43</td>
<td>148,470.99</td>
<td></td>
</tr>
<tr>
<td><strong>Railway Operating Income</strong></td>
<td>$1,147,569.29</td>
<td>$1,169,095.86</td>
<td>$21,526.57</td>
<td></td>
</tr>
<tr>
<td><strong>Rent Income:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hire of freight cars-Credit balance</td>
<td>$193,521.92</td>
<td>$205,588.69</td>
<td>$12,066.77</td>
<td></td>
</tr>
<tr>
<td>Rent from locomotives</td>
<td>2,565.25</td>
<td>2,419.23</td>
<td>146.02</td>
<td></td>
</tr>
<tr>
<td>Rent from work equipment</td>
<td>486.95</td>
<td>62.30</td>
<td>424.65</td>
<td></td>
</tr>
<tr>
<td>Joint facility rent income</td>
<td>4,897.66</td>
<td>3,595.81</td>
<td>1,301.85</td>
<td></td>
</tr>
<tr>
<td>Total rent income</td>
<td>$201,471.78</td>
<td>$211,666.03</td>
<td>$10,194.25</td>
<td></td>
</tr>
<tr>
<td><strong>Rents Payable—Joint facility rents</strong></td>
<td>151,760.92</td>
<td>145,437.70</td>
<td>6,323.22</td>
<td></td>
</tr>
<tr>
<td><strong>Net rents—Credit</strong></td>
<td>$49,710.86</td>
<td>$66,228.33</td>
<td>$16,517.47</td>
<td></td>
</tr>
<tr>
<td><strong>Net Railway Operating Income</strong></td>
<td>$1,197,280.15</td>
<td>$1,235,324.19</td>
<td>$38,044.04</td>
<td></td>
</tr>
</tbody>
</table>
**LEHIGH AND NEW ENGLAND RAILROAD COMPANY**

