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*IU International
Corporation*

*1986 Annual
Report*



*A Diversified
Services Company*

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Cover: One of IU's fast-growing food distribution units, Biggers Brothers, delivers to restaurants at night the food they need to open for business the next day.

During 1986, the company completed a series of far-reaching actions taken to restructure IU into a leading diversified services company. Over recent years, the restructuring has transformed IU from a complex enterprise serving a multitude of markets into a simpler and smaller company focused on a much narrower range of business activity.

The actions also slashed debt from \$1.2 billion in 1978 to less than \$80 million at year-end.

IU is now a stronger, leaner company with higher returns and better growth prospects. IU's operating units today are premier customer-service companies with leadership positions and growth strategies in three major markets: distribution, environmental and transportation services.

	1986	1985*
Revenues	\$1,492,568,000	\$1,367,370,000
Earnings (loss) from continuing operations	\$ 21,115,000	\$ (16,477,000)
Earnings (loss) per share from continuing operations:		
Primary	\$.76	\$ (.63)
Assuming full dilution†	.76	—
Total debt	\$ 75,495,000	\$ 239,131,000
Total employees at year-end	14,000	14,000

* Restated to segregate discontinued agribusiness and paper distribution operations.

† Not reported for 1985 due to anti-dilutive effect of potential stock option exercise.

Financial Highlights

T o Our Shareholders



Left: John Gilray Christy, Chairman. *Right:* William H. Waltrip, President.

Operating results improved sharply in '86

Distribution group's earnings rose 67%

In 1986, we essentially completed the restructuring of IU. The restructuring, begun in the late 1970s, has successfully transformed the company from an asset-heavy conglomerate with major investments in utilities, ocean shipping, and manufacturing into a much simpler and better-focused diversified services company.

The restructuring favorably impacted 1986 results and unfavorably affected 1985 results. But it is operating results that count, and IU's operating results improved sharply in 1986.

Earnings from continuing operations rose to \$21.1 million, or 76¢ per share. In 1985, IU suffered a loss from continuing operations of \$16.5 million, or 63¢ per share.

The operating earnings contributions from our major markets more than doubled, to \$105.3 million in 1986 from \$48.5 million in 1985, on a 9% increase in revenues. Earnings rose substantially in all our major markets.

Distribution Services The distribution group's operating earnings rose 67%, to \$19.7 million in 1986 from \$11.8 million in 1985, on a 21% increase in revenues. The results reflect substantially increased volume at Biggers Brothers, a leading

wholesale distributor of food and food products in the Southeast, and additional contracts and expanded services at Customized Transportation, the premier "just in time" inventory management and distribution organization serving United States automobile assembly plants.

In 1987, we expect to have more than \$400 million in distribution services revenues. This will include the revenues of our newest food distribution unit, Roanoke Restaurant Service, acquired at year-end 1986. Roanoke is a fast-growing distributor of food and food products based in Salem, Va., and it will play an important role in our expansion of this core business.

Today, we are the ninth largest institutional food distribution company in the United States. We set the standards for industry returns. Our return on invested capital has consistently been above 20% (it was 21% in 1986), and the operating results we have achieved at Biggers during the past 15 years convince us that innovative growth strategies and operating practices can be applied to Roanoke and to future acquisitions.

We started up our other distribution unit, Customized Transportation, three years ago. Today, it has more than \$30 million in revenues. Again, its return on invested capital is above 20%. By continuing to focus on exacting customer-service standards, Customized should continue to enjoy bright growth prospects as "just in time" inventory applications expand in American industry.

Environmental Services Operating earnings of our environmental services group rose 79%, to \$48.4 million in 1986 from \$27.0 million in 1985, on a 16% rise in revenues.

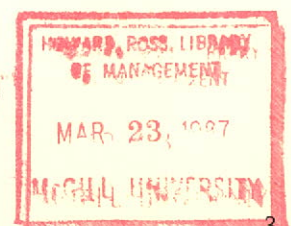
Envirosafe Services, which provides hazardous waste disposal and emergency clean-up services, was solidly profitable in 1986 after a loss in 1985 and previous years, as we built the business to today's successful state. The unit had substantial increases in revenues and operating earnings, due to higher prices and an increase in industrial wastes processed, and additional contracts for remedial services.

We are considering the sale of a portion—but less than 50%—of this business to the public during 1987. If we decide to proceed, such a sale could be the first step toward establishing Envirosafe as an independent separate entity, much as we established the independence of other operating units in recent years, although by different means, among them Gotaas-Larsen Shipping Corp. in 1979 and Echo Bay Mines Ltd. in 1983. Both of those spinoffs have proven to be of substantial benefit to IU shareholders.

At International Mill Service, which provides industrial services to steel mills and other industrial locations worldwide, results were above 1985 levels because

*Distribution had 21%
return on investment*

*Environmental units'
results up strongly*



*Operating companies
are industry leaders*

*Transportation group
profitable and growing*

of better foreign exchange rates and operating improvements at several sites. The earnings improvement was despite the impact of a strike, since settled, at USX Corp., a major IMS customer.

In 1987, we should have about \$375 million in environmental services revenues. Our return on invested capital is consistently high; last year, it was above 15%. We are the industry leader in handling the wastes of steel mills, coal-burning utilities and, to some extent, certain chemical wastes. By concentrating on the most efficient steel mills worldwide, our strategy has even produced growth in a sector of the overall business which is contracting—the United States. The lowest-cost steel producer in the world today is Brazil. We have a significant position in Brazil, as well as other countries in Latin America. By design, we are also diversified geographically throughout the major steel-producing countries of western Europe, and today more than half of IMS' revenues and operating earnings are derived from non-United States operations. By further expansion of the array of industrial services we offer to the most efficient producers worldwide, we intend to continue to grow and to maintain superior returns.

Transportation Services The operating earnings of this group rose to \$14.9 million this year from an operating loss of \$5.6 million last year on a 4% increase in revenues. Truckload operating earnings improved in 1986 and should improve still further this year, as we concentrate our efforts on our profitable—but underperforming—carriers. We closed four unprofitable truckload carriers altogether at year-end 1985. IU's less-than-truckload carrier, Thurston Motor Lines, ended 1986 slightly below breakeven on a 3% gain in revenues. That carrier's results included higher gains on sale of surplus terminal properties. Thurston's future profitability is dependent on achieving revenue gains to improve lane density. We are focusing a good deal of management attention on this carrier.

IU's truckload group is the largest in the industry and provides the most extensive geographic coverage. Our truckload operations consist of one motor carrier that we started up 19 years ago and have built into a highly successful \$200-million operation—Ranger Transportation—plus six other motor carriers that we have either acquired or started up much more recently. The two carriers we have operated the longest, Ranger and Gemini Trucking, are both very high performers indeed. Our goal is to continue to bring the newer participants up to the standards of the carriers we have held for a long time.

We are confident we can produce above-average returns and above-average growth in transportation services, just as we have done in distribution and environmental services.

Capital Structure As a result of the restructuring, our balance sheet has also been greatly strengthened. At year-end 1986, the cash exceeded the debt on our balance sheet: our cash balances were about \$107 million, while debt stood at only about \$76 million, or approximately 16% of our invested capital.

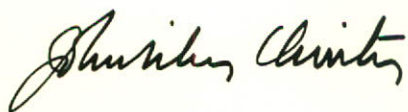
In addition, IU plans to issue \$75 million of 6¼% convertible subordinated debentures, due 2002, in Eurobond markets this month. These funds will be available to meet near-term maturities of our floating-rate preferred stock and floating-rate notes.

IU now has the capital resources to support the accelerated earnings growth and improved returns we look for in the future.

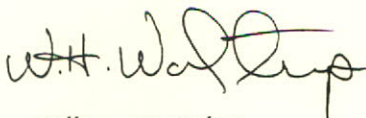
Future Outlook The restructuring has transformed IU from a capital-intensive, commodity-based conglomerate into exactly the simpler, smaller, diversified services company that we have long wanted it to be. But because of the substantial shareholder values that have been created by our asset redeployments during the process, IU has come to be measured by many investors not only in terms of operating earnings growth and returns by which operating companies are conventionally measured, but also in terms of the transaction values themselves, much like an investment portfolio management company. That view of IU, we believe, cannot and will not long survive. The asset orientation of the past has overshadowed the underlying strengths of our long-established, high-return core operating companies, and it is the operating results of those companies on which IU is building its future and on which its success will be measured in the future.

1986 was a year of great achievement for IU. Not only did our operations show their real potential, but we also accomplished the major restructuring steps described herein. The men and women of IU worked very hard at this, and deserve our thanks.

Our key operations today are premier customer-service companies with leadership positions and growth strategies in three major service markets: distribution, environmental and transportation services. We have carefully positioned IU to take advantage of substantially improved growth opportunities for the future, and we anticipate higher returns and stronger earnings in 1987 and beyond.



John Gilray Christy
Chairman



William H. Waltrip
President

March 5, 1987

*Capital structure
greatly strengthened*

*Restructuring steps
have transformed IU*

*Substantially improved
growth opportunities*

Distribution



Roanoke Restaurant Service delivers food products daily to customers in eight states.

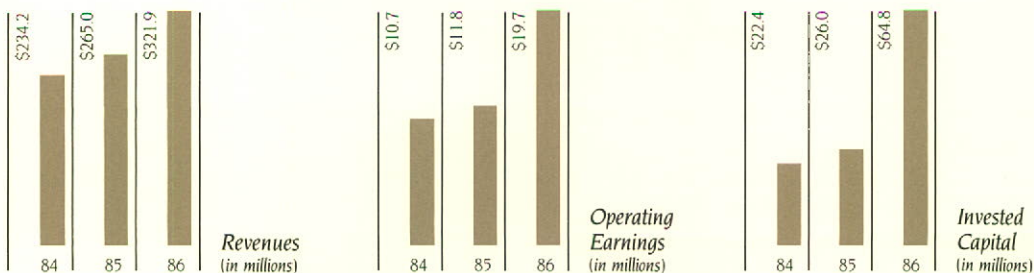
Each of IU's distribution units is a leader in its field. Together, these rapidly growing units make IU one of the largest distribution companies in the United States.

Biggers Brothers is one of the nation's leading institutional food-service suppliers. It provides fresh produce, dry groceries, canned and frozen foods, meats, and table-top service items to restaurants, franchised fast-food operations, hospitals and other institutions in seven southeastern states. With the acquisition of **Roanoke Restaurant Service**, a leading supplier with centralized facilities in Salem, Virginia, IU expanded its food distribution operations into additional territory at the end of 1986.

Customized Transportation provides "just in time" distribution, inventory control, and dedicated contract carrier services to auto manufacturers and other industrial customers nationwide.



Customized Transportation serves leading auto manufacturers with "just in time" inventory and delivery services.





International Mill Service prepares steel slabs at the large integrated steel works of Companhia Siderurgica Paulista in Brazil.

With more than half a century of operating experience in recycling and waste management, IU's environmental services companies are industry leaders.

International Mill Service is the world's premier company providing metal reclamation and slag recycling services to the steel industry. With operations in 15 countries, IMS serves 42 steel mills in North America and 51 in Europe and Latin America.

IMS also provides a variety of related industrial services to customers worldwide. Its Somafer unit, based in France, has a proprietary process for steel surface dressing. McGraw Construction offers mill engineering design and construction services, and Reclaimed Metals recovers metal from aluminum dross. Conversion Systems offers the leading waste management systems for electric utilities' coal-burning powerplants.

