

## PROPERTY—ALLIED

As of June 30, 1962, Allied's distribution system, which represents about 78% of its gross investment in property, included about 193 miles of steel and cast iron mains. In addition, Allied maintains propane equipment for peak shaving purposes. Allied's other properties include buildings, motor vehicles, meters, and construction equipment and tools all as required for the conduct of its business. The properties have been well maintained and are in good condition.

**Character of Ownership.** Allied owns three office buildings, and leases two other offices, a warehouse and a garage. It also owns two peak shaving plants and a combined garage and warehouse. The gas distribution system (which constitutes a major part of the investment in physical property) is for the most part located under highways, streets or other public places, or under property owned by others, for which easements, permits, grants or licenses have been obtained. The principal properties of Allied are subject to the lien of the Indenture securing its mortgage bonds.

## DESCRIPTION OF STOCK—NORTHERN ILLINOIS

The authorized stock of Northern Illinois is divided into two classes, preferred stock of the par value of \$100 per share and common stock of the par value of \$5 per share. Certain of the rights of the holders of the preferred stock, as a class, and of the common stock, as set forth in the Articles of Incorporation, as amended, and certain of the terms of the three series of preferred stock, as set forth in the resolutions of the Board of Directors establishing such series, are summarized below.

**Issuance in Series.** The Board of Directors is authorized by the Articles of Incorporation to provide for the issue from time to time of the preferred stock in series, and as to each series to fix the designation, dividend rate, redemption prices, voluntary and involuntary liquidation prices, sinking fund provisions, if any, and conversion provisions, if any, applicable to the shares of such series.

**Dividends.** Dividends on the shares of each series of the preferred stock at any time established, at the rate fixed therefor by the Board of Directors, are payable, out of legally available funds and subject to declaration by the Board, quarterly (unless otherwise provided by the Board) on the first day of February, May, August and November in each year. Dividends are cumulative with respect to each share from date of issue.

No funds may be paid into or set aside for any sinking fund created for any series of the preferred stock or for any stock of any parity or junior class, unless all dividends on the preferred stock for all past quarterly dividend periods shall have been paid or shall have been declared and funds set aside for such payment.

No dividend may be paid or other distribution made on the common stock or on stock of any other class junior to the preferred stock, other than a dividend or distribution solely of shares of the common stock or of such other junior stock, and no common stock or such other junior stock may be purchased or otherwise acquired by Northern Illinois for a consideration, unless (1) all dividends on the preferred stock for all past quarterly dividend periods shall have been paid or shall have been declared and funds set aside for such payment, and (2) all funds then and theretofore required to be paid into or set aside for any sinking fund or funds created for one or more series of the preferred stock shall have been so paid or set aside.

Subject to the foregoing limitations, holders of the common stock are entitled to dividends, out of legally available funds, when and as declared by the Board of Directors.

**Conversion Provisions of New Preferred Stock.** In the manner and subject to the conditions stated in the resolution of the Board of Directors creating the New Preferred Stock, the shares thereof will be convertible, at the option of the respective holders, into shares of common stock of Northern Illinois at a conversion price of \$50 per share (taking the New Preferred Stock at \$100 per share), that is, two shares of common stock for each share of New Preferred Stock, subject, however, to adjustment as hereinafter stated. Shares of the New Preferred Stock may be converted at any time except that in case of call for redemption the conversion rights will terminate on the fifth day prior to the redemption date.

No payment or adjustment with respect to dividends on shares of the New Preferred Stock or on the common stock will be made in connection with any conversion.

Provision is made for adjustment, subject to certain conditions, of the conversion price in case (1) Northern Illinois shall at any time or from time to time issue additional shares of common stock (other than certain shares expressly excepted) for a consideration per share less than the per share conversion price of the common stock in effect immediately prior to the time of such issue (detailed provision being made as to what constitutes the issue of additional shares of the common stock and as to the method of determining the consideration received therefor), or (2) the shares of the common stock at any time outstanding shall be subdivided into a greater number of shares or shall be combined into a lesser number of shares.

Provision is also made for the protection of the conversion rights in case of certain common stock reclassifications or capital reorganizations of Northern Illinois, or its consolidation with or merger into another corporation (subject, however, to the provisions of any order or regulation of any commission or other governmental agency requiring such a consolidation or merger).

**Redemption.** Subject to the limitations hereinafter stated under "Limitations on Redemption and Purchase" and except as may be otherwise provided by the Board of Directors in respect of the shares of a particular series, shares of any one or more series of the preferred stock may be called for redemption and redeemed, on not less than 30 days' notice by mail, in whole at any time or in part from time to time at the option of Northern Illinois or in part from time to time pursuant to any sinking fund or funds created for one or more series of the preferred stock, in each case by the payment therefor in cash of the then applicable redemption price or prices of the shares to be redeemed. Provision is made whereby, subject to certain conditions, all rights of the holders of shares called for redemption (except the right to receive the redemption moneys and the right to exercise any then effective privilege of conversion) will terminate before the redemption date, upon the deposit with a bank or trust company of the funds necessary for redemption.