**STATEMENT OF INCOME**

**FOR THE YEARS ENDED DECEMBER 31, 1940 AND 1939, AND COMPARISON**

<table>
<thead>
<tr>
<th></th>
<th>1940</th>
<th>1939</th>
<th><strong>Increase</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year ended December 31</strong></td>
<td><strong>Net Railway Operating Income</strong> (Forward).</td>
<td>$1,197,280.15</td>
<td><strong>$1,235,324.19</strong></td>
</tr>
<tr>
<td><strong>Other Income:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous rent income.</td>
<td>$11,254.00</td>
<td><strong>$11,932.90</strong></td>
<td><strong>$678.90</strong></td>
</tr>
<tr>
<td>Miscellaneous non-operating physical property...</td>
<td>3,144.41</td>
<td><strong>3,304.98</strong></td>
<td><strong>160.57</strong></td>
</tr>
<tr>
<td>Income from funded securities...</td>
<td>89.50</td>
<td><strong>226.99</strong></td>
<td><strong>137.49</strong></td>
</tr>
<tr>
<td>Income from unfunded securities and accounts...</td>
<td>455.29</td>
<td>455.29</td>
<td>0</td>
</tr>
<tr>
<td>Income from sinking and other reserve funds...</td>
<td>675.00</td>
<td><strong>675.00</strong></td>
<td><strong>0</strong></td>
</tr>
<tr>
<td>Release of premiums on funded debt</td>
<td>2,458.07</td>
<td><strong>2,574.88</strong></td>
<td><strong>116.81</strong></td>
</tr>
<tr>
<td>Miscellaneous income...</td>
<td>4,317.69</td>
<td>3,932.12</td>
<td>385.57</td>
</tr>
<tr>
<td><strong>Total other income...</strong></td>
<td>$22,393.96</td>
<td>$22,646.87</td>
<td><strong>$252.91</strong></td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td>$1,219,674.11</td>
<td>$1,257,971.06</td>
<td><strong>$38,296.95</strong></td>
</tr>
<tr>
<td><strong>Miscellaneous Deductions from Income:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous rents...</td>
<td>64.00</td>
<td><strong>69.00</strong></td>
<td><strong>5.00</strong></td>
</tr>
<tr>
<td>Miscellaneous tax accruals...</td>
<td>470.24</td>
<td>438.76</td>
<td>31.48</td>
</tr>
<tr>
<td>Miscellaneous income charges...</td>
<td>10,964.74</td>
<td><strong>24,812.44</strong></td>
<td><strong>13,847.70</strong></td>
</tr>
<tr>
<td><strong>Total miscellaneous deductions from income...</strong></td>
<td>$11,498.98</td>
<td>$25,320.20</td>
<td><strong>$13,821.22</strong></td>
</tr>
<tr>
<td><strong>Income available for Fixed Charges...</strong></td>
<td>$1,208,175.13</td>
<td>$1,232,650.86</td>
<td><strong>$24,475.73</strong></td>
</tr>
<tr>
<td><strong>Fixed Charges:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on funded debt-Fixed interest...</td>
<td>$344,777.14</td>
<td><strong>$366,228.94</strong></td>
<td><strong>$21,451.80</strong></td>
</tr>
<tr>
<td>Interest on unfunded debt...</td>
<td>14,782.43</td>
<td>16.16</td>
<td>14,766.27</td>
</tr>
<tr>
<td>Amortization of discount on funded debt...</td>
<td>4,572.50</td>
<td><strong>4,678.64</strong></td>
<td><strong>106.14</strong></td>
</tr>
<tr>
<td><strong>Total fixed charges...</strong></td>
<td>$364,132.07</td>
<td><strong>370,923.74</strong></td>
<td><strong>$6,791.67</strong></td>
</tr>
<tr>
<td><strong>Net Income...</strong></td>
<td>$844,043.06</td>
<td><strong>$861,727.12</strong></td>
<td><strong>$17,684.06</strong></td>
</tr>
<tr>
<td><strong>Disposition of Net Income:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income applied to sinking and other reserve funds...</td>
<td>84,404.31</td>
<td>86,172.71</td>
<td><strong>1,768.40</strong></td>
</tr>
<tr>
<td><strong>Income Balance Transferred to Profit and Loss...</strong></td>
<td>$759,638.75</td>
<td><strong>$775,554.41</strong></td>
<td><strong>$15,915.66</strong></td>
</tr>
</tbody>
</table>
**LEHIGH AND NEW ENGLAND RAILROAD COMPANY**

**STATEMENT OF PROFIT AND LOSS**

**FOR THE YEAR ENDED DECEMBER 31, 1940**

<table>
<thead>
<tr>
<th>Credits:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit balance, January 1, 1940.</td>
</tr>
<tr>
<td>Credit balance transferred from income.</td>
</tr>
<tr>
<td>Credits from retired road and equipment-Road.</td>
</tr>
<tr>
<td>Miscellaneous credits:</td>
</tr>
<tr>
<td>Excess of face value over cost of general mortgage 4% series &quot;A&quot; bonds:</td>
</tr>
<tr>
<td>Redeemed, $96,000.00 principal amount.</td>
</tr>
<tr>
<td>Purchased, $125,000.00 principal amount.</td>
</tr>
<tr>
<td>Excess of proceeds from sale of miscellaneous physical property over book value.</td>
</tr>
<tr>
<td>Total.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Debits:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend appropriations of surplus.</td>
</tr>
<tr>
<td>Debt discount extinguished through surplus—</td>
</tr>
<tr>
<td>Documentary stamps, equipment trust, Series &quot;L&quot;</td>
</tr>
<tr>
<td>Miscellaneous appropriations of surplus-appropriation to insurance and casualty reserves.</td>
</tr>
<tr>
<td>Debits from retired road and equipment-road.</td>
</tr>
<tr>
<td>Miscellaneous debits:</td>
</tr>
<tr>
<td>General mortgage 4% series &quot;A&quot; bonds:</td>
</tr>
<tr>
<td>Excess of face value over proceeds from sale of $80,000.00 principal amount sold to trustee of sinking fund.</td>
</tr>
<tr>
<td>Unextinguished discount on $141,000.00 principal amount purchased.</td>
</tr>
<tr>
<td>Uncollectible accounts written off.</td>
</tr>
<tr>
<td>Total.</td>
</tr>
</tbody>
</table>

**CREDIT BALANCE, DECEMBER 31, 1940** | $3,135,523.05 |