SECOND ANNUAL REPORT

OF THE

PRESIDENT AND DIRECTORS

OF THE

LAKE SHORE

AND

MICHIGAN SOUTHERN

RAILWAY COMPANY,

TO THE STOCKHOLDERS,

FOR THE FISCAL YEAR ENDING

DECEMBER 31ST, 1871.

CLEVELAND:
FAIRBANKS, BENEDICT & CO., PRINTERS, HERALD OFFICE.
1872.

ORGANIZATION

OF THE

LAKE SHORE & MICHIGAN SOUTHERN

RAILWAY COMPANY.

MAY 1st, 1872.

DIRECTORS:

HORACE F. CLARK,	New York.
JAMES H. BANKER,	" "
AUGUSTUS SCHELL,	" "
AZARIAH BOODY,	" "
WILLIAM WILLIAMS,	Buffalo, N. Y.
HENRY B. PAYNE,	Cleveland, O.
AMASA STONE, Jr.,	" "
STILLMAN WITT,	" "
WILLIAM L. SCOTT,	Erie, Pa.
MILTON COURTRIGHT,	" "
JOHN A. TRACY,	" "
ALBERT KEEP,	Chicago, Ill.
WILLIAM D. BISHOP,	Bridgeport, Conn.

OFFICERS:

President,	HORACE F. CLARK,	New York.
Vice President,	AUGUSTUS SCHELL,	" "
Treasurer,	JAMES H. BANKER,	" "
Secretary and Assist. Treasurer,	GEORGE B. ELY,	Cleveland, O.
Auditor,	C. P. LELAND,	" "
General Manager,	J. H. DEVEREUX,	" "
General Superintendent,	CHARLES PAINE,	" "
General Freight Agent,	ADDISON HILLS,	" "
Assist. General Freight Agent,	CHARLES M. GRAY,	Chicago, Ill.
General Ticket Agent,	J. W. CARY,	Cleveland, O.
Chief Engineer,	CHARLES COLLINS,	" "
General Master Mechanic,	JAMES SEDGLEY,	" "
Master Car Builder,	JOHN KIRBY,	" "
Purchasing Agent,	A. C. ARMSTRONG,	" "

REPORT.

The President and Directors of the LAKE SHORE & MICHIGAN SOUTHERN RAILWAY COMPANY respectfully submit to the Stockholders the following Report for the year ending December 31st, 1871:

HISTORY OF ORGANIZATION.

The Company is a consolidation of the following Roads:

The *Buffalo & State Line Railroad*—extending from the city of Buffalo, in the State of New York, westward, to the State line of Pennsylvania.... 68 miles.
The *Erie & North-East Railroad*—extending from the State line of Pennsylvania to the city of Erie, in the State of Pennsylvania..... 20 miles.

These two Roads were consolidated, under the name of the *Buffalo & Erie Railroad Company*, in the year 1867, in pursuance of laws of the States of New York and Pennsylvania.

The *Cleveland, Painesville & Ashtabula Railroad*—extending from the city of Erie, in the State of Pennsylvania, to the city of Cleveland in the State of Ohio..... 95 miles.
The *Cleveland & Toledo Railroad*—extending from the city of Cleveland, in the State of Ohio, to the city of Toledo, in the State of Ohio.....113 miles.
With a Branch, (or Northern Division,) extending from Elyria, twenty-six miles west of Cleveland,) via the city of Sandusky, in the State of Ohio, to Millbury, (Junction with Main Line near Toledo,)..... 74¼ miles.

These two Roads last mentioned were consolidated, under the name of the *Lake Shore Railway Company*, in March, 1869, pursuant to the laws of the States of Ohio and Pennsylvania.

The *Michigan Southern & Northern Indiana Railroad*—extending from the city of Toledo, in the State of Ohio, to the city of Chicago, in the State of Illinois.....244 miles.

This Road was consolidated with the *Lake Shore Railway Company*, under the name of the *Lake Shore & Michigan Southern Railway Company*, in May 1869, pursuant to the laws of Pennsylvania, Ohio, Michigan, Indiana and Illinois.

