PROSPECTUS

913,405 Shares of Common Stock ($1 Par Value)
96,965 Shares of $5 Convertible Class A Preference Stock
(Cumulative if Earned) (No Par Value)

BOSTON AND MAINE INDUSTRIES, INC.

(Incorporated in Delaware)

EXCHANGE OFFER TO SHAREHOLDERS OF BOSTON AND MAINE CORPORATION

Boston and Maine Industries, Inc. (''Industries'') hereby offers to exchange 1.05 shares of its Common Stock, par value $1 per share, for one share of Common Stock, par value $1 per share, of Boston and Maine Corporation (''Corporation'') and also to exchange 1.05 shares of its $5 Convertible Class A Preference Stock (Cumulative, if Earned), no par value, (hereinafter referred to as $5 Class A Preference Stock) for one share of the 5% Preferred Stock, par value $100 per share, of Corporation. Assuming that no shares of the 5% Preferred Stock of Corporation are converted into Common Stock of Corporation after January 1, 1969 a maximum of 913,405 shares of Industries Common Stock and 96,965 shares of Industries $5 Class A Preference Stock will be issuable, exclusive of amounts reserved for issuance upon exercise of stock options. FRACTIONAL SHARES WILL NOT BE ISSUED. The Exchange Offer is subject to the terms and conditions hereinafter set forth under ''Exchange Offer''. **THE OFFER TERMINATES AT 5 P.M., EASTERN STANDARD TIME NEW YORK CITY, ON MARCH 14, 1969, UNLESS EXTENDED BY INDUSTRIES AS PROVIDED HEREIN.**

The Exchange Offer may be accepted by mailing a Letter of Transmittal and Acceptance to the Depositary and Exchange Agent or the Forwarding Agent.

Depositary and Exchange Agent	*Forwarding Agent*
Old Colony Trust Company	Manufacturers Hanover Trust Company
Depositary and Exchange Agent	Forwarding Agent
Corporate Trust Department	Corporate Trust Department
P.O. Box 1926	40 Wall Street
Boston, Massachusetts 02110	New York, New York 10005

Each share of $5 Class A Preference Stock of Industries will be immediately convertible into one and three quarters (1¾) shares of Common Stock of Industries. See "Proposed Inclusion in Norfolk and Western Railway System," p. 5, for information with respect to a meeting of stockholders of Corporation that may be held to approve or disapprove a proposal for inclusion of Corporation in the Norfolk and Western Railway Company system. If the Exchange Offer becomes effective before a meeting of stockholders of Corporation for the purpose of voting on such inclusion, Industries will vote the shares deposited against such inclusion, thereby assuring its rejection.

For a statement of fees and expenses payable by Industries, reference is made to the heading ''Solicitation and Expenses'' on page 5.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is February 11, 1969

Until May 12, 1969, all dealers effecting transactions in the registered securities whether or not participating in the Exchange Offer may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a Prospectus when acting as underwriters or otherwise in connection with the Exchange Offer.

No person has been authorized to give any information or to make any representations other than those contained, or incorporated by reference, in this Prospectus in connection with the offer contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by Industries. Neither the delivery of this Prospectus nor any exchange made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Industries or Corporation since the date hereof. This Prospectus does not constitute an offer or solicitation in any state in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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EXCHANGE OFFER

Terms of Exchange Offer

Industries hereby offers to holders of Common Stock of Corporation and to holders of 5% Preferred Stock of Corporation to make the following exchange:

1.05 Shares of Common Stock of Industries

for

1 Share of Common Stock of Corporation

and

1.05 Shares of $5 Class A Preference Stock of Industries

for

1 Share of 5% Preferred Stock of Corporation

Any depositor entitled to receive a fractional interest in a share of Industries Common or $5 Class A Preference Stock will have the option either to sell his fractional interest or to purchase an interest equal to one full share. This option may be exercised in accordance with instructions given in the form of the Letter of Transmittal and Acceptance to the Exchange Agent which will act as the stockholders agent for this purpose. All expenses in connection with the purchase or sale of fractional interests will be borne by Industries. When and if the Exchange Offer becomes effective, the Exchange Agent will, at its discretion, offset buy and sell orders, or buy or sell shares of Industries on the open market, in such manner and on such terms as it deems equitable to adjust the holders of all fractional interests. Depositing stockholders will be billed for the cost of the fractional interest required to make a whole share or receive a proportionate share of the proceeds of any share sold.

The Board of Directors of Corporation recommends acceptance of the Exchange Offer. All of the Directors of Industries are also Directors of Corporation.

All tenders of shares of the Common Stock or Preferred Stock of Corporation under the Exchange Offer will be irrevocable, and any certificates of shares deposited may not be withdrawn up to the time such exchange is either declared effective or terminated, as described below under "Termination of Offer".

Industries will declare this Exchange Offer effective if prior to the termination date of this Exchange Offer (or any extension thereof), the Exchange Offer is accepted by the holders of 90% or more of the 869,910 shares of the Common Stock and 92,348 shares of 5% Preferred Stock of Corporation issued and outstanding as of January 1, 1969. In its discretion, Industries may nevertheless declare the Exchange Offer effective if, prior to such termination date or any extension thereof, the Exchange Offer is accepted by the holders of at least 80% (but less than 90%) of the Common Stock and 5% Preferred Stock of Corporation issued and outstanding.

If the Exchange Offer is declared effective, Industries will give written notice to the Depositary and Exchange Agent and the effective date will be the date of the receipt of such notice by the latter. Notice of the date on which the Exchange Offer is made effective will be published in the national edition of The Wall Street Journal.

In the event the Exchange Offer is declared effective, Industries will, as promptly as possible thereafter, deliver to the holders of Corporation's Common Stock and 5% Preferred Stock who deposit their shares pursuant to the Exchange Offer, certificate(s) for the number of shares of Industries' Common Stock and $5 Class A Preference Stock to which they are entitled.

Shares of Corporation may be deposited for exchange at any time before the Termination Date of the Exchange Offer, whether or not the Exchange Offer has been previously declared effective. While not obligated to do so, Industries reserves the right to accept deposits after the Termination Date if the Exchange Offer has been previously declared effective.

Industries reserves the right to accept an agreement to exchange shares of Corporation pursuant to this Exchange Offer in lieu of an actual deposit thereof.

Termination of Offer

The Exchange Offer will terminate at 5 P.M. Eastern Standard Time, New York City, on March 14, 1969, except that Industries may extend this date for a period, or periods thereafter, not exceeding one hundred twenty days. Written notice of any such extension shall be given to the Exchange Agent and will also be published in the national edition of THE WALL STREET JOURNAL.

The deposit of shares will be irrevocable, and the certificates deposited may not be withdrawn or transferred of record unless the Exchange Offer is terminated. Until the Exchange Offer becomes effective or is terminated, the record holder of the shares deposited will retain all other rights of ownership, including the right to vote. See "Proposed Inclusion in Norfolk and Western Railway System," p. 5. If the Exchange Offer is terminated, the Depositary and Exchange Agent will promptly return to the persons depositing the same the certificates for shares of Corporation stock without cost.

Federal Income Tax Consequences of the Exchange

In the opinion of Hale and Dorr, counsel for Industries, the exchange will have the following federal income tax consequences: (a) a Corporation stockholder whose shares are exchanged pursuant to this offer, will not, by reason of such exchange, realize any gain or loss which will be recognized for Federal income tax purposes, provided however, shareholders of Corporation who receive cash for fractional shares, will realize taxable gain or loss to the extent that the cash received exceeds their basis for the fractional shares surrendered; (b) the basis and holding period of Industries stock received by a Corporation stockholder pursuant to such exchange will be the same as the basis and holding period of Corporation stock surrendered in exchange therefor, (c) no gain or loss will be recognized by Industries upon the exchange of its stock for Corporation stock; and (d) the previously existing affiliated group, consisting of Corporation and its subsidiaries, will, subsequent to the effectiveness of the exchange, be treated as continuing in existence with Industries replacing Corporation as the new common parent, which group will be entitled to file consolidated tax returns for federal income tax purposes.

Procedure for Exchange

Holders of Corporation's Common Stock and 5% Preferred Stock who wish to deposit shares of such stock under the Exchange Offer may do so by delivering their certificates, together with the Letter of Transmittal and Acceptance provided for that purpose, duly executed, and accompanied by any necessary supporting papers, prior to the Termination Date or any extension thereof, to:

Old Colony Trust Company
Depositary and Exchange Agent
Corporate Trust Department
P. O. Box 1926
Boston, Massachusetts 02105 or

Manufacturers Hanover Trust Company
Forwarding Agent
Corporate Trust Department
40 Wall Street
New York, New York 10005

Federal and state transfer taxes, if any, on account of the exchange will be paid by Industries. Therefore, no stamps or funds for this purpose need be delivered with the deposited stock (except for such taxes payable if Industries' stock is to be issued in a name other than that of the registered owner of Corporation's stock deposited for exchange).

The Depositary and Exchange Agent will receive compensation, as the agent of Industries, and will perform certain ministerial acts in connection with the Exchange Offer, but is not sponsoring, participating, or otherwise interested in the offer.

Copies of the Letter of Transmittal and Acceptance accompany this Prospectus. Additional copies of the Letter of Transmittal and Acceptance and this Prospectus may be obtained from the Exchange Agent or Forwarding Agent, or from Industries at its offices at 150 Causeway Street, Boston, Massachusetts 02114.

Solicitation and Expenses

Solicitation of exchanges pursuant to the Exchange Offer will be made by mail. In addition, officers and employees of Corporation and its subsidiaries may solicit exchanges personally, by telephone, by telegraph or by mail, but they will not receive any fee or commission in connection therewith. Banks, brokers and dealers, nominees and other custodians or fiduciaries will be reimbursed for postage and reasonable clerical expenses in forwarding the Exchange Offer to their customers or principals.

Members of the New York Stock Exchange or the National Association of Securities Dealers, Inc. may be employed to solicit acceptance of the Offer of Exchange, and in such event, would receive a fee, the amount of which has not been determined. The total expenditure for this purpose will not exceed $7,500. It is estimated the total expenses incurred by Industries in connection with the Exchange Offer will amount to approximately $150,000.

PROPOSED INCLUSION IN NORFOLK AND WESTERN RAILWAY SYSTEM

Under an order of the Interstate Commerce Commission dated June 9, 1967 as modified September 1, 1967, Norfolk and Western Railway Company was ordered to include the Corporation in the Norfolk and Western system on certain terms and conditions which the Commission determined to be fair, equitable and consistent with public interest. To be effective, the inclusion must be approved by the affirmative vote of the holders of two-thirds of the outstanding Common and Preferred Stock of Corporation. If approved, each share of the Preferred Stock of Corporation would be exchanged for 0.175 of a share of Class A non-cumulative Preferred Stock, and each share of Common Stock of Corporation for 0.10 of a share of Class B non-cumulative Preferred Stock in Dereco, Inc., a newly organized subsidiary of Norfolk and Western. The Preferred Stock of each class of Dereco is convertible five years after issue into one share of Norfolk and Western Common Stock, and is entitled to non-cumulative annual dividends of $5.20 per share. Payment of dividends on the Class B Stock is subject to prior payment of dividends on the Class A Preferred Stock. See Appendix A, page A-2, for further details.

In addition to finding that the terms and conditions of the proposed inclusion of Corporation in the Norfolk and Western system to be fair, equitable and consistent with public interest, the ICC held that as a result of the Penn-Central merger, Corporation could not continue to provide adequate transportation service as an independent carrier, and that the proposed affiliation with Norfolk and Western will produce considerable advantages for Corporation as well as for the public.

Under Delaware law a stockholders meeting to act on a proposed merger is required to be called only if the directors have first adopted a resolution approving the terms and conditions of the proposed merger. The directors of Corporation in Corporation's 1966 and 1967 Annual Reports have expressed their opposition to the proposed inclusion on the ground that the terms proposed are inequitable to Corporation stockholders and do not reflect the direct value of Corporation's contribution to the merged system. Notwithstanding the absence of a resolution approving the terms of the proposed merger of Corporation into Norfolk and Western, Corporation intends to call a meeting of stockholders to act on the proposed merger if an extension beyond February 15, 1969 is granted by the Commission (See Appendix, page A-4 and 5). If the meeting is to be held on April 9, 1969 as requested, notices of the meeting and proxy statements will be mailed to stockholders on or about March 15, 1969.

If the Exchange Offer is declared effective before the meeting is held, the shares deposited would be voted against the proposed inclusion, thereby assuring its rejection. If the meeting is held before the Exchange Offer becomes effective, depositing shareholders would retain their rights to vote the shares deposited. The acceptance of the Exchange Offer is therefore in effect an expression of disapproval of the proposed inclusion in the Norfolk and Western System.

If the application for extension is not granted, it would not be possible to hold a special stockholders meeting within the time allowed by the present order of the I.C.C. and the proceedings for inclusion of Corporation in the Norfolk and Western System will terminate.

See also proposed "Proposed N&W — C&O Merger", Appendix A, page A-12.

Comparative Financial Data

The various pages referred to below furnish information relating to the respective market prices, net income (loss), dividends and book values that would give effect to the inclusion of Corporation in the Norfolk and Western Railway System as described above.

	For each share of Boston and Maine Corporation stock							
	Market price at January 22, 1969		1967 Net income (loss)		1967 Dividends		Book value at December 31, 1967	
	Amount	Page #	Amount	Page #	Amount	Page #	Amount	Page #
Boston and Maine Corporation Stockholder (1)								
Before exchange of shares of Corporation for shares of Industries and before inclusion of Corporation in N & W system:								
For each share of common stock ...	$29.75	20	($5.46) (2)	19	None	20	$ 92.33	A-17
For each share of preferred stock ..	51.00 (bid)	20	N/A		None	20	100.00	F-13
Assuming conversion of all preferred stock into common stock	N/A		(4.15)	19	None	20	85.93	A-17
Assuming inclusion of Corporation in N & W system under the ICC approved terms as discussed above (9):								
Based upon Dereco preferred stock to be received by Corporation stockholders (convertible into N & W common stock after five years) (3):								
For each Corporation common share	7.13 (4)		(.43) (5)		.52 (6)		8.10 (7)	
For each Corporation preferred share	12.51 (4)		(.75) (5)		.91 (6)		14.17 (7)	
Based upon conversion of Dereco preferred stock into N & W common stock, permitted after five years (3):								
For each Corporation common share	10.79	A-7	.55	A-25	.60	A-17	9.49	A-17
For each Corporation preferred share	18.88	A-7	.96 (8)		1.05 (8)		16.61	A-17

(1) If the offer to exchange shares of Corporation for shares of Industries is accepted, the 1967 net loss and dividends applicable to each share of Corporation stock will not change. The book value per common share will be diluted somewhat (less than 2%) because of the issuance of 20,000 shares of common stock of Industries for $300,000.

(2) Based upon the assumption that unearned noncumulative preferred dividends had been accrued during the year.

(3) Based upon the exchange rates of 0.10 and 0.175 shares of Dereco preferred stock for each share of Corporation common and preferred stock, respectively.

(4) Based upon $71.25 and $71.50 quoted market price of Dereco preferred stocks at January 22, 1969 and upon the respective exchange rates of Corporation common and preferred stock.

(5) Based upon the $4,976,000 pro forma net loss of Dereco calculated by combining the 1967 net income (loss) of EL—($10,182,000), D&H—$2,576,000 and B&M—($4,282,000) plus (minus) pro forma adjustments for amortization of difference between historical cost and market value of net assets acquired by Dereco of EL—$4,860,000, D&H—$1,287,000 and B&M—$1,916,000 (see paragraph 1 on page A-23) and elimination of ($1,151,000) return on investment of "excess working capital" retained by old D&H (see paragraph 4 on page A-23). This pro forma net loss was divided by 1,164,669 shares of Dereco preferred and N&W common issued or to be issued (EL—648,893, D&H—412,627 and B&M—103,149) (see pages A-18 and A-19). The resulting $4.27 loss per share was converted into an amount per Corporation common and preferred share by applying the exchange rates of 0.10 and 0.175, respectively.

(6) Based upon the stated noncumulative dividend, if declared, and the exchange rates. See note 3 above and page A-3.

(7) Based upon the $94,300,000 pro forma purchase price assigned to the net assets acquired by Dereco (EL—$43,476,000; D&H—$42,263,000; and B&M—$8,561,000; see pages A-18 and A-19) divided by the 1,164,669 shares (see note 5 above) of Dereco preferred and N&W common stock issued or to be issued (or $80.96 per share) and based upon the respective exchange rates for Corporation common and preferred stock. The Dereco preferred stock has a liquidating value of $130 per share ($13.00 and $22.75 per Corporation common and preferred share, respectively).

(8) Based upon the pro forma amount for each Corporation common share multiplied by 1.75, the ratio of the preferred to the common exchange rates.

(9) For data on proposed inclusion of C&O in the N&W system, see pages A-12, A-19, A-21, A-23 and A-25.

PURPOSE OF EXCHANGE OFFER

During recent years, as costs of operation and competitive transportation pressures have increased, the revenues and income of Corporation have followed a downward trend. In spite of constant efforts by management to expand its freight service and control costs, the downward trend in earnings has continued. For the years 1966 and 1967 net losses after restatement (see Note 1 to financial statements) were $3,492,000 and $4,282,000 respectively after reflecting depreciation and amortization changes of $4,397,000 and $4,283,000 although freight and passenger gross revenues increased slightly in 1967. As of December 31, 1967 and November 30, 1968, current liabilities were, including current portion of long term debt, $21,799,000 and $23,746,000, respectively, as compared with current assets of $12,697,000 and $13,191,000, respectively.

As of December 31, 1967, as a result of accumulated losses, Corporation had consolidated loss carry-overs for Federal income tax purposes of approximately $23,600,000 available to apply against taxable income in varying amounts through the year 1974. Under existing law approximately $7,100,000 expired in 1968. There is little if any prospect that any significant amount of taxable income will be generated from railroad operations in the foreseeable future to meet the full requirements of Corporation for increased capital expenditures, rehabilitation costs and working capital.

The Board of Directors of Corporation is of the opinion that if substantial additional sources of income are to be generated, it can be done only through the acquisition or development of non-carrier businesses. There can, of course, be no assurance that Industries will be able to acquire or develop any profitable non-transportation enterprises. Management is of the opinion that the creation of Industries as a holding company, combined with a carefully planned program of diversification, offers the best opportunity for developing additional sources of income and providing additional funds to help meet the Corporation's future financial requirements.

In the opinion of the Board of Directors Corporation itself is not in a position to undertake directly any such diversification program contemplating substantial investments in non-carrier enterprises. Corporation is not financially able to supply operating funds for the purpose of supplying necessary working capital for a diversification program. Furthermore, in order to issue stock or long term debt securities for the purpose of acquiring companies engaged in non-carrier businesses, advance permission would be required both of the bondholders of Corporation and of the Interstate Commerce Commission. No such permission would be required in the case of Industries. Under Section 20(a) of the Interstate Commerce Act, Corporation is restricted from issuing stock or long term debt securities in the absence of a finding that non-carrier activity is necessary for the proper performance of Corporation's service to the public as a common carrier. Moreover, Corporation's consolidated funded debt of approximately $65,000,000, maturing in July 1970 and secured by mortgages on most of its assets, would make it difficult to attempt to issue additional securities. Accordingly Corporation has caused Industries to be organized in order to carry out a plan of diversification.

Pursuant to this plan, Industries will, if the Exchange Offer becomes effective, become the parent company of Corporation by owning at least 80% of the outstanding shares of Common Stock and 5% Preferred Stock of Corporation. Industries has been organized under the General Corporate Law of Delaware and as such the directors will have power to issue shares of stock and other securities and arrange long term financing in connection with the acquisition or development of non-carrier operations. See "Description of Capital Stock of Industries," page 10.

No determination has as yet been made as to what steps Industries will take to obtain necessary working or long term capital. The directors are authorized by its charter to issue additional shares of common stock or preference stock or to obtain necessary funds in any other manner that may be advisable but there can be no assurance that Industries will be able to obtain such necessary funds. Industries does not intend to obtain any funds or working capital from Corporation. In order to obtain funds to defray the costs of organizing Industries and effecting the Exchange Offer, Industries has sold 20,000 shares of Common Stock of Industries for $300,000 to Union Street Investment Company of Nashville, Tennessee. The purchaser has agreed to hold these shares for investment and not for distribution or resale. No brokerage or other commission was paid on the sale. The sale price per share represented a discount of $10.62 per share from the closing price of Corporation's Common Stock on the New York Stock Exchange on June 3, 1968, when the parties reached an understanding on the matter. The Board of Directors of Industries believes that this allowance is justified in view of the fact that the shares sold will not be registered under the Securities Act of 1933, and the investor is assuming the risk of loss in the event that the Exchange Offer does not become effective.

Industries has no present intention to assume the legal obligation to pay Corporation's outstanding bonds or other indebtedness. The future policy of Industries with respect to furnishing financial assistance to Corporation will be determined by the directors of Industries on the basis of future earnings and financial condition of Industries and Corporation and other relevant factors.

As yet, there has been no determination as to the types of enterprises in which Industries will engage, and it has no specific enterprises under consideration for acquisition.

Industries filed with the Interstate Commerce Commission on August 8, 1968 a petition seeking approval of the acquisition by Industries of the control of Corporation. Concurrently with the filing of the petition, Industries also filed a motion to dismiss for lack of jurisdiction which was granted by the Interstate Commerce Commission on October 7, 1968.