Shares of the New Preferred Stock are subject to redemption, after December 31, 1967, at the option of Northern Illinois, at \$105 per share, plus accrued dividends, during the five-year period ending December 31, 1972, with a decrease in such redemption price of \$1 for each of the four succeeding five-year periods. The resolution of the Board of Directors establishing the New Preferred Stock provides no sinking fund or analogous fund for the redemption or other retirement of shares of such stock.

The sinking fund provisions and the optional and sinking fund redemption prices applicable to the outstanding 5% Preferred Stock and the 5.50% Preferred Stock are stated in Northern Illinois' "Notes to Financial Statements."

**Limitations on Redemption and Purchase.** If and so long as Northern Illinois shall be in default in the payment of any quarterly dividend on shares of any series of the preferred stock, or shall be in default in the payment of funds into or the setting aside of funds for any sinking fund created for any series of the preferred stock, Northern Illinois may not (other than by the use of unapplied funds, if any, paid into or set aside for a

sinking fund or funds prior to such default) (1) redeem any shares of the preferred stock unless all shares thereof are redeemed, or (2) purchase or otherwise acquire for a consideration any shares of the preferred stock, except pursuant to offers of sale made by holders of the preferred stock in response to an invitation for tenders given simultaneously by Northern Illinois by mail to the holders of record of all shares of the preferred stock then outstanding.

**Status of Preferred Stock Redeemed or Purchased.** All shares of the preferred stock redeemed, purchased or otherwise reacquired by Northern Illinois shall have the status of authorized and unissued shares of preferred stock or shall be retired and cancelled as may, in each case, be determined by the Board of Directors. In respect of each of the three series of the preferred stock (the 5% Preferred Stock, the 5.50% Preferred Stock, and the New Preferred Stock), the Board has determined that no shares redeemed, purchased or otherwise reacquired may be reissued as shares of the same series, but that such shares shall have the status of authorized and unissued shares of preferred stock, subject to later issuance as shares of one or more other series hereafter established.

**Liquidation Preferences.** In the event of dissolution, liquidation or winding up of Northern Illinois, voluntary or involuntary, holders of the preferred stock of each series at any time established will be entitled to receive out of the assets of Northern Illinois such amount per share as shall have been fixed by the Board of Directors as the voluntary liquidation price or the involuntary liquidation price, as the case may be, for the shares of such series.

The per share voluntary liquidation price of the New Preferred Stock is the per share voluntary redemption price applicable at the date fixed for payment of such liquidation price (or \$100 in case the shares of such stock are not at the time redeemable), and the per share involuntary liquidation price is \$100.

The per share voluntary and involuntary liquidation prices of the outstanding 5% Preferred Stock and the 5.50% Preferred Stock are stated in Northern Illinois' "Notes to Financial Statements."

After payment in full shall have been made to holders of the preferred stock, or funds or other assets set aside for such payment, holders of the common stock will be entitled to ratable distribution of the remaining assets of Northern Illinois.

**Voting Rights.** Holders of the preferred stock and common stock at any time outstanding are entitled to one vote for each share held on each matter submitted to a vote at a meeting of stockholders, with the right to cumulate votes in all elections for directors.

**Restrictions on Certain Corporate Action.** So long as any shares of the preferred stock shall be outstanding, Northern Illinois may not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the preferred stock outstanding:

(1) create or authorize any stock of any prior or parity class; or

(2) amend the Articles of Incorporation of Northern Illinois so as adversely to affect any of the preferences or other rights of the holders of the preferred stock; provided, however, that if any such amendment would adversely affect any of the preferences or other rights of the holders of one or more, but less than all, of the series of the preferred stock then outstanding, the affirmative vote or consent of, and only of, the holders of at least two-thirds of the shares of each series so adversely affected will be required.

Any amendment of the resolution of the Board of Directors establishing a series of preferred stock which would adversely affect the rights of the holders of the shares of such series may be made only with the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of such series.

So long as any shares of the preferred stock shall be outstanding, Northern Illinois may not, without the affirmative vote or consent of the holders of a majority of the shares of the preferred stock outstanding:

(1) issue any shares of the preferred stock, which may hereafter be authorized, in addition to the 300,000 shares authorized by amendment, effective June 12, 1957, to the Articles of Incorporation, or any shares of stock of any prior or parity class which may hereafter be authorized (other than for the purpose of effecting the retirement, by redemption, exchange or otherwise, of outstanding shares ranking at least on a parity with, and representing an aggregate amount of stated capital at least equal to the aggregate amount of the stated capital to be represented by, the shares proposed to be issued), if the aggregate amount of the stated capital represented by all preferred stock and all prior and parity stock to be outstanding after the proposed issue, after giving effect to the retirement of any preferred stock or any prior or parity stock to be retired in connection with such issue, would exceed 75% of the aggregate amount of the stated capital represented by the common stock then outstanding and by stock of any other class, then outstanding, junior to the preferred stock, plus the amount of the retained earnings of Northern Illinois and its consolidated subsidiaries, if any, as of the end of the preceding fiscal year (the term "stated capital," as above used, includes any related paid-in surplus); or

