

*IU International  
Corporation*

*1985 Annual  
Report*



*A Diversified  
Services Company*

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The demands on management's time often extend beyond "normal" workday hours. Shown on the cover are (from left to right): John A. Murphy, IU vice president—corporate development and planning; Jack Bayer, president of IU's International Mill Service; Anna Mae Papso, IU vice president and controller; and W. Allen Doane, IU group vice president—distribution.

# H I G H L I G H T S   O F   T H E   Y E A R

## Restructuring for the Future

IU further restructured its operations in 1985. Unprofitable units were sold or closed, debt was reduced, assets were redeployed, and management was streamlined. IU is a stronger, leaner company with better growth prospects.

The 1985 steps culminated in the divestment of Ryder/P-I-E Nationwide, IU's national general-commodities trucking unit, which had lost more than \$125 million in the past two years, and the closing of four other unprofitable truckload carriers, also at a loss. The divestment and closing losses resulted in a net loss to IU in 1985, but also meant that all of IU's continuing operations were positioned for profitable growth in 1986 and beyond.

**Debt Reduction** IU's restructuring reduced debt by more than \$100 million during the year, including the discontinued operations, and IU's equity has been reduced by the losses associated with the sale and closing of certain trucking operations. At year-end, total debt was less than one-fourth its 1978 peak of \$1.2 billion.

The debt reduction reflects a two-decade evolution in IU's capital structure. The company was a utilities holding company in the sixties, became a conglomerate with such capital-intensive businesses as ocean shipping and utilities in the seventies, and grew into a diversified services company in the eighties.

**Positioned for Growth** Early in 1986, IU reached agreements in principle to sell two additional operations: its paper distributor in the Southeast and its agribusiness unit in Hawaii.

The far-reaching 1985 and early-1986 actions taken to restructure the company have provided IU with substantially greater opportunities for the future.

Today, IU is a diversified services company whose continuing operations include:

- one of the nation's largest trucking groups;
- a world leader in environmental services for steel mills and other heavy industry; and
- a major distributor of food products in the Southeast.

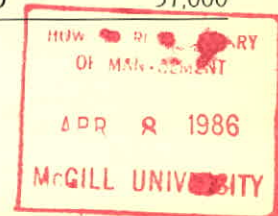
The restructured IU is positioned for stronger earnings and growth.

	1985	1984
Revenues	\$1,896,747,000	\$1,669,514,000*
Earnings (loss) from continuing operations	\$ (8,904,000)	\$ 23,614,000*
Earnings (loss) per share from continuing operations: Primary	\$ (.35)	\$ .85*
Assuming full dilution†	—	.85*
Total debt‡	\$ 262,799,000	\$ 370,937,000
Total employees at year-end	22,000	37,000

\* Restated to segregate a discontinued trucking subsidiary and water services operations.

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

‡ Total external debt, including Ryder/P-I-E Nationwide in 1984, as of December 31.



Results for 1985 reflect a series of major actions taken to restructure IU for profitable future growth. The actions required very large short-term sacrifices, but offered substantial long-term benefits in return.

The restructuring program culminated in the sale or closing of five unprofitable trucking operations, all at a loss, by year-end. This resulted in a net loss to IU for the year 1985. However, it also permanently removed from IU's business mix a large drain on earnings, and it meant that all of IU's remaining operations entered 1986 in a position for profitable growth and solid returns in the year and beyond.

In addition, the restructuring made possible the reduction of IU's debt by more than \$100 million, and it enabled us to focus our financial and managerial resources on businesses offering much better prospects.

**Debt Reduction** IU's debt was reduced by \$108 million during 1985, from the \$371 million we reported at the end of 1984 to \$263 million at the end of 1985, nearly a 30% reduction in one year. The debt at year-end 1984 included the obligations of Ryder/P-I-E Nationwide, which was divested in 1985.



John Gilray Christy  
Chairman

William H. Waltrip  
President

IU's total debt today is less than one-fourth of the \$1.2 billion peak we reported only seven years ago.

**Restructuring** The largest single restructuring step taken during the year was the sale of Ryder/P-I-E Nationwide. This national general-commodities motor carrier had lost more than \$125 million in the past two years. At the end of 1985, its market position had stabilized but it was still losing money at the time of its sale. Its losses are now behind us, and with its sale went more than \$40 million of debt.

Ryder/P-I-E's financial results are reported as part of IU's discontinued operations. Included are a \$97.4 million loss on its sale and a \$101.2 million loss from the carrier's operations prior to its sale at year-end.

We also closed four unprofitable truckload carriers in December, consolidating certain continuing operations with IU's remaining trucking units. Again, their losses are behind us now, and the future will benefit. The \$17.3 million loss from these carriers in 1985 is

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reported in IU's continuing operations, and it offsets earnings from IU's remaining transportation companies. This led to an operating loss of \$4.4 million for continuing transportation operations and a net loss of \$8.9 million from IU's continuing operations in 1985.

Results from discontinued operations include, in addition to the effects of the Ryder/P-I-E divestment, a \$30.2 million gain on sale of IU's remaining 50% interest in General Waterworks earlier in 1985 and the \$3.8 million earnings contribution of General Waterworks prior to its sale. This sale reduced IU's debt by almost \$70 million.

*The combination of an \$8.9 million loss from continuing operations and a \$164.6 million loss from discontinued operations brought IU's net loss in 1985 to \$173.5 million. In 1984, on a restated basis, IU had earnings from continuing operations of \$23.6 million and a loss from discontinued operations of \$15.7 million. Revenues from continuing operations were \$1.9 billion in 1985 and \$1.7 billion in 1984.*

**Further Plans** In early March 1986, we reached agreements in principle to sell one of our two distribution services units, Unijax, to Paper Corp. of America, a subsidiary of Alco Standard Corp., and to sell most of the elements of our agribusiness unit, C. Brewer and Co., to a management group through a leveraged buyout in a separate transaction.

Included in the Brewer transaction are that unit's sugar, macadamia nut, guava, chemical and fertilizer operations, and spice and coffee operations in Central and South America, along with its Hawaiian real estate holdings. Excluded are its 68% interest in Hawaiian Insurance Cos., a property and casualty insurer; a real estate financing subsidiary; and certain other operations.

The portions of Brewer that are being sold accounted for approximately \$195 million in total revenues in 1985. The Unijax operations being sold accounted for about \$340 million in revenues in 1985.

Both transactions are subject to the execution of definitive agreements and approval by the board of directors of IU. The Unijax sale is also subject to approval by the directors of

Alco Standard and filings with the Federal government. With regard to the Brewer transaction, the acquisition will consist of financing by the purchasing group, a proposed public offering of a new macadamia nut land syndication, and a proposed public offering of debt securities, anticipated during the second quarter of 1986.

Terms of the agreements in principle have not been disclosed, but the expected gain on the sales would increase IU's equity base and the proceeds would be used, in part, to further reduce IU's debt.

These two major restructuring transactions will substantially strengthen and restore IU's balance sheet, which was impacted by the operating and divestment losses associated with Ryder/P-I-E.

Upon completion of these transactions, IU will be a smaller but far stronger company, with a solid position in each of its three remaining segments.

We have been very pleased with the performance of Unijax and of our food distribution unit, Biggers Brothers, one of the leading wholesale food

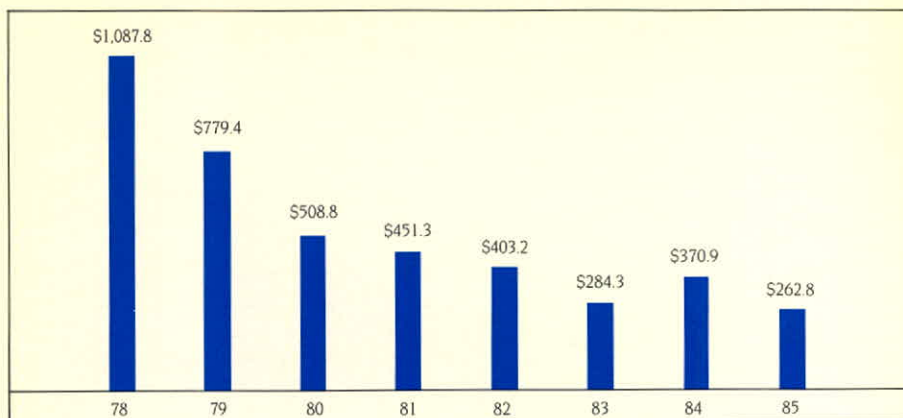
suppliers in its seven-state southeastern region. Following the sale of Unijax, we intend to continue, and to expand, our distribution operations. We see significant opportunities for us in the food distribution business.

All three of our remaining business segments were profitable in 1985, and all entered 1986 poised for good growth. The 1985 financial results are discussed in detail in the Financial Review beginning on page 14. Highlights of IU's major operations in 1985 follow.

#### Transportation Services

Revenues of IU's remaining transportation units in 1985 were \$721.4 million. Subtracting the \$17.3 million of 1985 losses associated with the truckload carriers closed in December, our remaining trucking operations had operating earnings of \$12.9 million in 1985. They should do substantially better in 1986.

Included in the group are Thurston Motor Lines, a general freight carrier of less-than-truckload shipments; Customized Transportation, a contract carrier providing specialized transportation services; and six truckload freight carriers: C&H Transportation, Gemini Trucking, Independent Freightway, Ligon Transportation, Poole Truck Line, and Ranger Inc.



#### REDUCTION OF DEBT

(in millions)

Total external debt, including discontinued operations, as of December 31 of each year

The operations of these fine companies are described in the Transportation section of this report on page 6. Together, they make up one of the nation's largest motor carrier groups, and they can meet any shipper's needs from 300 pounds to 300 truckloads.

#### Environmental Services

Revenues of IU's environmental services group rose sharply in 1985, primarily because of the acquisition of a majority interest in Somafer, S.A. at the end of 1984 and also due to continued growth at other international operations of International Mill Service. IMS provides a variety of metal recovery and slag-handling services to steel mills and other heavy industry worldwide.

The group was solidly profitable. Operating earnings declined only slightly despite a \$3.7 million provision for amounts due from Wheeling-Pittsburgh Steel Corp. and strike-related steel production interruptions at that customer, which is now back in operation. Improved international results partly offset the lower domestic results.

**Distribution Services** Revenues and operating earnings of our distribution group rose again in 1985. Biggers Brothers is a leading wholesale distributor of food and food products in the Southeast, and Unijax is the largest distributor of paper, plastics and related products

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in the region. Both expanded their product lines and market areas served in 1985, increasing their volume while continuing to concentrate on effective cost controls. We expect Biggers Brothers, our continuing distribution business, to benefit from a strong market position in the southeastern U.S. and to share in that region's growth in 1986 and beyond.

**Agribusiness** In 1985, C. Brewer and Co. had lower revenues and operating earnings than in 1984. Two factors were primarily responsible: lower sugar and cardamom prices, and increased claim reserves related to workers' compensation and other lines of insurance at Brewer's 68%-owned insurance subsidiary. The lower operating earnings from these operations were partly offset by higher operating earnings from macadamia nuts and a \$2.3 million insurance recovery on macadamia orchards damaged by severe weather.

Brewer's Mauna Loa® macadamia nuts are the world's best-selling brand, and the company is diversifying its macadamia product line and expanding its marketing capa-

bilities rapidly. A new 10,000-square-foot automated plant was opened in November at Keaau to produce Mauna Loa's own chocolate-covered macadamia nuts, a fast-growing specialty.

Brewer is also providing the guava fruit puree for a new line of guava-based drinks launched in 1985 under the Mauna La'i™ label, in a joint venture with Ocean Spray.

With its substantial land holdings and a variety of agricultural activities, Brewer is well positioned for success as a privately held company.

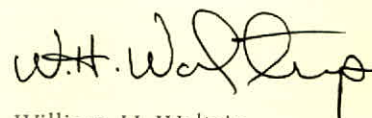
**Dividends** IU's capital structure has evolved from a utility holding company in the sixties, to a conglomerate with asset-heavy units such as ocean shipping in the seventies, and now to a diversified services company in the eighties. Reflecting the major structural changes accomplished in recent years and our losses last year, IU's dividend was halved in mid-1985 to the present level, bringing IU's payout in line with other diversified service companies. The action recognized that the previous, unusually-high payout ratio was a holdover from IU's days as a public utility holding company, and was inappropriate for the company's present configuration.

**The Outlook** We accomplished a great deal during the past year while absorbing very large losses. We have further focused the company, reduced debt, and positioned IU's continuing operations for profitable growth in 1986 and beyond. We are confident of the strategic long-term direction of the company, and we believe IU now is positioned to take advantage of substantially improved growth opportunities for the future.

It is in periods of rapid change such as this that the strength of our organization, the dedication of our employees, and the support of our investors are tested and proven. We are most grateful.



John Gilray Christy  
Chairman



William H. Waltrip  
President

March 7, 1986

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

The group includes a general freight carrier of less-than-truckload ("LTL") shipments, six truckload ("TL") freight carriers, a company offering dedicated and specialized contract services, and an intermodal truck/rail company. All provide reliable service at low cost.

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

Truckload carriers have no need for freight terminal facilities, which are essential for LTL operations, because each tractor-trailer unit carries its full load directly from the shipper to its final destination.

Ranger, Inc. is IU's largest truckload carrier. In addition to flatbed, drop-deck, temperature-control and van freight, it also handles containerized cargo.

C&H Transportation offers van and flatbed services and is the nation's leading "heavy-haul" carrier, specializing in shipments of extreme weight and bulk.