In August, 1869, the *Buffalo & Erie Railroad Company* was consolidated with the *Lake Shore & Michigan Southern Railway Company*, under the name of the LAKE SHORE & MICHIGAN SOUTHERN RAILWAY COMPANY, pursuant to the laws of the States of New York, Pennsylvania, Ohio, Michigan, Indiana and Illinois, thus forming a continuous line of Railway, five hundred and forty miles in length, between the cities of Buffalo, in the State of New York, and Chicago, in the State of Illinois.

This Company owns Branches as follows:

Ashtabula, Ohio, to Jamestown, Pa.,	36 miles.
Elyria, Ohio, via Sandusky, to Millbury, (Junction with Main Line,)	74¼ miles.
Toledo, Ohio, to Elkhart, Indiana, (Air Line,)	138 miles.
Adrian, Michigan, to Jackson, Michigan,	46 miles.
Adrian, Michigan, to Monroe, Michigan,	33 miles.

The following Roads are under separate organizations, but the capital stock thereof is owned wholly by this Company:

The *Detroit, Monroe & Toledo Railroad*—extending from Toledo, in the State of Ohio, to the city of Detroit, in the State of Michigan	65 miles.
The *Kalamazoo & White Pigeon Railroad*—extending from White Pigeon, Michigan, to Kalamazoo, Michigan	37 miles.

The following Roads are operated by this Company under leases:

The *Jamestown & Franklin Railroad*—extending from Jamestown, Pennsylvania, (where it connects with the Ashtabula Branch,) to Oil City, Pennsylvania	51 miles.

This Company has a large proprietary interest in this Road, and operates it under a lease for sixty per cent. of the earnings.

The *Kalamazoo, Allegan & Grand Rapids Railroad*—extending from Kalamazoo, Michigan, to Grand Rapids, Michigan	58 miles.

The terms of this lease are, the payment of interest on bonds and stock amounting to $103,800 per annum.

That portion of our Main Line, from Toledo, Ohio, to Adrian, Michigan, thirty-three miles, was acquired by a perpetual lease from the Erie & Kalamazoo Railroad Company, by the terms of which this Company pays the sum of $30,000 per annum.

The whole number of miles of Railroad owned and leased by this Company is one thousand and seventy-four.

The Company also has ninety-two miles of double track, between Buffalo and Toledo, and two hundred and fifty-nine miles of side tracks.

Equipment.

During the year 1871 the Equipment was increased to the extent of forty-seven new engines and eleven hundred and fifty-one new cars, of various classes, at a cost of $1,203,747 87.

The equipment at the close of the fiscal year stood as follows:

Engines	346
Passenger Cars—all classes	229
Freight Cars—all classes	7321

Capital Stock.

The authorized Capital Stock is $50,000,000. Of this sum there was issued to the stockholders of the various Companies entering into the consolidation, $35,000,000. Under the provisions of the consolidation agreement, (printed in connection with the Annual Report of 1870, page 41,) a previous vote of the stockholders was necessary to authorize the issue of the remaining $15,000,000.

A meeting of the stockholders was held at the city of Cleveland, Ohio, July 27, 1871, at which, by a vote nearly unanimous, the issue of the $15,000,000 of stock was authorized, and the Board of Directors were empowered to sell and dispose thereof in such manner as they should deem most conducive to the interests of the Company.

In pursuance of this authority, the Board of Directors sold to the holders of the common stock, as of October 7,

1871, $14,000,000 at thirty-three and one-third per cent. This allowed each common stockholder to purchase forty per cent. of the amount of stock held by him. The terms of the sale were ten per cent. payable November 1, 1871; ten per cent. payable December 1, 1871; the remainder being thirteen and one-third per cent. to be called on thirty days previous notice on or before August 1, 1872. The two called installments amounted to the sum of $2,757,320, of which but $25,582 remains unpaid.

Upon the payment of the thirteen and one-third per cent., not yet called, the Capital Stock of the Company will stand as follows:

Common Stock	$49,466,500
Guaranteed (ten per cent.) Stock	533,500
Total	$50,000,000

Of the $50,000,000 of stock issued, the sum of $533,500 is claimed to have been guaranteed by the late the Michigan Southern & Northern Indiana Railroad Company, as entitled to dividends at the rate of ten per cent. per annum. A claim is being preferred by holders of a portion of the guaranteed stock for dividends from 1857 to 1863, when the regular payment of dividends was commenced, which claim is controverted.