Envirosafe Services operates treatment and disposal facilities for hazardous wastes and other industrial residues. An emergency-response division, ACES, cleans up accidental spills and rehabilitates hazardous waste sites.



Envirosafe Services scientists monitor air and water quality for strict conformance to environmental standards.





Gemini is one of IU's fast-growing group of truck-load carriers, the nation's largest such group.

The IU family of motor carriers is one of the nation's largest trucking organizations. It offers the broadest scope of truckload services in the industry.

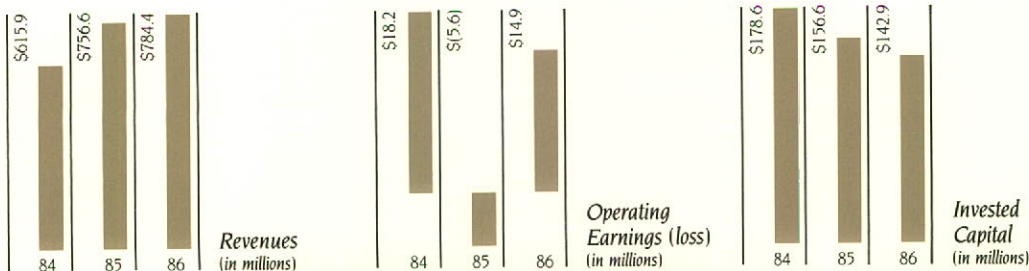
IU's **Truckload Group** is the largest in the country, operating a fleet of more than 10,000 tractor-trailer combinations. They provide reliable, low-cost transportation for full truckloads of general commodities and for freight requiring special equipment, such as flatbed trailers or refrigerated vans.

The IU family includes six truckload carriers—C&H Transportation, Gemini Trucking, Independent Freightway (INWAY), Ligon Nationwide, Poole Truck Line, and Ranger Transportation—and an intermodal truck-rail-truck unit, Ameritrans. The group is well positioned to benefit from the fast-growing truckload segment of the motor carrier market.

Thurston Motor Lines is IU's less-than-truckload general commodities carrier, providing service through 72 freight terminals in 25 states, primarily east of the Mississippi.



Thurston Motor Lines has expanded its fleet with new 28-foot twin trailers.



Results of Operations

This discussion should be read in conjunction with the financial data on pages 18–19 and the Financial Statements and Notes on pages 20–34.

IU's earnings from continuing operations were 76¢ per share in 1986, compared with a loss from continuing operations of 63¢ per share in 1985 and earnings from continuing operations of 22¢ per share in 1984.

Earnings from continuing operations totaled \$21.1 million in 1986, compared with a loss from continuing operations of \$16.5 million in 1985 and earnings from continuing operations of \$6.5 million in 1984. Revenues were \$1.5 billion in 1986, \$1.4 billion in 1985, and \$1.1 billion in 1984.

Distribution Services

In millions	1986	1985	1984
Revenues	\$321.9	\$265.0	\$234.2
Operating earnings	19.7	11.8	10.7
Invested capital	64.8	26.0	22.4

Operating earnings rose 67% on a 21% increase in revenues in 1986 at IU's distribution services group, which includes two leading wholesale suppliers of food products and a major provider of "just in time" inventory delivery and other distribution services to U.S. industry.

Biggers Brothers distributes food products to customers in seven southeastern states through distribution centers in Charlotte, N.C. and Knoxville, Tenn. Roanoke Restaurant Service, acquired in December 1986, serves wholesale food customers in eight states from centralized facilities in Salem, Va. Customized Transportation provides a variety of "just in time" and other distribution services under contractual agreements.

Both Biggers Brothers and Customized Transportation had substantially higher revenues and operating earnings in 1986. At Biggers Brothers, the improved results reflect expanded volume in all major markets. Operating expenses as a percentage of sales decreased, due to effec-

tive cost controls and lower fuel prices. Results in 1985 were reduced by higher discounts associated with a receivable sales program that was curtailed in early 1986. Customized Transportation's growth was the result of new contracts and increased volume on existing contracts, particularly those servicing the automobile industry.

In 1985, both Biggers Brothers and Customized Transportation had improved results over 1984. Revenues increased as both units continued to expand products and services. Operating earnings also benefited from improved margins and cost control efforts.

Environmental Services

In millions	1986	1985	1984
Revenues	\$358.1	\$310.0	\$230.0
Operating earnings	48.4	27.0	30.0
Invested capital	154.3	155.5	125.1

The environmental services group's operating earnings increased 79% on a 16% increase in revenues in 1986.

Envirosafe Services, which provides industrial waste disposal and clean-up services, was solidly profitable, with substantially improved results in 1986 due to higher prices and an increase in the volume of hazardous wastes processed, along with increased revenues for the services of a division specializing in the clean-up of accidental spills and rehabilitation of hazardous-waste sites. In 1985, Envirosafe's operations produced a loss as it grew to profitable scale.

At International Mill Service, which provides metal recovery and slag-handling services to steel mills and other heavy industry worldwide, results were higher than in 1985 because of international operations, which benefited from favorable exchange rates, improvements at operating sites in Latin America and Spain, and higher interest income. Adversely affecting international operations were large severance and



Laurent J. Remillard
Executive Vice President
and Chief Financial Officer

early-retirement costs associated with a 1986 staff-reduction plan at a European subsidiary. Results from IMS' domestic operations improved, reflecting higher volume, which was only partially offset by a strike, since settled, at USX Corp., a major customer. In 1985, domestic results were adversely impacted by a \$3.7 million reserve for steel mill customer bankruptcies. In addition, the environmental services group's results in 1986 reflect a \$3.0 million gain from sale of an electrical utility waste processing facility.

IMS continues to broaden its services, offering mill engineering design and construction services through its McGraw Construction unit, acquired in late 1984, and a variety of related industrial services through its Somafer unit, based in France, acquired at the end of 1984. IMS also reclaims aluminum dross through its Reclaimed Metals unit, and IMS designs, con-

structs and operates waste management systems for the utility industry.

In 1985, IMS' revenue growth was primarily a result of the acquisition of Somafer at year-end 1984. Operating earnings declined in 1985 from 1984, reflecting the previously-mentioned \$3.7 million provision for customer bankruptcies, strike-related steel production interruptions at one of these customers, and a decline in capacity utilization at domestic steel mills. Lower results from domestic metal recovery operations in 1985 were partly offset by improved international earnings, primarily from acquired operations.

Transportation Services

In millions	1986	1985	1984
Revenues	\$784.4	\$756.6	\$615.9
Operating earnings (loss)	14.9	(5.6)	18.2
Invested capital	142.9	156.6	178.6

Revenues of IU's transportation services group rose 4% in 1986. Four unprofitable truckload carriers were closed at the end of 1985; when comparing revenues of units operating in both 1986 and 1985, the group's revenue growth was in excess of 10%. Operating earnings increased by \$20.5 million, from an operating loss of \$5.6 million in 1985 to operating earnings of \$14.9 million in 1986.

IU's less-than-truckload carrier, Thurston Motor Lines, was unprofitable in both 1986 and 1985. Revenues of this unit increased 3% in 1986 compared with the prior year, including higher gains from sales of surplus terminal properties. Thurston closed an unprofitable truckload carrier operation late in 1985. Future profitability for this unit is dependent on achieving revenue gains to improve lane density.

In the truckload carrier group, revenues increased 4% as a result of higher freight volume. Operating earnings improved substantially, primarily reflecting the closing of three unprofitable carriers late in 1985. In the remaining group of

carriers, operating margins improved at several companies, despite sharply higher claim costs. Earnings benefited from lower fuel costs, stronger cost controls, more favorable winter weather conditions, and a gain from settlement of a pension liability from an overfunded pension plan, partly offset by lower gains on disposal of revenue equipment and temporary increases in overhead costs incurred in connection with the installation of a new data processing system. Only one truckload carrier, C&H Transportation, was unprofitable, reflecting the decline in economic activity in the Southwest, its major marketing area.

The revenue increase in 1985 over 1984 came from acquired carriers and internal growth within the truckload group of companies. Revenues from three carriers acquired in 1984—Thurston Motor Lines, C&H Transportation and Poole Truck Line—were included for a full 12 months in 1985 but only from the acquisition dates in the prior year. The operating loss of \$5.6 million in 1985 was attributable to four unprofitable truckload carriers, which were closed in December 1985. In addition, Thurston experienced losses due to intense rate competition and higher fixed costs.

Other

In millions	1986	1985	1984
Revenues	\$28.2	\$35.8	\$51.6
Operating earnings	22.3	15.3	28.8

This group's lower revenues and higher operating earnings reflect gains from the sale of real estate and leases relating to trucking terminals under long-term lease to a former subsidiary, P-I-E Nationwide; a gain from the sale of telephone answering and paging operations in Canada; and rental income from the truck terminals leased to P-I-E. The gains were partly offset by a write-off of an investment in a container

ship, a reserve on a long-term note receivable, and lower interest income.

In 1985, the group's lower revenues and operating earnings reflect the non-recurrence of 1984 gains from sale of surplus land and the sale of a gold royalty interest.

Financing and Corporate Expenses

Corporate expenses for 1986 decreased in comparison with 1985 due primarily to lower compensation costs resulting from a corporate headquarters staff reduction in late 1985. In 1985, corporate expenses increased, reflecting the cost of an early retirement program and severance costs related to the staff reduction, offset by a decrease in outside services fees.

In 1986, the significant decline in total financing expenses reflects lower average borrowing levels and lower average interest rates. Interest expense in 1986 does not fully reflect the year-over-year decline in debt, as substantial debt reduction occurred in December 1986 upon the sale of IU's agribusiness unit, C. Brewer and Co., Ltd., and certain real estate. In 1985, the decrease in total financing expenses reflects lower average interest rates, offset in part by higher average borrowing levels.

Minority interest reflects the decline in the average floating dividend rate on a finance subsidiary's preferred stock (4.9% in 1986, 5.6% in 1985 and 6.7% in 1984) and, in 1986, the mandatory redemption in September of 20% of this preferred stock issue (see Note 15 on page 30).

Income Taxes

The 1986 provision for income taxes on continuing operations of \$32.6 million was unusually high as a percentage of pre-tax earnings because the recognition of benefits of tax-loss carryforwards (recorded as an extraordinary item) prevented the recognition of tax credits. The tax

provision is comprised of \$17.6 million of United States federal taxes, \$4.0 million of state and local taxes, and \$11.0 million of foreign taxes. The United States federal taxes are offset by recognition of the benefit of tax loss carryforwards reported as an extraordinary item in financial results for 1986.

In 1985, a tax provision of \$4.0 million was charged to continuing operations, despite a pre-tax loss, because of IU's inability to recognize United States federal tax benefits on consolidated losses. Such tax benefits were recorded in 1986 as an extraordinary item to offset 1986 federal income taxes applicable to United States operations. In 1985, the tax provision was comprised of state and local taxes and foreign taxes. The tax provision applicable to continuing operations was reduced by approximately \$11.3 million in 1985 as a result of adjustments of prior-year tax accruals, including related interest, based on agreement with the United States Internal Revenue Service on major tax issues relating to prior years.

