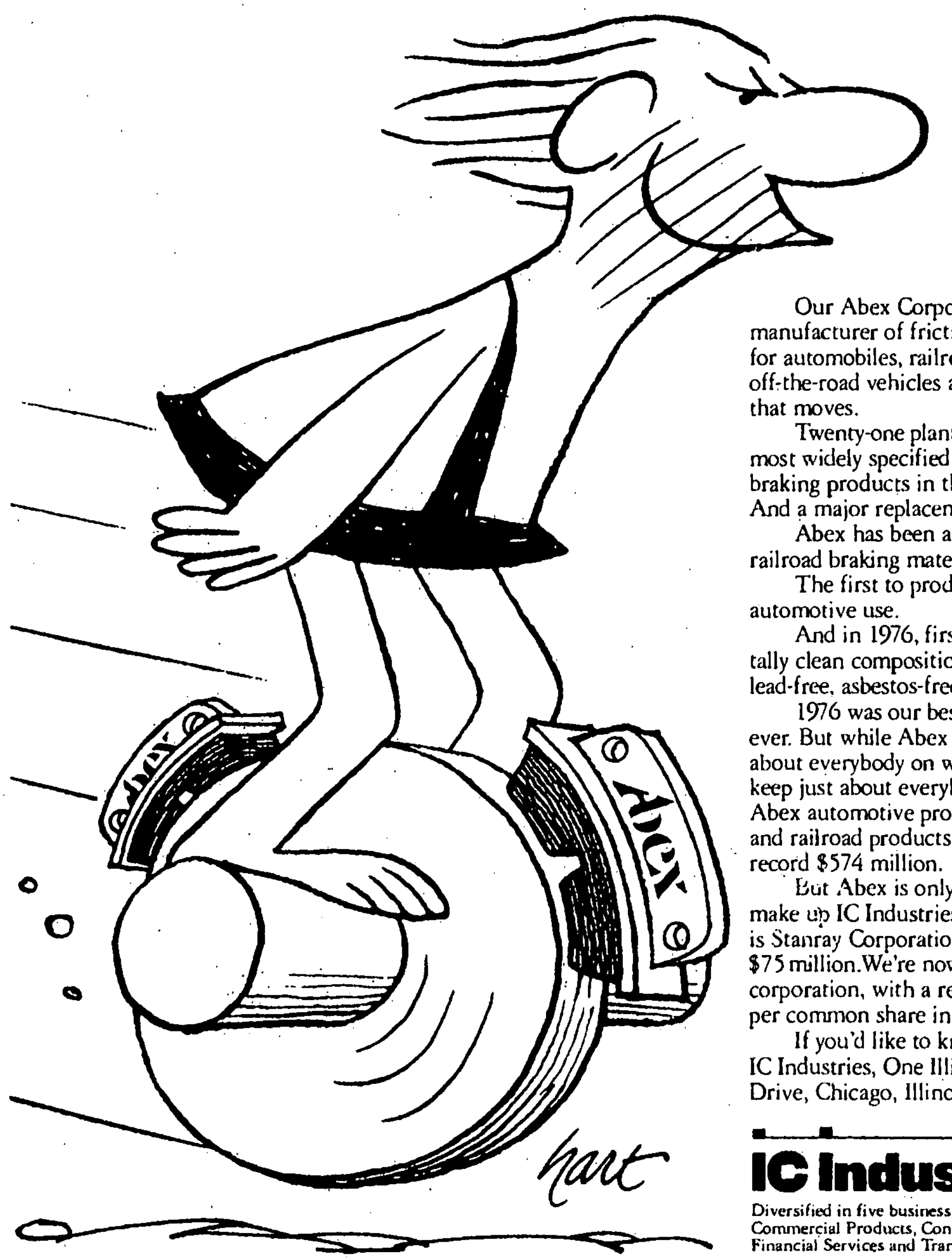
Our Abex Corporation makes friction products for just about everybody on wheels.



Our Abex Corporation is the world's largest manufacturer of friction braking products... for automobiles, railroad cars, busses, trucks, off-the-road vehicles and aircraft. Almost anything that moves.

Twenty-one plants around the globe provide the most widely specified brand of original equipment braking products in the transportation industry. And a major replacement brand.

Abex has been a leading producer of quality railroad braking materials for 75 years.

The first to produce molded brake lining for automotive use.

And in 1976, first to develop an environmentally clean composition railroad brake shoe, the lead-free, asbestos-free Tiger brake shoe.

1976 was our best friction products sales year ever. But while Abex friction products stop just about everybody on wheels, other Abex products keep just about everybody else moving. Last year, Abex automotive products, castings, hydraulics and railroad products pushed total Abex sales to a record $574 million.

But Abex is only one of the companies that make up IC Industries. Our most recent addition is Stanray Corporation, with sales last year of $75 million. We're now a $1.8 billion multibusiness corporation, with a record net income of $3.58 per common share in 1976.

If you'd like to know more about us, write: IC Industries, One Illinois Center, 111 East Wacker Drive, Chicago, Illinois 60601.

