EPA Region 5 Records Ctr.
256420

MAXUS ENERGY CORPORATION

1330 LAKE ROBBINS DRIVE, SUITE 400
THE WOODLANDS, TEXAS 77380

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ENVIRONMENTAL COUNSEL
DIRECT: 281-681-7205

November 18, 2004

Craig Melodia, Esq.
Associate Regional Counsel
U.S. Environmental Protection Agency
Office of Regional Counsel (C-14J)
77 W. Jackson
Chicago, IL 60604

Dear Mr. Melodia:

Enclosed please find the response of Maxus Energy Corporation ("Maxus") to your Information Request, under Section 104(e) of the Comprehensive Environmental Response, Compensation and Liability Act, concerning the Solvay Coke and Gas Site in Milwaukee, Wisconsin.

I greatly appreciate your understanding of my scheduling conflicts which necessitated a delay in the timing of this response. Thank you very much for your cooperation, and should you have any questions concerning our response, please do not hesitate to contact me.

Sincerely,

Sara Roberts Galley
Environmental Counsel

Enclosure

Introduction

The Solvay Coke & Gas site (the "Site") is located at 311 East Greenfield Avenue, Milwaukee, Wisconsin. At various times, portions of the Site were owned or operated by various entities, including Pickands Mather & Co. ("PM-1"). From 1969 until 1973, Pickands Mather & Co. was a subsidiary of what was then Diamond Shamrock Corporation ("DSC"); PM-1 owned the Site (or a portion of the Site) at this time. During this period, the Site was operated by Milwaukee Solvay Coke Co. ("MSCC"), an unincorporated division of PM-1.

PM-1 was acquired by DSC through a stock acquisition transaction in January 1969. At that time, PM-1 already owned the Site, and its MSCC division was operating at the Site.

In April 1973, PM-1 sold substantially all of its assets, businesses, and associated liabilities to a subsidiary of Moore and McCormack Co., Inc. ("MM"); subsequent to the sale, PM-1 changed its name to Emerald Mining Company ("Emerald"). To our knowledge, the MM subsidiary changed its name to Pickands Mather & Co. ("PM-2") and carried on the businesses of PM-1, including the operations of the MSCC division at the Site, which was now the property of PM-2. The sale included, inter alia, all books and records of PM-1; therefore, Emerald and its successors retained very little information concerning the operations of PM-1, its MSCC division, or the Site.

To the best of Maxus' knowledge, PM-2 was acquired by Cleveland-Cliffs Inc. ("CCI") in 1986. CCI is the parent company of Cliffs Mining Company, which was the owner of record of the Site in 2003.

In 1986, Emerald was merged into Maxus Corporate Company, which was subsequently merged into Maxus Energy Corporation ("Maxus"), the former parent of DSC for three years from September 1983 until September 1986. As stated above, Maxus retains very little information concerning the operations of PM-1, the MSCC division, or the Site. No persons currently employed by Maxus have any personal knowledge of the operations of PM-1, the MSCC division, or the Site; all the information provided herein comes from documents in the possession of Maxus, as detailed below and provided as an attachment to this document.

Response to EPA Questions

Question 1:

Did you ever use, purchase, store, treat, dispose, transport or otherwise handle any materials, including hazardous substances, at the Site? If the answer to the preceding question is anything but an unqualified "no", identify:

a) the chemical composition, characteristics, physical state (e.g., solid, liquid) of each material;
b) who supplied you with such material;
c) how such materials were used, purchased, generated, stored, treated, transported, disposed of or otherwise handled by you;
d) when such materials were used, purchased, generated, stored, treated, transported, disposed of or otherwise handled by you;
e) where such materials were used, purchased, generated, stored, treated, transported, disposed of or otherwise handled by you;
f) *the quantity of such materials used, purchased, generated, stored, treated, transported, disposed of or otherwise handled by you.*

Response to question 1:

During the time PM-1 was owned by DSC, its unincorporated MSCC division (PM Divisions List) operated a foundry coke plant at the Site, and handled materials related to that operation.

a) According to those few records now in the possession of Maxus, the principal raw material used at this plant was coal, and the principal products were foundry coke and other coke, and related coke by-products. No specific information is available as to the characteristics of these materials or the specific materials used or by-products produced.
b) No specific information is available as to the supplier of the raw materials.
c) As noted above, no information is available regarding the purchase of the raw materials. The facility operated approximately 200 coke ovens from 1967 through 1972; in 1973 the use of approximately 100 of these ovens was discontinued. The foundry coke was sold on the open market to various (unnamed) foundry operators, and the other coke and by-products were sold on the open market to unspecified other parties.
d) The MSCC division operated the facility from at least 1966, through the sale of PM-1 in 1973. Maxus has no records which would indicate the date on which operations began at the facility, nor any records which would indicate the date on which these operations ceased.
e) No information is available to indicate specific on-site locations of material handling, or the existence or location of any off-site material handling.
f) The available records indicate that the facility had gross sales of $12MM in 1966 and $10.8MM in 1967. In 1967, production was 302,000 tons of foundry coke,

other coke, and related by-products, while in 1972, 311,000 tons of similar materials were produced. Capacity from 1973 forward, after the discontinuance of the obsolete ovens, was estimated to be 235,000 tons of product annually.

Documents responsive to question 1:

List of Unincorporated Ventures and Divisions, PM, February 12, 1973 (PM Divisions List).
1967 Annual Report of Pickands Mather & Co., p. 10. (PM 1967 Report).
Proxy Statement, Special Meeting of Diamond Shamrock Stockholders, November 27, 1968, p. 32 (DSC Proxy Statement).
Proxy Statement, Special Meeting of Moore and McCormack Stockholders, March 30, 1973, pp. 28, 33 (MM Proxy Statement).

Question 2:

State the dates during which you owned, operated, or leased the Site and provide copies of all documents evidencing or relating to such ownership, operation, or lease arrangement (e.g., deeds, leases, etc.).

Response to question 2:

The Site was owned by PM-1 and operated by its MSCC division at least as early as 1966, as indicated in the PM 1967 Report, and upon PM's acquisition by DSC in 1969 (DSC Proxy Statement). Maxus is not in possession of any leases, deeds, or other documentation that would indicate when or from whom PM-1 acquired the Site. The Site was transferred to PM-2 in April 1973 when all the assets and businesses of PM-1, including its MSCC division, were acquired by PM-2 and its parent, MM (MM Proxy Statement; MM Purchase Agreement). The transfer of the real property and other assets associated with the Site was accomplished through the use of a bill of sale, which is produced (MM Bill of Sale). Maxus does not have possession of copies of any deeds or other instruments concerning this property.

Documents responsive to question 2:

Purchase Agreement between PM-1 and MM, January 1, 1973 (MM Purchase Agreement).
Bill of Sale, PM-1 to MM, April 3, 1973 (MM Bill of Sale).

Question 3:

Identify all persons having knowledge or information about the generation, transportation, treatment, disposal, or other handling of hazardous substances by you, your contractors, lessors, or by prior owners or operators at the Site.

Response to question 3:

Maxus has no knowledge of the identity of persons having knowledge or information about the generation, transportation, treatment, disposal, or other handling of hazardous substances by any person at the Site. Maxus believes that persons having such knowledge or information became employees of PM-2 upon the 1973 transaction, and that PM-2 may have records of the identity of such persons (MM Purchase Agreement), but Maxus does not have any such records or information.

Question 4:

Identify the prior owners of the Site.

Response to question 4:

Maxus has no knowledge of the prior owners of the Site or their dates of ownership.

Question 5:

Identify the prior operators, including lessors, of the Site.

Response to question 5:

Maxus has no knowledge of any prior operators at the Site, their dates of operation or the nature of such operations, if any.

Question 6:

Have you or any other person working with you or on your behalf ever accepted waste materials, including hazardous substances, for transportation to the Site from any person?

Response to question 6:

Maxus has no information that would indicate that any waste materials have ever been transported to the Site.

Question 7:

Identify all persons, including yourself, who may have arranged for disposal or treatment or arranged for transportation for disposal or treatment of waste materials, including hazardous substances, at the Site.

Response to question 7:

Maxus has no information concerning the disposal, treatment, or arrangement for disposal or treatment, of waste materials, if any, at the Site.

Question 8:

Identify the acts or omissions of any person, other than your employees, contractors, or agents, that may have caused the release or threat of release of hazardous substances, pollutants, or contaminants, and damages resulting therefrom.

Response to question 8:

Maxus does not have any information whatsoever concerning the actions of any person other than its employees, contractors, or agents at the Site.

Question 9:

If you have reason to believe that there may be persons able to provide a more detailed or complete response to any Information Requests or who may be able to provide additional responsive documents, identify such persons.

Response to question 9:

Maxus believes that PM-2 is in possession of all books and records of PM-1 and its MSCC division, including all documents relating to the Site, which became its property through the 1973 transaction (MM Purchase Agreement). Maxus further believes that PM-2 was acquired by CCI, the parent company of Cliffs Mining Company (see CCI 8-K), in 1986 (see CCI Corporate History), and that PM-2 and/or CCI can provide a more detailed and complete response to any Information Requests and additional responsive documents. Maxus believes that CCI may be contacted at its corporate headquarters, at 1100 Superior Avenue, Cleveland, OH 44114 (CCI Corporate Contacts).

Documents responsive to question 9:

Form 8-K for Cleveland-Cliffs Inc., September 20, 2004 (CCI 8-K).
Corporate History of Cleveland-Cliffs Inc., p. 10 (CCI Corporate History).
Contact Information for Cleveland-Cliffs Inc. (CCI Corporate Contacts).

Question 10:

Provide copies of all local, state and federal environmental permits ever granted for the Facility or any part thereof (e.g., RCRA permits, NPDES permits, etc.).

Response to question 10:

Maxus has no knowledge of any environmental permits ever granted for the Facility or any part thereof, and has no such documents in its possession.

Index of Documents Provided:

1. List of Unincorporated Ventures and Divisions, PM, February 12, 1973 (PM Divisions List)

2. 1967 Annual Report of Pickands Mather & Co., p. 10. (PM 1967 Report)

3. Proxy Statement, Special Meeting of Diamond Shamrock Stockholders, November 27, 1968, p. 32 (DSC Proxy Statement)

4. Proxy Statement, Special Meeting of Moore and McCormack Stockholders, March 30, 1973, pp. 28, 33 (MM Proxy Statement

5. Purchase Agreement between PM-1 and MM, January 1, 1973 (MM Purchase Agreement)

6. Bill of Sale, PM-1 to MM, April 3, 1973 (MM Bill of Sale)

7. Form 8-K for Cleveland-Cliffs Inc., September 20, 2004 (CCI 8-K)

8. Corporate History of Cleveland-Cliffs Inc., p. 10 (CCI Corporate History)

9. Contact Information for Cleveland-Cliffs Inc. (CCI Corporate Contacts)

Certification

I certify under a penalty of law that this document and all Enclosures were prepared under my direction or supervision in accordance with a system designed to assure that qualified personnel properly gathered and evaluated the information submitted.

Based upon my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering the information, the information submitted is, to the best of my knowledge and belief, true, accurate, and complete. There are significant penalties for submitting false information, including the possibility of fine and imprisonment for knowing violations.

Sara Roberts Galley
Environmental Counsel
Maxus Energy Corporation

Date: 11/18/04

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ERM

Campbellford Properties, Pickands Mather & Co., Agent for The Steel Company of Canada, Limited

The Carbon Limestone Company, a Division of Pickands Mather & Co.

Includes:

The Limestone Division

The Carbon Brick and Youngstown Division

Chisholm Mine, Pickands Mather & Co., Managing Agent

Detour River Exploration Project (Managed by a subsidiary of Selection Trust, Ltd.)

Easternex, Pickands Mather & Co. International, Managing Agent

The Griffith Mine, Pickands Mather & Co., Managing Agent

The Hilton Mines, Hilton Mines Ltd., Managing Agent

The Interlake Steamship Co., a Division of Pickands Mather & Co.

Inter-State Coal Co., a Division of Pickands Mather & Co.

Kimberley Ventures, Pickands Mather & Co. International, Managing Agent

Madison Mine, Pickands Mather & Co., Managing Agent

Middle Belt Exploration, Pickands Mather & Co., Managing Agent

Milwaukee Solvay Coke Co., a Division of Pickands Mather & Co.

Savage River Mines, Pickands Mather & Co. International, Managing Agent

Sichon Mines, Thai Tin and Tungsten Corporation, Managing Agent

Wabush Mines, Pickands Mather & Co., Managing Agent

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Pickands Mather & Co.

Annual Report 1967

After turning over the responsibilities of Chief Executive Officer to Keith Benson early in 1967, John Sherwin stated at an employee meeting:

"It has been my privilege over the years to see the longstanding traditions and important industry relationships of the Company serve as the foundation for continuing growth and development on an international scale. I have also had the great opportunity of working with an outstanding group of younger men who are dedicated to perpetuating these traditions, while taking advantage of every opportunity to further the progress and growth of the Company."

Joining Pickands Mather in 1942, Mr. Sherwin became Senior Partner of the firm in 1955, President of the corporation in 1960, and Chairman in 1966. He continues as a member of the Board of Directors and its Chairman.

Pickands Mather & Co.
Annual Report 1967

Highlights of 1967

FINANCIAL

	1967	1966 (1)
Sales of products and operating revenues	$78,816,000	$79,501,000
Depreciation and amortization	3,429,000	2,752,000
U. S. and foreign income taxes	3,898,000	3,655,000
Net income (2):		
Amount	7,003,000	7,150,000
Per share of Common stock (average outstanding)	2.92	3.09
Dividends paid (cash):		
Combined Preferred and Common stocks	2,680,000	2,318,000
Per share on Common stock	1.00	.75
Capital expenditures and investments (net)	9,861,000	16,011,000
At year end:		
Working capital	16,511,000	12,596,000
Long-term debt	11,944,000	6,887,000
Shareholders' equity	76,189,000	71,149,000
Common shares outstanding:		
At year end	2,199,957	2,134,325
Average in year	2,170,868	2,099,161

Notes:
(1) Restated to include, on a pooling of interests basis, the operations of Henry Bower Chemical Manufacturing Company, acquired on November 15, 1967, and The Carbon Limestone Company, acquired on February 21, 1968.
(2) Year 1967 includes extraordinary income of $400,000; $.18 per share of Common stock.

OPERATING

Two Acquisitions
- The Carbon Limestone Company
- Henry Bower Chemical Manufacturing Company

Four New Mines
- Iron Ore Pellets
  - The Griffith Mine
  - Savage River Mines
- Coal
  - Chisholm Mine
  - Mohawk Mine

Two Iron Ore Pelletizing Expansions
- Erie Mining Company
- Wabush Mines

Two Additional Bulk Freighters
- Steamer Charles M. Beeghly
- Steamer V. W. Scully

Continued Heavy Investment in Exploration, Research and Development

To Shareholders and Employees:

Consolidated earnings of Pickands Mather & Co. for 1967 were $7,003,300, or $2.92 per share of Common stock, based on the average number of shares outstanding during the year, and including extraordinary income from the sale of investments totaling $400,341, or $.18 per share. These earnings compare to the record $7,149,623, or $3.09 per share, earned during 1966, based on the average number of shares then outstanding, or $2.98 per share based on the increased average shares outstanding during 1967. The per-share figures for both years are after allowance for dividend requirements on the Serial Preferred stock.

The earnings for 1966, which have been restated as explained in Note 2 to the Consolidated Financial Statements, and for 1967 include, on a pooling of interests basis, the operations of Henry Bower Chemical Manufacturing Company, which was acquired on November 15, 1967, and The Carbon Limestone Company, which was acquired on February 21, 1968.

Contributing to the slight decline in net income for the year was a decrease in 1967 of approximately $630,000 in Federal income tax investment credits. Also adversely affecting 1967 profits was a five-week Canadian seamen's strike, which tied up our Labrador Steamship fleet for that period.

During the year, quarterly dividends, at the annual rate of $1.15 per share, were paid on the Convertible Preferred stock and, at the annual rate of $1.00 per share, on the Common stock.

On February 8, 1968, the Board of Directors approved a plan under which Pickands Mather would acquire the business of Arthur G. McKee & Company, subject to the approval of stockholders at the annual meetings of the companies to be held on May 7, 1968. Proxy statements covering this proposed consolidation will be mailed shortly.

Our program of expansion and diversification in those fields closely allied to our traditional businesses continued during the year. The acquisition of Carbon Limestone brings us a large and valuable limestone deposit well located to serve the steelmaking districts of Youngstown, Warren and Pittsburgh. In addition, it has a strong financial position and an able management group experienced in the sales, quarrying and materials handling fields.

Bower Chemical is under the direction of our Manganese Chemicals Division and constitutes an important addition to our participation in the organo-metallic chemical fields. This company also enjoys an excellent reputation in the chemical industry and brings with it a highly competent technical and sales staff, as well as a good market position in the industries it serves.

These two acquisitions were accomplished by issuing 193,425 shares of Serial Preferred, Series B, $25 par value stock and 155,024 shares of Common stock. Both are being operated as subsidiaries under their previous managements.

The past few months have brought the start-up of operations at The Griffith Mine in Ontario, Canada, and Savage River Mines in Tasmania, Australia. These two new properties will bring the iron ore pellet producing capacity of Pickands Mather operations to over 20 million tons per year. Coal production was started successfully in early 1967 at the Chisholm Mine in Kentucky. We are also proceeding with the development for our own account of the Mohawk Mine, a small underground coal mine in West Virginia, which will shortly begin producing high-volatile coal for sale in the metallurgical market.

The Steamers CHARLES M. BEEGHLY and V. W. SCULLY were added to the Interlake and Labrador Steamship fleets, respectively, during 1967. These vessels enable us to continue to serve our customers with as modern and efficient units as exist on the Great Lakes and St. Lawrence Seaway today.

In 1967, the Company spent substantially in excess of $1 million on various new business prospects and on investigation, exploration and research in connection with new mineral properties. Comparable expenditures have been budgeted for 1968. Although these costs are relatively high for a company of our size, we feel they are essential to insure the growth of our business, including new activities in non-ferrous raw materials in which we are not yet participating.

The financial condition of the Company continued strong. The $17½ million revolving credit and term loan agreement was amended at the end of the year to increase the total funds available to $23 million. Of that amount, $10 million will be repaid in five equal annual installments commencing December 31, 1968. The balance, or $13 million, will be available on a revolving credit basis until December 31, 1969, when borrowings thereunder will be converted to a term loan, repayable in five equal annual installments commencing December 31, 1970.

Management changes during the year included the election of Robert S. Carey, formerly Vice President-Ore Sales and Marine, as Executive Vice President and Allen H. Ford, previously Assistant to the Chairman, as Vice President-Finance. Mr. Ford, Robert McInnes, Secretary, and Robert H. Chisholm, President of Carbon Limestone, have been appointed members of the Board of Managers.

Year after year, our employees continue to demonstrate their ability to meet challenging competitive situations. We sincerely appreciate their loyalty and the vital contribution they make to the Company's progress.

Although 1967 produced some disappointment in earnings, it was an important year in building the future value of the Company through the acquisitions and the addition of new mining facilities and vessels. Looking ahead to 1968, the United Steelworkers' contract with the steel industry expires in August. If a major strike occurs in the industry, it could materially affect the Company's earnings for the year. In the absence of a strike, however, we feel that 1968 should bring more profitable levels of operations in all phases of our activities.

On Behalf of the Board of Directors

Keith S. Benson

Keith S. Benson
President

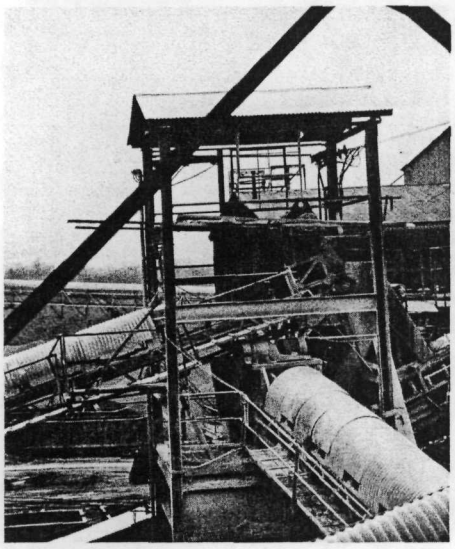
John Sherwin

John Sherwin
Chairman

March 14, 1968

Keith S. Benson

Acquisitions



CARBON LIMESTONE

Headquartered at Lowellville, on the Ohio-Pennsylvania border near Youngstown, The Carbon Limestone Company is a leading supplier of limestone to the steel mills of eastern Ohio and western Pennsylvania, which use it as a flux to carry off the impurities from molten metal. Other of its limestone products are used as aggregate in concrete and asphalt, for railroad ballast and in soil improvement and animal feed applications. A subsidiary, The Carbon Concrete Brick Company, makes over 60 varieties of concrete block and brick at two plants in the area. Employment is about 225 in total.

Combined sales in 1967 were over $4¼ million.

Limited quantities of industrial coal and fire clay are by-products of Carbon's quarrying operations. After the cover of earth has been removed, the limestone is loaded by power shovels into cars for a short rail haul to the processing plant in adjoining Hillsville, Pennsylvania. After primary crushing, further treatment is tailored to the end use and includes additional crushing, screening, blending, washing and, in some cases, drying. The products are shipped from open storage or bins by truck and rail.

As quarrying advances, the earth is graded to conform with the topography of the area and planted as part of a continuing conservation program.

BOWER CHEMICAL

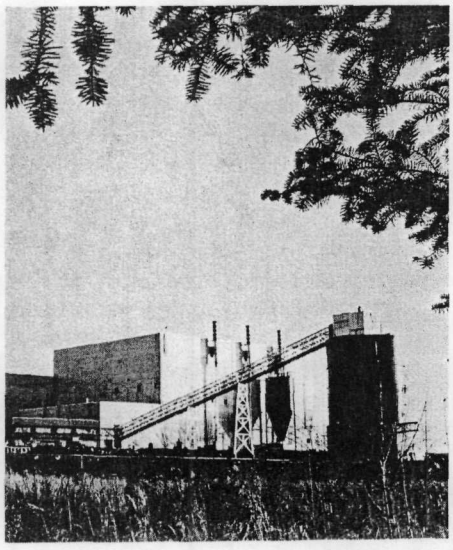
Acquisition of Henry Bower Chemical Manufacturing Company is a major step in expanding Pickands Mather's activities in the chemical industry. The Manganese Chemicals Co. Division produces the widest range of manganese chemicals and compounds in the world, plus hydroquinone and manganese metal. Its experience in ferrous chemistry and Bower's activities in the non-ferrous field enable Pickands Mather to offer a broad line of organo-metallic and organic chemicals. Both Bower and Manganese Chemicals have the modern research and processing facilities needed for this specialized family of high-purity chemicals, and are in ideal raw material and market locations.

Bower is expected to increase Pickands Mather's chemical sales by about $3 million annually.

Founded in 1855 on the Schuylkill River in Philadelphia, Bower is one of the oldest and largest distributors of industrial anhydrous ammonia. Typical of Bower's work with customers to develop new product applications, today's uses of this type of ammonia include metal treating, commercial refrigeration, rubber manufacture, chemical synthesis, petroleum refining, water purification and sewage treatment.

Other Bower products are used in fertilizers, chemicals, foods, furniture, inks, leather, metals, paints, drugs, plastics and textiles.

New Mines



THE GRIFFITH MINE

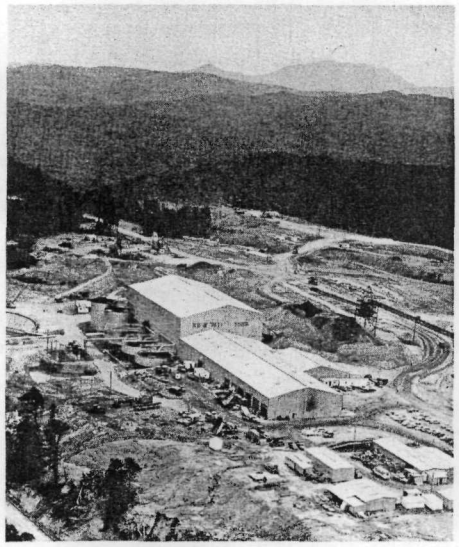
In northwestern Ontario, The Griffith Mine, operated for The Steel Company of Canada, Limited, is now coming into production. Final construction of this mine, which will produce 1½ million tons of high-grade pellets annually, is on schedule and capacity production should be reached during 1968.

This $62 million mining and processing facility is part of Stelco's major expansion program and fulfills its objective of having a source of iron ore in Ontario, the company's home province. It is named in honor of H. M. Griffith, Stelco's president.

The mine, containing reserves sufficient for at least 30 years of production, eventually will be over a mile long, 1,500 feet wide, and 1,000 feet deep.

The plant, containing all the processing and servicing facilities in one building, is the latest design and uses the most efficient equipment available. The primary grinding mills, 32 feet in diameter, and the vertical shaft furnaces for heat-hardening the pellets, are the largest yet operated in the iron ore industry. This type of furnace, resulting from research by Pickands Mather with its steel company associates, was a breakthrough in the original development of pelletizing.

The production from the mine, providing permanent employment for about 350 men, will be transported by rail to the north shore of Lake Superior and shipped by vessel to Stelco's Hilton Works at Hamilton, Ontario.



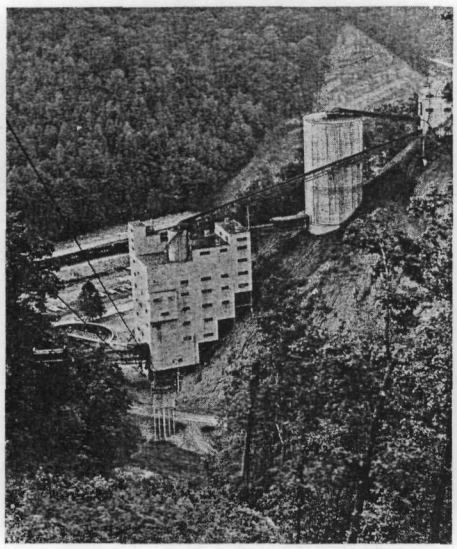
SAVAGE RIVER MINES

Construction of Savage River Mines in Tasmania, Australia, was essentially completed by the end of 1967 and all components of the project are performing successfully during the start-up phase.

Incorporated in this $79 million development are two pioneering facilities for operations of this kind. One is a nine-inch pipeline, 53 miles long, through which a slurry of iron ore concentrates and water is pumped from the concentrating plant at the mine to the pellet plant at oceanside. Although pumping an iron ore slurry is not new, this is the first long-distance pipeline for this purpose. The other unique installation is the offshore loading unit, which is a conveyor belt system built on trestles anchored in the ocean floor and extending over 6,000 feet into Bass Strait, which separates Tasmania from the Australian mainland.

The project, owned equally by Japanese companies and a group of United States and Australian interests, is believed to be the first time the Japanese have joined with an overseas group on an equal basis to develop a major raw material project in another country.

Pickands Mather owns about 12% of the Savage River project, which will produce 2¼ million tons of pellets yearly. All of the Company's ownership tonnage has been sold to Japanese steel companies under a contract covering the life of the mine.

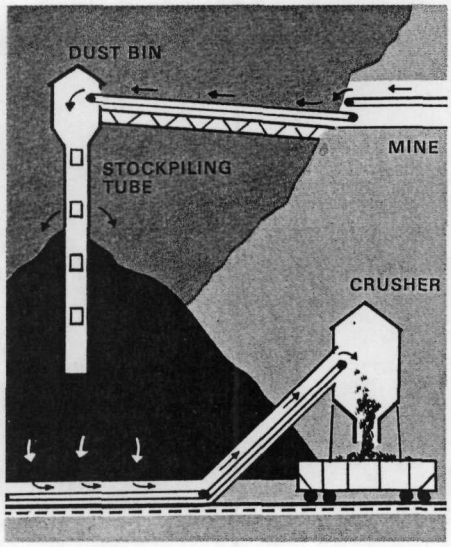


CHISHOLM MINE

In operation since April, just a year after construction started, the Chisholm Mine in southeastern Kentucky produced about ½ million tons of coal in 1967. Also owned by The Steel Company of Canada, Limited, the mine is named for Jack T. Chisholm, Manager of Raw Materials for Stelco. It assures Stelco of a long-term source of high-grade coal for making coke for blast furnace use, and is another part of the company's expansion program to satisfy the Canadian economy's growing demand for steel.

This property is truly an attractive coal operation, consisting of an underground mine and a preparation plant, along with related maintenance and shipping facilities, that does not disrupt the wooded, rolling terrain of the area. After being mined by machine, the coal is brought to surface by belt conveyor about 300 feet above the plant. With gravity aiding the flow, the coal is crushed and screened to size and then processed by the latest methods for maximum waste removal and tonnage recovery. It is then stockpiled for shipment by rail to Lake Erie and on to Hamilton, Ontario, by vessel.

Employing about 150 men, the mine is scheduled to operate at capacity, or about 1 million tons, in 1968.



MOHAWK MINE

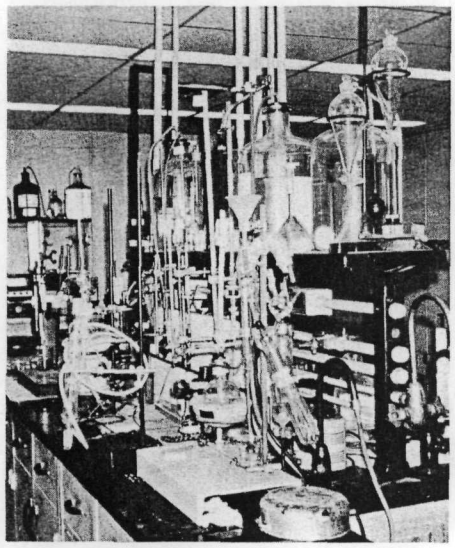
Pickands Mather has acquired and is developing a new underground coal operation, the Mohawk Mine, in West Virginia near the Kentucky border.

Ultimately to have a yearly capacity of 180,000 tons of coking coal, production is scheduled to begin with one mining unit late this winter and, by mid-year, a second unit should be in service.

Known as low coal, but so high in quality that only crushing is required, the seam averages 34 inches thick. Mining machines that dig continuously and are built for this type of service will be used, and the coal will be transported to surface, to storage and to the rail loading pocket by a belt conveyor system.

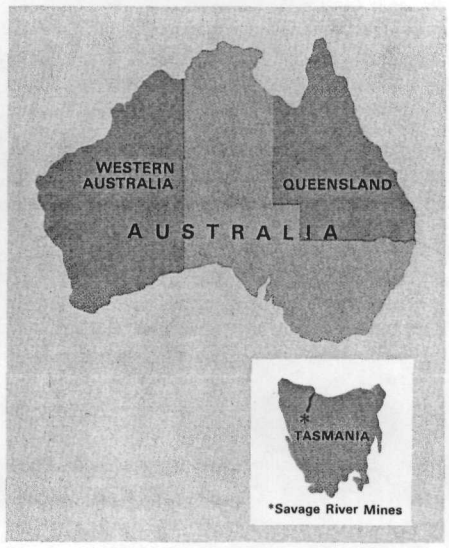
This mine and the Chisholm Mine continue the long-standing coal producing part of Pickands Mather's raw material activities. Other reserve properties are being investigated for possible acquisition to broaden profitably its coal operations.

Exploration, Research and Development

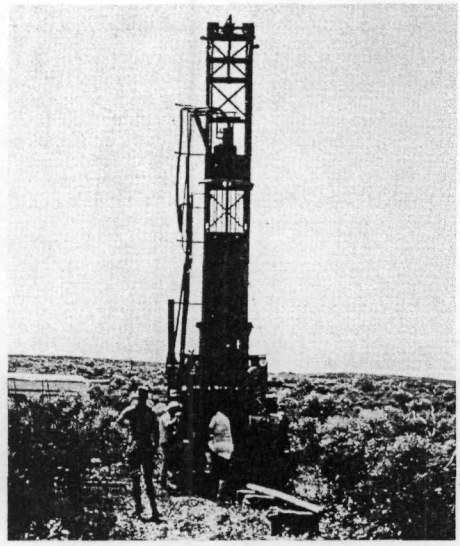


As discussed elsewhere, the Company continues to invest significant money in its exploration, research and development efforts, and these high rates of expenditure are expected to continue in 1968.

The major research and development effort is concentrated in chemical areas through the Manganese Chemicals Division. Although the primary focus of geological exploration is in Australia, during 1967 the Company also participated in exploration programs in Africa for iron, molybdenum and gold, and in Canada for iron and non-ferrous minerals.

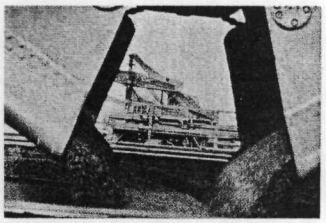


In Western Australia, bulk sampling commenced at a nickel-bearing deposit near Ravensthorpe, drilling programs were completed on two base metal prospects and drilling is continuing on three others. Although no significant mineral deposits have been discovered, the nickel-bearing prospect warrants further work. Copper mineralization in the Mt. Angelo deposit near Hall's Creek is extensive but, for the most part, sub-marginal. Further drilling in this and another base metal prospect near Hall's Creek is scheduled for 1968. Other base metal areas of interest in Western Australia were developed during the year and drilling at these is also scheduled for the present year.



Regional prospecting in Tasmania has been completed over the licensed area. Three areas, interesting for their copper, lead-silver and tin possibilities, warrant further exploration.

During 1967, arrangements were made with Conzinc Riotinto of Australia and Kaiser Steel to undertake joint investigation and economic study of a major coal deposit in Queensland, Australia. If development of this property is proven to be feasible, the metallurgical coal produced would be marketed in Japan.



Of the combined 76.3 million-ton annual capacity of iron ore pelletizing facilities reported in operation or under construction in North America, Pickands Mather-operated properties account for 18.7 million tons—or about ¼ of the total.

Management Services

IRON ORE OPERATIONS

The iron ore mines managed by Pickands Mather during 1967 produced a total of 18.1 million tons, of which 15.8 million were high-grade pellets. This compares to total production in 1966 of 16.3 million tons, of which 13.3 million were pellets.

Erie Mining Company is now producing at an annual rate of 10.3 million tons of pellets, following completion on schedule at mid-year of the 2.3-million-ton expansion program.

The expansion of the mine, concentrator and pellet plant of the Wabush Mines joint venture is proceeding according to schedule and, by the middle of 1968, should reach its new rated capacity of 6 million tons per year.

Late in 1967, the West Hill Mine, which has been operated by Pickands Mather since it was opened in 1953, was sold to other interests.

DOCK OPERATIONS

Tonnages handled at the two lower-lake iron ore docks in Ashtabula and Cleveland, the combined iron ore and coal dock at Toledo and the vessel fueling dock at DeTour, Michigan, were at normal rates during the year.

Pickands Mather Divisions

Operating

INTERLAKE STEAMSHIP

Although the bulk freight industry on the Great Lakes carried about 8% less than the year before, Interlake's freight revenues for 1967 were approximately $17.9 million compared to $15.8 million in 1966, an increase of 13%.

During the year, 16 of the 19-vessel fleet operated, including the self-unloader, the Steamer FRANK PURNELL. Operations benefited from stable cargo demands and favorable sailing conditions, including high water levels on the lakes, which permit deeper loading.

The Steamer JOHN SHERWIN, Interlake's flagship, carried 946,479 tons of iron ore, which is more than any other Interlake vessel has ever carried in one season. The Steamer CHARLES M. BEEGHLY, newest addition to the Interlake fleet, had a full season of operation.

Wages and other costs of operating the fleet continue to increase. For example, since 1957 labor, repair and drydocking costs have all gone up over 40%. Yet during this same 12-year period, there has not been an increase in the freight rates for iron ore, which is the primary cargo. This has created a serious price-cost squeeze.

LABRADOR STEAMSHIP

Operations during 1967 of the Labrador fleet were severely reduced as a result of a five-week strike by the Seamen's International Union in August and September, which tied up the bulk of the Canadian fleets. Consequently, revenues of this subsidiary were cut to $2 million, which was substantially less than expected, but $400,000 higher than 1966. Purchase of the Steamer V. W. SCULLY, sailing its first season under Labrador colors, was completed.

During the season, the Steamer AUGUSTUS B. WOLVIN, the smallest and oldest unit in the Labrador fleet, sustained damage to its hull, which was fully covered by insurance. It was determined that repairing this older, less efficient ship was not warranted and it was sold for scrap. The sale of the ship will not detract from the fleet's operation.

MILWAUKEE SOLVAY COKE

Production of foundry coke continued at high levels throughout the year. Gross sales of the division were approximately $10.8 million, compared to $12 million in 1966 and, accordingly, profitability was also lower. In addition to a slight decline in foundry coke sales, the accumulated inventory of small sizes of coke and breeze, sales of which tend to fluctuate in two to three-year cycles, had been almost completely liquidated in 1966.

MANGANESE CHEMICALS

Although sales of this division were only $300,000 higher than in 1966 ($6.9 million vs. $6.6 million), profit before tax increased significantly, largely due to steady operation of the hydroquinone plant, which is now at capacity, and reduction of operating costs at the metal plant.

The acquisition of Bower Chemical should bring a substantial increase in Pickands Mather's participation in the chemical industry. At the present time, integration of the Bower operation with the Manganese Chemicals operation is taking place, and careful study is being given to the possible combination or relocation of certain of the production facilities.

Sales

COAL

The Coal Division sold or acquired for the Company's own use about 11.2 million tons of coal during the year, in contrast to about 11 million tons in 1966. Gross profit from brokerage sales was slightly lower than 1966, but sales agency commission income was comparably higher.

Sales of fuel oil again increased during the year.

PIG IRON, FERROALLOYS AND COKE

The market for pig iron softened in 1967 and shipments were approximately 15% below 1966. A decline also occurred in the demand for ferroalloys and shipments were approximately 4% below the prior year. Pickands Mather is exclusive sales agent for these products, which are produced by Interlake Steel Corporation.

PRENCO

Pickands Mather again increased its sales efforts in 1967 under the agency agreement with Prenco Manufacturing Company of Royal Oak, Michigan, in which the Company also has an investment. Interest in these fluid industrial waste disposal units continues to grow and successful operation of the units installed has proven their effectiveness. While sales have taken longer to develop than estimated, the outlook for both sales and the investment is good, in view of the constantly increasing attention to water and air quality control.

IRON ORE

During 1967, the tonnage available to Pickands Mather for sale from its interests in Wabush Mines and The Hilton Mines amounted to slightly over ½ million tons, all of which was sold. Because of decreased requirements for specialty ores, brokerage sales of these ores were considerably lower than in 1966.

Investments

INTERLAKE STEEL

Interlake Steel reported preliminary earnings per share of $3.15 in 1967, compared to $3.68 in 1966. Pickands Mather owns 402,877 shares, or approximately 9%, of the outstanding stock of Interlake Steel and dividend income of $1.80 per share totaled about $730,000 in 1967.

1 The Erie Mining Company expansion included adding 330 feet to the concentrator building for a total length of 1,440 feet—almost ⅓ of a mile—and a fifth tailings thickener. Ten autos could park along the 255-foot diameter of each thickener tank, which is part of the elaborate system to recover most of the process water for re-use.

2 The Steamer V. W. Scully, named in honor of the Chairman of The Steel Company of Canada, Limited, joined the Labrador Steamship fleet in 1967. It is identical in length—730 feet—and carrying capacity—26,000 tons—to the fleet's other maximum-size bulk carrier, the Motor Vessel A. S. Glossbrenner.

3 Along with mining and concentrating facilities being added to the Scully Mine at Wabush, Labrador, the major part of the million-ton-plus expansion at Wabush Mines involves the pelletizing plant at Pointe Noire, Quebec.

4 The other ship flying the Pickands Mather house flag for the first time in 1967, the Steamer Charles M. Beeghly was rechristened in honor of the Chairman of Jones & Laughlin Steel Corporation. The Beeghly and the Steamer John Sherwin, sister ships, have the largest cargo capacities in the Interlake fleet, 25,000 tons each. For optimum scheduling and other peak operating efficiencies, a mathematical model of the fleet is run on a computer.

2

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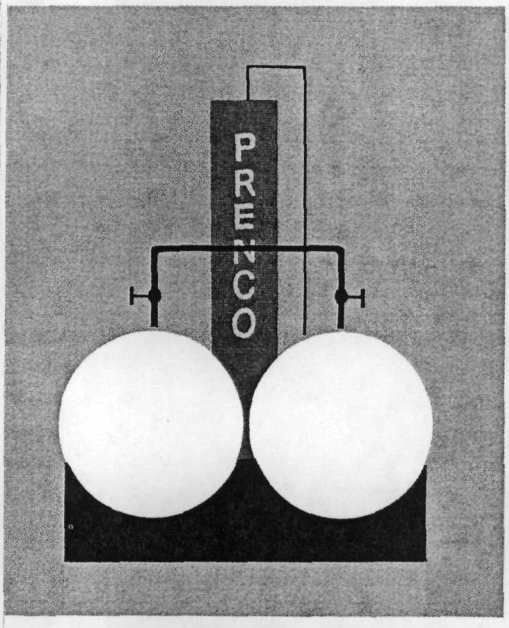
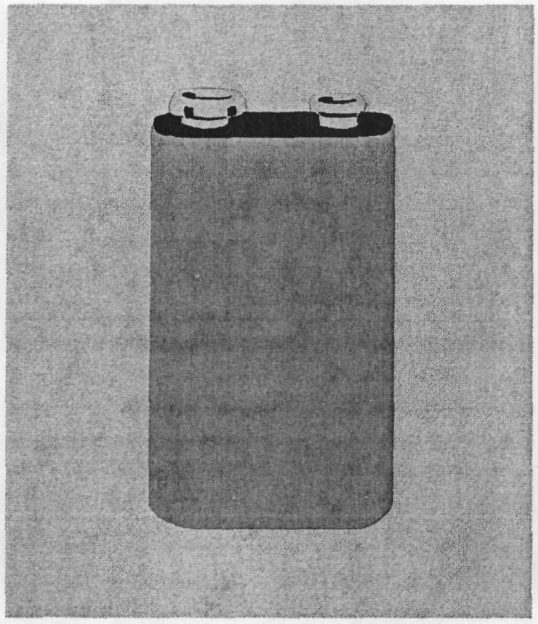
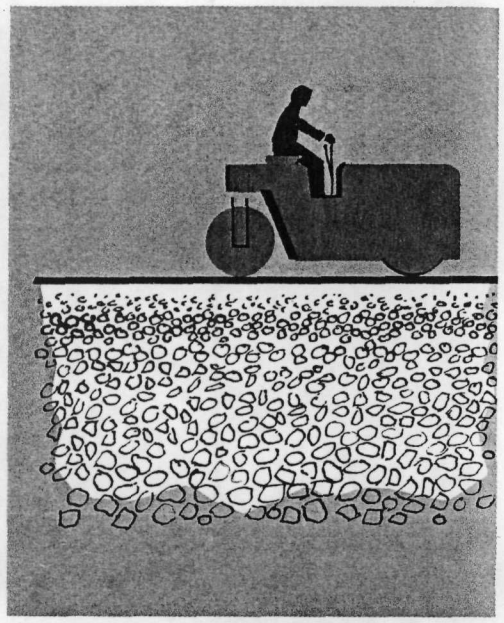
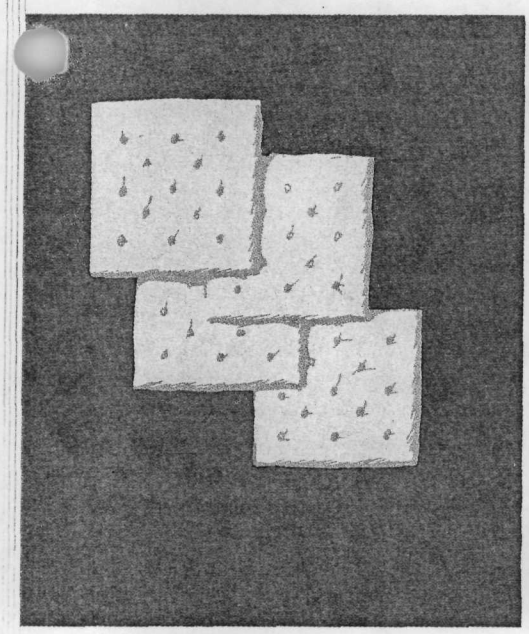
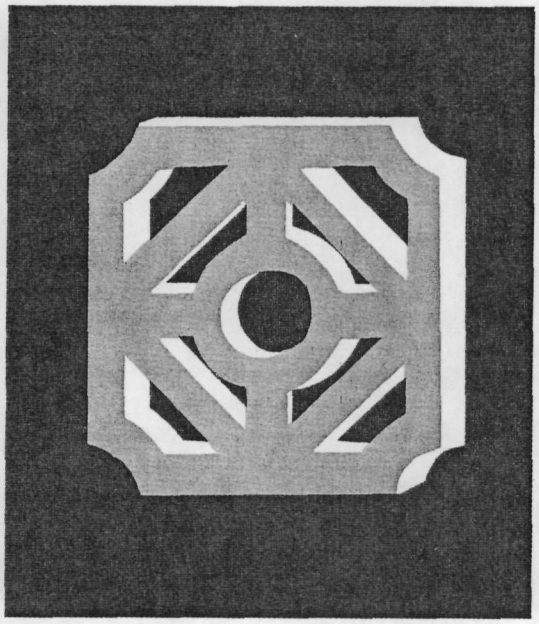
DIVERSIFIED GROWTH IN PICKANDS MATHER'S FUTURE

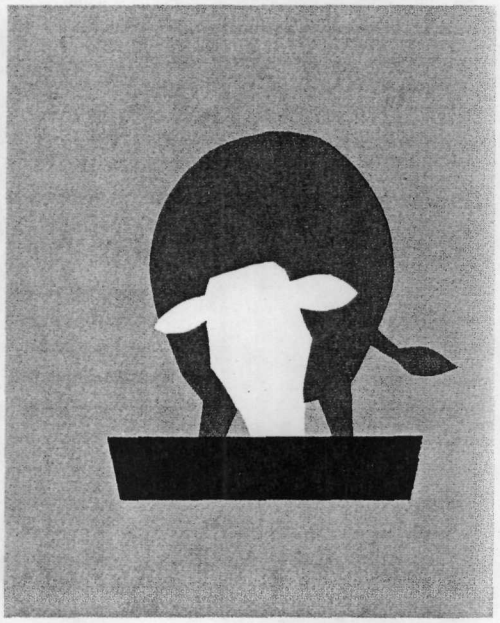












The growing number of Prenco installations has proven their effectiveness in disposing of industrial wastes economically and without smoke, odor or visible ash.

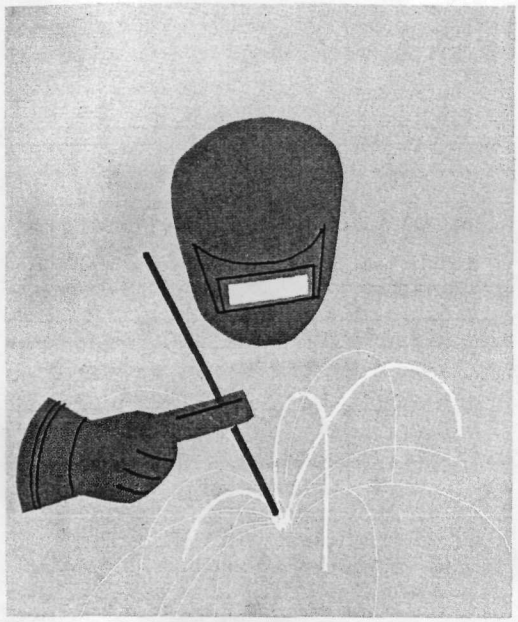
Portable power provided by dry cell batteries requires manganese dioxide—one of the wide range of chemicals produced by Manganese Chemicals.

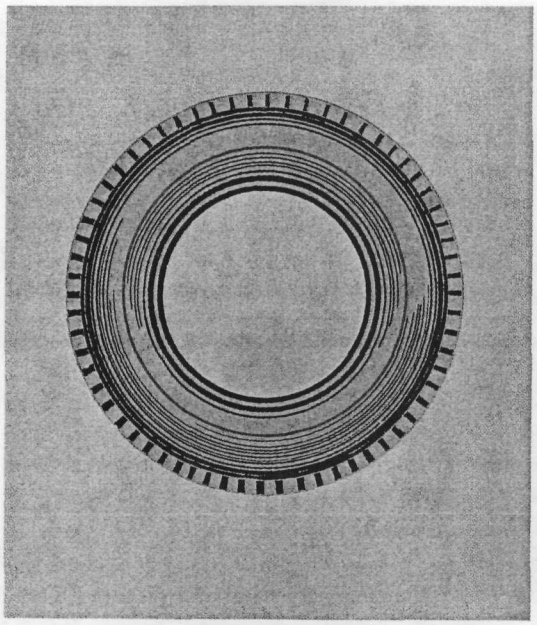
Aggregate for both concrete and asphalt road surfaces is typical of the many uses—from blast furnace flux to fertilizer components—for Carbon Limestone's products.

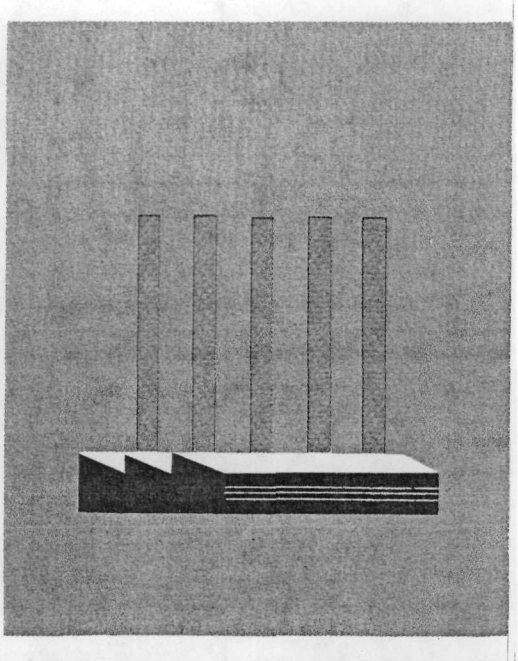
Ammonium bicarbonate, one of Bower Chemical's many products, makes saltine crackers light and fluffy.

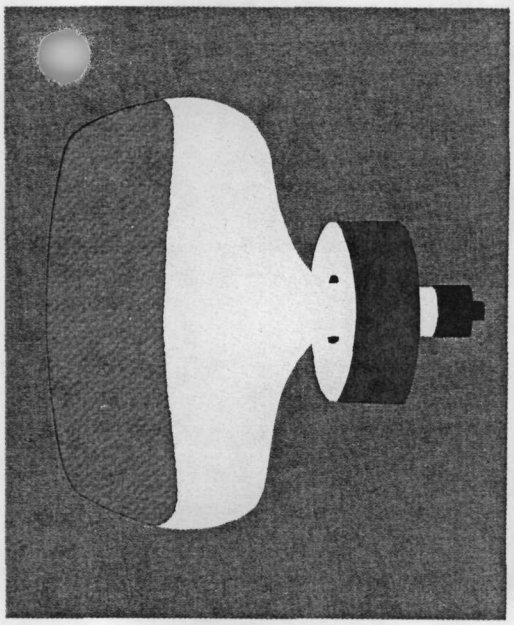
A subsidiary of Carbon Limestone, Carbon Concrete Brick, makes over 60 shapes and sizes of concrete block and brick at two plants in the Youngstown, Ohio, area.

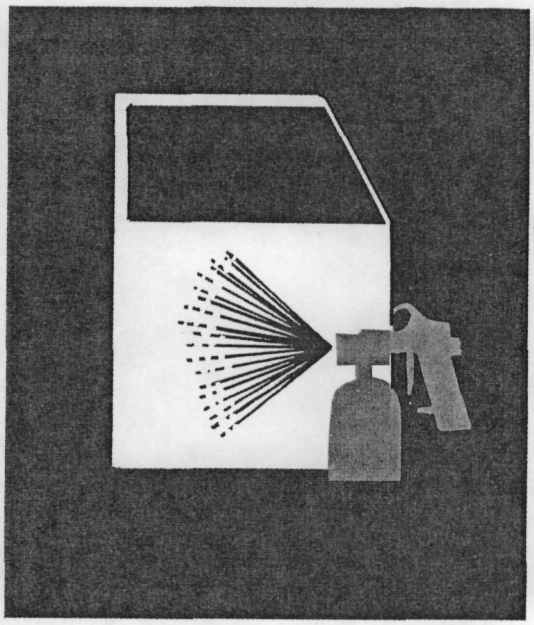
Iron and manganese are among the most critical mineral supplements required by all animal and vegetable life. Several Manganese Chemicals' products are used in animal feed and fertilizer.

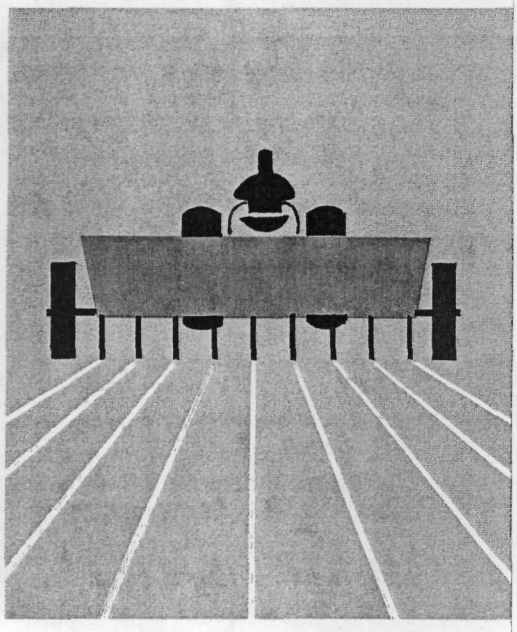












Various manganese salts, part of Manganese Chemicals' product line, are components of the flux that makes electric welding possible.

Several products of Manganese Chemicals are used in the ceramic ferrite yoke surrounding the neck of a television picture tube, typical of the many applications of ferrites in the electronics industry.

Manganese Chemicals produces about 2½ million pounds of hydroquinone annually. Among its principal uses are a family of anti-oxidants widely used in rubber chemistry.

Copper salts, a Bower Chemical product, are used in the manufacture of inorganic pigments.

As a step toward cleaner air, organo-metallics made by Manganese Chemicals are used in formulating a number of additives to improve the combustion efficiency of solid and liquid fuels.

Companies that formulate mineral fertilizers for agricultural application, such as Carbon Limestone, use manganese sulphate and manganese oxide, products of Manganese Chemicals.

Consolidated Balance Sheet—December 31, 1967

ASSETS	1967	1966*
Current assets:		
Cash and short-term securities	**$ 10,222,828**	$ 9,495,131
Accounts receivable, less allowance of $148,482 ($157,246 in 1966)	**16,080,475**	15,474,418
Inventories, at lower of cost or market:		
Coke, coal, iron ore, limestone and other products	**3,151,078**	2,935,500
Operating materials (including coking coal) and supplies	**3,940,997**	3,019,266
Prepaid insurance and other expenses	**269,081**	211,813
Total current assets	**33,664,459**	31,136,128
Investments and other assets:		
Marketable stocks and bonds-quoted market $15,216,298 ($14,600,730 in 1966)	**11,680,163**	11,907,612
Other securities and advances	**6,197,723**	6,062,543
Cash surrender value of life insurance policies	**957,197**	913,720
	18,835,083	18,883,875
Capital assets, at cost:		
Mineral (principally Canadian) and other lands	**3,374,790**	3,049,208
Vessels	**70,932,748**	58,726,871
Buildings, structures and land improvements	**3,987,496**	3,887,486
Machinery, equipment, aircraft, etc.	**14,748,698**	14,134,843
Construction in progress	**431,098**	5,255,187
	93,474,830	85,053,595
Accumulated depreciation	**32,742,360**	30,762,536
	60,732,470	54,291,059
Patents and licenses, less amortization	**122,349**	357,347
	$113,354,361	$104,668,409

*Restated as described in Note 2 to the Consolidated Financial Statements.

LIABILITIES	1967	1966*
Current liabilities:		
Accounts payable	**$ 10,544,749**	$ 10,041,083
Accrued payrolls, pensions, claims and winter repairs	**2,352,850**	2,497,862
Accrued taxes:		
U. S. and foreign income	**837,392**	1,418,542
Other	**363,203**	357,418
Current installments of long-term debt (Note 3)	**3,055,440**	4,225,440
Total current liabilities	**17,153,634**	18,540,345
ıg-term debt (Note 3)	**11,943,777**	6,886,717
Reserves for pension allowances (Note 4) and periodic fleet inspection	**1,280,552**	1,429,264
Deferred U. S. and foreign income taxes	**6,629,882**	6,509,077
Minority interest in subsidiary company	**157,927**	153,741
Stockholders' equity:		
Capital stock (Notes 2, 5 and 6):		
Serial Preferred—$25 par value; authorized—800,000 shares; outstanding—		
Series A, convertible—392,225 shares	**9,805,625**	9,805,625
Series B, convertible—193,425 shares	**4,835,625**	4,835,625
Common—$.50 par value; authorized—4,000,000 shares; outstanding—2,199,957 shares (2,134,325 in 1966)	**1,099,979**	1,067,163
Capital surplus (Note 7)	**9,308,585**	8,625,728
Retained earnings (Note 3)	**51,138,775**	46,815,124
	76,188,589	71,149,265
Contingent liabilities (Note 8)		
	$113,354,361	$104,668,409

Consolidated Statement of Income

FOR THE YEAR ENDED DECEMBER 31, 1967

	1967	1966*
Income:		
Sales of products	**$58,089,617**	$61,535,659
Cost of sales	**51,741,104**	54,340,547
Gross profit from sales	**6,348,513**	7,195,112
Freight and other operating revenues	**20,726,345**	17,965,284
Operating expenses	**14,056,705**	12,170,737
Gross profit from operations	**6,669,640**	5,794,547
Sales commissions	**2,774,424**	2,682,248
Management and consulting fees	**2,736,244**	2,672,460
Dividends, royalties and other income	**2,578,362**	2,895,662
	8,089,030	8,250,370
	21,107,183	21,240,029
Expenses:		
Administrative, selling and general (net)	**9,265,467**	9,217,603
Investigation, exploration and research	**834,635**	901,046
Interest on debt	**505,659**	316,577
	10,605,761	10,435,226
Income before U. S. and foreign income taxes and item below	**10,501,422**	10,804,803
U. S. and foreign income taxes:		
Current year (less investment credit—$29,689 in 1967, $661,011 in 1966)	**3,777,658**	3,068,315
Deferred	**120,805**	586,865
	3,898,463	3,655,180
Income before extraordinary item	**6,602,959**	7,149,623
Gain from sale of investments, less applicable income tax of $133,450	**400,341**	
Net income for the year	**$ 7,003,300**	$ 7,149,623
Net income per share of Common stock:		
After preferred dividend requirements:		
Before extraordinary item	**$2.74**	$3.09
Extraordinary item	**.18**	—
Net income	**$2.92**	$3.09
Pro forma, assuming conversion of preferred stock and exercise of outstanding stock options:		
Before extraordinary item	**$2.32**	$2.52
Extraordinary item	**.14**	—
Net income	**$2.46**	$2.52

Per share computations are based upon the average number of Common shares outstanding and the Common shares issued under poolings of interests. The pro forma computation also reflects Common shares issuable upon conversion of the preferred stock and the number of Common shares that would be issued if outstanding stock options were exercised and the proceeds were used to retire 5% long-term debt.

*Restated as described in Note 2 to the Consolidated Financial Statements.

Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1967

	1967	1966*
Balance at beginning of year:		
Pickands Mather & Co.	**$39,225,692**	$34,777,544
Subsidiaries pooled in 1967 (Note 2)	**7,589,432**	7,269,682
	46,815,124	42,047,226
Net income for the year	**7,003,300**	7,149,623
	53,818,424	49,196,849
Dividends:		
Serial Preferred—$25 par value—Series A—$1.15 in 1967 ($.575 in 1966)	**451,073**	225,536
Common—$1.00 in 1967 ($.75 in 1966)	**2,024,522**	1,215,350
Other—pooled companies and on retired stock	**204,054**	940,839
	2,679,649	2,381,725
Balance at end of year	**$51,138,775**	$46,815,124

*Restated as described in Note 2 to the Consolidated Financial Statements.

To the Stockholders and the Board of Directors of Pickands Mather & Co.

In our opinion, the accompanying consolidated balance sheet, the related statements of consolidated income and retained earnings, and the summary of financial activities present fairly the financial position of Pickands Mather & Co. and its subsidiaries at December 31, 1967, the results of their operations and supplementary information on funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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.

Cleveland, Ohio
February 15, 1968

Price Waterhouse & Co.

Notes to 1967 Consolidated Financial Statements

Note 1—Basis of consolidation:

The accompanying consolidated financial statements reflect the accounts of all majority-owned domestic and foreign subsidiary companies, including companies pooled as described in the following note.

Note 2—Acquisitions:

In November, 1967 and February, 1968, respectively, Henry Bower Chemical Manufacturing Company and The Carbon Limestone Company became wholly-owned subsidiaries through the issuance by the Company of 193,425 shares of Serial Preferred stock, Series B, and 155,024 shares of Common stock, in exchange for their outstanding common stocks. The transactions were accounted for as poolings of interests and, accordingly, the accompanying statements combine the accounts and results of operations of Pickands Mather, Bower Chemical and Carbon Limestone for 1967, and the 1966 financial statements have been restated to include the acquired companies on a comparable basis. Net sales and net income, respectively, of these companies aggregated, 1966—$7,335,778 and $683,462 and, 1967—$7,409,183 and $590,352 (after deducting $123,000 for net losses in connection with an abandoned project which was initiated in 1962).

Note 3—Long-term debt:

	December 31, 1967	December 31, 1966
Bank loans payable:		
Term notes	$10,000,000	
Revolving credit notes	3,000,000	$ 4,800,000
Obligations under vessel purchase agreements	1,824,217	6,037,157
Other notes payable	175,000	275,000
	14,999,217	11,112,157
Less—Current installments	3,055,440	4,225,440
	$11,943,777	$ 6,886,717

The credit agreement underlying the bank loans, as amended in 1967, provides for maximum borrowings of $23,000,000 and for interest at the prime rate plus ¼% (minimum 4½%, maximum 5%) on the term notes and at the prime rate plus ¼% on the revolving credit notes outstanding at December 31, 1967. Term notes are payable in five equal annual installments (1968/1972) and revolving credit loans are convertible to term notes payable in five equal annual installments (1970/1974). Under the agreement, the Company is required to maintain consolidated net current assets of $10,000,000.

Note 4—Pension plans:

The Company and its subsidiaries have several pension plans covering substantially all of their employees. Provision for pension costs, including amortization of prior service costs principally over 30 years, was $1,242,000 in 1967. It is the policy generally to fund pension costs accrued, except for one plan for which the liability for accrued benefits is included in the accompanying balance sheet. The actuarially computed value of vested benefits as at December 31, 1967 under certain of the plans exceeded the total of the respective pension funds by approximately $2,000,000.

Note 5—Preferences of Serial Preferred stock:

The Serial Preferred stock, $25 par value per share, is redeemable (not prior to August 1, 1971 in the case of Series A and January 1, 1973 in the case of Series B) at $26.25 and at decreasing amounts thereafter to $25. The preferred stock is voting and is entitled to cumulative dividends (beginning December 1, 1967 in the case of Series B) at $1.15 per year. It may be converted into Common stock at the rate of 5/7ths of a share of Common for each share of preferred.

Note 6—Common stock reserved and stock option plans:

At December 31, 1967, 418,322 shares of Common stock were reserved for conversion of Serial Preferred stock, Series A and B, (Note 5) and 315,250 shares were reserved for sale to key managerial employees by the terms of stock option plans, of which options were outstanding for all except 17,000 shares.

No changes in the status of options occurred in 1967 except for the exercise of options for 65,632 shares at prices ranging between $10 and $15 (being fair market values at dates of grants). Outstanding stock options at December 31, 1967 aggregated 298,250 shares, of which options for 130,517 shares were exercisable.

Note 7—Changes in capital surplus:

Balance December 31, 1966	$11,641,398
Deduct—Adjustment relating to poolings of interests	3,015,670
	8,625,728
Excess of proceeds over par value of common stock issued under options	694,316
Other changes	(11,459)
Balance December 31, 1967	$ 9,308,585

Note 8—Contingent liabilities:

Wabush Project—At December 31, 1967 the Company, through its ownership in Wabush Iron Co. Limited, had an aggregate investment of $4,196,375 in the Wabush Mines project in Newfoundland and Quebec, Canada. The Company is committed to purchase its ownership proportion (5.2%) of the iron ore pellets produced and to pay therefor as a minimum, its proportionate share of the costs, with the provision that the amounts included in such costs for depreciation, depletion, etc. in any year shall not be less than the sinking fund requirements for the bonds issued to finance the project. The portion of the annual sinking fund requirements attributable to the Company's participation in the project will not exceed approximately $495,000 annually over the next 23 years.

Savage River Project—Pickands Mather & Co. International, a wholly-owned subsidiary of the Company, through its ownership in Northwest Iron Co. Ltd., had at December 31, 1967 an approximately 12% interest, carried at $1,050,000, in the Savage River project in Tasmania, Australia, which is currently in its start-up phase. Both the subsidiary and the Company have, in connection with the financing by Northwest of its 50% interest in the project through the issuance of $35,750,000 of debentures and notes, agreed, to the extent of 33⅓%, to advance funds to Northwest required (1) to maintain its working capital at a minimum of $500,000 and (2) to provide the project with any funds, in excess of $87,000,000, not otherwise provided, required to complete construction of the project. The Company is also contingently obligated, to the extent of $1,027,000, as guarantor under certain project auxiliary facility agreements.

Note 9—Proposed merger:

Reference is made elsewhere in this annual report for information on the proposed merger with Arthur G. McKee & Company.

Consolidated Summary of Financial Activities

FOR THE YEAR ENDED DECEMBER 31, 1967

	1967	1966*
Funds derived from operations:		
Consolidated net income for the year	**$ 7,003,300**	$ 7,149,623
Charges to income involving no cash outlay:		
Depreciation, depletion and amortization	**3,429,042**	2,751,659
Deferred U. S. and foreign income taxes	**120,805**	586,865
Other charges	**217,773**	199,533
	10,770,920	10,687,680
Other funds provided:		
Increase in long-term debt	**5,057,060**	1,248,217
Sale of stock under stock option plans	**727,132**	702,700
	$16,555,112	$12,638,597
ɔlication of funds:		
Dividends	**$ 2,679,649**	$ 2,381,725
Capital expenditures (net)	**9,846,295**	14,879,848
Investments in securities, advances, etc., (net)	**15,033**	1,130,670
Other	**99,093**	648,469
	12,640,070	19,040,712
Increase (decrease) in consolidated working capital	**3,915,042**	(6,402,115)
	$16,555,112	$12,638,597

*Restated as described in Note 2 to the Consolidated Financial Statements.

Five Year Review of Financial Data 1963-1967

(Dollars in thousands, except per-share data)

	1967	1966	1965	1964	1963
Sales of products and operating revenues	**$ 78,816**	$ 79,501	$ 76,506	$ 59,292	$ 57,877
Gross profit from sales and operating revenues	**13,018**	12,990	11,407	10,775	9,142
Sales commissions, management fees, dividends, royalties, etc.	**8,089**	8,250	7,383	7,108	5,974
Income before U. S. and foreign income taxes	**11,035**	10,805	9,963	9,343	7,024
U. S. and foreign income taxes	**4,032**	3,655	3,542	3,265	2,984
Net income	***7,003**	7,150	6,421	6,078	4,040
Net income per share of Common stock (after allowance for dividend requirements on Serial Preferred stock)	***2.92**	3.09	2.80	2.65	1.66
Dividends paid per share on Common stock	**1.00**	.75	.50	.50	.50
Capital expenditures and investments (net)	**9,861**	16,011	3,993	4,478	2,227
Depreciation, depletion and amortization	**3,429**	2,752	2,576	2,502	2,569
At Year End:					
Working capital	**16,511**	12,596	18,986	15,084	14,510
Long-term debt	**11,944**	6,887	5,639	5,149	6,160
Shareholders' equity (including $14,641,250 par value of Serial Preferred stock)	**76,189**	71,149	65,644	61,309	57,037
Common shares ($.50 par value) outstanding:					
At year end	**2,199,957**	2,134,325	2,056,745	2,046,127	2,032,277
Average in year	**2,170,868**	2,099,161	2,052,795	2,041,531	2,029,534

This summary reflects the retroactive accounting, on a pooling of interests basis with the Company, for the merger in 1966 with The Interlake Steamship Company and the subsequent acquisitions of Henry Bower Chemical Manufacturing Company and The Carbon Limestone Company.

*Includes extraordinary income of $400,000; $.18 per share of Common stock.

Operational Summary

General Offices:

Cleveland, Ohio

Divisions:

MARINE

The Interlake Steamship Co.
Nineteen Great Lakes bulk freighters, including a self-unloader.
Combined per trip capacity: 308,800 gross tons

Labrador Steamship Company Ltd. ●
Three St. Lawrence Seaway bulk freighters.
Combined per trip capacity: 65,800 gross tons

DOCK

Operations:

The Ashtabula & Buffalo Dock Company ●
The Erie Dock Company ●
Iron ore unloading at Ashtabula and Cleveland, respectively

The Toledo Lakefront Dock Co. ▲
(joint management)
Coal loading and iron ore unloading

The Detour Dock Company ▲
Vessel fueling at DeTour, Mich.

The Marquette Dock Company ▲
Portage Coal & Dock Company ●
Coal unloading at Marquette and Hancock, Mich., respectively

COAL

Mining Operations:

Chisholm Mine

Mohawk Mine ●

Exclusive Sales Agencies:

Prenco Industrial Waste Disposal Systems ▲

Representing seventeen coal producers in Ohio, Indiana, Pennsylvania, Kentucky, West Virginia, Virginia, and Maryland

PM Oil Co.
Industrial diesel fuel

PIG IRON, FERROALLOYS AND COKE

Exclusive Sales Agencies:

Foundry products and ferroalloys produced by Interlake Steel Corporation ▲

Industrial coke produced by Chevrolet—Saginaw Grey Iron Foundry Division of General Motors Corporation

Sales of Milwaukee Solvay coke and Massive Manganese metal

Sales Offices:

Chicago • Detroit • Duluth • Erie, Pa. • Greensboro, N. C. • Indianapolis • Marquette, Mich. • New York City • Pittsburgh • St. Louis • Washington

MILWAUKEE SOLVAY COKE CO.

Producing foundry coke and by-products

MANGANESE CHEMICALS CO.

Producing manganese chemicals and metal, and hydroquinone

Other Principal Subsidiaries:

The Carbon Limestone Company ●
Producing limestone and concrete products, and coal

Henry Bower Chemical Manufacturing Company ●
Producing organic and organo-metallic chemicals

Pickands Mather & Co. International ●
Sydney and Perth, Australia
Tokyo, Japan
Exploration, market development and iron ore mining

Pickands Mather (France) S. A. R. L. ●
Paris, France
Market development and mineral investigations

Syracuse Mining Company ●
Metallurgical and research laboratory

Iron Ore:

OPERATIONS

(Products and annual capacities)

United States

Erie Mining Company—pellets, 10.3 million tons

Mahoning Mine } —concentrates, 2
Danube Mine } million tons combined

Canada

Wabush Mines—pellets, 6 million tons ▲

The Hilton Mines—pellets, 900,000 tons ▲

The Griffith Mine—pellets, 1.5 million tons

Tasmania, Australia

Savage River Mines—pellets, 2.25 million tons ▲

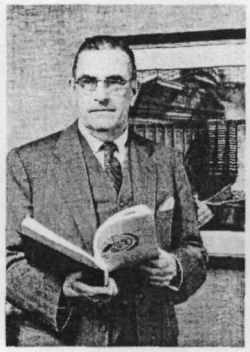
SALES

Iron ore pellets, blast furnace and open hearth ores, and magnetite media.

KEYS: ● Subsidiary
▲ Ownership interest

F. R. Dykstra

B. F. Borgel


J. H. Bemis

C. S. Arms

D. M. Chisholm

G. S. Lockwood

R. S. Carey

J. S. Crawford

A. H. Ford

Elton Hoyt

R. P. Batchelor

Board of Directors

CHARLES S. ARMS

KEITH S. BENSON

ROBERT S. CAREY

DONALD M. CHISHOLM

E. MANDELL DEWINDT
President, Eaton Yale & Towne Inc.

J. RICHARDSON DILWORTH
Rockefeller Family & Associates

ALFRED S. GLOSSBRENNER
Director, The Youngstown Sheet and Tube Company

JAMES A. HUGHES
President, Diamond Shamrock Corporation

HENRI P. JUNOD
Retired Vice Chairman of the Board, Pickands Mather & Co.

GEORGE S. LOCKWOOD, JR.

HORACE A. SHEPARD
President, TRW Inc.

JOHN SHERWIN

Officers

JOHN SHERWIN, *Chairman of the Board*

KEITH S. BENSON
President and Chief Executive Officer

ROBERT S. CAREY, *Executive Vice President*

CHARLES S. ARMS, *Vice President—Planning*

ROGER P. BATCHELOR, JR.
Vice President—Engineering and Construction

JOHN H. BEMIS, *Vice President and President, Milwaukee Solvay Coke Co. Division*

BERNARD F. BORGEL
Vice President—Operations

DONALD M. CHISHOLM
Vice President—Administration

JOHN S. CRAWFORD, II
Vice President—Coal Division

FRANZ R. DYKSTRA
Vice President and President, Manganese Chemicals Co. Division

ALLEN H. FORD, *Vice President—Finance*

LEONARD J. GEE, *Treasurer*

RAYMOND G. HISCOX, *Controller*

ELTON HOYT III, *Vice President—Pig Iron, Ferroalloy and Coke Division*

GEORGE S. LOCKWOOD, JR.
Vice President—Sales

ROBERT MCINNES, *Secretary*

Officers of Major Subsidiaries

ROBERT H. CHISHOLM
President, The Carbon Limestone Company

WILLIAM E. CONWAY
Executive Vice President and Managing Director, Pickands Mather & Co. International

RAYMOND R. HULL, *President, Henry Bower Chemical Manufacturing Company*

Capital Stock

Common Stock and
$1.15 Convertible Preferred Stock,
Series A and Series B

Traded on the Over-The-Counter Market

Transfer Agent:
The Cleveland Trust Company
Euclid Avenue at East 9th Street
Cleveland, Ohio 44101

Registrar:
Society National Bank of Cleveland
127 Public Square
Cleveland, Ohio 44114

Certified Public Accountants

Price Waterhouse & Co.

General Offices

2000 Union Commerce Building
Cleveland, Ohio 44115

Annual Meeting

The annual meeting of shareholders will be held at 10 A.M. Tuesday, May 7, 1968, at 100 West Tenth Street, Wilmington, Delaware. A formal notice of the meeting, proxy statement and proxy ballot will be sent to shareholders shortly after the date of record for the meeting, which is March 20, 1968.

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Cardinal®

Diamond Shamrock Corporation

General Offices 300 Union Commerce Building Cleveland, Ohio 44115 Telephone 621-6100

RAYMOND F. EVANS
CHAIRMAN

Cleveland, Ohio
October 25, 1968

TO DIAMOND STOCKHOLDERS:

A Special Meeting of Stockholders has been called by the Board of Directors to be held at Diamond's office in Cleveland on November 27, 1968, at 11:00 A. M. for the purpose of considering and voting upon an Amended Plan and Agreement of Reorganization providing, among other things, for the merger of a Diamond subsidiary into Pickands Mather & Co. with the result that Pickands Mather & Co. would become a wholly-owned Diamond subsidiary.

Under this proposal Diamond would issue for each share of Pickands Mather Common Stock eight-tenths of a share of Diamond Common plus one-fourth of a share of a new Special Common Stock on which no dividend would be paid for four years, after which the same dividend per share would be paid as is then being paid on Diamond Common. This Special Common Stock would be convertible into Diamond Common at Diamond's option on a share-for-share basis at any time. Diamond would also issue shares of a new series of its Preferred Stock on a share-for-share basis for Pickands Mather Serial Preferred Stock. This new series of Diamond Preferred would pay a cumulative annual dividend of $1.15 per share and each share would be convertible into three-fourths of one share of Diamond Common.

Your management and directors believe that the proposed transaction with Pickands Mather & Co. will be beneficial to Diamond for a number of reasons, but principally because of the improvement it will effect in the consolidated balance sheet position (particularly the debt-equity ratio) of Diamond after the transaction, the additional management and staff strength that will be made available to aid any future growth of the combined companies, the diversification of our operations into new potential growth areas in the natural resources fields and, finally, achievement of these potential benefits without dilution in our earnings per share. Of course, there can be no assurance that all of these benefits will be realized.

The attached Proxy Statement contains information with respect to the financial and other aspects of the merger, including the proposed amendments to the Certificate of Incorporation to authorize additional stock. Since the proposal relating to this transaction is of major importance to the future of Diamond, I urge you to consider such proposal carefully in the light of the information contained in the Proxy Statement and to return promptly your signed proxy in the enclosed envelope so that your shares will be voted at the meeting. If you wish to attend the meeting, you will be given the opportunity to vote in person, if you so desire, even though you have already sent in your proxy.

The Diamond Board of Directors recommends that you vote in favor of the proposal relating to the merger.

Sincerely yours,

Raymond F. Evans

DIAMOND SHAMROCK CORPORATION

300 UNION COMMERCE BUILDING
CLEVELAND, OHIO 44115

October 25, 1968

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

November 27, 1968

TO THE STOCKHOLDERS OF DIAMOND SHAMROCK CORPORATION:

Notice is hereby given of a special meeting of the stockholders of Diamond Shamrock Corporation which will be held at the principal office of the Corporation, 300 Union Commerce Building, Cleveland, Ohio at 11:00 o'clock A.M., Cleveland time, on November 27, 1968, for the following purposes:

(A) To consider and vote upon the approval of the Amended Plan and Agreement of Reorganization by and among the Corporation, Pickands Mather & Co. and PM Merger Corp. (a wholly-owned subsidiary of the Corporation), a copy of which accompanies this notice, thereby (i) adopting the proposed amendments to the Certificate of Incorporation of the Corporation set forth as Exhibit II to such Amended Plan and Agreement of Reorganization, and (ii) electing four additional members of the Board of Directors of the Corporation, in accordance with said Amended Plan and Agreement of Reorganization, and upon any other matters relating or incident to the transactions and other acts contemplated by said Amended Plan and Agreement of Reorganization; and

(B) To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on September 30, 1968 as the record date for the determination of stockholders entitled to notice of and to vote at such special meeting and any adjournment thereof.

By Order of the Board of Directors

JOHN A. WILSON
Secretary

IMPORTANT: — All stockholders are requested to date, fill in, sign and return promptly the enclosed proxy in the envelope provided. If you receive two proxies, please sign, date and return both proxies. Those wishing to attend the meeting may vote in person if they so desire even if they have previously sent in their proxies.

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Appendix A: Amended Plan and Agreement of Reorganization
Exhibit I: Amended Agreement of Merger
Exhibit II: Proposed Amendments to Certificate of Incorporation of Diamond.

Appendix B: Class Terms of Preferred Stock as Extracted from Proposed Amended Article Fourth of Certificate of Incorporation of Diamond.

Appendix C: Section 262 of Subchapter IX of the General Corporation Law of the State of Delaware.

DIAMOND SHAMROCK CORPORATION
AND
PICKANDS MATHER & CO.

PROXY STATEMENT

Diamond Shamrock Corporation ("Diamond"), Pickands Mather & Co. ("PM") and PM Merger Corp., a wholly-owned subsidiary of Diamond ("Subsidiary"), have entered into an Amended Plan and Agreement of Reorganization made as of August 29, 1968 ("Reorganization Agreement"), and PM and Subsidiary have entered into an Amended Agreement of Merger made as of August 29, 1968 ("Merger Agreement"), which together contemplate, among other things, that Subsidiary will be merged into PM, that PM will become a wholly-owned subsidiary of Diamond, and that all theretofore outstanding shares of PM stock will be converted into shares of Diamond stock. Consummation of these transactions is expressly conditioned upon, among other things, the Reorganization Agreement having been duly approved by the stockholders of both Diamond and PM and the Merger Agreement having been duly adopted by the stockholders of PM.

Proposals to approve the Reorganization Agreement and to take the actions which the Reorganization Agreement requires to be taken by the stockholders of Diamond and PM, respectively, will be presented to separate special meetings of the stockholders of Diamond and PM called to be held on November 27, 1968. This Proxy Statement is furnished in connection with the solicitation of proxies for use at such meetings, and any adjournments thereof, by the managements of Diamond and PM, respectively.

THE REORGANIZATION AND MERGER

The Boards of Directors of Diamond, PM and Subsidiary have authorized and approved the Reorganization Agreement and the transactions and other acts contemplated thereby, and the Boards of Directors of PM and Subsidiary have authorized and approved the Merger Agreement. A copy of the Reorganization Agreement is annexed hereto as Appendix A, and a copy of the Merger Agreement is annexed as Exhibit I to such Appendix A.

If the reorganization and merger take place as contemplated by the Reorganization Agreement and Merger Agreement, PM will become a wholly-owned subsidiary of Diamond, the separate corporate existence of Subsidiary will come to an end, and the theretofore outstanding shares of PM stock will be converted into and become shares of Diamond stock of such classes and series, in such ratios and upon such terms as are provided in the Merger Agreement and are hereinafter more fully described. See "Effect on PM and Diamond Shares" below. At or immediately prior to consummation of the merger, Diamond will issue the number of Diamond shares required under the Merger Agreement for conversion of the outstanding PM stock. Prior to issuance of such stock the Certificate of Incorporation of Diamond will be amended to authorize additional Diamond stock and to effect other changes incidental thereto in the respects described below and set forth in Exhibit II to the Reorganization Agreement. See "Amendments to Certificate of Incorporation and Bylaws" below. Approval of the Reorganization Agreement by the stockholders of Diamond will constitute their adoption of such amendments to the Certificate of Incorporation of Diamond, as heretofore amended, and election of four additional members of the Board of Directors of Diamond (see "Other Matters" below) in accordance with the Reorganization Agreement.

Approval of the Reorganization Agreement and adoption of the Merger Agreement will be acted upon as one proposal by the stockholders of PM.

In addition to the reasons stated in the accompanying letter to stockholders, one of the principal reasons for the reorganization and merger is the advantage which the managements and Boards of Directors of Diamond and PM believe will result from the increased financial and managerial strength of the combined companies and from the broader base the combined companies will have by joining PM's properties and expertise in the field of natural resources with Diamond's oil and gas and chemical businesses and knowledge. See Pro Forma Consolidated Statement of Income and Condensed Pro Forma Consolidated Balance Sheet below. There is no assurance that these benefits can be realized.

As of the close of business on September 30, 1968 (the record date for the special meetings of stockholders of both Diamond and PM), there were outstanding 11,747,094 shares of Diamond Common Stock ("Diamond Common") and 4,968,500 shares of Diamond Preferred Stock ("Preferred Stock"). Based on the number of shares outstanding on the record date (2,258,525 shares of PM Common Stock and 585,650 shares of PM Serial Preferred Stock), upon the reorganization and merger the stockholders of PM will receive approximately 1,806,820 shares of Diamond Common, 585,650 shares of a new series of Preferred Stock, and 564,631 shares of a new class of stock of Diamond designated Special Common Stock ("Diamond Special Common").

Effect on PM and Diamond Shares

In the reorganization and merger, (i) each outstanding share of PM Common Stock ("PM Common") will be converted into and become .8 of a share of Diamond Common plus .25 of a share of Diamond Special Common, and (ii) each outstanding share of PM Serial Preferred Stock, both Series A and Series B ("PM Serial Preferred"), will be converted into and become one share of a new series of Diamond Preferred Stock designated $1.15 Cumulative Convertible Preferred Stock—Series E ("Series E Preferred Stock"). No fractional shares will be issued in the conversion, but arrangements will be made with an exchange agent pursuant to which each holder of PM Common entitled to a fractional interest in Diamond Common or Diamond Special Common stock may elect to sell such fractional interest or to buy an additional fraction to make up a full share. See "Exchange of Certificates—Fractional Shares" below.

If the merger becomes effective, a holder of 100 shares of PM Common will become the holder of 80 shares of Diamond Common and 25 shares of Diamond Special Common. The Diamond Special Common will be voting stock, but no cash dividends may be paid thereon if the record date is on or before November 30, 1972. For any Diamond Common dividend record date occurring on or after December 1, 1972 the holders of Diamond Special Common will be paid dividends on a parity with the holders of Diamond Common and vice versa. Diamond may at any time, at its sole option, convert such Diamond Special Common into Diamond Common at the rate of one share of Diamond Common for each share of Diamond Special Common. For a more extensive summary of the terms of Diamond Special Common see "Description of Diamond Special Common" below.