*Discontinued Operations**

In millions	1986	1985	1984
Earnings (loss) from discontinued operations	\$12.6	\$ (89.7)	\$1.4
Gain (loss) on dispositions	12.8	(67.3)	—
	\$25.4	\$(157.0)	\$1.4

*Also see Note 5 on page 24.

During 1986, IU divested two major operations, essentially completing the restructuring program launched in the late 1970s with the objective of transforming IU into a premier diversified services company. IU sold its paper distribution unit, Unijax Inc., in May 1986 and its agribusiness unit, C. Brewer, in December 1986.

Earnings from operations of C. Brewer were significantly higher for the 1986 period due to a

\$9.9 million net gain from the sale of macadamia orchards to a publicly traded limited partnership in June 1986. Excluding this gain, operating earnings decreased, primarily reflecting lower sugar returns and lower earnings from chemical distribution operations. Operations of the insurance unit were profitable in 1986; this operation had a loss in 1985, due in large part to increased claim reserves. C. Brewer's results were lower in 1985 than 1984, reflecting reduced returns from sugar and cardamom sales, fewer acres of land sold, and higher losses at the insurance unit.

Results of paper distribution operations for the four months of 1986 were essentially break-even, compared with significant full-year earnings in 1985 and 1984. Also, 1985 included a gain on sale of a Midwest branch operation.

In 1985, IU divested its interest in two other operating units. IU sold its remaining 50% interest in General Waterworks Corp., a water services unit, in July 1985 and sold Ryder/P-I-E Nationwide, Inc. (which was subsequently renamed P-I-E Nationwide) at year-end 1985.

The 1985 loss from discontinued operations included a loss of \$101.2 million from the divested trucking unit's operations during the months it was owned by IU, compared with a net loss of \$24.4 million in 1984. P-I-E's revenues decreased substantially after a 1984 marketing restructuring that reduced tonnage hauled and caused severe under-utilization of the overall network. In addition, charges related to workers' compensation and other claims, vacation pay, bad debts and adverse settlements of disputed freight bills were disproportionately high relative to revenues, and previously-deferred 1983-84 merger expenses were also written off in 1985. IU's divestment of P-I-E at year-end 1985 resulted in a loss of \$97.4 million. No tax benefits were recorded on the transaction (see Note 8 on page 27).

Corporate Restructuring

Beginning in the late 1970s, IU undertook a series of restructuring actions designed to transform the company from a capital-intensive and commodity-based conglomerate with major investments in utilities, ocean shipping, and manufacturing to a much simpler and better-focused diversified services company. That restructuring, which has redeployed IU's capital, strengthened its balance sheet and created shareholder value, was essentially completed in 1986.

IU divested its Canadian telephone answering and paging business in January 1986, its paper distribution unit in May, and its agribusiness operation in December. IU also sold the real estate and leases related to 88 trucking terminals under long-term lease to a former subsidiary, P-I-E Nationwide, in December, and agreed to sell to the same purchaser the real estate and leases related to 29 additional terminals leased to P-I-E. Proceeds from the planned sale of remaining truck terminal properties, expected in the first half of 1987, are expected to be approximately \$20 million in cash.

Financial Condition

The restructuring improved IU's financial condition significantly during 1986. Debt declined by \$163.6 million during the year, from \$239.1 million at December 31, 1985 to \$75.5 million at December 31, 1986. Debt as a percentage of invested capital was also sharply reduced, from 41% at year-end 1985 to 16% at year-end 1986. In addition, a program of selling the accounts receivable of the distribution group was termi-

nated. During the same period, common equity increased by \$84.4 million, from 27% of invested capital to 50% of invested capital.

In millions, December 31,	1986		1985	
Total debt	\$ 75.5	15.5%	\$239.1	40.9%
Obligation secured by pledge of redeemable preferred stock	85.0	17.5	85.0	14.5
Minority interest	80.8	16.6	100.6	17.2
Common and other shareholders' equity	244.9	50.4	160.5	27.4
	\$486.2	100.0%	\$585.2	100.0%

Future results from continuing operations will reflect the reduction of interest expense as a result of the company's restructuring.

IU has significant liquidity, with cash and temporary cash investments totaling about \$107 million and unutilized credit facilities totaling approximately \$114 million. In March 1987, plans were announced for a \$75 million convertible subordinated debt issue at attractive rates. The proceeds of this issue would be used for capital spending and working capital needs and to refinance some upcoming debt and preferred share maturities into significantly longer terms.

Capital Expenditures

(excluding acquisitions)*

In millions	1986	1985	1984
Distribution services	\$ 4.4	\$ 3.5	\$ 8.6
Environmental services	32.9	35.1	30.5
Transportation services	14.9	11.9	37.0
Other	.1	2.8	8.9
	\$52.3	\$53.3	\$85.0

*Also see Note 18 on page 32.

IU's planned capital expenditures in 1987 will total about \$75 million.

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Sources of Revenues and Earnings

In millions, except per share data		1986		1985*		1984*		1983*		1982*	
	Revenues	Operating earnings	Revenues	Operating earnings	Revenues	Operating earnings	Revenues	Operating earnings	Revenues	Operating earnings	
Contributions by major market:											
Distribution services	\$ 321.9	\$19.7	\$ 265.0	\$ 11.8	\$ 234.2	\$ 10.7	\$201.5	\$ 8.7	\$167.8	\$ 8.9	
Environmental services	358.1	48.4	310.0	27.0	230.0	30.0	191.9	25.0	199.1	21.3	
Transportation services	784.4	14.9	756.6	(5.6)	615.9	18.2	306.3	8.7	174.3	3.8	
Other	28.2	22.3	35.8	15.3	51.6	28.8	28.8	9.8	85.7	17.5	
Total revenues	\$1,492.6		\$1,367.4		\$1,131.7		\$728.5		\$626.9		
Operating earnings		105.3		48.5		87.7		52.2		51.5	
Corporate expenses		(13.8)		(16.8)		(16.4)		(16.2)		(13.3)	
Financing expense:											
Interest and debt expense		(26.3)		(30.5)		(36.4)		(20.7)		(32.9)	
Interest on obligation secured by pledge of redeemable preferred stock		(6.8)		(8.0)		(4.5)		—		—	
Total financing expense		(33.1)		(38.5)		(40.9)		(20.7)		(32.9)	
Earnings (loss) from continuing operations before income taxes and minority interest		58.4		(6.8)		30.4		15.3		5.3	
Income tax recovery (expense)		(32.6)		(4.0)		(17.1)		(7.7)		3.7	
Minority interest		(4.7)		(5.7)		(6.8)		(6.4)		(8.7)	
Earnings (loss) from continuing operations		\$21.1		\$ (16.5)		\$ 6.5		\$ 1.2		\$ 3	
Primary earnings (loss) per share from continuing operations		\$.76		\$ (.63)		\$.22		\$.01		\$ (.05)	

* Restated to segregate discontinued agribusiness and paper distribution operations. Foreign currency adjustments have been reclassified and allocated to the applicable major markets.

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lected Financial Data

In millions, except per share data	1986	1985*	1984*	1983*	1982*
Revenues and other income	\$1,492.6	\$1,367.4	\$1,131.7	\$728.5	\$626.9
Earnings (loss) from continuing operations	\$ 21.1	\$ (16.5)	\$ 6.5	\$ 1.2	\$.3
Earnings (loss) per share from continuing operations:					
Primary	\$.76	\$ (.63)	\$.22	\$.01	\$ (.05)
Assuming full dilution†	.76	—	.22	.03	(.01)
<hr/>					
Assets—continuing operations	\$ 792.7	\$ 673.0	\$ 564.3	\$363.2	\$384.0
Investments in discontinued operations:					
Agribusiness operations	29.2	171.3	160.3	170.9	173.4
Paper distribution operations	—	26.0	21.4	23.8	44.9
Trucking subsidiary	—	—	262.9	165.6	144.1
Water services operations	—	—	38.6	37.0	35.9
Mining operations	—	—	—	—	35.2
	29.2	197.3	483.2	397.3	433.5
Total assets	\$ 821.9	\$ 870.3	\$1,047.5	\$760.5	\$817.5
<hr/>					
Invested capital:					
Total debt	\$ 75.5	\$ 239.1	\$ 292.8	\$153.6	\$252.1
Obligation secured by pledge of redeemable preferred stock	85.0	85.0	85.0	—	—
Minority interest in subsidiaries	80.8	100.6	100.5	100.4	102.0
Common and other shareholders' equity	244.9	160.5	355.2	383.1	336.2
Total	\$ 486.2	\$ 585.2	\$ 833.5	\$637.1	\$690.3
<hr/>					
Capital expenditures	\$ 55.2	\$ 53.3	\$ 188.9	\$ 47.2	\$ 35.1
<hr/>					
Cash dividends per common share‡	\$.60	\$.90	\$ 1.175	\$ 1.15	\$1.125
Shareholders' equity per share§	\$ 8.64	\$ 5.59	\$ 12.82	\$13.88	\$13.92
Year-end closing price of Common Stock	14¾	14½	16¾	23½	16¾
Average common and common equivalent shares	27.3	27.1	27.2	25.2	22.2

*Restated to segregate discontinued agribusiness and paper distribution operations (see Note 5 on page 24).

†Not reported for 1985 due to anti-dilutive effect of potential stock option exercise.

‡Shareholders of record on November 21, 1983 received one share of Echo Bay Mines Ltd. for each share of Common Stock held.

§Based on Common Stock and, at year-end 1982, Special Stock, Series A.

F inancial Statements

Consolidated Statements of Operations

In thousands, except per share data, for the years ended December 31,	1986	1985*	1984*
Revenues and other income:			
Product sales	\$ 610,228	\$ 525,429	\$ 432,569
Service revenues	845,163	821,582	668,086
Other income	37,177	20,359	30,998
	1,492,568	1,367,370	1,131,653
Costs and expenses:			
Cost of products sold, excluding depreciation and amortization	494,774	422,620	323,930
Other operating costs and expenses, excluding depreciation and amortization	707,584	697,239	567,038
Selling, general and administrative expenses, excluding depreciation and amortization	140,944	159,957	121,666
Depreciation and amortization	57,749	55,822	47,734
Financing expense:			
Interest and debt expense	26,257	30,538	36,375
Interest on obligation secured by pledge of redeemable preferred stock	6,828	7,958	4,485
Total financing expense	33,085	38,496	40,860
	1,434,136	1,374,134	1,101,228
Earnings (loss) from continuing operations before income taxes and minority interest	58,432	(6,764)	30,425
Income taxes	32,638	4,048	17,110
Minority interest	4,679	5,665	6,800
Earnings (loss) from continuing operations	21,115	(16,477)	6,515
Discontinued operations:			
Earnings (loss) from operations	12,570	(89,797)	1,385
Gain (loss) on dispositions	12,828	(67,257)	—
	25,398	(157,054)	1,385
Earnings (loss) before extraordinary item and cumulative effect of accounting change	46,513	(173,531)	7,900
Extraordinary item	40,054	—	—
Cumulative effect of accounting change	1,787	—	—
Net earnings (loss)	\$ 88,354	\$ (173,531)	\$ 7,900
Earnings (loss) per share:			
Primary:			
Continuing operations	\$.76	\$ (.63)	\$.22
Discontinued operations	.93	(5.80)	.05
Extraordinary item	1.47	—	—
Cumulative effect of accounting change	.06	—	—
	\$ 3.22	\$ (6.43)	\$.27
Assuming full dilution:			
Continuing operations	\$.76	\$ —	\$.22
Discontinued operations	.93	—	.05
Extraordinary item	1.47	—	—
Cumulative effect of accounting change	.06	—	—
	\$ 3.22	\$ —	\$.27

*Restated to segregate discontinued agribusiness and paper distribution operations. See accompanying Notes to Financial Statements.