(2) consolidate with or merge into any other corporation, under applicable statutory procedure, or make any sale or transfer of the property and business of Northern Illinois as or substantially as an entirety, except that such restriction does not apply to any such consolidation with or merger into or any such sale or transfer to (a) any corporation which owns, directly or indirectly through one or more other corporations, 50% or more of the voting securities of Northern Illinois, (b) any corporation 50% or more of the voting securities of which are owned by Northern Illinois, or (c) any corporation, when such consolidation, merger, sale or transfer shall be required by any commission or other governmental agency having jurisdiction. The term "sale or transfer" as above used includes a lease or exchange but not a mortgage or pledge.

**Preemptive Rights.** Holders of neither the preferred stock nor the common stock have any preemptive rights.

**Nonassessability.** The New Preferred Stock will, when issued pursuant to the terms of the Exchange Offer, be full-paid and nonassessable.

**Reports to Stockholders.** Northern Illinois will furnish its stockholders with annual reports containing certified financial statements, and will furnish its stockholders quarterly with an unaudited balance sheet for the interim period and an unaudited statement of income.

#### DESCRIPTION OF STOCK—ALLIED

Common stock, par value \$5 per share, constitutes the only class of authorized stock of Allied. Holders of shares of common stock are entitled to one vote for each share held at all meetings of stockholders and, in addition, have the privilege of cumulative voting in the election of directors. Stockholders have no preemptive rights. All of the presently issued shares of common stock are full-paid and nonassessable. The holders of shares

of common stock are entitled to ratable payment of dividends, when and as declared by the Board of Directors out of legally available funds, and, upon liquidation, to ratable distribution of assets available for distribution to stockholders on such liquidation.

#### LITIGATION

Certain coal producers and the United Mine Workers of America have filed a complaint with the Illinois Commerce Commission requesting that the interruptible boiler fuel rates of Northern Illinois be rescinded or amended and that the sale of natural gas for boiler fuel by Northern Illinois be prohibited. The motion of Northern Illinois to dismiss the complaint before taking evidence and various preliminary motions of the coal producers have been overruled by the Commission. The case is now in hearing before the Commission. In the opinion of special counsel for Northern Illinois, there is no merit to the complaint and no lawful basis for the relief sought therein.

In July, 1957, suit was instituted in the United States District Court for the Northern District of Illinois by Radiant Burners, Inc., of Lombard, Illinois, against the American Gas Association, Northern Illinois and other Chicago area gas distribution companies, and certain manufacturers of gas heating equipment. The complaint charges the defendants with conspiring, in violation of the Federal antitrust laws, to prevent the sale of space heating equipment manufactured by Radiant Burners, Inc., and seeks injunctive relief and treble damages in the amount of \$24,000,000. On appeal from an order of the United States Court of Appeals sustaining a dismissal of the complaint by the District Court, the United States Supreme Court, on January 16, 1961, remanded the case to the District Court for trial. By amendment to the complaint filed March 9, 1961, the plaintiff joined as parties defendant certain officers of Northern Illinois and of other gas distribution defendants and certain additional manufacturers of gas heating equipment. The case is in the pre-trial discovery stage. Counsel for Northern Illinois believe that it has a good defense on the merits to this suit.

Northern Illinois is informed that Allied is not a party to any material litigation.

### AUDITORS' OPINION

To the Stockholders and Directors, Northern Illinois Gas Company:

We have examined the balance sheet of Northern Illinois Gas Company (an Illinois corporation) as of December 31, 1961, and the related statements of income (included under "Summary of Earnings—Northern Illinois" in this Prospectus), retained earnings and paid-in surplus for the five years then ended. 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 accompanying balance sheet and related statements of income, retained earnings and paid-in surplus present fairly the financial position of the Company as of December 31, 1961, and the results of its operations for the periods referred to above, and were prepared in conformity with generally accepted accounting principles consistently applied during the periods.

Chicago, Illinois  
February 2, 1962

ARTHUR ANDERSEN & Co.