The Series E Preferred Stock will be voting stock with a cumulative annual dividend of $1.15 per share and will be convertible at the option of the holder into Diamond Common at a conversion rate of .75 of a share of Diamond Common for each share of Series E Preferred Stock so converted. Thus, if the merger becomes effective, a holder of 100 shares of PM Serial Preferred will become the owner of 100 shares of Diamond Series E Preferred Stock which can at any time thereafter be converted by him at his election into 75 shares of Diamond Common. For a more extensive summary of the terms of the Series E Preferred Stock, see "Description of Preferred Stock" below.

Diamond presently has outstanding Common Stock and four series of Preferred Stock designated, respectively, $4.00 Cumulative Convertible Preferred Stock—Initial Series ("Initial Series Preferred Stock"), $4.00 Cumulative Convertible Preferred Stock—Series B ("Series B

Preferred Stock"), $2.00 Cumulative Convertible Preferred Stock—Series C ("Series C Preferred Stock") and $1.20 Cumulative Convertible Preferred Stock—Series D ("Series D Preferred Stock"). It will not be necessary for the holders of any Diamond shares outstanding prior to the reorganization and merger to exchange their stock certificates in connection with the reorganization and merger.

Stock Exchange Listings

The presently outstanding shares of Diamond Common, Series C Preferred Stock and Series D Preferred Stock are listed on the New York Stock Exchange and will remain so listed following the reorganization and merger. Application will be made for the listing on that Exchange of the additional shares of Diamond Common to be received by the PM stockholders in the reorganization and merger, the additional shares of Diamond Common into which Diamond Special Common and Series E Preferred Stock will be convertible in accordance with their respective terms, and the additional shares of Diamond Common which will be reserved for issuance upon exercise of the PM stock options which are to be amended and assumed by Diamond in connection with the reorganization and merger, as described in "Employee Stock Option and Thrift Plans" below. The Diamond Common presently outstanding is also listed on the Pacific Coast Stock Exchange and application will be made for the listing on that Exchange of the above-mentioned additional shares of Diamond Common. It is presently contemplated that the Diamond Special Common and Series E Preferred Stock will not be listed.

Federal Tax Consequences

Consummation of the transactions contemplated by the Reorganization Agreement and Merger Agreement are conditioned upon the receipt of certain advice, more fully described below, to the effect that: (a) the merger of Subsidiary with PM will constitute a tax-free reorganization under Section 368(a)(1)(B) of the Internal Revenue Code of 1954 as amended (the "Code"), (b) for federal income tax purposes, no gain or loss will be recognized by reason of the reorganization and merger to Diamond, PM or Subsidiary, (c) for federal income tax purposes no gain or loss will be recognized to any PM stockholder upon his exchange of PM shares for shares of Series E Preferred Stock, Diamond Common or Diamond Special Common (except in case of stockholders exercising dissenters' rights or in respect of proceeds of the disposition of a fractional share), (d) the disposition of shares of Diamond Special Common or of Series E Preferred Stock to be issued to PM stockholders will not be subject to ordinary income tax treatment under Section 306 of the Code (which Section is designed to prevent "bailouts" of earnings and under which the proceeds of certain dispositions of stock may be taxed as ordinary income), (e) no gain or loss will be recognized under present law to any holder of Series E Preferred upon the conversion of such stock into Diamond Common, and (f) no taxable income will arise under present law upon the conversion of Diamond Special Common into Diamond Common. Specifically, the respective obligations of Diamond, Subsidiary and PM to consummate the transactions contemplated by the Reorganization Agreement and Merger Agreement are conditioned upon the receipt by Diamond and PM, respectively, of either (i) a ruling of the Internal Revenue Service at least as favorable as that contemplated by clauses (a) through (c) and (f) above, or (ii) with respect to those matters, if any, contemplated by such clauses as to which such favorable ruling shall not have been received, opinions from their respective counsel satisfactory to their respective Boards of Directors. In addition, the obligation of PM to consummate such transactions is conditioned upon the receipt by PM of either (i) a ruling of the Internal Revenue Service at least as favorable as that contemplated by clauses (d) and (e) above, or (ii) with respect to those matters, if any, contemplated by such clauses as to which such favorable ruling shall not have been received, an opinion from its counsel satisfactory to its Board of Directors. Any such opinion of counsel (who shall be Messrs. Jones, Day, Cockley & Reavis, in the case of Diamond, and Messrs. Baker, Hostetler & Patterson, in the case of PM) will be satisfactory to the Board of Directors of Diamond or PM, as the case may be, only

if in the judgment of the Board of Directors of the party to whom such opinion is directed: (i) the opinion does not conflict in any material respect with the ruling, if any, on such matter issued to it by the Internal Revenue Service; and (ii) based upon such opinion, the federal income tax consequences of the transactions will not be materially less favorable to such party or its stockholders than those contemplated by clauses (a) through (f) above. Application has been made to the Internal Revenue Service for a ruling, and is presently pending.

Cash Dividends

Common Stock. Diamond and PM each has paid quarterly cash dividends on its respective common stock for many years. Dividends on PM Common usually have been paid on the first days of March, June, September and December. Thus the most recent dividend on PM Common, at a quarterly rate of 25¢ per share, was paid on September 1, 1968. Dividends on Diamond Common have usually been paid on or about the seventh day of March, June, September and December. The most recently declared dividend on Diamond Common is payable at a quarterly rate of 35¢ per share on December 6, 1968, to holders of record on November 20, 1968. Inasmuch as this record date will be prior to the effective date of the reorganization and merger, the PM stockholders will not receive this December 6 Diamond dividend. However, as permitted by the Reorganization Agreement, PM's Board of Directors has declared a dividend of 26⅔¢ per share on PM Common payable December 1, 1968 to stockholders of record on November 15, 1968. The 1⅔¢ per share increase over the normal quarterly dividend on PM Common is intended to reflect the approximate 6-day difference between the dividend payment dates on Diamond Common and PM Common. The probable next date for payment of a dividend on Diamond Common will be March 7, 1969, to holders of record on February 20, 1969. The Reorganization Agreement permits further dividends on PM Common in a maximum quarterly amount of 25¢ per share for any quarter in 1969 in which holders of PM Common do not participate in dividends on Diamond Common by reason of delay in the effective date of the reorganization and merger. If the merger is consummated prior to the record date for any quarterly dividend on Diamond Common in 1969, a person who theretofore held one share of PM Common could expect to receive a dividend for that quarter (based upon the above quarterly rate) equivalent to 28¢ per share of PM Common theretofore held by him.

Diamond Special Common. No cash dividends may be paid on Diamond Special Common if the record date is prior to December 1, 1972. When a cash dividend on Diamond Common is paid to stockholders of record as of any date on or after December 1, 1972, Diamond Special Common stockholders will receive cash dividends on an equal share-for-share basis with the Diamond Common stockholders.

Preferred Stock. The quarterly dividend rate on both the PM Serial Preferred and Diamond Series E Preferred Stock is 28¾¢ per share. PM Serial Preferred dividends are payable on the first day of March, June, September and December and are cumulative from the last payment date. Diamond Preferred Stock dividends are payable on the fifteenth day of March, June, September and December. In order to effect continuity in the accrual of dividends payable to holders of PM Serial Preferred, dividends on the Diamond Series E Preferred Stock to be exchanged for PM Serial Preferred in the merger will be cumulative from the first day of the last month (March, June, September or December, as the case may be) in which a regular dividend on PM Serial Preferred was payable under the Reorganization Agreement. Thus the first dividend paid on Series E Preferred Stock will be payable for a period which is 15 days longer than a quarter year and will be in the amount of 33½¢. Thereafter the regular quarterly rate on Series E Preferred Stock will be 28¾¢. The Reorganization Agreement makes provision for the continued payment of dividends on PM Serial Preferred at the regular rate of 28¾¢ per share on December 1, 1968 and for any quarter in 1969 in which holders of PM Serial Preferred do not participate in Diamond Series E Preferred Stock dividends by reason of delay in the effective date of the reorganization and merger.

Information as to Diamond and PM dividend history is provided below in the Diamond and PM Consolidated Income Statements. Future dividends will be dependent, of course, upon earnings and other factors. See "Description of Diamond Common" below for information concerning certain restrictions on the payment of dividends.

Other Matters

PM will continue its separate corporate existence as a wholly-owned subsidiary of Diamond after the reorganization and merger become effective. Its activities are expected to be continued with the same management and personnel as at present.

In accordance with the Reorganization Agreement, Messrs. K. S. Benson, J. Richardson Dilworth and John Sherwin, who are presently directors of PM, and Mr. Robert E. Williams, President of The Youngstown Sheet and Tube Company, will become Diamond directors, and Mr. K. S. Benson will be elected an Executive Vice President of Diamond.

Diamond and PM has each received a letter of inquiry from the Cleveland field office of the Antitrust Division of the Department of Justice requesting certain information in connection with the proposed transaction. Each company has voluntarily furnished information in response to the letter of inquiry received by it. A letter of inquiry is not unusual in transactions such as are contemplated by the Reorganization Agreement.

MARKET PRICES

The following table sets forth the high and low per share sales prices of the Diamond Common, the Series C Preferred Stock and the Series D Preferred Stock on the New York Stock Exchange, and the approximate high and low per share bid and asked prices for the PM Common, the Diamond Initial Series Preferred Stock, and the PM Serial Preferred Stock—Series A as reported by National Quotation Bureau, Inc., during the periods indicated.

	Diamond Common Stock		PM Common Stock (1)				Diamond Initial Series Preferred Stock (1)			
			Bid		Asked		Bid		Asked	
	High	Low	High	Low	High	Low	High	Low	High	Low
1966										
1st quarter	42	32¾	Trading commenced September 1, 1966				100½	92	102½	96
2nd quarter	48⅞	34⅝					125	95	128	98
3rd quarter	38½	28	25	22¾	25½	23	90	83	98	85
4th quarter	33⅛	25	23	20¾	23½	21½	88	83	92	86
1967										
1st quarter	41½	31¾	31½	22¼	32	22¾	104½	87	107	90
2nd quarter	39⅝	33⅛	34	27¾	35	28¼	102½	94	104	97
3rd quarter	39⅜	33	30½	26½	31	27¼	101½	90	104	93
4th quarter	35¼	30⅛	33¼	27¼	34	27¾	93	80½	95	82½
1968										
1st quarter	34⅜	28¼	33	28	33½	29	89	78	93	83
2nd quarter	33½	28⅝	30½	26	31	27	86½	80	92	84
3rd quarter	34½	29⅝	32½	26½	33	27½	92	79	95	83
4th quarter (through Oct. 22)	36⅜	33⅜	32½	30	33	31½	92	88	96	92

	Diamond Series C Preferred Stock		Diamond Series D Preferred Stock		PM Serial Preferred Stock Series A (1)			
					Bid		Asked	
	High	Low	High	Low	High	Low	High	Low
1966								
1st quarter	When issued		When issued		Trading commenced			
2nd quarter	trading commenced		trading commenced		September 1, 1966.			
3rd quarter	April 21, 1967.		December 12, 1967.		22	20½	22½	21
4th quarter					21	19½	21½	20
1967								
1st quarter					25½	20¾	27	21
2nd quarter	49¾	45			27¼	24	28	24½
3rd quarter	48¼	44			25¼	23	25¾	23½
4th quarter	45⅝	38½	19⅞	18½	25¾	22	26½	23
1968								
1st quarter	44½	39½	21⅝	18⅝	23½	22	24¼	23
2nd quarter	44¼	39¼	22⅜	19⅞	23¾	21¾	24	22½
3rd quarter	43¾	40½	22⅜	19¾	25¼	22	26	23
4th quarter (through Oct. 22)	44⅞	43	22⅝	21⅝	25½	24½	26	25

(1) The prices shown are inter-dealer prices and do not include mark-ups, mark-downs, commissions or other adjustments.

On October 22, 1968 the closing per share prices for the various series and classes of stock listed above were as follows: Diamond Common $33.75, Diamond Initial Series Preferred—Bid $88.00, Asked $92.00, Diamond Series C Preferred $44.50, Diamond Series D Preferred $22.25, PM Common—Bid $30.38, Asked $31.63, and PM Serial Preferred Stock—Series A—Bid $24.63, Asked $25.63. The Diamond Series B Preferred Stock and the PM Serial Preferred Stock—Series B are not actively traded.

The transaction was first publicly announced on August 1, 1968. On July 30, 1968, the last trading day preceding August 1, 1968, the closing per share prices for the various series and classes of stock listed above were as follows: Diamond Common $30.38, Diamond Initial Series Preferred—Bid $81.00, Asked $86.00, Diamond Series C Preferred $43.00, Diamond Series D Preferred $21.50, PM Common—Bid $26.63, Asked $27.50, and PM Serial Preferred Stock—Series A—Bid $23.00, Asked $24.00.

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DIAMOND SHAMROCK CORPORATION

CONSOLIDATED INCOME STATEMENT

The following consolidated income statement, insofar as it relates to the five years ended Decemb 31, 1967, has been examined by Price Waterhouse & Co., independent accountants, whose opinion there (which is based in part on the opinion of other independent accountants) appears elsewhere herein. the opinion of Diamond, all adjustments, consisting of only normal recurring adjustments, necessary f a fair statement of the results for the unaudited six-month periods ended June 30, 1967 and 1968 ha been included. The statement should be read in conjunction with the other financial statements a notes thereto included elsewhere herein.

	Year ended December 31					Six months ended June 30	
	1963	1964	1965	1966	1967	1967 (Unaudited)	1968 (Unaudite
	(In thousands of dollars)						
Sales of products (A)	$298,999	$330,389	$356,030	$396,957	$411,171	$205,455	$213,862
Other income	1,696	2,657	3,529	4,042	5,202	2,244	2,700
	300,695	333,046	359,559	400,999	416,373	207,699	216,562
Costs, expenses, etc. (B)							
Cost of products sold	224,761	247,722	264,302	293,930	307,216	151,703	162,885
Selling and administrative (C)	30,040	32,862	34,501	38,238	40,636	20,265	20,871
Research and development	6,587	6,915	7,857	8,602	9,108	4,433	4,611
Interest	4,551	5,162	5,205	6,550	8,050	3,904	4,185
	265,939	292,661	311,865	347,320	365,010	180,305	192,552
Income before income taxes	34,756	40,385	47,694	53,679	51,363	27,394	24,010
Provision for income taxes							
Current	9,714	10,713	16,926	20,055	17,981	9,998	8,924
Investment tax credit (C)	(2,134)	(990)	(2,166)	(2,755)	(3,675)	(1,575)	(1,631)
	7,580	9,723	14,760	17,300	14,306	8,423	7,293
Future	4,484	4,826	3,180	1,584	2,315	1,303	1,614
	12,064	14,549	17,940	18,884	16,621	9,726	8,907
Income before items below	22,692	25,836	29,754	34,795	34,742	17,668	15,103
Income applicable to Nopco common stock purchased	565	790	1,289	426	—	—	—
Income before extraordinary items	22,127	25,046	28,465	34,369	34,742	17,668	15,103
Extraordinary items (D)	—	(2,413)	—	—	606	1,971	918
Net income (A)	22,127	22,633	28,465	34,369	35,348	19,639	16,021
Dividend requirements on Preferred Stock (E)	7,706	7,691	7,688	7,662	7,654	3,827	3,831
Balance for Common Shares	$ 14,421	$ 14,942	$ 20,777	$ 26,707	$ 27,694	$ 15,812	$ 12,190
Per Common Share (F)							
No Preferred Stock converted							
Before extraordinary items	$1.25	$1.50	$1.80	$2.30	$2.32	$1.18	$ .96
Extraordinary items	—	(.21)	—	—	.05	.17	.08
Net income	1.25	1.29	1.80	2.30	2.37	1.35	1.04
All Preferred Stock converted							
Before extraordinary items					2.27		.98
Extraordinary items					.04		.06
Net income					2.31		1.04
Cash dividends	.90	.925	1.025	1.125	1.25	.60	.70

Notes:

(A) The merger of The Shamrock Oil and Gas Corporation into Diamond effective December 19, 1967 and the merger of Nopco Chemical Company into Diamond effective May 1, 1967 were treated for accounting purposes as "poolings of interests" and the consolidated income statement combines the consolidated results of operations of Diamond for the five years ended December 31, 1967, the consolidated results of operations of Nopco for the four years ended December 31, 1966 and the four months ended April 30, 1967, and the consolidated results of operations of Shamrock for its five fiscal years ended November 30, 1967, with appropriate elimination of approximately 35% of Nopco income applicable to the Nopco shares purchased by Diamond, after reflecting the retroactive adjustments explained below and after certain reclassifications of expenses for comparability. In accordance with the recently issued opinion of the Accounting Principles Board of the American Institute of Certified Public Accountants adjustments were made to the consolidated income statement to extend the principle of providing for deferred income taxes for current tax reductions resulting principally from the excess of tax depreciation over book depreciation. These adjustments, together with the relatively minor effects of conforming the accounting for investments in less than 100% owned foreign subsidiaries to the basis of underlying equities and of reflecting retroactively the provision in 1966 for unsettled producers' gas rate increases applicable to prior periods, reduced net income in 1967 by $848,000 and in prior years by the amounts shown as retroactive adjustments in the reconciliation below.

	(Thousands of dollars)			
	1963	1964	1965	1966
Sales of products				
As originally reported in Diamond's annual reports to shareholders	$160,076	$178,497	$208,593	$233,039
Businesses acquired in poolings of interests—prior to year of acquisition	138,923	151,892	147,437	163,918
	$298,999	$330,389	$356,030	$396,957
Net income				
As originally reported in annual reports to shareholders	$ 10,666	$ 13,191	$ 16,363	$ 18,987
Businesses acquired in poolings of interests—prior to year of acquisition	12,416	10,186*	13,281	16,124
Retroactive adjustments	(955)	(744)	(1,179)	(742)
	$ 22,127	$ 22,633*	$ 28,465	$ 34,369

*After extraordinary charge of $2,413,000

(B) Depreciation and depletion charged to costs and expenses amounted to $25,333,000 in 1963, $28,216,000 in 1964, $26,499,000 in 1965, $28,425,000 in 1966, $31,034,000 in 1967, $14,919,000 for six months of 1967, and $15,683,000 for six months of 1968. The depreciation provision in 1964 includes $2,050,000 on the Painesville cement plant sold in that year. Commencing in 1964, Shamrock adopted the practice of computing provisions for depreciation and depletion of oil and gas producing properties on a producing area basis; in years prior to 1964, computations were made for each lease. This change had the effect of decreasing the provision for depreciation and depletion and increasing net income in 1964 by approximately $850,000.

(C) In view of the subsequent enactment of the Revenue Act of 1964, Diamond adopted the policy of treating the investment tax credit as a reduction of Federal income taxes; accordingly, the unamortized balance ($617,000 at December 31, 1963) of the 1962 investment tax credit was credited to income in 1963. A reserve of $1,700,000 for possible losses on investments (of which $450,000 was applicable to 1962) was provided and included in selling and administrative expenses in 1963. No retroactive adjustment of the results of operations for 1963 has been made because the effect of these items on net income when taken together is not material.

(D) The extraordinary charge in 1964 of $2,413,000 represents the net loss related to Nopco's isocyanate plant including the loss on sale of plant facilities, deferred pre-operating expenses and other costs aggregating $7,535,000 less $3,810,000 related income tax reductions and $1,312,000 applicable to Nopco common stock purchased. The extraordinary credit in 1967 represents the net gain of $1,971,000 on sale of an investment after deducting applicable income tax of $657,000 in the first six months of 1967 and less a provision of $1,365,000 for foreign investments in the year 1967. The extraordinary credit in 1968 represents the net gain of $918,000 on the sale of the Bessemer cement plant and business, after deducting $2,106,000 of applicable income tax and investment tax credit to be repaid.

(E) Adjusted retroactively for the dividend requirements on shares of Preferred Stock issued in poolings of interests.

(F) Based on average number of shares of common stock outstanding in each period adjusted retroactively for the 1965 stock split and for the shares issued in the Shamrock merger.

* * * *

The decrease in income before Federal income taxes for 1967 compared to 1966 is attributed in part to operation of plants at a relatively lower level of expanding capacity, and in part to selling price reductions reflecting competitive conditions, primarily in certain agricultural chemicals and general purpose polyvinyl chloride resins.

Set forth below are comparative, unaudited figures with respect to Diamond's sales of products, net income and earnings per share for the first nine months of 1967 and 1968. In the opinion of Diamond, all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of the results for the unaudited nine-month periods have been included.

	January 1 through September 30	
	1967	**1968**
	(In thousands of dollars)	
Sales of Products	$308,091	$322,068
Net Income		
Before extraordinary items	25,770	22,074
After extraordinary items	27,741	22,992
Per Common Share—after preferred dividends		
Before extraordinary items	$1.71	$1.39
After extraordinary items	1.88	1.47

The decline in earnings in 1968 compared to 1967 is due primarily to the Federal income tax surcharge and price weakness in certain product lines, particularly commodity chemical products, polyvinyl chloride plastics, ammonia and liquid petroleum gases.

CONSOLIDATED INCOME STATEMENT OF PICKANDS MATHER & CO.

The following consolidated income statement, insofar as it relates to the five years ended December 31, 1967, has been examined by Price Waterhouse & Co., independent accountants, whose opinion thereon appears elsewhere herein. In the opinion of Pickands Mather & Co., all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the unaudited six-month periods ended June 30, 1967 and 1968 have been included. The statement should be read in conjunction with the other financial statements and notes thereto included elsewhere herein.

	Year ended December 31,					(Unaudited) Six months ended June 30,	
	1963	1964	1965	1966	1967	1967	1968
	(In thousands of dollars)						
Income:							
Sales of products (A)	$43,264	$44,526	$61,487	$61,535	$58,090	$28,052	$30,758
Cost of sales	38,495	38,558	55,123	54,340	51,741	24,811	27,162
Gross profit from sales	4,769	5,968	6,364	7,195	6,349	3,241	3,596
Freight and other operating revenues (A)	14,611	14,765	15,018	17,965	20,726	7,623	7,531
Operating expenses	10,238	9,958	9,976	12,170	14,056	4,932	4,758
Gross profit from operations	4,373	4,807	5,042	5,795	6,670	2,691	2,773
Sales commissions	2,431	2,543	2,624	2,682	2,774	1,329	1,527
Management and consulting fees	1,735	2,122	2,201	2,672	2,736	1,189	910
Dividends, royalties and other income	1,808	2,443	2,558	2,896	2,578	946	1,284
	5,974	7,108	7,383	8,250	8,088	3,464	3,721
	15,116	17,883	18,789	21,240	21,107	9,396	10,090
Expenses:							
Administrative, selling and general (net)	7,131	7,604	8,010	9,218	9,265	4,152	4,614
Investigation, exploration and research	513	591	519	901	835	519	415
Interest	449	345	298	317	506	203	333
	8,093	8,540	8,827	10,436	10,606	4,874	5,362
Income before income taxes	7,023	9,343	9,962	10,804	10,501	4,522	4,728
Provision for income taxes:							
Current	2,353	2,810	3,022	3,729	3,808	2,017	1,915
Investment tax credit	—	(99)	(101)	(661)	(30)	(14)	(75)
	2,353	2,711	2,921	3,068	3,778	2,003	1,840
Future	671	537	664	565	226	(150)	222
	3,024	3,248	3,585	3,633	4,004	1,853	2,062
Income before extraordinary item	3,999	6,095	6,377	7,171	6,497	2,669	2,666
Extraordinary item—Gain from sale of investments, less applicable income tax of $133,450	—	—	—	—	400	—	—
Net income (A)	3,999	6,095	6,377	7,171	6,897	2,669	2,666
Dividend requirements on Serial Preferred stock (B)	673	673	673	673	673	336	336
Balance for Common Shares	$ 3,326	$ 5,422	$ 5,704	$ 6,498	$ 6,224	$ 2,333	$ 2,330

CONSOLIDATED INCOME STATEMENT OF PICKANDS MATHER & CO. (Continued)

	Year ended December 31,					(Unaudited) Six months ended June 30,	
	1963	1964	1965	1966	1967	1967	1968
Per Common Share (C):							
No preferred stock converted:							
Before extraordinary item	$1.64	$2.66	$2.78	$3.10	$2.69	$1.08	$1.05
Extraordinary item	—	—	—	—	.18	—	—
Net income	$1.64	$2.66	$2.78	$3.10	$2.87	$1.08	$1.05
Assuming conversion of preferred stock and exercise of outstanding stock options (D):							
Before extraordinary item					$2.28		$ .93
Extraordinary item					.14		—
Net income					$2.42		$ .93
Cash dividends per share of Common stock (C)	$ .50	$ .50	$ .50	$ .75	$1.00	$ .50	$ .50

Notes:

(A) The above statement reflects the accounting, on a pooling of interests basis with the Company for (1), the merger in 1966 with The Interlake Steamship Company and (2), as more fully explained in Note 2 to the consolidated financial statements, the subsequent consolidation with the businesses of two other companies (one consummated in November, 1967 and the other in February, 1968), after reflecting the retroactive adjustments explained below. In accordance with the recently issued opinion of the Accounting Principles Board of the American Institute of Certified Public Accountants adjustments were made to the consolidated income statement to extend the principle of providing for deferred income taxes as described in Note 13 to the consolidated financial statements. These adjustments are shown in the reconciliations below:

	1963	1964	1965	1966	1967
	(In thousands of dollars)				
Sales:					
Pickands Mather & Co. and subsidiaries	$37,646	$38,428	$55,397	$54,200	$58,090
Businesses acquired in poolings of interests —prior to year of acquisition	5,618	6,098	6,090	7,335	—
	$43,264	$44,526	$61,487	$61,535	$58,090
Revenues:					
Pickands Mather & Co. and subsidiaries	$ 912	$ 1,250	$ 1,256	$17,965	$20,726
Business acquired in pooling of interests—prior to year of acquisition	13,699	13,515	13,762	—	—
	$14,611	$14,765	$15,018	$17,965	$20,726
Net income:					
Pickands Mather & Co. and subsidiaries	$ 1,964	$ 3,536	$ 3,923	$ 6,466	$ 7,003
Businesses acquired in poolings of interests —prior to year of acquisition	2,075	2,542	2,497	683	—
Retroactive adjustments	(40)	17	(43)	22	(106)
	$ 3,999	$ 6,095	$ 6,377	$ 7,171	$ 6,897

See Note 13 to the consolidated financial statements for details with respect to the retroactive adjustment of the income statement for the six months ended June 30, 1967.

(B) Adjusted retroactively for the dividend requirements on shares of preferred stock issued in poolings of interests.

(C) Net income per share is based upon the average number of Common shares outstanding during each year, or period, adjusted retroactively for the Common shares issued pursuant to the poolings of interests, noted

CONSOLIDATED INCOME STATEMENT OF PICKANDS MATHER & CO. (Continued)

above, and, in 1966, a 2 for 1 stock split and the conversion of the First Preferred stock not redeemed. Dividends per share are presented in terms of the current equivalent of the number of Common shares of Pickands Mather & Co. outstanding at the time of the respective dividends.

(D) The computation is based upon the number of Common shares determined as in (C) above, plus:

1 — The number of Common shares issuable (at the rate of 5/7ths of a share of Common for one of preferred) upon conversion of the outstanding Serial Preferred stock (aggregating 585,650 shares), and

2 — The number of Common shares that would be issued if outstanding stock options were exercised and, further, that the proceeds received had been used to retire 5% long-term debt.

* * * * *

A temporary decrease in demand during 1967 for coal and coke in the industries to which PM sells these products and a decline in brokerage sales of iron ore caused a decline in sales of products in 1967 compared to 1966.

PM does not normally publish quarterly earnings. However, for the nine-month period ended September 30, 1968, PM's net earnings per common share (assuming no preferred stock converted) are estimated on a preliminary basis to be approximately 7% below those for the same period of 1967, exclusive of extraordinary item in 1967. This decline is due primarily to the Federal income tax surcharge.

Because a large share of the business of PM is related to the navigation season on the Great Lakes and St. Lawrence Seaway, which normally extends from approximately April 15th to November 15th, results of operations for interim periods are not necessarily indicative of results for the full year.

DIAMOND SHAMROCK CORPORATION

PRO FORMA CONSOLIDATED STATEMENT OF INCOME

The following pro forma consolidated statement of income gives effect to the proposed reorganization and merger by combining the results of operations of Pickands Mather and of Diamond Shamrock on a pooling of interests basis for the five years ended December 31, 1967 and for the six month periods ended June 30, 1967 and 1968, respectively. The pro forma consolidated statement of income should be read in conjunction with the other financial statements and notes thereto included elsewhere herein.

	Year ended December 31					Six months ended June 30,	
	1963	1964	1965	1966	1967	1967	1968
	(In thousands of dollars)						
Sales of products and operating revenues	$356,874	$389,680	$432,535	$476,457	$489,987	$241,130	$252,151
Other income	7,670	9,765	10,912	12,292	13,290	5,708	6,421
	364,544	399,445	443,447	488,749	503,277	246,838	258,572
Costs of products sold and operating expenses	274,007	296,829	329,920	361,341	373,848	181,965	195,220
Selling and administrative	37,171	40,466	42,511	47,456	49,901	24,417	25,485
Research and development	6,587	6,915	7,857	8,602	9,108	4,433	4,611
Interest	5,000	5,507	5,503	6,867	8,556	4,107	4,518
	322,765	349,717	385,791	424,266	441,413	214,922	229,834
Income before income taxes	41,779	49,728	57,656	64,483	61,864	31,916	28,738
Provision for income taxes							
Current	9,933	12,434	17,681	20,368	18,084	10,426	9,133
Future	5,155	5,363	3,844	2,149	2,541	1,153	1,836
	15,088	17,797	21,525	22,517	20,625	11,579	10,969
Income before items below	26,691	31,931	36,131	41,966	41,239	20,337	17,769
Income applicable to Nopco Common purchased	565	790	1,289	426	—	—	—
Income before extraordinary items	26,126	31,141	34,842	41,540	41,239	20,337	17,769
Extraordinary items (B)	—	(2,413)	—	—	1,006	1,971	918
Net income	26,126	28,728	34,842	41,540	42,245	22,308	18,687
Dividend requirements on Preferred Stock (C)	8,379	8,364	8,361	8,335	8,327	4,163	4,167
Balance for Common Shares	$ 17,747	$ 20,364	$ 26,481	$ 33,205	$ 33,918	$ 18,145	$ 14,520
Per common share (D)							
Before extraordinary items	$ 1.30	$ 1.66	$ 1.93	$ 2.40	$ 2.36	$ 1.16	$ .97
Extraordinary items		(.17)			.07	.14	.06
Net income	1.30	1.49	1.93	2.40	2.43	1.30	1.03

Notes:

(A) This pro forma statement reflects the combined operations of Diamond Shamrock and Pickands Mather after giving effect to certain reclassifications of expenses for comparability.

(B) Refer to Note D to Diamond Shamrock Consolidated Income Statement and to the Pickands Mather Consolidated Income Statement.

(C) *Based on annual dividend requirements on all series of outstanding Preferred Stock of Diamond Shamrock* plus $673,000 annually for $1.15 Series E Preferred Stock to be issued pursuant to the Reorganization Agreement and Merger Agreement described elsewhere herein.

(D) Based on average number of shares of Diamond Common outstanding during each period (adjusted retroactively for 1965 stock split and shares issued in merger with Shamrock effective December 19, 1967) plus the Diamond Common shares and Diamond Special Common shares that would be issued for the average shares of Pickands Mather Common outstanding in each period as adjusted pursuant to the Reorganization Agreement and Merger Agreement described elsewhere herein. Based on the assumption that all Preferred Stock (including Series E shares) had been converted, the per share data for the year 1967 and the first six months of 1968 would have been as follows:

	Year 1967	Six months 1968
Before extraordinary items	$2.29	$ .98
Extraordinary items	.05	.05
Net income	$2.34	$1.03

COMPARATIVE PER SHARE DATA

	1963	1964	1965	1966	1967	Six Months 1967	Six Months 1968
For Diamond Shamrock Common							
Before reorganization and merger							
(a) After Preferred dividends							
Income before extraordinary items	$1.25	$1.50	$1.80	$2.30	$2.32	$1.18	$ .96
Extraordinary items		(.21)			.05	.17	.08
Net income	1.25	1.29	1.80	2.30	2.37	1.35	1.04
(b) Assuming conversion of all Preferred							
Income before extraordinary items					2.27		.98
Extraordinary items					.04		.06
Net income					2.31		1.04
(c) Cash dividends	.90	.925	1.025	1.125	1.25	.60	.70
Pro forma after reorganization and merger (Note 1)							
(a) After Preferred dividends							
Income before extraordinary items	1.30	1.66	1.93	2.40	2.36	1.16	.97
Extraordinary items		(.17)			.07	.14	.06
Net income	1.30	1.49	1.93	2.40	2.43	1.30	1.03
(b) Assuming conversion of all Preferred							
Income before extraordinary items					2.29		.98
Extraordinary items					.05		.05
Net income					2.34		1.03
For Pickands Mather Common							
Before reorganization and merger							
(a) After Preferred dividends							
Income before extraordinary items	1.64	2.66	2.78	3.10	2.69	1.08	1.05
Extraordinary items					.18		
Net income	1.64	2.66	2.78	3.10	2.87	1.08	1.05
(b) Assuming conversion of Preferred and exercise of outstanding stock options							
Income before extraordinary items					2.28		.93
Extraordinary items					.14		
Net income					2.42		.93
(c) Cash dividends	.50	.50	.50	.75	1.00	.50	.50
Pro forma after reorganization and merger (Note 1)							
(a) After Preferred dividends (Note 2)							
Income before extraordinary items	1.36	1.74	2.03	2.52	2.47	1.22	1.01
Extraordinary items		(.18)			.08	.15	.07
Net income	1.36	1.56	2.03	2.52	2.55	1.37	1.08
(b) Assuming conversion of all Preferred and exercise of outstanding stock options (Note 3)							
Income before extraordinary items					2.35		1.01
Extraordinary items					.05		.05
Net income					2.40		1.06
(c) Cash dividends (Note 4)	.72	.74	.82	.90	1.00	.48	.56

Notes:

(1) The basis of the pro forma share computations are described in Notes C and D of the Pro Forma Income Statement.

(2) The per share amounts for Pickands Mather Common are 1.05 times the comparable amounts for Diamond Shamrock Common representing .8 of a share of Diamond Shamrock Common plus .25 of a share of Diamond Shamrock Special Common to be issued for each share of Pickands Mather Common.

(3) The per share amounts for Pickands Mather Common reflect the effect on a pro forma basis of the exercise of all outstanding stock options and the use of the proceeds to retire debt (currently at 6½% interest cost) for comparison with similar per share computations of Pickands Mather before the reorganization and merger.

(4) The pro forma dividends represent the dividends on .8 of a share of Diamond Common.

DIAMOND SHAMROCK CORPORATION

CONDENSED PRO FORMA CONSOLIDATED BALANCE SHEET

The following condensed pro forma consolidated balance sheet gives effect to the proposed reorganization and merger by combining the June 30, 1968 accounts of Diamond Shamrock and Pickands Mather, on a pooling of interests basis. This pro forma balance sheet should be read in conjunction with the other financial statements and notes thereto included elsewhere herein.

	Diamond Shamrock	Pickands Mather	Pro forma entries	Pro forma combined
		(In thousands of dollars)		
ASSETS				
Current assets:				
Cash and short-term securities	$ 10,381	$ 9,876		$ 20,257
Receivables	77,105	19,154		96,259
Inventories	55,823	5,282		61,105
Prepaid expenses	1,485	1,719		3,204
Total current assets	144,794	36,031		180,825
Investments and advances	28,136	15,122		43,258
Plants and equipment, less depreciation	318,933	61,298		380,231
Patents, trademarks, etc.	919	115		1,034
Intangibles resulting from acquisitions	21,283	—		21,283
Deferred charges	4,369	—		4,369
	$518,434	$112,566		$631,000
LIABILITIES				
Current liabilities:				
Notes payable	$ 16,312	$ —		$ 16,312
Long-term debt — current	5,617	2,900		8,517
Accounts payable	24,562	11,275		35,837
Federal and foreign income taxes	7,058	784		7,842
Other liabilities	22,249	2,910		25,159
Total current liabilities	75,798	17,869		93,667
Long-term debt	140,064	8,150		148,214
Deferrals and reserves	26,134	7,518		33,652
	241,996	33,537		275,533
STOCKHOLDERS' EQUITY				
Preferred stock	20,957	14,641		35,598
Common stock	90,344	1,117	$ 7,172	98,633
Special common stock	—	—	2,590	2,590
Capital surplus	—	9,762	(9,762)	—
Retained earnings	167,240	53,509		220,749
	278,541	79,029		357,570
Less common treasury stock	2,103	—		2,103
	276,438	79,029		355,467
	$518,434	$112,566		$631,000

Pro forma entries — The above entries reflect the following pro forma transactions:

(a) Issuance of 585,650 shares Diamond Shamrock $1.15 Series E Preferred Stock in exchange for 392,225 shares of Pickands Mather $1.15 Series A Preferred and 193,425 shares of Pickands Mather $1.15 Series B Preferred on a share for share basis, with the par value of Pickands Mather Preferred being assigned as the stated value of the Series E Preferred Stock, resulting in the following:

	Conversion Basis*	Shares	Stated value	Liquidation value
$4.00 Initial series	2.6	246,979	$ 3,211,000	$ 24,698,000
4.00 Series B	2.6	95,000	1,235,000	9,500,000
2.00 Series C	1.15	925,217	9,425,000	38,859,000
1.20 Series D	.45	3,702,248	7,086,000	77,747,000
1.15 Series E	.75	585,650	14,641,000	15,373,000
Pro forma		5,555,094	$ 35,598,000	$166,177,000

*Represents common shares into which each share of Preferred is convertible.

(b) Issuance of 1,787,487 shares of Diamond Shamrock Common Stock and 558,589 shares of Diamond Shamrock Special Common Stock in exchange for 2,234,359 shares of Pickands Mather Common Stock on the basis of .8 of a share of Common and .25 of a share of Special Common for each share of Pickands Mather Common. The combined common stock and capital surplus ($10,879,000) of Pickands Mather was allocated to the stated value of Diamond Shamrock Common Stock ($8,289,000) and to the stated value of Diamond Shamrock Special Common Stock ($2,590,000) on the basis of 1,787,487 shares of Common Stock to be issued and 558,589 shares of Special Common Stock to be issued.

Under the most restrictive provisions of the various loan agreements, approximately $37,600,000 of pro forma consolidated retained earnings is free of restrictions as to payments of dividends, as described more fully under "Description of Diamond Common".

COMPARATIVE BOOK VALUE PER SHARE

	June 30, 1968	
	Before Merger	After Merger*
For Diamond Shamrock Common		
After deducting liquidation value of all Preferred	$10.95	$13.34
Assuming conversion of all Preferred	17.91	19.52
For Pickands Mather Common		
After deducting liquidation value of all Preferred	28.49	14.01
Assuming conversion of all Preferred	29.79	20.50

*Diamond Special Common shares are included with Diamond Common shares in determining these book values per share.

PREFERRED STOCK ASSET COVERAGE

At June 30, 1968 the net assets of Diamond Shamrock cover the total liquidation value of its outstanding Preferred Stock 1.8 times; the net assets of Pickands Mather cover the total liquidation value of its outstanding Preferred Stock 5.1 times; the pro forma net assets cover the liquidation value of the pro forma Preferred Stock 2.1 times.

CAPITALIZATION

The existing capitalization of Diamond Shamrock and Pickands Mather as of September 30, 1968 and the pro forma capitalization of Diamond Shamrock Corporation, giving effect to the proposed reorganization and merger, are set forth in the following table:

	Diamond Shamrock	Pickands Mather	Pro forma
		(In thousands of dollars)	
Long-term debt (including current portion)			
Diamond Shamrock(1)			
Sinking fund debentures			
3⅜% due 1971-1978	$ 9,992		$ 9,992
4⅝% due 1970-1987	22,671		22,671
Notes			
6½% due 1969-1973	27,500		27,500
4¾% due 1968-1971	11,500		11,500
4.65% due 1970-1989	30,000		30,000
4½% due 1968-1987	7,500		7,500
Lease purchase agreement	16,283		16,283
Purchase money obligations and other loans	22,865		22,865
Pickands Mather(1)			
Bank loans			
Term notes due 1968-1972		$ 10,000	10,000
Vessel purchase obligation, etc.		1,243	1,243
Total long-term debt	148,311	11,243	159,554
Short-term debt	20,000	—	20,000
Total debt	$168,311	$ 11,243	$179,554
		(Number of shares)	
Diamond Shamrock Capital Stock			
Preferred Stock, without par value			
Authorized	5,500,000		6,000,000
Cumulative Convertible Preferred Stock (2)			
Outstanding			
$4.00 Initial series	246,379		246,379
$4.00 Series B	95,000		95,000
$2.00 Series C(3)	925,217		925,217
$1.20 Series D(3)	3,701,904		3,701,904
To be issued			
$1.15 Series E	None		585,650(4)
Common Stock, without par value			
Authorized	18,000,000(5)		21,000,000(5)
Outstanding	11,747,094(6)		13,553,914(7)
Special Common Stock without par value			
Authorized			700,000
To be issued			564,631(8)
Pickands Mather Capital Stock			
Serial Preferred Stock—$25 par value			
Authorized		800,000	None
Outstanding			
$1.15 Series A, convertible		392,225	None
$1.15 Series B, convertible		193,425	None
Common Stock—$.50 par value			
Authorized		4,000,000(9)	None
Outstanding		2,258,525	None

NOTES TO CAPITALIZATION

Notes:

(1) For further information on long-term debt see Note 6 to Diamond Shamrock Consolidated Financial Statements and Note 7 to Pickands Mather Consolidated Financial Statements.

(2) Reference is made to "Description of Preferred Stock" for description of voting rights, conversion rates and other information about the Initial Series, Series B, Series C and Series D shares outstanding and the Series E shares to be issued in the reorganization and merger. The liquidation value of the $4.00 Preferred Stock (both Initial Series and Series B) is $34,138,000 ($29,700,000 in excess of stated value), the liquidation value of the $2.00 Series C Preferred Stock is $38,859,000 ($29,434,000 in excess of stated value), the liquidation value of the $1.20 Series D Preferred Stock is $77,740,000 ($70,665,000 in excess of stated value) and the liquidation value of the $1.15 Series E Preferred Stock to be issued in the reorganization and merger will be $15,373,000 ($732,000 in excess of stated value) based on Pickands Mather Preferred outstanding September 30, 1968. There are no restrictions upon the payment of dividends or other distributions out of retained earnings on shares of the Preferred Stock or on the Diamond Common solely by reason of the excess of the liquidation preferences over the stated value of the Preferred Stock.

(3) At September 30, 1968, 4,692 shares of Series C Preferred Stock and 55,516 shares of Series D Preferred Stock were reserved for issuance on exercise of options outstanding on that date.

(4) The maximum number of shares which could be issued in exchange for Pickands Mather Series A and Series B Preferred shares outstanding at September 30, 1968.

(5) At September 30, 1968, 577,206 shares were reserved for issuance under Stock Option Plans and the 1966 and 1968 Employee Thrift Plans and 3,647,820 shares were reserved for conversion of outstanding shares of Preferred Stock (Initial Series, Series B, Series C and Series D) including shares issuable on exercise of options. In addition, if the reorganization and merger had been effective on September 30, 1968, 439,237 shares would be reserved for the conversion of shares of Series E Preferred Stock, 625,276 shares would be reserved for conversion of Diamond Special Common Stock, including shares of such Special Common Stock issuable on the exercise of options, and 194,065 shares would be reserved for issuance on the exercise of options as mentioned in Note 9 below.

(6) Does not include 108,115 treasury shares held by Diamond.

(7) Includes 1,806,820 shares which is the maximum number of shares which could be issued in exchange for Pickands Mather Common shares outstanding September 30, 1968, pursuant to the Reorganization Agreement and Merger Agreement but does not include 108,115 treasury shares held by Diamond.

(8) The maximum number of shares of Special Common Stock which could be issued in exchange for Pickands Mather Common shares outstanding September 30, 1968 pursuant to the Reorganization Agreement and Merger Agreement. In addition 60,645 shares would be reserved for issuance on the exercise of options for option units mentioned in Note 9 below.

(9) At September 30, 1968, 242,582 shares were subject to options granted and outstanding under the Pickands Mather stock option plans, and 13,200 were available for additional grants under such plans. Pursuant to the terms of the Reorganization Agreement, such options for 242,582 shares would be converted into options to purchase the same number of option units for an aggregate of 194,065 shares of Diamond Common Stock and 60,645 shares of Diamond Special Common Stock.

(10) For information on obligations under leases, see Note 11 to Diamond Shamrock Consolidated Financial Statements.

BUSINESS AND PROPERTIES OF DIAMOND

Diamond was incorporated in Delaware in 1928 under the name Diamond Alkali Company as the successor to a West Virginia company of the same name incorporated in 1910. Its executive offices are located at 300 Union Commerce Building, Cleveland, Ohio 44115. It is engaged principally in the manufacture and sale of a wide variety of industrial, specialty and agricultural chemicals and plastics and the production of natural gas and crude oil, the refining of crude oil and the sale of petroleum products.

In 1967 Nopco Chemical Company ("Nopco") and The Shamrock Oil and Gas Corporation ("Shamrock") merged into Diamond, and on March 1, 1968 Diamond sold for cash the assets and business of its Bessemer Cement Division (in 1967 sales of cement by Diamond amounted to less than 3% of its total sales).

Except as otherwise indicated by the context, all references in this Section to the term "Diamond" mean Diamond and its consolidated subsidiaries or one or more of the foregoing, and the data include Shamrock and Nopco on a pooling of interests basis.

Products

The percentages of Diamond's consolidated net sales for the year 1967 represented by principal product groups are as follows:

Organics	Refined Petroleum Products	Plastics	Alkalies	Chlorine and By-Products
24%	16%	15%	15%	7%

Chromates	Natural Gas	Silicates	Other
4%	4%	3%	12%

The percentage of sales shown above for a particular product group does not include products of such group used in making products of another group. The principal products within each of the foregoing product groups and certain of the more important uses of each product group are summarized below.

Organics — Principal products include: (a) some 400 specialty chemicals, each developed for a specific end-use application and available in different formulations to meet the individual customer's specific requirements, which are sold to a wide range of industries including principally the pulp and paper industry (defoamers, beater sizes, dispersants and coating additives) and the textile industry (wetting agents, softeners, dyeing assistants, finishes, lubricants and anti-static chemicals), and for animal and human nutritional and therapeutic purposes (Vitamins A and D, niacin, choline chloride, methionine and antibiotics); (b) solvents, ion exchange and thermosetting resins, specialty polymers and acetylene, which are used in a wide variety of industrial and commercial applications including metal degreasing, dry cleaning, refrigeration, water treating, corrosion and flame-resistant coatings and materials, sealants, calkants and adhesives; and (c) agricultural chemicals such as insecticides, herbicides and fungicides.

Refined Petroleum Products — Principal products include motor gasoline, diesel fuel and jet fuel.

Plastics — Among the principal products in this group are polyvinyl chloride ("PVC"), PVC resins, urethane foam and packaged systems for foaming urethane foam in place, vinyl and polyethylene film and sheeting and polypropylene resins and film. These products are sold

for use in a wide variety of applications calling for rigid or pliable materials, which applications include plastic pipe, bottles, packaging, upholstery, cushioning, bedding, fabric lamination and interlining, thermal and acoustic insulation, building materials and components, multi-filament fibers (chiefly for carpeting), synthetic twine and rope and consumer items such as phonograph records, automobile floor mats, bath mats, shower curtains and toys.

Alkalies — Principal products include soda ash, caustic soda, bicarbonate of soda, caustic potash and potassium carbonate. These products are sold for use in chemical processing; in the production of glass, aluminum, pulp and paper, iron and steel, rayon and other textiles, soap, detergents, lye, petroleum and rubber products; in food and drug products; and as scouring agents in the laundry, dairy, bottling and food-processing industries. Soda ash is also used in Diamond's production of some of the chromates and silicates referred to below. Caustic soda is also used by Diamond to make silicates and, to a lesser extent, the agricultural chemicals referred to above.

Chlorine and By-Products — Principal products include chlorine, hydrogen, muriatic acid and anhydrous hydrogen chloride. A substantial amount of Diamond chlorine is used in its production of agricultural chemicals and plastics referred to above. Chlorine is manufactured by Diamond by electrolysis of salt brine, which also results in the production of caustic soda and hydrogen. Chlorine and its by-products are sold for uses which include manufacture of other chemicals, water purification, bleaching and steel production.

Chromates — Among the principal products are sodium bichromate and chromic acid which are used in the leather tanning, paint and textile industries, for treatment of wood products and for metal treatment and plating.

Natural Gas — Diamond sells natural gas, including residue gas remaining after processing for the removal of natural gas liquids, principally to natural gas pipeline companies and industrial users.

Silicates — The principal product is sodium silicate, which is used in making soap, detergents and synthetic catalysts, processing textiles and chinaware and in soil solidification.

Other — This category includes principally natural gas liquids (such as propane, isobutane, normal butane and pentanes and heavier hydrocarbons), ammonia, crude oil, coke, zinc dust, zinc oxide and sodium hydrosulfite. (This category also includes cement, which business was sold in March 1968). Diamond uses the greater portion of its isobutane, pentanes and heavier hydrocarbons in its refinery operations. Substantial quantities of butane and propane are sold to other refiners and manufacturers and to jobbers and dealers who resell for domestic purposes and for use as motor fuel. Ammonia is sold primarily through jobbers and dealers for direct application as agricultural fertilizer. Some of the coke is used in Diamond's soda ash production and some is sold. Zinc dust is used principally in the production of sodium hydrosulfite and paint pigments. Zinc oxide is used principally as an additive in rubber products. Sodium hydrosulfite is used as a reducing agent and bleaching agent in the textile industry and in the pulp and paper industries. This category also includes, among other products, Diamond's "Heritage House" line of house and garden agricultural chemicals.

The relative contribution to profits of each of the above product groups is difficult to determine on a comparative basis in view of the substantial use of some products of some groups in the manufacture of products in other groups and the fact that certain products are marketed by more than one of Diamond's sales divisions. However, in 1967 each product group contributed to Diamond's net income for that year.

Diamond has an approximately 28% equity interest in Terra Chemicals International, Inc., which manufactures nitrogen compounds for use in fertilizers at a plant near Sioux City, Iowa and is engaged, through affiliated companies, in selling fertilizers; in addition, it has smaller investments in various other domestic and foreign companies. See Note 3 of Notes to Consolidated Financial Statements of Diamond.

Sales

Diamond's products are sold through nine operating units of which one is a wholly-owned subsidiary. Some Diamond products are manufactured and/or sold by more than one unit. In addition, products of one unit may be used by another unit in the manufacture or formulation of its products.

Diamond's 1967 net sales were distributed among major industry customer classifications approximately as follows:

Petroleum wholesalers	14%
Chemicals	13
Plastics	9
Agricultural chemieals	7
Building materials	6
Distributors	6
Consumer items	6
Pulp and paper	5
Export and foreign	4
Rayon and other textiles	4
Health and feed products	4
Petroleum	3
Natural gas pipelines	3
Soap and detergents	3
Aviation	2
Metals	2
Glass	2
Leather	1
Paints and pigments	1
Other	5
	100%

In 1967 the largest single customer accounted for approximately 3% of net sales and the ten largest customers in the aggregate accounted for 15% of net sales.

For the most part, Diamond sells its products directly to users, although sales of some products are made primarily to distributors. Most of the motor gasoline and diesel fuel is sold to jobber accounts and is subsequently marketed through 1200 Diamond branded outlets in Rocky Mountain and southwestern states.

Diamond owns interests ranging from 15% to 100% in various segments of petroleum products pipelines extending from its crude oil refining and other facilities at Sheerin, Texas to other points in its marketing areas for petroleum products.

Diamond has substantial competition in each of its principal product groups. In each group there are organizations which are larger and smaller than Diamond and organizations whose sales of products in such group are larger and smaller than Diamond's. In the case of some products (for example, sodium bichromate) there is only a small number of other manufacturers, whereas in the case of other products the other manufacturers are more numerous (for example, there are many other crude oil refiners). In many cases, distributors and other resellers add to the competition.

Properties

The following table shows the location of Diamond's principal manufacturing plants, and the principal products produced at each:

Plant	Principal Products
Deer Park (Houston), Texas	Chlorine and chlorinated products, caustic soda, hydrogen, vinyl and polyvinyl chlorides, acetylene, ammonia and polypropylene resins.
Delaware City, Delaware	Chlorine, caustic soda, caustic potash, hydrogen and polyvinyl chloride.
Sheerin, Texas	Refined petroleum products, residue gas, natural gas liquids and ammonia.
Painesville, Ohio	Soda ash, bicarbonate of soda, chlorine and chlorinated products, caustic soda, hydrogen, calcium carbonates, chromates and coke.
Brooklyn, New York	Vinyl film and sheeting, wallcoverings, polyethylene film, sheeting, tubing and bags.
Cedartown, Georgia	Specialty chemicals for the pulp and paper, textile and other industries.
Greens Bayou (Houston), Texas	DDT and other agricultural chemicals.
Harrison, New Jersey	Specialty chemicals for the pulp and paper, textile and other industries, and vitamins and products for the dairy and food industries.
Kearny, New Jersey	Bichromate of soda and leather tanning agents.
Louisville, Kentucky	Premixes for use in animal feed supplements; choline chloride.
Muscle Shoals, Alabama	Chlorine, caustic soda, caustic potash, potassium carbonate.
Newark, New Jersey	2,4-D and 2,4,5-T herbicides.
Redwood City, California	Ion exchange resins and polyester resins.

All of the foregoing principal plants are owned by Diamond except that a portion of the Delaware City plant is leased from the Delaware Industrial Building Commission (see Note 6 to Diamond's Consolidated Financial Statements). The polypropylene resin plant at Deer Park was purchased in 1967; a portion of the plant's output is consumed by a plastic film plant at Stratford, Connecticut which was purchased at the same time. Altogether Diamond operates 45 plants at various locations in the United States, of which 34 are wholly-owned and 11 are leased in whole or in part.

Diamond considers its facilities to be in generally good condition and adequate for their present use. Many facilities are used to produce more than one product and the capacity varies with the product mix in fact produced during a particular period. Management estimates that production was at an average rate of 87% of capacity during the nine-month period ending September 30, 1968.

Raw Materials and Natural Resources

The principal raw materials used in Diamond's business are salt (in the production of chlorine, caustic soda and soda ash), natural gas, crude oil, limestone (in the production of soda ash), chrome ore (in the production of chromium chemicals), silica sand, ethylene, vegetable and animal fats and oils, coal and water. Diamond contemplates no difficulties in obtaining sufficient supplies of these materials.

Portions of Diamond's requirements of some raw materials are obtained from properties owned or controlled by Diamond. The salt consumed at the Painesville and Deer Park facilities

is produced from Diamond reserves there which, based on the expected rate of consumption at those facilities, are estimated to be sufficient for a period in excess of 100 years.

Some of the crude oil refined, and most of the natural gas processed, is produced from Diamond's own leases. Diamond has substantial investments in crude oil and natural gas gathering facilities to bring the crude oil and natural gas to its Sheerin, Texas plant. At August 31, 1968, Diamond held oil and gas leases and rights covering approximately 1,200,000 net acres, of which approximately 33% is regarded by Diamond as proved for oil or gas production. The remaining acreage is held for possible future extension of existing fields and for exploratory purposes. The proved acreage is located primarily in Texas. The exploratory acreage is located principally in Texas, Oklahoma, Utah and Wyoming with a relatively small percentage located in other states and Canada.

Diamond estimates its reserves at August 1, 1968 as follows:

(a) Net proved reserves of crude oil and condensate (excluding royalty and other interests owned by others) were approximately 19.3 million barrels.

(b) Net proved natural gas reserves (excluding royalty and other interests owned by others) were approximately 1.5 trillion cubic feet before processing. In addition, Diamond holds gas purchase and gas processing contracts covering proved gross gas reserves (before processing) approximating 470 billion cubic feet.

(c) Subject to gas processing operations in Diamond's plants, there are proved plant reserves of natural gas liquids of approximately 87.8 million barrels.

The above-stated reserve estimates are based on Diamond's regularly maintained reserve records, prepared and maintained by Diamond's engineers. Only reserves which can reasonably be classified as proved have been included. No allowance has been made for possible extension of proved areas which may result from additional drilling; for possible discovery of additional producing zones which may be proved by deeper development in areas presently proved or for probable reserves expected to become producible from future secondary recovery operations.

During the first six months of 1968, Diamond's net interest production averaged approximately 6,700 barrels per day of crude oil and condensate and 270,000,000 cubic feet per day of natural gas. During the same period, Diamond recovered in its gas processing operations approximately 9,600 barrels per day of natural gas liquids. With new gas processing facilities which were completed in September 1968, Diamond expects that recovery of natural gas liquids will be increased by about 65%.

The balance of Diamond's requirements of principal raw materials is currently purchased from others, primarily in the United States. Its chrome ore is obtained principally from South Africa under long-term contracts with several producers.

Diamond requires a substantial amount of electric power for its operations. It produces a portion of the power consumed by its Painesville and Deer Park plants and purchases the balance of its needs from utility companies.

Research and Development

For many years, Diamond has placed strong emphasis on the importance of an effective research and development effort directed toward improved methods of manufacturing existing products, new applications of products currently manufactured and the development of new products, usually in fields related to existing products.

Diamond's Research Center at Concord, Ohio (near Painesville), serves as headquarters for most of Diamond's research and process development activities carried on there and elsewhere, with research as to certain Nopco products being carried on at Harrison, New Jersey. Total expenses in 1967 for research and development (excluding technical services to customers)

were approximately $9,100,000, which was equivalent to about 2.2% of consolidated net sales. Expenditures for these purposes are being made at a comparable level during the current year.

Diamond has recently introduced the use in its electrolytic cells in chlorine production of a new type of metallic electrode (known as a "dimensionally stable electrode") which it developed with others. Diamond expects to produce in the United States and offer such electrodes for sale or lease by the end of 1968. Because the new electrode does not reduce in size or shape during use, Diamond believes that it offers certain important advantages over conventional electrodes such as an extended life, voltage savings, higher current efficiency and greater purity of products. At the present time Diamond is unable to estimate the sales potential or the effect, if any, of the dimensionally stable electrode on its future profits. No significant effect will be felt on 1968 earnings.

Patents and Trademarks

Diamond owns and uses in its business various trademarks, trade names, patents, and patent and formula rights and licenses. While a number of these are of importance to Diamond, it does not consider a material part of its business to be dependent on any one or group of them. However, Diamond does consider the trademarks and trade names "◊", "Shamrock" and "Nopco" to be of importance, and it has taken steps to protect them, including registration where appropriate.

Employees

Diamond has approximately 9,100 employees, of whom about 3,500 are represented by unions. Diamond has enjoyed satisfactory relations with its employees at both union and non-union plants, and there have been no substantial interruptions due to labor difficulties. Prior to its merger with Diamond, Shamrock had a strike commencing in August, 1964 of certain of its plant and field employees. This labor dispute ended with a contract effective January 31, 1967 and Shamrock was able to continue operation of all its facilities during this period. Minor work stoppages have been experienced at some of the Nopco plants and at one of Diamond's small plastic plants.

Litigation and Regulation

Diamond, together with a number of other manufacturers of chlorine, caustic soda and soda ash, is a defendant in a number of lawsuits filed by various municipalities and other governmental or public bodies and utilities seeking treble damages for injuries alleged to have been incurred by the plaintiffs by reason of violations of the Sherman Act in the pricing of these products. The first of these pending lawsuits was brought in September, 1966 and the others at various times thereafter. The suits were consolidated for pre-trial purposes in the United States District Court for the Northern District of California. Various pre-trial activities have been undertaken and trial of these lawsuits is scheduled to commence late this year. In the opinion of Diamond and its counsel, Messrs. Jones, Day, Cockley & Reavis, such litigation is without merit, but in any event, Diamond believes that any adverse judgment therein would not materially adversely affect its business, properties or financial condition.

Diamond is an independent producer natural gas company under the Natural Gas Act and as such is subject to the jurisdiction of the Federal Power Commission as to rates and charges for natural gas sold in interstate commerce for resale. Certain price increases have been suspended by the Commission but these are now being collected subject to refund, with interest, and will be retained by Diamond unless found to be unreasonable or unjust by the Commission. Substantially all of Diamond's rates, along with those of other producers, are under investigation by the Commission in the Hugoton Anadarko Area Rate Proceeding. Diamond's interstate pipelines are subject to regulation as common carriers by the Interstate

Commerce Commission, and to the extent Diamond engages in intrastate transportation of crude oil and petroleum products, it is subject to regulation by the particular state involved. Most of the crude oil and natural gas produced and purchased by Diamond is produced in states where production is limited by prorationing under state conservation laws.

Diamond is also involved in other litigation incident to its business, but the adverse determination thereof would not materially affect its business, properties or financial condition.

BUSINESS AND PROPERTIES OF PM

PM has been primarily engaged in supplying the steel industry with raw materials since it was first organized as a partnership in 1883. During 1929 the partnership organized a Delaware corporation, Mather Iron Company, largely for the purpose of holding title to certain assets. In 1960 the corporation changed its name to Pickands Mather & Co., and thereafter conducted all of the business formerly carried on by the partnership which has since been dissolved. In addition, on August 31, 1966, The Interlake Steamship Company (in which PM had a 12.4% interest and the operations of which had been managed by PM for many years) was merged into PM. Henry Bower Chemical Manufacturing Company ("Bower Chemical") became a wholly-owned subsidiary of PM in 1967, as did The Carbon Limestone Company ("Carbon Limestone") in February 1968 and Zirconium Corporation of America ("Zircoa") in July 1968. The general offices of PM are located at 2000 Union Commerce Building, Cleveland, Ohio 44115.

The business of PM may be generally described as the management of properties (primarily owned by others); operation of Great Lakes and St. Lawrence Seaway fleets; manufacturing, processing, and related mining; agency and broker sales; exploration and development; and investments and other assets. Each of these parts of the business is described in detail below.

Management of Properties

In its management operations, PM supervises approximately 7,000 employees. The aggregate capital investment (including estimated capital costs of construction work now in progress) in the iron ore projects managed by PM (including those in which it has an ownership interest) is approximately one billion dollars.

Iron Ore. PM (itself or subsidiaries) acts as Managing Agent for seven operating iron ore properties, two of which are in the start-up phase of operations. In three of these, Wabush Mines, Hilton Mines and Savage River Mines, PM holds ownership interests of 5.2%, 25% and approximately 12%, respectively. It supervises the mining of the ore and the construction and operation of concentration and pelletizing plants to produce either a high grade concentrate or iron ore pellets. As Managing Agent, PM also plans, manages the construction of, and, in some instances, operates the townsites located near the mines and the railroads, docks and loading facilities required for the transportation of mine products. There follows a brief description of five operating properties for which PM is acting as Managing Agent.

Owner and Site Location	Estimated Life of the Mines (1)	Present Product and Annual Capacity in Tons (2)	Production in Long Tons 1965	1966	1967	Ratio of Crude Ore to Product
ERIE MINING COMPANY, Minnesota	Through 2017	Iron Ore Pellets: 10,300,000 (3)	8,017,401	8,551,944	9,900,479	3.0 to 1
THE HILTON MINES, Quebec, Canada	Through 1975	Iron Ore Pellets: 900,000	898,106	810,866	913,873	4.0 to 1
WABUSH MINES, Newfoundland and Quebec, Canada	Through 2041	Iron Ore Pellets: 6,000,000 (3)	2,388,567 (4)	4,043,920 (4)	5,012,399 (4)	2.6 to 1

Owner and Site Location	Estimated Life of the Mines (1)	Present Product and Annual Capacity in Tons (2)	Production in Long Tons 1965	1966	1967	Ratio of Crude Ore to Product
MAHONING ORE AND STEEL COMPANY, Minnesota	Through 1971	Iron Ore Concentrates: 1,250,000	1,258,883	1,263,320	1,018,244	1.3 to 1
THE BALKAN MINING COMPANY, Minnesota	Through 1970	Iron Ore Concentrates: 750,000	708,575	710,583	712,236	2.4 to 1

(1) Based on the production capacities set forth in this table and upon known reserves.

(2) Iron ore products are stated in long tons (2,240 pounds).

(3) The production facilities of Erie Mining Company were expanded to 10,300,000 tons in 1967 and those of Wabush Mines to 6,000,000 tons in 1968.

(4) Includes concentrates of 272,464 tons in 1965, 111,511 tons in 1966 and 141,141 tons in 1967.

The owners of the properties described in the above table consist of major steel companies in the United States (including in some cases The Youngstown Sheet and Tube Company), Canada and Italy.

In addition to the properties listed in the foregoing table, PM's wholly-owned subsidiary, Pickands Mather & Co. International ("PMI"), has managed the construction and has been employed as the manager of operations of Savage River Mines in Tasmania, Australia, under an agreement for the life of the venture, estimated at 20 years. This project is expected to have an annual capacity of 2,250,000 tons of iron ore pellets. The start-up of production has commenced and it is anticipated that operations will reach near capacity rates by the end of 1968. Savage River Mines is a joint venture consisting of a number of companies from the United States (including a Rockefeller family company), Australia and Japan. Japanese steel companies have agreed to purchase all of the production of Savage River Mines until a total of 45,000,000 tons of iron ore pellets has been produced at an annual rate ranging from a minimum of 2,000,000 to a maximum of 2,250,000 tons. The facilities included in the project are the mine, townsite, concentrating plant, pelletizing plant, shipping dock and a pipeline for transportation of the concentrated ore to the pelletizing plant.

Also, PM has substantially completed the development of another iron ore pelletizing facility, The Griffith Mine, near Red Lake, Ontario, Canada for a Canadian steel company. This mine is now in the start-up phase of operations and by the end of 1968 will be capable of producing approximately 1,500,000 tons of pellets annually. The term of PM's Management Agreement extends to 1988 and from year to year thereafter.

During 1965, 1966 and 1967 production from all ore properties (including production from mines abandoned or sold during such years) managed by PM was approximately 14,700,000, 16,300,000 and 18,100,000 tons, respectively, of which approximately 11,000,000, 13,300,000 and 15,800,000 tons were pellets and the balance concentrates and direct shipping ore. It requires from two to four tons of crude ore to produce one ton of pellets, depending upon the grade of ore being mined. By reason of the development of Savage River Mines and The Griffith Mine referred to above, it is estimated that by the end of 1968 the annual capacity of all properties managed by PM will be approximately 23,000,000 tons of which approximately 21,000,000 tons will be pellets.

PM manages the above iron ore properties pursuant to management agreements with the owners. As compensation for its services, PM receives reimbursement for substantially all expenses directly or indirectly incurred by it in the operation of such properties, plus a commission based on the number of tons of iron ore produced, mined and shipped from the

properties. The commission per ton varies slightly from property to property. The annual production of each of the mines is determined each year by the owners and, accordingly, the amount of commission during any particular year will depend in part upon the ore requirements of the steel company owners. Ordinarily, the management contracts run for the economic life of the property but may be terminated by either party at the end of any year after one year's notice. However, in the case of Wabush Mines, Hilton Mines, Savage River Mines and The Griffith Mine, the management agreements run until the end of fixed periods ranging between 1975 and 1988. During 1967 these management commissions, exclusive of reimbursed expenses, totalled approximately $1,800,000 (commissions from the Erie and Wabush projects accounting for approximately 81% of this total).

Coal. PM acts as Managing Agent for The Chisholm Mine in eastern Kentucky for a Canadian steel company. This mine became operational during early 1967 and produced approximately 500,000 net tons of metallurgical coal in that year. The planned rate of production is 1,000,000 net tons per year and the known coal reserves are adequate for production at this rate for 40 years. The management agreement extends to 1978 and from year to year thereafter.

In addition, Mohawk Mining Company, a wholly-owned subsidiary of PM, is currently developing a small coal mine near Dabney, Logan County, West Virginia, upon premises it holds under a long-term lease. It is contemplated that approximately 80,000 net tons will be produced in 1968 with a planned rate of production for subsequent years of 170,000 net tons per year. Preliminary information (subject to verification) indicates sufficient reserves to operate at the planned rate for approximately 16 years.

Construction. PM has been responsible either by itself or in cooperation with others for organizing, constructing and placing in operation most of the projects which are now under its management. Present projects, the construction of which have been supervised by PM, include the previously-described Savage River and Griffith Mines and the expansion of the facilities of Wabush Mines from 5,000,000 tons of pellets to 6,000,000 tons annually. In certain of these instances, it has received or will receive, in addition to the commissions and management fees described above, a lump sum fee based upon the estimated construction costs of the project involved.

Docks. In addition to the dock facilities managed by PM in connection with the ore mining operations previously described, PM has an ownership interest in, or manages the operation of, several dock facilities devoted to the trans-shipment of iron ore and coal in lake vessels. PM, through its wholly or partially-owned subsidiaries, is also employed on a year-to-year basis as stevedore or joint manager on a commission basis at several other docks on Lake Erie. During 1967 the aggregate tonnages handled over these docks were approximately 6,500,000 gross tons of iron ore and 12,600,000 net tons of coal.

Operation of Great Lakes and St. Lawrence Seaway Fleets

PM owns and operates a fleet of 19 vessels (one of which is currently under charter to another operator) with a total capacity of 308,800 tons (except as otherwise indicated, all tonnage references under this caption being gross tons). In addition, its wholly-owned subsidiary, Labrador Steamship Company Ltd. ("Labrador Steamship"), owns one vessel of 26,000 tons capacity and has under charter, with an option to purchase, another vessel of the same capacity. The total capacity of all 21 vessels is 360,800 tons.

Set forth in the table below is the name, capacity and age of each vessel:

PM Fleet

Vessel	Capacity (tons)	Age (years)
John Sherwin	25,000	10
Charles M. Beeghly	25,000	9
Herbert C. Jackson	24,000	9
Elton Hoyt 2nd	21,000	16
J. L. Mauthe	20,000	16
Harry Coulby	16,500	41
Frank Armstrong	16,000	25
E. G. Grace	16,000	25
Charles M. Schwab	15,000	45
Frank Purnell (1)	14,700	25
Wm. P. Snyder, Jr. (2)	14,600	56
Henry G. Dalton	13,800	52
Robert Hobson	13,800	41
Samuel Mather	13,800	41
Col. James Pickands	13,800	42
Walter E. Watson	13,800	48
E. A. S. Clarke	10,900	61
C. H. McCullough	10,800	61
Harry W. Croft	10,300	60
Total PM fleet	308,800	

Labrador Steamship Fleet

Vessel	Capacity (tons)	Age (years)
A. S. Glossbrenner (3)	26,000	2
V. W. Scully	26,000	3
Total Labrador Steamship fleet	52,000	

(1) Self-unloader.

(2) Under charter to another operator.

(3) Under charter to Labrador Steamship with an option to purchase.

All ships in the fleets which are operating this year are in good repair; approximately $8,800,000 in the aggregate has been spent or committed during the last five years for fleet repairs and modernization, exclusive of vessel acquisitions and new ship construction. Four ships are not operating this year; three of these, the smallest ships, have not operated for several years.

The National Transportation Safety Board in its findings published in March of this year in connection with the sinking of a Great Lakes bulk carrier in the fall of 1966, which was owned by another operator, has recommended to the United States Coast Guard that bulk cargo lake vessels over 400 feet long and built prior to 1948 should be strengthened amidships or kept in port in the fall when heavy weather is to be expected. It is not known whether these recommendations will be adopted or what their effect will be. If adopted, they will not affect approximately 60% of the annual capacity of the PM Fleet and will have a much greater impact on the balance of the Great Lakes bulk fleet capacity.

Below is a table setting forth the tonnage hauled by, and freight revenues of, PM and its subsidiary during the past three years:

Tonnage Hauled and Freight Revenues (1)

Year	Iron Ore		Limestone		Coal		Grain and Misc. Revenue	Inter-Company/ Division Revenue	Total Net Revenue
	Gross Tons	Revenue	Gross Tons	Revenue	Net Tons	Revenue			
1965	6,535,934	$11,942,745	533,554	$ 641,212	1,723,343	$1,430,850	$314,414	$(566,923)	$13,762,298
1966	7,545,318	$13,853,543	899,632	$1,135,431	1,787,508	$1,576,215	$845,155	$(451,306)	$16,959,038
1967	8,653,559	$15,864,947	765,318	$ 963,053	1,372,754	$1,322,625	$798,407	$(466,031)	$18,483,001

(1) The primary business of PM's Great Lakes and St. Lawrence Seaway Fleets is the floating of iron ore; the carrying of other products is largely incidental to such primary purpose.

Pursuant to the bulk cargo exemptions of the Interstate Commerce Act, the freight charges of PM are not subject to regulation.

PM has a floating contract with The Youngstown Sheet and Tube Company expiring on December 31, 1975, pursuant to which PM has agreed to transport, at generally prevailing rates, substantially all of The Youngstown Sheet and Tube Company's iron ore, coal and limestone to be transported on the navigable waters of the Great Lakes other than in connection with the transportation of such products on the St. Lawrence Seaway. Labrador Steamship has a floating contract expiring on December 31, 1975 with The Youngstown Sheet and Tube Company providing for the transportation for The Youngstown Sheet and Tube Company, at competitive rates, of between 675,000 and 900,000 tons of iron ore per year on the St. Lawrence Seaway. During 1967 approximately 31% of the freight revenues of PM and its subsidiary, on a consolidated basis, were attributable to products carried for The Youngstown Sheet and Tube Company.

PM also has floating contracts with four other iron and steel producers pursuant to which it has agreed to transport, at generally prevailing rates, iron ore and certain other materials on the Great Lakes and the St. Lawrence Seaway. The contracts with two of these producers expire in 1969 and 1971 and during 1967 accounted for approximately 32% of PM's freight revenues. The other two contracts which commenced this year expire in 1976 and in 1988 and it is estimated that approximately 9% of PM's freight revenues will be attributable to products carried under these contracts in 1968.

The remainder of the freight revenues of PM and its subsidiary during 1967 were received from other shippers whose products were carried in vessels of PM and its subsidiary pursuant to short-term contracts or as spot shipments.

Competition in the business of hauling bulk cargoes on the Great Lakes and St. Lawrence Seaway is intense.

The fleets of PM and Labrador Steamship employ approximately 600 persons.

Manufacturing, Processing, and Related Mining

Coke. Milwaukee Solvay Coke Co. Division of PM is the owner in fee of a foundry coke plant located at Milwaukee, Wisconsin. The plant, consisting of approximately 138,000 square feet, is located upon approximately 46 acres of waterfront real estate. This Division employs approximately 375 employees, operates approximately 200 coke ovens and in 1967 produced approximately 302,000 tons of foundry coke, and related coke and chemical by-products, all of the coke being sold on the open market primarily to various foundry operators, and the by-products to others. The principal raw material used in the manufacture of coke is coal. The business of marketing foundry coke is highly competitive. This plant is currently operating at approximately 85% of capacity.

Chemicals. PM and its subsidiaries are engaged in the production of certain chemical products at five plants in the United States. The plant locations, approximate plant size in square feet and principal products of these plants are as follows:

Plant	Square Feet	Products
Baltimore, Maryland	68,000	manganese compounds and derivatives, and hydroquinone
Kingwood, West Virginia	36,500	Massive Manganese, nitrided manganese and flux
Joliet, Illinois	200,000	processing of mineral raw materials
Philadelphia, Pennsylvania	50,000	cyanates, substituted ureas and halogen salts
Solon, Ohio	35,700	zirconium oxide and related products

The manganese products of the Baltimore plant (approximately 16,500 tons in 1967) are used primarily in dry cell batteries, fertilizers, animal feeds, electronics and other chemicals. The principal raw material used is manganese ore, the sources of supply for which are Africa and Brazil. Hydroquinone is sold primarily for use in the rubber and photographic industries.

The products produced in the West Virginia plant are sold on the open market to various steel companies, principally for use in the manufacture of alloy steel. 1967 production was approximately 14,000 tons. The principal raw materials are reduced manganese ore furnished by the Baltimore plant and fluorspar.

Start-up operations at the Joliet facility have just commenced, the plant having been purchased in 1968; it is presently expected that the mineral raw materials to be processed there will include perlite, bentonite, vermiculite and various mold sand components for the foundry industry.

The Bower Chemical plant at Philadelphia produced about 10 million pounds of chemical products in 1967, a substantial portion of which was purchased by chemical manufacturers as raw material intermediates. Bower Chemical is also a distributor of metallurgical and commercial grades of anhydrous ammonia in the Eastern United States to retail consumers. An option for the sale of the Bower Chemical plant property has been executed and present plans contemplate the relocation of these manufacturing operations in Baltimore.

The zirconium oxide products of the Zircoa plant in Solon, Ohio are used in the chemical, ceramic, metallurgical, electrical, nuclear and aerospace industries. Zirconium oxide, which can withstand temperatures up to 4600° F. in an oxidizing atmosphere, is used in rocket nozzles, nose cones for space vehicles, high-temperature air heaters for wind tunnels, industrial refractories and the metal extrusion industry to produce brass, copper, tungsten and titanium. 1967 production was approximately 425 net tons of zirconium oxide.

Approximately 400 employees are engaged in the operations of the foregoing chemical plants, all of which (except the Joliet plant) are currently being operated substantially at capacity. PM considers that the markets for all of its chemical products are highly competitive.

Limestone. Carbon Limestone's quarrying and processing operations are located at Lowellville, Ohio, and Hillsville, Pennsylvania. Carbon Limestone has approximately 1,275 acres of land which it holds under long-term leases with various terms, the shortest of which runs until 1977, and 1,267 acres of land which it owns in fee. The plant buildings consist of approximately 172,000 square feet located on approximately 30 acres of fee property. Carbon Limestone and its subsidiaries have approximately 240 employees and during 1967 produced approximately 1,500,000 net tons of a variety of limestone products (such as those used for metallurgical flux in the iron and steel industries, concrete, asphalt, aggregate, railroad ballast, soil improvement and animal feed applications), coal, fire clay and fertilizer. Carbon Limestone's limestone reserves are sufficient to operate at the current rate of production in

excess of 30 years. It has no reserve estimate for coal and clay as these minerals are mined incidentally to the recovery of limestone. The market for products produced by Carbon Limestone and its subsidiaries is highly competitive. These facilities are currently being operated substantially at capacity.

Agency and Broker Sales

PM sells commodities both as broker for its own account and as sales agent for the account of others. During 1967, acting as sales agent, it sold commodities having an aggregate sales price of approximately $101,000,000.

Iron Ore. During 1967 PM sold approximately 520,000 tons of iron ore received from Wabush Mines and The Hilton Mines through its ownership participation in these projects and, in addition, purchased and sold approximately 50,000 tons of iron ore for its own account either directly or indirectly through subsidiaries.

Coal. During 1967 PM sold as sales agent, purchased and resold as broker, and purchased for its own use as vessel fuel and for manufacturing coke approximately 7,500,000, 2,900,000 and 600,000 net tons of coal, respectively. In acting as sales agent, PM is paid a commission on the sales price pursuant to sales agency agreements with the coal producers. These agreements have various terms running until 1982, but the term of one such agreement, representing approximately 40% of the coal sold during 1967 under all sales agency agreements, continues until the end of 1969 and from year to year thereafter.

Pig Iron, Ferroalloys and Coke. Pursuant to a sales agency agreement terminable by either party on two years' notice, PM acts as the exclusive sales agent for all merchant pig iron, coke and ferroalloys produced by Interlake Steel Corporation for which services it is paid a sales commission. During 1967 PM sold under this agreement approximately 960,000 net tons of these products.

Fuel Oil. During 1967 PM purchased approximately 63,100,000 gallons of fuel oil which it resold under year to year contracts primarily to railroads operating in the eastern and midwestern portions of the United States.

Prenco Incinerators. Since 1965 PM has been exclusive sales agent for, and the owner of a 25% interest in, Prenco Manufacturing Company of Royal Oak, Michigan. Prenco manufactures a line of high-temperature industrial incinerators for disposal of fluid wastes. The income from this agency is not substantial.

Exploration and Development

PM (or subsidiaries) has been and is now engaged in exploration for various ores in many geographical areas. One of its most important discoveries in recent years is the Seignelay iron ore range located in northern Quebec and described below under the caption "Investments and Other Assets". Among the exploration investigations presently being conducted are two non-ferrous programs in Australia in which PMI has 20% and 30% interests and to date neither has shown the presence of a commercially mineable ore body. A Rockefeller family company also has an interest in one of these programs. PM has a financial interest in two programs for the exploration and development of oil and gas properties; some of the properties in Ohio are producing but the income therefrom is not substantial.

PM is carrying on a joint research program with two other companies for the purpose of investigating the direct use of pre-reduced iron ore in steelmaking.

Investments and Other Assets

Among the principal investments and other assets of PM and its subsidiaries are:

(a) Approximately 9% of the issued and outstanding shares of Interlake Steel Corporation having an approximate market value as of September 30, 1968 of $13,496,000.

(b) An interest of approximately 5.2% in Wabush Mines representing a cash investment by PM as of September 30, 1968 of $4,196,375 (see Note 11 of Notes to Consolidated Financial Statements of PM).

(c) An interest of approximately 12% in Savage River Mines representing a cash investment by PM as of September 30, 1968 of $1,050,000 (see Note 11 of Notes to Consolidated Financial Statements of PM).

(d) A 25% interest in The Hilton Mines, representing a cash investment by PM of $200,000.

(e) An undivided one-half fee interest in approximately 4,000 acres of land, including mineral rights, and an undivided one-half interest in mineral development licenses covering another 8,000 acres of land in the Seignelay range in northern Quebec, the other one-half interest in each case being owned by another company. It is estimated that the Seignelay properties will yield approximately 218,000,000 tons of iron ore concentrates. Approximately 2.7 tons of crude ore from the Seignelay range are required to produce one ton of concentrates. Such concentrates may be further processed by conventional methods into a high-iron content product for pelletizing or for use in a direct reduction process. These reserves are currently under study for possible future development, but there are presently no definitive plans for commercial production. Because of the remote location of these properties, their commercial development would involve large expenditures including expenditures for the construction and operation of needed transportation facilities.

(f) Various agreements pursuant to which PM is entitled to receive payments measured by tonnages of iron ore and taconite pellets produced and shipped from certain properties previously sold or leased to others. The amount of such payments received during 1967 aggregated approximately $800,000. It is estimated that payments pursuant to these agreements will continue at approximately the current annual rate until the ore contained in these properties is exhausted.

Foreign Investment Restrictions

The management of PM is of the opinion that the regulations promulgated by the United States Government with respect to foreign investment by United States companies will not have a materially adverse effect upon the foreign operations in which PM is presently engaged.

Distribution of Revenue

During 1967 sales of products manufactured or produced by PM and broker sales totalled approximately $58,100,000 (66.9% of total revenues). Iron ore accounted for 13.2%; coal, 32.8%; fuel oil, 10.9%; coke, 18.5%; chemicals and metals, 17.1%; and limestone and related products, 7.5%, respectively, of these 1967 sales. Revenues from the operation of Great Lakes and St. Lawrence Seaway fleets totalled approximately $19,400,000 in 1967 (22.4% of total revenues). Dock operating revenue during this same period amounted to approximately $1,300,000 (1.5% of total revenues). Remaining 1967 revenues totalled approximately $8,100,000 (9.2% of total revenues), sales commissions accounting for 34.3%; management and consulting fees, 33.8%; royalties and similar income, 10.9%; dividends received, 19.5%; and other income (net), 1.5%, respectively, of these revenues. The distribution of revenue set forth above includes results of operations of Bower Chemical and Carbon Limestone.

Under its accounting procedures, PM does not determine net income by type of product or service. However, in the opinion of the management of PM, net income from fleet operations, services, commissions, dividends and royalties, made a greater proportionate contribution to 1967 net income than the other aspects of its business described above.

DIRECTORS AND MANAGEMENT

The Reorganization Agreement contemplates that upon the reorganization and merger the Diamond Board of Directors will consist of 21 directors, the present 17 Diamond directors plus four additional directors, three of whom are presently PM directors. Approval of the Reorganization Agreement by the stockholders of Diamond will constitute the election of the four additional directors. (For information as to amendment of the Diamond Bylaws to increase the number of directors from 17 to 21, see "Amendments to Certificate of Incorporation and Bylaws" below.) All directors are to serve until the 1969 annual meeting of Diamond and until their respective successors are elected.