Consolidated Balance Sheets

In thousands, December 31,	1986	1985*
Assets		
Current assets:		
Cash and temporary cash investments	\$106,647	\$ 23,480
Accounts receivable, less allowance (1986—\$13,751; 1985—\$12,472)	196,117	181,972
Notes receivable	26,574	9,238
Inventories	26,414	22,390
Future income tax benefit	18,463	8,226
Prepaid expenses and other current assets	17,580	15,021
Total current assets	391,795	260,327
Investments in discontinued operations	29,218	197,320
Long-term receivables and investments	105,820	73,468
Property, plant and equipment	518,265	538,743
Less accumulated depreciation and amortization	248,184	229,662
Net property, plant and equipment	270,081	309,081
Deferred charges and intangibles, net, and other assets	24,959	30,128
Total assets	\$821,873	\$870,324
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	\$ 10,965	\$ 27,253
Accounts payable—trade	64,269	66,191
Income taxes	102,785	50,516
Current maturities of long-term debt and redeemable preferred stock of subsidiary	52,478	47,330
Accrued compensation	26,470	22,269
Accrued claim costs	25,350	19,270
Other current and accrued liabilities	69,135	79,405
Total current liabilities	351,452	312,234
Long-term debt, excluding current maturities	32,052	184,548
Other liabilities	37,998	32,705
Deferred income taxes	9,684	14,810
Obligation secured by pledge of redeemable preferred stock	85,000	85,000
Total liabilities	516,186	629,297
Minority interest in subsidiaries, including preferred stock (1986—\$60,000; 1985—\$80,000)	60,762	80,574
Common and other shareholders' equity:		
Series Preferred Stock	9,564	9,564
Common Stock, issued: 1986 and 1985—39,837 shares; outstanding: 1986—27,322 shares; 1985—27,110 shares	45,813	45,813
Additional paid-in capital	202,944	203,287
Retained earnings	208,909	137,325
Cumulative translation adjustments	(6,168)	(15,754)
Total common and other shareholders' equity	461,062	380,235
Less shares in treasury, at cost	216,137	219,782
Total common and other shareholders' equity	244,925	160,453
Total liabilities and shareholders' equity	\$821,873	\$870,324

*Restated to segregate discontinued agribusiness and paper distribution operations.
See accompanying Notes to Financial Statements.

Consolidated Statements of Changes in Financial Position

In thousands, for the years ended December 31,	1986	1985*	1984*
Sources of funds:			
Earnings (loss) from continuing operations	\$ 21,115	\$(16,477)	\$ 6,515
Add (deduct) items not requiring (providing) current funds:			
Depreciation and amortization	57,749	55,822	47,734
Gain on disposition of property, plant and equipment	(25,351)	(1,441)	(5,957)
(Gain) loss on investments and other assets	7,993	673	(9,182)
Noncurrent deferred income tax expense (recovery)	(8,408)	2,194	7,157
Other, net	5,487	6,902	927
Provided from continuing operations	58,585	47,673	47,194
Extraordinary item, cumulative effect of accounting change, and discontinued operations providing current funds	38,476	12,242	20,836
Provided from operations	97,061	59,915	68,030
Disposition of investments in discontinued operations	263,861	71,069	—
Disposition of property, plant and equipment	66,598	9,774	13,280
Disposition of other noncurrent assets	35,420	5,740	38,410
Issuance of long-term debt	16,428	32,380	183,841
Increase in other liabilities	7,057	628	8,056
Obligation secured by pledge of redeemable preferred stock	—	—	85,000
Issuance of capital stock, including treasury stock	3,132	1,437	1,184
Total sources	489,557	180,943	397,801
Uses of funds:			
Increase in investments in discontinued operations	64,502	9,021	105,343
Purchase of property, plant and equipment	55,161	53,252	188,929
Acquisition of other noncurrent assets	69,040	7,870	36,113
Reduction of long-term debt	168,516	122,452	55,576
Reduction of other liabilities and minority interest	22,457	27,767	2,336
Acquisition of treasury stock	399	95	449
Dividends on Preferred and Common Stock	16,770	24,772	32,134
Other	462	(890)	(137)
Total uses	397,307	244,339	420,743
Increase (decrease) in working capital	\$ 92,250	\$(63,396)	\$(22,942)

*Restated to segregate discontinued agribusiness and paper distribution operations
See accompanying Notes to Financial Statements

Analysis of Changes in Working Capital

In thousands, for the years ended December 31,	1986	1985*	1984*
Changes in working capital:			
Cash and temporary cash investments	\$ 83,167	\$ 6,882	\$ 2,829
Accounts receivable, less allowance	14,145	41,332	42,117
Notes receivable	17,336	1,221	701
Inventories	4,024	2,749	5,085
Future income tax benefit	10,237	(4,169)	8,789
Prepaid expenses and other current assets	2,559	1,359	5,429
Notes payable	16,288	(25,025)	(1,519)
Accounts payable—trade	1,922	(10,261)	(26,453)
Income taxes	(52,269)	(1,536)	(26,060)
Current maturities of long-term debt and redeemable preferred stock of subsidiary	(5,148)	(30,788)	(10,355)
Accrued compensation	(4,201)	(7,348)	(4,592)
Accrued claim costs	(6,080)	(3,839)	(10,322)
Other current and accrued liabilities	10,270	(33,973)	(8,591)
Increase (decrease) in working capital	\$ 92,250	\$(63,396)	\$(22,942)

* Restated to segregate discontinued agribusiness and paper distribution operations. See accompanying Notes to Financial Statements.

Consolidated Statements of Additional Paid-In Capital

In thousands, for the years ended December 31,	1986	1985	1984
Amount at beginning of year	\$203,287	\$201,027	\$202,528
Exercise of employee stock options	397	171	573
Sale of Common Stock held in treasury	(1,297)	(465)	(663)
Other adjustments relating to a subsidiary	557	2,554	(1,411)
Amount at end of year	\$202,944	\$203,287	\$201,027

See accompanying Notes to Financial Statements.

Consolidated Statements of Retained Earnings

In thousands, except per share data, for the years ended December 31,	1986	1985	1984
Amount at beginning of year	\$137,325	\$335,628	\$359,862
Net earnings (loss)	88,354	(173,531)	7,900
Dividends:			
\$5.00 Preferred Stock	(432)	(432)	(432)
Common (per share: 1986—\$.60; 1985—\$.90; 1984—\$1.175)	(16,338)	(24,340)	(31,702)
	(16,770)	(24,772)	(32,134)
Amount at end of year	\$208,909	\$137,325	\$335,628

See accompanying Notes to Financial Statements.

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Note 1: Significant Accounting Policies

Principles of consolidation: The consolidated financial statements include the accounts of the Corporation (IU) and substantially all of its subsidiaries (see Note 13). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain items have been reclassified to conform to current classifications.

Revenue recognition: Trucking subsidiaries providing truckload service recognize revenue upon delivery completion, and an inter-regional trucking subsidiary engaged in less-than-truckload service recognizes revenue on the proportional performance method.

Claim costs: Subsidiaries provide for the estimated cost of uninsured property, casualty, general liability and workers' compensation claims reported and for claims incurred but not reported based upon experience. Subsidiaries retain liability up to \$1,000,000 on individual property, casualty and general liability claims and \$250,000 on workers' compensation claims.

Inventories: Inventories generally are stated at the lower of cost (first-in, first-out) or market.

Property, plant and equipment: Property, plant and equipment are recorded at cost. Depreciation is provided principally on the straight-line basis over the estimated useful lives of the related assets.

Intangibles: Intangibles having a limited life are amortized over their estimated useful lives. The net excess of the cost of investments in subsidiaries over the net assets acquired is being amortized over periods from 10 to 40 years, except that portion relating to acquisitions before October 31, 1970, as long as there is no present indication that such intangibles have a determinable life.

Income taxes: Provision is made for deferred income taxes and future income tax benefits applicable to timing differences between financial statement and taxable income. Investment tax credits are accounted for by the flow-through method.

Certain subsidiaries operate in countries where their earnings are substantially free of taxation or are taxed at rates effectively lower than in the United States. Income taxes have not been provided on that portion of the earnings of such subsidiaries considered to be continuously reinvested outside the United States.

Earnings per share: Earnings per share, computed after deducting the dividend requirement on preferred stock, are based on the average number of shares of Common Stock outstanding during the period and the dilutive effect of stock options, including stock appreciation rights. Earnings per share assuming full dilution are not presented for 1985 due to anti-dilutive effect of stock options.

Note 2: Cumulative Translation Adjustments

An analysis of cumulative translation adjustments for the years ended December 31, 1986, 1985 and 1984 is as follows.

In thousands	1986	1985	1984
Amount at beginning of year	\$(15,754)	\$(15,446)	\$(12,452)
Translation adjustments and gains (losses) from intercompany balances	2,423	(308)	(3,517)
Income taxes related to translation adjustments	(252)	—	523
Transfers to net earnings due to disposition of foreign operations	7,415	—	—
Amount at end of year	\$ (6,168)	\$(15,754)	\$(15,446)

Note 3: Extraordinary Item

The extraordinary item results from recognition of the tax benefit of loss carryforwards.

Note 4: Change in Accounting Principle

Effective January 1, 1986, the Corporation adopted the new Financial Accounting Standards for pensions. The application of the new pension expense accounting rules increased earnings from continuing operations by approximately \$2,780,000 in 1986, including gains of about \$1,930,000 primarily in the third quarter from settlement of subsidiaries' pension liabilities. The cumulative effect of accounting change reflects the 1986 recognition of \$3,409,000 of gains from terminations of pension plans in 1984; income taxes of \$1,622,000 were recorded with respect to such gains.

Note 5: Discontinued Operations

C. Brewer: In December 1986, the Corporation sold its interest in C. Brewer and Company, Limited (C. Brewer) to a subsidiary of BUYCO, Inc. (Buyco) in a leveraged buyout for cash, notes and other consideration estimated at the sale date at approximately \$190,641,000. The final sale price will be determined based on an audit, and any adjustment will be settled in cash. The consideration was comprised of cash, a \$30,000,000, 13¾% promissory note secured by cer-

tain real estate of C. Brewer's subsidiaries, and 150,000 shares of Buyco's 12½% cumulative convertible preferred stock with a liquidation preference of \$100 per share. Selling expenses are estimated at \$2,145,000. The remaining agribusiness operations, which in June 1986 the Corporation announced plans to sell, are included in the accompanying balance sheet in investments in discontinued operations. The estimated net loss from sales of the agribusiness operations and assets, including C. Brewer, is \$8,827,000 after providing for income taxes of \$10,189,000.

The following is a summary of the agribusiness net assets at December 31, 1986 and 1985, excluding intercompany debt of \$18,788,000 in 1985.

