increase in demand for the materials they produce would interfere with orderly production by this segment.

No single patent or group of patents is material to either business group. Pneumo has pursued the policy of seeking patent production for inventions and discoveries relating to the Aerospace/Industrial Group which are incorporated into its products or fall within its field of interest. None of the patents has ever been adjudicated, and there can be no assurance regarding the validity of any patents. Under various research and development contracts, the Government is entitled to a nonexclusive license for governmental purposes to inventions arising under such contracts. Where it is thought that business advantages might be gained patent protection is obtained in foreign countries as well as in the United States.

The Food/Drug Group makes use of a number of trademarks and trade names, largely private label food and health items, and it operates a franchising program for retail food stores. Such rights are considered to be of material importance to this business group. The company has no reason to believe that it is not fully protected in its use and enjoyment of such rights.

The Aerospace/Industrial Group participates as a subcontractor on many programs with most major U.S. manufacturers of military and commercial aircraft. The loss of business on any of several major programs of the Boeing Company, McDonnell Douglas Corporation and General Dynamics Corporation would have an adverse effect upon Pneumo's Aerospace/Industrial Group.

All of Pneumo's order backlog is in the Aerospace/Industrial Group and includes firm orders as well as options for additional quantities for which the company expects to receive future orders. At December 31, 1984, Pneumo's total backlog was $1.1 billion compared to $956 million at November 30, 1983 (Pneumo's former year end). Approximately $803 million of the December 31, 1984 backlog was firm compared to $684 million at November 30, 1983. The amount of the backlog at December 31, 1984 estimated for shipment in 1985 was $454 million with the balance to be shipped in future years. Pneumo's backlog at the end of 1984 was made up of about 70% military and 30% commercial business.

Cleveland Pneumatic Company, the largest component of the Aerospace/Industrial Group competes primarily with two other producers in the landing gear industry for major commercial and military programs. Although specific statistics are not available on the volume of production of landing gear of these producers, Pneumo believes that Cleveland Pneumatic is one of the two principal producers of such landing gear in the United States. Pneumo's National Water Lift Division, another principal component of the Aerospace/Industrial Group experiences competition in each of its product areas, but Pneumo knows of no other manufacturer which produces the entire range of products manufactured by this division. Claud S. Gordon Company, the smallest component of the Aerospace/Industrial Group, is engaged in a highly competitive business in which there are several producers.

PROPERTIES

Abex operates 40 plants in the United States, 4 in Canada and 12 plants in several other foreign locations. Of such plants, 52 are owned and 4 are leased on a long-term basis.

Pet operates 38 owned and 9 leased manufacturing plants located in the United States and five foreign countries, 22 owned and 7 leased milk and dairy distribution facilities, 5 owned and 2 leased warehouses and 77 owned, 50 leased and 105 franchise specialty retail outlets.

Hussmann operates 15 owned and 6 leased manufacturing facilities in the United States, Mexico and Canada. There are 3 owned and 29 leased branch facilities which sell, install and maintain Hussmann products.

Midas operates 3 manufacturing plants in the United States and one manufacturing plant in Canada. Of these plants, one is owned and 3 are leased. In addition, Midas also maintains 18 warehouses of which one is owned and 17 are leased. At Dec. 31 1983, Midas leased and operated 46 Midas Muffler Shops in the U.S. 29 Midas Muffler Shops in Canada and 79 Midas Muffler Shops in 9 foreign countries.

Pepsi General's facilities include 8 bottling plants, 2 combination bottling/canning plants and one canning plant. In addition, Pepsi General has 29 distribution warehouses and 4 storage warehouses.

In addition Industries engages in a wide variety of industrial, commercial and residential real estate development activities in the United States.

LETTER TO STOCKHOLDERS

The following is the letter to stockholders of William B. Johnson, Chairman and Chief Executive Officer of IC Industries, Inc. as it appeared in the Company's 1984 Annual Report.

To Our Shareholders:

In 1984 IC Industries set records for sales, pre-tax income income from continuing operations, and fully-diluted earnings per common share. In addition in spite of several substantial acquisitions the company ended the year in the strongest financial condition in its history, with a healthy balance sheet and extensive lines of credit.

For the year, IC Industries:

Increased consolidated sales and revenues to $4 2 billion, 13 percent over 1983

Increased pre-tax income to $247 8 million, 42 percent over 1983

Increased income from continuing operations by 38 percent over 1983 $133.3 million.