The following table sets forth certain information as to each of the present directors of Diamond and as to the proposed additional directors:

Name, Principal Occupation and Other Information	A Director Since	Shares Owned Beneficially at September 9, 1968 (Common Stock Unless Otherwise Stated)	
		Diamond	PM
C. A. Cash, Executive Vice President of Diamond	December 1967	20,655 13,770 shares of Series D Preferred Stock	—o—
J. H. Dunn,* Chairman of the Executive Committee of Diamond	December 1967	40,600 27,000 shares of Series D Preferred Stock	—o—
Raymond F. Evans,* Chairman of the Board of Directors of Diamond	1939	188,928(1)	—o—
William H. Evans, Limited Partner, Ball, Burge & Kraus, investment bankers, Cleveland, Ohio	1955	137,690(2)	—o—
James A. Hughes,* President of Diamond (3)	1960	8,196	90 100 shares of Serial Preferred
Edgar S. Lewis, Vice President, Mellon National Bank and Trust Company, Pittsburgh, Pa.	1966	100	—o—
R. G. Morrison, Jr., Trustee, Thomas Morrison Trusts, investments, El Dorado, Kansas	December 1967	40,250 26,833 shares of Series D Preferred Stock (4)	—o—
V. P. Patterson, Chairman of the Board, The First National Bank of Amarillo, Texas	December 1967	5,225 3,483 shares of Series D Preferred Stock	—o—
Wallace R. Persons, Jr.,* Chairman and Chief Executive Officer, Emerson Electric Co., manufacturer of controls, electronics, motors and electrical products, St. Louis, Mo.	1965	1,831 2,000 shares of Series C Preferred Stock	—o—

Name, Principal Occupation and Other Information	A Director Since	Shares Owned Beneficially at September 9, 1968 (Common Stock Unless Otherwise Stated)	
		Diamond	PM
Alexis E. Post, consultant, San Francisco, Calif.	1962	2,000	—o—
John W. Reavis,* Managing Partner, Jones, Day, Cockley & Reavis, attorneys at law, Cleveland, Ohio	1956	854	—o—
J. Avery Rush, Jr., Vice President of Diamond	December 1967	5,625 3,750 shares of Series D Preferred Stock	—o—
Horace A. Shepard,* President, TRW Inc., manufacturer of parts and components for the automotive, aerospace and electronics industries, Cleveland, Ohio (3)	January 1967	100	100
George G. Stier, Vice President of Diamond	May 1967	4,000 shares of Series C Preferred Stock (5)	—o—
Fred S. Strauss, Vice President of Diamond and President, Harte & Company, Inc., a subsidiary of Diamond, New York, N. Y.	1964	10,624 17,550 shares of Series B Preferred Stock (6)	—o—
Arthur B. Tillman, Executive Vice President of Diamond	1964	4,328	—o—
John C. Virden,* Chairman of the Executive Committee, Eaton Yale & Towne Inc., manufacturer of equipment and machinery, Cleveland, Ohio	1952	2,728	—o—

Additional Directors Upon Merger (7)	Director of PM Since	Diamond	PM
K. S. Benson, President of PM	1960	—o—	77,204 (8)
J. R. Dilworth, Rockefeller Family & Associates, investment management, New York, N. Y.	1966	—o—	266 625 shares of Serial Preferred (9)
John Sherwin, Chairman of the Board of PM	1941	—o— (10)	250,377 2,730 shares of Serial Preferred (10)
Robert E. Williams, President of The Youngstown Sheet and Tube Company, manufacturer of steel and steel products, Youngstown, Ohio	—	—o—	—o— (11)

* Presently a member of the Executive Committee of Diamond.

(1) Excludes 1,630 shares of Diamond Common owned by Mrs. Evans. Mr. Evans disclaims beneficial ownership as to such shares.

(2) In addition, Mr. Evans is a Co-Trustee of, and has a one-fifth income interest for life in, a trust which holds 40,000 shares of Diamond Common.

(3) Messrs. Hughes and Shepard have been directors of PM since 1966.

(4) Excludes 8,562 shares of Diamond Common and 5,708 shares of Series D Preferred Stock owned by Mrs. Morrison. Mr. Morrison disclaims beneficial ownership as to such shares.

(5) Excludes 100 shares of Diamond Common owned by two minors. Mr. Stier disclaims beneficial ownership as to such shares.

(6) Excludes a total of 400 shares of Diamond Common and 9,750 shares of Series B Preferred Stock held by Mr. Strauss as custodian for two minors, by trusts of which he is trustee and by a charitable foundation of which he is president, and 50 shares of Diamond Common owned by Mrs. Strauss. Mr. Strauss disclaims beneficial ownership as to such shares.

(7) For more than the last five years Mr. Benson and Mr. Sherwin have been officers of PM, Mr. Dilworth has been associated with the Rockefeller Family & Associates, and Mr. Williams has been a Vice President and is now President of The Youngstown Sheet and Tube Company.

(8) Does not include 3,000 shares of PM Common held by Mrs. Benson or 1,300 shares of PM Common held in a charitable corporation of which Mr. and Mrs. Benson are Trustees and officers. Mr. Benson disclaims beneficial ownership as to such shares.

(9) Does not include 133 shares of PM Common and 125 shares of PM Serial Preferred held by Mrs. Dilworth or 799 shares of PM Common and 750 shares of PM Serial Preferred held by his children sharing his home. Mr. Dilworth disclaims beneficial ownership as to such shares.

(10) The 250,377 shares of PM Common and the 2,730 shares of PM Serial Preferred listed above represent approximately 11% and .5%, respectively, of the outstanding shares of each such class. These shares and percentages do not include 218 shares of PM Serial Preferred and 197 shares of PM Common held by Mrs. Sherwin or 4,640 shares of Diamond Common, 5,462 shares of PM Serial Preferred and 4,916 shares of PM Common held by a corporation of which Mr. Sherwin is a director, officer and more than a 10% stockholder or 5,200 shares of PM Common held by a charitable corporation of which Mr. Sherwin is President and a Trustee. Mr. Sherwin disclaims beneficial ownership as to such shares.

(11) The Youngstown Sheet and Tube Company and its subsidiary, Mahoning Insurance Company, own beneficially and of record 123,615 shares of PM Serial Preferred and 115,819 shares of PM Common. These shares represent 21.12% of the PM Serial Preferred and 5.22% of the PM Common.

Diamond has and has had transactions in the ordinary course of business with corporations, financial institutions and law firms of which certain of its directors are also officers or partners. These include Mellon National Bank and Trust Company, of which Mr. Raymond F. Evans is a director and Mr. Lewis is an officer, which has loaned money to Diamond from time to time, and was the holder at June 30, 1968 of certain notes of Diamond which aggregated $24,855,112. The firm of Jones, Day, Cockley & Reavis, of which Mr. Reavis is managing partner, was paid $125,540 for various legal services performed for Diamond during 1967. Between January 1, 1967 and September 9, 1968 The Youngstown Sheet and Tube Company ("Youngstown"), of which Mr. Williams is an officer and Director, purchased goods from and sold goods to Diamond in the ordinary course of business representing approximately $1 million.

During 1967, in the ordinary course of business, PM sold the product Massive Manganese to Youngstown at an aggregate sales price of $120,226, received commissions in the amount of $250,961 in connection with coal sales for Olga Coal Company in which Youngstown owns a 53 percent interest and purchased $467,320 of steel and steel products from Youngstown on behalf of certain of the mining companies that PM manages. In 1967, PM received management fees of $1,484,133 from, and sold agency and broker coal for an aggregate price of $2,122,050 to, certain of the iron ore projects managed by it and in which Youngstown owns an interest. Certain officers of PM are officers of the companies that are involved with these projects. In addition, since its acquisition by PM in February 1968, Carbon Limestone has continued to sell limestone products to Youngstown in the ordinary course of business. Mr. A. S. Glossbrenner, a director and former Chairman of the Board of Youngstown, is a director of PM, and Mr. Williams, a proposed director of Diamond, is a director and President of Youngstown. Mr. Dilworth, a proposed director of Diamond, is a director of Youngstown and PM and is also an officer and director of the Rockefeller family companies which participate with PM in certain projects as described more fully under "Business and Properties of PM" above. During 1967 PM received $478,875 in construction fees in connection with one of these projects.

Remuneration of Directors and Officers of Diamond

With respect to each person who was a director or one of the three highest paid officers of Diamond during 1967, whose aggregate direct remuneration for such year exceeded $30,000 and all directors and officers as a group, there is set forth below (i) salaries and fees received for such year from Diamond and its subsidiaries for their services in all capacities, (ii) incentive compensation awards for such year, and (iii) estimated annual benefits payable in the event of retirement:

Name or Group	Capacities in Which Remuneration Received (1)	Salaries and Fees	1967 Incentive Compensation Awards (2)	Estimated Annual Benefits Payable Upon Retirement (3)
C. A. CASH	Executive Vice President	$ 73,000	—o—	$ 37,200
J. H. DUNN	Chairman of the Executive Committee	75,000	—o—	27,590
RAYMOND F. EVANS	Chairman of the Board	105,000	$ 42,000	47,099
JAMES A. HUGHES	President	87,095	34,000	22,964
J. AVERY RUSH, JR.	Vice President	47,004	—o—	20,109
G. G. STIER (4)	Vice President	71,043	15,000	39,518
FRED S. STRAUSS	President of Harte & Company, Inc., a subsidiary of Diamond	65,000	—o—	30,600
ARTHUR B. TILLMAN	Executive Vice President	76,855	26,000	33,171
Directors and Officers as a Group (23 in number, including the above) (5)		874,392	172,000	

(1) The capacities named above are the present offices held. In addition to such capacities, a portion of the remuneration indicated was received in the following capacities: James A. Hughes, Vice Chairman of the Board of Diamond; Arthur B. Tillman, President of Diamond; J. H. Dunn, Chairman of the Board of The Shamrock Oil and Gas Corporation ("Shamrock") prior to its merger into Diamond; C. A. Cash, President of Shamrock; J. Avery Rush, Jr., Executive Vice President of Shamrock; and G. G. Stier, President of Nopco Chemical Company ("Nopco") prior to its merger into Diamond.

(2) The amounts shown represent awards under Diamond's Incentive Compensation Plan for the year 1967 which were made on January 18, 1968. Under such Plan, awards (other than "deferred awards" and "special awards") are payable in four equal annual installments as "earned out" by participants who remain in the employ of Diamond for the required period; "deferred awards" are not paid until after retirement; "special awards" are paid in full when made. Awards under the Plan are made in cash and Diamond Common as determined by the Salary and Incentive Compensation Committee of the Board of Directors, although it has been the practice of such Committee to make all "deferred awards" in Diamond Common. The number of shares included in the award depends upon the value of the Diamond Common on the date the award is made, and such number does not change because of market variations during the period the award is earned out. All of the awards set forth above except Mr. Stier's were "deferred awards" for the individuals named, and $133,000 of the amount awarded to officers and directors as a group were such "deferred awards". The amounts specified for such awards reflect the market value of the Diamond Common on January 18, 1968, the date awards were made. Such "deferred awards" for Messrs. Evans, Hughes and Tillman consisted of 1,263, 1,023 and 782 shares of Diamond Common, respectively, and for the officers and directors as a group totalled 4,001 shares. Installments of awards paid during 1967 on account of awards for prior years were as follows: Mr. Evans $3,250, Mr. Hughes 68 shares and $3,009, Mr. Tillman 54 shares and $2,066, Mr. Stier $22,750 (under Nopco's Incentive Plan) and the officers and directors as a group 692 shares and $44,697.

(3) Estimated annual benefits payable upon retirement are calculated on 1967 compensation status projected to individual "normal retirement" dates under Diamond's applicable pension plan or, in the case of Mr.

Strauss, under the Harte & Company, Inc. pension plan. Such benefits are in addition to "deferred awards" payable upon retirement under Diamond's Incentive Compensation Plan described in Note 2 above.

(4) Diamond has an employment agreement with Mr. G. G. Stier which became effective May 1, 1967 upon the merger of Nopco into Diamond and which provides for salary at a rate of not less than $65,000 per year, employee benefits at least as favorable as his former Nopco benefits and a five year term, subject to termination by either party on or after May 1, 1968 (with termination pay equal to two years' salary if Diamond so terminates).

(5) Diamond has an employment agreement with a former employee who is a member of this group pursuant to which payment of $13,933 of deferred compensation is being made in 28 approximately equal monthly installments following October 31, 1966.

Remuneration of Directors and Officers of PM

With respect to each person who was a director or one of the three highest paid officers of PM during 1967, whose aggregate direct remuneration for such year exceeded $30,000 and all directors and officers as a group, there is set forth below (i) the aggregate remuneration paid or set aside, directly or indirectly, for the benefit of each such person or group in 1967 and (ii) estimated annual benefits payable in the event of retirement.

Name or Group	Capacities in Which Remuneration Received	Aggregate Remuneration	Estimated Annual Benefits upon Normal Retirement (1)
K. S. BENSON	President	$ 128,596	$44,688
R. S. CAREY	Executive Vice President	57,132	36,828
D. M. CHISHOLM	Vice President	64,348	21,312
C. S. ARMS	Vice President	49,820	23,232
G. S. LOCKWOOD, JR.	Vice President	49,820	22,680
Directors and Officers as a a Group (30 in number including the above)	Director and/or Officers	1,012,388	(2)

(1) Under the PM Pension Plan for the benefit of salaried employees no amount has been set aside or accrued specifically for the benefit upon retirement of any individual or for directors or officers as a group. The estimated annual benefits upon retirement shown above assume that the respective individuals continue in the employment of PM until retirement at age 65 and that their remuneration continues at the rate currently in effect and that the Pension Plan remains in effect unchanged.

(2) PM has in effect a Pension Allowance Plan pursuant to which Mr. John Sherwin, who retired as an employee of PM effective December 31, 1966, is now receiving and will receive for a period of 10 years after his retirement or for life, whichever is longer, retirement benefits at the rate of $40,000 per annum.

PM has in effect a Profit Sharing Plan as an incentive to its key managerial employees who are selected each year by action of the Executive Committee of the PM Board of Directors. The employees selected may include any of the directors and officers who are employees of PM. Amounts distributed under the Plan in any year may not exceed 15 percent of the excess of "consolidated operating income" (before deducting federal income taxes) for such year, over 10 percent of the "net worth" at the beginning of such year of PM and its subsidiaries, as such terms are defined in the Profit Sharing Plan. The Plan may not, without stockholder approval, be amended or terminated by the Board of Directors. The amount of $399,345 was accrued in respect of the year 1967 and distributed in 1967 and 1968 under the Plan to 64 officers and key employees, and the applicable portions of this amount are included in the foregoing tabulation of aggregate remuneration for 1967.

EMPLOYEE STOCK OPTION AND THRIFT PLANS

Diamond Plans

Diamond has several stock option plans now in effect (one of which, the 1966 Employee Thrift Plan, will expire October 31, 1968). These option plans fall into two main categories. The first category includes executive stock option plans adopted by Diamond or assumed by it as the result of mergers; the other includes a series of employee thrift plans available to all employees. Under the executive stock option plan category, all options granted prior to January 1, 1964 are intended to be "restricted stock options" as defined in Section 424 of the Internal Revenue Code of 1954, as amended (herein the "Code"). Options granted after December 31, 1963, are intended to be "qualified stock options" as defined in Section 422 of the Code. The employee thrift plan options are intended to be "employee stock purchase plans" as that term is defined in Section 423 of the Code.

One of Diamond's plans is Diamond Shamrock Corporation's 1965 Stock Option Plan (the "1965 Plan"), which was approved by the Diamond stockholders on April 15, 1965. The 1965 Plan is similar to an Executive Stock Option Plan originally approved by the stockholders in 1951 and amended in 1957 (the "1951 Plan") except that certain changes were made in order that options granted under the 1965 Plan would be "qualified stock options" within the meaning of Sections 422 through 424 of the Code. Although the 1951 Plan was terminated in 1965, some options still remain outstanding under that plan. Options granted under both the 1951 and the 1965 Plans are for Diamond Common. No options currently outstanding under the 1951 Plan were granted at less than 100% of the market price on the date of grant and the 1965 Plan provides that no options may be granted at less than 100% of the market price on the date of grant. Options under the earlier Plan had a maximum term of seven years while options under the 1965 Plan have a maximum term of five years, but options under both plans accrue in annual installments over the term of the option.

As described above, in 1967 Diamond merged with Shamrock and Nopco and in the mergers Diamond assumed the stock option plans of both Shamrock and Nopco.

The stock option plan of Shamrock is similar to the 1965 Plan. In order to maintain the same relationship of option shares to the shares exchanged in the merger of Shamrock into Diamond, the Shamrock stock options are now expressed in units rather than shares. Each unit represents .75 of a share of Diamond Common and .5 of a share of Series D Preferred Stock. Options may only be exercised by units and only in such number of units as will result in issuance of full shares. Thus, four units is the minimum which can be exercised at any one time.

The Nopco plan is likewise similar to the 1965 Plan. The restricted stock options granted prior to January 1, 1964 were for six-year periods and qualified stock options granted after that date were for five-year periods. These options were changed upon the merger from options for Nopco Common Stock to options for Diamond's Series C Preferred Stock on a share for share basis.

The second category of stock option plans includes a series of successive Employee Thrift Plans (commencing respectively in 1957, 1960, 1963 and 1966) which provided that employees could purchase Diamond Common through authorizing deductions each year from their wages or salaries in amounts up to 10% of such annual wages or salaries. The option price was set on a certain date at the beginning of the Plan and the employee was given the right to exercise such option prior to the expiration of the Plan. On April 18, 1968, the stockholders approved the reservation of 250,000 shares of Diamond Common for issuance pursuant to a similar plan, the 1968 Employee Thrift Plan, which will expire October 31, 1970.

For additional information concerning the foregoing Plans, see Note 9 of the Notes to Consolidated Financial Statements of Diamond.

The following tabulation shows as to certain directors and officers and as to all directors and officers as a group (i) the number of shares for which options were granted since the beginning of the fifth previous full fiscal year, (ii) the number of shares acquired since that

date through the exercise of options granted since that date or prior thereto, (iii) the number of shares sold during such period of the same class of stock as those so acquired, and (iv) the number of shares subject to all unexercised options held as of September 9, 1968.

	C. A. Cash	J. H. Dunn	J. A. Hughes	J. Avery Rush, Jr.	A. B. Tillman	All directors and officers as a group
Granted—1963 to September 9, 1968:						
Number of shares of Diamond Common	—o—	—o—	2,500	—o—	2,500	9,100
Average per share option price	—o—	—o—	$35.5625	—o—	$35.5625	$35.5625
Exercised—1963 to September 9, 1968:						
Number of shares of Diamond Common	—o—	—o—	900	—o—	1,800	9,610
Aggregate option price of options exercised	—o—	—o—	$21,150	—o—	$42,300	$244,835
Aggregate market value of shares on date options exercised	—o—	—o—	$30,263	—o—	$62,425	$334,746
Sold—1963 to September 9, 1968(1):						
Number of shares of Diamond Common	—o—	—o—	—o—	—o—	—o—	1,400
Unexercised at September 9, 1968:						
Number of shares of Diamond Common	—o—	—o—	3,600	—o—	2,700	11,290
Number of Units	15,000	15,000	—o—	6,000	—o—	36,000
Average per share or unit option price	$28.17	$28.17	$31.88	$28.17	$34.66	$33.20 per share $28.17 per unit

Note

All common share figures have been adjusted in accordance with the terms of the options to reflect a stock split in 1965. No option exercises or sales of shares are shown for Nopco Common Stock or Shamrock Common Stock occurring prior to the respective mergers of those companies into Diamond.

(1) Sales by directors and officers who exercised options during the period 1963 to date.

In addition, during the period other employees were granted options for 33,500 shares of Diamond Common at an average option price per share of $35.5625.

In addition to the options listed in the table above, certain Diamond officers and directors have options outstanding under the 1966 Employee Thrift Plan which options terminate October 31, 1968. These options are at a price of $30 per share. Messrs. Hughes, Tillman and Strauss each has an option for 120 shares under the 1966 Employee Thrift Plan and all officers and directors as a group, including those named above, have 1,140 shares under option all as of September 9, 1968. One officer not named above exercised an option under the 1966 Employee Thrift Plan for 60 shares in November, 1967. Under the 1963 Employee Thrift Plan, Messrs. Hughes and Tillman exercised options in November, 1966 for 172 shares each at a price adjusted for stock split of $24.94 and all the officers and directors as a group, including Messrs. Hughes and Tillman, exercised options for 1,376 shares at the same price.

On September 5, 1968, all employees, including officers and directors who are employees, were offered options under the 1968 Employee Thrift Plan for a total of about 429,000 shares at a price of $32.88 per share. Such options were subject to acceptance by the employees under the rules of the Plan by October 16, 1968 and are further subject to pro rata reduction if the total acceptance of such options exceeds 250,000 shares.

Information concerning recent market prices for Diamond Common and Series D Preferred Stock is given above under "Market Prices." See Note 9 to Notes to Diamond Consolidated Financial Statements.

PM Plans

At September 9, 1968, 242,732 shares of PM Common were subject to issuance upon exercise of options issued under the following three employee stock option plans: (a) Stock Option Plan of PM adopted June 9, 1960, and amended November 29, 1962 ("Restricted Stock Option Plan"); (b) Qualified Stock Option Plan of PM adopted October 26, 1964 ("Qualified Stock Option Plan"); and (c) Manganese Chemicals Corporation Stock Option Plan adopted February 27, 1962 and assumed by PM ("Manganese Chemicals Stock Option Plan"). Options under PM's Restricted Stock Option Plan were granted on various dates between July 1, 1960 and December 10, 1963. They are exercisable in cumulative annual installments over ten years from the date of grant at a price of $10 per share, the fair market value on the date of grant. Options under PM's Qualified Stock Option Plan were granted on various dates between December 31, 1964 and August 9, 1968, at prices ranging from $15 to $27.50 per share, the fair market value on the date of grant. They are exercisable in cumulative annual installments over a period of five years from the date of grant. All options under the Manganese Chemicals Stock Option Plan assumed by PM were granted on April 1, 1962, for a term of ten years (exercisable in cumulative annual installments) from the date of grant at an option price, as converted to PM Common, of $14.25 per share, which was at least 95% of the fair market value of the optioned shares on the date of grant.

The following tabulation shows as to certain directors and officers and to all directors and officers as a group (i) the number of shares for which options were granted since the beginning of the fifth previous full fiscal year, (ii) the number of shares acquired since that date through the exercise of options granted since that date or prior thereto, (iii) the number of shares sold during such period of the same class of stock as those so acquired, and (iv) the number of shares subject to all unexercised options held as of September 9, 1968.

	K. S. Benson	R. S. Carey	D. M. Chisholm	C. S. Arms	G. S. Lockwood, Jr.	All directors and officers as a group
Granted — 1963 to September 9, 1968:						
Number of shares of PM Common	—o—	—o—	—o—	—o—	—o—	79,000
Average per share option price	—o—	—o—	—o—	—o—	—o—	$ 14.05
Exercised — 1963 to September 9, 1968:						
Number of shares of PM Common						
1963 to August 31, 1966	12,000	12,000	—o—	2,000	—o—	61,100
September 1, 1966 to September 9, 1968	4,000	2,000	7,500	—o—	12,000	70,234
Aggregate option price of options exercised:						
1963 to August 31, 1966	$120,000	$120,000	—o—	$ 20,000	—o—	$ 626,500
September 1, 1966 to September 9, 1968	$ 40,000	$ 20,000	$ 75,000	—o—	$120,000	$ 812,590
Aggregate market value of shares on date options exercised(1):						
September 1, 1966 to September 9, 1968	$112,000	$ 57,500	$197,625	—o—	$342,000	$1,990,611
Sold — 1963 to September 9, 1968 (2):						
Number of shares of PM Common	—o—	6,000	—o—	—o—	—o—	6,000
Unexercised at September 9, 1968:						
Number of shares of PM Common	4,000	6,000	12,500	18,000	8,000	115,766
Average per share option price	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 11.68

(1) Since September 1, 1966, PM Common stock has been traded in the over-the-counter market; prior to that date the shares were not traded on any exchange or in the over-the-counter market. The market prices for

shares purchased during the period September 1, 1966 to September 9, 1968, as set forth in the foregoing table, represent the mean between the bid and ask prices for such Common stock as traded in the over-the-counter market on the applicable dates.

(2) Sales by directors and officers who exercised options during the period 1963 to September 9, 1968.

In addition, during the period 1963 to September 9, 1968, other employees were granted options for 103,000 shares of PM Common at an average option price per share of $13.62.

Under Section 2.7 of the Reorganization Agreement each outstanding option under the three PM employee stock plans described above will become an option to purchase, at the same price, the same number of Option Units as the number of shares of PM Common subject to such option immediately prior to the effective date of the merger. An Option Unit is .8 of one share of Diamond Common and .25 of one share of Diamond Special Common. Section 2.7 also contains provisions to avoid fractional interests with respect to shares so optioned. Upon the merger, the rights and obligations of PM under each stock option agreement will become the rights and obligations of Diamond and no additional options will be granted under any of the PM plans.

Information concerning recent market prices for PM Common is given above under "Market Prices." See Note 10 of Notes to PM Consolidated Financial Statements.

DESCRIPTION OF PREFERRED STOCK

Set forth below is a brief summary of the terms of the Preferred Stock, and particularly Series E thereof, and of the principal similarities to and differences from the PM Serial Preferred. This summary is qualified in its entirety by reference to the class terms of Preferred Stock set forth in Appendix B hereto and to the series terms of Series E Preferred Stock set forth in Exhibit II of Appendix A hereto.

General

The Certificate of Incorporation of Diamond, as heretofore amended, provides for a class of 5,500,000 shares of Preferred Stock without par value (referred to herein as "Preferred Stock"). Shares of four series of Preferred Stock are outstanding — the Initial Series Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock. Shares of these four series will remain outstanding after the reorganization and merger with PM and no change in their express terms will be made. See "Amendment of Certificate of Incorporation and Bylaws" below.

If the amendments to Diamond's Certificate of Incorporation as set forth in Exhibit II to the Reorganization Agreement become effective, the number of authorized shares of Preferred Stock will increase to a total of 6,000,000 shares and within such class a fifth series of Preferred Stock, consisting of 585,650 shares designated as $1.15 Cumulative Convertible Preferred Stock—Series E, will be authorized with terms as provided for such series in the Certificate of Incorporation. Shares of the new series, Series E Preferred Stock, will be issued in connection with the reorganization and merger and will be exchanged for shares of PM Serial Preferred.

Dividend Rights

Subject to the restrictions contained in certain Bank Credit Agreements, Loan Agreements and indentures referred to in "Description of Diamond Common" below, the holders of the Preferred Stock, in preference to the holders of any junior stock (see "Amendments to Certificate of Incorporation and Bylaws" below), are entitled to receive, as and when declared by the Board of Directors out of any funds legally available therefor, cumulative cash dividends at the annual rates fixed for the respective series, payable quarterly in each year. The annual dividend rate fixed for Series E Preferred Stock will be $1.15 per share. The annual rate for the cumulative cash dividends on the PM Serial Preferred, both series, is $1.15 per share.

The date from which it is expected dividends will be cumulative on all shares of Series E Preferred Stock issued on or prior to the record date for the first dividend on shares of such series is December 1, 1968; if, however, the conversion of PM shares in the merger has occurred too late to permit the holders of PM Serial Preferred — Series A and B ("PM Preferred Stockholders") to be stockholders of record of Diamond at the record date for any dividend paid or payable in 1969 declared on Preferred Stock, the date from which Series E Preferred Stock dividends shall be cumulative will be the first day of the third month (March, June, September or December, as the case may be) of the last calendar quarter in 1969 in which such a dividend not received or receivable by the PM Preferred Stockholders was paid or payable on Preferred Stock.

No dividends may be paid upon or declared or set apart for any series of Preferred Stock for any quarterly dividend period unless at the same time a like proportionate dividend for the same quarterly dividend period, ratably in proportion to the respective annual dividend rates fixed therefor, is paid upon or declared and set apart for all shares of Preferred Stock of all series then issued and outstanding and entitled to receive such dividend.

So long as any Preferred Stock remains outstanding, no dividend payment or distribution (except in junior stock) may be made on any junior stock, nor may any junior stock be acquired (except in exchange for, or out of the proceeds of the sale of, other junior stock), unless all past and current dividends on the Preferred Stock have been paid or provided for.

Liquidation Rights

The holders of Preferred Stock are entitled to receive upon any liquidation or dissolution the amounts fixed for the respective series, together in each case with accrued dividends, before any distribution or payment may be made to the holders of any junior stock. If the amounts so payable are not paid in full to the holders of all outstanding shares of Preferred Stock, the holders of all series of Preferred Stock will share ratably in any distribution of assets in proportion to the full amounts to which they would otherwise be respectively entitled. Holders of junior stock are entitled to receive the remaining assets, according to their respective rights, preferences and shares.

The amount payable upon any liquidation or dissolution to the holders of the Initial Series and Series B Preferred Stock is $100 per share, to the holders of Series C Preferred Stock is $42 per share, to the holders of Series D Preferred Stock is $21 per share, and to the holders of Series E Preferred Stock will be $26.25 per share through December 31, 1973 reducing $.25 per year to $25.00 per share on January 1, 1978 and thereafter, in each case plus accrued dividends. The amount payable upon any liquidation, dissolution or reduction of capital resulting in any distribution of assets to stockholders, to the holders of the PM Serial Preferred — Series A is $26.25 per share through July 31, 1972, with the amount reducing $.25 per year to $25.00 per share from and after August 1, 1976, in each case plus accrued dividends. The amount payable in such events to the holders of the PM Serial Preferred—Series B is $26.25 per share through December 31, 1973, with the amount reducing $.25 per year to $25.00 per share from and after January 1, 1978, in each case plus accrued dividends.

The aggregate preference upon liquidation of the Preferred Stock of all series will exceed the stated value thereof in the pro forma financial statements. (See entry (a) to the Condensed Pro Forma Consolidated Balance Sheet above). There will be no restrictions upon the payment of dividends or other distribution out of retained earnings on shares of the Preferred Stock or on the Diamond Common solely by reason of the excess of the liquidation preferences over the stated value of the Preferred Stock, and there are no remedies available to security holders before or after the payment of any dividend solely because such dividend would reduce retained earnings to an amount less than the amount of such excess. With respect to asset coverage of the Preferred Stock, see "Preferred Stock Asset Coverage" above.

Redemption Provisions and Prices

Subject to the limitations referred to under "Description of Diamond Common" below, the Preferred Stock of any series may be redeemed, as a whole or in part, at the option of the Board of Directors upon at least thirty days' notice, at such time or times and at the redemption price fixed for such series, together with accrued dividends to the redemption date.

Initial Series Preferred Stock has been redeemable at any time since September 1, 1966, and Series B Preferred Stock will be redeemable at any time on or after October 1, 1970, in each case at the redemption price of $100 per share. Series C Preferred Stock will be redeemable at any time on or after May 1, 1972 at a redemption price of $42 per share. Series D Preferred Stock will be redeemable at any time on or after December 19, 1972, at a redemption price of $21 per share. Series E Preferred Stock will be redeemable at any time on or after five years from the effective date of the merger at a redemption price of $26.00 per share through December 31, 1974, reducing $.25 per year to $25.00 per share on January 1, 1978 and thereafter. Shares of any of the five series of Preferred Stock purchased or redeemed by Diamond, or converted, may not be reissued as shares of the same series.

PM Serial Preferred — Series A is redeemable in whole or in part at any time from and after August 1, 1971 at a redemption price of $26.25 per share reducing $.25 per year to $25.00 on August 1, 1976 and thereafter; the PM Serial Preferred — Series B is redeemable in whole or in part at any time from and after January 1, 1973 at a redemption price of $26.25 per share reducing $.25 per year to $25.00 per share on January 1, 1978 and thereafter; in each case plus accrued dividends. Shares of PM Serial Preferred redeemed or purchased or acquired by PM may not be reissued.

Sinking Fund

There is no sinking fund applicable to the shares of any of the five series of Preferred Stock or to the shares of either series of PM Serial Preferred.

Conversion and Subscription Rights

Initial Series Preferred Stock and Series B Preferred Stock are convertible at the option of the holders at any time into Diamond Common at the rate of 2.6 shares of Diamond Common for each share of such series. Series C Preferred Stock is so convertible at the rate of 1.15 shares of Diamond Common for each share of such series. Series D Preferred Stock is so convertible at the rate of .45 of a share of Diamond Common for each share of such series. Series E Preferred Stock will be so convertible at the rate of .75 of a share of Diamond Common for each share of such series. PM Serial Preferred, both series, is convertible into PM Common at any time at the rate of 5/7 (or approximately .714) of a share of PM Common for each share of PM Serial Preferred.

The conversion rates for Preferred Stock are subject to proportionate adjustment in the case of a subdivision of outstanding shares of Diamond Common into a greater number of shares, by way of a dividend payable in Diamond Common or a stock split, or in the case of a combination of the outstanding Diamond Common into a smaller number of shares. PM conversion rates are subject to adjustment in similar circumstances.

No fractional shares of Diamond Common will be issued upon conversion of shares of Series E Preferred Stock. In lieu of any fractional share of Diamond Common to which a holder of Series E Preferred Stock might otherwise be entitled upon such conversion, a cash adjustment, based upon the market price of Diamond Common (determined as provided in the Diamond Certificate of Incorporation as proposed to be amended), will be paid to such holder.

If Diamond shall, at any time or from time to time prior to the conversion or redemption of all of the shares of Preferred Stock, grant to the holders of Diamond Common the right to subscribe for or purchase any shares of stock of any class or distribute to the holders of

Diamond Common evidences of indebtedness or assets (excluding cash dividends and distributions by way of stock dividends or splits), Diamond is to grant concurrently to the holders of shares of each series of Preferred Stock the same purchase or subscription rights or is to distribute the same evidences of indebtedness or assets, in the same proportion as if each share of each series of Preferred Stock had been converted into shares of Diamond Common at the then existing conversion rate.

PM conversion rates are subject to proportionate adjustment should PM (i) pay a share dividend on PM Common; or (ii) increase or decrease the number of shares of PM Common by reclassification or otherwise; or (iii) sell or issue (which includes the payment of a stock dividend in PM Common on any outstanding shares of PM other than PM Common), except under PM's stock option plans, shares of PM Common, or certain securities convertible into PM Common, at less than $35 per share (subject to adjustment to give effect to stock dividends, divisions or combinations); or (iv) grant any right or option, expiring more than 45 days from the date of the grant, to subscribe for or purchase Common Stock, at less than $35 per share (subject to adjustment to give effect to stock dividends, divisions or combinations). Proportionate adjustment shall also be made should PM distribute to holders of its Common Stock evidences of indebtedness or assets (excluding cash dividends and distributions of the types referred to above).

The right to convert any shares of any series of Preferred Stock when called for redemption on 30 days' notice extends to the close of business on the third day preceding the date fixed for redemption of such shares. In the case of PM Serial Preferred, the right of conversion extends to the close of business on the day preceding the date fixed for redemption of such shares.

Voting Rights

Upon default in the payment of dividends on Preferred Stock, in an amount equivalent to six quarterly dividends on all shares of all series of Preferred Stock, the holders of Preferred Stock, voting separately as a class, will be entitled to elect two of the members of the Board of Directors until all dividends in default are paid or provided for. In the case of PM Serial Preferred, the number of directors constituting the full Board of Directors of PM would, in such circumstances, be increased by two, and the holders of PM Serial Preferred, voting separately as a class, would be entitled to elect directors to fill the vacancies resulting from such increase.

The consent of the holders of at least two-thirds of the shares of Preferred Stock is necessary to effect or validate the following:

(i) Any amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation, or of the By-laws, which affects adversely the voting powers, rights or preferences of the holders of Preferred Stock; provided, however, that if such amendment, alteration or repeal affects adversely the rights or preferences of one or more but not all series of Preferred Stock at the time outstanding, only the consent of the holders of at least two-thirds of each series so affected shall be required; and provided further that the amendment of the Certificate of Incorporation so as to authorize or change the authorized amount of any junior stock is not deemed to affect adversely the voting powers, rights or preferences of the holders of Preferred Stock;

(ii) Any increase in the authorized amount of the Preferred Stock or the authorization or creation, or the increase in the authorized amount, of any stock of any class or any security convertible into stock of any class, ranking prior to or on a parity with the Preferred Stock;

(iii) The voluntary dissolution, liquidation or winding up of the affairs of Diamond, or the sale, lease or conveyance of all or substantially all of its property or assets;

(iv) The merger or consolidation of Diamond with or into any other corporation, unless the corporation resulting from such merger or consolidation will have after such

merger or consolidation no class of stock and no other securities either authorized or outstanding ranking prior to or on a parity with the Preferred Stock, except the same number of shares of stock and the same amount of other securities with the same rights and preferences as the stock and securities of Diamond respectively authorized and outstanding immediately preceding such merger or consolidation, and each holder of Preferred Stock immediately preceding such merger or consolidation shall receive the same number of shares, with the same rights and preferences, of the resulting corporation;

provided, however, that no such consent of the holders of Preferred Stock will be required if, at or prior to the time when the transaction otherwise requiring consent is to occur, provision is made for the redemption of all outstanding shares of Preferred Stock of the series affected.

In addition to the foregoing voting rights of all series of Preferred Stock and those conferred on the holders of Preferred Stock by Delaware law to act separately on certain matters, the holders of Initial Series and Series B Preferred Stock are entitled to vote at a rate of 2.6 votes per share, the holders of Series C Preferred Stock are entitled to vote at a rate of 1.15 votes per share, the holders of Series D Preferred Stock are entitled to vote at a rate of .45 of a vote and the holders of Series E Preferred Stock will be entitled to vote at a rate of 1 vote per share, with the holders of shares of Diamond Common and Diamond Special Common (who are entitled to one vote for each share held), and not as a separate class, on a non-cumulative basis for the election of directors and upon all other matters which may be submitted to a vote of holders of Diamond Common at any annual or special meeting thereof. Upon any adjustment in the conversion rate of the shares of a particular series, the voting rate for such series shall be correspondingly and simultaneously adjusted.

In addition to the right conferred on the holders of PM Serial Preferred by Delaware law to act separately as a class on certain matters, the provisions of the Certificate of Incorporation of PM require the consent of the holders of at least two-thirds of the affected outstanding shares of PM Serial Preferred voting as a class to:

(i) Amend, alter, change or repeal any of the express terms of PM Serial Preferred or of any series thereof then outstanding in a manner prejudicial to the holders thereof;

(ii) Create or authorize any class of stock ranking prior to PM Serial Preferred with respect to dividends or assets, or to create or authorize any obligation or security convertible into shares of any such prior-ranking class, or to increase the authorized number of shares of PM Serial Preferred or of any previously-created prior-ranking class; provided, however, that the creation or authorization of any class of stock ranking on a parity with PM Serial Preferred with respect to dividends or assets may be undertaken with the consent of the holders of at least one-half of the affected outstanding shares of PM Serial Preferred voting as a class;

(iii) Become a party to a merger or consolidation with any other corporation or corporations, unless:

(a) The agreement of merger or consolidation provides for the continuation of PM Serial Preferred, or conversion of shares thereof into shares of the surviving or resulting corporation, without a change in the express terms of such shares in a manner prejudicial to the holders thereof, and

(b) The surviving or resulting corporation immediately after the merger or consolidation will have no class of authorized or outstanding stock ranking prior to PM Serial Preferred (or the shares into which PM Serial Preferred is to be converted upon the merger or consolidation) with respect to dividends or assets, except such stock of PM as may be properly authorized or outstanding immediately preceding the merger or consolidation, and

(c) The surviving or resulting corporation immediately after the merger or consolidation will have no class of authorized or outstanding stock ranking on a parity with PM Serial

Preferred (or the shares into which PM Serial Preferred is to be converted upon the merger or consolidation) with respect to dividends or assets, except such PM stock as may be properly authorized or outstanding immediately preceding the merger or consolidation and preferred stock of any other merger or consolidation party (not controlled by or under common control with PM) outstanding immediately preceding the merger or consolidation (or the shares into which such stock shall be converted upon the merger or consolidation).

The holders of PM Serial Preferred are entitled to one vote per share voting with the shares of PM Common at each annual or special meeting of stockholders upon all matters upon which a vote is taken. The voting rate of PM Serial Preferred is subject to proportionate adjustment in the event that the PM Common is subdivided (whether by stock dividend, stock split or otherwise) or combined.

Pre-Emptive Rights

The Board of Directors of Diamond is authorized to issue, sell or otherwise dispose of any stock for such consideration (not less than the par value, if any, thereof) and upon such terms and conditions as it in its discretion may deem for the best interests of Diamond, and the holders of Preferred Stock (as well as all other classes) have no pre-emptive right to subscribe for any stock so issued, sold or otherwise disposed of. See, however, "Description of Diamond Common," "Description of Diamond Special Common" and the balance of this "Description of Preferred Stock" with respect to certain provisions in the Certificate of Incorporation of Diamond restricting the sale, issuance or other disposition of Diamond stock.

PM Serial Preferred has no pre-emptive rights.

Full Paid and Non-Assessable

The outstanding shares of Initial Series, Series B, Series C and Series D Preferred Stock are, and the shares of Series E Preferred Stock to be issued pursuant to the Reorganization Agreement and Merger Agreement will be, full paid and non-assessable.

Other Terms

Shares of Preferred Stock other than the five series discussed above may be issued from time to time in one or more series with such series designation, number of shares of the series, dividend rates, redemption prices, sinking fund provisions, amounts payable upon voluntary or involuntary liquidation, dissolution or winding up, conversion rights and voting rights (in addition to those conferred in the Certificate of Incorporation and by law) as the Board of Directors may fix.

Neither the terms of the Preferred Stock set forth in the Certificate of Incorporation nor any other provisions thereof expressly prevent Diamond from repurchasing any or all shares of any series of Preferred Stock in the open market or otherwise, or from redeeming (from and after specified dates) any or all of such shares, whether or not dividends on shares of other series are in arrears. The Certificate of Incorporation of PM prohibits the purchase of PM Serial Preferred unless all dividends for past dividend periods on all series thereof have been paid or provided for. Any purchase by PM may only be made at a price not in excess of the current redemption price (plus accrued dividends) applicable to the shares so purchased.

Transfer Agents and Registrars

The transfer agents for the Initial Series, Series B, Series C and Series D Preferred Stock are, and the transfer agents for the Series E Preferred Stock will be, Mellon National Bank and Trust Company, Mellon Square, Pittsburgh, Pennsylvania and Bankers Trust Company, 14 Wall Street, New York, New York. The registrars for such stock are and will be Pittsburgh National Bank, Fourth Avenue, Pittsburgh, Pennsylvania and Chemical Bank New York Trust Company, 20 Pine Street, New York, New York.

DESCRIPTION OF DIAMOND COMMON

General

The Certificate of Incorporation of Diamond, as heretofore amended, provides for a class of 18,000,000 shares of Common Stock without par value (referred to herein as "Diamond Common"). If the amendments to Diamond's Certificate of Incorporation as set forth in Exhibit II to the Reorganization Agreement become effective, the number of authorized shares of Diamond Common will increase to a total of 21,000,000 shares. For comment on the effect of this change, see "Amendments to Certificate of Incorporation and Bylaws" below.

Dividend Rights

Holders of Diamond Common are entitled to such dividends as the Board of Directors may declare from funds legally available therefor, subject to the preferential rights of the Preferred Stock (see "Description of Preferred Stock"), to restrictions contained in the instruments relating to Diamond's outstanding debt securities (referred to below) and to certain limitations which will be included in the express terms of Diamond Special Common (described below and in "Description of Diamond Special Common — Dividend Rights" below).

Diamond is a party to certain loan agreements and indentures covering Notes and Debentures (see Note 6 to the Diamond Consolidated Financial Statements) which contain certain restrictions on declaration and payment of dividends and acquisition by the borrowing company of its capital stock. The most restrictive of these provisions relate to a 4¾% Note held by Mellon, the unpaid principal balance of which was $12,000,000 as of June 30, 1968 and is payable in installments to 1971. Under such provisions, the amount of consolidated retained earnings of Diamond free of such restrictions, calculated on a pro forma basis as if the merger date had been June 30, 1968, would be at least $37,600,000. If the reorganization and merger had been consummated at June 30, 1968, the annual dividend requirements of Preferred Stock would have been $8,335,000.

In addition, Diamond is a party to Bank Credit Agreements (see Note 6 to the Diamond Consolidated Financial Statements) which require Diamond to maintain "consolidated net current assets of Diamond and its consolidated subsidiaries" (as therein defined) at not less than $25,000,000. Diamond's consolidated net current assets under these Agreements, calculated on a pro forma basis as if the merger date had been June 30, 1968, would be about $87,000,000.

The express terms of the Diamond Special Common will provide that so long as any shares of that class are outstanding, Diamond may not: (i) subdivide or combine the outstanding shares of Diamond Common or Diamond Special Common into a greater or lesser number of shares unless such subdivision or combination is simultaneously effected to and in the same proportion for both classes; or (ii) pay any dividends in Diamond Common or Diamond Special Common to stockholders of record as of a date prior to December 1, 1972, except dividends payable simultaneously upon Diamond Common and Diamond Special Common in shares of the class on which paid, at the same rate per share for both classes, to holders of record on the same record date. Such terms will further prohibit the declaration or payment of any dividend on shares of either Diamond Common or Diamond Special Common to stockholders of record as of a date on or after December 1, 1972, but while any Diamond Special Common is outstanding, unless an identical dividend is declared or paid, as the case may be, on both classes.

Voting Rights

The holders of Diamond Common have one vote per share upon all matters presented to the stockholders except for certain matters involving the right of holders of Preferred Stock as described above under "Description of Preferred Stock — Voting Rights." As noted there, the holders of Preferred Stock also have the right to vote on all matters submitted to a vote of holders of Diamond Common (as will the holders of Diamond Special Common). Holders of Diamond Common are not entitled to vote cumulatively in the election of directors; the same is true of holders of PM Common Stock.

Pre-Emptive Rights

Holders of Diamond Common have no pre-emptive rights. See the heading "Pre-Emptive Rights" under the caption "Description of Preferred Stock" above. PM Common has no pre-emptive rights.

Full Paid and Non-Assessable

The outstanding shares of Diamond Common are, and the shares of Diamond Common to be received by PM stockholders in the merger and upon conversion of Preferred Stock will be, full paid and non-assessable.

Transfer Agents and Registrars

The transfer agents and registrars for Diamond Common are the same as are named above for Preferred Stock.

DESCRIPTION OF DIAMOND SPECIAL COMMON

General

If the amendments to Diamond's Certificate of Incorporation as set forth in Exhibit II to the Reorganization Agreement become effective, there will be authorized 700,000 shares of a new class of Diamond stock designated Special Common Stock and referred to herein as "Diamond Special Common" (in addition to the 21,000,000 authorized shares of Diamond Common). See "Amendments to Certificate of Incorporation and Bylaws" below.

Dividend Rights

Except as noted below, the holders of Diamond Special Common will not be entitled to receive any dividends as to which the record or payment date is on or before November 30, 1972. The holders of Diamond Special Common will be entitled thereafter to receive out of funds legally available therefor, when and as declared by the Board of Directors of Diamond, dividends whether in cash, stock or property identical in all respects to any dividends paid on Diamond Common. The holders of Diamond Special Common will be entitled to receive dividends payable in Diamond Special Common to stockholders of record as of a date prior to December 1, 1972, but then only if like dividends of Diamond Common on Diamond Common are declared with the same record date. See "Description of Diamond Common—Dividend Rights" above.

Liquidation Rights

In the event of any voluntary or involuntary liquidation, the holders of Diamond Special Common will be entitled to receive the same distribution per share (at the same time) as the Diamond Common, without preference of one class to the other, in any distribution of assets legally available therefor.

Voting Rights

The holders of Diamond Special Common will have one vote per share with the holders of Diamond Common, and not as a separate class, on a non-cumulative basis for the election of directors and upon all other matters which may be submitted to a vote of the holders of Diamond Common.

The consent of the holders of at least a majority of the shares of Diamond Special Common at the time outstanding will be necessary to effect or validate the following:

(i) Any amendment, alteration or repeal of any of the provisions of the Diamond Certificate of Incorporation which affects adversely the voting powers or other rights of the holders of Diamond Special Common as a class; provided, however, that the amendment of provisions of the Diamond Certificate of Incorporation so as to authorize or to increase or decrease the authorized amount of any capital stock of the Corporation (other than a decrease in Diamond Special Common below the number of shares thereof then outstanding unless such decrease is effected simultaneously as to the Diamond Com-

mon and the Diamond Special Common in the same proportion for each such class to the end that there shall be no expansion or dilution in the voting rights of the Diamond Common or Diamond Special Common) shall not be deemed to affect adversely the voting powers or other rights of the holders of Diamond Special Common; and provided, further, that no such consent of the holders of Diamond Special Common shall be required if, at or prior to the time when any such amendment, alteration or repeal is to take effect, all outstanding shares of Diamond Special Common are converted.

(ii) The consolidation of Diamond with, or the merger of Diamond into, any other corporation or the merger of Diamond with any other corporation in which Diamond becomes a subsidiary of another corporation and in which the holders of Diamond Common receive securities of such parent corporation in exchange for such Diamond Common unless, in such consolidation or merger, as the case may be, the conversion rights with respect to Diamond Special Common are altered in the manner and to the extent contemplated by Article Fourth, subdivision (4) (f) of the Certificate of Incorporation of Diamond (as proposed to be amended), which provides in essence that in such an event the holders of Diamond Special Common will receive shares of stock or other securities or property on a parity with holders of Diamond Common and adjustments will be made so that the provisions with respect to Diamond Special Common will apply as nearly as may reasonably be to such stock or other securities or property.

The number of authorized shares of Diamond Special Common may be increased or decreased (but not decreased below the number of shares thereof then outstanding, except in certain specified circumstances) by the affirmative vote of the holders of a majority of the Capital Stock of Diamond, and without a class vote by the holders of Diamond Special Common.

Conversion and Subscription Rights

Diamond Special Common will be convertible at any time or from time to time into Diamond Common, at the option of Diamond on the basis of one share of Diamond Common for each share of Diamond Special Common. (The conversion rate is subject to appropriate adjustment in the event of reorganization, reclassification, consolidation, merger or conveyance of all or substantially all of the assets of Diamond.) If Diamond elects to convert and change less than all of the outstanding shares of Diamond Special Common, then the shares to be so converted and changed will be determined by lot or pro rata in a manner prescribed by Diamond's Board of Directors.

So long as any Diamond Special Common is outstanding, Diamond may not at any time increase or decrease the number of outstanding shares of either Diamond Common or Diamond Special Common by subdivision or combination of shares unless such increase or decrease is effected simultaneously and in the same proportion for each such class so that there is no dilution or expansion in the voting of the Diamond Special Common. (See "Description of Diamond Special Common—Dividend Rights" above for effect of stock dividends.)

If Diamond should, at any time while any shares of Diamond Special Common remain outstanding, grant to the holders of Diamond Common the right to subscribe for or purchase any shares of stock of any class, or any evidences of indebtedness, of Diamond, then Diamond must concurrently grant to the holders of Diamond Special Common on the same record date the same right to subscribe for or purchase shares of stock or evidences of indebtedness of the same kind.

Pre-Emptive Rights

Holders of Diamond Special Common will have no pre-emptive rights. See the heading "Pre-Emptive Rights" under the caption "Description of Preferred Stock" above.

Full Paid and Non-Assessable

The shares of Diamond Special Common to be received by holders of PM Common in the merger will be full paid and non-assessable.

Transfer Agents and Registrars

The transfer agents and registrars for Diamond Special Common will be the same as are named above for the Preferred Stock.

AMENDMENTS TO CERTIFICATE OF INCORPORATION AND BYLAWS

Exhibit II to the Reorganization Agreement sets forth certain amendments to Diamond's present Certificate of Incorporation as heretofore amended which are necessary to consummate the reorganization and merger and to effect the change of shares of PM stock into Diamond stock as provided for in the Reorganization Agreement and the Merger Agreement. (See "The Reorganization and Merger—Effect on PM and Diamond Shares" above.) The amendments may be summarized as follows: (a) an increase in authorized Diamond Common from 18,000,000 shares to 21,000,000 shares, (b) an increase in authorized Preferred Stock from 5,500,000 shares to 6,000,000 shares, (c) authorization and specification of the terms of 700,000 shares of a new class of stock designated Special Common Stock, (d) authorization and specification of the terms of 585,650 shares of Series E Preferred Stock and (e) minor formal amendments required by the authorization of Diamond Special Common as set forth below.

Upon the reorganization and merger approximately 19,100,000 shares of Diamond Common will be outstanding or reserved for issuance upon the exercise of employee stock options or the conversion of Preferred Stock or Diamond Special Common or will be committed to be paid as awards under Diamond's Incentive Compensation Plan; approximately 625,000 shares of Diamond Special Common will be outstanding or reserved for issuance upon the exercise of employee stock options. This will leave available for other corporate purposes about 1,900,000 shares of Diamond Common, including treasury shares, and 75,000 shares of Diamond Special Common. The number of shares of Preferred Stock available for issuance as one or more additional series will be approximately 400,000 shares. If issued, these shares of Preferred Stock would have the rights set forth in the Certificate of Incorporation as applicable to all series of Preferred Stock and such designations, liquidation prices, dividend rates and voting, redemption, sinking fund and conversion rights as the Board of Directors may fix.

The available shares of Diamond Common, Diamond Special Common and Preferred Stock may be used for future financings, acquisitions of other businesses, payment for services and other corporate purposes. They may be so disposed of at such time and for such consideration as the Board of Directors deems advisable and in transactions which may not require stockholder action. The Board of Directors has no present plans, agreements or understandings for any such disposition.

The following changes in the Certificate of Incorporation are required in connection with the authorization of Diamond Special Common:

1. The last sentence of subdivision (6) of the voting powers, designations, preferences and relative, participating, optional and other special rights, and the qualifications, limitations and restrictions thereof, of Preferred Stock is to be amended in its entirety to read as follows (changes indicated by italics):

> "Except as herein or by statute specifically provided and except as may be provided by the Board of Directors in fixing the voting rights of any particular series of Preferred Stock pursuant to the provisions of subdivision (1) of this Article Fourth, the Common Stock *and Special Common Stock* shall have the exclusive right to vote for the election of Directors and for all other purposes."

2. Clause (a) of subdivision (8) of such class terms of the Preferred Stock is to be *amended in its entirety to read as follows:*

"(a) The term 'junior stock' shall mean Common Stock *and Special Common Stock* and any other class of stock of Diamond hereafter authorized over which Preferred Stock has preference or priority in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of Diamond."

Prior to the special meeting of stockholders called to be held on November 27, 1968, Diamond will have amended its Bylaws by action of its Board of Directors to increase the maximum size of its Board of Directors from 17 to 21 members.

OTHER MERGER PROVISIONS

The Reorganization Agreement provides that at any time before the merger becomes effective the Reorganization Agreement (and the Merger Agreement) may be terminated by mutual action of the Boards of Directors of Diamond, Subsidiary and PM. Further, Diamond and Subsidiary, or PM, as the case may be, may terminate such agreements if certain conditions, set forth in the Reorganization Agreement, to which their respective obligations are subject, are not met in all material respects. (See Articles II, III and IV of the Reorganization Agreement.) These conditions include the correctness of the representations of the other party as to financial condition, results of operations and other matters, the issuance of a favorable tax ruling or satisfactory opinions of counsel, the obtaining of necessary stockholder approvals, the exercise of dissenters' rights by the holders of not more than 250,000 shares of PM stock and the delivery of opinions of counsel concerning various matters relating to the transaction. The Boards of Directors may waive conditions, and the Reorganization Agreement and the Merger Agreement may be amended, under certain circumstances. (See Article IV of the Reorganization Agreement.) The respective managements of Diamond and PM are not presently aware of any facts which would enable or require the Board of Directors of Diamond, PM or Subsidiary to exercise such right to waive conditions or to amend, or which would cause the Boards, or any of them, to terminate the Reorganization Agreement or the Merger Agreement. If the requisite stockholder votes (see "Stockholder Votes Required — Merger Date" below) are not obtained, the reorganization and merger will not be consummated.

STOCKHOLDER VOTES REQUIRED—MERGER DATE

Approval of the Reorganization Agreement by Diamond requires the affirmative vote of the holders of at least (a) two-thirds of the shares of the Preferred Stock outstanding (voting together without distinction as to series), (b) a majority of the shares of Diamond Common outstanding, and (c) a majority of the shares and of the votes of Diamond Common and Preferred Stock outstanding (voting together and not by class or series except that in determining the result by vote, as opposed to by shares, the differing voting rights per share of each class and series shall be taken into account). See "Description of Preferred Stock—Voting Rights" and "Description of Diamond Common — Voting Rights," above.

Approval of the Reorganization Agreement, and adoption of the Merger Agreement, by PM requires the affirmative vote of the holders of at least (a) two-thirds of the shares of PM Common and PM Serial Preferred outstanding (voting together without distinction as to class or series) and (b) two-thirds of the shares of PM Serial Preferred outstanding (voting together without distinction as to series).

Diamond has agreed in the Reorganization Agreement, subject to the conditions therein, to vote 100% of the stock of Subsidiary for approval of the Reorganization Agreement and adoption of the Merger Agreement.

If the Reorganization Agreement is so approved and the Merger Agreement is so adopted, the merger will become effective when the Merger Agreement is filed with the Secretary of State of Delaware in accordance with the General Corporation Law of the State of Delaware,

as amended. Immediately before the Merger Agreement is so filed the Certificate of Incorporation of Diamond will be amended as provided in the Reorganization Agreement (and as further described in "Amendments to Certificate of Incorporation and Bylaws," above) by filing a certificate in respect thereof with the Secretary of State of Delaware in accordance with the General Corporation Law of the State of Delaware, as amended. It is anticipated that, subject to possible delay (for example, delay in receiving the tax ruling discussed above), these filings will be effected shortly after the stockholders of PM and Diamond give the requisite affirmative votes described above.

EXCHANGE OF CERTIFICATES—FRACTIONAL SHARES

Exchange of PM stock certificates for new certificates evidencing the shares of Diamond Common, Diamond Special Common and Series E Preferred Stock to which former PM stockholders will be entitled will be effected through the exchange agent, Bankers Trust Company, New York, New York. Pending exchange of each PM certificate, no dividends will be paid to stockholders on shares of Diamond Common, or Diamond Special Common or Series E Preferred Stock to be received in exchange for shares of PM Common or Serial Preferred evidenced thereby, but all dividends so withheld will be paid as soon as such certificate has been exchanged.

As previously stated, Diamond will not issue certificates for fractional shares. However, for a period of approximately 40 days to be fixed by PM as the surviving corporation in the merger commencing after the effective date of the merger any holder may, as a part of the surrender of his PM certificates as discussed above, purchase through the exchange agent any fractional interest necessary to make up a full share of Diamond Common and/or Diamond Special Common, as the case may be, or sell any fractional interest or interests to which he is entitled. It is presently contemplated that such period for election will be fixed to commence a few days after the effective date of the merger. Fractional interests as to which proper instructions are not received during such period for election will be sold and the proceeds of sale will be available to the persons entitled thereto upon surrender of their PM stock certificates.

Promptly after the effective date of the merger Diamond will mail to the former PM stockholders appropriate transmittal and order forms with respect to the exchange of certificates and, in the case of holders of PM Common Stock, the election as to fractional interests.

GENERAL INFORMATION

Other Business

Neither the Diamond nor the PM management knows of any business to be presented for consideration at the respective meetings of stockholders other than that stated in the respective notices of such meetings. It is intended, however, that the persons authorized under management proxies may, in the absence of instructions to the contrary, vote or act in accordance with their judgment with respect to any other proposal properly presented for action.

Shares Entitled to Vote

The close of business on September 30, 1968, has been fixed by both PM and Diamond as the record date for the determination of shares of PM and Diamond stock entitled to notice of and to vote at their respective meetings. There were 2,258,525 shares of PM Common Stock and 585,650 shares of PM Serial Preferred Stock outstanding at that date, each of which is entitled to one vote. There were 246,379 shares of Initial Series Preferred Stock, 95,000 shares of Series B Preferred Stock, 925,217 shares of Series C Preferred Stock, 3,701,904 shares of Series D Preferred Stock and 11,747,094 shares of Diamond Common outstanding at that date. Holders of shares of Diamond Common at such record date will be entitled to cast one vote per share, holders of Initial Series Preferred Stock and Series B Preferred Stock at such record

date will be entitled to cast 2.6 votes per share, holders of Series C Preferred Stock at such record date will be entitled to cast 1.15 votes per share and holders of Series D Preferred Stock at such record date will be entitled to cast .45 votes per share. For the manner of tabulating votes of Diamond stock in respect of the proposal concerning approval of the Reorganization Agreement, see "Stockholder Votes Required—Merger Date" above.

Manner of Voting

Shares may be voted by stockholders of record in person or by proxy, and shares represented by properly executed management proxies will be voted. If a stockholder has specified how his shares are to be voted, they will be voted in accordance with such specifications. It is intended that shares represented by management proxies not marked to the contrary will be voted in favor of approval of the Reorganization Agreement and, in the case of PM, adoption of the Merger Agreement and all further action deemed necessary or proper in connection therewith.

Dissenters' Rights

PM. Holders of PM Common and Serial Preferred who do not vote in favor of the merger and who file written objections to the merger with PM before the vote is taken have such dissenting rights with respect to the proposed merger of Subsidiary into PM as are provided by Section 262 of Subchapter IX of the General Corporation Law of the State of Delaware, as amended, a copy of which is annexed hereto as Appendix C. Under such Section, PM, as the corporation surviving the merger, is required within 10 days after the effective date of the merger to give notice by registered or certified mail that the merger has become effective to each of the stockholders of PM who so object to the merger in writing and whose shares are not voted in favor thereof. Within 20 days after the date of mailing of such notice, any such stockholder may demand payment for his stock. Within 30 days after the expiration of such 20-day period PM shall pay to him the value of his stock on the effective date of the merger exclusive of any element of value arising from the expectation or accomplishment of the merger.

If PM and any such objecting stockholder fail to agree as to the value of the stock within such period of 30 days, such stockholder or PM may, by petition filed in the Court of Chancery of Delaware within four months after the expiration of such period of 30 days, demand a determination of the value of the stock of all such objecting stockholders by an appraiser to be appointed by the Court. After hearing, the Court will determine the stockholders who have become entitled to the valuation of and payment for the stock, and appoint an appraiser to determine and report on such value. After the appraiser's report has been filed, the Court will determine the value of the stock and direct payment thereof (together with interest, if any, as the Court may determine) to the stockholders entitled thereto upon the transfer to PM of their stock certificates. The Court may dismiss the proceedings as to any stockholder who fails to comply with a direction of the Court to submit his shares to the Court for notation thereon of the pendency of the appraisal proceedings.

A stockholder who has demanded payment for his stock will not thereafter be entitled to vote such stock for any purpose or be entitled to the payment of dividends or other distributions thereon, unless the appointment of an appraiser is not applied for within the prescribed time, or unless the proceedings are dismissed as to such stockholder, or unless the stockholder with the written approval of PM delivers to PM a written withdrawal of his objection to, and of acceptance of, the merger.

A vote against the merger, or a direction in a proxy to vote against the merger, does not in itself constitute the written objection to the merger required by the Delaware statute.

The foregoing summary of Section 262 of subchapter IX of the General Corporation Law of the State of Delaware, as amended, is qualified in its entirety by reference to the copy of such section annexed hereto as Appendix C.

Diamond. Stockholders of Diamond will not have any appraisal rights with respect to their shares.

Revocation of Proxies

Proxies received by the management of Diamond or PM may be revoked at any time before a vote is taken or the authority granted is otherwise exercised.

Solicitation of Proxies

Cost of solicitation of proxies by Diamond and PM is to be borne by each company, respectively. In addition to the solicitation of proxies by mail, it is expected that solicitation may be made by telephone, telegraph and personal interview by officers and other regular employees of both companies. Diamond has retained D. F. King & Co., Inc. of New York, New York at an estimated cost of $5,500 to aid in the solicitation of its proxies. PM has retained The Kissell-Blake Organization, Inc. of New York, New York at an estimated cost of $5,500 to aid in the solicitation of its proxies.

BY ORDER OF THE BOARD OF
DIRECTORS OF PICKANDS
MATHER & CO.

ROBERT MCINNES
Secretary

BY ORDER OF THE BOARD OF
DIRECTORS OF DIAMOND
SHAMROCK CORPORATION

JOHN A. WILSON
Secretary

October 25, 1968

FINANCIAL STATEMENTS

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OPINION OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
DIAMOND SHAMROCK CORPORATION

We have examined the financial statements of Diamond Shamrock Corporation listed in the accompanying index, insofar as they relate to the five years ended December 31, 1967. Our examination of these financial statements 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. The financial statements of The Shamrock Oil and Gas Corporation and its consolidated subsidiaries for the five years ended November 30, 1967 and the financial statements of Nopco Chemical Company and its consolidated subsidiaries for the four years ended December 31, 1966 were examined by other independent accountants whose opinions thereon appear elsewhere herein.

In our opinion, based on our examination and the opinions of other independent accountants as to the results of operations of Shamrock and of Nopco for the periods mentioned above, the accompanying consolidated statement of financial position and related consolidated statement of retained earnings together with the consolidated income statement appearing elsewhere in this Proxy Statement present fairly the consolidated financial position of Diamond Shamrock Corporation and its subsidiary companies at December 31, 1967 and the results of their operations for the five years then ended, in conformity with generally accepted accounting principles consistently applied, as restated, except for the change in 1963, in which we concur, in the treatment of the investment tax credit as explained in Note C to the consolidated income statement.

PRICE WATERHOUSE & CO.

Cleveland, Ohio
February 12, 1968

OPINIONS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DIAMOND SHAMROCK CORPORATION

We have examined the consolidated balance sheet of The Shamrock Oil and Gas Corporation (merged into Diamond Shamrock Corporation in December 1967) and Subsidiaries as of November 30, 1967, the related statement of consolidated income for the five years then ended, and the statement of consolidated retained earnings for the three years then ended. Such financial statements are not presented separately herein. Our examination 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.

In our opinion, the above-mentioned consolidated balance sheet and statements of consolidated income and retained earnings present fairly the financial position of The Shamrock Oil and Gas Corporation and subsidiaries at November 30, 1967 and the results of their operations for the periods stated, in conformity with generally accepted accounting principles applied (except for the change, which we approve, in the method of computing depreciation and depletion of oil and gas properties, as mentioned in Note B to the Consolidated Income Statement of Diamond Shamrock Corporation) on a basis consistent in all material respects.

HASKINS & SELLS

Dallas, Texas
January 5, 1968.

The Board of Directors
DIAMOND SHAMROCK CORPORATION:

We have examined the statement of consolidated income of Nopco Chemical Company and its consolidated subsidiaries for the four years ended December 31, 1966. Our examination 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. We have not examined financial statements of the company and subsidiaries for any period subsequent to December 31, 1966.

In our opinion, such statement of consolidated income (not presented separately herein) presents fairly the results of operations of Nopco Chemical Company and its consolidated subsidiaries for the four years ended December 31, 1966 in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Newark, N. J.
January 30, 1967

DIAMOND SHAMROCK CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31, 1967	June 30, 1968 (Unaudited)
	(In thousands of dollars)	
ASSETS		
Current assets:		
Cash and short-term securities	$ 9,465	$ 10,381
Notes and accounts receivable, less allowance for doubtful items (1967—$1,261,000; 1968—$1,408,000)	69,517	77,105
Inventories (Note 2)	56,977	55,823
Prepaid insurance, etc.	1,723	1,485
Total current assets	137,682	144,794
Investments (Note 3)	27,882	28,136
Plants and equipment, at cost less depreciation (Note 4)	321,109	318,933
Intangible assets (Note 5):		
Patents, trade-marks, formulae, processes, etc., at cost, less amortization	1,062	919
Intangibles resulting from acquisitions	21,283	21,283
Deferred charges	3,259	4,369
	$512,277	$518,434
LIABILITIES		
Current liabilities:		
Notes payable	$ 16,210	$ 16,312
Long-term debt payable within one year	6,460	5,617
Accounts payable—trade	27,326	24,562
Federal and foreign income taxes	4,184	7,058
Employee Thrift Plan savings	1,711	2,332
Other	16,585	19,917
Total current liabilities	72,476	75,798
Long-term debt—less amounts due in one year (Note 6)	142,246	140,064
Deferrals and reserves (Note 7)	25,637	26,134
Stockholders' equity:		
Preferred stock (Note 8):		
(Total liquidation value, 1967—$150,643,000; 1968—$150,804,000)	20,826	20,957
Common stock (Note 9):		
Authorized 18,000,000 shares, no par value		
Issued 11,837,816 shares (1968—11,851,910 shares)	89,952	90,344
Retained earnings per accompanying statement (Note 6)	163,492	167,240
	274,270	278,541
Less—Common treasury stock 77,044 shares (1968—68,877 shares), at cost (Note 7)	2,352	2,103
	271,918	276,438
Commitments and contingent liabilities *(Note 11)*		
	$512,277	$518,434

DIAMOND SHAMROCK CORPORATION

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31			Six months ended June 30, 1968
	1965	1966	1967	(Unaudited)
	(In thousands of dollars)			
Balance at beginning of period	$119,153*	$132,266	$149,151	$163,492
Net income for the period	28,465	34,369	35,348	16,021
	147,618	166,635	184,499	179,513
Dividends:				
Diamond Preferred Stock	1,124	1,392	2,519	4,016
Diamond Common Stock	6,163	6,842	7,697	8,257
Companies acquired in poolings of interests	8,308	8,575	10,569	—
Other charges (net)	(243)	675	222	—
	15,352	17,484	21,007	12,273
Balance at end of period	$132,266	$149,151	$163,492	$167,240
Dividends paid per share				
Preferred stock				
Initial series	$ 4.00	$ 4.00	$ 4.00	$ 2.00
Series B	.91	4.00	4.00	2.00
Series C	—	—	1.25	1.00
Series D	—	—	—	.65
Common stock	1.025	1.125	1.25	.70

* Balance January 1, 1965 as previously reported by:	
Diamond	$ 67,326
Shamrock	54,934
Nopco	7,220
	129,480
Transfer by Shamrock for stock split	(2,467)
Portion applicable to Nopco Common stock purchased	(2,544)
Retroactive adjustments for deferred taxes, etc.	(5,316)
Adjusted balance at January 1, 1965	$119,153

DIAMOND SHAMROCK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All data relating to the period ended June 30, 1968 is unaudited)

1. Principles of consolidation

The consolidated financial statements include the accounts of Diamond and all wholly-owned domestic and foreign subsidiary companies. All items in foreign currency were translated to U. S. dollars at the current rates of exchange or historical rates where applicable and the nominal difference on conversion was included in the income statement.

In 1965, Diamond issued 95,000 shares of $4.00 Series B Preferred Stock in exchange for the remaining sixty per cent of the shares of Harte & Company, Inc., and its associated companies (Harte). Previously, in 1962, Diamond had acquired forty per cent of the shares of Harte for cash. In the accompanying financial statements the 1965 transaction is treated as a pooling of interests, and the 1962 transaction as a purchase. The merger of Nopco Chemical Company into Diamond became effective May 1, 1967 and Diamond issued 921,842 shares of Class C Preferred Stock in exchange for 921,842 shares of Nopco Common outstanding on that date after cancellation of 3,100 treasury shares held by Nopco and 497,557 shares owned by Diamond. The Nopco merger was treated for accounting purposes as a pooling of interests as to the 921,842 shares (approximately 65%) and as a purchase as to 497,557 shares (approximately 35%). The merger of The Shamrock Oil and Gas Corporation into Diamond became effective December 19, 1967 and the name was changed to Diamond Shamrock Corporation. Under the merger agreement 3,697,832 shares of $1.20 Series D Preferred Stock and 5,546,748 shares of Common Stock were issued in exchange for 7,395,664 shares of Shamrock Common Stock then outstanding after cancellation of 6,000 treasury shares. The Shamrock merger was treated for accounting purposes as a pooling of interests. Accordingly the consolidated financial statements combine the accounts and results of operations of Harte, Nopco and Shamrock with those of Diamond during the full period covered by the financial statements.

The equity of Diamond in the net assets of its consolidated subsidiary companies as shown on their books was $6,641,000 at December 31, 1967 and $6,844,000 at June 30, 1968 in excess of the amount at which Diamond carries its investments in such subsidiary companies; investments in subsidiaries obtained through pooling of interests transactions are carried on the books on the basis of equity in underlying net assets. At December 31, 1967 in consolidation $6,915,000 was added to retained earnings and $274,000 was added to plant and equipment; at June 30, 1968 in consolidation $7,100,000 was added to retained earnings and $256,000 was added to plant and equipment.

2. Inventories and cost of products sold

	December 31, 1967	June 30, 1968
	(In thousands of dollars)	
Raw materials	$14,512	$14,128
Supplies	9,001	8,670
Finished and in process materials	33,464	33,025
	$56,977	$55,823

Inventories are carried at the lower of cost or market, cost for the most part being average cost or standard cost (approximately average). In general, market is based on net realizable values.

Opening and closing inventories used in the computation of cost of products sold were $42,317,000 at December 31, 1964, $42,741,000 at December 31, 1965, $53,890,000 at December 31, 1966, $56,977,000 at December 31, 1967, and $55,823,000 at June 30, 1968.

3. Investments

	December 31, 1967	June 30, 1968
	(In thousands of dollars)	
Investments in and advances to affiliated and 50% owned companies, at equity in underlying net assets	$ 3,548	$ 3,788
Other securities:		
Terra Chemicals International, Inc.	10,000	10,000
Other domestic	8,961	9,193
Foreign, less reserve	2,846	2,607
Long-term receivables, cash value of life insurance etc.	2,527	2,548
	$27,882	$28,136

4. Plants and equipment

	December 31, 1967	June 30, 1968
	(In thousands of dollars)	
Oil and gas producing properties	$120,074	$121,919
Manufacturing plants	357,235	336,581
Gathering and transmission	34,982	35,660
Marketing and general	56,062	58,524
Construction in progress	18,012	29,231
Plant sites, mineral reserves and non-producing oil and gas leases	26,772	29,018
	613,137	610,933
Reserves:		
Depreciation, depletion and amortization	291,796	291,919
Relining and rebuilding kilns and furnaces	232	81
	292,028	292,000
	$321,109	$318,933

The sale of the Bessemer Cement plant in 1968 reduced properties by $28,215,000 and depreciation reserves by $13,048,000.

The general policy is to provide depreciation on the books in annual amounts estimated to be sufficient to reduce the carrying value of the assets to salvage at the expiration of their useful lives. For chemical plant assets acquired in 1953 and prior, the annual provision is computed on a straight-line basis; for acquisition subsequent to 1953, generally the computations are made in accordance with the more liberal methods (both sum of the years digits and double declining balance) permitted by the Internal Revenue Code of 1954. Depreciation provisions are computed separately for each asset and it is impractical to list the rates used because of the voluminous detail involved.

For oil and gas producing properties, depreciation and depletion is computed on the unit-of-production method on the basis of producing areas. Depreciation of substantially all other oil and gas property has been computed on the straight-line method partly on a composite basis with annual rates ranging from 4% to 33⅓%.

Expenditures for repairing and rebuilding kilns, furnaces, etc., are charged to reserves provided by charges to cost of products sold, and certain types of major rehabilitation expenditures are charged to the reserves for depreciation. Maintenance of drilling tools, autos and trucks used in the oil and gas operations are charged to clearing accounts and allocated on the basis of use to operating and other accounts. With these relatively unimportant exceptions, expenditures for repairs and maintenance are charged against income. The cost of renewals and betterments is charged to fixed asset accounts and the cost of facilities replaced is removed therefrom. When properties are retired or otherwise disposed of, the reserve for depreciation is reduced by the amount of the accumulated reserve applicable to the property being retired. The difference between the depreciated asset value and the salvage proceeds is charged against or credited to income. On properties depreciated on composite rates, the cost of property retired, less salvage, is charged to the related reserve for depreciation.

5. Intangible assets

It is Diamond's policy to amortize the purchased cost of patents over the remaining legal lives of the individual patents and to amortize the purchased cost of formulae, processes, etc., over the estimated remaining useful lives thereof.

No amortization has been provided on the cost of trademarks ($218,000) or on intangibles resulting from acquisitions ($21,283,000) as in the opinion of management these intangibles do not have a limited life.

6. Long-term debt

	December 31, 1967	June 30, 1968
	(In thousands of dollars)	
Sinking fund debentures:		
3⅜% due February 1, 1978, redeemable $492,000 in 1971 and $750,000 annually thereafter	$ 10,347	$ 10,242
4⅝% due January 1, 1987, redeemable $221,000 in 1970 and annual installments of $875,000 in 1971, $1,000,000 in 1972-76 and $1,250,000 in 1977-85	24,103	22,721
Notes:		
6½% due 1969-1973 (6% in 1967)	22,500	22,500
4¾% due 1968-1971 repayable $2,000,000 annually in quarterly installments	13,000	12,000
4.65% due May 1, 1989 repayable $1,600,000 annually from May 1, 1970	30,000	30,000
4½% due May 15, 1987 repayable $375,000 annually	7,500	7,500
Lease purchase agreement	16,766	16,536
Purchase money obligations and other loans	24,490	24,182
	148,706	145,681
Due within one year	6,460	5,617
	$142,246	$140,064

The 6½% Notes are covered by Bank Credit Agreements providing for revolving credit loans at the prime interest rate until May 31, 1969, on $15,000,000 and September 30, 1969, on $7,500,000 when at Diamond's option they can be converted into term loans at ¼% above the prime interest rate to be repayable over four years in quarterly installments. A third credit agreement dated April 1, 1968 enables Diamond to borrow an additional $10,000,000 on revolving credit loans to March 31, 1971 and thereafter on term loans at the same interest terms and with the same repayment obligation over four years as the loans outstanding under the first two agreements.

The lease purchase agreement covers certain facilities at Diamond's plant at Delaware City, Delaware, which were financed by an issue of $17,000,000 Industrial Revenue Bonds (4¾%-5¼%) by the lessor. Inasmuch as the lease agreement in effect represents an installment purchase, Diamond has recognized the construction costs as plant and equipment and the outstanding bonds (less funds held by the Bond Trustee) as long-term debt. Payments of approximately $1,400,000 annually by Diamond under this lease agreement are to be used by the Trustee to redeem the bonds and pay interest on the outstanding bonds.

The loan agreements and indentures covering Notes and Debentures contain conventional restrictions on declaration and payment of dividends and acquisition of its capital stock. The most restrictive of these provisions relates to the 4¾% Notes due 1968-1971; under such provision, the amount of consolidated retained earnings free of such restrictions was approximately $33,800,000 at December 31, 1967 and $37,600,000 at June 30, 1968.

The bank credit agreements require Diamond to maintain "consolidated net current assets" (as therein defined) of not less than $25,000,000. The Corporation's consolidated net current assets were $65,206,000 on December 31, 1967 and $68,996,000 on June 30, 1968.

The aggregate maturities (in thousands of dollars) of funded debt during the next five years are:

	December 31, 1967	June 30, 1968
In first year	$ 6,460	$ 5,617
In second year	7,848	11,492
In third year	12,681	13,104
In fourth year	18,394	17,701
In fifth year	11,874	11,865

7. Deferrals and Reserves

	December 31, 1967	June 30, 1968
	(In thousands of dollars)	
Deferred Federal income taxes	$21,878	$23,492
Deferred oil and gas sales	1,490	816
Deferred incentive compensation	396	279
Reserve for unsettled producers' gas rate increases	1,873	1,547
	$25,637	$26,134

The Federal income tax reductions resulting primarily from the excess of tax depreciation over book depreciation reduced by the prepaid Federal income tax on those deferrals and reserves not deductible currently for tax purposes has been charged against income as a future Federal income tax provision.

Refer to Note C to the consolidated income statement as to the policy of accounting for the investment tax credits.

In accordance with the terms of the Incentive Compensation Plan adopted by Diamond's stockholders and Nopco's Executive Incentive Plan, repealed as to the year 1967 and thereafter, $880,000 was charged to income in 1965, $1,030,000 in 1966 and $560,000 in 1967 and $209,000 has been tentatively charged to income through June 30, 1968. The Diamond awards were made in January following the years 1965, 1966 and 1967 in cash, or in cash and Diamond common treasury stock payable in four annual installments, and some of the awards are payable in installments after retirement.

The award value of Diamond common shares allocated to unpaid awards is deducted in the statement of financial position from:

	December 31, 1967		June 30, 1968	
	Shares	Amount at award value	Shares	Amount at award value
Other liabilities (current portion)	5,607	$ 183,000	4,183	$ 144,000
Deferred incentive compensation	31,652	1,047,000	35,055	1,156,000
	37,259	$1,230,000	39,238	$1,300,000

8. Preferred Stock

The Preferred Stock is voting, cumulative, convertible and 5,500,000 shares without par value are authorized. Shares outstanding are shown below:

	Preferred Shares Outstanding	Stated Value	Liquidation Value	Conversion Basis*
December 31, 1967				
$4.00 Initial Series	247,003	$ 3,211,000	$ 24,700,000	2.6
$4.00 Series B	95,000	1,235,000	9,500,000	2.6
$2.00 Series C	923,540	9,368,000	38,789,000	1.15
$1.20 Series D	3,697,832	7,012,000	77,654,000	.45
		$20,826,000	$150,643,000	

*Represents shares of Diamond common into which each share of Preferred is convertible.

June 30, 1968	Preferred Shares Outstanding	Stated Value	Liquidation Value	Conversion Basis
$4.00 Initial Series	246,979	$ 3,211,000	$ 24,698,000	2.6
$4.00 Series B	95,000	1,235,000	9,500,000	2.6
$2.00 Series C	925,217	9,425,000	38,859,000	1.15
$1.20 Series D	3,702,248	7,086,000	77,747,000	.45
		$20,957,000	$150,804,000	

The Initial Series is callable at $100 a share, Series B is callable on or after October 1, 1970, at $100 a share, Series C is callable on or after May 1, 1972, at $42 a share and Series D is callable on and after December 19, 1972 at $21 a share. The amount payable to the holders of the Initial Series and Series B upon voluntary or involuntary liquidation is $100 a share, to holders of Series C $42 a share and to holders of Series D $21 a share in each case plus accrued dividends. The excess of liquidation value over stated value does not cause a restriction on retained earnings.

Refer to Note 9 for Preferred Stock reserved for exercise of outstanding stock options and shares of Common Stock reserved for conversion of Preferred Stock.

9. Common stock and stock options

There were 3,653,044 shares of Common Stock reserved for conversion of Preferred Stock at December 31, 1967 and 3,649,535 shares at June 30, 1968 including at both dates shares issuable on exercise of options for Series C and Series D Preferred Stock. Common shares reserved under stock option plans are summarized below:

	Number of Shares	
	December 31, 1967	June 30, 1968
Common Stock:		
Options outstanding		
Stock Option Plans	58,053	54,543
1966 Employee Thrift Plan	110,872	94,030
Shamrock Option Plan	92,124	83,274
Reserved for options		
Stock Option Plans	25,612	101,482
1966 Employee Thrift Plan	46,228	—
1968 Employee Thrift Plan	—	250,000
Total reserved	332,889	583,329
Preferred Stock:		
Options outstanding		
Series C	8,787	4,692
Series D	61,416	55,516
Total reserved	70,203	60,208

While shares were reserved under the 1966 Employee Thrift Plan, no additional options could be granted under the 1966 Plan. The shareholders at the 1968 annual meeting approved the 1968 Employee Thrift Plan, the reservation of 250,000 shares for granting of options under the 1968 Plan and the reservation of 75,000 additional shares for granting options under the Stock Option Plan. Further details of options outstanding at each date are shown below:

	Option price per share or unit (a)	December 31, 1967 Number of shares or units	December 31, 1967 In the aggregate	June 30, 1968 Number of shares or units	June 30, 1968 In the aggregate
Stock Option Plans:					
1962 grants	$23.50	17,553(b)	$ 412,000	14,643(b)	$ 344,000
1966 grants	35.56	40,500(b)	1,440,000	39,900(b)	1,419,000
1966 Employee Thrift Plan	30.00	110,872(b)	3,326,000	94,030(b)	2,821,000
Shamrock Option Plan	28.17	122,832(c)	3,460,000	111,032(c)	3,128,000
Preferred Stock Plan	23.50-39.50	8,787(d)	296,000	4,692(d)	159,000

(a) Option prices were generally equal to market prices at the dates of grants.

(b) Common shares.

(c) Option units equal to 92,124 Common shares and 61,416 Series D Preferred shares at December 31, 1967 and 83,274 Common shares and 55,516 Series D Preferred shares at June 30, 1968.

(d) Series C Preferred shares.