IU's other truckload carriers are Gemini Trucking, Independent Freightway (INWAY), Ligon Transportation, and Poole Truck Line. Poole uses company-owned equipment and company drivers exclusively, while most of the others rely primarily on independent owner-operators' tractors and trailers. C&H uses both types of equipment.

**Thurston Motor Lines** is IU's less-than-truckload general commodities carrier. It provides low-cost LTL and TL service through 76 terminals in 25 states, primarily east of the Mississippi. In 1985, the carrier handled 1.5 million shipments with an average length of haul of about 420 miles.

Thurston has more than 4,000 pieces of highway equipment, including a fleet of 500 "doubles" trailers and 250 forty-eight-foot trailers. With its growing fleet and terminal network, Thurston is expanding its coverage to new markets, including through service to California.

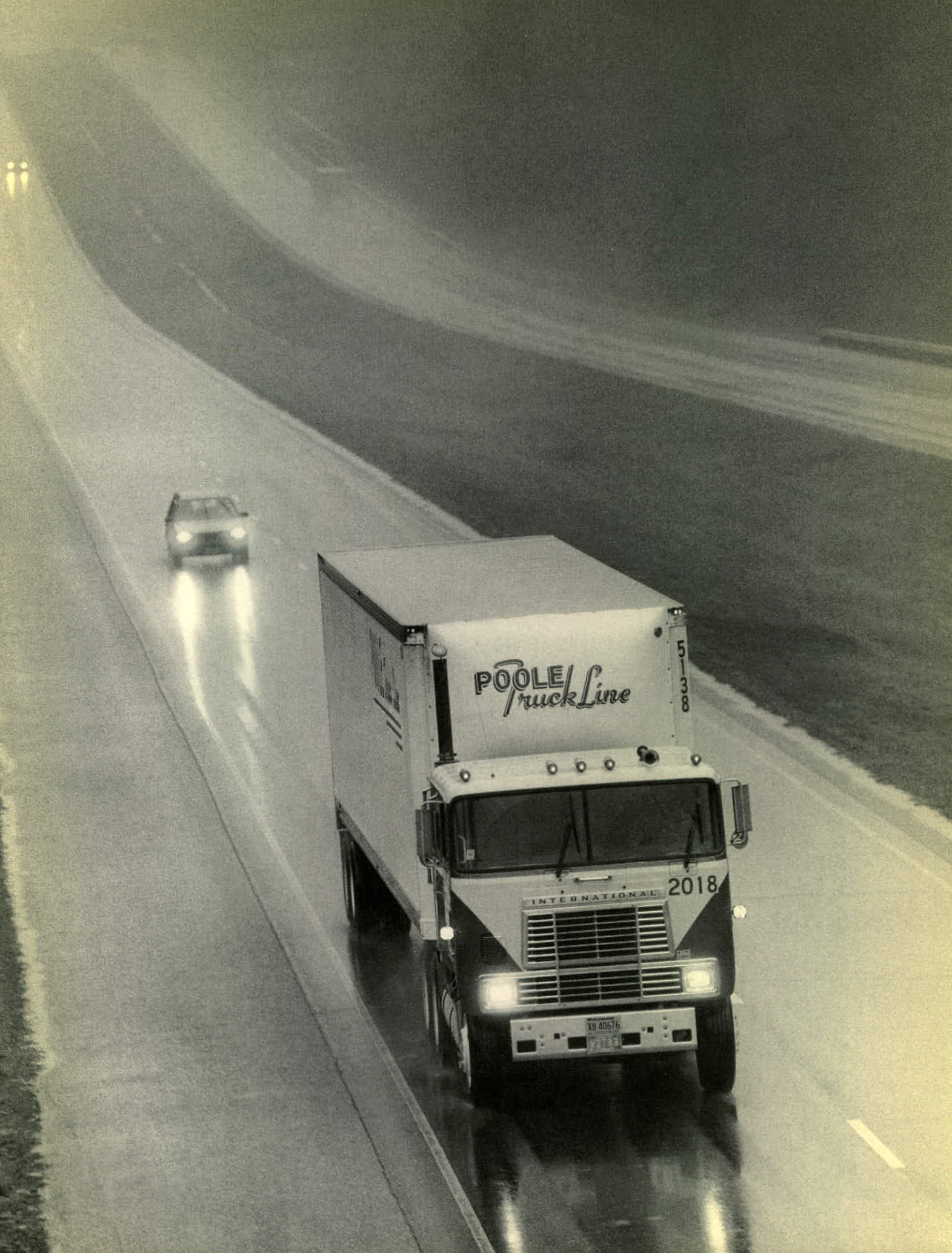
Two additional companies complete the IU family. Customized Transportation is a dedicated contract carrier providing specialized transportation services, including "just in time" inventory management systems, under contract to individual shippers. Ameritrans Corp. offers a full range of intermodal services, including movement of full trailerloads of freight on railcars.



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

Poole Truck Line is one of six fast-growing truckload carriers in the IU family.





POOLE  
*Truck Line*

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INTERNATIONAL 2018

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

**International Mill Service** provides metal recovery and slag processing services for steel mills in the Americas, Europe, and the Middle East. It serves more than 80 mills in 16 countries.

The world's leading steel mill service company, IMS uses specially engineered equipment to remove slag from a mill's furnace area and transport it to an in-plant processing site. There, IMS recovers scrap metal from the slag for recycling in the mill's own furnaces, and the remaining rock-like material is crushed and graded for marketing as road base, railroad ballast and other practical applications.

IMS engineers, installs, owns and operates these systems for handling slag, raw materials and by-products at the mills it services.

The company continues to broaden its services, offering mill engineering design and construction services through its McGraw Construction unit and providing a variety of related industrial services through its Somafer unit, based in France. Through its Reclaimed Metals unit, it also recycles aluminum dross for the recovery and recycling of aluminum at its plant in Arizona.

In England, the Somafer unit of International Mill Service removes surface defects from a huge metal slab by scarfing with its Androfer equipment.

**Conversion Systems** designs, builds and operates waste management systems for electric utilities' coal-burning powerplants. The CSI system converts "scrubber sludge" from flue-gas desulfurization, along with coal ash, into a stable, cement-like material. Conversion Systems has 28 contracts from 21 major utilities for its waste stabilization systems, serving nearly one-third of the U.S. scrubber-equipped electricity-generating capacity.

**Envirosafe Services** operates treatment, storage and disposal facilities for hazardous wastes and other industrial residues, both solid and liquid. It is a technical leader in its field. Its emergency-response division, ACES, specializes in the clean-up of accidental spills and the rehabilitation of hazardous-waste sites.

Conversion Systems' laboratory tests assure safe disposal of customers' utility wastes.



At Envirosafe Services, all incoming hazardous wastes are processed to meet strict environmental standards.

IU's distribution companies supply wholesale quantities of food and paper products in the growing Southeast.

**Biggers Brothers** is IU's food distribution unit. It markets fresh produce, dry groceries, canned and frozen foods, and meats to restaurants, franchised fast-food operations, hospitals and other institutions in seven southeastern states. Some foods are packaged for sale under its own "Howard House" and other private labels.

Biggers Brothers also meets its customers' needs for tableware, glassware and other tabletop service items with a growing non-food product line.

The company is a sales leader in its primary marketing area, ranking among the largest institutional food-service suppliers in the nation. In addition to modern warehouses in Charlotte, North Carolina and Knoxville, Tennessee, it maintains a network of redistribution docks in satellite locations enabling it to serve a large and rapidly growing territory.

Its field sales representatives can meet their customers' needs for instant service by accessing directly into a central computer by telephone to enter orders and schedule deliveries.

**Unijax** is the largest distributor of paper and related products in the Southeast. It operates a network of 38 office and warehouse distribution centers serving 23 states.

Early in March 1986, IU reached an agreement in principle to sell Unijax as part of a major restructuring program. The planned divestment, subject to the execution of a definitive agreement and filings with the Federal government, was expected to be completed during 1986 but had not been consummated as of the time this report went to press.

The unit has two main divisions. Its distribution division markets printing papers and other office supplies, industrial papers and packaging materials, plastic bags, janitorial items, and a wide variety of related products. A number of its products are manufactured to its specifications and sold under proprietary labels.

Unijax's converting division produces a wide variety of envelopes for high-volume customers. It also provides many of the other paper products sold by the distribution division.



Fresh vegetables and fruit are delivered daily to customers of Biggers Brothers in seven states.

Biggers Brothers supplies food products to restaurants, institutions and fast-food systems in the Southeast.





**C. Brewer and Company** is a diversified agribusiness company headquartered in Honolulu. Among its products are sugar, molasses, macadamia nuts, guava, spices and coffee. One of the state's largest landholders, it owns about 96,000 acres of Hawaiian land and controls about 48,000 additional acres under long-term leases.

Early in March 1986, IU reached an agreement in principle to sell Brewer as part of a major restructuring program. The planned divestment, subject to the execution of a definitive agreement, was expected to be completed during 1986 but had not yet been consummated as of the time this report went to press.

Brewer owns or controls about 9,000 acres of macadamia trees on the islands of Hawaii and Maui, including long-term purchase contracts for the macadamia nut production from 1,800 acres of mature orchards. It processes and packages the macadamia nuts at its modern plant at Keaau, Hawaii. Its Mauna Loa® macadamia nuts are the world's best-selling brand.

Mauna Loa macadamia nut products are marketed primarily in the U.S. The company has expanded its product line to include chocolate-covered nuts, honey-roasted nuts, macadamia brittle, glazed nuts, and commercial ice cream and cookie ingredients, all marketed under the Mauna Loa label.

Brewer grows sugar which is marketed by a cooperative under the C and H brand name. Brewer's four

plantations total 44,000 acres on the islands of Hawaii, Maui and Kauai. They are among the most efficient in the Hawaiian sugar industry, producing more than 200,000 tons of raw sugar—about a fifth of Hawaii's annual output—and 55,000 tons of molasses, a principal by-product of sugarcane milling, each year.

The company has been upgrading sugarcane land to higher-value uses in recent years. Brewer converts acreage each year to macadamia trees, funding the expansion by periodically selling orchards to investors while continuing to manage the operations and harvest the nuts under long-term contracts. The company has also subdivided land on Maui and Kauai for residential sale.

On Kauai, Brewer converted about 350 acres into the state's largest guava orchard and built a processing plant to produce puree from the delicious pink fruit. Guava drink is popular in Hawaii and Latin America, and Brewer is providing the guava for a new line of guava-based drinks now being introduced on the U.S. mainland under the Mauna La'i™ label.

Other Brewer businesses in Hawaii include fertilizer and chemical distribution, trucking and terminal services, and a 68% interest in a property and casualty insurance firm. In Central America, it cultivates coffee and spices which are marketed in Europe and the Mideast.

Delicious chocolate-covered macadamia nuts are prepared in a new processing plant at Keaau, Hawaii.



Mauna Loa macadamia nut products are the world's best-selling brand.

Brewer grows guava in a 350-acre orchard at Kilauea on the Hawaiian island of Kauai.

## RESULTS OF OPERATIONS

This discussion should be read in conjunction with the financial data on pages 21–22 and Financial Statements and Notes on pages 23–40.

IU's loss from continuing operations was 35¢ per share in 1985, compared with earnings from continuing operations of 85¢ per share in 1984 and \$1.01 per share in 1983. Earnings per share are calculated using an average of 27.1 million common and common equivalent shares outstanding in 1985, 27.2 million in 1984, and 25.2 million in 1983.

The loss from continuing operations was \$8.9 million in 1985, compared with earnings from continuing operations of \$23.6 million in 1984 and \$26.5 million in 1983. Revenues were \$1.9 billion in 1985, \$1.7 billion in 1984, and \$1.2 billion in 1983.

### TRANSPORTATION SERVICES

In millions	1983	1984	1985
Revenues	\$307.9	\$621.9	\$773.0
Operating earnings (loss)	9.0	18.5	(4.4)
Invested capital	26.2	184.9	193.9

Revenues of IU's continuing transportation operations more than doubled in 1984 and grew an additional 24% in 1985. About \$74.5 million of the total

\$151.1 million in increased 1985 revenues came from Thurston Motor Lines, IU's general freight carrier of less-than-truckload shipments, which was acquired in May 1984. Most of the remaining \$76.6 million in increased 1985 revenues came from IU's truckload carrier group, which includes C&H Transportation, acquired in May 1984, and Poole Truck Line, acquired in February 1984. The acquired companies contributed about \$319 million in revenues and \$3.8 million in operating earnings in 1985, compared with about \$193 million in revenues and \$13.9 million in operating earnings in 1984.

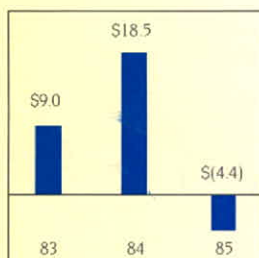
The operating results of Ryder/P-I-E Nationwide, which was sold at year-end, are reviewed under "Discontinued Operations" on pages 19–20.

The 1985 operating loss of \$4.4 million from IU's continuing transportation operations was caused primarily by a substantial loss in connection with the closing of four unprofitable truckload carriers. In addition, losses at Thurston resulted from intense competition, which reduced rates while fixed costs were increasing.

**TRANSPORTATION SERVICES**  
(in millions)



**REVENUES**



**OPERATING EARNINGS (LOSS)**



**INVESTED CAPITAL**





Laurent J. Remillard  
Senior Vice President and  
Chief Financial Officer

IU's remaining truckload carrier operations were profitable as a group, and continued to expand aggressively. Operating earnings declined from 1984, primarily due to lower gains from the sale of excess equipment and also because intense competition reduced rates despite higher operating costs.