In thousands, December 31,	1986	1985
Current assets	\$ —	\$ 98,457
Net property, plant and equipment	5,637	101,464
Investments in unconsolidated insurance and finance subsidiaries	25,558	24,920
Other investments	—	44,679
Other assets	—	2,974
Current liabilities	(1,486)	(54,292)
Long-term debt	(491)	(8,542)
Other liabilities	—	(38,305)
Net assets	\$29,218	\$171,355

The following summarizes the pre-tax operating results applicable to discontinued agribusiness operations.

In thousands	Six months ended June 30,		Year ended December 31,	
	1986	1985	1985	1984
Revenues and other income	\$104,545	\$192,947	\$208,937	
Costs and expenses	(86,817)	(191,524)	(187,930)	
	\$ 17,728	\$ 1,423	\$ 21,007	

Unijax: In May 1986, the Corporation sold its paper distribution operations to a unit of Alco Standard Corporation and in connection with the sale terminated certain pension plans. The cash proceeds of the sale and the pension plan terminations, less expenses related thereto, were approximately \$106,694,000 and resulted in a net gain of approximately \$21,655,000, after providing for income taxes of \$16,467,000.

The following is a summary of the paper distribution net assets at December 31, 1985, excluding intercompany receivables of \$6,383,000.

In thousands, December 31,	1985
Current assets	\$39,436
Net property, plant and equipment	21,713
Other assets	915
Current liabilities	(26,036)
Long-term debt	(6,950)
Other liabilities	(3,113)
Net assets	\$25,965

The following summarizes the pre-tax operating results applicable to discontinued paper distribution operations.

In thousands	Four months ended May 5,		Year ended December 31,	
	1986	1985	1985	1984
Revenues and other income	\$119,208	\$336,430	\$328,924	
Costs and expenses	(119,079)	(327,745)	(320,664)	
	\$ 129	\$ 8,685	\$ 8,260	

P-I-E Nationwide, Inc.: In December 1985, the Corporation disposed of all of its interest in the capital stock of P-I-E Nationwide, Inc. (P-I-E), formerly Ryder/P-I-E Nationwide, Inc., to RPN Acquisition Corporation (RPN) for cash of \$3,000,000. Expenses related to the sale were approximately \$1,500,000. A loss of \$97,428,000 was realized on this transaction. No tax benefits on this transaction were recorded (see Note 8).

The following summarizes the pre-tax operating results applicable to P-I-E's operations.

In thousands, for the years	1985	1984
Revenues and other income	\$ 680,404	\$ 887,428
Costs and expenses	(771,773)	(930,204)
	\$ (91,369)	\$ (42,776)

Prior to the disposition of P-I-E, the Corporation purchased certain terminal properties from P-I-E, entered into a leaseback agreement with P-I-E (see Note 7) and provided a five-year \$32,000,000 term loan and a two-year \$15,000,000 revolving credit facility which reduced to \$7,500,000 at December 1, 1986. P-I-E used the proceeds to repay indebtedness to IU and its affiliates.

The total purchase price for terminals purchased by the Corporation was based on fair market value as determined by appraisal and was in excess of P-I-E's carrying value of \$42,258,000. In December 1986, the Corporation sold certain of these terminals to a third party (see Note 7), and agreed to sell additional terminals with a carrying value of \$15,911,000 at December 31, 1986 for \$20,272,000. The Corporation is obligated to purchase certain additional terminal properties from P-I-E at fair market value as determined

by appraisal but not to exceed \$11,000,000, and lease such terminals back to P-I-E.

The term loan, which has an outstanding balance of \$24,372,000 at December 31, 1986, bears interest at 12% per annum and is due in 42 equal monthly installments of \$625,606 and a final payment of \$4,605,248. The revolving credit facility, which has an outstanding balance of \$7,500,000 at December 31, 1986, bears interest at prime plus 1%, matures on August 31, 1987 and provides for a commitment fee of ½% on the unused amount of the facility. The term loan and the revolving credit facility are secured by revenue equipment of P-I-E.

In connection with the disposition of P-I-E, the Corporation has agreed to be guarantor of bonds or undertakings made to surety companies and/or states of the United States in connection with P-I-E's existing self-insurance programs for third-party bodily injury, property damage, cargo and workers' compensation losses occurring through December 31, 1987, unless earlier released. P-I-E has established a liability for such estimated self-insured claims of approximately \$52,000,000 at December 31, 1986. The Corporation also continues to be guarantor until December 31, 1987 under existing leases for a terminal property (quarterly rental of \$55,578 through October 2000) and certain data processing equipment (annual rental of \$138,096 through June 1988). A fee of \$50,000 per month is paid by P-I-E in consideration for the Corporation's guarantee. RPN has agreed to cause the Corporation to be unconditionally released and indemnified by a corporate surety from any such bonds or undertakings and leases by December 31, 1987. As security for such undertakings, RPN has agreed to cause P-I-E to grant to the Corporation a security interest in all of its revenue equipment, which security interest shall be *pari passu* with the existing first lien security interest in favor of the Corporation in connection with the secured term loan and revolving credit facility and subordinates, to the extent another lien has been created, on all other revenue equipment. Management believes its security is adequate.

In order to meet debt obligations (including those owed to the Corporation) and working capital requirements, P-I-E needs additional financing and is in the process of negotiating for such financing with lending institutions. In the interim, the Corporation agreed in March 1987 to lend P-I-E \$5,000,000 secured by P-I-E's accounts receivable, approximately \$63,000,000 at December 27, 1986. Such security will extend to all of P-I-E's secured obligations to the Corporation described above. There is no assurance that P-I-E will be successful in negotiating for financing in sufficient amounts or on a timely basis, in which case P-I-E could default on its obligations to the Corporation and others. If additional financing is provided to P-I-E by lending institutions, the Corporation may subordinate its security interests in P-I-E's revenue equipment and accounts receivable to security interests in favor of such lending institutions.

As a subsidiary, P-I-E was included in the Corporation's consolidated federal tax return through the date of disposition. In 1986, RPN and P-I-E agreed to cause P-I-E to pay for all taxes attributable to P-I-E for periods prior to the disposition, including interest and penalties thereon, to the extent not previously paid by P-I-E.

In the event that P-I-E fails to make contributions to certain multi-employer pension plans or withdraws from such plans, it may be assessed a withdrawal liability estimated as of January 1, 1986 at \$90,471,000. In such event, the respective pension funds may seek to hold the Corporation responsible for the amount of any deficiency in P-I-E's payment of such withdrawal liability. Management is of the opinion that any such claims would not be meritorious and that the Corporation should prevail.

GWC Corporation: In July 1985, the Corporation sold its remaining 50% interest in GWC Corporation (GW) for cash of \$70,000,000. A gain of \$30,171,000 was recorded after a reserve of \$1,616,000 was provided pending future property dispositions by GW's wholly-owned subsidiary, General Waterworks Corporation. Income taxes applicable to the sale of \$8,777,000 were offset by tax benefits (see Note 8).

Equity in net earnings of GW was \$3,797,000 and \$7,976,000 in 1985 and 1984, respectively. Income taxes on dividends received from GW amounted to \$489,000 in 1984.

Note 6: Acquisitions and Dispositions

In 1986, subsidiaries acquired a distributor of food and food products and a small environmental services operation for cash, notes and other consideration totaling approximately \$20,250,000. The investment in the food distributor is being carried at cost and will be consolidated as of January 1, 1987, upon completion of an appraisal of the assets acquired and liabilities assumed. On a pro forma basis, the operations acquired would not have been significant.

In 1984, subsidiaries acquired the stock of two truckload motor carriers, Poole Truck Line, Inc. (February) and C&H Transportation Co., Inc. (May), an inter-regional less-than-truckload carrier, Thurston Motor Lines, Inc. (May) and certain other small companies in purchase transactions for cash and notes amounting to an aggregate consideration of approximately \$104,904,000. The financial statements include the results of operations of these companies from their respective dates of purchase. The unallocated purchase cost of \$4,644,000 is being amortized on a straight-line basis over 40 years. The following unaudited pro forma results of operations for the year ended December 31, 1984 give effect to these 1984 acquisitions as though they had occurred on January 1, 1984 and include adjustments, primarily for imputed interest charges attributable to the financing of the purchase and amortization of goodwill. The

pro forma results are not necessarily indicative of results of operations which would have occurred had the purchases been made on January 1, 1984.

In thousands, except per share data (unaudited)	1984
Revenues	\$1,247,707
Earnings from continuing operations	5,363
Net earnings	6,748
Primary earnings per share:	
Continuing operations	.18
Net earnings	.23

In addition, on December 31, 1984 a subsidiary acquired rights to all of the outstanding stock of Somafer, S.A., an environmental services company, for cash and notes amounting to an aggregate consideration of approximately \$6,468,000. This subsidiary was consolidated as of January 1, 1985. On a pro forma basis, Somafer results would not have been significant to 1984.

During the three years ended December 31, 1986, in addition to the dispositions of C. Brewer, Unijax, P-I-E and GW, the Corporation sold its telephone answering and paging operations in Canada as of January 1, 1986, and during 1985 the Corporation closed four unprofitable truckload carrier operations and disposed of another small company. The contribution to revenues and net earnings, excluding gains and losses on disposition, of such companies for the years ended December 31, 1985 and 1984 was as follows.

In thousands	1985	1984
Revenues	\$69,593	\$87,389
Net earnings (loss)	(17,734)	1,858

Note 7: Other Income

Significant items included in other income are as follows.

In thousands	1986	1985	1984
Interest and dividends	\$10,791	\$16,636	\$23,496
Rental income	9,783	2,592	—
Gains on dispositions of investments, and certain other assets	15,498	52	4,058

Interest and dividends includes \$4,205,000, \$10,618,000, and \$14,844,000 in 1986, 1985 and 1984, respectively, charged on indebtedness due from P-I-E and \$607,000 in 1985 charged on indebtedness due from C. Brewer (see Note 5).

During the three years ended December 31, 1986, the Corporation disposed of several subsidiaries, land, trucking terminals and certain other assets at gains of \$27,308,000 in

1986, \$52,000 in 1985 and \$4,058,000 in 1984. Income taxes of \$12,300,000 and \$(56,000) were recognized in 1986 and 1984, respectively, related to these dispositions. In addition, reserves of \$11,810,000 and tax benefits of \$5,541,000 were provided in 1986 for anticipated losses on an investment in a container ship and a long-term note receivable. Included in the 1984 gains on dispositions of investments, and certain other assets is a gain from the sale to Echo Bay Mines Ltd., a former subsidiary, of a royalty interest in Echo Bay's Lupin gold mine for consideration of \$4,300,000. The royalty interest was acquired in 1982 in exchange for financing a Canadian \$2,500,000 exploration program.

In addition, in 1984 other income includes a gain of \$1,204,000 from extinguishment of debt; income taxes of \$593,000 were provided.

Note 8: Income Taxes

The total tax provision is comprised as follows.

In thousands	1986	1985	1984
Continuing operations	\$32,638	\$ 4,048	\$17,110
Discontinued operations	31,943	12,426	(6,918)
Extraordinary item	(40,054)	—	—
Cumulative effect of accounting change	1,622	—	—
	\$26,149	\$16,474	\$10,192

In 1985, the Corporation's United States operations produced an operating loss, and the divestment of P-I-E, GW and other assets resulted in a net capital loss. The net United States federal tax benefit applicable to such losses was not recorded because of uncertainty of realizing these benefits. The total tax provision in 1985 primarily reflects foreign taxes on continuing operations, state and local taxes and adjustments of prior years' federal tax accruals including interest. In 1986, United States federal taxes on domestic operations and dividends received from foreign subsidiaries are offset by recognition of the tax benefit of these loss carryforwards; such benefit is reported as an extraordinary item.