1966 Employee Thrift Plan options are exercisable in October 1968 to the extent of each participant's balance in his Thrift Plan Savings Account. Other options which became exercisable during the three years and six months ended June 30, 1968 are summarized below:

	Number of shares	Option prices Range per share	Option prices Amount	Market prices at dates options became exercisable Per share average	Market prices at dates options became exercisable Amount
Stock Option Plan					
1965	5,100	$23.50	$120,000	$32.50	$166,000
1966	13,380	23.50-35.56	417,000	34.16	457,000
1967	12,960	23.50-35.56	402,000	35.19	456,000
1968—six months	None				
Preferred Stock Option Plan					
1965-1966	20,320	23.50-46.80	787,000	37.65	765,000
1967	4,815	23.50-39.50	156,000	41.12	198,000
1968—six months	1,665	24.00-39.50	55,000	40.84	69,000

A summary of options exercised during the three years and six months ended June 30, 1968 is shown below:

	Number of shares	Option prices at dates exercised Range per share	Option prices at dates exercised In the aggregate	Market prices at dates exercised Per share average	Market prices at dates exercised In the aggregate
Stock Option Plans					
1965	5,510	$23.50	$ 129,000	$32.71	$ 180,000
1966	4,747	23.50	112,000	37.42	178,000
1967	9,350	23.50-28.25	239,000	35.68	334,000
1968—six months	2,640	23.50	62,000	31.05	82,000
Employee Thrift Plan					
1965	51,264	24.94-27.00	1,282,000	33.81	1,733,000
1966	83,387	24.94-31.75	2,095,000	32.32	2,695,000
1967	22,897	30.00	687,000	31.47	720,000
1968—six months	1,507	30.00	45,000	29.30	44,000
Preferred Stock Option Plan (Series C)					
1965-1966	10,098	23.50-37.80	314,000	40.40	408,000
1967	8,821	23.50-39.50	280,000	44.49	392,000
1968—six months	2,000	23.50-34.20	60,000	42.19	84,000
Shamrock Option Plan					
1967	1,800(a)	28.17	51,000	33.00	59,000
1968—six months	11,800(b)	28.17	332,000	34.00	401,000

(a) Exercised prior to effective date of Shamrock merger.

(b) Option units representing 8,850 common shares and 5,900 Series D Preferred shares.

Under the accounting policy followed by Diamond, the amounts received when options are exercised are credited to the Common Stock, the Series C or the Series D Preferred Stock accounts.

10. Retirement and pension plans

A pension plan for hourly employees, the entire cost of which is borne by Diamond, and a salaried employees' retirement plan (partially contributory prior to 1968) have been in effect since 1951 for hourly and for salaried employees. In addition, pension plans of the companies acquired including Nopco and Shamrock provide pensions for employees not covered by one of Diamond's plans.

The charges to income for pension costs, including a portion of past service costs were $2,954,000 in 1965, $3,454,000 in 1966, $3,526,000 in 1967 and $2,135,000 for the six months ended June 30, 1968, which include amortization of past service costs over periods ranging from twenty to thirty years. The unfunded past service cost was approximately $23,366,000 at December 31, 1967 and June 30, 1968.

11. Commitments and contingent liabilities

Diamond's leases are summarized in the following table, showing the average term of the lease and the average annual rental:

	December 31, 1967		June 30, 1968	
	Average years	Annual rentals	Average years	Annual rentals
Long-term leases:				
Tank cars and barges	8	$1,770,000	8	$1,790,000
Mobile, Alabama plant	15	380,000	14½	380,000
Office space, warehouses, etc.	6	1,480,000	6	1,360,000
Short-term leases	3	1,327,000	3	1,356,000

Diamond was contingently liable for loan guarantees in the amount of $4,305,000 at December 31, 1967 and $2,690,000 at June 30, 1968.

Authorizations and contracts for new plant facilities approximated $28,150,000 at December 31, 1967 and $26,820,000 at June 30, 1968.

12. Supplementary profit and loss information

	Amounts charged to			
	Cost of products sold	Other profit and loss	Other	Total
	(In thousands of dollars)			
Maintenance and repairs:				
1965	$15,836	$ 371	$570(a)	$16,777
1966	16,286	371	438(a)	17,095
1967	17,546	488	675(a)	18,709
1968—six months	8,743	184	135(a)	9,062
Depreciation, depletion and amortization of fixed and intangible assets:				
1965	25,083	1,399	17(b)	26,499
1966	27,083	1,328	14(b)	28,425
1967	29,903	1,131	17(b)	31,051
1968—six months	14,928	743	12(b)	15,683
Taxes (c):				
1965	6,131	1,924		8,055
1966	7,194	2,138		9,332
1967	7,553	2,472		10,025
1968—six months	4,328	1,358		5,686

	Amounts charged to			
	Cost of products sold	Other profit and loss	Other	Total
	(In thousands of dollars)			
Rents (Note 11):				
1965	$3,062	$1,071		$4,133
1966	3,356	1,280		4,636
1967	3,907	1,684		5,591
1968—six months	1,995	1,314		3,309
Royalties:				
1965	330	100		430
1966	323	21		344
1967	485	106		591
1968—six months	126	297		423

(a) Reserve for relining and rebuilding kilns, furnaces, etc.

(b) Depreciation on service equipment etc. charged to operating and construction accounts based on use.

(c) Taxes include:

	1965	1966	1967	Six months 1968
Real and personal property taxes	$3,493	$3,905	$ 4,041	$2,269
Payroll taxes	1,978	2,808	2,857	1,842
Gross production taxes	1,162	1,116	1,132	549
Other	1,422	1,503	1,995	1,026
	$8,055	$9,332	$10,025	$5,686

OPINION OF INDEPENDENT ACCOUNTANTS

To the Stockholders and the Board
of Directors of
PICKANDS MATHER & CO.

In our opinion, the consolidated financial statements listed in the preceding index present fairly the financial position of Pickands Mather & Co. and its subsidiaries at December 31, 1967 and the results of their operations for the five years then ended, in conformity with generally accepted accounting principles consistently applied, as restated. Our examination of these financial statements 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.

Cleveland, Ohio
February 15, 1968
(except as to Notes 12 and 13
which are as of August 26, 1968)

PICKANDS MATHER & CO.

CONSOLIDATED BALANCE SHEET

	December 31, 1967	June 30, 1968 (Unaudited)
ASSETS		
Current assets:		
Cash	$ 9,648,621	$ 8,626,101
Short term investments, at cost, approximately market	574,207	1,250,000
Accounts receivable, trade and sundry items	16,228,957	19,312,819
Allowance for doubtful accounts	148,482	158,693
	16,080,475	19,154,126
Inventories, at lower of cost (determined mainly on the basis of first-in, first-out) or market (Note 3):		
Coke, coal, iron ore, limestone and other products	3,151,078	2,546,190
Operating material (including coking coal) and supplies	3,940,997	2,736,206
	7,092,075	5,282,396
Prepaid insurance, income taxes and other expenses	775,502	1,719,123
Total current assets	34,170,880	36,031,746
Investments and other assets:		
Marketable stocks and bonds (Note 4)	11,680,163	8,127,050
Other securities and advances (Note 4)	6,197,723	6,019,131
Cash surrender value of life insurance policies	957,197	975,386
	18,835,083	15,121,567
Capital assets, at cost (Note 5):		
Mineral and other lands	3,374,790	3,542,693
Vessels	70,932,748	70,932,748
Buildings, structures and land improvements	3,987,496	4,264,494
Machinery, equipment, aircraft, etc.	14,748,698	15,401,228
Construction in progress	431,098	957,267
	93,474,830	95,098,430
Accumulated depreciation	32,742,360	33,800,883
	60,732,470	61,297,547
Patents and licenses, less amortization	122,349	115,149
	$113,860,782	$112,566,009

PICKANDS MATHER & CO.
CONSOLIDATED BALANCE SHEET

	December 31, 1967	June 30, 1968 (Unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade and sundry items	$ 10,544,749	$ 11,274,917
Accrued payrolls, pensions, claims and winter repairs	2,352,850	2,591,071
Accrued taxes:		
U. S. and foreign income (Note 6)	837,392	784,348
Other	363,203	318,858
Current installments of long-term debt (Note 7)	3,055,440	2,899,746
Total current liabilities	17,153,634	17,868,940
Long-term debt (Note 7)	11,943,777	8,150,000
Reserves for pension allowances (Note 8) and periodic fleet inspection	1,280,552	1,241,527
Deferred U. S. and foreign income taxes (Note 6)	5,982,083	6,204,513
Minority interest in subsidiary	157,927	71,358
Stockholders' equity:		
Capital stock (Notes 2, 9 and 10):		
Serial Preferred—$25 par value; authorized—800,000 shares; outstanding:		
Series A, Convertible—392,225 shares	9,805,625	9,805,625
Series B, Convertible—193,425 shares	4,835,625	4,835,625
Common—$.50 par value; authorized—4,000,000 shares; outstanding—2,199,957 shares in 1967 and 2,234,359 in 1968	1,099,979	1,117,180
	15,741,229	15,758,430
Capital surplus, per accompanying statement	9,308,585	9,762,101
Retained earnings, per accompanying statement (Note 7)	52,292,995	53,509,140
	77,342,809	79,029,671
Contingent liabilities (Note 11)		
	$113,860,782	$112,566,009

PICKANDS MATHER & CO.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31,			Six months ended June 30, 1968 (Unaudited)
	1965	1966	1967	
Balance at beginning of year or period	$38,802,240*	$43,285,684	$48,075,388	$52,292,995
Net income for the year or period	6,377,538	7,171,429	6,897,256	2,666,409
	45,179,778	50,457,113	54,972,644	54,959,404
Cash dividends paid:				
Pickands Mather & Co.:				
Serial Preferred—$25 par value	—	225,536	451,073	336,755
Common	624,262	1,215,350	2,024,522	1,113,509
First Preferred, Series A (retired in 1966)	190,000	95,000	—	—
Companies pooled:				
In 1967 (Note 2)	290,850	299,851	204,054	—
In 1966 (The Interlake Steamship Company)	788,982	482,127	—	—
	1,894,094	2,317,864	2,679,649	1,450,264
Stock dividend (treasury shares at cost) of a pooled subsidiary	—	63,861	—	—
	1,894,094	2,381,725	2,679,649	1,450,264
Balance at end of year or period	$43,285,684	$48,075,388	$52,292,995	$53,509,140
Dividends paid per share:				
Pickands Mather & Co.:				
Serial Preferred—$25 par value:				
Series A	—	$ .575	$1.15	$ .575
Series B	—	—	—	.575
Common	$ .50	$ .75	$1.00	$ .50

*Balance January 1, 1965:

As previously reported by:	
Pickands Mather & Co.	$15,196,375
The Interlake Steamship Company	16,485,900
Companies pooled in 1967	6,941,419
	38,623,694
Pooling adjustment arising from retirement of treasury stock—The Interlake Steamship Company (deduct)	(1,103,061)
Retroactive adjustment for deferred taxes	1,281,607
Adjusted balance	$38,802,240

Six months ended June 30, 1968 (Unaudited)
$52,292,995
2,666,409
54,959,404
336,755
1,113,509
—
—
—
1,450,264
—
1,450,264
$53,509,140
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PICKANDS MATHER & CO.

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS

	Year ended December 31,			Six mo ende June 196
	1965	1966	1967	(Unaudi
Balance at beginning of year or period	$4,319,075*	$4,427,546	$8,625,728	$9,308,5
Adjustment relating to conversion and redemption of First Preferred stock, Series A	—	3,563,665	—	—
Excess of proceeds over par value of Common stock issued under options	108,471	669,090	694,316	399,4
	4,427,546	8,660,301	9,320,044	9,707,9
Sundry deductions	—	34,573	11,459	(54,1
Balance at end of year or period	$4,427,546	$8,625,728	$9,308,585	$9,762,1

*Balance January 1, 1965:

As previously reported	$6,359,718
Adjustments relating to poolings of interests:	
The Interlake Steamship Company	975,027
Companies pooled in 1967 (deduct)	(3,015,670)
Adjusted balance	$4,319,075

PICKANDS MATHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All data relating to the six months ended June 30, 1968 is unaudited)

Note 1 — Basis of consolidation:

The accompanying consolidated financial statements include the accounts of all majority-owned domestic and foreign subsidiary companies, including companies pooled as described in the following Note. In consolidation, all inter-company accounts and transactions have been eliminated. The accounts of foreign subsidiaries have been consolidated with those of the parent after translation into U. S. currency at rates of exchange as follows: current assets and liabilities at the end of year (or period) rates; other balance sheet accounts at historical rates; and the income statement (except depreciation) at average monthly rates. Gains or losses in translation, which are not material, are included in the statement of income.

The combined net assets of the subsidiaries consolidated exceeded the investments therein of the Company and two of its subsidiaries at December 31, 1967 by $538,173, a difference which is comprised of a credit ($599,312 added to retained earnings) and a debit ($61,139 added to patents and licenses). The excess at June 30, 1968 was $370,025 of which $431,164 was credited to retained earnings and $61,139 was charged to patents and licenses.

Note 2 — Acquisitions:

In November, 1967 and February, 1968, respectively, Henry Bower Chemical Manufacturing Company and The Carbon Limestone Company became wholly-owned subsidiaries through the issuance by the Company of 193,425 shares of Serial Preferred stock, Series B and 155,024 shares of Common stock, in exchange for their outstanding common stocks. The transactions were accounted for as poolings of interests and accordingly the accompanying statements combine the accounts and results of operations of Pickands Mather, Bower Chemical and Carbon Limestone for all years (and periods). Net sales and net income, respectively, of these companies aggregated, 1965—$7,008,512 and $619,113, 1966—$7,335,778 and $683,462 and, 1967—$7,409,183 and $590,352 (after deducting $123,000 for net losses in connection with an abandoned project which was initiated in 1962).

Note 3 — Inventories:

Balances of inventories used in the determination of cost of sales were $5,756,235 at December 31, 1964; $6,294,003 at December 31, 1965; $5,954,766 at December 31, 1966; $7,092,075 at December 31, 1967 and $5,282,396 at June 30, 1968.

Note 4 — Investments, etc.:

Marketable stocks and bonds include:

	December 31, 1967		June 30, 1968	
	Carrying value	Quoted market value	Carrying value	Quoted market value
Interlake Steel Corporation — 402,877 common shares	$ 8,127,050	$11,532,354	$ 8,127,050	$12,338,108
Various others, at cost	3,553,113	3,683,944	—	—
	$11,680,163	$15,216,298	$ 8,127,050	$12,338,108

The carrying value of the investment in Interlake Steel Corporation is based upon the carrying values of other securities exchanged therefor in connection with the organization, in 1929, of the Company (then named Mather Iron Company) plus a revaluation increase in 1930 with subsequent additions at cost and disposals at average carrying value per share.

Other securities (at cost) and advances include:

	December 31, 1967	June 30, 1968
Iron ore projects explained in Note 11:		
Wabush	$ 4,196,375	$ 4,196,375
Savage River	1,050,000	1,050,000
Securities of companies owned 50%	328,500	328,500
Other securities and advances	622,848	444,256
	$ 6,197,723	$ 6,019,131

The equity of the Company in the net assets of companies owned 50% at December 31, 1967 was $1,745,644 and $1,592,121 at June 30, 1968. Dividends and equity in earnings for these 50% owned companies in the years 1965-1967 and the six months ended June 30, 1968 were as follows:

	Dividends received	Equity in net income
1965	$ 584,000	$ 647,409
1966	730,000	563,635
1967	780,000	695,738
Six months ended June 30, 1968	400,000	246,477

Note 5 — Policy with respect to depreciation, etc., repairs, etc. and retirements:

It has been the policy of the companies to provide depreciation and amortization over the estimated useful lives of the properties. In general new structures have been assigned lives up to 45 years and machinery and equipment up to 12 years, both straight line and declining balance methods being used. After a review of the considerations affecting the useful lives of vessels, the Company in 1967 revised its method of computing vessel depreciation to the straight line method (based on an average remaining asset life of about 19 years) from the combination double declining balance-straight line methods (based on an average remaining asset life of about 24 years) applied in prior years. This revision had no significant effect on net income for the year ended December 31, 1967.

Expenditures for repairs (including the estimated cost of winter repairs of vessels) and maintenance have been charged to income; the cost of property items retired was eliminated from the property accounts, the accumulated depreciation with respect thereto was eliminated from the reserve for depreciation, and the resulting gain or loss, if any, was reflected in income.

Renewals and betterments are capitalized.

Note 6 — Federal income taxes:

The companies (where appropriate) have adopted accelerated depreciation methods for federal income tax purposes as permitted by the Internal Revenue Code. Inasmuch as tax depreciation is greater than normal depreciation reflected by the accompanying financial statements, provision has been made for federal income taxes which may become payable in future years when depreciation for tax purposes is less than that for financial accounting purposes. See Note 13 regarding extension of this principle.

Foreign income taxes were nominal, except in 1966 when the provision for current taxes was $181,000 and the provision for deferred taxes was $48,000.

Because of the lower effective tax rates applicable to dividends and royalty income, the annual provisions for federal income taxes have been relatively lower than if all income were subject to the normal and surtax rates.

Note 7 — Long-term debt:

	December 31, 1967	June 30, 1968
Bank loans payable:		
Term notes	$10,000,000	$10,000,000
Revolving credit notes	3,000,000	—
Obligation under vessel purchase agreement	1,824,217	887,246
Other notes payable	175,000	162,500
	14,999,217	11,049,746
Less — Current installments	3,055,440	2,899,746
	$11,943,777	$ 8,150,000

The credit agreement underlying the bank loans, as amended in 1967, provides for maximum borrowings of $23,000,000 and for interest at the prime rate plus ¼% (minimum 4½%, maximum 5%) on the term notes and at the prime rate plus ¼% on the revolving credit notes outstanding at December 31, 1967. Term notes are payable in five equal annual installments (1968/1972) and revolving credit loans are convertible to term notes payable in five equal annual installments (1970/1974). Under the agreement, the Company is required to maintain consolidated net current assets of $10,000,000.

Note 8 — Pension plans:

The Company and its subsidiaries have several pension plans covering substantially all of their employees. Provision for pension costs, including amortization of prior service costs, was $1,027,000 in 1965, $1,226,000 in 1966, $1,242,000 in 1967 and $632,000 in the six months ended June 30, 1968. It is the policy generally to fund pension costs accrued, except for one plan for which the liability for accrued benefits is included in the accompanying balance sheet. The actuarially computed value of vested benefits under certain of the plans exceeded the total of the respective pension funds by approximately $2,000,000 as at December 31, 1967 and $1,700,000 at June 30, 1968. The unfunded past service costs at both December 31, 1967 and June 30, 1968 aggregated approximately $5,380,000, after deducting accruals. In 1967 the Company adopted the policy of funding prior service cost largely over 30 years. Changes during 1967 in the actuarial cost methods used in computing pension costs had no significant effect on net income for the year 1967.

Note 9 — Preferences of Serial Preferred stock:

The Serial Preferred stock, $25 par value per share, is redeemable (not prior to August 1, 1971 in the case of Series A and January 1, 1973 in the case of Series B) at $26.25 and at decreasing amounts thereafter to $25. The preferred stock is voting and is entitled to cumulative dividends (beginning December 1, 1967 in the case of Series B) at $1.15 per year. It may be converted into Common stock at the rate of 5/7ths of a share of Common for each share of preferred. On voluntary liquidation the preferred stock is entitled to $26.25 per share through July 31, 1972 in the case of Series A and December 31, 1973 in the case of Series B, and thereafter to $25 or the current redemption price, if greater.

Note 10 — Common stock reserved and stock option plans:

Shares of Common stock reserved are as follows:

	December 31, 1967	June 30, 1968
For conversion of Serial Preferred stock Series A and B (Note 9)	418,322	418,322
For sale to key managerial employees by the terms of stock option plans:		
Options granted	298,250	261,748
Available for option	17,000	18,200
	733,572	698,270

No options were granted in the eighteen month period ended June 30, 1968. In 1968 options for 2,100 shares were cancelled of which 1,200 shares became available for option. Details of options outstanding at December 31, 1967 and June 30, 1968 were as follows:

		December 31, 1967		June 30, 1968	
	Option price per Share	Number of Shares	Aggregate	Number of Shares	Aggregate
Options outstanding —					
Granted under:					
Option Plan of 1960:					
1960	$10.00	141,534	$1,415,340	123,480	$1,234,800
1961	10.00	2,000	20,000	1,750	17,500
1962	10.00	3,000	30,000	2,700	27,000
1963	10.00	33,016	330,160	30,988	309,880
		179,550	1,795,500	158,918	1,589,180
Option Plan of 1964:					
1964	$15.00	62,150	932,250	48,900	733,500
1965	15.00	40,500	607,500	38,900	583,500
		102,650	1,539,750	87,800	1,317,000
Former Manganese Plan:					
1962	$14.25	16,050	228,713	15,030	214,178
		298,250	$3,563,963	261,748	$3,120,358

Options become exercisable in ten equal annual installments under the 1960 plan and the former Manganese plan and in five equal annual installments under the 1964 plan. Matured installments may be cumulated during the terms of the options.

Details with respect to the shares exercised or exercisable during the three years and six months ended June 30, 1968 under the afore-mentioned plans are as follows:

	Number of Shares	Option price at date exercised or price at which exercisable (price range)	Aggregate	Market prices at dates exercised or exercisable: Per share average	Market prices at dates exercised or exercisable: Aggregate
1965:					
Exercised	11,418	$10	$114,180		
Exercisable	52,563	10 - 15	611,718		
1966:					
Exercised	67,220	10 - 15	702,700		
Exercisable	59,569	10 - 15	725,778		
1967:					
Exercised	65,632	10 - 15	727,133	$28.02	$1,838,877
Exercisable	58,565	10 - 15	715,738	30.39	1,779,927
1968 — six months:					
Exercised	34,402	10 - 15	416,605	30.55	1,050,919
Exercisable	2,503	10 - 15	33,118	28.96	72,484

At December 31, 1967 and at June 30, 1968 options for 130,517 shares and 98,618 shares, respectively, were exercisable under the above plans.

Option prices are fair market values at dates of grants. Until September 1, 1966, the shares of Common stock of the Company were not traded on any exchange or in the over-the-counter market. Since September 1, 1966 the Common stock has been traded in the over-the-counter market and the range of the mean between the bid and ask prices per share of such trading for the four months ended December 31, 1966 was a low of $21 and a high of $25. Of the 67,220 shares exercised during 1966 under the option plans, 61,470 shares were exercised prior to September 1.

It is the policy of the Company to credit the portion of the proceeds from the sale of stock equal to the par value to the capital stock account and credit the balance to capital surplus. No charges to income were made with respect to the stock option plans.

Note 11 — Contingent liabilities:

Wabush Project—At December 31, 1967 and June 30, 1968 the Company, through its ownership in Wabush Iron Co. Limited, had an aggregate investment of $4,196,375 in the Wabush Mines project in Newfoundland and Quebec, Canada. The Company is committed to purchase its ownership proportion (5.2%) of the iron ore pellets produced and to pay therefor as a minimum, its proportionate share of the costs, with the provision that the amounts included in such costs for depreciation, depletion, etc., in any year shall not be less than the sinking fund requirements for the bonds issued to finance the project. The portion of the annual sinking fund requirements attributable to the Company's participation in the project will not exceed approximately $495,000 annually over the next 23 years.

Savage River Project—Pickands Mather & Co. International, a wholly-owned subsidiary of the Company, through its ownership in Northwest Iron Co. Ltd., had at December 31, 1967 and June 30, 1968 an approximately 12% interest, carried at $1,050,000, in the Savage River project in Tasmania, Australia, which is currently in its start-up phase. Both the subsidiary and the Company have, in connection with the financing by Northwest of its 50% interest in the project, agreed, to the extent of 33⅓%, to advance funds to Northwest required (1) to maintain its working capital at a minimum of $500,000 and (2) to provide the project with any funds, in excess of $87,000,000, not otherwise provided, required to complete construction of the project. The Company is also contingently obligated, to the extent of $1,027,000 at December 31, 1967 and $1,288,000 at June 30, 1968, as guarantor under certain project auxiliary facility agreements and a letter of credit.

Note 12 — Proposed merger:

Reference is made elsewhere in this Proxy Statement for information on the proposed reorganization and merger under which the Company would become a wholly-owned subsidiary of Diamond Shamrock Corporation.

Note 13 — Restatements because of retroactive adjustments:

A recently enunciated opinion of the Accounting Principles Board of the American Institute of Certified Public Accountants requires that provisions be made for deferred (or prepaid) income taxes when deductions for tax purposes differ from charges on the books. The Company has followed this practice for some years in the matter of excess tax depreciation (Note 6) and adjustments have been made in the accompanying financial statements for the extension of this principle to encompass other differences.

The afore-mentioned tax adjustment for the six month period ended June 30, 1967 combined with an adjustment to conform the allocation of certain steamship division costs over the operating season (less applicable income taxes) to the basis followed in the corresponding 1968 period, increased net income for the six months ended June 30, 1967 by approximately $133,000 over the amount previously reported.

Note 14 — Supplementary profit and loss information:

The amounts of certain categories of expenses are tabulated below:

	Year ended December 31,			Six months ended June 30,
	1965	1966	1967	1968
Maintenance and repairs — charged principally to cost of goods sold and operating expenses	$2,474,483	$3,026,901	$3,152,316	$1,414,643
Depreciation, depletion and amortization — charged to:				
Cost of goods sold and operating expenses	$2,413,794	$2,535,323	$3,150,664	$1,192,337
Other profit and loss accounts	162,095	216,335	278,378	147,487
Totals	$2,575,889	$2,751,658	$3,429,042	$1,339,824
Taxes, other than federal income taxes — charged to:				
Cost of goods sold and operating expenses:				
Payroll taxes	$ 336,150	$ 390,950	$ 411,822	$ 241,407
Real and personal property taxes	162,962	174,072	197,268	110,368
Other taxes	27,387	4,464	13,609	7,509
Other profit and loss accounts:				
Payroll taxes	30,769	42,106	57,925	39,134
Real and personal property taxes	34,532	44,956	59,495	34,198
Other taxes	161,997	271,136	117,760	139,901
Totals (see below)	$ 753,797	$ 927,684	$ 857,879	$ 572,517
Management and service contract fees — not material				
Rents and royalties — charged to:				
Cost of goods sold and operating expenses	$ 116,112	$ 126,375	$ 108,602	$ 69,611
Other profit and loss accounts	13,617	16,161	37,677	15,712
Totals (see below)	$ 129,729	$ 142,536	$ 146,279	$ 85,323

In addition to the above amounts, Pickands Mather & Co. incurred taxes (other than federal income) of $147,143 in 1965, $146,113 in 1966, $150,976 in 1967, $119,599 in the six months ended June 30, 1968, and rent expense of $482,184 in 1965, $503,003 in 1966, $533,179 in 1967, $286,462 in the six months ended June 30, 1968. A portion of these amounts was reimbursed, together with other general office expenses, by Pickands Mather & Co. managed companies, etc., and therefore it is not practicable to determine the amounts of these expenses included in the determination of net income.

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Six months ended June 30, 1968
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AMENDED PLAN AND AGREEMENT OF REORGANIZATION

THIS AMENDED PLAN AND AGREEMENT OF REORGANIZATION ("Agreement") made as of the 29th day of August, 1968 ("the date of this Agreement"), having been executed August 29, 1968 and amended September 20, 1968, by and among DIAMOND SHAMROCK CORPORATION, a Delaware corporation ("Diamond"), and PM MERGER CORP., a Delaware corporation ("Subsidiary"), and PICKANDS MATHER & Co., a Delaware corporation ("PM");

WITNESSETH:

WHEREAS, Diamond has an authorized capital stock of 23,500,000 shares divided into (a) 18,000,000 shares of Common Stock without par value ("Diamond Common Stock") of which 11,746,509 shares have been issued and are outstanding, 108,115 shares have been issued and are held in the treasury of Diamond, 579,267 shares are reserved for issuance upon exercise of options which have been or may be granted pursuant to Diamond's stock option plans and its 1966 and 1968 Employee Thrift Plans and 3,647,820 shares are reserved for issuance upon conversion of Diamond's Preferred Stock (including 60,208 shares of such Preferred Stock issuable upon exercise of options), and (b) 5,500,000 shares of Preferred Stock without par value ("Diamond Preferred Stock") of which 246,379 shares of the series designated $4.00 Cumulative Convertible Preferred Stock — Initial Series ("Initial Series Preferred Stock") have been issued and are outstanding, 95,000 shares of the series designated $4.00 Cumulative Convertible Preferred Stock—Series B ("Series B Preferred Stock") have been issued and are outstanding, 925,217 shares of the series designated $2.00 Cumulative Convertible Preferred Stock — Series C ("Series C Preferred Stock") have been issued and are outstanding and 4,692 shares of Series C Preferred Stock are reserved for issuance upon exercise of options, and 3,701,904 shares of the series designated $1.20 Cumulative Convertible Preferred Stock — Series D ("Series D Preferred Stock") have been issued and are outstanding and 55,516 shares of Series D Preferred Stock are reserved for issuance upon exercise of options; and

WHEREAS, Subsidiary has an authorized capital stock of 100 shares of Common Stock without par value of which 10 shares have been issued and are outstanding (all held and owned by Diamond); and

WHEREAS, PM has an authorized capital stock of 4,800,000 shares divided into (a) 4,000,000 shares of Common Stock with a par value of $.50 per share ("PM Common") of which 2,257,825 shares have been issued and are outstanding, 243,282 shares are reserved for issuance upon exercise of options which have been granted pursuant to stock option plans hereinafter referred to, and 418,322 shares are reserved for issuance upon conversion of PM's Serial Preferred Stock and (b) 800,000 shares of Serial Preferred Stock with a par value of $25 per share ("PM Serial Preferred") of which 392,225 shares of the series designated Serial Preferred Stock, Series A ("PM Series A Preferred") have been issued and are outstanding, and 193,425 shares of the series designated Serial Preferred Stock, Series B ("PM Series B Preferred") have been issued and are outstanding; and

WHEREAS, the Boards of Directors of Diamond, Subsidiary and PM, respectively, deem it advisable that Subsidiary be merged into PM in accordance with the applicable statutes of the State of Delaware and upon the terms and subject to the conditions set forth hereinafter and in the Amended Agreement of Merger attached hereto as Exhibit I ("Agreement of Merger") and have authorized and approved this Agreement and, in the case of PM and the Subsidiary, the Agreement of Merger;

NOW, THEREFORE, Diamond, Subsidiary and PM represent and agree as follows:

ARTICLE I

1.1 Prior to this Agreement Diamond has received from PM (identified by the signature of an officer of PM) the consolidated balance sheet of PM and its subsidiaries as at December 31, 1967, the consolidated statements of income of PM and its subsidiaries for the years ended December 31, 1963, 1964, 1965, 1966 and 1967, and the consolidated statements of retained earnings and capital surplus of PM and its subsidiaries for the years ended December 31, 1965, 1966 and 1967, including in each case the related notes, all accompanied by the opinions applicable thereto of Messrs. Price Waterhouse & Co., independent public accountants. In addition, prior to this Agreement, Diamond has received from PM, identified by the signature of a PM officer, the consolidated balance sheet of PM and its subsidiaries as at June 30, 1968, including the related notes ("PM Balance Sheet"), and the consolidated statements of income, retained earnings and capital surplus of PM and its subsidiaries for the six months then ended, including the related notes.

PM hereby makes the following representations to Diamond (none of which representations shall survive the Merger Date):

(a) The financial statements heretofore referred to in this Section 1.1 fairly present, in accordance with generally accepted accounting principles consistently applied in all material respects throughout the periods indicated, the consolidated financial position and consolidated results of operations of PM and its subsidiaries as at the dates and for the periods indicated therein. Such financial information as at and for the period ended June 30, 1968 is unaudited and thus subject to year-end and audit adjustments.

(b) PM is a corporation duly organized, validly existing and in good standing under the laws of Delaware, and to the best of PM's knowledge and belief it and its subsidiaries are each duly qualified to do business in every jurisdiction in which the ownership of property or the nature of activities conducted requires such qualification. The information as to PM capital stock set forth in the third recital clause at the beginning of this Agreement is accurate; all of the shares of PM Common and PM Serial Preferred outstanding are validly issued, full paid and non-assessable. Neither PM nor any subsidiary thereof is committed, either firmly or conditionally, to sell or issue (whether under outstanding offers, stock option agreements, warrants, conversion rights or otherwise) any capital stock except pursuant to (i) the options as to shares of PM Common granted pursuant to its Restricted Stock Option Plan adopted in 1960 and its Qualified Stock Option Plan adopted in 1964, (ii) the options as to shares of PM assumed by PM in connection with the merger with its subsidiary, Manganese Chemicals Corporation, during 1966, (iii) obligations under the conversion provisions of the PM Serial Preferred, and (iv) obligations under this Agreement and the Agreement of Merger. Prior to this Agreement, PM has delivered to Diamond (identified by the signature of a PM officer) copies of the above-mentioned stock option plans, the forms of the option agreements entered into pursuant thereto and pursuant to such option assumptions and a list of all of the above-mentioned options.

As used below in this Section 1.1, the terms "subsidiary" and "subsidiaries" shall exclude any PM subsidiary whose accounts were not consolidated with PM in the PM Balance Sheet. Prior to this Agreement PM has delivered to Diamond a letter signed by a PM officer containing certain information as to such excluded subsidiaries.

(c) PM and each of its subsidiaries has such title to all of its material properties and assets (including, without limitation, those material properties and assets reflected in the PM Balance Sheet, except as disposed of since June 30, 1968) as may be requisite to the conduct of its business in substantially the same manner as heretofore, and there

is no title defect in any of such properties or assets which might reasonably be expected to have at any time a material adverse effect on the financial condition, results of operations or business of PM and its subsidiaries, taken on a consolidated basis. Notwithstanding the foregoing, none of such properties or assets is subject to any mortgage or lien other than (i) a lien of current taxes not delinquent and (ii) as set forth in a schedule referring to this paragraph (c) and delivered by PM to Diamond prior to this Agreement (identified by the signature of a PM officer).

Neither PM nor any of its subsidiaries has any commitment of a contractual nature which might reasonably be expected to have at any time a material adverse effect on the financial condition, results of operations or business of PM and its subsidiaries, taken on a consolidated basis. At the date of this Agreement, neither PM nor any subsidiary thereof has any liability of a material amount or nature other than (i) those reflected in the PM Balance Sheet and not paid or discharged after June 30, 1968, (ii) those which are properly eliminated in the consolidation effected by such Balance Sheet, (iii) those expressly referred to in the schedule referring to this paragraph (identified by the signature of a PM officer) delivered by PM to Diamond prior to this Agreement and (iv) those incurred since June 30, 1968 in the ordinary and usual course of business which are not inconsistent with the other representations or agreements of PM set forth in this Agreement or with fulfillment of the conditions set forth in Section 3.1 or Section 3.2 below.

Without limiting the generality of the foregoing, the PM Balance Sheet contains adequate provision in all material respects for all taxes of every governmental authority (including any penalties, deficiency assessments, additions to tax and interest) which were, are or may become payable by PM or its subsidiaries for all transactions occurring, or any property or other assets owned or used, at any time on or before June 30, 1968. PM and its subsidiaries (at least since acquisition by PM, directly or indirectly) have each duly filed all tax returns and reports required by law to be filed; the United States income tax returns of PM, The Interlake Steamship Company ("Interlake"), The Carbon Limestone Company ("Carbon") and Henry Bower Chemical Manufacturing Company ("Bower") have been examined by the Internal Revenue Service for the years indicated in the schedule entitled "Internal Revenue Service Audits of PM" delivered to Diamond prior to this Agreement (identified by the signature of a PM officer) and for all prior periods, and PM, Interlake, Carbon and Bower have paid all taxes (including penalties, deficiency assessments, additions to tax and interest) determined by the Internal Revenue Service to be due for such years and periods except to the extent reserved against in the PM Balance Sheet. There are no outstanding agreements or waivers extending the statutory period of limitation applicable to any United States or Canadian income tax return of PM, Interlake, Carbon or Bower for any period except as indicated in such schedule.

Except as set forth in a schedule referring to this paragraph heretofore delivered by PM to Diamond (identified by the signature of a PM officer), since June 30, 1968 neither PM nor any of its subsidiaries has entered into any transaction other than in the ordinary and usual course of business which is material on a consolidated basis.

(d) At the date of this Agreement, there is no litigation, proceeding or governmental investigation pending, or to the best of the knowledge and belief of PM and its subsidiaries, threatened, against or affecting PM or any of its subsidiaries, their respective properties or business not reflected in the schedule entitled "Certain Litigation, Proceedings, Etc. Affecting PM and Subsidiaries" delivered to Diamond prior to this Agreement (identified by the signature of a PM officer) which, if decided adversely to

PM or its subsidiary, as the case may be, might reasonably be expected to have at any time a material adverse effect upon the financial condition, results of operations or business of PM and its subsidiaries, taken on a consolidated basis. The respective businesses of PM and its subsidiaries, taken on a consolidated basis, have been conducted in all material respects in accordance with their respective contracts and commitments and the applicable laws and other requirements of governmental authorities except to the extent, if any, that any of the claims referred to in the above-mentioned schedule may be valid. At the date of this Agreement, neither PM nor any of its subsidiaries is subject to any material judgment, order, writ, injunction or decree of any court or governmental authority except as may be listed in the schedule referred to above in this Section 1.1(d).

(e) Since June 30, 1968, neither PM nor any subsidiary thereof has made or committed itself to make any distribution to stockholders of any of its assets by the way of declaration or payment of dividends, redemption or purchase of shares or otherwise except for (i) any dividends by a subsidiary to PM, and (ii) a quarterly cash dividend by PM on PM Common and PM Serial Preferred of $0.25 per share and $0.2875 per share, respectively, payable September 1, 1968 to holders of record on August 15, 1968.

(f) From December 31, 1967 through the date of this Agreement there has been no material adverse change in the financial condition, results of operations or business of PM and its subsidiaries, taken on a consolidated basis, or any occurrence, circumstance or combination thereof (whether or not relating to the subject matter of other provisions of this Section 1.1) which might reasonably be expected to result in any such material adverse effect before or after the Merger Date.

(g) This Agreement and the Agreement of Merger have been fully authorized and approved on behalf of PM by all requisite corporate action except for the vote of its stockholders contemplated by Section 3.1(a) below. Neither the execution nor the consummation of this Agreement or the Agreement of Merger does or will constitute a material breach or default (or an occurrence which, by the lapse of time and/or the giving of notice, would constitute a material breach or default) under any material agreement to which PM or any subsidiary is a party or by which any of their respective properties or assets are bound or result in the creation or imposition of any lien, encumbrance, charge, equity or material restriction of any nature whatsoever in favor of any third party upon any of the properties or assets of any of them.

(h) PM has not, directly or indirectly, dealt with anyone acting in the capacity of a finder or broker, and has not, and will not incur any obligation for any finder's or broker's fee or commission in connection with this Agreement or any of the transactions contemplated hereby.

1.2 Prior to this Agreement, PM has received from Diamond (identified by the signature of a Diamond officer) the consolidated statement of financial position of Diamond and subsidiaries as at December 31, 1967 and the consolidated statements of income and retained earnings of Diamond and subsidiaries for the years ended December 31, 1963, 1964, 1965, 1966 and 1967, including in each case the related notes, all accompanied by the opinions applicable thereto of Messrs. Price Waterhouse & Co., independent public accountants. In addition, prior to this Agreement PM has received from Diamond, identified by the signature of a Diamond officer, the consolidated statement of financial position of Diamond and subsidiaries as at June 30, 1968, including the related notes ("Diamond Balance Sheet") and the consolidated statements of income and retained earnings of Diamond and subsidiaries for the six months then ended, including the related notes.

Diamond hereby makes the following representations to PM (none of which representations shall survive the Merger Date):

(a) The financial statements heretofore referred to in this Section 1.2 fairly present, in accordance with generally accepted accounting principles consistently applied in all material respects throughout the periods indicated (except for the changes noted in above-mentioned opinions), the consolidated financial position and consolidated results of operations of Diamond and subsidiaries as at the dates and for the periods indicated therein. Such financial information as at and for the period ended June 30, 1968 is unaudited and thus subject to year-end and audit adjustments.

(b) Diamond is a corporation duly organized, validly existing and in good standing under the laws of Delaware, and to the best of Diamond's knowledge and belief it and its subsidiaries are each duly qualified to do business in every jurisdiction in which the ownership of property or the nature of the activities conducted requires such qualification. The information as to Diamond capital stock set forth in the first recital clause at the beginning of this Agreement is accurate at the date of this Agreement. At the date of this Agreement neither Diamond nor any subsidiary is committed, either firmly or conditionally, to sell or issue (whether under outstanding offers, stock option agreements, warrants, conversion rights or otherwise) any capital stock except pursuant to (i) options as to shares of Diamond Common Stock granted pursuant to its Stock Option Plan approved in 1951 (and amended in 1957), its 1965 Stock Option Plan and its 1966 Employee Thrift Plan, (ii) obligations pursuant to its Incentive Compensation Plan, (iii) options as to shares of its Series C Preferred Stock converted from options originally granted pursuant to the 1961 Nopco Employee Restricted Stock Option Plan approved on March 23, 1961 by stockholders of Nopco Chemical Company (which has been merged into Diamond), (iv) options as to shares of Diamond Common Stock and Series D Preferred Stock converted from options originally granted pursuant to the Shamrock 1962 Stock Option Plan for officers and key employees approved on March 5, 1962 by stockholders of The Shamrock Oil and Gas Corporation (which has been merged into Diamond), (v) obligations under the conversion provisions of Diamond Preferred Stock (including such Preferred Stock issuable upon exercise of stock options) and (vi) obligations under this Agreement and the Agreement of Merger. Prior to this Agreement, Diamond has delivered to PM (identified by the signature of a Diamond officer) copies of the above-mentioned stock option plans, Employee Thrift Plan and Incentive Compensation Plan.

As used below in this Section 1.2, the terms "subsidiary" and "subsidiaries" shall exclude any Diamond subsidiary whose accounts were not consolidated with Diamond in the Diamond Balance Sheet. Prior to this Agreement Diamond has delivered to PM a letter signed by a Diamond officer containing certain information as to such excluded subsidiaries.

(c) Diamond and each of its subsidiaries has such title to all of its material properties and assets (including, without limitation, those material properties and assets reflected in the Diamond Balance Sheet, except as disposed of since June 30, 1968) as may be requisite to the conduct of its business in substantially the same manner as heretofore, and there is no title defect in any of such properties or assets which might reasonably be expected to have at any time a material adverse effect on the financial condition, results of operations or business of Diamond and its subsidiaries, taken on a consolidated basis. Notwithstanding the foregoing, none of such properties or assets is subject to any mortgage or lien other than (i) a lien of current taxes not delinquent and (ii) as set forth in a schedule entitled "Certain Mortgages and Liens of Diamond" delivered by Diamond to PM prior to this Agreement (identified by the signature of a Diamond officer).

Neither Diamond nor any of its subsidiaries has any commitment of a contractual nature which might reasonably be expected to have at any time a material adverse effect on the financial condition, results of operations or business of Diamond and its subsidiaries, taken on a consolidated basis. At the date of this Agreement, neither Diamond nor any subsidiary thereof has any liability of a material amount or nature other than (i) those reflected in the Diamond Balance Sheet and not paid or discharged after June 30, 1968, (ii) those which are properly eliminated in the consolidation effected by such Balance Sheet, (iii) those expressly referred to in any schedule or list heretofore prepared for and provided to PM, and (iv) those incurred since June 30, 1968 in the ordinary and usual course of business which are not inconsistent with the other representations or agreements of Diamond set forth in this Agreement or with fulfillment of the conditions set forth in Section 3.1 or Section 3.3 below.

Without limiting the generality of the foregoing, the Diamond Balance Sheet contains adequate provision in all material respects for all taxes of every governmental authority (including any penalties, deficiency assessments, additions to tax and interest) which were, are or may become payable by Diamond or its subsidiaries for all transactions occurring, or any property or other assets owned or used, at any time on or before June 30, 1968. Diamond and its subsidiaries (at least since acquisition by Diamond, directly or indirectly) have each duly filed all tax returns and reports required by law to be filed; the United States income tax returns of Diamond, Nopco Chemical Company and The Shamrock Oil and Gas Corporation have been examined by the Internal Revenue Service for the years indicated in the schedule headed "Internal Revenue Service Audit" delivered to PM prior to this Agreement (identified by the signature of a Diamond officer) and for all prior periods, and Diamond, Nopco Chemical Company and The Shamrock Oil and Gas Corporation have paid all taxes (including any penalties, deficiency assessments, additions to tax and interest) determined by the Internal Revenue Service to be due for such years and periods except to the extent reserved against in the Diamond Balance Sheet. There are no outstanding agreements or waivers extending the statutory period of limitation applicable to any United States or Canadian income tax return of Diamond, Nopco Chemical Company or The Shamrock Oil and Gas Corporation for any period except as indicated in such schedule.

From June 30, 1968 through the date of this Agreement, neither Diamond nor any of its subsidiaries has entered into any transaction other than in the ordinary and usual course of business which is material on a consolidated basis.

(d) At the date of this Agreement, there is no litigation, proceeding or governmental investigation pending, or to the best of the knowledge and belief of Diamond and its subsidiaries, threatened, against or affecting Diamond or any of its subsidiaries, their respective properties or business not reflected in the schedule entitled "Certain Litigation, Proceedings, Etc. Affecting Diamond and Subsidiaries" delivered to PM prior to this Agreement (identified by the signature of a Diamond officer) which, if decided adversely to Diamond or its subsidiary, as the case may be, might reasonably be expected to have at any time a material adverse effect upon the financial condition, results of operations or business of Diamond and its subsidiaries, taken on a consolidated basis. The respective businesses of Diamond and its subsidiaries, taken on a consolidated basis, have been conducted in all material respects in accordance with their respective contracts and commitments and the applicable laws and other requirements of governmental authorities except to the extent, if any, that any of the claims referred to in the above-mentioned schedule may be valid. At the date of this Agreement, neither Diamond nor any of its subsidiaries is subject to any material judgment, order, writ, injunction or decree of any court or governmental authority except as may be listed in the schedule referred to above in this Section 1.2(d).

(e) From June 30, 1968 through the date of this Agreement neither Diamond nor any subsidiary thereof has made or committed itself to make any distribution to stockholders of any of its assets by way of declaration or payment of dividends, redemption or purchase of shares or otherwise except for (i) any dividends by a subsidiary of Diamond, (ii) a quarterly cash dividend by Diamond on Initial Series Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock of $1.00, $1.00, $0.50 and $0.30 per share, respectively, payable September 15, 1968 and (iii) a quarterly cash dividend by Diamond on Diamond Common Stock of $0.35 per share payable September 6, 1968.

(f) From December 31, 1967 through the date of this Agreement there has been no material adverse change in the financial condition, results of operations or business of Diamond and its subsidiaries, taken on a consolidated basis, or any occurrence, circumstance or combination thereof (whether or not relating to the subject matter of other provisions of this Section 1.2) which might reasonably be expected to result in any such material adverse effect before or after the Merger Date.

(g) This Agreement has been fully authorized and approved on behalf of Diamond by all requisite corporate action except for the votes of its stockholders contemplated by Section 3.1(b) below. Subject to completing such arrangements as may be necessary with respect to PM's long term Bank Credit Agreement dated as of July 1, 1965 as amended, neither the execution nor the consummation of this Agreement or the Agreement of Merger does or will constitute a material breach or default (or an occurrence which, by the lapse of time and/or the giving of notice, would constitute a material breach or default) under any material agreement to which Diamond or any subsidiary is a party or by which any of their respective properties or assets are bound or result in the creation or imposition of any lien, encumbrance, charge, equity or material restriction of any nature whatsoever in favor of any third party upon any of the properties or assets of any of them.

(h) Diamond has not, directly or indirectly, dealt with anyone acting in the capacity of a finder or broker, and has not, and will not incur any obligation for any finder's or broker's fee or commission in connection with this Agreement or any of the transactions contemplated hereby.

ARTICLE II

2.1 PM hereby agrees that from the date of this Agreement to the Merger Date:

(a) Except as Diamond may otherwise consent in writing from time to time, PM and its subsidiaries will conduct their business and affairs only in the ordinary and usual course and not engage in any activity or enter into any transaction outside the ordinary and usual course of such business except as otherwise expressly permitted by this Agreement. Without limiting the generality of the foregoing, neither PM nor its subsidiaries will, without such Diamond consent or except as so expressly permitted, engage in any activity or enter into any transaction which would be inconsistent with any of PM's representations set forth in Section 1.1 hereof if such representations were made as of a date subsequent to such activity or transaction and all references to the date of this Agreement were deemed to be to such latter date.

(b) Notwithstanding Section 2.1(a) above, (i) PM may pay the quarterly dividends referred to in Section 1.1(e) above and may declare (and pay if the record date is prior to the Merger Date) a cash dividend on PM Common of not in excess of 26⅔¢

per share, and a regular quarterly cash dividend on PM Serial Preferred of $0.2875 per share, both payable in December, 1968, to stockholders of record at the close of business on November 15, 1968, (ii) if the Merger Date occurs too late to permit the holders of PM Common to be holders of record of Diamond Common Stock at the record date for any particular quarterly dividend payable in 1969 hereafter declared on Diamond Common Stock, PM may also declare (and pay if the record date is prior to the Merger Date) a regular quarterly cash dividend on PM Common not in excess of $0.25 per share, each of which PM dividends, if any, under this clause (ii) shall be payable in the same month as the quarterly dividend on Diamond Common Stock is payable, and the record date for such PM dividend shall be the same as Diamond's record date for its dividend, (iii) if the Merger Date occurs too late to permit the holders of PM Serial Preferred to be stockholders of record of Diamond at the record date for any particular quarterly dividend payable in 1969 hereafter declared on Diamond Preferred Stock, PM may also declare (and pay if the record date is prior to the Merger Date) a regular quarterly cash dividend on PM Serial Preferred, each of which PM dividends, if any, under this clause (iii) shall be payable in the same month as the quarterly dividend on Diamond Preferred Stock is payable, and the record date for such PM dividend shall be the same as Diamond's record date for its dividend and (iv) PM may also declare and pay such other dividends as Diamond may consent to in writing.

(c) Notwithstanding Section 2.1(a) above, PM may issue shares of PM Common pursuant to the conversion rights of PM Serial Preferred and pursuant to proper exercise of options listed in the list of options referred to in Section 1.1(b) above; any changes in the number of shares of PM Common or PM Serial Preferred outstanding, reserved for issuance or subject to option by reason of the exercise or lapse of any of such options or the exercise of such conversion rights shall not be deemed inconsistent with Section 2.1(a) above.

2.2 Diamond hereby agrees that from the date of this Agreement to the Merger Date:

(a) Except as PM may otherwise consent in writing from time to time, Diamond will not declare, or pay any dividend or make any other pro rata distribution, on Diamond Common Stock except for the quarterly dividends referred to in Section 1.2(e) above and further quarterly cash dividends not in excess of $0.35 per share per quarter.

(b) Except as PM may otherwise consent in writing from time to time, Diamond will not (i) call any meeting of its stockholders to which the record date shall be earlier than the Merger Date other than meetings to take action on this Agreement and matters related thereto and/or annual meeting matters or (ii) take any action which, if the shares (other than Diamond Common Stock) to be issued to PM stockholders in the merger with the Subsidiary were outstanding, would require adjustment of any conversion ratio applicable to such shares or confer rights to subscribe or purchase or to a distribution (other than regular dividends), to the holders of such shares or (iii) acquire or contract to acquire any other business, directly or indirectly, in consideration, in whole or in part, of Diamond capital stock which has, at the date of such acquisition or contract, whichever first occurs, an aggregate market value (as reasonably determined by Diamond's Board of Directors) in excess of $10,000,000.

(c) Diamond will use all reasonable efforts to list, subject to notice of issuance, on each stock exchange on which Diamond Common Stock is listed, the shares of Diamond Common Stock (i) to be issued in connection with the merger of Subsidiary into PM, (ii) to be reserved for issuance upon exercise of stock options referred to in Section 2.7

below and (iii) to be reserved for issuance upon conversion of shares of Diamond capital stock to be issued in connection with such merger, or to be issued upon exercise of such stock options, which have conversion provisions.

(d) Diamond will use all reasonable efforts to cause a registration statement or registration statements of Diamond on Form S-8 (or other appropriate form) under the Securities Act of 1933, as amended (the "Act"), to become effective by the Merger Date or as soon thereafter as practicable covering (i) the shares of Diamond capital stock issuable upon the exercise of stock options referred to in Section 2.7 below, (ii) the shares of Diamond Common Stock issuable upon conversion of any such issuable Diamond capital stock and (iii) such other shares as may be appropriate arising from the change into Diamond capital stock, in the merger, of PM Common theretofore issued upon the exercise of PM stock options.

(e) Diamond will use all reasonable efforts to cause a registration statement or registration statements of Diamond on Form S-14 (or other appropriate form) under the Act to become effective by the Merger Date or as soon thereafter as practicable, and to remain effective for at least two years, covering (for sale of listed shares on a national securities exchange, and unlisted shares over-the-counter, at prices current on the dates of sale or in negotiated private transactions at negotiated prices) such shares of Diamond capital stock to be received in the merger (and the shares into which such received shares may be convertible) by any PM "affiliate" (as defined in Rule 133 adopted pursuant to the Act) who (i) does not furnish to or for Diamond an appropriate written representation that he will not be an "underwriter" with respect to such shares within the meaning of such Rule and (ii) enters into an agreement with Diamond in connection with such registration in substantially the form heretofore cross-delivered by Diamond and PM (identified by the signature of an officer of each) with such changes as Diamond and PM may consent to in writing. Diamond will enter into such an agreement with each PM "affiliate" who elects to do so, and PM will use all reasonable efforts to cause each PM "affiliate" to furnish the written representation referred to in clause (i) above or to enter into an agreement with Diamond as provided in clause (ii) above.

2.3 Diamond and PM will use their best efforts to obtain a ruling satisfactory to each of them from the Internal Revenue Service (based on a request for ruling, including information in support of such request, satisfactory to each of them) to the effect that (a) the merger of Subsidiary with PM as provided for herein will constitute a "reorganization" within the meaning of Section 368(a)(1)(B) of the Internal Revenue Code of 1954 as amended (the "Code"), (b) for Federal income tax purposes, no gain or loss will be recognized to Diamond, PM or Subsidiary by reason of such merger, (c) for Federal income tax purposes no gain or loss will be recognized (except in the case of stockholders exercising dissenters' rights or in respect of the proceeds of the disposition of a fractional share) to any stockholder of PM upon his exchange of PM shares for Diamond shares, (d) Section 306(a) of the Code will not apply to the disposition of Diamond Special Common Stock or to the disposition or redemption of Diamond $1.15 Cumulative Convertible Preferred Stock—Series E ("Series E Preferred Stock"), (e) no gain or loss will be recognized under present law to any holder of Series E Preferred Stock upon the conversion of such Stock into Diamond Common Stock and (f) no taxable income will arise under present law upon the conversion of Diamond Special Common Stock into Diamond Common Stock. Diamond and PM may request, and may withdraw requests for, such additional rulings from the Internal Revenue Service as from time to time they may mutually deem expedient.

2.4 PM, Diamond and Subsidiary will promptly take such action as may be necessary to call meetings of their respective stockholders to take the stockholder action referred to

in this Agreement. PM, Diamond and Subsidiary each presently estimate that such action by stockholders will have been taken by November 30, 1968. At the meeting of stockholders of Subsidiary, Diamond will vote its stock in Subsidiary for approval of this Agreement and for adoption of the Agreement of Merger.

2.5 PM and Diamond will each allow the other access to such books, records and properties of it and its subsidiaries and furnish such information concerning it and its subsidiaries as such other party may reasonably request from time to time in connection with complying, or ascertaining compliance, with the representations, conditions and other provisions of this Agreement. Any information treated as confidential by such a disclosing party and disclosed heretofore or hereafter to the other in connection with this Agreement shall be kept confidential (and shall be used by the receiving party only in connection with this Agreement and the Agreement of Merger) except to the extent it was known to the receiving party when received or it is or hereafter becomes lawfully obtainable from other sources or to the extent such duty as to confidentiality or use is waived by the furnishing party in writing. Such obligation as to confidentiality and use shall survive termination or abandonment of this Agreement.

2.6 Subject to the filing of the certificate of the amendments to Diamond's Certificate of Incorporation referred to in Section 4.1 below, Diamond will issue and deliver to Subsidiary or its designee or designees, stock certificates representing the number of whole shares of Diamond Common Stock, Special Common Stock and Series E Preferred Stock necessary to consummate the transactions contemplated by the Agreement of Merger. Diamond hereby acknowledges that from and after the Merger Date the provisions of Section 3.5 of the Agreement of Merger shall be binding upon Diamond.

2.7 PM shall cause to be amended (which amendment shall become effective at the Merger Date) the outstanding options to purchase shares of PM Common referred to in Section 1.1(b) so that each of such options shall thereafter be converted into and become an option to purchase the same number of Option Units as the number of shares of PM Common subject to such option immediately prior to the Merger Date. For such purpose an Option Unit shall consist of .8 of one share of Diamond Common Stock plus .25 of one share of Diamond Special Common Stock; provided, however, that no fractional share shall be issuable upon any exercise of such option but any fractional interest to which the option holder may be entitled, together with any portion of the option price paid with respect thereto, shall be a credit in such option holder's account and shall be carried forward and included in determining the number of whole shares to be issued upon a subsequent exercise of such option. The purchase price for each Option Unit shall be equal to the purchase price per share of each share of PM Common under the particular stock option agreement under which such option was granted as adjusted and in effect immediately prior to the Merger Date, and the rights and obligations of PM under such stock option agreement shall, modified as above provided, become the rights and obligations of Diamond at and after the Merger Date. Each such stock option agreement shall otherwise be upon the same terms and conditions and have the same provisions as are contained therein immediately prior to the Merger Date.

2.8 Diamond, Subsidiary and PM will each use all reasonable efforts to cause the Merger Date to occur with all reasonable dispatch, and none of them will undertake any course of action inconsistent with such intended result.

ARTICLE III

3.1 The obligation of PM, Diamond or Subsidiary to cause the merger contemplated by this Agreement and the Agreement of Merger, and thus the Merger Date, to occur, shall

be subject to the satisfaction of the following conditions except as such party may waive the same in writing in accordance with Section 4.5 below:

(a) At a meeting duly called and held for such purpose, the PM stockholders shall have duly approved this Agreement and adopted the Agreement of Merger by the requisite votes of its stockholders.

(b) At a meeting duly called and held for such purpose, the Diamond stockholders shall have duly approved this Agreement (including the amendments to Diamond's Certificate of Incorporation set forth as Exhibit II attached hereto) by the requisite votes of its stockholders.

(c) At a meeting duly called and held for such purpose, or by duly taken written action without a meeting, Diamond as the sole stockholder of Subsidiary shall have duly approved this Agreement and adopted the Agreement of Merger.

(d) With respect to the matters referred to in clauses (a) through (c) and (f) of Section 2.3 above, there shall have been delivered to Diamond and PM either (i) a ruling of the Internal Revenue Service at least as favorable as that contemplated by such clauses or (ii) with respect to those matters, if any, contemplated by such clauses as to which such a favorable ruling shall not have been received, opinions from their respective counsel satisfactory to their respective Boards of Directors.

(e) The listing, subject to notice of issuance, of shares of Diamond Common Stock contemplated by Section 2.2(c) shall have become effective.

(f) The registrations under the Act contemplated by Section 2.2(d) and (e) shall have become effective or it reasonably appears that they will become effective within fifteen days after the merger.

(g) Prior to the Merger Date there shall be no litigation or proceeding pending or threatened for the purpose of enjoining or preventing the consummation of this Agreement or the Agreement of Merger or otherwise claiming that such consummation, or this Agreement or the Agreement of Merger, is improper or which, if decided adversely, would materially affect the right of Diamond or PM to retain its property and other assets or continue the operations of its property, assets and business if and when said merger is consummated.

(h) Messrs. Jones, Day, Cockley & Reavis shall be prepared to deliver to Diamond and PM, immediately upon completion of the filing intended to effect said merger, such firm's written opinion substantially to the following effect: (i) at the date of this Agreement, the issued and outstanding capital stock of Diamond, excluding treasury shares, did not exceed (by more than 5,000 shares) the amounts thereof stated in the first recital clause at the beginning of this Agreement and Diamond's representation in the third sentence of Section 1.2(b) was accurate with respect to capital stock of Diamond, (ii) this Agreement has been duly authorized on behalf of Diamond and Subsidiary by all requisite corporate action and constitutes the valid and binding obligation of both of them in accordance with its terms, and the Agreement of Merger has been duly authorized on behalf of Subsidiary by all requisite corporate action and constitutes the valid and binding obligation of Subsidiary in accordance with its terms, (iii) upon such filing, the merger became effective pursuant to the General Corporation Law of the State of Delaware and thereupon the outstanding shares of PM Common and PM Serial Preferred became converted into shares of Diamond capital stock as contemplated by this Agreement and the Agreement of Merger, (iv) the shares of such Diamond capital stock are duly

authorized, validly issued, full paid and non-assessable, (v) each share of Diamond Special Common Stock and Series E Preferred Stock so issued is convertible into Diamond Common Stock in accordance with the terms of such Diamond Special Common Stock and Series E Preferred Stock, and such Diamond Common Stock issued upon such conversion will be duly authorized, validly issued, full paid and non-assessable, (vi) Diamond has reserved a sufficient number of shares of Common Stock to effect such conversion, (vii) the listing, subject to notice of issuance, of shares of Diamond Common Stock contemplated by Section 2.2(c) is effective and (viii) Diamond has validly assumed the options referred to in Section 2.7 above.

3.2 The obligation of Diamond and Subsidiary to cause the merger contemplated by this Agreement and the Agreement of Merger, and thus the Merger Date, to occur shall be further subject to the satisfaction of the following conditions, except as Diamond and Subsidiary may waive the same in writing in accordance with Section 4.5 below:

(a) The representations of PM set forth in this Agreement shall be accurate in all material respects both on the date hereof and immediately prior to the Merger Date (read as if any knowledge and belief qualifications therein were deleted but otherwise read as is, including express time references) except for any activities or transactions which may have taken place after the date hereof which are expressly permitted by this Agreement or the Agreement of Merger, and PM shall have duly performed and complied with all agreements and conditions required by this Agreement and the Agreement of Merger to be performed or satisfied by PM prior to the Merger Date.

(b) Subsequent to the date of this Agreement, there shall have been no material adverse change in the financial condition, results of operations or business of PM and its subsidiaries, taken on a consolidated basis, other than changes in the ordinary and usual course of business, and (except for matters arising subsequent to the date of this Agreement applicable to industry generally such as general economic conditions, general governmental regulation, changes of governmental military involvement and the like) no occurrence, circumstance or combination thereof outside the ordinary and usual course of business which might reasonably be expected to result in any such material adverse effect before or after the Merger Date.

(c) The information and data provided by PM for use with respect to any Diamond proxy statement, letter to stockholders, listing applications or securities registrations or otherwise in connection with this Agreement or the Agreement of Merger shall not be false or misleading in any material respect or fail to state any fact necessary to make the statements therein not false or misleading in any material respect.

(d) Holders of not more than 250,000 shares of PM Common and PM Serial Preferred shall have filed the written objection to the said merger required for, and otherwise perfected (as far as required prior to the Merger Date), the exercise of dissenters' rights pursuant to the General Corporation Law of the State of Delaware, as amended.

(e) Prior to the Merger Date there shall be no litigation, proceeding or governmental investigation pending, or, to the best of the knowledge and belief of PM and its subsidiaries, threatened against or affecting PM or any of its subsidiaries, their respective properties or business not reflected in the schedule referred to in Section 1.1(d) above which might reasonably be expected to have at any time a material adverse effect upon the financial condition, results of operations or business of PM and its subsidiaries, taken on a consolidated basis; and prior to such Date neither PM nor any of its sub-

sidiaries shall have become subject to any judgment, order, writ, injunction or decree of any court or governmental authority not reflected in such schedule which might reasonably be expected to have any such effect.

(f) Each PM "affiliate" shall have furnished a written representation to, or entered an agreement with Diamond as contemplated by Section 2.2(e) above, and the same shall continue to be in full force and effect without breach.

(g) PM shall have furnished to Diamond a certificate dated the date for the Merger Date, signed by its President, Vice President-Finance and Secretary, to the effect that to the best of the knowledge and belief of each of them the conditions set forth above in this Section 3.2 and Section 3.1 (insofar as they relate to PM) have been satisfied.

(h) Messrs. Baker, Hostetler & Patterson, counsel for PM, shall be prepared to deliver to Diamond, immediately upon completion of the filing intended to effect said merger, such firm's written opinion substantially to the following effect: (i) at the date of this Agreement and, subject to the operation of Section 2.1(c), at the Merger Date, the issued and outstanding capital stock of PM did not exceed (by more than 1,000 shares) the amounts thereof stated in the third recital clause at the beginning of this Agreement and PM's representations in the third and fourth sentences of Section 1.1(b) were and are accurate with respect to the capital stock of PM, (ii) this Agreement and the Agreement of Merger have been duly authorized on behalf of PM by all requisite corporate action and this Agreement and the Agreement of Merger each constitutes the valid and binding obligation of PM in accordance with its terms, and (iii) the procedures of PM relating to the document to be so filed to effect the merger were proper.

3.3 The obligation of PM to cause the merger contemplated by this Agreement and the Agreement of Merger, and thus the Merger Date, to occur shall be further subject to the satisfaction of the following conditions except as PM may waive the same in writing in accordance with Section 4.5 below:

(a) The representations of Diamond set forth in this Agreement shall be accurate in all material respects both on the date hereof and immediately prior to the Merger Date (read as if any knowledge and belief qualifications therein were deleted but otherwise read as is, including express time references) except for any activities or transactions which may have taken place after the date hereof which are expressly permitted by this Agreement or the Agreement of Merger, and Diamond shall have duly performed and complied with all agreements and conditions required by this Agreement and the Agreement of Merger to be performed or satisfied by Diamond prior to the Merger Date.

(b) Subsequent to the date of this Agreement, there shall have been no material adverse change in the financial condition, results of operations or business of Diamond and its subsidiaries, taken on a consolidated basis, other than changes in the ordinary and usual course of business, and (except for matters arising subsequent to the date of this Agreement applicable to industry generally such as general economic conditions, general governmental regulation, changes of governmental military involvement and the like) no occurrence, circumstance or combination thereof outside of the ordinary and usual course of business which might reasonably be expected to result in any such material adverse effect before or after the Merger Date.

(c) The information and data provided by Diamond for use with respect to any PM proxy statement or letter to stockholders or otherwise in connection with this Agree-

ment or the Agreement of Merger shall not be false or misleading in any material respect or fail to state any fact necessary to make the statements therein not false or misleading in any material respect.

(d) Prior to the Merger Date there shall be no litigation, proceeding or governmental investigation pending, or, to the best of the knowledge and belief of Diamond and its subsidiaries, threatened against or affecting Diamond or any of its subsidiaries, their respective properties or business not reflected in the schedule with respect thereto referred to in Section 1.2(d) above which might reasonably be expected to have at any time a material adverse effect upon the financial condition, results of operations or business of Diamond and its subsidiaries, taken on a consolidated basis; and prior to such Date neither Diamond nor any of its subsidiaries shall have become subject to any judgment, order, writ, injunction or decree of any court or governmental authority not reflected in such schedule which might reasonably be expected to have any such effect.

(e) Diamond shall have furnished to PM a certificate dated the date for the Merger Date, signed by its President, Controller, and Secretary, to the effect that to the best of the knowledge and belief of each of them the conditions set forth above in this Section 3.3 and Section 3.1 (insofar as they relate to Diamond) have been satisfied.

(f) Messrs. Baker, Hostetler & Patterson shall be prepared to deliver to PM, immediately upon completion of the filing intended to effect the merger, their opinion confirming the opinion referred to in Section 3.1(h) above as to such matters as PM may request.

(g) As of the Merger Date, Messrs. K. S. Benson, J. Richardson Dilworth, John Sherwin and Robert E. Williams shall be members of the Board of Directors of Diamond and K. S. Benson shall be elected an Executive Vice President of Diamond.

(h) The Internal Revenue Service shall have issued a ruling at least as favorable as that contemplated by clauses (d) and (e) of Section 2.3 above, or PM shall have received from Messrs. Baker, Hostetler & Patterson opinions satisfactory to its Board of Directors as to the matters contemplated by such clauses.

ARTICLE IV

4.1 Subject to the satisfaction of the conditions of Article III hereof, as soon as practicable after the affirmative stockholder actions contemplated by Section 3.1(a), (b) and (c), the procedure specified in Subchapter VIII of the General Corporation Act of the State of Delaware, as amended ("Delaware Act"), to make the amendments to Diamond's Certificate of Incorporation attached hereto as Exhibit II shall be carried out and forthwith thereafter Diamond shall make the delivery contemplated by Section 2.6 above and the further procedure specified in Subchapter IX of the Delaware Act to make effective the merger of Subsidiary into PM pursuant to the Agreement of Merger shall be carried out. The merger shall become effective at, and the "Merger Date" shall mean, for the purpose of this Agreement and the Agreement of Merger, the date the Agreement of Merger is filed with the Secretary of the State of Delaware in accordance with the Delaware Act.

4.2 This Agreement may be terminated and the Agreement of Merger may be terminated and abandoned, either before or after the meetings of the stockholders herein provided for, but prior to the Merger Date:

(a) By mutual written consent of PM, Diamond and Subsidiary, authorized by their respective Boards of Directors;

(b) By joint written notice from Diamond and Subsidiary to PM, authorized by the Boards of Directors of Diamond and Subsidiary, if the conditions provided in Section 3.1

and Section 3.2 above shall not have been met by March 1, 1969 or the date such notice is given, whichever is later;

(c) By written notice from PM to Diamond and Subsidiary, authorized by the Board of Directors of PM, if the conditions provided in Section 3.1 and Section 3.3 above shall not have been met by March 1, 1969 or the date such notice is given, whichever is later,

provided, however, that a party otherwise entitled to give or join in a notice pursuant to clause (b) or (c) above may not do so if it is then in material breach of performance of its agreements under this Agreement or the Agreement of Merger unless any party to whom such notice is given is then also in material breach of its performance of its agreements under this Agreement or the Agreement of Merger.

4.3 If for any reason this Agreement ceases to be binding upon PM, Diamond and Subsidiary, whether because of termination and abandonment as provided herein or otherwise, it shall thence forth be void (except as provided in Section 2.5 above), without any further action by the stockholders of any of such corporations, and none of such parties shall have any obligation to the others in damages or as to the expense incurred by the others incident to this Agreement, the Agreement of Merger or the transactions provided for herein or therein.

4.4 Whether or not the transactions contemplated by this Agreement are consummated, Diamond, Subsidiary and PM shall each pay its own fees and expenses incident to the negotiation, preparation and execution of this Agreement and their respective stockholders' meetings and actions including fees and expenses of its counsel, accountants, investment bankers and other experts.

In furnishing opinions pursuant to this Agreement, counsel may rely upon certificates of officers of the respective parties and their subsidiaries, opinions of other counsel and such other documents and data as they may deem appropriate as the basis for their opinions.

4.5 Any of the provisions of this Agreement may be waived at any time by the party which is, or the stockholders of which are, entitled to the benefit thereof upon the authority of the Board of Directors of such party, provided that as to such waiver authorization taken after the last vote of the stockholders of such party hereon such waiver shall not, in the judgment of the Board of Directors of such party affect materially and adversely the benefits of such party or its stockholders intended under this Agreement or the Agreement of Merger. Any of the provisions of this Agreement (including the Exhibits) may be modified at any time prior to or after the vote hereon of stockholders of any party, by agreement in writing approved by the Board of Directors of each party and executed in the same manner (but not necessarily by the same persons) as this Agreement, provided that such modification after the last vote of the stockholders of a party hereon shall not, in the judgment of the Board of Directors of such party, affect materially and adversely the benefits of such party or its stockholders intended under this Agreement or the Agreement of Merger.

4.6 To the extent permitted by law, the powers of the Board of Directors of each party under and with respect to this Agreement may be delegated by such board of directors to the executive committee of such board and/or by such board and/or executive committee to any officer or officers of such party, and any notices, consents or other action referred to in this Agreement as to be given or taken by any party may be given or taken on its behalf by any officer so authorized.

4.7 Without hereby limiting Diamond's rights under Section 3.2(d) above, the liability of PM to pay dissenters the value of their stock under the Delaware Act by reason of the

consummation of the Agreement of Merger shall, for all purposes of this Agreement, be deemed not to be a material liability of PM.

4.8 This Agreement shall supersede any other agreements, whether written or oral, that may have been made or entered into by PM or Diamond or by any officer or officers of such parties relating to the merger of such corporate parties or the subsidiary of either of them. Nothing expressed or implied in this Agreement or the Agreement of Merger is intended, or shall be construed, to confer upon or give any person, firm or corporation, other than PM, Diamond and Subsidiary and their respective stockholders, any rights or remedies under or by reason of this Agreement or the Agreement of Merger.

4.9 Although this Agreement has been amended on September 20, 1968, it is the intention of the parties that this Agreement, as so amended, be read and construed as if the same had been originally executed and delivered on August 29, 1968 in the form hereof, all to the end that none of the representations, covenants or other terms of this Agreement, as amended, be deemed, by reason of such amendment, to speak or become binding initially as of September 20, 1968 instead of August 29, 1968.

IN WITNESS WHEREOF, Diamond, PM and Subsidiary have caused their respective corporate seals to be hereunto affixed and these presents to be signed by their respective officers thereunto duly authorized, all as of the day and year aforesaid.

DIAMOND SHAMROCK CORPORATION
CORPORATE
SEAL
1928
DELAWARE

ATTEST:

JOHN A. WILSON
Secretary

DIAMOND SHAMROCK CORPORATION

By J. A. HUGHES
President

PICKANDS MATHER & CO.
CORPORATE
SEAL

ATTEST:

G. L. JOHNSON
Assistant Secretary

PICKANDS MATHER & CO.

By K. S. BENSON
President

PM MERGER CORP.
CORPORATE
SEAL
1968
DELAWARE

ATTEST:

R. H. ARMOR
Assistant Secretary

PM MERGER CORP.

By J. AVERY RUSH, JR.
President

[CONFORMED]

[EXHIBIT I]*

AMENDED AGREEMENT OF MERGER

THIS AMENDED AGREEMENT OF MERGER ("Agreement of Merger") made as of the 29th day of August, 1968, having been executed August 29, 1968 and amended September 20, 1968, by and between PICKANDS MATHER & Co., a Delaware Corporation ("PM"), and PM MERGER CORP., a Delaware Corporation ("Subsidiary"), such corporations being hereinafter sometimes collectively called the "Constituent Corporations";

WITNESSETH:

WHEREAS, each of the Constituent Corporations is a corporation duly organized and existing under the laws of the State of Delaware, has its registered office in the State of Delaware at 100 West Tenth Street in the City of Wilmington, County of New Castle, and the name of its registered agent at such address is The Corporation Trust Company; and

WHEREAS, PM has an authorized capital stock of 4,800,000 shares divided into (a) 4,000,000 shares of Common Stock with a par value of $.50 per share ("PM Common") of which 2,257,825 shares have been issued and are outstanding, 243,282 shares are reserved for issuance upon exercise of options which have been granted pursuant to certain stock option plans, and 418,322 shares are reserved for issuance upon conversion of PM's Serial Preferred Stock and (b) 800,000 shares of Serial Preferred Stock with a par value of $25 per share ("PM Serial Preferred") of which 392,225 shares of the series designated Serial Preferred Stock, Series A ("PM Series A Preferred") have been issued and are outstanding, and 193,425 shares of the series designated Serial Preferred Stock, Series B ("PM Series B Preferred") have been issued and are outstanding; and

WHEREAS, Subsidiary has an authorized capital stock of 100 shares of Common Stock without par value ("Subsidiary Common Stock") of which 10 shares have been issued and are outstanding, and all of such shares are held and owned by Diamond Shamrock Corporation, a Delaware corporation ("Diamond"); and

WHEREAS, the respective Boards of Directors of PM and Subsidiary deem it advisable for the mutual benefit of the Constituent Corporations and their respective stockholders that Subsidiary be merged with and into PM upon the terms and subject to the conditions hereinafter provided, and such Boards of Directors have approved and adopted this Agreement of Merger; and

WHEREAS, Diamond intends to issue at or prior to such merger those numbers of shares of its Common Stock without par value ("Diamond Common Stock"), Special Common Stock without par value ("Diamond Special Common Stock") and $1.15 Cumulative Convertible Preferred Stock—Series E, without par value ("Diamond Series E Preferred Stock") required to consummate the merger contemplated hereby;

NOW, THEREFORE, PM and Subsidiary agree that pursuant to the applicable law of Delaware and subject to the terms and conditions hereinafter set forth, Subsidiary shall be merged into PM and that the terms and conditions of such merger, including the mode of carrying the same into effect and the manner of converting the shares of each of the Constituent Corporations, shall be as follows:

*This Amended Agreement of Merger is, as unconformed, EXHIBIT I to the Amended Plan and Agreement of Reorganization.

ARTICLE I

1.1 Upon the Merger Date, as defined in Section 4.1 below, Subsidiary shall be merged into PM. PM shall be the surviving corporation, shall continue to have the name "Pickands Mather & Co." and shall continue to be governed by the laws of the State of Delaware. PM as such surviving corporation is hereinafter sometimes referred to as the "Surviving Corporation."

ARTICLE II

2.1 From and after the Merger Date, the Certificate of Incorporation of PM as in effect immediately prior to the Merger Date shall continue in full force and effect as the Certificate of Incorporation of the Surviving Corporation until it shall thereafter be further amended in accordance with law. The Surviving Corporation reserves the right to amend, alter, change or repeal after such merger any provision contained in its Certificate of Incorporation, and all rights conferred in this Agreement of Merger are subject to such reserved power.

2.2 The By-laws of PM as in effect immediately prior to the Merger Date shall continue in full force and effect as the By-laws of the Surviving Corporation until they shall thereafter be duly amended.

2.3 The directors of Subsidiary immediately prior to the Merger Date shall be the directors of the Surviving Corporation to hold such office, subject to the By-laws of the Surviving Corporation, until the next annual meeting of stockholders and until their successors are elected and qualified. If at the Merger Date a vacancy shall exist in the Board of Directors of the Surviving Corporation, such vacancy may be filled in the manner provided in the By-laws of the Surviving Corporation. The officers of PM immediately prior to the Merger Date shall be the officers of the Surviving Corporation and shall hold office, subject to the By-laws of the Surviving Corporation, at the pleasure of the Board of Directors.

2.4 Upon the Merger Date, the effect of the merger shall be as provided in the applicable provisions of the Delaware law. Without limiting the generality of the foregoing, and subject thereto, upon the Merger Date: the separate existence of Subsidiary shall cease, and the Surviving Corporation shall possess all the rights, privileges, powers and franchises as well of a public as of a private nature, and shall be subject to all of the restrictions, disabilities and duties of Subsidiary; and all and singular, the rights, privileges, powers and franchises of Subsidiary, and all property, real, personal and mixed, and all debts due to Subsidiary on whatever account, as well for stock subscriptions as all other things in action or belonging to Subsidiary shall be vested in the Surviving Corporation; and all property, rights, privileges, powers and franchises, and all and every other interest shall be thereafter as effectually the property of the Surviving Corporation as they were of the Constituent Corporations, and the title to any real estate vested by deed or otherwise in either of the Constituent Corporations shall not revert or be in any way impaired, but all rights of creditors and all liens upon any property of either of the Constituent Corporations shall be preserved unimpaired, and all debts, liabilities and duties of Subsidiary shall thenceforth attach to the Surviving Corporation, and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it. Any action or proceeding pending by or against Subsidiary at the Merger Date may be prosecuted as if the merger had not taken place, or the Surviving Corporation may be substituted in its place.

ARTICLE III

3.1 Forthwith upon the Merger Date, each share of Subsidiary Common Stock outstanding immediately prior to the Merger Date shall be converted into and become Five Thousand (5,000) shares of PM Common.

3.2 Forthwith upon the Merger Date, each share of PM Common outstanding immediately prior to the Merger Date (which does not include the shares of PM Common to be received by Diamond under Section 3.1 above) shall be converted into and become .8 of one share of Diamond Common Stock plus .25 of one share of Diamond Special Common Stock; provided, however, that (a) any shares of PM Common and PM Serial Preferred owned by PM at the Merger Date shall not be so converted but shall be cancelled and (b) any holder of PM Common entitled to fractional interests shall have the rights provided below in this Section 3.2.

No fractional shares of Diamond Common Stock or Diamond Special Common Stock, or certificates or scrip therefor, shall be issued in connection with the conversion of PM Common, but arrangements shall be made with Bankers Trust Company, New York, New York as exchange agent, or other exchange agent, pursuant to which holders of PM Common entitled to fractional interests in shares of Diamond Common Stock and/or Diamond Special Common Stock upon such conversion of PM Common shall, for a period of approximately 40 days fixed by the Surviving Corporation and commencing after the Merger Date, have the election at the time of surrender of their PM Common certificate or certificates to buy through such exchange agent any additional fraction or fractions to make up a full share of Diamond Common Stock and/or Diamond Special Common Stock, as the case may be, or sell any fraction or fractions to which they are entitled. The exchange agent may offset buy and sell orders received by it. Orders which are not offset will be executed on the New York Stock Exchange in the case of Diamond Common Stock and on the over-the-counter market (or otherwise as the exchange agent may determine) in the case of Diamond Special Common Stock. The charges of the exchange agent, any expenses of the execution of such orders, transfer taxes applicable to offsets and other expenses relating to such buy and sell procedures, will be apportioned by such exchange agent among the buy or sell orders of tendering stockholders, and the amount owed will be billed, or the net proceeds remitted, as the case may be, to tendering stockholders on the basis of the average daily price on the day of the offset or execution of such buy or sell orders. After the expiration of such period the exchange agent will, as agent for those former holders of PM Common who are entitled to fractional share interests and did not make the foregoing election, sell shares of Diamond Common Stock and/or Diamond Special Common Stock equivalent to the total of such fractional share interests. Thereafter the exchange agent will pay to such holders, on surrender of their PM Common certificate or certificates, their pro rata share of the net proceeds of such sale (after deduction of the exchange agent's charges and the expenses relating to such sale) and any dividend payments received by the exchange agent in respect of the shares so sold but without interest.

3.3 Forthwith upon the Merger Date, each share of PM Series A Preferred, and each share of PM Series B Preferred, outstanding immediately prior to the Merger Date shall be converted into and become one share of Diamond Series E Preferred Stock.

3.4 The shares of Diamond capital stock into which shares of PM capital stock are converted pursuant to the above provisions of this Article III shall be the shares furnished for such purpose by Diamond as referred to in the fifth recital clause at the beginning of this Agreement.

3.5 From and after the Merger Date, the holders of certificates representing PM capital stock immediately prior to the merger (which does not include Diamond) shall cease to have any rights with respect to such PM capital stock (except such rights, if any, as they may have as dissenting stockholders under the General Corporation Law of the State of Delaware), and their sole rights (except as aforesaid) shall be those to which they are entitled as holders of the Diamond capital stock into which their PM shares have been converted pursuant to the merger as provided in this Article III, together with their rights as to fractional interests as provided in Section 3.2 above. After the Merger Date each holder of an outstanding certificate or certificates

theretofore representing PM Common or PM Serial Preferred (other than dissenting stockholders) shall be entitled, upon surrender of the same (duly endorsed if required), to receive in exchange therefor a certificate or certificates (as the holder requests) representing the number of full shares of Diamond capital stock into which the PM shares theretofore represented by the certificate or certificates so surrendered shall have been converted as aforesaid. Until so surrendered for exchange, each such outstanding certificate (other than those of dissenting stockholders) shall be deemed for all corporate purposes, other than the payment of dividends, to evidence the ownership of the number of full shares of Diamond capital stock into which the PM shares have been so converted. Unless and until any such outstanding certificates shall be so surrendered, no dividend payable to holders of record of Diamond Common Stock or Diamond Special Common Stock or Diamond Series E Preferred Stock at or after the Merger Date shall be paid to the holders of such outstanding certificates but upon surrender of such outstanding certificates as aforesaid there shall be paid to the record holder of the certificates for Diamond capital stock issued in exchange therefor the dividends (without interest) that have theretofore become payable with respect to the shares of Diamond capital stock represented by said certificates issued upon such surrender and exchange.

3.6 All shares of Diamond Common Stock, Special Common Stock and Diamond Series E Preferred Stock into which shares of PM Common and PM Serial Preferred shall have been converted pursuant to this Article III shall be deemed to have been issued in full satisfaction of all rights pertaining to such converted shares, subject, however, to the obligation of the Surviving Corporation to pay such dividends, if any, as may have been properly declared by PM on the shares of PM Common and/or PM Serial Preferred payable to stockholders of record as of a date prior to the Merger Date which remain unpaid at the Merger Date.

ARTICLE IV

4.1 The merger shall become effective at, and the "Merger Date" shall mean for the purpose of this Agreement of Merger, the time when this Agreement of Merger is filed with the Secretary of State of Delaware in accordance with the General Corporation Act of the State of Delaware.

ARTICLE V

5.1 If the Amended Plan and Agreement of Reorganization among Diamond, Subsidiary and PM made as of August 29, 1968 (executed September 20, 1968) is terminated in accordance with Section 4.2 thereof, then this Agreement of Merger shall simultaneously terminate without further action by the Constituent Corporations. In the event of such termination the Board of Directors of each of the Constituent Corporations shall direct its officers not to file this Agreement of Merger as provided above notwithstanding favorable action on this Agreement of Merger by the stockholders of the respective Constituent Corporations.

ARTICLE VI

6.1 This Agreement of Merger may be executed in any number of counterparts, each of which shall be deemed to be an original, but such counterparts together shall constitute one and the same instrument.