NORTHERN ILLINOIS GAS COMPANY

BALANCE SHEET—DECEMBER 31, 1961 AND JUNE 30, 1962

ASSETS

	December 31, 1961	June 30, 1962(a)
UTILITY PLANT, at original cost or less.....	\$349,805,862	\$365,337,737
Less—Accumulated provision for depreciation.....	66,014,171	70,645,537
	<u>\$283,791,691</u>	<u>\$294,692,200</u>
INVESTMENT IN WHOLLY-OWNED SUBSIDIARY, at underlying book value....	\$ 3,693,554	\$ 4,268,338
CURRENT ASSETS:		
Cash.....	\$ 2,588,431	\$ 1,980,600
U. S. Government obligations, at cost.....	1,969,120	14,310,302
Receivables, less reserve of \$205,000 and \$330,896, respectively.....	9,888,219	9,322,903
Natural gas in underground storage, at last-in, first-out cost.....	5,390,895	5,841,500
Materials and supplies (including \$438,832 and \$486,149, respectively, of merchandise appliances), at average cost.....	4,986,398	4,111,081
Prepayments and special deposit.....	654,857	284,257
	<u>\$ 25,477,920</u>	<u>\$ 35,850,643</u>
DEFERRED CHARGES.....	\$ 378,578	\$ 355,726
	<u>\$313,841,743</u>	<u>\$335,166,907</u>

NORTHERN ILLINOIS GAS COMPANY

BALANCE SHEET—DECEMBER 31, 1961 AND JUNE 30, 1962

LIABILITIES	December 31, 1961	June 30, 1962(a)
<b>FIRST MORTGAGE BONDS:</b>		
3½% series due 1979.....	\$ 52,800,000	\$ 51,910,000
3¾% series due 1981.....	13,500,000	13,336,000
5% series due 1984.....	19,600,000	19,200,000
4⅝% series due 1985.....	29,392,000	29,392,000
	<u>\$115,292,000</u>	<u>\$113,838,000</u>
<b>PREFERRED STOCK, cumulative, par value \$100, authorized 800,000 shares—</b>		
5% Preferred—Outstanding 94,852 shares.....	\$ 9,485,200	\$ 9,400,000
5.50% Preferred—Outstanding 150,000 shares.....	15,000,000	14,700,000
	<u>\$ 24,485,200</u>	<u>\$ 24,100,000</u>
<b>COMMON EQUITY:</b>		
Common stock, par value \$5, authorized 12,500,000 shares, (94,478 and 89,246 shares, respectively, reserved for issuance under Employee Stock Purchase Plan)—		
Outstanding 7,656,628 and 7,661,860 shares, respectively.....	\$ 38,283,140	\$ 38,309,300
Paid-in surplus.....	62,196,409	62,488,093
Capital stock expense.....	848,793*	848,793*
Retained earnings.....	32,524,004	46,871,029
Total common equity.....	<u>\$132,154,760</u>	<u>\$146,819,629</u>
Total capitalization.....	<u>\$271,931,960</u>	<u>\$284,757,629</u>
<b>CURRENT LIABILITIES:</b>		
Sinking fund requirements.....	\$ 380,000	\$ 785,200
Accounts payable.....	10,044,567	8,925,773
Accrued interest.....	209,812	206,692
Accrued taxes.....	15,497,911	25,149,817
Dividends declared.....	3,004,635	3,236,322
Purchased gas refunds due to customers.....	3,571,120	2,079,600
Other.....	2,840,266	3,204,402
	<u>\$ 35,548,311</u>	<u>\$ 43,587,806</u>
RESERVE FOR DEFERRED FEDERAL INCOME TAXES.....	\$ 5,861,472	\$ 6,821,472
Construction commitments approximate \$4,320,000 and \$8,660,000, respectively.	<u>\$313,341,743</u>	<u>\$335,166,907</u>

\*Denotes deduction.

(a) Not examined by independent public accountants.

The accompanying notes are an integral part of this statement.

NORTHERN ILLINOIS GAS COMPANY

NOTES TO FINANCIAL STATEMENTS

First Mortgage Bonds. The annual sinking fund requirements are as follows:

Series	Annual Sinking Fund Requirement		As of June 30, 1962		
	Amount	Commencing With Three-Month Period Ending January 31	Reacquired and Cancelled	Certified for Sinking Fund Purposes	Available For Future Sinking Fund Requirements
3½%	\$1,200,000	1958	\$8,090,000	\$6,000,000	\$2,090,000
3¾%	300,000	1959	1,664,000	1,200,000	464,000
5%	400,000	1962	400,000	400,000	—
4⅝%	600,000	1963	608,000	—	608,000

**Short Term Bank Credit Agreements.** On September 4, 1962, Northern Illinois entered into short term bank credit agreements with five major Chicago banks under which Northern Illinois may borrow up to \$20,000,000 on a revolving basis during the period from September 1, 1962 to August 31, 1963, at the prime commercial interest rate at the Continental Illinois National Bank and Trust Company of Chicago.

**5% Preferred Stock.** The annual cumulative sinking fund requirement, beginning May 1, 1961, is an amount sufficient to redeem at the sinking fund redemption price (\$101 per share plus any accrued and unpaid dividends), 2,000 shares of the 5% Preferred Stock. As of June 30, 1962, 5,148 shares representing \$514,800 par value of 5% Preferred Stock had been reacquired and cancelled in anticipation of sinking fund requirements and 4,000 of such shares had been applied to satisfy the requirements through May 1, 1962. An additional 852 shares are required to satisfy the sinking fund requirement due on May 1, 1963. Such requirement is classified as a current liability in the Balance Sheet.