ORGANIZATION AND BUSINESS OF INDUSTRIES

Industries was incorporated under the laws of Delaware on May 31, 1968. A qualifying share of Industries Common Stock was issued to each of the Directors on June 28, 1968, for $23.63 per share, the closing price of Common Stock of Corporation on the New York Stock Exchange.

Industries has broad powers to act as a business corporation and proposes to engage in such business activities, either directly or through subsidiaries, as shall from time to time be decided by its Board of Directors. Industries intends to file consolidated Federal Income Tax Returns as the parent of a group of affiliated corporations, including Corporation and its subsidiaries.

As of the date of this Prospectus, Industries does not own any properties and has not entered into any commitments or negotiations for the acquisition of any properties.

Mr. Mulhern has been President of Boston and Maine Corporation since November 21, 1966. For offices held previously see page 16.

All of the other officers or directors of Corporation have been engaged in the occupations above indicated for more than five years.

It is anticipated that additional personnel may be employed in connection with the investment, acquisition, development and operation of new enterprises. However, no individuals are presently under consideration for such employment and no estimates relative to such matters as future payrolls, revenues, operating costs or management personnel can be made at the present time.

No arrangements or understandings have been entered into as to the remuneration to be paid to any of the present directors and executive officers of Industries. It is presently contemplated that no such remuneration will be paid by Industries until some new business or business interests owned or operated by Industries have been acquired or organized. For information as to stock options to be issued by Industries, in substitution for existing restricted stock options issued by Corporation, see below "Employee Stock Options" page 21.

DESCRIPTION OF CAPITAL STOCK OF INDUSTRIES

Under its Restated Certificate of Incorporation Industries is authorized to issue 125,000 shares of $5 Convertible Class A Preference Stock, no par value ("$5 Class A Preference Stock") 1,000,000 shares of Class B Preference Stock, no par value, and 8,000,000 shares of Common Stock, $1 par value. The rights and preferences of the classes of Industries capital stock are set forth in the Restated Certificate of Incorporation of Industries, the form of which is filed as an exhibit to the Registration Statement. The following summary of certain provisions of the capital stock of Industries does not purport to be complete and is qualified in its entirety by reference to the Restated Certificate of Incorporation of Industries.

$5 Class A Preference Stock

Shares of $5 Class A Preferred Stock are issuable only in exchange for shares of 5% Preferred Stock of Corporation in accordance witth the terms of the Exchange Offer.

Holders of $5 Class A Preference Stock will be entitled to receive, when and as declared, cumulative annual dividends of $5 per share, but only to the extent covered by Available Consolidated Net Income, as defined. The $5 Class A Preference Stock is also entitled to an annual cumulative sinking fund of $.50 per share but only to the extent of any balance of Available Consolidated Net Income remaining after allowing for any dividends accruing on the $5 Class A or the Class B Preference Stock at the time outstanding. Available Consolidated Net Income is defined as consolidated net income for each fiscal year determined after reflecting deduction of all fixed and contingent charges, including sinking fund obligations now or hereafter established with respect to the consolidated funded debt of Industries.

No dividends have been paid or accumulated on the 5% Preferred Stock of the Corporation since December 1957. It is not expected that dividends or sinking fund requirements on the $5 Class A Preference Stock of Industries will be paid or accumulated in the near future, since Industries will have no available consolidated net income at the time the Exchange Offer becomes effective.

Holders of the $5 Class A Preference Stock are entitled to one vote per share at all meetings of stockholders, voting together with the holders of Industries Common Stock. Whenever dividends, whether or not earned, are in arrears in an aggregate amount equal to at least six quarterly dividends at the $5 annual rate, the holders of $5 Class A Preference Stock, voting as a class, will be entitled to elect two directors until twelve months after all such arrears have been paid in full. As long as they are entitled to elect two directors voting as a separate class, they are not entitled to participate with the holders of the Common Stock (or any other capital stock) in the election of any other directors.

The $5 Class A Preference Stock is redeemable, at the option of Industries, in whole or in part at any time upon not less than 45 nor more than 90 days notice at $100 per share, together with dividends accumulated and unpaid thereon as of the end of the fiscal year immediately preceding the year fixed for redemption. Notice of the call for redemption will be given to all stockholders of record. The right to convert may be lost unless exercised before redemption.

At the option of the holder a share of the $5 Class A Preference Stock may, at any time up to the close of business on the tenth day prior to the date fixed for redemption, if any, be converted into 1¾ shares of the Common Stock of Industries. No adjustment is made for accrued and unpaid dividends in connection with any such conversion. Fractional shares or scrip may be issued, or the holder may receive cash equivalent to the fair market value of any fractional interest in Common Stock which he would otherwise be entitled, at the election of the Board of Directors. Appropriate adjustment is to be made in the number of shares of Common Stock to which a holder of shares of $5 Class A Preference Stock would be entitled in the event of any reclassification, recapitalization, reorganization, stock dividend or other change in the outstanding shares of the Common Stock of Industries or in the event of any merger, consolidation or sale of substantially all of the assets of Industries.

No cash dividends may be paid on the Common Stock, nor on any other stock ranking junior to the $5 Class A Preference Stock, while there are any cumulative unpaid dividends on the $5 Class A Preference Stock. If Class B Preference Stock, ranking on a parity with the $5 Class A Preference Stock, is outstanding, dividends may not be declared or paid on either class of stock unless dividends are ratably declared on the other. However, any series of the Class B Preference Stock hereafter created may, if the Directors so determine, have a higher dividend rate and a more favorable conversion ratio than the $5 Class A Preference Stock.

In the event of the liquidation, dissolution or winding up of the affairs of Industries, and before any distribution (other than pursuant to statutory appraisal rights) shall be made to the holders of the Common Stock, the holders of the $5 Class A Preference Stock are entitled to receive in cash the sum of $100 per share, together with accrued dividends thereon. If any Class B Preference Stock ranking on a parity with $5 Class A Preference Stock is outstanding, then distributions in liquidation or dissolution must be made to the holders of both classes of capital stock ratably in proportion to the respective amounts which they are entitled to receive in liquidation or dissolution.

The foregoing provisions are substantially identical with the provisions of the 5% Preferred Stock of Corporation except as follows: Accruals of dividends of the $5 Class A Preference Stock of Industries are computed on the basis of the consolidated earnings of Industries instead of the earnings of Corporation; Class B Preference Stock, ranking on a parity with the Class A Preference Stock, may be issued by the directors of Industries without the prior approval of $5 Class A Preference Stock shareholders, although any stock ranking superior to $5 Class A Preference Stock may not be issued without a favorable two-thirds vote of the $5 Class A Preference Stock shareholders.

Class B Preference Stock

Industries has 1,000,000 authorized and unissued shares of Class B Preference Stock, no par value. The Board of Directors has authority without further action of the stockholders to issue the Class B Preference Stock in one or more series. The Class B Preference Stock may rank equally with the $5 Class A Preference Stock with respect to the payment of dividends or rights on liquidation or dissolution. Subject to the foregoing, each series may have such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issue thereof adopted by the Board of Directors. The specific terms and conditions of any series of the Class B Preference Stock that may be issued cannot now be stated since this is a matter for future determination by the Directors upon the establishment of any particular series. Such terms and conditions may vary among series to the full extent permitted by the General Corporation Law of Delaware. The Class B Preference Stock is intended to be available for use in acquisitions by Industries and for any other corporate purposes as may from time to time arise. Industries has no plan presently under consideration for the issuance of any of these shares.

Common Stock

The voting and dividend rights, and the rights in the event of the liquidation of Industries, of the holders of the Common Stock, are subject to and qualified by the rights of the holders of the $5 Class A Preference Stock and such rights of the holders of the Class B Preference Stock of any series as the Board of Directors may designate upon the issuance of the Class B Preference Stock of any series.

The holders of the Common Stock are entitled to one vote for each share held at all meetings of stockholders subject to the rights of the holders of the $5 Class A Preference Stock to elect two directors as hereinbefore described.

Dividends may be declared and paid on the Common Stock from the sources lawfully available therefor, as and when determined by the Board of Directors and subject to any preferential dividend rights of any then outstanding $5 Class A Preference Stock or Class B Preference Stock. No dividends have been paid on the Common Stock of Corporation since 1931 and it is unlikely that dividends will be paid on Industries Common Stock in the near future.

Upon any dissolution or liquidation of Industries, whether voluntary or involuntary, holders of Common Stock will be entitled to receive pro rata all net assets of Industries available for distribution after payment of creditors and preferential liquidation rights of any then outstanding Preference Stock.

Non-Cumulative Voting

Except as stated above with reference to the election of two directors by the holders of $5 Class A Preference Stock when no dividends have been paid on such $5 Class A Preference Stock for six quarter annual periods, the shares of Common Stock and $5 Class A Preference Stock have non-cumulative voting rights, which means that the holders of more than 50% of the shares voting for the election of directors can elect 100% of the directors if they choose to do so, and, in such event, the holders of the remaining less than 50% of the shares voting for the election of directors will not be able to elect any person or persons to the Board of Directors.

Miscellaneous

The issued and outstanding shares of Common Stock and $5 Class A Preference Stock will be fully paid and non-assessable. Neither Common nor $5 Class A Preference Stock shareholders have any pre-emptive or other rights to subscribe to any additional shares or other securities of Industries.

ORGANIZATION, BUSINESS AND PROPERTY OF CORPORATION

Corporation was incorporated on March 27, 1963, under the laws of the State of Delaware. As of the close of business on April 30, 1964, the Boston and Maine Railroad, a multistate corporation, incorporated under the laws of the States of New York, Massachusetts, Maine and New Hampshire, was merged into Corporation pursuant to the provisions of Section 5(2) of the Interstate Commerce Act. The Boston and Maine Railroad was organized in 1833 and was an operating railroad company from that time until its merger into Corporation.

Corporation directly, or through wholly-owned subsidiaries operates in five states, Maine, New Hampshire, Vermont, Massachusetts and New York. The Boston and Maine rail lines extend from Rotterdam Junction, New York, on the west, to Boston, Massachusetts, and Rigby, Maine, (near Portland) on the east; and as far south as Worcester and Springfield, Massachusetts, and to Groveton, New Hampshire, on the north. Corporation's operations thus serve an important section of the Northeastern part of the United States.

As of November 30, 1968, Corporation and its wholly owned subsidiaries operated 1,590 miles of main line, 960 miles of branch line track, including 710 miles of side track. Of the main line trackage operated, 50 miles were operated under trackage rights and 240 miles were operated under lease.

Through wholly owned subsidiaries Corporation operates a toll bridge between Springfield, Vermont and Charlestown, New Hampshire, conducts trucking operations in the same states, with the exception of New York, in which its railroad operations are carried on and other miscellaneous activities. Revenues derived therefrom are not significant as compared to the total revenues of Corporation.

All of Corporation's main line track ties are Grade A. In heavy trackage territory the general ballast standard is stone with good grade ballast predominating on the remainder of Corporation's trackage. All bridges on heavy traffic main lines can accommodate Corporation's largest locomotives and adequate yards are maintained at strategic points. Corporation also maintains modern car repair facilities, diesel shops and a large locomotive repair facility. Corporation directly, or through subsidiaries, owns sites which are suitable for heavy industrial development. Corporation owns in Billerica, Massachusetts, approximately 200 acres of industrially zoned land, which can be served by side tracks, and which is being improved for future industrial use. Corporation intends to offer this land for sale to companies requiring extensive use of railroad facilities. In addition, the companies have 1,400 acres in Montague, Massachusetts, 100 acres in Nashua, New Hampshire and 100 acres in

Scarborough, Maine available for industrial development. Sales of land for industrial development are summarized as follows:

Year	Area of Land	Approximate Sale Price
1965	79 acres	$308,000
1966	86 acres	970,000
1967	121 acres	639,000

Equipment

As of November 30, 1968, freight cars, locomotives, passenger cars and other equipment of the Corporation and its wholly owned subsidiaries consisted of approximately 3,394 units having an original cost of $66,077,000 and a depreciated book value of $31,701,000 including equipment subject to the lien of equipment obligations in the amount of approximately $4,500,000 and having an original cost of $34,000,000 and a depreciated book value of $20,000,000. On such date, equipment less than ten years old had an aggregate original cost of approximately $4,300,000 and an aggregate depreciated book value of $2,500,000.

The age of locomotives, freight and passenger cars and other items of equipment owned at November 30, 1968 is summarized as follows:

	Total Units	Purchased during			
		1958-1968	1948-1957	1938-1947	1937 and before
Road diesel locomotives	108	6	102	—	—
Switching diesel locomotives	92	—	72	20	—
Box cars	1,632	41	1,520	63	8
Other freight cars	903	81	436	217	169
Budd passenger cars	86	4	82	—	—
Maintenance of way cars	160	7	12	61	80
Trucks and tractors	78	46	30	2	—
Trailers	335	311	24	—	—
	3,394	496	2,278	363	257

The investment in equipment during each of the five years and eleven months ended November 30, 1968 was as follows:

1963	$ 617,000
1964	328,000
1965	266,000
1966	570,000
1967	581,000
1968 — eleven months	410,000
	$2,772,000

Traffic and Revenues

In 1967 Corporation and its wholly owned subsidiaries on a consolidated basis had a total of $64,394,000 of operating revenues. During the five year period 1963-1967, such consolidated revenues averaged approximately $64,347,000 per year. For the eleven months ended November 30, 1968, consolidated operating revenues amounted to $63,522,000 as compared to $59,056,000 for the comparable period in 1967. Increased shipments of sand and gravel together with an increase in freight rates primarily accounted for this improvement in revenues.

Operating data as a percentage of gross revenues is presented as follows:

	Year ended December 31,					Eleven months ended November 30,	
	1963	1964	1965	1966	1967	1967	1968
Operating revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating expenses and other operating charges:							
Transportation	46.2%	48.3%	43.4%	44.8%	46.3%	46.1%	46.6%
Maintenance	25.9%	27.8%	26.4%	27.3%	28.5%	28.1%	29.4%
Traffic, general and miscellaneous	7.0%	8.3%	7.6%	7.7%	7.4%	7.5%	7.5%
Taxes (other than income) and net rents	16.9%	16.3%	16.0%	15.8%	17.5%	17.4%	18.2%
Nonoperating expense (income), net	1.0%	.6%	1.0%	(.6%)	(.8%)	(.5%)	(.7%)
	97.0%	101.3%	94.4%	95.0%	98.9%	98.6%	101.0%
Net income (loss) before fixed charges, interest and extraordinary items	3.0%	(1.3%)	5.6%	5.0%	1.1%	1.4%	(1.0%)
Rent for leased lines, interest and amortization of long-term debt expense	(8.6%)	(8.4%)	(8.1%)	(8.0%)	(7.6%)	(7.6%)	(6.6%)
Net loss before extraordinary items	(5.6%)	(9.7%)	(2.5%)	(3.0%)	(6.5%)	(6.2%)	(7.6%)

During eleven months ended November 30, 1968 freight operations accounted for approximately $54,168,000 or 85.3% of Corporation's consolidated revenues. Approximately $4,222,000 or 6.6% of consolidated revenues is derived from passenger traffic, $2,787,000 or 4.4% from passenger service contract payments received from the Massachusetts Bay Transportation Authority and $2,345,000 or 3.7% from other sources.

The approximate aggregate tonnage carried by Corporation in 1967 was 16,000,000 tons. Of such tonnage, approximately 50.9% can be classified as manufactured and miscellaneous goods, 23.4% as agricultural commodities, 20.1% as coal and minerals, and 5.5% as wood products including lumber. An insignificant percentage of such tonnage was miscellaneous other than carload lots. In the last five years there has been no significant change in the kinds of products or commodities carried by Corporation except for increased tonnage in 1968 of gravel and coal shipments.

In the transportation of freight, competition is encountered from other railroads and motor, water, air and other carriers. The vast bulk of Corporation's business moves from and to points also served by other railroads, which are constantly endeavoring to increase their proportion of the traffic. Improved highways pass through virtually every community served by Corporation, and, with the construction of the Federal Interstate Highway System, every railroad faces increasingly severe competition from common and contract highway carriers and from mercantile companies operating their own private fleets of trucks. Competition also comes from pipe lines transporting natural gas, etc. Competition from passenger traffic is encountered primarily from the private automobile, but also from bus lines.

Probably the most important recent development, which has had a significant favorable effect on Corporation's traffic and earnings, has been the rapid growth of trailer-on-flat-car or "piggy back" traffic. A related development has been the existence of a contract between Corporation and the Massachusetts Bay Transportation Authority wherein Corporation provides intrastate passenger service for the account of the Authority and the Authority in effect pays to Corporation those costs which could have been avoided by Corporation if it ceased to perform passenger service. In addition, the Authority pays an annual management fee to Corporation for the conduct of the passenger business. Corporation has granted the Authority an option to lease or purchase, at a price to be fixed by agreement or by arbitration, any or all of Corporation's rights-of-way and equipment used in the conduct by Corporation of passenger service for the account of the Authority. The option is subject to the condition that adequate provision will be made for the continued operation of freight service by Corporation. The purchase price cannot be estimated at this time.

Substantially all of Corporation's real and tangible property, including its railroad lines, rolling stock, terminal facilities and its interest in railroad equipment, is subject to mortgage liens. See Note 9 to the financial statements.

Corporation is in competition for freight traffic with other railroad systems and highway carriers serving the same areas as those served by Corporation.

Personnel

During the eleven months ended November 30, 1968 the Corporation's (excluding its subsidiaries) average number of employees was 3,867 with a total payroll of $30,601,000 (an average annual rate per employee of $8,633). In 1967 the average number of employees was 3,794 with a total payroll of $31,376,000, being a decrease from 1966 of 127 in the average number of employees and increase of $1,245,000 in total payroll. The average annual wage per employee increased from $7,684 in 1966 to $8,270 in 1967.

Directors and Officers of Corporation

The following is a list of all the directors and principal executive officers of Corporation and the principal occupation of each during the past five years:

Name and Principal Occupation or Employment During Last 5 Years	First Elected a Director
Harold C. Arcaro Providence, R. I. Senior partner Arcaro, Belilove & Kolodney, Attorneys at Law; President—Golden Gate Corporation radio, real estate and optics	April 13, 1966
Dean M. Boylan Milton, Mass. President and Treasurer, Boston Sand and Gravel Co., suppliers of sand, gravel and cement mix	April 14, 1965
David Burstein* Brookline, Mass. Attorney, member of the firm of Hale & Dorr, 60 State Street, Boston, Mass.	November 30, 1967
Seymour B. Goldfeld* New York Attorney, Vice-President and General Counsel of Kleiner, Bell & Co., Incorporated, N.Y., N.Y.	February 27, 1968
Norman Kaplan Reading, Pa. Proprietor—Norman's Appliances	November 30, 1967
Emmet J. Kelley Berlin, N. H. President and General Manager, White Mountain Lumber Co., Inc., manufacturers of hard and soft wood lumber, skids and pallets	April 10, 1963

Name and Principal Occupation or Employment During Last 5 Years	First Elected a Director
Burt Kleiner Beverly Hills, California President and Chairman of the Board— Kleiner, Bell & Co., Incorporated, stockbrokers	February 27, 1968
Richard J. Mulhern* Newton, Massachusetts President 11-21-66 to date, Executive Vice President 9-19-66 to 11-20-66, Vice President and General Counsel 4-15-66 to 9-18-66, General Counsel 8-1-65 to 4-14-66, General Attorney 9-1-63 to 7-31-65, Attorney 3-2-59 to 8-21-63, Boston and Maine Corporation	November 9, 1966
Jack M. Ostrow* Beverly Hills, California Attorney at Law, Certified Public Accountant	November 30, 1967
Francis J. Reardon* Lexington, Mass. Owner, Newson & McLeod, potato dealer, Boston, Mass.	April 10, 1957
Samuel Resnic* Holyoke, Mass. Senior partner Resnic, Beauregard & Resnic, Attorneys at Law	February 12, 1964

* Members of Executive Committee

BOSTON AND MAINE CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT (Note 1)

The following statement of operations and accumulated deficit of Boston and Maine Corporation and consolidated subsidiaries for the five years ended December 31, 1967 has been examined by Price Waterhouse & Co., independent accountants, whose opinion thereon, which is qualified with respect to the adequacy of accumulated reserves for depreciation and obsolescence of roadway and structures included in the balance sheet at December 31, 1967 (see Note 3 to the financial statements) and is subject to the indicated reduction in the provision for disputed per diem charges (described in Note 6 to the financial statements), appears elsewhere in the prospectus. Reference is made to Notes 1 and 3 to the financial statements for information relating to depreciation practices and restatements of losses on retirements of properties. The statements for the eleven-month periods ended November 30, 1967 and 1968 are unaudited, but management believes that all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results of operations for such periods have been included. The results of operations for the eleven-months ended November 30, 1968 are not necessarily indicative of the results to be expected for the full year ending December 31, 1968. The statement should be read in conjunction with the other financial statements and notes thereto included elsewhere in this prospectus. Numerical note references refer to the Notes to Financial Statements.