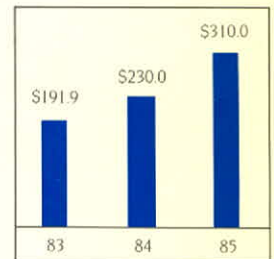
In 1984, revenues rose 102% and operating earnings grew 106% over 1983 levels, with most of the increases resulting from the 1984 acquisitions and growth in tonnage hauled.

### ENVIRONMENTAL SERVICES

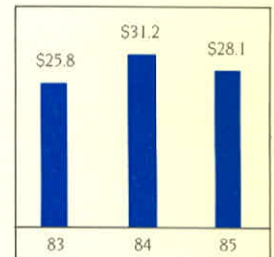
In millions	1983	1984	1985
Revenues	\$191.9	\$230.0	\$310.0
Operating earnings	25.8	31.2	28.1
Invested capital	111.6	125.1	155.5

The environmental services group's revenues rose by 35% in 1985, principally as a result of the acquisition of a majority interest in Somafer, S.A. at the end of 1984. Revenues also rose at other international operations of International Mill Service, which provides metal recovery and slag-handling services to steel mills and other heavy industry worldwide. IMS continues to expand rapidly by broadening its services at many of the mills it serves. Somafer, based in France, provides a variety of related industrial services overseas; and McGraw Construction Co., acquired in late 1984, provides metal recovery and slag handling services as well as mill engineering design and construction in the U.S.

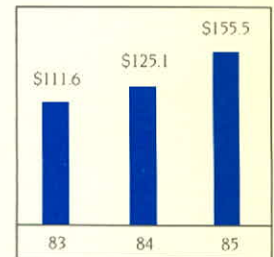
**ENVIRONMENTAL SERVICES**  
(in millions)



**REVENUES**



**OPERATING EARNINGS**

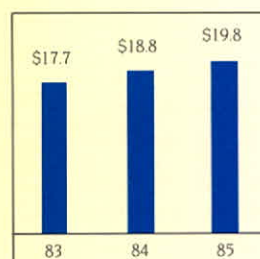


**INVESTED CAPITAL**

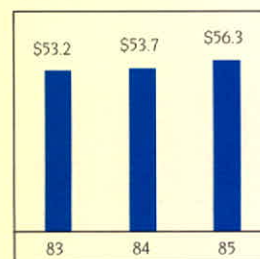
**DISTRIBUTION SERVICES**  
(in millions)



**REVENUES**



**OPERATING EARNINGS**



**INVESTED CAPITAL**

Operating earnings of this group declined about 10% in 1985, reflecting reduced results at domestic metal recovery operations, principally because of a \$3.7 million provision for a customer bankruptcy, strike-related steel production interruptions at the same customer, and a decline in capacity utilization at domestic steel mills served. Lower results from domestic metal recovery operations were partly offset by improved international results, primarily from the acquired operations, despite lower operating earnings in the United Kingdom and Egypt.

Envirosafe Services, which provides industrial waste disposal services, had lower operating losses in 1985, principally due to higher revenues and reduced general and administrative costs. Conversion Systems, which designs, constructs and operates waste management systems for the utility industry, was solidly profitable and further strengthened its market position, despite a decline in revenues and operating earnings because of a lower volume on turnkey projects during the year.

In 1984, the group's increased revenues and operating earnings reflected substantial improvement in both domestic and international operations of IMS. Domestic operations benefited

from an increase in production at steel mills, new and expanded service contracts, and cost-reduction programs, while international results improved with increased production at steel mills overseas, a major new contract at a Brazilian mill, and interest income.

**DISTRIBUTION SERVICES**

In millions	1983	1984	1985
Revenues	\$490.9	\$557.1	\$585.0
Operating earnings	17.7	18.8	19.8
Invested capital	53.2	53.7	56.3

IU's distribution business consists of two distribution units, both market leaders in their fields in the Southeast: Biggers Brothers, a wholesale supplier of food and food products, and Unijax, a distributor of paper and related products. Both units had higher revenues and operating earnings in 1985, and both continued to expand their product lines, increase their volume, and consolidate their strong competitive positions in southeastern markets. Operating earnings benefited from improved margins and effective cost control efforts. Unijax also recorded a gain on the 1985 sale of a Midwest branch operation.

In 1984, revenues rose at both units and operating earnings were higher at Biggers Brothers, reflecting volume increases, offset in part by lower average margins, and a gain on the early satisfaction of a mortgage. Unijax's operating earnings were somewhat lower because of the sale of a warehouse and receipt of a sizable legal settlement in 1983 and lower margins in 1984.

## AGRIBUSINESS

In millions	1983	1984	1985
Revenues	\$207.7	\$209.4	\$193.3
Operating earnings	34.2	21.3	2.6
Invested capital	196.3	177.9	191.9

The lower 1985 revenues and operating earnings at IU's agribusiness unit, C. Brewer and Co., were caused primarily by declines in sugar and cardamom spice results, fewer acres of Hawaiian land sold, and higher underwriting losses at the unit's insurance subsidiary, including increased claim reserves related to workers' compensation and other lines of insurance.

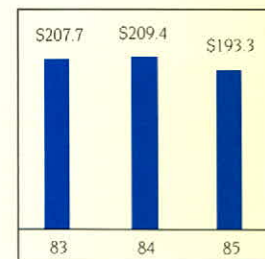
The poor sugar and cardamom results were due to reduced returns, reflecting significantly lower prices. Brewer is one of the highest-yield and lowest-cost sugar producers in Hawaii, but sugar returns were below breakeven for the year despite the "floor"

under domestic sugar prices established by the U.S. Farm Bill. The intention of Congress in enacting the sugar portion of the 1981 Farm Bill, which expires in September 1986, and also in the new 1985 legislation that will replace it, was not to make sugar production profitable but only to protect domestic producers against catastrophic losses. In recognition of the long-term unpredictability of sugar earnings, Brewer has gradually been reducing its dependence on sugar by converting sugar acreage to higher-value uses, including macadamia nut orchards.

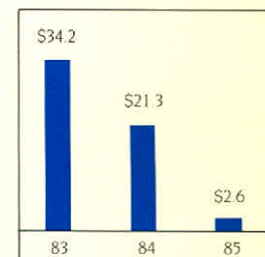
In 1985, the lower results from sugar, spice, land sales, and insurance operations were partly offset by higher operating earnings from macadamia nuts and a \$2.3 million insurance recovery on macadamia orchards damaged by severe weather. Brewer's Mauna Loa macadamia nuts are the world's best-selling brand.

In 1984, substantially higher results from macadamia nuts and spices partly offset lower earnings from land operations and an insurance subsidiary's reduced portfolio gains and increased underwriting losses. Land operations produced about \$6.3 million in operating earnings in 1984, compared with \$16.0 million in 1983. Sugar performance was about the same as in the prior year.

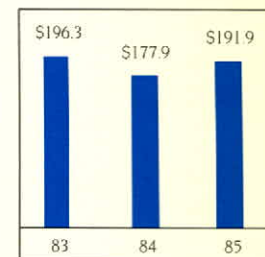
## AGRIBUSINESS (in millions)



## REVENUES



## OPERATING EARNINGS



## INVESTED CAPITAL

## OTHER

In millions	1983	1984	1985
Revenues	\$28.4	\$51.1	\$35.4
Operating earnings	9.3	28.6	15.3

This group's lower 1985 revenues and operating earnings reflect the non-recurrence of 1984 gains from sale of a non-strategic land parcel and sale of a gold royalty interest, along with lower portfolio income, partly offset by rental income on terminals leased to the discontinued trucking subsidiary. The group's higher 1984 results reflect the land and royalty interest sales and higher portfolio income.

## FINANCING AND CORPORATE EXPENSES

Corporate expenses for 1985 include the cost of an early-retirement program and severance costs related to a staff reduction at IU's corporate headquarters and executive offices, offset by a decrease in outside services costs. In 1984, corporate expenses were flat compared to 1983. Higher expenses for outside services were included in 1984, while 1983 included expense associated with cash settlement rights.

The decline in total financing expenses reflects lower average interest rates, offset in part by a higher average borrowing level. In 1984, the

substantial increase in total financing expenses reflected higher capital requirements resulting from the 1984 capital expenditure program, as well as the acquisition of several companies and higher average interest rates.

In both 1985 and 1984, foreign currency adjustments reflect the adverse effect of devaluations in Brazil, offset in part by foreign currency gains.

The fluctuations in minority interest primarily reflect the average floating dividend rate on a finance subsidiary's preferred stock (5.6% in 1985, 6.7% in 1984, and 6.1% in 1983).

## INCOME TAXES

A tax provision of \$6.6 million was recorded in 1985, despite a loss of \$2.3 million before taxes, because of the company's inability to recognize U.S. federal tax benefits on consolidated losses from continuing operations. These benefits are available to offset future income taxes applicable to U.S. operations. The tax provision in 1985 is comprised of state and local taxes and of foreign taxes, primarily on the profitable foreign steel-scrap recovery operations. Income taxes for the year were reduced by approximately \$9.5 million as a result of adjustments of prior-year tax accruals, including interest accruals,

based on agreement with the U.S. Internal Revenue Service on major tax issues relating to prior years.

The 1984 tax provision of \$29.3 million represents an effective tax rate of 55.4% on IU's income from continuing operations. The rate is higher than the U.S. federal statutory rate of 46% due to the inclusion of state taxes and certain other U.S. taxes, the higher effective rate on foreign earnings, and a lower tax basis for certain assets. Offsets to the higher effective rate resulted from capital gains and non-taxable income from equity investments. Available investment tax credits were not allowable offsets to the 1984 current tax liability or net deferred tax credits.

#### DISCONTINUED OPERATIONS\*

In millions	1983	1984	1985
Earnings (loss) from discontinued operations	\$18.4	\$(15.7)	\$(97.4)
Loss on dispositions	—	—	(67.2)
	\$18.4	\$(15.7)	\$(164.6)

\*Also see Note 2 on page 28.

IU divested two major operations in 1985. On July 19, the company sold its remaining 50% interest in General Waterworks Corp., a water services unit; and on December 31, IU sold Ryder/P-I-E Nationwide, Inc., its national general-commodities trucking operation. Financial results for these divested units are reported as discontinued operations.

IU's equity in General Waterworks' net earnings was \$3.8 million from operations in 1985 prior to its midyear divestment, compared with \$8.0 million for the full year 1984. IU recorded a gain of \$30.2 million on the sale in 1985. Taxes of \$8.8 million applicable to the gain were offset by tax benefits on a portion of the 1985 capital losses.

The divested trucking company had a loss from operations of \$101.2 million in 1985, compared with a net loss of \$24.4 million in 1984. Ryder/P-I-E's revenues decreased substantially after a late-1984 marketing restructuring designed to reduce short- and medium-haul freight. The restructuring did reduce short- and medium-haul freight, but also resulted in the loss of attractive long-haul business. The decline in tonnage caused severe under-utilization of the overall network, resulting in an increased level of costs relative to revenues. Charges related principally to workers' compensation and other claims, vacation pay, bad debts and adverse settlements of disputed freight bills were disproportionately high in relation to revenues compared with the prior period. The 1985 loss also includes the write-off of previously-deferred expenses associated with the 1983 and 1984 Ryder/P-I-E mergers which had not been offset to date by gains from sales of surplus terminal properties.

In 1984, the operating loss at Ryder/P-I-E resulted primarily from high operating costs stemming from the integration of four different truck-lines—Ryder, P-I-E, Helms, and Byrns—into a single system, beginning in mid-1983 and extending into mid-1984. Data processing, accounting and administrative systems problems also delayed customer billing and collection processes in the months following the systems integration, resulting in unusually high bad-debt reserves being established in 1984.

IU's divestment of the trucking unit resulted in a loss of \$97.4 million. No tax benefits have been recorded on this transaction.

The net loss from discontinued operations for 1985 totaled \$164.6 million.

#### CAPITAL EXPENDITURES (excluding acquisitions)\*

In millions	1983	1984	1985
Transportation services	\$ 6.3	\$ 38.6	\$13.8
Environmental services	14.1	29.3	33.6
Agribusiness	12.2	13.3	20.2
Distribution services	7.1	11.7	6.2
Other	6.6	8.9	2.8
<b>Total</b>	<b>\$46.3</b>	<b>\$101.8</b>	<b>\$76.6</b>

\*Also see Note 15 on page 36

IU's planned capital expenditures in 1986 total about \$66 million, which will be funded through depreciation and retained earnings. Included are \$14 million for agribusiness and paper distribution operations.

#### FINANCIAL CONDITION

The sale of IU's remaining 50% interest in General Waterworks in July and the sale of Ryder/P-I-E Nationwide at year-end were by far the most significant events affecting IU's financial position during 1985.

Primarily as a result of losses from Ryder/P-I-E and the sales, total capital decreased by \$249.5 million during the year. IU's debt at year-end 1984, as reported (including Ryder/P-I-E) was \$370.9 million. At year-end 1985, IU's debt was \$262.8 million, down by \$108.1 million.

Subsequent to year-end, IU sold a telephone answering and paging business in Canada and applied the proceeds to reduce debt further.

On March 7, 1986, IU announced agreements in principle to sell most of the units of C. Brewer and Co. and the Unijax paper distribution operations. Completion of these dispositions will also improve the company's capital structure and will position the company to expand remaining lines of business as opportunities arise.