The per share voluntary liquidation price of the 5% Preferred Stock is the per share optional redemption price applicable at the date fixed for payment of such liquidation price. The per share optional redemption prices are \$111 if redeemed before May 1, 1963; \$108 if redeemed on or after May 1, 1963, but before May 1, 1968; \$105 if redeemed on or after May 1, 1968, but before May 1, 1973; and \$102 if redeemed on or after May 1, 1973; plus, in each case, any accrued and unpaid dividends. The involuntary liquidation price of the 5% Preferred Stock is the par value thereof, plus any accrued and unpaid dividends.

**5.50% Preferred Stock.** The annual cumulative sinking fund requirement, beginning May 1, 1963, is an amount sufficient to redeem at the sinking fund redemption price (\$100 per share plus any accrued and unpaid dividends) 3,000 shares of the 5.50% Preferred Stock. Such requirement for 1963 is classified as a current liability in the Balance Sheet.

The per share voluntary liquidation price of the 5.50% Preferred Stock is the per share optional redemption price applicable at the date fixed for payment of such liquidation price. The per share optional redemption prices are \$110 if redeemed before May 1, 1965; \$107 if redeemed on or after May 1, 1965, but before May 1, 1970; \$104 if redeemed on or after May 1, 1970, but before May 1, 1975; and \$101 if redeemed on or after May 1, 1975; plus, in each case, any accrued and unpaid dividends. The involuntary liquidation price of the 5.50% Preferred Stock is the par value thereof, plus any accrued and unpaid dividends.

**Employee Stock Purchase Plan.** See "Management—Northern Illinois."

**Pension Plan.** Northern Illinois has a non-contributory pension plan (Service Annuity System) for all regular employes and officers. There are no vested rights under the plan except as and to the extent that a pension has been actually granted. The estimated annual cost approximates \$1,900,000.

## NORTHERN ILLINOIS GAS COMPANY

### NOTES TO FINANCIAL STATEMENTS (Concluded)

Northern Illinois also has a discretionary supplementary retirement plan for a limited number of persons (not more than 25 at any one time) holding the most responsible management positions. To date, no supplementary retirement payment has been authorized.

**Depreciation.** Northern Illinois provides for depreciation on the basis of amortizing the cost of its properties, including properties normally considered as non-depreciable, over the estimated composite service life of such properties. Northern Illinois made overall provisions for depreciation for the years 1957 to 1961, inclusive, and the twelve months ended June 30, 1962, at the annual rate of 2.5% of the average book value of the total properties.

Northern Illinois charges to maintenance expense the cost of labor, material and other expenses incurred in maintaining the operating efficiency of its properties. This includes, among other things, replacing minor items of property, inspecting and testing repaired equipment, rearranging equipment, testing for, locating and clearing operating difficulties, and similar activities.

When property which represents a retirement unit is replaced, removed or abandoned, the cost of such property is credited to the appropriate utility plant accounts and such cost, together with the cost of removal less salvage, is charged to the accumulated provision for depreciation.

**Deferred Federal Income Taxes.** Federal income taxes deferred as a result of the use of accelerated depreciation for federal income tax purposes are being currently charged to income and credited to the Reserve for Deferred Federal Income Taxes. When the deferred taxes become payable, such taxes will be charged to the reserve.

**Installment Sales.** The profit on merchandise installment sales is included in the "Summary of Earnings—Northern Illinois" as of the time of sale.

**Subsidiary Company.** Northern Illinois believes that its financial position and results of operations are clearly shown without consolidating NI-Gas Supply, Inc. The results of this subsidiary's operations after federal income taxes are reflected in Other Income.

**Supplementary Information.** The following tabulation sets forth, for the years 1957 to 1961, inclusive, and the twelve months ended June 30, 1962, the provisions for significant taxes, other than federal income taxes, charged to utility operations:

	Year Ended December 31					Twelve Months Ended June 30, 1962
	1957	1958	1959	1960	1961	
Real estate, personal property and state capital stock.....	\$2,100,090	\$2,080,146	\$2,304,387	\$2,883,284	\$3,150,004	\$3,119,452
State tax on sales of gas....	2,508,319	2,703,583	3,117,880	3,860,436	4,393,558	4,803,777
Other.....	274,574	296,738	362,291	466,068	497,372	614,483
	<u>\$4,882,983</u>	<u>\$5,080,467</u>	<u>\$5,784,558</u>	<u>\$7,209,788</u>	<u>\$8,040,934</u>	<u>\$8,537,712</u>

The provisions for depreciation and taxes charged to clearing accounts, and the rentals paid during the above periods were not significant. No management or service contract fees and no royalties were paid during such periods.

## ACCOUNTANTS' CERTIFICATE

To the Board of Directors of Allied Gas Company:

We have examined the balance sheet of Allied Gas Company as of September 30, 1961, and the related statements of income (included under "Summary of Earnings—Allied" in this Prospectus), earned surplus and capital surplus for the five years then ended. 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 accompanying balance sheet and statements of income, earned surplus and capital surplus present fairly the financial position of Allied Gas Company at September 30, 1961, and the results of its operations for the five years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Chicago, Illinois  
October 20, 1961

LAWRENCE SCUDDER & Co.