	Year ended December 31,					Eleven months ended November 30,	
	1963	1964	1965	1966	1967	1967 (unaudited)	1968 (unaudited)
	(000 omitted)						
Operating revenues:							
Freight	$53,566	$53,542	$53,563	$53,805	$54,252	$49,862	$54,168
Passenger	5,008	5,270	4,046	4,083	4,260	3,889	4,222
Other, including passenger service contract payments (Note 10)	6,494	4,562	7,217	6,186	5,882	5,305	5,132
	65,068	63,374	64,826	64,074	64,394	59,056	63,522
Operating expenses (Notes 3 and 13):							
Transportation	30,059	30,621	28,167	28,674	29,796	27,257	29,572
Maintenance of way and structures	7,425	8,253	8,372	8,492	8,433	7,637	8,341
Maintenance of equipment	9,426	9,371	8,711	9,025	9,932	8,998	10,350
Traffic, general and miscellaneous	4,521	5,238	4,892	4,899	4,792	4,407	4,784
	51,431	53,483	50,142	51,090	52,953	48,299	53,047
Net revenue from operations	13,637	9,891	14,684	12,984	11,441	10,757	10,475
Other operating charges (Note 13):							
Payroll, property and state excise taxes, etc. (Note 11)	4,821	4,917	4,913	4,833	4,983	4,596	4,868
Net rents for equipment and joint facilities (Notes 6 and 12)	6,182	5,416	5,441	5,283	6,241	5,661	6,710
	11,003	10,333	10,354	10,116	11,224	10,257	11,578
Operating income (loss)	2,634	(442)	4,330	2,868	217	500	(1,103)
Nonoperating income (expense), net — including net gains and losses on recurring disposals of land and major depreciable properties (Notes 1 and 3)	(667)	(359)	(683)	380	483	308	459
Income (loss) before fixed charges, contingent interest and extraordinary items	1,967	(801)	3,647	3,248	700	808	(644)
Fixed charges:							
Rent for leased lines, etc. (Note 12)	454	448	453	451	451	413	413
Interest (Note 9):							
First mortgage bonds	2,855	2,796	2,765	2,787	2,780	2,549	2,549
Equipment trust certificates	512	449	386	323	261	240	183
Conditional sale contracts	452	411	363	268	175	164	89

Guaranteed notes and other	497	389	365	325	275	252	226
Amortization of long-term debt expense	93	100	156	238	175	160	69
	4,863	4,593	4,488	4,392	4,117	3,778	3,529
Loss before contingent interest and extraordinary items	(2,896)	(5,394)	(841)	(1,144)	(3,417)	(2,970)	(4,173)
Contingent interest (Note 9)	748	748	748	748	748	685	685
Loss before extraordinary items	(3,644)	(6,142)	(1,589)	(1,892)	(4,165)	(3,655)	(4,858)
EXTRAORDINARY ITEMS (Note 1):							
Net gain on disposal of North Station land in 1965, Yard 9 land in 1966, Yard 8 land in 1967	—	—	1,495	493	283	283	—
Net loss on seizure by eminent domain of land and freight facilities	—	—	—	—	—	—	(350)
Losses on extraordinary disposals of depreciable properties (Notes 1 and 3)	—	—	(2,455)	(1,490)	(650)	(650)	—
Merger proceeding expenses (Note 4)	—	—	(59)	(478)	(168)	(89)	(98)
Settlement of disputed per diem charges, less related legal fees (Note 6)	—	—	516	575	418	418	1,484
Mystic Terminal lease settlement	—	—	—	(700)	—	—	—
Abatement of property taxes and related interest	—	—	679	—	—	—	—
Gain on sale of North Station Industrial Building, Inc.'s properties	1,383	—	—	—	—	—	—
Refund of federal income taxes of leased line (Note 12)	—	128	—	—	—	—	—
	1,383	128	176	(1,600)	(117)	(38)	1,036
Net loss	(2,261)	(6,014)	(1,413)	(3,492)	(4,282)	(3,693)	(3,822)
ACCUMULATED DEFICIT (Note 1):							
Beginning of period	(2,999)	(5,260)	(11,274)	(12,687)	(16,179)	(16,179)	(20,461)
End of period	($5,260)	($11,274)	($12,687)	($16,179)	($20,461)	($19,872)	($24,283)
Per share of common stock, assuming all preferred shares were converted prior to beginning of periods and were outstanding as common shares during the periods (Note 7) (a):							
Loss before extraordinary items	($3.62)	($6.09)	($1.56)	($1.84)	($4.04)	($3.54)	($4.71)
Extraordinary items	1.37	.13	.17	(1.56)	(.11)	(.04)	1.00
Net loss	($2.25)	($5.96)	($1.39)	($3.40)	($4.15)	($3.58)	($3.71)
Pro forma per share of common stock, assuming that the preferred shares converted prior to November 30, 1968 were outstanding as common shares during the periods (Note 7):							
Loss before extraordinary items and after assumed dividends on preferred shares not deemed to have been converted (b)	($4.85)	($7.80)	($2.40)	($2.71)	($5.32)	($4.69)	($6.07)
Extraordinary items	1.63	.15	.21	(1.85)	(.14)	(.04)	1.19
Net loss after assumed dividends on preferred shares not deemed to have been converted (b)	($3.22)	($7.65)	($2.19)	($4.56)	($5.46)	($4.73)	($4.88)

(a) Based upon average shares of common stock and assuming conversion of all preferred shares.
(b) Based upon average shares of common stock and upon assumption that noncumulative preferred dividends had been accrued during the above periods for preferred shares outstanding at November 30, 1968 and that preferred shares that had been converted at that date were outstanding during the above periods as common shares.

The results of operations before extraordinary items for 1965 improved over 1964 primarily as a result of discontinuance of substantially all interstate passenger service, which had been operated at a loss, and the increased revenue in 1965 from intrastate passenger service contract payments from governmental bodies. Since 1965 the results of operations before extraordinary items have deteriorated in large part because of increased labor and material costs without a commensurate increase in revenues; however, in 1968 increased revenues primarily from increased shipments of sand and gravel together with an increase in freight rates offset in some part the increased costs.

DIVIDENDS AND PRICE RANGE OF CORPORATION PREFERRED AND COMMON STOCK

Dividends

Dividends on the Common Stock have not been paid since 1931. A dividend on the 5% Preferred Stock has not been paid since December 1957.

Price Range

The Common Stock of Corporation is listed on the New York Stock Exchange. The following table shows the reported high and low sales prices on the New York Stock Exchange from January 1, 1963 to January 22, 1969.

	1969 through Jan. 22	1968	1967	1966	1965	1964	1963
High	$31.12	$32.00	$26.38	$30.88	$24.50	$11.50	$5.75
Low	$27.62	$16.12	$13.75	$13.25	$9.75	$3.75	$3.00

The reported closing price on January 22, 1969 on the New York Stock Exchange was $29.75.

The Preferred Stock of Corporation is listed on the New York Stock Exchange. The following table shows the reported high and low bids on the New York Stock Exchange from January 1, 1963 to January 22, 1969.

	1969 through Jan. 22	1968	1967	1966	1965	1964	1963
High	$52.50	$55.00	$46.00	$56.00	$43.38	$21.00	$9.75
Low	$49.00	$29.12	$25.00	$23.62	$18.12	$7.25	$5.75

The reported bid price on January 22, 1969 on the New York Stock Exchange was $51.00.

Delisting of Common and Preferred Stock of the Corporation

Based on information received from the New York Stock Exchange, the Common and Preferred Stock of Corporation may be delisted by the New York Stock Exchange when the Exchange Offer is declared effective, depending on the remaining distribution of such stock and other relevant factors.

REMUNERATION OF DIRECTORS AND OFFICERS OF CORPORATION

Direct Remuneration

The following table sets forth all of the direct remuneration paid by Corporation and its subsidiaries during the year 1968 to each director and the three highest paid officers whose aggregate direct remuneration exceeded $30,000 and to all directors and officers of Corporation as a group.

Identity	Capacity in which Received	Aggregate Direct Remuneration
R. J. Mulhern	President, director, member of executive committee, and director of subsidiary companies	$54,077
R. W. Pickard	First Vice President, director, and director and officer of subsidiary companies	$41,245
W. H. Holland	Vice President — Operations and director of subsidiary companies	$40,636
R. J. Sullivan	Vice President — Traffic and director of subsidiary companies	$35,000
All officers and directors as a group (27 persons)		$462,208

Retirement Benefits

The following table sets forth all retirement benefits proposed to be paid under Corporation's retirement income plan directly or indirectly to each director and the three highest paid officers of Corporation whose aggregate direct remuneration exceeded $30,000 in 1968 and all directors and officers of the Corporation as a group.

Identity	Estimated Amounts Set Aside or Accrued During 1968	Estimated Annual Benefits Upon Retirement
R. J. Mulhern	$500	$25,000
R. W. Pickard	$400	$13,500
W. H. Holland	$400	$5,230*
R. J. Sullivan	none	$6,182
All officers and directors as a group (16 persons)	$4,000	$130,000

Corporation's retirement income plan requires a minimum of 10 years service with benefits to commence at age 65. The above figures assume continuance of compensation at present rates to age 65.

*Based upon benefits being paid upon early retirement in December 1968.

Employment Contracts

Mr. Richard J. Mulhern has a contract with Corporation which terminates on December 31, 1975 and provides for annual compensation of not less than $30,000. If Mr. Mulhern shall become physically or mentally disabled and permanently unable to perform his duties prior to December 31, 1975, Corporation may terminate his employment. In such event, Corporation is obligated to pay him a monthly retirement allowance equivalent to one percent (1%) of his average monthly salary from September 1, 1959 to the date of termination multiplied by the total number of years, and fractions thereof, of continuous service, less any amount equal to (a) any payments which he receives under the provisions of the Railroad Retirement Act, or any successor laws, and (b) any retirement income he may otherwise receive from Corporation.

Mr. Ralph W. Pickard has a substantially identical contract with Corporation except that his annual salary shall not be less than $40,000.

Employee Stock Options

The following table sets forth information with respect to employee stock options held as of November 30, 1968 for the purchase of Common Stock of Corporation by each director and the three highest officers of Corporation whose aggregate direct remuneration exceeded $30,000 during 1968 and all directors and officers as a group.

Identity	Amount of Common Stock	Average Option Price Per Share	Average Market Price Per Share on Date of Grant
R. J. Mulhern	5,100	$16.37	$16.37
R. W. Pickard	7,225	$16.44	$16.44
W. H. Holland	5,100	$16.37	$16.37
All directors and officers as a group (6 persons)	25,225	$16.38	$16.38

See Note 8 to financial statements for further information with respect to the number of options outstanding at November 30, 1968 and the number of options exercised during the three years and eleven months then ended.

Of the options outstanding, options to purchase 15 shares constitute "restricted stock options" under the Internal Revenue Code, as then in effect, and options for 27,825 shares were granted in 1965 and constituted "qualified stock options" under the Internal Revenue Code of 1954, as amended.

Under the stock option plan now in effect, additional qualified stock options to purchase 13,540 shares are authorized to be granted in the discretion of the directors of Corporation.

The qualified stock options contain provisions to the effect that no options may be exercisable while previously granted options are outstanding to purchase shares at a higher price; the option price must be at least 100% of fair market value of the shares on the date of grant; options are exercisable only after twenty-four months of continuous employment; are not transferable except on death, expire five years after the date of grant, and are subject to earlier termination if the holder dies or ceases to be employed by Corporation.

Industries has adopted a qualified stock option plan on the same terms and conditions as the existing stock option plan of Corporation, authorizing the issuance of options for not in excess of 29,232 shares of the Common Stock of Industries. Industries will offer to substitute, if and when the Exchange Offer is consummated, for the stock options then outstanding under Corporation's restricted and qualified stock option plans, an option entitling the holder to purchase on the same terms and conditions 1.05 share of Common Stock of Industries for each share of Common Stock of Corporation subject to his option. However, any options issued by Industries to replace restricted stock options issued by Corporation will contain such terms and conditions as may be necessary to constitute such options as qualified stock options.

PRINCIPAL STOCKHOLDERS OF CORPORATION

No person is known by Corporation to own of record or beneficially more than 10% of any class of Corporation's capital stock issued and outstanding and entitled to vote except Kleiner, Bell & Co., Incorporated who owned of record as of January 1, 1969, 151,213 shares of the Common Stock of Corporation. Shares owned by Mr. Kleiner, an officer of Kleiner, Bell & Co., Incorporated are included in the foregoing number.

The directors of Corporation and the number of shares owned beneficially by them as of January 1, 1969 were as follows:

	Common Stock	Preferred Stock
Harold C. Arcaro	1,000	
Dean M. Boylan	100	
David Burstein		100
Seymour B. Goldfeld	500	
Norman Kaplan	500	6,900
Emmet J. Kelley	100	
Burt Kleiner	18,648*	
Richard J. Mulhern	354	
Jack M. Ostrow	3,300	500
Francis J. Reardon	None	None
Samuel Resnic	200	

*Includes 8,700 shares owned directly and 9,948 shares owned indirectly by virtue of his interests in Kleiner, Bell & Co., a partnership, which owned 10,000 shares beneficially and Kleiner, Bell & Co. Incorporated which also owned 10,000 shares beneficially.

The directors and officers of Corporation as of January 1, 1969 owned beneficially, directly or indirectly, 24,720 shares of Corporation's outstanding Common Stock, equivalent to 2.88% thereof, and 7,500 shares of the Preferred Stock, equivalent to 8.1% of the amount outstanding.

Industries has been advised by Kleiner, Bell & Co., Incorporated and by each of the directors and officers of Corporation, who own shares of Corporation, that they intend to accept the Exchange Offer described in this Prospectus.

NEGOTIATING PERMIT

An application for a Negotiating Permit under the laws of the state of California has been filed by Industries in connection with the Exchange Offer. Management has no reason to believe that neither a negotiating permit or definitive permit will not be granted. The definitive permit will authorize the issuance of shares of the $5 Class A Preference Stock and Common Stock of Industries to the holders of the capital stock of Corporation who deposit their shares pursuant to the Exchange Offer. The issuance of either the negotiating permit or definitive permit by the Commissioner of Corporations of the state of California will not in any way constitute a recommendation or endorsement of the securities permitted to be offered for exchange and should not be understood as an indication that such a determination of fairness has been made.

LEGAL OPINIONS

Legal matters in connection with the securities offered hereby will be passed upon by Messrs. Hale and Dorr, 60 State Street, Boston, Massachusetts.

EXPERTS

The audited financial statements, including the statement of operations and accumulated deficit, of Boston and Maine Corporation and Boston and Maine Industries, Inc. included in this Prospectus and the schedules included in the Registration Statement have been so included by the company in reliance on the opinions of Price Waterhouse & Co., independent accountants, and on the authority of said firm as experts in auditing and accounting.

ADDITIONAL INFORMATION

This Prospectus does not contain all the information set forth in the Registration Statement which the Company has filed with the Securities and Exchange Commission. For further information with respect to the Company and the securities offered hereby, reference is made to the Registration Statement, including the exhibits thereto.

INDEX TO APPENDIX A

APPENDIX A

General Background

As the eastern railroad merger movement began to evolve, in 1965 B&M petitioned the ICC for inclusion in the N&W system resulting from the merger of The New York, Chicago and St. Louis Railroad Company ("Nickel Plate") into N&W. The petition was filed pursuant to Appendix O to the report and order of the ICC which authorized that merger, said report and order having conditioned ICC approval thereof upon N&W's acquiescence in and irrevocable consent to the creation of a right in B&M, The Delaware and Hudson Railroad Corporation ("D&H RR. Corp.") a wholly owned subsidiary of the Delaware and Hudson Company ("D&H Co."), and the Erie-Lackawanna Railroad Company ("EL") to file petitions for inclusion in the N&W system. EL and D&H RR. Corp. filed similar petitions for inclusion in the N&W system in 1965. Under Appendix O the ICC reserved the right to direct inclusion of B&M, EL and D&H RR. Corp. in the N&W system upon terms equitable to all parties involved. Following extensive hearings, on June 9, 1967, the ICC entered the Inclusion Order directing N&W to include B&M and EL in its system and to acquire the railroad business of D&H RR. Corp. and D&H Co. on terms and conditions hereinafter described, which terms and conditions the ICC found to be equitable to all parties.

TERMS FOR INCLUSION

The inclusion of B&M in the N&W system was conditioned upon the prior inclusion of EL and D&H Co. and upon obtaining the approval of B&M stockholders. Inclusion of EL was approved by its stockholders and was effected on April 1, 1968. D&H Co. shareholders approved the ICC's authorized terms for inclusion of the D&H railroad business in the N&W system, and inclusion was effected on July 1, 1968. No vote of N&W stockholders is required to effect the inclusion of B&M on the ICC-established terms.

In accordance with the Inclusion Order a new corporation called Dereco, Inc. was organized under the laws of Delaware by N&W on March 1, 1968. Dereco, Inc. has an authorized capital stock consisting of 6,500,000 shares of Common Stock, 255,000 shares of Class A Preferred Stock, and 710,000 shares of Class B Preferred Stock. All of the issued and outstanding Common Stock of Dereco, Inc. has been issued to N&W in exchange for its providing the shares of the N&W Common Stock and a promissory note required in connection with the Inclusion transactions with D&H and EL. The N&W has already issued 412,627 shares of its Common Stock in connection with acquisition of the D&H. The N&W will not issue its Common Stock in connection with the Inclusion transaction with EL for at least five years under the terms of the Inclusion Order. Dereco, Inc. has formed the two subsidiary corporations under Delaware law required by the Inclusion transactions with EL and D&H. In accordance with the Inclusion Order EL was merged into Erie Lackawanna Railway Company and the assets of D&H were acquired by the Delaware and Hudson Railway Company. If and when the B&M stockholders approve the Inclusion in the Norfolk & Western system, then the N&W will form a new B&M subsidiary which will merge with the B&M.

Description of Dereco Capital Stock: The relative rights and preferences of the three classes of Dereco capital stock are to be as follows:

Both classes of Dereco preferred stock are to be convertible five years after issuance, at the holder's election, into Common Stock of N&W on a share-for-share basis and, if not previously converted, are to be callable six years after issuance, at Dereco's option, at $150 per share. The terms of the Inclusion Order provide that prior to the time that the Dereco Preferred Stock is issued N&W is required to transfer to Dereco sufficient shares of N&W Common Stock to effect such conversions. In a subsequent order authorizing the issuance of the various securities required to effect inclusion of EL the ICC approved an arrangement under which such shares of N&W Common Stock would be issued to Dereco not later than the date the first share of Dereco Preferred Stock is surrendered for conversion.

Class A Preferred Stock is to have priority in liquidation in the amount of $130 per share and be entitled, if any dividend should be paid in any year on Class B Preferred Stock, or Common Stock to noncumulative dividends of $5.20 per share in such year before any dividend is paid on Class B Preferred Stock, or Common Stock. Class B Preferred Stock is to be subordinate to Class A Preferred

Stock, in liquidation and as to dividends. Class B Preferred Stock is to have priority in liquidation over the Common Stock in the amount of $130 per share and be entitled, if any dividend should be paid in any year on Common Stock, to noncumulative dividends of $5.20 per share in such year before any dividend is paid in such year on Common Stock. After payment of dividends on the two classes of preferred stock, Common Stock is to be entitled to dividends, if declared, up to $1.30 per share. Any additional dividends are to be shared among all stockholders in proportion to their respective dividend rates as indicated above. The Inclusion Order presently provides that N&W, as the holder of Common Stock, shall have not less than 80 per cent of the voting authority on all matters relating to Dereco. The preferred stock is to be voting stock.

The Inclusion Order further provides that, if the Internal Revenue Code shall have been amended substantially as proposed in H.R. 10542, 89th Cong., 1st Sess., within five years after the issuance of Dereco preferred stock, the Dereco preferred stock will, upon such amendment, be immediately convertible into Common Stock of N&W on a share-for-share basis. The bill referred to in the Inclusion Order would make certain favorable changes relating to use of tax loss carryforwards in railroad mergers. No such amendment has yet been enacted.

INCLUSION OF B&M

Under the terms of the Inclusion Order New B&M would assume all obligations and liabilities of B&M and succeed to all rights, privileges, franchises and properties of B&M. New B&M would issue to the B&M stockholders Dereco Preferred Stock as follows:

(1) For each share of Common Stock of B&M, 0.10 share of Dereco Class B Preferred Stock; and

(2) For each share of Preferred Stock of B&M, 0.175 share of Dereco Class A Preferred Stock.

In order to effect the conversion of the all Dereco Preferred Stock to be issued in exchange for B&M's Common Stock and Preferred Stock outstanding as of December 31, 1968, N&W will be required to issue to Dereco an aggregate of 103,152 shares of N&W Common Stock.

INCLUSION OF EL

The merger of EL into New EL was effected April 1, 1968. New EL assumed all obligations and liabilities of EL and succeeded to all rights, privileges, franchises and properties of EL. New EL issued to the stockholders of EL and is to issue, upon conversion, to the holders of EL's General Mortgage 4½% Income Bonds, Series A, due January 1, 2015 (the "EL Convertible Bonds"), Dereco Preferred Stock as follows:

(1) for each share of Common Stock of EL, 0.128 share of Dereco Preferred Stock, Class B;

(2) for each share of 5% Series A Preferred Stock of EL, 0.375 share of Dereco Preferred Stock, Class A;

(3) for each share of 5% Series B Preferred Stock of EL, 0.385 share of Dereco Preferred Stock, Class A; and

(4) each $100 principal amount of EL Convertible Bonds, convertible immediately prior to the inclusion transaction into one share of 5% Series B Preferred Stock of EL, is, in accordance with and subject to the terms and conditions of the mortgage under which such Convertible Bonds are issued, convertible at the option of the holder into 0.385 share of Dereco Preferred Stock, Class A on or after consummation of the inclusion transaction. Each $100 principal amount of EL Convertible Bonds is also to be convertible at the option of the holder directly into 0.385 share of N&W Common Stock on or after the expiration of the five years following consummation of the inclusion transaction or earlier in the event of enactment of certain tax legislation relating to loss-carryovers.