The tax provision (recovery) applicable to discontinued operations differed from the United States federal income tax rate in 1986 primarily because of tax basis adjustments and state taxes, offset by capital gains rates; and in 1984 primarily because of state taxes, offset by capital gains rates, investment tax credits and dividend and income exclusions.

The components of the consolidated provision for income taxes applicable to continuing operations for the three years ended December 31, 1986 are as follows.

In thousands	1986	1985	1984
Current:			
Federal	\$25,173	\$(11,445)	\$18,963
State and local	4,561	1,948	3,498
Non-United States	10,353	11,498	8,943
Investment tax credits	21	210	(5,534)
	40,108	2,211	25,870
Deferred:			
Federal	(7,589)	—	(13,676)
State and local	(562)	367	(1,718)
Non-United States	681	1,470	242
Investment tax credits	—	—	6,392
	(7,470)	1,837	(8,760)
	\$32,638	\$ 4,048	\$17,110

The foreign components of pre-tax results from continuing operations were \$30,762,000, \$31,292,000 and \$25,664,000 in 1986, 1985 and 1984, respectively.

At December 31, 1986, the Corporation had not provided income taxes, net of available foreign tax credits, on \$48,200,000 of undistributed earnings of non-United States subsidiaries.

The sources of the differences between consolidated earnings (loss) from continuing operations for financial statement purposes and tax purposes and the tax effects are as follows.

In thousands	1986	1985	1984
Excess of tax over book (book over tax) depreciation and amortization	\$ (1270)	\$1,027	\$ 1,875
Investment tax credit	—	—	6,392
Loss (earnings) on long-term contracts	190	298	(8,947)
Provision for loss on investments and other assets	(5,477)	(193)	(3,451)
Provision for claim costs and other unallowed reserves	(454)	(44)	(2,818)
Deferred compensation and pension	(1,937)	17	(273)
Excess of book over tax revenues	100	29	788
Other*	378	703	(2,326)
	\$(7,470)	\$1,837	\$(8,760)

*Included are items related to interest and state taxes

The consolidated tax provision on earnings (loss) from continuing operations varied from amounts computed by applying the United States federal income tax rate of 46% for the following reasons.

In thousands	1986	1985	1984
Provision (credit) at statutory rate	\$24,726	\$ (5,717)	\$10,868
United States loss with no current tax benefit	—	20,096	—
Foreign source earnings without benefit of foreign tax credits and foreign rates	4,801	(1,504)	1,096
Investment tax credit recapture	21	210	858
State and local income taxes, net of federal tax benefit	2,159	2,315	961
Capital gains rate	(203)	—	(1,305)
Tax basis adjustments	(264)	—	1,694
Adjustment of prior years' accruals including interest	542	(11,277)	1,871
Non-deductible expenses	706	—	906
Other	150	(75)	161
Provision for income taxes	\$32,638	\$ 4,048	\$17,110

At December 31, 1986, for financial reporting purposes the Corporation had operating loss carryforwards of approximately \$7,300,000, and unrecognized investment and foreign tax credits estimated at \$20,000,000.

Note 9: Inventories

Inventories at December 31, 1986 and 1985 are summarized as follows.

In thousands	1986	1985
Merchandise	\$16,604	\$13,916
Supplies and other	9,810	8,474
	\$26,414	\$22,390

Note 10: Long-Term Receivables and Investments

The total carrying values of long-term receivables and investments at December 31, 1986 and 1985 are shown in the following table.

In thousands	1986	1985
Cash investments	\$ 8,370	\$ 6,901
Long-term receivables	64,081	56,370
Unconsolidated subsidiaries and affiliates	23,066	25
Joint ventures	1,639	1,683
Land held for sale or development	—	1,182
Other investments	24,741	12,202
Provision for loss	(16,077)	(4,895)
	\$105,820	\$73,468

Note 11: Property, Plant and Equipment

A summary of property, plant and equipment at December 31, 1986 and 1985 is shown in the following table.

In thousands	1986	1985
Distribution services	\$ 35,849	\$ 32,482
Environmental services	291,147	264,884
Transportation services	153,002	144,600
Other	38,267	96,777
	\$518,265	\$538,743

Trucking terminals purchased from and leased to P-I-E are included in the "Other" segment (see Notes 5 and 7).

Note 12: Debt

Long-term debt at December 31, 1986 and 1985 payable by consolidated subsidiaries is summarized in the following table. Interest rates on all long-term debt outstanding at December 31, 1986 are fixed, after reflecting outstanding interest rate exchange agreements.

In thousands	1986	1985
Secured: Due 1987 to 1998; 3.9% to 15.0% (weighted average interest rate 1986-8.4%; 1985-9.2%)	\$44,097	\$ 32,368
Unsecured: Due 1987 to 1994; 4.9% to 17% (weighted average interest rate 1986-10.0%; 1985-11.2%)	20,433	179,510
	64,530	211,878
Less current maturities	32,478	27,330
	\$32,052	\$184,548

In 1986, a finance subsidiary entered into a three-year revolving credit facility providing up to \$200,000,000. Under the terms of the agreement, the facility was reduced to \$114,000,000 in conjunction with the sales of certain oper-

ations. In addition, the facility decreases by \$12,500,000 on each anniversary date. Loans under the facility bear interest at a floating rate, and a commitment fee of ¾% is due on the unused amount of the commitment. At December 31, 1986, no amount was outstanding under this facility.

At December 31, 1986, debt was secured by property, plant and equipment and other assets with a total carrying value of \$27,000,000 and stock of certain of the Corporation's direct subsidiaries. Sinking fund requirements and installments of long-term debt maturing in the years 1988, 1989, 1990 and 1991 amount to \$18,387,000, \$3,383,000, \$3,129,000 and \$2,051,000, respectively.

Interest rate exchange agreements fix the rate on \$80,000,000 of floating rate debt at 11.83% until 1989 and thereafter through 1992 fix the rate on \$45,000,000 of floating rate debt at 10.91%.

Amortization of debt discount and financing expense for the years 1986, 1985 and 1984 was \$1,112,000, \$496,000 and \$827,000, respectively.

Certain bond indentures and loan agreements which the Corporation has guaranteed require the maintenance of specified ratios of net worth, total capitalization and interest coverage, as therein defined, and limit capital expenditures and the payment of dividends. Under the \$114,000,000 revolving credit facility which limits dividend payments, approximately \$17,500,000 of the Corporation's retained earnings as of December 31, 1986 were free from restriction. In addition, certain subsidiaries are restricted by loan agreements as to the disposition of certain assets or investments, indebtedness, maintenance of working capital, minimum net worth and dividends. At December 31, 1986, net assets of subsidiaries free from restriction significantly exceeded \$17,500,000.

Note 13: Obligation Secured by Pledge of Redeemable Preferred Stock

In 1984, a finance company owned by a Trust beneficially owned by a consolidated subsidiary issued \$85,000,000 of floating rate notes due July 1992, redeemable at the option of the holders in July 1989. Interest on the notes is determined quarterly at a rate ½% over the LIBOR rate. The notes are neither guaranteed by nor an obligation of IU International Corporation. The notes are secured solely by 1,133,334 shares of the Corporation's 1984 Preferred Stock (see Note 14). The accounts of the Trust and its finance subsidiary are included in the Corporation's consolidated financial statements.

Note 14: 1984 Preferred Stock

In 1984, 1,133,334 shares of a series called "1984 Preferred Stock" were authorized and issued to a Trust beneficially owned by a consolidated subsidiary. The 1984 Preferred Stock has a mandatory redemption in July 1992, and the holder has an option to have the stock redeemed in July 1989. The holder of the 1984 Preferred Stock is entitled to cumulative dividends at a quarterly rate equal to LIBOR plus ½%; voting rights in the event of a failure to pay dividends or fulfill the redemption requirements; and upon liquidation or redemption \$100 per share plus accrued and unpaid dividends. The 1984 Preferred Stock is pledged as security for \$85,000,000 of floating rate notes (see Note 13).

Note 15: Common and Other Preferred Stock

The authorized and issued capital stock of the Corporation at December 31, 1986 and 1985 is summarized below.

In thousands, except share data	Shares	Stated or par value
Series Preferred Stock, without par value:		
Authorized: 4,814,708 shares (reserved for issuance of floating rate Preferred Stock—800,000 shares)		
Issued:		
1984 series (see Note 14)		
\$5.00 series (in treasury at both dates—6,943 shares)	93,312	\$ 9,564
Common Stock, \$1.15 par value per share:		
Authorized: 60,000,000 shares (reserved for stock option and stock purchase plans—3,488,385 shares)		
Issued: (in treasury 1986—12,515,764 shares; 1985—12,727,437 shares)	39,837,318	\$45,813

In addition, there are 4,569,961 shares of Series Preference Stock, without par value, authorized, of which at December 31, 1986 there were 273,216 shares reserved for issuance of Series B Junior Participating Preference Stock (Preference Stock). The \$5.00 Preferred Stock entitles the holder to voting rights, cumulative dividends and, upon liquidation or redemption, the stated value plus accrued and unpaid dividends.

During the year ended December 31, 1984, 13,976 shares of Common Stock were issued upon exercise of stock options.

Purchases (sales) of Common Stock held in treasury during the years ended December 31, 1986, 1985 and 1984 are summarized in the following table.

	1986	1985	1984
Shares held at beginning of year	12,727,437	12,822,577	12,870,402
Employee stock ownership and purchase plans	(106,336)	(76,760)	(913)
Employee stock option plans	(128,209)	(23,597)	(72,022)
Purchases at fair market value	22,872	5,217	25,110
Shares held at end of year	12,515,764	12,727,437	12,822,577

In September 1986, the Board of Directors declared a dividend distribution of one preference share purchase right (Right) for each outstanding share of Common Stock of the Corporation. A Right will be attached to each share of Common Stock issued hereafter until the expiration or redemption of the Rights. Each Right entitles the holder to purchase 1/100th of a share of Preference Stock at a price of \$50. The Rights trade with the Common Stock and are not exercisable or transferable apart from the Common Stock until 10 days after a person or group acquires 20% or more of the outstanding Common Stock or announces a tender offer or exchange offer for 30% or more of the outstanding Common Stock. The exercise price and the shares of Preference Stock issuable upon the exercise of the Rights are subject to adjustment in certain circumstances to prevent dilution. In the event the Corporation is involved in a merger or other business combinations, each Right entitles the holder to purchase Common Stock of the surviving company having a market value of twice the exercise price of the Right. The Rights may be redeemed by the Corporation at \$.05 per Right within 20 days after any person or group has acquired 20% or more of the Common Stock. The Rights expire on October 7, 1996.

Preference Stock issuable upon exercise of the Rights will be nonvoting and nonredeemable, and each share will be entitled to an aggregate dividend of 100 times the dividend declared on the Common Stock. In the event of liquidation, the holders of the Preference Stock will receive a preferential liquidation payment equal to the greater of \$100 or 100 times the payment made per Common Share. In the event of merger, consolidation or other transaction in which Common Stock is exchanged, each Preference Share will be entitled to receive 100 times the amount received per Common Share.