**ALLIED GAS COMPANY**

**BALANCE SHEET—SEPTEMBER 30, 1961 AND JUNE 30, 1962**

**ASSETS**

	<u>September 30, 1961</u>	<u>June 30, 1962(a)</u>
UTILITY PLANT—at original cost.....	\$2,802,140	\$3,033,637
Less—Reserve for depreciation.....	438,612	492,901
	<u>\$2,363,528</u>	<u>\$2,540,736</u>
CURRENT ASSETS:		
Cash.....	\$ 195,077	\$ 203,891
Sinking fund.....	—	24,000
Special deposits.....	292,000	292,000
Accounts receivable, less reserve of \$3,966 and \$6,174, respectively.....	107,288	155,337
Gas in underground storage, at average cost.....	53,899	58,053
Materials and supplies (including \$21,290 and \$20,410, respectively, of merchandise appliances), at average cost.....	134,868	139,600
Prepayments.....	58,770	45,238
	<u>\$ 841,902</u>	<u>\$ 918,119</u>
DEFERRED CHARGES.....	<u>\$ 26,469</u>	<u>\$ 26,608</u>
	<u>\$3,231,899</u>	<u>\$3,485,463</u>

**ALLIED GAS COMPANY**

**BALANCE SHEET—SEPTEMBER 30, 1961 AND JUNE 30, 1962**

**LIABILITIES**

	<u>September 30, 1961</u>	<u>June 30, 1962(a)</u>
<b>LONG-TERM DEBT:</b>		
First Mortgage Bonds—		
4¼% series due 1976 .....	\$ 336,000	\$ 336,000
4¼% series due 1981 .....	378,000	360,000
5½% series due 1985 .....	650,000	650,000
	<u>\$1,364,000</u>	<u>\$1,346,000</u>
 <b>COMMON EQUITY:</b>		
Common stock, par value \$5—authorized 250,000 shares, outstanding 177,166 shares .....	\$ 885,830	\$ 885,830
Earned surplus .....	309,461	455,242
Total common equity .....	<u>\$1,195,291</u>	<u>\$1,341,072</u>
Total capitalization .....	<u>\$2,559,291</u>	<u>\$2,687,072</u>
 <b>CURRENT LIABILITIES:</b>		
Long-term debt due within one year .....	\$ 42,000	\$ 42,000
Accounts payable .....	94,690	109,337
Accrued taxes .....	271,436	318,612
Accrued interest .....	22,456	5,496
Other .....	46,955	113,189
	<u>\$ 477,537</u>	<u>\$ 588,634</u>
 CONTRIBUTIONS IN AID OF CONSTRUCTION .....	 \$ 37,723	 \$ 39,809
 RESERVE FOR DEFERRED FEDERAL INCOME TAXES: .....	 \$ 157,348	 \$ 169,948
There were no construction commitments at September 30, 1961. Such commitments approximate \$74,000 at June 30, 1962.		
	<u>\$3,231,899</u>	<u>\$3,485,463</u>

(a) Not examined by independent public accountants.  
The accompanying notes are an integral part of this statement.

**ALLIED GAS COMPANY**

**STATEMENT OF EARNED SURPLUS**

	Year Ended September 30					Twelve Months Ended June 30, 1962(a)
	1957	1958	1959	1960	1961	
BALANCE AT BEGINNING OF PERIOD.....	\$357,417	\$416,294	\$353,245	\$422,001	\$537,698	\$374,654
ADD:						
Net income.....	153,389	186,394	203,165	257,465	239,246	266,612
Pipeline refund applicable to prior years less Federal income taxes thereon.....	—	1,962	1,901	—	—	—
	<u>\$510,806</u>	<u>\$604,650</u>	<u>\$558,311</u>	<u>\$679,466</u>	<u>\$776,944</u>	<u>\$641,266</u>
DEDUCT:						
Dividends Common Stock:						
Cash—						
30¢ per share quarterly.....	\$ 94,512	\$ 23,628	\$106,326	\$141,768	\$ 35,442	\$ 53,150
25¢ per share quarterly.....	—	88,605	29,535	—	88,584	132,874
37¢ per share quarterly.....	—	—	—	—	43,711	—
Stock—						
3 for 2 stock split (39,380 shares).....	—	138,951	—	—	—	—
3 for 2 stock split (59,026 shares).....	—	—	—	—	295,130	—
Purchase of fractional shares and expenses of effecting stock split.....	—	—	—	—	4,616	—
Miscellaneous.....	—	221	449	—	—	—
Total deductions.....	<u>\$ 94,512</u>	<u>\$251,405</u>	<u>\$136,310</u>	<u>\$141,768</u>	<u>\$467,483</u>	<u>\$186,024</u>
BALANCE AT END OF PERIOD.....	<u>\$416,294</u>	<u>\$353,245</u>	<u>\$422,001</u>	<u>\$537,698</u>	<u>\$309,461</u>	<u>\$455,242</u>