In order to effect the conversion of all Dereco Preferred Stock issued in exchange for EL's Common and Preferred Stock and Convertible Bonds outstanding on April 1, 1968, N&W will be required to issue an aggregate of 821,280 shares of N&W Common Stock, but not for a period of five years.

INCLUSION OF D&H

Under the Inclusion Order, Dereco purchased on July 1, 1968 all New D&H Common Stock for 412,627 shares of N&W Common Stock and an N&W note for $1,000,000 due and payable in five years, bearing interest at the rate of 6% per annum payable yearly. On July 1, 1968 in exchange for said N&W Common Stock, and note, New D&H acquired the assets and assumed the liabilities and obligations, of D&H RR. Corp. and D&H Co., except certain excluded assets, liabilities and obligations.

METHOD OF EXCHANGE

No fractional shares of stock are to be issued. Appropriate arrangements have been made respecting the purchase or sale of fractional shares of stock by a holder of EL stock. Appropriate arrangements would be made for a holder of B&M stock if the inclusion transaction is approved by B&M shareholders.

On April 1, 1968, N&W notified EL stockholders of record that inclusion had been accomplished. Under the Inclusion Order, within 30 days of the consummation of the inclusion, N&W is to notify B&M stockholders of record on the date of consummation that the inclusion has been accomplished. Stockholders of B&M and EL are accorded a period of one year from the mailing of such notice to exchange their shares as provided above and to purchase or sell additional fractional shares. Any shares of B&M or EL Co. stock not so exchanged will be invalid for all purposes except as evidence of the holder's entitlement to Dereco preferred stock. N&W has caused Dereco to reserve sufficient shares of Dereco preferred stock to effect the exchange of those shares of petitioners' stock pursuant to such exchange. No adjustment is to be made in the ratios and terms of exchange for the unexchanged shares after the expiration of the one-year period described above.

In the event of a stock split, stock dividend, or other similar change in any of the shares of stock to be exchanged pursuant to the provisions of the Inclusion Order, appropriate adjustments are to be made in the ratios and terms.

INCOME TAX CONSEQUENCES OF B&M INCLUSION

The Internal Revenue Service has issued the following rulings with respect to the Federal income tax consequences of consummation of the inclusion: (i) no gain or loss would be recognized to B&M upon the transfer of its assets to New B&M in exchange for Dereco preferred stock and the assumption by New B&M of the liabilities of B&M; (ii) no gain or loss would be recognized to the B&M stockholders upon the exchange of their B&M stock for Dereco Class A or Class B preferred stock; (iii) the basis of the Dereco Class A or Class B preferred stock received by the B&M stockholders (including fractional share interests) would be the same as the basis of the B&M stock surrendered in exchange therefor; (iv) the holding period of the Dereco Class A or Class B preferred stock received by the B&M stockholders (including fractional share interests) would include the period for which the B&M stock surrendered in exchange therefor was held (provided the stock exchanged was a capital asset); (v) gain or loss would be recognized to those B&M stockholders who received cash in lieu of fractional interests (and would be capital gain or loss if the B&M stock was a capital asset in the stockholders' hands); and (vi) the Dereco Class A or Class B preferred stock received by the B&M stockholders would not have the adverse status of "section 306 stock."

The Internal Revenue Service has not ruled at this time as to the future tax consequences upon the conversion of Dereco Class A or Class B preferred stock into common stock of the N&W. Conversion of the Dereco Class A or Class B preferred stock into N&W common stock may be deemed taxable as a distribution made by Dereco in redemption of the Dereco preferred stock surrendered for conversion, and therefore taxed as a dividend (under I.R.C. § 302) unless the redemption is deemed not essentially equivalent to a dividend, unless it is in complete redemption of all of the stock of Dereco owned (actually or constructively) by the stockholder, or unless it is deemed a "substantially disproportionate" redemption within the meaning of I.R.C. § 302(b)(2).

Judicial Proceedings Relating to the Inclusion Order and the Penn-Central Merger Case; Time for Consummation of Inclusion

On October 19, 1967, the United States District Court for the Southern District of New York sustained both the ICC's Inclusion Order and its authorization of the Penn-Central merger. On

January 15, 1968, the United States Supreme Court affirmed the District Court's judgment subject to certain modifications and conditions not here material. Pursuant to the Supreme Court's decision, the District Court entered judgment on January 30, 1968, dismissing the appeals from the Inclusion Order and the approval of the Penn-Central merger, with certain provisions on matters not here material.

By further order entered November 8, 1968, the ICC required that the inclusion of B&M into the N&W system be consummated no later than February 15, 1969. However, see caption "Proposed Inclusion in Norfolk and Western System", page 5.

INTERIM PENN-CENTRAL MERGER ARRANGEMENTS

On June 9, 1967, the ICC entered an order in the Penn-Central merger proceedings prescribing revised interim protective conditions in that merger designed to afford interim protection for B&M, EL and D&H RR. Corp. against loss of traffic through routing and service changes by Penn-Central. The order includes provision for the payment of financial indemnities by Penn-Central to B&M, EL and D&H RR. Corp. should their respective freight revenues drop below specified percentages of the combined freight revenues of each with the Penn-Central constituents. The percentages specified are 4.0847%, 13.679% and 3.1786%, for B&M, EL and D&H RR. Corp., respectively. The amount of indemnity, subject to adjustment by the ICC in unusual eventualities, is 50% of the revenue deficiency determined.

The interim conditions are to endure during the "protective period", which is defined as commencing with the date of consummation of the Penn-Central merger and ending "as to each of the protected carriers separately" upon effectuation of its inclusion "in a Railway System which includes Norfolk & Western Railway Company or any successor thereto, or in the Railway System to be operated" by Penn-Central, subject to the proviso:

> ". . . that if, as to any such protected carrier, no such inclusion shall have been effected within 1 year after the final determination of (i) the petitions which such protected carrier now has pending for inclusion in such Railway Systems, or (ii) any new or supplemental petition or petitions which such protected carrier may reasonably file for inclusion in any such Railway System then, as to that protected carrier, the protective period shall end when this Commission shall so order.
>
> "As used herein, the term 'final determination' shall mean an order of this Commission or the judgment or order of any court (of original or appellate jurisdiction) which finally disposes of such protected carrier's petition for inclusion, leaving the parties with no further recourse to this Commission or to any court with respect to such petition."

As of the date of this Prospectus, no indemnities have been paid or are payable to or have accrued in favor of the B&M. The time during which the protective period may continue is uncertain.

B&M participated actively as an intervener in the proceedings to determine the application for authorization of the merger plans filed by N&W and C&O with the I.C.C. on October 11, 1965 (as discussed more extensively under "Proposed N&W-C&O Merger").

INFORMATION CONCERNING N&W

The following is a description of the N&W system generally as of December 31, 1967. The management of the B&M has been advised by the management of the N&W that the latter does not have a description of its railway system after the inclusion of the EL and D&H. The following information has been reviewed by certain employees of the N&W system and is the most current information available to the B&M management.

Business and Properties of N&W:

N&W is one of the major rail systems serving the East and Midwest. N&W's principal lines extend westward from Norfolk, Virginia through Virginia, West Virginia and Ohio to Lake Erie, where they extend northeastward along both shores of Lake Erie to Buffalo, New York, and eastward to Connellsville, Pennsylvania. From the south shore of Lake Erie, N&W's lines also extend westward through the States of Ohio and Indiana to Chicago and Peoria, Illinois, Des Moines, Iowa, Omaha, Nebraska, and Kansas City and St. Louis, Missouri. N&W also has lines reaching Durham and Winston-Salem, North Carolina, Bristol and Norton, Virginia, Hagerstown, Maryland, and Cincinnati, Ohio.

As of December 31, 1967, N&W operated 7,583 miles of road, of which 4,436 were owned, 2,586 were leased and 561 were operated under trackage rights. Of the operated mileage owned, 3,165 miles were main line and 1,271 miles were branch line. N&W's leased lines operated include 1,992 miles leased from Wabash Railroad Company ("Wabash"), 132 miles leased from The Pittsburgh & West Virginia Railway Company for a term of 99 years commencing October 16, 1964, and 462 miles leased from N&W's 90.1% owned subsidiary, The Wheeling and Lake Erie Railway Company, for a term of 99 years commencing December 1, 1949.

On December 31, 1967, N&W owned the following diesel units and owned or held under lease the following freight cars:

Diesel Units	Freight	Passenger	Multiple Purpose	Switching	Total
Number	30	2	1,343	190	1,565

Freight Cars	Box	Flat	Gondola	Hopper	Other	Total
Number	27,706	3,075	10,361	73,790	4,374	119,306

N&W owns 100% of the stock of The Akron, Canton & Youngstown Railroad Company, a 171 mile line between Mogadore and Delphos, Ohio, 100% of the stock of Norfolk, Franklin and Danville Railway Co., a 205 mile line between Norfolk and Danville, Virginia, and 100% of the stock of Chesapeake Western Railway, a 52 mile line between Elkton and Staunton, Virginia. N&W also owns 100% of the Common Stock and 89.9% of all the stock of Dereco, Inc. Dereco owns 100% of the stock of new EL which acquired by merger all of the assets of EL on April 1, 1968. Dereco also owns 100% of the Common Stock of new D&H which acquired the assets and liabilities of D&H R.R. Corp. and D&H Co. on July 1, 1968, with certain exclusions.

As part of the N&W-Nickel Plate unification, N&W leased the lines and properties of Wabash for a term of eight years beginning on October 16, 1964. This lease is renewable for like terms in perpetuity, subject to authorization of the ICC. Under the lease, N&W pays rent sufficient to pay interest on the debt of Wabash, dividends on its Preferred Stock and all taxes and assessments. In addition, for each of the eight years of the original term of the lease, N&W pays an additional rental of at least $7,125,000, and if N&W dividends on its Common Stock aggregate more than $5.00 per share, a further rental payment must be made in the amount by which such aggregate amount per share exceeds $5.00 multiplied by 1,350,000. After the initial eight-year term, the additional rental payable in any year would equal the aggregate dividends paid annually on 675,000 shares of Common Stock of N&W as now constituted.

N&W is primarily a freight railroad. During 1967 it derived 98.2% of its railway operating revenues from freight traffic and 1.8% from passenger traffic and related business. The percentages of its freight revenues derived from principal commodities during 1967 were: coal, 41.7%; transportation equipment (including motor vehicles and parts), 8.9%; food and kindred products, 7.9%; primary metal products, 6.8%; chemical and allied products, 6.7%; and farm products, 5.5%.

N&W Earnings and Financial Data:

Financial results of N&W for the last five years are reported as follows:

Year	Railway Operating Revenues	Net Income—After Preferred	Net Income Per Common Share—After Preferred	Dividends Paid Per Common Share (3)
1963	$530,514,820(1)	$76,714,998(2)	$ 8.26(2)	$6.00
1964	558,205,917(1)	79,198,086(2)	8.53(2)	7.00
1965	592,493,117(1)	89,277,065(2)	9.60(2)	6.50
1966	613,984,943(3)	97,822,639(3)	10.61(3)	6.50
1967	594,178,388(3)	72,607,003(3)	8.01(3)	6.00

(1) Represents amounts shown in income statement included in a proxy statement of N&W dated March 23, 1966.
(2) Represents amounts used in per share calculations in proxy statement mentioned in Note 1.
(3) Represents amounts shown in published annual reports.

A summary of certain financial data on a consolidated basis as of December 31, 1967, follows:

Current assets	$ 169,935,035
Current liabilities (including current portion of long term debt)	159,211,661
Working capital (after deducting current portion of long term debt)	10,723,374
Property—net	1,694,530,259
Other assets and deferred charges	92,396,980
Total	1,797,650,613
Less:	
Long term debt (exclusive of current portion)	676,457,349
Other non-current liabilities	66,193,155
Minority interest	8,551,007
Total	751,201,511
Stockholders' equity	$1,046,449,102
Stockholders' equity per share	$115.47

For the year ended December 31, 1968, N&W Railway System reported preliminary operating revenues of $859,000,000 and net income of $75,200,000 or $8.19 per share, including results of Dereco, Inc. and its subsidiaries from April 1, 1968. The preliminary release also stated that 1968 pro forma share earnings assuming conversion of all convertible securities were $7.82 per share.

Market Prices of N&W Common Stock:

Set forth below are the high and low market prices of the Common Stock of N&W on the New York Stock Exchange:

1966		1967		1968	
High	Low	High	Low	High	Low
$139¼	$93¾	$112¼	$88⅝	$118¼	$87⅛

The closing price of the Common Stock of N&W on the New York Stock Exchange on January 22, 1969, was $107.87 per share.

Description of Common Stock of N&W:

All shares of Common Stock of N&W are entitled to share equally in dividends out of surplus available for dividends under Virginia law when and as declared by the Board of Directors. Each holder of Common Stock of N&W is entitled to one vote per share. The shareholders have preemptive rights to the extent provided under Virginia law. Upon liquidation or dissolution of N&W, whether voluntary or involuntary, all shares of Common Stock of N&W are entitled to share equally in the assets of N&W available for distribution to shareholders.

On September 30, 1968, there were 9,395,712 shares of Common Stock of N&W outstanding.

As of August 1, 1968, exercisable options for Common Stock of N&W under the N&W Restricted Stock Option Plan were held by officers and key employees for 10,665 shares at option prices ranging from $80.25 to $115.50 per share. These options, which expire 10 years from the date of grant, subject to earlier termination upon certain events, were granted at various times between October 28, 1958, and October 1, 1963, at 100% of the then current market price.

Based upon shares outstanding at August 1, 1968, N&W is obligated to issue an aggregate of 671,692 shares of its Common Stock to the former Pennsylvania Railroad Company (now Penn-Central) and Pennsylvania Company, all of whose outstanding common stock is owned by Penn-Central (Pennsylvania Company and the former Pennsylvania Railroad Company or Penn-Central being hereinafter in this section collectively referred to as "Pennsylvania"), on October 15, 1970, in exchange for all (in any event not less than 595,158) of the shares of Common Stock of Wabash owned by Pennsylvania on the basis of 1.12841 shares of N&W for each share of Wabash.

Under the terms of the Inclusion Order and based upon the numbers of shares outstanding on August 1, 1968, up to 924,431 shares of Common Stock of N&W are reserved for issuance, or would be issuable to preferred stockholders of Dereco, Inc. (formerly shareholders of EL), to stockholders of B&M, and the public holders of the EL convertible bonds pursuant to the Inclusion Order. On the basis of shares of Common Stock of C&O outstanding on August 1, 1968, a total of 6,295,369 shares of Common Stock of N&W would be issued to stockholders of C&O in the proposed merger of C&O into N&W (described herein under "Proposed N&W-C&O Merger"). The inclusion of CNJ and Reading Company ("Reading") also has been proposed in connection with the N&W-C&O merger. The terms of that proposal could result in 484,999 additional shares of Common Stock of N&W being issued or reserved for issuance (as described herein under "Proposed N&W-C&O Merger"), of which 194,322 shares would be held within the N&W-C&O system.

The ICC's authorization of the merger of Nickel Plate into N&W, the lease by N&W from Pennsylvania of the property of, and the eventual acquisition by N&W of stock control of, Wabash and the purchase of N&W of the Sandusky Line of The Connecting Railway Company, were made conditional on (1) the agreement of Pennsylvania to divest itself of its stockholdings in N&W within ten years from the date of consummation of the N&W-Nickel Plate merger and (2) the transfer to independent voting trustees of all voting rights in respect of shares of N&W stock at any time held by Pennsylvania. Both conditions have been fulfilled. At the date of consummation (October 16, 1964) Pennsylvania Company owned or had the right to acquire from N&W in connection with the Wabash transaction an aggregate of 3,014,476 shares of Common Stock of N&W and 314,519 shares of Preferred Stock of N&W (subsequently canceled in exchange for cash). In connection with Pennsylvania's agreement to the conditions to the N&W-Nickel Plate merger, Pennsylvania and N&W agreed that an aggregate of 800,000 shares of Common Stock of N&W would be exchanged for an aggregate of $104,000,000 principal amount of 4⅝% 15-Year Subordinated Debentures of N&W during the period from October 3, 1966, through June 1, 1974, of which 320,000 shares have been exchanged. Any holder of such Debentures (other than Pennsylvania, any successor thereto or any affiliate thereof) will have the right at its option to convert the principal thereof into Common Stock of N&W at any time after 12 years prior to the stated maturity of such Debentures at the rate of one share of Common Stock of N&W for each $130 principal amount of such Debentures, subject to adjustment in certain events. In addition, 516,256 shares of Common Stock of N&W owned by Pennsylvania are deliverable upon redemption at the option of the holder of shares of Preferred Stock of Pennsylvania Company issued in connection with the merger of The Buckeye Pipe Line Company into Pennsylvania Company in 1964. Such shares have been deposited in escrow for such purpose.

As of August 1, 1968, Pennsylvania was the owner of 2,022,732 shares of the outstanding Common Stock of N&W, which shares are held in voting trusts as above stated.

Management of N&W

Directors:*

John S. Alfriend	Retired Board Chairman, Virginia National Bank
Herman H. Pevler	President, N&W
Myron B. Phipps	Retired Assistant President, N&W
Raymond E. Rowland	Retired Chairman of the Board, Ralston Purina Company
Robert B. Claytor	Vice President—Law, N&W
H. S. Payson Rowe	President, Brookline Savings Bank
Raymond E. Salvati	Consultant, Sales—Mining
G. Albert Shoemaker	Executive Advisor—Coal, Continental Oil Company
John P. Fishwick	Senior Vice President, N&W
William S. Lowe	President, A. P. Green Refractories Co.
Hamilton M. Redman	Vice President—Finance, N&W
Robert P. Tibolt	Chairman of the Board, Eastern Gas and Fuel Associates

Principal Officers:*

Herman H. Pevler	President
John P. Fishwick	Senior Vice President
Hamilton M. Redman	Vice President — Finance
John A. Barrett	Vice President — Traffic
Richard F. Dunlap	Vice President — Operations
Robert B. Claytor	Vice President — Law
Howard J. Brinner	Comptroller
F. R. McCartney	Treasurer
William H. Ogden	Secretary

*Under the terms of the proposed N&W-C&O plan of merger, upon the consummation of the merger the Board of Directors of N&W would consist of eighteen directors, nine of whom would be selected by each railroad. The plan of merger does not make any provision for the selection of officers of the merged corporation and N&W has indicated that no arrangements have been made.

Litigation:

On April 17, 1967, an action was commenced by a N&W Common stockholder against Pennsylvania and N&W in which the plaintiff seeks an accounting by Pennsylvania "for their profits and N&W's losses" in connection with an agreement pursuant to which the 4⅝% 15-Year Subordinated Debentures of N&W were and are to be issued to Pennsylvania Company. The action is based upon allegations that the terms of the agreement were wholly lacking in arm's-length bargaining and gave Pennsylvania an extremely favorable advantage at the expense of N&W. In December, 1967, the plaintiff's action was dismissed and the dismissal was affirmed by the United States Third Circuit Court of Appeals on June 6, 1968. A petition for certiorari was filed with the Supreme Court of the United States on August 30, 1968 and is still pending. Counsel for Pennsylvania is reported to be of the opinion that the suit is without merit.

INFORMATION CONCERNING EL

The following is a description of the EL generally as of December 31, 1967. The information set forth below describes the EL prior to its inclusion in the N&W system. The following information was reviewed by employees of the N&W and is the most recent information available to the management of the B&M.

Business and Properties of EL:

EL (now merged into New EL) is a trunk line carrier operating from the port of New York to Buffalo and to Chicago. It has two main lines extending westward from Hoboken, New Jersey to Binghamton, New York, the southern trunk running through Scranton, Pennsylvania and the northern extending through Port Jervis, New York. From Binghamton, EL continues northwest to Buffalo and westward to Chicago. EL gives the N&W system access to the port of New York as well as connections with D&H and through it B&M. EL also has multiple connections with Reading and CNJ.

As of December 31, 1967, EL operated 3,019 miles of road, of which 2,686 were owned, 18 were operated under lease, 10 under contract and 305 under trackage rights. Of the miles owned, 1,308 were main line and 1,378 were branch line. It owned the following diesel units and owned or held under lease the following freight cars:

Diesel Units	Freight	Passenger	Multiple Purpose	Switching	Total
Number	197	29	172	156	554

Freight Cars	Box	Flat	Gondola	Hopper	Other	Total
Number	11,577	610	4,769	4,530	710	22,196

In 1967 about 90% of EL's railway operating revenues was derived from freight traffic and about 10% from passenger traffic and related business (of which a substantial portion was commuter business in the New York area). The percentages of its freight revenues from principal commodities in 1967 were: food and kindred products, 20.7%; transportation equipment, 6.7%; primary metal products, 8.8%; chemicals and allied products, 8.9%; and coal, 5.4%.

EL Earnings and Financial Data:

Financial results for the last five years were as follows:

Year	Railway Operating Revenues	Net Income or (Loss)	Net Income or (Loss) Per Common Share (1)
1963	$206,003,095	($17,115,272)	($3.77)
1964	212,446,974	(8,268,194)	(1.89)
1965	229,994,374	3,290,788	.57
1966	235,796,932	6,668,269	1.29
1967	223,841,745	(10,181,829)	(2.30)

(1) After allowance for dividends on preferred stock.

EL's assets as of December 31, 1967, were carried on the books at $652,943,334. Its long-term debt was $351,519,097. EL's current assets as of December 31, 1967, were $53,755,614 and its current liabilities including debt due within one year were $45,419,032.

