Products operations are conducted by Abex Corporation ("Abex") and Hussmann Corporation ("Hussmann"). Railroad Activities are conducted by the Illinois Central Gulf Railroad Company ("ICG"). The businesses of Consumer Products and Commercial Products are operated by IC Products Company, a wholly owned subsidiary of Industries.

CONSUMER PRODUCTS

Consumer Products consists of the food business conducted by Pet, the soft drink business carried on through Pepsi General Dad's and Bubble Up, and the automotive services business conducted by Midas.

Pet

Pet's specialty food products are comprised of three operating groups, Grocery, Specialty and International.

The Grocery Group markets Old El Paso Mexican products the largest selling line of shelf-stable Mexican foods in the United States Orleans canned shrimp clams and oysters, Gulf Belle frozen shrimp, Underwood canned meat spreads, B&M baked beans and Ac'cent flavor enhancer. The Grocery Group also markets evaporated milk Pet's original product, as well as diet products under the Sego brand.

Specialty foods include Pet-Ritz pie crusts, the largest selling frozen pie shells in the United States Downyflake waffles, Old El Paso frozen Mexican entrees and other frozen foods Whitman's chocolates and confections, and Pet and Aunt Fanny's bakery items. This group also markets fresh dairy products including milk ice cream and specialty dairy products in the Southeastern states.

The International Group manufactures and markets canned meats and other products in the United Kingdom, Venezuela, Australia, Mexico and Canada and is responsible for exporting all Pet products.

Pet markets its products principally to supermarkets and grocery stores throughout the United States through brokers and company sales personnel. These product lines are also marketed to restaurants and other institutions in the food service industry and directly to consumers through specialty retailing outlets. In the case of chocolate and confection items, the products also are marketed through drug stores and mass merchandise stores.

Pet's milk and dairy products and its other food and grocery items compete with nationally recognized brand names, as well as with local and private label products, on the basis of price quality and product innovations.

Agricultural commodities, raw milk, raw materials and packaging are purchased from farmers, fisherman, importers dairy cooperatives other food processors and various packaging manufacturers. Except for normal fluctuations in crop sizes Pet has experienced little difficulty in obtaining raw materials for its products.

Soft Drinks

Pepsi General packages and distributes, under exclusive franchises, Pepsi-Cola products and other brand name soft drinks, including Dad's Root Beer, Bubble Up, Sunkist Orange Soda, 7-Up Mountain Dew, Dr. Pepper Orange Crush Canada Dry and Hawaiian Punch In mid-1984 Pepsi General introduced its own brand of aseptic juice drink, "Orchard Sun." It is a naturally flavored 10% juice drink in four flavors orange grape, fruit punch and apple. Pepsi General presently sells Pepsi-Cola products in five areas in the Midwest with a total population of over 16 million people and sells its other drink products in certain of these areas.

Pepsi General's franchises grant it the exclusive right to produce and sell the products and use the related trade names and trademarks in the franchised territories. The franchises require Pepsi General, among other things, to purchase its concentrate requirements solely from the franchisor, at prices fixed by the franchisor, and to promote diligently the sale and distribution of the franchised products. Packaging materials (bottles, bottle caps cans, cartons, cases) are obtained from manufacturers approved by the franchisor and other items are purchased in the general market. The franchises are for an indefinite term and are subject to termination upon failure to comply with the provisions of the franchise agreement.

Products are distributed by Pepsi General to retail outlets primarily by trucks operated by Pepsi General route salesmen. Pepsi General owns leases or sells the vending machines which dispense its soft drink products in factories offices, schools, stores, filling stations and other locations. Pepsi General's business is seasonal and weather conditions during the peak summer months have a significant effect on sales.