Increased fully-diluted per-share income from continuing operations by 30 percent—to $2.92, and increased primary per-share income from continuing operations by 27 percent to $3.17

Ended the year with more than $800 million in unused committed bank credit lines;

Lowered debt-to-capitalization ratio to 45.7 percent.

Fully-diluted net income per share for the year was adversely affected by a $10.5 million loss—or 25 cents per fully-diluted share—primarily as a result of the discontinuance of the Abex Corporation's Stanray railroad parts plant in Hammond, Indiana in the fourth quarter

The steps our subsidiary companies have taken to streamline operations, reduce costs, and redeploy assets, position them to register further earnings gains. As an IC Industries company for the full year of 1985, Pneumo Corporation will make a significant contribution to sales and earnings.

Today IC Industries is in the strongest financial and strategic position in its history, ready to take the next steps in its long-term strategic program. Our corporate objectives have not changed. We will continue to divest operations which do not meet our criteria for growth, earnings, or return on invested capital.

We will devote a major part of our attention this year to integrating Pneumo into the IC Industries family, and to realizing synergies with Abex. We also anticipate possible acquisitions for both our Consumer and Commercial Products groups.

We have increased our budget for capital expenditures in 1985 by about 25 percent to $250 million, with the increased resources to be allocated to our growing aerospace and consumer businesses. ICG capital spending will decline slightly.

Abex has closed non-profitable operations and introduced products with higher margins. Pneumo has a backlog of about $1.2 billion, of which approximately $900 million is under firm contracts. Hussmann has a substantial backlog, and a profitable new European operation that provides an additional sales base of $100 million. The ICG has reduced its break-even more than 14 percent in the past two years

We recently retained the services of an investment banking firm to give us the benefit of its independent judgment on our options for the Illinois Central Gulf Railroad. These options include merger with another railroad, sale to a non-railroad investor, spin-off to shareholders, sale to employees, sale of stock to the public, or retaining the ICG in whole or in part.

Midas has acquired 100 percent ownership of all but one of its foreign joint venture operations. Pepsi General has three new franchises which add 600,000 people to its service base. The Consumer Products Group, with Pet and Pepsi General's aggressive marketing programs, has begun the new year with strong gains over 1984.

The economy is strong—employment is up, inflation is firmly under control, interest rates have moderated, consumer confidence is high, and both the Congress and the Administration appear committed to controlling the deficit.

All our companies should continue to grow in 1985.

Early results are quite encouraging. In a strong economic environment, and even considering an increase of more than 10 million shares outstanding, we expect our per-share results for the year to exceed the record results of 1984.

William B Johnson
Chairman and Chief Executive Officer

March 6, 1985

MANAGEMENT

Officers

W B Johnson, Chmn. & Chief Exec. Off.
B F Schenk, Pres. & Chief Oper Off.
R.F Stewart Senior Exec. Vice-Pres.
J P Fagan, Exec. Vice-Pres.—Finance
R.S. Kirby, Exec. Vice-Pres., Gen. Counsel, & Sec.
C.L. Pecchenino Exec. Vice-Pres.
B.S. Chelberg, Senior Vice-Pres.—Consum. Serv
W W Larsen, Senior Vice-Pres.—Corp. Affairs
F T Westover Senior Vice-Pres. & Contr.
A.R. Lehmann, Vice-Pres.—Investor Rel.
C.H. Connolly Vice-Pres.—Corp Commun.
R.A. Wright, Vice-Pres.—Human Resources
W F Cerne, Vice-Pres.—Real Estate
J.R. Copper Vice-Pres.—Corp Plan. & Devel.
J F. Palmer, Vice-Pres.—Taxes
R.J Switzer Vice-Pres. & Treas
P.M. O'Hara, Vice-Pres.—Corp Fin
G A. Lee, Vice-Pres.—Govt. Affairs Wash. D.C.

Directors

(Showing Age & Principal Corporate Affiliations)

Archie R. Dykes, (54) Pres. & Chief Exec. Off., Security Benefit Group, Inc. Chmn & Chief Exec. Off., First Pyramid Life Insurance Co of America, Dir Boatmen's First National Bank of Kansas City First National Bank, Topeka, Fleming Companies Inc. American Council of Life Insurance and Midwest Research Institute.