The claim for back dividends has been released on three thousand five hundred and six shares, leaving one thousand eight hundred and twenty-nine shares unassented.

Bonded Debt.

The Bonded Debt of the Company (not including the debt of the Detroit, Monroe & Toledo Railroad Company, and the Kalamazoo & White Pigeon Railroad Company, the stock of both of which Roads is owned by this Company) amounts to $24,909,000.

The annual charge for interest on this debt is $1,743,630.

Of this debt fourteen classes of bonds are secured by mortgages on distinct portions of the several roads entering into the consolidation.

On July 1, 1870, the Company executed a consolidated mortgage, (a copy of which is hereto appended,) with a provision for a sinking fund, to secure the payment of bonds registered and coupon, to the amount of $25,000,000, bearing interest at the rate of seven per cent. per annum.

The interest on the registered bonds is payable quarterly (January, April, July and October), and on the coupon bonds semi-annually (January and July), both at the office of the Union Trust Company of New York.

Of the bonds secured by this mortgage, a sufficient amount has been set apart to secure the payment of the bonded debt at maturity, and the proceeds of the residue have been appropriated to the double tracking of the Main Line, and to the procurement of additional equipment.

EARNINGS—1871.

From Freight	$10,151,352.93	
" Passengers	3,949,873.83	
" All other sources	696,748.31	
Total		$14,797,975.07
Operating Expenses and Taxes, sixty-six per cent.		$ 9,779,806.23
Net Earnings		$ 5,018,168.84
Interest on Funded Debt, Leases, etc.	$1,959,508.88	
Dividends—ten per cent. on Guaranteed and eight per cent. on Common Stock, and first two installments of Scrip	2,855,847.00	
Government Tax on Dividends	71,858.63	
Total		$ 4,887,214.51
Surplus for the year		$ 130,954.33

The earnings from freight, compared with 1870, show an increase of $1,492,691.12, or, seventeen and one-fourth per cent.; but we moved an increased tonnage of twenty-six and one-half per cent., or seven hundred and seventy-nine thousand six hundred and fifty-one tons.

During the last six months of 1871 a ruinous competition existed on westward bound freights between the Trunk Lines, (the Pennsylvania Railroad, the Erie Railway and the New York Central and Hudson River Railroad), in the course of which the prices of freight transportation were reduced to a point almost without precedent.

By the arrangements between this Company and the seaboard Trunk Lines, the rates on westward bound freights are made by the latter.

This Company, from its relation to the several Trunk Lines, was compelled either to submit to a most extraordinary reduction of rates or to abandon the traffic. The first alternative was accepted, as a matter of sound policy in the interests of the stockholders of this Company.

It may be well iu this connection to state that, while we moved an increased westward bound tonnage of twenty-nine per cent., (equal to two hundred and seventy thousand and ninety-five tons, and equivalent to twenty-seven thousand car loads, or one thousand entire freight trains), in 1871 over 1870, the gross earnings therefrom exhibit a *decrease* of $60,503.90.

On eastward bound freights, on this Road, the rates were maintained in 1871 at the figures of 1870.

We carried an increased tonnage in 1871 over 1870 of five hundred and nine thousand five hundred and fifty-six tons, being twenty-five and one-half per cent., and we received an increased earning from that source of $1,529,-566.19, being twenty-seven and one-half per cent.

The average rate per ton per mile on all freights carried was:

In 1871	**Cents- 1.39**
In 1870	**" – 1.50**
Decrease	**.11**

This fraction of eleven one-hundredths of one cent per ton per mile caused a diminished earning of $800,000, or over two per cent, upon our Capital Stock in 1871. This $800,000, being a loss of net earnings, carried the per centage of operating expenses from sixty-three to sixty-six per cent.

We congratulate the stockholders upon the fact that reasonable rates are now being maintained on westward bound freights, and that our earnings for the months of January, February and March, 1872, show an increase of gross receipts of $635,000.