**STATEMENT OF CAPITAL SURPLUS**

	Year Ended September 30					Twelve Months Ended June 30, 1962(a)
	1957	1958	1959	1960	1961	
BALANCE AT BEGINNING OF PERIOD.....	\$ 57,949	\$ 57,949	\$ —	\$ —	\$ —	\$ —
DEDUCT:						
Transfer to capital stock relative to 3 for 2 stock split.....	—	57,949	—	—	—	—
BALANCE AT END OF PERIOD.....	<u>\$ 57,949</u>	<u>\$ —</u>				

(a) Not examined by independent public accountants.  
The accompanying notes are an integral part of these statements.

## ALLIED GAS COMPANY

### NOTES TO FINANCIAL STATEMENTS

**Accounting System Prescribed.** The accompanying financial statements have been prepared from the accounts of Allied classified in accordance with the Uniform System of Accounts for Gas Utilities prescribed by the Illinois Commerce Commission.

**Long-Term Debt.** Annual Sinking Fund Requirements are as follows:

First Mortgage Bonds 4¼% due 1976 on each July 1—1962 through 1976.....	\$24,000
First Mortgage Bonds 4¼% due 1981 on each May 1—	
1963.....	18,000
1964 through 1981.....	20,000
First Mortgage Bonds 5½% due 1985 on each July 1—	
1963 through 1969.....	20,000
1970 through 1976.....	25,000
1977 through 1983.....	35,000
1984 through 1985.....	45,000

**Special Deposit.** A portion of the proceeds of Allied's First Mortgage Bonds 5½% series due 1985 (\$292,000) are on deposit with the First Pennsylvania Banking and Trust Company, Trustee under Allied's Indenture, until such time as bondable property becomes available. At June 30, 1962, Allied had bondable property additions of approximately \$448,000 available to apply against approximately \$269,000 of such deposited funds.

**Retirement Plan.** Allied has a non contributory retirement plan in effect covering all employees with one or more years of service which is administered by the First Pennsylvania Banking and Trust Company acting as Trustee. Pensions are based upon length of service and annual compensation and may be modified or discontinued by Allied at any time without further liability, except for the vested interests of employees having ten or more years of continuous service. The aggregate actuarial liability for past service was \$11,068 at December 31, 1961. Premiums of \$5,699 for current service and \$1,814 for past service in 1959, \$219 for current service and \$1,814 for past service in 1960, and \$8,941 for current service and \$1,814 for past service in 1961 were charged to expense in these periods. It is estimated that the premiums payable for the year 1962 will be \$2,103 for current service and \$1,814 for past service.

**Depreciation and Maintenance Policies.** The annual depreciation provisions for the five years ended September 30, 1961 and the twelve months ended June 30, 1962 have been determined in the accounts on the composite life basis for all depreciable assets except transportation equipment which is depreciated on a unit straight line basis. The rates used are considered adequate to amortize the cost of depreciable property over the estimated remaining service lives and are as follows:

Transportation Equipment.....	20%
All Other Depreciable Property.....	3%

Maintenance and repairs, as well as minor renewals and betterments, are charged to current operations. Renewals and betterments are charged to the utility plant accounts, and the original cost of depreciable property retired is charged to the reserve for depreciation together with removal costs less salvage, except that any necessary adjustments for retirement of transportation equipment are made to the automobile clearing account.

**NORTHERN ILLINOIS GAS COMPANY**  
**STATEMENT OF RETAINED EARNINGS**

	Year Ended December 31					Twelve Months Ended June 30, 1962 (a)
	1957	1958	1959	1960	1961	
BALANCE AT BEGINNING OF PERIOD.....	\$ 6,898,211	\$10,319,866	\$14,088,695	\$19,838,201	\$25,793,881	\$36,806,128
NET INCOME.....	9,703,533	10,520,013	13,419,089	15,921,233	18,427,262	22,542,726
	<u>\$16,599,744</u>	<u>\$20,839,879</u>	<u>\$27,507,734</u>	<u>\$35,759,434</u>	<u>\$44,221,143</u>	<u>\$59,348,854</u>
DEDUCT:						
Dividends (cash)—						
Preferred stock:						
5% Cumulative.....	\$ —	\$ 455,371	\$ 498,767	\$ 489,148	\$ 476,254	\$ 474,200
5.50% Cumulative.....	—	—	—	852,003	825,002	825,003
Common stock:						
22¢ per share quarterly.....	6,279,878	6,295,813	—	—	—	—
25¢ per share quarterly.....	—	—	7,170,766	—	—	—
30¢ per share quarterly.....	—	—	—	8,624,402	—	—
35¢ per share quarterly.....	—	—	—	—	10,395,883	5,357,536
38¢ per share quarterly.....	—	—	—	—	—	5,321,026
Total deductions.....	<u>\$ 6,279,878</u>	<u>\$ 6,751,184</u>	<u>\$ 7,669,533</u>	<u>\$ 9,965,553</u>	<u>\$11,697,139</u>	<u>\$12,477,825</u>
BALANCE AT END OF PERIOD.....	<u>\$10,319,866</u>	<u>\$14,088,695</u>	<u>\$19,838,201</u>	<u>\$25,793,881</u>	<u>\$32,524,004</u>	<u>\$46,871,029</u>