Market Prices of EL Capital Stock:

On December 31, 1967, EL had outstanding 125,120 shares of its 5% Series A Preferred Stock, 510 shares of its 5% Series B Preferred Stock (with 447,757.5 shares reserved for conversion of EL Convertible Bonds) and 4,701,380 shares (including rights to receive shares) of its Common Stock. No dividends have been paid on EL's preferred stock since 1959 or on its Common Stock since 1957. Arrears on all preferred shares on April 1, 1968, totalled $1,882,050, the maximum permitted.

Set forth below are the high and low prices of the Series A Preferred Stock of EL and the Common Stock of EL on the New York Stock Exchange:

	Series A Preferred		Common Stock	
1966	**High**	**Low**	**High**	**Low**
1st Quarter	$49⅞	$32	$15½	$10⅝
2nd Quarter	41¼	30½	13⅜	9
3rd Quarter	38½	28	10½	6⅞
4th Quarter	33½	24	9⅜	6⅛
1967				
1st Quarter	33	28⅞	9⅞	8
2nd Quarter	33⅜	28	10⅝	8¼
3rd Quarter	32⅞	27½	10¼	8½
4th Quarter	30	25½	9	7⅝
1968				
1st Quarter	29	24¾	10	7¼

The closing prices of the Series A Preferred Stock of EL and of the Common Stock of EL on the New York Stock Exchange on April 1, 1968, were $24 and $7.63 per share, respectively.

INFORMATION CONCERNING D&H

The following is a description of the D&H generally as of December 31, 1967. The information set forth below describes the D&H prior to its inclusion in the N&W system. The following information was supplied by employeees of the D&H and is the most recent information available to the management of the B&M.

Business and Properties of D&H

D&H RR. Corp. operates in the States of Pennsylvania and New York and, to a minor extent, Vermont. Its main line runs generally northeast from Wilkes-Barre, Pennsylvania and Oswego and Binghamton, New York, in the south and west to the New York Capital District (which includes Albany, Schenectady, Troy and Mechanicville) and north to the Canadian border, where it connects with the line of the Napierville Junction Railway (subsidiary of D&H Co.) which extends to Delson Junction (near Montreal). D&H connects with EL at Binghamton, New York and B&M at Mechanicville, New York (D&H's largest connection) giving access to New England, and also connects with the Canadian railroads in the Montreal area. D&H RR. Corp.'s other principal rail connections include Penn-Central and its subsidiary, Lehigh Valley Railroad Company and The Central Railroad Company of New Jersey ("CNJ").

As of December 31, 1967, D&H RR. Corp. operated 734 miles of road, of which 617 were owned, 24 were lines of proprietary companies, 39 were operated under lease, 16 under contract and 38 under trackage rights. Of the operated mileage owned, 403 miles were main line and 214 miles were branch line. It owned the following diesel units and owned or held under lease the following freight cars:

Diesel Units	Freight	Multiple Purpose	Switching	Passenger	Total
Number	28	85	10	4	127

Freight Cars	Box	Flat	Gondola	Hopper	Other	Total
Number	3,149	41	989	2,441	162	6,782

D&H RR. Corp. is principally a freight line. In 1967, 94.4% of its railway operating revenues was derived from freight traffic and 5.6% from passenger and related business. The percentages of its freight revenues derived from principal commodities in 1967 were: paper (except building paper), 16.3%; bituminous coal and lignite, 11.8%; iron ores, 6.1%; pulp and pulp mill products, 4.7%; abrasives, asbestos and miscellaneous nonmetallic mineral products, 4.5%; and grain mill products, 4.2%.

D&H Earnings and Financial Data

Consolidated financial results of D&H Co. and its subsidiaries for the last five years are reported as follows:

Year	Consolidated Gross Revenues	Consolidated Net Income	Net Income Per Share	Dividends Per Share
1963	$43,288,382	$3,305,138*	$2.08*	$1.25
1964	43,971,628	3,989,751*	2.51*	1.25
1965	44,670,507	5,401,170*	3.40*	1.25
1966	45,105,287	5,297,719*	3.33*	1.95
1967	44,385,841	2,576,461	1.62	1.60

*As restated — see Note 8 to Financial Statements of D&H on page F-42.

A summary of certain financial data on a consolidated basis as of December 31, 1967 follows:

Current assets	$ 35,113,776
Current liabilities (including current portion of long term debt)	8,619,370
Working capital (after deducting current portion of long term debt)	26,494,406
Property — net	124,709,972
Other assets and deferred charges	2,992,619
Total	154,196,997
Less:	
Long term debt (exclusive of current portion)	37,495,965
Other non-current liabilities	5,951,740
Total	43,447,705
Stockholders' equity	$110,749,292
Stockholders' equity per share	$69.70

PROPOSED N&W-C&O MERGER

The boards of directors and the stockholders of N&W and C&O have approved a plan of merger of C&O into N&W. An application for authorization of the merger was filed by N&W and C&O with the ICC on October 11, 1965. The ICC has recently completed hearings on the application, and a decision by the Hearing Examiner will be forthcoming.

The proposed ratio of exchange of N&W stock for C&O stock is 0.725 of a share of Common Stock of N&W for each outstanding share of Common Stock of C&O. On the basis of the number of shares of Common Stock of C&O outstanding on August 1, 1968, a total of 6,295,369 shares of Common Stock of N&W would be issued in the merger to C&O stockholders.

In submitting the merger plan to the ICC, N&W and C&O expressed a willingness to accept, as a condition to the merger, a requirement to make offers of inclusion on specified terms of D&H, EL, Reading, CNJ and B&M. This would be accomplished through the creation of a subsidiary of N&W ("Dereco"), which in turn would organize five carrier subsidiaries into which D&H Co., EL, Reading, CNJ and B&M, respectively, would be merged.

Under the Dereco proposal, B&M shareholders would receive Dereco Preferred Stock at the same exchange ratio as they would receive Dereco stock if B&M is included in the N&W system, *i.e.*, 0.175 of a share of Dereco Class A Preferred Stock for each share of B&M Preferred Stock and 0.10 of a share of

Dereco Class B Preferred Stock for each share of B&M common stock. The Dereco Preferred Stock would be convertible five years after issuance into N&W common stock on a share-for-share basis.

EL's merger into New EL and the inclusion transaction of D&H with New D&H appear to make the Dereco proposal moot as to EL and to D&H. Under the Dereco proposal as to Reading and CNJ, based upon the number of shares outstanding on August 1, 1968, and the proposed ratios of exchange, Reading stockholders would receive 419,293 shares of Dereco preferred stock and CNJ stockholders would receive 65,706 shares of Dereco preferred stock, convertible into Common Stock of N&W after five years on a share-for-share basis.

By its terms, the Dereco proposal is subject to certain conditions, among which is the non-occurrence of any intervening substantial change of position of any of the railroads proposed for inclusion. The filing of a voluntary petition under Section 77 of the Bankruptcy Act of March 22, 1967, by CNJ would appear to be such an intervening substantial change of position. However, N&W and C&O and the trustees of CNJ have agreed to the imposition of a condition to any ICC order approving the N&W-C&O merger which would require the inclusion of CNJ upon equitable terms as may be agreed upon by the parties, or in the absence of any such agreement, upon such terms as may be determined by the ICC.

The Dereco offer to include D&H and the other roads is also subject to the condition that the present Federal income tax law be modified to permit N&W to obtain the benefit of operating loss carryovers of EL, B&M, Reading and CNJ.

B&M, Reading and the minority shareholders of Reading contended in the hearings before the ICC that the terms of inclusion of the various roads above referred to should be substantially improved over those proposed by the Dereco offer, and have presented evidence in support of such contentions. B&M submitted testimony to support an exchange ratio of .4169 of a share of Dereco Preferred Stock for each share of B&M Preferred Stock and .3878 of a share of Dereco Preferred stock for each share of B&M Common Stock. N&W and C&O contested the validity of such contentions and evidence, and it is impossible to say to what extent, if any, the ICC may ultimately require improvement in the ratio of exchange proposed for B&M stock in the Dereco offer.

In 1967 Reading and CNJ had operating revenues of $103,818,974 and $50,174,255 (both consolidated), respectively, and at December 31, 1967, assets were carried on their books at $366,083,639 (consolidated) and $130,861,798 (unconsolidated), respectively. Nevertheless, CNJ has not operated profitably in recent years and since 1961 Reading has shown profits only in 1965 and 1966. Consolidated net loss for Reading in 1967 was $1,891,123. CNJ suffered a consolidated net loss for 1967 of $13,821,581.

The principal lines of Reading extend southwestward from Port Reading, New Jersey to Philadelphia, and westward to Reading from which they radiate throughout southeastern Pennsylvania. The principal lines of CNJ extend westward from Jersey City to Scranton, Pennsylvania, from Elizabethport to Bridgeton, New Jersey, and from High Bridge to Green Pond Junction and Rockaway, New Jersey. Reading and CNJ link The Baltimore & Ohio Railroad Company ("B&O") with its terminal facilities in New York. In the proposed N&W-C&O system, Reading would also link B&O and Western Maryland Railway Company ("WM") on the south with EL, CNJ on the north and west. As of December 31, 1967, Reading and CNJ and through the latter, D&H operated 1,231 miles and 571 miles of road, respectively, a substantial portion of which was owned.

Business and Properties of C&O

C&O's principal line extends westward from the port of Hampton Roads through Virginia, West Virginia and Ohio into Michigan. It also has lines reaching Chicago, Louisville and Washington, D.C., and extending from Detroit through the Province of Ontario to Buffalo. It operates three train ferry routes across Lake Michigan between Michigan and Wisconsin. C&O has 18 significant points of interchange with N&W.

On December 31, 1967 C&O operated 5,128 miles of road, of which 4,207 were owned by C&O, 199 were owned by proprietary companies, 33 were operated under lease, 8 under contract and 681 under trackage rights. Of the mileage owned by C&O, 2,762 was main line and 1,445 was branch line.

As of December 31, 1967 C&O owned or held under lease the following equipment:

Diesel Units	**Freight**	**Passenger**	**Multiple Purpose**	**Switching**	**Total**
Number	7	27	851	150	1,035

Freight Cars	**Box**	**Flat**	**Gondola**	**Hopper**	**Other**	**Total**
Number	17,380	513	7,533	55,055	3,134	83,615

C&O is primarily a freight railroad. During 1967 freight service contributed approximately 97% of total operating revenues, while passenger service revenues were approximately 3%. The percentages of its freight revenues derived from principal commodities during 1967 were: coal, 46.8%; chemicals and allied products, 7.5%; transportation equipment (including motor vehicles and parts), 6.8%; food and kindred products, 5.9%; and primary metal products, 5.3%.

The consolidated financial statements of C&O include the accounts of C&O and its subsidiaries engaged in the railroad business (principally B&O) or in leasing or financing activities, except that WM which is 72.3% owned is not consolidated, but the C&O's equity in WM earnings is included in C&O's consolidated earnings. The C&O and B&O investment in WM is carried on the C&O's consolidated balance sheet at cost plus equity in earnings beginning with the year 1964 (during which more than 50% ownership was reached).

As of December 31, 1967 C&O's consolidated assets were carried on the books at $2,548,662,488. C&O's consolidated long-term debt was $1,062,239,819. C&O's consolidated current assets were $277,579,817, and its consolidated current liabilities, including debt due within one year, were $293,112,850. Financial statements of C&O-B&O are included herein, pages F-54 to F-66. Financial results for the last five years are reported as follows:

Year	**Consolidated Gross Operating Revenues (millions)**	**Consolidated Net Income (millions)**
1963	$745.9	$44.8
1964	768.1	50.3
1965	810.9	64.7
1966	827.9	66.1
1967	832.0	52.3

Business and Properties of B&O

B&O's principal lines extend westward from Philadelphia through Baltimore and Washington, D.C. to Cumberland, Maryland, where its lines divide and continue westward in a network through Pennsylvania, West Virginia, Ohio and Indiana to Chicago and Springfield, Illinois and St. Louis. B&O also has important lines reaching Rochester, Buffalo and Detroit and has terminal facilities in the New York area. B&O has 32 significant points of interchange with N&W.

As of December 31, 1967, B&O operated 5,748 miles of road, of which 3,790 were owned or jointly owned, 786 were lines of proprietary companies, 259 were operated under lease, 614 under contract and 299 under trackage rights. Of the mileage owned or jointly owned, 3,244 miles were main line and 546 were branch line.

As of December 31, 1967 B&O owned or held under lease the following equipment:

Diesel Units	**Freight**	**Passenger**	**Multiple Purpose**	**Switching**	**Total**
Number	310	50	477	355	1,192

Freight Cars	**Box**	**Flat**	**Gondola**	**Hopper**	**Other**	**Total**
Number	17,395	357	8,864	34,734	2,599	63,949

B&O is primarily a freight railroad. During 1967 freight service contributed approximately 96% of total railway operating revenues, while passenger service revenues were approximately 4%. The percentages of its freight revenues derived from principal commodities during 1967 were: coal, 24.9%; primary metal products, 12.7%; chemicals and allied products, 9.1%; food and kindred products, 8.6%; transportation equipment (including motor vehicles and parts), 6.2%; stone, clay and glass products, 5.6%; and pulp, paper and allied products, 4.1%.

Business and Properties of WM

WM's principal lines extend northwestward from Baltimore to Connellsville, Pennsylvania, where connection is made with N&W, and southwestward into West Virginia, where connection is made with C&O. It also has a line northward to Shippensburg, Pennsylvania, connecting with Reading at Lurgan, Pennsylvania.

As of December 31, 1967, WM operated 866 miles of road, of which 674 were owned, 61 were leased and 131 were operated under trackage rights. Of the mileage owned, 523 were main line and 151 were branch line.

As of December 31, 1967, WM owned the following diesel units and owned or held under lease the following freight cars:

Diesel Units	Freight	Multiple Purpose	Switching	Total
Number	48	66	13	127

Freight Cars	Box	Flat	Gondola	Hopper	Other	Total
Number	2,332	407	2,004	8,698	240	13,681

WM is exclusively a freight railroad. The percentages of its freight revenues derived from principal commodities during 1967 were: coal, 36.8%; nonmetallic minerals, 10.1%; primary metal products, 9.8%; stone, clay and glass products, 7.9%; metallic ores, 5.6%; and food and kindred products, 4.7%.

Stock Holdings of C&O, B&O, Etc.

As of December 31, 1967 C&O owned over 92% of the outstanding Common and Preferred Stocks of B&O.

C&O-B&O own 66.2% of the Common Stock of WM, 99.6% of its 5% First Preferred Stock and 36.4% of its 7% First Preferred Stock, representing an aggregate of 72.3% of its outstanding shares.

B&O owns 41.8% of the First Preferred Stock of Reading, 47% of its Second Preferred Stock and 31.6% of its Common Stock. B&O disposed of an additional 20% of the Common Stock of Reading under terms by which C&O has a right of first refusal to purchase such shares and, on the happening of certain conditions, has the right to purchase them at $15 each, while the holder has the right at its election to require C&O to purchase such shares at $13 each on the occurrence of the same conditions, at any time.

Reading owns 48.9% and C&O 2.3% of the Common Stock of CNJ. Reading and CNJ each own a substantial stock interest in The Lehigh and Hudson River Railway Company. In addition, B&O, like C&O, owns one-sixth of the stock of Richmond-Washington Company which controls the Richmond, Fredericksburg and Potomac Railroad Company, owning the line between Washington and Richmond, Virginia. C&O and a wholly-owned subsidiary also own 93.9% of the stock of the Chicago South Shore and South Bend Railroad which operates between Chicago and South Bend, Indiana.

CERTAIN B&M PRO FORMA PER SHARE DATA

The following tabulations of pro forma data should be read in conjunction with the financial statements of B&M, N&W, EL, D&H and C&O, including notes thereto, and the pro forma combined balance sheets as of December 31, 1967 and pro forma combined 1967 statements of income giving effect to certain proposed transactions, all of which are presented elsewhere herein.

Railroads maintain their accounts in accordance with practices and procedures prescribed by the Interstate Commerce Commission. The B&M financial statements presented herein have been adjusted as described in Notes 1 and 3 to its financial statements to charge to operations and accumulated deficit losses upon disposition of certain depreciable properties which under ICC accounting procedures had been charged to the reserve for depreciation. The aforementioned financial statements (with the exception of those for B&M and EL which include no provisions for income taxes because of operating losses) differ from financial statements prepared in conformity with generally accepted accounting principles in that no recognition has been given to current reductions in income taxes payable resulting from the deductions for amortization and depreciation of properties for income tax purposes in excess of those amounts recorded in the accounts. In preparing the following tabulations, net income and net book value have been adjusted to include provisions for deferred income taxes attributable to the aforementioned reductions in federal income taxes payable. These pro forma per share amounts have been computed on two bases, namely, (a) assuming inclusion of B&M in an N&W system (which now includes EL and D&H) but which does not include C&O and (b) assuming inclusion of B&M in an N&W system which includes C&O.

The computations are also based on the assumptions that the shares of N&W Common Stock issued or to be issued in the EL, D&H, B&M and C&O transactions (including shares which may ultimately be issued upon conversion of the securities issued in connection with the N&W-EL and proposed N&W-B&M transactions) were outstanding during the period. The carry-forward tax losses from prior years of B&M and EL have not been recognized in these computations. Data used in the computations have been obtained from financial statements included elsewhere herein.

Calculations of net income (loss) per share of B&M common stock are set forth below:

Historical 1967 net loss per share of B&M common stock assuming conversion of all preferred stock at beginning of period	Historical 1967 net loss per share of B&M common stock after preferred dividends (A)	Pro forma 1967 net income per share of B&M common stock on basis of assumed inclusion of B&M in an N&W system which does not include C&O (B)	Pro forma 1967 net income per share of B&M common stock on basis of assumed inclusion of B&M in an N&W system which includes C&O (B)
($4.15)	($5.46)	$ .55	$ .59

(A) Based upon average shares of common stock and upon assumption that noncumulative preferred dividends had been accrued during the period for preferred shares outstanding at November 30, 1968 and that preferred shares that had been converted up to that date were outstanding during the period as common shares. See page 19.

(B) For details of calculations see page A-25.

Calculations of the book value per share of B&M stockholders' equity at December 31, 1967 are presented below.

B&M before inclusion:	
Historical stockholders' equity at December 31, 1967 after being reduced by adjustments aggregating $19,763,000 for losses upon disposition of certain depreciable properties which under ICC accounting procedures had been charged to the reserves for depreciation (see notes 1 and 3 to B&M financial statements)	$88,635,000
Number of shares of B&M common stock outstanding at December 31, 1967:	
Common	843,828
Preferred	107,235
Common assuming conversion of all preferred shares	1,031,489
Book value per share:	
Common	$ 92.33
Preferred, par value	$100.00
Common assuming conversion of all preferred shares	$ 85.93
B&M assuming inclusion in N&W system which now includes EL and D&H but does not include C&O:	
Pro forma book value per share (see pro forma balance sheet on page A-20)	
Common	$ 9.49
Preferred (175% of Common)	$ 16.61
B&M assuming inclusion in N&W system which includes C&O:	
Pro forma book value per share (see pro forma balance sheet on page A-20)	
Common	$ 11.22
Preferred (175% of Common)	$ 19.64

Information is not available to compute the per share effect of the future issuance of any N&W common stock by conversion or otherwise (other than the issuances reflected above) or to determine whether giving effect to such potential issuance would increase or decrease the 1967 pro forma net income per share. (See "Information Concerning N&W Description of Common Stock of N&W" included elsewhere herein).

During 1967 N&W declared dividends on its common stock of $6.00. If the proposed shares of Dereco held by the B&M shareholders were convertible and actually converted into N&W common stock during 1967 the dividends would have amounted to $0.60 per share of B&M common stock.

The Financial Statements on Pages A-20 to A-45 and F-18 to F-66 are not covered by Accountants Opinions and accordingly are included herein on an unaudited basis.

PRO FORMA COMBINED BALANCE SHEETS

DECEMBER 31, 1967

The following pro forma combined balance sheets, as indicated below, have been prepared on two bases as follows: a) the assumed inclusion of B&M in the N&W system (including EL and D&H, which became part of the N&W system on April 1, 1968 and July 1, 1968, respectively) which does not include C&O and b) the assumed inclusion of B&M in the N&W system (including EL and D&H) which includes the C&O.

The information for the individual companies included below has been taken from the respective balance sheets as of December 31, 1967 included elsewhere herein which are unaudited except for B&M and the following pro forma combined balance sheets should be read in conjunction with such balance sheets and notes thereto. Such balance sheets are:

N&W — Norfolk and Western Railway Company — system consolidated balance sheet
EL — Erie-Lackawanna Railroad Company — general balance sheet
D&H — The Delaware and Hudson Company — consolidated balance sheet
B&M — Boston and Maine Corporation and consolidated subsidiaries — balance sheet
C&O — The Chesapeake and Ohio Railway Company — consolidated balance sheet

The pro forma combined balance sheet of the present N&W system gives effect to the following assumptions for consummated transactions:

1. The issuance of 648,893 shares of Dereco preferred stock, Class A and Class B, in exchange for the common and preferred stock of EL. The acquisition of EL is reflected as a purchase. The difference between the historical basis of EL net assets and the value assigned to the aforementioned Dereco preferred stock amounted to $194,440,000 and in the pro forma combined balance sheets was applied as a reduction of properties (roadway and equipment). Net assets were $237,916,000 at date of acquisition, April 1, 1968, (which represented net assets at December 31, 1967 of $243,751,000, less the net loss for the three months ended March 31, 1968 of $5,835,000, as reported elsewhere herein) from which was deducted the $43,476,000 purchase price assigned to the above Dereco shares. The value assigned to the Dereco preferred stock of $67 per share was the approximate present value of the approximate price of N&W common stock on the date of acquisition of EL ($89⅛ per N&W share) based upon a 6% interest rate and a period of five years, representing the earliest conversion date, assuming no modification of certain income tax laws, see page A-3.