Dad's Root Beer Company manufactures and sells root beer concentrate and extract to 125 franchised licensees who package and distribute Dad's Root Beer in marketing areas in the United States. Bubble Up Company sells lemon-lime concentrate and extract to 126 domestic and 30 foreign franchised licensees. In addition, Dad's Root Beer and Bubble Up product is distributed through food brokers in markets where there are no franchise agreements. Pepsi General distributes Dad's Root Beer and Bubble Up in Chicago and in most of its other marketing areas

During 1984 diet soft drinks accounted for approximately 16% of Pepsi General's sales. Substantially all diet soft drinks including those of Pepsi General, contain aspartame and/or saccharin. In 1983, the United States Food and Drug Administration (the "USFDA") approved the use of aspartame in diet soft drinks Since February, 1978 the USFDA has required precautionary labeling on soft drink products containing saccharin. The USFDA in 1977, also proposed regulations to prohibit the use of saccharin in soft drinks which Congress has suspended indefinitely Industries does not believe that such a ban, if made effective, will have a materially adverse effect on the business of Industries and its subsidiaries

Midas

Midas provides automotive exhaust system, suspension system and brake service through approximately 1 800 franchised and company-owned Midas shops in the United States Canada, England, France, Australia, Belgium, Germany, Austria, Panama and Mexico Midas manufactures over 900 different types of mufflers and exhaust tail pipes to service approximately 1,800 makes and models of automobiles.

Midas' principal market is its chain of franchised Midas shops. An initial franchise fee is charged and dealers pay a royalty fee based upon gross revenues. Franchise agreements, which generally are for a 20-year term and provide for renewals, can be canceled by Midas only for failure of the dealer to comply with the provisions of the agreement. An important part of the Midas marketing program is its warranty of mufflers, brakes and shocks. Midas manufactures the majority of mufflers and tubing sold by its franchised dealers. Midas also distributes its exhaust system parts under other brand names to automotive parts distributors jobbers and automobile accessory stores and its tube bending equipment to jobbers and retail installers.

The raw materials and supplies used in Midas products are purchased from many suppliers and the company is not dependent on any single source for any of its raw material or supplies.

COMMERCIAL PRODUCTS

The products within Commercial Products are manufactured and sold through Abex and Hussmann and their respective subsidiaries.

Abex

The products of Abex are divided into four principal product line categories: Automotive Products, Cast Products, Fluid Power Products and Railroad Products. Automotive products include braking materials and lighting equipment for the automotive original equipment and replacement markets. Abex is a major source of brake linings and disc brake pads for cars, trucks and buses. It is also a manufacturer of metallic brake discs for commercial and military aircraft, signal lights, lamps, reflectors, mirrors and other safety devices for trucks, automobiles and recreational vehicles.

Abex also produces a wide variety of castings in iron steel, copper and aluminum alloys for use in mining, earthmoving, steel making, petrochemical, nuclear, rock crushing, dredging, food processing and other applications. It is an important supplier of manganese steel castings having high impact-resistant properties as well as of both centrifugally and statically cast products in proprietary heat-resistant ferrous alloys.

Fluid power products include hydraulic pumps, motors, valves and complete hydraulic systems which are used in construction and mobile equipment, industrial and marine machinery, materials-handling equipment, offshore drilling and nuclear power plants. Hydraulic pumps, motors, servo-valves jet aircraft noise suppressors, electric power inverters and passenger loading bridges are manufactured for the aerospace and general aviation markets.

Abex is a leading supplier of iron and composition brake shoes, cast steel wheels and custom-made trackwork, such as frogs, switches crossings and turnouts, for United States and Canadian railroads. It also supplies bearings for freight cars and remanufactures and upgrades electric traction motors and generators for the railroad industry

Distribution of Abex products is made principally through its own salesmen, however, Abex does sell certain products, principally automobile brake linings and lighting equipment, to independent wholesalers and dealers for resale.

Abex holds a number of patents related to its products. While Abex believes that certain of such patents are valuable in its business, it does not believe that any major product lines are significantly independent on patent production.