**STATEMENT OF PAID-IN SURPLUS**

	Year Ended December 31					Twelve Months Ended June 30, 1962 (a)
	1957	1958	1959	1960	1961	
BALANCE AT BEGINNING OF PERIOD.....	\$35,305,339	\$40,499,509	\$40,857,609	\$41,187,920	\$41,621,994	\$41,876,678
ADD:						
Premium on common stock.....	5,194,170	258,100	330,804	486,289	20,576,855	20,612,171
Premium on preferred stock.....	—	100,000	—	—	—	—
Adjustment resulting from reacquisition and cancellation of preferred stock.....	—	—	493*	2,215*	2,440*	756*
BALANCE AT END OF PERIOD.....	<u>\$40,499,509</u>	<u>\$40,857,609</u>	<u>\$41,187,920</u>	<u>\$41,621,994</u>	<u>\$62,196,409</u>	<u>\$62,488,093</u>

(a) Not examined by independent public accountants.  
The accompanying notes are an integral part of these statements.

\*Denotes red figure.

**ALLIED GAS COMPANY**

**NOTES TO FINANCIAL STATEMENTS (Concluded)**

**Deferred Federal Income Taxes.** In its Federal income tax returns, Allied is claiming accelerated depreciation and has amortized part of the cost of certain properties over a sixty-month period in accordance with provisions of the Internal Revenue Code. The resulting reduction in tax is credited to the Reserve for Deferred Federal Income Taxes. When deferred taxes become payable, such taxes will be charged to the reserve.

**Conditional Sales Contracts.** Allied sells merchandise on conditional sales contracts and credits income for the entire amount in the year of sale.

**Supplementary Information.** The following tabulation sets forth, for the years ended September 30, 1957 to 1961, inclusive, and the twelve months ended June 30, 1962, the provisions for significant taxes, other than Federal income taxes, charged to utility operations:

	Year Ended September 30					Twelve Months Ended June 30, 1962 (Unau- dited)
	1957	1958	1959	1960	1961	
Real estate, personal property and state capital stock.....	\$33,821	\$35,753	\$47,731	\$ 49,996	\$ 53,798	\$ 52,423
State tax on sales of gas.....	35,150	37,603	41,607	46,784	51,025	57,470
Other.....	3,768	4,412	4,728	6,115	7,576	7,752
	\$72,739	\$77,768	\$94,066	\$102,895	\$112,399	\$117,645

The provisions for depreciation and taxes charged to clearing accounts, and the rentals paid during the above periods were not significant in amount. There were no management and service contract fees paid or accrued during the above periods.

**LEGAL OPINIONS**

Legal matters in connection with the Exchange Offer will be passed upon for Northern Illinois by Isham, Lincoln & Beale, 72 West Adams Street, Chicago 3, Illinois, counsel for Northern Illinois, and for the stockholders of Allied by Harry R. Begley, 38 South Dearborn Street, Chicago 3, Illinois.

NORTHERN ILLINOIS GAS COMPANY  
By MARVIN CHANDLER, *President*

TABLE OF CONTENTS

	Page
Exchange Offer.....	2
Price Range of Common Stock—	
Northern Illinois.....	3
Allied.....	4
Dividends—Northern Illinois and Allied.....	4
Capitalization—Northern Illinois and Allied....	5
Summary of Earnings—Northern Illinois.....	6
Allied.....	7
Business—Northern Illinois.....	8
Map.....	11
Property—Northern Illinois.....	14
Management—Northern Illinois.....	15
Business—Allied.....	16
Property—Allied.....	18
Description of Stock—Northern Illinois.....	18
Allied.....	21
Litigation.....	22
Auditors' Opinion—Northern Illinois.....	23
Financial Statements—Northern Illinois.....	24
Accountants' Certificate—Allied.....	29
Financial Statements—Allied.....	30
Legal Opinions.....	34

No person has been authorized, in connection with the offering contained in this Prospectus, to give any information or to make any representations not contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by Northern Illinois Gas Company. This Prospectus does not constitute an offering in any State in which such offering may not lawfully be made. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Northern Illinois Gas Company or Allied Gas Company since the date hereof.

Northern Illinois  
Gas  
Company



45,000 Shares

5% Convertible  
Preferred Stock

(Cumulative—Par Value \$100 Per Share)

Dated: November , 1962

R. R. DONNELLEY & SONS COMPANY, CHICAGO