6.2 Any of the provisions of this Agreement of Merger may be waived at any time by the party which is, or the stockholders of which are, entitled to the benefit thereof upon the authority of the Board of Directors of such party, provided that as to such waiver authorization taken after the last vote of the stockholders of such party hereon such waiver shall not, in the judgment of the Board of Directors of such party, affect materially and adversely the benefits of such party or its stockholders intended under this Agreement of Merger. Any of the provisions of this Agreement of Merger may be modified at any time prior to or after

the vote hereon of stockholders of any party, by agreement in writing approved by the Board of Directors of each party and executed in the same manner (but not necessarily by the same persons) as this Agreement of Merger, provided that such modification after the last vote of the stockholders of a party hereon shall not, in the judgment of the Board of Directors of such party, affect materially and adversely the benefits of such party or its stockholders intended under this Agreement of Merger.

Nothing expressed or implied in this Agreement of Merger is intended, or shall be construed, to confer upon or give any person, firm or corporation, other than PM, Diamond and Subsidiary and their respective stockholders, any rights or remedies under or by reason of this Agreement of Merger.

IN WITNESS WHEREOF, PM and Subsidiary have caused their respective corporate seals to be hereunto affixed and these presents to be signed by their respective officers thereunto duly authorized, all as of the day and year aforesaid.

PICKANDS MATHER & CO.
CORPORATE
SEAL

PICKANDS MATHER & CO.

By K. S. BENSON
President

ATTEST:

G. L. JOHNSON
Assistant Secretary

PM MERGER CORP.
CORPORATE
SEAL
1968
DELAWARE

PM MERGER CORP.

By J. AVERY RUSH, JR.
President

ATTEST:

R. H. ARMOR
Assistant Secretary

EXHIBIT II

Proposed Amendments to Certificate of Incorporation of Diamond Shamrock Corporation

1. The first three paragraphs of Article FOURTH are to be amended in their entirety to read as follows:

"FOURTH. The amount of total authorized capital stock of the Corporation is twenty-seven million, seven hundred thousand (27,700,000) shares divided into twenty-one million (21,000,000) shares of Common Stock without par value, seven hundred thousand (700,000) shares of Special Common Stock without par value and six million (6,000,000) shares of Preferred Stock without par value.

The Board of Directors shall have the power and authority at any time and from time to time to issue, sell or otherwise dispose of any unissued but authorized shares of any class or classes of stock presently provided for in the Certificate of Incorporation, or that may hereafter be provided for by a subsequent amendment to the Certificate of Incorporation, to such persons or parties, including the holders of Common Stock, Special Common Stock or Preferred Stock or of any such other class of stock, for such considerations (not less than the par value, if any, thereof) and upon such terms and conditions as the Board of Directors in its discretion may deem for the best interests of the Corporation. Except as expressly provided to the contrary hereinafter, such issuance, sale or other disposition may be made without offering such shares, or any part or class thereof, to the holders of Common Stock, Special Common Stock or Preferred Stock or any such other class of stock, and no such holder shall have any preemptive right to subscribe for any such shares.

Each holder of Common Stock of the Corporation entitled to vote shall have one vote for each share thereof held.

The voting powers and relative, participating, optional and other special rights, and the qualifications, limitations and restrictions thereof, of Special Common Stock are as follows:

(1) The holders of shares of Special Common Stock entitled to be voted shall be entitled to vote at a rate of one vote per share with the holders of the shares of Common Stock, and not as a separate class, on a non-cumulative basis for the election of directors and upon all other matters which may be submitted to a vote of the holders of Common Stock. The holders of shares of Special Common Stock shall not be entitled to vote as a separate class except as may otherwise be provided by law or the Certificate of Incorporation. So long as any shares of Special Common Stock are outstanding, the consent of the holders of at least a majority of the shares of Special Common Stock at the time outstanding, given in person or by proxy, either in writing without a meeting (if permitted by law) or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(a) Any amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation which affects adversely the voting powers or other rights of the holders of Special Common Stock as a class; provided, however, that the amendment of provisions of the Certificate of Incorporation so as to authorize or to increase or decrease the authorized amount of, any capital stock of the Corporation (other than a decrease in Special Common Stock below the number of shares

thereof then outstanding not in a combination provided for in subdivision (2) below) shall not be deemed to affect adversely the voting powers or other rights of the holders of Special Common Stock; and provided, further, that no such consent of the holders of Special Common Stock shall be required if, at or prior to the time when any such amendment, alteration or repeal is to take effect, all outstanding shares of Special Common Stock are converted by the Corporation, pursuant to subdivision (4) below; or

(b) The consolidation of the Corporation with, or the merger of the Corporation into, any other corporation or the merger of the Corporation with any other corporation in which the Corporation becomes a subsidiary of another corporation and in which the holders of the Corporation's Common Stock receive securities of such parent corporation in exchange for such Common Stock, unless, in such consolidation or merger, as the case may be, the conversion rights with respect to Special Common Stock are altered in the manner and to the extent contemplated by subdivision (4) (f) below.

The number of authorized shares of Special Common Stock may be increased or decreased (but not decreased below the number of shares thereof then outstanding, except in a combination provided for in subdivision (2) below) by the affirmative vote of the holders of a majority of the capital stock of the Corporation entitled to vote, and without a class vote by the holders of Special Common Stock.

(2) So long as any Special Common Stock shall be outstanding, the Corporation shall not at any time subdivide outstanding shares of Common Stock or Special Common Stock into a greater number of shares or combine outstanding shares of either of such classes into a smaller number of shares unless such subdivision or combination, as the case may be, is effected simultaneously as to each such class in the same proportion for each such class to the end that there shall be no dilution or expansion in the voting rights of the Special Common Stock or of the Common Stock. So long as any Special Common Stock shall be outstanding, no dividends payable in shares of Common Stock or Special Common Stock to stockholders of record as of a date prior to December 1, 1972 shall be paid other than dividends payable simultaneously upon the Common Stock and Special Common Stock in shares of the class on which paid at the same rate per share for both classes, the dividends upon both classes to be payable to holders of record on the same record date to the end that there shall be no dilution or expansion in the voting rights of the Special Common Stock or of the Common Stock. Except for such dividends paid in Special Common Stock, the holders of Special Common Stock shall not be entitled to receive any dividend or dividends whatsoever, as to which the record or payment date is on or before November 30, 1972. From and after December 1, 1972 the holders of Special Common Stock and the holders of Common Stock shall each be entitled to receive out of funds legally available therefor, when and as declared by the Board of Directors of the Corporation, dividends, whether in cash, stock or property, of the same type, in the same amount per share, at the same time and payable to holders of record of both classes on the same record date, without preference of one class to the other; and no dividend shall be declared or paid on shares of either class to stockholders of record as of a date on or after December 1, 1972, while any Special Common Stock is outstanding, unless declared or paid, as the case may be, on both classes in accordance with the foregoing.

(3) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of Special Common Stock and the holders of Common Stock shall each be entitled to receive the same distribution per share (at the same time) without preference of one class to the other, in any distribution of assets of the Corporation legally available therefor. Neither the consolidation or merger of the

Corporation, nor the sale, lease or conveyance of all or part of its assets shall be deemed a liquidation, dissolution or winding up of the affairs of the Corporation within the meaning of the foregoing provisions of this subdivison (3).

(4) Shares of Special Common Stock outstanding may be converted and changed, as a whole or in part, at any time or from time to time at the option of the Corporation, by vote of its Board of Directors, on the following terms and conditions:

(a) The shares of Special Common Stock shall be so convertible and changed into full paid and non-assessable shares (calculated as to each conversion to the nearest 1/1000th of a share) of Common Stock of the Corporation at the rate of one share of Common Stock for each share of Special Common Stock, subject to adjustment as provided in subdivision (4)(f) below. If less than all of the outstanding shares of Special Common Stock are to be so converted and changed, the shares to be so converted and changed shall be determined by lot or pro rata in such manner as the Board of Directors may prescribe. The time for such conversion and change (herein called the "conversion date") shall be as determined by the Board of Directors. The conversion date may be a fixed date or the date of a particular contemplated occurrence or circumstance, e.g., a merger or consolidation, and the conversion date (and conversion) may be conditional upon an occurrence or circumstance at or prior to the time determined as the conversion date, e.g., a merger or consolidation.

(b) Notice of every conversion of Special Common Stock by action of the Board of Directors pursuant to this subdivision (4) shall be mailed, addressed to the holders of record of the shares to be so converted at their respective addresses as they shall appear on the stock books of the Corporation, and notice shall also be published at least once in one daily newspaper printed in the English language and published and of general circulation in the Borough of Manhattan, New York City, New York and at least once in one daily newspaper so printed and published and of general circulation in the City of Cleveland, Ohio. Such mailings are to be made not more than thirty days after such action by the Board of Directors or twenty days prior to the determined conversion date, whichever is later, but no failure to mail such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for such conversion. Such publications are to be made not more than fifteen days after such action by the Board of Directors (whether or not such publication is prior to or after the determined conversion date and whether or not, if prior thereto, the conversion is conditional as aforesaid at the time of publication).

(c) Shares of Special Common Stock converted pursuant to this subdivision (4) shall be deemed to have been so converted as of the conversion date, and the person or persons entitled to receive Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such Common Stock as of the close of business on such date. After the conversion date, the holder of a certificate or certificates for shares of Special Common Stock so converted shall surrender the same, duly endorsed, at the office of a Transfer Agent for Common Stock, and the Corporation will, as soon as practicable thereafter, issue and deliver at said office to such holder, or to his nominee or nominees, certificates for the number of full shares of Common Stock to which he shall be entitled as aforesaid, together with cash in lieu of any fraction of a share as hereinafter provided. Until so surrendered, each such certificate which, prior to the conversion date, represented shares of Special Common Stock so converted, shall be deemed for all corporate purposes to evidence the ownership of shares of Common Stock of the Corporation

into which such shares of Special Common Stock shall have been converted in accordance with the provisions hereof and the cash in lieu of any fraction of a share of Common Stock as hereinafter provided.

However, unless and until any such certificate shall be so surrendered, no dividend payable to holders of shares of common stock of record as of the conversion date or thereafter shall be paid to the holder of such certificate, but upon such surrender there shall be paid to the record holder of the certificate for shares of common stock issued in exchange therefor the amount of dividends (without interest) which theretofore shall have become payable with respect to the number of shares of common stock represented by the certificate issued upon such surrender and exchange; provided, however, that the foregoing requirement that certificates be surrendered prior to payment of dividends may be waived by the Board of Directors of the Corporation.

(d) No fractional shares of Common Stock are to be issued upon conversion of the Special Common Stock, but the Corporation shall pay a cash adjustment in respect of any fraction of a share which would otherwise be issuable in an amount equal to the same fraction of the market price (determined as hereinafter provided) per share of Common Stock at the time of conversion. For the purposes of the foregoing, such market price shall be the last sale price regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices regular way, in either case as officially quoted on the New York Stock Exchange, or, if Common Stock is not at the time listed on such Exchange, the average of the closing bid and asked prices as furnished by any recognized dealer in securities selected by the Corporation for the purpose.

(e) The Corporation will pay any and all issue and other taxes which may be payable in respect of any issue or delivery of shares of Common Stock on conversion of shares of Special Common Stock pursuant to this subdivision (4). The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in a name other than that in which the shares of Special Common Stock so converted were registered, and no such issue or delivery shall be made unless and until the person requesting such transfer has paid to the Corporation the amount of any such tax, or has established, to the satisfaction of the Corporation, that such tax has been paid.

(f) In case of any capital reorganization or any reclassification of the capital stock of the Corporation, or in case of the consolidation of the Corporation with, or the merger of the Corporation into, another corporation or the conveyance of all or substantially all of the assets of the Corporation to another corporation, each share of Special Common Stock shall thereafter be convertible into the number of shares of stock or other securities or property to which a holder of the number of shares of Common Stock of the Corporation deliverable upon conversion of such share of Special Common Stock would have been entitled upon such reorganization, reclassification, consolidation, merger or conveyance, and, in any such case, appropriate adjustment (as determined by the Board of Directors) shall be made in the application of the provisions herein set forth with respect to the rights and interests thereafter of the holders of Special Common Stock, to the end that the provisions set forth herein shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the conversion of the shares of Special Common Stock. Whenever a change in conversion rights is given effect as hereinabove in this clause (f), the Treasurer of the Corporation shall prepare a certificate setting forth such change in con-

version rights and showing in detail the facts upon which such change is based, and such certificate shall forthwith be filed with the Transfer Agent or Agents for Special Common Stock. If the Corporation is a party to any of the transactions described in subdivision (1) (b) above, the provisions of the securities received in exchange for Special Common Stock pursuant to such transaction shall incorporate the conversion rights provided for in this clause (f).

(5) In the event that at any time while any shares of Special Common Stock remain outstanding the Corporation shall grant to the holders of Common Stock the right to subscribe for or purchase any shares of stock of any class, or any evidences of indebtedness, of the Corporation, the Corporation shall concurrently therewith grant to the holders of shares of Special Common Stock on the same record date the same right to subscribe for or purchase shares of stock or evidences of indebtedness, as the case may be, of the same kind.

(6) Shares of Special Common Stock purchased by the Corporation or converted into shares of Common Stock shall not be reissued as shares of Special Common Stock."

2. The last sentence of subdivision (6) of the voting powers, designations, preferences and relative, participating, optional and other special rights, and the qualifications, limitations and restrictions thereof, of Preferred Stock is to be amended in its entirety to read as follows:

"Except as herein or by statute specifically provided and except as may be provided by the Board of Directors in fixing the voting rights of any particular series of Preferred Stock pursuant to the provisions of subdivision (1) of this Article Fourth, the Common Stock and Special Common Stock shall have the exclusive right to vote for the election of Directors and for all other purposes."

3. Clause (a) of subdivision (8) of such class terms of the Preferred Stock is to be amended in its entirety to read as follows:

"(a) The term "junior stock" shall mean Common Stock and Special Common Stock and any other class of stock of the Corporation hereafter authorized over which Preferred Stock has preference or priority in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Corporation."

4. The following is to be added at the end of Article Fourth:

"DIVISION E OF ARTICLE FOURTH

DESIGNATION, VOTING POWERS, PREFERENCES, RIGHTS, QUALIFICATIONS, LIMITATIONS AND RESTRICTIONS OF THE $1.15 PREFERRED STOCK — SERIES E

There is hereby created a fifth series of Preferred Stock consisting of 585,650 shares of Preferred Stock of the Corporation (such series being hereinafter called the "Fifth Series") with the designation, voting power, preferences and relative, participating, optional and other special rights, and with the qualifications, limitations and restrictions thereof (in addition to the designation, voting power, preferences and relative, participating and other special rights, and the qualifications, limitations or restrictions thereof, set forth in the Certificate of Incorporation which are applicable to Preferred Stock of all series) as follows:

(A) *Designation of Series; Number of Shares.* The distinctive designation of the Fifth Series shall be "$1.15 Cumulative Convertible Preferred Stock—Series E"; the number of shares which shall constitute the Fifth Series shall be 585,650 shares; and such number shall not be increased.

(B) *Dividend Rate; Cumulation Date.* The annual rate of dividends payable on shares of the Fifth Series shall be $1.15, and no more. The amendment of the Certificate

of Incorporation creating the Fifth Series is made in connection with the Plan and Agreement of Reorganization among the Corporation and PM Merger Corp., a Delaware corporation (hereinafter called "Subsidiary"), and Pickands Mather & Co., a Delaware corporation (hereinafter called "PM"), and the related Agreement of Merger between PM and Subsidiary, both dated as of August 29, 1968, pursuant to which the Corporation is to issue a number of shares of the Fifth Series, into which the issued and outstanding shares of PM Serial Preferred Stock are to be converted when the merger of Subsidiary into PM pursuant to such Agreement of Merger becomes effective. The date from which dividends shall be cumulative on all shares of the Fifth Series issued on or prior to the record date for the first dividend on shares of the Fifth Series shall be December 1, 1968; provided, however, that if the above-mentioned conversion of PM Serial Preferred Stock has occurred too late to permit the holders of PM Serial Preferred to be stockholders of record of the Corporation at the record date for any dividend paid or payable in 1969 declared on Preferred Stock, such date from which dividends shall be cumulative on all shares of the Fifth Series issued on or prior to the record date for the first dividend on shares of the Fifth Series shall be the first day of the third month (March, June, September or December, as the case may be) of the last calendar quarter in 1969 in which such a dividend not received or receivable by the holders of PM Serial Preferred was paid or payable on Preferred Stock. The amount of any dividend payable on shares of the Fifth Series in respect of less than a full quarterly period shall be determined by rounding to the nearest one-fourth (¼th) of a cent per share.

(C) *Redemption.* The shares of the Fifth Series shall be redeemable at the option of the Corporation at any time or from time to time on or after five years from the date upon which the merger of Subsidiary into PM pursuant to the aforesaid Agreement of Merger becomes effective in accordance with the General Corporation Law of the State of Delaware. The redemption price for each share of the Fifth Series redeemed hereunder shall be that which is in effect at the redemption date thereof, according to the following table:

Redemption Date	Redemption Price
On or before December 31, 1974	$26.00
January 1, 1975 to December 31, 1975	25.75
January 1, 1976 to December 31, 1976	25.50
January 1, 1977 to December 31, 1977	25.25
January 1, 1978 and thereafter	25.00

(D) *Liquidation Rights.* The amount payable on shares of the Fifth Series in the event of any voluntary or involuntary liquidation, dissolution, or winding up of the affairs of the Corporation shall be that which is in effect at the time of the first payment pursuant hereto, according to the following table:

Date of First Payment	Amount per Share
On or before December 31, 1973	$26.25
January 1, 1974 to December 31, 1974	26.00
January 1, 1975 to December 31, 1975	25.75
January 1, 1976 to December 31, 1976	25.50
January 1, 1977 to December 31, 1977	25.25
January 1, 1978 and thereafter	25.00

(E) *Conversion Rights.* The holders of shares of the Fifth Series shall have the right, at their option, to convert such shares into shares of Common Stock of the Corporation at any time on the following terms and conditions:

(1) The shares of the Fifth Series shall be convertible at the office of a Transfer Agent for such series into full paid and non-assessable shares (calculated as to

each conversion to the nearest 1/100th of a share) of Common Stock of the Corporation at the conversion rate in effect at the time of conversion. The rate at which shares of Common Stock shall be delivered upon conversion (herein called the "conversion rate") shall be initially .75 shares of Common Stock for each share of the Fifth Series, provided, however, that such initial conversion rate shall be subject to adjustment from time to time in certain instances as hereinafter provided. The Corporation shall make no payment or adjustment on account of any dividends accrued on the shares of the Fifth Series surrendered for conversion or on account of any dividends accrued on the Common Stock. In case of the call for redemption of any shares of the Fifth Series such right of conversion shall cease and terminate, as to the shares designated for redemption, at the close of business on the third day preceding the date fixed for redemption unless default shall be made in the payment of the redemption price.

(2) Before any holder of shares of the Fifth Series shall be entitled to convert the same into Common Stock he shall surrender the certificate or certificates therefor, duly endorsed, at the office of a Transfer Agent for such series, and shall give written notice to the Corporation at said office that he elects to convert the same or part thereof and shall state in writing therein the name or names in which he wishes the certificate or certificates for Common Stock to be issued. The Corporation will, as soon as practicable thereafter, issue and deliver at said office to such holder of shares of the Fifth Series, or to his nominee or nominees, certificates for the number of full shares of Common Stock to which he shall be entitled as aforesaid, together with cash in lieu of any fraction of a share as hereinafter provided. Shares of the Fifth Series shall be deemed to have been converted as of the close of business on the date of the surrender of such shares for conversion as provided above, and the person or persons entitled to receive Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of Common Stock as of the close of business on such date.

(3) In case the Corporation shall at any time subdivide its outstanding shares of Common Stock into a greater number of shares, by way of a dividend payable in Common Stock or a stock split, or in case the outstanding shares of Common Stock of the Corporation shall be combined into a smaller number of shares, the conversion rate in effect immediately prior to such subdivision or combination shall be adjusted proportionately.

(4) In the event that, at any time or from time to time prior to the conversion or redemption of all the shares of the Fifth Series, the Corporation shall grant to the holders of its Common Stock the right to subscribe for or purchase any shares of stock of any class of the Corporation, or shall distribute to holders of Common Stock evidences of indebtedness or assets (excluding cash dividends and distributions in the nature of a cash dividend and also excluding distributions of the type referred to in paragraph (3) above), the Corporation shall concurrently therewith grant to the holders of shares of the Fifth Series the same purchase or subscription rights, or shall distribute to the holders of such shares the same evidences of indebtedness or assets, in the same proportion as if each share of the Fifth Series had been converted into shares of Common Stock at the then existing conversion rate.

(5) Anything in this subdivision (E) to the contrary notwithstanding, the Corporation shall not be required to give effect to any adjustment in the conversion rate unless and until the net effect of one or more adjustments, determined as above provided, shall have resulted in a change of the conversion rate by at least one-hundredth of one share of Common Stock, and when the cumulative net effect of more than one adjustment so determined shall be to change the conversion rate by

at least one-hundredth of one share of Common Stock, such change in the conversion rate shall thereupon be given effect.

(6) In case of any capital reorganization or any reclassification of the capital stock of the Corporation, or in case of the consolidation or merger of the Corporation with or into another corporation or the conveyance of all or substantially all of the assets of the Corporation to another corporation, each share of the Fifth Series shall thereafter be convertible into the number of shares of stock or other securities or property to which a holder of the number of shares of Common Stock of the Corporation deliverable upon conversion of such share of the Fifth Series would have been entitled upon such reorganization, reclassification, consolidation, merger or conveyance; and, in any such case, appropriate adjustment (as determined by the Board of Directors) shall be made in the application of the provisions herein set forth with respect to the rights and interests thereafter of the holders of the Fifth Series, to the end that the provisions set forth herein (including provisions with respect to changes in and other adjustments of the conversion rate) shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the conversion of the shares of the Fifth Series.

(7) Whenever the conversion rate is adjusted as herein provided, the Treasurer of the Corporation shall compute the adjusted conversion rate in accordance with this subdivision (E) and shall prepare a certificate setting forth such adjusted conversion rate and showing in detail the facts upon which such adjustment is based, and such certificate shall forthwith be filed with the Transfer Agent or Agents for the Fifth Series.

(8) In case:

(a) the Corporation shall declare a dividend (or any other distribution) payable upon its Common Stock otherwise than in cash or in its Common Stock; or

(b) the Corporation shall authorize the granting to the holders of its Common Stock of rights to subscribe for or purchase any shares of stock of any class or to receive any other rights; or

(c) of any capital reorganization of the Corporation, reclassification of the capital stock of the Corporation, consolidation or merger of the Corporation with or into another corporation, or conveyance of all or substantially all of the assets of the Corporation to another corporation; or

(d) of the voluntary or involuntary dissolution, liquidation or winding up of the Corporation;

then, and in any such case, the Corporation shall cause to be mailed to the Transfer Agent or Agents for the Fifth Series and to the holders of record of the outstanding shares of the Fifth Series at least ten (10) days prior to the date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution or rights, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution or rights are to be determined, or (y) the date on which such reclassification, reorganization, consolidation, merger, conveyance, dissolution, liquidation or winding up is to take place, and the date, if any is to be fixed, as of which holders of Common Stock of record shall be entitled to exchange their shares of Common

Stock for securities or other property deliverable upon such reclassification, reorganization, consolidation, merger, conveyance, dissolution, liquidation or winding up.

(9) The Corporation shall at all times reserve and keep available, out of its authorized but unissued Common Stock or out of shares of Common Stock held in its treasury solely for the purpose of effecting the conversion of the shares of the Fifth Series, the full number of shares of Common Stock deliverable upon the conversion of all shares of the Fifth Series from time to time outstanding. The Corporation shall from time to time in accordance with the laws of the State of Delaware increase the authorized amount of its Common Stock if at any time the authorized number of shares of Common Stock remaining unissued shall not be sufficient to permit the conversion of all of the shares of the Fifth Series at the time outstanding.

(10) No fractional shares of Common Stock are to be issued upon conversion, but the Corporation shall pay a cash adjustment in respect of any fraction of a share which would otherwise be issuable in an amount equal to the same fraction of the market price (determined as hereinafter provided) per share of Common Stock on the day of conversion as determined under paragraph (2) above. For the purposes of the foregoing, such market price shall be the last sale price regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices regular way, in either case as officially quoted on the New York Stock Exchange, or, if Common Stock is not at the time listed on such Exchange, the average of the closing bid and asked prices as furnished by any recognized dealer in securities selected by the Corporation for the purpose.

(11) The Corporation will pay any and all issue and other taxes that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of shares of the Fifth Series pursuant hereto. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in a name other than that in which the shares of the Fifth Series so converted were registered, and no such issue or delivery shall be made unless and until the person requesting such issue has paid to the Corporation the amount of any such tax, or has established, to the satisfaction of the Corporation, that such tax has been paid.

(F) *Shares Not Reissuable.* Shares of the Fifth Series purchased by the Corporation, redeemed by the Corporation or converted, shall not be reissued as shares of the Fifth Series.

(G) *Voting Rights.* Except as may otherwise be provided by law or the Certificate of Incorporation the holders of the shares of the Fifth Series shall initially be entitled to vote at a rate of one vote per share with the holders of the shares of Common Stock, and not as a separate class, on a non-cumulative basis for election of directors and upon all other matters which may be submitted to a vote of holders of the Corporation's Common Stock at any annual or special meeting thereof. In the event of any adjustment in the conversion rate of shares of the Fifth Series as provided in subdivision (E) hereof, the initial voting rate set forth above shall be correspondingly and simultaneously adjusted.

(H) *Source of Rights.* The shares of the Fifth Series shall not have any relative, participating, optional or other special rights and powers other than as set forth above in the Certificate of Incorporation."

Class Terms of Preferred Stock as Extracted from Proposed Amended Article Fourth of Certificate of Incorporation of Diamond

Set forth below are the class terms of Diamond Preferred Stock (after giving effect to the proposed amendments to the Certificate of Incorporation of Diamond set forth in Exhibit II to Appendix A), being the entirety of Article Fourth of the Certificate of Incorporation of Diamond after the proposed amendment except: (i) proposed Amendment 1 to the first three paragraphs of existing Article Fourth, as set forth in Exhibit II to Appendix A; (ii) the series terms of the four existing series of Preferred Stock, being existing "Division A of Article Fourth" through "Division D of Article Fourth"; and (iii) the series terms of the proposed Series E Preferred Stock, being "Division E of Article Fourth" as set forth in proposed amendment 4 of Exhibit II to Appendix A.

"The voting powers, designations, preferences and relative, participating, optional and other special rights, and the qualifications, limitations and restrictions thereof, of Preferred Stock are as follows:

(1) Preferred Stock may be issued from time to time in one or more series. All shares of Preferred Stock shall be of equal rank and shall be identical, except in respect of the particulars that are fixed in the Certificate of Incorporation or may be fixed by the Board of Directors as hereinafter provided pursuant to authority which is hereby expressly vested in the Board of Directors; and each share of each series shall be identical in all respects with the other shares of such series, except as to the date from which dividends thereon shall be cumulative. Before any shares of Preferred Stock of any particular series (other than those series the provisions of which are fixed in the Certificate of Incorporation) shall be issued, the Board of Directors shall fix, and is hereby expressly empowered to fix, in the manner provided by law, the following provisions of the shares of such series:

(a) The distinctive designation of such series and the number of shares which shall constitute such series, which number may be increased (except where otherwise provided by the Board of Directors in creating such series) or decreased (but not below the number of shares thereof then outstanding) from time to time by like action of the Board of Directors;

(b) The annual rate of dividends payable on shares of such series and the date from which dividends shall be cumulative on all shares of such series issued on or prior to the record date for the first dividend on shares of such series;

(c) The redemption price or prices for shares of such series and the time or times at which shares of such series may be redeemed;

(d) The obligation, if any, of the Corporation to maintain a sinking fund for shares of such series, or to redeem shares of such series;

(e) The amount payable on shares of such series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation;

(f) The rights, if any, of the holders of shares of such series to convert such shares into shares of stock of the Corporation of any class or of any series of any class and the terms and conditions of such conversion; and

(g) The voting rights, if any, of the holders of shares of such series in respect of matters other than those for which voting rights are specifically provided herein, and any other preferences, and relative, participating, optional or other special rights, if any, and qualifications, limitations or restrictions thereof, of shares of such series,

so far as not inconsistent with the provisions of this Article Fourth applicable to all series of Preferred Stock, and to the full extent now or hereafter permitted by the laws of Delaware. Shares of Preferred Stock shall be issued only as full-paid and non-assessable shares.

(2) The holders of Preferred Stock of each series, in preference to the holders of any junior stock, shall be entitled to receive, as and when declared by the Board of Directors out of any funds legally available therefor, cash dividends, at the rate for such series fixed for the purpose as provided in subdivision (1) of this Article Fourth, and no more, payable quarterly on the fifteenth days of March, June, September and December, respectively, in each year, with respect to the quarterly period ending on the day preceding each such respective payment date, except that the first dividend on the initial issue of any series of Preferred Stock shall be payable on the quarterly dividend payment date next succeeding the expiration of thirty days after the date any shares of such series are issued. Such dividends shall be cumulative, in the case of shares of each particular series:

(a) If issued on or prior to the record date for the first dividend on shares of such series, then from the date fixed for the purpose, as provided in subdivision (1) of this Article Fourth;

(b) If issued during the period commencing immediately after the record date for a dividend on shares of such series and terminating at the close of the payment date for such dividend, then from such last mentioned dividend payment date; and

(c) Otherwise from the quarterly dividend payment date next preceding the date of issue of such shares.

No dividend shall be paid upon, or declared or set apart for, any share of Preferred Stock for any quarterly dividend period unless at the same time a like proportionate dividend for the same quarterly dividend period, ratably in proportion to the respective annual dividend rates fixed therefor, shall be paid upon, or declared and set apart for, all shares of Preferred Stock of all series then issued and outstanding and entitled to receive such dividend.

(3) In no event, so long as any shares of Preferred Stock shall be outstanding, shall any dividend, whether in cash or property be paid or declared, nor shall any distribution be made, on any junior stock, nor shall any shares of any junior stock be purchased, redeemed or otherwise acquired for value by the Corporation, unless all dividends on Preferred Stock of all series for all past quarterly dividend periods and for the then current quarterly period shall have been paid or declared and a sum sufficient for the payment thereof set apart, and unless the Corporation shall not be in default with respect to any of its obligations with respect to any past period with respect to any sinking fund for any series of Preferred Stock. The foregoing provisions of this subdivision (3) shall not, however, apply to a dividend payable in any junior stock, or to the acquisition of shares of any junior stock in exchange for, or through application of the proceeds of the sale of, shares of any other junior stock.

Subject to the foregoing and to any further limitations prescribed in accordance with the provisions of subdivision (1) of this Article Fourth, the Board of Directors

may declare, out of any funds legally available therefor, dividends upon the then outstanding shares of any junior stock, and no holders of shares of Preferred Stock of any series shall be entitled to share therein.

(4) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, then, before any distribution or payment shall be made to the holders of any junior stock, the holders of Preferred Stock shall be entitled to be paid in full the respective amounts fixed in accordance with the provisions of subdivision (1) of this Article Fourth, together with accrued dividends to such distribution or payment date whether or not earned or declared. If such payment shall have been made in full to the holders of Preferred Stock, the remaining assets and funds of the Corporation shall be distributed among the holders of the junior stock, according to their respective rights and preferences and in each case according to their respective shares. If, upon any liquidation, dissolution or winding up of the affairs of the Corporation, the amounts so payable are not paid in full to the holders of all outstanding shares of Preferred Stock, the holders of all series of Preferred Stock shall share ratably in any distribution of assets in proportion to the full amounts to which they would otherwise be respectively entitled. Neither the consolidation or merger of the Corporation, nor the sale, lease or conveyance of all or a part of its assets shall be deemed a liquidation, dissolution or winding up of the affairs of the Corporation within the meaning of the foregoing provisions of this subdivision (4) or of subdivision (7) hereof.

(5) Preferred Stock of any series may be redeemed, as a whole or in part, at the option of the Corporation, by vote of its Board of Directors, or in the case of any one or more series, for the purpose of any sinking fund or other requirement for any such series fixed for the purpose as provided in subdivision (1) of this Article Fourth, at such time or times and at the applicable redemption price for such series fixed in accordance with the provisions of subdivision (1) of this Article Fourth, together with accrued dividends to the redemption date. If less than all the outstanding shares of Preferred Stock of any series are to be redeemed, the shares to be redeemed shall be determined by lot or pro rata in such manner as the Board of Directors may prescribe.

Notice of every redemption of Preferred Stock shall be mailed, addressed to the holders of record of the shares to be redeemed at their respective addresses as they shall appear on the stock books of the Corporation (but no failure to mail such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for such redemption), and notice shall also be published at least once in one daily newspaper printed in the English language and published and of general circulation in the Borough of Manhattan, The City of New York, the first publication and such mailing to be at least thirty days and not more than sixty days prior to the date fixed for redemption.

If notice of redemption shall have been duly published and if, on or before the redemption date specified in the notice, the redemption price, together with accrued dividends to the date fixed for redemption, shall have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares so called for redemption, so as to be and continue to be available therefor, then, from and after the date of redemption so designated, notwithstanding that any certificate for shares of Preferred Stock so called for redemption shall not have been surrendered for cancellation, the shares represented thereby shall no longer be deemed outstanding, the dividends thereon shall cease to accumulate, and all rights with respect to the shares of Preferred Stock so called for re-

demption shall forthwith on the redemption date cease and terminate, except only the right of the holders thereof to receive the redemption price of the shares so redeemed, including accrued dividends to the redemption date, but without interest.

The Corporation may also, at any time prior to the redemption date, deposit in trust, for the account of the holders of Preferred Stock to be redeemed, with a bank or trust company in good standing, organized under the laws of the United States of America or of the State of New York, doing business in the Borough of Manhattan, The City of New York, having capital, surplus and undivided profits aggregating at least Five Million Dollars ($5,000,000), designated in the notice of redemption, the redemption price, together with accrued dividends to the date fixed for redemption, and, unless the notice of redemption herein provided for has previously been duly mailed and published, deliver irrevocable written instructions directing such bank or trust company, on behalf and at the expense of the Corporation, to cause notice of redemption specifying the date of redemption to be duly mailed and publication of the notice to be made as herein provided promptly upon receipt of such irrevocable instructions. Upon such deposit in trust, either after due mailing and publication of the notice of redemption or accompanied by irrevocable instructions as provided above, notwithstanding that any certificate for shares of Preferred Stock so called for redemption shall not have been surrendered for cancellation, all shares of Preferred Stock with respect to which the deposit shall have been made shall no longer be deemed to be outstanding, and all rights with respect to such shares of Preferred Stock shall forthwith cease and terminate except only the right of the holders thereof to receive from such bank or trust company, at any time after the time of the deposit, the redemption price, including accrued dividends to the redemption date, but without interest, of the shares so to be redeemed, and the right to exercise, on or before the date fixed for redemption, privileges of conversion or exchange, if any, not theretofore expiring.

Any moneys deposited by the Corporation pursuant to this subdivision (5) which shall not be required for the redemption because of the exercise of any such right of conversion or exchange subsequent to the date of the deposit shall be repaid to the Corporation forthwith. Any other moneys deposited by the Corporation pursuant to this subdivision (5) and unclaimed at the end of six years from the date fixed for redemption shall be repaid to the Corporation upon its request expressed in a resolution of its Board of Directors, after which repayment the holders of the shares so called for redemption shall look only to the Corporation for the payment thereof.

(6) The holders of Preferred Stock shall have no right to vote except as otherwise herein or by statute specifically provided and except as may be fixed by the Board of Directors with respect to any particular series pursuant to the provisions of subdivision (1) of this Article Fourth.

If, at any time, dividends payable on Preferred Stock shall be in default in an amount equivalent to six quarterly dividends on all shares of all series of Preferred Stock at the time outstanding, then the holders of Preferred Stock of all series, voting separately as a class, shall be entitled to elect two Directors and the holders of the Common Stock voting separately as a class shall be entitled to elect the remaining Directors of the Corporation. Such right of the holders of Preferred Stock to elect two Directors may be exercised until dividends in default on Preferred Stock shall have been paid in full or declared and set aside in trust. When all such dividends in default shall have been paid in full or declared and set aside in trust (and such dividends in default shall be so paid as soon as lawful and reasonably practicable out

of any assets of the Corporation available therefor), Preferred Stock shall be divested of such voting rights, but subject always to the same provisions for the vesting of such voting rights in Preferred Stock in the case of any future such dividend default or defaults.

The foregoing right of Preferred Stock with respect to the election of Directors of the Corporation may be exercised at any annual meeting of stockholders or, within the limitations hereinafter provided, at a special meeting of stockholders held for such purpose. If the date upon which such right of the holders of Preferred Stock shall become vested shall be more than ninety days preceding the date of the next ensuing annual meeting of stockholders as fixed by the By-laws of the Corporation, the President of the Corporation shall, within ten days after delivery to the Corporation at its principal office of a request to such effect signed by the holders of at least five per cent (5%) of Preferred Stock then outstanding, call a special meeting of the holders of Preferred Stock and Common Stock to be held within forty days after the delivery of such request for the purpose of electing a new Board of Directors to serve until the next annual meeting and until their successors shall be elected and shall qualify. Notice of such meeting shall be mailed to each stockholder not less than ten days prior to the date of such meeting. The term of office of all Directors of the Corporation shall terminate at the time of any such meeting held for the purpose of electing a new Board of Directors, notwithstanding that the term for which such Directors had been elected shall not then have expired. In the event that at any such meeting at which holders of Preferred Stock shall be entitled to elect two Directors, a quorum of the holders of Preferred Stock shall not be present in person or by proxy, the holders of the Common Stock, if a quorum thereof be present, may temporarily elect the Directors whom the holders of Preferred Stock were entitled but failed to elect, such Directors to be designated as having been so elected and their term of office to expire at such time thereafter as their successors shall be elected by the holders of Preferred Stock as herein provided.

Whenever the holders of Preferred Stock shall be entitled to elect two Directors, any holder of Preferred Stock shall have the right, during regular business hours, in person or by a duly authorized representative, to examine and to make transcripts of the stock records of the Corporation for Preferred Stock for the purpose of communicating with other holders of Preferred Stock with respect to the exercise of such right of election.

Whenever the holders of Preferred Stock shall be divested of such voting right, the President of the Corporation shall, within ten days after delivery to the Corporation at its principal office of a request to such effect signed by any holder of the Common Stock, call a special meeting of the holders of the Common Stock to be held within forty days after the delivery of such request for the purpose of electing a new Board of Directors to serve until the next annual meeting or until their respective successors shall be elected and shall qualify. If, at any such special meeting, any Director shall not be reelected, his term of office shall terminate upon the election and qualification of his successor, notwithstanding that the term for which such Director was originally elected shall not then have expired.

At any annual or special meeting of stockholders held for the purpose of electing Directors when the holders of Preferred Stock shall be entitled to elect two Directors, the presence in person or by proxy of the holders of one-third of the outstanding shares of Preferred Stock shall be required to constitute a quorum for the election by such class of such two Directors, and the presence in person or by proxy of the holders of a majority of the outstanding shares of Common Stock shall be required

to constitute a quorum for the election by such class of the remaining Directors or for the election temporarily by such class as herein provided of the members of the Board of Directors which the holders of Preferred Stock cannot at the time for the want of a quorum elect; provided, however, that the majority of the holders of either such class of stock who are present in person or by proxy shall have power to adjourn such meeting for the election of Directors by such class from time to time without notice other than announcement at the meeting. No delay or failure by the holders of either such class of stock to elect the members of the Board of Directors which such holders are entitled to elect shall invalidate the election of the remaining members of the Board of Directors by the holders of the other such class of stock. At any such election of Directors by the holders of shares of Preferred Stock, each such holder shall have one vote for each share of such stock standing in his name on the books of the Corporation on any record date fixed for such purpose or, if no such date be fixed, on the date on which the election is held.

If, during any interval between annual meetings of stockholders for the election of Directors and while the holders of Preferred Stock shall be entitled to elect two Directors, the number of Directors in office who have been elected by the holders of Preferred Stock or Common Stock, as the case may be, shall, by reason of resignation, death or removal, be less than the total number of Directors subject to election by the holders of shares of such class, (a) the vacancy or vacancies shall be filled by a majority vote of the remaining Directors then in office who were elected by such class or succeeded to a Director so elected, although such majority be less than a quorum, and (b) if not so filled within forty days after the creation thereof, the President of the Corporation shall call a special meeting of the holders of shares of such class and such vacancy or vacancies shall be filled at such special meeting.

Any Director may be removed from office by vote of the holders of a majority of the shares of the class of stock by which his successor would be elected. A special meeting of the holders of shares of such class may be called by a majority vote of the Board of Directors for the purpose of removing a Director in accordance with the provisions of this paragraph. The President of the Corporation shall, in any event, within ten days after delivery to the Corporation at its principal office of a request to such effect signed by the holders of at least five per cent (5%) of the outstanding shares of such class, call a special meeting for such purpose to be held within forty days after the delivery of such request.

Holders of Preferred Stock shall not be entitled to receive notice of any meeting of stockholders at which they are not entitled to vote or consent.

Except as herein or by statute specifically provided and except as may be provided by the Board of Directors in fixing the voting rights of any particular series of Preferred Stock pursuant to the provisions of subdivision (1) of this Article Fourth, the Common Stock and Special Common Stock shall have the exclusive right to vote for the election of Directors and for all other purposes.

(7) So long as any shares of Preferred Stock are outstanding, the consent of the holders of at least sixty-six and two thirds per cent (66⅔%) of the shares of Preferred Stock at the time outstanding, given in person or by proxy, either in writing without a meeting (if permitted by law) or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(a) Any amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation, or of the By-laws, of the Corporation, which affects adversely the voting powers, rights or preferences of the holders of Preferred Stock or

reduces the time for any notice to which the holders of Preferred Stock may be entitled; **provided,** however, that if such amendment, alteration or repeal affects adversely the rights or preferences of one or more but not all series of Preferred Stock at the time outstanding, only the consent of the holders of at least two-thirds of each series so affected shall be required; and **provided,** further, that the amendment of the provisions of the Certificate of Incorporation so as to authorize or to increase or decrease the authorized amount of, any junior stock shall not be deemed to affect adversely the voting powers, rights or preferences of the holders of Preferred Stock;

(b) Any increase in the authorized amount of Preferred Stock or the authorization or creation, or any increase in the authorized amount, of any stock of any class or any security convertible into stock of any class, ranking prior to or on a parity with Preferred Stock;

(c) The voluntary dissolution, liquidation or winding up of the affairs of the Corporation, or the sale, lease or conveyance by the Corporation of all or substantially all its property or assets;

(d) The merger or consolidation of the Corporation with or into any other corporation, unless the corporation resulting from such merger or consolidation will have after such merger or consolidation no class of stock and no other securities either authorized or outstanding ranking prior to or on a parity with Preferred Stock, except the same number of shares of stock and the same amount of other securities with the same rights and preferences as the stock and securities of the Corporation respectively authorized and outstanding immediately preceding such merger or consolidation, and each holder of Preferred Stock immediately preceding such merger or consolidation shall receive the same number of shares, with the same rights and preferences, of the resulting corporation;

provided, however, that no such consent of the holders of Preferred Stock shall be required if, at or prior to the time when such amendment, alteration or repeal is to take effect or when the issuance of any such prior stock or such parity stock or convertible security or any such additional shares of Preferred Stock is to be made, or when such consolidation or merger, voluntary liquidation, dissolution or winding up, sale, lease or conveyance, acquisition, or issue, assumption or sale is to take effect, as the case may be, provision is to be made for the redemption of all shares of Preferred Stock at the time outstanding or, in the case of any such amendment, alteration or repeal as to which the consent of less than all series of Preferred Stock would otherwise be required, for the redemption of all shares of the series of Preferred Stock the consent of which would otherwise be required.

(8) As used in the Certificate of Incorporation with respect to Preferred Stock or in any resolution adopted by the Board of Directors providing for the issue of any particular series of Preferred Stock as authorized by subdivision (1) of this Article Fourth, the following terms shall have the following meanings:

(a) The term "junior stock" shall mean Common Stock and Special Common Stock and any other class of stock of the Corporation hereafter authorized over which Preferred Stock has preference or priority in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(b) The term "sinking fund" shall mean any fund or requirement for the periodic retirement of shares.

(c) The term "accrued dividends" with respect to any share of any series, shall mean an amount computed at the annual dividend rate for the series of which the particular share is a part, from the date on which dividends on such share become cumulative to and including the date to which such dividends are to be accrued, less the aggregate amount of all dividends theretofore paid thereon.

The Corporation shall be entitled to treat the person in whose name any share of its stock is registered as the owner thereof, for all purposes, and shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the Corporation shall have notice thereof, save as expressly provided by the laws of the State of Delaware.

All persons who shall acquire stock in the Corporation shall acquire the same subject to the provisions of the Certificate of Incorporation, and any and all amendments thereof and supplements thereto duly effected in accordance with the laws of the State of Delaware existing at the time such amendment or supplement is effected."

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Section 262 of Subchapter IX of the General Corporation Law of the State of Delaware

§ 262. Payment for stock or membership of person objecting to merger or consolidation

(a) When used in this section, the word "stockholder" means a holder of record of stock in a stock corporation and also a member of record of a non-stock corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words and also membership or membership interest of a member of a non-stock corporation.

(b) The corporation surviving or resulting from any merger or consolidation shall, within 10 days after the effective date of the merger or consolidation, notify each stockholder of any corporation of this State so merging or consolidating, who objected thereto in writing and whose shares were not voted in favor of the merger or consolidation, and who filed such written objection with the corporation before the taking of the vote on the merger or consolidation, that the merger or consolidation has become effective. The notice shall be sent by registered or certified mail, return receipt requested, addressed to the stockholder at his address as it appears on the records of the corporation. If any such stockholder shall within 20 days after the date of mailing of the notice demand in writing, from the corporation surviving or resulting from the merger or consolidation, payment of the value of his stock, the surviving or resulting corporation shall, within 30 days after the expiration of the period of 20 days, pay to him the value of his stock on the effective date of the merger or consolidation, exclusive of any element of value arising from the expectation or accomplishment of the merger or consolidation.

(c) If during a period of 30 days following the period of 20 days provided for in subsection (b) of this section, the corporation and any such objecting stockholder fail to agree upon the value of such stock, any such stockholder, or the corporation surviving or resulting from the merger or consolidation, may, by petition filed in the Court of Chancery within four months after the expiration of the period of 30 days, demand a determination of the value of the stock of all such objecting stockholders by an appraiser to be appointed by the Court.

(d) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the corporation, which shall within ten days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the corporation. If the petition shall be filed by the corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the corporation and to the stockholders shown upon the list at the addresses therein stated, and notice shall also be given by publishing a notice at least once at least one week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware. The Court may direct such additional publication of notice as it deems advisable. The forms of the notices by mail and by publication shall be approved by the Court.

(e) After the hearing on such petition the Court shall determine the stockholders who have complied with the provisions of this section and become entitled to the valuation of and payment for their shares, and shall appoint an appraiser to determine such value. Such appraiser may examine any of the books and records of the corporation or corporations the stock of which he is charged with the duty of valuing, and he shall make a determination of the value of the shares upon such investigation as to him seems proper. The appraiser shall also afford a reasonable opportunity to the parties interested to submit to him pertinent evidence on the value of the shares. The appraiser, also, shall have such powers and authority as may be

conferred upon masters by the rules of the Court of Chancery or by the order of his appointment.

(f) The appraiser shall determine the value of the stock of the stockholders adjudged by the Court of Chancery to be entitled to payment therefor and shall file his report respecting such value in the office of the Register in Chancery and notice of the filing of such report shall be given by the Register in Chancery to the parties in interest. Such report shall be subject to exceptions to be heard before the Court both upon the law and facts. The Court shall by its decree determine the value of the stock of the stockholders entitled to payment therefor and shall direct the payment of such value, together with interest, if any, as hereinafter provided, to the stockholders entitled thereto by the surviving or resulting corporation upon the transfer to it of the certificates representing such stock, which decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any other state.

(g) At the time of appointing the appraiser or at any time thereafter the Court may require the stockholders who demanded payment for their shares to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings, and if any stockholder fails to comply with such direction the Court may dismiss the proceedings as to such stockholder.

(h) The cost of any such appraisal, including a reasonable fee to and the reasonable expenses of the appraiser, but exclusive of fees of counsel or of experts retained by any party, may on application of any party in interest be determined by the Court and taxed upon the parties to such appraisal or any of them as appears to be equitable, except that the cost of giving the notice by publication and by registered mail hereinabove provided for shall be paid by the corporation. The Court may, on application of any party in interest, determine the amount of interest, if any, to be paid upon the value of the stock of the stockholders entitled thereto.

(i) Any stockholder who has demanded payment of his stock as herein provided shall not thereafter be entitled to vote such stock for any purpose or be entitled to the payment of dividends or other distribution on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation) unless the appointment of an appraiser shall not be applied for within the time herein provided, or the proceeding be dismissed as to such stockholder, or unless such stockholder shall with the written approval of the corporation deliver to the corporation a written withdrawal of his objections to and an acceptance of the merger or consolidation, in any of which cases the right of such stockholder to payment for his stock shall cease.

(j) The shares of the surviving or resulting corporation into which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

(k) This section shall not apply to the shares of any class of stock which, at the record date fixed to determine the stockholders entitled to receive notice of and to vote at the meeting of stockholders at which the agreement of merger or consolidation is to be acted on, were either (1) registered on a national securities exchange, or (2) held of record by not less than 2,000 stockholders, unless the certificate of incorporation of the corporation issuing such stock shall otherwise provide; nor shall this section apply to any of the shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation, as provided in subsection (f) of section 251 of this title. This subsection shall not be applicable to the holders of a class or series of stock of a constituent corporation if under the terms of a merger or consolidation pursuant to section 251 or 252 of this title such holders are required to accept for such stock anything except stock or stock and cash in lieu of fractional shares, of the corporation surviving or resulting from such merger or consolidation.

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NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

of

MOORE AND McCORMACK CO., INC.

To be Held on March 30, 1973

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders of Moore and McCormack Co., Inc., a Delaware corporation, will be held at East Ballroom B, Hollenden House, East 6th Street and Superior Avenue, Cleveland, Ohio, on March 30, 1973, at 10 o'clock in the forenoon (Cleveland Time) for the following purposes:

1. To consider and vote on a proposal to acquire substantially all the assets, properties and business of Pickands Mather & Co. as set forth in the accompanying Proxy Statement.

2. To transact such other business as may properly come before the meeting.

Pursuant to the By-laws, the Board of Directors has fixed the close of business on February 26, 1973, as the record date for the determination of stockholders entitled to notice of and to vote at the special meeting.

By order of the Board of Directors,

HUBERT F. CARR,
Secretary

Dated: New York, N. Y., March 9, 1973.

In order to assure a quorum, it is important that stockholders who do not expect to attend the Special Meeting in person promptly FILL IN, DATE, SIGN AND RETURN THE ENCLOSED PROXY, in the enclosed envelope, to which no postage need be affixed if mailed in the United States.

PROXY STATEMENT

MOORE AND McCORMACK CO., INC.

Special Meeting of Stockholders March 30, 1973

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This Proxy Statement is furnished in connection with the solicitation of proxies by the Management of Moore and McCormack Co., Inc. ("Mooremack"), for use at a Special Meeting of Stockholders of Mooremack to be held on March 30, 1973, or at any adjournment or adjournments thereof. The approximate date on which this Proxy Statement is first being sent to stockholders is March 9, 1973.

Pursuant to the By-laws, the Board of Directors has fixed the close of business on February 26, 1973, as the record date for the determination of stockholders entitled to notice and to vote at the Special Meeting, and only the holders of Common Stock of record at that time will be entitled to vote thereat. As of February 26, 1973, there were outstanding 2,391,354 shares of the Common Stock, each of which entitles the holder thereof to one vote. See "Brief Description of the Proposed Acquisition—Conditions" with respect to the intention of the beneficial owner of 26% of such outstanding shares to vote in favor of the proposed transaction.

A form of Proxy is separately enclosed which you are requested to sign and return promptly in the postage prepaid envelope which is also enclosed. Proxies may be revoked by stockholders at any time prior to the exercise of the powers conferred thereby. Where the stockholder has appropriately specified how the Proxy is to be voted, it will be voted in accordance with his specification.

GENERAL

Purpose of the Meeting

The purpose of the meeting is to consider and vote on a proposal to acquire substantially all the assets, properties and business of Pickands Mather & Co., a Delaware corporation which is a wholly-owned subsidiary of Diamond Shamrock Corporation ("Diamond") in exchange for (i) $60,000,000 in the form of preferred stock and a note of two new subsidiaries of Mooremack (and its wholly-owned shipping subsidiary, Moore-McCormack Lines, Incorporated ("Lines")), and (ii) an estimated $6,124,000 in cash. See "Brief Description of the Proposed Acquisition". As used in this Proxy Statement, unless the context indicates otherwise, the term "Pickands" means Pickands Mather & Co. and its subsidiaries.

A copy of the Purchase Agreement dated as of January 1, 1973, between Mooremack and Pickands, together with a copy of Diamond's guaranty of Pickands' obligations thereunder, is attached to this Proxy Statement as Exhibit 1. The Certificate of Incorporation of PM Holding Co. containing the terms of the 9% Senior Preferred Stock to be issued in connection with the acquisition is attached to this Proxy Statement as Exhibit 2. The favorable vote of a majority of the outstanding shares of Common Stock will be necessary for approval of the proposed acquisition.

Moore and McCormack Co., Inc.

Mooremack is engaged through Lines in the transportation of general cargo by ship between United States Atlantic ports and ports on the east coast of South America and in South and East Africa and the Malagasay Republic. Commencing in 1969, Mooremack has undergone a major reorganization to eliminate unprofitable shipping operations and provide a financial base for diversification. See "Business and Properties of Mooremack". The principal executive offices of Mooremack are located at Two Broadway, New York, N. Y. 10004, telephone number (212) 363-6600.

Pickands Mather & Co.

Pickands is engaged primarily in supplying the steel industry with raw materials. It owns and operates 13 dry bulk cargo ships carrying iron ore, pellets, coal and other materials between United States ports on the Great Lakes. Apart from its dry bulk carrier service, Pickands has interests in and operates iron ore and coal mines, both for its own account and for the account of others. In addition, it operates docks for unloading iron ore or coal from dry bulk ships to rail cars or storage and for loading coal to dry bulk ships; and it manufactures coke, mines limestone and is a sales agent for pig iron, coke, ferroalloys and coal produced by others. See "Business and Properties of Pickands".

Reasons for the Proposed Acquisition

It is the considered judgment of the Board of Directors that the acquisition of the assets, properties and business of Pickands represents an important step in broadening Mooremack's activities. All directors of Mooremack have approved the proposed transaction. The terms of the proposed acquisition, including the amount and terms of the preferred stock and note to be issued, were determined by arm's-length negotiations between officers of Mooremack and Diamond and are, in the opinion of the Board of Directors of Mooremack, fair and equitable. Factors considered by Mooremack included the earning power of Pickands and the value of its assets. Mooremack has been advised by Morgan, Stanley & Co. that the financial terms of the transaction are fair and equitable to the stockholders of Mooremack.

The Board of Directors recommends a vote FOR approval of the proposed acquisition.

BRIEF DESCRIPTION OF THE PROPOSED ACQUISITION

The Board of Directors of Mooremack has approved a proposal whereby Mooremack, through two newly organized Delaware corporations, will acquire substantially all the assets, properties and business of Pickands. The Interlake Steamship Company ("Interlake") will acquire title to the shipping assets and properties of Pickands, and PM Holding Co., the name of which will be changed to Pickands Mather & Co. after the closing ("New Pickands"), will acquire title to the non-shipping assets and properties of Pickands. Interlake is a wholly-owned subsidiary of Lines, and New Pickands is a wholly-owned subsidiary of Mooremack. There will be excluded from the assets to be acquired by Interlake and New Pickands amounts due from Diamond other than trade receivables, prepaid Federal and foreign income taxes, the Pickands interim capital construction fund and certain other specified assets. It is anticipated that New Pickands will operate the shipping assets for Interlake under a managing agency agreement.

Purchase Price

The purchase price will be $63,378,000 (representing a premium of $4,125,000 over the book value as of December 31, 1972, of the assets to be acquired as they appear on the books of Pickands less liabilities to be assumed), plus an amount equal to (i) payments made from Pickands' interim capital construction fund after December 31, 1972, in respect of vessel modification and (ii) any capital contributions to Pickands made by Diamond with the approval of Mooremack during the period from January 1, 1973, to the Closing Date. It is presently anticipated that the entire Pickands capital construction fund ($746,000) will be paid out and that a capital contribution in the amount of $2,000,000 will be made by Diamond. Accordingly, the total purchase price is expected to be $66,124,000. Such price will be payable (i) as to $30,000,000, by an 8½% Secured Note due January 15, 1974 of Interlake (the "Secured Note"), (ii) as to an additional $30,000,000 by 300,000 shares of 9% Senior Preferred Stock, $100 par value of New Pickands (the "Senior Preferred"), having an aggregate redemption and liquidation price of $30,000,000, and (iii) as to the balance (estimated to be $6,124,000), in cash. Mooremack has also agreed to pay Pickands an amount equal to 20% of the consolidated income before Federal, state and foreign income taxes of Pickands and its subsidiaries for the period January 1, 1973, through the Closing Date (such amount being presently estimated at under $200,000, assuming a Closing Date of April 3, 1973).

Mooremack (or its subsidiaries, including subsidiaries to be acquired from Pickands, but Mooremack will guarantee performance by such subsidiaries) will assume all obligations of Pickands and its subsidiaries on the Closing Date, other than obligations relating to the proposed acquisition, obligations for Federal and foreign income taxes for periods ending on or before the Closing Date, obligations to Diamond (other than trade items) and certain pension and other obligations. To the extent that excluded obligations cannot be eliminated from subsidiaries to be acquired from Pickands, Pickands will indemnify Mooremack against them.

The Secured Note will be in the principal amount of $30,000,000, will mature January 15, 1974, and will bear interest at the annual rate of 8½% from January 1, 1973. It will be secured by a first preferred fleet mortgage (the "Fleet Mortgage") on the vessels to be acquired by Interlake and by a security assignment of certain contractual commitments. Payment of principal of and interest on the Secured Note will be unconditionally guaranteed by Lines and by Mooremack. For a further description of the Secured Note see "Description of Interlake 8½% Secured Note." See "Banking Arrangements" with respect to arrangements by Mooremack to provide funds for repayment of the Secured Note.

The Senior Preferred is redeemable as to 100,000 shares on and after January 15, 1974, and as to an additional 100,000 shares on and after January 15 in each of the years 1975 and 1976, at the redemption price of $100 per share plus accrued dividends. See "Description of New Pickands 9% Senior Preferred Stock". Pickands will have the right, exercisable by 60 days' prior written notice, to require Mooremack to purchase for cash, at the redemption price, up to 100,000 shares of Senior Preferred on or after January 15, 1974 (less any shares theretofore called for redemption) and all outstanding shares of Senior Preferred on or after January 15, 1975. Pickands will receive an irrevocable letter of credit from The Chase Manhattan Bank, N.A. ("Chase"), under which Pickands may obtain directly from Chase any amounts (up to $35,400,000) which Mooremack fails to pay under its purchase obligation as to (i) up to 100,000 shares between January 15 and January 20, 1974, (ii) up to 200,000 shares between January 15 and January 20, 1975 and (iii) up to any balance (not in excess of 100,000 shares) between January 15 and January 20, 1976. Both Mooremack and New Pickands will be unconditionally liable to Chase for any amounts which it pays under such letter of credit. See "Banking Arrangements" with respect to arrangements by Mooremack to provide funds to meet its obligations under the purchase obligation and upon redemption.

Pickands may not sell or transfer the Secured Note or the Senior Preferred without the prior written consent of Mooremack except to Mooremack pursuant to the Purchase Agreement or to Diamond and except on default and except that Pickands may pledge or discount the Secured Note to a bank as collateral for borrowing in such manner as shall be approved by counsel for Mooremack as neither violating, nor requiring registration under, the Securities Act of 1933.

Other Provisions

Under the Purchase Agreement, simultaneously with the closing, Pickands will change its name to a name not including the words "Pickands", "Mather" or "Interlake", and New Pickands will change its name to Pickands Mather & Co. Thereafter Pickands will execute all such documents as Mooremack may reasonably request in order to enable Mooremack and its subsidiaries to use such words.

The term "Closing Date" used herein is specified in the Purchase Agreement as April 3, 1973, or such other date not later than June 30, 1973, as the parties may agree upon.

The Purchase Agreement provides that so long as any of the Senior Preferred shall be outstanding, Diamond shall have the right to designate one director of New Pickands. Prior to the Closing Date, the By-laws of Mooremack will be amended to increase the number of directors from nine to eleven and, on the Closing Date, Elton Hoyt III, President and a Director of Pickands, and Robert McInnes, Executive Vice President of Pickands, will be elected to fill the two vacancies so created. Messrs. Hoyt and McInnes are also directors, and will be officers, of both Interlake and New Pickands.

On the Closing Date, substantially all employees of Pickands will become employees of either Interlake or New Pickands. Such employees will receive employee benefits similar to benefits which they received from Pickands. Mooremack will cause Interlake or New Pickands, as the case may be, to adopt, as of the Closing Date, with certain minor exceptions, all employee benefit plans of Pickands, and Inter-

lake or New Pickands, as the case may be, will assume all liabilities of Pickands thereunder. Appropriate transfers will be made to Interlake or New Pickands, as the case may be, from the trust which has been established for funding certain of such benefit plans.

In addition, Diamond will sublet to New Pickands that portion of its lease for the Diamond Shamrock Building in Cleveland, Ohio, which relates to the premises occupied by Pickands.

Maritime Approvals

Mooremack and Lines have received approvals from Federal maritime authorities under applicable statutes, rules, regulations, agreements and prior authorizations which may be summarized as follows: (i) Lines and Interlake to acquire and operate the Pickands vessels; (ii) payment of $6,000,000 in cash and a one-year promissory note of $30,000,000 secured by a mortgage on such vessels to be paid by withdrawing $10,000,000 from the capital construction fund and $20,000,000 to be refinanced in 1974 and secured by a mortgage on said vessels and to be repaid out of the capital construction fund; (iii) payment by Lines of dividends in the amount of $35,000,000 to Mooremack; and (iv) operation of such vessels pursuant to a managing agency agreement between Interlake and New Pickands as approved by the Maritime Administration.

Such approvals were granted on the following conditions: (a) Mooremack's agreement as to certain restrictions on payment of dividends by Mooremack without prior approval of the Maritime Administration (see "Dividends and Market Prices of Mooremack Common Stock"); (b) approval by the Maritime Administration of the managing agency agreement between Interlake and New Pickands; (c) the agreement of Lines containing requirements for new ship buildings with the proceeds of sale of the passenger ships SS Argentina and SS Brasil to remain in full force and effect and moneys generated by the sale of such ships in or to be deposited in the capital construction fund not to be withdrawn from said fund except for such purposes (see "Business and Properties of Mooremack—Construction Fund"); (d) Mooremack guaranteeing any judgment against Lines in favor of the United States in the proceeding entitled *J. Read Smith, et. al.* v. *Atlantic & Gulf American Flag Berth Operators, et. al.* (see "Business and Properties of Mooremack—Litigation"); (e) amending Mooremack's Interim Capital Construction Fund Agreement (i) to provide for the maintenance of a consolidated fund by Mooremack acting as agent for Lines, Interlake and all other consolidated subsidiaries, (ii) to include the 13 Pickands vessels as "agreement vessels", (iii) to provide for payment of approximately $6,000,000 on account of the purchase price of such vessels, (iv) to require certain repowering, reconstruction and the lengthening with respect to the Pickands fleet and construction of two new bulk vessels for use on the Great Lakes in the carriage of bulk cargoes to be generated by a proposed iron ore processing plant (see "Business and Properties of Mooremack—Construction Fund") and (v) to provide for certain minimum deposits in such fund for the years 1973-78 (see "Business and Properties of Mooremack—Construction Fund"); (f) completion of the acquisition of the assets, properties and business pursuant to the Purchase Agreement; and (g) Mooremack guaranteeing the debt obligations of Interlake and agreeing that any funds provided in discharging such debt obligations will be provided in the form of capital contributions to Lines.

To the extent that the purchase price for the Pickands vessels is paid from tax deferred earnings deposited in the capital construction fund to be maintained for Lines and Interlake, the depreciable tax basis in such vessels will be reduced (see "Business and Properties of Mooremack—Federal Income Tax").

Conditions

The Purchase Agreement provides that the transaction is subject to approval by the vote of the holders of a majority of the outstanding Common Stock of Mooremack. City Investing Company, the owner of 26% of the outstanding Common Stock of Mooremack, has indicated that it presently intends to vote in favor of the proposed acquisition.

The consummation of the transaction is also subject to a number of other conditions, including (i) performance by the respective parties of all terms, covenants and conditions to be performed or mplied with by them on or before the Closing Date; (ii) the continued accuracy as of the Closing te of the representations and warranties of the respective parties contained in the Purchase Agreement; (iii) all actions, proceedings, instruments and documents relating to the transaction being satisfactory to counsel for the respective parties; and (iv) the receipt by the respective parties of the opinion of counsel for the other with respect to certain matters. In addition, the obligations of Mooremack under the Purchase Agreement are subject to the nonoccurrence of any material adverse change in the business and properties of Pickands, and the obligations of Pickands are subject to the obtaining of consents to assignment of, and release from its obligations under, contracts relating to the Wabush Mines, Erie Mining, Savage River and Beckley projects and its floating contracts with four iron and steel companies (see "Business and Properties of Pickands").

Mooremack and Pickands have each received letters of inquiry from the Cleveland field office of the Antitrust Division of the Department of Justice requesting certain information in respect of the proposed acquisition. Mooremack and Pickands have supplied all information requested in the respective letters of inquiry. The Purchase Agreement provides that the fact that an investigation of the transaction by the Department of Justice (or civil litigation arising therefrom) may be pending on the Closing Date will not relieve either party of its obligation to close the transaction, unless, on the Closing Date, consummation of the transaction has been enjoined or restrained.

Banking Arrangements

In order to finance repayment of the Secured Note and the purchase obligation as to or redemption of the Senior Preferred, Mooremack has made certain financing arrangements with Chase. Those arrangements contemplate that Interlake will enter into a loan agreement (the "Interlake Loan Agreement") providing for loans of up to $20,000,000 to be used only to repay the Secured Note. Similarly, New Pickands will enter into a Credit Agreement (the "New Pickands Credit Agreement") providing for loans of up to $15,000,000, the proceeds of which are to be applied only toward redemption or purchase e Erie and Wabush project (see "Management of Properties" above), would involve expendi- section "Banking Arrangements" will be entered into shortly.

Borrowings under the Interlake Loan Agreement will be repayable in equal instalments over the 8-year period April 15, 1974 to January 15, 1982, and those under the New Pickands Credit Agreement over a 4-year period commencing not later than June 20, 1976. Interest under the Interlake Loan Agreement will be at a rate ¾ of 1% above the Chase's prime rate, and under the New Pickands Credit Agreement 1¾% above such prime rate. The commitment fee under each of the agreements is ½ of 1% per annum.

Both agreements will permit prepayments without penalty, and will contain certain representations and warranties of the borrowers, conditions to borrowing, covenants, restrictions and events of default with right to accelerate maturities. Mooremack and Lines will guarantee borrowings under the Interlake Loan Agreement and Mooremack will guarantee borrowings under the New Pickands Credit Agreement.

The agreements will provide for assignment of $23,040,000 outstanding principal amount of secured promissory notes of a subsidiary of American Export Isbrandtsen Lines, Inc. (the "American Export Notes") and the maintenance of a cash collateral account as security for loans under each agreement and the letter of credit. They will also provide for the deposit in such account of $10,000,000, all payments of principal and interest on the American Export Notes (payable in semiannual instalments of $1,920,000 plus interest at prime) or other substituted collateral, payments pursuant to the assigned contracts referred to in the next paragraph (if requested by Chase) and earnings upon all funds therein. There will be certain withdrawal rights with respect to said account provided no default has occurred and subject to approval of Chase.

The Interlake Loan Agreement will also be secured by a first preferred fleet mortgage on the vessels to be purchased from Pickands as well as by an assignment of contracts of affreightment or charters.

It will also require that consolidated working capital (as defined) of Interlake and Lines be maintained at a level of at least $5,500,000, and consolidated tangible net worth (as defined) of at least $50,000,000 and that their consolidated long-term debt (as defined) shall not exceed their tangible net worth. The Interlake Loan Agreement will also prohibit Interlake and Lines from (a) creating any other security except for so-called "Title XI" ship financing and certain other exceptions, and (b) incurring other borrowings except for subordinated indebtedness, indebtedness for working capital purposes in the ordinary course of business and maturing within one year and long-term debt meeting the test described in the preceding sentence and other matters.

The $35,400,000 irrevocable letter of credit referred to under "Purchase Price" above will be provided for in the New Pickands Credit Agreement. New Pickands will pay to Chase a fee of ½ of 1% per annum on the amount of the letter of credit so long as it shall be outstanding. The letter of credit will provide that any amounts paid out thereunder will be repaid by New Pickands on demand.

Financial Plan

In accordance with the approvals referred to in "Maritime Approvals" above, Lines has declared a dividend to Mooremack of $35,000,000, consisting of the $23,040,000 principal amount of American Export Notes and $11,960,000 in cash (or cash equivalents). Mooremack will prior to the closing make a capital contribution to New Pickands of at least $33,040,000 consisting of the $23,040,000 principal amount of American Export Notes and $10,000,000 in cash (or cash equivalents). Lines will make a capital contribution to Interlake of approximately $6,200,000 in cash.

At the closing, Pickands will receive Interlake's Secured Note ($30,000,000 principal amount), a certificate for New Pickands' Senior Preferred ($30,000,000 par value) and cash in the estimated amount of $6,124,000, plus 20% of Pickands' pre-tax earnings for the period January 1, 1973, through the Closing Date (see "Purchase Price"). Thereupon, Interlake will take up on its books the shipping assets and properties (and related liabilities) of Pickands, and New Pickands will take up on its books the non-shipping assets and properties, including cash (and related liabilities) of Pickands.

Future financing of repayment of the principal of the Secured Note and payments on account of the redemption of or purchase obligation with regard to the Senior Preferred is presently planned as follows:

1. Interlake will, on or before January 15, 1974, borrow up to $20,000,000 pursuant to the Interlake Loan Agreement, and Lines will make such additional capital contribution, in cash, out of the capital construction fund, as may be necessary, together with Interlake's then available cash resources (including amounts from the capital construction fund), in order to pay the Secured Note at maturity (January 15, 1974). The Chase loan (due in equal instalments over 8 years) will then be serviced in ordinary course.

2. If New Pickands determines to redeem the Senior Preferred in the amounts of 100,000 shares each on January 15, 1974, 1975 and 1976, New Pickands will borrow on or just prior to each of those dates pursuant to the New Pickands Credit Agreement up to an aggregate of $15,000,000. The $30,000,000 (plus accrued unpaid dividends) cash required to satisfy the redemption will be obtained, as required, from such borrowing of up to $15,000,000, the $10,000,000 in the New Pickands cash collateral account plus principal and interest payments received on the American Export Notes (or other substituted collateral), other earnings of the cash collateral account and New Pickands' and Mooremack's then available other cash resources. Cash required by Mooremack to satisfy its purchase obligations with respect to the Senior Preferred will be similarly financed.

Additional working capital requirements and any shortfalls on the foregoing projected financial plan (including amounts needed to comply with the working capital and net worth covenants of Interlake) will be met through additional capital contributions or advances from Mooremack or Lines.

No Dissenters' Rights

The stockholders of Mooremack will not have any dissenters' rights in connection with the proposed acquisition.

CAPITALIZATION

The following table sets forth the capitalization of Mooremack and subsidiaries as of December 31, '2 ar ' their pro forma capitalization after giving effect to the proposed purchase of substantially all ass properties and business of Pickands. This information should be read in conjunction with pro forma balance sheet at December 31, 1972, included elsewhere in this Proxy Statement.

	Mooremack and Subsidiaries	Pro Forma
Short-Term Debt:		
Current maturities of long-term debt	$ 286,766	$ 286,766
Long-Term Debt:		
Bank loans (interest at 1% over prime)(1)	$ 860,297	$ 860,297
Payable from Capital Funds:		
5.75% U. S. Government Insured Merchant Marine Bonds(2)	$17,728,000	$17,728,000
8½% Secured Note due Pickands	—	$30,000,000(3)
9% Senior Preferred Stock, $100 par value, of subsidiary	—	$30,000,000(4)
Capital Stock of Mooremack:		
Cumulative Preferred Stock, $100 par value (350,000 shares authorized; none issued)		
Common Stock, $5.00 par value (5,000,000 shares authorized)(5)	2,391,354 shs.	2,391,354 shs.

Due $143,383 semiannually to July 1976.

Insured under Title XI of the Merchant Marine Act, 1936. Subject to semiannual redemptions and are secured by first preferred ship mortgages on various vessels.

Gives effect to issuance by Interlake of 8½% Note due January 15, 1974, secured by first preferred fleet mortgage on vessels sold to Interlake.

Give effect to issuance by New Pickands of 300,000 shares of 9% Senior Preferred Stock redeemabl d subject to a purchase obligation of Mooremack (see "Brief Description of the Proposed Acquisition—Purchase Price").

41,800 shares held in treasury.

Earnings deposited or accrued for deposit to the Capital Funds for the years 1968 through 1972 and the increase in income as a result of the reduction of Federal income taxes are as follows:

	Year ended December 31				
	1972	1971	1970	1969	1968
Earnings deposited or accrued for deposit to Capital Funds:					
Income before extraordinary items	$ 694,891	$2,608,348	$ 930,715	$ 457,268	$ 539,103
Extraordinary items, net	912,588	1,577,688	4,982,555	593,867	—
	$1,607,479	$4,186,036	$5,913,270	$1,051,135	$ 539,103
Increase in income as a result of the reduction of Federal income taxes:					
Income before extraordinary items	$ 333,500	$1,252,000	$ —	$ 230,463	$ 284,646
Extraordinary items, net	274,000	473,300	—	157,375	—
	$ 607,500	$1,725,300	$ —	$ 387,838	$ 284,646
Increase in income per share of common stock:					
Income before extraordinary items	$ .14	$ .52	$ —	$ .10	$ .12
Extraordinary items, net	.11	.20	—	.06	—
	$ .25	$ .72	$ —	$ .16	$ .12

For those years in which a loss was reported, these deposits had the effect of reducing such loss. There was no tax benefit recorded in 1970 due to uncertainty of realization.

(C) Extraordinary items:

Extraordinary items, as reflected in the accompanying statements of income, are as follows:

	Year ended December 31			
	1972	1971	1970	1969
Applicable to Lines:				
Net gains on dispositions of vessels including, in 1972, tax credit of $61,000 and settlement of shipyard costs applicable to vessels sold in 1970, and, in 1971, recovery of construction-differential subsidy from the United States applicable to such vessels. Proceeds on dispositions are depositable in Capital Funds	$ 684,049	$1,448,578	$4,982,555	$ 593,867
Provision for Federal taxes in 1971 on withdrawal from the Capital Funds ($4,400,000) offset by the tax benefit from utilization of net operating loss carry-forwards and investment tax credit carry-forwards of $4,400,000 (Notes A and B)	—	—	—	—
Costs relating to discontinued operations, etc. (Notes D and E)	—	(1,569,380)	(5,680,399)	—
Reversal of deferred Federal income tax benefit	—	—	(3,530,000)	—
Credit equivalent to Federal income tax benefit realized in 1972 on reserves established in prior years for which benefit had not been recorded	2,073,000	—	—	—
Losses due to sales and decline in market value of securities	—	—	(457,000)	—
Applicable to Mooremack:				
Costs relating to discontinued operations, etc.	—	(89,556)	—	—
Total extraordinary items	$2,757,049	($ 210,358)	($4,684,844)	$ 593,867

Costs relating to discontinued operations, etc., consist primarily of costs relating to the passenger vessel (Note E), loss on disposition of Lines' container terminal, and severance costs. Deferred Federal income tax benefits recorded in 1969 and prior years were reversed in 1970 since at that time future realization could not be assured beyond any reasonable doubt.

(D) Discontinued operations:

Lines discontinued operations of its European Service during 1970, and disposed of the vessels formerly used in that service. In addition, as discussed in Note E, Lines' two passenger liners were removed from operations during 1969. Operating losses of the European Service and the passenger liners, including lay-up expenses through the year of 1970, are reflected as discontinued operations as follows:

MOORE AND McCORMACK CO., INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENTS OF INCOME (LOSS)—(Continued)

	1970	1969	1968
Revenues	$17,147,845	$27,371,230	$37,971,284
Expenses, other than vessel depreciation	(26,667,342)	(34,220,797)	(45,116,705)
Operating-differential subsidy estimated (Note F)	5,617,034	8,125,835	8,352,192
Vessel depreciation (Note H)	(1,502,944)	(1,401,459)	(2,197,107)
Voyage losses from discontinued operations	($ 5,405,407)	($ 125,191)	($ 990,336)

(E) Assets no longer in use:

In 1970, Lines charged to costs relating to discontinued operations (Note C) approximately $1,000,000, representing the estimated out-of-pocket expenses relating to the lay-up of the passenger vessels for approximately one year. In 1971, Lines charged an additional $925,000 to costs relating to discontinued operations, representing 1972 estimated out-of-pocket expenses of the passenger vessels. See Note 5 of Notes to Consolidated Financial Statements.

(F) Operating-differential subsidy accruals:

Lines' current operating-differential subsidy agreement provides for subsidized operations to December 31, 1977. Subsidy accruals are based on final rates received or Lines' estimate thereof and management is of the opinion that the amount of subsidy, when finally determined, will not be less than the amount accrued. See Note 3 of Notes to Consolidated Financial Statements of Mooremack and "Business and Properties of Mooremack—Operating-Differential Subsidy Agreement."

During 1972, Lines amended its subsidy agreement so that future collections of operating-differential subsidy for wages of officers and crew will be based upon an index system as provided by the terms of the Merchant Marine Act of 1970. The effect of this change has accelerated collections of operating-differential subsidy and may simplify the method of determining such subsidy.

(G) Pending lawsuits and claims:

Reference is made to "Business and Properties of Mooremack—Litigation" contained elsewhere in this Proxy Statement.

(H) Vessel depreciation:

Lines provides depreciation on its vessels on a straight-line basis calculated on cost to Lines, less a residual value, over an economic life of twenty-five years. Effective January 1, 1969, Lines increased the residual value of these vessels from 2½% to 17% of original construction cost and is depreciating the remaining net book value in excess of the 17% residual value over the remaining life of each vessel. No adjustment has been made for vessels which had net book value of less than 17% at January 1, 1969. The effect of this revision in residual value has been to decrease the provision for depreciation by approximately $1,200,000 in 1972 and 1971, $1,900,000 in 1970 and $2,200,000 in 1969. During 1968 through 1970, Lines provided depreciation on the two passenger vessels and included such amounts in discontinued operations. During 1971 and 1972 (to date of sale), Lines did not provide depreciation on the two passenger vessels.

(I) Pension, profit-sharing and share unit plans:

Reference is made to Note 8 to Notes to Consolidated Financial Statements of Mooremack.

(J) Dividend restriction:

Reference is made to "Dividends and Market Prices of Mooremack Common Stock" contained elsewhere in this Proxy Statement.

(K) Interest expense:

Consolidated interest expense includes $485,000 in 1970, $521,000 in 1969, and $554,000 in 1968, applicable to mortgage debt on vessels included in discontinued operations.

The net loss for the year 1970 was due to (i) substantial operating losses in North Atlantic operations because of intense price competition and overtonnage, (ii) lay-up costs, and interest and depreciation expenses, attributable to passenger vessels laid up in 1969 and (iii) extraordinary charges associated with termination of the North Atlantic service. See "Business and Properties of Mooremack—Recent Developments".

PICKANDS MATHER & CO.

(Wholly-owned subsidiary of Diamond Shamrock Corporation)

CONSOLIDATED INCOME STATEMENT

The following consolidated income statement for the five years ended December 31, 1972 has been examined by Price Waterhouse & Co., independent accountants, whose report thereon appears elsewhere in this Proxy Statement. The statement should be read in conjunction with the other financial statements and notes thereto included elsewhere in this Proxy Statement.

	Year ended December 31,				
	1972	1971	1970	1969	1968
	(In thousands of Dollars)				
Income:					
Sales of products	$45,030	$49,200	$47,929	$51,279	$53,874
Cost of sales	41,840	45,878	43,235	46,716	49,086
Gross profit from sales	3,190	3,322	4,694	4,563	4,788
Freight and other operating revenues	18,007	17,035	19,216	19,669	18,482
Operating expenses	12,416	12,560	13,767	13,691	12,151
Gross profit from freight and other operating revenues	5,591	4,475	5,449	5,978	6,331
Sales commissions	3,549	3,222	3,704	3,136	3,004
Management and consulting fees	3,032	2,858	2,772	2,279	2,331
Dividends, royalties and other income	3,315	3,345	2,810	2,048	2,045
	9,896	9,425	9,286	7,463	7,380
	18,677	17,222	19,429	18,004	18,499
Expenses:					
Administrative, selling and general (net)	8,700	8,006	7,697	8,388	8,715
Investigation, exploration and research	725	1,987	1,227	615	616
Loss on accounts receivable from bankrupt railroad	—	698	—	—	—
Loss on termination of certain coal operations	1,130	—	—	—	—
Interest	5	10	21	309	596
	10,560	10,701	8,945	9,312	9,927
Income before provisions for income taxes and items shown below	8,117	6,521	10,484	8,692	8,572
Provisions for income taxes:					
Federal	4,149	(462)	3,834	3,659	3,354
Investment tax (credit)	(42)	(14)	(19)	(24)	(94)
State	276	169	171	92	94
Foreign	370	133	169	237	111
	4,753	(174)	4,155	3,964	3,465
Deferred	(2,425)	1,695	173	(34)	405
	2,328	1,521	4,328	3,930	3,870
Income from continuing operations (A)	5,789	5,000	6,156	4,762	4,702
Income of operating units transferred to Diamond Shamrock (B)	—	—	113	931	978
Income before extraordinary item	5,789	5,000	6,269	5,693	5,680
Extraordinary gain (C)	—	—	1,077	—	—
Net income	$ 5,789	$ 5,000	$ 7,346	$ 5,693	$ 5,680

See notes on following page.

NOTES:

(A) Income from continuing operations represents the historical earnings of the net assets to be sold by Pickands to Mooremack (see Note 1 of Notes to Financial Statements of Pickands), as set forth elsewhere in this Proxy Statement.

(B) During 1969 and 1970, property dividends were declared which resulted in the transfer to Diamond Shamrock of certain chemical plants, interests in oil exploration ventures, Canadian lake vessels, and a common stock investment. The sales and revenues of the transferred units were $13,360,000 in 1968, $14,102,000 in 1969 and $1,688,000 in 1970 and the income of these units (after reflecting estimated applicable income taxes) was $978,000 in 1968, $931,000 in 1969 and $113,000 in 1970 prior to the transfers.

(C) The sale in 1970 of certain capital assets (principally a lake freighter) resulted in an extraordinary gain of $1,077,000 after deducting related federal income taxes of $933,000.

(D) On January 3, 1969 Pickands became a wholly-owned subsidiary of Diamond Shamrock by an exchange of capital stock of Diamond Shamrock with the former shareholders of Pickands. Through a recapitalization, Pickands then issued 500,000 shares of common stock to Diamond Shamrock and there have been no subsequent changes in common stock. In 1968, cash dividends of Pickands on the preferred and common shares then outstanding aggregated $2,959,000.

1971 results of Pickands were adversely affected by strikes and a reduced level of operations in the steel industry. Sales of coal and iron ore products declined in the period 1968-1972, reflecting: for coal, conversion to other fuels by certain lake shipping and other customers served by Pickands plus a general firming of coal demand permitting smaller producers to sell coal without brokerage service; and for iron ore, variations in steel industry demand coupled with reduced product available to Pickands for sale in 1972.

MOORE AND McCORMACK CO., INC.

PRO FORMA CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

The following pro forma consolidated statement of income for the year ended December 31, 1972 assumes that the proposed purchase by Moore and McCormack Co., Inc., of substantially all of the net assets of Pickands Mather & Co. took place as of January 1, 1972 and has been prepared on the basis discussed in the Notes hereto. The statement should be read in conjunction with the statements of income and related notes thereto of the constituent companies appearing elsewhere in the Proxy Statement. This pro forma statement of income is not necessarily indicative of the results of operations as they would have been had the transaction, as reflected, been consummated at the beginning of the period.