2. The exchange of the net assets of D&H (other than $18,186,000 of "excess working capital" retained by old D&H, which represents the working capital originally retained by old D&H ($20,686,000) reduced by the reported amount ($2,500,000) that old D&H will pay N&W in settlement of a dispute over the amount of "excess working capital" that old D&H could retain) for 412,627 shares of N&W common stock and a $1,000,000 five year 6% note. The acquisition of D&H is reflected as a purchase of assets. The difference between the historical basis of D&H net assets sold and the sum of the five year note and the market value of the aforementioned N&W stock (approximate $100 per share at date of acquisition, July 1, 1968) amounting to $51,498,000 in the pro forma combined balance sheets was applied as a reduction of properties (roadway and equipment). Net assets were considered to be $93,761,000 at date of acquisition, July 1, 1968, (net of $18,186,000 "excess working capital" retained) from which was deducted the $41,263,000 purchase price assigned to the above N&W shares plus $1,000,000. The net assets at acquisition were calculated from the consolidated net assets at December 31, 1967 of $110,749,000 and unconsolidated net income for the six months ended June 30, 1968 of $1,198,000, as presented elsewhere herein.

These pro forma combined balance sheets give effect, as applicable, to the following proposed transactions:

1. The issuance of 103,149 shares of Dereco preferred stock, Class A and Class B, in exchange for the common and preferred stock of B&M.

The proposed acquisition of B&M by Dereco is reflected as purchase. The difference between the historical basis of B&M net assets at November 30, 1968 and the value assigned to the aforementioned Dereco preferred stock amounted to $76,252,000 and was applied as a reduction of properties (roadway and equipment). The pro forma book cost to Dereco of $8,561,000 was assumed to be the present value of the approximate market value of N&W common stock at September 30, 1968 ($111 market value per share) based upon a 6% interest rate and a period of five years, representing the earliest conversion date and assuming no modification of certain income tax laws. See page A-3.

2. The issuance of 6,299,161 shares of N&W common stock to the stockholders of C&O in connection with the proposed N&W-C&O merger, accounted for as a pooling of interests.

These pro forma balance sheets also segregate from stockholders' equity the net amount of the approximate cumulative reductions in income taxes resulting from the deductions for amortization and depreciation of properties for income tax purposes in excess of those recorded in the accounts, as follows:

(a) N&W — $177,718,000

(b) C&O — $170,000,000

The amounts for N&W and C&O have been obtained from notes to December 31, 1967 balance sheets contained elsewhere herein. Reference is made to such notes (N&W—Note C and C&O—Note 2) for descriptions of the elements contained in the aforementioned amounts.

The acquisition of EL by Dereco was not a taxable transaction. As such, it is assumed that the aforementioned difference of $194,440,000 between the historical basis of EL net assets and the value assigned to the Dereco preferred stock will correspond with the excess of the tax basis over the adjusted book basis of EL net assets and that this amount will eventually be deductible for tax purposes. The acquisition of D&H by Dereco was a taxable transaction, which it is presumed involved no significant difference in book and tax bases. It is assumed that the acquisition of B&M by Dereco will not be taxable and that the estimated $76,252,000 excess of historical, depreciated cost over the pro forma book cost to Dereco, plus the approximately $25,000,000 in depreciation of roadway and structures deducted in the financial statements but not for tax purposes, or a total of $101,252,000, will correspond with the excess of the tax basis over the adjusted book basis of B&M net assets and that this amount will eventually be deductible for tax purposes. No accounting recognition has been accorded to this $295,692,000 in potential future deductions from taxable income.

The amounts for the B&M reflect certain adjustments described in Note 1 to its financial statements which have not been recorded in its books, which is permitted under the ICC accounting procedures.

Information regarding intercompany balances among N&W, EL, D&H, B&M, and C&O is not available; accordingly, no elimination of such balances is reflected in these pro forma combined balance sheets.

	Present N&W System				
				Pro forma adjustments	
	N&W	EL	D&H	For consummated transactions	For cumulative reductions in income taxes
Assets (in thousands)					
Current assets:					
Cash and temporary investments	$ 70,321	$ 18,801	$ 25,874	$ (18,186)(4)	
Accounts receivable	56,666	22,915	5,277		
Materials and supplies	22,811	11,646	1,986		
Other current assets	20,137	394	1,977		
Total current assets	169,935	53,756	35,114	(18,186)	
Special funds	6,109	4,651	351		
Investments, primarily affiliated companies not consolidated	65,909	23,733	2,005		
Properties, less allowance for depreciation and amortization	1,694,530	565,144	124,710	(194,440)(1) (51,498)(3)	
Other assets and deferred charges	20,379	5,659	636		
Total	$1,956,862	$652,943	$162,816	$(264,124)	
Liabilities and Stockholders' Equity (in thousands)					
Current liabilities:					
Accounts and wages payable	$ 55,953	$ 24,439	$ 2,544		
Taxes accrued	48,075	4,106	1,803		
Current portion of long-term debt	46,845	10,936	1,454		
Other current liabilities	8,338	5,938	2,818		
Total current liabilities	159,211	45,419	8,619		
Non-current portion of long-term debt	676,458	340,584	37,496	1,000(4)	
Other liabilities and deferred credits	66,193	23,189	5,952		
Minority interest	8,551				
Tax reduction from use of accelerated depreciation, etc.					$ 177,718(5)
Stockholders' equity:					
N&W common stock, including shares to be issued on conversion of Dereco preferred	226,562			10,316(4) 16,222(2)	
Other capital stock		163,007	52,961	(113,696)(1) (49,311)(2) (52,961)(4)	
Unappropriated retained earnings of The Norfolk and Western Railway Company	743,069				(177,718)(5)
Other capital and retained earnings	76,818	80,744	57,788	23,459 (4) (51,498)(3) 33,089 (2) (80,744)(1)	—
Total stockholders' equity	1,046,449	243,751	110,749	(265,124)	(177,718)
Total	$1,956,862	$652,943	$162,816	$(264,124)	$ —
Number of shares of N&W common stock (including shares to be issued on conversion of Dereco preferred) (in thousands)	9,062			1,062	
Number of shares of B&M stock (in thousands):					
Common					
Preferred					
Common assuming conversion of all preferred shares					
Pro forma book value per share of N&W common stock					
Book value per share of B&M stock:					
Common					
Preferred					
Common assuming conversion of all preferred shares					

Pro forma combined	B&M	Pro forma adjustments for proposed transaction	Pro forma combined	C&O	Pro forma adjustments: For proposed transaction	Pro forma adjustments: For cumulative reductions in income taxes	Pro forma combined
$ 96,810	$ 3,317		$ 100,127	$ 95,183			$ 195,310
84,858	6,014		90,872	107,459			198,331
36,443	2,799		39,242	44,583			83,825
22,508	567		23,075	30,355			53,430
$ 240,619	$ 12,697		$ 253,316	$ 277,580			530,896
11,111	1,843		12,954				12,954
91,647	5,122		96,769	128,020			224,789
2,138,446	188,750	$(76,252)(6)	2,250,944	2,122,603			4,373,547
26,674	2,847		29,521	20,459			49,980
$2,508,497	$211,259	$(76,252)	$2,643,504	$2,548,662			$5,192,166
$ 82,936	$ 9,940		$ 92,876	$ 173,346			$ 266,222
53,984	3,520		57,504	43,055			100,559
59,235	3,590		62,825	57,628			120,453
17,094	4,749		21,843	19,084			40,927
213,249	21,799		235,048	293,113			528,161
1,055,538	74,398		1,129,936	1,151,135			2,281,071
95,334	26,427		121,761				121,761
8,551			8,551	51,485			60,036
177,718			177,718			$ 170,000(5)	347,718
253,100		$ 2,579(6)	255,679		$ 157,479		413,158
—	11,567	(11,567)(6)	—	217,213	(217,213)		—
565,351			565,351				565,351
139,656	77,068	(67,264)(6)	149,460	835,716	59,734	(170,000)(5)	874,910
958,107	88,635	(76,252)	970,490	1,052,929	—	(170,000)	1,853,419
$2,508,497	$211,259	$(76,252)	$2,643,504	$2,548,662	$ —	$ —	$5,192,166
10,124		103	10,227		6,299		16,526
	844						
	107						
	1,031						
$94.64			$94.90				$112.15
	$ 92.33		9.49				11.22
	100.00		16.61				19.64
	85.93		9.49				11.22

NOTES TO PRO FORMA COMBINED BALANCE SHEETS

The combined balance sheets were adjusted as follows:

NOTE 1. To reduce carrying value of properties of EL by $194,440,000. See paragraph 1 on page A-18. The offsetting debit was applied to eliminate the balance of other capital and retained earnings of EL in the amount of $80,744,000 and the remainder of $113,696,000 was applied as a reduction of other common stock (EL).

NOTE 2. To reflect exchange of common stock of EL for preferred stock of Dereco which will be convertible into N&W common stock. The remaining balance of EL common stock was eliminated with the offsetting credits to the par value of N&W common stock issuable upon conversion of Dereco preferred stock into N&W common stock (649,000 shares of N&W with aggregate par value of $16,222,000) and the remainder of $33,089,000 credited to other capital and retained earnings.

NOTE 3. To reduce carrying value of properties of D&H by $51,498,000. See paragraph 2 on page A-18. The offsetting charge was applied to reduce other capital and retained earnings.

NOTE 4. To eliminate capital stock of D&H. The capital stock of D&H amounting to $52,961,000 was eliminated. The offsetting credits were as follows: $18,186,000 to cash and temporary investments for "excess working capital" retained by old D&H; $1,000,000 to non-current debt for the note payable to old D&H; $10,316,000 to N&W common stock for the par value of N&W shares issued; $23,459,000 to other capital and retained earnings for the remainder.

NOTE 5. To reflect cumulative reduction of income taxes payable from use of accelerated depreciation, etc. See paragraph 2(a) on page A-19.

NOTE 6. To reduce the carrying value of properties of B&M and to reflect exchange of B&M common stock for Dereco preferred stock. See paragraph 1 on page A-19. The excess of the $76,252,000 reduction in carrying value of properties of B&M plus $2,579,000 par value of N&W common stock issuable upon conversion of Dereco preferred stock over the $11,567,000 par value of B&M capital stock was charged to other capital and retained earnings in the amount of $67,264,000.

PRO FORMA COMBINED STATEMENTS OF INCOME — 1967

The pro forma statements of income have been prepared by combining the 1967 appropriate statements of income for the various companies which are included elsewhere herein and are unaudited except for B&M and by making the following pro forma adjustments:

1. Amortization over a 40 year period of the difference between historical cost and market value of net assets acquired by Dereco as a reduction in depreciation expense follows:

	Difference	Annual Amortization
EL	$194,440,000	$4,860,000
D&H	51,498,000	1,287,000
B&M	76,252,000	1,916,000

2. Additional income taxes on the above annual amortization resulting from reduced depreciation expense for D&H assets acquired in a taxable transaction with a corresponding reduction in tax basis (see pages A-18 and A-19) (assumes income tax rate of 48%, $618,000). No accrual for income taxes is assumed to be required for the increase in income relating to annual amortization of EL and B&M. It is assumed that this amortization does not effect taxable income (see A-19) and therefore a tax accrual of $3,252,000 (48% of $6,776,000) is not required.

3. The effect of offsetting the 1967 losses reported by EL and B&M against N&W taxable income (assuming income tax rate of 48% and assuming no significant permanent differences between book and taxable income):

	Tax effect	
	Income before extraordinary items	Extraordinary items
EL	$4,207,000	$680,000
B&M	1,999,000	56,000

4. Elimination of return on investment of "excess working capital" of $18,186,000 retained by old D&H (assuming rate of return of 6%) and inclusion of interest expense on $1,000,000, 6% note payable to old D&H, aggregating $1,151,000 offset by $553,000 tax effect thereof at 48%.

5. The proposed merger of the N&W and C&O has been reflected as a pooling of interests.

6. Provision for deferred income taxes resulting from deductions for amortization and depreciation of properties for tax purposes in excess of amounts recorded on the books: N&W $18,090,000; C&O $11,000,000. See page A-16 and N&W — Note C and C&O — Note 2 to 1967 financial statements.

Pro Forma Combined Statement of Income (In thousands)

	Present N&W System			Pro forma adjustments	
	N&W	EL	D&H	For consummated transactions	Provision for deferred income taxes
Operating revenues	$594,178	$223,842	$42,727		
Operating expenses	416,138	187,893	34,531	$(6,147)(1)	
Net revenue from operations	178,040	35,949	8,196	6,147	
Tax accruals					
Federal income taxes	576	94	293	(4,142)(2)	$18,090(5)
Other taxes	44,901	18,077	4,898		
Net rent expense	27,793	17,986	(176)		
	73,270	36,157	5,015(4)	(4,142)	18,090
Net railway operating income (loss)	104,770	(208)	3,181	10,289	(18,090)
Non-operating income, net	11,455	3,113	849	(1,151)(3)	
Fixed charges and contingent interest	(43,618)	(11,670)	(1,711)		
Income (loss) before extraordinary items	72,607	(8,765)	2,319	9,138	(18,090)
Extraordinary items, net	—	(1,417)	257	680(4)	
Net income (loss)	$ 72,607	$(10,182)	$ 2,576	$ 9,818	$(18,090)
Number of shares of N&W common stock (including shares to be issued on conversion of Dereco preferred) (in thousands)	9,062			1,062	
Number of shares of B&M common stock assuming conversion of all preferred shares (in thousands)					
Pro forma net income per share of N&W stock					
Net income (loss) per share of B&M common stock assuming conversion of all preferred shares at beginning of period					

Pro forma combined	B&M	Pro forma adjustments for proposed transaction	Pro forma combined	C&O	Pro forma adjustments: For proposed transaction	Pro forma adjustments: Provision for deferred income taxes	Pro forma combined
$860,747	$64,394		$925,141	$831,952			$1,757,093
632,415	52,953	$(1,916)(6)	683,452	658,489			1,341,941
228,332	11,441	1,916	241,689	173,463			415,152
14,911	—	(1,999)(6)	12,912	780		$ 11,000(5)	24,692
67,876	4,983		72,859	63,320			136,179
45,603	6,241		51,844	40,543			92,387
128,390	11,224	(1,999)	137,615	104,643		11,000	253,258
99,942	217	3,915	104,074	68,820		(11,000)	161,894
14,266	483		14,749	29,242			43,991
(56,999)	(4,865)		(61,864)	(45,759)			(107,623)
57,209	(4,165)	3,915	56,959	52,303		(11,000)	98,262
(480)	(117)	56(6)	(541)				(541)
$ 56,729	$(4,282)	$ 3,971	$ 56,418	$ 52,303		$(11,000)	97,721
10,124		103	10,227		6,299		16,526
	1,031						
$5.60			$5.52				$5.91
	($4.15)		$ .55				$ .59

NOTES TO PRO FORMA COMBINED STATEMENT OF INCOME

Adjustments were made to the statements of income as follows:

NOTE 1. To amortize the difference between historical cost and market value of net assets acquired by Dereco: EL — $4,860,000, D&H — $1,287,000. See paragraph 1 on page A-23.

NOTE 2. To reduce income taxes by $4,207,000 resulting from offsetting the 1967 loss of EL against N&W taxable income (see paragraph 3 on page A-23) plus reduction of income taxes of $553,000 from elimination of return on investment of "excess working capital" retained by old D&H (see paragraph 4 on page A-23) less increased income taxes of $618,000 resulting from reduced depreciation expense for D&H assets acquired (see paragraph 2 on page A-23).

NOTE 3. To eliminate return on investment of "excess working capital" retained by old D&H (see paragraph 4 on page A-23).

NOTE 4. To reduce income taxes applicable to extraordinary items by $680,000 resulting from offsetting loss of EL against N&W taxable income.

NOTE 5. To reflect provision for deferred income taxes. See paragraph 6 on page A-23.

NOTE 6. To reflect adjustments relating to B&M similar to adjustments (1), (2) and (4) above. See paragraphs 1 and 3 on page A-23.

INTERIM STATEMENTS OF INCOME

The following information has been obtained primarily from quarterly reports of revenues and expenses furnished by railroads to the Interstate Commerce Commission in the format prescribed by that Commission. Reference is made to information included elsewhere herein for details of various transactions or proposed transactions affecting these various railroads.

	B&M (1)		N&W (2)		EL (3)		
	9 Months		9 Months		9 Months	3 Months	6 Months
	9/30/67	9/30/68	9/30/67	9/30/68	9/30/67	3/31/68	9/30/68
OPERATING REVENUES:							
Freight	$38,745,021	$42,382,829	$419,629,424	$456,291,001	$140,983,588	$50,403,595	$107,666,638
Passenger	3,137,337	3,419,810	2,861,318	1,992,030	7,422,421	2,620,794	5,299,110
Mail	85,748	16,043	4,684,549	2,664,752	4,368,685	1,310,054	1,526,266
Express	37,672	13,683	609,603	185,677	892,832	292,196	709,387
All other operating revenues	4,306,416	4,158,263	14,996,113	16,458,566	10,449,599	3,307,607	7,550,682
Railway operating revenues	46,312,194	49,990,628	442,781,007	477,592,026	164,117,125	57,934,246	122,752,083
OPERATING EXPENSES:							
Maintenance of roadway and structures (total of four items below)	6,029,079	6,514,431	43,922,023	49,391,899	20,464,552	6,186,098	15,201,242
Depreciation—Road	1,216,371	1,232,760	6,681,105	6,812,238	3,095,784	1,004,226	1,446,064
Retirements—Road	4,152	73,862	258,302	167,522	355,000	103,990	171,654
Equalization—Road	38,764	(44,673)	—	42,799	—	—	—
All other maintenance of way and structures accounts	4,769,792	5,252,482	36,982,616	42,369,340	17,013,768	5,077,882	13,583,524
Maintenance of equipment (total of four items below)	6,976,969	7,886,959	70,750,264	76,104,584	29,237,910	11,217,288	18,879,853
Depreciation—Equipment	1,903,236	1.909,909	31,075,152	33,791,558	7,390,417	2,489,668	3,684,912
Retirements—Equipment	(300)	(2,529)	(1,260,816)	(1,550,939)	(24,978)	(32,664)	(19,809)
Equalization—Equipment	—	—	34,646	—	—	—	—
All other maintenance of equipment accounts	5,074,033	5,979,579	40,901,282	43,863,965	21,872,471	8,760,284	15,214,750
Traffic	1,035,057	1,055,509	9,656,357	9,823,723	3,884,457	1,273,582	2,648,243
Transportation—Rail line	21,385,718	23,112,470	164,189,787	174,157,799	77,075,415	28,717,409	54,583,306
Miscellaneous operations	19	—	537,946	426,487	386,381	114,460	259,156
General	2,267,642	2,703,205	20,536,037	22,010,498	8,284,239	2,806,085	5,063,560
Railway operating expenses	37,694,484	41,272,574	309,592,414	331,914,990	139,332,954	50,314,922	96,635,360
Net revenue from railway operations	8,617,710	8,718,054	133,188,593	145,677,036	24,784,171	7,619,324	26,116,723
Railway tax accruals (total of three items below)	3,674,888	3,796,082	35,216,359	44,577,600	13,425,727	5,067,255	9,532,859
Payroll taxes (Old-age retirement and unemployment insurance)	2,200,953	2,458,593	17,862,640	19,523,005	8,564,119	3,071,842	6,250,859
Federal income taxes	108,000	118,956	1,772,000	7,881,000	—	—	—
All other taxes	1,365,935	1,218,533	15,581,719	17,173,595	4,861,608	1,995,413	3,282,000
Railway operating income (loss)	4,942,822	4,921,972	97,972,234	101,099,436	11,358,444	2,552,069	16,583,864
Equipment rents income (expense)	(4,282,701)	(5,189,563)	(18,318,579)	(19,934,570)	(12,887,898)	(5,604,819)	(10,515,950)
Joint facility rent income (expense)	(298,618)	(326,009)	(1,188,399)	(1,294,772)	(122,880)	(31,642)	(153,962)
Net railway operating income (loss)	361,503	(593,600)	78,465,256	79,870,094	(1,652,334)	(3,084,392)	5,913,952
Other income	828,006	807,059	10,629,303	13,509,794	3,900,255	1,036,035	2,019,956
Total income (loss)	1,189,509	213,459	89,094,559	93,379,888	2,247,921	(2,048,357)	7,933,908
Miscellaneous deductions from income	412,483	422,458	2,092,424	3,185,055	1,281,649	792,799	460,752
Income (loss) available for fixed charges	777,026	(208,999)	87,002,135	90,194,833	966,272	(2,841,156)	7,473,156
Fixed charges:							
Rent for leased roads and equipment	337,940	337,940	11,370,125	10,589,114	149,230	38,540	109,569
Interest deductions	2,623,665	2,498,195	19,192,265	22,046,143	8,488,023	2,943,712	5,913,352
Amortization of discount on funded debt	151,870	56,508	276,468	276,728	50,985	11,356	193
Total fixed charges	3,113,475	2,892,643	30,838,858	32,911,985	8,688,238	2,993,608	6,023,114
Income (loss) after fixed charges	(2,336,449)	(3,101,642)	56,163,277	57,282,848	(7,721,966)	(5,834,764)	1,450,042
Other deductions	564,795	564,795	2,190,878	2,174,452	—	—	—
Ordinary income (loss)	(2,901,244)	(3,666,437)	53,972,399	55,108,396	(7,721,966)	(5,834,764)	1,450,042
Extraordinary items—Net	—	—	—	—	—	—	—
Prior period items—Net	—	1,038,755	—	—	—	—	—
Federal income taxes on extraordinary and prior period items	—	—	—	—	—	—	—
Total extraordinary and prior period items	—	1,038,755	—	—	—	—	—
Net income (loss)	$(2,901,244)	$(2,627,682)	$ 53,972,399	$ 55,108,396	$ (7,721,966)	$(5,834,764)	$ 1,450,042
Dividends on common stock	—	—	$ 41,380,568	$ 41,041,023	—	—	—