Early in 1986, IU also entered into a new \$200 million revolving credit agreement with a group of banks.

In management's judgment, working capital and available credit facilities are ample to meet operating and capital requirements even without the proceeds from disposition of the agribusiness and paper distribution operations.

# F I N A N C I A L      D A T A

In millions, except per share data	1985	1984*	1983*	1982*	1981*
Revenues and other income	\$1,896.7	\$1,669.5	\$1,226.8	\$1,159.5	\$1,316.0
Earnings (loss) from continuing operations:					
Total	\$ (8.9)	\$ 23.6	\$ 26.5	\$ 22.5	\$ 28.3
Per share:					
Primary	\$ (.35)	\$ .85	\$ 1.01	\$ .95	\$ 1.22
Assuming full dilution	—	.85	1.00	.92	1.17

Assets—continuing operations	\$ 999.1	\$ 868.9	\$ 706.4	\$ 741.4	\$ 724.2
Investment in trucking subsidiary	—	262.9	165.6	144.1	123.0
Investment in water services operations	—	38.6	37.0	35.9	65.7
Investment in mining subsidiary	—	—	—	35.2	34.9
Total assets	\$ 999.1	\$1,170.4	\$ 909.0	\$ 956.6	\$ 947.8

Invested capital:					
Total debt	\$ 262.8	\$ 318.1	\$ 185.2	\$ 288.9	\$ 267.7
Obligation secured by pledge of redeemable preferred stock	85.0	85.0	—	—	—
Minority interest in subsidiaries	105.3	104.8	104.8	106.4	107.0
Common and other shareholders' equity	160.5	355.2	383.1	336.2	326.3
Total	\$ 613.6	\$ 863.1	\$ 673.1	\$ 731.5	\$ 701.0

Capital expenditures	\$ 76.6	\$ 205.7	\$ 62.6	\$ 50.5	\$ 82.5
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Cash dividends per common share <sup>‡</sup>	\$ .90	\$ 1.175	\$ 1.15	\$ 1.125	\$ 1.10
Shareholders' equity per share <sup>§</sup>	\$ 5.59	\$ 12.82	\$ 13.88	\$ 13.92	\$ 13.77
Year-end closing price of Common Stock	14½	16¾	23⅞	16¾	13¾
Average common and common equivalent shares	27.1	27.2	25.2	22.2	21.9

\*Restated to segregate a discontinued trucking subsidiary and water services operations (see Note 2 on page 28).

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

<sup>§</sup>Based on Common Stock and Special Stock, Series A at year-end 1981 and 1982.

## Sources of Revenues and Earnings

In millions, except per share data	1985		1984*		1983*		1982*		1981*	
	Revenues	Operating earnings	Revenues	Operating earnings	Revenues	Operating earnings	Revenues	Operating earnings	Revenues	Operating earnings
Contributions by major market:										
Transportation services	\$ 773.0	\$(4.4)	\$ 621.9	\$ 18.5	\$ 307.9	\$ 9.0	\$ 175.3	\$ 3.7	\$ 168.0	\$ 11.4
Environmental services	310.0	28.1	230.0	31.2	191.9	25.8	199.1	24.5	220.9	32.3
Agribusiness	193.3	2.6	209.4	21.3	207.7	34.2	195.6	28.5	314.7	35.4
Distribution services	585.0	19.8	557.1	18.8	490.9	17.7	506.8	19.3	505.5	19.4
Other	35.4	15.3	51.1	28.6	28.4	9.3	82.7	14.4	106.9	2.6
<b>Total revenues</b>	<b>\$1,896.7</b>		<b>\$1,669.5</b>		<b>\$1,226.8</b>		<b>\$1,159.5</b>		<b>\$1,316.0</b>	
Operating earnings		61.4		118.4		96.0		90.4		101.1
Corporate expenses		(16.7)		(16.4)		(16.3)		(13.1)		(13.5)
Financing expense:										
Interest and debt expense		(31.3)		(36.0)		(21.6)		(34.5)		(44.0)
Interest on obligation secured by pledge of redeemable preferred stock		(8.0)		(4.5)		—		—		—
<b>Total financing expense</b>		<b>(39.3)</b>		<b>(40.5)</b>		<b>(21.6)</b>		<b>(34.5)</b>		<b>(44.0)</b>
Foreign currency adjustments		(1.5)		(1.4)		(.8)		(3.3)		(1.6)
Earnings from continuing operations before income taxes and minority interest		3.9		60.1		57.3		39.5		42.0
Income taxes		(6.6)		(29.3)		(24.1)		(7.8)		(3.4)
Minority interest		(6.2)		(7.2)		(6.7)		(9.2)		(10.3)
<b>Earnings (loss) from continuing operations</b>		<b>\$(8.9)</b>		<b>\$ 23.6</b>		<b>\$26.5</b>		<b>\$ 22.5</b>		<b>\$ 28.3</b>
<b>Primary earnings (loss) per share from continuing operations</b>		<b>\$(.35)</b>		<b>\$ .85</b>		<b>\$1.01</b>		<b>\$ .95</b>		<b>\$ 1.22</b>

\*Restated to segregate a discontinued trucking subsidiary and water services operations.



## Financial Statements

### CONSOLIDATED STATEMENTS OF OPERATIONS

In thousands, except per share data, for the years ended December 31,	1985	1984*	1983*
Revenues and other income:			
Product sales	\$1,039,575	\$ 947,512	\$ 835,404
Service revenues	838,628	681,428	354,273
Other income	18,544	40,574	37,145
	1,896,747	1,669,514	1,226,822
Costs and expenses:			
Cost of products sold, excluding depreciation and amortization	815,158	715,359	623,821
Other operating costs and expenses, excluding depreciation and amortization	719,046	584,637	316,127
Selling, general and administrative expenses, excluding depreciation and amortization	252,480	210,573	168,439
Depreciation and amortization	65,454	57,007	38,676
Financing expense:			
Interest and debt expense	31,368	36,029	21,611
Interest on obligation secured by pledge of redeemable preferred stock	7,958	4,485	—
Total financing expense	39,326	40,514	21,611
Foreign currency adjustments	1,450	1,380	806
	1,892,914	1,609,470	1,169,480
Earnings from continuing operations before income taxes and minority interest	3,833	60,044	57,342
Income taxes	6,583	29,278	24,103
Minority interest	6,154	7,152	6,709
Earnings (loss) from continuing operations	(8,904)	23,614	26,530
Discontinued operations:			
Earnings (loss) from operations	(97,370)	(15,714)	18,413
Loss on dispositions	(67,257)	—	—
	(164,627)	(15,714)	18,413
Net earnings (loss)	\$ (173,531)	\$ 7,900	\$ 44,943
Earnings (loss) per share:			
Primary:			
Continuing operations	\$ (1.35)	\$ .85	\$ 1.01
Discontinued operations	(6.08)	(.58)	.73
	\$ (6.43)	\$ .27	\$ 1.74
Assuming full dilution:			
Continuing operations	\$ —	\$ .85	\$ 1.00
Discontinued operations	—	(.58)	.71
	\$ —	\$ .27	\$ 1.71

\*Restated to segregate a discontinued trucking subsidiary and water services operations. See accompanying Notes to Financial Statements.

## CONSOLIDATED BALANCE SHEETS

In thousands, December 31.

	1985	1984*
<b>Assets</b>		
Current assets:		
Cash	\$ 43,412	\$ 26,360
Accounts receivable, less allowance (1985—\$12,968; 1984—\$9,151)	236,523	199,055
Inventories	92,641	92,097
Prepaid expenses and other current assets	17,178	15,131
<b>Total current assets</b>	<b>389,754</b>	<b>332,643</b>
Investment in a trucking subsidiary and water services operations	—	301,537
Long-term receivables and investments	143,067	107,249
Property, plant and equipment	727,273	620,189
Less accumulated depreciation and amortization	297,960	229,261
Net property, plant and equipment	429,313	390,928
Deferred charges and intangibles, net, and other assets	36,962	38,035
<b>Total assets</b>	<b>\$999,096</b>	<b>\$1,170,392</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Notes payable	\$ 33,455	\$ 6,619
Accounts payable—trade	100,495	91,303
Income taxes	55,076	50,722
Deferred income taxes	81	2,629
Current maturities of long-term debt and redeemable preferred stock of subsidiary	49,304	18,656
Accrued compensation	30,463	23,202
Other current and accrued liabilities	115,222	70,335
<b>Total current liabilities</b>	<b>384,096</b>	<b>263,466</b>
Long-term debt, excluding current maturities	200,040	292,820
Other liabilities	42,590	31,011
Deferred income taxes	41,624	38,119
Obligation secured by pledge of redeemable preferred stock	85,000	85,000
<b>Total liabilities</b>	<b>753,350</b>	<b>710,416</b>
Minority interest in subsidiaries, including preferred stock (1985—\$80,000; 1984—\$100,000)	85,293	104,808
Common and other shareholders' equity:		
Series Preferred Stock	9,564	9,564
Common Stock, issued: 1985 and 1984—39,837 shares; outstanding: 1985—27,110 shares, 1984—27,015 shares	45,813	45,813
Additional paid-in capital	203,287	201,027
Retained earnings	137,325	335,628
Cumulative translation adjustments	(15,754)	(15,446)
	380,235	576,586
Less shares in treasury, at cost	219,782	221,418
<b>Total common and other shareholders' equity</b>	<b>160,453</b>	<b>355,168</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$999,096</b>	<b>\$1,170,392</b>

\* Restated to segregate a discontinued trucking subsidiary and water services operations. See accompanying Notes to Financial Statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

In thousands, for the years ended December 31,	1985	1984*	1983*
<b>Sources of funds:</b>			
Earnings (loss) from continuing operations	\$ (8,904)	\$ 23,614	\$ 26,530
Add (deduct) items not requiring (providing) current funds:			
Depreciation and amortization	65,454	57,007	38,676
Gain on disposition of property, plant and equipment	(3,916)	(9,174)	(11,239)
Gain on disposition of investments and other assets	(4,546)	(13,162)	(5,391)
Provision for noncurrent deferred income taxes	1,674	11,314	3,958
Other, net	14,013	2,652	(1,776)
Provided from continuing operations	63,775	72,251	50,758
Discontinued operations providing current funds	4,262	7,788	7,645
Provided from operations	68,037	80,039	58,403
Disposition of investments in a trucking subsidiary and water services operations	71,069	—	—
Decrease in mining subsidiary investment, net of distribution charges	—	—	3,616
Disposition of property, plant and equipment	17,900	26,148	31,595
Disposition of other noncurrent assets	12,790	44,460	31,392
Issuance of long-term debt	32,393	182,143	56,238
Increase in other liabilities	1,825	10,567	—
Obligation secured by pledge of redeemable preferred stock	—	85,000	—
Issuance of capital stock, including treasury stock	1,437	1,184	83,612
Other	438	1,628	2,504
<b>Total sources</b>	<b>205,889</b>	<b>431,169</b>	<b>267,360</b>
<b>Uses of funds:</b>			
Increase (decrease) in investment in a discontinued trucking subsidiary	(6,813)	121,778	12,456
Purchase of property, plant and equipment	76,613	205,724	62,641
Acquisition of other noncurrent assets	21,100	42,213	22,521
Reduction of long-term debt	125,762	57,753	137,424
Reduction of other liabilities and minority interest in 1985	27,879	6,059	5,189
Acquisition of treasury stock	95	449	2,249
Conversion of Preferred Stock	—	—	10,538
Redemption of convertible securities	—	—	1,975
Dividends on Preferred and Common Stock	24,772	32,134	28,163
<b>Total uses</b>	<b>269,408</b>	<b>466,110</b>	<b>283,156</b>
<b>Decrease in working capital</b>	<b>\$(63,519)</b>	<b>\$(34,941)</b>	<b>\$(15,796)</b>

\*Restated to segregate a discontinued trucking subsidiary and water services operations. See accompanying Notes to Financial Statements.

## ANALYSIS OF CHANGES IN WORKING CAPITAL

In thousands, for the years ended December 31,	1985	1984*	1983*
Changes in working capital:			
Cash	\$ 17,052	\$ (3,606)	\$ 2,272
Accounts receivable, less allowance	37,468	32,436	(29,131)
Inventories	544	(3,624)	(4,235)
Prepaid expenses and other current assets	2,047	(346)	(55)
Notes payable	(26,836)	222	(846)
Accounts payable—trade	(9,192)	(26,160)	(8,779)
Income taxes	(4,354)	(17,953)	7,255
Deferred income taxes	2,548	14,133	(5,226)
Current maturities of long-term debt and redeemable preferred stock of subsidiary	(30,648)	(9,729)	23,053
Accrued compensation	(7,261)	(3,217)	(886)
Other current and accrued liabilities	(44,887)	(17,097)	782
Decrease in working capital	\$(63,519)	\$(34,941)	\$(15,796)

\*Restated to segregate a discontinued trucking subsidiary and water services operations. See accompanying Notes to Financial Statements.

## CONSOLIDATED STATEMENTS OF ADDITIONAL PAID-IN CAPITAL

In thousands, for the years ended December 31,	1985	1984	1983
Amount at beginning of year	\$201,027	\$202,528	\$166,953
Capital in excess of par or stated value of shares issued upon conversion of convertible securities and exercise of employee stock options	171	573	22,571
Sale of Common Stock held in treasury	(465)	(663)	11,628
Reduction in par value of Common Stock	—	—	1,991
Distribution of common shares of mining subsidiary	—	—	(10,697)
Other adjustments, relating principally in 1983 to mining subsidiary's issue of stock	2,554	(1,411)	10,082
Amount at end of year	\$203,287	\$201,027	\$202,528

See accompanying Notes to Financial Statements.