	Actual for year ended December 31, 1972			
	Moore and McCormack Co., Inc.	Pickands Mather & Co.	Pro Forma Adjustments	Pro Forma Consolidated
		(In thousands of Dollars)		
Sales and Revenues:				
Freight revenues	$ 56,933	$ 18,007		$ 74,940
Sales of products	—	45,030		45,030
Operating differential subsidy	8,533	—		8,533
	65,466	63,037		128,503
Sales commissions	—	3,549		3,549
Management and consulting fees	—	3,032		3,032
	65,466	69,618		135,084
Costs and Expenses:				
Freight and other operating expenses	51,999	12,416	$ 221(1)	64,636
Costs of products sold	—	41,840		41,840
	51,999	54,256	221	106,476
Administrative, general and selling	9,088	8,700		17,788
Investigation, exploration and research	—	725		725
Loss on termination of certain coal operations	—	1,130		1,130
Interest expense and preferred dividends of subsidiaries	1,061	5	5,250(2)	6,316
Interest, dividend and other (income)	(3,219)	(3,315)		(6,534)
	58,929	61,501	5,471	125,901
Income before Federal and foreign income tax and extraordinary items	6,537	8,117	(5,471)	9,183
Provision for Federal and Foreign Income Tax	2,838	2,328	(1,330) (3)	3,836
Income before extraordinary items	3,699	5,789	(4,141)	5,347
Extraordinary Items	2,757			2,757
Net Income	$ 6,456	$ 5,789	($4,141)	$ 8,104
Weighted Average Number of Shares Outstanding	2,391,354			2,391,354
Earnings per share based upon the weighted average number of shares outstanding				
Income before extraordinary items	$ 1.55			$ 2.24
Extraordinary items, net	1.15			1.15
Net income	$ 2.70			$ 3.39

NOTES TO PRO FORMA CONSOLIDATED STATEMENT OF INCOME

The pro forma consolidated statement of income for the year ended December 31, 1972 gives effect retroactively to the purchase of certain net assets of Pickands and gives effect to the following:

(1) Estimate of additional depreciation expense recorded after allocating the premium to capital assets. Allocation by Mooremack of purchase cost to net assets acquired has not been determined.

(2) Interest expense of $2,550,000 on $30,000,000 8½% Secured Note issued by Interlake and $2,700,000 dividends on 300,000 shares of New Pickands 9% Senior Preferred Stock.

(3) Appropriate income tax reduction relative to above entries.

MOORE AND McCORMACK CO., INC.

PRO FORMA CONSOLIDATED BALANCE SHEET

As of December 31, 1972
(Unaudited)

ASSETS

	Actual Mooremack	Net assets to be acquired	Pro Forma Adjustments Add	Pro Forma Adjustments Deduct	Pro Forma Consolidated
		(In thousands of Dollars)			
Current Assets					
Cash	$ 1,904	$ 3,173	$ 2,000(3)	$ 124(1)	$ 6,953
Marketable securities and short term investments	23,125	228			23,353
Accounts and mortgage notes receivable, net	12,506	10,019			22,525
Accrued operating differential subsidy	5,105	—			5,105
Inventory	—	6,728			6,728
Prepaid expenses, etc.	548	171			719
	43,188	20,319	2,000	124	65,383
Less—Estimated deposits to capital funds	5,768	—			5,768
	37,420	20,319	2,000	124	59,615
Investments in and Advances to Joint Ventures and Subsidiaries	1,218	8,291			9,509
Mortgage receivable and other assets	21,836	—			21,836
Capital Construction Fund	22,695	—		6,000(1)	16,695
Capital Assets, net	55,690	41,933	4,125(2) 746(3)		102,494
Total assets	$138,859	$70,543	$ 6,871	$ 6,124	$210,149

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities					
Notes payable and current maturities	$ 287	$ —			$ 287
Accounts payable	1,093	6,727			7,820
Accrued liabilities	9,551	4,563			14,114
Accrued taxes	1,118	—			1,118
	12,049	11,290			23,339
Net Unterminated Voyage Revenue	2,780	—			2,780
Long-Term Debt	860	—			860
Payable from Capital Funds	17,728	—	$30,000(1)		47,728
Reserves	13,243	—			13,243
9% Senior Preferred Stock of Subsidiary	—	—	30,000(1)		30,000
Stockholders' Equity					
Common stock	12,166	—			12,166
Capital surplus	22,165	—			22,165
Retained earnings	58,607	—			58,607
Treasury stock	(739)	—			(739)
	92,199	59,253	2,746(3)	61,999(1)	92,199
Total Liabilities and Stockholders' Equity	$138,859	$70,543	$62,746	$61,999	$210,149
Book Value per Share	$ 38.55				$38.55

NOTES TO PRO FORMA CONSOLIDATED BALANCE SHEET

The pro forma consolidated balance sheet as of December 31, 1972 reflects the proposed purchase of certain net assets of Pickands and gives effect to the following:

(1) Reflect the issuance of (a) $30,000,000 8½% Secured Note due January 1974, (b) 300,000 shares of 9% Senior Preferred Stock, par value $100 per share and (c) cash of $6,124,000 for $61,999,000 of certain net assets of Pickands.

(2) Apply the excess of the purchase price over certain net assets acquired of $4,125,000 to capital assets. Allocation by Mooremack of purchase cost to net assets acquired has not been determined.

(3) Reflects the payments made from Pickands capital construction fund ($746,000) and capital contributions to Pickands made by Diamond ($2,000,000) subsequent to December 31, 1972.

(4) The pro forma consolidated balance sheet should be read in conjunction with the Consolidated Financial Statements of the constituent companies included elsewhere in this Proxy Statement.

DIVIDENDS AND MARKET PRICES OF MOOREMACK COMMON STOCK

Mooremack paid a dividend of $.50 per share of Common Stock for the fiscal year ended December 31, 1968, and has not paid dividends on its Common Stock since that time. In connection with the proposed acquisition of the assets, properties and business of Pickands, Mooremack has made the following agreements with respect to future payments of dividends by it:

(1) Agreed with Pickands not to pay dividends so long as the Secured Note is outstanding, and

(2) Agreed that without the prior approval of the Maritime Administration (a) it will pay no cash dividends until the $15,000,000 borrowed under the New Pickands Loan Agreement has been repaid or February 1, 1976, whichever occurs later, (b) cash dividends will not be paid during the life of the present operating-differential subsidy agreement unless the net worth of Lines equals or exceeds $55,000,000 and (c) principal received upon the American Export Notes will not be utilized by Mooremack to pay dividends to its stockholders unless Lines is in a position to pay dividends in a like amount under the conservative dividend policy resulting from regulations issued by the Maritime Administration.

At December 31, 1972, giving effect to the dividend from Lines referred to under "Brief Description of the Transaction—Maritime Approvals", the net worth of Lines was $55,747,220. For information with respect to restrictions on payment of dividends by Lines, see "Business and Properties of Mooremack—Operating-Differential Subsidy Agreement" and "—Construction Fund".

The following table indicates the high and low sales prices of Mooremack Common Stock on the New York Stock Exchange for the periods indicated. The closing price on March 8, 1973, was $15¾ per share.

Year ending December 31	High	Low
1971		
First Quarter	17⅜	14
Second Quarter	16⅜	12⅛
Third Quarter	14½	10⅝
Fourth Quarter	14	10½
1972		
First Quarter	15⅜	12¼
Second Quarter	16¾	13⅜
Third Quarter	19	13⅜
Fourth Quarter	19¾	16⅛
1973		
First Quarter (through March 8)	18⅜	13¼

BUSINESS AND PROPERTIES OF MOOREMACK

Mooremack is engaged through Lines, its wholly owned subsidiary, in the transportation of general cargo by regularly scheduled ocean liner vessel service between United States Atlantic ports and ports on the east coast of South America and in South and East Africa and the Malagasay Republic. Mooremack, incorporated under Delaware law in 1927, was reorganized as a holding company in 1965 with Lines as its principal subsidiary under a diversification program approved by the United States Maritime Administration and the United States Maritime Subsidy Board. At the present time, Lines is the only significant subsidiary of Mooremack.

Operations

Lines' operations are subsidized and regulated by the United States government under the provisions of various Federal statutes relating to shipping and an Operating-Differential Subsidy Agreement (the "Subsidy Agreement") which, by its terms, expires on December 31, 1977. The Subsidy Agreement requires Lines to operate vessels on schedules approved by the Maritime Administration within the following minimum and maximum annual sailings over the following trade routes designated as essential to the foreign commerce of the United States:

	Number of Vessels Assigned	Annual Minimum/ Maximum Sailings
U. S. Atlantic/East Coast South America (Brazil, Argentina and Uruguay) (American Republics Lines)	7	50/86
U. S. Atlantic/South and East Africa and the Malagasay Republic (Robin Line)	5	20/30

Lines obtained reductions in the minimum sailing requirement for 1972 on its South American service to 37 and for 1972 and 1973 on its African service to 13. The actual numbers of sailings on such services during 1972 were 37 and 17, respectively.

Since 1969 Lines has discontinued passenger service to South America and freight and passenger service to Europe, and has disposed of a substantial number of vessels and related facilities. See "Recent Developments".

The heaviest cargo revenue movement in both the South American and South and East African services is outbound from the United States and in 1972 accounted for approximately 64% of Lines' round trip revenues. Outbound cargoes carried by Lines consist primarily of industrial products, including equipment and heavy machinery. A variety of foodstuffs and other general cargo goods is carried on inbound voyages. Lines is not dependent on any one industry or customer for any substantial amount of its revenue, with the exception of coffee which in 1972 accounted for approximately [illegible]% of Lines' total inbound revenues.

A substantial amount of Lines' inbound and outbound cargoes are "unitized", a process whereby smaller components of a load are bundled or palletized into larger units to facilitate faster and less expensive mechanized handling. In addition, all Lines' vessels carry 20- and 40-foot cargo containers above deck. Management estimates that during 1972 approximately 70% of Lines' inbound and outbound cargoes (by revenue) were unitized or containerized. At the present time, the foreign ports served by Lines are not equipped to accommodate large fully containerized vessels. See "Properties" and "Construction Fund" with respect to plans and commitments of Lines for the modernization of its fleet.

Lines competes with foreign-flag steamship operators on all its routes. On its South and East African services, Lines also competes with one United States subsidized steamship line. Lines operates as a member of various steamship conferences, *i.e.*, associations of steamship lines formed by agreements approved by the Federal Maritime Commission (the "Maritime Commission") establishing rates, tariffs and terms of shipment and various regulations governing cargoes. Lines experiences competition in varying degrees from steamship operators who are independent of conference affiliations and charge lower freight rates in an effort to attract business.

Approximately 48% of Lines' total revenues during 1972 were attributable to trade with Brazil. The government of Brazil affords "equal access" to United States flag carriers for southbound cargoes controlled by it which constitute a substantial portion of such cargoes. Lines, together with two Brazilian flag carriers, is a party to a revenue pooling agreement approved by the governments of the two nations, under which a portion of revenues from carriage by the parties of southbound cargoes is shared 50% by Lines and 50% by the two Brazilian flag carriers. Additional revenue pooling agreements which would (i) reserve exclusively to Lines and the two Brazilian carriers 80% of certain northbound cargoes from Brazilian ports located between Porto Alegre and Recife to United States Atlantic ports and (ii) provide for sharing by Lines and such carriers of revenues in respect of such cargoes on a

basis similar to that described above (subject to reduction as to each Brazilian port if prescribed minimum calls are not made) have been approved by the United States government and, effective April 1, 1973, by the Brazilian government. The above pooling arrangements are intended to stabilize the present allocation of trade between carriers of the two nations.

In addition, Lines has entered into a pooling agreement pursuant to which the revenues from a major portion of the carriage of cargoes between Argentina and United States Atlantic ports from New York City to Jacksonville, Florida would be shared 50% by Lines and 50% by ELMA, the national flag line of Argentina. The agreement is subject to approvals by the governments of the United States and Argentina, and there is no assurance that such approvals will be granted.

Lines is not a party to revenue pooling arrangements on any other of its services, although Lines and the other cargo lines serving South and East African and Malagasay ports, with the approval of the Maritime Commission, have entered into an agreement under which they agree from time to time upon the spacing and frequency of sailings to such ports.

During 1972, Lines' service to South Africa was curtailed by import restrictions imposed by the South African Government. Although such restrictions have been eased, there is no assurance that they will not be increased again or that similar restrictions will not be imposed in the future.

Properties

Lines' fleet consists of the following cargo freight vessels, twelve of which with an aggregate 146,690 deadweight ton capacity, are presently being operated pursuant to the Subsidy Agreement:

Type	Years Constructed	Number of Vessels	Aggregate Deadweight Tons
C-4	1964-1965	6	71,850
C-3	1960-1962	8	99,714
	Total	14	171,564

The remaining two vessels are chartered to the Military Sealift Command ("MSC") under one-year charters with two annual renewal options; both vessels are presently in the first renewal period. The net book value of Lines' vessels at December 31, 1972 was $54,911,619 after deducting accumulated depreciation in the amount of $26,254,270. One of the C-3 and all the C-4 vessels are subject to first preferred ship mortgages securing, as of January 1, 1973, an aggregate of $17,728,000 principal amount of United States government insured Title XI ship mortgage bonds.

See "Construction Fund" with respect to agreements and undertakings of Lines (i) to construct new vessels, (ii) to replace Lines' present cargo fleet during the period 1977 to 1987 and (iii) to modify existing vessels and to construct new vessels for the Great Lakes trade to be served by Interlake. The improvement of facilities in foreign ports served by Lines may require an upgrading of Lines' present fleet prior to 1977, in order for Lines to remain competitive.

Mooremack and Lines lease executive office space at Two Broadway, New York, N. Y. Lines leases pier facilities, constructed in 1959, in Brooklyn, N. Y., under lease expiring in 1982. Lines utilizes pier facilities at Philadelphia, Baltimore, Norfolk, Charleston, Savannah and Jacksonville. To solicit cargo and serve its customers generally, Lines leases offices at various ports and inland cities in the United States and Brazil and at ports in Uruguay and Argentina. In South and East Africa and the Malagasay Republic, Lines conducts its business through agents who are under the direction of Lines' managing director for that area. See "Recent Developments" with respect to Lines' obligations under a 20-year lease at Port Newark, New Jersey.

Employees

At December 31, 1972, Lines employed about 579 seagoing and 267 domestic and 282 foreign shoreside personnel. All seagoing and certain shoreside employees are covered by the terms of various collective bargaining agreements. New three-year agreements with all seagoing unions were signed effective June 1972. In addition, a new three-year agreement between the Longshoremen's Union and the New York Shipping Association, on behalf of the United States East and Gulf Coast stevedor-

ing companies, was signed effective September 1971. In recent years the operations of Lines have been interrupted intermittently, with varying degrees of adverse effect, by localized and industry-wide work stoppages.

Recent Developments

Prior to 1969, Lines operated, in addition to its present services, a subsidized passenger service from United States Atlantic ports to the East Coast of South America (SS Brasil and SS Argentina) and a subsidized cargo service from United States Atlantic ports to Scandanavian, Baltic and continental European ports (American Scantic Line). At December 31, 1968, Lines operated an aggregate of 21 vessels on its subsidized routes and chartered an additional 15 vessels to others, including 14 to the Military Sea Transportation Service, the predecessor of MSC. A new container terminal facility at Port Newark, N. J. had been leased in June 1968 for a 20-year term to serve the American Scantic Line, and four modern roll-on/roll-off container vessels ("RO/RO's") had been ordered for American Scantic Line. Three of the RO/RO's were delivered in 1969 and one in early 1970.

As a result of continued losses from passenger operations, the SS Argentina and SS Brasil were laid up in September 1969, and Lines' passenger service (other than limited passenger service on cargo vessels) was permanently terminated. In spite of the high degree of modernization of the RO/RO's and the availability of container port facilities, the RO/RO's were never operated on a profitable basis, principally because of intense price competition and overtonnage in the North Atlantic trade. All four RO/RO's were laid up in August 1970, and service on the American Scantic Line was permanently terminated. In 1971, the Port Newark container facility was subleased to a stevedoring company for a five-year period at an annual rental equal to Mooremack's annual rental obligation (approximately $353,000) under the 20-year lease referred to above, with renewal options for the balance of the lease.

The four RO/RO's were sold to a subsidiary of American Export Isbrandtsen Lines, Inc., in October 1970 for $38 million, including $31 million principal amount of the American Export Notes, payable in semiannual instalments of $1.9 million and secured by first preferred ship mortgages on the vessels. See "Brief Description of the Proposed Acquisition". In August 1972, the passenger vessels SS Brasil and SS Argentina were sold to Holland America Lines for approximately $20,000,000, including $14,000,000 principal amount of promissory notes which were deposited in the interim capital construction fund described below. In addition, 20 over-age vessels have been sold since January 1, 1969.

The following table shows the decline in voyages and operating revenues of Lines (including discontinued operations) during the five years ended December 31, 1972:

	Years Ended December 31				
	1972	1971	1970	1969	1968
*Operations**					
Number of Terminated Voyages	69	81	167	212	232
Voyage Days (exclusive of inactive days)	4,742	5,360	11,160	13,064	13,590
Voyage Miles	1,147,824	1,282,027	2,695,310	2,961,179	3,092,206
Cargo Payable Tons	641,910	775,696	1,381,888	1,327,799	1,567,421
Passengers Carried	702	822	1,004	15,806	17,214
Revenues	(In thousands of Dollars)				
Freight	$46,575	$49,363	$62,219	$59,682	$ 69,009
Passenger	394	456	460	11,413	13,580
Charter	8,122	4,718	16,616	20,779	15,677
Mail	965	565	936	1,003	1,395
Miscellaneous	508	669	634	910	998
	$56,564	$55,771	$80,865	$93,787	$100,659

* Includes chartered vessels.

Operating-Differential Subsidy Agreement

The payment of operating-differential subsidy under the Subsidy Agreement is intended to put Lines, as an operator of United States-flag ships, on a competitive operating cost basis with foreign-flag competition on the same trade routes and is dependent on annual appropriations by Congress. All the vessels now owned and operated by Lines (other than those under charter) are covered by operating subsidies under the Subsidy Agreement.

The amount of operating-differential subsidy payable is based on annual determinations by the Maritime Subsidy Board as to the differential between certain costs and expenses of vessel operation, *i.e.,* insurance, maintenance, repairs and wages of officers and crews, as incurred by Lines, and the same costs and expenses, as incurred by its foreign flag competitors. Cargo handling, terminal, fuel and administrative expenses are not subsidized. Lines' operating-differential subsidy for 1972 and 1971, respectively, is estimated at $8,532,904 and $9,358,129. See Note F of Notes to the Consolidated Statements of Income (Loss) of Mooremack and Note 3 of Notes to the Consolidated Financial Statements of Mooremack.

Under the Subsidy Agreement and applicable statutory provisions, not less than 75% of the stock and related voting power of Lines and Mooremack must be vested in United States citizens.

The Subsidy Agreement, the approvals given in connection with Mooremack's corporate reorganization in 1965 and the acquisition by City Investing Company of a 26% interest in Mooremack, and applicable statutory provisions, confer broad regulatory powers on agencies of the United States with respect to many aspects of Lines' operations. The Subsidy Agreement requires Lines to follow a conservative dividend policy. See "Brief Description of the Proposed Acquisition—Maritime Approvals" with respect to approvals received for a dividend from Lines to Mooremack in connection with the proposed acquisition of the assets, properties and business of Pickands.

The Subsidy Agreement provides that it shall terminate on December 31, 1977, is subject to earlier termination by the United States in the event of various defaults thereunder, and may be terminated, modified or amended by mutual consent. Lines does not have the right to terminate the Subsidy Agreement upon its own volition. In the event the United States defaults upon the Subsidy Agreement or terminates it without just cause, Lines may, upon compliance with the provisions of the Act, transfer to foreign registry the vessels covered by the Subsidy Agreement, although such transfer is otherwise prohibited without the approval of the United States. Lines intends to apply for a new operating-differential subsidy agreement to commence upon expiration of the Subsidy Agreement. See "Construction Fund" for a discussion of Lines' obligation to make capital expenditures for vessel replacement under the Subsidy Agreement and any such new agreement.

The Subsidy Agreement provides that Lines may at any time request the United States to modify or rescind the Subsidy Agreement on the ground that a reasonable profit on Lines' investment cannot be produced in the maintenance and operation of the subsidized ships and services, and if the United States determines that such claim is proved it may modify or rescind the Subsidy Agreement.

Construction Fund

Pursuant to the 1970 amendments to the Merchant Marine Act, 1936, Lines has entered into an Interim Capital Construction Fund Agreement (the "Interim Agreement") with the Maritime Administration which replaces the "Capital Reserve Fund" and "Special Reserve Fund" formerly required to be maintained by Lines pursuant to the Subsidy Agreement. The purpose of the Interim Capital Construction Fund (the "Interim Fund") established under the Interim Agreement is to provide replacement vessels, additional vessels or reconstructed vessels for operation in the United States foreign or Great Lakes trade. Upon creation of the Interim Fund, Lines was required to transfer thereto $10,000,000 of the funds held in the Capital Reserve Fund. The balance held in the Capital and Special Reserve Funds (amounting to $26,193,534 on December 31, 1971, including the American Export Notes which were subsequently paid as a dividend to Mooremack) was withdrawn on a taxable basis and transferred to Lines' general funds. See "Federal Income Tax" and Note B of Notes to the Consolidated Statements of Income (Loss) of Mooremack.

In each year during the term of the Interim Agreement as presently in effect, Lines must deposit annually in the Interim Fund (1) earnings from the investment and reinvestment of amounts held in the I· ·im Fund and (2) except as specifically exempted by the Secretary of Commerce net proceeds from ti. ·le or other disposition (including any mortgage) of, and any insurance or indemnity resulting from total loss attributable to, any vessel subject to the Interim Agreement. All ships presently owned by Lines are subject to the Interim Agreement. Lines may also deposit additional amounts in the Interim Fund, but not in excess of the sum of (a) 100% of the taxable income attributable to the operation of such vessels or 100% of the taxable income of Mooremack and its subsidiaries, whichever is less, (b) the depreciation allowable during such year for Federal income tax purposes with respect to such vessels and (c) net proceeds not otherwise required to be deposited from the sale or other disposition of, or any insurance or indemnity attributable to, any such vessel. Earnings deposited in the Interim Fund are not subject to Federal income tax in the year of deposit (see "Federal Income Tax" and Note B of Notes to the Consolidated Statements of Income (Loss) of Mooremack).

In obtaining necessary approvals of Federal maritime authorities to carry out the Pickands purchase, Mooremack will agree that minimum deposits will be made in the Interim Fund (or the permanent Fund referred to below) of $26,644,000 for taxable years 1973-1975 and $50,366,000 for taxable years 1976-1978 in respect of the obligations of Lines and Interlake for vessel replacement, new vessels and reconstruction as outlined in the following paragraph and for payment of indebtedness on vessels subject to the Interim Agreement. These figures were calculated by Federal maritime authorities by taking 90% of the sum of (i) a projected deposit of $5,715,000 to be made by Lines from general funds in the first quarter of 1973, (ii) projected financing of equity in new ships of $14,000,000, (iii) deposits of projected earnings of Lines and Interlake through 1978, (iv) assumed sale at end of 1978 of Lines' current liner fleet for approximately $12,000,000 (equal to outstanding mortgage values) and (v) projected earnings on securities in the Interim Fund. Such projections and assumptions may or may not turn out to be accurate.

The Subsidy Agreement provides that Lines will enter into contracts for construction of 10 new vessels by June 30, 1973. In the Interim Agreement, Lines has undertaken to replace during the period c 77-1987 its present liner fleet with high-productivity ships (together with an appropriate number of containers and/or barges) of a type, size and speed acceptable to the Assistant Secretary of Commerce, and Mooremack's position is that this undertaking supersedes that described in the previous sentence. Lines has applied to the Maritime Administration for amendment of its vessel replacement obligations under the Subsidy Agreement to conform with such position. If such amendment is granted, it is anticipated that a definitive program of capital expenditures in respect of replacing Lines' present liner fleet will be a condition to the new subsidy agreement for which Lines intends to apply for the period beginning January 1, 1978. Failure of Lines to comply with its vessel replacement obligations could result in a termination of the Subsidy Agreement or in a partial termination in respect of a particular trade route. In connection with obtaining approval of Federal maritime authorities for sale of the passenger vessels SS Brasil and SS Argentina (see "Recent Developments"), Lines has also agreed that by August 4, 1973, it will enter into contracts for the construction of new vessels for an amount (net of construction-differential subsidy) equal to at least $34,770,000. Prior to consummation of the proposed acquisition of the assets, properties and business of Pickands, qualified withdrawals may be made from the Interim Fund only for the above purposes and for payment of the indebtedness on Lines' vessels (see "Federal Income Tax"). In connection with obtaining necessary approvals of Federal maritime authorities for the proposed acquisition of the assets, properties and business of Pickands, Lines has undertaken (i) during the years 1974 to 1977 to convert three of the vessels to be acquired from Pickands from coal to oil power and to lengthen and otherwise reconstruct another two of such vessels and (ii) beginning in 1977, to acquire, or enter into contracts for construction of, two new 50,000 deadweight ton vessels for use on the Great Lakes in the carriage of new bulk iron ore cargoes to be generated by a proposed iron ore processing plant. It is a condition to the approvals received from Federal maritime authorities in connection with the proposed acquisition that, prior to the consummation thereof, the Interim Agreement be amended to incorporate the undertakings referred to in (i) and (ii) above (see "Brief Description of the Proposed Acquisition—Maritime Approvals"). Upon execution of

such amendment and consummation of the proposed acquisition, the category of qualified withdrawals from the Interim Fund will be expanded to include withdrawals for the above purposes and for payment of the principal of the purchase indebtedness on vessels acquired from Pickands (see "Brief Description of the Proposed Acquisition—Maritime Approvals" and "Federal Income Tax").

Under the Subsidy Agreement, which remains in full force and effect, before Lines undertakes any construction pursuant to its vessel replacement program thereunder (*i.e.*, the 10 new vessels mentioned in the first sentence of the preceding paragraph or such program as amended) the Government must find that such construction is economically feasible and that there is available to Lines sufficient financing to carry out such construction including, without limitation, construction-differential subsidy under Title V and/or Federally guaranteed mortgage financing under Title XI of the Merchant Marine Act, 1936. Furthermore, Title XI provides that no mortgage or loan shall be insured unless the Secretary of Commerce finds that the property or project with respect to which such loan or mortgage is to be executed will in his opinion be economically sound. Also, as previously mentioned, the Subsidy Agreement will terminate on December 31, 1977, and will have to be renegotiated prior thereto. Finally, Mooremack proposes to discuss in the future with Federal maritime authorities the appropriateness of the deposits for 1973-1978 referred to above, taking into consideration actual definitive contractual commitments made for vessel replacement, new vessels and reconstruction as to both Lines and Interlake as they are made in the future and future actual earnings and conditions in the shipping industry generally on the routes served by Lines and Interlake.

It is anticipated that the Interim Agreement will be replaced by a permanent Capital Construction Fund Agreement as soon as the necessary joint regulations have been issued by the Secretary of Commerce and the Secretary of the Treasury and that deposits in the Interim Fund will be transferred to the permanent Fund without change in tax status (see "Federal Income Tax"). The terms of the permanent Agreement cannot be predicted at this time. The Interim Agreement will terminate (a) upon failure by Lines to apply for a permanent Agreement within 60 days after adoption of the final form by the Secretary of Commerce, (b) upon denial by the Secretary of Commerce of an application for a permanent Agreement, (c) by mutual consent, (d) upon failure by Lines to execute a permanent Agreement within 30 days after tender by the Secretary of Commerce or (e) upon the execution of a permanent Agreement.

Mooremack cannot predict what actions will be taken in the future with respect to the matters covered under this section "Construction Fund".

Federal Income Tax

Earnings deposited in the Interim Fund are not subject to Federal income tax in the year of deposit, and no Federal income tax provision with respect to such earnings is made by Mooremack in such year. Upon execution of a Permanent Capital Construction Fund Agreement, amounts permitted to be transferred from the Interim Fund will retain their tax status (see "Construction Fund").

Withdrawals from the Interim Fund are classified as either "qualified" or "nonqualified" withdrawals. Qualified withdrawals may be made only for the acquisition, construction or reconstruction of qualified vessels, barges or containers, or payment of the principal of indebtedness incurred in connection therewith. All other withdrawals, including withdrawals upon termination of the Interim Fund (other than for transfer to such permanent Fund), are classified as nonqualified withdrawals.

Qualified withdrawals of earnings previously deposited in the Interim Fund (or such permanent Fund) will be applied to reduce Mooremack's depreciable tax basis in qualified vessels, barges or containers and, to the extent so applied, will not constitute taxable income in the year of withdrawal. The effect of reducing the depreciable tax basis in such assets is to reduce the available depreciation deduction in the current and later years and, accordingly, to increase taxable income (if any) in such years. It is anticipated that such increase will be offset by additional deposits from earnings (see "Construction Fund").

Nonqualified withdrawals will result in the recognition by Mooremack and its consolidated subsidiaries of taxable income in the year of withdrawal to the extent that the deposit of the amounts withdrawn resulted in the exclusion of taxable income in the year of deposit. In addition, interest is payable at the statutory rate (presently 8%) upon the additional tax attributable to nonqualified withdrawals of earnings from the due date for the Federal income tax return for the year in which the amounts withdrawn were deposited until the due date for the Federal income tax return for the year of withdrawal.

If a permanent Capital Construction Fund Agreement is executed (see "Construction Fund"), the foregoing rules will be applicable to deposits in and withdrawals from the permanent Fund established thereby.

Under approvals received from Federal maritime authorities (see "Brief Description of the Proposed Acquisition—Maritime Approvals"), the payment of (i) $6,000,000 of the cash portion of the purchase price, (ii) the principal of the Secured Note and (iii) the principal of the Chase loan which will refinance a portion of the Secured Note, will, in the opinion of management, constitute qualified withdrawals from the Interim Fund.

See Note B of Notes to the Consolidated Statements of Income (Loss) of Mooremack.

Construction-Differential Subsidy

In order to equalize the cost of building or reconditioning vessels in an American yard with that encountered in a foreign yard a construction-differential subsidy may be granted to United States shipyards with respect to ships to be used in the foreign commerce of the United States. The subsidy is presently limited to 41% of the cost of construction (decreasing to 35% at the rate of 2% per year on July 1 of each year). The Subsidy Agreement provides for the payment of construction-differential subsidies to shipyards in connection with construction for Lines of the vessels required for its liner fleet replacement program. Other vessels are also eligible to be built with construction-differential subsidies if operated in foreign commerce.

Vessels constructed for Lines under construction-differential subsidy agreements (1) must remain documented under the laws of the United States for not less than 25 years and (2) must be operated exclusively in foreign trade, subject to statutory provisions for repayment of a pro rata portion of the construction-differential subsidy in the event that, with the consent of the Maritime Administration, such vessels are operated on certain voyages in foreign trade on which they carry domestic cargo or on voyages to and from an island possession or island territory of the United States. In the event the United States shall, through purchase or requisition, acquire ownership of any such vessel, Lines shall be paid their value but not in excess of their actual depreciated construction cost plus capital improvements (excluding the cost of national defense features previously paid by the United States) less the depreciated amount of construction-differential subsidy or the scrap value as determined by the United States, whichever is greater.

Litigation

Lines, 17 other steamship companies and the Conference of Atlantic & Gulf American Flag Berth Operators (AGAFBO) are defendants in a suit (*J. Read Smith, et al.* v. *Atlantic & Gulf American Flag Berth Operators, et al.*) brought in August 1966 in the United States District Court for the District of Columbia by Sapphire Steamship Lines, Inc. ("Sapphire"), and two other companies, seeking treble damages against all the defendants, jointly and severally, in the total amount of $15,300,000 for restraining trade in and conspiring to monopolize ocean carriage of military household cargoes between Atlantic and Gulf Coast ports in the United States and ports in Europe in violation of the Sherman Act, and treble damages are sought against certain subsidized lines, including Lines, jointly and severally, for engaging in practices that were allegedly unjustly discriminatory and unfair in violation of Section 810 of the Merchant Marine Act, 1936. Lines and the other defendants have filed answers denying all the substantive allegations of the complaint. Such allegations refer to substantially the same matters as were the subject of a proceeding before the Maritime Commission (*Rates on U. S.*

Government Cargoes, Docket No. 65-13), in which the Commission found that AGAFBO had violated Section 18(b)(5) and Section 15 of the Shipping Act, 1916, in instituting certain rates. Some of the allegations underlying the claim under Section 810 of the Merchant Marine Act, 1936, also relate to matters involved in a proceeding before the Maritime Subsidy Board described in the paragraph below, in which the Administrative Law Judge has recommended that Lines and other members of AGAFBO be found liable for a violation under Section 810. On June 27, 1969, the court granted defendants' motion to dismiss the complaint of one of the plaintiffs, Pioneer Overseas Corporation, which sought damages in the amount of $3,000,000. On December 18, 1970, the complaint of another plaintiff, Liberty Pack International, which sought damages in the amount of $300,000, was dismissed against Lines and certain other defendants. In July 1970, plaintiff J. Read Smith, trustee for the bankrupt estate of Sapphire, reached agreement with five of the defendants, including Lines, under which the major claim in the action against such defendants would be settled for an aggregate of $1,450,000, of which Lines' share would have been approximately $245,000. On May 24, 1971, the Referee in Bankruptcy disapproved the settlement agreement on the grounds that it was inadequate compared with the amount which might be recovered after trial, and on February 2, 1972, the United States District Court for the Southern District of New York approved the Referee's disapproval. The action is now pending.

The Maritime Administration instituted an investigation pursuant to Section 214 of the Merchant Marine Act, 1936, to ascertain whether Lines and the other members of AGAFBO violated Section 810 of such Act by acting in a manner unjustly discriminatory or unfair to Sapphire and, if so, what action should be taken. The Administrative Law Judge has issued a Recommended Decision concluding that Lines and certain other respondents violated Section 810 of the Act and recommending that the Maritime Subsidy Board recover approximately $760,000 in subsidies from Lines and that notice of the final decision be forwarded to the Department of Agriculture for possible action to recover alleged freight rate differentials on preference cargo in the amount of approximately $375,000. Lines has filed exceptions to the Administrative Law Judge's Recommended Decision with the Maritime Subsidy Board before which the matter is now pending.

Lines is also a defendant in numerous other lawsuits and claims resulting from its operations, both continuing and discontinued. In the opinion of management of Mooremack, such lawsuits and claims and the actions referred to above will not in the aggregate have a material adverse effect on the consolidated financial position or results of operations of Mooremack and its subsidiaries.

BUSINESS AND PROPERTIES OF PICKANDS

Pickands has been primarily engaged in supplying the steel industry with raw materials since Pickands was first organized as a partnership in 1883. During 1929 the partnership formed a Delaware corporation, Mather Iron Company, largely for the purpose of holding title to certain assets. In 1960 the corporation changed its name to Pickands Mather & Co. and thereafter conducted all of the business formerly carried on by the partnership which has since been dissolved. On August 31, 1966, The Interlake Steamship Company (in which Pickands had a 12.4% interest and the operations of which had been managed by Pickands for many years) was merged into Pickands. On January 3, 1969, in a merger transaction, Pickands was acquired by, and has since been operated as a subsidiary of, Diamond Shamrock Corporation. The general offices of Pickands are located at 1100 Superior Avenue, Cleveland, Ohio, 44114; telephone number (216) 694-5700.

The business activities of Pickands include the management of properties; transportation and related activities; principal and broker sales and related operations (including limestone mining and processing and coke production); agency sales; investments; and exploration.

The following table sets forth for the periods indicated, by lines of business (and in certain cases by principal classes of products or services), Pickands' gross revenues and operating earnings (earnings before income taxes, extraordinary items, certain non-recurring items and unallocated corporate expense). This table should be read in conjunction with the Consolidated Income Statement of Pickands which appears elsewhere in this Proxy Statement.

es of Business and Principal
sses of Products or Services

	Year ended December 31,									
	1972		1971		1970		1969		1968	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Amounts in thousands of dollars)									
s Revenues										
Management of Properties	$ 3,032	4.2	$ 2,858	3.8	$ 2,772	3.6	$ 2,279	2.9	$ 2,331	2.9
Transportation and Related Activities	18,007	24.7	17,035	22.5	19,216	25.1	19,669	25.1	18,482	23.2
Principal and Broker Sales										
Coal	14,464	19.8	16,595	21.9	17,617	23.0	20,507	26.2	22,489	28.2
Coke	15,021	20.6	15,279	20.2	13,124	17.2	12,304	15.7	11,251	14.1
Iron Ore	8,216	11.3	11,139	14.7	11,377	14.9	12,483	15.9	14,909	18.7
Limestone	7,329	10.0	6,174	8.2	5,647	7.4	5,985	7.6	5,225	6.6
Other	—	—	13	—	164	.2	—	—	—	—
	45,030	61.7	49,200	65.0	47,929	62.7	51,279	65.4	53,874	67.6
Agency Sales	3,549	4.9	3,222	4.3	3,704	4.9	3,136	4.0	3,004	3.7
Investments	3,315	4.5	3,345	4.4	2,810	3.7	2,048	2.6	2,045	2.6
Exploration	—	—	—	—	—	—	—	—	—	—
	$72,933	100.0	$75,660	100.0	$76,431	100.0	$78,411	100.0	$79,736	100.0
ating Earnings										
Management of Properties	$ 2,602	23.8	$ 2,442	28.2	$ 2,456	20.7	$ 2,031	18.1	$ 2,065	17.5
Transportation and Related Activities	4,473	40.9	3,380	39.0	4,353	36.6	4,900	43.6	5,190	44.1
Principal and Broker Sales	528	4.8	746	8.6	2,180	18.3	1,954	17.3	2,213	18.8
Agency Sales	989	9.0	993	11.5	1,515	12.7	1,082	9.6	984	8.3
Investments	3,231	29.5	3,278	37.8	2,752	23.1	2,013	17.9	2,021	17.2
Exploration	(873)	(8.0)	(2,172)	(25.1)	(1,354)	(11.4)	(734)	(6.5)	(697)	(5.9)
	$10,950	100.0	$ 8,667	100.0	$11,902	100.0	$11,246	100.0	$11,776	100.0
Corporate and General Expense (net) (Note 2)	(1,703)		(1,448)		(1,418)		(2,554)		(3,204)	
Loss on accounts receivable from ba pt railroad	—		(698)		—		—		—	
Loss termination of certain coal operations	(1,130)		—		—		—		—	
ne before provision for income taxes	$ 8,117		$ 6,521		$10,484		$ 8,692		$ 8,572	

E 1—For relative contribution of various products shipped to gross revenues, see "Transportation and Related Activities—Great Lakes Fleet" below.

E 2—The amounts shown for corporate and general expense (net) historically have not been allocated in Pickands' accounting records to the lines of business set forth herein. There are three kinds of administrative, selling and general expenses shown in the Consolidated Income Statement of Pickands: first, Pickands' corporate and general expense (net) mentioned above; second, that expense which is directly assignable to the line of business categories shown; and third, that expense which has been allocated against the operating earnings of the lines of business on an empirical basis reflecting the judgment of Pickands' management (approximately 15 to 20% of the total).

Management of Properties

The aggregate capital investment (including estimated capital costs of construction work now in progress) in the projects managed by Pickands (including those in which it has an ownership interest) is approximately one billion dollars. See "Principal and Broker Sales and Related Operations" for a description of limestone mining.

Iron Ore. Pickands is Manager for six operating iron ore properties. In three of these, Wabush Mines, Hilton Mines and Savage River Mines, Pickands holds ownership interests of 5.2%, 25% and approximately 24%, respectively. Among the other owners of these properties are major steel companies in the United States, Canada, Japan and Italy. Pickands supervises the mining of ore and operation of concentration and pelletizing plants to produce either a high grade concentrate or iron ore pellets. As Manager, Pickands also has planned and managed the construction of, and in some instances has operated and continues to operate, the townsites located near the mines and the railroads, docks and

loading facilities required for the transportation of mine products. There follows a brief description of the six iron ore properties.

Owner and Site Location	Estimated Life of the Mines(1)	Annual Design Capacity for Production of Pellets (Unless Otherwise Specified) in Tons(2)	Production in Tons 1970	1971	1972	Ratio of Crude Ore to Product
Erie Mining Company, Minnesota	Through 2017	10,300,000	10,382,618	9,895,037	9,708,458	3.0 to 1
Wabush Mines, Newfoundland and Quebec, Canada	Through 2037	6,000,000	5,440,553	5,956,247	4,634,913(3)	2.6 to 1
Savage River Mines, Tasmania, Australia	Through 1986	2,500,000	1,926,826	2,204,941	2,355,961	2.0 to 1
The Hilton Mines, Quebec, Canada	Through 1975	900,000	923,404	922,672	885,169	2.6 to 1
The Griffith Mine, Ontario, Canada	Through 2003	1,500,000	1,431,961	1,363,708	1,432,945	3.0 to 1
Mahoning Ore and Steel Company, Minnesota	Through 1973	750,000 Concentrates	1,017,220	1,174,654	1,013,446	1.3 to 1

(1) Based on the production capacities set forth in this table and upon known reserves.

(2) Iron ore products in this Proxy Statement are stated in dry long tons (2,240 pounds).

(3) Production for 1972 was adversely affected by record low temperatures and snow in January and February (which interfered with the open pit mine operation and transportation of concentrate) followed by extended work stoppages in May, July and August. Start-up problems following the work stoppages also contributed to reduce production.

During 1970, 1971 and 1972 production from all ore properties (including production from a mine shut down during 1970) managed by Pickands was approximately 21,100,000, 21,500,000 and 20,000,000 tons, respectively, of which approximately 20,100,000, 20,300,000 and 19,000,000 tons were pellets and the balance concentrates and direct shipping ore. It requires from two to three tons of crude ore to produce one ton of pellets, depending upon the grade of ore being mined.

Pickands manages the above iron ore properties pursuant to management agreements with the owners. As compensation for its services, Pickands receives reimbursement for substantially all expenses directly or indirectly incurred by it in the operation of such properties and receives a management fee based on the number of tons shipped. The Erie, Hilton and Mahoning management agreements may be terminated by either party at the end of any year upon one year's notice. The Savage River management agreement runs until 1988 and Pickands' employment under the Wabush and Griffith management agreements may be terminated upon one year's notice but, if so terminated, the management fees payable thereunder continue for fixed periods (terminating between 1975 and 1986) at reduced amounts. However, it has been Pickands' experience that its mine management agreements have generally continued for the economic life of the mine.

Price for Savage River Mines tonnage averaged $12.99 per ton for the years 1969-72, and the average price in each year varied from such 4-year average by less than 4%. Cost per ton for 1969-72 averaged $7.96 and average cost in each year varied from such 4-year average by less than 10%. Tons mined (and dry iron analysis) were: 1969, 1,934,878 (67.89%); 1970, 1,926,826 (67.07%); 1971, 2,204,941 (66.82%); and 1972, 2,355,961 (67.04%).

Coal. Pickands manages the Chisholm Mine in Kentucky and the Madison Mine in West Virginia (which commenced operations last year) for a Canadian steel company. The Chisholm Mine has known coal reserves of 35,000,000 recoverable net tons, sufficient for 35 years at its present production rate of 1,000,000 net tons annually. The Madison Mine commenced operations in mid-1972 and is scheduled to reach its design capacity of 750,000 net tons annually by April 1, 1973. If the mine operates at design capacity, its coal reserves are sufficient for 20 years. In addition, Pickands is currently developing and will manage the Beckley Mine in West Virginia in which it has a 12½% interest. This mine is designed to be capable of producing 1,500,000 net tons annually for approximately 28 years. It is expected to be completed in 1974. The management agreements with respect to these properties are terminable at various dates between 1976 and 1987 (or earlier upon payment of substantial penalties) and have provisions which are substantially the same as those relating to the iron ore mines, except in the case of the Beckley Mine where Pickands receives a higher fee but bears its own expenses as Manager.

Construction. Pickands has been responsible either by itself or in cooperation with others for organizing, constructing and placing in operation most of the projects which are now under its management. In certain of these instances, it has received or will receive, in addition to the management fees previously described, a lump sum fee based upon the estimated construction costs of the project involved.

Transportation and Related Activities

Great Lakes Fleet. Pickands owns and operates a fleet of 13 vessels with a total capacity of 244,400 tons (except as otherwise indicated, all tonnage references under this caption are in long tons of 2,240 pounds) as follows:

Vessel	Capacity (tons)	Age (years)
John Sherwin	(1) 29,900	15
Charles M. Beeghly	30,400	14
Herbert C. Jackson	24,400	14
Elton Hoyt 2nd	22,200	21
J. L. Mauthe	20,600	21
Harry Coulby	16,100	46
E. G. Grace	16,100	30
Frank Armstrong	16,000	30
Charles M. Schwab	14,700	50
Robert Hobson	13,500	46
Samuel Mather	13,500	47
Colonel James Pickands	13,500	47
Walter E. Watson	13,500	53
Total	244,400	

(1) After lengthening which is scheduled for completion during April, 1973.

Approximately $10,400,000 in the aggregate has been spent or committed during the last five years for fleet repairs and modernization, including the lengthening of two vessels. See also "Capital Expenditures" below. The shipping season on the Great Lakes normally extends from April through December. Last year ten vessels, and in 1971 all vessels, were operated by Pickands.

The following table sets forth the tonnages and freight revenues (1) during the past three years:

	Iron Ore		Limestone		Coal		Grain and Misc.	Inter-Company/ Division	Total Net
Year	Long Tons	Revenue	Long Tons	Revenue	Net Tons	Revenue	Revenue*	Revenue	Revenue
1970	8,106,777	$16,752,282	303,945	$370,990	387,432	$485,471	$373,604	$(218,218)	$17,764,129
1971	6,670,921	$14,795,547	206,841	$279,235	319,021	$439,481	$553,423	$(210,311)	$15,857,375
1972	6,794,485	$15,116,676	337,026	$478,575	480,767	$670,031	$182,396	$(162,548)	$16,285,130

(1) The primary business of the Great Lakes Fleet is floating iron ore and the carrying of other products is largely incidental.

* Note: Includes income from charters — (1970 = $349,600) (1971 = $325,000) (1972 = 0).

Pursuant to the present bulk cargo exemptions of the Interstate Commerce Act, the freight charges of Pickands are not subject to regulation.

Pickands has floating contracts with four iron and steel companies. Two of the contracts involve the carriage of iron ore and limestone while two others involve the carriage of iron ore only. Freight rates specified in the contracts are those generally prevailing on the Great Lakes. During 1972, approximately 85% of the freight revenues were attributable to these contracts, including 46% of such revenues in the case of the contract with Youngstown Sheet and Tube Company which expires in 1975. The other three contracts expire over periods ranging from 1976 to 1987.

The Great Lakes Fleet employs approximately 330 persons.

Docks. In addition to the dock facilities managed by Pickands in connection with the ore mining operations previously described, Pickands has an ownership interest in, and manages jointly with others, the operations of several dock facilities devoted to the trans-shipment of iron ore and coal in lake

vessels. These agreements are generally on a year-to-year basis and cancellable at their anniversary dates upon 30- to 60-days notice. During 1972 the aggregate tonnages handled over these docks were approximately 7,000,000 long tons of iron ore and 8,500,000 net tons of coal.

Principal and Broker Sales and Related Operations

Coal. During 1972, Pickands purchased and resold as a broker approximately 1,385,000 net tons of coal, and also sold approximately 137,000 net tons of coal from its own properties which terminated operations during the year.

Coke. The Milwaukee Solvay Coke Co., a Pickands division, owns a foundry coke plant in Milwaukee, Wisconsin. The plant is located upon approximately 46 acres, fronting on the Kinnickinnic River. In 1972, this Division employed approximately 330 employees and operated approximately 200 coke ovens which produced approximately 311,000 net tons of foundry and other coke, and related by-products. All of the product was sold on the open market, the coke primarily to various foundry operators and the by-products to others. The principal raw material used in the manufacture of coke is metallurgical grade coal. Pickands has encountered no difficulty in obtaining at prevailing market prices an adequate supply of raw materials for the plant. The plant during 1972 operated at approximately 80% of capacity. On February 1, 1973, operation of 50 obsolete ovens was discontinued and operation of an additional 50 such ovens is scheduled for discontinuance prior to May 1, 1973. After these discontinuances, the plant will have the capacity to produce annually about 235,000 net tons of product.

Iron Ore. During 1972, Pickands sold on the open market approximately 518,000 long tons of iron ore received from Wabush Mines and Hilton Mines through its ownership participation in these projects. See "Management of Properties—Iron Ore" above.

Limestone. The Carbon Limestone Company, a Pickands division, has quarrying and processing operations located in adjoining areas of eastern Ohio and western Pennsylvania, near Youngstown, Ohio, on properties owned or held under leases which expire between 1977 and 1997. This Division has approximately 230 employees. During 1970 it produced 1,540,000 net tons of limestone and 122,000 net tons of by-products (coal, fire clay and fertilizer); in 1971 it produced 1,508,000 net tons of limestone and 117,000 net tons of by-product and, in 1972, 1,760,000 net tons of limestone and 130,000 net tons of by-product. About one-half of the limestone and most of the other products are sold on a year-to-year basis principally to iron and steel, and chemical companies. The remainder of the limestone is sold either on a spot basis or as required for a specific project. It is estimated that limestone reserves are sufficient for at least 30 years of operations at the normal production rate averaging 1,500,000 net tons per year. In addition, Carbon owns four concrete block plants with a productive capacity in excess of 6,000,000 units per year. The product of the block plants is sold in the open market to customers in the building and construction industry located near the plants. The Carbon block plants are being operated at approximately 118% of capacity.

Marketing. Pickands employs 54 persons engaged in the marketing of iron ore, coal, pig iron, ferroalloys and coke, including fuel engineers, service engineers, salesmen, inspectors and customer representatives. Sales offices are maintained in nine cities located east of the Mississippi River. The Carbon Limestone Company Division maintains its own organization consisting of 9 persons for sales of its products in the Youngstown area.

Agency Sales

Pickands sells coal, pig iron, ferroalloys, coke and Massive Manganese for the account of others pursuant to sales agency agreements, generally terminable on one year's notice under which it is paid a commission based on the sales price. Pickands is the exclusive sales agent for all merchant pig iron, coke and ferroalloys produced by Interlake, Inc. and, during 1972, sold approximately 651,000 net tons of merchant pig iron, 74,000 net tons of coke and 68,000 net tons of ferroalloys. Pickands also sells coke and Massive Manganese for Diamond Shamrock Corporation. During 1972, as sales agent, it sold commodities having an aggregate sales price of approximately $111,000,000 including approximately 4,000,000 net tons of coal which constituted approximately $30,000,000 of such aggregate sales price. See "Principal and Broker Sales—Marketing" above.

Investments

Among the principal investments and other assets of Pickands and its subsidiaries as of December 31, 1972 are:

(a) An interest of 5.2% in The Wabush Mines joint venture representing a cash investment by Pickands of $4,573,375.

(b) An interest of approximately 24% in The Savage River Mines joint venture representing a cash investment by Pickands in the capital stock of one of the 50% joint venturers of $2,794,249, and an additional $435,188 ($344,635 after depletion) in royalty producing mineral property rights at Savage River Mines.

(c) A 25% interest in The Hilton Mines joint venture representing a cash investment by Pickands of $200,000.

(d) Various agreements pursuant to which Pickands is entitled to receive payments measured by tonnages of iron ore and coal produced and shipped. The amount of such payments received during 1972 aggregated approximately $1,000,000 as to iron ore and $50,000 as to coal. It is estimated that payments pursuant to agreements respecting iron ore will continue at approximately the current annual rate until the iron ore contained in these properties is exhausted or the leases terminated. When the coal properties currently under development reach capacity in 1974, the total amount of payments relative to them should be increased by $350,000.

(e) A 12½% interest in The Beckley Mine representing a cash investment by Pickands as of December 31, 1972 of $1,000,000.

Exploration

Pickands is regularly engaged in exploration for various minerals in North America and overseas.

IRON PROPERTIES

Seignelay Properties, Quebec. Pickands holds a 50% ownership interest in a group of properties located approximately 200 miles from the nearest ore shipping facilities on the St. Lawrence River in the northeastern part of the Province of Quebec, Canada. As a result of field exploration and metallurgical test work conducted on these properties over the period from 1958 through 1962, Pickands estimates that the properties contain material averaging 30% iron and sufficient for the production of approximately 200,000,000 tons of iron ore concentrates. Test work has shown that approximately 2.7 tons of the crude material, which can be mined by surface methods, will be required to produce, with conventional technology, one ton of concentrates containing approximately 65% iron, which can be used either for sinter feed or can be pelletized. The test work has further demonstrated that the concentrates can be further up-graded by conventional technology to serve as feed for a direct reduction process. There are presently no definitive plans for commercial development of these deposits.

Because of the remote location of these properties, their commercial development, as in the case of the Erie and Wabush projects (see "Management of Properties" above), would involve expenditures of the order of several hundred million dollars which would include provision of housing for employees and transportation facilities for the product. The investment of Pickands in this project as of December 31, 1972, is $1,450,000.

Hibbing Taconite Project. Pickands has managed the preparation of a feasibility study for a taconite project near Hibbing, Minnesota. The study covers properties owned or held under lease by three companies, beneficially owned by several corporations in varying interests. In the lands held by one of these companies, Pickands has a 30% beneficial interest and a domestic steel producer holds the remaining 70%. Discussions have been held among the stockholders of the three companies seeking to find an acceptable basis for pooling the lands held by the companies, but no formal agree-

ments have yet been consummated. The abovementioned steel producer, which is also a stockholder in the other two companies, has agreed that Pickands is entitled to a beneficial interest in any lands hereafter dedicated to the project equal to its percentage participation in the project, but not in excess of 30%.

If all the taconite deposits contained in the lands held by the three companies were made available for the project, Pickands has determined by metallurgical testing of drill cores and bulk sampling that approximately 360,000,000 tons of iron ore pellets containing 66.9% iron can be produced from the project, which would have deposits totalling 1,300,000,000 tons of crude iron-bearing taconite, containing approximately 29% iron. The capital investment required for a mining operation, including a plant, capable of producing 4,500,000 tons of pellets annually would be approximately $125,000,000. There are presently no definitive plans for commercial development of these deposits.

The taconite deposits are located close to developed areas where an adequate supply of skilled labor and transportation facilities are available. Mining and processing of the taconite would be accomplished through the employment of conventional technology. Other iron ore operations are presently mining and processing adjacent taconite reserves of similar quality.

The investment of Pickands in the Hibbing Taconite Project as of December 31, 1972, based upon a 30% interest, is $700,000.

Ivory Coast. In December, 1968, Pickands entered into a Convention with the Government of Ivory Coast pursuant to which Pickands obtained a permit to explore for iron ore. Pickands has retained a 60% interest in its rights under the Convention, 40% having thus far been sold to others. At December 31, 1972, Pickands' investment in the project was $3,600,000. The Convention established the terms and conditions under which the Government of Ivory Coast will permit Pickands to explore within a defined area and under which the Government will award mining concessions, valid for 75 years, to develop any iron ore discovered; as to the latter, the Convention sets forth the franchises and benefits, including rates of taxation, which will prevail during the first 33 years of life of the concessions.

The exploration permit by its terms would have expired March 8, 1973. Prior to its expiration, Pickands requested an extension of the permit for three years and under Ivorian law permit automatically extended until the Government responds to the request. Pickands has received official assurance from the Secretary of State in Charge of Mines of Ivory Coast that the extension will be granted by presidential ordinance. Any such extension will require ratification by parliament at a session due to convene in late Spring, 1973. In spite of such governmental representations, no assurance can now be given that such extension will in fact be granted.

Under the terms of the Convention, as a condition to the granting of any concession to develop iron ore deposits explored under the permit, Pickands (and the other ownership interest holders) must agree, within the period of the permit, to submit a plan of financing for such development within three years and to make a commitment to spend more than $50,000,000 on such development within five years of the granting of such concession.

Pickands has delineated five separate deposits aggregating approximately 1,800,000,000 tons of crude iron-bearing material, containing 36% iron sufficient to produce 790,000,000 tons of pellets. It has been determined by metallurgical testing of drill cores and a bulk sample that 2.10 tons of crude material containing 36.3% iron from the deposits would be required to produce one ton of pellets containing 66.00% iron.

Feasibility studies have shown that about $400,000,000 would be required for engineering, mine development and construction of processing, transportation, port and shipping facilities, in order to develop the first of these deposits for production at a rate of nine million tons of product per year. Capital costs for development of the other deposits, which would use some of the facilities required for the first deposit, would necessarily be less for each million tone of production capacity.

Pickands does not expect to request a mining concession until iron ore consumers have committed to provide or underwrite at least 80% of the financing (with Pickands undertaking the remainder) and to purchase 100% of the production from the project.

NONFERROUS EXPLORATION

Among Pickands' principal nonferrous exploration efforts are two joint ventures in Western Australia in which Pickands' shares are 26.65% and 22.85%, respectively, one tin-tungsten project in Thailand in which it has a 51% participation and a joint venture in British Columbia in which Pickands has a 50% participation. These nonferrous investigations to date have not shown the presence of a commercially mineable ore body. At December 31, 1972, Pickands' investment in these investigations aggregated $70,000.

COAL PROPERTIES

Pike County, Kentucky. Pickands is currently acquiring leases and options to lease certain coal deposits in Pike County, Kentucky. The principal option, expiring in 1975, gives Pickands the right to lease about 12,000 acres of mineralized land. About 2,000 acres of additional mineralized land are under an exhaustion lease (surrenderable until May 31, 1973) requiring the payment of minimum royalties creditable against royalties payable in respect of future coal production. (An "exhaustion lease" is one in which the lessee is obligated to extract all of the mineable and merchantable coal from the premises, paying the royalty as the coal is produced, or to pay royalties at the minimum annual royalty rate until the aggregate royalties paid equal the amount of earned royalties which would have been paid had the coal been extracted to the point of exhaustion of the property.) About 1,600 acres of surface lands (including acreage required for mine plant), and also covering the underlying coal, are under an option, expiring June 1, 1975, for an exhaustion lease requiring payment of certain minimum royalties. The total coal lands to be acquired cover 20,000 acres estimated, on the basis of 22 random drill holes and bench scale tests, to contain 90,000,000 recoverable net tons of high volatile, low sulfur (0.6%) metallurgical grade coal in the Pond Creek seam. Development of these deposits currently is being discussed with several prospective consumers of coal. There is no assurance that these discussions will lead to any firm commitment to bring the property into production, prior to the expiration of the principal options in 1975. Such development, estimated to cost $25,000,000 for a one million ton-per-year plant, cannot proceed until equity financing and debt financing (secured by long-term purchase contracts for the coal) is obtained. While Pickands had a capital investment of only $1,000 in the Pike County project as of December 31, 1972, it will expend about $138,000 to maintain the options and leases in effect in 1973, and about $251,000 in 1974 and about $100,000 in 1975.

Ohio Coal Properties. In Carroll County, Ohio, Pickands owns about 11,500 acres and leases about 350 acres of coal lands estimated on the basis of 50 drill holes to contain about 34,000,000 net tons of recoverable coal. Although Pickands is discussing with an interested coal user the development of this property, Pickands has no assurance that such discussion will result in the decision to develop the property. An investment of about $20,000,000 would be required for a mine and plant capable of producing 2,000,000 tons of coal per year. However, the high sulfur content of the coal limits the market for it and reduces the chances that the property will eventually be developed.

Through a subsidiary, Pickands owns 1,750 acres, and leases an additional 400 acres, of coal properties near the town of Bergholz, in Jefferson County, Ohio. No estimate of the amount of coal recoverable from this property has been made. Pickands has no present plans for development of this property.

Pickands' investment in the Ohio coal properties at December 31, 1972, amounted to $1,089,000.

Consents

The proposed transaction between Pickands and Mooremack is a sale of substantially all the assets of Pickands, including the stock of subsidiary companies. The Purchase Agreement between the parties contemplates that consents be obtained to the assignment by Pickands of numerous contracts to which

Pickands is a party (including the management agreements, floating contracts, mineral leases and sales agency agreements, referred to elsewhere herein). There can be no assurance that such consents will be obtained. The obtaining of certain of such consents is a condition to the obligations of Pickands under the Purchase Agreement (see "Description of the Proposed Acquisition—Conditions").

Capital Expenditures

During the three years ended December 31, 1972, the capital expenditures, and the depreciation and depletion of property, plant and equipment of Pickands were as follows:

Year ended December 31,	Capital Expenditures	Depreciation and Depletion
1970	$ 3,797,527	$ 2,661,611
1971	3,061,400	2,224,794
1972	4,540,399	2,348,341

During such periods, net proceeds from sales of property, plant and equipment of Pickands were $4,074,614 in 1970, $1,947,491, in 1971, and were not material in 1972. The proceeds came principally from sales of vessels of the Great Lakes fleet (3 in 1970, and 2 in 1971). Major capital expenditure programs included in the above table are the Ivory Coast project ($1,921,000 in 1970, $693,000 in 1971 and $648,000 in 1972), and the lengthening of two vessels of the fleet ($648,000 in 1971 and $2,417,000 in 1972).

During 1973 Pickands anticipates spending approximately $2,000,000 on capital expenditures, including $1,086,000 to complete the vessel lengthening program and $120,000 on the Ivory Coast project. It is estimated that the balance will be spent to replace or improve the efficiency of present machinery and equipment.

Employees

Pickands employs approximately 1,400 persons of which approximately 800 are hourly personnel and the balance salaried. In addition, Pickands supervises approximately 6,300 employees (including 4,700 hourly and 1,600 salaried) who are employed at the various operations which Pickands manages for others. Hourly paid employees of Pickands and hourly paid employees at the managed operations are represented in the United States and Canada by major labor unions including the United Mine Workers, United Steelworkers, Marine Engineers, United Auto Workers, International Brotherhood of Teamsters, International Longshoremen's Association, and International Brotherhood of Electrical Workers. Other Unions represent workers in Australia. Labor agreements with the aforementioned unions expire at various dates in the period 1973 through 1975. During 1971 and 1972, respectively, work stoppages at the operations listed below caused the following lost time:

	No. of Work Shifts Lost as % of Total Scheduled	
	1971	1972
Chisholm Mine	17.0%	2.4%
Erie Mining Company	1.9	None
Wabush Mines	None	8.2
Savage River Mines	.5	.5
Madison Mine	—	2.5

Other operations owned or managed by Pickands were not materially and adversely affected by strikes during the last two years.

Contingent Liabilities

Pickands is contingently liable for a share, generally pro rata in proportion to its ownership interest, of certain obligations of the joint venture corporations participating in three mining projects. These obligations variously include requirements for maintenance of working capital and take-or-pay commitments (in both cases involving, indirectly, provision of funds for operating costs and debt service in

excess of revenues). Pickands also may have obligations with respect to certain Federal income tax items which are in dispute. See Note 10 of the Notes to Financial Statements of Pickands for a further description of such contingent liabilities including disputed Federal income tax obligations.

Competition

The entire business of Pickands is very competitive and its sales and earnings can be affected by changes in prices and fluctuations in the level of activity in major markets such as the iron and steel industry. In particular, the iron ore business (encompassing management of mining operations, sales and shipping) is characterized by the existence of very large scale joint venture projects among the foreign and domestic steel companies which are often managed and operated on their behalf by companies such as Pickands. Most of the iron ore sold in North America today is produced by such projects and delivered to the steel company participants or others under long-term contracts. The relatively small percentage of non-captive iron ore is sold in highly competitive and limited markets.

Litigation

Pickands is a party defendant to a pending criminal antitrust action and a related treble damage action with respect to the pricing of "dock coal." However, any liability resulting from this litigation will not be assumed by Mooremack or its subsidiaries. See "Brief Description of the Proposed Acquisition."

Pickands is a defendant in several other pending legal actions, but the outcome, even if all decisions in such actions were adverse to Pickands, would not materially affect its financial condition, except for one pending case which, in the opinion of counsel, is without merit and liability for which, in any case, is not being assumed by Mooremack.

Environment

The Milwaukee Solvay Coke Co. Division is a defendant in two actions, one pending in the Circuit Court of Milwaukee County, Wisconsin, and the other in the County Court of Milwaukee County, Wisconsin. The former was commenced by the State of Wisconsin and the latter by Milwaukee County. In each case, simultaneously with commencement of the actions early in 1972, the Government and Pickands stipulated those actions to be required of Pickands to bring it into compliance with environmental protection requirements. The Court in each case approved the stipulation and the matter is held in abeyance pending full compliance with the stipulation by Pickands.

The Great Lakes Fleet of Pickands is a party-plaintiff through the Lake Carriers' Association in an action against the State of Michigan. The action was commenced in March, 1971 in the United States District Court for the Eastern District of Michigan by the Association and its members to enjoin the enforcement of a Michigan law prohibiting the discharge from vessels of any sewage, whether treated or not. The case reached the United States Supreme Court which on May 30, 1972, refused to decide the principal issues raised until such time as the Association obtains a state court determination of the meaning of the Michigan Act. An action to obtain such a determination instituted during July, 1972 is now pending in the state court.

The Carbon Limestone Company Division is entering into a compliance schedule with the State of Pennsylvania in connection with the State's air implementation plan under the 1970 Federal Clean Air Act. State approval of the schedule is anticipated shortly. Under the schedule, additional air pollution control equipment will be installed in the limestone-drying portion of the Pickands' plant.

Pickands, like other businesses, is subject to present and evolving standards relating to the quality of the environment. The regulatory standards are in a period of development and the capital and operating costs required to comply with such regulations are difficult to determine. However, in view of the nature of Pickands' business, future developments in this area could have an adverse effect upon Pickands' business and financial condition. Among other things, compliance with more stringent laws, regulations or enforcement policies could require substantial expenditures by Pickands or by the companies it manages for the installation and operation of pollution control systems and equipment. During each of the last five years, such expenditures by Pickands were: 1972, $646,000; 1971, $338,000; 1970,

$212,000; 1969, $168,000; 1968, $179,000. Pickands estimates such expenditures in 1973 will aggregate approximately $741,000.

Currency Revaluations

Recent fluctuations on international monetary exchanges and related governmental actions have resulted in a devaluation of the U. S. dollar relative to certain foreign currencies. Since Pickands participates in several foreign projects which incur operating expenses in foreign currencies while sales are made in U. S. dollars, future operations will be adversely affected by dollar devaluations in relation to such foreign currencies. For instance, in the case of Savage River Mines (in which Pickands owns a 24% interest), mining costs are incurred in Australian currency and ore sales are payable in U. S. dollars. Because of revaluation actions taken by the Australian government on December 23, 1972 and by the United States government during February 1973, the value of the U. S. dollar in relation to the Australian dollar is currently 19% below its value on December 22, 1972. In view of the chaotic state of the international monetary situation, it is not possible to predict the effect of the foregoing on Pickands' future operations.

Regulation

The business of Pickands is subject to governmental regulation of various kinds. Within the United States, it is subject to federal regulation under the Coal Mine Health and Safety Act, the Metal and Nonmetallic Mine Safety Act, the Occupational Safety and Health Act, to numerous state laws of similar import, and to other more general federal and state laws regulating operation of industrial properties. Laws covering environmental regulation are discussed under "Environment" above. Its shipping business must comply with the requirements of the United States Coast Guard and other federal regulatory agencies having jurisdiction over Great Lakes shipping operations. Its foreign operations are subject to similar controls by foreign governments having jurisdiction.

MANAGEMENT OF MOOREMACK

Directors

Under the terms of the Purchase Agreement, immediately after the closing, Elton Hoyt III and Robert McInnes will be elected to the Board of Directors of Mooremack. Mr. Hoyt has been employed by Pickands since 1955; he was elected Executive Vice President of Pickands in July 1972 and President of Pickands effective January 1, 1973. Mr. McInnes was Secretary and General Counsel of Pickands from 1962 to 1969. From 1969 to 1970 he was General Counsel and Assistant Secretary of Diamond; from 1970 to 1971, he was Treasurer of Diamond and a Vice President of Pickands; until 1972, he was a Vice President and since January 1, 1973, he has been Executive Vice President of Pickands. At February 15, 1973, neither Mr. Hoyt nor Mr. McInnes owned beneficially any shares of capital stock of Mooremack. The following are the present directors of Mooremack.

Name and Principal Occupation	Director Since	Shares Beneficially Owned as of February 15, 1973
James R. Barker ..... Chairman of the Board and President of Mooremack and Lines	1971	1,100
William T. Moore (1) ..... Chairman of the Executive Committee of Mooremack	1946	36,069
Lawrence F. Fiske ..... Vice Chairman of the Board of Mooremack and Lines	1962	900
Paul R. Tregurtha ..... Executive Vice President and Chief Financial Officer of Mooremack and Vice President—Finance and Treasurer of Lines	1971	None
Robert E. O'Brien (2) ..... Vice President of Mooremack and Executive Vice President of Lines	1968	21,030

Name and Principal Occupation	Director Since	Shares Beneficially Owned as of February 15, 1973
William E. Stockhausen ..... Attorney-at-Law	1959 to 1965 and 1969 to date	5,500
Geo. T. Scharffenberger (3) ..... President, City Investing Company	1969	None
A. Lightfoot Walker (3)(4) ..... Chairman, City Investing Company and Chairman, Rheem Manufacturing Company	1969	None
Albert Arbor (5) ..... Senior Partner of Apollo Management Company and President of Empire Asset Management Corporation	1970	None

(1) Mr. Moore is one of four trustees of a testamentary trust, established under the will of Albert V. Moore (Mr. Moore's father) for the benefit of his wife, Florence A. Moore, which is the record and beneficial owner of 8,420 shares of Common Stock. Mr. Moore's wife, Jean Campbell Moore, is the record and beneficial owner of 50 shares of Common Stock.

(2) Mr. O'Brien's five minor children are the record and beneficial owners of an aggregate of 570 shares of Common Stock. Mr. O'Brien disclaims beneficial ownership of such shares.

(3) City Investing Company, a diversified company engaged in industrial, insurance and real estate enterprises, of which Messrs. Scharffenberger and Walker are officers and directors, is the record and beneficial owner of 633,600 shares of Common Stock. This represents 26% of the outstanding shares of Common Stock. City Investing Company disclaims that its ownership of such shares constitutes a controlling interest in Mooremack. No other person owns of record or, so far as management is aware, beneficially more than 10% of such shares.

(4) Rheem Manufacturing Company is a wholly-owned subsidiary of City Investing Company and is engaged in the manufacture of steel shipping containers, automatic storage water heaters, heating and air conditioning equipment and allied products.

(5) Apollo Management Company and Empire Asset Management Corporation are investment managers and counselors.

In addition to the holdings of Common Stock referred to above, the Mooremack pension trust holds 26,500 shares of Common Stock over which management exercises voting control.

Remuneration

The following table shows the remuneration paid by Mooremack and its subsidiaries during 1972 to each director, and each of the three highest paid officers, whose aggregate direct remuneration exceeded $30,000, and to all directors and officers as a group, and the estimated annual benefits payable to each such person upon retirement under the Pension Plan for Employees of Moore and McCormack Co., Inc. (the "Plan"), payments to which are computed on an actuarial basis:

Name of Individual or Identity of Group	Capacities in Which Remuneration was Received	Direct Aggregate Remuneration	Estimated Annual Retirement Benefits Under the Plan
James R. Barker	Chairman of the Board and President of Mooremack and Lines	$132,487	$ 52,066
Paul R. Tregurtha	Vice President—Finance, Treasurer and Director of Mooremack and Lines	85,930	30,289
Robert E. O'Brien	Director of Mooremack and Executive Vice President and Director of Lines	85,738	30,902
William T. Moore	Chairman of the Executive Committee and Director of Mooremack	83,199	42,040
Lawrence F. Fiske	Vice Chairman of the Board of Mooremack and Lines	73,199	36,174
officers and directors as a group, a total of 22 persons	.....	$845,494	$310,281

In 1971 Mooremack entered into five-year employment contracts with Messrs. Barker, Tregurtha and Moore and a two-year contract with Mr. Fiske, and Lines entered into a five-year employment contract with Mr. OBrien, for executive and managerial services. The present rates of compensation (excluding bonuses) under such agreements for Messrs. Barker, Tregurtha, O'Brien, Moore and Fiske are $100,000, $60,000, $60,000, $80,000 and $70,000, respectively. In the event of resignation, such contracts provide for payment of an amount equal to one year's salary but not beyond the expiration of such five or two year periods, respectively, provided that any person so resigning shall not enter into a business competitive with that of Mooremack or its subsidiaries. In addition, during 1971 Messrs. Barker, Tregurtha and O'Brien were granted 100,000 units, 50,000 units and 50,000 units, respectively, in Mooremack's Share Unit Plan (the grant to Mr. O'Brien is subject, as to 40,000 units, to the achievement by Lines of specified levels of pretax earnings). One-fifth of such units become vested in each year over the 5-year period following the date of grant. The value of each unit is equal to the excess, if any, of the market price of one share of Mooremack Common Stock on the valuation date (five years from the date of grant or the date of termination of employment, whichever is earlier) over the market price on the date of grant. Five years from the date of grant, the recipient is entitled to the aggregate value of the units granted to him, but if his employment is terminated before the end of five years, he, or his estate, is entitled to the value, as of the date of termination, of the units then vested. The market price of Mooremack Common Stock at the time of granting for all units referred to above was $15.375. Except for a profit sharing plan which was terminated in 1971, neither Mooremack nor Lines has now nor has had during the past five years any other compensation plans nor have any payments been made during the past five years under any other plans in effect prior to that time.

During 1972, the Plan paid fees to Empire Asset Management Corporation, of which Albert Arbor, a director of Mooremack, is President, aggregating $111,471 for investment advisory services. During 1972 Mooremack paid legal fees of $17,498 to William E. Stockhausen, a director of Mooremack.

As of February 15, 1973, Paul R. Tregurtha was indebted to Mooremack in the amount of $11,333, representing the balance due (payable over three years and bearing interest at the prime rate of The Chase Manhattan Bank, N.A.) of a loan made in 1971 for the purchase of a home when Mr. Tregurtha was first employed by Mooremack. The largest outstanding balance of such loan since January 1, 1972, was $17,000 at March 18, 1972.

As of February 15, 1973, Juan Llerena, a Vice President of Lines based in Rio de Janeiro, Brazil, was indebted to Mooremack in the amount of $55,000, representing the balance due (payable over three years and bearing interest at the prime rate of The Chase Manhattan Bank, N.A.) of a loan made in 1971, for the purchase of an apartment in Rio de Janeiro. The largest outstanding balance of such loan since January 1, 1972, was $82,500 at November 1, 1972.

As of February 15, 1973, Edward J. Pierson, an Assistant Vice President of Lines, was indebted to Mooremack in the amount of $30,000 representing the balance due (payable over five years and bearing interest at the prime rate of The Chase Manhattan Bank, N.A.) of a loan of $30,000 made in May 1972 for the purchase of a home in New Jersey, as a result of being transferred from Buenos Aires to New York. The largest outstanding balance of such loan since January 1, 1972 was $30,000 at December 31, 1972.

As of February 15, 1973, William T. Moore was indebted to Lines in the amount of $19,720, representing unreimbursed personal advances. The largest outstanding balance of such advances since January 1, 1972, was $19,720 at December 31, 1972. Such indebtedness was repaid in full on March 1, 1973.

DESCRIPTION OF NEW PICKANDS 9% SENIOR PREFERRED STOCK

The statements and descriptions set forth below as to certain terms of the Senior Preferred are briefly summarized from the provisions of the Certificate of Incorporation of New Pickands creating the Senior Preferred, a copy of which is attached as Exhibit 2 to this Proxy Statement and incorporated herein by reference.

Authorized Capital

The authorized capital of New Pickands consists of 300,000 shares of Senior Preferred, $100 ar value, and 2,700,000 shares of Common Stock, $1 par value ("New Pickands Common Stock"). n the Closing Date all the authorized New Pickands Common Stock will be issued and outstanding and will be owned by Mooremack.

Dividend Rights

Dividends on the Senior Preferred shall accrue at the rate of $9 per share per annum (except that during the year 1973, dividends will accrue in the amount of $9 per share from the Closing Date, regardless of when in 1973 it may occur, to December 31, 1973) and shall be payable on the last day of March, June, September and December in each year. Dividends on the Senior Preferred shall be cumulative so that if at any time such dividends shall not have been paid, the amount of the deficiency shall be fully paid before any sums shall be set aside for or applied to the purchase or redemption of New Pickands Common Stock, and before any dividends shall be declared or paid or any other distribution (other than a distribution in shares of New Pickands Common Stock) ordered or made upon New Pickands Common Stock. It is intended that New Pickands will declare and pay dividends on its outstanding shares of Senior Preferred at the rate and at the time that such dividends accrue as set forth above, to the extent it is legally permitted to do so.

Voting Rights

The holders of the Senior Preferred and of the New Pickands Common Stock shall be entitled to one vote for each share on each question to be voted on by stockholders of New Pickands. In addition, the affirmative vote of 80% of the outstanding shares of Senior Preferred shall be necessary for (i) approval of any amendment to the certificate of incorporation of New Pickands so as (x) to increase the authorized Senior Preferred or to reclassify the same, (y) to cancel or otherwise affect the right of the holders of Senior Preferred to receive dividends which have accrued but have not been declared or (z) to create new classes of stock having rights and preferences either prior and superior or equal to the Senior Preferred or (ii) approval of any merger, consolidation or dissolution of New Pickands or any sale of all or substantially all its assets.

Redemption Rights

The Senior Preferred may not be redeemed prior to January 15, 1974. At any time or from time to time on and after January 15, 1974, New Pickands may, at its election, redeem up to 100,000 shares, and at any time or from time to time on and after January 15 in each of the years 1975 and 1976, New Pickands may, at its election, redeem up to an additional 100,000 shares, in each case upon not less than 30 days' notice, at the redemption price of $100 per share plus accrued and unpaid dividends to and including the date fixed for redemption. Any such redemption shall be of 25,000 shares of Senior Preferred or an integral multiple thereof. See "Brief Description of the Proposed Acquisition" with respect to (i) the right of Pickands to require Mooremack to purchase shares of the Senior Preferred and (ii) the letter of credit in favor of Pickands as to Mooremack's obligations with respect to such purchases.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of New Picklands, voluntary or involuntary, the holders of the Senior Preferred will be entitled to be paid out of the assets of New Picklands available for distribution with stockholders, before any payment shall be made to the holders of New Pickands Common Stock, $100 per share, plus accrued and unpaid dividends to and including the date of payment. If the assets available for any liquidation payment shall be insufficient to pay the holders of the Senior Preferred the full amounts to which they are entitled, the holders of the Senior Preferred shall share ratably in any distribution of assets.

Other Provisions

No special consent of the holders of the Senior Preferred is required for the creation of any indebtedness of New Pickands or of any class of capital stock of New Pickands subordinate as to dividends and upon liquidation to the Senior Preferred or for any increase or decrease in the amount of Common ock of New Pickands or any increase, decrease or change in the par value thereof. See "Brief Descrip-

tion of the Proposed Acquisition—Purchase Price" with respect to restrictions on transfer of the Senior Preferred.

The holders of the Senior Preferred will have no subscription, conversion or preemptive rights. When issued, the Senior Preferred will be fully paid and nonassessable.

DESCRIPTION OF INTERLAKE 8½% SECURED NOTE

The Secured Note to be issued by Interlake on the Closing Date will be in the principal amount of $30,000,000 and will mature on January 15, 1974. The Note will bear interest from January 1, 1973, on the principal balance thereof from time to time remaining unpaid at the rate of 8½% per annum, payable semiannually on January 15 and July 15 in each year, commencing July 15, 1973. The Note does not limit the amount of other debt which Interlake may incur or of additional securities it may issue, nor does it restrict the declaration of dividends on Interlake capital stock or require Interlake to create or maintain any ratio of assets, reserves or properties. See "Brief Description of the Proposed Acquisition—Purchase Price" with respect to restrictions on transfer of the Secured Note.

The Secured Note will be secured by a first preferred fleet mortgage under the Ship Mortgage Act, 1920, covering the 13 ships presently owned by Pickands which will be purchased by Interlake. Under said Act, such mortgage will have priority over all claims against the vessels except (i) liens arising prior in time to the recording and endorsement of the mortgage and (ii) liens for damages arising out of tort, for wages of a stevedore when employed directly by the owner, operator, master, ship's husband or agent of the vessel, for wages of the crew of the vessel, for general average, and for salvage, including contract salvage. The Secured Note will also be secured by a security interest in the four principal floating contracts which are serviced by such vessels. See "Business and Properties of Pickands—Great Lakes Transportation".

In case any of the following events shall have occurred and be continuing, the holder of the Secured Note may declare the entire principal of the Secured Note then outstanding (if not then due and payable) to be due and payable immediately: (i) default in the payment of principal of or interest on the Secured Note which in the case of interest continues unremedied for 10 days; (ii) default in the observance or performance of any covenant or condition in the Fleet Mortgage which continues for 30 days after notice in certain cases; (iii) certain events in bankruptcy, insolvency or reorganization continuing beyond the applicable grace period, if any; or (iv) removal of a vessel covered by the Fleet Mortgage beyond the limits of the United States except on a voyage with the intention to return, abandonment of any such vessel in a foreign port or the ceasing of Interlake to be a citizen of the United States as defined in the Shipping Act, 1916, as amended.

Payment of principal of and interest on the Secured Note is unconditionally guaranteed by Mooremack and Lines.

See "Brief Description of the Proposed Acquisition—Bank Arrangements" for information with respect to the terms of proposed bank borrowings to refinance the Secured Note.

OTHER MATTERS

While management does not know of any other matters to be presented at the meeting, the enclosed form of proxy confers discretionary authority with respect to the transaction of business. If any such matter is properly presented to the vote of stockholders at the meeting, the persons named in such form of proxy will vote upon them in accordance with the recommendations of management.

The cost of this solicitation will be borne by Mooremack. In addition to the use of the mails, management may solicit proxies by telephone, telegraph or personal interview by regular employees of Mooremack. Mooremack will also reimburse brokers and other nominee holders for their reasonable expenses in forwarding proxy material to, and receiving proxies from, their principals. Mooremack has retained Georgeson & Co. to assist in the solicitation of proxies for fees plus expenses estimated not to exceed $6,000 in the aggregate.

By order of the Board of Directors,

HUBERT F. CARR,
Secretary.

March 9, 1973

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Moore and McCormack Co., Inc.:

We have examined the consolidated balance sheets of Moore and McCormack Co., Inc. (a Delaware corporation) and subsidiary companies as of December 31, 1972 and 1971, and the related consolidated statements of income (loss), appearing elsewhere in this Proxy Statement, retained earnings and capital surplus for the five years ended December 31, 1972, and the related consolidated statements of changes in financial position for the three years ended December 31, 1972. Our examinations were 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.

Effective January 1, 1969, a subsidiary revised the estimated residual value of certain of its vessels. The revision represents primarily a change in condition and not a change in accounting principles or practices. The effect of this change, which we approve, is discussed in Note H to the consolidated statements of income (loss).

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Moore and McCormack Co., Inc. and subsidiary companies as of December 31, 1972 and 1971, the results of their operations for the five years ended December 31, 1972, and the changes in financial position for the three years ended December 31, 1972, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
February 9, 1973.