D&H (4)			C&O (5)				B&O (6)			
9 Months	6 Months	3 Months	9 Months		3 Months		9 Months		3 Months	
9/30/67	6/30/68	9/30/68	9/30/67	9/30/68	9/30/67	9/30/68	9/30/67	9/30/68	9/30/67	9/30/68
$29,411,003	$20,292,859	$9,499,017	$275,477,125	$281,418,080	$90,543,446	$ 95,141,287	$282,327,429	$311,204,866	$91,519,083	$105,088,283
982,585	305,150	235,307	3,437,908	2,476,519	1,201,222	792,553	5,506,582	3,531,973	2,131,731	1,394,407
144,341	102,074	41,192	2,616,962	1,772,951	829,103	389,351	6,164,651	4,666,037	1,842,907	1,489,153
811	—	—	325,069	123,249	104,636	5,552	643,734	356,282	243,504	(30,605)
726,799	380,435	204,205	13,994,683	12,915,933	5,248,345	5,569,687	10,858,429	12,712,891	3,370,643	5,208,574
31,265,539	21,080,518	9,979,721	295,851,747	298,706,732	97,926,752	101,898,430	305,500,825	332,472,049	99,107,868	113,149,812
3,771,022	2,917,580	1,805,544	31,700,048	33,400,000	10,600,076	11,299,806	35,397,689	41,399,683	12,000,000	14,899,683
537,107	361,309	107,241	4,372,490	4,485,516	1,411,210	1,503,861	4,697,242	4,691,089	1,428,887	1,574,260
20,745	69,782	(827)	26,022	(61,675)	13,355	(120,233)	207,404	(73,365)	83,687	64,114
10,050	—	—	(289,817)	575,509	(183,430)	(47,845)	(1,106,728)	(333,584)	(772,881)	(389,740)
3,203,120	2,486,489	1,699,130	27,591,353	28,400,650	9,358,941	9,964,023	31,599,771	37,115,543	11,260,307	13,651,049
7,060,469	4,470,560	1,916,465	56,197,773	57,999,428	17,832,815	18,641,786	48,679,217	50,433,611	15,462,882	17,003,773
1,876,663	1,249,759	321,372	19,128,490	19,926,415	6,290,807	6,511,702	7,982,563	8,184,000	2,693,066	2,792,310
(31,054)	(52,224)	—	(304,090)	(448,694)	(56,995)	(134,667)	(329,794)	(339,113)	(110,816)	(92,952)
—	—	—	—	—	—	—	—	—	—	—
5,214,860	3,273,025	1,595,093	37,373,373	38,521,707	11,599,003	12,264,751	41,026,448	42,588,724	12,880,632	14,304,415
1,049,842	698,981	345,611	7,700,099	7,955,027	2,475,706	2,871,688	7,770,963	8,433,785	2,496,674	2,934,766
11,284,794	7,856,620	3,962,974	117,828,294	120,671,670	38,506,301	41,412,207	121,316,607	128,831,072	40,164,036	44,218,582
56,589	98,664	55,215	810,455	629,444	330,990	262,722	843,690	584,955	192,721	196,692
1,988,842	1,354,335	685,601	17,380,077	16,071,543	5,564,975	5,275,380	18,133,860	18,258,690	5,924,605	6,269,517
25,211,558	17,396,740	8,771,410	231,616,746	236,727,112	75,310,863	79,763,589	232,142,026	247,941,796	76,240,918	85,523,013
6,053,981	3,683,778	1,208,311	64,235,001	61,979,620	22,615,889	22,134,841	73,358,799	84,530,253	22,866,950	27,626,799
3,546,412	2,596,011	1,298,088	27,879,772	29,655,573	9,327,104	10,083,989	21,941,900	23,152,897	7,326,292	7,916,068
1,496,940	1,065,623	559,858	14,423,052	15,787,026	4,932,648	5,100,586	13,598,841	15,049,971	4,580,745	5,514,600
—	—	—	3,496,000	3,332,000	1,089,000	1,144,000	147,720	133,000	46,964	45,000
2,049,472	1,530,388	738,230	9,960,720	10,536,547	3,305,456	3,839,403	8,195,339	7,969,926	2,698,583	2,356,468
2,507,569	1,087,767	(89,777)	36,355,229	32,324,047	13,288,785	12,050,852	51,416,899	61,377,356	15,540,658	19,710,731
126,762	299,203	112,135	(1,706,076)	2,917,466	(2,139,969)	(259,567)	(38,283,725)	(42,026,031)	(13,372,608)	(13,359,507)
(66,319)	(24,827)	(17,409)	(1,993,633)	(2,341,779)	(774,158)	(696,277)	(2,347,068)	(2,412,545)	(801,915)	(846,980)
2,568,012	1,362,143	4,949	32,655,520	32,899,734	10,374,658	11,095,008	10,786,106	16,938,780	1,366,135	5,504,244
669,670	715,527	246,188	12,102,853	10,050,233	3,783,014	2,103,389	12,101,105	9,276,775	3,296,124	3,958,859
3,237,682	2,077,670	251,137	44,758,373	42,949,967	14,157,672	13,198,397	22,887,211	26,215,555	4,662,259	9,463,103
229,185	264,192	11,714	1,531,360	795,809	473,361	(163,137)	1,906,756	838,637	94,639	(479,540)
3,008,497	1,813,478	239,423	43,227,013	42,154,158	13,684,311	13,361,534	20,980,455	25,376,918	4,567,620	9,942,643
51,683	34,255	17,428	104,894	67,924	34,727	25,071	878,496	1,173,866	290,380	394,901
1,192,159	932,897	522,572	15,914,234	16,752,183	5,231,125	5,422,896	11,518,622	12,510,643	3,846,926	4,346,854
25,822	18,673	9,419	66,337	90,297	29,169	24,350	160,165	154,367	53,675	54,885
1,269,664	985,825	549,419	16,085,465	16,910,404	5,295,021	5,472,317	12,557,283	13,838,876	4,190,981	4,796,640
1,738,833	827,653	(309,996)	27,141,548	25,243,754	8,389,290	7,889,217	8,423,172	11,538,042	376,639	5,146,003
—	—	—	—	—	—	—	743,040	565,717	247,680	188,572
1,738,833	827,653	(309,996)	27,141,548	25,243,754	8,389,290	7,889,217	7,680,132	10,972,325	128,959	4,957,431
—	370,419	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—
—	370,419	—	—	—	—	—	—	—	—	—
$ 1,738,833	$ 1,198,072	$ (309,996)	$ 27,141,548	$ 25,243,754	$ 8,389,290	$ 7,889,217	$ 7,680,132	$ 10,972,325	$ 128,959	$ 4,957,431
$ 1,547,220	—	—	$ 26,019,677	$ 26,060,245	$ 8,642,595	$ 8,684,497	—	—	—	—

NOTES TO INTERIM STATEMENTS OF INCOME

1. The financial statements of the B&M included elsewhere herein have been prepared on a consolidated basis and in accordance with generally accepted accounting principles (see Note 1 to the B&M financial statements). The principal effect of this accounting on the net loss for the nine months reflected above relates to losses of $220,000 on recurring disposals of major depreciable properties originally charged to reserves for depreciation. In addition, the consolidated B&M financial statements presented elsewhere herein include provision for loss on seizure by eminent domain of land and freight facilities amounting to $350,000 which has not yet been reflected in the accounts or reports filed with the ICC.

2. The information provided herein is for the parent company only. See notes to financial statements at September 30, 1968 presented elsewhere herein.

3. As described elsewhere herein, the EL was acquired by Dereco on April 1, 1968 in a transaction accounted for as a purchase which resulted in the tentative adjustments described on page A-18. Separate statements have been included for the three months ended March 31, 1968 and the six months ended September 30, 1968, because of the change in ownership on April 1, 1968 and the effect of accounting for the transaction as a purchase. See notes to financial statements at September 30, 1968 presented elsewhere herein.

4. As described elsewhere herein, Dereco acquired certain assets of D&H on July 1, 1968 in a transaction accounted for as a purchase which resulted in the tentative adjustments described on page A-18. Separate statements have been included for the six months ended June 30, 1968 and the three months ended September 30, 1968, because of the change in ownership on July 1, 1968 and the effect of accounting for the transaction as a purchase.

5. The information provided herein is for the parent company only.

6. The information provided herein is for the parent company only.

7. The following consolidated statement of income of Dereco, Inc. for the six months ended September 30, 1968 reflects the results for EL from April 1, 1968, and D&H from July 1, 1968, the dates of acquisition by Dereco. The figures included for D&H reflect a loss of $309,996 and are tentative pending decision of the Interstate Commerce Commission in certain accounting matters.

Railway operating revenues	$132,731,000
Railway operating expenses	105,406,000
Net revenue from railway operations	27,325,000
Railway tax accruals	10,831,000
Railway operating income	16,494,000
Equipment and joint facility rents — net	(10,575,000)
Net railway operating income	5,919,000
Other income items — net	1,761,000
Income available for fixed charges	7,680,000
Fixed charges	6,572,000
Net income	$ 1,108,000

For the nine months ended December 31, 1968, Dereco reported preliminary operating revenues of $205,600,000 and net income of $5,300,000.

8. The consolidated results of operations of the C&O, based upon information furnished by the company, (including the B&O after eliminating the minority interest thereof and including the equity in the net income of the Western Maryland Railway Company, which results in a basis of accounting consistent with that used in the consolidated C&O financial statements presented elsewhere herein) is summarized as follows:

	Year ended December 31		Periods ended September 30			
			9 Months		3 Months	
	1967	1968	1967	1968	1967	1968
Operating revenues (in millions)	$809.0	$842.0	$601.4	$631.2	$197.0	$215.0
Net income (in millions)	$ 52.3	$ 55.2	$ 34.8	$ 36.2	$ 8.7	$ 12.8
Net income per C&O common share	$ 6.02	$ 6.35	$ 4.01	$ 4.17	$ 1.00	$ 1.47

INDEX TO FINANCIAL STATEMENTS

BOSTON AND MAINE INDUSTRIES, INC.
BALANCE SHEET
DECEMBER 31, 1968

ASSETS

CURRENT ASSETS:	
Cash	$286,100
Common stock subscriptions receivable	142
	286,242
Deferred estimated organization expense	100,000
	$386,242

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accrued estimated organization expense	$ 86,100
STOCKHOLDERS' EQUITY:	
$5 Convertible Class A Preference Stock, no par value:	
Authorized 125,000 shares	
Issued and outstanding — None	—
Class B Preference Stock, no par value:	
Authorized — 1,000,000 shares	
Issued and outstanding — None	—
Common Stock, $1 par value (Note):	
Authorized — 8,000,000 shares	
Issued and outstanding — 20,006 shares	20,006
Additional capital	280,136
	300,142
	$386,242

NOTE — As described on pages 7 and 8 of this prospectus, the company was organized May 31, 1968 to exchange 1.05 shares each of its $5 Convertible Class A Preference Stock and common stock, respectively, for each outstanding share of preferred and common stock of Boston and Maine Corporation. As set forth on page 6, under the agreement whereby the company issued 20,000 shares of its common stock for $300,000, if the exchange offer covered by this prospectus is terminated without having become effective then the company is obligated to repurchase the amount of common stock equivalent to the funds not required to defray the costs of organizing the company, this registration statement and the exchange offer. Reference is made to "Description of Capital Stock of Industries" contained elsewhere in the Prospectus.

OPINION OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of

BOSTON AND MAINE INDUSTRIES, INC.

In our opinion, the accompanying balance sheet presents fairly the financial position of Boston and Maine Industries, Inc. at December 31, 1968 in conformity with generally accepted accounting principles. Our examination of this balance sheet was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

Boston, Massachusetts
January 27, 1969

PRO FORMA COMBINED BALANCE SHEET — BOSTON AND MAINE INDUSTRIES, INC. AND BOSTON AND MAINE CORPORATION

The following pro forma combined balance sheet assumes the exchange of all common and preferred shares of Corporation for shares of Industries accounted for as a pooling of interests. See page 9 for Capitalization of Industries and Corporation.

	Boston and Maine Industries, Inc. December 31, 1968	Boston and Maine Corporation November 30, 1968 (Unaudited)	Pro forma combined (Unaudited)
ASSETS (Thousands of dollars)			
Cash	$286	$ 2,664	$ 2,950
Other current assets		10,527	10,527
Properties, less accumulated depreciation		184,253	184,253
Investments and other assets	100	9,051	9,151
	$386	$206,495	$206,881
LIABILITIES AND STOCKHOLDERS' EQUITY (Thousands of dollars)			
Current liabilities excluding long-term debt due within one year	$ 86	$ 20,877	$ 20,963
Long-term debt due within one year		2,869	2,869
Long-term debt		71,970	71,970
Other liabilities and deferred credits		25,966	25,966
	86	121,682	121,768
Stockholders' equity:			
Capital stock and additional capital	300	109,096	109,396
Accumulated deficit		(24,283)	(24,283)
	300	84,813	85,113
	$386	$206,495	$206,881

BOSTON AND MAINE CORPORATION
AND CONSOLIDATED SUBSIDIARIES

BALANCE SHEET

ASSETS

	December 31, 1967	November 30, 1968 (unaudited)
CURRENT ASSETS:		
Cash	$ 3,086,000	$ 2,664,000
Marketable securities, at cost (approximate market)	231,000	552,000
Special deposits	138,000	187,000
Accounts and notes receivable	6,014,000	6,371,000
Inventories of materials and supplies, at cost or less	2,799,000	2,794,000
Prepayments and other current assets	429,000	623,000
Total current assets	12,697,000	13,191,000
PROPERTIES (Notes 3, 9 and 10):		
Roadway and structures, including improvements to leased properties — $13,888,000 in 1967, $14,060,000 in 1968	175,303,000	174,043,000
Equipment	65,888,000	66,077,000
	241,191,000	240,120,000
Less:		
Depreciation of roadway and structures	(23,587,000)	(24,898,000)
Depreciation of equipment	(32,235,000)	(34,376,000)
	185,369,000	180,846,000
Miscellaneous physical properties, less depreciation — $302,000 in 1967, $260,000 in 1968	3,381,000	3,407,000
	188,750,000	184,253,000
INVESTMENTS AND OTHER ASSETS:		
Investments in leased lines (Notes 9 and 12)	3,620,000	3,643,000
Other investments (Note 9)	1,502,000	1,510,000
Deposits with trustees for first mortgage bonds and equipment obligations	1,843,000	1,753,000
Other assets and deferred charges	2,847,000	2,145,000
	9,812,000	9,051,000
	$211,259,000	$206,495,000

See notes to financial statements.

BOSTON AND MAINE CORPORATION
AND CONSOLIDATED SUBSIDIARIES

BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1967	November 30, 1968 (unaudited)
CURRENT LIABILITIES:		
Accounts payable	$ 9,940,000	$ 12,302,000
Accrued vacation pay	2,047,000	2,122,000
Accrued interest	1,375,000	1,206,000
State and local taxes	3,520,000	3,814,000
Estimated current portion of injury and damage claims	1,327,000	1,433,000
Total current liabilities (excluding long-term debt due within one year)	18,209,000	20,877,000
LONG-TERM DEBT DUE WITHIN ONE YEAR (Note 9)	3,590,000	2,869,000
LONG-TERM DEBT (Note 9):		
First mortgage bonds	46,339,000	46,335,000
Income mortgage bonds	18,703,000	18,703,000
Equipment and other obligations	9,356,000	6,932,000
	74,398,000	71,970,000
OTHER LIABILITIES AND DEFERRED CREDITS:		
Provision for disputed per diem charges (Note 6)	11,134,000	10,534,000
Provision for injury and damage claims	993,000	1,132,000
Accrued depreciation on leased property and improvements thereto	2,560,000	2,580,000
Liabilities to leased lines	1,700,000	1,718,000
Unearned interest accrued on income mortgage bonds	7,481,000	8,166,000
Other	2,559,000	1,836,000
	26,427,000	25,966,000
STOCKHOLDERS' EQUITY (Notes 3, 4 and 6):		
Capital stock (Notes 7 and 8):		
5% Preferred stock, $100 par value:		
Authorized and issued — 107,235 shares in 1967, 92,348 shares in 1968	10,723,000	9,235,000
Common stock, $1 par value:		
Authorized — 4,000,000 shares		
Issued — 843,828 shares in 1967, 869,910 shares in 1968	844,000	870,000
Additional capital (Notes 7 and 8)	97,529,000	98,991,000
Accumulated deficit (Note 9)	(20,461,000)	(24,283,000)
	88,635,000	84,813,000
Contingent obligations and commitments (Note 12)		
	$211,259,000	$206,495,000

See notes to financial statements.

BOSTON AND MAINE CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF ADDITIONAL CAPITAL

	Year ended December 31, 1965	1966	1967	Eleven months ended November 30, 1968 (unaudited)
Balance at beginning of period.	$84,376,000	$90,311,000	$93,033,000	$97,529,000
Excess of par value of preferred stock over par value of common stock upon conversion of preferred into common stock (a) (Note 7)	5,857,000	2,600,000	4,495,000	1,462,000
Excess of amount received over par value of common stock issued upon exercise of stock options (Note 8)	78,000	122,000	1,000	—
Balance at end of period......	$90,311,000	$93,033,000	$97,529,000	$98,991,000

(a) During 1965, 1966, 1967 and the eleven months ended November 30, 1968, respectively, there were conversions of 59,613 shares, 26,471 shares, 45,752 shares and 14,887 (unaudited) shares of preferred stock into 104,323 shares, 46,324 shares, 80,066 shares and 26,052 (unaudited) shares of common stock.

See notes to financial statements.

BOSTON AND MAINE CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — *Presentation of Statement of Operations and Principles of Accounting:*

Except for the matter described in Note 3, the financial statements included herein are prepared in accordance with generally accepted accounting principles and, as to the parent company and its transportation subsidiaries, follow accounting practices and procedures prescribed by the Interstate Commerce Commission. The company has restated its statement of operations for the years 1963 to 1965 in accordance with the accounting treatment promulgated in Opinion Number 9 of the Accounting Principles Board of the American Institute of Certified Public Accountants and for the years 1963 to 1967 to reflect adjustments deemed appropriate to present the statement of operations in accordance with generally accepted accounting principles, as follows:

	Year ended December 31, 1963	1964	1965	1966	1967	Eleven Months Ended Nov. 30, 1967 (unaudited)	Nov. 30, 1968 (unaudited)
Loss before extraordinary items, before restatement (a)	($2,863,000)	($5,258,000)	($ 595,000)	($1,592,000)	($3,865,000)	($3,650,000)	($4,608,000)
Add (deduct) retroactive adjustments:							
Net gain on recurring disposals of land originally credited to retained earnings	258,000	281,000	114,000	—	—	—	—
Refund of federal income taxes on leased line	—	(128,000)(b)	—	—	—	—	—
Merger proceeding expenses	—	—	59,000(c)	—	—	—	—
Legal fees related to per diem settlements	—	—	49,000(d)	—	—	—	—
Losses on track retirements originally charged to retained earnings (Note 3)	(364,000)	(201,000)	(334,000)	—	—	—	—
Losses on track retirements originally charged to "other elements of investment" (Note 3)	—	(307,000)	(332,000)	—	—	—	—
Losses on recurring disposals of major depreciable properties originally charged to reserves for depreciation (Note 3)	(675,000)	(583,000)	(550,000)	(300,000)	(300,000)	(250,000)	(250,000)
Other	—	54,000	—	—	—	—	—
Loss before extraordinary items, after restatement	($3,644,000)	($6,142,000)	($1,589,000)	($1,892,000)	($4,165,000)	($3,900,000)	($4,858,000)
Extraordinary items originally reported:							
Net gain on disposal of Yard 9 land in 1966 and Yard 8 land in 1967	—	—	—	$ 493,000	$ 283,000	$ 283,000	—
Net loss on seizure by eminent domain of land and freight facilities	—	—	—	—	—	—	($ 350,000)
Merger proceeding expenses (Note 4)	—	—	—	(478,000)	(168,000)	(89,000)	(98,000)
Settlement of disputed per diem charges, less related legal fees	—	—	—	575,000	418,000	418,000	1,484,000
Mystic Terminal lease settlement	—	—	—	(700,000)	—	—	—
Total	—	—	—	(110,000)	533,000	612,000	1,036,000
Add (deduct) retroactive adjustments:							
Net gain on disposal of North Station land in 1965	—	—	$1,495,000	—	—	—	—
Losses on extraordinary disposals of depreciable properties originally charged to reserves for depreciation (Note 3)	—	—	(2,455,000)	(1,490,000)	(650,000)	(650,000)	—
Merger proceeding expenses	—	—	(59,000)(c)	—	—	—	—
Settlement of disputed per diem charges	—	—	565,000	—	—	—	—
Legal fees related to per diem settlements	—	—	(49,000)(d)	—	—	—	—
Abatement of property taxes and related interest	—	—	679,000	—	—	—	—
Gain on sale of North Station Industrial Building, Inc.'s properties	$1,383,000	—	—	—	—	—	—
Refund of federal income taxes of leased line (Note 12)	—	$ 128,000(b)	—	—	—	—	—
Extraordinary items, after restatement	$1,383,000	$ 128,000	$ 176,000	($1,600,000)	($ 117,000)	($ 38,000)	$1,036,000

(a) Originally described as "net loss" for 1965 and prior years.