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

In thousands, except per share data, for the years ended December 31,	1985	1984	1983
Amount at beginning of year	\$ 335,628	\$359,862	\$384,033
Net earnings (loss)	(173,531)	7,900	44,943
Dividends:			
\$5.00 Preferred Stock	(432)	(432)	(432)
\$1.25 Convertible Preferred Stock	—	—	(205)
\$1.36 Convertible Preferred Stock	—	—	(466)
Common (per share: 1985—\$.90; 1984—\$1.175; 1983—\$1.15)	(24,340)	(31,702)	(27,060)
	(24,772)	(32,134)	(28,163)
Distribution of common shares of mining subsidiary	—	—	(34,170)
Treasury stock transactions	—	—	(5,907)
Redemption of convertible securities	—	—	(874)
Amount at end of year	\$137,325	\$335,628	\$359,862

See accompanying Notes to Financial Statements.

## CONSOLIDATED STATEMENTS OF CUMULATIVE TRANSLATION ADJUSTMENTS

In thousands, for the years ended December 31,	1985	1984	1983
Amount at beginning of year	\$(15,446)	\$(12,452)	\$ (8,514)
Translation adjustments and gains (losses) from intercompany balances	(308)	(3,517)	(4,597)
Income taxes related to translation adjustments	—	523	—
Distribution of common shares of mining subsidiary	—	—	659
Amount at end of year	\$(15,754)	\$(15,446)	\$(12,452)

See accompanying Notes to Financial Statements.

## Notes to Financial Statements

### 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 10). All significant inter-company accounts and transactions have been eliminated in consolidation. Investment in an unconsolidated majority-owned insurance subsidiary, a finance subsidiary and companies, cooperatives and joint ventures owned 20% or more are accounted for on the equity basis.

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

Sugar produced in Hawaii is sold to a nonprofit marketing cooperative in which agribusiness subsidiaries have an approximate 23% interest. Revenues recognized are based on the current average cost per ton or estimated market value per ton, if lower. Under the equity method of accounting for the investment in the cooperative, any estimated profit on sugar is deferred until sold by the cooperative.

**Self-insurance:** Subsidiaries provide for the uninsured cost of property, casualty, general liability and workers' compensation claims. Provisions are made based upon experience for the estimated cost of claims filed and claims incurred but not reported. Certain trucking subsidiaries, in states where permitted, self-insure to \$1,000,000 on individual claims.

**Inventories:** Inventories generally are stated at the lower of cost or market. Due to diversified operations, several bases of determining cost are used.

In accordance with industry practice in Hawaii, the costs of growing sugarcane are charged against earnings as incurred.

**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, except that a subsidiary which is the lessor under a leveraged lease allocates the credit over the lease term.

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:** Primary earnings per share in 1985 and 1984, 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, if dilutive, the effect of stock options, including stock appreciation rights (SARs). In 1983, earnings per share were based on the average number of shares of both Common Stock and Special Stock, Series A outstanding during the period and the dilutive effect of stock options, including SARs. The Special Stock, Series A was included on a basis equivalent to the conversion rate applicable during the period (see Note 12).

Earnings per share assuming full dilution in 1983 reflect, in addition to the primary computation, the dilutive effect of (a) the conversion of convertible preferred stock after elimination of the dividend requirements on such convertible preferred stock and (b) the conversion of Special Stock, Series A at the rate in effect in 1988.

### Note 2: Discontinued Operations

**Ryder/P-I-E Nationwide, Inc.:** On December 31, 1985, IU disposed of all of its interest in the capital stock of Ryder/P-I-E Nationwide, Inc. ("Ryder/P-I-E") to RPN Acquisition Corporation for cash of \$3,000,000. Expenses related to the sale are estimated at \$1,500,000. A loss of \$97,428,000 was realized on this transaction. No tax benefits on this transaction have been recorded (see Note 5).

The following is a summary of Ryder/P-I-E's net assets at December 28, 1985 and December 29, 1984, excluding inter-company debt of \$158,305,000 in 1984.

In thousands	1985	1984
Current assets	\$ 112,605	\$193,696
Net property, plant and equipment	176,387	241,428
Other assets	13,825	26,485
Current liabilities (excluding debt)	(119,593)	(96,050)
Long-term debt	(81,568)	(52,842)
Other liabilities	(78,722)	(49,785)
Net assets	\$ 22,934	\$262,932

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

In thousands, for the years	1985	1984	1983
Revenues and other income	\$ 680,404	\$ 887,428	\$ 849,529
Costs and expenses	(771,773)	(930,204)	(832,465)
	\$ (91,369)	\$ (42,776)	\$ 17,064

Prior to the disposition of Ryder/P-I-E, IU purchased certain terminal properties from Ryder/P-I-E at fair market value and entered into a five-year \$32,000,000 term loan and a two-year \$15,000,000 revolving credit facility, reducing to \$7,500,000 at December 1, 1986. Ryder/P-I-E used the proceeds to repay indebtedness to IU and its affiliates.

The total purchase price for terminals purchased by IU was based on fair market value as determined by appraisal and was in excess of Ryder/P-I-E's carrying value of \$42,258,000. IU is leasing back the terminal properties to Ryder/P-I-E (except terminals which were surplus to Ryder/P-I-E's operations and which IU plans to sell) for a five-year term at a fair market rental of \$9,018,480 per annum. Ryder/P-I-E is responsible for all expenses related to the leased properties. At the end of the five-year lease term, Ryder/P-I-E has the option to purchase any of the terminals at the then-fair market value.

The \$32,000,000 term loan, with an interest rate of 12% per annum, is due under its original terms in 56 equal monthly payments of \$625,606, with a final payment of \$9,299,680. IU has agreed to defer 1986 quarterly principal payments on the term loan until December 31, 1986. The revolving credit facility bears interest at prime plus 1%, and Ryder/P-I-E is obligated to pay a commitment fee of 1/2% on the unused amount of the facility. At December 31, 1985, \$11,400,000 was outstanding under this facility. The outstanding amount under both the term loan and the revolving credit facility is secured by revenue equipment of Ryder/P-I-E with a fair value in excess of the credit facilities. Ryder/P-I-E's carrying value for its total revenue equipment was \$123,800,000 at December 28, 1985.

Upon Ryder/P-I-E's request prior to October 1, 1987, IU is obliged to purchase certain additional terminal properties which secured indebtedness accelerated by the lenders and lease such terminals back to Ryder/P-I-E. The purchase price for such terminals will be fair market value as determined by appraisal but not to exceed \$11,000,000.

In connection with the disposition of Ryder/P-I-E, IU has agreed to continue to be guarantor of existing bonds or undertakings made to surety companies and/or states of the United States in connection with Ryder/P-I-E's self-insurance programs for third-party bodily injury, property damage, cargo and workers' compensation losses occurring through December 31, 1987, unless earlier released. Ryder/P-I-E has

established a liability for estimated self-insurance claims of \$62,047,000 at December 28, 1985. IU also will continue 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 will be paid by Ryder/P-I-E in consideration for IU's guarantee. RPN Acquisition Corporation has agreed to cause IU 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 Acquisition Corporation has agreed to cause Ryder/P-I-E to grant to IU 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 IU 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.

As a subsidiary of IU, Ryder/P-I-E was included in IU's consolidated federal tax return and IU is responsible for income taxes applicable to Ryder/P-I-E attributable to periods through the disposition, except that RPN Acquisition Corporation will cause Ryder/P-I-E to pay for taxes to the extent provided in Ryder/P-I-E's year-end 1985 financial statements and to the extent deductions, exclusions or credits are allocable to Ryder/P-I-E after disposition.

Ryder/P-I-E reported pre-tax losses of approximately \$86,400,000 in 1985 and \$42,500,000 in 1984, and working capital from operations was negative during 1985. Results improved in the last quarter of 1985; however, there is a possibility that Ryder/P-I-E could cease operations, default on its obligations to IU and cause IU to satisfy any deficiency in the obligations it has guaranteed. In addition, in the event of cessation of operations, Ryder/P-I-E would incur liability, estimated as of January 1, 1985 at \$96,014,000, for failing to make contributions to various multi-employer pension funds to which it contributes. Creditors of Ryder/P-I-E, including the pension funds for employees of Ryder/P-I-E, may seek to set aside the sales of property to IU and the creation of security interests in favor of IU, and the respective pension funds may seek to hold IU responsible for the amount of any deficiency in the payment of pension withdrawal liabilities. IU management is of the opinion that any such claims against IU by Ryder/P-I-E's creditors would not be meritorious and that IU should prevail. IU has no present reason to believe that any default by Ryder/P-I-E will occur or that IU's security will be insufficient and is of the opinion that Ryder/P-I-E's reserves for self-insurance and Ryder/P-I-E's liability for income taxes for periods prior to closing are adequate.

**GWC Corporation:** On July 19, 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 5). The Corporation's investment in GW at December 31, 1984 was \$38,605,000.

Equity in net earnings of GW was \$3,797,000, \$7,976,000 and \$7,775,000 in 1985, 1984 and 1983, respectively. Income taxes on dividends received from GW amounted to \$489,000 and \$462,000 in 1984 and 1983, respectively.

In 1982, the Corporation sold 41.8% of the common stock of GW for \$32,400,000 and recorded a net gain of \$2,887,000. Concurrently, GW sold newly issued common shares, reducing the Corporation's ownership interest to 50%. Subsequent adjustments in 1984 and 1983, based on reviews of the estimated tax basis of the stock sold, reduced the tax provision by \$2,470,000.

**Echo Bay Mines Ltd.:** On November 10, 1983, shareholders of the Corporation approved the distribution of the Corporation's investment in Echo Bay Mines Ltd. (Echo Bay), the Canadian precious-metals mining subsidiary, to the Corporation's common shareholders. The basis of distribution was one common share of Echo Bay for each share of the Corporation's Common Stock held on November 21, 1983. The distribution was accounted for as a partial liquidation, as defined by Maryland law, and resulted in a charge to paid-in capital of \$10,697,000 and to retained earnings of \$33,511,000, including certain net expenses and taxes amounting to \$3,031,000 related to the distribution. The Corporation sold 281,260 Echo Bay common shares remaining after the distribution and recorded the net proceeds as an offset to the distribution charges.

In April 1983, Echo Bay issued common shares which reduced the Corporation's ownership in Echo Bay's common equity to 86.635% and increased the Corporation's share in the net assets of Echo Bay by \$11,678,000, which was credited to paid-in capital.

The following summarizes the operating results attributable to discontinued mining operations.

In thousands, January 1 to November 21,	1983
Revenues and other income	\$ 45,027
Costs and expenses	(40,545)
Income taxes	(215)
Minority interest	(3,473)
Equity in net earnings	\$ 794

The effective tax rate for Echo Bay differed from the Canadian statutory rates principally because of the depletion allowance.

### Note 3: Acquisitions and Dispositions

Subsidiaries of the Corporation acquired several small companies in purchase transactions for cash and notes amounting to an aggregate consideration of \$2,129,000 in 1985 and \$25,622,000 in 1983. The operations of the companies acquired were not significant.

In 1984, subsidiaries of the Corporation acquired the stock of two truckload motor carriers, Poole Truck Line, Inc. (February) and C&H Transportation Co., Inc. (May), a 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 pro forma combined results of operations for the years ended December 31, 1984 and 1983 each give effect to the acquisitions as though they had occurred on January 1 of the respective years and include adjustments, primarily for imputed interest charges attributable to the financing of the purchase and amortization of goodwill.

Unaudited In thousands, except per share data	1984	1983
Revenues	\$1,785,568	\$1,517,044
Earnings from continuing operations	22,462	31,463
Net earnings	6,748	49,876
Primary earnings per share:		
Continuing operations	.81	1.21
Net earnings	.23	1.94

The pro forma financial information is not necessarily indicative of results of operations that would have occurred had the purchases been made at the beginning of the period.

Effective 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 be significant to 1983 or 1984.

During the three years ended December 31, 1985, in addition to the dispositions of Ryder/P-I-E, GW and Echo Bay, the Corporation closed four unprofitable truckload carrier operations, and disposed of its molasses distribution operations, a pipe fabricating company, a division of a trucking subsidiary,



and certain other small companies. The contribution to revenues and net earnings, excluding gains and losses on disposition, of such companies for the years ended December 31, 1985, 1984 and 1983 was as follows.

In thousands	1985	1984	1983
Revenues	\$63,572	\$84,029	\$43,571
Net earnings (loss)	(17,137)	2,287	(306)

#### Note 4: Other Income

Significant items included in other income are as follows.

In thousands	1985	1984	1983
Interest and dividends	\$18,431	\$25,538	\$13,375
Gain on disposition of investments and certain other assets	211	8,487	13,968
Insurance recovery	2,334	—	—

Interest and dividends includes \$10,618,000, \$14,844,000, and \$2,728,000 in 1985, 1984 and 1983, respectively, charged on indebtedness due from Ryder/P-I-E (see Note 2).

During the three years ended December 31, 1985, the Corporation disposed of several subsidiaries, land and certain other assets, including in 1984 a royalty interest to Echo Bay, at a gain of \$211,000 in 1985, \$8,487,000 in 1984 and \$13,968,000 in 1983 after application of \$7,092,000 of reserves provided in prior years. Income taxes of \$1,417,000 and \$4,608,000 were recognized in 1984 and 1983, respectively, related to these dispositions.