MOORE AND McCORMACK CO., INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 1972 and 1971

ASSETS	1972	1971
Current Assets:		
Cash	$ 1,903,578	$ 1,764,148
Marketable securities, at cost which approximates market	23,125,000	1,500,000
Accounts receivable, less reserve of $300,000 in 1972 and $200,000 in 1971	7,757,612	5,319,174
Current portion of mortgage notes receivable	4,748,063	555,469
Federal income tax refund	—	1,600,000
Accrued operating-differential subsidy (Note 3)	5,104,728	9,935,121
Other current assets	548,984	700,434
	43,187,965	21,374,346
Less—Estimated deposits to Capital Funds (Note 3)	5,768,165	—
	37,419,800	21,374,346
Investments (Note 1):		
Investments in subsidiaries	952,457	952,457
Advances to subsidiaries	265,793	69,794
	1,218,250	1,022,251
Less—Reserve for losses on investments in and advances to subsidiaries	—	226,168
	1,218,250	796,083
Capital Funds (Note 3):		
Cash, U. S. Government securities and mortgage notes	16,926,643	—
Estimated deposits to be made	5,768,165	—
Amount to be transferred to Interim Capital Construction Fund	—	10,000,000
Amount to be transferred to general funds, net	—	26,193,534
	22,694,808	36,193,534
Vessels and Other Property, at cost (Notes 1 and 7):		
Cargo vessels	81,165,889	81,165,889
Less—Reserve for depreciation	26,254,270	24,346,297
	54,911,619	56,819,592
Other property and equipment	1,950,151	1,897,305
Less—Reserve for depreciation	1,171,737	1,247,938
	778,414	649,367
	55,690,033	57,468,959
Other Assets:		
Mortgage notes receivable, less current portion	20,645,974	1,621,938
Claims pending	940,417	1,826,104
Miscellaneous	249,843	412,472
	21,836,234	3,860,514
Assets No Longer in Use (Notes 5 and 7)	—	18,719,838
	$138,859,125	$138,413,274
LIABILITIES		
Current Liabilities:		
Current maturities of long-term debt	$ 286,766	$ 286,766
Accounts payable—trade	1,092,848	2,562,757
Accrued liabilities	9,551,727	5,659,605
Federal income tax payable	1,117,627	360,627
Reserve for expenses in connection with discontinued operations (Note 5)	—	1,764,775
	12,048,968	10,634,530
Net Unterminated Voyage Revenue (Note 1) (Excess of revenues over expenses on voyages in progress)	2,779,436	998,967
Long-Term Debt, due in semi-annual installments to 1976	860,297	1,147,063
Payable from Capital Funds		
U.S. Government merchant marine bonds (Note 7)	17,728,000	27,555,000
Vessel construction costs, etc.	—	2,096,315
	17,728,000	29,651,315
Deferred Federal Income Taxes	1,247,000	—
Reserves (Note 6):		
Repairs and dredging	506,000	476,990
Lawsuits, claims and insurance club calls, etc.	11,490,119	9,760,899
	11,996,119	10,237,889
Stockholders' Equity:		
Cumulative Preferred Stock, par value $100 per share—authorized 350,000 shares in 1972 (Note 11)	—	—
Common Stock, par value $5.00 per share— Authorized 5,000,000 shares in 1972 and 2,750,000 shares in 1971 Issued 2,433,154 shares (Notes 8 and 11)	12,165,770	12,165,770
Capital Surplus	22,164,738	22,164,738
Retained Earnings (Notes 4, 5, 6 and 10)	58,607,325	52,151,530
	92,937,833	86,482,038
Less—Treasury stock at cost—41,800 shares	738,528	738,528
	92,199,305	85,743,510
Commitments and Contingent Liabilities (Notes 2, 3, 4, 5, 6, 9 and 10)		
	$138,859,125	$138,413,274

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

MOORE AND McCORMACK CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND CAPITAL SURPLUS
For the Five Years Ended December 31, 1972

	Year Ended December 31,				
	1972	1971	1970	1969	1968
RETAINED EARNINGS (Notes 4, 5, 6 and 10)					
Balance at beginning of year	$52,151,530	$50,037,774	$67,132,021	$66,116,920	$71,282,460
Add—Net income (loss) for year	6,455,795	2,113,756	(17,094,247)	1,015,101	(3,970,563)
	58,607,325	52,151,530	50,037,774	67,132,021	67,311,897
Deduct—Cash dividend of $.50 per share	—	—	—	—	(1,194,977)
Balance at end of year	$58,607,325	$52,151,530	$50,037,774	$67,132,021	$66,116,920
CAPITAL SURPLUS					
Balance at beginning of year	$22,164,738	$22,164,738	$22,164,738	$22,161,488	$22,157,523
Add—Excess of amounts received over par value of common stock issued upon exercise of stock options	—	—	—	3,250	3,965
Balance at end of year	$22,164,738	$22,164,738	$22,164,738	$22,164,738	$22,161,488

The accompanying notes to consolidated financial statements are an integral part of these statements.

MOORE AND McCORMACK CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

GENERAL FUNDS

	Year ended December 31		
	1972	1971	1970
Funds Provided By:			
Net income (loss) before extraordinary items	$ 3,003,855	($ 284,234)	($13,340,118)
Add—Noncash charges—			
Vessel depreciation	1,907,973	1,907,973	3,172,158
Other depreciation	316,808	255,532	244,916
Increase in reserves	1,758,230	2,624,119	4,708,859
Decrease in deferred Federal income taxes in 1972 and reversal of deferred Federal income tax benefit in 1970	(53,000)	—	3,530,000
Working capital provided from operations	6,933,866	4,503,390	1,684,185
Extraordinary items, net	1,844,461	(1,788,046)	(9,667,399)
Increase (decrease) in net unterminated voyage revenue	1,780,469	(1,515,240)	595,666
Transfer from capital funds, less mortgage notes receivable in 1972 of $19,024,036 not providing working capital	4,975,007	10,606,099	6,885,610
Total funds provided	15,533,803	11,806,203	(3,870,308)
Funds Used For:			
Decrease (increase) in long-term debt	286,766	(1,147,063)	—
Investment in vessels	—	—	1,018,327
Other, net	616,021	879,323	(1,431,318)
Total funds used	902,787	(267,740)	(412,991)
Net Increase (Decrease) in Working Capital	$14,631,016	$12,073,943	($ 3,457,317)
Summary of Net Increase (Decrease) in Working Capital:			
Increase (decrease) in cash and marketable securities	$21,764,430	($ 996,779)	($ 545,882)
Increase (decrease) in receivables and accrued operating-differential subsidy and due from related companies	200,639	(2,199,900)	(223,919)
Increase (decrease) in other current assets	(151,450)	75,088	(743,861)
(Increase) decrease in estimated deposits to capital funds	(5,768,165)	2,600,000	3,200,000
Increase (decrease) in current assets	16,045,454	(521,591)	1,686,338
(Increase) decrease in notes payable to bank and current maturities of long-term debt	—	3,713,234	(3,000,000)
(Increase) decrease in accounts payable and accrued liabilities	(2,422,213)	7,495,268	1,368,779
(Increase) decrease in reserve for expenses in connection with discontinued operations	1,764,775	1,747,659	(3,512,434)
(Increase) in Federal income taxes payable	(757,000)	(360,627)	—
(Increase) decrease in current liabilities	(1,414,438)	12,595,534	(5,143,655)
Net Increase (Decrease) in Working Capital	$14,631,016	$12,073,943	($ 3,457,317)

CAPITAL FUNDS

Funds Provided By:			
Income attributable to capital funds before extraordinary items	$ 694,891	$ 2,608,348	$ 930,715
Proceeds from sale of vessels, depositable	19,632,426	1,859,000	43,450,272
Vessel depreciation	—	—	573,962
Other, net	—	20,789	(26,675)
Total funds provided	20,327,317	4,488,137	44,928,274
Funds Used For:			
Transfer to general funds	23,999,043	10,606,099	6,885,610
Reduction of bonds payable	9,827,000	3,915,000	1,957,000
Investment in vessels	—	—	1,373,484
	33,826,043	14,521,099	10,216,094
Net Increase (Decrease) in Capital Funds	($13,498,726)	($10,032,962)	$34,712,180

The accompanying notes to consolidated financial statements are an integral part of these statements.

(1) Accounting principles:

The consolidated financial statements of Mooremack and subsidiaries are presented in accordance with generally accepted accounting principles. Moore-McCormack Lines, Incorporated (Lines) is the Company's principal operating subsidiary. A summary of the significant principles is as follows:

(a) *Principles of consolidation:*

The consolidated financial statements include the accounts of Mooremack and its domestic subsidiaries. Wholly-owned foreign subsidiaries of Lines have not been included as such subsidiaries in the aggregate are not material. Investments in these nonconsolidated subsidiaries less reserve for losses are carried at equity in underlying book value.

(b) *Depreciation and repair policy:*

Lines' depreciation policy with respect to vessels is set forth in Note H to the consolidated statement of income (loss). Other property and equipment is depreciated on a straight-line basis at various rates based on estimated service life. Depreciation on other property amounted to $316,808 in 1972, $255,532 in 1971, $244,916 in 1970, $219,013 in 1969, and $461,107 in 1968.

Upon the sale, retirement or other disposition of assets, Mooremack and subsidiaries generally follow the practice of crediting the asset account for the cost and charging the related reserve for depreciation to the extent of the depreciation accrued. The difference between the proceeds of the sale or other disposition and the net book value of the asset disposed of is charged or credited to income. Sales, trade-ins, or other dispositions of assets resulting in material gains or losses are treated as extraordinary items.

Maintenance and repairs to floating equipment are charged to voyage expense in the year damage is incurred. Betterments to floating equipment are charged to fixed assets. Maintenance and repairs to other property and equipment are charged primarily to terminated voyage expense or administrative and general expense, as applicable.

(c) *Voyage Accounting:*

The consolidated statements of income (loss) include Lines' voyage operating results on a terminated voyage basis. Revenues and direct expenses relative to voyages in process at the end of any period are presented in the accompanying consolidated balance sheets as Net Unterminated Voyage Revenue, on a cash basis.

(2) Acquisition of Pickands Mather & Co.:

Under the terms of an agreement dated as of January 1, 1973, between Mooremack and Pickands, Mooremack, subject to the approval of its stockholders, will purchase the business and certain of the assets and properties of Pickands and subsidiaries in consideration of certain payments by subsidiaries of the Company and the assumption of certain of the liabilities of Pickands. See "Brief Description of the Proposed Acquisition".

(3) Capital funds and operating-differential subsidy accruals:

On March 31, 1972, the Maritime Subsidy Board and the Assistant Secretary of Commerce for Maritime Affairs approved, and on April 21, 1972 Lines accepted, the establishment of an Interim Capital Construction Fund (Interim Fund) as provided for under the Merchant Marine Act of 1970 and the transfer of $10,000,000 to such Interim Fund from Lines' Capital Reserve Funds. Amounts in excess of $10,000,000 in Lines' Capital Reserve Fund were transferred to Lines' general funds, including

estimated deposits to be made of $2,700,000. In addition, Lines' obligation to deposit approximately $20,500,000 of future earnings was eliminated. See "Business and Properties of Mooremack—Construction Fund" with respect to the additional deposits to be made by Lines and Interlake in future years.

The 1971 financial statements reflect the transfer of the former statutory reserve funds made in April, 1972 and the elimination of the accrued estimated deposits. The amount transferred to general funds consisted of long-term mortgage notes.

Reference is made to Notes A, B and F to the consolidated statements of income (loss) with respect to deposits to and withdrawals from Capital Funds, the Federal income tax effect of such deposits and withdrawals, and accruals of operating-differential subsidy. Also see "Business and Properties of Mooremack—Operating-Differential Subsidy Agreement" and "—Construction Fund". At December 31, 1972 the accrued operating-differential subsidy receivable consists of $693,000, $1,755,000, $1,000,000 and $1,657,000 applicable to voyages terminated in 1969 through 1972, respectively. A portion of such receivable may not be collected within one year.

(4) Federal income taxes:

Reference is made to Note B to the consolidated statements of income (loss) and to "Business and Properties of Mooremack—Federal Income Tax" with respect to tax deferred earnings and the provision for Federal income taxes. At December 31, 1972 Mooremack has no significant net operating loss or investment tax credit carryforwards. However, Mooremack has liabilities recorded in 1971 and prior years of approximately $8,000,000 for which future tax benefits have not been recognized.

(5) Discontinued operations and assets no longer in use:

Reference is made to Notes D and E to the consolidated statements of income (loss) with respect to costs relating to discontinued operations.

ssets no longer in use at December 31, 1971 consisted of the net book value of the passenger vessels SS Argentina and SS Brasil. During 1969, Lines suspended operations of these two vessels and this action has been approved by the Maritime Subsidy Board. Those vessels were sold in 1972. Reference is made to Note C to the consolidated statements of income (loss) with respect to extraordinary items.

(6) Pending lawsuits and claims:

Reference is made to "Business and Properties of Mooremack—Litigation" contained elsewhere in this Proxy Statement for details.

(7) Payable from Capital Funds:

U. S. Government insured merchant marine bonds:

	1972	1971
5% due 1978, SS Argentina	$ —	$ 3,082,000
4.2% due 1983, SS Brasil	—	4,906,000
5.75% due 1987, cargo vessels	17,728,000	19,567,000
	$17,728,000	$27,555,000

These bonds, insured under Title XI of the Act, are subject to semiannual redemptions payable from Capital Funds and are secured by first preferred ship mortgages on various vessels.

8) Pension, profit-sharing and share unit plans:

The Company and its subsidiaries have a pension plan covering substantially all of their permanent domestic shore-based employees. Effective November 1, 1972, such plan was amended

increasing benefits provided. Total pension expense under this plan amounted to $400,000 in 1972, $200,000 in 1971, 1970 and 1969, and $311,000 in 1968, including amortization of prior service cost over 30 years. In addition, Lines contributes to seamen's pension and welfare funds administered jointly by representatives of the unions and the employers. Lines estimates that its contributions to such funds were approximately $7,500,000 in 1972, $6,000,000 in 1971, $10,081,000 in 1970, $7,920,000 in 1969 and $5,616,000 in 1968, of which $1,044,400 in 1970, $2,031,000 in 1969, and $2,632,000 in 1968, was applicable to discontinued operations.

Lines' profit-sharing plan was terminated in 1971. At the 1972 stockholders' meeting the stockholders ratified and approved a Share Unit Plan for Key Employees and the reservation of 300,000 shares of common stock for issuance pursuant to such plan. Share Units are issued by a committee comprised of members of the Board of Directors. Since adoption of the plan, the committee has awarded 200,000 share units at an Initial Value of $15.375 per unit. One-fifth of the issued share units become vested on the first anniversary date of the award of Share Units and an additional one-fifth vests on each such anniversary date for the next succeeding four years. At December 31, 1972, all such Share Units were 20% vested and the Company has recorded approximately $170,000 as compensation expense relative to this plan. See "Management of Mooremack—Remuneration".

(9) Other commitments and contingent liabilities:

The annual obligation for office and pier space under lease at December 31, 1972, is approximately $1,200,000. In addition, Lines is committed to annual rentals of approximately $1,600,000 for container and related equipment leases. Lines has a 15-year remaining lease for pier facilities which have been subleased for five years, with renewal options for an additional five-year and six-year period.

Lines, as part of the agreement reached with the Maritime Administration for the sale of the passenger vessels (Note 5), is required to contract by August 4, 1973 for the delivery of new vessels in an amount at least equal to $34,770,000 (net of construction-differential subsidy). In addition, Lines will also enter into construction contracts during the period 1977-1987 to replace its existing fleet. The number of vessels, type and size have not been determined and accordingly the cost of this replacement program is not presently determinable. See "Business and Properties of Mooremack—Construction Fund".

(10) Dividend restriction:

Reference is made to "Dividends and Market Prices of Mooremack Common Stock" for details.

(11) Capital stock:

At the 1972 stockholders' meeting, stockholders authorized amendments to Mooremack's Certificate of Incorporation to increase authorized common stock from 2,750,000 shares to 5,000,000 shares and the creation of a maximum of 350,000 shares of Preferred Stock, par value $100.

(12) Supplementary profit and loss information:

Consolidated income includes the following charges:

	Maintenance and Repairs	Depreciation and Amortization	Taxes, Other Than Income Taxes	Management and Service Contract Fees	Rents and Container Leases
1972: Operating expenses	$4,323,109	$2,167,552	$ 606,618	$ —	$2,498,536
Administrative and general expenses	78,937	57,229	222,799	381,560	731,844
1971: Operating expenses	3,376,548	2,102,388	650,845	—	3,151,075
Administrative and general expenses	110,790	98,445	233,253	294,423	822,527
1970: Operating expenses	6,055,472	3,636,861	1,055,107	—	6,047,750
Administrative and general expenses	165,852	147,031	332,120	177,997	932,930
1969: Operating expenses	6,405,677	3,293,376	1,439,701	—	4,108,768
Administrative and general expenses	183,099	109,798	317,809	64,470	985,938
1968: Operating expenses	7,050,413	5,474,403	1,453,977	—	3,317,813
Administrative and general expenses	169,009	118,703	427,118	221,355	1,017,320

1968 to 1970 includes results of discontinued operations.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
mond Shamrock Corporation and
Pickands Mather & Co.

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated stockholder's equity and changes in financial position, together with the statement of consolidated income appearing elsewhere in this Proxy Statement, present fairly the financial position of Pickands Mather & Co. (wholly-owned subsidiary of Diamond Shamrock Corporation) and its subsidiaries at December 31, 1972, the results of their operations for the five years then ended and the changes in financial position for the three years then ended, in conformity with generally accepted accounting principles consistently applied. Our examination of these statements 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.

Also in our opinion, the accompanying balance sheet presents fairly supplemental information on the segregation of the various accounts between those included in the proposed sale and those to be excluded from the transaction in accordance with the agreement described elsewhere in this Proxy Statement and as mentioned in Note 1 of Notes to the Financial Statements.

PRICE WATERHOUSE & CO.

Cleveland, Ohio 44114
February 12, 1973

PICKANDS MATHER & CO.
(Wholly-owned subsidiary of Diamond Shamrock Corporation)

CONSOLIDATED BALANCE SHEET
December 31, 1972 (Note 1)

ASSETS

	Total	Supplementary data (Note 1): Assets excluded from sale	Supplementary data (Note 1): Assets included in sale
	(In thousands of Dollars)		
Current assets:			
Cash	$ 3,173		$ 3,173
Short-term investments, at cost, approximately market	228		228
Accounts receivable, trade and sundry items, less allowance for doubtful accounts of $289,000	10,019		10,019
Inventories (Note 3):			
Coke, coal, iron ore, limestone and other products	2,511		2,511
Operating material (including coking coal) and supplies	4,217		4,217
Total inventories	6,728		6,728
Prepaid insurance and other expenses	171		171
Prepaid income taxes	524	$ 524	
Total current assets	20,843	524	20,319
Capital construction fund (Note 4)	746	746	
Investments, advances and other assets:			
Advance to Diamond Shamrock Corporation	20,557	20,557	
Common stock investments and advances in corporate joint ventures (Note 5)	7,903		7,903
Other common stock investments and other assets, at cost	388		388
	28,848	20,557	8,291
Capital assets (Notes 6 and 7):			
Mineral and other lands	8,973		8,973
Vessels	53,156		53,156
Buildings, structures and land improvements	1,740		1,740
Machinery and equipment, etc.	10,402		10,402
Construction in progress	1,639		1,639
	75,910		75,910
Accumulated depreciation and depleetion	33,977		33,977
	41,933		41,933
	$92,370	$21,827	$70,543

LIABILITIES AND STOCKHOLDER'S EQUITY

	Total	Liabilities not assumed	Liabilities assumed
	(In thousands of Dollars)		
Current liabilities:			
Accounts payable, trade and sundry items	$ 6,347		$ 6,347
Accrued payrolls, pensions, claims and vessel repairs	4,053		4,053
Accrued taxes:			
Federal (Note 8) and foreign income	4,289	$ 4,289	
Other	510		510
Trade payable to Diamond Shamrock Corporation	380		380
Total current liabilities	15,579	4,289	11,290
Reserve for pension allowances (Note 9)	910	910	
Deferred income taxes (Note 8)	5,139	5,139	
	21,628	10,338	11,290
Stockholder's equity:			
Capital stock:			
Common—$.50 par value, authorized and outstanding—500,000 shares	250		
Capital surplus, per accompanying statement	22,032		
Retained earnings, per accompanying statement	48,460		
	70,742		
Net assets		11,489	59,253
Contingent liabilities (Note 10)			
	$92,370	$21,827	$70,543

PICKANDS MATHER & CO.

(Wholly-owned subsidiary of Diamond Shamrock Corporation)

STATEMENT OF CONSOLIDATED STOCKHOLDER'S EQUITY

For the Five Years Ended December 31, 1972

(All columns in thousands of dollars except number of shares)	Capital Stock				
	Number of shares	Aggregate par value	Capital surplus	Retained earnings	Total
December 31, 1967		$15,741	$ 9,235	$51,662	$76,638
Net income for the year 1968				5,680	5,680
Proceeds from the sale of common stock under option plans		40	908		948
Other			54	(60)	(6)
Recapitalization arising from the acquisition by Diamond Shamrock Corporation of the entire outstanding stock of Pickands (effective January 3, 1969)	500,000	(15,531)	15,531		
Cash dividends paid				(2,959)	(2,959)
December 31, 1968	500,000	250	25,728	54,323	80,301
Net income for the year 1969				5,693	5,693
Property dividend (A)			(4,003)	(20,892)	(24,895)
Other			307		307
December 31, 1969	500,000	250	22,032	39,124	61,406
Net income for the year 1970				7,346	7,346
Property dividend (A)				(8,799)	(8,799)
December 31, 1970	500,000	250	22,032	37,671	59,953
income for the year 1971				5,000	5,000
December 31, 1971	500,000	250	22,032	42,671	64,953
Net income for the year 1972				5,789	5,789
December 31, 1972	500,000	$ 250	$22,032	$48,460	$70,742

(A) See Note B to Consolidated Income Statement.

PICKANDS MATHER & CO.
(Wholly-owned subsidiary of Diamond Shamrock Corporation)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	For the year ended December 31,		
	1972	1971	1970
	(In thousands of Dollars)		
Financial resources were provided by:			
Income before extraordinary item	$ 5,789	$ 5,000	$ 6,269
Add—expenses not affecting working capital in the period:			
Depreciation and depletion	2,348	2,225	2,661
Deferred income taxes	(2,425)	1,695	262
Loss on disposal of capital assets and investments, net of current income taxes	751	666	—
Working capital provided by operations for the period	6,463	9,586	9,192
Proceeds from disposal of capital assets and investments, net of current income taxes	1,446	1,947	4,075
Utilization of capital construction funds	2,207	537	—
	10,116	12,070	13,267
Financial resources were used for:			
Deposit to capital construction fund (withdrawal)	(2,902)	6,392	—
Additions to long-term assets:			
Capital assets	4,540	3,061	3,798
Investments	435	2,267	1,561
Reduction of long-term debt	89	86	2,154
Increase in advance to Diamond Shamrock (decrease)	7,657	(1,045)	9,142
Other	(478)	56	333
	9,341	10,817	16,988
Increase (decrease) in working capital	$ 775	$ 1,253	$(3,721)
Changes in working capital:			
Cash and short-term investments	$ (550)	$ (853)	$ 598
Accounts receivable	(375)	(429)	(3,194)
Inventories	854	(352)	1,965
Prepaid expenses	(138)	15	(306)
Current installments of long-term debt	37	2,000	189
Accounts payable	2,652	(1,519)	985
Federal and foreign income taxes	(1,069)	2,204	(4,285)
Accrued expenses	(636)	187	327
Increase (decrease) in working capital	775	1,253	(3,721)
Working capital beginning of year	4,489	3,236	6,957
Working capital end of year	$ 5,264	$ 4,489	$ 3,236

PICKANDS MATHER & CO.

(Wholly-owned subsidiary of Diamond Shamrock Corporation)

NOTES TO FINANCIAL STATEMENTS

Note 1—Proposed Sale

Moore and McCormack Co., Inc. has agreed, subject to shareholder approval, to purchase the business and specified assets, and to assume specified liabilities, of Pickands. The accompanying balance sheet at December 31, 1972 segregates the various accounts between those included in the sale and those to be excluded from the transaction.

Note 2—Basis of Consolidation

The accounts of subsidiaries (all of which are totally held) are included in the accompanying consolidated financial statements. In consolidation all intercompany accounts and transactions have been eliminated. The accounts of foreign subsidiaries are not significant.

Note 3—Inventories

Inventories are priced at the lower of cost (determined mainly on the basis of first-in, first-out) or market. Balances of inventories used in the determination of cost of sales were $7,092,000 at December 31, 1967; $7,330,000 at December 31, 1968; $4,260,000 at December 31, 1969; $6,226,000 at December 31, 1970; $5,874,000 at December 31, 1971 and $6,728,000 at December 31, 1972.

Note 4—Capital Construction Fund

Under a provision of the Maritime Act of 1970, a fund was established (consisting principally of readily marketable securities) in 1971. All deposits into this fund are taken as deductions for federal income taxes currently payable. However, only to the extent that such deposits have been reserved for specific projects has the tax reduction been considered in determining the net provisions for federal income taxes. Accordingly, a reduction of $792,000 was recognized in 1971 representing the tax benefit from the portion of the fund allocated for vessel improvements with a comparable reduction of $1,095,000 in 1972.

Note 5—Investments

The total investment of $7,903,000 at December 31, 1972 in corporate joint ventures comprised advances of $953,000 and investments of $6,950,000 which, with one exception, are accounted for under the equity method whereby earnings or losses of the ventures are reflected currently in Pickands' earnings rather than when realized through dividends.

The book value of one investment carried on the equity basis exceeded the underlying net assets at December 31, 1972 by $1,080,000. The foregoing amount represents the unamortized portion of the excess of the cost of the investment over the underlying assets at date of acquisition. Such excess is being amortized over the economic life (15 years) of the underlying assets.

The exception to the equity method mentioned above relates to an investment in a mine which is projected to be depleted in the near future. The investment in this venture continues to be carried at cost and the equity exceeded such cost by $339,000 at December 31, 1972. Pickands' equity in the net income and the dividends received from this corporate joint venture were as follows:

	Equity in net income	Dividends received
1968	$ 491,000	$ 850,000
1969	580,000	750,000
1970	830,000	1,000,000
1971	1,018,000	1,100,000
1972	916,000	1,050,000

Note 6—Capital Assets

Assets acquired are carried at cost. Investigation, exploration and research costs incurred in the search for natural resources are expensed. The cost of developing a viable property is capitalized.

Note 7—Policy with Respect to Depreciation, Etc., Repairs, Etc. and Retirements

It is the policy of Pickands to provide depreciation and amortization over the estimated useful lives of the properties. In general, new structures have been assigned lives up to 45 years and machinery and equipment up to 12 years, and are depreciated principally on the straight-line method. Vessel depreciation is also computed on the straight-line method over average remaining asset lives of about 19 years.

Expenditures for repairs (including the estimated cost of winter repairs of vessels) and maintenance are charged to income; the cost of property items retired is eliminated from the property accounts, the accumulated depreciation with respect thereto is eliminated from the reserve for depreciation and the resulting gain or loss, if any, is reflected in income. Renewals and betterments are capitalized.

Note 8—Income Taxes

In the four years ended December 31, 1972 the consolidated income and expenses of Pickands have been included in a consolidated federal income tax return of Diamond Shamrock Corporation. The provisions for current taxes were computed at the statutory tax rates in effect. Because of the non-taxability of income in 1970-1972 (losses prior thereto) from investments accounted for on the equity method, and because of the lower effective tax rates applicable to dividends and royalty income and the tax benefits derived from deducting percentage depletion, the annual provisions for federal income taxes have been relatively lower than if all income were subject to the customary rates. Additionally, the effective tax rates for 1971 and 1972 were lowered by credits to the provision for income taxes representing the tax benefits derived from the permanent deferral of federal income taxes with respect to capital construction funds (Note 4). Investment tax credits are applied to reduce the current provision for federal income taxes.

Provisions for income taxes in the consolidated statement of income include the tax effects of material timing differences in the recognition of income and expense for financial statement purposes and for the determination of income taxes payable. Such provisions relate principally to the difference between the depreciation allowable for federal income taxes on vessel properties and that reflected in the accompanying accounts.

Note 9—Pension Plans

Pickands and its subsidiaries have several pension plans covering substantially all of their employees. Provision for pension costs, including amortization of prior service costs principally over 30 years, was $1,252,000 in 1968, $1,464,000 in 1969, $1,615,000 in 1970, $1,430,000 in 1971 and $1,927,000 in 1972. It is the policy generally to fund pension costs accrued, except for plans for which the estimated liability for accrued benefits is included in the balance sheet. The actuarially computed value of vested benefits under certain of the plans exceeded the total of the respective pension funds (and balance sheet accruals) by approximately $1,800,000 at December 31, 1972. The unfunded past service costs at December 31, 1972 aggregated approximately $9,023,000 after deducting accruals.

Note 10—Contingent Liabilities

Wabush Project—At December 31, 1972 Pickands, through its ownership in Wabush Iron Co. Limited, had an aggregate investment carried at $4,493,000 in the Wabush Mines project in Newfoundland

PICKANDS MATHER & CO.

(Wholly-owned subsidiary of Diamond Shamrock Corporation)

NOTES TO FINANCIAL STATEMENTS—(Continued)

land and Quebec, Canada. Pickands is committed to purchase its ownership proportion (5.2%) of the iron ore pellets produced and to pay therefor as a minimum, its proportionate share of the costs, with the provision that the amounts included in such costs for depreciation, depletion, etc., in any year shall not be less than the sinking fund requirements for the bonds issued to finance the project. The portion of the annual sinking fund requirements attributable to Pickands' participation in the project will not exceed approximately $495,000 annually over the next 19 years.

Savage River Project—Pickands Mather & Co. International, a wholly-owned subsidiary of Pickands, through its ownership in Northwest Iron Co. Ltd., had at December 31, 1972 an approximate 24% interest, carried at $1,840,000 in the Savage River project in Tasmania, Australia. Both the subsidiary and Pickands have, in connection with the financing by Northwest of its 50% interest in the project, agreed, to the extent of 66⅔% to advance funds to Northwest required to maintain its working capital at a minimum of $500,000. Pickands is also contingently obligated, to the extent of $2,313,000 at December 31, 1972, as guarantor under certain project auxiliary facility agreements.

Beckley Coal Project—As a stockholder in Beckley Coal Mining Company, Pickands is committed under an agreement to purchase 12½% of the coal Beckley produces and/or to advance to it (whether or not any coal is produced) 12½% of such funds as are required by the coal company to pay all of its capital and operating costs (including all amounts required to pay the principal and interest on a certain bank loan to Beckley). The maximum that may be borrowed is $30,000,000 of which $10,200,000 is outstanding at December 31, 1972.

Federal income taxes—The Internal Revenue Service has proposed to disallow certain deductions or cost of ore purchased from one of the corporate joint ventures. Inasmuch as the issue involved is complex and will be contested no provision has been made for this contingent liability.

Note 11—Supplementary Income Statement Information

The amounts of certain categories of expenses are tabulated below:

	Year ended December 31,				
	1972	1971	1970	1969	1968
	(In thousands of Dollars)				
Maintenance and repairs	$3,096	$3,022	$2,924	$4,150	$3,390
Depreciation and depletion of property, plant and equipment	2,348	2,225	2,661	3,793	3,517
Taxes, other than income taxes:					
Payroll	554	505	501	607	538
Real and personal property	247	252	254	346	321
Other	142	133	125	179	209
Totals (see below)	943	890	880	1,132	1,068
Rents (see below)	11	29	26	170	90
Royalties	71	123	149	108	102
Advertising costs	109				
Management and service contract fees—not material					

In addition to the above amounts, Pickands incurred taxes (other than income) of $170,000 in 1968, $177,000 in 1969, $154,000 in 1970, $165,000 in 1971 and $170,000 in 1972, and rent expenses of $599,000 in 1968, $544,000 in 1969, $432,000 in 1970, $455,000 in 1971 and $459,000 in 1972. A portion of these amounts was reimbursed, together with other general office expenses, by Pickands managed companies, etc., and therefore it is not practicable to determine the amounts of these expenses included in the determination of net income.

PURCHASE AGREEMENT dated as of January 1, 1973, between MOORE AND MCCORMACK CO., INC., a Delaware corporation ("MM"), and PICKANDS MATHER & CO., a Delaware corporation ("PM"), a wholly-owned subsidiary of DIAMOND SHAMROCK CORPORATION, a Delaware corporation ("DS").

PM desires to sell, and MM desires to purchase, the business, assets and properties of PM (including its subsidiaries) in consideration of certain payments by MM and the assumption by MM of the liabilities of PM, all upon the terms and subject to the conditions and exclusions hereinafter set forth. Such sale and purchase is to be accomplished substantially as of the close of business on January 1, 1973, and accordingly earnings or losses and liabilities of PM and its subsidiaries accrued or incurred after that date are to be for the account of MM and its subsidiaries, subject only as hereinafter provided. Accordingly, the parties hereto agree as follows:

1. **Sale of Assets and Business of PM.**

(a) Upon the terms and subject to the provisions of Section 8(e) hereof and subject to the other provisions set forth in this Agreement, PM will sell, convey, assign, transfer and deliver to MM, and MM will purchase from PM, all the assets, properties and business of PM of every kind and nature, wherever located, as the same shall exist on the Closing Date, including, without limitation, all property, real, personal and mixed, tangible and intangible, and whether or not hereinafter enumerated, mineral and other lands, vessels, buildings, structures, improvements, machinery, equipment, construction in progress, the stock of each subsidiary of PM, investments, stocks, bonds and other securities (or the right to the proceeds thereof as to any such investment, stock, bond or other security which, because of an exercised right of first refusal or similar option in the hands of a party other than PM or DS, cannot itself be transferred to MM), cash, short-term investments, bank accounts, inventories, accounts receivable, insurance policies, advances, prepaid insurance and other expenses, claims, all books and records of PM and its subsidiaries (other than minute and stock record books of PM and of The Interlake Steamship Company), rights to use the corporate name of PM and all other names or slogans used by PM or any of its subsidiaries in connection with their businesses or products and all of PM's right, title and interest in and to all joint ventures, contracts, rights, leases, licenses, patents, trademarks, trade names, copyrights, memberships and other instruments and agreements of any nature whatsoever to which PM is a party or under which it has or shall have any rights whatsoever, but with the exclusions hereinafter set forth (such assets, properties and business, but with such exclusions, being hereinafter called the Purchased Assets). MM hereby elects pursuant to Section 5 hereof, that (i) the vessels and floating contracts included in the Purchased Assets be purchased by a new wholly-owned subsidiary to be called "The Interlake Steamship Company" ("New Interlake") of MM's wholly-owned subsidiary, Moore-McCormack Lines, Incorporated ("Lines") and (ii) the remainder of the Purchased Assets be purchased by PM Holding Co., a new wholly-owned subsidiary of MM the name of which will be changed to "Pickands Mather & Co." as contemplated in Section 9(a) hereof ("New Pickands Mather").

(b) Anything hereinabove contained to the contrary notwithstanding, the Purchased Assets shall not include (and no value has been ascribed thereto in the statement of the Consolidated Net Worth of PM as of December 31, 1972 referred to in Section 2(d)) the following:

(i) accounts receivable, advances or other amounts due from DS (or any subsidiary or affiliate of DS other than PM or a subsidiary of PM) arising from transactions entered into on or prior to December 31, 1972, other than trade receivables on ordinary and usual terms;

(ii) prepaid Federal and foreign income taxes;

(iii) the capital construction fund;

(iv) the proceeds from liquidation of PM's investment, including, without limitation, machinery and equipment less reasonable provisions for future liabilities on account of past operations and shut-down expenses but not in excess of the amount of such proceeds (over and above their aggregate salvage value at December 31, 1972 of $205,000), in certain coal mines known as the "Brookes" and "Ottawa" mines, which mines were abandoned in 1972 and the investments therein written down

(by $1,130,000) to such aggregate salvage value (it being understood that if such proceeds shall be less than $205,000, PM shall reimburse MM for the difference but PM shall have the right to disapprove of any disposition thereof on reasonable grounds); and

(v) any and all right, title and interest of PM to the business, patents and know-how with respect to certain development projects of DS known as Zincrometal and Dacromet (which are not given any value in PM's balance sheet).

(c) All books and records acquired by MM under this Agreement shall be available for inspection and copying during regular business hours to officers, attorneys, accountants and other authorized representatives of PM. If MM shall desire to dispose of any such books and records (which it shall have the right to do after the expiration of six years after the Closing Date), MM shall, before making such disposition, give PM an opportunity, at PM's cost and expense, to segregate and remove such books and records as it may select. MM shall have correlative rights and PM shall have correlative obligations with respect to the minute and stock record books retained by PM under this Agreement.

2. **Purchase Price, Payment, Audit and Letter of Credit.**

(a) Upon the terms and subject to the conditions set forth in this Agreement, MM will pay to PM at the closing on the Closing Date as the purchase price for the Purchased Assets (in addition to the assumption of liabilities as provided herein):

(i) cash (certified or official bank check, drawn on The Cleveland Trust Company), in immediately available funds, in the amount of $3,378,000, adjusted dollar-for-dollar in accordance with any excess or deficiency of the Consolidated Net Worth of PM (as defined in Section 2(b) below) in the final statement thereof delivered pursuant to Section 2(d) over or under $59,253,000 and increased by the aggregate of (x) any capital contributions made by DS to PM after December 31, 1972, with the written consent of MM and (y) any expenditures from PM's capital construction fund on PM's vessels after December 31, 1972;

(ii) a single 8½% Note of New Interlake in the principal amount of $30,000,000 (the "New Interlake Note") and payable to the order of PM, having the terms and provisions set forth in Exhibit A hereto and secured by (x) a first preferred fleet mortgage (the "Fleet Mortgage") in the form of Exhibit B hereto, covering all the vessels listed in Exhibit K hereto and being sold to MM hereunder and (y) an assignment (the "Assignment"), in the form of Exhibit C hereto, relating to the floating contracts with Jones & Laughlin Steel Corporation (dated as of December 31, 1970), Interlake, Inc. (dated June 30, 1971 but effective as of January 1, 1972), Shenango Incorporated (dated May 1, 1962, as amended March 23, 1967) and The Youngstown Sheet and Tube Company (dated December 15, 1959 as amended June 8, 1966); and

(iii) a single certificate registered in the name of PM for 300,000 shares of New Pickands Mather 9% Senior Preferred Stock, par value $100 per share (said 300,000 shares being herein called the "Shares"), having the terms and provisions set forth in Article Fourth to the Certificate of Incorporation of New Pickands Mather attached hereto as Exhibit D, accompanied by a purchase agreement with respect thereto between PM and MM (the "Share Purchase Agreement") in the form of Exhibit E hereto.

In addition, MM will pay to PM at the closing on the Closing Date an amount equal to 20% of the consolidated income before Federal, state and foreign income taxes of PM and its subsidiaries for the period January 1, 1973, through the Closing Date without giving effect to the transaction herein provided for, as reasonably estimated by PM. An appropriate adjustment in such payment shall be made within one month based on a certificate of the chief financial officer of PM to the effect that to the best of his knowledge and belief the consolidated income before Federal, state and foreign income taxes of PM and its subsidiaries for said period is as stated in such certificate. PM shall similarly pay to MM an amount equal to all bills for services, goods or supplies properly owing on account of

operations through December 31, 1972, as reasonably determined by PM and which are not reflected in the statement of the Consolidated Net Worth of PM as of December 31, 1972, referred to below.

) For the purposes hereof, Consolidated Net Worth of PM shall mean the excess of the consolidated assets (other than assets excluded pursuant to Section 1(b) hereof) of PM and its subsidiaries over their consolidated liabilities, other than Federal and foreign income taxes, reserves for deferred Federal and foreign income taxes, amounts payable to DS (other than trade payables to DS on ordinary and usual terms) and reserves for pension allowances, as each of the foregoing is set forth and captioned in the consolidated balance sheet of PM as at December 31, 1972, hereinafter referred to.

(c) MM will take or cause to be taken such action as may be necessary to authorize issuance pursuant to law of the New Interlake Note and the Shares and represents and warrants that upon issuance of the same pursuant hereto the New Interlake Note and the Shares will be duly authorized, validly issued, executed and delivered and, in the case of the Shares, fully paid and nonassessable.

(d) An audit of the consolidated financial statements of PM and its subsidiaries as of the close of business on December 31, 1972, has been conducted by Price Waterhouse & Co. ("PW"), independent public accountants (representing PM). PW has prepared (in accordance with the specific accounting methods and procedures set forth in the letter dated February 1, 1973, from PM to MM, which is attached hereto as Exhibit F (which has attached a letter of agreement between the parties hereto), and, as to any accounting matters not specifically set forth therein, in accordance with generally accepted accounting principles consistently applied), and delivered to MM, PM and DS a statement of the Consolidated Net Worth of PM as of the close of business on December 31, 1972, accompanied by its unqualified opinion that such statement is in conformity with the accounting provisions of this Section 2 (a copy of such statement and opinion being attached as Exhibit G hereto).

(e) Subject to the penultimate sentence of this paragraph (e), MM and PM have not agreed upon the allocation of the purchase price to the various assets included in the Purchased Assets. Nothing con ·d in this Agreement or in any document, certificate, deed, assignment, proxy statement or other wri..g made, filed, issued or delivered by either party with respect to the consummation of the transactions contemplated by this Agreement is to be taken or used against the other party as an admission against its interests with respect to such allocation. Accordingly, each party, subject to the provisions of the next succeeding sentence, shall be free to make such allocation of the purchase price as it desires to make for book or tax purposes or for any other reason whatsoever, and such allocation shall have no effect on the other party's right to make a different allocation and to support the same. Anything hereinabove to the contrary notwithstanding, MM and PM each represents and warrants to the other that no value shall be attributed to any executory contract of PM or any subsidiary of PM except that this representation and warranty shall not apply to a certain contract, as amended, pursuant to which PM sold 15,000 shares of Dalton Ore Company to Interlake Iron Corporation (now known as Interlake, Inc.). Neither MM nor PM shall take any action inconsistent with the foregoing representation.

(f) MM has provided PM with a form of performance letter of credit from The Chase Manhattan Bank, N.A., (Exhibit H hereto) covering the obligations of MM under the Share Purchase Agreement.

3. **Assumption of Liabilities by MM and Indemnities.**

(a) Upon the terms and subject to the conditions set forth in this Agreement, MM (or its subidiaries, including subsidiaries acquired from PM, but MM herewith guarantees performance by such subsidiaries of their respective obligations) will assume on the Closing Date by appropriate instruments and will pay, perform and discharge, or cause to be paid, performed and discharged, all debts, obligations, contracts and liabilities of PM and its subsidiaries incurred up to and including the Closing Date, or arising under contracts entered into by PM and its subsidiaries up to and including the Closing Date, ncluding all obligations and liabilities under their respective purchase orders, contracts, leases, plans and

other commitments and all liabilities and obligations under contracts the assignments of which are subject to the provisions of Section 8(e) hereof; provided, however, that MM (and its subsidiaries, including subsidiaries acquired from PM) shall not assume

(i) any obligations or liabilities of PM under this Agreement;

(ii) any debts, obligations, contracts or liabilities for expenses, taxes and fees incident to the preparation of this Agreement or the consummation of the transactions contemplated hereby (other than as provided elsewhere in this Agreement) including, without limitation, all counsel and special auditing fees and all brokerage commissions;

(iii) any debts, obligations, contracts or liabilities in respect of Federal and foreign income taxes, and reserves for deferred Federal and foreign income taxes, in each case relating only to periods ending on or before the Closing Date;

(iv) any debts, obligations, contracts or liabilities in respect of pension allowances of the nature reserved for in the account so captioned on the consolidated balance sheet of PM at December 31, 1972, referred to in Section 10(c) hereof, and excluded from the definition of Consolidated Net Worth of PM as provided in Section 2(b) hereof, except to the extent that such matters are assumed pursuant to the provisions of Section 15 hereof;

(v) any debts, obligations, contracts or liabilities to or with DS (or any subsidiary or affiliate of DS other than PM or a subsidiary of PM) arising from transactions entered into on or prior to December 31, 1972, other than trade accounts payable incurred in the ordinary course of business, rental with respect to the new premises referred to in Section 13(f), the lease referred to in Section 13(f) and sales agency agreements on ordinary and usual terms;

(vi) any contingent liability of PM with respect to a guarantee by PM of the Puskarich equipment loan in the principal amount of $117,000; and

(vii) any matter not to be assumed as expressly set forth in any of the Exhibits hereto.

(b) All debts, obligations, contracts and liabilities of PM and its subsidiaries not assumed by MM or its subsidiaries pursuant to Section 3(a) hereof shall remain the sole responsibility of PM. PM will indemnify and save MM and its subsidiaries harmless from and against any and all claims, liabilities, expenses or obligations arising out of or resulting from (i) matters specifically not assumed by MM or its subsidiaries pursuant to Section 3(a) hereof and (ii) matters not to be so assumed but which it is not legally possible to eliminate from subsidiaries of PM the outstanding stocks of which are included in the Purchased Assets. MM will indemnify and save PM harmless from and against any and all claims, liabilities, expenses or obligations on account of debts, obligations, contracts and liabilities of PM and its subsidiaries assumed by MM or its subsidiaries pursuant to Section 3(a) hereof or arising out of or resulting from the ownership of the Purchased Assets or the operation of the buinesses of PM and its subsidiaries after the Closing Date. Nothing herein contained shall relieve PM of any liability for any breach of any representation or warranty set forth in Section 10 hereof.

4. **Action by MM's Stockholders.**

MM will duly call and hold a special meeting of its stockholders on or before the Closing Date, at which it will present for, and use its best efforts to obtain, the approval by its stockholders of the purchase by MM of the Purchased Assets upon the terms and conditions provided for in this Agreement.

5. **Alternate Forms of Transaction.**

(a) MM may elect, by written notice to PM within 30 days after the date of execution hereof, to effect the purchase of assets and assumption of liabilities as contemplated by this Agreement through

one or more direct or indirect subsidiaries of MM (either presently existing or established for that purpose). In such event, any transfers to and assumptions by MM contemplated hereby shall, to the extent specified in such election, be made to and by such subsidiaries, subject to MM's remaining at all times liable as guarantor for performance of all obligations and liabilities to be assumed by it hereunder. MM shall be deemed to have made such election with respect to New Interlake and New Pickands Mather as described in Section 1(a) hereof.

(b) In the event of an election pursuant to paragraph (a) above, the provisions of this Agreement shall be deemed to be amended to the extent necessary to permit the carrying out of such election, but the payment specified in Section 2(a) shall continue to be made by MM to PM but shall be deemed made on behalf of the purchasing subsidiary or subsidiaries.

(c) It is the intent of this Agreement that the entire business, assets and properties of PM and its subsidiaries be acquired hereunder by MM and its subsidiaries, and that their liabilities and obligations be assumed hereunder by MM and its subsidiaries, with only such specific exclusions therefrom as are provided for herein.

6. **Access to Plants, Properties and Records.**

From and after the date of this Agreement, PM shall afford to the officers, attorneys, accountants and other authorized representatives of MM free and full access to all plants, properties, books and records of PM and its subsidiaries (and books and records of DS relating to PM and its subsidiaries) in order that MM may have full opportunity to make such further investigation as it shall desire to make of the affairs of PM and its subsidiaries, and MM shall be permitted to make extracts from, or copies of, such books and records; and PM shall furnish or cause to be furnished to MM such financial and operating data and other information as to the businesses and properties of PM and its subsidiaries as MM shall request. Notwithstanding the foregoing, PM and its subsidiaries shall not be obligated to turn over to MM any contracts which they are contractually bound to keep confidential, provided that PM shall inform MM as to the existence of such contractual requirement and provided that PM shall use its best efforts to obtain a release from the same for the benefit of MM. In the event that the transactions contemplated by this Agreement shall, for any reason, not be consummated, MM will treat as confidential all information received from PM pursuant to this Section 6 or otherwise and will return to PM all documents received or copies made by MM in accordance herewith.

7. **The Closing Date.**

The purchase and sale provided for in this Agreement shall take place at the office of Messrs. Jones, Day, Cockley & Reavis, counsel for PM, at 10:00 a.m., Cleveland time, on April 3, 1973 (such time and date being herein called the Closing Date). Notwithstanding the foregoing, the Closing Date may be postponed to 10:00 a.m., Cleveland time, on a date on or before June 30, 1973, at the request of either party if such party is unable to comply by the Closing Date with any of the conditions referred to in Section 12 or 13 hereof, as the case may be, which are conditions precedent to the obligation of the other party to close the transaction (unless such conditions are waived by such other party).

8. **Instruments of Transfer, Etc.**

(a) The sale and transfer of the Purchased Assets shall be made at PM's expense (except as otherwise provided in this Agreement) on the Closing Date by deeds in proper statutory form for filing or recording, bills of sale, assignments or other instruments of transfer as shall be appropriate to carry out the intent of this Agreement and as shall be sufficient to convey to MM (or any subsidiary corporation of MM) all the right, title and interest of PM to the Purchased Assets. Notwithstanding the

foregoing, PM may, at its election, deliver a single instrument of transfer covering the Purchased Assets (except when a separate instrument of transfer is reasonably requested by MM) but its obligation to deliver deeds as aforesaid shall continue. All filing and recording fees in connection with such instruments of transfer shall be borne by MM. In the case of assignment of any right, contract, insurance policy, trust agreement, license, lease or other instrument requiring the consent of another party thereto, PM will use its best efforts to obtain such consent subject to the provisions of Section 8(e) hereof.

(b) On the Closing Date, MM will deliver an appropriate instrument evidencing its (and its subsidiaries') assumption of the liabilities and obligations being assumed by it and them hereunder and an appropriate instrument guaranteeing payment of the New Interlake Note which guarantee shall contain a prohibition of payment of dividends by MM so long as said Note shall be outstanding.

(c) On the Closing Date, PM will by appropriate instrument constitute and appoint MM, its successors and assigns, its true and lawful attorney or attorneys, with full power of substitution, in the name of PM but on behalf of and for the benefit of and at the expense of MM: (i) to collect for the account of MM all receivables and other items to be sold and transferred to MM as provided herein; (ii) to institute and prosecute, in the name of PM or otherwise, all proceedings which MM may deem necessary or desirable in order to collect, assert or enforce any claim, right or title of any kind in or to the assets and properties to be sold, transferred or assigned as provided herein; (iii) to defend and compromise any and all actions, suits or proceedings in respect of any of the Purchased Assets, other than those not assumed by MM hereunder; and (iv) to do all such acts and things in relation thereto as MM shall deem advisable. The foregoing power is coupled with an interest and shall be irrevocable by PM or by its dissolution or in any manner or for any reason. MM shall retain for its own account any amounts collected pursuant to the foregoing powers, including any sums payable as interest in respect thereof, and PM will pay to MM, when received, any amounts which shall be received by PM in respect of any receivables or other assets or properties to be sold, transferred or assigned to MM as provided herein.

(d) At any time and from time to time after the Closing Date, PM will, upon the request and at the expense of MM (except as to subsequent deeds as provided in paragraph (a) above), do, execute, acknowledge and deliver, or will cause to be done, executed, acknowledged or delivered, all such further acts, deeds, assignments, transfers, conveyances, powers of attorney or assurances as may be required for the better assigning, transferring, granting, conveying, assuring and confirming to MM, or for aiding and assisting in the collection of or reducing to possession by MM, any of the Purchased Assets.

(e) Nothing in this Agreement contained shall be construed as an attempt to assign (i) any contract which is in law nonassignable without the consent of the other party or parties thereto unless such consent shall have been given, or (ii) any contract or claim as to which all the remedies for the enforcement thereof enjoyed by PM would not, as a matter of law, pass to MM as an incident of the assignments provided for by this Agreement. In order, however, that the full value of every contract and claim of the character described in clauses (i) and (ii) of the next preceding sentence and all claims and demands on such contracts may be realized, PM, by itself or by its agents, will, at the request and expense and under the direction of MM, in the name of PM or otherwise as MM shall specify and as shall be permitted by law, take all such action and do or cause to be done all such things as shall in the opinion of MM be necessary or proper (x) in order that the rights and obligations of PM under such contracts shall be preserved and (y) for, and to facilitate, the collection of the moneys due and payable, and to become due and payable, to PM in and under every such contract and claim and in respect of every such claim and demand, and PM shall hold the same for the benefit of and shall pay the same over to MM. The foregoing covenant shall survive indefinitely.

9. **Other Actions by PM.** (a) On the Closing Date, PM shall change its corporate name to a name not including the word "Pickands", the word "Mather" or the word "Interlake", or any other name presently used by PM or any of its subsidiaries, and from and after such change PM and each such subsidiary will cease and desist from using in its corporate name or otherwise such words or names

on any words, initials or expressions so closely resembling such words or names or any of them as to be likely to be confused therewith. PM will execute such consents and other documents as MM may reasonably request in order to enable MM to use as it may desire PM's right, title and interest in such words or names, or any one or more of them, or any similar words, names, initials or expressions.

(b) On or before the Closing Date, PM shall terminate, and take over unto itself all securities, cash and other funds in, its capital construction fund but shall segregate and keep separate from its other assets such securities, cash and other funds. Anything contained in this Agreement to the contrary notwithstanding such securities, cash and other funds shall not be included in the Purchased Assets.

10. **Representations of PM.** PM represents, warrants and agrees as follows:

(a) PM is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and each subsidiary of PM is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation (as set forth in Exhibit I). Each of PM and its subsidiaries has the corporate power and authority to conduct its business as presently conducted and to own or hold the properties used in connection therewith, and each of PM and its subsidiaries is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which any of its manufacturing facilities or any material portion of its other properties is owned or leased or in which the business transacted by it is of material significance to PM and its subsidiaries, taken on a consolidated basis.

(b) Annexed hereto as Exhibit I is a list of each corporation or other business organization in which PM owns, directly or indirectly, 50% or more of the outstanding voting securities (such entities being herein called the "subsidiaries" of PM). The authorized and outstanding capital stock or other voting interest of each subsidiary of PM and the ownership thereof by PM are as set forth in Exhibit I hereto. Except as set forth in said Exhibit I, or in the other Exhibits hereto, there are not outstanding any warrants, options or other rights to acquire, whether on the happening of contingent events or otherwise, shares of capital stock or securities or other interests having, under any circumstances, voting rights in any of the subsidiaries of PM.

(c) Annexed hereto as Exhibit J are the following financial statements (including related notes): consolidated balance sheets of PM as at December 31 for each of the years 1968 through 1972, and related consolidated income statement and statements of consolidated stockholders' equity and consolidated changes in financial position for each of such years, certified by PW. All such financial statements are true and correct, have been prepared in conformity with generally accepted accounting principles applied on a consistent basis, and present fairly the consolidated financial position and results of operations and the consolidated changes in financial position of PM and its subsidiaries as of the respective dates of said balance sheets and for the periods indicated in said statements.

(d) At December 31, 1972, PM and its subsidiaries had no material liabilities, absolute or contingent, other than (i) those shown or provided for in the consolidated balance sheet of PM at December 31, 1972, and the notes thereto, (ii) those referred to herein or in any Exhibit hereto, (iii) intercompany items between PM and its subsidiaries and (iv) liabilities not being assumed by MM by reason of the provisions of Section 3(a) hereof.

(e) Annexed hereto as Exhibit K is a letter from an officer of PM (which however shall not be a representation or warranty of PM) containing (i) a brief description of real properties beneficially owned or leased by PM and its subsidiaries (other than interests in real property arising out of the joint venture agreements listed in Exhibit N) and (ii) a brief description of all ships and other vessels owned by PM and its subsidiaries. Each of PM and its subsidiaries has such title to its properties and assets (including, without limitation, its properties and assets reflected in the statement of Consolidated Net

Worth other than such as have been disposed of since December 31, 1972), as may be requisite to the conduct of its business in substantially the same manner as heretofore conducted, and there is no title defect in any such properties or assets which might be reasonably expected to have, at any time, a material adverse effect on the financial condition, results of operations or business of PM or its subsidiaries taken on a consolidated basis. The vessels, mines, plants, structures, machinery and equipment to be transferred pursuant hereto are, except as referred to in this Agreement or any Exhibit hereto, generally in sufficiently good operating condition and repair to continue to perform their respective functions substantially in the same manner as they were performed during the calendar year 1972, subject to ordinary wear and tear.

(f) Annexed hereto as Exhibit L is a letter from an officer of PM (which however shall not be a representation or warranty of PM) relating to recoverable mineral reserves from all mineral rights and properties beneficially owned or leased by PM and its subsidiaries.

(g) Annexed hereto as Exhibit M is a list of all policies of liability, theft, fidelity, life, fire, casualty, hull, marine protection and indemnity and other forms of insurance held by PM or any of its subsidiaries and relating to its business (specifying the type of coverage, insurer, policy number, policy period and named insured). All such policies are in full force and effect. Upon the closing hereunder MM will take over such insurance on a pro rata basis where compatible with its own insurance program and that of PM and DS; and any return of premiums on insurance of PM and its subsidiaries outstanding on December 31, 1972, and which is to be canceled at the Closing Date and as to which no prepayment is shown as an asset on the statement of Consolidated Net Worth of PM shall be the property of PM.

(h) Annexed hereto as Exhibit N is a letter from an officer of PM (which however shall not be a representation or warranty of PM) relating to each of the following to which PM or any of its subsidiaries is a party: any written or oral (i) contract for the employment of any officer or individual employee on a salaried or consulting basis; (ii) contract with any labor union; (iii) bonus, pension, profit sharing, retirement, stock purchase, stock option, hospitalization, insurance or similar plan or practice, formal or informal, in effect with respect to its employees or others; (iv) contract for the management or operation of the property of any other person; (v) joint venture; or (vi) material contract not made in the ordinary course of business. PM and each of its subsidiaries are not in default under any material contract, agreement, lease or other document to which any of them is a party.

(i) Annexed hereto as Exhibit O is appropriate information on the basis of which an actuarial determination can be made of the unfunded liabilities of PM and its subsidiaries with respect to the retirement plans listed in Exhibit N hereto. All such plans and trusts which are identified in Exhibit N as being qualified under Section 401(a) or 501(a) of the Internal Revenue Code are so qualified.

(j) There are no actions, suits, proceedings or investigations pending or, to the knowledge of PM, threatened against or affecting PM or any of its subsidiaries, at law, or in equity or admiralty, or before or by any Federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which involve the likelihood of any monetary judgment or liability against PM or any of its subsidiaries (to the extent not covered by insurance), in excess of $100,000 in any one case or $250,000 in the aggregate, or the likelihood of any injunction or order which, in the aggregate, may result in any material adverse change in the business, operations or properties of PM and its subsidiaries, taken on a consolidated basis, except in each case as listed in and described in Exhibit P hereto. Except as set forth in Exhibit P, neither PM nor any of its subsidiaries is, to the knowledge of any officer of PM or DS, in default with respect to any order, writ, injunction or decree of any court or Federal, state or local governmental agency or instrumentality, domestic or foreign, violation of which would result in a material adverse change in the business, operations or properties of PM and its subsidiaries, taken on a consolidated basis.

(k) None of the material properties or assets of PM and its subsidiaries have been condemned or otherwise taken by any public authority, and neither PM nor any of its subsidiaries has received notice of any such threatened condemnation or taking.

(l) Since December 31, 1972, except as consented to by MM in writing or as contemplated in this Agreement or except as required by contracts entered into on or prior to the date of the execution hereof and listed in Exhibit N hereto, neither PM nor any of its subsidiaries (except between one another) has (i) issued any stock, stock options, bonds or other corporate securities; (ii) incurred any obligation or liability (absolute or contingent) except liabilities incurred, and obligations under contracts entered into, in the ordinary course of business; (iii) made, or agreed to make, any material change in any pension, retirement, profit sharing, insurance, medical or other similar benefits payable to the officers or employees of PM or any of its subsidiaries, instituted or amended any bonus, investment, incentive compensation or similar plan for such officers or employees or granted any increase in the annual compensation payable to such officers or employees, other than in the ordinary course of business and consistent with past practice; (iv) discharged or satisfied any lien or encumbrance or paid any obligation or liability (absolute or contingent) other than current liabilities shown on the consolidated balance sheet of PM as of December 31, 1972, and current liabilities incurred since that date in the ordinary course of business; (v) declared or made any payment or distribution to stockholders or purchased or redeemed any shares of its capital stock; (vi) mortgaged, pledged or subjected to lien, charge or any other encumbrance, any of its assets, tangible or intangible; (vii) sold or transferred any of its tangible assets or canceled any debts or claims, except in each case in the ordinary course of business; (viii) sold, assigned or transferred any patents, trademarks, trade names, copyrights or other intangible assets; or (ix) entered into any transaction other than in the ordinary course of business except as permitted by this paragraph (l).

(m) Since December 31, 1972, neither PM nor any subsidiary of PM has (i) made any loan or advance to, or engaged in any transaction out of the ordinary course of business (or on terms less favorable than those available to third parties on an arm's length basis) with, DS or any subsidiary or affiliate of DS (other than PM or a subsidiary of PM); (ii) made any payments or prepayments of Federal or foreign income taxes whether directly paid or paid to DS (or any such subsidiary or affiliate) in lieu of direct payments; (iii) made any deposit in any capital construction fund; or (iv) made any payment in respect of any liability not to be assumed by MM hereunder.

(n) At the date hereof, the estimated aggregate cost to PM and its subsidiaries of completion of capital projects undertaken or authorized by PM and its subsidiaries (excluding projects undertaken or authorized pursuant to the joint venture agreements referred to in Exhibit N) does not exceed approximately $2,000,000, payment of such amount being expressly agreed to as in the ordinary course of business for purposes of paragraphs (l) and (o) of this Section 10.

(o) Since December 31, 1972, there has been no material adverse change in the condition, financial or other, of PM and its subsidiaries, taken on a consolidated basis, as shown in the consolidated balance sheet of PM as at December 31, 1972, other than changes occurring in the ordinary course of business or as a result of government action, which changes have not, in the aggregate, materially adversely affected the business, properties or financial condition of PM and its subsidiaries, taken on a consolidated basis. Notwithstanding the foregoing representation, it shall not be deemed breached by a reduction of operating profits (or incurring of operating losses) as a result of (i) reduced volume of business due to unfavorable market conditions generally and not to factors peculiar to PM such as the loss of a significant customer, (ii) increased operating costs due to general cost increases throughout the ore and shipping industries in the areas where PM and its subsidiaries operate or (iii) failure of the Government of la République de Côte d'Ivoire to grant to a subsidiary of PM an extension of its mineral development, exploration or other rights with respect to iron ore located in that jurisdiction. Without limiting the generality of the representation in the first sentence of this paragraph (o), it shall be deemed breached by the occurrence of any fire, flood, earthquake, accident or other casualty or act of God or the public enemy (other than labor disputes) which has or will have a material adverse effect on the business, properties or financial condition of PM and its subsidiaries taken on a consolidated basis.

(p) The Board of Directors of PM has approved this Agreement and the transactions contemplated herein, and this Agreement has been duly executed and delivered by PM and constitutes the legal valid and binding obligation of PM in accordance with its terms.

(q) The execution and delivery of this Agreement and compliance with the provisions hereof by PM will not violate any provision of law and will not conflict with, or result in any breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation of any mortgage, lien, security interest, charge or other encumbrance upon any of the properties or assets of PM or any subsidiary of PM pursuant to their respective charters or by-laws or any indenture, mortgage, agreement or other instrument to which any of them is a party or by which any of them or any material portion of their properties is bound or affected, except as set forth in any of the contracts listed in Exhibit N hereto.

(r) Attached hereto as Exhibit Q is information (including financial statements and related notes) relating to PM and its subsidiaries, furnished by PM for inclusion in the proxy soliciting material to be sent to MM stockholders in connection with their approval of the transactions contemplated by this Agreement. Such information includes all such information required to be included by Items 14 and 15 of Schedule 14A under Regulation 14A under the Securities Exchange Act of 1934 (the "Proxy Rules") with regard to PM and its subsidiaries, in connection with the solicitation of proxies from MM stockholders, and none of such material contains any statement which is, at the time and in the light of circumstances under which it is made, false or misleading with respect to any material fact or omits to state any material fact necessary in order to make the statements therein not false or misleading. Any other provision of this Agreement to the contrary notwithstanding, this representation (a) speaks only as of the date of execution of this Agreement and (b) shall not be deemed to add to or supplement in any way PM's representation as to title to properties and assets contained in the second sentence of Section 10(e) hereof. This paragraph (r) shall not extend to any false or misleading statement or omission which is ascertainable from this Agreement, the Exhibits hereto or the documents listed in said Exhibits.

(s) None of the material contained in Exhibit Q, together with any other material requested by MM for inclusion in its proxy soliciting material to comply with other Items of the Proxy Rules, all as amended to reflect comments received from the Securities and Exchange Commission with respect thereto or to reflect any changes in the business of PM and its subsidiaries which ought to be disclosed (in each case with the consent of PM to such amendment), will contain when distributed to its stockholders any statement which is, at the time and in the light of the circumstances under which it is made, false or misleading with respect to any material fact or omits to state any material fact necessary in order to make the statements therein not false or misleading. Any other provision of this Agreement to the contrary notwithstanding, PM's liability with respect to the representations made in this paragraph (s) shall be limited to indemnifying MM and holding it harmless from and against any liability to third parties, under Federal or state securities laws, arising solely because any such material is false or misleading or contains any material omission. Any litigation as to which MM shall be indemnified pursuant hereto shall be controlled by PM. This paragraph (s) shall not extend to any false or misleading statement or omission which is ascertainable from this Agreement, the Exhibits hereto or the documents listed in said Exhibits.

(t) True and correct copies of all contracts, leases, agreements, licenses, complaints and any other documents listed in any Exhibit hereto have been made available to MM for inspection.

(u) The representations and warranties made by PM in this Section 10 (except for paragraph (r) above) will be correct, on and as of the Closing Date, with the same force and effect as though such representations and warranties had been made on and as of the Closing date except for matters arising after the date of execution of this Agreement, and PM will deliver on the Closing Date its certificate with respect thereto in accordance with Section 12(g) hereof.

At any time after the Closing Date and prior to the expiration of the representations and warranties made by PM in this Section 10, if MM discovers any fact or event which it believes constitutes, or would

onstitute upon payment of any amount by MM, a breach of any of these representations and warranties, shall within 30 days of such discovery or prior to making any payment for which it would expect to be eim' sed by PM, whichever is less, give notice to PM as provided in Section 21(f) hereof of the mou and nature of the claim or potential claim involved. PM shall have a period of 30 days in hich to decide whether the payment by MM, if not theretofore made, ought to be made subject to greement by PM that such claim or potential claim is its sole responsibility. Thereafter PM shall ave the right to control any further proceedings with respect to that claim and, to the extent that it ndles such claim through employees of MM, shall indemnify MM and such employees from any ability to such claimant with respect to such claim. If PM does not assume control of the claim as rovided hereinabove, MM shall be free to act with respect to the claim in any reasonable fashion ithout prejudice to its rights under this Section 10.

11. **Representations of MM.** MM represents, warrants and agrees as follows:

(a) The Board of Directors of MM has approved this Agreement and the transactions contemated hereby and this Agreement has been duly executed and delivered on behalf of MM and constitutes e legal, valid and binding obligation of MM, in accordance with its terms.

(b) The execution and delivery of this Agreement, and compliance with the provisions hereof, by M will not violate any provision of law and will not conflict with, or result in any breach of the rms, conditions or provisions of, or constitute a default under, or result in the creation of any ortgage, lien, security interest, charge or other encumbrance upon any of the properties or assets of M or any subsidiary of MM pursuant to their respective charters or by-laws or any indenture, ortgage, agreement or other instrument to which any of them is a party or by which any of them or y material portion of their properties or assets is bound or affected, except liens and security interests ven pursuant to this Agreement or created in connection with the financing by MM of the purchase the Purchased Assets.

(c) The information (including financial statements and related notes and other financial information) ating to MM and its subsidiaries, set forth in Exhibit R attached hereto, is true and correct and ne of such information contains any statement which, at the time and in the light of the circumstances der which it is made, is false or misleading with respect to any material fact or omits to state any aterial fact necessary in order to make the statements therein not false or misleading.

(d) The representations and warranties made by MM in this Section 11 will be correct on and of the Closing Date, with the same force and effect as though such representations and warranties d been made on and as of the Closing Date except for matters arising after the date of execution of s Agreement, and MM will deliver on the Closing Date its certificate with respect thereto in accordce with Section 13(j) hereof.

(e) Subject to the approval of the transactions contemplated hereby by the MM stockholders:

(i) the execution and delivery of the New Interlake Note to PM has been duly authorized by all requisite corporate action, and the New Interlake Note, when issued and delivered in accordance with this Agreement, will constitute the legal, valid and binding obligation of New Interlake in accordance with its terms;

(ii) the issuance and sale of the Shares pursuant to this Agreement have been duly and validly authorized by all requisite corporate action and, upon issuance and delivery of a certificate therefor in accordance with this Agreement, the Shares will be duly and validly issued, fully paid and nonassessable, and will have the terms specified in Article Fourth of the Certificate of Incorporation of New Pickands Mather; and

(iii) the execution and delivery of the Fleet Mortgage, the Assignment and the Share Purchase Agreement pursuant to this Agreement have been duly authorized by all requisite corporate action and when issued and delivered in accordance with this Agreement will constitute legal, valid

and binding obligations of New Interlake or MM, as the case may be, in accordance with their respective terms, and the Fleet Mortgage and the Assignment will, respectively, constitute a first and best lien and valid security interest with respect to the properties and contract rights referred to in Section 2(a)(ii) (subject, as to the Fleet Mortgage, to liens for damages arising out of tort, for wages of a stevedore when employed directly by the owner, operator, master, ship's husband or agent of the vessel, for wages of the master and crew of the vessel, for general average, and for salvage, including contract salvage.

12. **Conditions to Obligations of MM.** The obligations of MM under this Agreement are, at the option of MM, subject to the conditions that:

(a) All the terms, covenants and conditions of this Agreement to be complied with and performed by PM on or before the Closing Date shall have been fully complied with and performed in all material respects.

(b) The representations and warranties made by PM herein shall be correct in all material respects, on and as of the Closing Date, with the same force and effect as though such representations and warranties had been made on and as of the Closing Date.

(c) At the meeting of the stockholders of MM provided for in Section 4 hereof, the holders of a majority of the outstanding shares of Common Stock of MM shall have duly authorized in accordance with law the transactions contemplated by this Agreement.

(d) MM shall have received the favorable opinion of Messrs. Cravath, Swaine & Moore, counsel for MM, to the effect that all actions or proceedings required to carry out this Agreement or incidental thereto have been properly taken and said counsel shall have approved the form of all instruments and documents required to carry out this Agreement or incidental thereto and all related legal matters.

(e) MM shall have received an opinion of Messrs. Jones, Day, Cockley & Reavis, counsel for PM, dated the Closing Date, in form and substance satisfactory to MM and its counsel, to the effect that:

(i) PM is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and each subsidiary of PM is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation (as set forth in Exhibit I hereto), in each case with the corporate power and authority to conduct its business as presently being conducted and to own and hold the properties used in connection therewith;

(ii) PM has full corporate power and authority to sell, convey, assign, transfer and deliver its assets, properties and business to MM as provided in this Agreement;

(iii) the execution and delivery of this Agreement by PM have been duly authorized by all requisite corporate action, and this Agreement has been duly executed and delivered by PM and constitutes the legal, valid and binding obligation of PM enforceable in accordance with its terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting enforcement of mortgagees' or creditors' rights generally, as from time to time in effect;

(iv) neither the execution and delivery of this Agreement by PM, nor PM's performance of or compliance with the terms and provisions hereof will conflict with or be in violation of any of the terms or provisions of the corporate charter or By-laws of PM or any of its subsidiaries, or, to the best of such counsel's knowledge, conflict with or result in the breach of any of the terms, conditions or provisions of any loan agreement, commitment, contract or instrument to which PM or any of its subsidiaries is a party or by which it may be bound, or constitute a default thereunder in either case resulting in the creation or imposition of any mortgage, lien or security interest of any nature whatsoever upon the properties and assets to be transferred hereunder;

(v) no authorizations or consents of any Federal or state governmental authorities within the United States are necessary in connection with the execution and delivery of this Agreement and consummation of the transactions contemplated hereby by PM and its subsidiaries, other than such as have been obtained;

(vi) the instruments of transfer of the Purchased Assets from PM to MM or New Pickands Mather or New Interlake, as the case may be, have been duly authorized, executed and delivered, are sufficient as between the parties to convey to MM or New Pickands Mather or New Interlake, as the case may be, whatever right, title and interest PM may have in or to the Purchased Assets; and

(vii) to the knowledge of such counsel, except as set forth in Exhibit P hereto, there are no actions, suits, proceedings or investigations pending or threatened against or affecting PM or any of its subsidiaries, at law, or in equity or admiralty, or before or by any Federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which in the opinion of such counsel involve the likelihood of any monetary judgment or liability against PM or any of its subsidiaries (to the extent not covered by insurance), in excess of $100,000 in any one case, or $250,000 in the aggregate or the likelihood of any injunction or order which, in the aggregate, may result in any material adverse change in the business, operations or properties of PM and its subsidiaries, taken on a consolidated basis.

In giving the foregoing opinion, Messrs. Jones, Day, Cockley & Reavis may rely on the opinion of Messrs. Kominers, Fort, Schlefer & Boyer (or other satisfactory counsel) as to matters of Federal maritime law and on such other counsel (including the Vice President and General Counsel of PM) as they shall deem appropriate as to matters of law involving jurisdictions other than Ohio.

(f) MM shall have received an opinion, dated as of the Closing Date, of Messrs. Kominers, Fort, Schlefer & Boyer, special maritime counsel for MM, in form and substance satisfactory to MM, to the effect that all approvals and consents of the Maritime Subsidy Board/Maritime Administration, or any other federal governmental authorities which are empowered to administer Federal shipping laws, have been obtained which are necessary or desirable for MM, Lines, New Interlake or New Pickands Mather to obtain under applicable statutes, rules or regulations or subsidy agreements, capital construction fund agreements or prior authorizations for corporate reorganization, in order to carry out this Agreement and finance the purchase of the Purchased Assets as determined by MM in its complete discretion. Such approvals and consents shall include without limitation, all as determined by MM, such matters as (i) ownership, chartering out and operation of the vessels included in the Purchased Assets on the Great Lakes, (ii) the directors and officers of Lines or New Interlake, (iii) transfers of funds and assets from Lines to MM whether by way of dividend or otherwise, (iv) maintenance of a single capital construction fund for various direct or indirect subsidiaries of MM, (v) amendment of Lines' capital construction fund agreement, (vi) withdrawals of funds from Lines' capital construction fund, present and future and (vii) generally carrying out the transactions provided for in this Agreement.

(g) PM shall have furnished MM with a certificate, executed by PM and dated the Closing Date, which shall state whether (i) all the terms, covenants and conditions herein to be performed or complied with by PM on or before the Closing Date have been fully performed or complied with and (ii) the representations and warranties made by PM herein are correct, on and as of the Closing Date, with the same force and effect as though such representations and warranties had been made on and as of the Closing Date. In the event that such certificate shall contain any exceptions, the matters excepted shall be specifically identified and, if MM shall elect to complete the closing under this Agreement in spite of such exceptions, MM shall thenceforth be forever barred and foreclosed from asserting any claim under this Agreement or such certificate based upon the matters so excepted.

13. **Conditions to Obligations of PM.** The obligations of PM under this Agreement are, at its option, subject to the conditions that:

(a) All the terms, covenants and conditions of this Agreement to be complied with and performed by MM on or before the Closing Date shall have been fully complied with and performed in all material respects.

(b) The representations and warranties made by MM herein shall be correct in all material respects on and as of the Closing Date, with the same force and effect as though such representations and warranties had been made on and as of the Closing Date.

(c) The approval of stockholders of MM contemplated by Section 4 of this Agreement shall have been obtained.

(d) PM shall have received the favorable opinion of Messrs. Jones, Day, Cockley & Reavis, counsel for PM, to the effect that all actions or proceedings required to carry out this Agreement or incidental thereto have been properly taken and said counsel shall have approved the form of all instruments and documents required to carry out this Agreement or incidental thereto and all related legal matters.

(e) PM shall have received an opinion, dated as of the Closing Date, of Messrs. Cravath, Swaine & Moore, counsel for MM, in form and substance satisfactory to PM and its counsel, to the effect that:

(i) each of MM, Lines, New Pickands Mather and New Interlake is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has the corporate power and authority to conduct its business as presently being conducted and to own and hold the properties used in connection therewith;

(ii) the execution and delivery of this Agreement and compliance with the provisions hereof by MM have been duly authorized by all requisite corporate action and this Agreement has been duly executed and delivered by MM and constitutes the legal, valid and binding obligation of MM enforceable in accordance with its terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting enforcement of mortgagees' or creditors' rights generally, as from time to time in effect;

(iii) the execution, delivery and performance of this Agreement and compliance with the provisions hereof by MM will not violate any provision of law and will not conflict with or result in any breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation of any mortgage, lien, security interest, charge or other encumbrance upon any of the properties, assets or outstanding stock of MM or any subsidiary of MM pursuant to their respective charters or by-laws or any indenture, mortgage, lease, agreement or other instrument, known to such counsel, to which MM or any subsidiary of MM is a party or by which any of them or any material portion of their properties is bound or affected, except liens and security interests given pursuant to this Agreement or created in connection with the financing by MM or any subsidiary of MM of the Purchased Assets;

(iv) the execution and delivery of the New Interlake Note, the Fleet Mortgage, the Assignment and the Share Purchase Agreement by MM, or a subsidiary of MM, have been duly authorized by all requisite corporate action, and each of the New Interlake Note, the Fleet Mortgage, the Assignment and the Share Purchase Agreement has been duly executed and delivered by MM or a subsidiary of MM and constitutes a legal, valid and binding obligation enforceable in accordance with its terms, and the New Interlake Note is entitled to the security of the Fleet Mortgage and the Assignment and the Fleet Mortgage constitutes a first and best lien, except as limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting enforcement of mortgagees' or creditors' rights generally, as from time to time in effect (subject, as to the Fleet Mortgage, to liens for damages arising out of tort, for wages of a stevedore when employed directly by the owner, operator, master, ship's husband or agent of the vessel, for wages of the master and crew of the vessel, for general average, and for salvage, including contract salvage);

(v) the issuance, sale and delivery of the Shares in accordance with this Agreement have been duly authorized by all requisite corporate action, and the Shares, when so issued, sold and delivered, will be validly issued and outstanding, fully paid and nonassessable shares of Preferred k of New Pickands Mather;

(vi) all other instruments and agreements delivered at or before the closing by MM or its subsidiaries in accordance with the provisions of this Agreement have been duly authorized, executed and delivered and are legal, valid and binding in accordance with their terms; and

(vii) no authorizations or consents of any governmental authorities are necessary in connection with the execution and delivery of this Agreement and consummation of the transactions contemplated hereby by MM and its subsidiaries, and payment of the New Interlake Note in accordance with its terms, other than such as have been obtained.

In giving the foregoing opinion Messrs. Cravath, Swaine & Moore may rely on the opinion of Messrs. Kominers, Fort, Schlefer & Boyer as to matters of Federal maritime law. If MM shall elect, pursuant to Section 5(a) hereof, to effect all or a portion of the transaction through one or more subsidiaries other than Lines, such opinion shall be appropriately modified to relate to such subsidiary or subsidiaries.

(f) MM shall have entered into sub-leases, as summarized in Exhibit S, covering PM's premises in the newly constructed Diamond Shamrock Building in Cleveland, Ohio, and for the leasehold improvements, furnishings and equipment located therein.

(g) PM shall have received from The Chase Manhattan Bank, N.A., an executed performance letter of credit substantially in the form of Exhibit H hereto.

(h) PM shall have received an opinion, dated as of the Closing Date, of maritime counsel approved by Messrs. Jones, Day, Cockley & Reavis, in form and substance satisfactory to PM, to the effect that all approvals and consents of the Maritime Subsidy Board/Maritime Administration, or any other Federal governmental authorities which are empowered to administer Federal shipping laws, which should be obtained in order to permit the carrying out of the transactions contemplated hereby under applicable statutes, rules or regulations have been obtained.

(i) PM shall have received to its satisfaction consents or assurances of consent to the proposed transfer and assignment of its contractual rights and obligations (including a release of PM from all past, present and future obligations under such contracts) with respect to the following: the Wabush joint venture, the Erie Mining Company management arrangements, the Savage River project, the Beckley coal mining operations and its four principal floating contracts.

(j) MM shall have furnished PM with a certificate, executed by MM and dated the Closing Date, which shall state whether (i) all the terms, covenants and conditions herein to be performed or complied with by MM on or before the Closing Date have been performed or complied with and (ii) the representations and warranties made by MM herein are correct, on and as of the Closing Date, with the same force and effect as though such representations and warranties had been made on and as of the Closing Date. In the event that such certificate shall contain any exceptions, the matters excepted shall be specifically identified and, if PM shall elect to complete the closing under this Agreement in spite of such exceptions, PM shall thenceforth be forever barred and foreclosed from asserting any claim under this Agreement or such certificate based upon the matters so excepted.

14. Nontransferability of Securities.

(a) PM represents that the New Interlake Note and the Shares to be delivered at the closing hereunder to PM will be acquired for its own account for investment and not with a view to the sale or distribution thereof.

(b) PM will not sell or transfer the New Interlake Note or the Shares referred to above without the prior written consent of MM except to MM pursuant to the Share Purchase Agreement or to DS and

except on default and except that PM may pledge or discount the New Interlake Note to a bank as collateral for borrowing in such manner as shall be approved by counsel for MM as neither violating, nor requiring registration under, the Securities Act of 1933.

(c) The New Interlake Note and the certificate evidencing the Shares shall bear appropriate legends reflecting paragraphs (a) and (b) of this Section 14.

15. **Employee Benefit Plans.**

(a) Each employee (which term shall include officers) of PM who is such on the Closing Date and who at that time has not attained the age of 65 will, if he wishes, become an employee of MM or a subsidiary of MM at a salary or wage not less than the salary or wage then being received by such employee.

(b) MM will or shall cause New Pickands Mather or New Interlake, as shall be appropriate, to adopt, as of the Closing Date, all employee benefit plans of PM listed in Exhibit N hereto (other than any plan for pension allowances specifically referred to in such Exhibit as not being assumed), and MM shall cause New Pickands Mather or New Interlake, as shall be appropriate, to assume all liabilities of PM thereunder. The adoption of such plans shall provide that employees and former employees of PM, except those who are transferred to DS as contemplated in Exhibit O hereto, shall be entitled to all rights and benefits under such plans the same as if they had continued to be employees or former employees of PM after the closing.

(c) Trust assets with respect to present PM and DS pension plans are now held by one trustee in a pooled fund. As soon as practicable after the Closing Date there shall be transferred to the trustees with respect to the plans adopted by New Pickands Mather and New Interlake as provided in paragraph (b) above the portion of such pooled trust assets as is allocable to present PM plans, such allocation (and the effective date thereof) to be determined as provided in Exhibit O referred to above.

(d) All actions necessary to accomplish the purposes of the foregoing paragraphs of this Section 15 shall be taken so that the requirements of Sections 401(a) and 501(a) of the Internal Revenue Code are met.

16. **Directorship.** So long as any of the Shares issued pursuant to the terms hereof is outstanding, PM shall have the right to designate one member of the Board of Directors of New Pickands Mather.

17. **Survival of Representations.** Except as otherwise specifically provided in this Agreement, the covenants, representations and warranties contained in this Agreement or in any certificate delivered pursuant hereto shall survive the closing hereunder and for a period of three years thereafter, provided that, any such covenants, representations and warranties made by MM shall nevertheless survive only so long as any of the Shares shall be outstanding. Notwithstanding the foregoing, if either party shall notify the other in writing of a claim that any such covenant, representation or warranty has been violated or breached in any way, which notice shall specify in general terms the covenant, representation or warranty so violated or breached and the reason therefor, such covenant, representation or warranty shall survive beyond the period hereinbefore specified but only with request to such claim.

18. **Expenses.** Except as otherwise provided herein, PM and MM shall each pay their own expenses in connection with this Agreement and the transactions contemplated hereby. If the transactions contemplated by this Agreement shall be consummated, the taxes and expenses of PM in connection with preparing this Agreement and consummating such transactions (including, without limitation, all counsel and special auditing fees, brokerage commissions and sales, use and transfer taxes, whether imposed on the purchaser or the seller, but not including the use of PM employees and facilities in such connection and not including expenses in connection with obtaining the consents referred to in Section 13(i) hereof) shall be paid out of the purchase price received by PM hereunder, and none of such expenses shall be paid out of the Purchased Assets.

19. **Cooperation and Publicity.** Neither PM nor MM shall voluntarily undertake any course of action inconsistent with satisfaction of the requirements applicable to it set forth in this Agreement, and each shall promptly do all such acts and take all such measures as may be appropriate to enable it to perform as early as practicable the obligations herein provided to be performed by it. In those instances where liabilities assumed by MM (such as sales and use taxes) must as a matter of law be the subject matter of a report or return filed by PM, MM agrees to provide the needed payment for delivery with a return which it will prepare for PM's execution. Where any claim is brought against PM in respect of the Purchased Assets or, in general, the business herein provided to be transferred, MM will, without expense to PM except for reimbursement of MM's out-of-pocket expenses, provide the help and assistance of the former PM employees of MM in the investigation and defense thereof. No press releases or similar announcements prior to the Closing Date by or on behalf of either PM or MM concerning the transactions contemplated hereby shall be issued without consent of the other.

20. **Staff Services.** PM (through DS) will furnish to MM such staff services and for such period of time as the parties may mutually agree upon. Such staff services shall relate to the operation of the PM business by MM and shall include computer and tax services. Such services shall be rendered at cost as reasonably determined by PM.

21. **Miscellaneous.**

(a) Each party represents and warrants that there are no claims for brokerage commissions or finders' fees in connection with the transactions contemplated by this Agreement resulting from any action taken by it. Each of the parties will exonerate, indemnify and hold harmless the other in respect of any and all losses sustained by the other as a result of liability to any broker or finder on the basis of any arrangement or agreement made by or on behalf of such party.

(b) Wherever in this Agreement it is provided that MM has an obligation to PM, whether by reason of any representation, warranty, covenant or assumption herein contained or otherwise, PM shall have the right to proceed directly against MM in order to enforce such obligation, notwithstanding the fact that MM shall make an election pursuant to Section 5 hereof under which its obligation, for its internal purposes, shall be transferred to one or more of its subsidiaries.