BOSTON AND MAINE CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS — (Continued)

In addition, the accumulated deficit and the reserves for depreciation at January 1, 1963 were increased by removing from the reserves for depreciation net losses aggregating $2,521,000 on prior dispositions of equipment and net losses from 1955 to 1962, inclusive, aggregating an estimated $9,600,000 for major retirements of depreciable roadway and structures. In addition, a property reserve account entitled "other elements of investment" amounting to $3,010,000 was reclassified from the roadway and structures accounts to the reserve for depreciation of roadway and structures. This property reserve account arose as the result of the company's adjusting the detailed ledger balances of roadway and structures to the basis carried in its valuation department cost records in accordance with ICC uniform instructions to all railroads.

The company originally reported to its shareholders the results of operations for 1963 on a parent company only basis. The accounts of the company's wholly-owned subsidiaries have been consolidated in the accompanying statement of operations in order to present 1963 on a basis comparable with that used in reporting the results of operations for 1964 and subsequent periods. This change results in a $9,000 reduction in the 1963 net loss and a $222,000 increase in income included in extraordinary items in the restatement described above. This extraordinary item results from the sale of assets of a subsidiary originally credited to retained earnings (accumulated deficit) in 1963.

NOTE 2 — *Principles of Consolidation:*

The accompanying financial statements include the accounts of Boston and Maine Corporation and those of its wholly-owned subsidiary companies. The company's investments in the capital stock of subsidiaries included in the consolidated accounts at December 31, 1967 and November 30, 1968 exceeded the net assets of such subsidiaries by $666,000 and $614,000 (unaudited) respectively, which have been reflected in the consolidation by charging (crediting) the following classifications:

	December 31, 1967	November 30, 1968 (unaudited)
Accumulated deficit, net losses of subsidiaries since acquisition not reflected in parent company's accounts	$726,000	$674,000
Other assets, excess of cost of investment in subsidiary over net assets at date of acquisition	72,000	72,000
Additional capital, preferred stock of subsidiary paid-in prior to acquisition of subsidiary	(132,000)	(132,000)
	$666,000	$614,000

The company's investments in unconsolidated leased line companies which are less than wholly-owned are summarized in Note 12.

NOTE 3 — *Properties:*

Amounts reflected for properties largely represent the aggregate of acquisitions and additions (by merger, purchase, construction or otherwise), less retirements, recorded under the system of accounting prescribed by the Interstate Commerce Commission, adjusted as described in the following paragraph.

In accordance with such ICC accounting requirements, the company commenced providing straight-line depreciation on roadway and structures, other than rail, ties, ballast and other track materials, on January 1, 1943. Equipment has been systematically depreciated on a straight-line basis since its acquisition. Following these accounting practices, the recorded cost, less salvage, of depreciable properties retired or sold is charged to the depreciation reserves. In recent years the company has experienced a change in the nature of its operations which resulted, among other things, in the elimination of passenger service, other than that operated under contractual arrangement (see Note 10). The resulting retirements of major depreciable properties have generated losses which originally were charged to the reserves for depreciation. Under generally accepted accounting principles these losses would have been charged to operations either as losses on recurring disposals or as extraordinary items. These factors make it impracticable to reconstruct the accumulated depreciation accounts and no reasonable estimate can be made of the deficiency in the accumulated reserves for roadway and structures. As described in Note 1, the accompanying statement of operations and accumulated deficit for the five years ended December 31, 1967 has been restated to include these items as charges to operations or the accumulated deficit for net losses on certain dispositions of equipment and roadway and structures. These charges for losses aggregating $19,763,000 at December 31, 1967 and $20,013,000 (unaudited) at November 30, 1968 have not been recorded in the books of the company. This treatment is permitted by the Interstate Commerce Commission for purposes of reporting to shareholders and others.

Approximate depreciation rates in use are as follows:

	%
Road property, other than grading and tunnels	1.0-3.2
Grading and tunnels	.15
Locomotives	3.88-4.90
Railroad freight cars	2.87
Railroad passenger cars	3.29
Miscellaneous equipment and physical properties and improvements to leased property	.05-10.56

The depreciation rate for grading and tunnels is a composite rate which when applied to the aggregate amount of the asset results in a charge for depreciation approximating that which would result from depreciating grading associated with structures and other depreciable items over their estimated useful lives and from taking no depreciation on tunnel excavations and grading associated with non-depreciable track. The liability to the lessor for accrued depreciation of leased property not reflected in the financial statements is combined with the accrued depreciation of improvements to leased property reflected in the financial statements and shown as a liability because under the company's composite method of depreciation segregation of these amounts is not feasible.

Rails, ties, ballast and other track materials in the amount of approximately $41,300,000 and $41,500,000 (unaudited) at December 31, 1967 and November 30, 1968, respectively, reflect replacement accounting, which has been considered an acceptable alternative in the railroad industry to the more widespread practice of depreciation accounting. Under this method the costs of replacements in kind are charged to maintenance expense and only the costs of improvements and additions are capitalized. The amounts capitalized are not depreciated. Retirements of such properties, less salvage, are also charged to maintenance expense. Until 1966 retirements which were considered abnormal had been charged directly to retained earnings (accumulated deficit), except for losses on certain retirements in 1964 and 1965 which were charged to a property reserve account entitled "other elements of investment", and gains and losses on disposals of land were credited or charged to retained earnings (accumulated deficit). In 1966 and subsequent years, and retroactively for prior years as described in Note 1, such transactions are reflected in the company's consolidated statement of operations.

Net nonoperating income (expense) includes net gains (losses) from recurring disposals of land and major depreciable properties of ($417,000) in 1963, ($302,000) in 1964, ($436,000) in 1965, $85,000 in 1966, $15,000 in 1967, $103,000 (unaudited) in the eleven months ended November 30, 1967, and $95,000 (unaudited) in the eleven months ended November 30, 1968.

NOTE 4 — *Merger Proceedings:*

Reference is made to Appendix A of the prospectus for a description of various merger possibilities presently being considered.

NOTE 5 — *Federal Income Taxes*

At December 31, 1967, the companies had net operating loss carry-overs for federal income tax purposes of approximately $23,600,000 available to apply against taxable income in varying amounts through the year 1974. These loss carry-overs expire as follows:

December 31,	
1968	$ 7,100,000
1969	1,900,000
1970	300,000
1971	4,300,000
1972	4,200,000
1973	2,900,000
1974	2,900,000
	$23,600,000

Under existing law the period available to railroads to carry accumulated net operating losses forward is seven years assuming continued operations as a railroad. If there should be a change in business, as defined in the Internal Revenue Code, the period would be reduced to five years.

The more important differences in the timing of expenses recorded on the books and these deductions for tax purposes are summarized as follows:

1. Depreciation of roadway and structures is not deductible for tax purposes until disposition of an item of property.

2. Additions to the reserves for injury and damage claims are not deductible for tax purposes. These expenses are deductible when a claim is paid.

3. A substantial portion of the increase in the reserve for disputed per diem is not deductible for tax purposes.

NOTE 6 — *Disputed Per Diem Charges:*

The company is party to a dispute with other railroads over per diem rates for freight car rentals. For various reasons, including its situation as a so-called terminal line, the company incurs more rentals than it earns. Since August 1953, payment has been made to other railroads at rates which are less than the rates adopted by the Association of American Railroads. Except in those instances where settlement agreements have been concluded for lower rates, full provision has been made by charges to operations at AAR rates.

In January 1968, the Interstate Commerce Commission rendered a decision supporting in large part the Boston and Maine's position in the dispute. This decision, which is the subject of appeals, provides that per diem for the future will be settled on a time and mileage basis which will result in more favorable treatment to short-haul carriers such as the Boston and Maine than present AAR rates.

Management believes that the $10,534,000 (unaudited) provision at November 30, 1968 reflected in the accompanying balance sheet for open disputed per diem will eventually be settled at less than that amount.

In 1965, 1966 and 1967 and in the eleven months ended November 30, 1967 and 1968, the company settled disputed liabilities of $922,000, $1,027,000, $1,010,000, $1,010,000 (unaudited) and $1,877,000 (unaudited), respectively, with several other railroads which resulted in extraordinary credits, less related legal fees of $516,000, $575,000, $418,000, $418,000 (unaudited) and $1,484,000 (unaudited), respectively. Disputed amounts accrued and charged to operations, before credits for the above settlements, amounted to $1,059,000, $1,125,000, $1,197,000, $1,080,000 (unaudited) and $1,277,000 (unaudited) in those respective periods.

BOSTON AND MAINE CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS — (Continued)

NOTE 7 — *Capital Stock:*

The 5% preferred stock is redeemable at any time at $100 per share plus accumulated unpaid dividends and is convertible at the option of the holder into common stock at the rate of 1¾ shares of common stock for each share of preferred stock. Reference is made to the statement of additional capital for changes resulting from such conversions in the three years and the eleven months ended November 30, 1968.

Dividends on preferred stock, if not paid, are cumulative only if, and to the extent (not exceeding 5% per annum) that earnings, as defined, are available. On this basis there were no cumulative unpaid dividends at December 31, 1967. If earnings are sufficient, the company is required to set aside annually one half of one percent of the par value of the authorized preferred stock as a sinking fund for redemption of preferred stock, before dividends are paid on the common stock. There was no cumulative sinking fund obligation at December 31, 1967.

NOTE 8 — *Stock Options:*

The company has a stock option plan in effect under the terms of which options to purchase the company's common stock may be granted to key supervisory personnel at fair market value at the time of grant. Options granted prior to 1965 are exercisable and will remain exercisable until ten years after the date of grant. Those granted in 1965 become exercisable in instalments over a period between one and four years after the date of grant and remain exercisable during the fifth year after the date of the grant.

At November 30, 1968 (unaudited), the following options were outstanding:

Year granted	Number of shares	Option price: Range per share	Option price: Total
1961	15	$ 6.00	$ 90
1965	27,825	15.125-19.375	455,800

Under the present stock option plans, at November 30, 1968, further options for 13,540 shares could be granted at the fair market value at the time of the grant.

The number of shares with respect to which options became exercisable and were exercised during the three years and (unaudited) eleven months ended November 30, 1968 were as follows:

	Options becoming exercisable			Approximate fair market value at date becoming exercisable	
		Option price			
Period becoming exercisable	Number of shares	Range per share	Total	Range per share	Total
1965	2,520	$ 6.00 -$10.00	$ 19,100	$13.00 -$14.00	$ 34,300
1966	6,244	6.00 - 19.375	95,200	14.00 - 23.50	95,600
1967	5,565	15.125- 19.375	91,200	21.625- 25.875	135,500
1968 (11 months)	2,729	18.375- 19.375	50,600	24.00	65,500

	Options exercised			Approximate fair market value at date exercised	
		Option price			
Period exercised	Number of shares	Range per share	Total	Range per share	Total
1965	10,625	$ 6.00 -$10.375	$ 88,100	$11.75 -$18.125	$132,300
1966	12,837	6.00 - 16.00	134,500	16.375- 30.25	326,400
1967	83	6.00 - 10.375	700	14.75 - 22.50	1,700
1968 (11 months)	30	10.375	300	22.50 - 25.375	700

Options terminated or expired for 788 shares, 10,059 shares, 2,783 shares and 521 shares (unaudited), respectively, in the three years and the eleven months ended November 30, 1968. The par value of shares for which options are exercised is credited to the common stock account and any excess is credited to additional capital.

NOTE 9 — *Long-term Debt:*

The companies were obligated under bonds, notes and other evidence of indebtedness at December 31, 1967 and November 30, 1968 as follows:

	December 31, 1967		November 30, 1968 (unaudited)	
	Portion due		Portion due	
	Within one year	After one year (a)	Within one year	After one year (a)
First mortgage bonds, Series TT, 6% due July 1, 1970 (b)		$46,339,000		$46,335,000
Income mortgage bonds, Series A, 4½% (4% cumulative), due July 1, 1970 (c)		18,703,000		18,703,000
Equipment and other obligations:				
Equipment Trust Certificates, Series 1, 4½% to 6%, due March 1, 1971, secured by equipment with an aggregate original cost of $22,442,000 and by deposits of $426,000 with trustee as of December 31, 1967	$1,234,000(d)	3,701,000	$1,234,000	2,468,000
Guaranteed notes, 5%, due to October 15, 1977, secured by $1,752,600 principal amount of Series TT bonds, capital stock of leased lines, capital stock and notes of certain wholly-owned subsidiary companies and "other investments" carried at cost of $16,000	567,000	3,800,000(e)	567,000	3,484,000
Conditional sales contracts maturing at various dates from 1968 to 1972 secured by road property and equipment with an aggregate original cost of $13,245,000 as of December 31, 1967	1,467,000	796,000(e)	591,000	320,000
Mortgage notes, 5% and 5½%, due to July 1, 1990, secured by real estate with an aggregate original cost of $1,356,000	69,000	675,000(e)	68,000	660,000(e)
Collateral note, 5¾%, due June 30, 1969, secured by "other investments" carried at cost of $715,000	253,000	384,000	409,000	—
		9,356,000		6,932,000
	$3,590,000	$74,398,000	$2,869,000	$71,970,000

NOTES TO LONG-TERM DEBT

(a) Amounts outstanding are exclusive of bonds owned by the companies — $1,752,600 of Series TT bonds pledged against guaranteed notes and $559,000 of income mortgage bonds which are unpledged.

(b) In July 1967 the holders of the first mortgage bonds approved an extension of the maturity date to July 1, 1970. The first mortgage bonds are secured by substantially all the road properties and equipment of the company, its operating franchises, leases and agreements subject to the prior lien of equipment trust obligations and conditional sale contracts in the case of certain property and equipment as indicated in the statement above. Interest is payable semi-annually at the indicated rate. The first mortgage bonds are entitled to the benefit of a sinking fund provision under which the company is required annually on or before May 1, to deposit with the trustee cash equal to the lesser of (a) 1% of the outstanding TT bonds or (b) net income of the railroad before contingent interest minus "net income deficit," as defined, subsequent to 1964. Under the terms of the sinking fund provision no sinking fund deposit is required in 1968. The bondholders in approving the aforementioned extension of maturity also approved an amendment to the trust indenture to permit expanded use by the company of proceeds from sales of mortgaged property for payment of real estate taxes and capital improvements. Any proceeds remaining after such utilization will be applied to the redemption of bonds by lot. There were no proceeds available in 1967 for the redemption of bonds.

(c) The income mortgage bonds are secured by a second mortgage on the same properties as those securing the first mortgage bonds. Interest is payable at the rate of 4½% per annum if "available net income" is sufficient and, if not earned, is cumulative and payable not later than the maturity of the bonds at the rate of 4% per annum. The income mortgage bonds are entitled to the benefit of a sinking fund provision under which the company is required annually, on or before September 1, to deposit with the trustee $483,000 in cash or Series A bonds (at the lesser of their principal amount plus accrued interest, or their cost to the company) if "available net income" is sufficient. There has been no sinking fund obligation since 1958.

(d) The same amount matures each year to maturity.

(e) Payable at varying amounts each year to maturity.

The indentures securing the first mortgage bonds, the income mortgage bonds and the guaranteed notes contain various restrictive provisions under which, at December 31, 1967 and November 30, 1968, the company could not pay dividends on or make purchases of any class of its capital stock. The indenture securing the first mortgage bonds also contains restrictions on additional borrowings.

Aggregate maturities of long-term debt outstanding at November 30, 1968 other than the first mortgage and income bonds amount to $437,000 for the remainder of 1968, $2,726,000 in 1969, $1,995,000 in 1970, $1,934,000 in 1971 and $620,000 in 1972.

Note 10 — *Passenger Service:*

The company is obligated under a contract with the Massachusetts Bay Transportation Authority to continue certain passenger service within a twenty mile radius of Boston. The contract provides generally that the company will be reimbursed for the excess of passenger service expenses, as defined, over passenger service revenues and includes options for the Authority to lease or purchase passenger rights of way and passenger equipment at prices to be determined upon exercise of the options. The agreement has been extended to July 31, 1969. Passenger service contract payments from the Mass Transportation Commission for 1963 and a portion of 1964 and the Massachusetts Bay Transportation Authority for 1965 and subsequent periods amounted to $2,021,000 in 1963, $322,000 in 1964, $3,073,000 in 1965, $2,933,000 in 1966, $2,900,000 in 1967, $2,665,000 (unaudited) in the eleven months ended November 30, 1967 and $2,787,000 (unaudited) in the eleven months ended November 30, 1968.

Note 11 — *Pension and Retirement Plans:*

The Railroad Retirement Act provides pensions for most of the company's employees. The cost to the company is in the form of railroad retirement taxes which are included in the accompanying statement of operations under payroll tax accruals. The company also has a retirement plan which provides additional pensions for officers and supervisors. Costs of this plan are borne by the company and amounted to $107,000 in 1965, $85,000 in 1966, $123,000 in 1967, $93,000 (unaudited) in the eleven months ended

November 30, 1967, and $172,000 (unaudited) in the eleven months ended November 30, 1968. These expenses are based on normal cost plus interest on unfunded prior service costs and commencing in 1967 an amount to amortize past service costs over a period of forty years. At October 31, 1967, the most recent plan year end, the estimated amounts of vested benefits under the plan exceeded pension fund assets by approximately $1,300,000.

NOTE 12 — *Contingent Obligations and Commitments:*

The company is obligated for varying periods under joint facility and other agreements covering the use of terminals, tracks, equipment, etc. Reference is made to Note 13 to financial statements for the net joint facility rental cost (included in net rents for equipment and joint facilities in the statement of operations) for the three years and eleven months ended November 30, 1968. In addition to these costs, the company is required, under some of the agreements, to pay its portion of maintenance and other expenses for these facilities which are included in operating expenses.

As a guarantor jointly with other railroads, the company is contingently liable for the principal and interest on certain outstanding conditional sale agreements of Trailer Train Company.

The company currently rents approximately 2,200 freight cars and piggyback trailers under long-term leases which expire at various dates to 1983. Current annual rentals under the various leases amount to approximately $1,145,000. The company also rents its general offices under a lease expiring in 1972, renewable thereafter, which provides for a current annual rental of about $256,000.

The company is plaintiff or defendant in numerous law suits which, in the opinion of company officials and counsel, will not have a material effect on its financial position. Several pending proceedings are derivative stockholders' suits. Recovery, if any, in these actions would inure to the benefit of the company.

The company also has investments in the following leased lines to which payments are made under long-term leases:

At December 31, 1967	% owned	Cost	Boston and Maine equity in book value of underlying net assets	Approximate value based on current market quotations
Northern Railroad	68.4	$2,149,000	$2,161,000	$1,492,000
Stony Brook Railroad	61.0	151,000	192,000	124,000
Vermont & Massachusetts Railroad	36.5	1,320,000	2,045,000	815,000
		$3,620,000	$4,398,000	$2,431,000
At November 30, 1968 (unaudited)				
Northern Railroad	69.6	$2,172,000	$2,198,000	$1,430,000
Stony Brook Railroad	61.0	151,000	192,000	121,000
Vermont & Massachusetts Railroad	36.5	1,320,000	2,045,000	792,000
		$3,643,000	$4,435,000	$2,343,000

The shares in leased line companies have been acquired over the period from 1937 to 1968. At December 31, 1967 and November 30, 1968, all of the shares were pledged to secure long-term debt. Annual rentals of the leased lines, under long-term leases, amount to approximately $405,000, plus certain federal and state taxes of the leased line companies which currently aggregate about $185,000 per year. Dividends received from the leased line companies amounted to $195,000 to $205,000 annually for the years 1963 through 1967. The leased line companies distribute on a current basis substantially all of their net income as dividends. The book value of the underlying net assets of each company has remained approximately the same during the period Boston and Maine has owned shares in the respective companies.

NOTES TO FINANCIAL STATEMENTS — (Continued)

NOTE 13 — *Supplementary Profit and Loss Information:*

	Year ended December 31, 1965	Year ended December 31, 1966	Year ended December 31, 1967	Eleven months ended November 30, 1968 (unaudited)
Depreciation and amortization included in (Notes 1 and 3):				
Maintenance of way and structures	$1,773,000	$1,666,000	$1,634,000	$1,516,000
Maintenance of equipment	2,806,000	2,670,000	2,588,000	2,358,000
Other	32,000	61,000	61,000	76,000
	$4,611,000	$4,397,000	$4,283,000	$3,950,000
Taxes, other than federal income:				
Property and other	$2,273,000	$1,946,000	$1,846,000	$1,660,000
Federal unemployment and retirement	2,503,000	2,743,000	2,992,000	3,073,000
Equipment rents (net) (Note 6)	5,017,000	4,852,000	5,840,000	6,306,000
Joint facility rents (net) (Note 12)	424,000	431,000	401,000	391,000

There were no management or service contract fees or royalties paid during the three years and eleven months ended November 30, 1968.