During the second and fourth quarters of 1985, the agribusiness subsidiary recorded a gain totaling \$2,334,000 due to an insurance recovery on macadamia orchards damaged by severe weather.

In the fourth quarter of 1984, a subsidiary of the Corporation sold its royalty interest in Echo Bay's Lupin gold mine to Echo Bay for \$4,300,000. The subsidiary acquired the royalty interest in 1982 in exchange for financing a Canadian \$2,500,000 exploration program. The royalty interest provided for payment of Canadian \$20 per troy ounce on Lupin production in excess of 850,000 troy ounces, until the investment together with a return of 18% per annum was attained; thereafter, the royalty would have been reduced to Canadian \$10 per troy ounce, indexed for inflation, for the life of the Lupin deposit. In addition, other income includes a gain of \$1,204,000 from the October 1984 extinguishment of debt; income taxes of \$593,000 were provided.

#### Note 5: Income Taxes

In 1985 the Corporation's United States operations resulted in an operating loss and the divestment of Ryder/P-I-E, GW and other assets resulted in a net capital loss. The net Federal tax benefit applicable to losses on operations and the capital loss were not recorded because of uncertainty of realizing these benefits and are available to offset future income taxes applicable to United States operations. The total tax provision in 1985, as summarized below, primarily reflects foreign taxes on continuing operations, state and local taxes and adjustments of prior years' Federal tax accruals including interest.

In thousands	1985	1984	1983
Continuing operations	\$ 6,583	\$ 29,278	\$24,103
Discontinued operations	9,891	(19,086)	7,435
Total	\$16,474	\$ 10,192	\$31,538

In 1984 and 1983, the tax provision (recovery) applicable to discontinued operations differed from the United States Federal income tax rate primarily because of state taxes offset by investment tax credits and dividend exclusions.

The components of the consolidated provision for income taxes applicable to continuing operations for the three years ended December 31, 1985 are as follows.

In thousands	1985	1984	1983
Current:			
Federal	\$(9,650)	\$24,735	\$17,112
State and local	3,018	4,470	2,145
Non-United States	11,579	9,692	8,006
Investment tax credit	226	(5,534)	(5,244)
	5,173	33,363	22,019
Deferred:			
Federal	—	(9,414)	(332)
State and local	(60)	(1,305)	410
Non-United States	1,470	242	143
Investment tax credit	—	6,392	1,863
	1,410	(4,085)	2,084
	\$ 6,583	\$29,278	\$24,103

The foreign components of pre-tax results from continuing operations were \$31,460,000, \$28,163,000 and \$22,002,000 in 1985, 1984 and 1983, respectively.

At December 31, 1985, the Corporation had not provided income taxes, net of available foreign tax credits, on \$46,519,000 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	1985	1984	1983
Excess of tax over book			
depreciation and amortization	\$1,074	\$ 4,012	\$ 3,035
Investment tax credit	—	6,392	1,863
Loss (earnings) on long-term contracts	298	(8,947)	(1,062)
Inventory valuation adjustment	(208)	(33)	901
Recovery of (provision for) loss on investments and other assets	(140)	(3,451)	3,094
Installment sales	—	596	(2,638)
Provision for self-insurance and other unallowed reserves	(20)	(2,532)	(508)
Deferred compensation and pension	(85)	(828)	(750)
Excess of book over tax			
(tax over book) revenues	(154)	1,423	460
Other*	645	(717)	(2,311)
	\$1,410	\$(4,085)	\$ 2,084

\*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	1985	1984	1983
Provision (credit) at statutory rate	\$(1,068)	\$24,330	\$23,291
U.S. loss with no current tax benefit	15,447	—	—
Foreign earnings, net of losses with no tax benefits, and foreign dividends	(1,423)	737	1,348
Investment tax (credit) recapture	226	824	(3,381)
State and local income taxes, net of Federal tax benefit in 1984 and 1983	2,958	1,732	1,317
Capital gains rate	—	(2,737)	(1,254)
Equity in earnings of subsidiaries	—	(734)	(1,191)
Tax basis adjustments	—	2,084	951
Adjustment of prior years' accruals including interest	(9,482)	1,540	3,043
Non-deductible expenses	—	906	619
Minimum tax	—	637	747
Other	(75)	(41)	(1,387)
Provision for income taxes	\$ 6,583	\$29,278	\$24,103

At December 31, 1985, the Corporation had operating loss carryforwards of approximately \$67,000,000 and capital loss carryforwards of approximately \$46,000,000 for financial reporting purposes, and for tax reporting purposes estimated operating loss carryforwards of approximately \$24,000,000 which expire in 2000 and estimated capital loss carryforwards

of approximately \$45,000,000 which expire in 1990. In addition, the Corporation has unused investment tax credits estimated at \$14,000,000 which may be used to offset future Federal tax liability (expiring 1998–2000).

#### Note 6: Inventories

Inventories at December 31, 1985 and 1984 are summarized as follows.

In thousands	1985	1984
Finished products	\$44,605	\$41,936
Work in process	875	1,251
Raw materials and supplies	16,750	14,209
Merchandise and commodities	27,341	30,922
Other	3,070	3,779
	\$92,641	\$92,097

Certain items included in merchandise and commodities inventories are valued on the last-in, first-out (LIFO) basis, which is less than the cost of such inventories valued on the first-in, first-out (FIFO) basis by \$63,000 and \$204,000 at December 31, 1985 and 1984, respectively.

Book basis of LIFO inventories exceeded the tax basis by \$513,000 at December 31, 1985 and 1984. The difference resulted from the application of purchase accounting to the acquisition of the minority interest in C. Brewer and Company.

#### Note 7: Long-Term Receivables and Investments

The total carrying values of long-term receivables and investments at December 31, 1985 and 1984 are shown in the following table.

In thousands	1985	1984
Long-term receivables	\$ 68,534	\$ 25,396
Unconsolidated subsidiaries and affiliates	32,591	36,407
Cooperatives and joint ventures	22,154	21,776
Land held for sale or development	5,493	5,841
Other investments	19,190	19,101
Provision for loss	(4,895)	(1,272)
	\$143,067	\$107,249

Undistributed earnings of unconsolidated subsidiaries and 50% or less owned interests reflected in retained earnings amount to \$14,094,000 at December 31, 1985.

The following tables summarize financial information regarding unconsolidated subsidiaries.

In thousands, December 31,	1985	1984
Current assets	\$ 24,073	\$ 36,165
Noncurrent assets	122,133	105,080
Current liabilities	13,119	19,934
Long-term debt, excluding current maturities	14,100	17,000
Other liabilities	94,027	70,790

In thousands, years ended December 31,	1985	1984	1983
Revenues and other income	\$62,134	\$50,843	\$42,168
Cost of products sold, other operating costs and expenses	52,868	31,395	25,056
Net earnings (loss)	(9,843)	2,607	5,871

A subsidiary has guaranteed \$14,100,000 of debt of a wholly-owned, unconsolidated finance subsidiary.

The following tables summarize financial information regarding 50% or less owned interests accounted for by the equity method.

In thousands, December 31,	1985	1984
Current assets	\$ 6,156	\$ 6,092
Noncurrent assets	13,426	13,356
Current liabilities	936	1,304
Long-term debt, excluding current maturities	1,166	1,240
Other liabilities	417	417

In thousands, years ended December 31,	1985	1984	1983
Revenues and other income	\$7,694	\$10,196	\$11,596
Cost of products sold, other operating costs and expenses	4,649	6,013	5,400
Net earnings	970	1,464	2,491

#### Note 8: Property, Plant and Equipment

A summary of property, plant and equipment at December 31, 1985 and 1984 is shown in the following table.

In thousands	1985	1984
Transportation services	\$147,950	\$159,074
Environmental services	260,040	219,112
Agribusiness	153,829	143,050
Distribution services	68,677	65,671
Other	96,777	33,282
	\$727,273	\$620,189

Terminal properties purchased from and leased to Ryder/P-I-E are included in the "Other" segment.

Interest expense of \$988,000 in 1985, \$1,302,000 in 1984 and \$1,271,000 in 1983 was capitalized.

#### Note 9: Debt

Long-term debt at December 31, 1985 and 1984 payable by consolidated subsidiaries is summarized in the following table. Interest rates on \$56,000,000 of long-term debt outstanding at December 31, 1985, after reflecting outstanding interest rate exchange agreements, are based on fluctuating interest rates.

In thousands	1985	1984
Secured: Due 1986 to 2003; 2% to 15.9% (weighted average interest rate at both dates—9.1%)	\$ 48,927	\$ 50,249
Unsecured: Due 1986 to 1994; 5% to 17% (weighted average interest rate 1985—11.2%; 1984—10.4%)	180,417	261,227
	229,344	311,476
Less current maturities	29,304	18,656
	\$200,040	\$292,820

On February 26, 1986, a finance subsidiary entered into a three-year revolving credit facility providing up to \$200,000,000, decreasing by \$25,000,000 on each anniversary date (plus 50% of cash proceeds from certain asset sales). Loans under the facility bear interest at a floating rate and a commitment fee of 3/8% is due on the unused amount of the commitment. Borrowings of \$115,600,000 under short-term facilities are classified as long-term debt based on the intent to finance this amount on a long-term basis and the ability to borrow such funds under the unused long-term committed credit facility.

At December 31, 1985, debt was secured by property, plant and equipment and other assets with a total carrying value of \$60,000,000. Under the \$200,000,000 revolving credit facility, stock of certain of the Corporation's direct subsidiaries have been pledged as collateral. Sinking fund requirements and installments of long-term debt maturing in the years 1987, 1988, 1989 and 1990 amount to \$35,869,000, \$19,559,000, \$123,531,000 and \$4,145,000, respectively. Borrowings under short-term lines of credit are reflected based on the repayment terms of the unused revolving credit facility.

Interest rate exchange agreements which expire in 1989 fix the rate on \$35,000,000 of floating rate debt at 13.02%. Agreements expiring through 1992 fix the rate on \$45,000,000 of floating rate debt at 10.91%.

Amortization of debt discount and expense for the years 1985, 1984 and 1983 was \$350,000, \$782,000 and \$1,183,000, 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 \$200,000,000 revolving credit facility which specifies minimum net worth requirements, approximately \$14,000,000 of the Corporation's retained earnings as of December 31, 1985 were free from restriction. In addition, certain subsidiaries are restricted by loan agreements and certain regulatory agencies as to the disposition of certain assets or investments, indebtedness, maintenance of working capital, minimum net worth and dividends. At December 31, 1985, net assets of subsidiaries free from restriction significantly exceeded \$14,000,000.

#### Note 10: Obligation Secured by Pledge of Redeemable Preferred Stock

In July 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  $\frac{1}{2}\%$  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 11). The accounts of the Trust and its finance subsidiary are included in the Corporation's consolidated financial statements.

#### Note 11: 1984 Preferred Stock

In July 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. Holders of the 1984 Preferred Stock are entitled to cumulative dividends at a quarterly rate equal to LIBOR plus  $\frac{1}{2}\%$ ; 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 10).

#### Note 12: Common and Other Preferred Stock

The authorized and issued capital stock of the Corporation at December 31, 1985 and 1984 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—1,000,000 shares)		
Issued:		
1984 series (see Note 11)		
\$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—3,624,194 shares)		
Issued: (in treasury 1985—12,727,437 shares; 1984—12,822,577 shares)	39,837,318	\$45,813

In addition, there are 4,569,961 shares of Series Preference Stock, without par value, authorized.

Holders of \$5.00 Preferred Stock are entitled to voting rights, cumulative dividends and upon liquidation or redemption, the stated value plus accrued and unpaid dividends.

In connection with the 1983 distribution of Echo Bay common shares, the shareholders approved a reduction in the par value of Common Stock from \$1.20 to \$1.15 per share.

Changes in capital stock during the years ended December 31, 1985, 1984 and 1983 are summarized as follows.

	Common	Preferred	Special Stock Series A
Shares issued Dec. 31, 1982	36,726,511	1,274,306	496,411
Conversion of convertible securities	2,446,801	(654,608)	(311,949)
Exercised under stock option plans	650,030	12,000	—
Redemption of convertible securities	—	(59,156)	(8,027)
Retirement of treasury stock	—	(479,230)	(176,435)
Shares issued Dec. 31, 1983	39,823,342	93,312	—
Exercised under stock option plans	13,976	—	—
Shares issued Dec. 31, 1984 and 1985	39,837,318	93,312	—

In September 1983, the Corporation redeemed the outstanding shares of its \$1.25 Convertible Preferred Stock, \$1.36 Convertible Preferred Stock and Special Stock, Series A, resulting in a charge to retained earnings of \$874,000. Shares of such stock held in treasury were retired, resulting in a charge to retained earnings of \$5,907,000.

Purchases (sales) of Common Stock held in treasury during the years ended December 31, 1985, 1984 and 1983 are summarized in the following table.

	1985	1984	1983
Shares held at beginning of year	12,822,577	12,870,402	15,785,300
Public offering	—	—	(3,000,000)
Employee stock ownership and purchase plans	(76,760)	(913)	49
Employee stock option plans	(23,597)	(72,022)	—
Purchases at fair market value	5,217	25,110	85,053
Shares held at end of year	12,727,437	12,822,577	12,870,402

In May 1983, the Corporation sold 3,000,000 shares of Common Stock in a public offering for consideration totaling \$63,176,000, after underwriters' commissions and other expenses.