(c) This Agreement cannot be orally changed or terminated. The parties may, by written supplemental agreement, (i) extend the time for the performance of any of the obligations or other acts of the parties hereto, (ii) waive any inaccuracy in any representation contained herein or in any Exhibit hereto, (iii) waive compliance with any of the covenants or conditions contained in this Agreement and (iv) alter or amend this Agreement in any respect. Any such written supplemental agreement on the part of either party hereto shall be validly and sufficiently authorized for the purposes of this Agreement if authorized by its Chairman of the Board, President or Vice President—Finance.

(d) This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, provided that neither party shall assign any of its rights or privileges hereunder without the prior written consent of the other, except that PM may assign this Agreement to DS.

(e) Except as specifically set forth or referred to herein, nothing herein expressed or implied is intended or shall be construed to confer upon or give to any person, firm or corporation, other than the parties hereto and their respective permitted successors and assigns or personal representatives, any rights or remedies under or by reason of this Agreement.

(f) All notices, consents, requests, instructions, approvals and other communications provided for herein and all legal process in regard hereto shall be validly given, made or served if in writing and delivered personally or sent by registered mail, postage prepaid, if to PM, addressed to it, in care of DS, attention of Vice President—Finance, 300 Union Commerce Building, Cleveland, Ohio 44115, and if to MM, addressed to it, attention of the Vice President—Finance, Two Broadway, New York, N. Y. 10004, or to such other address or addresses as either party shall have designated by written notice to the other.

(g) This instrument and the Exhibits annexed hereto and made a part hereof contain the entire agreement between the parties hereto with respect to the purchase and sale of assets and other transactions contemplated herein and shall be governed by and construed in accordance with the laws of the State of Delaware.

(h) Subsequent to the closing hereunder and prior to proper recordation or filing by or on behalf of MM of all necessary deeds or other instruments of transfer PM will cooperate in all respects in assertion by MM of ownership to such properties and will not do anything inconsistent with such ownership.

(i) The parties waive compliance with so-called "bulk sales" laws in connection with the carrying out of this Agreement.

(j) Any matter, contract, document or description referred to in any letter of an officer of PM (including, without limitation, any such matter, contract, document or description specifically referred to in the so-called "Green Book") as provided in Sections 10(e), (f) and (h) hereof shall be deemed to be exhibits to this Agreement.

(k) There is presently pending an investigation by the Department of Justice with respect to the transaction which is the subject matter of this Agreement. Anything in this Agreement to the contrary notwithstanding, the fact that such investigation (or civil litigation arising therefrom) may be pending on the Closing Date shall not relieve either party hereto of its obligations to close the transaction and any warranty which may have been breached by reason of the pendency thereof is hereby waived but the provisions of this Section 21(k) shall not be applicable if on the Closing Date consummation of the transaction has been enjoined or restrained.

In Witness Whereof, the parties hereto have caused this Agreement to be duly executed and their respective corporate seals to be affixed hereto, all as of the day and year first above written.

Moore and McCormack Co., Inc.,

[corporate seal] by James R. Barker
Chairman

Attest:

Hubert F. Carr
Secretary

Pickands Mather & Co.,

[corporate seal] by Elton Hoyt III
President

Attest:

Robert L. Oldenburg
Secretary

GUARANTY

February 14, 1973

In consideration of the execution and delivery this day of the Agreement dated as of January 1, 1973 ("Agreement"), between Moore and McCormack Co., Inc., a Delaware corporation ("MM"), and Pickands Mather & Co., a Delaware corporation ("PM"), a wholly owned subsidiary of the undersigned, the undersigned hereby guarantees, except to the extent waived by MM by written supplemental agreement to the Agreement, (1) the due and punctual performance by PM of all its obligations under the Agreement, (2) that, subject to the closing of the transactions contemplated by the Agreement, all the terms, covenants and conditions of the Agreement to be complied with and performed by PM on or before the Closing Date will be fully complied with and performed, (3) that the representations and warranties made by PM in the Agreement are correct on and as of the date hereof and (4) that the statements made by PM in the certificate to be delivered pursuant to Section 12(g) of the Agreement will be correct on and as of the Closing Date. MM may proceed hereunder directly against the undersigned without any obligation to proceed first against PM, as if the undersigned had been a party to the Agreement with joint and several liability thereunder. The undersigned's liability hereunder for violation or breach of any covenant, representation or warranty of PM in the Agreement or the certificate referred to above shall survive only so long as such covenant, representation or warranty shall survive under the Agreement.

DIAMOND SHAMROCK CORPORATION

by JAMES A. HUGHES
Chairman of the Board

CERTIFICATE OF INCORPORATION
of
PM HOLDING CO.

ARTICLE FIRST

The name of the corporation (herein called the Corporation) is

PM HOLDING CO.

ARTICLE SECOND

The address of the registered office of the Corporation in the State of Delaware is 100 West Tenth Street, City of Wilmington, County of New Castle. The name of the registered agent of the Corporation at such address is The Corporation Trust Company.

ARTICLE THIRD

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

ARTICLE FOURTH

The total number of shares of all classes of stock which the Corporation shall have authority to issue is 3,000,000 of which 300,000 shares of the par value of $100 each are to be of a class designated "9% Senior Preferred Stock" and 2,700,000 shares of the par value of $1 each are to be of a class designated "Common Stock".

The voting powers, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the classes of stock of the Corporation are as follows:

(a) The holders of shares of 9% Senior Preferred Stock (the "Preferred Stock") shall be entitled to receive, when and as declared by the Board of Directors, but only out of funds legally available therefor, dividends in cash at the rate of $9 per share per annum, and no more, payable quarterly on the last day of March, June, September and December in such year (each such day being herein called a "dividend payment date"), *provided, however,* that in the event that any shares of Preferred Stock shall be issued after the beginning of any calendar year, dividends on such shares with respect to such calendar year (i) shall accrue in the amount of $9 per share for the period from the date of issuance to December 31 of such calendar year and (ii) shall be payable as so accrued in equal amounts on each dividend payment date during such calendar year which shall occur after the date of such issuance. Dividends on Preferred Stock shall be cumulative so that if at any time dividends payable as aforesaid upon the Preferred Stock with respect to any period ended on or prior to the most recent dividend payment date shall not have been paid or declared and set apart for payment, the amount of the deficiency shall be fully paid, but without interest, before any sum or sums shall be set aside for or applied to the purchase or redemption of Common Stock and before any dividends shall be declared or paid or any other distribution (other than a distribution in shares of Common Stock) ordered or made upon Common Stock.

(b) Subject to the provisions of paragraph (a) of this Article FOURTH, the holders of Common Stock shall be entitled, to the exclusion of the holders of Preferred Stock, to receive such dividends as from time to time may be declared by the Board of Directors.

(c) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution, whether from capital, surplus or earnings before any payments shall be made to the holders of Common Stock, the sum of $100 for each share of their holdings of Preferred Stock plus (i) dividends accrued and unpaid thereon to the dividend payment date next preceding the date of such liquidation, dissolution or winding up and (ii) an amount equal to dividends thereon at the rate of $9 per annum for the period from such dividend payment date to the date of such liquidation, dissolution or winding up. If upon any liquidation, dissolution or winding up the amounts payable on or with respect to Preferred Stock shall not be paid in full, the holders of Preferred Stock shall share ratably in any distribution of assets to such holders. In the event of any liquidation, dissolution or winding up of the Corporation, after payment shall have been made to the holders of Preferred Stock of the full amount to which they shall be entitled as aforesaid, the holders of Common Stock shall be entitled, to the exclusion of the holders of Preferred Stock, to share ratably according to the number of shares of Common Stock held by them in all remaining assets of the Corporation available for distribution to its stockholders. Neither the merger or consolidation of the Corporation into or with another corporation nor the merger or consolidation of any other corporation into or with the Corporation, nor the sale, transfer or lease of all or substantially all the assets of the Corporation, shall be deemed to be a liquidation, dissolution or winding up of the Corporation.

(d) Outstanding shares of the Preferred Stock may be redeemed by the Corporation, at its election expressed by resolution by the Board of Directors, at any time or from time to time during the respective periods set forth below, in amounts which are 25,000 shares or an integral multiple thereof but not exceeding (unless authorized by the affirmative vote of all the Preferred Stock then outstanding), for any such period, the number of shares set forth below opposite such period less the sum of (i) all shares of Preferred Stock theretofore redeemed pursuant to this paragraph (d) and (ii) all shares of Preferred Stock theretofore acquired by the Corporation or any corporation which owns more than 50% of the outstanding Common Stock:

Period	Number of Shares
January 15, 1974 to and including January 14, 1975	100,000
January 15, 1975 to and including January 14, 1976	200,000
After January 14, 1976	300,000

in each case upon not less than 30 days' previous notice to the holders of record of the Preferred Stock to be redeemed given by mail in such manner as may be prescribed by resolution of the Board of Directors, at a redemption price for each share so to be redeemed equal to the sum of $100 plus (i) dividends accrued and unpaid thereon for all periods ending on or prior to the dividend payment date next preceding the date fixed for redemption and (ii) an amount equal to dividends thereon at the rate of $9 per annum for the period from such dividend payment date to the date fixed for redemption. If less than all the outstanding shares of Preferred Stock are to be redeemed, the redemption may be made either by lot or *pro rata* in such manner as may be prescribed by resolution of the Board of Directors, *provided, however,* that shares of Preferred Stock held by an original record holder thereof (or any successor to any such holder by merger or dissolution) shall be redeemed in full before the redemption of other shares of Preferred Stock. The Corporation may, if it shall so elect, provide moneys for the payment of the redemption price by depositing the amount thereof for the account of the holders of Preferred Stock entitled thereto with a bank or trust company doing business in the Borough of Manhattan, in The City of New York, and

having capital and surplus of at least $5,000,000. The date upon which such deposit may be made by the Corporation shall be prior to the date fixed as the date of redemption, and hereinafter is called the "date of deposit". In any such case there shall be included in the notice of redemption a statement of the date on which, and of the name and address of the bank or trust company with which, such deposit has been or will be made. On and after the date fixed in any such notice of redemption as the date of redemption (unless default shall be made by the Corporation in providing moneys for the payment of the redemption price pursuant to such notice), or, if the Corporation shall make such deposit on or before the date specified therefor in such notice, then on and after the date of deposit, all dividends on the Preferred Stock thereby called for redemption shall cease to accrue, and all rights of the holders thereof as stockholders of the Corporation, except the right to receive the redemption price as hereinafter provided, shall cease and terminate, and the Preferred Stock thereby called for redemption shall not thereafter be deemed to be outstanding for any purpose hereof. At any time on or after the date fixed as aforesaid for such redemption or, if the Corporation shall elect to deposit the moneys for such redemption as herein provided, then at any time on or after the date of deposit and without awaiting the date fixed as aforesaid for such redemption, the respective holders of record of the Preferred Stock to be redeemed shall be entitled to receive the redemption price upon actual delivery to the Corporation, or, in the event of such deposit, to the bank or trust company with which such deposit shall be made, of certificates for the shares to be redeemed, such certificates, if required, to be duly endorsed in blank or accompanied by proper instruments of assignment and transfer thereof duly executed in blank. Any moneys so deposited which shall remain unclaimed by the holders of such Preferred Stock at the end of six years after the redemption date shall be paid by such bank or trust company to the Corporation. Any interest accrued on moneys so deposited shall be paid to the Corporation from time to time. Preferred Stock redeemed pursuant to the provisions of this paragraph (d) shall be canceled and shall not thereafter be reissued.

(e) Subject to the provisions of this Certificate of Incorporation and except as otherwise provided by law, the shares of stock of the Corporation, regardless of class, may be issued for such consideration and for such corporate purposes as the Board of Directors may from time to time determine.

(f) Subject to the provisions of any applicable law, or the By-laws of the Corporation as from time to time amended, with respect to the fixing of a record date for the determination of stockholders entitled to vote, and except as otherwise provided by law or this paragraph (f), each holder of record of Common Stock and each holder of Preferred Stock shall be entitled to one vote for each share of Common Stock or Preferred Stock, as the case may be, held by him on all matters that may come before such meeting. In addition to and notwithstanding the foregoing provisions of this paragraph (f) or any other provision of this Certificate of Incorporation or the By-laws of the Corporation, the affirmative vote of 80% of the outstanding shares of Preferred Stock shall be necessary for (i) approval of any amendment to this Certificate of Incorporation so as (x) to increase the authorized Preferred Stock or to reclassify the same, (y) to cancel or otherwise affect the right of the holders of Preferred Stock to receive dividends which have accrued but have not been declared or (z) to create new classes of stock having rights and preferences either prior and superior or equal to the Preferred Stock or (ii) approval of any merger, consolidation or dissolution of the Corporation or any sale of all or substantially all its assets.

ARTICLE FIFTH

The name and mailing address of the incorporator are as follows:

Name	Address
William J. Hewitt	One Chase Manhattan Plaza New York, N. Y. 10005

ARTICLE SIXTH

The powers of the incorporator shall terminate upon the filing of this Certificate of Incorporation, and the names and mailing addresses of the persons who are to serve as directors until the first annual meeting of stockholders and until their successors are elected and qualified are as follows:

Name	Mailing Address
James R. Barker	Two Broadway New York, N. Y. 10004
Elton Hoyt III	Union Commerce Building Cleveland, Ohio 44115
Robert McInnes	Union Commerce Building Cleveland, Ohio 44115
Paul R. Tregurtha	Two Broadway New York, N. Y. 10004

ARTICLE SEVENTH

For the management of the business and for the conduct of the affairs of the Corporation, and in further definition, limitation and regulation of the powers of the Corporation and of its directors and stockholders, it is further provided:

(a) The number of directors of the Corporation shall be such as from time to time shall be fixed in the manner provided in the By-laws of the Corporation. The election of directors of the Corporation need not be by ballot unless the By-laws so require.

(b) In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized and empowered:

(i) To make, alter, amend or repeal the By-laws in any manner not inconsistent with the laws of the State of Delaware or this Certificate of Incorporation.

(ii) Without the assent or vote of the stockholders, to authorize and issue obligations of the Corporation, secured or unsecured, and to include therein such provisions as to redemption, conversion, or other terms thereof, as the Board of Directors in its sole discretion may determine, and to authorize the mortgaging or pledging, as security therefor, of any property of the Corporation, real or personal, including after-acquired property.

(iii) To determine whether any, and if any, what part, of the net profits of the Corporation or of its surplus shall be declared in dividends and paid to the stockholders, and to direct and determine the use and disposition of any such net profits or such surplus.

(iv) To fix from time to time the amount of net profits of the Corporation or of its surplus to be reserved as working capital or for any other lawful purpose.

In addition to the powers and authorities herein or by statute expressly conferred upon it, the Board of Directors may exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the laws of the State of Delaware, of this Certificate of Incorporation, and of the By-laws of the Corporation.

(c) Any director or any officer elected or appointed by the stockholders or by the Board of Directors may be removed at any time in such manner as shall be provided in the By-laws of the Corporation.

(d) From time to time any of the provisions of this Certificate of Incorporation may be altered, amended or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner and at the time prescribed by said laws, and all rights at any time conferred upon the stockholders of the Corporation by this Certificate of Incorporation are granted subject to the provisions of this paragraph (d).

IN WITNESS WHEREOF, I, the undersigned, being the sole incorporator hereinabove named, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware DO HEREBY CERTIFY that this is my act and deed and that the facts hereinbefore stated are truly set forth and, accordingly, I have hereunto set my hand and seal as of the 13th day of February 1973.

WILLIAM J. HEWITT [L.S.]
William J. Hewitt

STATE OF NEW YORK,
COUNTY OF NEW YORK, } SS.:

BE IT REMEMBERED that on the 13th day of February 1973, before me, MURRAY COHEN, a Notary Public in and for the County and State aforesaid, personally came WILLIAM J. HEWITT, the sole incorporator who signed the foregoing certificate of incorporation, known to me personally to be such, and I having made known to him the contents of said certificate of incorporation, he did acknowledge the same to be his act and deed, and that the facts therein stated are truly set forth.

GIVEN under my hand and seal of office the day and year above written.

MURRAY COHEN
MURRAY COHEN
Notary Public, State of New York
No. 41-5745406
Qualified in Queens County
Cert. filed in New York County
Commission Expires March 30, 1974

[NOTARIAL SEAL]

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Cardinal®

CONFORMED COPY
(Including Exhibits A to E)

PURCHASE AGREEMENT dated as of January 1, 1973, between MOORE AND MCCORMACK CO., INC., a Delaware corporation ("MM"), and PICKANDS MATHER & CO., a Delaware corporation ("PM"), a wholly-owned subsidiary of DIAMOND SHAMROCK CORPORATION, a Delaware corporation ("DS").

PM desires to sell, and MM desires to purchase, the business, assets and properties of PM (including its subsidiaries) in consideration of certain payments by MM and the assumption by MM of the liabilities of PM, all upon the terms and subject to the conditions and exclusions hereinafter set forth. Such sale and purchase is to be accomplished substantially as of the close of business on January 1, 1973, and accordingly earnings or losses and liabilities of PM and its subsidiaries accrued or incurred after that date are to be for the account of MM and its subsidiaries, subject only as hereinafter provided. Accordingly, the parties hereto agree as follows:

1. **Sale of Assets and Business of PM.**

(a) Upon the terms and subject to the provisions of Section 8(e) hereof and subject to the other provisions set forth in this Agreement, PM will sell, convey, assign, transfer and deliver to MM, and MM will purchase from PM, all the assets, properties and business of PM of every kind and nature, wherever located, as the same shall exist on the Closing Date, including, without limitation, all property, real, personal and mixed, tangible and intangible, and whether or not hereinafter enumerated, mineral and other lands, vessels, buildings, structures, improvements, machinery, equipment, construction in progress, the stock of each subsidiary of PM, investments, stocks, bonds and other securities (or the right to the proceeds thereof as to any such investment, stock, bond or other security which, because of an exercised right of first refusal or similar option in the hands of a party other than PM or DS, cannot itself be transferred to MM), cash, short-term investments, bank accounts, inventories, accounts receivable, insurance policies, advances, prepaid insurance and other expenses, claims, all books and records of PM and its subsidiaries (other than minute and stock record books of PM and of The Interlake Steamship Company), rights to use the corporate name of PM and all other names or slogans used by PM or any of its subsidiaries in connection with their businesses or products and all of PM's right, title and interest in and to all joint ventures, contracts, rights, leases, licenses, patents, trademarks, trade names, copyrights, memberships and other instruments and agreements of any nature whatsoever to which PM is a party or under which it has or shall have any rights whatsoever, but with the exclusions hereinafter set forth (such assets, properties and business, but with such exclusions, being hereinafter called the Purchased Assets). MM hereby elects pursuant to Section 5 hereof, that (i) the vessels and floating contracts included in the Purchased Assets be purchased by a new wholly-owned subsidiary to be called "The Interlake Steamship Company" ("New Interlake") of MM's wholly-owned subsidiary, Moore-McCormack Lines, Incorporated ("Lines") and (ii) the remainder of the Purchased Assets be purchased by PM Holding Co., a new wholly-owned subsidiary of MM the name of which will be changed to "Pickands Mather & Co." as contemplated in Section 9(a) hereof ("New Pickands Mather").

(b) Anything hereinabove contained to the contrary notwithstanding, the Purchased Assets shall not include (and no value has been ascribed thereto in the statement of the Consolidated Net Worth of PM as of December 31, 1972 referred to in Section 2(d)) the following:

(i) accounts receivable, advances or other amounts due from DS (or any subsidiary or affiliate of DS other than PM or a subsidiary of PM) arising from transactions entered into on or prior to December 31, 1972, other than trade receivables on ordinary and usual terms;

(ii) prepaid Federal and foreign income taxes;

(iii) the capital construction fund;

(iv) the proceeds from liquidation of PM's investment, including, without limitation, machinery and equipment less reasonable provisions for future liabilities on account of past operations and shut-down expenses but not in excess of the amount of such proceeds (over and above their aggregate salvage value at December 31, 1972 of $205,000), in certain coal mines known as the "Brookes" and "Ottawa" mines, which mines were abandoned in 1972 and the investments therein written down

operations through December 31, 1972, as reasonably determined by PM and which are not reflected in the statement of the Consolidated Net Worth of PM as of December 31, 1972, referred to below.

(b) For the purposes hereof, Consolidated Net Worth of PM shall mean the excess of the consolidated assets (other than assets excluded pursuant to Section 1(b) hereof) of PM and its subsidiaries over their consolidated liabilities, other than Federal and foreign income taxes, reserves for deferred Federal and foreign income taxes, amounts payable to DS (other than trade payables to DS on ordinary and usual terms) and reserves for pension allowances, as each of the foregoing is set forth and captioned in the consolidated balance sheet of PM as at December 31, 1972, hereinafter referred to.

(c) MM will take or cause to be taken such action as may be necessary to authorize issuance pursuant to law of the New Interlake Note and the Shares and represents and warrants that upon issuance of the same pursuant hereto the New Interlake Note and the Shares will be duly authorized, validly issued, executed and delivered and, in the case of the Shares, fully paid and nonassessable.

(d) An audit of the consolidated financial statements of PM and its subsidiaries as of the close of business on December 31, 1972, has been conducted by Price Waterhouse & Co. ("PW"), independent public accountants (representing PM). PW has prepared (in accordance with the specific accounting methods and procedures set forth in the letter dated February 1, 1973, from PM to MM, which is attached hereto as Exhibit F (which has attached a letter of agreement between the parties hereto), and, as to any accounting matters not specifically set forth therein, in accordance with generally accepted accounting principles consistently applied), and delivered to MM, PM and DS a statement of the Consolidated Net Worth of PM as of the close of business on December 31, 1972, accompanied by its unqualified opinion that such statement is in conformity with the accounting provisions of this Section 2 (a copy of such statement and opinion being attached as Exhibit G hereto).

(e) Subject to the penultimate sentence of this paragraph (e), MM and PM have not agreed upon the allocation of the purchase price to the various assets included in the Purchased Assets. Nothing contained in this Agreement or in any document, certificate, deed, assignment, proxy statement or other writing made, filed, issued or delivered by either party with respect to the consummation of the transactions contemplated by this Agreement is to be taken or used against the other party as an admission against its interests with respect to such allocation. Accordingly, each party, subject to the provisions of the next succeeding sentence, shall be free to make such allocation of the purchase price as it desires to make for book or tax purposes or for any other reason whatsoever, and such allocation shall have no effect on the other party's right to make a different allocation and to support the same. Anything hereinabove to the contrary notwithstanding, MM and PM each represents and warrants to the other that no value shall be attributed to any executory contract of PM or any subsidiary of PM except that this representation and warranty shall not apply to a certain contract, as amended, pursuant to which PM sold 15,000 shares of Dalton Ore Company to Interlake Iron Corporation (now known as Interlake, Inc.). Neither MM nor PM shall take any action inconsistent with the foregoing representation.

(f) MM has provided PM with a form of performance letter of credit from The Chase Manhattan Bank, N.A., (Exhibit H hereto) covering the obligations of MM under the Share Purchase Agreement.

3. **Assumption of Liabilities by MM and Indemnities.**

(a) Upon the terms and subject to the conditions set forth in this Agreement, MM (or its subsidiaries, including subsidiaries acquired from PM, but MM herewith guarantees performance by such subsidiaries of their respective obligations) will assume on the Closing Date by appropriate instruments and will pay, perform and discharge, or cause to be paid, performed and discharged, all debts, obligations, contracts and liabilities of PM and its subsidiaries incurred up to and including the Closing Date, or arising under contracts entered into by PM and its subsidiaries up to and including the Closing Date, including all obligations and liabilities under their respective purchase orders, contracts, leases, plans and

(by $1,130,000) to such aggregate salvage value (it being understood that if such proceeds shall be less than $205,000, PM shall reimburse MM for the difference but PM shall have the right to disapprove of any disposition thereof on reasonable grounds); and

(v) any and all right, title and interest of PM to the business, patents and know-how with respect to certain development projects of DS known as Zincrometal and Dacromet (which are not given any value in PM's balance sheet).

(c) All books and records acquired by MM under this Agreement shall be available for inspection and copying during regular business hours to officers, attorneys, accountants and other authorized representatives of PM. If MM shall desire to dispose of any such books and records (which it shall have the right to do after the expiration of six years after the Closing Date), MM shall, before making such disposition, give PM an opportunity, at PM's cost and expense, to segregate and remove such books and records as it may select. MM shall have correlative rights and PM shall have correlative obligations with respect to the minute and stock record books retained by PM under this Agreement.

2. **Purchase Price, Payment, Audit and Letter of Credit.**

(a) Upon the terms and subject to the conditions set forth in this Agreement, MM will pay to PM at the closing on the Closing Date as the purchase price for the Purchased Assets (in addition to the assumption of liabilities as provided herein):

(i) cash (certified or official bank check, drawn on The Cleveland Trust Company), in immediately available funds, in the amount of $3,378,000, adjusted dollar-for-dollar in accordance with any excess or deficiency of the Consolidated Net Worth of PM (as defined in Section 2(b) below) in the final statement thereof delivered pursuant to Section 2(d) over or under $59,253,000 and increased by the aggregate of (x) any capital contributions made by DS to PM after December 31, 1972, with the written consent of MM and (y) any expenditures from PM's capital construction fund on PM's vessels after December 31, 1972;

(ii) a single 8½% Note of New Interlake in the principal amount of $30,000,000 (the "New Interlake Note") and payable to the order of PM, having the terms and provisions set forth in Exhibit A hereto and secured by (x) a first preferred fleet mortgage (the "Fleet Mortgage") in the form of Exhibit B hereto, covering all the vessels listed in Exhibit K hereto and being sold to MM hereunder and (y) an assignment (the "Assignment"), in the form of Exhibit C hereto, relating to the floating contracts with Jones & Laughlin Steel Corporation (dated as of December 31, 1970), Interlake, Inc. (dated June 30, 1971 but effective as of January 1, 1972), Shenango Incorporated (dated May 1, 1962, as amended March 23, 1967) and The Youngstown Sheet and Tube Company (dated December 15, 1959 as amended June 8, 1966); and

(iii) a single certificate registered in the name of PM for 300,000 shares of New Pickands Mather 9% Senior Preferred Stock, par value $100 per share (said 300,000 shares being herein called the "Shares"), having the terms and provisions set forth in Article Fourth to the Certificate of Incorporation of New Pickands Mather attached hereto as Exhibit D, accompanied by a purchase agreement with respect thereto between PM and MM (the "Share Purchase Agreement") in the form of Exhibit E hereto.

In addition, MM will pay to PM at the closing on the Closing Date an amount equal to 20% of the consolidated income before Federal, state and foreign income taxes of PM and its subsidiaries for the period January 1, 1973, through the Closing Date without giving effect to the transaction herein provided for, as reasonably estimated by PM. An appropriate adjustment in such payment shall be made within one month based on a certificate of the chief financial officer of PM to the effect that to the best of his knowledge and belief the consolidated income before Federal, state and foreign income taxes of PM and its subsidiaries for said period is as stated in such certificate. PM shall similarly pay to MM an amount equal to all bills for services, goods or supplies properly owing on account of

other commitments and all liabilities and obligations under contracts the assignments of which are subject to the provisions of Section 8(e) hereof; provided, however, that MM (and its subsidiaries, including subsidiaries acquired from PM) shall not assume

(i) any obligations or liabilities of PM under this Agreement;

(ii) any debts, obligations, contracts or liabilities for expenses, taxes and fees incident to the preparation of this Agreement or the consummation of the transactions contemplated hereby (other than as provided elsewhere in this Agreement) including, without limitation, all counsel and special auditing fees and all brokerage commissions;

(iii) any debts, obligations, contracts or liabilities in respect of Federal and foreign income taxes, and reserves for deferred Federal and foreign income taxes, in each case relating only to periods ending on or before the Closing Date;

(iv) any debts, obligations, contracts or liabilities in respect of pension allowances of the nature reserved for in the account so captioned on the consolidated balance sheet of PM at December 31, 1972, referred to in Section 10(c) hereof, and excluded from the definition of Consolidated Net Worth of PM as provided in Section 2(b) hereof, except to the extent that such matters are assumed pursuant to the provisions of Section 15 hereof;

(v) any debts, obligations, contracts or liabilities to or with DS (or any subsidiary or affiliate of DS other than PM or a subsidiary of PM) arising from transactions entered into on or prior to December 31, 1972, other than trade accounts payable incurred in the ordinary course of business, rental with respect to the new premises referred to in Section 13(f), the lease referred to in Section 13(f) and sales agency agreements on ordinary and usual terms;

(vi) any contingent liability of PM with respect to a guarantee by PM of the Puskarich equipment loan in the principal amount of $117,000; and

(vii) any matter not to be assumed as expressly set forth in any of the Exhibits hereto.

(b) All debts, obligations, contracts and liabilities of PM and its subsidiaries not assumed by MM or its subsidiaries pursuant to Section 3(a) hereof shall remain the sole responsibility of PM. PM will indemnify and save MM and its subsidiaries harmless from and against any and all claims, liabilities, expenses or obligations arising out of or resulting from (i) matters specifically not assumed by MM or its subsidiaries pursuant to Section 3(a) hereof and (ii) matters not to be so assumed but which it is not legally possible to eliminate from subsidiaries of PM the outstanding stocks of which are included in the Purchased Assets. MM will indemnify and save PM harmless from and against any and all claims, liabilities, expenses or obligations on account of debts, obligations, contracts and liabilities of PM and its subsidiaries assumed by MM or its subsidiaries pursuant to Section 3(a) hereof or arising out of or resulting from the ownership of the Purchased Assets or the operation of the buinesses of PM and its subsidiaries after the Closing Date. Nothing herein contained shall relieve PM of any liability for any breach of any representation or warranty set forth in Section 10 hereof.

4. **Action by MM's Stockholders.**

MM will duly call and hold a special meeting of its stockholders on or before the Closing Date, at which it will present for, and use its best efforts to obtain, the approval by its stockholders of the purchase by MM of the Purchased Assets upon the terms and conditions provided for in this Agreement.

5. **Alternate Forms of Transaction.**

(a) MM may elect, by written notice to PM within 30 days after the date of execution hereof, to effect the purchase of assets and assumption of liabilities as contemplated by this Agreement through

one or more direct or indirect subsidiaries of MM (either presently existing or established for that purpose). In such event, any transfers to and assumptions by MM contemplated hereby shall, to the extent specified in such election, be made to and by such subsidiaries, subject to MM's remaining at all times liable as guarantor for performance of all obligations and liabilities to be assumed by it hereunder. MM shall be deemed to have made such election with respect to New Interlake and New Pickands Mather as described in Section 1(a) hereof.

(b) In the event of an election pursuant to paragraph (a) above, the provisions of this Agreement shall be deemed to be amended to the extent necessary to permit the carrying out of such election, but the payment specified in Section 2(a) shall continue to be made by MM to PM but shall be deemed made on behalf of the purchasing subsidiary or subsidiaries.

(c) It is the intent of this Agreement that the entire business, assets and properties of PM and its subsidiaries be acquired hereunder by MM and its subsidiaries, and that their liabilities and obligations be assumed hereunder by MM and its subsidiaries, with only such specific exclusions therefrom as are provided for herein.

6. **Access to Plants, Properties and Records.**

From and after the date of this Agreement, PM shall afford to the officers, attorneys, accountants and other authorized representatives of MM free and full access to all plants, properties, books and records of PM and its subsidiaries (and books and records of DS relating to PM and its subsidiaries) in order that MM may have full opportunity to make such further investigation as it shall desire to make of the affairs of PM and its subsidiaries, and MM shall be permitted to make extracts from, or copies of, such books and records; and PM shall furnish or cause to be furnished to MM such financial and operating data and other information as to the businesses and properties of PM and its subsidiaries as MM shall request. Notwithstanding the foregoing, PM and its subsidiaries shall not be obligated to turn over to MM any contracts which they are contractually bound to keep confidential, provided that PM shall inform MM as to the existence of such contractual requirement and provided that PM shall use its best efforts to obtain a release from the same for the benefit of MM. In the event that the transactions contemplated by this Agreement shall, for any reason, not be consummated, MM will treat as confidential all information received from PM pursuant to this Section 6 or otherwise and will return to PM all documents received or copies made by MM in accordance herewith.

7. **The Closing Date.**

The purchase and sale provided for in this Agreement shall take place at the office of Messrs. Jones, Day, Cockley & Reavis, counsel for PM, at 10:00 a.m., Cleveland time, on April 3, 1973 (such time and date being herein called the Closing Date). Notwithstanding the foregoing, the Closing Date may be postponed to 10:00 a.m., Cleveland time, on a date on or before June 30, 1973, at the request of either party if such party is unable to comply by the Closing Date with any of the conditions referred to in Section 12 or 13 hereof, as the case may be, which are conditions precedent to the obligation of the other party to close the transaction (unless such conditions are waived by such other party).

8. **Instruments of Transfer, Etc.**

(a) The sale and transfer of the Purchased Assets shall be made at PM's expense (except as otherwise provided in this Agreement) on the Closing Date by deeds in proper statutory form for filing or recording, bills of sale, assignments or other instruments of transfer as shall be appropriate to carry out the intent of this Agreement and as shall be sufficient to convey to MM (or any subsidiary corporation of MM) all the right, title and interest of PM to the Purchased Assets. Notwithstanding the

foregoing, PM may, at its election, deliver a single instrument of transfer covering the Purchased Assets (except when a separate instrument of transfer is reasonably requested by MM) but its obligation to deliver deeds as aforesaid shall continue. All filing and recording fees in connection with such instruments of transfer shall be borne by MM. In the case of assignment of any right, contract, insurance policy, trust agreement, license, lease or other instrument requiring the consent of another party thereto, PM will use its best efforts to obtain such consent subject to the provisions of Section 8(e) hereof.

(b) On the Closing Date, MM will deliver an appropriate instrument evidencing its (and its subsidiaries') assumption of the liabilities and obligations being assumed by it and them hereunder and an appropriate instrument guaranteeing payment of the New Interlake Note which guarantee shall contain a prohibition of payment of dividends by MM so long as said Note shall be outstanding.

(c) On the Closing Date, PM will by appropriate instrument constitute and appoint MM, its successors and assigns, its true and lawful attorney or attorneys, with full power of substitution, in the name of PM but on behalf of and for the benefit of and at the expense of MM: (i) to collect for the account of MM all receivables and other items to be sold and transferred to MM as provided herein; (ii) to institute and prosecute, in the name of PM or otherwise, all proceedings which MM may deem necessary or desirable in order to collect, assert or enforce any claim, right or title of any kind in or to the assets and properties to be sold, transferred or assigned as provided herein; (iii) to defend and compromise any and all actions, suits or proceedings in respect of any of the Purchased Assets, other than those not assumed by MM hereunder; and (iv) to do all such acts and things in relation thereto as MM shall deem advisable. The foregoing power is coupled with an interest and shall be irrevocable by PM or by its dissolution or in any manner or for any reason. MM shall retain for its own account any amounts collected pursuant to the foregoing powers, including any sums payable as interest in respect thereof, and PM will pay to MM, when received, any amounts which shall be received by PM in respect of any receivables or other assets or properties to be sold, transferred or assigned to MM as provided herein.

(d) At any time and from time to time after the Closing Date, PM will, upon the request and at the expense of MM (except as to subsequent deeds as provided in paragraph (a) above), do, execute, acknowledge and deliver, or will cause to be done, executed, acknowledged or delivered, all such further acts, deeds, assignments, transfers, conveyances, powers of attorney or assurances as may be required for the better assigning, transferring, granting, conveying, assuring and confirming to MM, or for aiding and assisting in the collection of or reducing to possession by MM, any of the Purchased Assets.

(e) Nothing in this Agreement contained shall be construed as an attempt to assign (i) any contract which is in law nonassignable without the consent of the other party or parties thereto unless such consent shall have been given, or (ii) any contract or claim as to which all the remedies for the enforcement thereof enjoyed by PM would not, as a matter of law, pass to MM as an incident of the assignments provided for by this Agreement. In order, however, that the full value of every contract and claim of the character described in clauses (i) and (ii) of the next preceding sentence and all claims and demands on such contracts may be realized, PM, by itself or by its agents, will, at the request and expense and under the direction of MM, in the name of PM or otherwise as MM shall specify and as shall be permitted by law, take all such action and do or cause to be done all such things as shall in the opinion of MM be necessary or proper (x) in order that the rights and obligations of PM under such contracts shall be preserved and (y) for, and to facilitate, the collection of the moneys due and payable, and to become due and payable, to PM in and under every such contract and claim and in respect of every such claim and demand, and PM shall hold the same for the benefit of and shall pay the same over to MM. The foregoing covenant shall survive indefinitely.

9. **Other Actions by PM.** (a) On the Closing Date, PM shall change its corporate name to a name not including the word "Pickands", the word "Mather" or the word "Interlake", or any other name presently used by PM or any of its subsidiaries, and from and after such change PM and each such subsidiary will cease and desist from using in its corporate name or otherwise such words or names

on any words, initials or expressions so closely resembling such words or names or any of them as to be likely to be confused therewith. PM will execute such consents and other documents as MM may reasonably request in order to enable MM to use as it may desire PM's right, title and interest in such words or names, or any one or more of them, or any similar words, names, initials or expressions.

(b) On or before the Closing Date, PM shall terminate, and take over unto itself all securities, cash and other funds in, its capital construction fund but shall segregate and keep separate from its other assets such securities, cash and other funds. Anything contained in this Agreement to the contrary notwithstanding such securities, cash and other funds shall not be included in the Purchased Assets.

10. **Representations of PM.** PM represents, warrants and agrees as follows:

(a) PM is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and each subsidiary of PM is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation (as set forth in Exhibit I). Each of PM and its subsidiaries has the corporate power and authority to conduct its business as presently conducted and to own or hold the properties used in connection therewith, and each of PM and its subsidiaries is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which any of its manufacturing facilities or any material portion of its other properties is owned or leased or in which the business transacted by it is of material significance to PM and its subsidiaries, taken on a consolidated basis.

(b) Annexed hereto as Exhibit I is a list of each corporation or other business organization in which PM owns, directly or indirectly, 50% or more of the outstanding voting securities (such entities being herein called the "subsidiaries" of PM). The authorized and outstanding capital stock or other voting interest of each subsidiary of PM and the ownership thereof by PM are as set forth in Exhibit I hereto. Except as set forth in said Exhibit I, or in the other Exhibits hereto, there are not outstanding any warrants, options or other rights to acquire, whether on the happening of contingent events or otherwise, shares of capital stock or securities or other interests having, under any circumstances, voting rights in any of the subsidiaries of PM.

(c) Annexed hereto as Exhibit J are the following financial statements (including related notes): consolidated balance sheets of PM as at December 31 for each of the years 1968 through 1972, and related consolidated income statement and statements of consolidated stockholders' equity and consolidated changes in financial position for each of such years, certified by PW. All such financial statements are true and correct, have been prepared in conformity with generally accepted accounting principles applied on a consistent basis, and present fairly the consolidated financial position and results of operations and the consolidated changes in financial position of PM and its subsidiaries as of the respective dates of said balance sheets and for the periods indicated in said statements.

(d) At December 31, 1972, PM and its subsidiaries had no material liabilities, absolute or contingent, other than (i) those shown or provided for in the consolidated balance sheet of PM at December 31, 1972, and the notes thereto, (ii) those referred to herein or in any Exhibit hereto, (iii) intercompany items between PM and its subsidiaries and (iv) liabilities not being assumed by MM by reason of the provisions of Section 3(a) hereof.

(e) Annexed hereto as Exhibit K is a letter from an officer of PM (which however shall not be a representation or warranty of PM) containing (i) a brief description of real properties beneficially owned or leased by PM and its subsidiaries (other than interests in real property arising out of the joint venture agreements listed in Exhibit N) and (ii) a brief description of all ships and other vessels owned by PM and its subsidiaries. Each of PM and its subsidiaries has such title to its properties and assets (including, without limitation, its properties and assets reflected in the statement of Consolidated Net

Worth other than such as have been disposed of since December 31, 1972), as may be requisite to the conduct of its business in substantially the same manner as heretofore conducted, and there is no title defect in any such properties or assets which might be reasonably expected to have, at any time, a material adverse effect on the financial condition, results of operations or business of PM or its subsidiaries taken on a consolidated basis. The vessels, mines, plants, structures, machinery and equipment to be transferred pursuant hereto are, except as referred to in this Agreement or any Exhibit hereto, generally in sufficiently good operating condition and repair to continue to perform their respective functions substantially in the same manner as they were performed during the calendar year 1972, subject to ordinary wear and tear.

(f) Annexed hereto as Exhibit L is a letter from an officer of PM (which however shall not be a representation or warranty of PM) relating to recoverable mineral reserves from all mineral rights and properties beneficially owned or leased by PM and its subsidiaries.

(g) Annexed hereto as Exhibit M is a list of all policies of liability, theft, fidelity, life, fire, casualty, hull, marine protection and indemnity and other forms of insurance held by PM or any of its subsidiaries and relating to its business (specifying the type of coverage, insurer, policy number, policy period and named insured). All such policies are in full force and effect. Upon the closing hereunder MM will take over such insurance on a pro rata basis where compatible with its own insurance program and that of PM and DS; and any return of premiums on insurance of PM and its subsidiaries outstanding on December 31, 1972, and which is to be canceled at the Closing Date and as to which no prepayment is shown as an asset on the statement of Consolidated Net Worth of PM shall be the property of PM.

(h) Annexed hereto as Exhibit N is a letter from an officer of PM (which however shall not be a representation or warranty of PM) relating to each of the following to which PM or any of its subsidiaries is a party: any written or oral (i) contract for the employment of any officer or individual employee on a salaried or consulting basis; (ii) contract with any labor union; (iii) bonus, pension, profit sharing, retirement, stock purchase, stock option, hospitalization, insurance or similar plan or practice, formal or informal, in effect with respect to its employees or others; (iv) contract for the management or operation of the property of any other person; (v) joint venture; or (vi) material contract not made in the ordinary course of business. PM and each of its subsidiaries are not in default under any material contract, agreement, lease or other document to which any of them is a party.

(i) Annexed hereto as Exhibit O is appropriate information on the basis of which an actuarial determination can be made of the unfunded liabilities of PM and its subsidiaries with respect to the retirement plans listed in Exhibit N hereto. All such plans and trusts which are identified in Exhibit N as being qualified under Section 401(a) or 501(a) of the Internal Revenue Code are so qualified.

(j) There are no actions, suits, proceedings or investigations pending or, to the knowledge of PM, threatened against or affecting PM or any of its subsidiaries, at law, or in equity or admiralty, or before or by any Federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which involve the likelihood of any monetary judgment or liability against PM or any of its subsidiaries (to the extent not covered by insurance), in excess of $100,000 in any one case or $250,000 in the aggregate, or the likelihood of any injunction or order which, in the aggregate, may result in any material adverse change in the business, operations or properties of PM and its subsidiaries, taken on a consolidated basis, except in each case as listed in and described in Exhibit P hereto. Except as set forth in Exhibit P, neither PM nor any of its subsidiaries is, to the knowledge of any officer of PM or DS, in default with respect to any order, writ, injunction or decree of any court or Federal, state or local governmental agency or instrumentality, domestic or foreign, violation of which would result in a material adverse change in the business, operations or properties of PM and its subsidiaries, taken on a consolidated basis.

(k) None of the material properties or assets of PM and its subsidiaries have been condemned or otherwise taken by any public authority, and neither PM nor any of its subsidiaries has received notice of any such threatened condemnation or taking.

(l) Since December 31, 1972, except as consented to by MM in writing or as contemplated in this Agreement or except as required by contracts entered into on or prior to the date of the execution hereof and listed in Exhibit N hereto, neither PM nor any of its subsidiaries (except between one another) has (i) issued any stock, stock options, bonds or other corporate securities; (ii) incurred any obligation or liability (absolute or contingent) except liabilities incurred, and obligations under contracts entered into, in the ordinary course of business; (iii) made, or agreed to make, any material change in any pension, retirement, profit sharing, insurance, medical or other similar benefits payable to the officers or employees of PM or any of its subsidiaries, instituted or amended any bonus, investment, incentive compensation or similar plan for such officers or employees or granted any increase in the annual compensation payable to such officers or employees, other than in the ordinary course of business and consistent with past practice; (iv) discharged or satisfied any lien or encumbrance or paid any obligation or liability (absolute or contingent) other than current liabilities shown on the consolidated balance sheet of PM as of December 31, 1972, and current liabilities incurred since that date in the ordinary course of business; (v) declared or made any payment or distribution to stockholders or purchased or redeemed any shares of its capital stock; (vi) mortgaged, pledged or subjected to lien, charge or any other encumbrance, any of its assets, tangible or intangible; (vii) sold or transferred any of its tangible assets or canceled any debts or claims, except in each case in the ordinary course of business; (viii) sold, assigned or transferred any patents, trademarks, trade names, copyrights or other intangible assets; or (ix) entered into any transaction other than in the ordinary course of business except as permitted by this paragraph (l).

(m) Since December 31, 1972, neither PM nor any subsidiary of PM has (i) made any loan or advance to, or engaged in any transaction out of the ordinary course of business (or on terms less favorable than those available to third parties on an arm's length basis) with, DS or any subsidiary or affiliate of DS (other than PM or a subsidiary of PM); (ii) made any payments or prepayments of Federal or foreign income taxes whether directly paid or paid to DS (or any such subsidiary or affiliate) in lieu of direct payments; (iii) made any deposit in any capital construction fund; or (iv) made any payment in respect of any liability not to be assumed by MM hereunder.

(n) At the date hereof, the estimated aggregate cost to PM and its subsidiaries of completion of capital projects undertaken or authorized by PM and its subsidiaries (excluding projects undertaken or authorized pursuant to the joint venture agreements referred to in Exhibit N) does not exceed approximately $2,000,000, payment of such amount being expressly agreed to as in the ordinary course of business for purposes of paragraphs (l) and (o) of this Section 10.

(o) Since December 31, 1972, there has been no material adverse change in the condition, financial or other, of PM and its subsidiaries, taken on a consolidated basis, as shown in the consolidated balance sheet of PM as at December 31, 1972, other than changes occurring in the ordinary course of business or as a result of government action, which changes have not, in the aggregate, materially adversely affected the business, properties or financial condition of PM and its subsidiaries, taken on a consolidated basis. Notwithstanding the foregoing representation, it shall not be deemed breached by a reduction of operating profits (or incurring of operating losses) as a result of (i) reduced volume of business due to unfavorable market conditions generally and not to factors peculiar to PM such as the loss of a significant customer, (ii) increased operating costs due to general cost increases throughout the ore and shipping industries in the areas where PM and its subsidiaries operate or (iii) failure of the Government of la République de Côte d'Ivoire to grant to a subsidiary of PM an extension of its mineral development, exploration or other rights with respect to iron ore located in that jurisdiction. Without limiting the generality of the representation in the first sentence of this paragraph (o), it shall be deemed breached by the occurrence of any fire, flood, earthquake, accident or other casualty or act of God or the public enemy (other than labor disputes) which has or will have a material adverse effect on the business, properties or financial condition of PM and its subsidiaries taken on a consolidated basis.

(p) The Board of Directors of PM has approved this Agreement and the transactions contemplated herein, and this Agreement has been duly executed and delivered by PM and constitutes the legal, valid and binding obligation of PM in accordance with its terms.

(q) The execution and delivery of this Agreement and compliance with the provisions hereof by PM will not violate any provision of law and will not conflict with, or result in any breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation of any mortgage, lien, security interest, charge or other encumbrance upon any of the properties or assets of PM or any subsidiary of PM pursuant to their respective charters or by-laws or any indenture, mortgage, agreement or other instrument to which any of them is a party or by which any of them or any material portion of their properties is bound or affected, except as set forth in any of the contracts listed in Exhibit N hereto.

(r) Attached hereto as Exhibit Q is information (including financial statements and related notes) relating to PM and its subsidiaries, furnished by PM for inclusion in the proxy soliciting material to be sent to MM stockholders in connection with their approval of the transactions contemplated by this Agreement. Such information includes all such information required to be included by Items 14 and 15 of Schedule 14A under Regulation 14A under the Securities Exchange Act of 1934 (the "Proxy Rules") with regard to PM and its subsidiaries, in connection with the solicitation of proxies from MM stockholders, and none of such material contains any statement which is, at the time and in the light of circumstances under which it is made, false or misleading with respect to any material fact or omits to state any material fact necessary in order to make the statements therein not false or misleading. Any other provision of this Agreement to the contrary notwithstanding, this representation (a) speaks only as of the date of execution of this Agreement and (b) shall not be deemed to add to or supplement in any way PM's representation as to title to properties and assets contained in the second sentence of Section 10(e) hereof. This paragraph (r) shall not extend to any false or misleading statement or omission which is ascertainable from this Agreement, the Exhibits hereto or the documents listed in said Exhibits.

(s) None of the material contained in Exhibit Q, together with any other material requested by MM for inclusion in its proxy soliciting material to comply with other Items of the Proxy Rules, all as amended to reflect comments received from the Securities and Exchange Commission with respect thereto or to reflect any changes in the business of PM and its subsidiaries which ought to be disclosed (in each case with the consent of PM to such amendment), will contain when distributed to its stockholders any statement which is, at the time and in the light of the circumstances under which it is made, false or misleading with respect to any material fact or omits to state any material fact necessary in order to make the statements therein not false or misleading. Any other provision of this Agreement to the contrary notwithstanding, PM's liability with respect to the representations made in this paragraph (s) shall be limited to indemnifying MM and holding it harmless from and against any liability to third parties, under Federal or state securities laws, arising solely because any such material is false or misleading or contains any material omission. Any litigation as to which MM shall be indemnified pursuant hereto shall be controlled by PM. This paragraph (s) shall not extend to any false or misleading statement or omission which is ascertainable from this Agreement, the Exhibits hereto or the documents listed in said Exhibits.

(t) True and correct copies of all contracts, leases, agreements, licenses, complaints and any other documents listed in any Exhibit hereto have been made available to MM for inspection.

(u) The representations and warranties made by PM in this Section 10 (except for paragraph (r) above) will be correct, on and as of the Closing Date, with the same force and effect as though such representations and warranties had been made on and as of the Closing date except for matters arising after the date of execution of this Agreement, and PM will deliver on the Closing Date its certificate with respect thereto in accordance with Section 12(g) hereof.

At any time after the Closing Date and prior to the expiration of the representations and warranties made by PM in this Section 10, if MM discovers any fact or event which it believes constitutes, or would

constitute upon payment of any amount by MM, a breach of any of these representations and warranties, it shall within 30 days of such discovery or prior to making any payment for which it would expect to be reimbursed by PM, whichever is less, give notice to PM as provided in Section 21(f) hereof of the amount and nature of the claim or potential claim involved. PM shall have a period of 30 days in which to decide whether the payment by MM, if not theretofore made, ought to be made subject to agreement by PM that such claim or potential claim is its sole responsibility. Thereafter PM shall have the right to control any further proceedings with respect to that claim and, to the extent that it handles such claim through employees of MM, shall indemnify MM and such employees from any liability to such claimant with respect to such claim. If PM does not assume control of the claim as provided hereinabove, MM shall be free to act with respect to the claim in any reasonable fashion without prejudice to its rights under this Section 10.

11. **Representations of MM.** MM represents, warrants and agrees as follows:

(a) The Board of Directors of MM has approved this Agreement and the transactions contemplated hereby and this Agreement has been duly executed and delivered on behalf of MM and constitutes the legal, valid and binding obligation of MM, in accordance with its terms.

(b) The execution and delivery of this Agreement, and compliance with the provisions hereof, by MM will not violate any provision of law and will not conflict with, or result in any breach of the terms, conditions or provisions of, or constitute a default under, or result in the creation of any mortgage, lien, security interest, charge or other encumbrance upon any of the properties or assets of MM or any subsidiary of MM pursuant to their respective charters or by-laws or any indenture, mortgage, agreement or other instrument to which any of them is a party or by which any of them or any material portion of their properties or assets is bound or affected, except liens and security interests given pursuant to this Agreement or created in connection with the financing by MM of the purchase of the Purchased Assets.

(c) The information (including financial statements and related notes and other financial information) relating to MM and its subsidiaries, set forth in Exhibit R attached hereto, is true and correct and none of such information contains any statement which, at the time and in the light of the circumstances under which it is made, is false or misleading with respect to any material fact or omits to state any material fact necessary in order to make the statements therein not false or misleading.

(d) The representations and warranties made by MM in this Section 11 will be correct on and as of the Closing Date, with the same force and effect as though such representations and warranties had been made on and as of the Closing Date except for matters arising after the date of execution of this Agreement, and MM will deliver on the Closing Date its certificate with respect thereto in accordance with Section 13(j) hereof.

(e) Subject to the approval of the transactions contemplated hereby by the MM stockholders:

(i) the execution and delivery of the New Interlake Note to PM has been duly authorized by all requisite corporate action, and the New Interlake Note, when issued and delivered in accordance with this Agreement, will constitute the legal, valid and binding obligation of New Interlake in accordance with its terms;

(ii) the issuance and sale of the Shares pursuant to this Agreement have been duly and validly authorized by all requisite corporate action and, upon issuance and delivery of a certificate therefor in accordance with this Agreement, the Shares will be duly and validly issued, fully paid and nonassessable, and will have the terms specified in Article Fourth of the Certificate of Incorporation of New Pickands Mather; and

(iii) the execution and delivery of the Fleet Mortgage, the Assignment and the Share Purchase Agreement pursuant to this Agreement have been duly authorized by all requisite corporate action and when issued and delivered in accordance with this Agreement will constitute legal, valid

and binding obligations of New Interlake or MM, as the case may be, in accordance with their respective terms, and the Fleet Mortgage and the Assignment will, respectively, constitute a first and best lien and valid security interest with respect to the properties and contract rights referred to in Section 2(a)(ii) (subject, as to the Fleet Mortgage, to liens for damages arising out of tort, for wages of a stevedore when employed directly by the owner, operator, master, ship's husband or agent of the vessel, for wages of the master and crew of the vessel, for general average, and for salvage, including contract salvage.

12. **Conditions to Obligations of MM.** The obligations of MM under this Agreement are, at the option of MM, subject to the conditions that:

(a) All the terms, covenants and conditions of this Agreement to be complied with and performed by PM on or before the Closing Date shall have been fully complied with and performed in all material respects.

(b) The representations and warranties made by PM herein shall be correct in all material respects, on and as of the Closing Date, with the same force and effect as though such representations and warranties had been made on and as of the Closing Date.

(c) At the meeting of the stockholders of MM provided for in Section 4 hereof, the holders of a majority of the outstanding shares of Common Stock of MM shall have duly authorized in accordance with law the transactions contemplated by this Agreement.

(d) MM shall have received the favorable opinion of Messrs. Cravath, Swaine & Moore, counsel for MM, to the effect that all actions or proceedings required to carry out this Agreement or incidental thereto have been properly taken and said counsel shall have approved the form of all instruments and documents required to carry out this Agreement or incidental thereto and all related legal matters.

(e) MM shall have received an opinion of Messrs. Jones, Day, Cockley & Reavis, counsel for PM, dated the Closing Date, in form and substance satisfactory to MM and its counsel, to the effect that:

(i) PM is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and each subsidiary of PM is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation (as set forth in Exhibit I hereto), in each case with the corporate power and authority to conduct its business as presently being conducted and to own and hold the properties used in connection therewith;

(ii) PM has full corporate power and authority to sell, convey, assign, transfer and deliver its assets, properties and business to MM as provided in this Agreement;

(iii) the execution and delivery of this Agreement by PM have been duly authorized by all requisite corporate action, and this Agreement has been duly executed and delivered by PM and constitutes the legal, valid and binding obligation of PM enforceable in accordance with its terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting enforcement of mortgagees' or creditors' rights generally, as from time to time in effect;

(iv) neither the execution and delivery of this Agreement by PM, nor PM's performance of or compliance with the terms and provisions hereof will conflict with or be in violation of any of the terms or provisions of the corporate charter or By-laws of PM or any of its subsidiaries, or, to the best of such counsel's knowledge, conflict with or result in the breach of any of the terms, conditions or provisions of any loan agreement, commitment, contract or instrument to which PM or any of its subsidiaries is a party or by which it may be bound, or constitute a default thereunder in either case resulting in the creation or imposition of any mortgage, lien or security interest of any nature whatsoever upon the properties and assets to be transferred hereunder;

(v) no authorizations or consents of any Federal or state governmental authorities within the United States are necessary in connection with the execution and delivery of this Agreement and consummation of the transactions contemplated hereby by PM and its subsidiaries, other than such as have been obtained;

(vi) the instruments of transfer of the Purchased Assets from PM to MM or New Pickands Mather or New Interlake, as the case may be, have been duly authorized, executed and delivered, are sufficient as between the parties to convey to MM or New Pickands Mather or New Interlake, as the case may be, whatever right, title and interest PM may have in or to the Purchased Assets; and

(vii) to the knowledge of such counsel, except as set forth in Exhibit P hereto, there are no actions, suits, proceedings or investigations pending or threatened against or affecting PM or any of its subsidiaries, at law, or in equity or admiralty, or before or by any Federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which in the opinion of such counsel involve the likelihood of any monetary judgment or liability against PM or any of its subsidiaries (to the extent not covered by insurance), in excess of $100,000 in any one case, or $250,000 in the aggregate or the likelihood of any injunction or order which, in the aggregate, may result in any material adverse change in the business, operations or properties of PM and its subsidiaries, taken on a consolidated basis.

In giving the foregoing opinion, Messrs. Jones, Day, Cockley & Reavis may rely on the opinion of Messrs. Kominers, Fort, Schlefer & Boyer (or other satisfactory counsel) as to matters of Federal maritime law and on such other counsel (including the Vice President and General Counsel of PM) as they shall deem appropriate as to matters of law involving jurisdictions other than Ohio.

(f) MM shall have received an opinion, dated as of the Closing Date, of Messrs. Kominers, Fort, Schlefer & Boyer, special maritime counsel for MM, in form and substance satisfactory to MM, to the effect that all approvals and consents of the Maritime Subsidy Board/Maritime Administration, or any other federal governmental authorities which are empowered to administer Federal shipping laws, have been obtained which are necessary or desirable for MM, Lines, New Interlake or New Pickands Mather to obtain under applicable statutes, rules or regulations or subsidy agreements, capital construction fund agreements or prior authorizations for corporate reorganization, in order to carry out this Agreement and finance the purchase of the Purchased Assets as determined by MM in its complete discretion. Such approvals and consents shall include without limitation, all as determined by MM, such matters as (i) ownership, chartering out and operation of the vessels included in the Purchased Assets on the Great Lakes, (ii) the directors and officers of Lines or New Interlake, (iii) transfers of funds and assets from Lines to MM whether by way of dividend or otherwise, (iv) maintenance of a single capital construction fund for various direct or indirect subsidiaries of MM, (v) amendment of Lines' capital construction fund agreement, (vi) withdrawals of funds from Lines' capital construction fund, present and future and (vii) generally carrying out the transactions provided for in this Agreement.

(g) PM shall have furnished MM with a certificate, executed by PM and dated the Closing Date, which shall state whether (i) all the terms, covenants and conditions herein to be performed or complied with by PM on or before the Closing Date have been fully performed or complied with and (ii) the representations and warranties made by PM herein are correct, on and as of the Closing Date, with the same force and effect as though such representations and warranties had been made on and as of the Closing Date. In the event that such certificate shall contain any exceptions, the matters excepted shall be specifically identified and, if MM shall elect to complete the closing under this Agreement in spite of such exceptions, MM shall thenceforth be forever barred and foreclosed from asserting any claim under this Agreement or such certificate based upon the matters so excepted.

13. **Conditions to Obligations of PM.** The obligations of PM under this Agreement are, at its option, subject to the conditions that:

(a) All the terms, covenants and conditions of this Agreement to be complied with and performed by MM on or before the Closing Date shall have been fully complied with and performed in all material respects.

(b) The representations and warranties made by MM herein shall be correct in all material respects on and as of the Closing Date, with the same force and effect as though such representations and warranties had been made on and as of the Closing Date.

(c) The approval of stockholders of MM contemplated by Section 4 of this Agreement shall have been obtained.

(d) PM shall have received the favorable opinion of Messrs. Jones, Day, Cockley & Reavis, counsel for PM, to the effect that all actions or proceedings required to carry out this Agreement or incidental thereto have been properly taken and said counsel shall have approved the form of all instruments and documents required to carry out this Agreement or incidental thereto and all related legal matters.

(e) PM shall have received an opinion, dated as of the Closing Date, of Messrs. Cravath, Swaine & Moore, counsel for MM, in form and substance satisfactory to PM and its counsel, to the effect that:

(i) each of MM, Lines, New Pickands Mather and New Interlake is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has the corporate power and authority to conduct its business as presently being conducted and to own and hold the properties used in connection therewith;

(ii) the execution and delivery of this Agreement and compliance with the provisions hereof by MM have been duly authorized by all requisite corporate action and this Agreement has been duly executed and delivered by MM and constitutes the legal, valid and binding obligation of MM enforceable in accordance with its terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting enforcement of mortgagees' or creditors' rights generally, as from time to time in effect;

(iii) the execution, delivery and performance of this Agreement and compliance with the provisions hereof by MM will not violate any provision of law and will not conflict with or result in any breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation of any mortgage, lien, security interest, charge or other encumbrance upon any of the properties, assets or outstanding stock of MM or any subsidiary of MM pursuant to their respective charters or by-laws or any indenture, mortgage, lease, agreement or other instrument, known to such counsel, to which MM or any subsidiary of MM is a party or by which any of them or any material portion of their properties is bound or affected, except liens and security interests given pursuant to this Agreement or created in connection with the financing by MM or any subsidiary of MM of the Purchased Assets;

(iv) the execution and delivery of the New Interlake Note, the Fleet Mortgage, the Assignment and the Share Purchase Agreement by MM, or a subsidiary of MM, have been duly authorized by all requisite corporate action, and each of the New Interlake Note, the Fleet Mortgage, the Assignment and the Share Purchase Agreement has been duly executed and delivered by MM or a subsidiary of MM and constitutes a legal, valid and binding obligation enforceable in accordance with its terms, and the New Interlake Note is entitled to the security of the Fleet Mortgage and the Assignment and the Fleet Mortgage constitutes a first and best lien, except as limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting enforcement of mortgagees' or creditors' rights generally, as from time to time in effect (subject, as to the Fleet Mortgage, to liens for damages arising out of tort, for wages of a stevedore when employed directly by the owner, operator, master, ship's husband or agent of the vessel, for wages of the master and crew of the vessel, for general average, and for salvage, including contract salvage);

(v) the issuance, sale and delivery of the Shares in accordance with this Agreement have been duly authorized by all requisite corporate action, and the Shares, when so issued, sold and delivered, will be validly issued and outstanding, fully paid and nonassessable shares of Preferred Stock of New Pickands Mather;

(vi) all other instruments and agreements delivered at or before the closing by MM or its subsidiaries in accordance with the provisions of this Agreement have been duly authorized, executed and delivered and are legal, valid and binding in accordance with their terms; and

(vii) no authorizations or consents of any governmental authorities are necessary in connection with the execution and delivery of this Agreement and consummation of the transactions contemplated hereby by MM and its subsidiaries, and payment of the New Interlake Note in accordance with its terms, other than such as have been obtained.

In giving the foregoing opinion Messrs. Cravath, Swaine & Moore may rely on the opinion of Messrs. Kominers, Fort, Schlefer & Boyer as to matters of Federal maritime law. If MM shall elect, pursuant to Section 5(a) hereof, to effect all or a portion of the transaction through one or more subsidiaries other than Lines, such opinion shall be appropriately modified to relate to such subsidiary or subsidiaries.

(f) MM shall have entered into sub-leases, as summarized in Exhibit S, covering PM's premises in the newly constructed Diamond Shamrock Building in Cleveland, Ohio, and for the leasehold improvements, furnishings and equipment located therein.

(g) PM shall have received from The Chase Manhattan Bank, N.A., an executed performance letter of credit substantially in the form of Exhibit H hereto.

(h) PM shall have received an opinion, dated as of the Closing Date, of maritime counsel approved by Messrs. Jones, Day, Cockley & Reavis, in form and substance satisfactory to PM, to the effect that all approvals and consents of the Maritime Subsidy Board/Maritime Administration, or any other Federal governmental authorities which are empowered to administer Federal shipping laws, which should be obtained in order to permit the carrying out of the transactions contemplated hereby under applicable statutes, rules or regulations have been obtained.

(i) PM shall have received to its satisfaction consents or assurances of consent to the proposed transfer and assignment of its contractual rights and obligations (including a release of PM from all past, present and future obligations under such contracts) with respect to the following: the Wabush joint venture, the Erie Mining Company management arrangements, the Savage River project, the Beckley coal mining operations and its four principal floating contracts.

(j) MM shall have furnished PM with a certificate, executed by MM and dated the Closing Date, which shall state whether (i) all the terms, covenants and conditions herein to be performed or complied with by MM on or before the Closing Date have been performed or complied with and (ii) the representations and warranties made by MM herein are correct, on and as of the Closing Date, with the same force and effect as though such representations and warranties had been made on and as of the Closing Date. In the event that such certificate shall contain any exceptions, the matters excepted shall be specifically identified and, if PM shall elect to complete the closing under this Agreement in spite of such exceptions, PM shall thenceforth be forever barred and foreclosed from asserting any claim under this Agreement or such certificate based upon the matters so excepted.

14. Nontransferability of Securities.

(a) PM represents that the New Interlake Note and the Shares to be delivered at the closing hereunder to PM will be acquired for its own account for investment and not with a view to the sale or distribution thereof.

(b) PM will not sell or transfer the New Interlake Note or the Shares referred to above without the prior written consent of MM except to MM pursuant to the Share Purchase Agreement or to DS and

except on default and except that PM may pledge or discount the New Interlake Note to a bank as collateral for borrowing in such manner as shall be approved by counsel for MM as neither violating, nor requiring registration under, the Securities Act of 1933.

(c) The New Interlake Note and the certificate evidencing the Shares shall bear appropriate legends reflecting paragraphs (a) and (b) of this Section 14.

15. **Employee Benefit Plans.**

(a) Each employee (which term shall include officers) of PM who is such on the Closing Date and who at that time has not attained the age of 65 will, if he wishes, become an employee of MM or a subsidiary of MM at a salary or wage not less than the salary or wage then being received by such employee.

(b) MM will or shall cause New Pickands Mather or New Interlake, as shall be appropriate, to adopt, as of the Closing Date, all employee benefit plans of PM listed in Exhibit N hereto (other than any plan for pension allowances specifically referred to in such Exhibit as not being assumed), and MM shall cause New Pickands Mather or New Interlake, as shall be appropriate, to assume all liabilities of PM thereunder. The adoption of such plans shall provide that employees and former employees of PM, except those who are transferred to DS as contemplated in Exhibit O hereto, shall be entitled to all rights and benefits under such plans the same as if they had continued to be employees or former employees of PM after the closing.

(c) Trust assets with respect to present PM and DS pension plans are now held by one trustee in a pooled fund. As soon as practicable after the Closing Date there shall be transferred to the trustees with respect to the plans adopted by New Pickands Mather and New Interlake as provided in paragraph (b) above the portion of such pooled trust assets as is allocable to present PM plans, such allocation (and the effective date thereof) to be determined as provided in Exhibit O referred to above.

(d) All actions necessary to accomplish the purposes of the foregoing paragraphs of this Section 15 shall be taken so that the requirements of Sections 401(a) and 501(a) of the Internal Revenue Code are met.

16. **Directorship.** So long as any of the Shares issued pursuant to the terms hereof is outstanding, PM shall have the right to designate one member of the Board of Directors of New Pickands Mather.

17. **Survival of Representations.** Except as otherwise specifically provided in this Agreement, the covenants, representations and warranties contained in this Agreement or in any certificate delivered pursuant hereto shall survive the closing hereunder and for a period of three years thereafter, provided that, any such covenants, representations and warranties made by MM shall nevertheless survive only so long as any of the Shares shall be outstanding. Notwithstanding the foregoing, if either party shall notify the other in writing of a claim that any such covenant, representation or warranty has been violated or breached in any way, which notice shall specify in general terms the covenant, representation or warranty so violated or breached and the reason therefor, such covenant, representation or warranty shall survive beyond the period hereinbefore specified but only with request to such claim.

18. **Expenses.** Except as otherwise provided herein, PM and MM shall each pay their own expenses in connection with this Agreement and the transactions contemplated hereby. If the transactions contemplated by this Agreement shall be consummated, the taxes and expenses of PM in connection with preparing this Agreement and consummating such transactions (including, without limitation, all counsel and special auditing fees, brokerage commissions and sales, use and transfer taxes, whether imposed on the purchaser or the seller, but not including the use of PM employees and facilities in such connection and not including expenses in connection with obtaining the consents referred to in Section 13(i) hereof) shall be paid out of the purchase price received by PM hereunder, and none of such expenses shall be paid out of the Purchased Assets.

19. **Cooperation and Publicity.** Neither PM nor MM shall voluntarily undertake any course of action inconsistent with satisfaction of the requirements applicable to it set forth in this Agreement, and each shall promptly do all such acts and take all such measures as may be appropriate to enable it to perform as early as practicable the obligations herein provided to be performed by it. In those instances where liabilities assumed by MM (such as sales and use taxes) must as a matter of law be the subject matter of a report or return filed by PM, MM agrees to provide the needed payment for delivery with a return which it will prepare for PM's execution. Where any claim is brought against PM in respect of the Purchased Assets or, in general, the business herein provided to be transferred, MM will, without expense to PM except for reimbursement of MM's out-of-pocket expenses, provide the help and assistance of the former PM employees of MM in the investigation and defense thereof. No press releases or similar announcements prior to the Closing Date by or on behalf of either PM or MM concerning the transactions contemplated hereby shall be issued without consent of the other.

20. **Staff Services.** PM (through DS) will furnish to MM such staff services and for such period of time as the parties may mutually agree upon. Such staff services shall relate to the operation of the PM business by MM and shall include computer and tax services. Such services shall be rendered at cost as reasonably determined by PM.

21. **Miscellaneous.**

(a) Each party represents and warrants that there are no claims for brokerage commissions or finders' fees in connection with the transactions contemplated by this Agreement resulting from any action taken by it. Each of the parties will exonerate, indemnify and hold harmless the other in respect of any and all losses sustained by the other as a result of liability to any broker or finder on the basis of any arrangement or agreement made by or on behalf of such party.

(b) Wherever in this Agreement it is provided that MM has an obligation to PM, whether by reason of any representation, warranty, covenant or assumption herein contained or otherwise, PM shall have the right to proceed directly against MM in order to enforce such obligation, notwithstanding the fact that MM shall make an election pursuant to Section 5 hereof under which its obligation, for its internal purposes, shall be transferred to one or more of its subsidiaries.

(c) This Agreement cannot be orally changed or terminated. The parties may, by written supplemental agreement, (i) extend the time for the performance of any of the obligations or other acts of the parties hereto, (ii) waive any inaccuracy in any representation contained herein or in any Exhibit hereto, (iii) waive compliance with any of the covenants or conditions contained in this Agreement and (iv) alter or amend this Agreement in any respect. Any such written supplemental agreement on the part of either party hereto shall be validly and sufficiently authorized for the purposes of this Agreement if authorized by its Chairman of the Board, President or Vice President—Finance.

(d) This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, provided that neither party shall assign any of its rights or privileges hereunder without the prior written consent of the other, except that PM may assign this Agreement to DS.

(e) Except as specifically set forth or referred to herein, nothing herein expressed or implied is intended or shall be construed to confer upon or give to any person, firm or corporation, other than the parties hereto and their respective permitted successors and assigns or personal representatives, any rights or remedies under or by reason of this Agreement.

(f) All notices, consents, requests, instructions, approvals and other communications provided for herein and all legal process in regard hereto shall be validly given, made or served if in writing and delivered personally or sent by registered mail, postage prepaid, if to PM, addressed to it, in care of DS, attention of Vice President—Finance, 300 Union Commerce Building, Cleveland, Ohio 44115, and if to MM, addressed to it, attention of the Vice President—Finance, Two Broadway, New York, N. Y. 10004, or to such other address or addresses as either party shall have designated by written notice to the other.

(g) This instrument and the Exhibits annexed hereto and made a part hereof contain the entire agreement between the parties hereto with respect to the purchase and sale of assets and other transactions contemplated herein and shall be governed by and construed in accordance with the laws of the State of Delaware.

(h) Subsequent to the closing hereunder and prior to proper recordation or filing by or on behalf of MM of all necessary deeds or other instruments of transfer PM will cooperate in all respects in assertion by MM of ownership to such properties and will not do anything inconsistent with such ownership.

(i) The parties waive compliance with so-called "bulk sales" laws in connection with the carrying out of this Agreement.

(j) Any matter, contract, document or description referred to in any letter of an officer of PM (including, without limitation, any such matter, contract, document or description specifically referred to in the so-called "Green Book") as provided in Sections 10(e), (f) and (h) hereof shall be deemed to be exhibits to this Agreement.

(k) There is presently pending an investigation by the Department of Justice with respect to the transaction which is the subject matter of this Agreement. Anything in this Agreement to the contrary notwithstanding, the fact that such investigation (or civil litigation arising therefrom) may be pending on the Closing Date shall not relieve either party hereto of its obligations to close the transaction and any warranty which may have been breached by reason of the pendency thereof is hereby waived but the provisions of this Section 21(k) shall not be applicable if on the Closing Date consummation of the transaction has been enjoined or restrained.

In Witness Whereof, the parties hereto have caused this Agreement to be duly executed and their respective corporate seals to be affixed hereto, all as of the day and year first above written.

Moore and McCormack Co., Inc.,

[corporate seal] by James R. Barker
Chairman

Attest:

Hubert F. Carr
Secretary

Pickands Mather & Co.,

[corporate seal] by Elton Hoyt III
President

Attest:

Robert L. Oldenburg
Secretary

GUARANTY

February 14, 1973

In consideration of the execution and delivery this day of the Agreement dated as of January 1, 1973 ("Agreement"), between Moore and McCormack Co., Inc., a Delaware corporation ("MM"), and Pickands Mather & Co., a Delaware corporation ("PM"), a wholly owned subsidiary of the undersigned, the undersigned hereby guarantees, except to the extent waived by MM by written supplemental agreement to the Agreement, (1) the due and punctual performance by PM of all its obligations under the Agreement, (2) that, subject to the closing of the transactions contemplated by the Agreement, all the terms, covenants and conditions of the Agreement to be complied with and performed by PM on or before the Closing Date will be fully complied with and performed, (3) that the representations and warranties made by PM in the Agreement are correct on and as of the date hereof and (4) that the statements made by PM in the certificate to be delivered pursuant to Section 12(g) of the Agreement will be correct on and as of the Closing Date. MM may proceed hereunder directly against the undersigned without any obligation to proceed first against PM, as if the undersigned had been a party to the Agreement with joint and several liability thereunder. The undersigned's liability hereunder for violation or breach of any covenant, representation or warranty of PM in the Agreement or the certificate referred to above shall survive only so long as such covenant, representation or warranty shall survive under the Agreement.

DIAMOND SHAMROCK CORPORATION

by JAMES A. HUGHES
Chairman of the Board

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GENERAL BILL OF SALE, ASSIGNMENT AND CONVEYANCE

WHEREAS, MOORE AND McCORMACK CO., INC., a Delaware corporation ("MM") and PICKANDS MATHER & CO., a Delaware corporation first formed in 1929 ("PM"), a wholly-owned subsidiary of Diamond Shamrock Corporation ("Diamond"), have entered into a Purchase Agreement dated as of January 1, 1973 (the "Agreement"); and

WHEREAS, pursuant to the Agreement, PM has agreed to convey to MM the business, assets and properties of PM (including its subsidiaries) to be accomplished substantially as of the close of business on January 1, 1973, all on the terms and subject to the conditions and exclusions set forth in the Agreement; and

WHEREAS, MM has elected pursuant to the Agreement to effect the purchase of assets as contemplated by the Agreement through one or more direct or indirect subsidiaries and accordingly to have the transfer of such assets to be made to such subsidiaries; and

WHEREAS, the identity of the two subsidiaries of MM to which the business, assets and properties of PM shall be transferred is, as set forth in the Agreement, (i) for the vessels and floating contracts included in the Purchased Assets (as defined in the Agreement): The Interlake Steam-

ship Company ("Interlake"), a wholly-owned subsidiary of Moore-McCormack Lines, Incorporated, a wholly-owned subsidiary of MM, and (ii) for the remainder of the business, assets and properties: PM Holding Co. ("New Pickands") a wholly-owned subsidiary of MM to be renamed Pickands Mather & Co.

NOW, THEREFORE, in consideration of the sum of $10 paid in hand by MM to PM and for other good and valuable consideration, receipt of which is hereby acknowledged, PM does hereby give, grant, bargain, sell, assign, transfer and confirm:

To Interlake, its successors and assigns, the following of its business, assets and properties: all right, title and interest of PM in and to (i) the vessels which are listed in Exhibit K to the Agreement and (ii) its floating contracts with Jones & Laughlin Steel Corporation (dated as of December 31, 1970), Interlake, Inc. (dated June 30, 1971, but effective as of January 1, 1972), Shenango Incorporated (dated May 1, 1962, as amended March 23, 1967) and The Youngstown Sheet and Tube Company (dated December 15, 1959, as amended June 8, 1966) and

To New Pickands, subject to the provisions of Section 8(e) of the Agreement, all right, title and interest of PM in and to the remainder of the assets, properties and

business of PM of every kind and nature, wherever located, as the same shall exist on the date hereof, including, without limitation, all property, real, personal and mixed, tangible and intangible, and whether or not hereafter enumerated, mineral and other lands, buildings, structures, improvements, machinery, equipment, construction in progress, the stock of each subsidiary of PM, investments, stocks, bonds, and other securities (or the right to the proceeds thereof as to any such investment, stock, bond or other security which, because of an exercised right of first refusal or similar option in the hands of a party other than PM or Diamond, cannot itself be transferred to New Pickands), cash, short-term investments, bank accounts, inventories, accounts receivable, insurance policies (subject to Section 10(g) of the Agreement), advances, prepaid insurance (also subject to Section 10(g) of the Agreement) and other expenses, claims, all books and records of PM and its subsidiaries (other than minute and stock-record books of PM and of The Interlake Steamship Company, a Delaware corporation which was merged into PM in 1966), rights to use the corporate name of PM and all other names or slogans used by PM or any of its subsidiaries in connection with their business, or products, and all of PM's right, title and interest in and to all joint ventures, contracts, rights, leases, licenses, patents, trademarks, tradenames, copyrights, member-

ships and other instruments and agreements of any nature whatsoever to which PM is a party or under which it has or shall have any rights whatsoever, but with the exclusions hereinafter set forth,

TO HAVE AND TO HOLD, all and singular the business, properties and assets hereby respectively granted, bargained, sold, conveyed, transferred and assigned, or intended so to be, unto Interlake and Pickands Mather, their successors and assigns, to and for their own use and behoof forever.

Anything hereinabove contained to the contrary notwithstanding, PM reserves to itself and does not hereby sell, convey, assign, transfer and deliver to MM or either of its subsidiaries:

(i) accounts receivable, advances or other amounts due from Diamond (or any subsidiary or affiliate of Diamond other than PM or a subsidiary of PM) arising from transactions entered into on or prior to December 31, 1972, other than trade receivables on ordinary and usual terms;

(ii) prepaid Federal and foreign income taxes;

(iii) the capital construction fund;

(iv) the proceeds from liquidation of PM's investment, including, without limitation, machinery and equip-

ment less reasonable provisions for future liabilities on account of past operations and shut-down expenses but not in excess of the amount of such proceeds (over and above their aggregate salvage value at December 31, of $205,000), in certain coal mines known as the "Brookes" and "Ottawa" mines, which mines were abandoned in 1972 and the investments therein written down (by $1,130,000) to such aggregate salvage value;

(v) any and all right, title and interest of PM to the business, patents and know-how with respect to certain development projects of Diamond (known as Zincrometal and Dacromet); and

(vi) the proceeds to PM received from MM in consideration of the transfer of the business, assets and properites of PM herein conveyed.

IN WITNESS WHEREOF, Pickands Mather & Co. has caused its corporate name to be signed and its corporate seal to be affixed by its proper officers thereunto duly authorized this 3rd day of April 1973.

PICKANDS MATHER & CO.,
a Delaware corporation
first formed in 1929.

by _____
President

and _____
Secretary

[Corporate Seal]

STATE OF OHIO,)
) ss.:
COUNTY OF CUYAHOGA,)

BEFORE ME, a Notary Public in and for such County and State, personally appeared the above-named Pickands Mather & Co., a Delaware corporation first formed in 1929, by Elton Hoyt III, its President and Robert L. Oldenburg, its Secretary, who acknowledged that they did sign the foregoing instrument and that the same is the free act and deed of such corporation and of them personally and as such officers.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal at Cleveland, Ohio, this 3rd day of April, 1973.

Thomas E. Morton Jr.
Notary Public

THOMAS E. MORTON, JR., Attorney
NOTARY PUBLIC - STATE OF OHIO
My commission has no expiration date.
Section 147.04 R.C.

[Notarial Seal]

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Form 8-K for CLEVELAND CLIFFS INC

20-Sep-2004

Entry Material Agreement, Financial Statements and Exhibits

Item 1.01. Entry into a Material Definitive Agreement.

On September 14, 2004, certain subsidiaries of Cleveland-Cliffs Inc (the "Company"), specifically The Cleveland-Cliffs Iron Company, Cliffs Mining Company, Northshore Mining Company and Cliffs Sales Company, entered into an Amended and Restated Pellet Sale and Purchase Agreement with International Steel Group Inc. and ISG Weirton Inc. (the "Pellet Agreement"). The Pellet Agreement is effective as of May 17, 2004.

In conjunction with the acquisition of Weirton Steel Corporation, ISG Weirton Inc. assumed, with certain modifications, the Pellet Sale and Purchase Agreement dated September 30, 1991 between The Cleveland-Cliffs Iron Company and Weirton Steel Corporation, as amended (the "Weirton Agreement"). The Pellet Agreement is an amendment to and restatement of the Weirton Agreement. The Pellet Agreement is for a term of fourteen years and provides that the Company shall supply, depending on the year, some or all of ISG Weirton Inc.'s requirements for iron ore pellets. Under the Pellet Agreement, the Company is able to supply ISG Weirton Inc. with iron ore pellets sourced from the Company's Tilden, Northshore, Hibbing and United Taconite mines.

In addition to supplying ISG Weirton Inc., certain subsidiaries of the Company, specifically The Cleveland-Cliffs Iron Company, Cliffs Mining Company, Northshore Mining Company and Cliffs Sales Company, are party to a Pellet Sale and Purchase Agreement with International Steel Group Inc., ISG Cleveland Inc. and ISG Indiana Harbor Inc., dated April 22, 2002, under which the Company supplies iron ore pellets to ISG Cleveland Inc. and ISG Indiana Harbor Inc., which are affiliates of ISG Weirton Inc. As of the date of this Form 8-K filing, the Company and certain pension plans sponsored by the Company also collectively own 4,606,871 shares of common stock of International Steel Group Inc.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits.

Exhibit Number	Description
10(a)	*Amended and Restated Pellet Sale and Purchase Agreement, dated and effective May 17, 2004, by and among The Cleveland-Cliffs Iron Company, Cliffs Mining Company, Northshore Mining Company, Cliffs Sales Company, International Steel Group Inc. and ISG Weirton Inc.

* Confidential treatment requested as to certain portions, which portions have been omitted and filed separately with the Securities and Exchange Commission.

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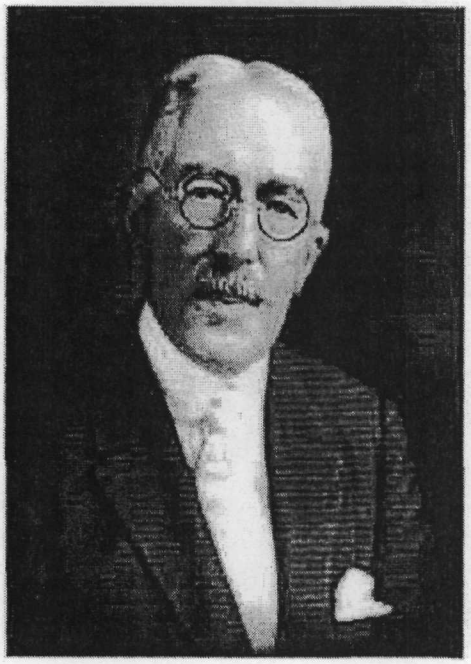
Company History

The 1980s produced dramatic change as the steel and iron ore industries experienced a severe depression. A number of iron mines in North America were permanently closed, while others experienced major cutbacks in production. Mines managed by Cleveland-Cliffs were among those affected.

In 1986, the Company announced plans to acquire iron mining competitor Pickands Mather & Co., which also had been founded in Cleveland. Among that Company's founders in 1883 was Samuel Mather, the oldest son of Cleveland Iron Mining Company executive Samuel Livingston Mather, and half brother to William G. Mather, longtime Cleveland-Cliffs president and chairman.



Samuel Mather

Company History Page 10 of 17

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Contact Information

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