IC Industries

Diversified in five business groups:
Commercial Products, Consumer Products, Real Estate, Financial Services and Transportation.

training from Oklahoma. To bring themselves up to speed in finance, Miller and his colleagues—with the exception of Phillips—headed off to Morgan Stanley, Sohio's investment banker, for a crash course.

In 1974, Phillips and Miller negotiated a $600-million revolving credit agreement with a slew of banks and sold some commercial paper. Later, advised by Morgan Stanley, they realized that they could not possibly hit the public debt markets heavily enough, or frequently enough (as often as four times a year), to finance their entire needs. So they decided to raise money privately. The cornerstone of their scheme became a joint private placement with B.P., through which they hoped to bring in $750 million.

The 75-25 debt-equity ratio

Selling that private placement to the nation's biggest and most sophisticated lenders took a good bit of ingenuity. For one thing, there was no way to peddle it on the strength of Sohio's balance sheet; by the time Sohio borrowed all it needed, the company's debt would have reached an almost intolerable 75 percent of total capital—the highest among all major U.S. corporations. Most oil companies shoot for less than 35 percent. But the percentage of debt for Sohio was somewhat misleading because the Alaskan reserves, worth many billions, were reflected on the balance sheet as an asset of less than $400 million—what Sohio had invested in them thus far. So Morgan Stanley billed the deal as a "project" financing—one that had to fly on the financial and technical merits of the pipeline itself.

The lenders scratched their heads at the notion and not all of them bought it. In April, 1975, Metropolitan Life Insurance Co., an influential investor, turned thumbs down. The Met, it seems, stuck with its traditional approach, looked at Sohio's corporate creditworthiness, and just didn't like what it saw. Though the Met still won't talk about its lack of enthusiasm, it probably also felt jittery about forthcoming government regulations on the pricing and taxation of Alaskan oil, which could have kept Sohio from earning enough to service the debt.

That blow was a crushing one for Sohio, and even the notoriously unflappable managing directors at Morgan Stanley blinked. Says one of them, David Goodman, who oversaw Sohio's financial planning: "When we got a black eye from the Met on our first step, we decided to take another look." One much-discussed option would have been to sell some of the North Slope reserves, which would have cut Sohio's development expenditures and brought in money as well. Several potential buyers—among them Texaco, Shell, and Gulf—were waiting like wolves at the door, eager to pick up a piece of Sohio's position.

Had Spahr been desperate enough to sell reserves, he would have had his troubles doing it—they had a lot of strings attached to them. For one thing, B.P. had acquired the Sinclair operation from Arco on credit, pledging the reserves as collateral; so Arco had the right to veto any sale. In addition, the original agreement between Sohio and B.P. made no provision for disposing of any properties. Clearly, Sohio was over a barrel. Says Spahr: "We would have had to negotiate with the British for changes under duress, and with no leverage."

Spahr thought that he could win "the battle of time," as he puts it, and as things turned out, he was right. By May, a month after the Met had turned up its nose, Sohio was having more constructive conversations with the Prudential Insurance Co. Originally asked to kick in $150 million at a 10 percent interest rate, the Pru said no way; it wanted a higher rate. Morgan Stanley soon upped its offer to 10½ percent, but the Pru stood firm.

Then James Toren, a vice president at the Pru, moved things off dead center. Toren reasoned that if Sohio increased the private placement to $1.5 billion or $2 billion, thereby nailing down a bigger chunk of its needs, the larger deal would justify a higher rate, say 10⅝ percent. And the Pru would give that deal a big send-off, by lending $250 million. Swallowing hard, Sohio agreed to the terms despite the heavier financial burden.

The Pru's vote of confidence got things rolling. Because interest rates dropped during the next two months, additional lenders flocked in like lemmings (and the Pru looked very smart indeed). Some seventy-six major institutions finally committed a total of $1.75 billion, in what became the largest private placement ever.

Haunted by those dividends

But for a while it looked as if Sohio might not get the money after all. The private placement was supposed to close in July, 1975, and Sohio needed to get its hands on the cash. The only additional financing scheduled was to be an offering of two million shares of common stock in October, after the private placement was to have been locked up. And Sohio was sending money out the door to Alaska at a rate of more than $4 million a day.

But once again things didn't work out as planned. Because of the Byzantine complexity of the private placement, the lawyers needed more time and so delayed the closing. Sohio was soon eating up its contingency funds, and the estimated cost of the pipeline had spurted up once again, this time by $400 million. To add to its woes, Sohio had to make good on the promise to pay dividends to B.P., despite last-minute attempts by Spahr to get a moratorium. He had anticipated that the dividends would be paid out of earnings from the North Slope, but instead, those payments, $12 million a year, cut into the company's existing cash flow. "It was," says Whitehouse, "one of our misfires."

At this point, the fate of the stock offering and the private placement began to hang on the whim of the gods. In the summer of 1975, forty-seven barges—each the size of a football field—rendezvoused southwest of Point Barrow, Alaska, at the edge of the Arctic ice cap. Loaded with

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