At December 31, 1985, a wholly-owned subsidiary had outstanding 1,000,000 shares (issue price \$100,000,000) of preferred stock. The subsidiary is obliged to redeem a portion of the then outstanding shares at \$100 per share beginning with 20% in 1986, 25% in 1987, 33 $\frac{1}{3}$ % in 1988, 50% in 1989 and 100% in 1990. The stock has a floating dividend rate, 5.31% for the March 1, 1986 dividend. Under certain conditions, the Corporation may substitute similar stock of the Corporation or guaranteed subordinated promissory notes for the subsidiary's securities.

### Note 13: Stock Options

Nonqualified and incentive stock options to certain officers and employees of the Corporation and its subsidiaries were outstanding at December 31, 1985 and 1984 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 1985 and 1984 are shown in the following table.

	1985	1984
Shares under option at beginning of year	968,370	871,318
Granted	165,400	194,400
Exercised	(49,798)	(85,998)
Cancelled or expired	(87,393)	(11,350)
Shares under option at end of year	996,579	968,370
Average option price	\$12.93	\$13.10

At December 31, 1985, there were 624,364 shares of Common Stock reserved for future grants under stock option plans.

Certain plans provide for the grant of stock appreciation rights (SARs), which entitle the grantee the alternative of electing not to exercise a related stock option but instead to receive cash equal to the difference between the option price and the mean of the high and low market price on the date of exercise. In addition, 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. Options exercised in 1985 include 26,201 options elected as SARs. At December 31, 1985, cash settlement rights are outstanding in respect of 344,311 stock options.

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 has 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. The aggregate amount available for loans was reduced from \$5 million to \$3 million in 1985, excluding presently outstanding loans to certain officers. Loans outstanding under this program at December 31, 1985 and 1984 amounted to \$3,124,000 and \$3,303,000, respectively, with an average interest rate of 9.9% in 1985 and 11.7% in 1984.

#### Note 14: Pension Plans

The Corporation and certain of its subsidiaries have insured or trustee pension plans which generally provide for normal retirement at age 65. A summary of accumulated benefits and net assets for such defined benefit plans, excluding the terminated plans discussed below, determined on the date indicated, is presented in the following table.

In thousands, January 1,	1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	\$58,439	\$ 76,078
Nonvested	3,826	4,009
	\$62,265	\$ 80,087
Net assets	\$88,417	\$105,690

Assumed rates of return used in determining the actuarial present value of accumulated plan benefits range from 5% to 9%. Pension expense charged against continuing operations during the years ended December 31, 1985, 1984 and 1983 was \$6,547,000, \$4,397,000 and \$5,912,000, respectively, including \$2,049,000 in 1985 associated with an early retirement program. Effective January 1, 1984, several subsidiaries changed the actuarial methods of determining pension liability, primarily to recognize the substantial increase in the plans' assets. These changes increased fourth quarter 1984 earnings from continuing operations by approximately \$541,000. It is the Corporation's general policy to fund pension costs accrued, including amortization of prior service costs, over periods not exceeding 40 years.

During 1984, a subsidiary utilized plan assets to purchase annuities in settlement of liability for accumulated pension benefits to retirees and two subsidiaries terminated pension plans and purchased annuities to provide for all accrued benefits. Gains from reversion of excess pension plan assets to these subsidiaries, amounting to approximately \$5,700,000, are being deferred and amortized over 10 years against expense of the replacement pension plans.

Certain subsidiaries also contribute to union-sponsored pension plans in accordance with the terms of collective bargaining agreements. Total contributions to these plans charged against continuing operations were \$1,988,000 in 1985, \$2,216,000 in 1984 and \$2,596,000 in 1983.

#### Note 15: Operating Segment Information

The principal operations of the Corporation are carried out through subsidiaries in transportation, environmental, agribusiness and distribution markets. Transportation services consist of a less-than-truckload general-commodities carrier, six truckload carriers and related trucking companies which

operate throughout the United States. Environmental companies process slag and reclaim scrap metal for steel mills and treat and dispose of industrial waste. Agribusiness consists of the production of sugar, macadamia nuts and other agricultural products, the distribution of agricultural chemicals, land activities and a 68% interest in a property and casualty insurance firm. Distribution services include the supply of paper and related products, janitorial supplies and institutional food products primarily in the southeastern United States.

The revenues and operating earnings information for 1985, 1984 and 1983 on page 22 are an integral part of these statements and should be read in conjunction with this note.

Identifiable assets as of December 31, 1985, 1984 and 1983 by major market segment are presented in the following table. Corporate assets include receivables from Ryder/P-I-E and other investments.

In thousands	1985	1984	1983
Transportation services	\$226,338	\$252,032	\$ 66,626
Environmental services	239,724	192,787	170,971
Agribusiness	279,448	254,233	288,724
Distribution services	101,715	93,928	89,479
Other	72,838	32,870	38,211
Corporate	79,033	43,005	52,419
	\$999,096	\$868,855	\$706,430

Capital expenditures (including acquisitions) for 1985 and 1984 by major market segment are as follows.

In thousands	1985	1984
Transportation services	\$13,777	\$140,245
Environmental services	33,596	31,636
Agribusiness	20,255	13,281
Distribution services	6,194	11,703
Other	2,791	8,859
	\$76,613	\$205,724

Depreciation and amortization from continuing operations for the years 1985, 1984 and 1983 by major market segment are presented in the following table.

In thousands	1985	1984	1983
Transportation services	\$21,075	\$18,648	\$ 2,809
Environmental services	26,820	22,477	22,585
Agribusiness	7,205	7,073	5,924
Distribution services	5,250	4,727	4,042
Other	3,374	2,566	2,379
Corporate	1,730	1,516	937
	\$65,454	\$57,007	\$38,676

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

In thousands	Revenues	Earnings (loss)	Total assets
<b>1985</b>			
United States	\$1,705,383	\$(16,808)	\$849,435
International	191,364	7,904	149,661
	1,896,747	(8,904)	999,096
<b>1984</b>			
United States	\$1,553,372	\$ 12,609	\$758,805
International	116,142	11,005	110,050
	\$1,669,514	\$ 23,614	\$868,855
<b>1983</b>			
United States	\$1,125,570	\$ 20,428	\$565,781
International	101,252	6,102	140,649
	\$1,226,822	\$ 26,530	\$706,430

Finance subsidiaries are included in United States data, and corporate assets are located primarily within the United States. Activities outside the United States include worldwide metal recovery and agribusiness operations.

#### Note 16: 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, 1985, 1984 and 1983 was \$28,824,000, \$22,309,000, and \$12,798,000, respectively. Sublease income from these leases is not material.

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

In thousands	Capital leases	Operating leases
1986	\$ 3,601	\$ 23,584
1987	2,966	21,556
1988	2,913	17,973
1989	1,676	12,638
1990	931	6,647
Thereafter	729	19,164
	12,816	\$101,562
Less amount representing interest (2% to 15.9%)	2,005	
Present value of minimum lease payments	\$10,811	

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 \$372,816,000, \$339,401,000 and \$239,228,000 for the years ended December 31, 1985, 1984 and 1983, respectively.

#### Note 17: Commitments and Contingencies

At December 31, 1985, outstanding contractual commitments of subsidiaries for the construction of new plant and the purchase of equipment amounted to \$13,166,000, all of which becomes due for payment in 1986.

The Corporation has received notices of tax deficiencies with respect to 1968–1970 (which presently are being contested in Tax Court) and has pending claims for partial refund of tax assessments paid with respect to 1971–1972. During 1984, the Corporation and the Internal Revenue Service reached an agreement with respect to tax deficiencies for the years 1973 and 1974, subject to finalization of carryover and carryback items to such years. The Corporation has also received notices of proposed tax adjustments with respect to 1975–1979 (years 1975–1978 presently are being protested with the Internal Revenue Service), some of which could result in substantial tax deficiencies and may impact subsequent years. The more significant items involve the taxation of intercompany loans between foreign subsidiaries as dividends to the United States parent corporation and the deductibility of certain foreign operating losses. The Corporation does not agree with the notices of tax deficiencies and the proposed adjustments, and believes that it has sound arguments in support of its positions. Tentative agreement has been reached with respect to certain major issues in the years 1968–1972 and 1975–1976. 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. 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 tax deficiency from such adjustment would be approximately \$70 million plus interest thereon. 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. Counsel has advised the Corporation that it is probable that a court will not uphold the proposed tax adjustment.

In 1984, the Corporation sold a \$30,000,000, five-year term note receivable from Gotaas-Larsen Shipping Corporation, a former subsidiary, subject to recourse. The note is payable in

equal quarterly installments; at December 31, 1985, \$24,000,000 was outstanding under the note.

The distribution subsidiaries sell receivables subject to a 5% recourse provision; at December 31, 1985, the amount which may be claimed under such recourse provision is approximately \$2,250,000. In addition, the agribusiness subsidiary sold mortgage notes subject to recourse; at December 31, 1985, \$5,578,000 was outstanding under these notes.

At December 31, 1985 the agribusiness subsidiary also guaranteed \$540,000 of indebtedness of an investee company.

#### Note 18: 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, 1985, 1984 and 1983 amounted to \$4,881,000, \$4,714,000 and \$3,097,000, respectively.

#### Note 19: Quarterly Operating Results (Unaudited)

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

In thousands	Revenues and other income	Cost of products sold, other operating costs and expenses	Earnings (loss) from continuing operations	Net earnings (loss)
<b>For 1985:</b>				
1st quarter	\$ 427,758	\$ 347,922	\$ (5,666)	\$ (9,906)
2nd quarter	475,585	382,625	13,264	(33,712)
3rd quarter	481,755	391,185	(7,318)	(7,420)
4th quarter	511,649	412,472	(9,184)	(122,493)
Full year	\$1,896,747	\$1,534,204	\$ (8,904)	\$ (173,531)
<b>For 1984:</b>				
1st quarter	\$ 337,436	\$ 263,253	\$ 6,090	\$ 1,896
2nd quarter	406,045	315,846	11,056	10,571
3rd quarter	450,229	349,956	(394)	(6,654)
4th quarter	475,804	370,941	6,862	2,087
Full year	\$1,669,514	\$1,299,996	\$23,614	\$ 7,900

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 envi-

ronmental 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. Agribusiness results include charges of \$3,300,000 and \$4,200,000 in the second and third quarters, respectively, for additional claims reserves at the unit's insurance subsidiary. 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, Ryder/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 Ryder/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.

The third quarter of 1984 includes a gain of \$5,467,000 from the sale of a non-strategic land parcel. In addition, the estimated annual effective tax rate was revised to reflect the lower level of expected earnings and investment tax credit utilization. Also, the third quarter of 1984 includes additional provisions by Ryder/P-I-E for bad debt allowances and operating expenses amounting to \$5,900,000.

	Earnings (loss) per share			
	Primary		Assuming full dilution	
	Continuing operations	Net	Continuing operations	Net
<b>For 1985:</b>				
1st quarter	\$(.21)	\$(.37)	\$—	\$—
2nd quarter	.48	(1.25)	.48	(1.25)
3rd quarter	(.27)	(.28)	—	—
4th quarter	(.34)	(4.52)	—	—
Full year	\$(.35)	\$(6.43)	\$—	\$—
<b>For 1984:</b>				
1st quarter	\$ .22	\$ .07	\$ .22	\$ .07
2nd quarter	.40	.38	.40	.38
3rd quarter	(.01)	(.25)	—	—
4th quarter	.25	.07	.25	.07
Full year	\$ .85	\$ .27	\$ .85	\$ .27

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 20: Effect of Changing Prices (Unaudited)

Financial Accounting Standard (FAS) No. 33 as amended requires disclosure of the estimated impact on operations and financial position of the change in current cost of specific inventory sold and property and equipment employed by a business. Methods prescribed by FAS 33, used to adjust the historical costs of inventory, property, plant and equipment and the related costs of products sold and depreciation, are experimental and result in approximations which should not be relied on as precise measures of inflationary effects.

The current cost of specific inventory and property, plant and equipment was estimated generally by direct pricing or by using industry-based indices. The current cost of these assets measured in foreign currencies is estimated in the applicable foreign currency, translated into United States dollars at the current exchange rate and indexed using the Consumer Price Index for all Urban Consumers to measure the general inflation component.

Depreciation expense on the adjusted property, plant and equipment costs was computed using historical depreciation rates and methods. Cost of products sold based on the

adjusted costs of inventory was calculated using historical turnover rates. The adjustment to other income represents the cumulative effect of inflation since acquisition, on property, plant and equipment dispositions during the year. Revenues and other expenses have not been adjusted; they are assumed to have occurred evenly during the year. Income taxes have not been adjusted.

The gain from decline in purchasing power of net amounts owed recognizes that during a period of inflation, monetary liabilities will be repaid in dollars with less purchasing power.

The data in the following table demonstrate the cumulative impact of inflation on cost of property, plant and equipment acquired over a period of years and on cost of inventory. The impact of inflation on cost of products sold is less significant because of the inventory turnover rate and because the majority of the Corporation's subsidiaries are engaged in service-related industries. For assets measured in foreign currencies, the increase in specific prices of inventory and property, plant and equipment during the year includes only effects of specific price changes measured in the applicable foreign currency. The remaining effects, which relate to exchange rate changes, are disclosed separately as translation adjustments.