Hussmann

Hussmann designs, manufactures, installs and maintains refrigeration equipment, display cases, shelving and environmental control systems. In addition, Hussmann has developed various energy-saving systems which control the total energy usage in food stores including scheduling of energy usage to avoid peak periods, cycling of refrigerator compressors and recapture of heat. The dollar amount of firm backlog increased 47% from year-end 1983 to $94 million at December 31 1984 Substantially all such backlog is expected to be filled within one year

Products of Hussmann are marketed internationally by both company-employed sales personnel and independent distributors. During 1984, Hussmann acquired several companies in the United Kingdom which will provide Hussmann with the same kind of integrated engineering manufacturing and marketing organization in Europe as it has established in the U.S

RAILROAD ACTIVITIES

The ICG is a major rail freight carrier operating in the central United States. As of December 31, 1984, the ICG had approximately 6 500 route miles in ten states, including a major north-south freight line with trackage extending from Chicago to the Gulf of Mexico, together with east-west routes crossing Illinois Iowa and Missouri. The principal metropolitan markets served by the ICG which also constitute important interchange points with other railroads, include Chicago, Illinois New Orleans and Shreveport, Louisiana; Kansas City and St. Louis, Missouri; Indianapolis, Indiana; Louisville, Kentucky; Birmingham, Montgomery and Mobile Alabama; Memphis, Tennessee; Jackson, Mississippi, and Omaha, Nebraska. In addition to its transportation activities the ICG owns substantial real estate which is not used in railroad operations. The sale or lease of such real estate contributes significant income to the ICG

The principal commodities transported by the ICG include grain grain mill products, coal, chemicals, paper and other bulk products. Intermodal (piggyback) operations also contribute an important portion of the ICG's revenues.

The ICG operates commuter services in the Chicago area under contract with the six-county Regional Transportation Authority The ICG also operates several passenger trains under contract with the National Railroad Passenger Corporation ("AMTRAK") These operations are not considered material to the results of the ICG.

ICG finances its own capital requirements. Management believes that the physical condition of its main line railway and yards is maintained at standards that permit efficient performance and is confident that the company is meeting the current service requirements of its customers.

Industries is unable to predict what effect the present trend toward consolidation of railroads into large regional systems may have on its revenues or operating results. While no formal plan for disposition of the ICG currently exists, the merger or sale for the ICG is an important goal of Industries. During 1984, Industries retained the services of an investment banking firm to review Industries' own work on assessing the options of the ICG These options include merger with another railroad, sale to a nonrailroad investor, spin-off to shareholders, sale to employees, sale of stock to the public and retaining the ICG in whole or in part. No accurate prediction can be made as to whether the ICG will be involved in a consolidation or other transaction in the foreseeable future, or the amount which would be realized. Depending on many factors, including the timing and structure of such a transaction, Industries may realize amounts substantially less than the net book value of the assets of the ICG, which approximated $1,013 4 million at December 31, 1984.

PNEUMO CORPORATION

Pneumo Corporation consists of two business groups: the Aerospace/Industrial Group and the Food/Drug Group.

The Aerospace/Industrial Group designs and manufactures landing gear for military and commercial aircraft, proprietary flight controls and engine controls for manned and unmanned military aircraft and thrust reverser actuation systems, engine controls and flight controls for commercial airlines. This group also manufactures and distributes insulated thermocouple wire and related accessories which control and measure temperatures in hostile environments.

Pneumo's Food/Drug Group consists of P&C Food Markets Co., Inc. ("P&C"), a group of 90 retail food markets operating in upstate New York and portions of New England, and Carls Drug Co., Inc. ("Carls"), a chain of 36 promotional drugstores located primarily in central and upstate New York serving many of the same market areas as P&C. P&C also franchises 63 supermarkets and operates a large wholesale food distribution system in central and upstate New York and portions of Vermont, New Hampshire and Massachusetts.

The materials used by the Aerospace/Industrial Group generally are available from a number of suppliers. While this group is not dependent upon any single supplier of materials for the operation of the business, there are a limited number of suppliers of forgings, metal parts and special metals, and any halts or delays in their production, or an unexpected