At December 31, 1986, a wholly-owned subsidiary had outstanding 800,000 shares (issue price \$80,000,000) of preferred stock. The subsidiary is obliged to redeem a portion of the then-outstanding shares at \$100 per share as follows: 25% in 1987, 33⅓% in 1988, 50% in 1989 and 100% in 1990. The stock has a floating dividend rate, 4.3% for the March 1, 1987 dividend. Under certain conditions, the Corporation

may substitute similar stock of the Corporation or guaranteed subordinated promissory notes for the subsidiary's securities.

Note 16: Stock Options

Nonqualified and incentive stock options granted to certain officers and employees of the Corporation and its subsidiaries were outstanding at December 31, 1986 and 1985 pursuant to stock option plans. Options are exercisable in varying amounts over periods from one to 10 years from the date of grant, at prices equal to the fair market value of the stock at the date of grant. The plans provide for the delivery of shares of the Corporation's Common Stock in payment of the option price upon the exercise of stock options.

The changes in the outstanding options for Common Stock during 1986 and 1985 are shown in the following table.

	1986	1985
Shares under option at beginning of year	996,579	968,370
Granted	244,100	165,400
Exercised	(128,209)	(49,798)
Cancelled or expired	(43,084)	(87,393)
Shares under option at end of year	1,069,386	996,579
Average option price	\$13.52	\$12.93

At December 31, 1986, there were 415,748 shares of Common Stock reserved for future grants under stock option plans.

Certain officers may be granted the right to request settlement of an option in cash; however, such request will be granted under extenuating circumstances at the sole discretion of a committee of nonparticipating directors. At December 31, 1986, cash settlement rights are outstanding in respect to 278,474 stock options. In addition, options exercised in 1985 include 26,201 options elected as stock appreciation rights, all of which were settled in cash.

Under the Employees Stock Purchase Plan, 2,003,251 shares of Common Stock are available for issuance to eligible employees in future offerings.

The Board of Directors authorized the Corporation to make loans to its senior officers for the purpose of exercising outstanding stock options. The unsecured loans are payable over 10 years. In 1985, the aggregate amount available for loans was reduced from \$5,000,000 to \$3,000,000. Loans outstanding under this program at December 31, 1986 and 1985 amounted to \$1,151,000 and \$3,124,000, respectively. Since May 1986, interest is charged, at the option of the borrowers, at the prime rate or at a fixed rate equal to the applicable federal rate published by the Internal Revenue Service.

Note 17: Pension Plans

The Corporation and certain of its subsidiaries have insured or trustee pension plans which cover substantially all United States employees and generally provide for normal retirement at age 65. Annual contributions to these plans are based on an actuarial funding method.

Net pension expense for such defined-benefit plans charged against continuing operations in 1986, excluding gains of approximately \$1,930,000 from settlement of pension liabilities, includes the following.

In thousands	
Service cost	\$ 2,578
Interest cost	3,238
Actual return on assets	(4,719)
Net amortization and deferral	853
Net pension expense	\$ 1,950

Pension expense for 1985 and 1984 was \$4,291,000 and \$2,499,000, respectively, including \$2,049,000 in 1985 associated with an early retirement program.

Assumptions used in determining the actuarial present value of plan benefits reflect a discount rate and an investment rate of return of 8.75%. The assumed rates of salary increase range from 5% to 7%.

The following table sets forth the plans' funded status and the amounts recognized in the Corporation's consolidated balance sheet at December 31, 1986.

In thousands	Assets exceed accumulated benefits	Accumulated benefits exceed assets
Actuarial present value of benefit obligations:		
Vested	\$ 17,975	\$ 3,964
Accumulated	\$ 20,268	\$ 5,914
Projected	\$(25,856)	\$(11,030)
Plan assets at fair value, primarily listed stocks	36,274	2,645
Projected benefit obligation (in excess of) less than plan assets	10,418	(8,385)
Unrecognized net gain	(1,640)	(136)
Unrecognized net transition obligation (asset)	(8,906)	2,454
Pension liability recognized in the accompanying balance sheet	\$ (128)	\$ (6,067)

The Corporation also has subsidiary-sponsored defined-contribution plans which cover substantially all United States employees. Pension expense for such plans totaled \$2,818,000, \$2,737,000 and \$1,672,000 in 1986, 1985 and 1984, respectively.

Contributions of subsidiaries to union-sponsored pension plans charged to continuing operations totaled \$1,687,000 in 1986, \$1,920,000 in 1985 and \$2,166,000 in 1984.

Note 18: Operating Segment Information

IU International Corporation is a diversified services company in three major markets: distribution services, environmental services and transportation services. Distribution services include the supply of institutional food products, primarily in the southeastern United States, and warehousing, inventory management and transportation services to manufacturing companies, primarily in the automobile industry. Environmental companies process slag and reclaimed scrap metal for steel mills, perform industrial cleaning and construction services, and treat and dispose of industrial waste. Transportation services consist of a group of six truckload carriers which operate throughout the United States and parts of Canada and an inter-regional less-than-truckload motor carrier.

The revenues and operating earnings information for 1986, 1985 and 1984 on page 18 are an integral part of these statements and should be read in conjunction with this note.

Identifiable assets of continuing operations as of December 31, 1986, 1985 and 1984 by major market segment are presented in the following table. Corporate assets include temporary cash investments, receivables from P-I-E and C. Brewer, and other investments.

In thousands	1986	1985	1984
Distribution services	\$ 86,196	\$ 42,490	\$ 36,896
Environmental services	247,246	240,768	192,787
Transportation services	218,788	230,121	246,618
Corporate and other	240,425	159,625	87,982
	\$792,655	\$673,004	\$564,283

Capital expenditures (including acquisitions) of continuing operations for 1986 and 1985 by major market segment are as follows.

In thousands	1986	1985
Distribution services	\$ 4,381	\$ 3,537
Environmental services	35,842	35,037
Transportation services	14,885	11,887
Other	53	2,791
	\$55,161	\$53,252

Depreciation and amortization charged against continuing operations for the years 1986, 1985 and 1984 by major market segment are presented in the following table.

In thousands	1986	1985	1984
Distribution services	\$ 3,747	\$ 3,127	\$ 2,632
Environmental services	30,683	26,820	22,477
Transportation services	19,114	20,771	18,543
Corporate and other	4,205	5,104	4,082
	\$57,749	\$55,822	\$47,734

A summary of significant items with respect to continuing operations in major geographic areas is as follows.

In thousands	Revenues	Earnings (loss)	Total assets
1986			
United States	\$1,283,206	\$ 10,270	\$644,287
Europe	156,080	7,791	106,326
Other international	53,282	3,054	42,042
	\$1,492,568	\$ 21,115	\$792,655
1985			
United States	\$1,180,580	\$(24,561)	\$530,137
Europe	123,235	7,354	88,289
Other international	63,555	730	54,578
	\$1,367,370	\$(16,477)	\$673,004
1984			
United States	\$1,026,650	\$ (2,740)	\$468,531
Europe	39,269	3,046	37,355
Other international	65,734	6,209	58,397
	\$1,131,653	\$ 6,515	\$564,283

Finance subsidiaries are included in United States data, and corporate assets are located primarily within the United States. Activities outside the United States are principally worldwide metal recovery operations in Europe and Latin America.

Note 19: Leases

The Corporation and its subsidiaries lease certain facilities and equipment. Total rental expense, including short-term leases and immaterial amounts of contingent rents, charged against continuing operations for the years ended December 31, 1986, 1985 and 1984 was \$38,130,000, \$29,879,000 and \$16,515,000, respectively.

The future minimum lease payments under all non-cancellable leases are shown in the following table.

In thousands	Capital leases	Operating leases
1987	\$2,586	\$26,030
1988	2,468	21,765
1989	1,084	17,422
1990	583	11,396
1991	541	7,068
Thereafter	—	7,869
	7,262	\$91,550
Less amount representing interest (5.3% to 15.0%)	928	
Present value of minimum lease payments	\$6,334	

In addition, trucking subsidiaries use owner-operators' tractors and trailers to provide truckload services for specified commodities under various short-term lease arrangements. Payments made to owner-operators amounted to \$380,246,000, \$372,816,000 and \$339,401,000 for the years ended December 31, 1986, 1985 and 1984, respectively.

Note 20: Commitments and Contingencies

At December 31, 1986, outstanding contractual commitments of subsidiaries for the construction of new plant and the purchase of equipment amounted to \$7,949,000, all of which becomes due for payment in 1987.

The Corporation has received notices of proposed tax adjustments with respect to 1977–1979 (which presently are being protested with the Internal Revenue Service), some of which could result in substantial tax deficiencies and may impact subsequent years. The most significant adjustment involves the deductibility of certain foreign operating losses. The Corporation does not agree with the proposed adjustments, and believes that it has sound arguments in support of its positions. While the final outcome of these matters is not fully determinable at this time, management believes the ultimate liability, if any, will not materially affect the financial position of the Corporation.

In addition, the Corporation has received notices of proposed tax adjustments with respect to 1980 (which are being protested with the Internal Revenue Service). The most significant adjustment proposed is with respect to the exchange of the Corporation's interest in Canadian Utilities Limited, a former subsidiary, for shares of Common Stock of the Corporation. The Corporation has reviewed the transaction with counsel and believes it is fully supported in its position that such exchange was a tax-free distribution, except for an imputed taxable dividend under Section

1248(f) of the Internal Revenue Code. The tax deficiency from such adjustment would be approximately \$70 million plus interest thereon. Counsel has advised the Corporation that it is probable that a court will not uphold the proposed tax adjustment.

Note 21: Incentive Compensation Plans

The Corporation and certain of its subsidiaries have incentive compensation plans for officers and key employees providing for awards based on defined performance measurements. Incentive compensation charged against continuing operations for the years ended December 31, 1986, 1985 and 1984 amounted to \$5,473,000, \$3,785,000 and \$3,603,000, respectively.

Note 22: Quarterly Operating Results (Unaudited)

The following is a summary of the unaudited quarterly operating results for the years ended December 31, 1986 and 1985.

In thousands	Revenues and other income	Cost of products sold, other operating costs and expenses	Earnings (loss) from continuing operations	Net earnings (loss)
For 1986:				
1st quarter	\$ 352,013	\$ 285,450	\$ 1,718	\$ 11,417
2nd quarter	377,803	307,252	3,405	50,311
3rd quarter	375,114	303,729	5,413	9,232
4th quarter	387,638	305,927	10,579	17,394
Full year	\$1,492,568	\$1,202,358	\$ 21,115	\$ 88,354
For 1985:				
1st quarter	\$ 311,662	\$ 258,084	\$ (6,526)	\$ (9,906)
2nd quarter	344,441	278,284	7,396	(33,712)
3rd quarter	344,043	279,225	(6,886)	(7,420)
4th quarter	367,224	304,266	(10,461)	(122,493)
Full year	\$1,367,370	\$1,119,859	\$(16,477)	\$(173,531)

The four quarters of 1986 reflect gains on sales of truck terminal properties amounting to approximately \$1,975,000, \$293,000, \$3,000,000 and \$15,001,000, respectively. In addition, the four quarters include foreign currency gains (losses) of \$(366,000), \$78,000, \$2,461,000 and \$199,000, respectively. The first quarter includes a gain of approximately \$3,246,000 on the sale of the Corporation's telephone answering and paging operations in Canada and the fourth quarter includes a gain of approximately \$2,957,000

from the sale of a waste treatment plant. Reserves of \$1,750,000 and \$10,060,000 were provided in the first and fourth quarters, respectively, for anticipated losses on an investment in a container ship and a long-term note receivable. Also, in the second quarter C. Brewer recorded a net gain of approximately \$9,865,000 from the sale of macadamia nut orchards in a publicly syndicated offering.