In millions of average 1985 dollars

Loss from continuing operations	\$ (8.9)
Adjustments to restate costs for the effects of changes in specific prices (current cost):	
Cost of products sold	(3.2)
Depreciation	(19.9)
Other income	(3.6)
Minority interest	.1
Loss from continuing operations after adjustment for changes in specific prices	\$(35.5)
Increase in specific prices of net inventory and property, plant and equipment during the year*	\$ 24.3
Effect of increase in general price level	27.8
Excess of increase in general price level over increase in specific prices	\$ 3.5

\*At December 31, 1985, current cost of inventory was \$97.5 million, and current cost of net property, plant and equipment was \$762.2 million.

The five-year summary of selected data is expressed in average 1985 dollars.

In millions, except per share data, for the years ended December 31,	1985	1984	1983	1982	1981
Cash dividends per common share	\$ .90	\$ 1.22	\$ 1.24	\$ 1.25	\$ 1.30
Market price per common share at year-end	14¼	16¾	24½	18	15¾
Average consumer price index	322.2	311.1	298.4	289.1	272.4
Current cost information:					
Revenues and other income	\$1,896.7	\$1,729.1	\$1,324.7	\$1,292.3	\$1,556.3
Earnings (loss) from continuing operations	(35.5)	2.7	3.9	(14.3)	(8.0)
Earnings (loss) per share from continuing operations	(1.33)	.08	.11	(.77)	(.49)
Translation adjustments	1.5	(5.3)	(7.8)	(6.5)	
Excess of increase in general price level over increase in specific prices	3.5	22.8	12.0	19.4	2.2
Gain from decline in purchasing power of net amounts owed	18.4	14.4	11.0	14.1	35.6
Net assets at year-end	490.2	659.2	743.8	749.7	804.5

## Note 21: Subsequent Events

On March 7, 1986, the Corporation announced that agreements in principle had been reached to sell IU's paper distribution operations to a unit of Alco Standard Corporation, and most of the units of its agribusiness operations to a management group in a leveraged buyout. Both transactions are subject to definitive sale agreements and the approval of the Board of Directors. The sale of the paper distribution operations is also subject to approval of filings with the Federal government and the purchaser's Board of Directors. With regard to the agribusiness transaction, the sale is subject to completion of financing by the purchasing group, including the proposed public offering of a new macadamia nut land syndication and proposed public offering of debt securities. Included in the accompanying financial statements are the following assets and liabilities and pre-tax operating results with respect to these operations.

In thousands, December 31,	1985	1984
Current assets, principally		
receivables and inventories	\$137,260	\$133,639
Long-term receivables and investments	44,678	38,610
Net property, plant and equipment	117,550	109,468
Deferred charges and intangibles, net		
and other assets	3,664	5,228
Current liabilities	(72,686)	(62,125)
Long-term debt,		
excluding current maturities	(15,492)	(18,789)
Other liabilities	(41,418)	(50,764)
Net assets	\$173,556	\$155,267

In thousands, for the years	1985	1984	1983
Revenues and other income	\$ 529,953	\$ 534,694	\$ 494,108
Costs and expenses	(515,397)	(505,666)	(455,880)
	\$ 14,556	\$ 29,028	\$ 38,228

## 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, 1985 and 1984 and the related consolidated statements of operations, additional paid-in capital, retained earnings, cumulative translation adjustments, and changes in financial position for each of the years in the three-year period ended December 31, 1985. 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, 1985 and 1984 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, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

*Peat, Marwick, Mitchell & Co.*

Peat, Marwick, Mitchell & Co.  
1600 Market Street  
Philadelphia, Pennsylvania 19103  
March 3, 1986, except as to Note 21,  
which is as of March 7, 1986

# S H A R E H O L D E R D A T A

*Capital stock summary:* More than 40,000 common shareholders own stock in IU, including many of IU's 22,000 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
1985: 4th Quarter	\$.15	15 $\frac{1}{8}$	11
3rd Quarter	.15	14 $\frac{3}{8}$	11 $\frac{1}{4}$
2nd Quarter	.30	17 $\frac{1}{8}$	12 $\frac{3}{4}$
1st Quarter	.30	19 $\frac{3}{8}$	16
1984: 4th Quarter	.30	16 $\frac{1}{8}$	15 $\frac{1}{4}$
3rd Quarter	.30	21 $\frac{3}{4}$	16
2nd Quarter	.2875	22 $\frac{1}{8}$	17 $\frac{1}{4}$
1st Quarter	.2875	25 $\frac{1}{8}$	20 $\frac{1}{8}$

The company's \$5.00 Preferred Stock does not trade actively. In 1985, its bid price ranged from a low of \$31 per share to a high of \$34 per share; in 1984, its bid price ranged from \$33 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 1985 were \$24.7 million. Owners of Common Stock were paid \$24.3 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 Guaranty Trust Company, P.O. Box 3506, New York, NY 10008.

Approximately 21% 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 215 985-6600).

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.

**Morris R. Brooke,**

50, is a partner in the law firm of Drinker Biddle & Reath. He joined this firm in 1961 and has been a partner since 1967. Mr. Brooke became a director of IU in 1982. He is a graduate of Yale University and Harvard Law School, and is a member of the Judicial Conference for the Third Circuit. Mr. Brooke resides in Flourtown, Pennsylvania.

**Robert F. Calman,**

53, is chairman and a director of Echo Bay Mines Ltd., a gold mining company. An IU director since 1978, he retired as vice chairman and chief financial officer of IU in 1985 after 15 years with the company. He is a graduate, magna cum laude, of Yale University and a member of Phi Beta Kappa, and he holds a master's degree from the Alfred P. Sloan School of Management at Massachusetts Institute of Technology. He is also chairman and a director of Nuinsco Resources Limited; a member of the Advisory Council, EBC Amro Bank Limited; and a director of Corporate Consulting Group, Ltd.; Western Industrial Bank; the Opera Company of Philadelphia; and public television station WHYY-TV. He lives in North Beach, New Jersey.

**John Gilray Christy,**

53, is chairman and chief executive officer of IU. A director since 1978, he joined IU in 1972 as group vice president for land transportation. He was elected executive vice president in 1976, president and chief operating officer in 1978, chief executive officer in 1980, and chairman in 1982. Earlier, he was with ITT and the U.S. Agency for International Development. A former Navy pilot, he is a graduate of

Dartmouth College and received a master's degree in Asian studies from the University of California. He is a director of Fidelcor, Inc. and its subsidiary, Fidelity Bank; Pennwalt Corp.; Echo Bay Mines Ltd.; The Philadelphia Contributionship; and Drexel Bond Debenture Trading Fund. He also is a director of the Philadelphia Orchestra. He lives in Philadelphia.

**John T. Jackson,**

64, is retired vice chairman of IU. A director since 1971, he joined General Waterworks as vice president—industrials in 1966 and was named vice president—industrials of IU when the two companies merged in 1968. He earlier served as vice president of ITT and of Sperry-Rand. Mr. Jackson is an engineering graduate of Cornell University. He is a director of Bradford-White Corp.; Delaware Trust Co.; Geothermal Resources International, Inc.; Naess & Thomas Special Fund, Inc.; and The Vanguard Group of Investment Companies. He serves as vice chairman of The Academy of Natural Sciences of Philadelphia. He resides in Haverford, Pennsylvania.

**E. B. Leisenring, Jr.,**

60, is chairman and chief executive officer of Westmoreland Coal Co., a coal producing company, of which he has been chief executive officer since 1961. He is also chairman and chief executive officer of Penn Virginia Corp., which owns 21% of Westmoreland. He has been an IU director since 1975. Mr. Leisenring is a graduate of Yale University. He is the senior director of Fidelcor, Inc. and its subsidiary, Fidelity Bank; Norfolk Southern Corp.; and SKF Industries, Inc.; and is a director of The Philadelphia Contributionship. He is vice chairman of the Eisenhower Exchange Fellowships and of Lankenau Hospital. He resides in Berwyn, Pennsylvania.

**Peter L. P. Macdonnell,**

66, is a senior partner of Milner & Steer, barristers and solicitors based in Edmonton, Alberta. An IU director since 1976, he is a member of the bars of Great Britain, Ontario, and Alberta. He was named Queen's Counsel in 1964 and became a member of the Order of Canada in 1980. Mr. Macdonnell is a graduate of Queen's University and received his law degree at Cambridge University in England. He is a director of The Royal Bank of Canada; Alberta Energy Co.; CAE Industries Limited; Nova, An Alberta Corporation; Hiram Walker Resources, Limited; and Echo Bay Mines Ltd. He resides in Edmonton.

**Willis S. McLeese,**

72, is chairman emeritus of Trans Canada Freezers Limited, a company based in Toronto, and of United States Cold Storage, Inc., a company based in Philadelphia, which operate a chain of cold storage warehouses in Canada and the United States. An IU director since 1961, he is also chairman and a director of Colmac Holdings Limited; chairman and a director of American Consumer Industries Inc. and Colmac Energy Inc.; vice president and a director of Eastern Utilities Limited; a director and member of the executive committee of KCP Resources Inc.; and a director of International Light and Power Co., Limited. He lives in Toronto.

**Jonathan Moore,**

53, is the director of the Institute of Politics, John F. Kennedy School of Government, at Harvard University. He became an IU director in 1983. Mr. Moore served during three administrations in Washington in the Departments of State; Defense; Health, Education and Welfare; and Justice.

He is a graduate, cum laude, of Dartmouth College and holds a master's degree in public administration from Harvard University. He resides in Weston, Massachusetts.

**John D. Nichols,**

55, is president, chief executive officer and a director of Illinois Tool Works Inc., producer of specialty-engineered products and systems. He became a director of IU in 1984. He is a 1953 graduate of Harvard University and a 1955 graduate of the Harvard Graduate School of Business. Mr. Nichols is a director of Borg-Warner Corp., Signode Industries Inc., and The Economic Club of Chicago. He serves as chairman of Junior Achievement of Chicago, a trustee of the Chicago Symphony Orchestra and the Loomis Institute, and a member of the Business Roundtable. He lives in Winnetka, Illinois.

**John M. Seabrook,**

68, is chairman and a director of Gotaas-Larsen Shipping Corp., an ocean shipping company. A director of IU since 1963, he retired as chairman in 1982 after 23 years with the company, having joined IU as a consultant in 1959. He is also a director of Bell Atlantic Corp.; South Jersey Industries, Inc.; Consolidated-Bathurst Inc.; and Echo Bay Mines Ltd. He is a trustee of The Brandywine Conservancy and Eisenhower Exchange Fellowships. A Phi Beta Kappa graduate of Princeton University, he is a licensed professional engineer. He lives in Salem, New Jersey.

**William H. Waltrip,**

48, was elected president, chief operating officer and a director of IU in July 1985. Earlier, he had been president, chief executive officer and a director of Purolator Courier Corp. Prior to joining Purolator as chief operating officer in 1982, he was president, chief operating officer and a director of Pan American World Airways, Inc. He previously served in various positions at Eastern, Continental and American Airlines. He is a director of Bausch and Lomb, Inc.; Thomas & Betts Co. Inc.; and Teachers Insurance and Annuity Association. A former marine, he also serves as a trustee of the Marine Corps Command and Staff College Foundation.

**Ira T. Wender,**

59, is chairman and chief executive officer of The Sussex Organization Inc., an investment banking firm, and of Sussex Securities Inc., a securities firm. He is also counsel to the New York law firm of Wender, Murase & White, which he founded in 1971. An IU director since 1967, he holds law degrees from Chicago and New York Universities. Mr. Wender is a member of the Board of Managers of Swarthmore College, which he attended, and a director of The Brearley and Putney Schools; REFAC Technology Development Corp.; and Southwest Realty, Ltd. He lives in New York.

**The Earl of Westmorland, K.C.V.O.,**

61, is a director of Sotheby Holdings, Inc., fine art auctioneers, and is a Knight Commander of the Royal Victorian Order. An IU director since 1972, Lord Westmorland is also a director of Westmoreland Coal Co., Crown Life Insurance Co., and Gotaas-Larsen Shipping Corp. He resides in London.

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Morris R. Brooke  
E. B. Leisenring, Jr.  
Peter L. P. Macdonnell  
John D. Nichols

**Compensation Committee:\***

Ira T. Wender, Chairman  
Willis S. McLeese, Deputy Chairman  
Jonathan Moore  
The Earl of Westmorland

**Executive Committee:**

John M. Seabrook, Chairman  
Robert F. Calman  
John Gilray Christy  
John T. Jackson  
Willis S. McLeese  
Ira T. Wender

**Finance Committee:**

Robert F. Calman, Chairman  
John Gilray Christy  
John D. Nichols  
Ira T. Wender

**Nominating Committee:**

E. B. Leisenring, Jr., Chairman  
John Gilray Christy  
Peter L. P. Macdonnell  
Jonathan Moore  
John M. Seabrook  
Ira T. Wender

\*Composed entirely of outside directors.

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Chairman and  
Chief Executive Officer

**William H. Waltrip**  
President and  
Chief Operating Officer

**Robert W. Wolcott, Jr.**  
Executive Vice President

**Laurent J. Remillard**  
Senior Vice President and  
Chief Financial Officer

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STAFF EXECUTIVES**

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Group Vice President,  
Truckload Transportation

**H. Beatty Chadwick**  
Vice President,  
General Counsel and Secretary

**Douglas L. Cox**  
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Group Vice President,  
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Vice President, Public Affairs

**John A. Murphy**  
Vice President,  
Corporate Development and Planning

**Anna Mae Papso**  
Vice President and Controller

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Brooks A. Bentz, President  
Bensalem, Pennsylvania

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

**C. Brewer and Co.**  
John W. A. Buyers, Chairman  
and President  
Honolulu, Hawaii

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Donald F. Martin, President  
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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, PA 19102.

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