Gerald A. Fulham, Chmn., Pneumo Corp., Dir. Aeronca, Inc., Pneumo Corp., Woods Hole, Mass., Oceanographic Institution, Member of Board of Governors. Aerospace Industries Assoc., Trustee of Regis College, Weston, Mass.

John P Gallagher, (68) Senior Lecturer Graduate School of Business University of Chicago. Dir., American National Bank & Trust Co of Chicago Harnischfeger Corp; Amerifin Corp Pet Inc. Stone Container Corp., and UNR Industries, Inc.

Helen Galland, (58) Pres., Helen Galland Associates Dir. Educational Foundation of the Fashion Institute of Technology; Vice-Pres. & Dir. City of Hope Hospital and Research Center

C. Jackson Grayson, Jr., (61), Chmn., American Productivity Center, Inc. Dir., Harris Corp. Lever Brothers Overhead Door Corp., Potlatch Corp., Sun Co.; Tyler Corp., Browning-Ferris Industries, and Ameriway Bank/Woodway N.A.

Robert E. Harrah, (68), Former Chmn., & Chief Exec. Off., Stanray Corp Dir Abex Corp.; Hussmann Corp., and Bank of Willits.

Walter H. Helmerich, III, (61), Pres and Chief Exec. Off., Helmerich & Payne, Inc. Dir., Atwood Oceanics, Inc., Caterpillar Tractor Co., Combustion Engineering, Inc.; First National Bank & Trust Co. of Tulsa, First Tulsa Bancorporation, Inc., and Natural Gas Odorizing, Inc., Trustee, Northwestern Mutual Life Insurance Co

William B. Johnson, (66) Chmn. & Chief Exec. Off., IC Industries, Inc. Dir., American Productivity Center Continental Illinois Corp., Continental Illinois National Bank & Trust Co of Chicago; Esmark, Inc., Abex Corp Hussmann Corp., Illinois Central Gulf Railroad Co., Midas International Corp., Pepsi-Cola General Bottlers Inc.; Pet Inc., and Association of American Railroads

Harold R. Logan, (63) Vice-Chmn., W.R. Grace & Co., Dir., Energy Fund, Inc., General Database Technology, Inc., Voyager Petroleums Ltd., Abex Corp., and Illinois Central Gulf Railroad Co Member, President's Association of the American Management Association, Independent Petroleum Association of America, Pan American Society Board of Governors, University of New Haven.

Harry A. Merlo (60), Chmn & Pres., Louisiana-Pacific Corp Dir., American Paper Institute of Western Forestry Center Louisiana-Pacific Corp., National Forest Products Assoc.; Member, Columbia Pacific Council of Boy Scouts of Amer., National Advisory Council of Salvation Army Board of Governors. Hugh O'Brian Youth Foundation; Trustee, Oregon Museum of Science & Industry.

Graham J. Morgan, (67) Retired Chmn. & Chief Exec. Off., United States Gypsum Co.; Dir., Abex Corp., American Information Technologies Corp.; American Hospital Supply Corp., Illinois Central Gulf Railroad Co., and International Harvester Co., Member of advisory board, Kemper Insurance.

George V Myers, (68), Former Pres., Standard Oil Co. (Indiana) Dir United States Gypsum Co., CNA Income Shares, Inc., and American Petroleum Institute; Trustee, Rush-Presbyterian-St. Luke's Medical Center.

C.L. Pecchenino (57), Exec. Vice-Pres., I.C. Industries, Inc., Pres. & Chief Exec. Officer, Pneumo Corp.

Geo. T. Scharffenberger, (65), Chmn. & Chief Exec. Off., City Investing Co., Dir Northrop Corp.; Earle M Jorgenson Co., Kidde, Inc.; Rockefeller Center Inc., Georgetown University and Home Group Inc., Trustee, University of Southern California.

Boyd F Schenk, (62), Pres. & Chief Oper. Off., IC Industries, Inc., Dir., Pet Inc.; Centerre Bank; Laclede Gas Co; Illinois Power Co A.E. Staley Manufacturing Co., and C Shippam, Ltd., Trustee, William Underwood Co

Robert F. Stewart, (57), Senior Exec. Vice-Pres., IC Industries, Inc.; Trustee, Worcester Polytechnic Institute.