During the last three quarters of 1985, trucking subsidiaries recorded additional bad debt allowances of \$1,600,000, \$2,700,000 and \$700,000, respectively, and in addition, in the fourth quarter a charge of approximately \$7,250,000 was recorded for the write-off of assets and costs related to the closedown of four unprofitable truckload carriers. The environmental services group recorded a charge of \$3,700,000 in the first quarter for a customer bankruptcy and \$2,800,000 in the fourth quarter for site closure and remedial costs.

Corporate expenses include a \$2,500,000 charge in the third quarter for costs of an early retirement plan and employee severance costs. Income taxes for the second quarter of 1985 were reduced by approximately \$11,000,000 as a result of an adjustment of prior-year tax accruals and related interest accruals. Also, during the first three quarters of 1985, P-I-E recorded additional charges related to workers' compensation and other claims, vacation pay, bad debts, higher-than-normal settlements of disputed freight bills and the write-off of previously deferred expenses associated with the 1983 and 1984 P-I-E trucking mergers (which had not been offset to date by gains from sales of surplus terminal properties) totaling approximately \$3,800,000, \$8,000,000 and \$17,000,000, respectively, net of gain from sale of the Ryder name to an unaffiliated company.

	Primary earnings (loss) per share		Earnings (loss) per share assuming full dilution	
	Continuing operations	Net	Continuing operations	Net
For 1986:				
1st quarter	\$.06	\$.41	\$.06	\$.41
2nd quarter	.12	1.84	.12	1.84
3rd quarter	.19	.33	.19	.33
4th quarter	.38	.63	.38	.63
Full year	\$.76	\$ 3.22	\$.76	\$ 3.22
For 1985:				
1st quarter	\$(.25)	\$(.37)	\$—	\$—
2nd quarter	.27	(1.25)	.27	(1.25)
3rd quarter	(.26)	(.28)	—	—
4th quarter	(.39)	(4.52)	—	—
Full year	\$(.63)	\$(6.43)	\$—	\$—

Earnings per share assuming full dilution are not presented for certain periods and quarterly earnings per share do not total full year earnings per share due to the anti-dilutive effect of stock options.

Note 23: Subsequent Event

In 1987, the Corporation announced plans to sell \$75,000,000 of 6.25% convertible subordinated debentures due 2002 in Eurobond markets and said it is considering the sale of a minority interest in its environmental services subsidiary, Envirosafe Services, Inc.

Accountants' Report

The Board of Directors and Shareholders
IU International Corporation
Wilmington, Delaware

We have examined the consolidated balance sheets of IU International Corporation (a Maryland Corporation) and subsidiaries as of December 31, 1986 and 1985 and the related consolidated statements of operations, additional paid-in capital, retained earnings, and changes in financial position for each of the years in the three-year period ended December 31, 1986. 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.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of IU

International Corporation and subsidiaries at December 31, 1986 and 1985 and the results of their operations and changes in their financial position for each of the years in the three-year period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change, with which we concur, in the method of accounting for pension costs as described in Note 4 to the financial statements.

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.
1600 Market Street
Philadelphia, Pennsylvania 19103
February 27, 1987

Capital stock summary: More than 35,000 common shareholders own stock in IU, including many of IU's 14,000 employees.

The cash dividends and the high and low prices of the company's common stock based on New York Stock Exchange daily composite transactions are shown in the table below.

	Dividend	High	Low
1986: 4th Quarter	\$.15	15 $\frac{1}{8}$	13
3rd Quarter	.15	15 $\frac{3}{4}$	12
2nd Quarter	.15	17 $\frac{1}{4}$	15
1st Quarter	.15	17 $\frac{7}{8}$	13 $\frac{3}{8}$
1985: 4th Quarter	.15	15 $\frac{1}{8}$	11
3rd Quarter	.15	14 $\frac{3}{8}$	11 $\frac{1}{4}$
2nd Quarter	.30	17 $\frac{7}{8}$	12 $\frac{3}{4}$
1st Quarter	.30	19 $\frac{3}{8}$	16

The company's \$5.00 preferred stock does not trade actively. In 1986, its bid price ranged from a low of \$33 per share to a high of \$35 per share; in 1985, its bid price ranged from \$31 to \$34 per share.

Dividends: IU has paid cash dividends on its common shares every year since the present class of common stock was issued in 1944. The dividend payout is governed by current capital requirements, earnings, and economic outlook. It is impossible to anticipate every future circumstance, but the Board of Directors is sensitive to the shareholders' interests in IU's long-standing record of paying cash dividends.

Dividend payments are made to IU shareholders on the first of March, June, September, and December. To insure timely receipt, dividend checks are mailed prior to the dividend payment dates.

Total dividends paid during 1986 were \$16.8 million. Owners of common stock were paid \$16.4 million, and owners of preferred shares received \$.4 million.

Dividend reinvestment plan: IU's dividend reinvestment plan enables common and preferred shareholders to participate more fully in the growth of the company by reinvesting their quarterly dividends in IU common stock—free of all brokerage and administrative charges.

Shareholders may reinvest a portion of their dividends and receive the balance in cash. New cash investments of up to \$5,000 per quarter also may be made at no additional charge. A brochure describing the program is available from the company's Public Affairs Department, 1500 Walnut Street, Philadelphia, PA 19102, and from the Dividend Reinvestment Service Offices of Morgan Shareholder Services Trust Company, P.O. Box 3506, New York, NY 10008.

Approximately 19% of IU's shareholders participate in the dividend reinvestment plan.

Additional information: IU is committed to keeping investors fully informed of important corporate developments. This annual report is supplemented by other sources of information, including interim reports to shareholders, mailed quarterly, and an annual report to the Securities and Exchange Commission on Form 10-K. All are available, on request, from the Public Affairs Department of IU, 1500 Walnut Street, Philadelphia, PA 19102 (telephone 215 985-6516).

Beneficial shareholders who experience delays in receiving IU financial reports from their brokerage firms are invited to telephone or write directly to the Public Affairs Department for these publications.

Stock exchanges: IU's common stock is listed for trading (symbol: IU) on these exchanges: New York, Philadelphia, Midwest, Pacific, Toronto, Montreal, Vancouver, London, Amsterdam and Tokyo.

Transfer agents and registrars: The transfer agents for IU's common stock are Morgan Guaranty Trust Company of New York and Montreal Trust Company in Montreal and Toronto. The registrars are Morgan Guaranty Trust Company of New York and Central Trust Company in Montreal and Toronto.

Directors and Management



Front row (left to right): Willis S. McLeese (honorary director), Peter L. P. Macdonnell, William M. Weaver, Jr. (honorary director), John D. Nichols.
Middle row: John T. Jackson, John Gilray Christy, William H. Waltrip;
Lewis H. Van Dusen, Jr. (honorary director). Top row: John M. Seabrook;
 Morris R. Brooke, The Earl of Westmorland, Robert F. Calman;
 E. B. Leisenring, Jr.; Ira T. Wender.

Directors

Morris R. Brooke^{1,4}
 Partner,
 Drinker Biddle & Reath
 (law firm)

Robert F. Calman^{3,4}
 Chairman,
 Echo Bay Mines Ltd
 (gold mining company)

John Gilray Christy^{3,4,5}
 Chairman and
 Chief Executive Officer, IU

John T. Jackson^{2,3}
 Retired Vice Chairman, IU

E. B. Leisenring, Jr.^{1,5}
 Chairman and
 Chief Executive Officer,
 Westmoreland Coal Co.
 (coal producing company)

Peter L. P. Macdonnell¹
 Senior Partner,
 Milner & Steer
 (barristers and solicitors)

John D. Nichols¹
 Chairman and
 Chief Executive Officer,
 Illinois Tool Works Inc.
 (specialty-engineered
 products and systems)

John M. Seabrook^{3,5}
 Chairman,
 Gotaas-Larsen Shipping Corp.
 (ocean shipping company)

William H. Waltrip³
 President and
 Chief Operating Officer, IU

Ira T. Wender^{2,3,4}
 Of Counsel,
 Patterson, Belknap, Webb & Tyler
 (law firm)

**The Earl of Westmorland,
 K.C.V.O.²**
 Director,
 Sotheby Holdings, Inc.
 (fine art auctioneers)

¹Audit Committee

²Compensation Committee

³Executive Committee

⁴Finance Committee

⁵Nominating Committee

Officers

John Gilray Christy
 Chairman and
 Chief Executive Officer

William H. Waltrip
 President and
 Chief Operating Officer

Laurent J. Remillard
 Executive Vice President
 and Chief Financial Officer

Robert W. Wolcott, Jr.
 Executive Vice President

John B. Bowron
 Group Vice President,
 Truckload Transportation

W. Allen Doane
 Group Vice President,
 Distribution Group

John A. Murphy
 Senior Vice President

H. Beatty Chadwick
 Vice President,
 General Counsel and
 Secretary

Douglas L. Cox
 Vice President and
 Treasurer

Jack Greenberg
 Vice President, Taxes

John B. Keenan
 Vice President,
 Human Resources

Richard M. Lunsford
 Vice President,
 Public Affairs

Anna Mae Papso
 Vice President and
 Controller

James H. Roberts
 Vice President, Planning
 and Operations Analysis

Principal Operations

Ameritrans Corp.
 Wilbert A. Pinkerton, Jr., President
 Bensalem, Pennsylvania

Biggers Brothers, Inc.
 Howard Biggers, Jr., President
 Charlotte, North Carolina

C&H Transportation Co.
 Lawrence B. Costello, President
 Dallas, Texas

Customized Transportation, Inc.
 William C. Bender, President
 Jacksonville, Florida

Envirosafe Services, Inc.
 C. Edward Ashby, Jr., President
 King of Prussia, Pennsylvania

Gemini Trucking
 James A. Jacobelli, President
 Greensburg, Pennsylvania

Independent Freightway, Inc.
 Jeffrey C. Crowe, President
 Rockford, Illinois

International Mill Service, Inc.
 Jack Bayer, President
 Philadelphia, Pennsylvania

Ligon Nationwide, Inc.
 James B. Shephard, President
 Madisonville, Kentucky

Poole Truck Line, Inc.
 Walter R. Poole, Chairman
 Donald F. Martin, President
 Evergreen, Alabama

Ranger Transportation, Inc.
 R. Patrick Dietsch, President
 Jacksonville, Florida

Roanoke Restaurant Service, Inc.
 John E. Winston, President
 Salem, Virginia

Thurston Motor Lines, Inc.
 Franz F. Holscher, Chairman
 Dwight R. Morrison, President
 Charlotte, North Carolina

IU's Annual Report to the Securities and Exchange Commission on Form 10-K will be available, on request, from the company's Public Affairs Department, 1500 Walnut Street, Philadelphia, Pennsylvania 19102.

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